



Supporting local investment and export

HALF-YEAR FINANCIAL REPORT

From January 1st to June 30th
2016

HALF-YEAR FINANCIAL REPORT 2016

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

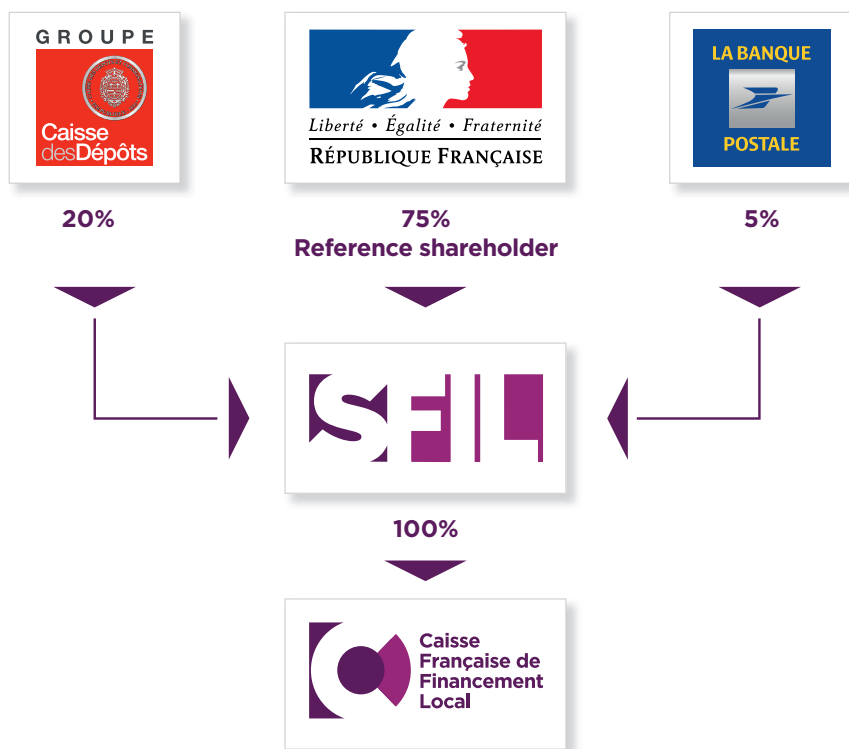
1. Half-year management report

Background

The SFIL company (formerly Société de Financement Local) was approved by the Autorité de contrôle prudentiel et de résolution (ACPR) as a bank on January 16th, 2013. Since SFIL was created, the French State plays a special role in this system by contributing 75% of SFIL's capital, and as the reference shareholder by providing prudential authority with a strong commitment for financial support, in keeping with current banking regulations. Caisse des Dépôts et Consignations and La Banque Postale respectively hold 20% and 5% of the Company's capital.

Since January 31, 2013, SFIL holds 100% of the capital of Caisse Française de Financement Local (CAFFIL), its sole subsidiary with the status of a *société de crédit foncier* (SCF) governed by articles L.513-2 and following of the Monetary and Financial Code.

Capital structure of SFIL and its sole subsidiary



SFIL lies at the heart of a system that fulfils the State's determination to provide French local governments and public healthcare facilities with continuous and efficient access to long-term bank financing, in addition to the offers proposed by commercial banks and French or European public institutions operating in this sector. This system, which was launched within the framework of the European Commission decision on December 28th, 2012, makes it possible to refinance French public sector local loans (SPL) from La Banque Postale and actively support these borrowers in their efforts to reduce their outstanding high-risk structured loans.

In 2015, the State entrusted SFIL with a second public policy mission, consisting of refinancing large buyer credits insured by Coface, thereby helping enhance the export competitiveness of French firms. This refinancing, which is part of the European Commission decision of May 5th, 2015, is available for all banks that partner with French exporters for their buyer credits insured by Coface on behalf of and under the guarantee of the French State.

Over the course of the first half year of 2016, SFIL has successfully fulfilled its fundamental missions:

- the acquisition, within a strictly defined framework, of loans initially granted by La Banque Postale to eligible local governments and public health facilities⁽¹⁾;

⁽¹⁾ Eligibility as defined by the legislation on *sociétés de crédit foncier* in its definition of assets in the cover pool that may be recognized on the balance sheet as guarantee of *obligations foncières* issued.

- provision of specialised services by SFIL to La Banque Postale and CAFFIL, allowing for proper operations of the scheme;
- reduction in the sensitivity of certain structured loans contained in the assets on the balance sheet of CAFFIL, in line with the objectives defined by the State in terms of the management of public finances and in respect of SFIL's strategic interests;
- the activity of refinancing large export credit contracts.

The execution of these missions relies on the effective financing activity of SFIL and CAFFIL.

In addition, in May 2016, the governance of SFIL was brought into compliance with the provisions of ordinance 2014-948 of August 20th, 2014, modified, regarding governance and operations on the capital of State-owned companies. The shareholders' meeting of May 26th, 2016 brought the Company's by-laws into compliance and named seven directors, two of whom were proposed by the State. The State, which is also a director, appointed its representative. Upon completion of this operation, the Board of Directors remained made up of 15 directors (see organisational chart below).

Composition of the Board of Directors (June 30th, 2016)

Philippe Mills Chairman and Chief Executive Officer

French State Represented by Jérôme Reboul	Patrick Galland Director representing the employees
Jean-Pierre Balligand Independent Director	Frédéric Guillemin Director representing the employees
Serge Bayard Director representing La Banque Postale, shareholder	Cathy Kopp Independent Director
Catherine Boyaval Director representing the employees	Chantal Lory Independent Director
Pascal Cardineaud Director representing the employees	Françoise de Panafieu Independent Director
Delphine de Chaisemartin Director representing Caisse des Dépôts et Consignations, shareholder	Antoine Saintoyant Director proposed by the State
Lorraine Coudel Director representing the employees	Pierre Sorbets Director proposed by the State

Operations over the half-year

1. Refinancing by CAFFIL of local public sector loans originated by La Banque Postale

Local public-sector loans originated by La Banque Postale are refinanced by SFIL's subsidiary, CAFFIL. In the first half of 2016, the latter acquired EUR 1.8 billion in loans from La Banque Postale in two quarterly transfers, which is 8.5% more than the volume acquired from La Banque Postale during the first half of 2015 (EUR 1.7 billion). In June 2016, the total volume acquired increased to EUR 7.8 billion.

2. Services for La Banque Postale

SFIL provides services to La Banque Postale at all stages along the chain of loan issuance and management of medium to long-term loans to the local public sector (local governments and public health facilities). The indicators introduced to measure the quality of services rendered by SFIL were met at a rate of 99% for the first half of 2016.

The operating service and marketing agreement for the rescheduling of loans recorded at CAFFIL, as signed by SFIL and La Banque Postale in June 2015, was renewed in June 2016 for a one-year period; within the scope of this agreement, more than EUR 96 billion in loans have been rescheduled, with 34 customers.

3. Reduction in loan sensitivity

The loan sensitivity mission conducted by SFIL during the first half of 2016 on the sensitive loans listed on the balance sheet of its subsidiary, Caisse Française de Financement Local, continued that of 2015, regarding both its scope and methodology.

Sensitive outstanding assets include those classified as outside of the Gissler Charter (code of good conduct signed between banks and local governments in December 2009) and assets labelled 3E, 4E and 5E according to the breakdown of the Charter.

The method used consists of definitively reducing the sensitivity of the sensitive structured loans. To this end, SFIL may, if so required, allocate new liquidity to borrowers in the form of additional funding or refinancing of the compensation for early reimbursement.

In order to find a permanent and comprehensive solution to the problem of the most sensitive structured loans contracted by local governments and public healthcare facilities, the French government adopted the following measures:

- A support fund set up for local governments and similar organisations with EUR 3 billion over a maximum of 15 years:
 - Between September 2015 and the end of April 2016, a nationwide service sent notifications of assistance to the local governments that applied for support funds.
 - The borrowers then had a period of three months to reach an agreement after notification.
- A support fund set up for the public healthcare facilities of EUR 400 million over 10 years.

In this context, the first half of 2016 could be characterised by:

- A very high level of operations processed: 156 transactions to reduce sensitivity (128 customers whose sensitivity disappeared completely) in the first half of 2016, vs. 104 transactions (92 customers whose sensitivity disappeared completely) in the first half of 2015.
- The volume of loans with reduced sensitivity stood at EUR 1.2 billion in the first half of 2016, compared with EUR 0.7 billion in the first half of 2015.
- A significant reduction in the number of suits. As of June 30th, 2016, there remained 54 customers who had brought suit against one or more structured loan agreements from CAFFIL. Thus, since the creation of SFIL, a negotiated settlement has been found with 168 borrowers.

On the basis of the transactions concluded as of June 30th, 2016, the sensitive assets will amount to EUR 2.7 billion maximum at the end of 2016 (i.e. a reduction of at least EUR 5.8 billion since December 31st, 2012, or 68%) for 365 customers (i.e. for a reduction of 58%).

4. Refinancing export credits

The objective of the SFIL system is to position French exports at the level of the highest international standards in terms of financial competitiveness, in accordance with a public refinancing plan comparable to that of other OECD countries, in particular in northern Europe (Sweden, Finland).

It was based on a collaboration involving commercial banks with whom SFIL proposes to buy back the insured part of the export credits they originate. During the financial tender phase, SFIL will communicate the conditions of its intervention in terms of volume, duration and price to the banks, who as responsible for the structuring of the transaction and customer relations will then pass them on to the borrower, under their final conditions. Upon signing the credit, SFIL will purchase the credit from the banks under the terms initially agreed upon. Once registered on the balance sheet of SFIL, the export credit is refinanced via a loan from its subsidiary CAFFIL, which also receives an irrevocable and unconditional guarantee delivered by Coface Garanties Publiques on behalf of and in the name of the State.

During 2015, the year it was launched, seeing that the system had received authorisation from the European Commission (May 5th, 2015), SFIL set up its team of specialists as well as its relational framework with Coface and banks active in the French export credit, in addition to ensuring that the system became known to exporters.

2016 is the first full year of the SFIL system of refinancing of export credits.

SFIL signed a protocol agreement governing its relationships with commercial banks, i.e. with 15 institutions, thus ensuring an established relationship with almost all of the banks active in the Coface market.

Its first transaction was entered into on June 29th, 2016, with the refinancing of an export credit intended to finance the acquisition of 2 innovative high-end liners by the American cruise company RCCL. These ships will be constructed by STX in the Saint-Nazaire shipyards.

Within the scope of this initial transaction, the amount transferred to SFIL by four of the arranging banks represented 43% of the export credit of EUR 1.3 billion, i.e. EUR 550 million.

The conclusion of this first transaction confirms that the SFIL system allows French exporters and the banks that support them to offer their customers financing under excellent conditions compared to those of their competitors in countries with similar systems.

5. The refinancing of CAFFIL and SFIL

CAFFIL refinancing (covered bonds, or *obligations foncières*):

Over the course of the first half of 2016, CAFFIL was active in the Euro-denominated public debt issue market. Four new issues for a total amount of EUR 4.5 billion, were launched during the half year, enabling CAFFIL to complete its reference yield curve. In January, CAFFIL launched an issue for EUR 1.5 billion, consisting of two tranches, offering maturities of 6 years and 15 years; in April, a benchmark 10-year issue for EUR 1.25 billion was launched and finally in June, a benchmark 9-year issue for EUR 1 billion completed the activity.

In addition to these public benchmark issues, CAFFIL benefited from investor demand for long dated private placements for a total amount of EUR 266 million and to tap existing issues (2026 and 2035 maturities). The average maturity of the financing raised by CAFFIL during the 1st half year was close to 10.5 years.

SFIL refinancing:

Financing is mainly provided by Caisse des Dépôts et Consignations and La Banque Postale under credit agreements for amounts up to EUR 12.5 billion and EUR 1.25 billion, respectively. As of June 30th, 2016, the financing that SFIL received from these two shareholders amounted to a total of EUR 7.7 billion. This backing allowed SFIL to fully play its role as parent company and sponsor of Caisse Française de Financement Local by giving it the required liquidity to finance its over-collateralization. This also allowed the institution to meet its own financing requirements relative to the cash collateral paid on its derivatives and liquidity reserves.

In a parallel manner, SFIL has continued to diversify its financing sources by developing short-term financing on the market through the issuance of negotiable debt securities of at least one year. As of June 30th, 2016, its outstanding negotiable debt securities totalled EUR 911.5 million, an increase of EUR 313 million over that of December 31st, 2015.

After this first successful step, SFIL intends to develop its refinancing on markets through the issuance of long-term bonds. Upon establishing an EMTN program, an initial benchmark transaction is envisaged between now and the end of the year.

Changes in main balance sheet items

The main items on the SFIL Group's consolidated balance sheet (management data) as of June 30th, 2016 are presented in the table below.

EUR billions, value after currency swaps

ASSETS	LIABILITIES
85.8	85.8
Main items, in nominal value after swaps	Main items, in nominal value after swaps
65.1	65.1
<i>Cash assets</i> 2.9	
<i>Loans</i> 49.2	<i>Refinancing by shareholders</i> 7.7
<i>Securities</i> 10.0	<i>Covered bonds / Obligations foncières</i> 52.8
	<i>Certificats de dépôt</i> 0.9
<i>Cash collateral paid</i> 3.0	<i>Cash collateral received</i> 2.2
	<i>Equity and other</i> 1.5

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

- the cash assets of SFIL and CAFFIL;
- the loans and securities on the CAFFIL balance sheet and assets held in the form of securitisation on the SFIL balance sheet;
- cash collateral paid by SFIL on its derivative portfolio.

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

- *obligations foncières* in CAFFIL's liabilities;
- *certificats de dépôt* issued by SFIL;
- the funds contributed by shareholders (Caisse des Dépôts et Consignations and La Banque Postale) in the SFIL liabilities;
- cash collateral received by CAFFIL and SFIL on its derivative portfolio;
- equity and other resources.

1. Main changes in assets over the first half of 2016

The net change in the SFIL Group's main assets during the first half of 2016 was EUR +0.5 billion.

This change can be analysed as follows:

EUR billions, value after currency swaps	6/30/2016
BEGINNING OF YEAR	64.6
Purchase of loans from La Banque Postale	1.8
New loans paid out after reduction in sensitivity	1.3
Cash collateral paid by SFIL	(0.3)
Amortization of loans and securities in the French public sector	(1.3)

Amortization of loans and securities outside the French public sector	(0.6)
Change in cash assets	(0.4)
Other	-
END OF PERIOD	65.1

- Through its subsidiary CAFFIL, SFIL acquired EUR 1.8 billion in loans marketed by La Banque Postale to the French local public sector.
- The transactions to reduce sensitivity resulted in EUR 1.3 billion in new payments on the balance sheet, considered as refinancing of early reimbursement indemnities and new investment financing.
- As an intermediary in the derivative transactions between CAFFIL and some of its counterparties, SFIL has paid a total of EUR 3.0 billion as of June 30th, 2016, down EUR -0.3 billion from the end of 2015.
- The other changes in assets pertained mainly to the natural amortization of the loans and securities portfolio (EUR 1.9 billion) and to the EUR -0.4 billion change in the cash balance held with Banque de France (French central bank). It should be noted that SFIL held EUR 0.4 billion in French Treasury bonds as of June 30th, 2016.

2. Main changes in liabilities over the first half of 2016

The net change in the main liabilities of the SFIL Group during the first half of 2016 equalled EUR +0.5 billion.

This change can be analysed as follows:

EUR billions, value after currency swaps	6/30/2016
BEGINNING OF YEAR	64.6
Covered bonds / <i>Obligations foncières</i>	1.2
<i>Issues</i>	4.8
<i>Amortizations</i>	(3.6)
<i>Buybacks</i>	(0.0)
Change in cash collateral received	0.3
Senior unsecured refinancing	(1.1)
<i>Certificats de dépôt</i>	0.3
Equity and other items	(0.2)
END OF PERIOD	65.1

- Outstanding *obligations foncières* increased by EUR 1.2 billion, due to implementation of the new 2016 program to EUR 4.8 billion, and amortization of the stock of covered bonds to EUR -3.6 billion.
- The cash collateral paid by the derivative counterparties of CAFFIL and SFIL increased by EUR 0.3 billion.
- The EUR -1.1 billion decrease in refinancing by shareholders is partly counterbalanced by the increase in SFIL refinancing made in the form of *certificats de dépôt* for EUR 0.3 billion. The net decrease in refinancing of EUR -0.8 billion is related to both the decrease in CAFFIL's over collateralization, which slid from 13% to 12.5% between 2015 and June 2016, and the reduction in cash collateral paid by SFIL.

Risk management

SFIL's portfolio, which is principally made up of exposures on public borrowers, has a particularly low risk profile. Risks involving the markets, ALM and liquidity are limited and operational risks remain under control.

After the Supervisory Review and Evaluation Process (SREP) conducted by the European Central Bank (ECB) in 2015, the Core Equity Tier One ratio (CET1)⁽²⁾ required that a consolidated basis for SFIL has been set at 8.75% as of January 1st, 2016.

As of June 30th, 2016, SFIL's phased CET1 ratio was 23.4% on a consolidated basis (non-phased ratio of 21.1%), thus representing a level almost three times the minimum requirement.

1. Credit risk

Credit risk represents the potential loss that may affect SFIL due to a counterparty's downgraded financial position.

1.1. BREAKDOWN OF EXPOSURES ACCORDING TO BASEL III RISK WEIGHTING

The quality of the SFIL and CAFFIL portfolio can also be seen in the weighting of risk-weighted assets (RWA) assigned to its assets in order to calculate the solvency ratio.

The Group has mainly chosen the advanced method to calculate its solvency ratio and capital adequacy for most of its exposures. It therefore uses its internal models approved by the regulator to calculate its equity requirements for the credit risk.

An average weighting of 6.5%, with no more than 4% of the portfolio being weighted higher than 20%, confirms the quality of SFIL's assets.

The amount of weighted exposure with respect to the credit risk amounts to EUR 5.177 million. By including market risks, the risk of volatility in the Credit Valuation Adjustment (CVA) and operational risks, the total weighted assets sum to EUR 5.886 million.

1.2. NON-PERFORMING LOANS AND LITIGIOUS LOANS

Non-performing and litigious loans at the end of June 2016 totalled EUR 607 million about 1.0% of CAFFIL's total cover pool (i.e. EUR 61 billion). The acceleration of the signing of agreements with local governments previously exposed to risky structured loans caused the fall in the amount and number of non-performing and litigious loans, consisting of:

- EUR 542 million in loans qualified as non-performing, which corresponds to customer loans of a total unpaid amount of EUR 37.5 million; and
- EUR 65 million in loans qualified as litigious, which corresponds to unpaid interest on structured loans subject to litigation.

1.3. PROVISIONS

At the end of June 2016, specific provisions totalled EUR 44.6 million. These provisions pertained to the capital of the non-performing loans for EUR 5.3 million (recorded as cost of risk provisions) and to "Interest and other" for EUR 39.3 million (recorded as a decrease in Net banking income).

In addition, collective statistical provisions were calculated on the various "Loans and Advances" portfolios. It was EUR 57.7 million at the end of June 2016.

SFIL, through CAFFIL, integrated in the results of previous years respective contributions of EUR 150 million paid over 15 years for the support fund for local governments and EUR 38 million to support public healthcare facilities. Taking into account the payments already made, the contribution to the two support funds still to be paid is EUR 136 million, fully provisioned.

⁽²⁾ Ratios calculated in accordance with CRD IV, including transitional provisions.

EUR millions	6/30/2016
Collective provisions	58
Specific provisions	44
Contribution to support fund	136
TOTAL	238

As of June 30th, 2016, the provisions covering the risks on the entire portfolio totalled EUR 238 million.

The amount of provisions remained low (less than 0.4 % of CAFFIL's total cover pool), attesting to the quality of the portfolio and its low risk profile.

1.4. AFS RESERVE

The total amount of the AFS reserve before tax went from EUR -133 million as of December 31st, 2015 to EUR -151 million as of June 30th, 2016. Italian sovereign securities accounted for EUR -64.5 million of this reserve, compared with EUR -42 million at the end of 2015. This deterioration of the AFS reserve over the first half of 2016 is primarily explained by the increase in the spread for sovereign Italian debt (+35 bps for 10 year sovereign Italian debt).

2. Market and the ALM risk

2.1. MARKET RISK

The institution does not carry out financial trading operations and is therefore not subject to the market risk in the regulatory sense of the term. Since the notion of regulatory market risk is limited to the market risk of the trading portfolio, it is recognised that the regulatory market risk is zero.

2.2. ALM RISK

The ALM policy of SFIL and its subsidiary CAFFIL is designed to protect the value of equity and limit income volatility while maintaining the equilibrium of their balance sheets.

Two noteworthy events can be cited for the first half of 2016:

- the early redemption at par by DSFB of outstanding securitization transactions of Belgian local government receivables for an amount EUR 2.1 billion (effective date: 7/18/2016),
- the signature of the first export credit contract for roughly EUR 551 million.

a. Foreign exchange risk

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

The reference currency of SFIL is the euro: the foreign exchange risk thus reflects any change in the value of assets and liabilities denominated in a currency other than the euro due to a fluctuation in this currency versus the euro. This management policy avoids any foreign exchange risk. SFIL and CAFFIL incur almost zero foreign exchange risk.

b. Interest rate risk

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

SFIL distinguishes three types of interest rate risk, which are covered by a specific hedging strategy⁽³⁾:

- The fixed interest rate risk reflects the difference in volume and maturity between fixed-rate assets and liabilities for which the interest rate has been fixed.
- The fixing risk reflects, for each index, the gap between the revision dates applied to all variable-rate balance sheet and off-balance sheet items linked to this index.
- The risk of alteration of the interest rate curve is linked to fluctuations in the differences between short-term and long-term rates; it concerns non-parallel variations in the interest rate curve: sloping, flattening, rotation.

For CAFFIL, these interest rate risks are measured and limited on the basis of indicators of the net present value sensitivity for an incident of 100 times the rate + 1 basis point (bp):

	Level as of June 30 th , 2016	Limit
Directional interest rate risk	(3.7)	< EUR 25 million
Sloping risk		
- Sensitivity per Time Bucket		
o Short Bucket	(1.5)	< EUR 10 million
o Medium Bucket	(1.8)	< EUR 10 million
o Long Bucket	(0.5)	< EUR 10 million
o Very long Bucket	0.1	< EUR 10 million
- Sensitivity per Time Bucket in absolute value		
o Short Bucket	4.5	< EUR 20 million
o Medium Bucket	14.5	< EUR 20 million
o Long Bucket	10.7	< EUR 20 million
o Very long Bucket	6.4	< EUR 20 million

For the parent company SFIL, this limit is expressed on the fixed rate gap, and its 0 value reflects its micro-hedge management strategy.

These indicators are calculated from a static view.

c. Liquidity risk

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

The SFIL Group's activity is overwhelmingly centred on managing its subsidiary CAFFIL, a *société de crédit foncier*.

The Group's requirements are mainly of four types:

- The financing of CAFFIL's balance sheet assets (EUR 49.2 billion in loans, EUR 7.5 billion in securities and 2.3 billion in cash on deposit with Banque de France);
- the financing of SFIL's balance sheet assets (EUR 2.5 billion in securities of which EUR 2.1 billion in DSFB securities, and 0.6 billion in cash on deposit with Banque de France);
- The financing of liquidity needs linked to compliance with regulatory ratios;
- The financing of the *cash collateral* of hedging derivatives intermediated by SFIL between CAFFIL and the market (EUR 2.2 billion).

⁽³⁾ Refer to SFIL's 2015 Financial Report for more information on this topic.

The sources of financing used, other than the entity's equity, are as follows:

- privileged debt, i.e. the *obligations foncières* issued by CAFFIL (EUR 52.8 billion) and cash collateral received by CAFFIL (EUR 1.3 billion);
- the cash collateral received under a loan collateralized by loans to local English governments (EUR 0.1 billion), considered as non-senior debt;
- the credit agreements signed in 2013 between SFIL and its shareholders: the financing provided by Caisse des Dépôts et Consignations and La Banque Postale totalled EUR 7.7 billion as of June 30th, 2016;
- the short-term debt securities issued by SFIL totalling EUR 0.9 billion as of June 30th, 2016.

In addition, the SFIL Group has a large number of assets held by CAFFIL or SFIL that are directly eligible for refinancing by the central bank. The securities held by CAFFIL can be made available through European Central Bank refinancing operations, via the Banque de France. In the first half of 2016, there were no operations of this type, except for operational tests required for regulatory purposes.

Since the financing of the over-collateralization of CAFFIL is ensured by SFIL, especially by the credit agreements it has signed with its shareholders, the main liquidity risk entails the risk that CAFFIL may not be able to settle its privileged debt commitments by the due date because the gap between the repayment of its assets and privileged liabilities is too great. For SFIL, the liquidity risk lies in its ability to ensure financing of the over-collateralization of CAFFIL by recourse to its shareholders or by recourse to the market, and then to make the payment of the cash collateral of the swaps it has intermediated on behalf of CAFFIL.

Since the first half of 2016, SFIL has also ensured the refinancing of credit export transactions. Liquidity is provided by CAFFIL through the issuance of the *obligations foncières* they issue.

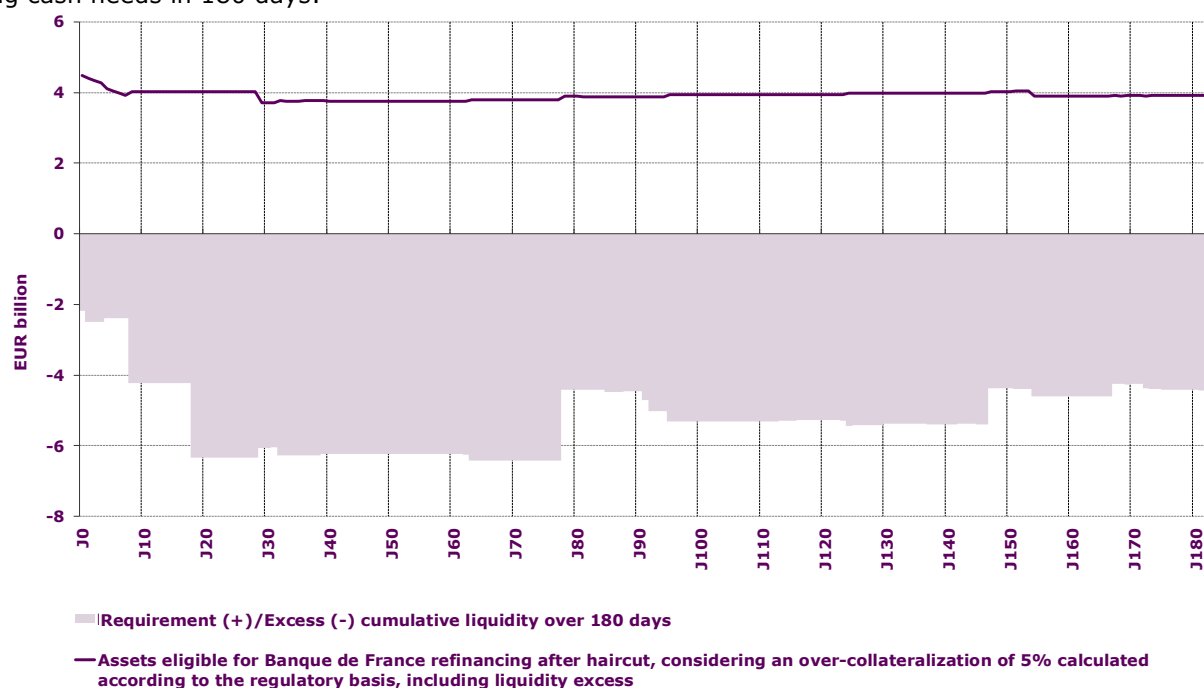
To reduce the liquidity risk, SFIL and CAFFIL mainly rely on static, dynamic and stress projections to ensure short and long-term liquidity reserves, which allow them to meet their obligations.

SFIL and CAFFIL must also comply with regulatory liquidity ratios.

As of June 30th, 2016, the situation was as follows:

For CAFFIL:

- LCR ratio: 1799%
- Covering cash needs in 180 days:



- Gap between average life of the assets considered as pledged for the minimum amount to satisfy the regulatory coverage ratio and that of the liabilities: 0.1 year.

For SFIL:

LCR ratio: 149%

3. Legal and tax risks

3.1. LEGAL RISK

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

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

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

Of the three rulings the Tribunal de Grande Instance de Nanterre handed down in 2015, one gave rise to a conviction in solidum against Dexia Credit Local and Caisse Française de Financement Local for the failure of Dexia Credit Local to provide adequate information and sufficient warning when it marketed the loan. This same ruling condemned the borrower to reimburse Caisse Française de Financement Local for all the unpaid sums and to pay the contractual interest rate for the remaining life of the contract.

Concerning the four rulings handed down in 2016, the first one concerning non-structured loans condemned both Dexia Credit Local and CAFFIL, the other three concerning structured loans, dismissed all the claims of the borrower.

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

3.2. TAX RISK

As of June 30th, 2016, CAFFIL, a 100% subsidiary of SFIL, maintained a provision for additional income tax in the amount of EUR 38 million, as established in 2015 following verification by French tax authorities concerning, for fiscal years 2012 and 2013, the taxation in Ireland of the income of the Dublin branch of Dexia Municipal Agency, which is now closed. The procedures and recourse related to CAFFIL's challenge of this position remain in effect.

4. Operational risk and permanent control

4.1. OPERATIONAL RISK

Operational risk represents the risk of loss resulting from the lack of adaptation or failure on the part of internal processes, staff, systems and external events. It includes risks linked to the security of IT systems, as well as legal and compliance risks. SFIL has chosen to incorporate the risk of reputation into this category but strategic risks are excluded. This definition is in line with the definition adopted by the Basel Committee. Management procedures for operational risks apply to all SFIL operating divisions.

SFIL's policy with regards to the measurement and management of operational risks involves identifying and evaluating any and all risks as well as existing efforts to attenuate and control them in order to verify whether the level of residual risk is acceptable. This policy is complemented by: managing the security of IT systems, introducing a contingency plan to ensure business continuity, and, if required, insuring against certain risks.

The policy applied involves three main processes: the collection of operating incidents, the mapping of operational risks, and the monitoring of key operational risk indicators.

Executive officers and members of the Executive Committee and Board of Directors are regularly informed of changes in the mapping of operational risks, major operational incidents and key indicators of operational risks exceeding the alert thresholds, as well as corrective action plans defined to reduce the identified risks.

Given the location of SFIL's offices in Issy-les-Moulineaux, the Seine River flood that occurred at the beginning of June 2016 was monitored and specific precautionary measures proposed. This event had no impact on ongoing activities, company operations and its teams.

The capital requirements for the operational risk are calculated according to the standard method.

4.2. PERMANENT CONTROL

Permanent control at SFIL ensures the efficiency and reliability of the risk control plan, the efficiency of the control of operations and internal procedures, the quality of accounting and financial information, and the quality of information systems. Permanent control measures apply to all bank divisions and activities.

Operating results

Consolidated financial statements prepared in accordance with IFRS

As of June 30th, 2016, the SFIL Group posted a consolidated net income of EUR +7 million, with outstanding loans (on the balance sheet) of EUR 85.8 billion as of this date. The Group's CET1 solvency ratio stood at 23.4%, thus confirming its financial strength.

The income as of June 30th, 2016 was strongly influenced by the adjustment in the valuation of the derivative portfolio (EUR -33 million before taxes).

Restated ⁽⁴⁾ for this item, net income would amount to EUR +28.5 million, with a significant improvement of EUR +53 million vs. June 30th, 2015⁽⁵⁾.

An item-by-item analysis of this change, excluding the adjustment items for the valuation of derivatives, highlights the following elements:

- Net banking income for the first half of 2016 was EUR +97 million. This figure reflects an increase of EUR +74 million compared with the previous year. This change is related to provisions for doubtful customers, which were recorded as EUR -32 million in 2015, accounting for a reversal of EUR +20 million in 2016. This reversal is related to the reduction in the sensitivity of the sensitive structured credits, which following the settlement of unpaid items allowed for the targeted provisions to be decreased. The balance of the change in net banking income is correlated with the improvement in margins related to assets on the balance sheet.
- The Group's operating expenses and amortizations totalled EUR -58 million and were stable compared to 2015.
- The cost of risk provisions was EUR +7 million, i.e. improved by EUR +5 million compared to the first half of 2015. This result is also tied to the policy to reduce the sensitivity of structured credits, which has allowed part of the provisions set aside during past years to be decreased.

⁽⁴⁾ As of June 30th, 2016, the restatement of non-recurring items represented an after-tax amount of EUR -21.8 million in accordance with the change in valuation of the derivatives against EONIA, the evaluation of covered risk and the change in IFRS13 income.

⁽⁵⁾ As of June 30th, 2015, the restatement of non-recurring items represented an after-tax amount of EUR -1.2 million in accordance with the change in valuation of the derivatives against EONIA, the evaluation of covered risk and the change in IFRS13 income.

Outlook

During the first half of 2016, SFIL fully accomplished its fundamental missions and moreover conducted its first export credit refinancing transaction.

Regarding the provision of services to LBP, SFIL will continue in the second half of 2016 to implement several projects (changes in software tools, reports or regulatory changes). Most of these projects initiated in the first half of 2016 should be completed by the beginning of 2017.

In the area of refinancing export credit, the signature of the first transaction in a strategic sector with demanding counterparties demonstrated the relevance of the system designed by the State. It bodes well for future transactions: the SFIL system is open to all sectors and all regions, provided that the projects are eligible for Coface credit insurance.

Regarding the Group's refinancing, the second half of the year continued like the first half, with a program to issue CAFFIL's long-term bonds, which by mid-year had already achieved 2/3 of its annual program. During the second half of the year, SFIL should also issue debt with a maturity above one year for the first time.

The reduction in sensitivity activity will remain a priority until the end of 2016 because of the efficacy of support funds to local governments and public healthcare facilities. The already significant reduction in the number of suits observed as of June 30th, 2016 should continue during the second half of the year.

During the second half of 2016, SFIL will be developing initiatives aimed at its 2021 strategic plan, based on 3 main focal areas, whose goals are: to maintain the leadership position acquired with LBP on the long-term financing of the local public sector; to become a major player in export refinancing; and to ensure the long-term profitability of its activities.

Finally, regarding the potential impacts connected with the Brexit vote of June 23rd, 2016, SFIL does not anticipate, at this point, any direct negative impact of the event on its activities in the area of bond issuance and reduction of sensitivity of outstanding sensitive loans. SFIL remains attentive to potential shift effects in the framework of implementing transactions related to the refinancing of export credit.

2. Condensed consolidated financial statements in accordance with IFRS

Assets as of June 30th, 2016

EUR millions	Note	12/31/2015	6/30/2016
Central banks		3,361	2,922
Financial assets at fair value through profit or loss		2	1
Hedging derivatives		7,037	7,719
Financial assets available for sale		1,304	1,934
Loans and advances due from banks	2.1	2,530	2,471
Loans and advances to customers	2.2	63,209	63,952
Fair value revaluation of portfolio hedge		2,784	3,591
Financial assets held to maturity		-	-
Current tax assets		5	0
Deferred tax assets		116	146
Property and equipment		8	7
Intangible assets		13	18
Accruals and other assets		3,314	3,045
TOTAL ASSETS		83,683	85,806

Liabilities as of June 30th, 2016

EUR millions	Note	12/31/2015	6/30/2016
Central banks		-	-
Financial liabilities at fair value through profit or loss		2	6
Hedging derivatives		12,088	12,548
Due to banks	3.1	8,837	7,693
Customer borrowing and deposits		-	-
Debt securities	3.2	57,740	60,265
Fair value revaluation of portfolio hedge		1,447	1,491
Current tax liabilities		2	25
Deferred tax liabilities		-	-
Accruals and other liabilities		2,139	2,360
Provisions		43	44
Subordinated debt		-	-
EQUITY		1,385	1,374
Share capital		1,445	1,445
Reserves and retained earnings		113	53
Other comprehensive income		(114)	(131)
Net income		(59)	7
TOTAL LIABILITIES		83,683	85,806

Income statement

EUR millions	Note	1 st half 2015	1 st half 2016
Interest income	5.1	2,111	1,806
Interest expense	5.1	(2,093)	(1,715)
Fee and commission income		2	2
Fee and commission expense		(4)	(2)
Net result of financial instruments at fair value through profit or loss	5.2	2	(35)
Net result of financial assets available for sale		3	8
Other income		0	0
Other expense		(0)	(0)
NET BANKING INCOME		21	64
Operating expense	5.3	(57)	(55)
Depreciation and amortization of property and equipment and intangible assets		(1)	(3)
GROSS OPERATING INCOME		(37)	6
Cost of risk	5.4	2	7
OPERATING INCOME		(35)	13
Net gains (losses) on other assets		-	-
INCOME BEFORE TAX		(35)	13
Income tax		9	(6)
NET INCOME		(26)	7
Earnings per share (EUR)		-	-
- Basic		(2.80)	0.72
- Diluted		(2.80)	0.72

Net income and unrealised or deferred gains and losses through equity

EUR millions	1 st half 2015	1 st half 2016
Net income	(26)	7
Items that may subsequently be reclassified as profit or loss	(5)	(17)
Unrealised or deferred gains and losses of financial assets available for sale	(8)	(21)
Unrealised or deferred gains and losses of cash flow hedges	1	(6)
Tax on items that may subsequently be reclassified as profit or loss	2	10
Items that may not be reclassified as profit or loss	-	-
Actuarial gains and losses on defined benefit plans	-	-
Tax	-	-
Total changes in unrealised gains and losses through equity	(5)	(17)
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	(31)	(10)

Consolidated statement of changes in equity

EUR millions	Share capital and reserves		Consolidated retained earnings	Total of gains and losses through equity		Net income	Total consolidated equity
	Share capital	Capital reserves		Net change in fair value of available for sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax		
EQUITY AS OF 12/31/2014	1,445	-	146	(119)	(29)	(34)	1,409
Capital increase	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-
Allocation of 2014 net income	-	-	(34)	-	-	34	-
Dividends paid on 2014 income	-	-	-	-	-	-	-
Subtotal of transactions with shareholders	1,445	-	113	(119)	(29)	-	1,409
Net income for the period	-	-	-	-	-	(59)	(59)
Changes in gains and losses through equity	-	-	-	31	3	-	34
EQUITY AS OF 12/31/2015	1,445	-	113	(88)	(26)	(59)	1,385
Capital increase	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-
Allocation of 2015 net income	-	-	(59)	-	-	59	-
Dividends paid on 2015 income	-	-	-	-	-	-	-
Subtotal of transactions with shareholders	1,445	-	54	(88)	(26)	-	1,385
Net income for the period	-	-	-	-	-	7	7
Changes in gains and losses through equity	-	-	-	(14)	(4)	-	(18)
EQUITY AS OF 6/30/2016	1,445	-	54	(102)	(30)	7	1,374

Cash flow statement

EUR millions	12/31/2015	6/30/2016
NET INCOME BEFORE TAXES	(30)	13
+/- Depreciation and write-downs	43	(26)
+/- Expense / income from investing activities	277	383
+/- Expense / income from financing activities	(194)	(88)
+/- Other non-cash items	116	208
= Non-monetary items included in net income before tax and other adjustments	242	477
+/- Cash from interbank operations	(657)	(1,090)
+/- Cash from customer operations	(769)	(1,028)
+/- Cash from financing assets and liabilities	4,435	(244)
+/- Cash from not financing assets and liabilities	(758)	(113)
- Income tax paid	(39)	0
= Decrease / (increase) in cash from operating activities	2,212	(2,475)
CASH FLOW FROM OPERATING ACTIVITIES (A)	2,424	(1,985)
CASH FLOW FROM INVESTING ACTIVITIES (B)	(12)	-
+/- Cash from or for shareholders	-	-
+/- Other cash from financing activities	58	1,546
CASH FLOW FROM FINANCING ACTIVITIES (C)	58	1,546
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	-	-
INCREASE / (DECREASE) IN CASH EQUIVALENTS (A + B + C + D)	2,470	(439)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	901	3,371
Cash and balances with central banks (assets & liabilities)	877	3,361
Interbank accounts (assets & liabilities) and loans / sight deposits	24	10
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3,371	2,931
Cash and balances with central banks (assets & liabilities)	3,361	2,922
Interbank accounts (assets & liabilities) and loans / sight deposits	10	9
CHANGE IN NET CASH	2,470	(439)

Notes to the condensed consolidated financial statements

1. Accounting policies and valuation methods

1.1. Highlights of the half-year

During the first half of 2016, SFIL fully accomplished its missions, which involved: 1) refinancing, via its subsidiary Caisse Française de Financement Local, loans granted by La Banque Postale to eligible local governments and public healthcare facilities; 2) supplying specialised services to La Banque Postale and Caisse Française de Financement Local; and 3) implementing a policy to reduce the sensitivity of the portfolio of structured loans, which increased its pace in 2016. SFIL also conducted the first transaction for the refinancing of large export contracts entrusted by the State.

a. Issues by Caisse Française de Financement Local

Caisse Française de Financement Local issued a total volume of EUR 4.8 billion in the first half of 2016. Four new issues were created during the first half of 2016, which permitted CAFFIL to complete its reference yield curve. In January, CAFFIL launched an issue for EUR 1.5 billion, consisting of two tranches, offering maturities of 6 years and 15 years, respectively; in April, a benchmark 10-year issue for EUR 1.25 billion was launched and finally in June, a benchmark 9-year issue for EUR 1 billion completed the activity.

b. Partnership with La Banque Postale

During the first half of 2016, Caisse Française de Financement Local acquired nearly EUR 1.8 billion in loans from La Banque Postale in four quarterly transfers.

c. Policy to reduce loan sensitivity

The first half of 2016 was very busy relative to the sensitivity reduction activity, which may be characterised by:

- A very high level of operations processed: 156 transactions to reduce sensitivity (128 customers whose sensitivity disappeared completely) in the first half of 2016, vs. 104 transactions (92 customers whose sensitivity disappeared completely) in the first half of 2015.
- The volume of loans with reduced sensitivity stood at EUR 1.2 billion in the first half of 2016, compared with EUR 0.7 billion in the first half of 2015.
- A significant reduction in the number of suits. As of June 30, 2016, there remained 54 customers who had brought suit against one or more structured loan agreements from CAFFIL. Since the creation of SFIL, a negotiated settlement has thus been found with 168 borrowers.

d. Expansion of the export credit refinancing activity

At the beginning of 2015, the French State announced that it had decided to create a new public finance tool for export contracts and moreover that it had elected to entrust this activity to SFIL.

During 2015, the year it was launched, since the system had received authorisation from the European Commission (May 5th, 2015), SFIL installed its team of specialists as well as its relational framework with Coface and the banks active in French export credit; it also ensured that the system became known to exporters.

2016 is the first full year of the SFIL system refinancing export credits.

SFIL signed a protocol agreement governing its commercial bank relationships with 15 institutions, thus ensuring an established relationship with about 95% of the banks active in the Coface market.

Its first transaction was conducted on June 29th, 2016 with the refinancing of an export credit intended to finance the acquisition of 2 innovative high-end liners by the American cruise company RCCL. These ships will be built by STX at the Saint-Nazaire shipyards.

Within the framework of this first transaction, the amount transferred to SFIL by four of the arranging banks represented 43% of the export credit of EUR 1.3 billion, i.e. EUR 550 million.

e. Entity ratings

SFIL

At the beginning of 2016, the three rating agencies, i.e. Moody's, Standard & Poor's and Fitch, carried out a review of SFIL's rating. At that time, they confirmed the strong ties existing between SFIL and the State, and all three retained the previous ratings of 2015, namely: Aa3 for Moody's, AA for Standard & Poor's, and AA- for Fitch. Hence, SFIL's ratings are equal to or a notch lower than those of the State.

Caisse Française de Financement Local

The rating of the *obligations foncières* issued by Caisse Française de Financement Local remained stable throughout the year 2016, compared with 2015. At the end of June, 2016, these ratings were as follows: AA+ for S&P, Aaa for Moody's, and AA for Fitch.

f. Post-closing events

No significant event affecting the entity's financial situation occurred after closing on June 30th, 2016.

1.2. Accounting principles and methods applied

SFIL's half-year consolidated statements as of June 30, 2016 have been prepared and presented in accordance with IAS 34 "*Interim Financial Reporting*". The accompanying notes relate to significant items of the half-year and should therefore be read in conjunction with the audited consolidated accounts for the financial year ending December 31st, 2015.

In addition, the Group's activities do not show any seasonal, cyclical or occasional aspects.

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

a. Accounting principles and methods used

The consolidated financial statements for the half-year were prepared in accordance with the same accounting policies and methods as those used by the Group for the preparation of consolidated financial statements for the year ending December 31st, 2015. They have also been prepared in accordance with IFRS standards, as adopted by the European Union, and are contained in Note 1.2 "Accounting principles and methods applied" of the consolidated financial statements of December 31st, 2015.

These accounting principles and methods are completed by changes in the accounting standards and interpretations applied by the Group as of January 1st, 2016.

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

- Amendments to IAS 27 - *Equity Method in Separate Financial Statements*: Entities now have the option to use the equity method to measure investments in subsidiaries, joint ventures and associates, when preparing their individual financial statements.
- Amendments to IAS 1 - *Disclosure Initiative*: These amendments clarify the application of the concepts of materiality (this specification is also applicable to the notes to the financial statements; also, including non-relevant information can be detrimental to their understanding) and professional judgment (by modifying certain formulations judged as prescriptive).
- Annual Improvements to the IFRS 2012-2014 Cycle: These are minor changes to existing standards.
- Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortization*: The amendments clarify that a revenue-based method is not considered to be an appropriate expression of consumption. This is because revenue represents the generation of expected economic benefits rather than the consumption of economic benefits.
- Amendments to IFRS 11 - *Joint Arrangements*: The amendments clarify that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3.
- Amendments to IAS 19 R - *Employee benefits*: These amendments clarify and simplify the accounting for contributions that are independent of the number of years of an employee's service. These contributions can be recognised as a reduction in the service cost during the period when the related service is rendered instead of being allocated to the service period.

- Annual Improvements to the IFRS 2010-2012 Cycle: These are minor changes to existing standards.

The impact of these amendments on SFIL's financial statements is insignificant.

New IFRIC standards and interpretations and amendments published by IASB during the current year, but not yet adopted by the European Commission

- Amendments to IAS 12 - *Accounting for deferred tax assets in relation to unrealised losses*: These clarify the fact that unrealised losses on financial assets valued at fair market value in the financial statements and at cost from a tax perspective may generate deductible temporary differences.
- Amendments to IAS 7 - *Disclosure initiative*: In principle, an entity must provide information that will allow the users of financial statements to assess the changes that occurred in the liabilities included in its financing activities, whether or not these changes arose from financing cash flows.
- IFRS 16 *Leases*: All leases must be recognised on the lessee's balance sheet; leases of less than one year and contracts on nominal value assets are exempted from the IFRS 16 obligations.

SFIL is studying the possible impacts of these standards and amendments on the consolidated financial statements.

b. Use of assumptions in the preparation of financial statements

The preparation of financial information requires management to resort to estimates and assumptions that affect the amounts reported. In order to make these assumptions and estimates, management uses the information available at the date of financial statement preparation 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 the 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;
- estimates of future taxable profits for the recognition and measurement of deferred tax assets.

1.3. Scope of consolidation

The scope of consolidation for June 30th, 2016 is the same as that of December 31st, 2015.

2. Notes to the assets (EUR millions)

2.1 - LOANS AND ADVANCES DUE FROM BANKS

Analysis by nature	12/31/2015	6/30/2016
Sight accounts	10	14
Other loans and advances due from banks	2,520	2,457
Performing assets	2,530	2,471
Impaired loans and advances	-	-
Impaired assets	-	-
Total assets before impairment	2,530	2,471
Specific impairment	-	-
Collective impairment	-	-
TOTAL	2,530	2,471

2.2 - LOANS AND ADVANCES TO CUSTOMERS

Analysis by counterparty	12/31/2015	6/30/2016
Public sector	56,585	58,215
Other - guaranteed by a State or local government	3,725	3,088
Other - ABS made up solely of public commitments	2,341	2,131
Other - loans to SFIL's employees	14	13
Performing assets	62,665	63,447
Impaired loans and advances	673	607
Impaired assets	673	607
Total assets before impairment	63,338	64,054
Specific impairment	(66)	(44)
Collective impairment	(63)	(58)
TOTAL	63,209	63,952
<i>of which eligible for central bank refinancing</i>	<i>39,227</i>	<i>40,369</i>
<i>of which assets assigned in guarantee to the central bank</i>	<i>-</i>	<i>-</i>

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

SFIL, through its subsidiary Caisse Française de Financement Local, maintained until the end of June 2016 a high level of collective impairment, which amounted to EUR 58 million.

Assets considered as "forborne" by SFIL concern exposures to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognised or forthcoming) that would not have been granted under other circumstances. These concessions may be either 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 aimed at reducing the sensitivity of the loan.

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

3. Notes to the liabilities (EUR millions)

3.1. DUE TO BANKS

Analysis by nature	12/31/2015	6/30/2016
Demand deposits	-	5
Term deposits	8,837	7,688
TOTAL	8,837	7,693

Analysis by nature	12/31/2015	6/30/2016
Current account	-	-
Interest accrued not yet due	-	-
Long-term borrowing	8,822	7,677
Interest accrued not yet due	15	11
Sight accounts	-	5
TOTAL	8,837	7,693

3.2. DEBT SECURITIES

Analysis by nature	12/31/2015	6/30/2016
<i>Certificats de dépôt</i>	599	911
<i>Obligations foncières</i>	49,643	51,340
Registered covered bonds	7,498	8,014
TOTAL	57,740	60,265

4. Other notes on the balance sheet (EUR millions)

4.1. TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Parent company and entities consolidated ⁽¹⁾		Other related parties ⁽²⁾	
	12/31/2015	6/30/2016	12/31/2015	6/30/2016
ASSETS				
Loans and advances	-	-	-	-
Bonds	-	-	-	-
LIABILITIES				
Due to banks - sight accounts	-	-	-	-
Due to banks - term loans	-	-	8,837	7,688
INCOME STATEMENT				
Interest income on loans and advances	-	-	(10)	(6)
Interest income on bonds	-	-	-	-
Interest expense on borrowing	-	-	(57)	(20)
Fees and commissions	-	-	4	2
OFF-BALANCE SHEET				
Foreign exchange derivatives	-	-	-	-
Interest rate derivatives	-	-	1,261	1,002
Commitments and guarantees received	-	-	5,062	5,672
Commitments and guarantees issued	-	-	5,511	5,474

(1) This item exclusively includes Caisse Française de Financement Local, which is globally integrated.

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

4.2. BREAKDOWN OF GOVERNMENT BONDS IN A SELECTION OF EUROPEAN COUNTRIES

Breakdown of government bonds in a selection of European countries

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

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

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

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

Unrealised gains and losses on available for-sale securities	-	-	(42)	-	-	(42)
Unrealised gains and losses on loans and receivable securities	-	-	-	-	-	-

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

Unrealised gains and losses on available for-sale securities	-	-	(65)	-	-	(65)
Unrealised gains and losses on loans and receivable securities	-	-	-	-	-	-

5. Notes to the income statement (EUR millions)

5.1. INTEREST INCOME - INTEREST EXPENSE

	1 st half 2015	1 st half 2016
INTEREST INCOME	2,111	1,806
Central banks	-	0
Loans and advances due from banks	24	6
Loans and advances to customers	869	756
Financial assets available for sale	19	19
Financial assets held to maturity	-	-
Derivatives used for hedging	1,199	1,014
Impaired assets	-	-
Other	-	11
INTEREST EXPENSE	(2,093)	(1,715)
Accounts with central banks	(0)	(6)
Due to banks	(31)	(16)
Customer borrowing and deposits	(0)	-
Debt securities	(951)	(827)
Subordinated debt	-	-
Derivatives used for hedging	(1,111)	(866)
Other	0	(0)
INTEREST MARGIN	18	91

5.2. NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	1 st half 2015	1 st half 2016
Transaction net income	(0)	(8)
Net income from hedge accounting	2	(27)
Net income on foreign exchange transactions	(0)	(0)
TOTAL	2	(35)

All interest received and paid on the assets, liabilities and derivatives is recognised as net interest income, as required under IFRS standards.

Consequently, the net gains or losses on hedging operations merely include the change in the clean value of the derivatives and the re-valuation of the assets and liabilities registered in relation to the hedge.

Analysis of the net income from hedge accounting

	1 st half 2015	1 st half 2016
Fair value hedges	18	(8)
Fair value changes related to the hedged risk	1,672	603
Fair value changes of hedging derivatives	(1,654)	(611)
Cash flow hedges	0	-
Fair value changes of hedging derivatives - ineffective	-	-
Interruption in the hedging relationship of cash flow (cash flow for which a strong probability is not assured)	-	-
Covering of portfolio hedge	(3)	(0)
Fair value changes related to the hedged risk	(197)	421
Fair value changes of hedging derivatives	194	(421)
CVA/DVA impact⁽¹⁾	(13)	(19)
TOTAL	2	(27)

(1) The effect of the application of IFRS Standard 13 brought to light a net charge as of June 30th, 2016 of EUR -19 million for the year; this amount was derived using the DVA income for EUR -18 million and the CVA for EUR -1 million.

5.3. OPERATING EXPENSES

	1 st half 2015	1 st half 2016
Payroll costs	(23)	(24)
Other general and administrative expenses	(21)	(21)
Taxes	(13)	(10)
TOTAL	(57)	(55)

5.4. COST OF RISK

	1 st half 2015				1 st half 2016			
	Collective impairment	Specific impairment and losses	Contribution to support fund	Total	Collective impairment	Specific impairment and losses	Contribution to support fund	Total
Credit (loans, commitments and securities held to maturity)	(2)	4	-	2	6	1	-	7
Fixed income securities available for sale	-	-	-	-	-	-	-	-
TOTAL	(2)	4	-	2	6	1	-	7

6. Notes on risk exposure (EUR millions)

6.1. FAIR VALUE

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

These fair value adjustments take into account the features of the relevant assets and liabilities (maturity, hedging of interest rate risk, amortization profile, and, for assets, their rating); they also take into account current market conditions in terms of price or spread of these same operations, or operations to which they could be equated. The breakdown of assets and liabilities as a function of the method used to determine their fair value is shown in Note c. below; it can be seen that most assets are valued according to a technique that takes into account the fact that significant parameters are not observable for the assets since the exposure primarily consists of loans, a form of debt that is not listed on liquid markets. For the valuation of liabilities, certain observable parameters have been used.

These fair values provide interesting information but are not relevant for drawing conclusions on the value of the company or on the income generated in the future. The assets and liabilities stand out for being consistent in rates and maturity and moreover are intended to be maintained on the balance sheet until their maturity, given the specialised activity of the company.

a. Composition of the fair value of the assets

	12/31/2015		
	Book value	Fair value	Unrecognised fair value adjustment
Central banks	3,361	3,361	-
Loans and advances due from banks	2,530	2,545	15
Loans and advances to customers	63,209	61,845	(1,364)
Financial assets available for sale	1,304	1,304	-
Derivatives	7,039	7,039	-
TOTAL	77,443	76,094	(1,349)

	6/30/2016		
	Book value	Fair value	Unrecognised fair value adjustment
Central banks	2,922	2,922	-
Loans and advances due from banks	2,471	2,493	22
Loans and advances to customers	63,952	62,057	(1,895)
Financial assets available for sale	1,934	1,934	-
Derivatives	7,720	7,720	-
TOTAL	78,999	77,126	(1,873)

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

	12/31/2015		
	Book value	Fair value	Unrecognised fair value adjustment
Due to banks	8,837	8,865	28
Derivatives	12,090	12,090	-
Debt securities	57,740	58,263	523
TOTAL	78,667	79,218	551

	6/30/2016		
	Book value	Fair value	Unrecognised fair value adjustment
Due to banks	7,693	7,737	44
Derivatives	12,554	12,554	-
Debt securities	60,265	61,639	1,374
TOTAL	80,512	81,930	1,418

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

The fair value of a financial instrument is assessed based on observable market prices for this instrument or for a comparable instrument, or using an assessment technique that relies on observable market data. A hierarchy of methods used to assess fair value has been established; it features the following 3 levels:

- Level 1: instruments that are considered liquid, i.e. their value is derived from an observed price on a liquid market, for which SFIL is assured to have a large number of contributors. Level 1 securities include some State bonds.
- Level 2: instruments for which SFIL cannot directly observe the market price, but has observed it for similar listed instruments of the same issuer or guarantor. In this case, the prices and other observable market data are used, and an adjustment is performed to take the degree of liquidity of the security into account.
- Level 3: instruments for which there is no active market or observable market data; they are therefore valued by using a valuation spread that stems from an internal model. Level 3 derivative instruments are valued using various internally developed assessment models.

SFIL has reviewed its approach for qualifying the valuation of derivative instruments. The qualification of derivatives is based on a combined analysis of the observability of market data in the valuation and the robustness of the assessment models, as measured in terms of their effectiveness in supplying a market consensus value. This application shows that the derivatives used by the SFIL Group for hedging its activities are mainly level 2.

The level 3 derivative classification is mainly made up of structured hybrid products (rate-exchange), of spread products (correlation) and interest rate options.

This classification is primarily due to the fact that these products offer complicated payoffs, which require prior statistical modelling involving variable parameters and are sometimes unobservable in the market.

12/31/2015				
Fair value of financial assets	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Financial assets available for sale	1,107	197	-	1,304
Derivatives	-	5,519	1,520	7,039
TOTAL	1,107	5,716	1,520	8,343

6/30/2016				
Fair value of financial assets	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Financial assets available for sale	1,134	800	-	1,934
Derivatives	-	6,940	780	7,720
TOTAL	1,134	7,740	780	9,654

12/31/2015				
Fair value of financial liabilities	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Derivatives	-	7,768	4,322	12,090
TOTAL	-	7,768	4,322	12,090

6/30/2016				
Fair value of financial liabilities	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Derivatives	-	11,200	1,354	12,554
TOTAL	-	11,200	1,354	12,554

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

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

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

d. Transfer between level 1 and 2

	12/31/2015	6/30/2016
Level 1 to level 2	-	-
TOTAL	-	-

e. Level 3: Flow analyses

Fair value of financial assets	Financial assets available for sale	Derivatives	TOTAL FINANCIAL ASSETS	Derivatives	TOTAL FINANCIAL LIABILITIES
12/31/2015	-	1,520	1,520	4,322	4,322
Total gains and losses through profit and loss	-	(3)	(3)	(360)	(360)
Total unrealised or deferred gains and losses	-	117	117	(386)	(386)
Total OCI unrealised or deferred gains and losses	-	-	-	-	-
Purchases	-	3	3	66	66
Sales	-	-	-	-	-
Direct origination	-	-	-	-	-
Settlement	-	14	14	-	-
Transfer in activities destined to be transferred	-	-	-	-	-
Transfer to level 3	-	-	-	109	109
Transfer out of level 3	-	(880)	(880)	(2,397)	(2,397)
Other variations	-	9	9	-	-
6/30/2016	-	780	780	1,354	1,354

6.2. OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

	12/31/2015					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	7,039	-	7,039	(5,130)	(1,792)	117
Loans and advances due from banks	2,530	-	2,530	-	(1,851)	679
Loans and advances to customers	63,209	-	63,209	-	-	63,209
TOTAL	72,778	-	72,778	(5,130)	(3,643)	64,005

	6/30/2016					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	7,720	-	7,720	(5,683)	(1,886)	151
Loans and advances due from banks	2,471	-	2,471	-	(1,850)	621
Loans and advances to customers	63,952	-	63,952	-	-	63,952
TOTAL	74,143	-	74,143	(5,683)	(3,736)	64,724

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

	12/31/2015					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	12,090	-	12,090	(5,130)	(3,283)	3,677
Due to banks	8,837	-	8,837	-	-	8,837
Customer borrowing and deposits	-	-	-	-	-	-
TOTAL	20,927	-	20,927	(5,130)	(3,283)	12,514

	6/30/2016					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	12,554	-	12,554	(5,683)	(2,889)	3,982
Due to banks	7,693	-	7,693	-	-	7,693
Customer borrowing and deposits	-	-	-	-	-	-
TOTAL	20,247	-	20,247	(5,683)	(2,889)	11,675

3. Statutory auditors' report on the half-year financial information

Statutory auditors' review report on the condensed half-year consolidated financial statements established under IFRS standards

For the period from January 1st to June 30th, 2016

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

To the shareholders,

In our capacity as statutory auditors of SFIL (the "Company") and pursuant to your request, in the context of the wish of your Company to provide more extensive financial information to investors, we have conducted a review on the accompanying condensed half-year consolidated financial statements of SFIL for the six-month period ended June 30th, 2016.

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

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

Based on our review, we did not identify any material misstatements that would cause us to believe that the accompanying condensed half-year consolidated financial statements do not present fairly, in all material respects, the results of operations for the six-month period ended June 30th, 2016 and the financial position of SFIL and its assets at that date, in accordance with IFRS as adopted by the European Union.

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

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

Courbevoie and Neuilly-sur-Seine, Septembre 9th, 2016

The statutory auditors
French original signed by

MAZARS

DELOITTE & ASSOCIES

Anne VEAUTE

Sylvie BOURGUIGNON

4. Statement by the person responsible

I, the undersigned, **Philippe Mills, Chairman and Chief Executive Officer of SFIL,**

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 SFIL, and that the half-year 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.

Signed in Issy-les-Moulineaux, on September 9th, 2016

Philippe Mills
Chairman and Chief Executive Officer



SFIL

Société anonyme

Share capital EUR 130,000,150

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