



Financial report Half-year 2017

CAFFIL

Public sector assets - *Obligations foncières*
to support the French economy.

French version of this information is reviewed by the statutory auditors

Financial Report

Half-year 2017

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Management Report
Caisse Française de Financement Local
as of June 30, 2017

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*, it engages in transactions that 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 on 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 on 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 are key elements in the financing of local governments and public hospitals in France. The organization, introduced by the French State in 2013, 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 a second mission, 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 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 inter-

mediated derivatives) are mainly 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 (January 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.
- Furthermore, SFIL is an issuer of short- and long-maturity securities in the bond markets, on the French State Agencies segment. In October 2016, SFIL launched its first public bond issue in the amount of EUR 1.0 billion with a maturity of 8 years, then in June 2017 its second issue in the amount of USD 1.0 billion with a maturity of 3 years.

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 (LBP) and its joint venture LBP/CDC, 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. These assets are now managed in a run-off mode. At the end of March 2017, 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.

c. Refinancing of loans to the French local public sector and public hospitals in partnership with La Banque Postale

In early 2013, Caisse Française de Financement Local and La Banque Postale signed an exclusive sale agreement to fund the needs of the French local public sector and public hospitals. The arrangement, set up under the aegis of the French State, works as follows: La Banque Postale markets loans to the French local public sector and public hospitals, then sells them to Caisse Française de Financement Local, which refinances them by issuing *obligations foncières* (covered bonds). The loans originated are exclusively in euros with a vanilla interest rate. 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 sale if the asset no longer meets the criteria.

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

d. Refinancing of large export credits

In addition to their mission of refinancing French local governments and public hospitals, SFIL and Caisse Française de Financement Local have been entrusted with a second mission by the French State: refinance large French export contracts. In this context, 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 (enhanced guarantee⁽¹⁾). This business brings Caisse Française de Financement Local closer to the French State, without modifying the risk profile of its cover pool.

These new loans, like the new French public sector loans marketed by La Banque Postale, are 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 this new activity will increase gradually and will only become significant in several years. This share may rise to 12% within five years, based on an annual production of large export credits between EUR 1.5 billion and EUR 2.5 billion.

1. Organization

The system functions as follows:

- SFIL contributes 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. Then, these banks sell a part of the loans (and the attached rights) to SFIL and keep at least the share of the export credit not covered by the insurance (usually 5%);

¹The enhanced guarantee was introduced by law 2012-1510 of December 29, 2012, and the decree 2013-693 of July 30, 2013.

- Caisse Française de Financement Local grants a loan to SFIL to enable it to refinance the acquired export credit. This refinancing loan benefits from an irrevocable and unconditional 100% guarantee by the French State, referred to as an enhanced guarantee;

Loans granted by Caisse Française de Financement Local to SFIL to refinance the purchased export credits 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 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).

2. French State export guarantees

Previously granted by Coface on behalf and under the control of the French State, these guarantees have been taken over by the French State since late 2016. The guarantees are now issued and managed by Bpifrance Assurance Export, in the name of, on behalf of, and under the control of the French State, pursuant to article L.432.2 of the Insurance Code.

- Guarantee-granting decisions are made by the Minister in charge of the Economy and Finances after instruction by Bpifrance Assurance Export and the opinion of the French Export Credit and Guarantee Commission (*Commission des garanties et du crédit au commerce extérieur*).
- Bpifrance Assurance Export issues insurance policies, as well as enhanced guarantees, in accordance with the decision made. In this context, Bpifrance Assurance Export is also tasked with collecting insurance and guarantee premiums, managing risks, payments, and collections on behalf of the French State.
- The risks related to these guarantees are borne by the French State and all financial flows (premiums, payments, repayments) are recorded in separate accounting entries by Bpifrance Assurance Export. Premiums and collections are received directly on the account of the French State, and payments are made directly from the same account, without passing through the accounts of Bpifrance Assurance Export.

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 (S&P), 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. They take into account a strong probability that the French State will provide extraordinary support if necessary because of the strategic importance of the public service responsibilities SFIL was 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, due to its shareholding structure and support, but also to its mostly French cover pool, creates a link between the rating of *obligations foncières* and the rating of France for Fitch and S&P. Fitch's rating may thus not be higher than the sovereign rating; otherwise Fitch would apply an ultra-stressed rating scenario (an 80% default rate, with recoveries limited to 20%), making it necessary to have a level of over-collateralization that would be incompatible with the profitability of the business model. S&P's rating is limited to two notches above that of France.

Besides, the rating of *obligations foncières* is 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 2017

2.1 – THE COVERED BOND MARKET

Over the first half of 2017, the market for public sector issues of covered bonds in euros remained active, with an offer in the primary market of EUR 79 billion against EUR 92 billion in 2016. During a part of the period, the political context (elections in the Netherlands and in France) affected the market's dynamic and the attractiveness of the covered bond product in national segments. However, at the end of the half year, spreads against sovereigns bonds – in particular concerning the French covered bonds – have regained sufficient value to enable an active presence of traditional investors. Furthermore, the covered bonds market in euros has continued to benefit from the strong support brought by the third Covered Bonds Purchase Program of the Eurosystem (CBPP3).

In this context, Caisse Française de Financement Local decided to enter the market very early in the year. At the very beginning of January, it successfully launched an issue of EUR 1.5 billion with a maturity of 10 years. In a second time, after the French presidential election, Caisse Française de Financement Local launched an issue of EUR 1,75 billion composed by two *tranches* with a maturity of 7 and 10 years. In addition to this public offering, Caisse Française de Financement Local took advantage of investor demand for long maturities to conduct private placements of EUR 651 million and to provide additional liquidity for several of its reference issues via taps (2026, 2027 and 2031). With these issues, the average maturity of the financing raised by CAFFIL in the first half year was close to 12 years.

2.2 – RATING OF *OBLIGATIONS FONCIÈRES*

The ratings of the *obligations foncières* issued by Caisse Française de Financement Local were not altered in 2017.

As of June 30, 2017, the ratings were as follows: AA+ by Standard and Poor's, Aaa by Moody's and AA by Fitch. The outlook associated with each of these ratings is stable.

2.3 – REFINANCING OF PUBLIC SECTOR LOANS GRANTED BY LA BANQUE POSTALE

In its first line of business, Caisse Française de Financement Local refinances loans granted by LBP to French local government and public hospitals.

In this context, as of June 30, 2017, Caisse Française de Financement Local acquired a total of EUR 2.4 billion in loans², which is 35% more than the volume acquired from La Banque Postale during the first half of 2016 (EUR 1.8 billion). Since the beginning of the partnership, loans acquired through LBP have accounted for almost EUR 11.3 billion.

2.4 – EXPORT CREDIT REFINANCING

In its second line of business, Caisse Française de Financement Local grants loans to SFIL to refinance large export credits it has granted. Such loans benefit from an unconditional and irrevocable 100% guarantee by the French State. This business line helps bring Caisse Française de Financement Local closer to the French State without modifying the risk profile of its cover pool.

After the first year of launching the activity in 2016, Caisse Française de Financement Local granted SFIL, in the first half of 2017, refinancing loans for a total of EUR 753 million, i.e. a slight increase in comparison with the total amount of 2016 (see SFIL half-year report). Furthermore, binding refinancing offers were also issued in the first half of 2017, and should result in the signing of new contracts before the end of the year.

2.5 – SENSITIVITY REDUCTION AND DECREASE IN LITIGATION RELATED TO STRUCTURED LOANS

Caisse Française de Financement Local has, in its portfolio, some structured loans considered as sensitive (see 4.2.d.1. Definition) which had been granted to French clients by Dexia Credit Local before the acquisition of Caisse Française de Financement Local by SFIL. Certain of these customers initiated legal proceedings against Dexia Credit Local, Caisse Française de Financement Local and/or SFIL.

a. Reduction in outstanding sensitive structured loans

For the record, SFIL's application of its policy to reduce the sensitivity of the structured loans of Caisse Française de Financement Local was particularly effective in 2015 and 2016. Consequently, most of the sensitive structured loan problems have been solved. As announced at the end of 2016, the efforts to reduce the sensitivity of the outstanding loans have continued at a slower pace since the beginning of 2017.

Since the beginning of 2013, outstanding sensitive loans have been reduced by 82%, from EUR 8.5 billion to EUR 1.5 billion, as the result of the following:

- proactive operations conducted by SFIL to reduce loan sensitivity with the help of the support funds, including the operations already accomplished with a post-closing value date;
- the natural amortization of the loans;
- the use by certain customers of the derogatory mechanism of the support funds. In point of fact, 83 customers chose to keep their structured loans temporarily while still having the opportunity to benefit from the assistance of the support fund for local governments in the event that the structured component of their loan would be activated (assistance in paying interest at a degraded rate as anticipated by the rules governing the support fund). The outstanding loans for these customers represent EUR 0.6 billion.

The reduction in sensitivity was even more marked for the customers with the most sensitive exposure; more than 91% of borrowers with loans initially indexed on EUR/CHF no longer have any, and among them 95% of local governments and hospitals which had such loans.

On the basis of the operations conducted at the end of June 2017 with an effective date after June 30, 2017, and subsequent to the deduction of outstanding loans benefiting from assistance in paying degraded coupons. Outstanding sensitive loans will be at most EUR 1.4 billion by the end of 2017 for 232 customers (a decrease of at least EUR 7.1 billion since December 31, 2012, or

² The amount of EUR 2.4 billion included EUR 0.4 billion in loans transferred from December 2016 to January 2017.

84%).

b. Significant decrease in the number of lawsuits

As of June 30, 2017, 179 borrowers who had brought lawsuits signed a financial settlement agreement with SFIL, Caisse Française de Financement Local and Dexia Credit Local, thereby putting an end to legal litigation.

At the same time, the number of borrowers who had brought suit totalled 36, down from 39 as of December 31, 2016 and 131 as of December 31, 2015.

Since the entry into effect on July 30, 2014, of the law on securing structured loan contracts signed by public sector entities, 27 legal decisions in favor of Dexia Credit Local and Caisse Française de Financement (including two decisions made in the context of an interlocutory proceeding) were rendered by the Tribunal de grande instance de Nanterre, the Tribunal de commerce de Nanterre and the Cour d'appel de Versailles, and only two decisions, relating to fixed-rate loans, were in whole or in part unsatisfactory, being noted these are first-instance judgments which are not yet final.

3. Changes in main balance sheet items

EUR billions - value after currency swaps	12/31/2015	12/31/2016	6/30/2017	Change Jun. 2017 / Dec. 2016
Cover pool	60.0	58.2	59.2	1.7%
Loans	50.5	47.0	47.7	1.5%
Securities	7.0	7.5	7.5	0.9%
Cash deposit in central bank	2.5	3.7	3.9	5.4%
Assets assigned in guarantee to Banque de France	-	-	0.0	-
Privileged debt	53.0	51.7	52.8	2.2%
<i>Obligations foncières *</i>	51.6	50.4	51.9	3.1%
Cash collateral received	1.4	1.3	0.9	(31.0)%
Non-privileged debt	5.5	5.2	5.1	(1.7)%
Parent company	5.5	5.2	5.1	(1.7)%
Banque de France	-	-	-	-
Equity IFRS (excluding unrealized gains and losses)	1.5	1.4	1.5	1.6%

Caisse Française de Financement Local's cover pool is composed of loans and debt securities. It also includes the temporary cash surplus put aside to anticipate the forthcoming repayment of *obligations foncières* or the refinancing of new export loans. This cash is deposited at the Banque de France, or invested in bank or European public sector securities. The cash surplus placed with the Banque de France represents EUR 3.9 billion at the end of June 2017, versus EUR 3.7 billion at the end of December 2016. The cash surplus invested in securities represents a total of EUR 1.4 billion at the end of June 2017, versus EUR 0.9 billion at the end of December 2016.

As of June 30, 2017, the cover pool totaled EUR 59.2 billion, excluding accrued interest not yet due. It represented EUR 58.2 billion at the end of 2016, i.e. an increase of EUR 1.0 billion (+1.7%). As of this date, no assets are excluded from the cover pool in order to be sold to a bank in a repurchase agreement. As of June 30, 2017, in the regular tests framework of its operational procedures to access for Banque de France financings, Caisse Française de Financement Local assigned in guarantee to the Banque de France an asset with a small unitary amount.

Outstanding debt benefiting from the legal privilege, including cash collateral received, was EUR 52.8 billion, and increased by 2.2% in comparison with December 2016.

The debt contracted with the parent company totaled EUR 5.1 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 2017

The net change in the cover pool in the first six months of 2017 corresponded to an increase in assets in the amount of EUR 1.0 billion. This change is explained by the following items.

(EUR billions)	1st half 2017	
1- Acquisition of loans from La Banque Postale		2.4
Loans to the French public sector (vanilla loans in euros)	2.4	
2- Export credits drawings		0.1
Loans to SFIL to refinance export credit guaranteed by the French State	0.1	
3- Reduction of loan sensitivity		0.2
Sensitive structured loans eliminated	-0.2	
Refinancing loans (vanilla loans in euros)	0.2	
New loans (vanilla loans in euros)	0.2	
4- Amortization of portfolio of loans and securities		-2.5
5- Early reimbursements		0.0
6- Changes in treasury		0.8
Net change in securities investments	0.6	
Net change in Banque de France cash deposit	0.2	
7- Other changes		0.0
Net change in the cover pool		1.0

In 2017, Caisse Française de Financement Local has so far acquired a total of EUR 2.4 billion in loans to the French local public sector and public hospitals originated by La Banque Postale.

The first drawings on refinancing loans of large export credits granted to SFIL were effective during the first half of 2017 in the amount of EUR 0.1 billion. These loans benefit from an unconditional and irrevocable 100% guarantee by the French State.

In application of the policy of reduction of loan sensitivity in effect since the beginning of 2013, the operations conducted by SFIL in 2017 made it possible to decrease outstanding loans considered as sensitive by EUR 0.2 billion through their replacement with fixed rate loans. They were accompanied by new fixed rate loans in the amount of EUR 0.2 billion.

The natural amortization of the portfolio of loans and securities represented EUR 2.5 billion in the first half of 2017. There were no divestments, in the first six months of 2017.

Available cash is deposited at the Banque de France or invested in bank bonds classified as replacement assets or in European public sector bonds. It increased by EUR 0.8 billion over the first half of 2017.

4.2 – OUTSTANDING ASSETS AS OF JUNE 30, 2017

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

EUR billions	12/31/2016	06/30/2017
Loans and bonds to the public sector	53.8	54.5
Treasury (deposits at the Banque de France)	3.7	3.9
Replacement assets	0.7	0.8
Total	58.2	59.2

Surplus cash is deposited in an account opened by Caisse Française de Financement Local at the Banque de France or invested in European public sector or bank (replacement assets) securities, respectively amounting to EUR 3.9 billion, EUR 0.7 billion and EUR 0.8 billion as of June 30, 2017.

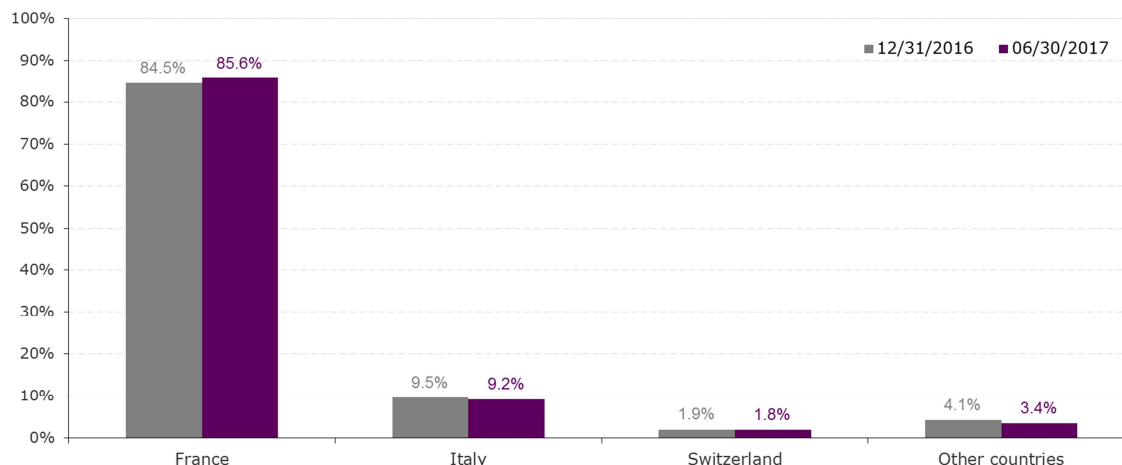
a. Public sector loans and securities (excluding replacement assets and treasury)

1. Geographic breakdown

French assets are predominant in the cover pool (85.6%), and their percentage is expected to rise in the future. Loans acquired through La Banque Postale since 2013 accounted for almost EUR 10.2 billion as of June 2017, representing 21.9% of French public sector loans included in the cover pool.

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

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

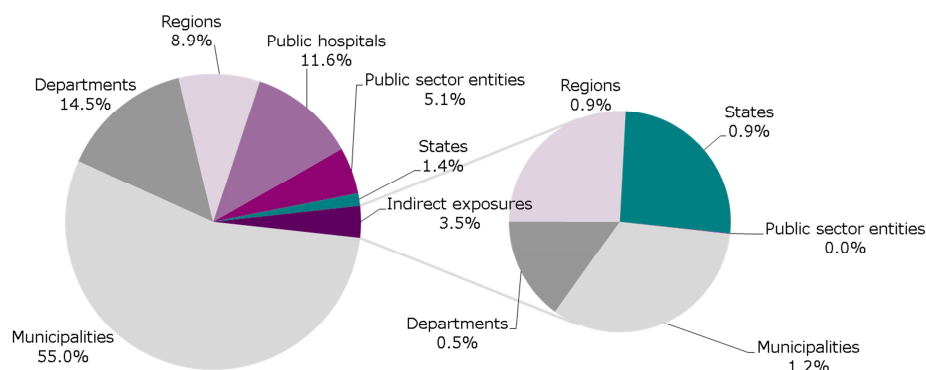


Exposures to Other countries as of June 30, 2017, are broken down by country in the section Bonds and public sector loans, which is presented at the end of this management report.

2. Breakdown by type of counterparty

The portfolio of Caisse Française de Financement Local is made up of the following items:

- for 81%, direct or indirect exposures on municipalities, departments or regions;
- for 12%, exposures on public hospitals;
- for 7%, sovereign exposures or commitments on other public sector entities (including 2.5% on 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 2013). Its *obligations foncières* respect the conditions of eligibility for refinancing by the European Central Bank and the CRR / CRD IV regulation requirements.

b. Replacement assets

Assets considered by law as replacement assets correspond to exposures on credit institutions benefiting from at least a Step 1 rating, or a Step 2 rating when their remaining maturity does not exceed 100 days, and their total amount is limited to 15% of debt benefiting from the legal privilege (*obligations foncières* and registered covered bonds). As of June 30, 2017, replacement assets represented 1.5% of debt benefiting from the legal privilege.

The Caisse Française de Financement Local's cash surplus can be invested in banking sector securities (in addition to deposits at the Banque de France and investments in European public sector securities). In this case, bank exposures are classified as replacement assets, broken down below based on the rating of the issuers.

Replacement assets	Country	Issuer	EUR millions	
			12/31/2016	06/30/2017
Step 1 credit rating				
Covered Bonds	France	Divers	26	166
Other bank bonds	France	Divers	120	439
Step 2 credit rating				
Bank bonds (maturity < 100 days)	France	Other	500	160
Bank account's balances	Other	Other	4	9
TOTAL			650	773

c. Assets removed from the cover pool

Because of its status as a credit institution, Caisse Française de Financement Local has access to refinancing operations offered to banks by the Banque de France within the Eurosystem. In steering its cover pool and its over-collateralization or in order to meet the need for temporary liquidity, Caisse Française de Financement Local may thus convert a portion of its assets into cash. The loans or securities assigned in guarantee with the central bank in order to obtain financing on the occasion of tenders organized by the Banque de France are then taken out of 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 three fiscal years, Caisse Française de Financement Local mobilized no assets with a bank counterparty. As of June 30, 2017, in the regular tests framework of its operational procedures to access for Banque de France financings, Caisse Française de Financement Local assigned in guarantee to the Banque de France an asset with a small unitary amount.

d. Structured loans

1. Definition

Certain loans to French public sector entities in the cover pool of Caisse Française de Financement Local may be qualified as structured loans. To define this notion, Caisse Française de Financement Local refers to the charter of good practices signed by banks and local governments (the Gissler charter), which can be consulted on the Internet site of the French Ministry of the Interior⁽³⁾. This document was signed on December 7, 2009, by several organizations that represent local governments in France (Association des maires de France, Fédération des maires des villes moyennes, Association des petites villes de France, Association des maires de grandes villes de France and Assemblée des communautés de France) as well as certain banks.

Therefore, structured loans are defined as:

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

The most structured loans according to the Gissler classification (categories 3E, 4E and 5E as well as loans which the charter does not allow to be marketed) may be qualified as "sensitive".

2. 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. Caisse Française de Financement Local contributed EUR 150 million to support local governments and EUR 38 million to support hospitals.

These funds were fully operational as of 2015: in the second half of 2015 and the first half of 2016 they notified the amount of aid to the local governments and public hospitals that sought their assistance. Based on the amounts reported, 86% of Caisse Française de Financement Local clients who sought the assistance of the local government support fund were eventually approved. Thus, these two funds made it possible to conduct sensitivity reduction operations at a sustained pace, and resulted in a significant reduction in the number of lawsuits.

3. Structured loans and sensitive loans

In 2017, outstanding loans to the French public sector have increased by EUR 0.7 billion, with a EUR 1.1 billion increase in non-structured loans (vanilla) and a decrease of EUR 0.4 billion in structured loans (see the definition above).

³http://www.interieur.gouv.fr/content/download/3021/30417/file/Charte_de_bonne_conduite_entre_les_etablissements_bancaires_et_les_collectivites_territoriales.pdf

EUR billions	12/31/2016	06/30/2017	% cover pool	Number of customers*
Sensitive loans not in the charter	0.7	0.7	1.1%	72
Sensitive loans (3E/4E/5E)	1.0	0.8	1.4%	172
SENSITIVE LOANS	1.7	1.5	2.6%	244
Structured loans benefiting from the derogatory mechanism of the support fund	0.7	0.6	1.1%	83
Other structured loans	4.0	3.9	6.6%	1,381
STRUCTURED LOANS	6.4	6.0	10.1%	1,708
Vanilla loans	38.4	39.5	66.8%	13,888
TOTAL French public sector loans	44.8	45.5	76.9%	15,596
COVER POOL	58.2	59.2	100.0%	

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

As of June 30, 2017, structured loans on the balance sheet of Caisse Française de Financement Local represented EUR 6.0 billion (compared to EUR 6.4 billion at the end of 2016).

The most structured loans according to the Gissler classification (categories 3E, 4E and 5E as well as loans which the charter does not allow to be marketed) may be qualified as "sensitive". They are closely monitored and specific measures are taken to reduce their sensitivity. They benefit from support from funds set up by the French government in order to allow customers to convert sensitive loans into fixed rate vanilla loans. These loans represented a total of EUR 1.5 billion at the end of June 2017, compared to EUR 1.7 billion at the end of 2016. The EUR 0.2 billion decrease in these outstanding loans was mainly due to proactive efforts to reduce the sensitivity of the outstanding.

As of June 30, 2017, the most sensitive structured loans (loans not in the charter) represented EUR 0.7 billion, or 1.1% of the cover pool and 72 customers. In particular, this portfolio included loans indexed on the EUR/CHF exchange rate. This portfolio concerns the following customer categories.

	après processus dérogatoire			
	12/31/2016		06/30/2017	
Sensitive loans not in the charter	Amounts EUR billions	Number of customers	Amounts EUR billions	Number of customers
Municipalities with fewer than 10,000 inhabitants	0,0	6	0,0	6
Municipalities with more than 10,000 inhabitants and groups of municipalities	0,3	50	0,2	41
Regions and departments	0,1	9	0,2	9
Public hospitals	0,3	17	0,3	14
Other customers	0,0	3	0,0	2
TOTAL	0,7	85	0,7	72

The 72 customers are mostly municipalities with more than 10,000 residents and groups of municipalities, and to a lesser extent, public hospitals. Municipalities with less than 10,000 residents with a sensitive loan "not in the charte" number 6, and the outstanding loans concerned by these municipalities total almost zero.

As of June 30, 2017, more than 91% of the borrowers with loans indexed on EUR/CHF saw loan sensitivity disappear completely, and of this number, 94% were small local governments and hospitals holding such loans.

4. Reduction in loan sensitivity

Between SFIL's date of creation and June 30, 2017, the number of customers holding sensitive loans decreased from 879 to 244, and the outstanding sensitive loans dropped from EUR 8.5 billion to EUR 1.5 billion (less than 2.6% of the cover pool), i.e. a decrease of 82%. This decrease includes EUR 0.6 billion that represents outstanding loans for which the customers chose to maintain their sensitive loan temporarily, while having the option of receiving aid from the local government support fund if the structured component of their loan becomes activated (system for helping pay interest at a degraded rate provided for by the support fund doctrine). The loans concerned by this option mainly correspond to loans with an interest rate based on leverage and which are, at this time, most often at fixed rates because the structured component is not or has never been activated.

Based on the operations already conducted, the outstanding sensitive loans for which the structured component is activated and the rate is above 5% will represent at the end of 2017 less than EUR 0.2 billion and will concern 35 customers, i.e. 0.3% of the cover pool and 0.2% of the total of the French customers.

5. Debt benefiting from the legal privilege

As of June 30, 2017, debt benefiting from the legal privilege is composed of *obligations foncières* and registered covered bonds issued by Caisse Française de Financement Local as well as of cash collateral received from counterparties in derivative transactions.

EUR billions	12/31/2016	6/30/2017
Cash collateral received	1.3	0.9
<i>Obligations foncières</i> and registered covered bonds	50.4	51.9
Total	51.7	52.8

5.1 – CHANGE IN CASH COLLATERAL

Cash collateral received by Caisse Française de Financement Local decreased compared with the situation at the end of December 2016. Its level stood at EUR 0.9 billion at the end of June 2017.

5.2 – CHANGE IN ISSUES

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 implies an active presence in the market of private placements within the framework of the EMTN program or the issue of registered covered bonds.

a. New issues in 2017

As of June 30, 2017, Caisse Française de Financement Local achieved a volume of issues of EUR 4.7 billion by enhancing its reference curve with three new points, by increasing the amount of several of its existing *souches* (taps) and by continuing to work in the private placement segment.

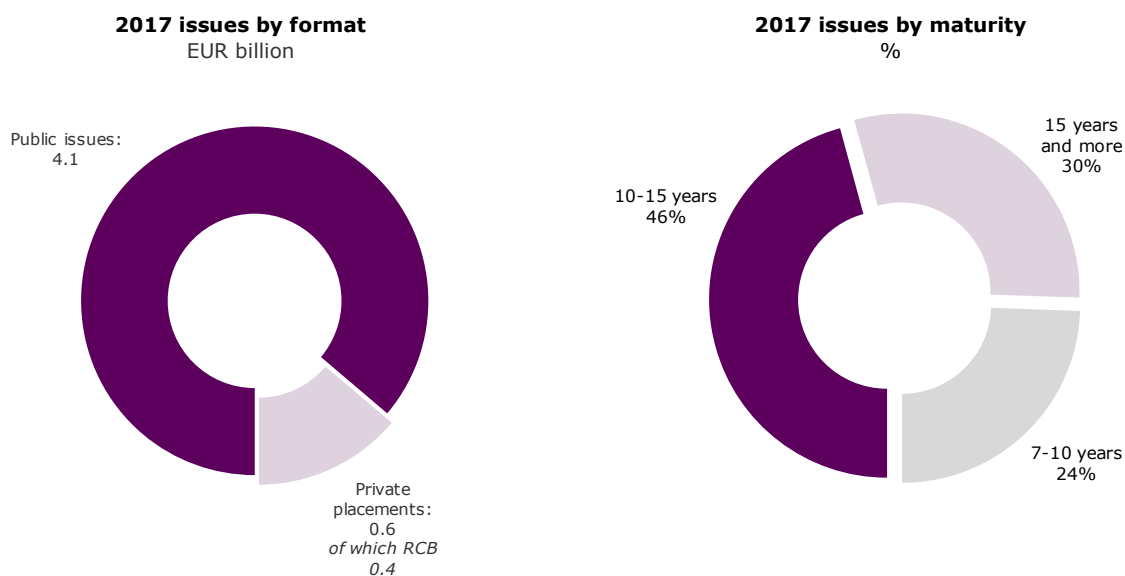
Caisse Française de Financement Local raised money in the primary market on two occasions for a total amount of EUR 3.3 billion:

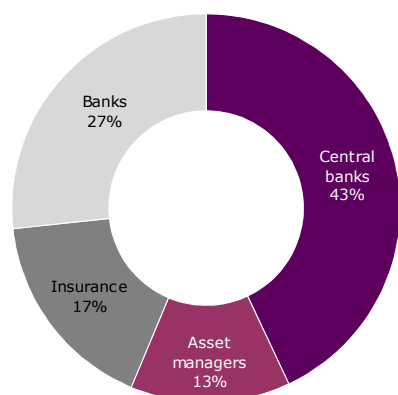
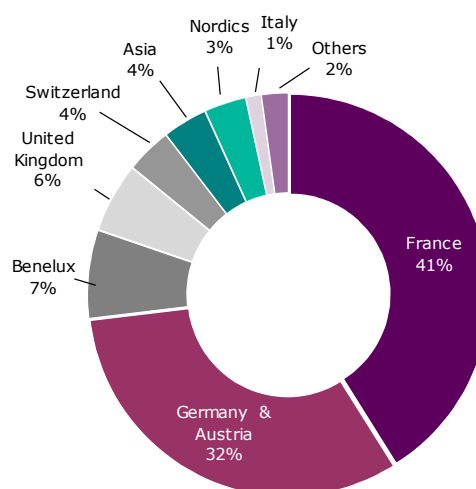
- a 10-year issue in January for EUR 1.5 billion;
- a dual tranche issue (7 and 15 years) in May for a total amount of EUR 1.8 billion.

At the same time, Caisse Française de Financement Local provided additional liquidity for one of its reference issues via five taps in 2017 for the amount of EUR 800 million.

In addition to these public transactions, Caisse Française de Financement Local remained active in the private placement segment and especially with the registered covered bond (RCB) format, thus making it possible to respond to investors' search for long and very long maturities. Altogether, EUR 651 million was raised in this market segment.

The breakdown of new issues by public/private format and maturity is presented below, as well as the breakdown of public issues by investor category and geographic zone.

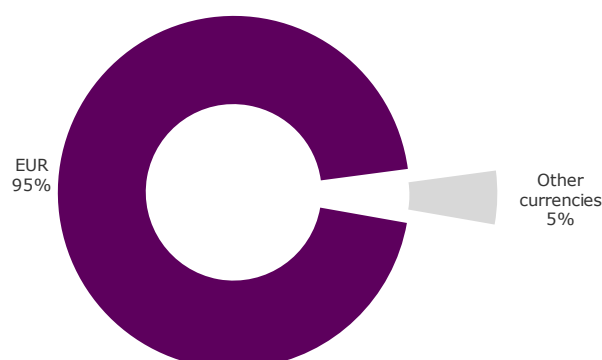


2017 public issues by investor category
%**2017 public issues by geographic zone**
%**b. Outstanding debt as of June 2017**

Outstanding *obligations foncières* and registered covered bonds totaled EUR 51.9 billion in swapped value at the end of June 2017. This includes new issues of *obligations foncières* for EUR 4.6 billion and amortization of issues maturing in 2017 for EUR 3.1 billion.

EUR billions - swapped value	2016	2017
Beginning of the year	51.6	50.4
Issues	5.9	4.7
Issues settled after 6/30	0.0	-0.1
Amortizations	-7.0	-3.1
Buyback	-0.1	0.0
End of the year	50.4	51.9

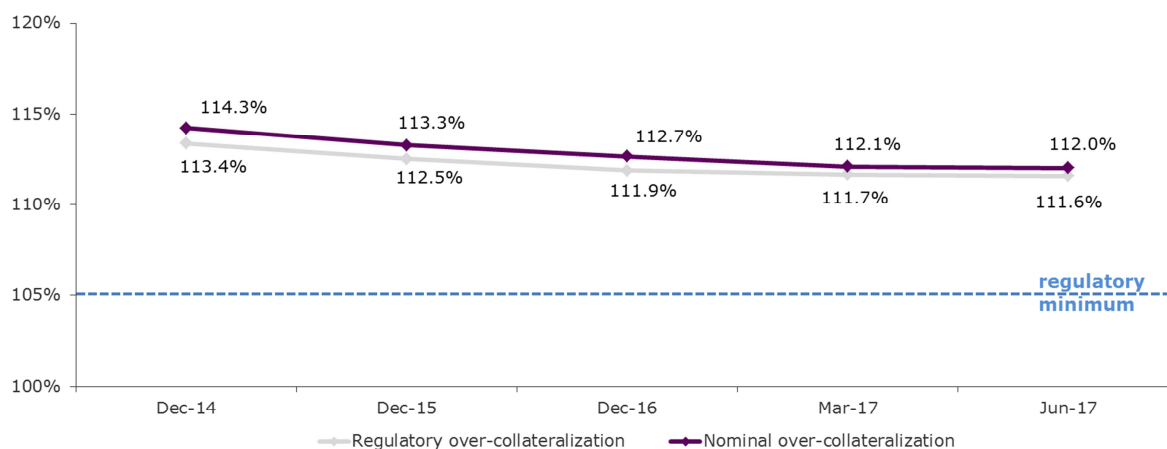
As of June 30, 2017, issues can be broken down by currency as follows:

**6. Changes in the over-collateralization ratio**

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

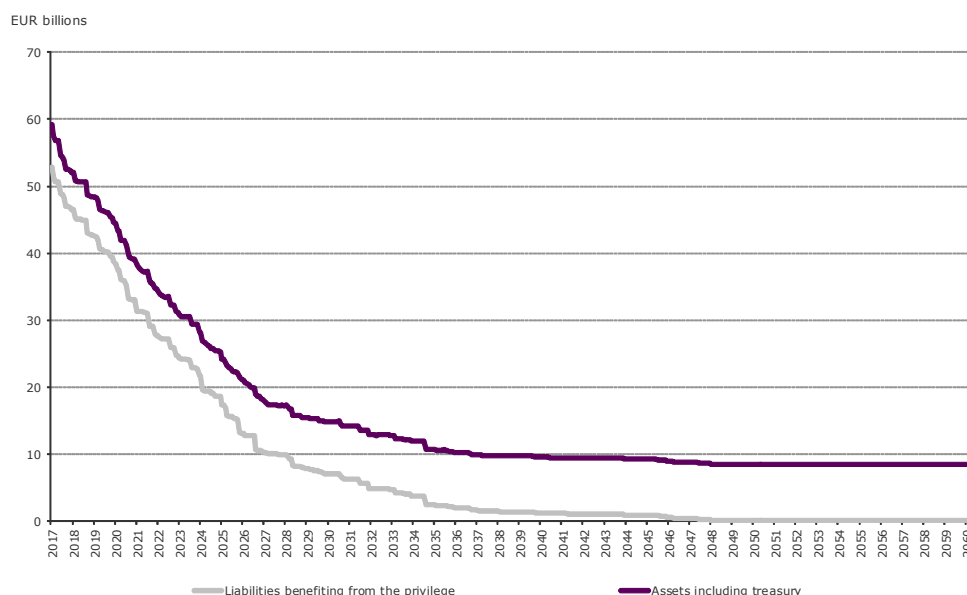


Regulatory over-collateralization may differ from nominal over-collateralization. In fact, it is calculated on the basis of the rules determined by the Autorité de contrôle prudentiel et de résolution (ACPR). In particular, these rules require different weighting levels according to the assets. The assets in Caisse Française de Financement Local's cover pool are weighted at 100%. The small difference between the two ratios can be explained by the accrued interest not yet due taken into account in the regulatory over-collateralization ratio.

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

Over-collateralization may also be illustrated by the gap between the amortization curves of the assets and issues benefiting from the privilege. The following graph presents the curves as of June 30, 2017.

Amortization of assets and liabilities as of June 30, 2017



In this graph, the assumption is made that excess cash generated over time is included in the cover pool.

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 2017, 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 funds do not benefit from the privilege stipulated in the law on *sociétés de crédit foncier*, but they are guaranteed by loans and securities assigned for this purpose in the account of Caisse Française de Financement Local at Banque de France. 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	12/31/2016	6/30/2017
Parent company	5.2	5.1
Banque de France	-	-
Total	5.2	5.1

8. Risk management

8.1 – CREDIT RISK

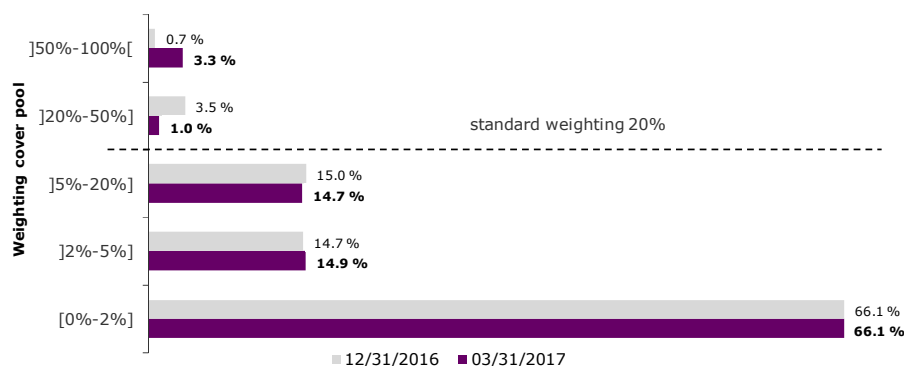
Credit risk represents the potential loss that Caisse Française de Financement Local may incur as the result of the decline in a counterparty's solvency.

a. Breakdown of exposures according to risk weighting

The quality of Caisse Française de Financement Local's portfolio can 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. Banking regulators 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, 2017, 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, 2017



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

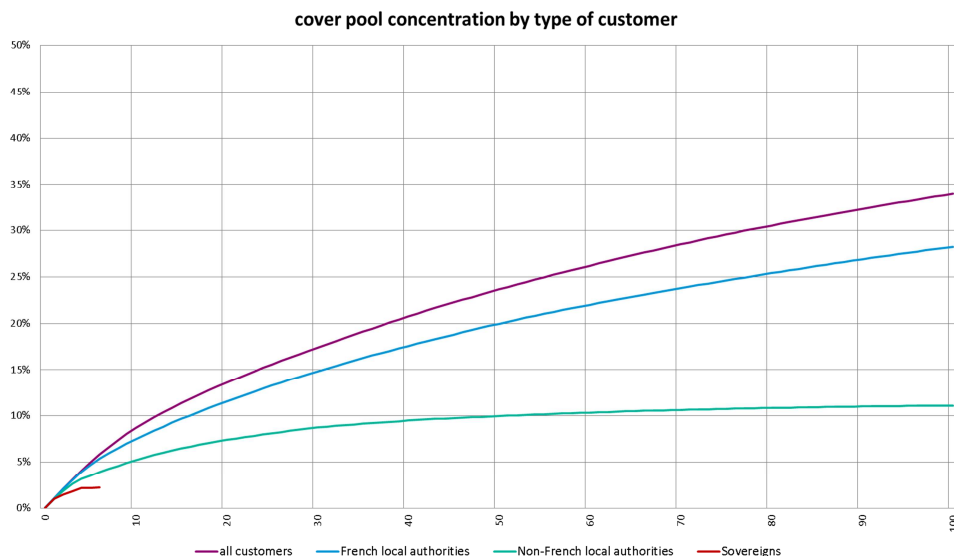
- 81% of the portfolio has a weighting of less than 5%;
- the average risk weighting of the cover pool assets is 6.6%, versus 20% for European local governments according to the Basel II/III standard method;
- only 4.3% of the portfolio has a weighting of more than 20%.

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 23.5% as of June 30, 2017, compared to 25.1% as of December 31, 2016. The fully loaded Common Equity Tier 1 Ratio in Basel III was 22.4% as of June 30, 2017, compared to 23.3% on December 31, 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.



As of June 30, 2017, all categories combined, the 20 largest exposures (excluding replacement assets and cash investments) represented 13.6% of the total cover pool (compared to 14.2% as of December 31, 2016). The largest exposure accounted for only 1.1% of the total cover pool and the twentieth exposure 0.4%.

c. Non-performing loans, litigious loans, provisions

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

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

As of June 30, 2017, non-performing and litigious loans constitute less than 1.0% of the Caisse Française de Financement Local cover pool; this is proof of the good quality of its portfolio. For the record, they had increased between 2013 and 2015, in particular because of the increase in the outstanding debt connected to lawsuits over structured loans, but also due to the more conservative approach of Caisse Française de Financement Local after the shareholder change. Since 2016, the non-performing and litigious loans have decreased significantly. Indeed, the growing number of financial settlement agreements signed with local governments and public hospitals within the framework of the strategy to reduce loan sensitivity made it possible to settle many outstanding debts and thus reduce the amounts and number of non-performing and litigious loans. Over the first half 2017 the decrease continued at a slower pace.

As of June 30, 2017, arrears were at EUR 85 million; they dropped by 36% in comparison with December 31, 2015 (EUR 133 million) and have slightly increased since the end of 2016 (EUR 81 million), but they are concentrated on a few counterparties. In addition, customers who have signed a financial settlement agreement and for which payment schedules have been made meet their deadlines.

As of June 30, 2017, the non-performing and litigious loans stood at EUR 549 million and decreased by 18% in comparison with December 31, 2015, (EUR 673 million) and by 1% compared to EUR 557 million on December 31, 2016.

EUR millions	12/31/2015	12/31/2016	06/30/2017
Non-performing loans and litigious loans	673	557	549
% of cover pool	1.1%	1.0%	0.9%
Arrears	133	81	85

Non-performing and litigious loans consist of:

- EUR 523 million of non-performing loans, which correspond to loans granted to customers of which the total unpaid outstanding amounts total EUR 59 million (of which EUR 51 million relating to structured loans). When a customer is classified as being in default in terms of credit risk, the total amount of their outstanding loans is classified as non-performing by contagion.
- EUR 26 million in loans classified as litigious, corresponding to unpaid interests on structured loans subject to litigations for customers with a good financial health.

Non-performing and litigious loans EUR millions	12/31/2016		06/30/2017	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
FRANCE				
State	-	-	-	-
Regions	54	-	53	-
Departments	70	-	72	-
Groups of municipalities	117	14	121	9
Municipalities	268	12	256	13
Public sector entities	21	1	21	4
TOTAL NON-PERFORMING AND LITIGIOUS	530	27	523	26
of which arrears on structured loans	46	27	51	26
of which arrears on other loans	8	-	8	-

The change in the number of customers with non-performing loans and with a part of their outstanding amounts involved in litigation (unpaid maturities of sensitive loans) is presented in the table below.

Non-performing loans and litigious loans (number of customers)	2016		2017	
	Non-performing loans	Litigious loans	Non-performing loans	Litigious loans
Beginning of the year	74	35	49	14
New	17	4	18	-
Outgoing	42	25	9	4
END OF PERIOD	49	14	58	10

The number of customers affected by non-performing loans slightly increased in the first half of 2017 due to:

- transfer of clients initially considered as litigious for their structured loans and,
- the entry into this category of customers with few arrears for vanilla loans.

The total amount of provisions at the end of June 2017 is presented in the table below.

EUR millions	12/31/2016	06/30/2017
Specific impairment	60	41
Collective impairment	46	45
TOTAL	106	86

Specific provisions totaled EUR 41 million at the end of June 2017. This change *vis-à-vis* the end of 2016 reflected a recovery of EUR 19 million in specific provisions, in the first half of 2017, subsequent to the use of more accurate methods to estimate recoverable flows of doubtful loans⁴.

In addition, collective provisions are calculated on the different portfolios of Loans and advances. They totaled EUR 45 million at the end of June 2017, as compared with EUR 46 million at the end of 2016.

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 three types of exposure to banks:

- replacement assets in the amount of EUR 0.8 billion (see 4.2.b. Replacement assets);

⁴ Within the framework of the success in 2016 of the policy to reduce the sensitivity of interest rates and the confirmation of legal decisions favorable to the cause, Caisse Française de Financement Local was able to hone, in a reasonable and prudent manner, the methods it uses to estimate the recoverability of flows of doubtful loans on its balance sheet in order to account for, in particular, the impact of the extension of payments. The implementation of this approach, which is in compliance with IFRS, means that it is no longer systematically necessary to estimate the total amount of interest to account for hypotheses of future recovery. Thus, the net interest rate expense is improved through a recovery of provisions in the amount of EUR 19 million, recorded as of June 30, 2017.

- bank account balances in euros and other currencies, representing a very small amount (see 4.2.b. Replacement assets), excluding cash deposited on the Banque de France account;
- its derivative contracts, entered into within the framework of its management of interest rate and foreign exchange risks.

All of Caisse Française de Financement Local's derivative operations are conducted within the framework of standard ISDA or FBF (Fédération bancaire française) contracts with major international banks. These contracts have particular characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and other issuers of covered bonds). In 2017, Caisse Française de Financement Local has begun to modify these contracts to take into account the recent changes in the regulation (Variation margin amendments). 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 (or variation margin), whereas they have to pay Caisse Française de Financement Local except for some which benefit from the agencies' highest short-term rating.

At the end of June 2017, Caisse Française de Financement Local was exposed (positive fair value of the swaps) on 11 banking counterparties, ten of these paid cash collateral of EUR 0.9 billion, offsetting total exposure, and one paid no collateral because of its very good short-term rating. This counterparty represented a limited exposure (EUR 7 million).

All derivative exposures as of June 30, 2017, are listed below.

EUR billions	Short Term notional amounts	Long Term notional amounts	% Long Term notional amounts	Mark to Market		Collateral received	Number of counterparties
				-	+		
SFIL	-	16.4	18.6%	(1.8)	-	-	1
Other counterparties	51.8	71.8	81.4%	(2.6)	0.9	0.9	26
Total	51.8	88.2	100.0%	(4.3)	0.9	0.9	27

The swaps negotiated with external counterparties represented 81.4% of outstanding long-term swaps and those signed with SFIL 18.6%. The long-term swaps signed with the five largest counterparties represented a total of 42.1% 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 stages 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. Loans granted individually or bond issues can be micro- or macro-hedged. Hedging of assets and liabilities is more often obtained in using new interest rate swaps, but the same effect can also be obtained whenever possible by the cancelation of swaps of opposite direction.
- 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.

Limiting directional risk

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

Directional risk

Total sensitivity

EUR millions	Limit	9/30/2016	12/31/2016	3/31/2017	6/30/2017
Sensitivity	25.0	-5.6	-0.5	-0.1	-1.6

Limiting the slope risk

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	Limit	9/30/2016	12/31/2016	3/31/2017	6/30/2017
Short term	10.0	-1.9	-0.9	0.1	0.4
Medium term	10.0	-2.3	0.3	2.0	-4.5
Long term	10.0	-2.6	0.1	-2.6	1.5
Very long term	10.0	1.2	0.1	0.4	1.1

- *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	Limit	9/30/2016	12/31/2016	3/31/2017	6/30/2017
Short term	20.0	2.6	4.4	3.3	7.8
Medium term	20.0	12.1	4.3	5.1	12.4
Long term	20.0	11.0	8.1	4.9	3.5
Very long term	20.0	7.4	5.9	5.3	5.6

4. Outstanding derivatives

The strategies employed to hedge interest rate risk and foreign exchange risk are illustrated by notional outstanding swaps analyzed in the following table, broken down between external counterparties and an internal counterparty (SFIL), as of June 30, 2017.

Breakdown of outstanding swaps	Notional * (EUR billions)	SFIL (%)	Other counterparties (%)
Euribor against Eonia			
Macro-hedges	51,8	0,0%	100,0%
Total short-term swaps	51,8	0,0%	100,0%
Fixed rate swaps against Euribor			
Micro-hedges on <i>obligations foncières</i>	43,9	18,0%	82,0%
Micro-hedges on loans and debt securities	23,1	10,6%	89,4%
Macro-hedges on loans	15,6	26,9%	73,1%
Subtotal	82,6	17,6%	82,4%
Currency swaps			
Micro-hedges on <i>obligations foncières</i>	2,5	39,2%	60,8%
Micro-hedges on loans	2,4	24,9%	75,1%
Micro-hedges on debt securities	0,7	44,6%	55,4%
Subtotal	5,6	33,7%	66,3%
Total long-term swaps	88,2	18,6%	81,4%

* Absolute value

b. Foreign exchange risk

The foreign exchange risk is defined as the risk of volatility in result, be it observed or latent, linked to a change in the exchange rate of currencies vis-à-vis a reference currency. The reference currency of Caisse Française de Financement Local is the euro.

The foreign exchange risk reflects a change in the value of assets and liabilities denominated in a currency other than the euro by reason of fluctuations of this same currency vis-à-vis the euro.

Its risk management policy consists in not taking any foreign exchange risk: all issues and assets denominated in foreign currencies are hedged as soon as they are recognized on the balance sheet and until their final due date, by a cross-currency swap against the euro. Floating rate exposures generated by this management policy are incorporated into interest rate risk management.

c. Transformation risk

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

1. Duration gap

The difference in maturity or amortization profile between the assets and the liabilities may create a liquidity risk.

With the interest rate risk under control as presented above, Caisse Française de Financement Local manages the congruence of maturities between the assets and the liabilities by maintaining the duration gap between the assets and the liabilities within a maximum limit of three years.

From the point of view of the method, since both the assets and the resources benefiting from the privilege have a floating rate after swaps, Caisse Française de Financement Local's balance sheet appears to indicate that there is a single loan vis-à-vis a single borrowing. Duration (D) is calculated as follows: "sum of the periods weighted by the cash flows and discounted at the interest rate of the zero coupon curve for period (t) / sum of the cash flows discounted at the interest rate of the zero coupon curve for period (t)".

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

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	6/30/2016	9/30/2016	12/31/2016	3/31/2017	6/30/2017
Cover pool	7.27	7.50	7.22	7.35	7.02
Privileged liabilities	6.11	6.26	6.10	6.32	6.36
Gap in asset-liability duration	1.16	1.24	1.13	1.03	0.67
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)	6/30/2016	9/30/2016	12/31/2016	3/31/2017	6/30/2017
Cover pool	7,58	7,78	7,71	7,88	7,63
Privileged liabilities	6,32	6,47	6,47	6,75	6,86
Gap in asset-liability weighted average life	1,27	1,31	1,24	1,13	0,77

3. Regulatory limit

Current regulations impose 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.

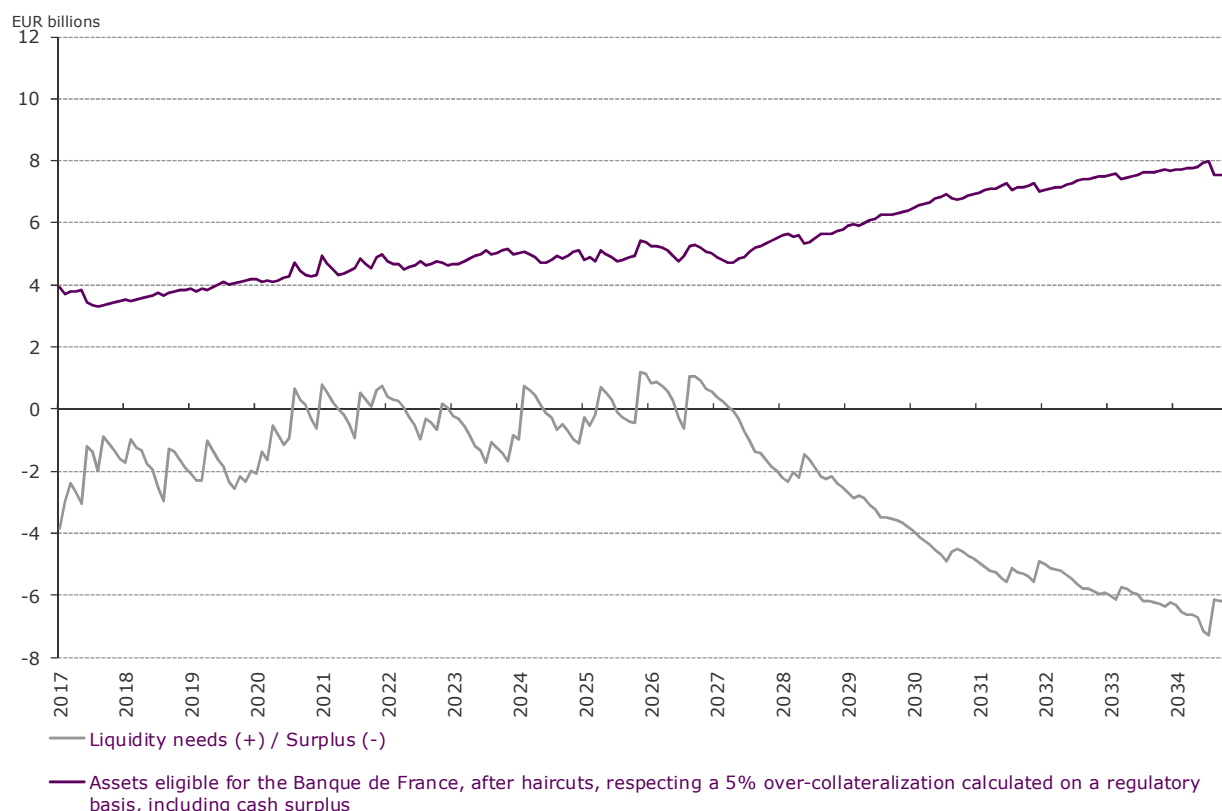
Since it is a credit institution, Caisse Française de Financement Local can post these eligible assets:

- 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).

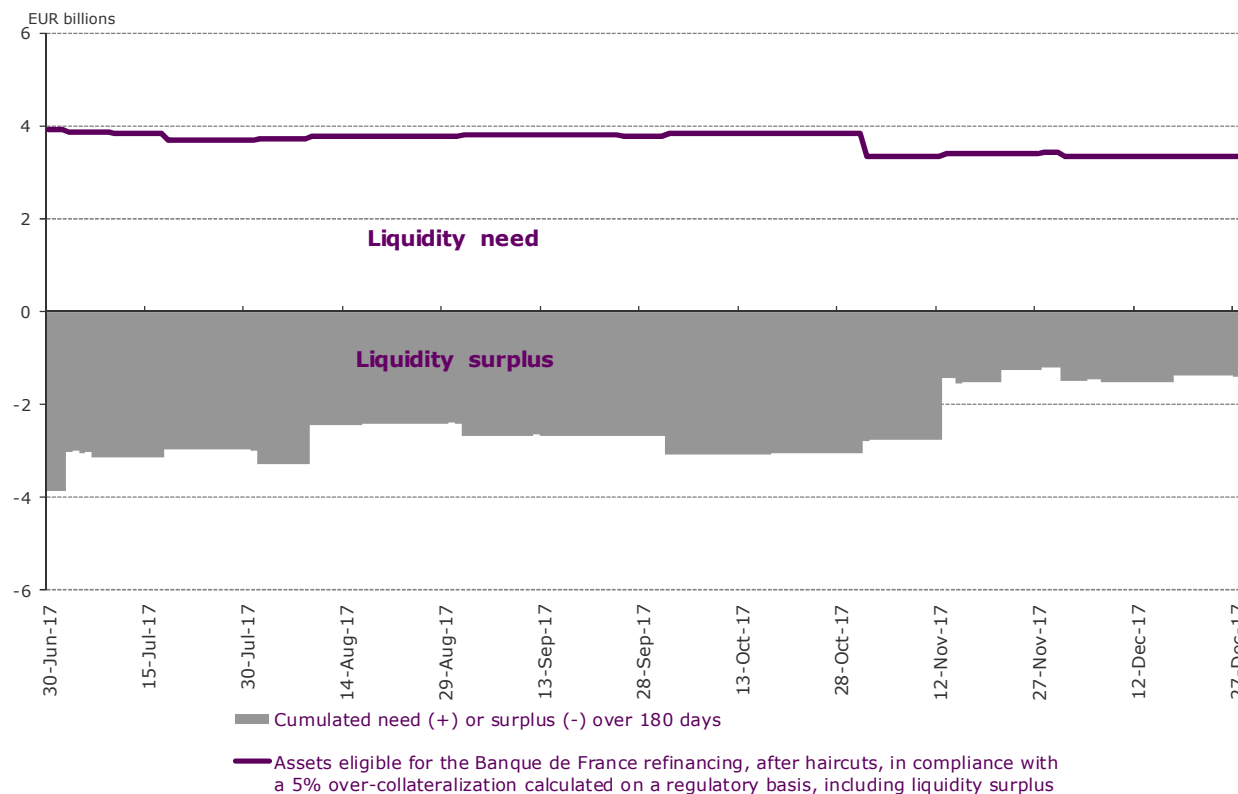
The maximum cumulated liquidity that Caisse Française de Financement Local might need in the future, in a run-off situation and if it were not able to issue new *obligations foncières*, is less than the maximum financing already occasionally obtained from the Banque de France in the past. This need is 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 the cumulative need for liquidity, and eligible assets to cover this need 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);
- the duration gap between the assets and the resources benefiting from the legal privilege (limited to three years), which is published quarterly, and the 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 need over a period of 180 days is covered by replacement assets and assets eligible for credit operations with the Banque de France. Cash needs are defined as repayments of *obligations foncières* and registered covered bonds, 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 2017, 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 sections 2.5 – b. and 8.3 – b.

b. Fiscal risks

For the record, 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 was closed in 2013, 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 recorded a provision for additional income tax in the amount of EUR 38 million in its 2015 IFRS financial statements. However, Caisse Française de Financement Local does not agree with the position of the tax authorities and started an appeal in 2016 within the framework of legal recourse allowed by current tax regulations. In 2016, discussions with tax authorities did not result in a change in the assumptions used to calculate the amount set aside in the IFRS accounts. No new developments have occurred in 2017.

b. 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 2016 annual financial report entitled Supplemental information – Report of the Chairman of the Supervisory Board.

c. Security and means of payment

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

9. Income for the year

9.1 – INCOME ACCORDING TO IFRS

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

The income statement for the first half of 2017 is presented in a synthetic form as follows.

IFRS EUR millions	H1 2016	2016	H1 2017	Change H1 2017 / H1 2016
Interest margin	90	150	97	
Net commissions	(2)	(7)	(3)	
Net result of assets at fair value	(45)	(38)	(4)	
Net result of financial assets	7	14	2	
Other income and expense	-	(0)	-	
NET BANKING INCOME	50	119	92	84%
General operating expenses	(46)	(91)	(47)	
Taxes	(7)	(7)	(7)	
OPERATING INCOME BEFORE COST OF RISK	(3)	21	38	ns
Cost of risk	6	18	1	
PRE-TAX INCOME	3	39	39	ns
Income tax ⁽¹⁾	(2)	(29)	(16)	
NET INCOME	1	10	23	ns

⁽¹⁾ Caisse Française de Financement Local took into account the legislative measures designed to reduce the corporate income tax rate to 28% as of 2020. In this context, as of December 31, 2016, Caisse Française de Financement Local reduced its deferred tax assets and recorded an expense of EUR 14 million. This amount did not need any adjustment in the financial statements as of June 30, 2017.

As of June 30, 2017, the Net income was positive and stood at EUR +23 million.

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

a. Income restated excluding non-recurrent items

Income was strongly influenced by the following factors that should be mentioned in the analysis:

- adjustments in fair value concerning hedges. The application of certain accounting standards or methods (see below) is a source of volatility in Net banking income. The impact of these adjustments was significantly negative in 2016. It remained negative at the end of June 2017 but for a smaller amount as shown in the table below.

En EUR millions	H1 2016	2016	H1 2017
Fair value adjustments on hedging	(44)	(37)	(6)

For the record, 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 standard IFRS 13: Credit Valuation Adjustment / Debit Valuation Adjustment (CVA / DVA), Funding Valuation Adjustment (FVA);
- fair value adjustment of collateralized derivatives: to account for 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.
- adjustment of fair value of derivatives that hedged the foreign exchange risk related to export credit financing loans denominated in a currency other than euro, and that are concluded before the end of the drawing phase of the hedged loans. Hedging currency risk relating to monetary assets or liabilities cannot be documented, in accordance with IAS39, before they are recorded in the entity's balance sheet.

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

- some annually taxes and contributions accounted integrally since the first quarter of the year in accordance with the IFRIC21 standard. The linearization of these expenses over the year is shown in the table below.

En EUR millions	H1 2016	2016	H1 2017
linearization of IFRIC21 expenses	(3)	-	(4)

Excluding non-recurrent items indicated above, the “recurrent” income statement for the first halves of 2016 and 2017 is as follows.

EUR millions	H1 2016			H1 2017		
	Accounting income statement	Non-recurrent events	Recurrent income statement	Accounting income statement	Non-recurrent events	Recurrent income statement
NET BANKING INCOME	50	(44)	94	92	(6)	98
Operating Expenses	(53)	(3)	(50)	(54)	(4)	(50)
OPERATING INCOME BEFORE COST OF RISK	(3)	(47)	44	38	(10)	48
Cost of risk	6	-	6	1	-	1
PRE-TAX INCOME	3	(47)	50	39	(10)	49
Income tax	(2)	16	(18)	(16)	3	(19)
NET INCOME	1	(31)	32	23	(7)	30

With non-recurrent items removed, Net banking income increased from EUR +94 million in the first half of 2016 to EUR +98 million in the same period in 2017, and Net income slightly decreased from EUR +32 million to EUR +30 million in 2017.

b. Analysis of recurrent net income

The recurrent Net banking income slightly increased, due to:

- an increase in Interest margin in the amount of EUR 7 million, resulting mainly from the improvement in the refinancing conditions and the good level of commercial margins;
- partially offset by a decrease in Net result of financial assets in the amount of EUR 5 million in comparison with 2016. This item mainly represents the results on early reimbursements of loans or issues.

Most of the General operating expenses are made up of billing by the parent company for the operational management of the Company. These expenses were stable compared to the first half of 2016.

The Cost of risk presented a profit over the first half of 2017 (see 8.1.c Non-performing loans, litigious loans, provisions) as well as in the first half of 2016. These results were due to the reversal of provisions made possible by the progressive reduction of non-performing and litigious loans in the context of the success of the policy put in place to reduce the sensitivity of structured loans.

The tax expense for the half year was EUR -19 million; it took into account the non-deductibility of the contribution to the Single Resolution Fund.

9.2 – INCOME ACCORDING TO FRENCH GAAP

Net income for the first half of 2017 is presented below in a synthetic manner.

French GAAP EUR millions	H1 2016	2016	H1 2017	Change H1 2017 / H1 2016
Interest margin	151	179	80	
Net commissions	(2)	(7)	(2)	
Provisions and income on trading portfolio	0	(0)	0	
Provisions and income on securities	(14)	(9)	(3)	
Other income and expense	-	-	-	
NET BANKING INCOME	135	163	75	(44)%
General operating expenses	(46)	(91)	(47)	
Taxes	(7)	(7)	(7)	
OPERATING INCOME BEFORE COST OF RISK	82	65	21	(74)%
Cost of risk	7	18	1	
OPERATING INCOME	89	83	22	(75)%
Income (loss) on fixed assets	-	-	-	
Income tax	(18)	(16)	(3)	
Regulated provision on long- and medium- term loans	-	-	-	
NET INCOME	71	67	19	(73)%

The Company’s business is piloted according to IFRS (as adopted by the European Union). 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 the accounting treatment for recognition of the penalties due to the early repayment of loans and swap unwinding payments for termination of hedging swaps in the French GAAPs accounts differs from the treatment applied in the accounts prepared pursuant to IFRS. Pursuant to IFRS, cash payments and penalties are usually amortized, while they are usually recognized immediately in Net Banking Income, according to French GAAP. This accounting treatment may lead to recognition of the results earlier than would a systematic amortization approach. These penalties and cash payments are generated by early reimbursements, but also by renegotiations, which generally accompany active debt management by borrowers, as well as swaps which are cancelled in order to back directly assets to liabilities. 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 dropped 44%, i.e. EUR -60 million, as compared with the same period in 2016, from EUR +135 million to EUR +65 million.

This decrease was in particular due to the item Interest margin which varies from EUR -71 million. At the same time, the Provisions and income on securities item has improved by EUR +11 million (less impairments in 2017 linked to changes in the market value of placement securities).

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 (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. This was particularly true in 2016, which explained the high level of the Interest margin this year.

Most of the General operating expenses are made up of billing by the parent company for the operational management of the Company. These expenses slightly increased (EUR -1 million), compared to 2016.

The Cost of risk presented a profit over the first half of 2017 (see 8.1.c Non-performing loans, litigious loans, provisions) as well as in the first half of 2016. These results were due to the reversal of provisions made possible by the progressive reduction of non-performing and litigious loans in the context of the success of the policy put in place to reduce the sensitivity of structured loans.

Income tax for the period totaled EUR -3 million after accounting for the prior year deficit. For the record, deferred taxes are not recognised in French Gaap accounts.

Net income increased from EUR +71 million to EUR +19 million.

10. Outlook for 2017

In 2017, Caisse Française de Financement Local and its parent company SFIL aim to:

- maintain their role as a major player in the market for loans to French local governments and public hospitals within the partnership with La Banque Postale (leader in this market in 2015 and 2016);
- enhance their role in refinancing banks that work with French exporters for their large export credits.

The bulk of the loan sensitivity activity has been carried out and the riskiest contracts, those indexed to EUR/CHF currencies, should decrease to a minimum by the end of 2017. The important reduction in the number of legal proceedings as of June 30, 2017 (more than 80% down since the creation of SFIL) should pursue its reducing trend during the second half of the year. This activity is generally accompanied by new loans granted to the local governments concerned and will continue at a slower pace than in 2015 and 2016.

Caisse Française de Financement Local will thus see new loans enter its portfolio of assets in 2017. They will represent exposures on the French local public sector and the French State.

To cover its financing needs, Caisse Française de Financement Local plans to issue approximately EUR 6.0 billion of *obligations foncières* in 2017 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.

Public sector loans and bonds as of June 30, 2017

EUR millions	6/30/2017				12/31/2016	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
France						
State :						
- refinancing of large export credits	-	-	113	-	113	-
- others	7	-	99	-	106	98
Banque de France	3,885	-	-	-	3,885	3,685
Regions	1,892	301	267	-	2,460	2,051
Departments	7,042	-	192	-	7,234	6,986
Municipalities	16,072	21	466	-	16,559	16,648
Groups of municipalities	11,079	89	163	-	11,331	11,004
Public sector entities :						
- health	6,341	-	-	-	6,341	6,310
- social housing	1,360	-	-	-	1,360	1,421
- others	908	243	1	-	1,152	945
Credits institutions	9	623	-	-	632	650
Subtotal	48,595	1,277	1,301	-	51,173	49,797
Germany						
Länder	-	275	-	-	275	515
Subtotal	-	275	-	-	275	515
Austria						
Länder	-	-	190	-	190	191
Subtotal	-	-	190	-	190	191
Belgium						
Regions	8	-	31	-	39	44
Communities	-	-	-	-	-	50
Public sector entities	55	-	-	-	55	60
Credits institutions	-	42	-	-	42	-
Subtotal	63	42	31	-	136	154
Canada						
Provinces	-	-	-	-	-	22
Communities	161	-	-	-	161	172
Public sector entities	129	-	-	-	129	129
Subtotal	290	-	-	-	290	323
Spain						
State	-	200	-	-	200	200
Regions	-	104	-	-	104	104
Municipalities	87	-	-	-	87	88
Subtotal	87	304	-	-	391	392
United States						
Federated States	-	250	-	-	250	252
Subtotal	-	250	-	-	250	252

EUR millions	6/30/2017				12/31/2016	
	Direct exposure		Indirect exposure		Total	Total
PAYS	Loans	Bonds	Loans	Bonds		
Italy						
State	-	541	-	-	541	541
Regions	-	2,008	-	-	2,008	2,043
Provinces	-	544	-	-	544	566
Municipalities	8	1,908	-	-	1,916	1,973
Subtotal	8	5,001	-	-	5,009	5,123
Japan						
Municipalities	-	25	-	-	25	25
Subtotal	-	25	-	-	25	25
Portugal						
Municipalities	19	-	-	-	19	20
Public sector entities	5	-	-	-	5	6
Subtotal	24	-	-	-	24	26
United Kingdom						
State	-	-	-	276	276	320
Subtotal	-	-	-	276	276	320
Sweden						
Municipalities	18	-	-	-	18	18
Credits institutions	-	100	-	-	100	-
Subtotal	18	100	-	-	118	18
Switzerland						
Cantons	293	-	93	-	386	386
Municipalities	511	-	-	-	511	556
Public sector entities	91	-	-	-	91	91
Subtotal	895	-	93	-	988	1,033
Supranational						
International organizations	30	-	-	-	30	32
Subtotal	30	-	-	-	30	32
TOTAL COVER POOL	50,010	7,274	1,615	276	59,175	58,201
Italy						
Regions	-	2	-	-	2	-
Assets temporarily removed from the cover pool	-	2	-	-	2	-
TOTAL PUBLIC EXPOSURES	50,010	7,276	1,615	276	59,177	58,201

Loans and securities are off premium / discount.

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

2

Financial Statements Half-year 2017 (*IFRS*)

Assets

EUR millions	Note	6/30/2016	12/31/2016	6/30/2017
Central banks	2.1	2,315	3,684	3,884
Financial assets at fair value through profit or loss		1	-	4
Derivatives	4.1	7,723	6,437	5,159
Financial assets available for sale	2.2	1,525	1,736	2,243
Loans and advances due from banks	2.3	4,597	381	483
Loans and advances to customers	2.4	61,788	59,679	58,827
Fair value revaluation of portfolio hedge		3,592	3,053	2,657
Financial assets held to maturity		-	-	-
Current tax assets	2.5	0	0	0
Deferred tax assets	2.5	143	109	92
Accruals and other assets	2.6	9	28	13
TOTAL ASSETS		81,693	75,107	73,362

Liabilities

EUR millions	Note	6/30/2016	12/31/2016	6/30/2017
Central banks		-	-	-
Financial liabilities at fair value through profit or loss		6	1	5
Derivatives	4.1	12,475	9,800	8,588
Due to banks	3.1	5,486	5,225	5,134
Customer borrowings and deposits		-	-	-
Debt securities	3.2	59,354	56,110	56,232
Fair value revaluation of portfolio hedge		1,491	1,198	1,005
Current tax liabilities	3.3	1	0	1
Deferred tax liabilities	3.3	-	-	-
Accruals and other liabilities	3.4	1,544	1,424	1,016
Provisions	3.5	38	38	39
Subordinated debt		-	-	-
Equity		1,298	1,311	1,342
Capital and related reserve		1,315	1,315	1,350
Reserves and retained earnings		113	113	88
Gains and losses through equity		(131)	(127)	(119)
Net income		1	10	23
TOTAL LIABILITIES		81,693	75,107	73,362

Income statement

EUR millions	Note	H1 2016	2016	H1 2017
Interest income	5.1	1,725	3,256	1,388
Interest expense	5.1	(1,635)	(3,106)	(1,291)
Fee and commission income	5.2	0	0	3
Fee and commission expense	5.2	(2)	(7)	(6)
Net result of financial instruments at fair value through profit or loss	5.3	(45)	(38)	(4)
Net result of financial assets	5.4	7	14	2
Other income		0	0	0
Other expense		(0)	(0)	(0)
NET BANKING INCOME		50	119	92
Operating expense	5.5	(53)	(98)	(54)
GROSS OPERATING INCOME		(3)	21	38
Cost of risk	5.6	7	18	1
OPERATING INCOME		3	39	39
Net gains (losses) on other assets		-	-	-
INCOME BEFORE TAX		3	39	39
Income tax	5.7	(2)	(29)	(16)
NET INCOME		1	10	23
Earnings per share (in EUR)				
- Basic		0.08	0.76	1.73
- Diluted		0.08	0.76	1.73

Net income and unrealized or deferred gains and losses through equity

EUR millions	H1 2016	2016	H1 2017
Net income	1	10	23
Items will be reclassified subsequently to profit or loss	(18)	(14)	8
Unrealized or deferred gains and losses of financial assets available for sale	(22)	(26)	7
Unrealized or deferred gains and losses of cash flow hedges	(6)	4	5
Taxes on items reclassified subsequently to profit or loss	10	8	(4)
Items that will not be reclassified subsequently to profit or loss	-	-	-
Total of unrealized or deferred gains and losses through equity	(18)	(14)	8
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	(17)	(4)	31

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	
EQUITY AS OF DECEMBER 31, 2016	1,315	123	1,438	(104)	(23)	(127)	1,311
Shares issued	35	-	35	-	-	-	35
Dividends	-	(35)	(35)	-	-	-	(35)
Changes in fair value of available-for-sale financial assets through equity	-	-	-	4	-	4	4
Changes in fair value of derivatives through equity	-	-	-	-	4	4	4
Changes in fair value of available-for-sale financial assets through profit and loss	-	-	-	-	-	-	-
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-
Net income for the period	-	23	23	-	-	-	23
Other movements	-	-	-	-	-	-	-
EQUITY AS OF JUNE 30, 2017	1,350	111	1,461	(100)	(19)	(119)	1,342

The Ordinary Shareholder's meeting decided on Mai 30, 2017, to distribute a dividend in the amount of EUR 35 million. Each share (1,315,000 shares) received a dividend of EUR 2.67.

The Extraordinary Shareholder's meeting decided on May 30, 2017, to approve a capital increase in the amount of EUR 35 millions, thus increasing the share capital from EUR 1,315 million to 1,350 million. Share capital currently stands at EUR 1,350,000,000 represented by 13,500,000 nominative shares.

Cash flow statement

EUR millions	H1 2016	2016	H1 2017
NET INCOME BEFORE TAXES	3	39	39
+/- Depreciation and write-downs	(27)	(23)	(13)
+/- Expense / income from investing activities	130	121	78
+/- Expense / income from financing activities	(84)	(59)	(100)
+/- Other items	212	315	4
= Non-monetary items included in net income before tax and other adjustments	231	354	(31)
+/- Cash from interbank operations	233	4,177	(188)
+/- Cash from customer operations	(1,029)	(961)	(600)
+/- Cash from financing assets and liabilities	(455)	(520)	(88)
+/- Cash from not financing assets and liabilities	(390)	(731)	(343)
- Income tax paid	(6)	(17)	(24)
= Decrease / (increase) in cash from operating activities	(1,648)	1,948	(1,243)
CASH FLOW FROM OPERATING ACTIVITIES (A)	(1,414)	2,341	(1,235)
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-	-
+/- Cash from or for shareholders	-	-	(0)
+/- Other cash from financing activities	1,233	(1,148)	1,442
CASH FLOW FROM FINANCING ACTIVITIES (C)	1,233	(1,148)	1,442
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	-	-	-
Increase / (decrease) in cash equivalents (A + B + C + D)	(181)	1,193	207
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2,500	2,500	3,693
Cash and balances with central banks (assets & liabilities)	2,496	2,496	3,684
Interbank accounts (assets & liabilities) and loans / deposits at sight	4	4	9
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2,319	3,693	3,900
Cash and balances with central banks (assets & liabilities)	2,315	3,684	3,884
Interbank accounts (assets & liabilities) and loans / deposits at sight	4	9	16
CHANGE IN NET CASH	(181)	1,193	207

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, as adopted by the European Union. This publication is voluntary. The financial statements as of June 30, 2017, were examined by the Executive Board on September 4, 2017.

1.2. APPLICABLE ACCOUNTING STANDARDS

a. Application of IFRS as adopted by the European Union

On July 19, 2002, the European Union published regulation EC 1606/2002, which obliged listed groups to apply IFRS as from January 1, 2005. Caisse Française de Financement Local deliberately decided to apply all the IAS, IFRS, SIC and IFRIC adopted by the European Union 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 are prepared in accordance with all IFRS as adopted and endorsed by the European Union up to the accounting closing on June 30, 2017.

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

IASB and IFRIC texts endorsed by the European Union but not applicable yet

- IFRS 9 Financial Instruments: this standard, which will replace IAS 39, was adopted by the European Union on November 22, 2016, and will come into effect for fiscal years beginning on or after January 1, 2018. It sets out new principles for:
 - the classification and valuation of financial assets: accounting will be defined on the basis of the management model implemented on the one hand, and the nature of the flows received (consisting exclusively of payments of principal and interest – « SPPI », or including other elements – « non-SPPI »,) on the other hand;
 - the impairment for credit risk: the standard introduces a loss impairment model that requires to account for 12-month expected credit losses for all assets that enter the balance sheet, and lifetime expected credit losses if the credit risk increased significantly since the initial recognition of the asset;
 - hedge accounting, with the exception of macro-hedging transactions, which are to be the subject of a separate draft standard currently being studied by the IASB.

As for financial instruments recorded as liabilities on the balance sheet, the only change is the recognition of changes in fair value of its own credit risk, for financial liabilities designated at fair value (fair value option). They will be recorded in shareholders' equity without any subsequent recycling in profit or loss.

Classification and Measurement

Caisse Française de Financement Local initiated in the second half of 2015 the analysis on the classification and evaluation component of the new standard. The potential impacts are as follows.

- A review of the instruments was carried out in order to identify the assets currently recognized at amortized cost which, due to their contractual characteristics, will be recorded at fair value in the new framework.
- An analysis of the documentation of loan and bond contracts was carried out to identify the different contractual prepayment clauses and qualify them in relation to the future standard, which is the subject of a limited amendment proposal from the IASB on this point;
- The management model implemented has been formalized for the different portfolios of financial assets.

On the basis of these first elements, work is under way to evaluate the potential impacts of the entry into force of the new standard. The main expected change relates to some loans that should be recorded at fair value through profit or loss, as they do not meet the cash flow criterion representing solely principal and interests. Work was carried out during the first half of 2017 to formalize the valuation methodology of these assets (which, given the absence of observable prices in an active market, will be based on a mark-to-model), and to assess :

- the expected impact on equity on the date of first application of the standard;
- the sensitivity of the result as of 2018, resulting from subsequent changes of credit spreads on these assets.

On the other hand, the policy implemented by Caisse Française de Financement Local to reduce loan sensitivity resulted in the transformation of a large number of loans with a structured (« non-SPPI ») component into fixed or variable rate loans (« SPPI »). These transactions did not give rise to derecognition of the initial assets under IAS 39, as the financial conditions of the new loan comply with the principle of IAS 39 AG62. However, under IFRS 9, The terms of the restructured transaction are substantially different, as there is a change in the « SPPI » criterion, which is a key factor for the definition of the applicable accounting treatment. Since the application of the standard is retroactive, Caisse Française de Financement Local has therefore determined the impacts that would have resulted from derecognition of financial instruments on the date of the transformation. The corresponding impact (adjusted for the time-related amortization) will be recorded as a counterpart to equity on the date of first application of the standard.

Moreover, although the business model of Caisse Française de Financement Local is essentially based on an asset holding activity in order to collect the contractual cash flows, a part of the securities portfolio, corresponding to the most liquid assets, may also be subject to sales. This sub-portfolio will be accounted for at fair value through equity. The impact on equity on the date of first application of the standard will depend on the breakdown of the different portfolios between the two business models.

Impairment of Financial Assets

The analysis of the changes in the impairment methodology began in the first half of 2016. Work first focused on the definition of a significant increase of credit risk applied to the portfolio of loans to French local governments, and on the assessment of the resulting impairment level.

Caisse Française de Financement Local plans to build on the advanced models it has defined for the prudential capital requirements for credit risk, supplementing them by taking into account additional information to integrate the forward-looking dimension.

Hedge accounting

In the case of hedge accounting, the standard leaves the choice, when first applying IFRS 9, to apply the new provisions or to maintain the provisions in force under IAS 39 until the entry into force of the future macro-hedging standard. Caisse Française de Financement Local has decided to maintain the provisions of IAS 39 for hedge accounting at the date of entry into force of IFRS 9. However, Caisse Française de Financement Local will publish the financial information on hedge accounting that is required as a result of the amendments to *IFRS 7 Financial Instruments: Disclosures*.

Implementation of IFRS 9

The implementation of the new standard is based on a Steering Committee involving General Management, the Finance division, the Risks division, as well as the head of Information Systems.

Work on changes to the information systems related to this new standard has been integrated into the work plan and planning of the business teams and IT teams for 2017. All the components of the information system affected by the implementation of IFRS9 are subject to tests which are partly integrated into the IT simplification and reinforcement program Oxygen.

The adaptation of the governance of Caisse Française de Financement Local and the integration of elements relating to the new standard into the existing procedures are in progress and will continue during the second half of 2017.

- IFRS 15 Revenue from contracts with customers: This standard, which deals with the accounting of income, was adopted by the European Union on 22 September 2016 and will apply from 1 January 2018.

1.3. 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. The effective interest rate is the rate that accurately discounts the expected future cash flows over the life of the financial instrument or, where more appropriate, over a shorter period, so as to obtain the net book value of the financial asset. The calculation of this rate takes into account the commissions received or paid which, because of their nature, form an integral part of the effective rate of the contract, transaction costs and possible premiums and discounts.

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, 2017, corresponds to the part of this reserve still to be amortized with regard to the securities restated as of October 1, 2008.

Financial assets held for trading

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

Financial assets designated at fair value through profit or loss

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

Realized gains and losses on sales of financial assets

For financial assets 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 the 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 fi-

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. As from the impairment of the asset, the "Interest and similar income" section of the income statement records the theoretical remuneration of the asset calculated by applying the original effective interest rate to the net book value of impairment.

- 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 and the net present value of the expected cash flows discounted at the effective interest rate at the time of reclassification. Any existing unamortized reserve of unrealized gains and losses will be taken to the profit or loss account in Cost of risk.

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

Financial assets available for sale

Impairment of available-for-sale financial assets is recognized on an individual basis if there is objective evidence of impairment as a result of one or more events occurring since initial recognition of the asset. Caisse Française de Financement Local only holds interest-bearing debt instruments as available-for-sale financial assets. These assets are 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 (when the financial asset available for sale is with fixed income) or in Gains (losses) on available-for-sale securities (when the financial asset is with variable income). Any subsequent decline in fair value constitutes an additional impairment loss, recognized in the income statement.

In the event of an increase in the fair value of an 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 a quasi-actuarial 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 amortization of issue premiums is deducted from related interest income and expense on debt securities.

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

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

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

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

f. Derivatives

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 used in a hedging relationship

Caisse Française de Financement Local is only authorized to enter in derivative transactions for hedging purposes. These derivatives are usually documented in a hedging relationship.

Nevertheless, as of June 30, 2017, some derivatives could not be recorded as such; that resulted:

- either from operations in which hedge ineffectiveness arose after the hedged items were impaired;
- or from derivatives that hedge the foreign exchange risk related to export credit financing loans denominated in a currency other than the euro, and that are concluded before the end of the drawing phase of the hedged loans. Hedging of currency risk relating to monetary assets or liabilities cannot be documented, in accordance with IAS 39, before they are recorded in the entity's balance sheet.

Changes in the fair value of these derivative instruments are recognized in Net income on 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 hedging 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.

Regarding notably structured financial instruments, the existence of a perfect hedge with a derivative, and the documentation of the associated hedging relationship, have the effect of re-evaluating the hedged risk of the financial instrument, in parallel with the revaluation of the hedging derivative. This results in the same accounting effects as if the derivative embedded in the financial instrument has been separated.

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 of the interest rate risk of a portfolio

Caisse Française de Financement Local makes use of the provisions of IAS 39 as adopted by the European Union (IAS 39 carve-out) because it better reflects the way Caisse Française de Financement Local manages its financial instruments.

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

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

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

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

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

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

g. Fair value of financial instruments

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

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 of sufficient frequency and volume to provide pricing information on an ongoing basis. Active market prices are not, however, available for a significant number of the financial assets and liabilities held or issued by Caisse Française de Financement Local.

If a 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. This differential treatment reflects the different financing cost associated with the derivatives used (*FVA – Funding Valuation Adjustment*). 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 valuation adjustment is taken into account in the valuation of derivatives to reflect the impact of a counterparty's credit risk (credit valuation adjustment) or the counterparty's net exposure to the credit risk of Caisse Française de Financement

Local (debit valuation adjustment). This valuation adjustment makes it possible 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. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.

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 drawn. They are recorded as commission income on the expiry date of the commitment if no loan is drawn.

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 charged or credited directly to other comprehensive income, are also credited or charged directly to other comprehensive income.

k. Provisions

Provisions are mainly for litigation, restructuring and off-balance sheet loan commitments.

A provision is measured at the present value of the expenditures expected to be required to settle the obligation. 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 ordinary shares

Dividends on ordinary shares are recognized in liabilities in the period in which they are authorized. Dividends of the year that are authorized after the 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 companies owned directly or indirectly by the same final shareholder and with directors.

o. Segment reporting

Caisse Française de Financement Local's sole activity is the financing or refinancing of commitments on public sector (loans to French local governments and public hospitals, or loans to SFIL with an unconditional and irrevocable 100% guarantee by the French State, as part of the financing of large export credits).

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 banks or central bank and inter-bank deposits at sight.

2. NOTES TO THE ASSETS (EUR millions)

2.1 - CENTRAL BANKS

	6/30/2016	12/31/2016	6/30/2017
Mandatory reserve deposits with central banks	-	-	-
Other deposits	2,315	3,684	3,884
TOTAL	2,315	3,684	3,884

2.2 - FINANCIAL ASSETS AVAILABLE FOR SALE

a. Analysis by nature

	6/30/2016	12/31/2016	6/30/2017
Loans	-	-	-
Bonds	1,525	1,736	2,243
TOTAL	1,525	1,736	2,243

b. Analysis by counterparty

	6/30/2016	12/31/2016	6/30/2017
Public sector	925	1,089	1,461
Credit institutions guaranteed by the public sector	-	-	-
Total public sector	925	1,089	1,461
Credit institutions	600	647	782
Total replacement assets	600	647	782
TOTAL	1,525	1,736	2,243
<i>of which eligible for central bank refinancing</i>	<i>632</i>	<i>1,320</i>	<i>2,021</i>

c. Impairment

	6/30/2016	12/31/2016	6/30/2017
Public sector	925	1,089	1,461
Replacement assets	600	647	782
Total performing assets	1,525	1,736	2,243
Public sector	-	-	-
Replacement assets	-	-	-
Total impaired assets	-	-	-
Specific impairment	-	-	-
TOTAL ASSETS AFTER IMPAIRMENT	1,525	1,736	2,243

d. Analysis by term to 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

	6/30/2016	12/31/2016	6/30/2017
Sight accounts	9	4	8
Other loans and advances due from banks	4,588	377	475
Performing assets	4,597	381	483
Impaired loans and advances	-	-	-
Impaired assets	-	-	-
Total assets before impairment	4,597	381	483
Specific impairment	-	-	-
Collective impairment	-	-	-
TOTAL	4,597	381	483

In 2016, the decrease of this item results from the maturity of a loan of EUR 1,850 million, guaranteed by loans to English local authorities, and from the early repayment of the loan to the parent company, SFIL.

b. Breakdown by counterparty

	6/30/2016	12/31/2016	6/30/2017
Credit institutions	-	-	-
Swiss cantonal banks benefiting from their cantons' legal guarantee	335	113	110
Banks guaranteed by a local government, <i>crédits municipaux</i>	37	33	22
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2,085	231	230
SFIL - loans to refinance large export credit guaranteed by the French state ⁽¹⁾	-	-	113
Replacement assets	2,140	4	8
TOTAL	4,597	381	483
<i>of which eligible for central bank refinancing</i>	<i>-</i>	<i>-</i>	<i>-</i>

(1) Caisse Française de Financement Local grants loans to its parent company, SFIL, to refinance large export credits it has granted. Such loans benefit from an unconditional and irrevocable 100% guarantee by the French State, also known as enhanced guarantee.

c. Replacement assets

	6/30/2016	12/31/2016	6/30/2017
SFIL - loans secured by public sector assets	2,131	-	-
Sight accounts	9	4	8
TOTAL	2,140	4	8

d. Analysis by term to 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**

	6/30/2016	12/31/2016	6/30/2017
Loans to public sector	58,215	56,469	55,777
Loans guaranteed by public sector	3,068	2,759	2,587
Performing assets	61,283	59,228	58,364
Loans to public sector	607	557	549
Loans guaranteed by public sector	-	-	-
Impaired assets	607	557	549
Total assets before impairment	61,890	59,785	58,913
Specific impairment	(44)	(60)	(41)
Collective impairment	(58)	(46)	(45)
TOTAL	61,788	59,679	58,827
<i>of which eligible for central bank refinancing</i>	<i>40,369</i>	<i>39,122</i>	<i>39,090</i>

Impaired assets concern customers that represent an identified credit risk (non-performing loans: EUR 523 million) and customers with unpaid loans corresponding to disagreement on the amount due (litigious loans : EUR 26 million).

At the end of June 2017, Caisse Française de Financement Local reduced its level of specific provisions in light of the success of its policy to reduce the sensitivity of the concerned structured loans (*).

Assets considered as forbore 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; concessions can also be granted as a consequence of 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 207 forbore contracts as of June 30, 2017, with 106 borrowers, for a total of EUR 1,445 million.

b. Analysis by term to maturity

See note 7.4

c. Unrealised or deferred gains and losses breakdown by country

See note 4.4

2.5 - TAX ASSETS

	6/30/2016	12/31/2016	6/30/2017
Current income tax	-	-	-
Other taxes	0	0	0
Current tax assets	0	0	0
Deferred tax assets (see note 4.2)	143	109	92
TOTAL TAX ASSETS	143	109	92

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, 2017, are recoverable on the basis of this analysis within seven years by taking into account the tax rules governing the treatment of past deficits.

As of June 30, 2017, Caisse Française de Financement Local has no deferred tax assets related to carry forward tax losses.

2.6 - ACCRUALS AND OTHER ASSETS

	6/30/2016	12/31/2016	6/30/2017
Cash collateral paid	-	-	-
Other accounts receivable	0	0	0
Prepaid charges	0	0	1
Other assets	9	28	12
TOTAL ACCRUALS AND OTHER ASSETS	9	28	13

(*) Within the framework of the success in 2016 of the policy to reduce the sensitivity of interest rates and the confirmation of legal decisions favorable to the cause, Caisse Française de Financement Local was able to hone, in a reasonable and prudent manner, the methods it uses to estimate the recoverability of flows of doubtful loans on its balance sheet in order to account for, in particular, the impact of the extension of payments. The implementation of this approach, which is in compliance with IFRS, means that it is no longer systematically necessary to estimate the total amount of interest to account for hypotheses of future recovery. Thus, the net interest rate expense is improved through a recovery of provisions in the amount of EUR 19 million, recorded as of June 30, 2017.

3. NOTES TO THE LIABILITIES (EUR millions)

3.1 - DUE TO BANKS

a. Analysis by nature

	6/30/2016	12/31/2016	6/30/2017
Term borrowing – parent company	5,474	5,220	5,130
Interest accrued not yet due	7	5	4
Sight accounts	5	-	-
TOTAL	5,486	5,225	5,134

At the end of June 2017, the funding borrowed from SFIL within the framework of the financing agreement was made up of different loans with maturities that could initially run from one day to ten years with an Euribor or Eonia index.

b. Analysis by term to maturity

See note 7.4

3.2 - DEBT SECURITIES

a. Analysis by nature

	6/30/2016	12/31/2016	6/30/2017
Obligations foncières	51,340	48,289	48,399
Registered covered bonds	8,014	7,821	7,833
TOTAL	59,354	56,110	56,232

b. Analysis by term to maturity

See note 7.4

3.3 - TAX LIABILITIES

	6/30/2016	12/31/2016	6/30/2017
Current income tax	0	0	1
Other taxes	1	0	0
Current tax liabilities	1	0	1
Deferred tax liabilities (see note 4.2)	-	-	-
TOTAL TAX LIABILITIES	1	0	1

3.4 - ACCRUALS AND OTHER LIABILITIES

	6/30/2016	12/31/2016	6/30/2017
Cash collateral received	1,370	1,263	871
Other accrued charges	16	16	25
Deferred income	-	-	-
Contribution to support fund ⁽¹⁾	136	136	110
Other accounts payable and other liabilities	22	9	10
TOTAL	1,544	1,424	1,016

(1) This item represents the commitments taken 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 - 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.

As of June 30, 2017, Caisse Française de Financement Local has maintained the assumptions used to calculate the amount set aside in the IFRS accounts in 2015. The procedures and recourse related to CAFFIL's appeal of this decision remain in effect.

4. OTHER NOTES ON THE BALANCE SHEET (EUR millions)

4.1 - DERIVATIVES

a. Analysis by nature

	6/30/2016		12/31/2016		6/30/2017	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss ⁽¹⁾	2	6	-	5	4	5
Derivatives designated as fair value hedges	5,299	8,220	4,517	6,418	3,510	5,682
Derivatives designated as cash flow hedges	5	155	5	140	3	144
Derivatives designated as portfolio hedges	2,421	4,139	1,918	3,283	1,648	2,797
Hedging derivatives	7,726	12,514	6,440	9,841	5,161	8,623
CVA / DVA Impact	(3)	(39)	(3)	(45)	(2)	(35)
TOTAL DERIVATIVES	7,724	12,481	6,437	9,801	5,163	8,593

(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 at fair value through profit or loss

	6/30/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	428	428	1	-
Interest rate derivatives	25	25	1	6
TOTAL	453	453	2	6

	12/31/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	451	428	-	1
Interest rate derivatives	21	21	0	4
TOTAL	471	448	0	5

	6/30/2017			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,107	1,055	4	1
Interest rate derivatives	21	21	-	4
TOTAL	1,129	1,077	4	5

c. Detail of derivatives designated as fair value hedges

	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
TOTAL	65,211	65,041	5,300	8,220

	12/31/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	5,979	5,670	590	304
Interest rate derivatives	55,827	55,801	3,927	6,115
TOTAL	61,806	61,471	4,517	6,419

	6/30/2017			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	4,093	4,076	239	258
Interest rate derivatives	57,807	57,772	3,271	5,424
TOTAL	61,900	61,848	3,510	5,682

d. Detail of derivatives designated as cash flow hedges

	6/30/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	874	977	5	155
Interest rate derivatives	-	-	-	-
TOTAL	874	977	5	155

	12/31/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	825	923	5	140
Interest rate derivatives	-	-	-	-
TOTAL	825	923	5	140

	6/30/2017			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	764	874	3	144
Interest rate derivatives	-	-	-	-
TOTAL	764	874	3	144

	6/30/2016	12/31/2016	6/30/2017
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)	-	-	-

e. Detail of derivatives designated as portfolio hedges

	6/30/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	81,392	81,387	2,421	4,139
Total	81,392	81,387	2,421	4,139

	12/31/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	78,519	78,514	1,918	3,283
Total	78,519	78,514	1,918	3,283

	6/30/2017			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	76,401	76,396	1,648	2,797
Total	76,401	76,396	1,648	2,797

4.2 - DEFERRED TAXES

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

a. Analysis by nature

	6/30/2016	12/31/2016	6/30/2017
Deferred tax assets before impairment	143	109	92
Impairment on deferred tax assets	-	-	-
Deferred tax assets	143	109	92
Deferred tax liabilities	-	-	-
TOTAL	143	109	92

b. Movements

	6/30/2016	12/31/2016	6/30/2017
As of January 1st	108	108	109
Charge/credit recognized in the income statement	25	7	(13)
Effect of change in tax rates - impact on the income statement ⁽¹⁾	-	(14)	-
Movements directly recognized in equity	10	8	(4)
Effect of change in tax rates - impact on equity	-	-	-
Translation adjustment	-	-	-
Other movements	-	-	-
As of end of period	143	109	92

(1) In 2016, Caisse Française de Financement Local took into account the legislative measures designed to reduce the corporate income tax rate to 28% as of 2020 and reduced its deferred tax assets and recorded an expense of EUR 14 million.

c. Deferred taxes from assets on the balance sheet

	6/30/2016	12/31/2016	6/30/2017
Loans and loan loss provisions	(151)	359	649
Securities	43	58	63
Derivatives	54	(157)	(189)
Accruals and other assets	14	13	13
TOTAL	(40)	273	536

d. Deferred taxes from liabilities on the balance sheet

	6/30/2016	12/31/2016	6/30/2017
Borrowings, deposits and issues of debt securities	183	(164)	(444)
Derivatives	-	-	-
Provisions	-	-	-
Accruals and other liabilities	-	-	-
TOTAL	183	(164)	(444)

4.3 - TRANSACTIONS WITH RELATED-PARTIES

Analysis by nature

	Parent company ⁽¹⁾			Other related parties ⁽²⁾		
	6/30/2016	12/31/2016	6/30/2017	6/30/2016	12/31/2016	6/30/2017
ASSETS						
Loans and advances	2,131	-	113	-	-	-
Bonds	-	-	-	-	-	9
LIABILITIES						
Due to banks - sight accounts	-	-	-	-	-	-
Due to banks - term loans	5,482	5,225	5,134	-	-	-
INCOME STATEMENT						
Interest income on loans and advances	5	6	0	(6)	(12)	(6)
Interest income on bonds	-	-	-	-	(0)	(0)
Interest expense on borrowings	(14)	(25)	(7)	-	-	-
Fees and commissions	-	(3)	(4)	(0)	(0)	(0)
OFF-BALANCE SHEET						
Foreign exchange derivatives	4,107	3,508	2,095	-	-	-
Interest rate derivatives	14,361	13,847	14,528	-	-	-
Commitments and guarantees issued	2,181	50	50	-	52	52
Commitments and guarantees given	551	3,722	3,168	-	-	-

(1) This item includes transactions with SFIL, the parent company of Caisse Française de Financement Local.

(2) This items may include 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

	6/30/2016	12/31/2016	6/30/2017
Unrealized gains and losses on available for sale securities	(73)	(78)	(72)
Belgium	-	-	(0)
Canada	0	0	-
Germany	-	-	-
Spain	-	(0)	0
France	(4)	(4)	(3)
Italy	(65)	(64)	(60)
United States	(4)	(10)	(9)
Unrealized gains and losses on loans and receivable securities	(83)	(81)	(79)
Spain	(1)	(1)	(1)
France	3	3	3
Italy	(85)	(83)	(81)
Unrealized gains and losses on derivatives designated as cash flow hedges	(45)	(35)	(30)
TOTAL	(201)	(194)	(181)
Deferred taxes on gains and losses, available for sale securities	25	27	25
Deferred taxes on gains and losses, loans and receivable securities	29	28	27
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	16	12	10
TOTAL	(131)	(127)	(119)

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.

	12/31/2016					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	201	-	458	-	-	659
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	113	-	-	113
TOTAL	201	-	571	-	-	772
UNREALIZED GAINS AND LOSSES ON AVAILABLE-FOR-SALE SECURITIES	(0)	-	(64)	-	-	(64)
UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES	-	-	-	-	-	-

	6/30/2017					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	204	-	453	-	-	657
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	115	-	-	115
TOTAL	204	-	568	-	-	772
UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES	0	-	(60)	-	-	(60)
UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES	-	-	-	-	-	-

5. NOTES TO THE INCOME STATEMENT (EUR millions)**5.1 - INTEREST INCOME - INTEREST EXPENSE**

	H1 2016	H1 2017
INTEREST INCOME	1,725	1,388
Central banks	-	-
Loans and advances due from banks	15	5
Loans and advances to customers	751	683
Financial assets available for sale	20	18
Financial assets held to maturity	-	-
Derivatives used for hedging	939	682
Impaired assets	-	-
Other	0	(0)
INTEREST EXPENSE	(1,635)	(1,291)
Accounts with central banks	(5)	(7)
Due to banks	(11)	(5)
Customer borrowings and deposits	-	-
Debt securities	(828)	(687)
Subordinated debt	-	-
Derivatives used for hedging	(790)	(592)
Other	(1)	(0)
INTEREST MARGIN	90	97

5.2 - FEES AND COMMISSIONS

	H1 2016			H1 2017		
	Income	Expense	Net	Income	Expense	Net
Lending activity	0	-	0	0	-	0
Purchase and sale of securities	-	(0)	(0)	-	(0)	(0)
Services on securities other than custodian services	-	(2)	(2)	3	(2)	1
Issuance and underwriters of securities	-	(0)	(0)	-	(0)	(0)
Rebiling by parent company	-	-	-	-	(4)	(4)
TOTAL	0	(2)	(2)	3	(6)	(3)

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 2016	H1 2017
Net trading income	(0)	4
Net result of hedge accounting	(45)	(8)
Net result of foreign exchange transactions	(0)	-
TOTAL	(45)	(4)

Analysis of net result of hedge accounting :

	H1 2016	H1 2017
Fair value hedges	(7)	1
Fair value changes in the hedged item attributable to the hedged risk	588	9
Fair value changes in the hedging derivatives	(595)	(8)
Cash flow hedges	-	-
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flow no longer expected to occur)	-	-
Portfolio hedge	(0)	(0)
Fair value changes in the hedged item	421	(170)
Fair value changes in the hedging derivatives	(421)	170
CVA / DVA Impact ⁽¹⁾	(38)	(9)
TOTAL	(45)	(8)

(1) As of June 30, 2017, the application of IFRS 13 shows a net impact of EUR -9 million comprised of EUR -10,1 million for DVA and EUR +0.9 million for CVA.

5.4 - NET RESULT OF FINANCIAL ASSETS

	H1 2016	H1 2017
Net result of disposals of loans and securities available for sale	-	-
Net result of disposals of debt securities	(1)	(0)
Net result of the sale or cancellation of loans and advances	8	2
TOTAL	7	2

5.5 - OPERATING EXPENSE

	H1 2016	H1 2017
Payroll costs	-	-
Other general and administrative expense ⁽¹⁾	(46)	(47)
Taxes	(7)	(7)
TOTAL	(53)	(54)

(1) Of which EUR 45,4 million to the benefit of SFIL as of June 30, 2017.

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. These assets are managed in a run-off mode. At the end of June 2017, 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.

Management of registered covered bonds (RCB) issued since 2015 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 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	-	-	-	-
TOTAL	6	1	-	7

	H1 2017			
	Collective impairment	Specific impairment and losses	Contribution to support fund	Total
Credit (loans, commitments and securities held to maturity)	1	0	-	1
Fixed income securities available for sale	-	-	-	-
TOTAL	1	0	-	1

Detail of collective and specific impairments

Collective impairment	H1 2016			H1 2017		
	Charges	Recoveries and uses	Total	Charges	Recoveries and uses	Total
Loans and borrowings	(2)	8	6	(1)	2	1
Off-balance sheet commitments	-	-	-	-	-	-
TOTAL	(2)	8	6	(1)	2	1

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

Specific Impairment	H1 2017				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(0)	0	-	-	0
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	(0)	0	-	-	0
Fixed income securities	-	-	-	-	-
TOTAL	(0)	0	-	-	0

5.7 - CORPORATE INCOME TAX**a. Breakdown of tax expense**

	H1 2016	H1 2017
Current taxes	(27)	(2)
Deferred taxes	25	(13)
Tax on prior years' income	-	-
Deferred taxes on prior years	-	-
Provisions for tax litigation	-	(1)
TOTAL	(2)	(16)

b. Effective tax expense

The difference between the actual corporate income tax rate and the French tax rate can be analysed as follows:

	H1 2016	H1 2017
INCOME BEFORE INCOME TAXES	(3)	39
TAXABLE INCOME	(3)	39
Applicable tax rate at end of the period	34.43%	34.43%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	(1)	(14)
Tax effect of non-deductible expenses	(1)	(1)
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Other additional taxes or tax savings	0	(0)
Liability method	-	-
Provisions for tax litigation	-	(1)
Change in corporate income tax rate in 2020 ⁽¹⁾	-	-
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	(2)	(16)

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**

	6/30/2016	12/31/2016	6/30/2017
Assets to be delivered	-	-	5
Liabilities to be received	-	-	-

6.2 - GUARANTEES

	6/30/2016	12/31/2016	6/30/2017
Guarantees received from credit institutions	2,163	84	73
Enhanced guarantees ⁽¹⁾	551	3,722	3,168
Guarantees received from customers ⁽²⁾	5,379	2,863	2,759

(1) The financing and financing commitments granted to SFIL by Caisse de Financement Local to refinance the former's large export credits benefit from a 100% unconditional and irrevocable guarantee of the French State, referred to as an enhanced guarantee.

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

6.3 - FINANCING COMMITMENTS

	6/30/2016	12/31/2016	6/30/2017
Loan commitments granted to credit institutions ⁽¹⁾	551	3,722	3,168
Loan commitments granted to customers ⁽²⁾	289	125	143
Loan commitments received from credit institutions ⁽³⁾	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 at the end of period.

(3) As of June 30, 2017, this item corresponded to the amount of the overdraft, authorized in the current account agreement set up with SFIL, totaling EUR 50 million.

Readers are reminded that SFIL is committed to providing unlimited funding to Caisse Française de Financement Local through financing agreements between the two companies.

6.4 - OTHER COMMITMENTS

	6/30/2016	12/31/2016	6/30/2017
Commitments received ⁽¹⁾	235	232	342
Commitments given	-	-	2

(1) They mainly concern a loan granted to a credit institution and guaranteed by a public sector entity.

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 for these very operations or operations to which they can be assimilated, in particular in terms of price and spread. 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, which are 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

	12/31/2016		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	3,684	3,684	-
Loans and advances due from banks	381	375	(6)
Loans and advances to customers	59,679	58,277	(1,402)
Financial assets available for sale	1,736	1,736	-
Derivatives	6,437	6,437	-
TOTAL	71,917	70,509	(1,408)

	6/30/2017		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	3,884	3,884	-
Loans and advances due from banks	483	502	19
Loans and advances to customers	58,827	56,327	(2,500)
Financial assets available for sale	2,243	2,243	-
Derivatives	5,163	5,163	-
TOTAL	70,600	68,119	(2,481)

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

	12/31/2016		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	5,225	5,260	35
Derivatives	9,801	9,801	-
Debt securities	56,110	57,231	1,121
TOTAL	71,136	72,292	1,156

	6/30/2017		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	5,134	5,202	68
Derivatives	8,593	8,593	-
Debt securities	56,232	57,768	1,536
TOTAL	69,959	71,563	1,604

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. Hedging derivatives in level 3 are valued using these internal models.

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 Caisse Française de Financement Local 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.

This classification is mainly due to the fact that these products present complex payoffs which require an advanced statistical model with variable parameters which are sometimes unable to be seen in the market.

Fair value of financial assets	12/31/2016			
	Level 1	Level 2	Level 3	Total
Financial assets available for sale	924	812	-	1,736
Derivatives	-	5,837	600	6,437
TOTAL	924	6,649	600	8,173

Fair value of financial assets	6/30/2017			
	Level 1	Level 2	Level 3	Total
Financial assets available for sale	1,498	745	-	2,243
Derivatives	-	4,433	730	5,163
TOTAL	1,498	5,178	730	7,406

Fair value of financial liabilities	12/31/2016			
	Level 1	Level 2	Level 3	Total
Derivatives	-	8,547	1,254	9,801
TOTAL	-	8,547	1,254	9,801

Fair value of financial liabilities	6/30/2017			
	Level 1	Level 2	Level 3	Total
Derivatives	-	7,547	1,046	8,593
TOTAL	-	7,547	1,046	8,593

Sensitivity of the market value of level 3 financial instruments to changes in reasonably possible hypotheses

The following table gives a synthetic view of financial instruments in level 3 for which changes in hypotheses concerning one or more non observable parameter would cause a significant change in market value. These amounts illustrate the interval of uncertainty inherent in the recourse to judgment in estimating parameters of level 3 or in the choice of valuation techniques and models. They reflect the uncertainty of valuation which is effective at the date of valuation. Although this uncertainty essentially results from the sensitivity of the portfolio at the date of valuation, it does not make it possible to foresee or to deduct future variations in the market value any more than they represent the effect of extreme market conditions on the value of the portfolio. To estimate sensitivity, Caisse Française de Financement Local either values financial instruments using reasonably possible parameters or applies hypotheses based on its policy of additional valuation adjustments.

	12/31/2016	6/30/2017
Uncertainty inherent in level 3 market parameters	20	12
Uncertainty inherent in level 3 derivatives valuation models	32	31
SENSITIVITY OF THE MARKET VALUE OF LEVEL 3 FINANCIAL INSTRUMENTS	52	43

d. Transfer between levels 1 and 2

	12/31/2016	6/30/2017
Level 1 to level 2	-	-
TOTAL	-	-

e. Level 3: flow analysis

	Financial assets available for sale	Derivatives	TOTAL FINANCIAL ASSETS	Derivatives	TOTAL FINANCIAL LIABILITIES
12/31/2016	-	600	600	1,254	1,254
Total gains and losses through profit and	-	1	1	(32)	(32)
Total unrealized or deferred gains and	-	48	48	(231)	(231)
Total OCI unrealized or deferred gains and	-	-	-	-	-
Purchase	-	6	6	39	39
Sale	-	-	-	-	-
Direct origination	-	-	-	-	-
Settlement	-	2	2	-	-
Transfer in activities destined to be	-	-	-	-	-
Transfer to level 3	-	73	73	17	17
Transfer out of level 3	-	-	-	(1)	(1)
Others variations	-	-	-	-	-
6/30/2017	-	730	730	1,046	1,046

7.2 - OFF-SETTING FINANCIAL ASSETS AND LIABILITIES**a. Financial assets subject to off-setting, enforceable master netting arrangements and similar agreements**

	12/31/2016					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application scope but not off-set		Net Amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	6,437	-	6,437	(5,101)	(1,104)	232
Loans and advances due from banks	381	-	381	-	-	381
Loans and advances to customers	59,679	-	59,679	-	-	59,679
TOTAL	66,497	-	66,497	(5,101)	(1,104)	60,292

	6/30/2017					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application scope but not off-set		Net Amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	5,163	-	5,163	(4,250)	(712)	201
Loans and advances due from banks	483	-	483	-	-	483
Loans and advances to customers	58,827	-	58,827	-	-	58,827
TOTAL	64,473	-	64,473	(4,250)	(712)	59,511

b. Financial liabilities subject to off-setting, enforceable master netting arrangements and similar agreements

	12/31/2016					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application scope but not off-set		Net Amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	9,801	-	9,801	(5,101)	-	4,700
Due to banks	5,225	-	5,225	-	-	5,225
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	15,026	-	15,026	(5,101)	-	9,925

	6/30/2017				
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application scope but not off-set	
				Effect of master netting arrangements	Financial Instruments received as collateral
Derivatives (including hedging instruments)	8,593	-	8,593	(4,250)	-
Due to banks	5,134	-	5,134	-	-
Customer borrowings and deposits	-	-	-	-	-
TOTAL	13,727	-	13,727	(4,250)	-
					9,477

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 (i.e. after deduction of cash collateral and CVA provisions);
- 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

	12/31/2016	6/30/2017
France	61,610	61,455
Italy	6,687	6,306
United Kingdom	283	242
Spain	441	430
Germany	611	340
Belgium	176	159
Other European Union countries	273	361
Switzerland	1,685	1,566
United States and Canada	700	622
Japan	40	39
TOTAL EXPOSURE	72,506	71,520

Analysis of exposure by category of counterparty

	12/31/2016	6/30/2017
States	10,020	9,673
Local public sector	61,518	60,796
Other assets guaranteed by public sector entities	14	8
Financial institutions	954	1,043
TOTAL EXPOSURE	72,506	71,520

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

As of June 30, 2017, Caisse Française de Financement Local had no asset-backed securities.

Analysis of exposure by category of instrument

	12/31/2016	6/30/2017
Debt securities	1,746	2,269
Loans and advances	66,883	65,914
Guarantee	-	0
Financing commitments on loans	3,847	3,311
Derivatives	30	26
TOTAL EXPOSURE	72,506	71,520

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. Caisse Française de Financement Local has developed internal rating models covering the main client segments. These models were validated by the banking supervisory who authorized the Group to use these advanced internal models for the calculation and reporting of equity requirements for credit risk as of January 1, 2008. This enables Caisse Française de Financement Local to present on June 30, 2017, 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 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 81% 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	467	751	420	631	2,269
Loans and advances	54,208	9,711	299	1,696	65,914
Guarantee	0	0	-	-	0
Financing commitments on loans	3,305	6	-	-	3,311
Derivatives	1	10	10	5	26
TOTAL EXPOSURE	57,981	10,478	729	2,332	71,520
SHARE	81.1%	14.6%	1.0%	3.3%	100.0%

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

	6/30/2017						Total broken down
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	
Central banks	3,885	-	-	-	-	-	3,885
Derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	160	558	818	514	-	2,050
Loans and advances due from banks	9	35	65	126	243	-	478
Loans and advances to customers	7	1,194	3,597	16,017	34,150	-	54,965
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	0	-	-	92	92
Accruals and other assets	-	10	-	-	3	-	13
TOTAL	3,901	1,399	4,220	16,961	34,910	92	61,483

	6/30/2017				Total
	Total broken down	Accrued interest	Fair value adjustment	Impairment	
Central banks	3,885	(1)	-	-	3,884
Derivatives	-	387	4,776	-	5,163
Financial assets available for sale	2,050	12	181	-	2,243
Loans and advances due from banks	478	3	2	-	483
Loans and advances to customers	54,965	627	3,321	(86)	58,827
Fair value revaluation of portfolio hedge	-	-	2,657	-	2,657
Financial assets held to maturity	-	-	-	-	-
Tax assets	92	-	-	-	92
Accruals and other assets	13	-	-	-	13
TOTAL	61,483	1,028	10,937	(86)	73,362

b. Analysis of liabilities, excluding equity

	6/30/2017						Total broken down
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	
Central banks	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Due to banks	-	220	1,234	1,733	1,943	-	5,130
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	2,271	4,094	18,742	27,596	-	52,703
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	1	-	-	-	1
Accruals and other liabilities	-	892	-	50	74	-	1,016
Provisions	-	-	-	39	-	-	39
Subordinated debt	-	-	-	-	-	-	-
TOTAL	-	3,383	5,329	20,564	29,613	-	58,889

	6/30/2017			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Derivatives	-	585	8,008	8,593
Due to banks	5,130	4	-	5,134
Customer borrowings and deposits	-	-	-	-
Debt securities	52,703	728	2,801	56,232
Fair value revaluation of portfolio hedge	-	-	1,005	1,005
Tax liabilities	1	-	-	1
Accruals and other liabilities	1,016	-	-	1,016
Provisions	39	-	-	39
Subordinated debt	-	-	-	-
TOTAL	58,889	1,317	11,814	72,020

c. Net liquidity gap

	6/30/2017							Total
	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	
AMOUNT	3,901	(1,984)	(1,109)	(3,603)	5,297	92	(1,252)	1,342

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 redeem *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	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
NET BALANCE SHEET POSITION	-	-	-	-	-

Classification by original currency	12/31/2016				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	69,688	2,255	1,576	1,588	75,107
Total liabilities	69,688	2,255	1,576	1,588	75,107
NET BALANCE SHEET POSITION	-	-	-	-	-

Classification by original currency	6/30/2017				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	69,885	2,156	636	685	73,362
Total liabilities	69,885	2,156	636	685	73,362
NET BALANCE SHEET POSITION	-	-	-	-	-

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

7.6 - SENSITIVITY TO INTEREST RATE RISK

The policy applied by the 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. Loans granted individually or bond issues can be either micro- or macro-hedged. Hedging of assets and liabilities is more often obtained in using new interest rate swaps, but the same effect may be obtained whenever possible by the cancellation of swaps of opposite direction.
- 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 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	9/30/2016	12/31/2016	3/31/2017	6/30/2017
Sensitivity	25.0	(5.6)	(0.5)	(0.1)	(1.6)

Risk of slope between two distant points on the rate curve

Sum of sensitivities

End of quarter	Limit	9/30/2016	12/31/2016	3/31/2017	6/30/2017
Short term	10.0	(1.9)	(0.9)	0.1	0.4
Medium term	10.0	(2.3)	0.3	2.0	(4.5)
Long term	10.0	(2.6)	0.1	(2.6)	1.5
Very long term	10.0	1.2	0.1	0.4	1.1

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

End of quarter	Limit	9/30/2016	12/31/2016	3/31/2017	6/30/2017
Short term	20.0	2.6	4.4	3.3	7.8
Medium term	20.0	12.1	4.3	5.1	12.4
Long term	20.0	11.0	8.1	4.9	3.5
Very long term	20.0	7.4	5.9	5.3	5.6

8. POST-CLOSING EVENTS

No significant event that influenced the Company's financial situation has occurred since the closing on June 30, 2017.

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Statutory auditor's report
Half-year 2017 (*IFRS*)

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.

DELOITTE & ASSOCIES
185, avenue Charles de Gaulle
92524 Neuilly-sur-Seine Cedex
Société Anonyme

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

ERNST & YOUNG et Autres
1/2, place des Saisons
92400 Courbevoie - Paris-La Défense 1
S.A.S. à capital variable

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

Caisse Française de Financement Local

Société Anonyme
1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux

Statutory auditors' review report on the interim financial statements established under IFRS standards

For the period from January 1 to June 30, 2017

To the Chairman of the executive board,

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 performed a review on the accompanying interim financial statements of Caisse Française de Financement Local for the six-month period ended June 30, 2017.

These interim financial statements are the responsibility of your 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 and the professional guidance issued by the French Institute of statutory auditors (Compagnie nationale des commissaires aux comptes) relating to this engagement. 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. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not present fairly, in all material respects, the results of operations for the six-month period ended June 30th, 2017 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.

This report has been prepared solely for your attention within the context described above and may not be used, circulated or quoted for any other purpose. We assume or take no responsibility to third parties to whom this report is distributed or is made available.

This report is governed by French law. The courts of France shall have exclusive jurisdiction over any claim, dispute or difference resulting from our engagement letter or the present report, or any related matters. Each party irrevocably waives its right to oppose any action brought before French courts, to claim that the action is being brought before an illegitimate court or that the courts have no jurisdiction.

Fait à Paris-La Défense and Neuilly-sur-Seine, September 7, 2017

The Statutory Auditors
French original signed by

DELOITTE & ASSOCIES

ERNST & YOUNG et Autres

Sylvie BOURGUIGNON

Vincent ROTY

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Financial Statements
Half-year 2017 (*French Gaap*)

Assets

EUR millions	Notes	6/30/2016	12/31/2016	6/30/2017
Central banks	2.1	2,315	3,684	3,884
Government and public securities	2.2	3,797	4,015	4,093
Loans and advances due from banks	2.3	4,613	411	507
Loans and advances to customers	2.4	47,899	47,701	48,252
Bonds and other fixed income securities	2.5	3,994	3,869	3,805
Equities and other variable income securities		-	-	-
Investments in non-consolidated companies and other long-term investments		-	0	-
Investments in consolidated companies		-	-	-
Intangible assets		-	-	-
Property and equipment		-	-	-
Unpaid capital		-	-	-
Uncalled subscribed capital		-	-	-
Treasury stock		-	-	-
Other assets	2.6	3	4	12
Accruals and other assets	2.7	3,161	3,214	2,830
TOTAL ASSETS	2.8	65,782	62,898	63,383

Liabilities

EUR millions	Notes	6/30/2016	12/31/2016	6/30/2017
Central banks		-	-	-
Due to banks	3.1	5,486	5,225	5,134
Customer borrowings and deposits		-	-	-
Debt securities	3.2	54,294	52,058	52,999
Other liabilities	3.3	1,530	1,406	982
Accruals and other liabilities	3.4	2,843	2,597	2,636
Provisions	3.5	202	189	190
General banking risks reserve		-	-	-
Subordinated debt		-	-	-
Equity		1,427	1,423	1,442
Share capital	3.6	1,315	1,315	1,350
Additional paid-in capital	3.6	-	-	-
Reserves and retained earnings	3.6	41	41	73
Net income	3.6	71	67	19
TOTAL LIABILITIES	3.7	65,782	62,898	63,383

Off-balance sheet items

EUR millions	Notes	6/30/2016	12/31/2016	6/30/2017
COMMITMENTS GRANTED	4.1	840	3,847	3,318
Financing commitments		840	3,847	3,311
Guarantees granted		-	-	-
Commitments on securities		-	-	5
Other commitments granted		-	-	2
COMMITMENTS RECEIVED	4.2	8,377	6,951	6,668
Financing commitments		50	50	320
Guarantees received		8,327	6,901	6,343
Commitments on securities		-	-	5
Forward commitments		-	-	-
Other commitments received		-	-	-
Foreign currency transactions	4.3	16,293	14,943	14,225
Interest rate derivatives	4.4	140,343	134,500	134,348

Income statement

EUR millions	Notes	H1 2016	2016	H1 2017
Interest income	5.1	2,190	3,513	509
Interest expense	5.1	(2,039)	(3,334)	(429)
Income from variable income securities		-	-	-
Commission income		-	-	3
Commission expense	5.2	(2)	(7)	(5)
Net gains (losses) on held for trading portfolio		0	(0)	0
Net gains (losses) on placement portfolio	5.3	(14)	(9)	(3)
Other banking income		0	0	0
Other banking expense		(0)	(0)	(0)
NET BANKING INCOME		135	163	75
General expenses	5.4	(53)	(98)	(54)
Depreciation and amortization		-	-	-
GROS OPERATING INCOME		82	65	21
Cost of risk	5.5	7	18	1
INCOME FROM OPERATIONS		89	83	22
Gains (losses) on fixed assets	5.6	-	-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		89	83	22
Non-recurring items		-	-	-
Income tax	5.7	(18)	(16)	(3)
Net allocation to regulated provisions		-	-	-
NET INCOME		71	67	19
Basic earnings per share		5.37	5.08	1.41
Diluted earnings per share		5.37	5.08	1.41

Equity

EUR millions	Amount
AS OF 12/31/2016	
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 year	67
Interim dividends	-
EQUITY AS OF 12/31/2016	1,423
MOVEMENTS FOR THE PERIOD	
Changes in share capital	35
Changes in additional paid-in capital	-
Changes in commitments to increase share capital and additional paid-in capital	-
Changes in reserves and retained earnings	67
Dividends paid (-)	(35)
Net income for the period	(48)
Other movements	-
AS OF 6/30/2017	
Share capital	1,350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	73
Net income for the period	19
EQUITY AS OF 6/30/2017	1,442

Cash flow statement

EUR millions	H1 2016	2016	H1 2017
NET INCOME BEFORE TAXES	88	83	22
+/- Depreciation and write-downs	(27)	(23)	4
+/- Expense / income from operating activities	70	85	88
+/- Expense / income from financing activities	(84)	(59)	(100)
+/- Other non cash items	187	308	(7)
= Non monetary elements included in net income before tax and other adjustments	146	311	(15)
+/- Cash from interbank operations	233	4,177	(187)
+/- Cash from customer operations (loans)	(1,030)	(962)	(600)
+/- Cash from customer financing assets	(455)	(520)	(88)
+/- Cash from hedging financial instruments	(390)	(731)	(343)
- Income tax paid	(6)	(17)	(24)
= Decrease / (increase) in cash from operating activities	(1,648)	1,947	(1,242)
CASH FLOW FROM OPERATING ACTIVITIES (A)	(1,414)	2,341	(1,235)
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-	-
+/- Cash from or for shareholders	-	-	(0)
+/- Other cash from financing activities	1,233	(1,148)	1,442
CASH FLOW FROM FINANCING ACTIVITIES (C)	1,233	(1,148)	1,442
EFFECT OF EXCHANGE RATES CHANGES ON CASH (D)	-	-	-
Increase / (decrease) in cash equivalents (A + B + C + D)	(181)	1,193	207
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	2,500	2,500	3,693
Central banks (assets and liabilities)	2,496	2,496	3,684
Interbank accounts (assets and liabilities) and loans / deposits at sight	4	4	9
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	2,319	3,693	3,900
Central banks (assets and liabilities)	2,315	3,684	3,884
Interbank accounts (assets and liabilities) and loans / deposits at sight	4	9	16
NET CASH	(181)	1,193	207

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, 2017, were examined by the Executive Board on September 4, 2017.

1.2 – APPLICABLE ACCOUNTING STANDARDS: RULES ADOPTED BY 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, 2017 were prepared using the same accounting principles as those used in the financial statements as of December 31, 2016.

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.

1.3 – 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. They include loans to SFIL refinancing export credit transactions.

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 are recorded in the income statement at the date they occur, in accordance with article 2526-1 of ANC regulation 2014-07.

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).

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.

Impairment charges are recognized for non-performing and compromised non-performing loans. Risk management determines the percentage of impaired capital in function of incurred losses. Interest income is fully impaired.

Impairment charges and reversals for credit risk are recognized as Cost of risk as well as the losses on non-recoverable loans and recoveries on amortized loans.

b. Securities

The securities held by Caisse Française de Financement Local are recorded in the assets as:

- government and public entity securities eligible for central bank refinancing;
- bonds and other fixed income securities.

The item Government and public entity securities eligible for central bank refinancing includes debt securities issued by public sector entities that may be refinanced through the European system of central banks.

The item Bonds and other fixed income securities includes the following categories of securities:

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

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 investment securities 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.

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. 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 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 receivables) 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 and article R 513-8 of the Monetary and Financial Code, total assets must at all times be greater than 105% of 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 according to a quasi-actuarial method over the maturity of the securities *pro rata 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 according to a quasi-actuarial method over the maturity of the related bonds.

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

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 debt contracted from SFIL, which is not hedged.

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

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

Micro-hedge transactions

Derivatives 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.

Termination fees received or paid because of the early interruption of the hedging instrument are recorded in the income statement at the termination date, in accordance with article 2526-1 of ANC regulation 2014-07.

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 counterpart 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 recorded in the income statement at the termination date.

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 – *prorata temporis* in the income statement.

i. Guarantees

As part of its activity to refinance large export credits, Caisse Française de Financement Local benefits from an irrevocable and unconditional 100% guarantee by the French State, called an enhanced guarantee. Expenses related to these transactions are recorded *prorata temporis* in the income statement.

j. Non-recurrent income and expense

Non-recurrent 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-recurrent income and expense.

k. 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.

l. 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).

m. Identity of the parent company consolidating the accounts of Caisse Française de Financement Local as of June 30, 2017

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

2. NOTES TO THE ASSETS (EUR millions)

2.1 - CENTRAL BANKS

	6/30/2016	12/31/2016	6/30/2017
Mandatory reserves			
Other deposits	2,315	3,684	3,884
TOTAL	2,315	3,684	3,884

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

a. Accrued interest included in this item: 38

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
-	295	795	2,965	4,055

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

	Amount as of 6/30/2016	Amount as of 12/31/2016	Amount as of 6/30/2017	Impairment as of 6/30/2017	Unrealized capital gain or loss as of 6/30/2017 ⁽²⁾
Listed securities ⁽¹⁾	3,462	3,664	3,767	(1)	(982)
Other securities	301	293	288	-	(52)
TOTAL	3,763	3,957	4,055	(1)	(1,034)

(1) Listed securities are registered 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 6/30/2016	Net amount as of 12/31/2016	Gross amount as of 12/31/2016	Acquisitions	Amortization, redemption or disposals	Transfers	Subtotal as of 6/30/2017
Trading	-	-	-	-	-	-	-
Placement	685	925	925	421	(288)	-	1,058
Investment	3,078	3,032	3,032	-	(33)	-	2,999
TOTAL	3,763	3,957	3,957	421	(321)	-	4,057

Portfolio	Subtotal as of 6/30/2017	Translation adjustments	Impairment as of 6/30/2017	Net amount as of 6/30/2017	Unrealized capital gain or loss as of 6/30/2017 ⁽¹⁾
Trading	-	-	-	-	-
Placement	1,058	-	(1)	1,057	(30)
Investment	2,999	(1)	-	2,998	(1,004)
TOTAL	4,057	(1)	(1)	4,055	(1,034)

(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. Breakdown of impairment by country

See note 2.9

2.3 - LOANS AND ADVANCES DUE FROM BANKS

a. Sight loans and advances due from banks

	6/30/2016	12/31/2016	6/30/2017
Sight accounts	9	4	9
Unallocated sums	0	7	0
TOTAL	9	11	9
of which replacement assets	9	4	9

b. Term loans and advances due from banks

b.1 Accrued interest included in this item: 3

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
35	65	126	269	495

b.3 Analysis by initial maturity excluding accrued interest

	Net amount as of 6/30/2016	Net amount as of 12/31/2016	Gross amount as of 6/30/2017	Decrease in value as of 6/30/2017	Net amount as of 6/30/2017
Loans of less than 1 year	-	-	-	-	-
Loans of more than 1 year	4,595	397	495	-	495
TOTAL	4,595	397	495	-	495

b.4 Breakdown by counterparty

	6/30/2016	12/31/2016	6/30/2017
Swiss cantonal banks benefiting from their cantons' legal guarantee	318	107	105
Banks guaranteed by a local government, <i>crédits municipaux</i>	36	32	21
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2,112	258	256
Loans to parent company ⁽¹⁾	2,129	-	113
TOTAL	4,595	397	495
of which replacement assets	2,129	-	-

(1) In 2017, Caisse Française de Financement Local has granted loans to its parent company, SFIL, to refinance large export credits it has granted. Such loans benefit from an unconditional and irrevocable 100% guarantee by the French State, also known as enhanced guarantee.

2.4 - CUSTOMER LOANS AND ADVANCES**a. Accrued interest included in this item: 588****b. Analysis by residual maturity excluding accrued interest**

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
1,122	3,326	14,621	28,595	47,664

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

Economic sector	6/30/2016	12/31/2016	6/30/2017
Public sector	44,630	44,646	45,389
Other sectors	2,642	2,483	2,275
TOTAL	47,272	47,129	47,664

d. Analysis by initial maturity excluding accrued interest

	Net amount as of 6/30/2016	Net amount as of 12/31/2016	Gross amount as of 6/30/2017	Impairment as of 6/30/2017	Net amount as of 6/30/2017
Loans of less than 1 year	6	5	7	-	7
Loans of more than 1 year	47,266	47,124	47,722	(65)	47,657
TOTAL	47,272	47,129	47,729	(65)	47,664

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

	Net amount as of 6/30/2016	Net amount as of 12/31/2016	Gross amount as of 6/30/2017	Impairment as of 6/30/2017	Net amount as of 6/30/2017
Performing commitments	46,720	46,645	47,195	-	47,195
Non-performing loans	239	205	211	(11)	200
Compromised non-performing loans	313	279	323	(54)	269
TOTAL	47,272	47,129	47,729	(65)	47,664

Assets considered as forbome 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 targeting the reduction of the sensitivity of the loan.

There were 207 forbome contracts as of June 30, 2017, with 106 borrowers, for a total risk exposure of EUR 1,445 million.

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

	6/30/2016	12/31/2016	Allocations	Reversals	Transfers	6/30/2017
For non-performing loans						
On loans	(3)	(3)	-	0	-	(3)
On interest	(6)	(8)	(5)	5	-	(8)
For compromised non-performing loans						
On loans	(2)	(2)	(1)	-	-	(3)
On interest	(34)	(47)	(26)	22	-	(51)
TOTAL	(45)	(60)	(32)	27	-	(65)

Provisions on interest are recorded in Net banking income and provisions on nominal are recorded in Cost of risk.

g. Breakdown of impairment by country

See note 2.9

2.5 - BONDS AND OTHER FIXED INCOME SECURITIES**a. Accrued interest included in this item: 13****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
202	273	773	2,544	3,792

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

	6/30/2016	12/31/2016	6/30/2017
Public sector	3,000	2,865	2,722
Other sectors (guaranteed by a State or by a local government)	380	335	289
Credit institutions	600	646	781
TOTAL	3,980	3,846	3,792
of which eligible for central bank refinancing	677	548	840
of which replacement assets	600	646	781

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

	Amount as of 6/30/2016	Amount as of 12/31/2016	Amount as of 6/30/2017	Impairment as of 6/30/2017	Unrealized capital gain or loss as of 6/30/2017 ⁽¹⁾
Listed securities	1,259	1,828	1,722	(1)	9
Other securities	2,721	2,018	2,070	-	(156)
TOTAL	3,980	3,846	3,792	(1)	(147)

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

Portfolio	Net amount as of 6/30/2016	Net amount as of 12/31/2016	Gross amount as of 12/31/2016	Acquisitions	Amortization, redemption or disposals	Transfers	Subtotal as of 6/30/2017
Trading	-	-	-	-	-	-	-
Placement	1,109	1,093	1,093	608	(522)	-	1,179
Investment	2,871	2,753	2,753	-	(118)	-	2,635
TOTAL	3,980	3,846	3,846	608	(640)	-	3,814

Portfolio	Subtotal as of 6/30/2017	Translation adjustments	Impairment as of 6/30/2017	Net amount as of 6/30/2017	Unrealized capital gain or loss as of 6/30/2017 ⁽¹⁾
Trading	-	-	-	-	-
Placement	1,179	-	(1)	1,178	(0)
Investment	2,635	(21)	-	2,614	(147)
TOTAL	3,814	(21)	(1)	3,792	(147)

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

f. Breakdown of impairment by country

See note 2.9

2.6 - OTHER ASSETS

	6/30/2016	12/31/2016	6/30/2017
Other receivables	3	4	12
TOTAL	3	4	12

2.7 - ACCRUALS AND OTHER ASSETS

	6/30/2016	12/31/2016	6/30/2017
Deferred losses on hedging transactions	1,713	1,624	1,563
Deferred charges on bond issues	48	45	51
Deferred charges on hedging transactions	233	182	179
Premiums on acquisition of loans	221	240	257
Other prepaid charges	1	-	0
Accrued interest not yet due on hedging transactions	899	897	780
Translation adjustments	40	210	-
Other deferred income	0	0	0
Other accruals	6	16	(0)
TOTAL	3,161	3,214	2,830

2.8 - TOTAL ASSETS

Analysis by original currency	Amount in original currency as of 6/30/2016	Amount in euros as of 6/30/2016	Amount in original currency as of 12/31/2016	Amount in euros as of 12/31/2016	Amount in original currency as of 6/30/2017	Amount in euros as of 6/30/2017
EUR	60,682	60,682	58,063	58,063	60,377	60,377
AUD	20	13	20	14	20	13
CAD	966	672	965	681	513	346
CHF	1,521	1,403	1,497	1,396	1,512	1,384
GBP	542	655	318	372	321	365
HKD	206	24	201	25	206	23
JPY	94,614	829	91,934	747	26,336	206
NOK	1,012	109	1,039	114	1,012	106
PLN	40	9	41	9	42	10
SEK	2	0	0	0	-	-
USD	1,539	1,386	1,556	1,477	632	553
TOTAL		65,782		62,898		63,383

2.9 - BREAKDOWN OF IMPAIRMENT BY COUNTRY

	Amount as of 6/30/2016	Amount as of 12/31/2016	Amount as of 6/30/2017
Government and public entity securities eligible for central bank refinancing - placement securities	-	(0)	(0)
Spain	-	(0)	(0)
Bonds and other fixed income securities - placement securities	-	(0)	(1)
France	-	(0)	(1)
Belgique	-	-	(0)
Suède	-	-	(0)
Bonds and other fixed income securities - investment securities	-	-	-
Loans and advances to customers	(45)	(60)	(65)
France	(45)	(60)	(65)

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.

	12/31/2016					
	Spain	Ireland	Italy	Portugal	Greece	Total
Investment securities	-	-	458	-	-	458
Placement securities	201	-	113	-	-	314
TOTAL	201	-	571	-	-	772

	6/30/2017					
	Spain	Ireland	Italy	Portugal	Greece	Total
Investment securities	-	-	453	-	-	453
Placement securities	204	-	116	-	-	320
TOTAL	204	-	569	-	-	773

3. NOTES TO THE LIABILITIES (EUR millions)**3.1 - DUE FROM BANKS**

As of June 30, 2017, funding obtained from SFIL, within the framework of the financing agreement, was comprised of different loans with maturities that could initially run from one day to ten years with an Euribor or Eonia index.

	6/30/2016	12/31/2016	6/30/2017
Sight accounts	5	-	-
Current account - parent company	-	-	-
Interest accrued not yet due	-	-	-
Term borrowing - parent company	5,474	5,220	5,130
Interest accrued not yet due	7	5	4
Unallocated sums	-	-	-
TOTAL	5,486	5,225	5,134

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 6/30/2017
Sight	-	-	-	-	-
Term	220	1,234	1,733	1,943	5,130
TOTAL	220	1,234	1,733	1,943	5,130

3.2 - DEBT SECURITIES**a. Debt securities (obligations foncières)****a.1. Accrued interest included in this item: 596****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
Obligations foncières	2,271	4,061	18,205	21,218	45,755
of which net issue premiums ⁽¹⁾	-	(1)	(21)	(57)	(79)

(1) The gross amount of positive and negative issue premiums totaled EUR -172 million before amortization.

a.3. Changes during the year excluding accrued interest

Type of securities	12/31/2016	Increases	Decreases	Translation adjustments	6/30/2017
Obligations foncières	44,885	4,171	(3,190)	(111)	45,755

b. Other bonds (registered covered bonds)**b.1. Accrued interest included in this item: 132****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	-	30	350	6,136	6,516
of which net issue premiums ⁽¹⁾	-	-	-	45	45

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

b.3. Changes during the year excluding accrued interest

Type of securities	12/31/2016	Increases	Decreases	Translation adjustments	6/30/2017
Registered covered bonds	6,294	381	(159)	-	6,516

3.3 - OTHER LIABILITIES

	6/30/2016	12/31/2016	6/30/2017
Cash collateral received	1,371	1,263	871
Accrued interest not yet due on cash collateral received	(0)	(0)	0
Taxes	23	7	1
Balances to pay on unwound hedging contracts	-	-	-
Contribution to the support fund ⁽¹⁾	136	136	110
Other creditors	0	0	-
TOTAL	1,530	1,406	982

(1) This item represents the commitments taken 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).

3.4 - ACCRUALS AND OTHER LIABILITIES

	6/30/2016	12/31/2016	6/30/2017
Deferred gains on hedging transactions	-	-	-
Deferred income on hedging transactions	1,923	1,710	1,667
Deferred income on loans	157	151	167
Accrued interest not yet due on hedging transactions	748	717	675
Other accrued charges	15	16	24
Translation adjustments	-	-	93
Other accruals	-	3	10
TOTAL	2,843	2,597	2,636

3.5 - PROVISIONS FOR RISKS AND CHARGES

	6/30/2016	12/31/2016	Increases	Decreases	Translation adjustments	6/30/2017
Loans, commitments ⁽¹⁾	58	46	1	(2)	-	45
Financial instruments	38	34	2	(1)	(0)	35
Other provisions ⁽²⁾	106	109	1	0	-	110
TOTAL	202	189	4	(3)	(0)	190

(1) At the end of June 30, 2017, Caisse Française de Financement Local maintained its collective provisions.

(2) As of June 30, 2017, Caisse Française de Financement Local has slightly adjusted the level of provision regarding the complementary tax, recorded in 2015 and adjusted in 2016, following the tax assessment done by the French tax authorities. For the record, following the tax assessment, the tax authorities expressed their disagreement with the tax treatment of the taxation in Ireland of the income from the Dublin branch of Dexia Municipal Agency, which has now been closed. The procedures and recourse related to CAFFIL's appeal of this decision remain in effect.

3.6 EQUITY

	6/30/2016	12/31/2016	6/30/2017
Share capital	1,315	1,315	1,350
Legal reserve	46	46	49
Retained earnings (+/-)	(5)	(5)	24
Net income (+/-)	71	67	19
TOTAL	1,427	1,423	1,442

On May 30, 2017, the Ordinary and Extraordinary Shareholders' Meeting decided to allocate the 2016 net profit, ie EUR 62 millions after taking into account of negative retained earnings, to Legal reserve for EUR 3 million and topayment of a dividend in the amount of EUR 35 million, the difference was allocated to the retained earnings.

At the same date, the Extraordinary General Meeting of the Caisse Française de Financement Local decided to increase the share capital by an amount of EUR 35 million subscribed by SFIL, its parent company.

Caisse Française de Financement Local's share capital increased to EUR 1,350 million, comprising 13,500,000 shares.

3.7 - TOTAL LIABILITIES

Analysis by original currency	Amount in original currency as of 6/30/2016	Amount in euros as of 6/30/2016	Amount in original currency as of 12/31/2016	Amount in euros as of 12/31/2016	Amount in original currency as of 6/30/2017	Amount in euros as of 6/30/2017
EUR	60,682	60,682	58,063	58,063	60,377	60,377
AUD	20	13	20	14	20	13
CAD	966	672	965	681	513	346
CHF	1,521	1,403	1,497	1,396	1,512	1,384
GBP	542	655	318	372	321	365
HKD	206	24	201	25	206	23
JPY	94,614	829	91,934	747	26,336	206
NOK	1,012	109	1,039	114	1,012	106
PLN	40	9	41	9	42	10
SEK	2	0	-	-	-	-
USD	1,539	1,386	1,556	1,477	632	553
TOTAL		65,782		62,898		63,383

3.8 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Parent company ⁽¹⁾			Other related parties ⁽²⁾		
	6/30/2016	12/31/2016	6/30/2017	6/30/2016	12/31/2016	6/30/2017
ASSETS						
Loans and advances due from banks - sight	-	-	-	-	-	-
Loans and advances due from banks - term	2,131	-	113	-	-	-
Bonds and other fixed income securities	-	-	-	-	-	9
LIABILITIES						
Due to banks - sight	-	-	-	-	-	-
Due to banks - term	5,482	5,225	5,134	-	-	-
INCOME STATEMENT						
Interest income on loans and advances	5	6	0	(6)	(11)	(6)
Interest income on debt securities	-	0	-	-	0	(0)
Interest expense on borrowings	(14)	(25)	(7)	-	(0)	-
Net commissions	-	(3)	(4)	-	(0)	-
OFF-BALANCE SHEET						
Interest rate derivatives	14,373	13,858	14,539	-	-	-
Foreign exchange derivatives	3,904	3,478	1,781	-	-	-
Commitments and guarantees received	2,181	50	200	-	52	52
Commitments and guarantees given	551	3,722	3,168	-	-	-

(1) This item includes transactions with SFIL, the parent company of Caisse Française de Financement Local.

(2) This item may include transactions with Caisse des Dépôts et Consignations and La Banque Postale, shareholders of SFIL.

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

4.1 - COMMITMENTS GRANTED

	6/30/2016	12/31/2016	6/30/2017
Financing commitments granted to credit institutions ⁽¹⁾	551	3,722	3,168
Financing commitments granted to customers ⁽²⁾	289	125	143
Commitments on securities	-	-	5
Other commitments given, assets assigned in guarantee	-	-	2
TOTAL	840	3,847	3,318

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

(2) Financing commitments granted to customers correspond to contracts signed for loans not yet paid out to customers at the end of the period.

4.2 - COMMITMENTS RECEIVED

	6/30/2016	12/31/2016	6/30/2017
Financing commitments received from credit institutions ⁽¹⁾	50	50	320
Currencies borrowed	-	-	-
Guarantees received from credit institutions	2,163	84	73
Enhanced guarantees ⁽²⁾	551	3,722	3,281
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	5,613	3,095	2,989
Commitments on securities	-	-	5
Other commitments received	-	-	-
TOTAL	8,377	6,951	6,668

(1) As of June 30, 2017, this item corresponded in one hand to the amount of the overdraft, authorized in the current account agreement set up with SFIL, totaling EUR 50 million, and in other hand to loans commitments received, totalling EUR 270 million.

Readers are reminded that SFIL is committed to providing unlimited funding to Caisse Française de Financement Local through financing agreements between the two companies.

(2) The financing and financing commitments granted to SFIL by Caisse de Financement Local to refinance the former's large export credits benefit from a 100% unconditional and irrevocable guarantee of the French State, referred to as an enhanced guarantee.

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.

	6/30/2016	12/31/2016	6/30/2017	Fair value as of 6/30/2017
Currencies to receive	8,167	7,682	7,113	288
Currencies to deliver	8,126	7,472	7,112	(353)
TOTAL	16,293	15,154	14,225	(65)

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	12/31/2016	Less than 1 year	1 year to 5 years	More than 5 years	6/30/2017
Unconditional transactions	134,500	46,722	32,836	54,790	134,348
of which deferred start	3,345	3,200	201	775	4,176

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

b. Analysis of interest rate transactions by product type

	6/30/2016	12/31/2016	6/30/2017
Interest rate swaps	140,343	134,500	134,348
Term contracts	-	-	-
Interest rate options	-	-	-
TOTAL	140,343	134,500	134,348

c. Analysis of interest rate swap transactions

	6/30/2016	12/31/2016	6/30/2017	Fair value as of 6/30/2017
Micro-hedge	70,706	66,613	66,988	(688)
Macro-hedge	69,637	67,887	67,360	(2,618)
TOTAL	140,343	134,500	134,348	(3,306)

d. Analysis of interest rate transactions by counterparty

	6/30/2016	12/31/2016	6/30/2017
Related parties	14,373	13,858	14,539
Other counterparties	125,970	120,642	119,809
TOTAL	140,343	134,500	134,348

5. NOTES TO THE STATEMENT OF INCOME (EUR millions)**5.1 - INTEREST AND RELATED INCOME / EXPENSE**

	6/30/2016	6/30/2017
INCOME	2,190	509
Due from banks	15	4
Due from customers	2,059	540
Bonds and other fixed income securities	37	35
Macro-hedge transactions	79	(70)
Other commitments	-	-
EXPENSE	(2,039)	(429)
Due to banks	(17)	(12)
Due to customers	(1,520)	(178)
Bonds and other fixed income securities	118	(70)
Macro-hedge transactions	(620)	(169)
Other commitments	-	-
INTEREST MARGIN	151	80

5.2 - ANALYSIS OF COMMISSIONS

	H1 2016			H1 2017		
	Income	Expense	Net	Income	Expense	Net
Purchase and sale of securities	-	(0)	(0)	-	(0)	(0)
Services on securities other than custodian services	-	(2)	(2)	3	(1)	2
Issuance and underwriters of securities	-	(0)	(0)	-	(0)	(0)
Rebiling by the parent company	-	-	-	-	(4)	(4)
TOTAL	0	(2)	(2)	3	(5)	(2)

5.3 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

	Expense	6/30/2017
Transactions on placement securities ⁽¹⁾	(14)	(3)
Transactions on investment securities	-	-
Transactions on interest rate derivatives	-	-
Foreign exchange transactions	0	0
TOTAL	(14)	(3)

(1) This item regroups provisions and reversals on this portfolio amount after swaps.

5.4- 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 clientèle. These assets are managed in a run-off mode. At the end of June 2017, 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 expenses can be broken down as follows:

	Expense	6/30/2017
Taxes	(7)	(7)
Other general operating expense ⁽¹⁾	(46)	(47)
TOTAL	(53)	(54)

(1) of which EUR 45.4 million with SFIL as of June 30, 2017.

5.5 - COST OF RISK

	Expense	6/30/2017
Collective and specific impairments	7	1
TOTAL	7	1

5.6 - GAINS AND LOSSES ON FIXED ASSETS

	Expense	6/30/2017
Transactions on investment securities	-	-
Other operations	-	-
TOTAL	-	-

5.7 - CORPORATE INCOME TAX

	Expense	6/30/2017
Income tax for the year ⁽¹⁾	(27)	(2)
Provisions for tax litigation ⁽²⁾	9	(1)
TOTAL	(18)	(3)

(1) The corporate tax rate in France in 2016 is 34.43%.

(2) See note 3.5

6. POST-CLOSING EVENTS

No significant event that influenced the Company's financial situation has occurred since the closing on June 30, 2017.

5

Statutory auditor's report
Half-year 2017 (*French Gaap*)

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.

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92130 Issy-les-Moulineaux

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

For the period from January 1 to June 30, 2017

To Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance the requirements of Article L. 451-1-2 III of the French Monetary and Financial Code ("Code monétaire et financier"), we hereby report to you on:

- the review of the accompanying half-yearly financial statements of Caisse Française de Financement Local, for the period from January 1 to June 30, 2017;
- the verification of the information presented in the half-yearly management report.

These half-yearly financial statements are the responsibility of the Executive Board. Our role is to express our conclusion on these financial statements, based on our review.

I - 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 conse-

quently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the half-yearly financial statements do not give a true and a fair view of the assets and liabilities and of the financial position of the Company as at June 30, 2017 and of the results of its operations for the period then ended, in accordance with accounting rules and principles applicable in France.

II - Specific verification

We have also verified the information presented in the half-yearly management report on the half-yearly financial statements subject to our review.

We have no matters to report as to its fair presentation and its consistency with the half-yearly financial statements.

Fait à Paris-La Défense and Neuilly-sur-Seine, September 7, 2017

The Statutory Auditors
French original signed by

DELOITTE & ASSOCIES

ERNST & YOUNG et Autres

Sylvie BOURGUIGNON

Vincent ROTY

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 7, 2017

Gilles GALLERNE
Chairman of the executive board