Caisse Française de Financement Local

Half-Year Financial Report

for the period from January 1st to June 30, 2018

CAFFIL

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

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

Data subject to limited review by the statutory auditors

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for the period from January 1st to June 30,2018

CONTENTS

1. Management report
for the period from January 1st to June 30, 2018

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 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.
Since 2015, the French State has entrusted SFIL and Caisse Française de Financement Local with a second mission that is the responsibility to refinance large export credits with the guarantee of the State (see 1.3.2.). 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 and to comply with regulatory requirements, if so required.

1.3 – ECONOMIC MODEL OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

1.3.1. 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*.

1.3.2. 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: to refinance large French export contracts, with the objective to support French exports in terms of financial competitiveness, in accordance with a public refinancing plan comparable to that of other OECD countries. In this context, SFIL signed a protocol agreement governing relations with 23 commercial banks, thereby confirming relations with almost all the banks active in the French export credit market. SFIL may acquire all or a part of the participation of each of these banks in an export credit.

In this context, Caisse Française de Financement Local grants 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 should be close to 15% within four to five years.

1.3.2.1. 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 French State.
- After the export contract finalization, 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%).
- 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).

1.3.2.2. French State export guarantees

Previously granted by Coface, since late 2016, these guarantees have been 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.

1.3.3. Servicing and financing provided by SFIL

The role of SFIL primarily involves the following:
- to ensure the complete operational management of the Company, 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 non-privileged funding and some of the derivatives it needs to carry out its activities.

The funds required to finance the activity of Caisse Française de Financement Local (financing of over-collateralization and intermediated derivatives) are obtained by SFIL:
- either by its shareholders under credit agreements:
  - Caisse des dépôts et consignations (CDC) for the needs linked to operations booked prior to the date of acquisition of SFIL (January 31, 2013) and to the new export refinancing activity;

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

– La Banque Postale (LBP) for the needs related to loans to French local public sector and public hospitals that it originates.
- or on financial markets by issuing short-term debt (certificates of deposit) or long-term debt (bonds), in order to diversify its financing sources. In the French State Agencies segment, since 2016 SFIL gradually set up its signature by launching EMTN benchmark issues in EUR and USD. Refinancing issued by SFIL on financial markets will gradually replace refinancing provided by shareholders. Nevertheless, the latter will continue to be available if necessary in particular in the event of a need for liquidity during a stress context.

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 2017 – 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.

1.3.4. Other management agreements

Specific individual agreements have been established with entities that, in the past, have transferred assets to the *société de crédit foncier*, and continue to ensure partly or totally the management of these agreements for their national clientele. These assets are now managed in a run-off mode. At the end of June 2018, 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.

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 three of the 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 to SFIL 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. 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 limited recoveries), making it necessary to have a level of over-collateralization that would be incompatible with the profitability of the business model.

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

Lastly, the *obligations foncières* issued by Caisse Française de Financement Local benefit from a premium rating by the extra-financial rating agency ISS-oekom and a positive rating by the extra-financial rating agency IMUG based on the Company's performance in terms of social and environmental responsibility.

2. Highlights of the first half of 2018

2.1 – THE COVERED BOND MARKET

In the first half of 2018, primary market issuance of benchmark euro-denominated covered bonds was very high, with EUR 89 billion raised compared with EUR 79 billion in the first half of 2017. Furthermore, this half-year was marked by a gradual fall in the European Central Bank's purchases as it tightened its monetary policy. The combination of these two factors led to a widening of primary and secondary spreads for the entire covered bond segment. Furthermore, the international context at the end of the first half, notably with the general elections in Italy and trade tensions between the United States, the euro zone and China, led to increased volatility in the financial markets. However, these events did not significantly affect the covered bond market, in which demand from traditional investors remained strong.

Against this backdrop, Caisse Française de Financement Local was active with regular issues in the public euro-denominated market, adding four new lines to its reference curve for a total amount of EUR 3.5 billion. Moreover, the particularly long-dated maturity of the half-year's last issue, carried out in June 2018, enabled it to extend its reference curve by three years. In addition to these benchmark public issues, Caisse Française de Financement Local also took advantage of investor appetite for long-dated issues to make EUR 642 million of private issues as well as two tap issues. The average maturity of Caisse Française de Financement Local's issues in the first half of 2018 is more than twelve years.

2.2 – HARMONISATION OF THE EUROPEAN LEGAL FRAMEWORKS FOR COVERED BONDS

As part of the efforts to harmonize the legal frameworks in Europe for covered bonds and following publication of the European Banking Authority's recommendations on December 20, 2016, the European Commission published a draft text (directive and amendment of Article 129 of the Capital Requirements Regulation - CRR) on March 12, 2018:

- The main aims of the draft directive are to define covered bonds, list this instrument's specific structural characteristics and detail the regulator's related supervisory arrangements.
- The draft amendment to CRR Article 129 defines the types of assets eligible for the cover pool as well as the minimum level of overcollateralization. These two combined elements enable covered bonds investors to benefit from a preferential weighting for solvency calculations using the standardized method.

Since the publication of the European Commission's draft texts, the work of the European Council and the European Parliament has started and a vote by these two bodies is expected in early 2019, with the implementation objective set for mid-2019. A significant amount of discussion is expected to take place between stakeholders before then.

At this stage, Caisse Française de Financement Local has not identified any significant positive or negative impact on its activities related to the implementation of these draft texts.

2.3 – INTERNATIONAL CONTEXT

The first half of 2018 was marked by the following three major international events:

- continued Brexit negotiations between the European Union and the United Kingdom;
- general elections in Italy leading to the formation of a coalition government;
- tensions relating to the increase in customs duties on certain goods between the United States and China initially, and then between the United States and the European Union.

These three events increased financial market volatility but did not significantly affect the covered bond market or Caisse Française de Financement Local's issuance capacity.

2.4 – FIRST-TIME APPLICATION OF IFRS 9

IFRS 9 came into force on January 1, 2018. It includes three main components: the classification and measurement of financial instruments, the provisioning of loans, securities and financing commitments, and hedge accounting, for which Caisse Française de Financement Local has chosen to continue to apply IAS 39 pending the entry into force of the future macro-hedging standard.

The first-time application of IFRS 9 had a limited impact on Caisse Française de Financement Local's equity. Accordingly, as of January 1, income of EUR 77 million before corporate income tax (EUR 50 million after tax) was recognized in equity, which led, all other things being equal and after prudential adjustments, to an 126-basis point increase in the fully loaded CET1 ratio. Most of this impact relates to the classification and measurement component, which represented income before corporate income tax of EUR 86 million, while the provisioning component represented a charge before corporate income tax of EUR 9 million. In addition, Caisse Française de Financement Local decided not to use the option of spreading over time the impact on prudential capital associated with the standard's first-time application and relating to the provisioning component.

Lastly, this first-time application of IFRS 9 also impacts future results, due in particular to the change in the value of assets now recognized at fair value through profit or loss (non-SPPI assets). This standard therefore increases net banking income volatility in a way unrelated to Caisse Française de Financement Local's activity, as its business model involves holding all loans until their contractual maturity. This impact is isolated in order to restate it in the analyses of the Company's performance (see section 9.1.).

2.5 – RATING OF *OBLIGATIONS FONCIÈRES*

The ratings of the *obligations foncières* issued by Caisse Française de Financement Local were not altered over the first semester of 2018.

As of June 30, 2018, the ratings were as follows: Aaa by Moody's, AA+ by Standard and Poor's and AA by Fitch. The outlook associated with each of these ratings is stable.

2.6 – 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 governments and public hospitals.

In this context, over the first half of 2018, Caisse Française de Financement Local acquired a total of EUR 1.9 billion in loans (EUR 2.4 billion over the first half of 2017). Since the beginning of the partnership, loans acquired through LBP have accounted for almost EUR 14.1 billion.

2.7 – LARGE EXPORT CREDITS 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 new business brings Caisse Française de Financement Local closer to the French State without modifying the risk profile of its cover pool.

Over the first half of 2018, Caisse Française de Financement Local granted SFIL two new refinancing loans for a total amount of EUR 1.7 billion (EUR 0.7 billion over the first half of 2017.
Since the launch of this role in mid-2015, Caisse Française de Financement Local has granted refinancing loans to SFIL for a total volume of EUR 5.0 billion. As of June 30, 2018, the outstanding amount of these loans recorded in Caisse Française de Financement Local's balance sheet was EUR 0.4 billion. Indeed, it is reminded to the reader that the drawing of refinancing large export credits loans is staggered over a number of years.

3. Changes in main balance sheet items

EUR billions value after currency swaps	12/31/2016	12/31/2017	6/30/2018	Change 2018 / 2017
Cover pool	**58.2**	**55.8**	**58.0**	**4.0%**
Loans	47.0	46.9	47.5	1.2%
Securities	7.5	7.2	7.8	9.2%
Cash deposit in central bank	3.7	1.7	2.7	60.6%
Assets temporary removed from the cover pool	**-**	**-**	**0.0**	**ns**
Privileged debt	**51.7**	**49.7**	**51.8**	**4.2%**
Obligations foncières (1)	50.4	49.0	51.3	4.6%
Cash collateral received	1.3	0.7	0.5	(26.7)%
Non-privileged debt	**5.2**	**4.8**	**5.2**	**6.9%**
SFIL	5.2	4.8	5.2	6.9%
Equity IFRS (excluding unrealized gains and losses)	**1.4**	**1.5**	**1.4**	**(3.0)%**

(1) *Including* registered covered bonds

The size of Caisse Française de Financement Local's balance sheet has increased by approximately 4% over the first half of 2018.

Cover pool excluding accrued interest not yet due thus amounted to EUR 58.0 billion as of June 30, 2018 (increasing compared with December 31, 2017). It is composed of loans and debt securities and 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, invested in bank or European public sector securities or lent to SFIL, the parent Company of Caisse Française de Financement Local. The cash surplus, placed with the Banque de France, represents EUR 2.7 billion at the end of June 2018, versus EUR 1.7 billion at the end of December 2017. The cash surplus invested in securities or lent to SFIL represents a total of EUR 2.8 billion as of June 30, 2018 versus EUR 1.6 billion at the end of December 2017.

As of June 30, 2018, no assets were excluded from the cover pool in order to be sold to a bank in a repurchase agreement or assigned in guarantee to the Banque de France.

As of this date, outstanding debt benefiting from the legal privilege, including cash collateral received, was EUR 51.8 billion, increasing in comparison with December 2017.

As of June 30, 2018, the debt contracted with the parent company totaled EUR 5.2 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 2018

The cover pool over the first six months of 2018 increased compared with December 31, 2017. This change is explained by the following items.

EUR billions	2018 H1	
1- Acquisition of loans from La Banque Postale		**1.9**
Loans to the French public sector (vanilla loans in euros)	1.9	
2- Export credits drawings		**0.2**
Loans to SFIL to refinance export credit guaranteed by the French State	0.2	
3- Reduction of loan sensitivity		**0.1**
Sensitive structured loans eliminated	(0.2)	
Refinancing loans (vanilla loans in euros)	0.2	
New loans (vanilla loans in euros)	0.1	
4- Amortization of portfolio of loans and securities		**(2.2)**
5- Early reimbursments		**(0.0)**
6- Changes in treasury		**2.2**
Net change in securities investments	1.2	
Net change in Banque de France cash deposit	1.0	
7- Other changes		**(0.0)**
Net change in the cover pool		**2.2**

Over the first half of 2018, Caisse Française de Financement Local acquired a total of EUR 1.9 billion in loans to the French local public sector and public hospitals originated by La Banque Postale.

Drawings on refinancing loans of large export credits granted to SFIL became effective during the first half of 2018 in the amount of EUR 0.2 billion. These loans benefit from an irrevocable and unconditional 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 over the first half of 2018 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 0.1 billion.

The natural amortization of the portfolio of loans and securities represented EUR 2.2 billion in the first half of 2018.

Available cash increased by EUR 2.2 billion (for pre-financing activity). It is deposited at the Banque de France, invested in bank bonds classified as replacement assets, invested in European public sector bonds or lent to SFIL.

There were no divestments over the first six months of 2018.

4.2 – COVER POOL BREAKDOWN BASED ON IFRS 9 CLASSIFICATION AND MEASUREMENT PRINCIPLES

IFRS 9 came into force on January 1, 2018 (see section 9.1.1 First-time application of IFRS 9). It defines inter alia the principles for classifying and measuring financial assets based on the combination of two criteria: the management method (hold to collect, hold to collect and sell or trading) and analysis of the characteristics of contractual cash flows (so-called SPPI or non-SPPI assets). Caisse Française de Financement Local holds both SPPI and non-SPPI assets in its cover pool. SPPI assets can be managed using the hold to collect or hold to collect and sell method while non-SPPI assets can only be managed using the hold to collect method. Caisse Française de Financement Local does not hold any financial assets managed using the trading method. The vast majority of Caisse Française de Financement Local's assets (approximately 98% of the cover pool as of end-June 2018) are managed using the hold to collect method, while the few assets managed using the hold to collect and sell method (approximately 2% of the cover pool as of end-June 2018) correspond to part of its cash surpluses invested in the form of bank securities.
Moreover, the vast majority of financial assets that make up Caisse Française de Financement Local's cover pool (approximately 91% of the cover pool as of end-June 2018) can be classified as SPPI-type contractual cash flows. Its non-SPPI financial assets are structured loans in run-off, the most sensitive of which are subject to proactive sensitivity reduction measures (see section 4.3.4.).

In summary, the vast majority of Caisse Française de Financement Local's cover pool financial assets are held in accordance with an economic model focused on keeping them over the long term. Furthermore, the cash flows of the vast majority of these assets have contractual characteristics that do not expose them to risks or volatility unrelated to those affecting a basic loan agreement.

4.3 – COVER POOL COMPOSITION

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	12/31/2017	6/30/2018
Loans and bonds to the public sector	53,2	53,5
of which local public sector business line	*52,2*	*52,1*
of which large export credits refinancing business line (1)	*0,2*	*0,4*
of which treasury investment in public sector bonds (3)	*0,7*	*1,0*
Banque de France cash deposit (3)	1,7	2,7
Replacement assets (3)	0,9	1,8
COVER POOL	**55,8**	**58,0**
Financing commitments granted to refinance large export credits(1)(2)	3,0	4,6
Financing commitments granted to other public sector loans	0,1	0,0
FINANCING COMMITMENTS GRANTED	**3,1**	**4,6**

(1) For the record, loans refinancing large export credits concluded with SFIL benefit from an irrevocable and unconditional 100% guarantee granted by the French State (enhanced guarantee).

(2) In 2017 and 2018, commitments granted represented concluded contracts in drawing phase.

(3) The total amount of excess treasury (cash or cash investments) increased from EUR 3.3 billion to EUR 5.5 billion over the first half of 2018.

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 securities or in replacements assets (securities issued by banks or loans to SFIL, its parent company). These cash or cash equivalent are detailed in the above table (footnote 3).

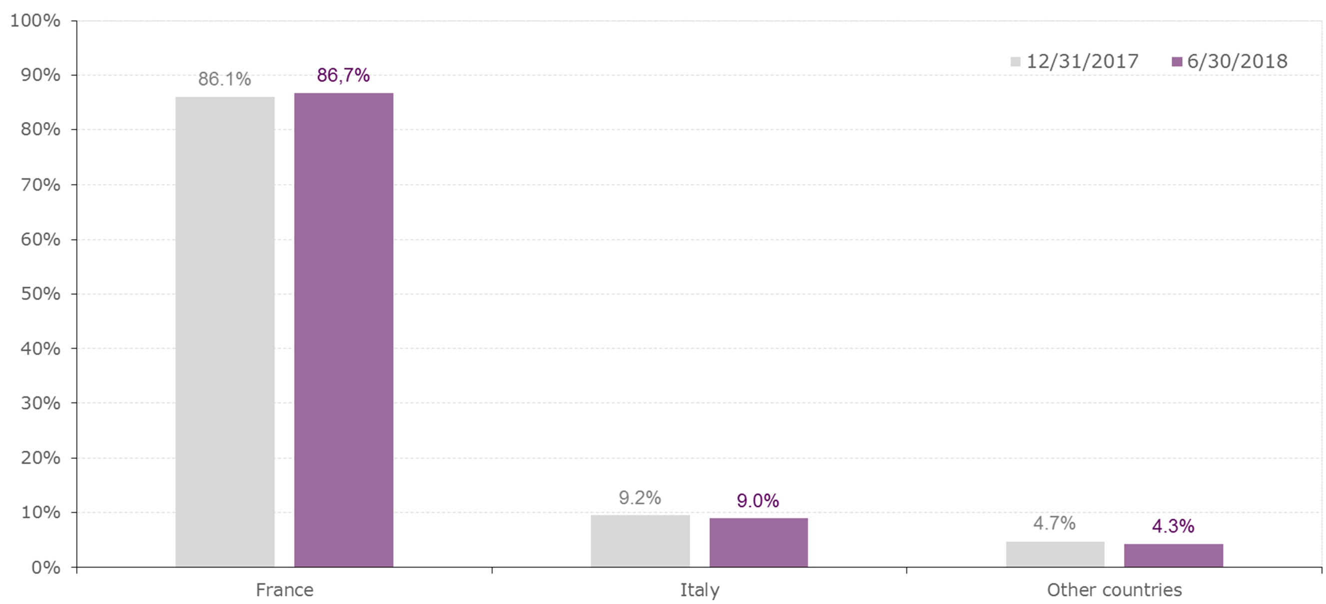
The amount of financing commitments given came to EUR 4.6 billion as of June 30, 2018. They represented loans to SFIL signed but not yet drawn, in connection with the refinancing of large export credits. As a reminder, these loans benefit from an irrevocable and unconditional 100% guarantee by the French State.

4.3.1. Public sector loans and securities (excluding replacement assets and treasury placed with the Banque de France)

4.3.1.1. Geographic breakdown

At the end of June 2018, French public sector loans made up the majority (86.7%) of the cover pool, a share due to increase in the future. They include loans acquired from La Banque Postale since 2013 for 23% (EUR 12.3 billion) and State-guaranteed loans granted to SFIL to refinance large export credits for less than 1% (EUR 0.4 billion).

The other assets are managed in a run-off mode; they correspond to granular and geographically diversified exposures on foreign public sector entities.
The relative proportion of the total assets can be broken down as follows.



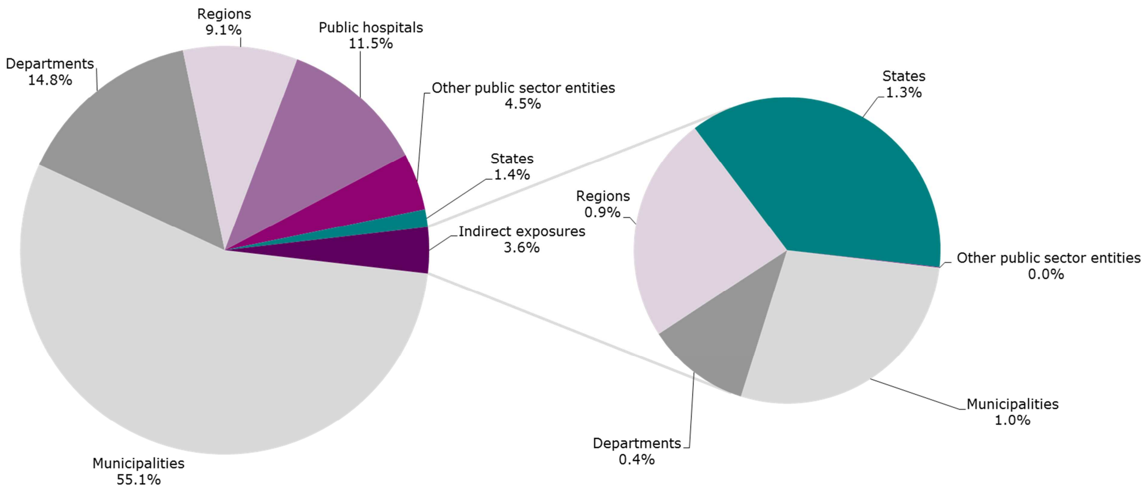
As of June 30, 2018, Italian assets represented the biggest share of non-French run-off managed loans with a total volume of EUR 4.8 billion, or 9% of the cover pool (excluding replacement assets and Banque de France cash deposits). These assets are granular exposures (more than 200 counterparties, consisting mainly of regional and local government authorities) distributed throughout Italy.

Exposures to Other countries as of June 30, 2018, are broken down by country in the section Bonds and public sector loans, which is presented at the end of this activity report.

4.3.1.2. 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 public social housing).



Indirect exposures are composed of exposures guaranteed by public sector entities, most of which are local. Large export credits refinancing exposures are listed in the category of indirect exposures guaranteed by States.

4.3.1.3. Securitizations

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

4.3.2. 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 *obligations foncières* and registered covered bonds. As of June 30, 2018, replacement assets represented 3.6% of *obligations foncières* and registered covered bonds.

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) or lent to SFIL. In this case, bank exposures are classified as replacement assets, broken down below based on the rating of the issuers. In addition, Caisse Française de Financement Local granted loans to SFIL to invest its surplus cash. These loans are also included in the replacement assets.

Replacement assets EUR millions	**Country**	**12/31/2017**	**6/30/2018**
Step 1 credit rating			
Covered bonds			
	France	176	132
	Other countries (1)	127	289
Other bank bonds			
	France	148	168
	Other countries (1)	100	100
Loans to parent company, SFIL	France	360	800
Step 2 credit rating			
Bank bonds (maturity < 100 days)			
	France	-	252
	Other countries (1)	-	95
Bank accounts balances	France and Other countries (1)	10	5
TOTAL		**921**	**1,841**

(1) Corresponds to other countries of the European Union and the European Economic Area, except for bank accounts, which can be held in non-European countries.

4.3.3. 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.

During the last fiscal years, in the context of the regular tests of its operational procedures for accessing refinancing from the Banque de France or bank counterparties, Caisse Française de Financement Local has mobilized assets of very small unit amounts.

4.3.4. Structured loans

4.3.4.1. Definition

Certain loans to French public sector entities in the cover pool of Caisse Française de Financement Local may be qualified as structured loans. Structured loans, according to the charter of good practices, which can be consulted on the Internet site of the French Ministry of the Interior and signed by several organizations that represent local governments in France, 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.).

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.

4.3.4.2. Part of structured loans in the cover pool

	Outstanding				Number of customers [1]		
EUR billions	12/31/2017	6/30/2018	Change	% cover pool	12/31/2017	6/30/2018	Change
Cover pool	**55,8**	**58,0**	2,2		**0**	**0**	-
French public sector loans	**45,0**	**45,3**	0,3	**78,1%**	**15 366**	**14 786**	(580)
Vanilla loans	**39,6**	**40,3**	0,7	**69,5%**	**13 720**	**13 265**	(455)
Structured loans	**5,4**	**5,0**	(0,4)	**8,6%**	**1 646**	**1 521**	(125)
Sensitive loans not in the charter	0,6	0,5	(0,1)	0,9%	64	57	(7)
Sensitive loans (3E/4E/5E)	0,8	0,7	(0,1)	1,2%	162	155	(7)
Subtotal sensitive loans:	**1,4**	**1,2**	(0,2)	**2,2%**	**226**	**212**	(14)
Structured loans benefiting from the derogatory mechanism of the support fund	0,5	0,4	(0,1)	0,7%	71	65	(6)
Other structured loans	3,5	3,4	(0,2)	5,8%	1 349	1 244	(105)

(1) considering the customer in the category with its most highly structured loan

In 2018, outstanding loans to the French public sector have increased by EUR 0.3 billion, with a 0.7 billion increase in non-structured loans (vanilla) and a decrease of EUR 0.4 billion in structured loans (see the definition above).

At the end of June 2018, structured loans on the balance sheet of Caisse Française de Financement Local represented EUR 5.0 billion.

4.3.4.3. Sensitive loans

Sensitive loans, which are the most structured, totaled EUR 1.2 billion as of June 30, 2018, compared with EUR 1.4 billion as of December 31, 2017. Among these loans, those considered to be the most sensitive (outside the charter) represented EUR 0.5 billion, or 0.9% of the cover pool and 57 customers as of June 30, 2018 (64 customers as of December 31,2017). These 57 customers are mostly municipalities with a population of more than 10,000 inhabitants and groups of municipalities, and to a lesser extent, public hospitals.

4.3.4.4. Reduction in loan sensitivity

Proactive sensitivity reduction measures, the use of support funds and, to a lesser extent, the maturing of certain loans made it possible to reduce the number of sensitive customers by 667 between SFIL's launch and June 30, 2018 (212 customers as of June 30, 2018, against 879 clients at SFIL's launch). At the same time, the outstanding sensitive loans dropped from EUR 8.5 billion to EUR 1.2 billion (2.2% of the cover pool), i.e. a decrease of near 86%. In addition, at the end of June 2018, more than 94% of the borrowers with loans indexed on EUR/CHF saw loan sensitivity disappear completely, and of this number, 96% were small local governments and hospitals. These decrease include EUR 0.4 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.

Lastly, based on transactions already entered into, total sensitive structured loans will be reduced to EUR 1.1 billion by the end of

2018, of which a maximum of EUR 0.6 billion relating solely to local government entities. On the same basis, by end-2018, sensitive loans with a rate exceeding 5% will amount to less than EUR 0.2 billion and will concern 34 customers, i.e. 0.4% of the cover pool and 0.2% of customers in the French local public sector.

5. Debt benefiting from the legal privilege

As of June 30, 2018, 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	12/31/2017	6/30/2018
Cash collateral received	0.7	0.5
Obligations foncières and registered covered bonds	49.0	51.3
Total	**49.7**	**51.8**

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 2017. Its level stood at EUR 0.5 billion at the end of June 2018.

5.2 – CHANGE IN ISSUES

Within the recurrent annual program of EUR 4 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-dated maturities that are consistent with its needs. This requires an active presence in the private placement market through the EMTN program or by issuing registered covered bonds, which are designed for German investors. As part of this diversification, Caisse Française de Financement Local announced its intention to launch a social covered bond-themed public issue by the end of 2018.

5.2.1. Issues in 2018

In the first half of 2018, Caisse Française de Financement Local raised EUR 4.4 billion through benchmark public issues and tap issues enabling it to extend its reference curve, while at the same continuing to work on the private placements segment.

Also in the first half of 2018, Caisse Française de Financement Local raised money in the primary public market three times, for a total amount of EUR 3.5 billion:

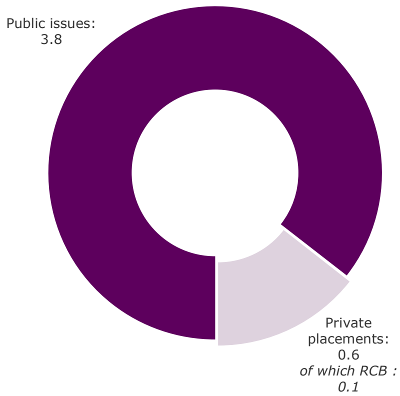
- a dual tranche issue (8 and 15 years) in January for a total amount of EUR 1.5 billion;
- a 10-year issue in April for an amount of EUR 1.5 billion;
- a 20-year issue in June for an amount of EUR 0.5 billion; this particularly long-dated public issue extended Caisse Française de Financement Local's reference curve by three years.

At the same time, Caisse Française de Financement Local provided additional liquidity for two of its benchmark issues via taps for a cumulative amount of EUR 0.3 billion.

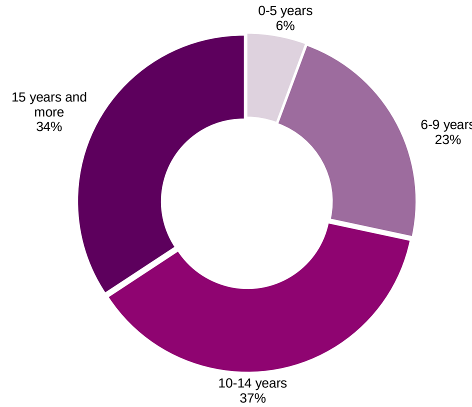
In addition to these public transactions, Caisse Française de Financement Local remained active in the private placement segment, particularly on EMTNs and registered covered bonds (RCB), allowing it to meet investor demand for long and very long-dated maturities. Some EUR 0.6 billion was raised in this market segment in total.

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.

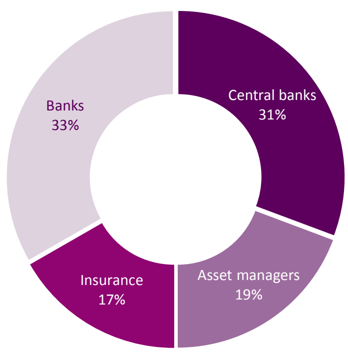
Breakdown of 2018 issues
by format
EUR billions



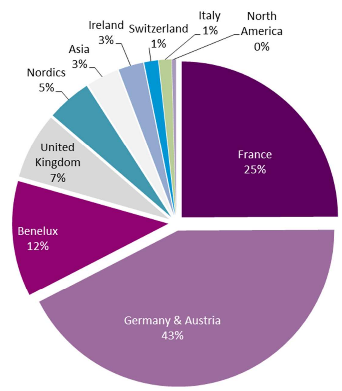
Breakdown of 2018 issues
by maturity
%



Breakdown of 2018 public issues
by investor category
%



Breakdown of 2018 public issues
by geographic zone
%

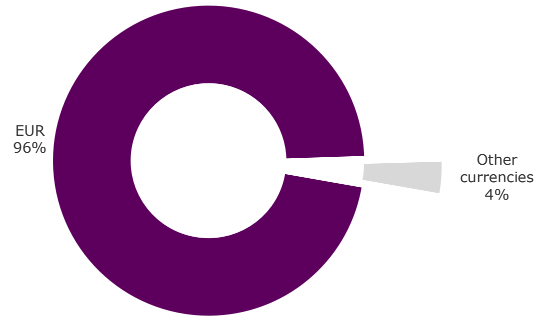


5.2.2. Outstanding debt at the end of June

Outstanding *obligations foncières* and registered covered bonds totaled EUR 51.3 billion in swapped value at the end of June 2018. This includes new issues of *obligations foncières* for EUR 4.4 billion and amortization of issues maturing in the first half-year for EUR 2.1 billion.

EUR billions, value after currency swaps	2017	2018
BEGINNING OF THE PERIOD	**50,4**	**49,0**
Issues	6,0	4,4
Amortizations	(7,2)	(2,1)
Buyback	(0,2)	-
END OF THE PERIOD	**49,0**	**51,3**

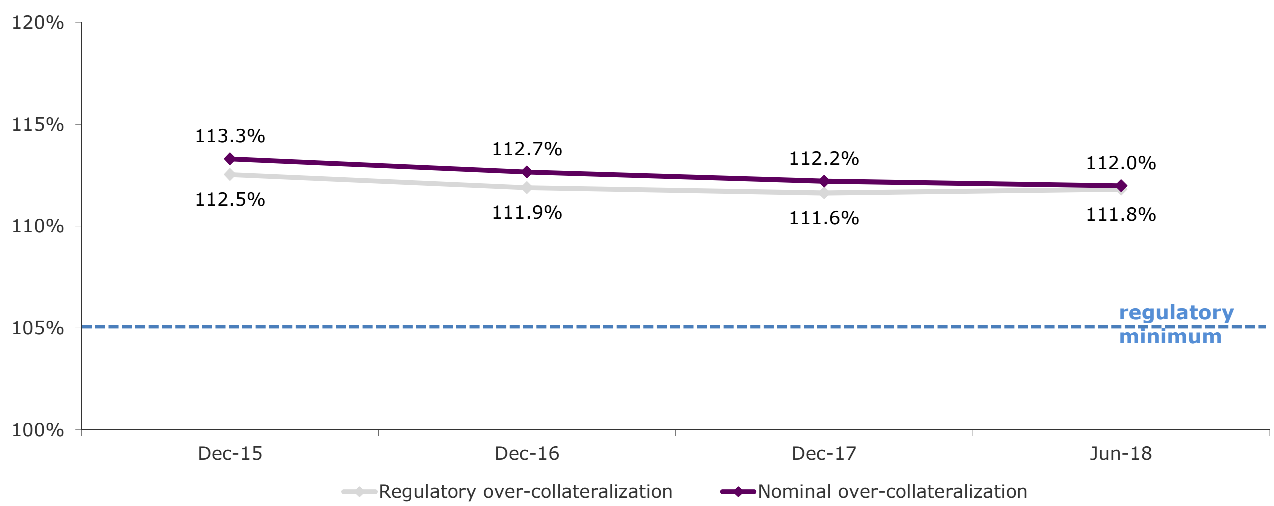
As of June 30, 2018, issues can be broken down by currency as follows:



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.

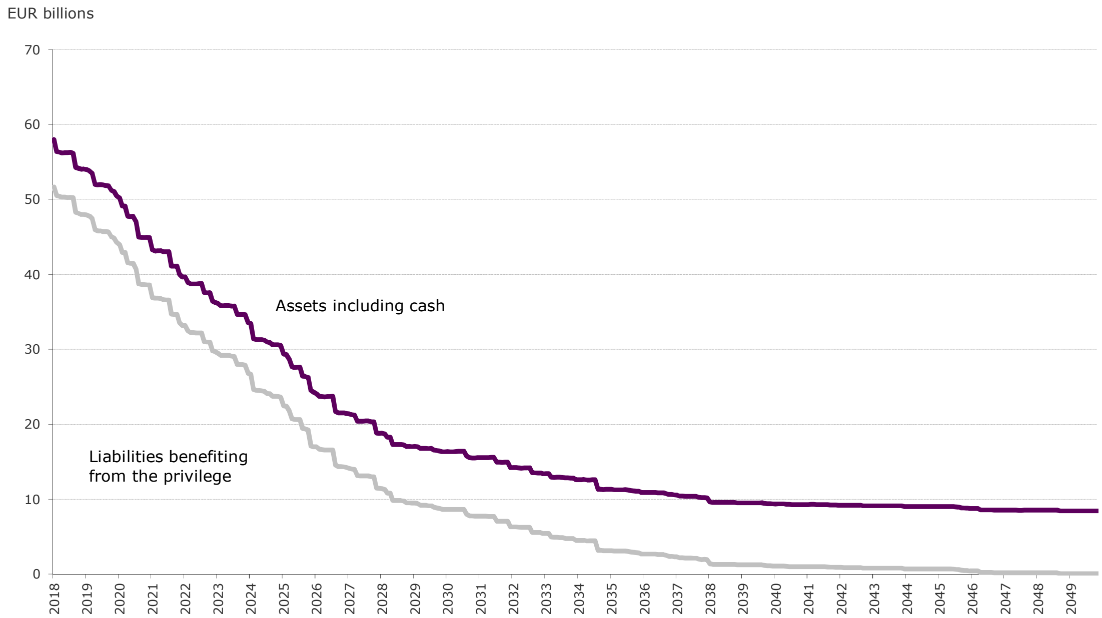


Regulatory over-collateralization may differ from nominal over-collateralization. In fact, it is calculated on the basis of the rules determined by the Autorité de contrôle prudentiel et de résolution (ACPR). In particular, these rules require different weighting levels according to the assets. The assets in Caisse Française de Financement Local's cover pool are all 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 liabilities benefiting from the privilege. The following graph presents the curves as of June 30, 2018.

Amortization of assets and liabilities as of June 30, 2018



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 2018, 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. This fund does not benefit from the privilege stipulated in the law on *sociétés de crédit foncier*, but it is guaranteed by loans and securities assigned for this purpose in the account of Caisse Française de Financement Local at Banque de France. Since the creation of SFIL, except when it used small sums to test the access procedure for such funding, Caisse Française de Financement Local has not contracted any loans from the Banque de France or 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	**12/31/2017**	**6/30/2018**
SFIL	4.8	5.2
Banque de France	-	-
TOTAL	**4.8**	**5.2**

8. Caisse Française de Financement Local's main risks

8.1 – CREDIT RISK

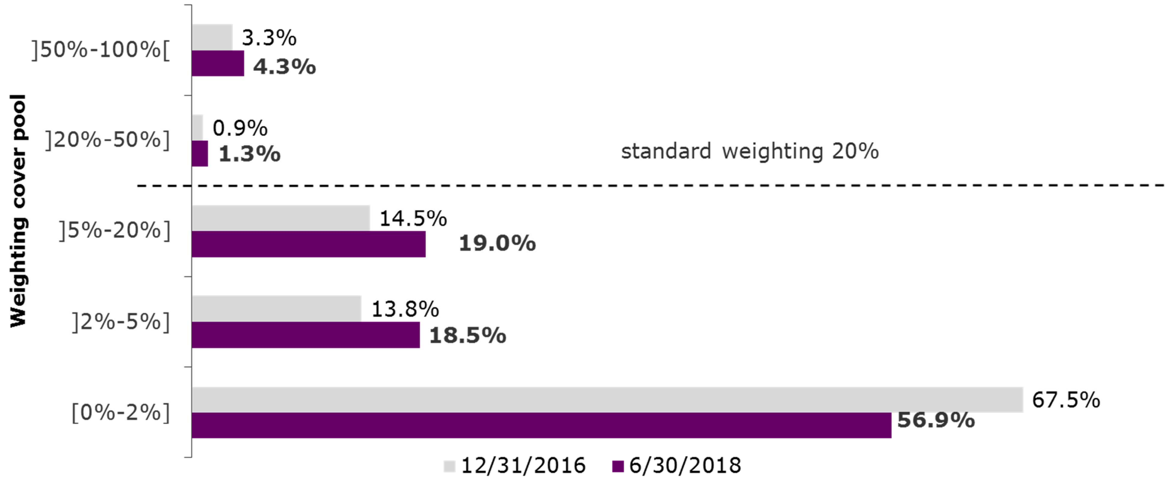
8.1.1. Definition

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.

8.1.2. Breakdown of exposures according to risk weighting

The quality of Caisse Française de Financement Local's portfolio is illustrated by the risk weighting assigned to its assets (Risk Weighted Assets) for the calculation of the bank's solvency ratio. This reflects the fact that for most of its assets SFIL has opted for the advanced method of calculating regulatory capital requirements. 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, 2018, 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, 2018



This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local’s portfolio:
- more than 75% of the portfolio has a weighting of less or equal to 5%;
- the average risk weighting of the cover pool assets is 7.3%, versus 20% for European local governments according to the Basel II/III standard method;
- only 5% of the portfolio has a weighting of more than 20%.

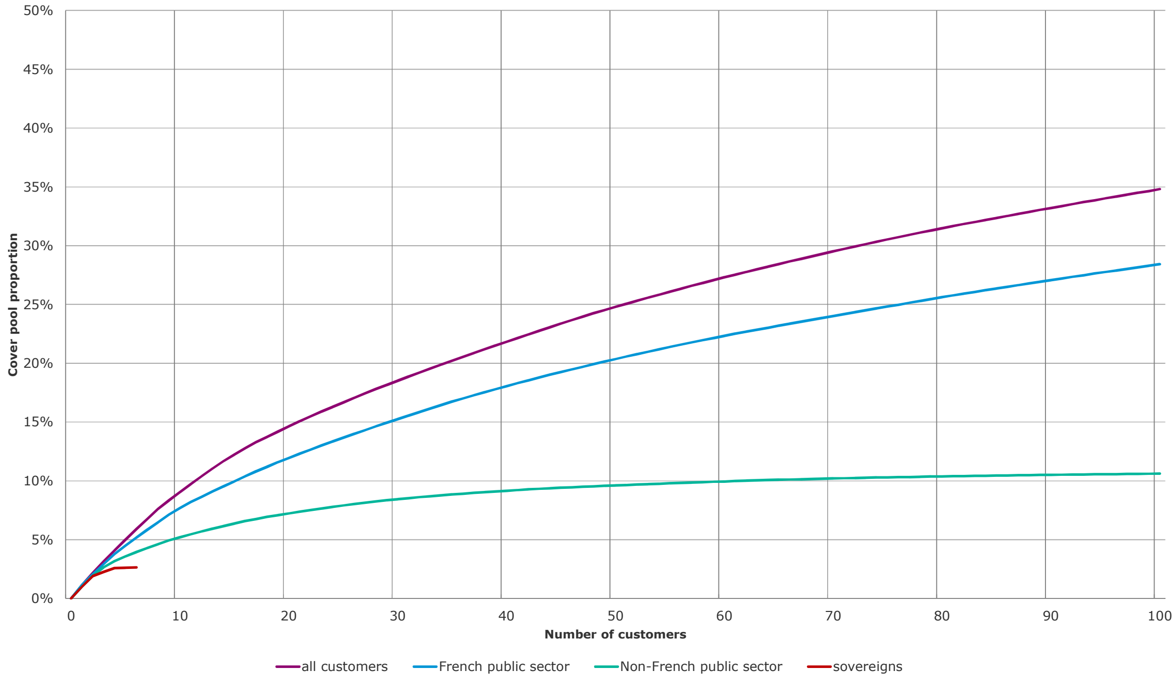
Since December 31, 2017, change in weighting is mainly due to methodological changes within internal rating models of Caisse Française de Financement Local.

As of June 30, 2018, weighted exposure with respect to credit risk amounted to EUR 5,279 million. Including weighted assets associated with the credit valuation adjustment (CVA) volatility risk and with operational risk (there being no risk weighted assets associated with market risk), total risk weighted assets came to EUR 5,937 million. 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 23.7% as of June 30, 2018. The fully loaded Common Equity Tier 1 Ratio in Basel III was 22.2% as of June 30, 2018.

8.1.3. 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 chart below presents the concentration of cover pool by type of counterparty. It confirms the great diversity of Caisse Française de Financement Local’s portfolio of assets.



As of June 30, 2018, all categories combined, the 20 largest clients (excluding replacement assets and cash investments) represented 15% of the global cover pool (stable compared with December 31, 2017). The largest client accounted for only 1.2% of the cover pool and the twentieth client 0.4%.

8.1.4. Arrears, non-performing loans, litigious loans and impairments

8.1.4.1. Change in arrears

At the end of June 2018, arrears amounted to EUR 60 million, representing a decrease of 8% from December 31, 2017 (EUR 65 million) and 26% from December 31, 2016 (EUR 81 million).

	12/31/2016		12/31/2017		6/30/2018	
	Amounts EUR millions	number of customers(1)	Amounts EUR millions	number of customers(1)	Amounts EUR millions	number of customers(1)
Arrears	81	56	65	52	60	51
of which less than 90 days	*0*	*4*	*0*	*-*	*0*	*5*
of which more than 90 days	*81*	*52*	*65*	*52*	*60*	*46*
of which doubtful loans (French Gaap)	*54*	*42*	*33*	*45*	*28*	*43*
of which litigious loans	*27*	*14*	*32*	*7*	*32*	*8*
of which vanilla loans	*8*	*24*	*5*	*27*	*4*	*30*
of which structured loans	*73*	*32*	*60*	*25*	*56*	*21*

(1) depending on each row, considering the customer in the category with its most long arrear, considering the customer as litigious if one of its loans is under litigation, considering the customer in the category with its most highly structured loan

Unpaid outstandings are concentrated on a very limited number of counterparties, representing only 0.3% of Caisse Française de Financement Local's total number of customers. These counterparties are all located in France. Since the end of 2016, the number of customers with a dispute-related unpaid outstanding has decreased significantly due in particular to the success of the policy for reducing the sensitivity of sensitive structured loans.

8.1.4.2. Change in non-performing loans, litigious loans and provisions under French GAAP

As of June 30, 2018, doubtful and litigious loans (French GAAP) represented less than 1% of Caisse Française de Financement Local's cover pool (EUR 453 million), illustrating the portfolio's excellent quality. They were down 19% compared with December 31, 2017 (EUR 558 million). Non-performing loans and litigious loans correspond only to French customers.

Doubtful and litigious loans comprise:

• EUR 421 million of receivables classified as doubtful[1], corresponding to loans granted to customers whose total unpaid outstand-

(1) 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 (unpaid for more than nine months for local government borrowers, and for more than three months for other counterparties);

• the existence of a known counterparty risk (deterioration of the financial situation, alert procedure);

A loan is considered as litigious when it presents an unpaid claim and it is subject to legal proceedings.

ing came to EUR 28 million (including EUR 25 million on structured loans). When a customer is classified in default in terms of credit risk, the outstanding amount of all its loans is automatically classified as non-performing, by contagion, in addition to its existing past dues;
• EUR 32 million in receivables classified as litigious, corresponding to unpaid interest on loans subject to ongoing legal proceedings.

The table below shows the breakdown of non-performing and litigious loans by type of borrowers

Doubtful and litigious loans French Gaap EUR millions	**12/31/2017** **Doubtful loans**	 **Litigious loans**	**6/30/2018** **Doubtful loans**	 **Litigious loans**
FRANCE				
State	-	-	-	-
Regions	52	-	51	24
Departments	-	23	-	-
Groups of municipalities	118	-	90	-
Municipalities	238	8	219	8
Public sector entities	118	1	61	-
TOTAL DOUBTFUL AND LITIGIOUS	**526**	**32**	**421**	**32**
of which arrears on structured loans	*28*	*32*	*25*	*32*
of which arrears on other loans	*5*	*-*	*3*	*-*

The table below shows the total amount of provisions pursuant to French GAAP.

Impairments French Gaap EUR millions	**12/31/2017**	**6/30/2018**
Specific impairments	36	30
Collective impairments	30	34
TOTAL	**66**	**64**

As of June 30, 2018, specific provisions under French GAAP amounted to EUR 30 million. The change in the amount of these provisions compared with December 31, 2017 was due mainly to the gradual positive impact of Caisse Française de Financement Local's structured loan sensitivity reduction policy. In addition, collective provisions are calculated on the various asset portfolios. These provisions amounted to EUR 34 million as of June 30, 2018 compared with EUR 30 million as of the end of 2017.

8.1.4.3. Change in receivables and provisions under IFRS

Effective January 1, 2018, IFRS 9 introduced changes to the classification of Caisse Française de Financement Local's financial assets. As a reminder, this standard now only provides for three categories of financial instruments: those recognized at amortized cost, those recognized at fair value through profit or loss and those recognized at fair value through other comprehensive income. This classification depends on both the business model in which the financial asset is used and the characteristics of the instrument's contractual cash flows (see section 9.1.1. of the management report and section 1.3.4. of the financial statements under IFRS).

In accordance with the new IFRS 9, all loans and securities recognized at amortized cost or at fair value through other comprehensive income, as well as financing commitments, are provisioned for expected credit losses. They are classified into three Stages:
• Stage 1: performing outstandings with no significant credit risk deterioration since initial recognition;
• Stage 2: performing outstandings with significant credit risk deterioration since initial recognition;
• Stage 3: credit-impaired outstandings.

Furthermore, loans whose contractual cash flow characteristics preclude them from classification at amortized cost are recognized at fair value through profit or loss. These loans are not provisioned, however change in their fair value, recognized directly in profit or loss, includes a component linked to changes in credit risk.

Stage 3 outstandings correspond mainly to customers:
• with an outstanding unpaid for more than 90 days;
• whose financial situation has characteristics which could lead to conclude that, independently from the existence of unpaid amounts, to the existence of a probable credit risk (unlikely to pay);
• that were in a situation of real (i.e. non-technical) default and for which outstandings unpaid for more than 90 days were settled. After all unpaid outstandings have been settled and the default committee has formally decided to remove them from default status, they are kept at Stage 3 for a minimum period of one year, known as the "probation period";

The definition of default (Stage 3) under IFRS thus covers a wider scope than the concept of non-performing loans and litigious loans under French GAAP, and is very close to the regulatory concept of non-performing exposures (NPE), which, in addition to Stage 3 assets, includes non-performing assets that are recognized at fair value through profit or loss (i.e. non-performing assets classified as non-SPPI).

Provisions for expected credit losses are set aside for all of these outstandings, including Stage 1 and Stage 2 outstandings. The related impairment is based on forward looking scenarios (defined by probability of occurrence), and takes into account expected losses over the next twelve months (Stage 1) or the outstanding's life (Stages 2 and 3).

The following table shows Caisse Française de Financement Local's financial assets and financing commitments broken down by Stage, IFRS provisions for associated expected credit losses, as well as regulatory non-performing exposures.

Breakdown of assets by stages and IFRS impairments	Net carrying amount before impairments EUR millions		Impairments EUR millions	
	1/01/2018	6/30/2018	1/01/2018	6/30/2018
Stage 1 : no significant deterioration	46 041	48 157	(6)	(6)
Stage 2 : credit risk deteriotation	5 441	5 179	(39)	(40)
Stage 3 : credit impaired	1 518	1 177	(11)	(9)
TOTAL SPPI assets	**53 000**	**54 513**	**(56)**	**(55)**

	IFRS Net carrying amount EUR millions	
	1/01/2018	6/30/2018
Non-Performing Exposures	1 601	1 575

In the first six months of 2018, both outstandings classified as non-performing exposures and Stage 3 outstandings decreased, reflecting the positive impact of Caisse Française de Financement Local's structured loan sensitivity reduction policy.

As of the end of June 2018, IFRS provisions for expected credit losses amounted to EUR 55 million and were broadly unchanged from January 1, 2018, as calculated as part of the first-time application of IFRS 9.

8.1.5. 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 1.8 billion (see 4.3.2.);
- bank account balances in euros and other currencies, representing EUR 5 million, excluding cash deposited on the Banque de France account;
- its derivative contracts, entered into within the framework of its management of interest rate and foreign exchange risks.

All of Caisse Française de Financement Local’s derivative operations are conducted within the framework of standard ISDA or FBF (Fédération bancaire française) contracts with major international banks. These contracts have particular characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and other issuers of covered bonds). In 2017, Caisse Française de Financement Local amended these contracts to take into account recent regulatory changes (signature of variation margin amendments). These interest rate and currency swaps all benefit from the same legal privilege as *obligations foncières*. For this reason, Caisse Française de Financement Local never 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 2018, Caisse Française de Financement Local was exposed (positive fair value of the swaps) on eight banking counterparties which all paid cash collateral of EUR 0.5 billion, offsetting total exposure.

All derivative exposures as of June 30, 2018, are listed below.

EUR billions	Short-term notional amounts	Long-term notion	% of long-term notional amounts	*Mark to Market* -	*Mark to Market* +	Collateral received	Number of counterparties
SFIL	-	15,8	19,0%	(1,4)	-	-	1
Other counterparties	33,1	67,6	81,0%	(2,4)	0,5	0,5	25
Total	**33,1**	**83,4**	**100,0%**	**(3,8)**	**0,5**	**0,5**	**26**

The swaps negotiated with external counterparties represented 81% of outstanding long-term swaps and those signed with SFIL 19%. The long-term swaps signed with the five largest counterparties represented a total of 45% of the long-term swaps notional amounts.
Short-term swaps (Eonia) were all contracted with external counterparties.

8.2 – MARKET RISK

Market risk is defined as the potential risk of loss (through income statement or directly through other comprehensive income) resulting from fluctuations in the prices of financial instruments that make up a particular portfolio. If the transactions of a portfolio are entered into for trading purposes, regulatory market risk requires daily monitoring of risks and results indicators of that portfolio. Changes in the value of trading portfolios directly impact the income statement.

Caisse Française de Financement Local, as a *société de crédit foncier*, is not authorized to hold a trading or stocks investment portfolio and is therefore not exposed to regulatory market risk.

Caisse Française de Financement Local's banking portfolio positions and activities that pose a risk to its accounting income and equity as a result of exposure to market volatility are monitored as non-regulatory market risks. These are mainly market risks resulting from fluctuation of valuation of assets recognized through at fair value profit or loss and those recognized at fair value through other comprehensive income, or the provision for placement securities under French GAAP, as well as risks resulting from the export credit activity (monitoring of the value changes of the indicator specific to export credit and, for USD-denominated loans, the change in the valuation of currency swaps hedging this activity). Changes in accounting valuation adjustments on derivatives, such as credit valuation adjustments (CVA), debit valuation adjustments (DVA) and funding valuation adjustments (FVA) are also considered as non-regulatory market risks.

8.3 – ALM RISK

8.3.1. Liquidity risk

8.3.1.1. Definition and liquidity risk management

Liquidity risk is defined as the risk that the institution may not be able to find the necessary liquidity, on a timely basis and at a reasonable cost, to cover the financing needs related to its activity.

Caisse Française de Financement Local's liquidity risk mainly reflects how able it is to reimburse certain debts benefiting from the legal privilege on a timely basis in the event of an excessive lag between the repayment of its assets and that of its debt benefiting from the legal privilege. It relates to the fact that SFIL is responsible for most of the funding requirement associated with the Caisse Française de Financement Local's over-collateralization[1].

Caisse Française de Financement Local has two main types of liquidity need:

- financing of the assets (EUR 47.5 billion in loans, EUR 7.8 billion in securities, and EUR 2.7 billion in cash deposited with the Banque de France) that cover the *obligations foncières* it issues;
- financing of the liquidity requirements related to compliance with regulatory ratios, specific *sociétés de crédit foncier* ratios and the rating agency methodologies used to meet a rating target.

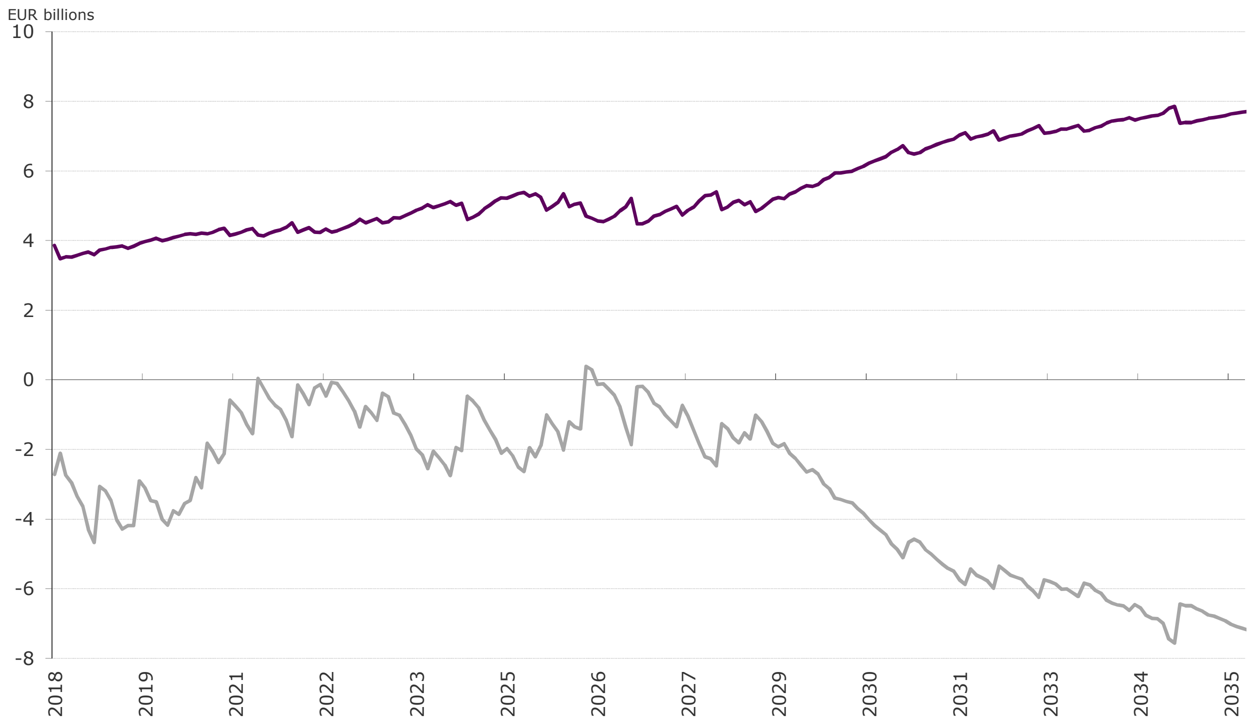
The sources of financing used to meet these requirements, other than the entity's equity (EUR 1.4 billion), are:

- debt benefiting from the legal privilege, i.e. *obligations foncières* and registered covered bonds (EUR 51.3 billion) and the cash collateral received by Caisse Française de Financement Local (EUR 0.5 billion);
- refinancing arising from the loan agreement entered into with SFIL to cover the financing requirements related to Caisse Française de Financement Local's over-collateralization (EUR 5.2 billion).

Furthermore, Caisse Française de Financement Local has a large stock of assets eligible for European Central Bank refinancing via the Banque de France. In addition to access to the central bank in its own name, Caisse Française de Financement Local can also mobilize certain of its assets by using interbank financing in the form of repurchase agreements. If necessary, these transactions would easily cover its cash flow requirements. There were no transactions of this type in 2018, except for operational tests.

The aggregate maximum liquidity requirement that Caisse Française de Financement Local could face in the future in a run-off situation in which it was unable to issue new *obligations foncières* is lower than the maximum funding already occasionnely obtained on a one-off basis from the central bank in the past. It is also lower than the Caisse Française de Financement Local's refinancing potential with the Banque de France, measured by the amount of eligible assets after haircut that would be available while complying with the minimum over-collateralization required by the regulations.
The chart below shows the forecast aggregate liquidity requirement and the assets needed to cover this requirement.

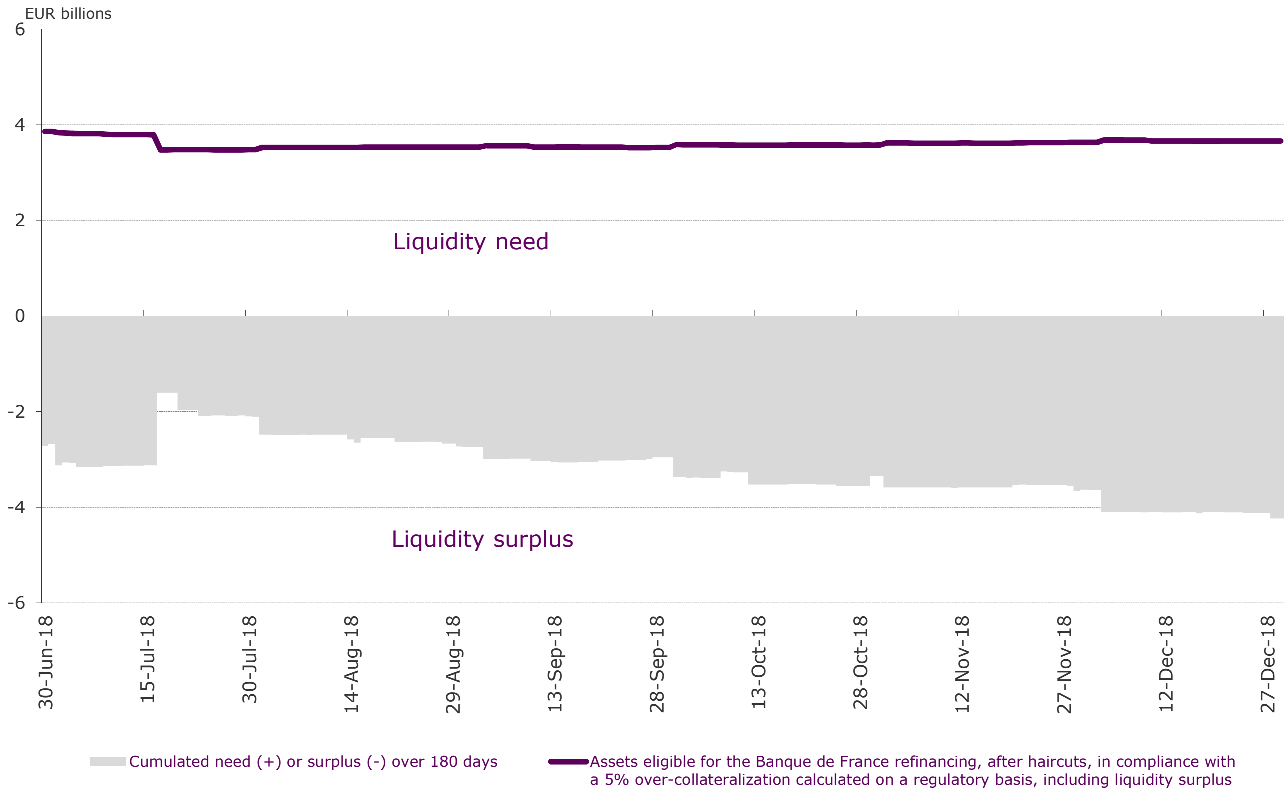
(1) A part of Caisse Française de Financement Local's over-collateralization is refinanced by its equity.



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).

Meanwhile, Caisse Française de Financement Local manages its liquidity risk using the following indicators:

- Regulatory indicators specific to *sociétés de crédit foncier*:
  - the regulatory coverage ratio (or over-collateralization ratio): this represents the ratio between assets and debts benefiting from the legal privilege, and must be at least 105% (see section 6.);
  - the maximum gap of 1.5 years between the average maturity of debt benefiting from the legal privilege and that of assets eligible to make up the minimum amount necessary to meet the regulatory coverage ratio (see the specific section on transformation risk below).
  - forecast cash needs at 180 days: Caisse Française de Financement Local ensures that, at any times, its cash needs over a period of 180 days are covered by replacement assets and assets eligible for Banque de France's credit operations. Cash needs include repayments of obligations foncières and registered covered bonds, debt not benefiting from the legal privilege and forecast repayments of cash collateral received, after deduction of cash flows from amortization of assets. This forecast is published quarterly in the Asset Quality Report, and is shown below. At the end of June 2018, there was a liquidity surplus for the whole period.



- The regulatory liquidity indicators applicable to credit institutions, in particular the liquidity coverage ratio (LCR). As of June 30, 2018, Caisse Française de Financement Local's LCR was 406%.

- Internal liquidity indicators:
  - the liquidity projections for the short term (three months) and long term (two years);
  - the management coverage ratio (or over-collateralization ratio), which targets an over-collateralization level consistent with the Caisse Française de Financement Local's target rating (see section 6.);
  - the difference in duration between assets and debts benefiting from the legal privilege (limited to three years): this is published every quarter and came to -0.02 years as of June 30, 2018 (see the specific section on transformation risk below);
  - the maximum difference between assets and liabilities maturing within the same year, this limit being reviewed annually;
  - the one-year survival horizon in stressed conditions;
  - the sensitivity of the net present value of the static liquidity gap adjusted for regulatory constraints (compliance with the LCR and the over-collateralization ratio);
  - the indicators related to refinancing of large export credits activity: consumption of the spread and EUR/USD basis risk appetite by the various maturities of refinancing loans for large export credits, monitoring of geographical and sector limits and relating to firm offers over one year.

Lastly, dynamic liquidity forecasts (taking into account new assets and refinancing assumptions) are carried out regularly in normal and stressed conditions, aimed at:
- defining the amounts and maturities of the various sources of financing that could be raised;
- assessing the capacity of Caisse Française de Financement Local and the SFIL Group to withstand a liquidity shock.

8.3.1.2. Definition of the transformation risk contained in the specific components monitored in connection with liquidity risk

Transformation risk is part of liquidity risk. It corresponds to the differences in maturity between assets and the resources used to refinance them.
Caisse Française de Financement Local manages this risk using the following two indicators:
- Duration gap
- Weighted average life gap

Duration gap

The difference in maturity between assets and liabilities can lead to liquidity risk. As interest rate risk is controlled (see section 8.3.2.2.), Caisse Française de Financement Local ensures that asset and liability maturities match by keeping the difference in duration between assets and debts benefiting from the legal privilege to three years or less.

Given the method used to hedge interest rate risk (see section 8.3.2.2.), assets and debts benefiting from the legal privilege are all recognized at floating rates after swaps. Caisse Française de Financement Local's balance sheet thus appears to have a single loan opposite a single borrowing. Durations are calculated as follows: "sum of the periods, weighted by the cash flows and discounted at the zero coupon curve rate for the period (t), over the sum of cash flows discounted at the interest rate of the zero coupon curve for the period (t)":

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

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 duration gap observed in practice remains largely under the three-year limit, as shown in the table below.

Duration in years	**6/30/2017**	**9/30/2017**	**12/31/2017**	**3/31/2018**	**6/30/2018**
Cover pool	7.02	7.23	7.44	7.64	**6.71**
Privileged liabilities	6.36	6.45	6.49	6.67	**6.73**
Gap in asset-liability duration	**0.67**	**0.77**	**0.95**	**0.97**	**-0.02**
Duration gap limit	3	3	3	3	3

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)	**6/30/2017**	**9/30/2017**	**12/31/2017**	**3/31/2018**	**6/30/2018**
Cover pool	7.63	7.82	7.99	8.17	**7.24**
Privileged liabilities	6.86	6.93	6.93	7.12	**7.19**
Gap in asset-liability weighted average life	**0.77**	**0.88**	**1.06**	**1.05**	**0.05**

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.

8.3.2. Interest rate risk

8.3.2.1. Definition

Interest rate structural risk is defined as the risk of loss incurred in the event of a change in interest rates that would lead to a loss in value of balance sheet and off-balance sheet transactions, excluding any trading portfolio transactions. Since Caisse Française de Financement Local does not have a trading portfolio, it is not concerned by this exception.

There are three different types of interest rate risk:

- the fixed interest rate risk that results from the difference in volume and maturity between fixed rate assets and liabilities, or adjustable rate assets and liabilities for which the interest rate has subsequently been fixed. This risk can result in yield curve parallel shifts, steepening, flattening or rotation;
- the basis risk that results from the gap that may exist in the matching of assets and liabilities indexed on variable rates of different types or index tenors;
- the fixing risk that results, for each index, from the gap between the adjustment dates applied to all the variable rate balance sheet and off-balance sheet items linked to the same tenor.

These risks are generally hedged using derivatives.

8.3.2.2. Hedging strategy

To limit its impact, interest rate risk is hedged in two stages by Caisse Française de Financement Local:

- 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 over a sliding period of maximum two years in order to eliminate the basis risk generated by differences in the tenor (Eurbor 1, 3, 6 or 12 months) and the fixing risk due to refixing dates of reference indices that differ for the assets and the liabilities. The residual risk is managed using macro-hedges with a management horizon of one week.

These hedges can be entered into either directly on the market by Caisse Française de Financement Local, or through SFIL, which in turn hedges its resulting position in the market.

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 Eonia 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.

These different types of interest rate risk are monitored, analyzed and managed through the production of gaps (fixed rate, basis and fixing), and/or net present value (NPV) sensitivity indicators.

More specifically, the following indicators are produced in a static view:
- the fixed rate gap, which corresponds to the difference between balance sheet and off-balance sheet assets and liabilities for fixed rate transactions or transactions for which the rate has been fixed. This gap is calculated every month until balance sheet extinction;
- index gaps, which correspond to the difference between balance sheet and off-balance sheet assets and liabilities for a given index tenor that has not yet been fixed. This gap is calculated every month until balance sheet extinction;
- basis gaps, which result from the matching of two index gaps. There are therefore as many basis gaps as there are index pairs;
- the fixing gap, which corresponds, for a given tenor index, to the difference between adjustable rate balance sheet and off-balance sheet assets and liabilities, by fixing date.

8.3.2.3. Limits governing interest rate risk

The sensitivity of residual positions in fixed rates and variable rates fixed for a determined period of time that remain after the two levels of hedging is monitored on a monthly basis. Limits provide a framework for this sensitivity and are designed to reduce the impact on the value of balance sheet items in the event of a shift in the yield curve or a move in sloping/rotation. They are calibrated so as not to lose more than 6% of equity (i.e. EUR 80 million) with a quantile of 99% calculated based on 2007-2017 historical data.

The net present value (NPV) sensitivity indicators are calculated for a rate shock of 100 x +1 basis point (bp), aiming to limit losses in value in the event of:
- a parallel yield curve shift (limit of EUR 25 million for a shock of 100 x 1bp) to limit the fixed rate or directional rate risk;
- sloping/rotation of the interest rate curve:
  - net present value sensitivity calculation and limiting by time bucket, using four buckets of distinct risks on the yield curve in order to limit risk between distant points on the curve (limit per bucket of EUR 10 million for a shock of 100 x 1bp);
  - net present value sensitivity in terms of absolute value calculation and limiting by time bucket, using four buckets of distinct risks on the yield curve in order to limit risk between near points on the curve, within each bucket (limit per bucket of EUR 20 million for a shock of 100 x 1bp).

Limiting directional risk

The measurement of sensitivity at the end of each quarter is presented below.

Directional risk

Total sensitivity

EUR millions	Limit	6/30/2017	9/30/2017	12/31/2017	3/31/2018	6/30/2018
Sensitivity	**(25)/25**	**(1.6)**	**1.0**	**1.5**	**(1.5)**	**1.7**

Measurement of the slope/rotation risk

The quarter-end sensitivity measurements are presented below.

Risk of slope between two distant points on the rate curve

Sum of sensitivities

EUR millions	Limit	6/30/2017	9/30/2017	12/31/2017	3/31/2018	6/30/2018
Short term	**(10)/10**	**0.4**	**(1.7)**	**0.2**	**(7.1)**	**(4.3)**
Medium term	**(10)/10**	**(4.5)**	**(2.4)**	**(4.6)**	**(2.1)**	**(1.0)**
Long term	**(10)/10**	**1.5**	**3.8**	**3.1**	**5.6**	**4.6**
Very long term	**(10)/10**	**1.1**	**1.3**	**2.7**	**2.0**	**2.4**

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

EUR millions	Limit	6/30/2017	9/30/2017	12/31/2017	3/31/2018	6/30/2018
Short term	**20**	**7.8**	**10.2**	**11.6**	**11.5**	**8.8**
Medium term	**20**	**12.4**	**10.9**	**14.8**	**4.6**	**14.4**
Long term	**20**	**3.5**	**7.1**	**3.6**	**7.9**	**8.7**
Very long term	**20**	**5.6**	**6.5**	**6.9**	**10.5**	**10.8**

8.3.2.4. 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, 2018.

Breakdown of outstanding swaps EUR billions	**Notional** Absolute value
Euribor against Eonia	
Macro-hedges	33.1
TOTAL SHORT-TERM SWAPS	**33.1**
Fixed rate swaps against Euribor	
Micro-hedges on *obligations foncières*	42.6
Micro-hedges on loans and debt securities	21.5
Macro-hedges on loans	14.8
Subtotal	**78.8**
Currency swaps	
Micro-hedges on *obligations foncières*	1.3
Micro-hedges on loans	2.7
Micro-hedges on debt securities	0.6
Subtotal	**4.6**
TOTAL LONG-TERM SWAPS	**83.4**

8.3.3. Foreign exchange risk

8.3.3.1. Definition

The foreign exchange risk is defined as the risk of a loss, 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.

8.3.3.2. Hedging Strategy

Caisse Française de Financement Local 's foreign exchange risk management policy is to incur no foreign exchange risk: it enters into cross-currency swaps against the euro for its issues and assets denominated in foreign currency, on initial recognition at the latest and until their final maturity, thereby ensuring that these balance sheet items' principal and interest rates are fully hedged. Floating rate exposures generated by this management policy are incorporated into interest rate risk management. Nonetheless, certain loans to refinance large credit exports denominated in USD may cause a very limited risk of foreign exchange during their drawing phase, in the event of a delay of drawing dates initially planned and hedged. This residual risk is handled through the calculation of a very low sensitivity limit.

Foreign exchange risk is monitored using the net foreign exchange position in each currency, calculated on all foreign currency balance sheet receivables, commitments and accrued interest not yet due. Caisse Française de Financement Local's ALM unit and Market and Balance Sheet Risks division ensure that it has no net foreign exchange positions.

8.4 – OTHER RISKS

8.4.1. Operational risk

Operational risk represents the risk of loss resulting (i) from the lack of adaptation or failure on the part of internal processes, staff, systems or (ii) external events. It includes the risks linked to the security of IT systems, as well as legal and fiscal and compliance risks, but it excludes strategic risk.

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 9.2.4. of the Management Report of the Annual Financial Report 2017.

8.4.2. Legal and tax risks

8.4.1.1. Definition

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.

8.4.1.2. Legal risk

As of June 30, 2018, the number of borrowers in litigation for structured loans was 20, compared with 25 as of December 31, 2017. Since SFIL's creation, 203 borrowers have dropped their claims against the Group.

Since the entry into force on July 30, 2014 of the law on the securing of structured loan contracts taken out by common law legal entities, the Nanterre Court of First Instance, the Nanterre Commercial Court, the Versailles Court of Appeal and the Court of Cassation have handed down 35 court decisions, regarding structured loans, ruling in favor of Dexia Crédit Local, SFIL and Caisse Française de Financement Local. The Court of Cassation has confirmed, by a judgment on March 28, 2018, the analysis of the Court of Appeal and the validity of structured loans concerned. Only one unfavorable decision, concerning a single non-structured loan, has been handed down, being noted this is a first-instance judgment which is not yet final. Caisse Française de Financement Local, SFIL and Dexia Crédit Local have appealed this decision.

As of June 30, 2018, there were no other significant lawsuits or disputes between Caisse Française de Financement Local and its borrowers.

8.4.1.3. Tax risk

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 safeguard its rights to the disputed adjustment, in 2017 the tax authority initiated a verification procedure relating to the consequences of its previous assessment of taxable income for the 2014 to 2016 fiscal years. The two points of disagreement resulting from the 2015 assessment still held following this tax audit. There were no other new developments.

In order to take into account the risk of an unfavorable outcome in these proceedings, Caisse Française de Financement Local recorded a provision for income tax in 2015. However, Caisse Française de Financement Local does not agree with the position of the tax authorities and started an appeal since 2016 within the framework of legal recourse allowed by current tax regulations. Neither the discussions that took place with the tax authorities nor the new tax audit called into question the assumptions used to calculate the amount provisioned in the accounts.

8.4.3. Risks of non-compliance

Article 10-p of the *arrêté* of November 3, 2014 on the internal control of banks defines non-compliance risk as « the risk of judicial, administrative or disciplinary sanction, of significant financial loss or loss of reputation resulting from failure to comply with the prevailing laws and regulations and professional and ethical standards relating to banking and financial activities or with instructions from the executive body issued in particular pursuant to directives from the decision-making body ».

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 non-compliance risks are described in the section 9.2.6. of the Management Report of the Annual Financial Report 2017.

9. Income for the period from January 1st to June 30, 2018

9.1 – INCOME ACCORDING TO INTERNATIONAL ACCOUNTING STANDARDS – 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.

9.1.1. First-time application of IFRS 9

The new IFRS 9, which relates to financial instruments and replaces IAS 39, is applicable from January 1, 2018. It comprises three main components: classification and measurement, impairment and hedge accounting. Its application to Caisse Française de Financement Local's activity is presented below.

9.1.1.1. Classification and measurement

The new standard now provides for only three categories of financial assets: those recognized at amortized cost, those recognized at fair value through profit or loss and those recognized at fair value through other comprehensive income. This classification depends on both the business model in which the financial asset is used and the characteristics of its contractual cash flows.

A financial asset is at amortized cost if:

- the sole purpose of holding it is to collect the associated contractual cash flows;
- these contractual cash flows represent solely payments of principal and interest (SPPI[1]).

Most of the loans and securities listed as assets of Caisse Française de Financement Local meet these criteria (hold to collect model and SPPI characteristics) and continue to be recognized at amortized cost. However, some portfolios are now recognized at fair value: these are mainly securities held as cash surplus investments under a hold to collect and sell model (fair value recognized directly through other comprehensive income) and structured loans, which were previously recognized at amortized cost under IAS 39 and whose financial flows are not SPPI, which results in recognition at fair value through profit or loss under IFRS 9. Furthermore, the sensitivity reduction transactions consisted in transforming non-SPPI loans into SPPI loans; these transactions are now systematically considered to be capable of derecognition, which leads to:

- for transactions of this type occurring prior to January 1, 2018: recognition of the early repayment penalty in the 2018 opening equity to reflect the first-time application of IFRS 9;
- for transactions of this type occurring after January 1, 2018: immediate recognition of the early repayment penalty in profit or loss.

9.1.1.2. Impairment

[1]SPPI: Solely payments of principal and interest

In accordance with the new IFRS 9, loans and securities measured at amortized cost or at fair value through other comprehensive income, as well as financing commitments, are classified into one of three portfolios which are named “Stages”:
- Stage 1: performing outstandings with no significant credit risk deterioration since initial recognition;
- Stage 2: performing outstandings with significant credit risk deterioration since initial recognition;
- Stage 3: credit-impaired outstandings.

Provisions are set aside for all of these assets and financing commitments, including Stage 1 and Stage 2 performing outstandings. The related impairment is based on *forward looking* scenarios (defined by probability of occurrence), and takes into account expected losses over the next twelve months (Stage 1) or the outstanding's life (Stages 2 and 3).

In addition, changes in the credit risk of loans and securities recognized at fair value through profit or loss are included in their valuation.

Lastly, Caisse Française de Financement Local decided not to apply the option of spreading over time the impact on prudential capital associated with the standard's first-time application and relating to the provisioning component.

9.1.1.3. Hedge accounting

Pending the entry into force of the future macro-hedging standard, Caisse Française de Financement Local has chosen to continue applying IAS 39 in this area.

9.1.1.4. Impacts associated with the first-time application of IFRS 9 and expected impacts on future results

The first-time application of IFRS 9 to Caisse Française de Financement Local's transactions as of January 1, 2018 had a limited impact on equity as regards the new provisioning methods, but a more significant impact from the classification and measurement standpoint.

The following table shows the breakdown of financial assets by recognition method.

EUR millions	**1/1/2018**
Financial assets non SPPI recognized at fair value through net income	6,951
Financial assets SPPI recognized at fair value through equity	200
Financial assets SPPI recognized at amortized cost	52,744
TOTAL	**59,895**

The following table shows the impact on equity and the CET1 ratio, of the first-time application of IFRS 9, all other things being equal.

Impacts linked to the first time application of IFRS 9 on equity EUR millions	**1/1/2018**
Classification and measurement	86
Impairment	(9)
Hedge accounting	-
TOTAL before tax	**77**
TOTAL after tax	**33**

Impact linked to the first time application of IFRS 9 on the CET 1 ratio (fully loaded) after prudential restatement basis point	**1/1/2018**
TOTAL	**126**

Lastly, IFRS 9 has an impact on future results due mainly to changes in the fair value of non-SPPI financial assets, which leads to increased income volatility. This standard therefore increases net banking income volatility in a way unrelated to Caisse Française de Financement Local's activity, as its business model involves holding all loans until maturity. Caisse Française de Financement Local therefore decided to isolate this impact within so-called non-recurring items in order to restate it in the analysis of the Company’s performance.

9.1.2. Income statement for H1 2018

The income statement is presented in a synthetic form as follows.

IFRS EUR millions	**H1 2017**	**2017**	**H1 2018**	**Change 2018 / 2017**
Interest margin	97	185	75	
Net commissions	(3)	(12)	(8)	
Net result on financial instruments at fair value through net income	(4)	(33)	39	
Net result on financial instruments at fair value through equity	-	-	-	
Net result due to derecognition of financial instruments at amortized cost	-	-	5	
Net result resulting from reclassification of financial assets at amortized cost to fair value through net income	-	-	-	
Net result resulting from reclassification of financial assets at fair value through equity to fair value through net income	-	-	-	
Net results on financial assets	2	16	-	
Other income and expense	0	0	0	
NET BANKING INCOME	**92**	**156**	**111**	**21%**
General operating expenses	(47)	(98)	(47)	
Taxes	(7)	(7)	(5)	
GROSS OPERATING INCOME	**38**	**51**	**59**	**56%**
Cost of risk	1	22	1	
INCOME BEFORE TAX	**39**	**73**	**60**	**54%**
Income tax	(16)	(32)	(17)	
NET INCOME	**23**	**41**	**43**	**87%**

As of June 30, 2018, net income was positive at EUR +43 million, compared with EUR +23 million as of June 30, 2017

9.1.3. Restatement of non-recurring items

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

• the change in the fair value of financial assets classified as non-SPPI under IFRS 9 (see section 9.1.1.4.). This impact is recognized in the income statement under Net result on financial assets at fair value through net income and is restated under Non-recurring items.

En EUR millions	**H1 2017**	**2017**	**H1 2018**
Fair value adjustment of non SPPI financial assets	-	-	12

• fair value adjustments relating to hedges: the application of certain norms or methodological rules (see below) constitutes a source of volatility for net banking income, as shown in the table below.

En EUR millions	**H1 2017**	**2017**	**H1 2018**
Fair value adjustments on hedging	(6)	(37)	10

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 modifed, 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 hedge the foreign exchange risk and the USD/EUR basis risk related to export credit refinancing loans ; according to IAS 39, classification as a hedging derivative could not be formally documented before the foreign currency loans are recorded on the Company's balance sheet.

• certain taxes and annual contributions fully recognized as from the first quarter in accordance with IFRIC 21. The straight-line recognition of these charges over the year is shown in the table below.

En EUR millions	**H1 2017**	**2017**	**H1 2018**
linearization of IFRIC 21 expenses	(4)	-	(4)

9.1.4. Analysis of recurring net income

The recurring income statement for the first half of 2017 and 2018 is as follows.

EUR millions	H1 2017			H1 2018		
	Accounting income statement	Non-reccuring items	Recurring income statement	Accounting income statement	Non-reccuring items	Recurring income statement
NET BANKING INCOME	**92**	**(6)**	**98**	**111**	**22**	**89**
Opertating Expenses	(54)	(4)	(50)	(52)	(4)	(48)
OPERATING INCOME BEFORE COST OF RISK	**38**	**(10)**	**48**	**59**	**18**	**41**
Cost of risk	1	-	1	1	-	1
PRE-TAX INCOME	**39**	**(10)**	**49**	**60**	**18**	**42**
Income tax	(16)	3	(19)	(17)	(7)	(10)
NET INCOME	**23**	**(7)**	**30**	**43**	**11**	**32**

Restated for the non-recurring items mentioned above, Net banking income fell from EUR 98 million in the first half of 2017 to EUR 89 million in the first half 2018 i.e. a decrease of EUR 9 million, while Net income was relatively unchanged, rising from EUR 30 million to EUR 32 million.

The EUR 9 million decrease of the Net Banking income in comparison with the same period last year can be explained by a following particular event that occurred in the first half of 2017: reversal of specific provisions in the amount of EUR 19 million was recognized due to the refinement of the method used to estimate the recoverability of flows of non performing loans(1) ; restated for this reversal, Net banking income increased in the amount of EUR 10 million thanks to the improvement in financing conditions.

General operating expenses consist mainly of the invoicing of the parent company for Caisse Française de Financement Local's operational management. These expenses fell slightly between 2017 and 2018.

The tax charge for the first half of 2018 was EUR 10 million; it reflected in particular the impact of the non-deductibility of the contribution to the Single Resolution Fund.

9.2 – INCOME ACCORDING TO FRENCH GAAP

Net income is presented below in a synthetic manner.

French GAAP EUR millions	**H1 2017**	**2017**	**H1 2018**	**Change 2018 / 2017**
Interest margin	80	127	68	
Net commissions	(2)	(12)	(8)	
Provisions and income on trading portfolio	0	0	-	
Provisions and income on securities	(3)	3	(7)	
Other income and expense	0	-	-	
NET BANKING INCOME	**75**	**118**	**53**	**(30)%**
General operating expenses	(47)	(98)	(47)	
Taxes	(7)	(7)	(5)	
GROSS OPERATING INCOME	**21**	**13**	**1**	**(95)%**
Cost of risk	1	22	(3)	
OPERATING INCOME	**22**	**35**	**(2)**	**(109)%**
Income (loss) on fixed assets	-	-	-	
Income tax	(3)	(5)	(3)	
NET INCOME	**19**	**30**	**(5)**	**(126)%**

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 following the transition from IAS 39 to IFRS 9, the accounting treatment under IFRS of early repayment penalties on loans and of associated hedging swap termination fees has converged with these items' accounting treatment under French GAAP. In accordance with IFRS 9, early repayments of Caisse Française de Financement Local's loans in connection with its sensitivity reduction measures result in derecognition of the original loan and recognition of a new loan, which results in recognition in net banking income of the surplus margin on the restructured loan (taking into account hedging impact) with reference to the market conditions observed when it was restructured. As a reminder, most of these transactions did not result in derecognition of the original loan under the previous standards as they complied with the 10% test provided for in IAS 39 AG 62. Under French GAAP, the early repayment penalty net of the associated hedging swap termination fees is also recognized in net banking income.

(1) It is reminded to the reader that Caisse Française de Financement Local was able in the first half of 2017 to hone, in a reasonable and prudent manner, its method of specific provisions according historical losses model in IAS 39. As of June 30, 2017, this refinement conducted to a reversal of provisions in the amount of EUR 19 million, improving the interest margin.

However, there may still be a difference between, on the one hand, the surplus margin recognized under IFRS, which is calculated based on market conditions when the loan is restructured, and, on the other hand, the early repayment penalty recognized under French GAAP, which is generally calculated in accordance with the original loan's contractual provisions.

Furthermore, the accounting treatment of termination fees on hedging swaps designed to directly match assets with liabilities differs from the treatment applied in the financial statements prepared under IFRS. These swap termination fees are usually amortized in the IFRS financial statements, while under French GAAP they are generally recognized immediately in net banking income. This accounting treatment may lead to recognition of the results earlier than would a systematic amortization approach.

The methods used under French GAAP, which have not changed in the last three years, are described in the financial statements presentation and measurement rules in the notes to the annual financial statements, in the sections entitled Customer loans, Micro-hedging transactions and Macro-hedging transactions.

Net banking income was down 30% from the first half of 2017, decreasing by EUR 22 million from EUR 75 million to EUR 53 million.
This fall was due in particular to the contraction in Interest margin, which fell by EUR 12 million from EUR 80 million to EUR 68 million. As a reminder, following the success of the structured loan sensitivity reduction policy, provision reversals on non-performing loan interest in the amount EUR 19 million were recorded under Interest margin in the first half of 2017, compared with provision reversals of EUR 6 million in the first half of 2018.
At the same time, there was a charge of EUR 8 million under net fee and commission income, EUR 6 million higher than in the first half of 2017.
Lastly, provisions and income on investment securities fell by EUR 4 million, reflecting the allocation of a provision in 2018 related to the change in market value of investment securities.

General operating expenses consist mainly of the invoicing of the parent company for Caisse Française de Financement Local's operational management. These expenses fell slightly between 2017 and 2018.

There was a EUR 3 million charge in respect of the cost of risk in the first half of 2018, due to the increase in collective provisions.

The tax charge was EUR 3 million in the first half of 2018.

Net income fell from EUR 19 million in the first half of 2017 to a net loss of EUR -5 million in the first half of 2018.

10. Outlook for the second half of 2018

In 2018, Caisse Française de Financement Local and its parent company SFIL will aim to:
- maintain their role as a major player in the market for loans to French local governments and public hospitals, within the framework of the system established with La Banque Postale;
- continue their key role as refinancer of partner banks of French exporters, for large export credits.

The bulk of the sensitivity reduction work has been completed and by end-2018 the most at-risk outstandings, i.e. those indexed on EUR/CHF, will be reduced to a marginal level. This activity, which generally involves granting new loans to the local government entities concerned, will now be scaled down. In addition, the already very significant reduction in the number of lawsuits issued in the year ended December 31, 2017, is expected to continue in 2018.

In addition, as announced on March 8, 2018, SFIL's refinancing export credit system may be expanded to loans designed to finance projects considered strategic for France without necessarily having to be linked to an underlying export. These projects will benefit from a new guarantee of the French State, and may be refinanced by Caisse Française de Financement Local through an enhanced guarantee arrangement.

In 2018, new loans will be included in Caisse Française de Financement Local's cover pool representing exposures to the French local public sector and the French State.

To cover its financing requirements, in 2018 Caisse Française de Financement Local plans to issue between EUR 5 billion and EUR 6 billion of *obligations foncières* with a long average maturity, adapted to the profile of the assets financed. Its program will mainly be carried out through a number of benchmark issues in euros and private placements adapted to the needs of its broad investor base. In addition, as part of the diversification of its financing sources, Caisse Française de Financement Local plans to launch a social covered bond-themed issue in the second half of 2018.

In the first half of 2018, SFIL and Caisse Française de Financement Local reviewed their credit rating situation and decided to appoint the international rating agency DBRS. At the end of its analysis process, DBRS assigned SFIL an AA (high) rating, i.e. only one notch below that of SFIL's reference shareholder, the French State (AAA), and assigned Caisse Française de Financement Local's covered bond issues the highest possible rating, AAA.
SFIL and CAFFIL also have decided to no longer apply for a rating from Fitch beyond the end of 2018. As a result, from 2019 onwards, the financial rating agencies retained by the SFIL Group for its issuance activity will now be Moody's, Standard & Poor's and DBRS.

Lastly, from a macro-economic point of view, as in 2017, two significant background issues will be closely monitored by the end of 2018:

- developments in the regulatory environment (including the harmonization of the European legal framework for covered bonds);
- market volatility in a context influenced by the perspectives for a quantitative easing exit strategy announced by the European Central Bank, the provisions linked to Brexit and the geopolitical environment.

Breakdown of cover pool as of June 30, 2018

EUR millions	06/30/2018					12/31/2017
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	**Loans**	**Bonds**	**Loans**	**Bonds**		
France						
State:						
- export refinancing	-	-	422	-	422	218
- others	7	-	113	-	120	118
Banque de France	2,741	-	-	-	2,741	1,707
Regions	1,870	427	258	-	2,555	2,399
Departments	6,872	279	185	-	7,336	7,018
Municipalities	15,375	19	402	-	15,796	16,165
Groups of municipalities	11,455	83	144	-	11,682	11,172
Public sector entities:					-	
- health	6,128	8	-	-	6,136	6,219
- social housing	1,222	-	-	-	1,222	1,291
- others	882	163	1	-	1,046	1,119
Credits institutions	805	552	-	-	1,357	694
Subtotal	**47,357**	**1,531**	**1,525**	**-**	**50,413**	**48,120**
Germany					-	
Länder	-	275	-	-	275	275
Subtotal	**-**	**275**	**-**	**-**	**275**	**275**
Austria					-	
Länder	-	-	185	-	185	187
Subtotal	**-**	**-**	**185**	**-**	**185**	**187**
Belgium					-	
Regions	4	-	22	-	26	30
Public sector entities	50	-	-	-	50	54
Credits institutions	-	92	-	-	92	57
Subtotal	**54**	**92**	**22**	**-**	**168**	**141**
Canada					-	
Communities	100	-	-	-	100	161
Public sector entities	35	-	-	-	35	35
Subtotal	**135**	**-**	**-**	**-**	**135**	**196**
Spain					-	
State	-	200	-	-	200	200
Regions	-	65	-	-	65	65
Municipalities	79	-	-	-	79	80
Subtotal	**79**	**265**	**-**	**-**	**344**	**345**
United States					-	
Federated States	-	253	-	-	253	253
Subtotal	**-**	**253**	**-**	**-**	**253**	**253**

EUR millions	06/30/2018					12/31/2017
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	**Loans**	**Bonds**	**Loans**	**Bonds**		
Italy						
State	-	535	-	-	535	543
Regions	-	1,943	-	-	1,943	1,975
Provinces	-	500	-	-	500	522
Municipalities	7	1,801	-	-	1,808	1,851
Subtotal	**7**	**4,779**	**-**	**-**	**4,786**	**4,891**
Japan					-	
Municipalities	-	25	-	-	25	25
Subtotal	**-**	**25**	**-**	**-**	**25**	**25**
Norway					-	
Credits institutions	-	207	-	-	207	70
Subtotal	**-**	**207**	**-**	**-**	**207**	**70**
Netherlands					-	
Credits institutions	-	-	-	-	-	-
Subtotal	**-**	**-**	**-**	**-**	**-**	**-**
Portugal					-	
State	-	10	-	-	10	-
Municipalities	16	-	-	-	16	17
Public sector entities	4	-	-	-	4	5
Subtotal	**20**	**10**	**-**	**-**	**30**	**22**
United Kingdom					-	
State	-	-	-	186	186	232
Public sector entities	-	60			60	-
Subtotal	**-**	**60**	**-**	**186**	**246**	**232**
Sweden					-	
Municipalities	18	-	-	-	18	18
Credits institutions	-	125	-	-	125	100
Subtotal	**18**	**125**	**-**	**-**	**143**	**118**
Switzerland					-	
Cantons	263	-	28	-	291	303
Municipalities	415	-	-	-	415	493
Public sector entities	60	-	-	-	60	90
Subtotal	**738**	**-**	**28**	**-**	**766**	**886**
Supranational					-	
International organizations	26	-	-	-	26	28
Subtotal	**26**	**-**	**-**	**-**	**26**	**28**
TOTAL *COVER POOL*	**48,434**	**7,622**	**1,760**	**186**	**58,002**	**55,789**

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 (IFRS)
for the period from January 1st to June 30, 2018

Assets

EUR millions	Note	6/30/2017	12/31/2017	1/01/2018[(1)]	6/30/2018
Central banks	*2.1*	3,884	1,706	1,706	2,740
Financial Assets at fair value through net income	*2.2*	4	-	6,951	6,357
Hedging derivatives	*4.1*	5,159	4,629	4,623	4,248
Financial assets available for sale	*2.3*	2,243	2,048	N/A	N/A
Financial Assets at fair value through equity	*2.4*	N/A	N/A	200	978
Loans and advances due from banks at amortized cost	*2.5*	483	867	867	1,487
Loans and advances to customers at amortized cost	*2.6*	58,827	56,892	43,486	43,766
Bonds at amortized cost	*2.7*	N/A	N/A	8,391	8,227
Fair value revaluation of portfolio hedge		2,657	2,518	2,518	2,668
Financial assets held to maturity		-	-	N/A	N/A
Current tax assets	*2.8*	0	0	0	0
Deferred tax assets	*2.8*	92	69	43	25
Accruals and other assets	*2.9*	13	48	48	32
TOTAL ASSETS		**73,362**	**68,777**	**68,833**	**70,528**

(1) Balance sheet presentation taking into account IFRS 9, applicable from 1st January 2018 (see Note 8).

Liabilities

EUR millions	Note	6/30/2017	12/31/2017	1/01/2018[(1)]	6/30/2018
Central banks		-	-	-	-
Financial liabilities at fair value through net income	*3.1*	5	4	2,167	1,838
Hedging derivatives	*4.1*	8,588	7,930	6,454	6,209
Due to banks at amortized cost	*3.2*	5,134	4,821	4,821	5,151
Customer borrowing and deposits at amortized cost		-	-	-	-
Debt securities at amortized cost	*3.3*	56,232	52,898	52,897	55,368
Fair value revaluation of portfolio hedge		1,005	883	883	367
Current tax liabilities	*3.4*	1	0	0	1
Deferred tax liabilities	*3.4*	-	-	-	-
Accruals and other liabilities	*3.5*	1,016	823	136	126
Provisions	*3.6*	39	41	47	47
Subordinated debt		-	-	-	-
EQUITY		**1,342**	**1,377**	**1,427**	**1,421**
Capital		1,350	1,350	1,350	1,350
Reserves and retained earnings		88	89	56	47
Net result through equity		(119)	(103)	(20)	(19)
Net income		23	41	41	43
TOTAL LIABILITIES		**73,362**	**68,777**	**68,832**	**70,528**

(1) Balance sheet presentation taking into account IFRS 9, applicable from 1st January 2018 (see Note 8).

Income Statement

EUR millions	Note	H1 2017	2017	H1 2018
Interest income	*5.1*	1,388	2,645	1,314
Interest expense	*5.1*	(1,291)	(2,460)	(1,239)
Net result of net positions hedging		-	-	-
Fee and commission income	*5.2*	3	3	-
Fee and commission expense	*5.2*	(6)	(15)	(8)
Net result of financial instruments at fair value through net income	*5.3*	(4)	(33)	39
Net result of financial instruments at fair value through equity	*5.4*	N/A	N/A	-
Gains or losses resulting from derecognition of financial instruments at amortized cost	*5.5*	N/A	N/A	5
Gains or losses resulting from reclassification of financial assets at amortized cost to fair value through net income		N/A	N/A	-
Gains or losses resulting from reclassification of financial assets at fair value through equity to fair value through net income		N/A	N/A	-
Net result of financial assets and liabilities	*5.6*	2	16	N/A
Other income		0	0	0
Other expense		(0)	(0)	(0)
NET BANKING INCOME		**92**	**156**	**111**
Operating expenses	*5.7*	(54)	(105)	(52)
GROSS OPERATING INCOME		**38**	**51**	**59**
Cost of risk	*5.8*	1	22	1
OPERATING INCOME		**39**	**73**	**60**
Net gains (losses) on other assets		-	-	-
INCOME BEFORE TAX		**39**	**73**	**60**
Income tax		(16)	(32)	(17)
NET INCOME		**23**	**41**	**43**
Earnings per share (EUR)				
- Basic		1.73	3.07	3.23
- Diluted		1.73	3.07	3.23

Net income and unrealized or defferred gains and losses through equity

EUR millions	H1 2017	2017	H1 2018
Net income	**23**	**41**	**43**
Item that may subsequently be reclassified as profit or loss	**8**	**24**	**84**
Unrealized or deferred gains and losses of financial assets available for sale	7	32	127
Unrealized or deferred gains and losses of financial assets at fair value through equity	-	-	(0)
Unrealized or deferred gains and losses of cash flow hedges	5	5	4
Tax on items that may subsequently be reclassified as profit or loss	(4)	(13)	(47)
Item that may not be reclassified as profit or loss	**-**	**-**	**-**
Total unrealized gains or losses through equity	**8**	**24**	**84**
NET INCOME AND GAINS OR LOSSES THROUGH EQUITY	**31**	**65**	**127**

Equity

EUR millions	Capital and reserves			Unrealized or deferred gains and losses				Total equity
	Share capital, additional paid-in capital	Retained earnings and net income for the period	Total	Net change in fair value of avalaible-for-sale financial assets, after tax	Net change in fair value of avalaible-for sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax	Total	
EQUITY AS OF DECEMBER 31, 2017	**1,350**	**130**	**1,480**	**(84)**	**-**	**(19)**	**(103)**	**1,377**
Stocks issued	-	-	-	-	-	-	-	-
Dividends	-	(50)	(50)	-	-	-	-	(50)
Changes in fair value of available for sale financial assets through equity	-	-	-	84	0	-	84	84
Changes in fair value of derivatives through equity	-	-	-	-	-	0	0	0
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		43	43	-		-	-	43
Other movements	-	(33)	(33)	-		-	-	(33)
EQUITY AS OF JUNE 30, 2018	**1,350**	**90**	**1,440**	**-**		**(19)**	**(19)**	**1,421**

The Ordinary Shareholder's meeting decided on May 28, 2018 , to distribute a dividend in the amount of EUR 49.95 millions. Each share (1,315,000 shares) received a dividend of EUR 3,70.

Share capital currently stands at EUR 1,350,000,000 represented by 13,500,000 nominative shares.

Cash flow statement

EUR millions	H1 2017	2017	H1 2018
Net INCOME BEFORE TAX	**39**	**73**	**60**
+/- Depreciation and write-downs	(13)	(56)	(3)
+/- Expense/income from investing activities	78	124	(2)
+/- Expense/income from financing activities	(100)	(99)	(138)
+/- Other items	4	24	64
= Non-monetary items included in net income before tax and other adjustments	**(31)**	**(7)**	**(79)**
+/- Cash from interbank operations	(188)	(883)	(297)
+/- Cash from customer operations	(600)	620	102
+/- Cash from financing assets and liabilities	(88)	313	(655)
+/- Cash from non-financing assets and liabilities	(343)	(607)	(219)
- Income tax paid	(24)	(29)	(10)
= Decrease/(increase) in cash from operating activities	**(1,243)**	**(586)**	**(1,079)**
CASH FLOW FROM OPERATING ACTIVITIES (A)	**(1,235)**	**(520)**	**(1,098)**
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-	**-**
+/- Cash from or for shareholders	(0)	(0)	(50)
+/- Other cash from financing activities	1,442	(1,452)	2,177
CASH FLOW FROM FINANCING ACTIVITIES (C) [(1)]	**1,442**	**(1,452)**	**2,127**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	**-**	**-**	**-**
Increase /(decrease) in cash equivalents (A + B + C + D)	**207**	**(1,972)**	**1,029**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**3,693**	**3,693**	**1,721**
Cash and balances with central banks (assets & liabilities)	3,684	3,684	1,706
Interbank accounts (assets & liabilities) and loans/deposits at sight	9	9	15
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**3,900**	**1,721**	**2,750**
Cash and balances with central banks (assets & liabilities)	3,884	1,706	2,740
Interbank accounts (assets & liabilities) and loans/deposits at sight	16	15	10
CHANGE IN NET CASH	**207**	**(1,972)**	**1,029**

(1) Over the firts half of 2018, the net cash flow of EUR +2.1 billion linked to fnancing activities corresponded to the change in debt represented by a security. Compared with the variation of EUR +2.5 billion in debt represented by a security mentioned in note 3.3.1., the difference primarily reflects the change in the revaluation of hedged risk and foreign exchange variations.

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, 2018, were examined by the Executive Board on September 3, 2018.

1.2. APPLICABLE ACCOUNTING STANDARDS

1.2.1. 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 and applicable within the European Union.

However, due to the entry into force of IFRS 9 for reporting periods beginning on or after January 1, 2018 and in accordance with point 3.2.3. of AMF's Recommendation "Closing of the Accounts 2017" (DOC-2017-09), Caisse Française de Financement Local has disclosed in its 2018 financial statements the information required under IFRS 7.42I and followings on the transition from IAS 39 to IFRS 9: IFRS 9 first time application impacts are detailed in note 8.

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

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 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 the occurrence of a significant increase of credit risk since initial recognition;
- 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.

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;
- assessment of the amount of expected credit losses;
- estimate of future taxable profit for the recognition and measurement of deferred tax assets.

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

The following review of changes in accounting standards is based on the situation as of June 30, 2018.

1.2.2.1. IASB and IFRIC texts endorsed by the European Union and effective as of January 1, 2018

- **IFRS 9 Financial Instruments**: This standard, which replaces IAS 39, was adopted by the European Union on November 22, 2016 (UE Regulation n°2016/2067), and has come into effect for fiscal years beginning on or after January 1, 2018. It sets out new principles for:
  - classification and valuation of financial assets: accounting is defined on the basis of the management model implemented, on the one hand, and the nature of the flows received, i.e. consisting exclusively of payments of principal and interest (SPPI[1]), or including other elements (non-SPPI), on the other hand;
  - impairment for credit risk: the standard introduces a single loss impairment model that requires to account for 12-month ex-

[1] *SPPI* : Solely Payments of Principal and Interest

pected credit losses for all assets that enter into the balance sheet, and lifetime expected credit losses if the credit risk has 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 one's 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

The management model implemented by Caisse Française de Financement Local has been formalized for the different portfolios of financial assets:
– the management model implemented for all loans portfolios and most of securities portfolios is the Hold-To-Collect model: such assets are accounted for and measured at amortized cost except the ones which do not meet the cash flow criterion representing solely principal and interests;
– only securities held for cash investment purposes are classified within an Hold-To-Collect-and-Sale management model: this comes from the higher sales frequency and volume for these assets, objective of which is specifically to address day-to-day liquidity management needs of Caisse Française de Financement Local. These assets are accounted for and measured at fair value through the section "other comprehensive income" of equity.

Some loans, which do not meet the cash flow criterion representing solely principal and interests are, from January 1, 2018, accounted for and measured at fair value through profit or loss. Such measurement is performed according to a mark-to-model-based methodology due to the absence of observable prices in an active market. They are composed of loans, contractual flows of which are not in line with those of a basic lending agreement as the latter is defined under the standard; this may be due in particular to the inclusion in the interest rate formula of a leverage effect or an indexation on foreign exchange rates.

Furthermore, the policy implemented by Caisse Française de Financement Local from its creation 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 complied 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) has been recorded as a counterpart to equity on the date of first application of the standard.

Moreover, on October 12, 2017, IASB issued an amendment to IFRS 9 entitled "Prepayment Features with Negative Compensation" which deals with instruments whose contractual terms may eventually result in a prepayment inferior to the sum of the outstanding principal and accrued interest. Under this amendment, such instruments do meet the SPPI criterion, provided that the prepayment essentially represents the outstanding principal and the related interest plus a reasonable compensation irrespective of its sign (payment by the borrower to the lender or by the lender to the borrower). Effective for reporting periods beginning on or after January 1, 2019, an earlier application of this amendment is permitted. Caisse Française de Financement Local opted for an earlier application of this amendment, given the endorsement by the European Union on March 22, 2018 (UE Regulation n° 2018/498).

Finally, as above mentioned, some securities which were or had been accounted for in a portfolio of assets available for sale under IAS 39, are now accounted for at amortized cost under IFRS 9: as for the first time application impact, this accounting change results in the direct reclassification in 2018 opening equity of the unrealized gain or losses accumulated in equity up to December 31, 2017.

Impairment of Financial Assets

As required under IFRS 9, the Company has defined the set of rules to break down its exposure into three levels ("Stages") depending on credit quality evolution since initial recognition. This set of rules relies on the existing risk monitoring framework of processes and committees (watchlist committee, default committee…).

The Standard also requires to define forward-looking scenarios in the objective of prospectively determining expected credit losses.

The Company has leveraged on its existing framework of calculation of the capital requirements involved by credit risk pursuant to Prudential Regulation (advanced models and prudential calculation rules) and, in the prospect of integrating a prospective dimension, forward-looking scenarios (projections of financial information impacting the portfolios) have been taken into consideration.

For Stage 1 and Stage 2 assets, the Expected Credit Losses calculation under IFRS 9 is inspired by the Expected Loss calculation under Basel committee rules (use of Exposure at Default, Probability of Default and Loss Given Default parameters and discounting at the effective interest rate). For Stage 3 assets, the Expected Credit Losses calculation is based mainly on individual recovery hypotheses made by the Credit Risk Department.

Finally, as regards the prudential requirements, Caisse Française de Financement Local does not apply the phase-in provisions embedded within UE Regulation n° 2017/2395 that enable a progressive recognition of the first time application impact of the standard.

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 in Europe 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, the Company discloses 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 has been based on a steering committee involving SFIL executive management, the finance division, the risks division, the head of information systems, as well as the president of the executive board of Caisse Française de Financement Local.

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 and 2018. All the components of the information system affected by the implementation of IFRS 9 have been subject to tests which have been integrated into the IT simplification and reinforcement program.

The governance of Caisse Française de Financement Local has been adapted so as to integrate the elements relating to the new standard into the existing procedures: asset-liability management committee will be in charge of determining and monitoring the management model pursued while new product committee will be in charge of assessing whether products meet the SPPI criterion.

Politics and procedures embedded within the existing risk management framework (watchlist and defaults) have been reviewed and updated through the inclusion of ad-doc documents, with the purpose of addressing the issue of impairment under IFRS 9.

Similarly, methodologies (models and parameters used), forward-looking scenarios and likelihood of occurrence related to impairment under IFRS 9 have been validated by the department credit validation and quality control. These scenarios have been embedded within the formal reporting sent to credit validation committee, risk committee, internal control and risk committee, the latter being a specialized committee of the Board of SFIL, and CAFFIL's executive board.

Moreover, backtesting procedures have been defined in order to monitor on an annual basis the efficiency of the framework of Expected Credit Loss calculation under IFRS 9; such procedures encompass the assessment of data quality, portfolio structure and forecast accuracy.

On each balance sheet date, the split in Stages as well as the impairment amounts are submitted for assessment and approbation to the impairment committee prior to their integration in the information systems. Impairment amounts are disclosed both internally – through a trimestral presentation to the internal control and risk committee and the risk trimestrial review – and externally – through financial reports.

Finally, the accounts committee of the Company, which is an emanation of the executive board of SFIL, the executive board and the supervisory board of Caisse Française de Financement Local have been regularly informed on IFRS 9 project progress and on the financial impacts of the entry into force of this new standard.

Amendments of IFRS framework induced by IFRS 9
IFRS 9 amends some other IFRS, in particular:
– IAS 1 Presentation of financial statements: the accounting headings belonging to net banking income and other comprehensive income are modified and adapted to IFRS 9;
– IFRS 7 Financial Instruments: Disclosures: additional pieces of information in Annex are required, especially relating to hedge accounting and credit risk.

• **IFRS 15 Revenue from contracts with customers**: endorsed by the European Union on September 22, 2016 (UE Regulation n° 2016/1905) and effective for reporting periods beginning on or after January 1, 2018, this standard deals with contracts with customers, excluding financial instruments, insurance contracts and leases.

The entry into force of this new standard has had no impact on financial statements of Caisse Française de Financement Local.

• **Amendments to IAS 28 "Investments in Associates and Joint Ventures" / IFRS 1 "First-time Adoption of International Financial Reporting Standards" / IFRS 12 "Disclosure of Interests in Other Entities":** issued by IASB on December 8, 2016 in the framework of its Annual Improvements Projects – 2014-2016 cycle, endorsed by the European Union on February 7, 2018 (UE Regulation n° 2018/182) and effective for reporting periods beginning on or after January 1, 2018 for the amendments to IAS 28 and IFRS 1 and January 1, 2017 for the amendment to IFRS 12, this amendments deal with interests classified as held for sale or discontinued operations under IFRS 5 and consolidation rules applying to an associate or a joint venture being held by or through a mutual fund or a venture capital organization.

• **Amendment to IFRS 4 "Insurance contracts:** Application of IFRS 9 Financial instruments with IFRS 4"

• **Amendment to IFRS 2 "Share-based payments"**

• **Amendment to IAS 40 "Investment property"**

• **IFRIC 22 "Foreign Currency Transactions and Advance Consideration"**

These amendments have no impact on financial statements of Caisse Française de Financement Local.

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

• **IFRS 16 Leases**: endorsed by the European Union on October 31, 2017 (UE Regulation n° 2017/1986) and effective for reporting periods beginning on or after January 1, 2019, this standard, which will eventually replace IAS 17, states that at the commencement date a lessee shall recognize both a right-of-use asset and a lease liability.

This standard will have no impact on the financial statements of Caisse Française de Financement Local given that the latter is not a party within leases contracts.

- Amendments to IAS 12 "Income taxes" / IAS 23 "Borrowing costs" / IFRS 3/IFRS 11 "Business combinations": issued by IASB in December 2017 in the framework of its Annual Improvements Projects – 2015-2017 cycle.
- Amendment to IAS 19 "Employee benefits"
- Amendment to IAS 28 "Investments in associates"
- IFRIC 23 "Uncertainty over Income Tax Treatments"

The impacts of these amendments on financial statements of Caisse Française de Financement Local are being analyzed.

1.3. ACCOUNTING PRINCIPLES APPLIED TO THE FINANCIAL STATEMENTS

1.3.1. Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention for both parties to settle expected future cash flows on a net basis or to simultaneously realize the asset and settle the liability.

1.3.2. Foreign currency transactions

Foreign currency transactions are accounted for using the exchange rate prevailing on the transaction date.

As a reminder, the main feature of a monetary item is the right to receive (or the obligation to deliver) a fixed or determinable number of units of currency. Under IAS 21, monetary assets and liabilities denominated in foreign currencies are recognized at closing rates and any resulting exchange differences are recognized in net income.

Financial assets denominated in a foreign currency and measured at fair value through the section "other comprehensive income" of equity are accounted for as monetary items under IFRS 9: the exchange difference resulting from the adjustment of the amortized cost of these assets is recognized in net income, while further adjustments of the carrying amount (except the loss allowance for expected credit losses: see below) are recognized in equity.

The Company holds no non monetary assets or liabilities denominated in a foreign currency.

1.3.3. Trade date and settlement date accounting

All purchases and sales of financial assets are recognized on settlement date, which is the date that a financial asset is received or delivered by the Company. Derivative instruments are recognized at fair value on the transaction date.

1.3.4. Financial assets

When the Company becomes party to the contractual provisions of a financial asset, the latter is classified under one of the three categories instituted by IFRS 9, depending on the business model it is held within on the one hand and the characteristics of its contractual cash flows on the other hand.

1.3.4.1. Business model

The inclusion of Company's financial assets within business models is assessed at a level that reflects how groups of financial assets are managed together to achieve Company's business objectives, which are:
• refinancing local government entities and public hospitals through the acquisition of medium/long-run loans granted by La Banque Postale;
• reducing the sensitivity of structured loans;
• refinancing SFIL by Caisse Française de Financement Local for the activity of export financing covered by French State.
This assessment implies most of the time the use of judgment and relies on facts, circumstances and, generally speaking, all relevant evidence that is available for the Company at the date of the assessment. These relevant evidences can be broken down into two groups:

• Qualitative evidences: how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel, the risks that affect the performance of the business model and the financial assets held within that business model and, in particular, the way in which those risks are managed, how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
• Quantitative evidences: the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity.
It can be inferred from this assessment that the Company only uses the Hold-To-Collect (HTC) model and the Holt-To-Collect-and-Sell (HTCS) model. The Company holds no financial assets for trading purposes, i.e. the Company does not acquire, incur or hold financial assets for the purpose of realizing a net gain through selling or repurchasing them it in the near term.

1.3.4.2. Characteristics of contractual cash flows (SPPI criterion)

The SPPI (Solely Payments of Principal and Interests) criterion test is intended to assess whether the contractual cash flows of a financial asset are consistent with the ones of a basic lending agreement, i.e. payment of principal and interest on that outstanding principal. Irrespective of the legal form of the asset and the form of its rate (fixed or variable), this is the case when the contractual cash flows embed only a compensation for the time value of money, a compensation for the credit risk, if applicable a compensation for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) associated with holding the asset for a particular period of time, plus if applicable a margin.
Most of the time a qualitative analysis is sufficient to determine whether the asset is SPPI compliant or not. Sometimes, an additional quantitative analysis is necessary: it intends to compare the contractual cash flows of the financial asset considered with the ones of a benchmark asset. If the gap assessed through this comparison is not material, the asset is assimilated to a basic lending agreement.

1.3.4.3. Financial assets measured at amortized cost

A financial asset is classified and subsequently measured at amortized cost if it is compliant with the two following conditions:
• This financial asset is held within a business model, objective of which is to hold financial assets in the purpose of collecting contractual cash flows (HTC model);
• Contractual provisions of this asset result, at specified dates, in cash flows which embed only the repayment of principal and interest on the outstanding principal (SPPI criterion).

At initial recognition, the Company records a financial asset belonging to this category at fair value, including if applicable any premium / discount and transaction costs. Subsequently, the financial asset is measured at amortized cost, which corresponds to its carrying amount at initial recognition minus repaid principal, plus or minus as appropriate the amortization of the premium / discount calculated using the effective interest rate method and taking into account any loss allowance for expected credit losses. The latter reduces the carrying amount of the financial asset with an offsetting entry to the cost of risk section of the net income.

Due and accrued interest on loans and fixed income securities as well as the amortization of premium / discount, calculated using the effective interest rate method, are recognized in the net interest margin.

The effective interest rate is the rate that accurately discounts the expected future cash flows over the expected life of the financial instrument or, where more appropriate, a shorter period, so as to obtain the gross carrying amount of the financial asset or, if the underlying asset is a purchased or originated credit-impaired financial asset or has been subsequently impaired (see below), its net carrying amount (which takes into account the loss allowance for expected credit losses). The calculation of this rate takes into account the commissions received or paid by the parties which, because of their nature, form an integral part of the effective rate of the contract, possible premiums and discounts and transaction costs. Transaction costs are incremental costs that are directly attributable to the acquisition of a financial instrument 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.

1.3.4.4. Financial assets measured at fair value through the section "other comprehensive income" of equity

A financial asset is classified and subsequently measured at fair value through the section "other comprehensive income" of equity if it is compliant with the two following conditions:
• This financial asset is held within a business model, objective of which is both to collect the contractual cash flows and to sell financial assets (HTCS model);
• Contractual provisions of this asset result, at specified dates, in cash flows which embed only the repayment of principal and interest on the outstanding principal (SPPI criterion).

At initial recognition, the Company records a financial asset belonging to this category at fair value, including if applicable any premium / discount and transaction costs. Subsequently, the unrealized gains or losses stemming from the variation of the fair value of this asset are recognized in the section "other comprehensive income" of equity, except an amount corresponding to the loss allowance for expected credit losses, which is recognized in the section "cost of risk" of the net income.

Due and accrued interest on loans and fixed income securities as well as the amortization of premium / discount, calculated using the effective interest rate method (see above), are recognized in the net interest margin.

1.3.4.5. Financial assets measured at fair value through net income

A financial asset which does not belong to any of the two categories described above (amortized cost and fair value through the section "other comprehensive income" of equity) falls under this category and is classified and subsequently measured at fair value through net income: this category is mainly composed of financial assets that are not SPPI compliant.

At initial recognition, the Company records a financial asset belonging to this category at fair value, including if applicable any premium / discount and excluding transaction costs. Subsequently, the unrealized gains or losses stemming from the variation of the fair value of this asset are recognized in the section "net banking income" of the net income.

So as to be in line with the accounting principles applied at Group level and stated under ANC Recommendation 2017-02 issued on June 2, 2017, the Company decided to record separately:
• The fair value variations excluding accrued interest; they are recorded on the line Net gains or losses on financial instruments at fair value through net income of the net banking income;
• Due and accrued interest; they are recorded in the net interest margin.

1.3.4.6. Designation options

The Company does not use the following options:
• Option to designate a financial asset as measured at fair value through net income: this option can be exercised only if it eliminates or significantly reduces a recognition inconsistency for assets or liabilities (accounting mismatch);
• Option to present in other comprehensive income subsequent changes in fair value of particular investments in equity instruments; the Company does not hold such instruments.

1.3.4.7. Impairment of financial assets

Defining the impairment base

A loss allowance for expected credit losses is calculated for all financial assets measured at amortized cost or at fair value through the section "other comprehensive income" of equity. At each closing date, they are broken down into three Stages:
• Stage 1: credit risk on the financial asset has not increased significantly since its initial recognition;
• Stage 2: credit risk on the financial asset has increased significantly since its initial recognition;
• Stage 3: the asset has defaulted.

At each closing date, the loss allowance for expected credit losses is measured as:
• The amount corresponding to the expected credit losses during the next 12 months for Stage 1 assets;
• The amount corresponding to the expected credit losses during the residual lifetime for Stage 2 and Stage 3 assets.

No loss allowance is recognized at initial recognition for purchased or originated credit-impaired financial assets. Interest incomes generated by these assets are determined using an effective interest rate that embeds expected credit losses. Subsequently, the loss allowance recognized on these assets corresponds to the accumulated variations of lifetime expected credit losses from initial recognition. The Company does not primarily intend to purchase or originate purchased or originated credit-impaired financial assets.

Assessing whether credit risk has significantly increased

The assessment of credit risk increase is performed on an individual basis: the Company does not use the collective basis approach. The objective of the assessment is to compare the default risk on the contract at closing date with its default risk at the date of initial recognition. This assessment takes into consideration all reasonable and supportable information that is relevant and that is available for the Company without incurring undue cost or making undue effort, in particular qualitative and quantitative information on past events (use of historic metrics), on current economic environment and on expectations on future economic environment (forward looking information). In practice, the assessment of credit risk increase is realized at counterparty level:
• Either through the comparison of the probability of default (PD) at maturity (weighted average PD of the forward looking scenarios) to the PD at initial recognition;
• Or through the characterization of risk levels (ratings coming from internal notation systems) year-to-year migrations towards risk levels regarded as risky (higher historic default rates).

The contract is classified in Stage 3 when the exposures to that counterparty are regarded as Non performing under Basel framework (NPE – Non performing exposures), i.e.:
• When the counterparty is unlikely to pay, which is evidenced by a credit risk rating characterizing a real default situation: it is probable that the counterparty will not repay all or part of its debt, without recourse to realizing securities if applicable; and / or
• When it presents material arrears in payment on the principal and / or on interest past due of more than 90 days.

The contract is classified in Stage 2 when the exposures to that counterparty are regarded as Performing under Basel framework but it is in one of the following situations:
• It is followed by the Watchlist Committee, due to an increase in its credit risk, or it is in Forbearance, which means that the Company has refrained the enforcement of its rights toward counterparty facing financial difficulties;
• It presents arrears in payment on the principal and / or on interest past due of more than 30 days (and less than 90 days) for Public Sector and Corporate / projects entities or more than 1 day for Sovereigns and Credit institutions;
• Its rating presents one of the following characteristics: it is non Investment grade (internal rating inferior or equal to BB+), it has no rating, it has experimented or is to experiment a rating migration regarded as risky in the forward looking scenarios. The rating migrations regarded as risky have been assessed to be as such based on a quantitative modeling realized on the basis of a statisti-

cal analysis using historical data and completed by the use of expert judgment.

If none of the situations detailed above has occurred, the significant increase in credit risk is not characterized and the contract is classified in Stage 1.

The principle of "contagion" used in Basel framework to define NPE, has been transposed to accountings: the assessment of credit risk significant increase is performed at counterparty level.

Stages transitions must be compliant with the following rules:
• The contracts that present an internal credit rating characterizing a real default situation can get out of Stage 3 and go back to Stage 2 or Stage 1 only after a cure period of one year during which they are considered as Non performing and stay classified in Stage 3. Exit from Stage 3 must in addition be formally decided in Default Committee and is conditional to the full repayment of arrears if any;
• The contracts in Forebearance can get out of Stage 2 or as appropriate Stage 3 and go back to Stage 1 only after a cure period of 2 years after the date when the forbearance has been granted if the contract is in Stage 2, or after the date when the contract exited Stage 3.

Calculating the impairment amount
The loss allowance recognized on the contract is equal to the average of expected credit losses of each of the scenarios weighted by their probability of occurrence. For all material portfolios, the definition of scenarios integrate a forward looking dimension, which consists in projecting macroeconomic and financial variables and assessing their impacts on loss allowances. These scenarios are built upon either projections realized by the credit risk direction, or on quantitative research developed from data issue from advanced models. In the case of French local communities, the main pieces of information taken into account are the expectations and objectives in term of local public expenditures and tax revenues developed in particular in the draft budget bills and the programs for stability of the State, as well as the hypothesis regarding recourse to taxation.

For the contracts of counterparties classified in Stage 1 or Stage 2, the expected credit losses equals the present value of the product of three parameters discounted at the original effective interest rate of the contract: the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). These parameters depend on the scenario and the year considered. The Company has capitalized on the framework of calculation of these parameters under Basel regulation and has introduced adjustments so as to comply with specific provisions of IFRS 9: point in time analysis with the integration of a forward looking perspective under IFRS 9 (vs. through the cycle analysis for the probability of default and downturn analysis for the loss given default under Prudential regulation). This approach has resulted in the definition of IFRS 9 specific models for each material portfolio.

For the contracts of counterparties classified in Stage 3, the expected credit losses equals the loss at maturity, i.e. the difference between the sequence of cash flows contractually due to the Company and the sequence of cash flows that the Company expects to recover, both discounted at the original effective interest rate. Depending on the materiality of the contract, the cash flows that the Company expects to recover are calculated either through individual simulations performed by the credit risk direction, or through standard recovery scenarios using predefined management rules. These flows are, if applicable, net of any flows derived from realizing securities which form an integral part of contractual provisions. The expected credit losses accounted for are floored to the amount of expected credit losses calculated by applying the methodology used for a Stage 2 contract and integrating a stress factor with the use of the probability of default corresponding to the worst rating of the scale that the underlying asset belongs to.

At each closing date, the classification in Stages and the loss allowances for expected credit losses are subject to analysis and are validated by the impairment committee prior to their accounting. Besides, back testing procedures have been set up so as to annually monitor the efficiency of the framework of expected credit losses calculation under IFRS 9; they encompass data quality, portfolio structure and expectations quality.

Recognizing the impairment
Positive and negative variations of the amount of the loss allowance for expected credit losses are recognized in the section "cost of risk" of the net income.
When an asset is determined by management as being irrecoverable, it is derecognized (see below) and the loss allowance for expected credit losses is reversed in the section "cost of risk" of the net income; the net loss is recognized in the same section. Subsequent recoveries, if any, are also recognized in cost of risk.

1.3.4.8. Derecognition of financial assets

A financial asset is derecognized when and only when the contractual rights to the cash flows from this asset expire or if this asset is transferred and the transfer meets one of the following conditions:
• Substantially all the risks and rewards of ownership of this asset have been transferred; or
• Substantially all the risks and rewards of ownership of this asset have been neither transferred nor retained and the control on this asset has not been retained. If the control on this asset has been retained, the underlying asset continues to be recognized to the extent of Company's continuing involvement in it.

The gain or loss realized when derecognizing a financial asset equals the difference between on the one hand the consideration received (net of transaction costs and including any new asset obtained less any new liability assumed) and on the other hand the carrying amount of this asset measured at the date of derecognition. It is recognized in the section "net banking income" of the net income of the period considered.

Case of disposals
Financial assets are derecognized on disposal. The gain or loss realized on disposal takes into account the followings:
• For financial assets measured at amortized cost, the carrying amount of the disposed asset is systematically determined based on the "first in, first out" approach (FIFO method) on a portfolio basis;
• For financial assets measured at fair value through the section "other comprehensive income" of equity, cumulative gains and losses previously recognized in equity are, applying FIFO method, reversed in net income on disposal, within the line of the net banking income recording the net gains and losses of this category.

Case of repos and reverse repos operations
Sold securities that are subject to a commitment to repurchase them at a predetermined price (repos) are not derecognized and remain on the balance sheet in their original category. The corresponding liability is included in the section of financial liabilities at amortized cost. The asset is reported as pledged in the notes.

Securities purchased under commitment to sell at a predetermined price (reverse repos) are recorded as off-balance sheet items and the corresponding loans are recorded on the balance sheet in the section of financial assets at amortized cost.

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

Case of prepayments
The prepayment of a loan results in general in the payment of a penalty which is included within the gain or the loss realized on derecognition.

• In the case of a prepayment without refinancing, the loan does not exist any longer and is derecognized.
• In the case of a prepayment with refinancing, the accounting treatment differs depending on whether the restructured terms are substantially different from the original terms; it is the in particular the case in one of the following situations:
• The restructured loan is not classified in the same accounting category as the original loan, either because its contractual cash flows are from now compliant with the SPPI criterion (while they were not originally) or because they are not any longer (while they were originally);
• 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, both of these present values being discounted at the original effective interest rate.

If restructured terms are not substantially different from original terms, the original loan is not derecognized. Its gross carrying amount is adjusted so as to reflect the post-restructuring terms, including costs and fees incurred; it corresponds to the present value of the restructured cash flows discounted at the original effective interest rate (or, in the case of purchased or originated credit-impaired assets, at this rate adjusted so as to reflect credit quality). Such an adjustment, called "catch-up" effect, constitutes the excess of the restructured margin of the loan over its original margin: it is immediately recognized in net income of the period, within the net interest margin. Furthermore, for financial assets measured at amortized cost or at fair value through the section "other comprehensive income" of equity, the Company assesses whether, due to the modifications in the terms, a significant increase in credit risk since initial recognition has occurred: if so, an adjustment of the loss allowance for expected credit losses is recognized (see above).

If restructured terms are substantially different from original terms, the original loan is derecognized and the loan under restructured terms is recognized as a new financial asset. Its gross carrying amount is adjusted so as to reflect the market conditions; it corresponds to the present value of the restructured cash flows discounted at the effective interest rate of a loan granted under normal market conditions at the date when the loan is restructured. Such an adjustment constitutes the excess of the restructured margin of the loan over normal market conditions at the date when the loan is restructured: it is immediately recognized in net income of the period, within the line of the net banking income that records the net gains and losses of the category of the derecognized financial asset.

1.3.5. Financial liabilities

1.3.5.1. Financial liabilities held for trading
The Company does not hold financial liabilities belonging to this category.

1.3.5.2. Financial liabilities designated at fair value through net income
The Company does not use this option.

1.3.5.3. 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 measured at amortized cost and any difference between their initial carrying amount and the redemption value is recognized in net income over the expected life of the instruments using the effective interest rate method.

Financial liabilities at amortized cost are mainly *obligations foncières* and other resources that benefit 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 expected 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 net income within the net interest margin. In the case of bonds issued above par, the amortization of issue premiums is deducted from related interest income and expense, within the net interest margin.

Interest paid related to *obligations foncières* is accounted for in the net interest margin 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 according to a quasi-actuarial method over the life of the bonds to which they are attached and are accounted for in the net interest margin.

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

Registered covered bonds are private placements recorded at nominal value. Related issue premiums, fees and commissions and interest are treated the same way as *obligations foncières* (see above).

1.3.5.4. Derecognition of financial liabilities

A financial liability is derecognized when and only when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

The restructuring of a financial liability results in the derecognition of this financial liability when the restructured terms are substantially different from the original terms.

1.3.6. Derivatives

Applying the provisions of IFRS 9, the Company has decided to maintain the provisions of IAS 39 for hedge accounting at the date of entry into force of IFRS 9. However, the Company discloses the financial information on hedge accounting that is required under IFRS 7 as amended by IFRS 9.

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 as assets if their fair value is positive and as liabilities if it is negative.

1.3.6.1. Derivatives not documented in a hedging relationship

The Company enters into derivative contracts for the unique purpose of hedging its exposures to interest rate or foreign exchange risks. However, some derivatives must be measured at fair value through net income on balance sheet date; they are:
- The ones which failed hedge effectiveness tests on balance sheet date;
- The ones which hedge financial assets that are measured at fair value through net income. In this case, the revaluation of the derivative hedges natively the revaluation of the hedged risk of the financial asset, making pointless the documentation of a hedging relationship;
- The ones that hedge the foreign exchange risk related to export credit financing loans denominated in a currency other than the euro. These derivatives are concluded before the end of the drawing phase of the hedged loans but hedging relationship has been documented only from the complete payment in the Company's balance sheet.

Both realized and unrealized gains and losses on these derivatives, measured a t fair value through net income on balance sheet date, are recognized in net income within the net banking income.

1.3.6.2. Hedging derivatives

Hedging derivatives can be classified as either:
- hedges of the fair value of a recognized asset or liability or a firm commitment (fair value hedge); or
- hedges of a future cash flow that might eventually impact the future net income and that is attributable to a recognized asset or liability or a forecast and highly probable future transaction (cash flow hedge).

Hedge accounting may be used for such derivatives, provided certain criteria are met:
- precise and formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be effective both prospectively and retrospectively in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the reporting periods;
- the hedge, effectiveness of which has been reliably measured, shall be effective at inception and on an ongoing basis;
- for hedges of a future cash flow, the future transaction that constitutes if applicable the hedged item must be highly probable and must involved an exposure to variations in cash flows that could ultimately affect the net income.

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 net income, along with the corresponding change in fair value of the hedged items 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.

The efficient portion of the changes in the fair value of derivatives that are designated and documented in a cash-flow hedging relationship and that respect the criteria set out above, is recognized in equity. The non-efficient portion of the changes in the fair value of the derivatives is recognized in the net income. Amounts deferred in equity are recycled to the net income and classified as income or expense in the periods during which the hedged firm commitment or forecast transaction affects the net income.

If at any time the hedge no longer meets the criteria for hedge accounting, one of the following accounting treatments shall be applied:
• In the case of a fair value hedge, 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;
• In the case of a cash flow hedge, the amounts deferred in equity during the previous reporting periods (i.e. the efficient portion of the changes in the fair value of derivatives) are maintained in equity until the derecognition or the extinguishment of the hedged item. They are recycled to the net income when or as the item formerly hedged impacts the net income.

1.3.6.3. Hedging of the interest rate risk of a portfolio

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

The Company 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. It selects financial assets and liabilities to be included in the hedge of the portfolio's interest rate risk exposure. The same methodology is constantly applied to select financial assets and liabilities that are included in the portfolio. 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 bonds. Based on this gap analysis, which is realized on a net basis, the Company defines at inception the risk exposure to be hedged, the length of time-buckets and the testing method and frequency.

Most of macro-hedging instruments used by the Company are plain-vanilla interest rate swaps designated at inception within a fair value hedge of fixed-rate resources or expenses. Hedge effectiveness is assessed through the use of target schedules. Prospective (realized at inception) and retrospective (realized at each half-year and annual closing) efficiency tests are intended to ensure there is no "over" hedging: they are successful if, for each time-bucket of the target schedule, the nominal amount of hedged items is superior to the notional amount of hedging derivatives.

Hedging instruments are made up of a portfolio of derivatives, in which positions may be offset. Hedging items are recognized at fair value (including accrued interest expense or income) with fair value adjustments recorded in the net income.

Revaluation related to the hedged risk is recognized on the balance sheet (respectively in asset or liability depending on whether the groups of hedged items are assets or liabilities) as Fair value revaluation of portfolio hedge.

1.3.7. 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 in the principal market, or in its absence, in the most advantageous market the Company has access to on that date. The fair value of a liability reflects its non-performance risk, which includes in particular the Company's own credit risk.

Market prices are used to determine fair value when an active market exists. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an going concern basis. Active market prices are not, however, available for a significant number of the financial assets and liabilities held or issued by the Company.

If a financial instrument is not listed on 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, if available, reference to the current fair value of another instrument that is substantially the same, and valuation models.

A valuation model reflects what the transaction price would have been on the measurement date in current market conditions. The valuation model incorporates all the factors that market participants would consider when pricing a transaction; for example modifications in the credit risk quality of the underlying financial instruments and market liquidity. Within this framework, the Company 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 balance-sheet date.

1.3.7.1. Fair value of financial instruments measured at amortized cost

The following comments are applicable to the fair value of financial instruments measured at amortized cost presented in the notes:

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

1.3.7.2. Financial instruments measured at fair value

Non derivative financial assets measured at fair value, either through the section "other comprehensive income" of equity or through net income, and derivative instruments 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 as much as possible observable, and if necessary non-observable, market data.

For non derivative financial assets measured at fair value and for derivative instrumens, 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, the Company uses different discount curves depending on whether collateral was actually exchanged. When Caisse Française de Financement Local receives collateral, future derivative cash flows are discounted using an overnight indexed swap curve (OIS). Uncollateralized transactions are discounted using an Euribor-based curve. This differential treatment reflects the different financing costs associated with the derivatives used (FVA – *funding valuation adjustment*).

As a reminder, Caisse Française de Financement Local does not pay any collateral to its derivative counterparties, which benefit from the legal privilege on assets, as well as the legal holders of covered bonds.

In addition, a value adjustment is included in the fair value of derivatives to reflect the impact of a counterparty's credit risk (CVA – credit valuation adjustment) or the Company's own credit risk (DVA – debit valuation adjustment). Value adjustment allows switching from a fair value based on cash-flows discounted at risk-free rate, i.e. without considering credit risk, into a fair value including this risk. Its calculation is based on the risk exposures combined with loss rates including market parameters.

1.3.8. Interest income and expense

For all interest-bearing instruments, interest income and expense are recognized in the net income using the effective interest rate method: see above section 1.3.4. Financial assets.

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

1.3.9. Commission income and expense

Most of the commissions arising from the Company's activities are recognized on an accrual basis over the life of the underlying transaction.

Loan commitment commissions are recognized as an adjustment to the effective interest rate and recorded in net interest margin if the loan is granted.

1.3.10. Deferred taxes

Deferred taxes are recognized using the liability method to account for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The tax rates enacted or substantively enacted at the balance-sheet date are used to determine deferred taxes.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax liabilities are recognized to account for temporary differences arising from investments in subsidiaries, jointly controlled companies and associates, except where the timing of the reversal of the temporary difference cannot 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 financial assets measured at fair value through the section "other comprehensive income" of equity and cash flow hedges, and other operations which are charged or credited directly to other comprehensive income, are also credited or charged to other comprehensive income.

1.3.11. Provisions

Provisions mainly include provisions for litigations, restructuring and loan commitments.

Under IAS 37, a provision is recognized when and only when:
• The Company has a present legal or constructive obligation as a result of past events;
• It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
• A reliable estimate of the amount of the obligation can be made.

A provision is measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money.

Regarding loan commitments, the followings must be distinguished (see above section 1.3.4. Financial assets):
• Loan commitments measured at fair value through net income: they are in the scope of IFRS 9. Therefore, they are not impaired but valued and their valuation is recognized in the asset side of the balance sheet;
• Other loan commitments: they are in the scope of the provisions of IFRS 9 related to derecognition and impairment only. Therefore, loss allowances for expected credit losses related to these commitments are measured and recognized the same way as the ones related to financial assets measured at amortized cost or fair value through the section "other comprehensive income" of equity. The assessment of whether credit risk has significantly increased since initial recognition is performed from the date on which the Company is irrevocably and legally committed, i.e. from the issuing of a letter of loan offer. Besides, related loss allowances are recognized on the liability side of the balance sheet against net income, within the cost of risk.

1.3.12. Earnings per share

Basic earnings per share before dilution are calculated by dividing net income available for shareholders by the weighted average number of shares outstanding at closing.

1.3.13. Related-party transactions

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

1.3.14. Segment reporting

The Company's sole activity involves the financing or refinancing of loans to 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).
The Company conducts its business solely from France. It has no direct activity in other countries and is unable to present a relevant geographic breakdown of its results.

1.3.15. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include balances at central bank and interbank deposits and demand deposits on credit institutions.

2. Notes to the assets (EUR millions)

2.1 - CENTRAL BANKS

	6/30/2017	12/31/2017	6/30/2018
Mandatory reserve deposits with central banks	-	-	-
Other deposits	3,884	1,706	2,740
TOTAL	**3,884**	**1,706**	**2,740**

2.2 - FINANCIAL ASSETS AT FAIR VALUE THROUGH NET INCOME

2.2.1. Analysis by nature

	6/30/2017	12/31/2017	6/30/2018
Cash collateral paid (1)	N/A	N/A	-
Loans and advances to customers	-	-	6,350
Non Hedging derivatives	4	-	7
TOTAL	**4**	**-**	**6,357**

(1) Following the switch to IFRS 9 on 1st January 2018, cash collateral paid is classified under Financial assets at fair value through net income. As a reminder, given its status as a société de crédit foncier *Caisse Française de Financement Local does not pay cash collateral in respect of its derivative contracts.*

2.2.2. Loans and advances to customers analysis by counterparty

	6/30/2017	12/31/2017	6/30/2018
Public sector	-	-	5,842
Other - guaranteed by a State or local government	-	-	508
TOTAL	**-**	**-**	**6,350**
of which eligible for central bank refinancing	-	-	*5,508*
of which assets assigned in guarantee to the central bank	-	-	-

2.2.3. Analysis by residual maturity

See note 7.4

2.3 - FINANCIAL ASSETS AVAILABLE FOR SALE

2.3.1. Analysis by nature

	6/30/2017	12/31/2017	6/30/2018
Loans	-	-	N/A
Bonds	2,243	2,048	N/A
TOTAL	**2,243**	**2,048**	**N/A**

2.3.2. Analysis by counterparty

	6/30/2017	12/31/2017	6/30/2018
Public sector	1,461	1,474	N/A
Credit institutions guaranteed by the public sector	-	-	N/A
Total public sector	**1,461**	**1,474**	**N/A**
Credit institutions	782	574	N/A
Total replacement assets	**782**	**574**	**N/A**
TOTAL	**2,243**	**2,048**	**N/A**
of which eligible for central bank refinancing	*2,021*	*1,830*	*N/A*

2.3.3. Impairment

	6/30/2017	12/31/2017	6/30/2018
Public sector	1,461	1,474	N/A
Replacement assets	782	574	N/A
Total performing assets	**2,243**	**2,048**	**N/A**
Public sector	-	-	N/A
Replacement assets	-	-	N/A
Total impaired assets	**-**	**-**	**N/A**
Specific impairment	-	-	N/A
TOTAL ASSETS AFTER IMPAIRMENT	**2,243**	**2,048**	**N/A**

2.3.4. Unrealized or deferred gains and losses, breakdown by country

See note 4.4

2.4 - FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY

2.4.1. Analysis by nature

	6/30/2017	12/31/2017	6/30/2018
Stocks	N/A	N/A	-
Debt securities	N/A	N/A	978
TOTAL	**N/A**	**N/A**	**978**

2.4.2. Analysis by counterparty

	6/30/2017	12/31/2017	6/30/2018
Public sector	N/A	N/A	611
Credit institutions	N/A	N/A	367
TOTAL	**N/A**	**N/A**	**978**
of which replacement assets	*N/A*	*N/A*	*367*
of which eligible for central bank refinancing	N/A	N/A	*810*

2.4.3. Analysis by residual maturity

See note 7.4

2.5 - LOANS AND ADVANCES DUE FROM BANKS AT AMORTIZED COST

2.5.1. Analysis by nature

	6/30/2017	12/31/2017	6/30/2018
Sight accounts	8	11	4
Other loans and advances due from banks	475	856	1,483
TOTAL	**483**	**867**	**1,487**
of which eligible for central bank refinancing	-	-	-

2.5.2. Analysis by counterparty

	6/30/2017	12/31/2017	6/30/2018
SFIL - loans to refinance large export credit guaranteed by the French state [1]	113	218	422
Replacement assets	8	371	803
Swiss cantonal banks benefiting from their canton's legal guarantee	110	30	30
Banks guaranteed by a local government, crédits municipaux	22	22	9
Other credit institutions of which loans benefiting from the assignment in guarantee of refinanced public debt	230	226	223
TOTAL	**483**	**867**	**1,487**
of which eligible for central bank refinancing	-	-	-

(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 irrevocable and unconditional 100% guarantee by the French State, referred to as an enhanced guarantee.

2.5.3. Replacement assets

	6/30/2017	12/31/2017	6/30/2018
SFIL - other loans non secured by public sector assets [1]	-	360	799
Sight accounts	8	11	4
TOTAL	**8**	**371**	**803**

(1) Since 2017, Caisse Française de Financement Local has invested some of its surplus cash in loans granted to its parent company SFIL.

2.5.4. Breakdown by stage of credit risk and impairment:

	6/30/2017	12/31/2017
Sight accounts	8	11
Other loans and advances due from banks	475	856
Performing assets	**483**	**867**
Impaired loans and advances	-	-
Impaired assets	**-**	**-**
Total assets before impairment	**483**	**867**
Specific impairment	-	-
Collective impairment	-	-
TOTAL	**483**	**867**

	6/30/2018									
	Gross amount				Impairment			Net Amount	Accumulated partial write-offs	Accumulated total write-offs
	Stage 1	Stage 2	Stage 3	TOTAL	Stage 1	Stage 2	Stage 3			
Sight accounts	4	-	-	**4**	-	-	-	**4**	-	-
Other loans and advances due from banks	1,483	-	-	**1,483**	(0)	-	-	**1,483**	-	-
TOTAL	**1,487**	**-**	**-**	**1,487**	**(0)**	**-**	**-**	**1,487**	**-**	**-**

2.5.5. Analysis by residual maturity

See note 7.4

2.5.6. Unrealized or deferred gains and losses, breakdown by country

See note 4.4

2.6 - LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

2.6.1. Analysis by counterparty, stage of credit risk and impairment:

	6/30/2017	12/31/2017
Loans to public sector	55,777	53,946
Loans guaranteed by public sector	2,587	2,441
Performing assets	**58,364**	**56,387**
Loans to public sector	549	558
Loans guaranteed by public sector	-	-
Impaired assets	**549**	**558**
Total assets before impairment	**58,913**	**56,945**
Specific impairment	(41)	(23)
Collective impairment	(45)	(30)
TOTAL	**58,827**	**56,892**

	6/30/2018									
	Gross amount				Impairment			Net Amount	Accumulated partial write-offs	Accumulated total write-offs
	Stage 1	Stage 2	Stage 3	TOTAL	Stage 1	Stage 2	Stage 3			
Loans to public sector	37,730	3,368	1,177	**42,275**	(2)	(22)	(9)	**42,242**	-	-
Loans guaranteed by public sector	1,393	132	-	**1,525**	-	(1)	-	**1,524**	-	-
TOTAL	**39,123**	**3,500**	**1,177**	**43,800**	**(2)**	**(23)**	**(9)**	**43,766**	**-**	**-**
of which eligible for central bank refinancing								*36,604*		

Assets considered as forborne by Caisse Française de Financement Local concern exposures to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognized or to come) that would not have been granted in other circumstances. These concessions may either be a waiver of a part of the debt, a rescheduling of the loan repayment, restructuring measures through an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions aiming to reduce the sensitivity of the loan.
There were 193 forborne contracts as of June 30, 2018, with 96 borrowers, for a total of EUR 1,160 million.

2.6.2. Analysis by residual maturity

See note 7.4

2.6.3. Unrealized or deferred gains and losses, breakdown by country

See note 4.4

2.7 - BONDS AT AMORTIZED COST

2.7.1. Analysis by counterparty

	6/30/2017	12/31/2017	6/30/2018
Bonds to public sector	N/A	N/A	7,298
Replacement assets	N/A	N/A	694
Other bonds guaranteed by a State or local government	N/A	N/A	235
TOTAL	**N/A**	**N/A**	**8,227**
of which eligible for central bank refinancing	*N/A*	*N/A*	*4,271*

2.7.2. Breakdown by stage of credit risk and impairment:

	6/30/2018									
	Gross amount				Impairment			Net Amount	Accumulated partial write-offs	Accumulated total write-offs
	Stage 1	Stage 2	Stage 3	TOTAL	Stage 1	Stage 2	Stage 3			
Bonds to public sector	5,713	1,606	-	7,319	(4)	(16)	-	7,299	-	-
Replacement assets	694	-	-	694	(0)	-	-	694	-	-
Other bonds guaranteed by a State or local government	162	73	-	235	(0)	(1)	-	234	-	-
TOTAL	**6,569**	**1,679**	**-**	**8,248**	**(4)**	**(17)**	**-**	**8,227**	**-**	**-**

2.7.3. Analysis by residual maturity

See note 7.4

2.7.4. Unrealized or deferred gains and losses, breakdown by country

See note 4.4

2.8 - TAX ASSETS

	6/30/2017	12/31/2017	6/30/2018
Current income tax	-	-	-
Other taxes	0	0	0
Current tax assets	**0**	**0**	**0**
Deferred tax assets (see note 4.2)	**92**	**69**	**25**
TOTAL TAX ASSETS	**92**	**69**	**25**

In 2018, decrease in Deferred tax assets is due to IFRS standards change (suppression of the item Available for sale with IFRS 9). 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, 2018, were 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, 2018, Caisse Française de Financement Local had no deferred tax assets related to carry forward tax losses.
Caisse Française de Financement Local took into account the legislative measures designed to reduce the corporate income tax rate to 25 % as of 2022.

2.9 - ACCRUALS AND OTHER ASSETS

	6/30/2017	12/31/2017	6/30/2018
Cash collateral paid (1)	-	-	N/A
Other accounts receivable	0	1	1
Prepaid charges	1	2	4
Other assets	12	45	27
TOTAL COMPTES DE RÉGULARISATION ET ACTIFS DIVERS	**13**	**48**	**32**

(1) Following the switch to IFRS 9 on 1st January 2018, cash collateral paid is classified under Financial assets at fair value through net income. As a reminder, given its status as a société de crédit foncier *Caisse Française de Financement Local does not pay cash collateral in respect of its derivative contracts.*

3. Notes to the liabilities (EUR millions)

3.1 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH NET INCOME

3.1.1. Analysis by nature

	6/30/2017	12/31/2017	6/30/2018
Cash collateral received (1)	N/A	N/A	503
Non hedging derivatives (2)	5	4	1,335
TOTAL	**5**	**4**	**1,838**

(1) Following the switch to IFRS 9 on 1st January 2018, cash collateral received is classified under Financial liabilities at fair value through net income.

(2) Caisse Française de Financement Local is only authorized to enter into derivative transactions for hedging purposes. However, as certain hedging derivatives do not meet all the conditions required by IFRS to be classified as hedging instruments for accounting purposes, they are classified as derivative instruments at fair value through net income.
Furthermore, as from 1st January 2018 and the entry into force of IFRS 9, derivatives used to hedge assets reclassified as assets measured at fair value through net income can no longer be classified as hedging instruments for accounting purposes. They are therefore now allocated to this category.

3.1.2. Analysis by residual maturity

See note 7.4

3.2 - DUE TO BANKS AT AMORTIZED COST

3.2.1. Analysis by nature

	6/30/2017	12/31/2017	6/30/2018
Term borrowing - parent company	5,130	4,821	5,153
Interest accrued not yet due	4	0	(3)
Sight accounts	-	-	1
TOTAL	**5,134**	**4,821**	**5,151**

A the end of June 2018, the funding borrowed 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.

3.2.2. Analysis by residual maturity

See note 7.4

3.3 - DEBT SECURITIES AT AMORTIZED COST

3.3.1. Analysis by nature

	6/30/2017	12/31/2017	6/30/2018
Obligations foncières	48,399	45,157	47,756
Registered covered bonds	7,833	7,741	7,612
TOTAL	**56,232**	**52,898**	**55,368**

3.3.2. Analysis by residual maturity

See note 7.4

3.4 - TAX LIABILITIES

	6/30/2017	12/31/2017	6/30/2018
Current income tax	1	0	1
Other taxes	0	0	0
Current tax liabilities	**1**	**0**	**1**
Deferred tax liabilities (see note 4.2)	**-**	**-**	**-**
TOTAL TAX LIABILITIES	**1**	**0**	**1**

3.5 - ACCRUALS AND OTHER LIABILITIES

	6/30/2017	12/31/2017	6/30/2018
Cash collateral received [1]	871	687	N/A
Other accrued charges	25	24	18
Deferred income	-	-	-
Contribution to support fund [2]	110	110	100
Other accounts payable and other liabilities	10	2	8
TOTAL	**1,016**	**823**	**126**

(1) Following the switch to IFRS 9 on 1st January 2018, cash collateral received is classified under Financial liabilities at fair value through net income.

(2) 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).

3.6 - PROVISIONS

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 has now been closed, and the deductibility of provisions for non-performing loans. In order to safeguard its rights to the disputed adjustment, in 2017 the tax authority initiated a verification procedure relating to the consequences of its previous assessment of taxable income for the 2014 to 2016 fiscal years. The two points of desagreement resulting from the 2015 assessment still held following this tax audit. There were no other new developments.
Since 2016, Caisse Française de Financement Local has introduced the right of appeal stipulated by regulations and has maintained its position.
Neither the discussions that took place with the tax authorities nor the new tax audit called into question the assumptions used to calculate the amount set aside into the accounts.

	12/31/2017	Additions, including increases in existing provisions	Amounts used	Unused amounts reversed during the period	Increase in the discounted amount (passage of time) and effect of any change in the discount rate	Other movements	6/30/2018
Pending legal issues and tax litigation	41	-	-	-	-	-	41
Commitments and guarantees given [1]	-	6	-	(0)	-	-	6
Other provisions	-	-	-	-	-	-	-
TOTAL	**41**	**6**	**-**	**(0)**	**-**	**-**	**47**

(1) In connection with the implementation of IFRS 9, Caisse Française de Financement Local reclassified provisions for commitments as liabilities.

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

4.1 - DERIVATIVES

4.1.1. Analysis by nature

	6/30/2017		12/31/2017		6/30/2018	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through net income [1]	**4**	**5**	**0**	**4**	**7**	**1,335**
Derivatives designated as fair value hedges	3,510	5,682	3,268	5,288	3,008	3,771
Derivatives designated as cash flow hedges	3	144	2	56	(8)	48
Derivatives designated as portfolio hedges	1,648	2,797	1,360	2,587	1,249	2,424
Hedging derivatives	**5,161**	**8,623**	**4,630**	**7,931**	**4,249**	**6,243**
CVA / DVA Impact	**(2)**	**(35)**	**(1)**	**(1)**	**(1)**	**(34)**
TOTAL DERIVATIVES	**5,163**	**8,593**	**4,629**	**7,934**	**4,255**	**7,544**

(1) Caisse Française de Financement Local is only authorized to enter into derivative transactions for hedging purposes. However, as certain hedging derivatives do not meet all the conditions required by IFRS to be classified as hedging instruments for accounting purposes, they are classified as derivative instruments at fair value through net income.
Furthermore, as from 1st January 2018 and the entry into force of IFRS 9, derivatives used to hedge assets reclassified as assets measured at fair value through net income can no longer be classified as hedging instruments for accounting purposes. They are therefore now allocated to this category.

4.1.2. Detail of derivatives designated as fair value through net income

	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	**1,128**	**1,076**	**4**	**5**

	12/31/2017			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,725	1,611	0	-
Interest rate derivatives	20	20	-	4
TOTAL	**1,745**	**1,631**	**0**	**4**

	6/30/2018			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,812	1,752	-	20
Interest rate derivatives	5,118	5,118	7	1,315
TOTAL	**6,930**	**6,870**	**7**	**1,335**

4.1.3. Detail of derivatives designated as fair value hedges

	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**

	12/31/2017			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	6,484	6,601	174	323
Interest rate derivatives	67,666	67,661	3,094	4,965
TOTAL	**74,150**	**74,262**	**3,268**	**5,288**

	6/30/2018			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	2,378	2,595	121	374
Interest rate derivatives	52,530	52,522	2,887	3,397
TOTAL	**54,908**	**55,117**	**3,008**	**3,771**

4.1.4. Detail of derivatives designated as cash flow hedges

	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**

	12/31/2017			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	499	521	2	56
Interest rate derivatives	-	-	-	-
TOTAL	**499**	**521**	**2**	**56**

	6/30/2018			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	457	483	(8)	48
Interest rate derivatives	-	-	-	-
TOTAL	**457**	**483**	**(8)**	**48**

	6/30/2017	12/31/2017	6/30/2018
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 probable transaction)	-	-	-

4.1.5. Detail of derivatives designated as portfolio hedges

	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**

	12/31/2017			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	55,848	55,813	1,360	2,587
TOTAL	**55,848**	**55,813**	**1,360**	**2,587**

	6/30/2018			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	54,227	54,222	1,249	2,424
TOTAL	**54,227**	**54,222**	**1,249**	**2,424**

4.2 - DEFERRED TAXES

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

4.2.1. Analysis by nature

	6/30/2017	12/31/2017	6/30/2018
Deferred tax assets before impairment	92	69	25
Impairment on deferred tax assets	-	-	-
Deferred tax assets	**92**	**69**	**25**
Deferred tax liabilities	**-**	**-**	**-**
TOTAL	**92**	**69**	**25**

4.2.2. Movements

	6/30/2017	12/31/2017	6/30/2018
As of January 1	**109**	**109**	**69**
Charge/credit recognized in the income statement	(13)	(25)	(14)
Effect of change in tax rates - impact on the income statement (1)	-	(2)	-
Movements directly recognized in equity	(4)	(13)	(47)
Effect of change in tax rates - impact on equity	-	-	-
Translation adjustment	-	-	-
Other movements	-	-	17
As of end of period	**92**	**69**	**25**

(1) Caisse Française de Financement Local took into account the legislative measures designed to reduce the corporate income tax rate to 25% as of 2022.

4.3 - TRANSACTIONS WITH RELATED-PARTIES

Analysis by nature

	Parent company (1)			Other related parties (2)		
	6/30/2017	12/31/2017	6/30/2018	6/30/2017	12/31/2017	6/30/2018
ASSETS						
Loans and advances due from banks at amortized cost	113	578	1,221	-	-	-
Bonds at amortized cost	-	-	-	9	9	108
LIABILITIES						
Due to banks at amortized cost	5,134	4,821	5,150	-	-	-
INCOME STATEMENT						
Interest income on loans and advances due from banks at amortized cost	0	1	4	(6)	(11)	(5)
Interest income on bonds at amortized cost	-	-	-	(0)	(0)	-
Interest expense due to banks on borrowings at amortized cost	(7)	(11)	-	-	-	-
Fees and commissions	(4)	(11)	(5)	(0)	(0)	-
Net results on derecognition of financial assets at amortized cost	-	-	(1)	-	-	-
Cost of risk	-	-	-	-	-	(0)
OFF BALANCE SHEET						
Foreign exchange derivatives	2,095	1,490	1,330	-	-	-
Interest rate derivatives	14,528	14,018	14,616	-	-	-
Commitments and guarantees received	50	50	50	52	-	-
Commitments and guarantees given	3,168	3,028	4,563	-	-	-

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

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

	6/30/2017	12/31/2017	6/30/2018
Unrealized gains and losses on available for sale securities	**(72)**	**(49)**	**N/A**
Belgium	(0)	0	N/A
Canada	-	-	N/A
Spain	0	1	N/A
United States	(9)	0	N/A
France	(3)	(2)	N/A
Italy	(60)	(48)	N/A
Norway	-	(0)	N/A
Sweden	-	(0)	N/A
Unrealized gains and losses on loans and receivable securities	**(79)**	**(78)**	**N/A**
Spain	(1)	(1)	N/A
France	3	2	N/A
Italy	(81)	(79)	N/A
Unrealized gains and losses on financial assets at fair value through equity	**-**	**-**	**(0)**
Unrealized gains and losses on derivatives designated as cash-flow hedges	**(30)**	**(30)**	**(26)**
TOTAL	**(181)**	**(157)**	**(26)**
Deferred taxes on gains and losses, available for sale securities	25	17	N/A
Deferred taxes on gains ans losses, loans and receivable securities	27	27	N/A
Deferred taxes on gains ans losses, financial assets at fair value through equity	-	-	0
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	10	10	7
TOTAL AFTER TAXES	**(119)**	**(103)**	**(19)**

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.

	12/31/2017					
	Spain	**Irland**	**Italy**	**Portugal**	**Greece**	**Total**
Financial assets available for sale	203	-	451	-	-	654
Financial assets at fair value through net income	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-
Loans and advances to customers at amortized cost	-	-	112	-	-	112
TOTAL	**203**	**-**	**563**	**-**	**-**	**766**
UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES	**1**	**-**	**(48)**	**-**	**-**	**(47)**
UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES	**-**	**-**	**-**	**-**	**-**	**-**

	6/30/2018					
	Spain	**Irland**	**Italy**	**Portugal**	**Greece**	**Total**
Financial assets at fair value through net income	-	-	-	-	-	-
Financial assets at fair value through equity	-	-	-	-	-	-
Loans and advances to customers at amortized cost	-	-	-	-	-	-
Bonds at amortized cost	205	-	567	10	-	782
TOTAL	**205**	**-**	**567**	**10**	**-**	**782**

5. Notes to the income statement (EUR millions)

5.1 - INTEREST INCOME - INTEREST EXPENSE

The SFIL Group presents interest calculated using the effective interest rate method on financial instruments measured at amortized cost or at market value through equity under the headings "Interest income" and "Interest expense".
These headings also include interest income and expense on financial instruments recognized at fair value through net income because they do not meet the SPPI criterion due to the fact that the cash flows received do not consist solely of principal and interest payments. However, the change in value calculated excluding accrued interest on these financial instruments at fair value through net income is recorded under Net result of financial instruments at fair value through net income (see 5.3).
Interest income and expense on hedging derivatives are included with the revenue generated by the associated hedged items. Meanwhile, certain derivatives not classified as hedging instruments for accounting purposes are held as economic hedges of financial instruments carried at fair value through net income; the interest income and expense on these hedging derivatives are included in the headings recording the interest on these financial instruments.

	H1 2017	H1 2018
INTEREST INCOME	**1,388**	**1,314**
Central banks	-	-
Financial assets at fair value through net income	N/A	108
Financial assets at fair value through equity	N/A	7
Loans ans advances due from banks at amortized cost	5	4
Loans and advances to customers at amortized cost	683	432
Bonds at amortized cost	N/A	71
Financial assets available for sale	18	N/A
Financial assets held to maturity	-	N/A
Derivatives used for hedging	682	692
Impaired assets	-	-
Other	(0)	0
INTEREST EXPENSE	**(1,291)**	**(1,239)**
Central banks	(7)	(4)
Financial Liabilities at fair value through net income	-	(93)
Due to banks at amortized cost	(5)	1
Due to cutomers at amortized cost	-	-
Debt securities at amortized cost	(687)	(590)
Subordinated debt	-	-
Derivatives used for hedging	(592)	(553)
Other	(0)	-
INTEREST MARGIN	**97**	**75**

5.2 - FEES AND COMMISSIONS

	H1 2017			H1 2018		
	Income	**Expense**	**Net**	**Income**	**Expense**	**Net**
Lending activity	0	-	0	-	-	-
Purchase and sale of securities	-	(0)	(0)	-	(0)	(0)
Services on securities other than custodian services	3	(2)	1	-	(2)	(2)
Commissions on financial instruments	-	(0)	(0)	-	(0)	(0)
Rebilling by parent company	-	(4)	(4)	-	(6)	(6)
TOTAL	**3**	**(6)**	**(3)**	**-**	**(8)**	**(8)**

5.3 - NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH NET INCOME

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 hedging transactions include only the change in the clean value of derivatives and the revaluation of assets and liabilities qualified as hedge relation.

	H1 2017	H1 2018
Net income from derivatives not documented in a hedging relationship	4	109
Net result on financial Assets or liabilities at fair value through net income	N/A	(97)
Net result of hedge accounting	(8)	28
Net result of foreign exchange transactions	-	(1)
TOTAL	**(4)**	**39**

Analysis of net result of hedge accounting

	H1 2017	H1 2018
Fair value hedges	**1**	**(4)**
Fair value changes in the hedged item attributable to the hedged risk	9	7
Fair value changes in the hedging derivatives	(8)	(11)
Cash flow hedges	**-**	**-**
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
Portfolio hedge	**(0)**	**(0)**
Fair value changes in the hedged item	(170)	7
Fair value changes in the hedging derivatives	170	(7)
CVA / DVA Impact (1)	**(9)**	**32**
TOTAL	**(8)**	**28**

(1) As of June 30, 2018, the application of IFRS 13 shows a net income of EUR 32 million comprised of EUR +32 million for DVA and EUR +0.3 million for CVA.

5.4 - NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH EQUITY

	H1 2017	H1 2018
Net result of disposals of bonds at fair value through equity	N/A	-
Net result of disposals of loans at fair value through equity	N/A	-
TOTAL	**N/A**	**-**

5.5 - GAINS AND LOSSES RESULTING FROM DERECOGNITION OF FINANCIAL INSTRUMENTS AT AMORTIZED COSTS

	H1 2017	H1 2018
Net result of disposals or prepayments of bonds at amortized cost	N/A	-
Net result of disposals or prepayments of loans and advances to banks at amortized cost	N/A	-
Net result of disposals or prepayments of loans and advances to customers at amortized cost	N/A	6
Net result of disposals or prepayments of debt securities at amortized cost	N/A	(1)
TOTAL	**N/A**	**5**

5.6 - NET RESULT OF FINANCIAL ASSETS AND LIABILITIES

	H1 2017	H1 2018
Net result of disposals of loans and securities available for sale	-	N/A
Net result of disposals of debt securities	(0)	N/A
Net result of the sale or cancellation of loans and advances	2	N/A
TOTAL	**2**	**N/A**

5.7 - OPERATING EXPENSE

	H1 2017	H1 2018
Payroll costs	-	-
Other general and administrative expense (1)	(47)	(47)
Taxes	(7)	(5)
TOTAL	**(54)**	**(52)**

(1) Of which EUR 46 million to the benefit of SFIL as of June 30, 2018.

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 clients. These assets are managed in a run-off mode. At the end of June 2018, 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.

5.8 - COST OF RISK

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

	H1 2018				
	Gross amount	**Impairments**	**Reversals**	**Losses**	**Net amount**
Stage 1	-	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Financial assets at fair value through equity	**-**	**(0)**	**0**	**-**	**(0)**
Stage 1	(0)	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Loans and advances due from banks at amortized cost	**(0)**	**(0)**	**0**	**-**	**(0)**
Stage 1	(2)	(1)	1	-	(2)
Stage 2	(21)	(4)	3	-	(22)
Stage 3	(11)	(6)	8	(0)	(9)
Loans and advances to customers at amortized cost	**(34)**	**(11)**	**12**	**(0)**	**(33)**
Stage 1	(4)	(2)	2	-	(4)
Stage 2	(18)	(3)	4	-	(17)
Stage 3	(0)	-	-	-	(0)
Bonds at amortized cost	**(22)**	**(5)**	**6**	**-**	**(21)**
Stage 1	(0)	(0)	0	-	(0)
Stage 2	(0)	(1)	0	-	(1)
Stage 3	-	-	-	-	-
Off-balance sheet commitments at amortized cost	**(0)**	**(1)**	**0**	**-**	**(1)**
TOTAL	**(56)**	**(17)**	**18**	**(0)**	**(55)**

Detail of collective and specific impairments

Collective impairment	H1 2017		
	Allocations	Reversals	Total
Loans and borrowings	(1)	2	1
Off-balance sheet commitments	-	-	-
TOTAL	**(1)**	**2**	**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**

5.9 - CORPORATE INCOME TAX

5.9.1. Breakdown of tax expense

	H1 2017	H1 2018
Current taxes	(2)	(3)
Deferred taxes	(13)	(14)
Tax on prior years' income	-	(0)
Deffered taxes on prior years	-	-
Provisions for tax litigation	(1)	-
TOTAL	**(16)**	**(17)**

5.9.2. Effective tax expense

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

	H1 2017	H1 2018
INCOME BEFORE INCOME TAXES	**39**	**60**
TAX BASE	**39**	**60**
Applicable tax rate at end of the period	34.43%	34.43%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	**(14)**	**(21)**
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)	-
Liability method	-	-
Provisions for tax litigation	(1)	-
Change in corporate income tax rate applicable to the future fiscal years (1)	-	5
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	**(16)**	**(17)**

(1) Caisse Française de Financement Local has took into account the legislative measures designed to reduce the corporate income tax rate to 25% as of 2022.

5.9.3. Tax consolidation

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

6. Note on the off-balance sheet items (EUR millions)

6.1 - REGULAR WAY TRADE

	6/30/2017	12/31/2017	6/30/2018
Assets to be delivered	5	-	91
Liabilities to be received	-	-	-

6.2 - GUARANTEES

	6/30/2017	12/31/2017	6/30/2018
Guarantees received from credit institutions	73	22	8
Enhanced guarantees (1)	3,168	3,247	4,986
Guarantees received from customers (2)	2,759	2,549	2,363

(1) Irrevocable and unconditional guarantee issued by the French State to the benefit of Caisse Française de Financement Local for the refinancing of large export credits.
(2) Guarantees received from customers are generally granted by local governments.

6.3 - FINANCING COMMITMENTS

	6/30/2017	12/31/2017	6/30/2018
Loan commitments granted to credit institutions (1)	3,168	3,028	4,563
Loan commitments granted to customers (2)	143	90	49
Loan commitments received from credit institutions (3)	50	50	135
Loan commitments received from customers	-	-	-

(1) Within the framework of the large 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.
(3) This item concerned the amount of the overdraft authorized on the current account with SFIL, which totaled EUR 50 million. Readers are reminded that SFIL is comitted to providing unlimited funding to Caisse Française de Financement Local through financing agreements between the two companies.

6.4 - OTHER COMMITMENTS

	6/30/2017	12/31/2017	6/30/2018
Commitments given (1)	2	3	4
Commitments received (2)	342	226	223

(1) It concerns the irrevocable payment commitment to the Fonds de grantie des dépôts et de résolution.
(2) It mainly concerns a loan granted to a credit institution and guaranteed by a public sector entity.

6.5 - FINANCING COMMITMENTS AND OTHER COMMITMENTS GRANTED

	Financing commitments and financial guarantees under IFRS 9								Commitments and financial guarantees measured at fair value	
	Gross amount				Impairment			Net amount	Nominal amount	Accumulated negative changes in fair value due to credit risk on non-performing
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3			
Granted to credit intitutions	4,563	-	-	**4,563**	-	-	-	**4,563**	-	-
Granted to customers	39	10	-	**49**	(0)	(0)	-	**49**	-	-
TOTAL	**4,602**	**10**	**-**	**4,612**	**(0)**	**(0)**	**-**	**4,612**	**-**	**-**

7. Notes on risk exposure (EUR millions)

7.1 - FAIR VALUE

This note presents the fair value adjustments that are not recognized, 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 assimilated. 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 specialized activity of the company.

7.1.1. Composition of the fair value of the assets

	12/31/2017		
	Book value	**Fair value**	**Unrecognized fair value adjustment**
Central banks	1,706	1,706	-
Loans and advances due from banks at amortized cost	867	879	12
Loans and advances to customers at amortized cost	56,892	54,015	(2,877)
Financial assets available for sale	2,048	2,048	-
Derivatives	4,629	4,629	-
TOTAL	**66,142**	**63,277**	**(2,865)**

	6/30/2018		
	Book value	**Fair value**	**Unrecognized fair value adjustment**
Central banks	2,740	2,740	-
Financial assets at fair value through net income	6,357	6,357	-
Financial assets at fair value through equity	978	978	-
Loans and advances due from banks at amortized cost	1,487	1,501	14
Loans and advances to customers at amortized cost	43,766	40,644	(3,122)
Bonds at amortized cost	8,227	7,306	(921)
Hedging derivatives	4,248	4,248	-
TOTAL	**67,803**	**63,774**	**(4,029)**

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

	12/31/2017		
	Book value	**Fair value**	**Unrecognized fair value adjustment**
Due to banks at amortized cost	4,821	4,834	13
Debt securities at amortized cost	52,898	54,205	1,307
Hedging derivatives	7,934	7,934	-
TOTAL	**65,653**	**66,973**	**1,320**

	6/30/2018		
	Book value	**Fair value**	**Unrecognized fair value adjustment**
Financial liabilities at fair value through net income	1,838	1,838	-
Due to banks at amortized cost	5,151	5,117	(34)
Debt securities at amortized cost	55,368	54,774	(594)
Hedging derivatives	6,209	6,209	-
TOTAL	**68,566**	**67,938**	**(628)**

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

The fair value of a fnancial instrument is determined on the basis of prices that can be observed in the market for the instrument itself or for a comparable instrument, or with the help of a technical evaluation utilizing observable market data. A hierarchy of the methods used to establish fair value has been drawn up. It is composed of the following three levels:
• Level 1 corresponds to the instruments considered to be liquid, i.e. that their valuation is based on the price observed in a liquid market, for which Caisse Française de Financement Local assured itself of the existence of a large number of contributors. Level 1 securities include in particular certain government bonds.
• Level 2 uses another method to determine the value of instruments for which Caisse Française de Financement Local can not observe market prices, but observes such for similar instruments by the same issuer or guarantor listed in the market. In this case, observable prices and other data observable in the market are used and an adjustment is made to account for the degree of the security's lack of liquidity.
• In level 3, when there is no active market or observable market data, the fair value of instruments is determined by using a valuation spread developed from an internal model. Derivatives are valued using these internal models.

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 tems of efciency 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 classifcation mainly involves hybrid, structured products (interest rate – foreign exchange), spread (correlation) products and options on interest rates. This classifcation 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	12/31/2017			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets available for sale	1,561	487	-	2,048
Hedging derivatives	-	4,067	562	4,629
TOTAL	**1,561**	**4,554**	**562**	**6,677**

Fair value of financial assets	6/30/2018			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through net income	-	5	6,352	6,357
Financial assets at fair value through equity	-	968	10	978
Hedging derivatives	-	3,660	588	4,248
TOTAL	**-**	**4,633**	**6,950**	**11,583**

Fair value of financial liabilities	12/31/2017			
	Level 1	Level 2	Level 3	Total
Hedging derivatives	-	7,092	842	7,934
TOTAL	**-**	**7,092**	**842**	**7,934**

Fair value of financial liabilities	6/30/2018			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through net income	503	752	583	1,838
Hedging derivatives	-	5,956	253	6,209
TOTAL	**503**	**6,708**	**836**	**8,047**

7.1.4. Transfer between level 1 and 2

	12/31/2017	6/30/2018
Level 1 to level 2	-	-
TOTAL	**-**	**-**

7.2 - OFF-SETTING FINANCIAL ASSETS AND LIABILITIES

7.2.1. Financial assets subject to off-setting, enforceable master netting arrangements and similar agreements

	12/31/2017					
	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 offset		Net Amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	4,629	-	4,629	(3,964)	(605)	60
Loans and advances due from banks at amortized cost	867	-	867	-	-	867
Loans and advances to customers at amortized cost	56,892	-	56,892	-	-	56,892
TOTAL	**62,388**	**-**	**62,388**	**(3,964)**	**(605)**	**57,819**

	6/30/2018					
	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 offset		Net Amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	4,255	-	4,255	(3,756)	(467)	32
Loans and advances at fair value through net income	6,350	-	6,350			6,350
Loans and advances due from banks at amortized cost	1,487	-	1,487	-	-	1,487
Loans and advances to customers at amortized cost	43,766	-	43,766	-	-	43,766
TOTAL	**55,858**	**-**	**55,858**	**(3,756)**	**(467)**	**51,635**

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

	12/31/2017					
	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 offset		Net Amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	7,934	-	7,934	(3,964)	-	3,970
Loans and advances due to banks at amortized cost	4,821	-	4,821	-	-	4,821
Loans and advances to customers at amortized cost	-	-	-	-	-	-
TOTAL	**12,755**	**-**	**12,755**	**(3,964)**	**-**	**8,791**

	6/30/2018					
	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 and 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	7,544	-	7,544	(3,756)	-	3,788
Loans and advances due to banks at amortized cost	5,151	-	5,151	-	-	5,151
Loans and advances to customers at amortized cost	-	-	-	-	-	-
TOTAL	**12,695**	**-**	**12,695**	**(3,756)**	**-**	**8,939**

7.3 - EXPOSURE TO CREDIT RISK

In 2018, exposure to credit risks, as presented to management, includes the following:
- for assets other than derivatives: the amount on the balance sheet;
- for derivatives: the derivative's market value (marked-to-market), the amount of collateral exchanged and a flat-rate add-on, depending on the derivative's maturity and the nature of the underlying;
- for off-balance sheet commitments: the undrawn amount of financing commitments, which is stated in the notes to the financial statements.

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

7.3.1. Breakdown of exposure to credit risks

Analysis of exposure by geographic region

	12/31/2017	6/30/2018
France	57,703	61,949
Italy	6,156	6,268
Germany	341	381
Spain	378	415
United Kingdom	199	297
Belgium	159	195
Other European Union countries	359	437
Norway	79	239
Switzerland	1,339	1,166
United States and Canada	513	566
Japan	39	39
TOTAL EXPOSURE	**67,265**	**71,952**

Analysis of exposure by category of counterparty

	12/31/2017	6/30/2018
States	7,430	10,280
Local public sector	58,753	58,642
Other assets guaranteed by public sector entities	12	43
Financial institutions	1,070	2,987
TOTAL EXPOSURE	**67,265**	**71,952**

Exposure on financial institutions is primarily comprised of counterparties in hedging derivatives and replacement assets.
As of June 30, 2018, Caisse Française de Financement Local had no asset-backed securities.

Analysis of exposure by category of instrument

	12/31/2017	6/30/2018
Debt securities	2,066	2,969
Loans and advances	62,047	63,369
Financing commitments on loans	3,118	4,612
Hedging derivatives	34	1,002
TOTAL EXPOSURE	**67,265**	**71,952**

7.3.2. 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 supervisors 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, 2018, an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements. Credit weighting is mainly calculated on the basis of the probability of default of the counterparty and of the loss incurred in the event of default.
This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio. More than 75% of the portfolio has a weighting of less than 5% and more than 94% of the portfolio has a weighting that is less than or equal to 20%.

	Risk weighting (Basel III)				
	from 0 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	Total
Debt securities	810	1,155	326	678	2,969
Loans and advances	48,317	12,526	182	2,344	63,369
Financing commitments on loans	4,612	0	0	0	4,612
Hedging derivatives	503	12	450	37	1,002
TOTAL EXPOSURE	**54,242**	**13,693**	**958**	**3,059**	**71,952**
SHARE	**75.4%**	**19.0%**	**1.3%**	**4.3%**	**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

7.4.1. Breakdown of assets

	6/30/2018						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	2,740	-	-	-	-	-	2,740
Financial assets at fair value through net income	-	188	384	1,647	3,259	-	5,478
Hedging derivatives	-	-	-	-	-	-	-
Financial assets at fair value through equity	-	848	130	-	-		978
Loans and advances due from banks at amortized cost	5	5	839	27	612	-	1,488
Loans and advances to customers at amortized cost	7	1,061	2,838	13,830	24,583	-	42,319
Bonds at amortized cost	-	203	548	2,467	3,906	-	7,124
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	25	25
Accruals and other assets	-	18	5	-	9	-	32
TOTAL	**2,752**	**2,323**	**4,744**	**17,971**	**32,369**	**25**	**60,184**

	6/30/2018				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	2,740	(0)	-	-	2,740
Financial assets at fair value through net income	5,478	100	779	-	6,357
Hedging derivatives	-	571	3,677	-	4,248
Financial assets at fair value through equity	978	(0)	(0)	-	978
Hedging derivatives	1,488	(0)	0	(1)	1,487
Loans and advances to customers at amortized cost	42,319	440	1,040	(33)	43,766
Bonds at amortized cost	7,124	52	1,072	(21)	8,227
Fair value revaluation of portfolio hedge	-	-	2,668	-	2,668
Tax assets	25	-	-	-	25
Accruals and other assets	32	-	-	-	32
TOTAL	**60,184**	**1,163**	**9,236**	**(55)**	**70,528**

7.4.2. Breakdown of liabilities, excluding equity

	6/30/2018						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	-	-	-	-	-	-	-
Financial assets at fair value through net income	-	503	-	-	-	-	503
Hedging derivatives	-	-	-	-	-	-	-
Due to banks at amortized cost	1	393	88	2,864	1,808	-	5,154
Customer borrowing and deposits at amortized cost	-	-	-	-	-	-	-
Debt securities at amortized cost	-	1,410	2,366	18,427	29,351	-	51,554
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	-	-	-	1	1
Accruals and other liabilities	-	26	10	40	50	-	126
Provisions	-	-	-	47	0	-	47
Subordinated debt	-	-	-	-	-	-	-
TOTAL	**1**	**2,332**	**2,464**	**21,378**	**31,209**	**1**	**57,385**

	6/30/2018			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Financial liabilities at fair value through net income	503	86	1,249	1,838
Hedging derivatives	-	436	5,773	6,209
Due to banks at amortized cost	5,154	(3)	-	5,151
Customer borrowing and deposits at amortized cost	-	-	-	-
Debt securities at amortized cost	51,554	647	3,167	55,368
Fair value revaluation of portfolio hedge	-	-	367	367
Tax liabilities	1	-	-	1
Accruals and other liabilities	126	-	-	126
Provisions	47	-	-	47
Subordinated debt	-	-	-	-
TOTAL	**57,385**	**1,166**	**10,556**	**69,107**

7.4.3. Net liquidity gap

	6/30/2018							
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total not broken down	Total
MONTANT	2,751	(9)	2,280	(3,407)	1,160	24	(1,378)	1,421

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 refnancing agreement with SFIL. In addition, the Company may obtain funding from the Banque de France, by giving certain of these assets in guarantee. In addition to access to the central bank in its own name, Caisse Française de Financement Local can also mobilize certain of these eligible assets by using interbank fnancing in the form of repurchase agreements. If necessary, these transactions would easily cover its cash flow requirements.

7.6 - CURRENCY RISK

Classification by original currency	12/31/2017				
	EUR	Other EU currencies	USD	Other currencies	Total
Total assets	66,381	1,380	429	587	68,777
Total liabilities	66,381	1,380	429	587	68,777
NET BALANCE SHEET POSITION	-	-	-	-	-

Classification by original currency	6/30/2018				
	EUR	Other EU currencies	USD	Other currencies	Total
Total assets	68,719	992	270	547	70,528
Total liabilities	68,719	992	270	547	70,528
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.

7.7 - SENSITIVITY TO INTEREST RATE RISK

To limit its impact, interest rate risk is hedged in two stages by Caisse Française de Financement Local:

• 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 over a sliding period of maximum two years in order to eliminate the basis risk generated by differences in the tenor (Eurbor 1, 3, 6 or 12 months) and the fixing risk due to refixing dates of reference indices that differ for the assets and the liabilities. The residual risk is managed using macro-hedges with a management horizon of one week.

These hedges can be entered into either directly on the market by Caisse Française de Financement Local, or through SFIL, which in turn hedges its resulting position in the market.

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 Eonia 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.

The sensitivity of residual positions in fixed rates and variable rates fixed for a determined period of time that remain after the two levels of hedging is monitored on a monthly basis. Limits provide a framework for this sensitivity and are designed to reduce the impact on the value of balance sheet items in the event of a shift in the yield curve or a move in sloping/rotation. They are calibrated so as not to lose more than 6% of equity (i.e. EUR 80 million) with a quantile of 99% calculated based on 2007-2017 historical data.

The net present value (NPV) sensitivity indicators are calculated for a rate shock of 100 x +1 basis point (bp), aiming to limit losses in value in the event of:

• a parallel yield curve shift (limit of EUR 25 million for a shock of 100 x 1bp) to limit the fixed rate or directional rate risk;

• sloping/rotation of the interest rate curve:

– net present value sensitivity calculation and limiting by time bucket, using four buckets of distinct risks on the yield curve in order to limit risk between distant points on the curve (limit per bucket of EUR 10 million for a shock of 100 x 1bp);

– net present value sensitivity in terms of absolute value calculation and limiting by time bucket, using four buckets of distinct risks on the yield curve in order to limit risk between near points on the curve, within each bucket (limit per bucket of EUR 20 million for a shock of 100 x 1bp).

Limiting directional risk

The measurement of sensitivity at the end of each quarter is presented below.

Directional risk

Total sensitivity

(EUR millions)	Limit	9/30/2017	12/31/2017	3/31/2018	6/30/2018
Sensitivity	(25)/25	1.0	1.5	(1.5)	1.7

Measurement of the slope/rotation risk

The quarter-end sensitivity measurements are presented below.

Risk of slope between two distant points on the rate curve

Sum of sensitivities

(EUR millions)	Limit	30/09/2017	31/12/2017	3/31/2018	6/30/2018
Short term	(10)/10	(1.7)	0.2	(7.1)	(4.3)
Medium term	(10)/10	(2.4)	(4.6)	(2.1)	(1.0)
Long term	(10)/10	3.8	3.1	5.6	4.6
Very long term	(10)/10	1.3	2.7	2.0	2.4

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

(EUR millions)	Limit	30/09/2017	31/12/2017	3/31/2018	6/30/2018
Short term	20	10.2	11.6	11.5	8.8
Medium term	20	10.9	14.8	4.6	14.4
Long term	20	7.1	3.6	7.9	8.7
Very long term	20	6.5	6.9	10.5	10.8

8 - FIRST TIME APPLICATION IMPACT OF IFRS 9 STANDARD ON THE BALANCE SHEET AS OF JANUARY 1, 2018

RECLASSIFICATIONS

	IAS 39 12/31/2017	**Reclassements** Financial assets available for sale (a)	Debt securities assimilated to loans and advances in IAS 39 (b)	Loans and advances non SPPI (c)	Hedging derivatives of loans and advances non SPPI (d)	restatment of deposit and collateral	**Net amount after restatment phase 1**
ASSETS							
Central banks	1,706	-	-	-	-	-	**1,706**
Deposit and Collateral at fair value through net income	-	-	-	-	-	-	**-**
Loans and advances due from banks at fair value through net income	-	-	-	-	-	-	**-**
Loans and advances to customers at fair value through net income	-	-	-	7,168	-	-	**7,168**
Derivatives at fair value through net income	-	-	-	-	6	-	**6**
Hedging derivatives	4,629	-	-	-	(6)	-	**4,623**
Financial assets available for sale	2,048	(2,048)	-	-	-	-	**-**
Financial assets at fair value through equity	-	200	-	-	-	-	**200**
Loans and advances due from banks at amortized cost	867	-	-	-	-	-	**867**
Loans and advances to customers at amortized cost	56,892	-	(6,422)	(7,168)	-	-	**43,303**
Bonds at amortized cost	-	1,848	6,422	-	-	-	**8,269**
Fair value revaluation of portfolio hedge	2,518	-	-	-	-	-	**2,518**
Financial assets held to maturity	-	-	-	-	-	-	**-**
Current tax assets	0	-	-	-	-	-	**0**
Deferred tax assets	69	-	-	-	-	-	**69**
Tangible assets	-	-	-	-	-	-	**-**
Intangible assets	-	-	-	-	-	-	**-**
Other assets	48	-	-	-	-	-	**48**
TOTAL	**68,777**	**-**	**-**	**-**	**-**	**-**	**68,777**
LIABILITIES							
Central banks	-	-	-	-	-	-	**-**
Deposit and Collateral at fair value through net income	-	-	-	-	-	687	**687**
Derivatives at fair value through net income	4	-	-	-	1,476	-	**1,480**
Hedging derivatives	7,930	-	-	-	(1,476)	-	**6,454**
Due to banks at amortized cost	4,821	-	-	-	-	-	**4,821**
Customer borrowing and deposits at amortized cost	-	-	-	-	-	-	**-**
Debt securities at amortized cost	52,898	-	-	-	-	-	**52,898**
Fair value revaluation of portfolio hedge	883	-	-	-	-	-	**883**
Current tax liabilities	0	-	-	-	-	-	**0**
Deferred tax liabilities	-	-	-	-	-	-	**-**
Other liabilities	823	-	-	-	-	(687)	**136**
Provisions	41	-	-	-	-	-	**41**
Subordinated debt	-	-	-	-	-	-	**-**
EQUITY	**1,377**	**-**	**-**	**-**	**-**	**-**	**1,377**
Capital	1,350	-	-	-	-	-	**1,350**
Reserves and retained earnings	89	-	-	-	-	-	**89**
Gains and losses recognised in equity	(103)	-	-	-	-	-	**(103)**
Net income for the period	41	-	-	-	-	-	**41**
TOTAL	**68,777**	-	-	-	-	-	**68,777**

(a) Instruments classified as Available for sale financial asset under IAS 39 standard are debt securities, cash-flows of which are composed only by the repayment of principal and interest. They have been reclassified depending on the business model they are held within: debt securities acquired for cash investment purposes and held within an hold-to-collect-and-sell model have been reclassified as Financial assets at fair value through the other comprehensive income section of equity, while those held within an hold-to-collect model have been reclassified as Loans and advances to customers measured at amortized cost.

(b) Debt securities classified as Loans and advances to customers at amortized cost under IAS 39 standard have been reclassified as Debt securities at amortized cost.

(c) Loans and advances, contractual cash-flows of which are not compliant with the SPPI criterion defined under IFRS 9 standard, have been reclassified from the Loans and advances to customers at amortized cost category to the Loans and advances to customers at fair value through net income category : they are composed of loans, contractual flows of which are not in line with those of a basic lending agreement as the latter is defined under the standard; this may be due in particular to the inclusion in the interest rate formula of a leverage effect or an indexation on foreign exchange rates.

(d) Hedging derivative instruments for which the hedged financial asset has been reclassified as Financial assets at fair value through net income have been disqualified and reclassified, on the asset side or the liability side of the balance sheet, as Derivatives at fair value through net income.

VALUE ADJUSTMENTS

	Amount after restatment phase 1	Adjustment value Phase 1				Adjustment phase 2	IFRS 9 01/01/2018
		Restatment of financial assets available for sale (a)	restatment of Bonds assimilated to loans and advances in IAS 39 (b)	restatment of loans and advances non SPPI (c)	other restatment (d)	Provisions for credit risk (e)	
ASSETS							
Central banks	1,706	-	-	-	-	-	**1,706**
Deposit and Collateral at fair value through net income	-	-	-	-	-	-	**-**
Loans and advances due from banks at fair value through net income	-	-	-	-	-	-	**-**
Loans and advances to customers at fair value through net income	7,168	-	-	(241)	-	18	**6,945**
Derivatives at fair value through net income	6	-	-	-	-	-	**6**
Hedging derivatives	4,623	-	-	-	-	-	**4,623**
Financial assets available for sale	-	-	-	-	-	-	**-**
Financial assets at fair value through equity	200	-	-	-	-	-	**200**
Loans and advances due from banks at amortized cost	867	-	-	-	-	0	**867**
Loans and advances to customers at amortized cost	43,303	-	-	-	199	(16)	**43,486**
Bonds at amortized cost	8,269	49	78	-	-	(5)	**8,391**
Fair value revaluation of portfolio hedge	2,518	-	-	-	-	-	**2,518**
Financial assets held to maturity	-	-	-	-	-	-	**-**
Current tax assets	0	-	-	-	-	-	**0**
Deferred tax assets	69	(17)	(27)	83	(68)	3	**43**
Tangible assets	-	-	-	-	-	-	**-**
Intangible assets	-	-	-	-	-	-	**-**
Other assets	48	-	-	-	-	-	**48**
TOTAL	**68,777**	**32**	**51**	**(158)**	**130**	**(0)**	**68,832**
LIABILITIES							
Central banks	-	-	-	-	-	-	**-**
Deposit and Collateral at fair value through net income	687	-	-	-	-	-	**687**
Derivatives at fair value through net income	1,480	-	-	-	-	-	**1,480**
Hedging derivatives	6,454	-	-	-	-	-	**6,454**
Due to banks at amortized cost	4,821	-	-	-	-	-	**4,821**
Customer borrowing and deposits at amortized cost	-	-	-	-	-	-	**-**
Debt securities at amortized cost	52,898	-	-	-	(1)	-	**52,897**
Fair value revaluation of portfolio hedge	883	-	-	-	-	-	**883**
Current tax liabilities	0	-	-	-	-	-	**0**
Deferred tax liabilities	-	-	-	-	-	-	**-**
Other liabilities	136	-	-	-	-	-	**136**
Provisions	41	-	-	-	-	6	**47**
Subordinated debt	-	-	-	-	-	-	**-**
EQUITY	**1,377**	**32**	**51**	**(158)**	**131**	**(6)**	**1,427**
Capital	1,350	-	-	-	-	-	**1,350**
Reserves and retained earnings	89	-	-	(158)	131	(6)	**56**
Gains and losses recognised in equity	(103)	32	51	-	-	-	**(20)**
Net income for the period	41	-	-	-	-	-	**41**
TOTAL	**68,777**	**32**	**51**	**(158)**	**130**	**(0)**	**68,832**

(a) The reserve composed of the fair value adjustments accumulated in equity until December 31, 2017 on the debt securities reclassified from the Available for sale financial assets category under IAS 39 standard to the Loans and advances at amortized cost under IFRS 9 standard has been reversed.

(b) Most od the debt securities which were classified as Loans and advances to customers at amortized cost under IAS 39 standard had been classified as Available for sale financial assets at initial recognition and had been subsequently reclassified in this category on October 1, 2008 in accordance with the limited amendment to IAS 39 endorsed by the European Union on October 15, 2008. This reclassification has resulted into the freezing of the reserve composed of the fair value adjustments accumulated in equity on these assets; this reserve has subsequently been amortized until December 31, 2017. On January 1, 2018, the retrospective application of IFRS 9 standard results in the reversal of the fraction yet not amortized of this reserve.

(c) The measurement at fair value through net income under IFRS 9 of loans previously measured at amortized cost under IAS 39 has impacted the value of the underlying loans.

(d) The policy implemented by SFIL from its creation 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 complied 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, an adjustment of the value of the underlying loans has been recorded as a counterpart to equity on the date of first application of the standard; this adjustment corresponds to the impacts (adjusted for the time-related amortization) that would have resulted from the derecognition of the loans on the date of their transformation.

In addition, on the Liability side of the balance sheet, the value of the debt securities issued has been adjusted as a counterpart to equity: this adjustment concerns issued securities which have been transformed prior to December 31, 2017 and for which the application of IFRS 9 standard would have resulted in their derecognition and the recognition of a result. Time-related amortization of this result is taken into account.

(e) The entry into force of the new impairment model for credit risk has resulted on January 1, 2018 in a EUR 9 millions increase of impairments (without considering tax effects), which can be broken down into the following effects:
- Recognition of loss allowances on Bucket 1 contracts: EUR -6 millions;
- Recognition of loss allowances on Bucket 2 contracts: EUR -39 millions;
- Complete reversal of the stock of collective impairments previously recognized: EUR +24 millions;
- Variations of specific impairment on Bucket 3 contracts (base changing): EUR +12 millions, the main effect of this impact is the reversal of the impairment on assets measured at amor-tized cost until December 31, 2017 under IAS 39 and that are measured at fair value through net income from January 1, 2018 under IFRS 9.

BREAKDOWN OF FINANCIAL ASSETS BY STAGE OF CREDIT RISK

	01/01/2018							
	Gross amount				Impairment			Net Amount
	Stage 1	Stage 2	Stage 3	**TOTAL**	Stage 1	Stage 2	Stage 3	
Financial assets at fair value through equity	200	-	-	200	-	-	-	**200**
Loans and advances due from banks at amortized cost	867	-	-	867	(0)	-	-	**867**
Loans and advances to customers at amortized cost	38,499	3,610	1,432	43,541	(5)	(39)	(11)	**43,486**
Bonds at amortized cost	6,475	1,831	86	8,392	(1)	(0)	-	**8,391**
TOTAL FINANCIAL ASSETS	**46,041**	**5,441**	**1,518**	**53,000**	**(6)**	**(39)**	**(11)**	**52,944**

GAP ANALYSIS BETWEEN PROVISIONS UNDER IAS 39 AND EXPECTED LOSSES UNDER IFRS 9

	IAS 39	Restatments	Adjustment value	IFRS 9
	12/31/2017	Asset impacts of restatments	Impact of evaluation method changes	01/01/2018
Asset provisions				
Financial assets at fair value through net income	-	-	-	**-**
Financial assets available for sale	-	-	-	**-**
Financial assets at fair value through equity	-	-	-	**-**
Financial assets at amortized cost	-	-	-	**-**
Loans and advances due from banks at amortized cost	-	-	-	**-**
Loans and advances to customers at amortized cost - specific provisions	23	(35)	47	**35**
Loans and advances to customers at amortized cost - collective provisions	30	(6)	(24)	**-**
Bonds at amortized cost - collective provisions	-	-	-	**-**
Bonds at amortized cost - specific provisions	-	17	4	**21**
TOTAL	**53**	**(24)**	**27**	**56**

9. Post-closing events

No significant event that influences the Company's financial situation has occurred since the closing on June 30, 2018.

3. Statutory auditors' report (IFRS)

DELOITTE & ASSOCIES
6 Place de la Pyramide
92908 Paris-La Défense Cedex
Société Anonyme
S.A. au capital de € 1.723.040

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

ERNST & YOUNG et Autres
Tour First
TSA 14444
92037 Paris-La Défense Cedex
S.A.S. à capital variable

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

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.

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, 2018

To the Chief Executive Officer,

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, 2018..

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, 2018 and the financial position of Caisse Française de Financement Local and its assets at that date, in accordance with IFRS as adopted by the European Union.

Without qualifying the above conclusion, we draw your attention to the changes in accounting method regarding the application of new standards IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from contracts with customers" set out in Note 1 "Accounting policies and valuation methods" and in the other notes presenting figures relating to the first-time adoption of IFRS 9.

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.

Paris-La Défense, September 7, 2018
French original signed by

DELOITTE & ASSOCIES	ERNST & YOUNG et Autres
Sylvie BOURGUIGNON	Vincent ROTY

4. Financial statements (French GAAP)
for the period from January 1st to June 30, 2018

Assets

EUR millions	Notes	6/30/2017	12/31/2017	6/30/2018
Central banks	*2.1*	3,884	1,706	2,740
Government and public securities	*2.2*	4,093	4,091	4,383
Loans and advances due from banks	*2.3*	507	905	1,513
Loans and advances to customers	*2.4*	48,252	46,871	46,760
Bonds and other fixed income securities	*2.5*	3,805	3,401	3,759
Equities and other variable income securities		-	-	-
Investments in non-consolidated companies and other long-term investments		-	-	-
Investments in consolidated companies		-	-	-
Intangible assets		-	-	-
Property and equipment		-	-	-
Unpaid capital		-	-	-
Uncalled subscribed capital		-	-	-
Treasury stock		-	-	-
Other assets	*2.6*	12	17	24
Accruals and other assets	*2.7*	2,830	2,723	2,533
TOTAL ASSETS	*2.8*	**63,383**	**59,714**	**61,712**

Liabilities

EUR millions	Notes	6/30/2017	12/31/2017	6/30/2018
Central banks		-	-	-
Due to banks	*3.1*	5,134	4,821	5,160
Customer borrowings and deposits		-	-	-
Debt securities	*3.2*	52,999	49,919	51,840
Other liabilities	*3.3*	982	797	604
Accruals and other liabilities	*3.4*	2,636	2,552	2,526
Provisions	*3.5*	190	173	184
Subordinated debt		-	-	-
Equity		**1,442**	**1,452**	**1,398**
Share capital	*3.6*	1,350	1,350	1,350
Additional paid-in capital	*3.6*	-	-	-
Reserves and retained earnings	*3.6*	73	72	53
Net income	*3.6*	19	30	(5)
TOTAL LIABILITIES	***3.7***	**63,383**	**59,714**	**61,712**

Off-balance sheet items

EUR millions	Notes	6/30/2017	12/31/2017	6/30/2018
COMMITMENTS GRANTED	*4.1*	**3,318**	**3,121**	**4,797**
Financing commitments		3,311	3,118	4,611
Guarantees granted		-	-	-
Commitments on securities		5	-	182
Other commitments granted		2	3	4
COMMITMENTS RECEIVED	*4.2*	**6,668**	**6,093**	**7,716**
Financing commitments		320	50	135
Guarantees received		6,343	6,043	7,581
Commitments on securities		5	-	-
Forward commitments		-	-	-
Other commitments received		-	-	-
Foreign currency transactions	*4.3*	14,225	14,244	13,287
Interest rate derivatives	*4.4*	134,348	123,616	111,973

Income statement

EUR millions	Notes	H1 2017	2017	H1 2018
Interest income	*5.1*	509	963	500
Interest expense	*5.1*	(429)	(836)	(432)
Income from variable income securities		-	-	-
Commission income	*5.2*	3	3	-
Commission expense	*5.2*	(5)	(15)	(8)
Net gains (losses) on held for trading portfolio		0	0	-
Net gains (losses) on placement portfolio	*5.3*	(3)	3	(7)
Other banking income		0	0	-
Other banking expense		(0)	(0)	-
NET BANKING INCOME		**75**	**118**	**53**
General operating expenses	*5.4*	(54)	(105)	(52)
Depreciation and amortization		-	-	-
GROSS OPERATING INCOME		**21**	**13**	**1**
Cost of risk	*5.5*	1	22	(3)
INCOME FROM OPERATIONS		**22**	**35**	**(2)**
Gains or losses on fixed assets	*5.6*	-	-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		**22**	**35**	**(2)**
Non-recurring items		-	-	-
Income tax	*5.7*	(3)	(5)	(3)
Net allocation to regulated provisions		-	-	-
NET INCOME		**19**	**30**	**(5)**
Basic earnings per share		1.41	2.20	(0.39)
Diluted earnings per share		1.41	2.20	(0.39)

Equity

EUR millions	Amount
AS OF 12/31/2017	
Share capital	1,350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	72
Net income for the year	30
Interim dividends	-
EQUITY AS OF 12/31/2017	**1,452**
MOVEMENTS FOR THE PERIOD	
Changes in share capital	-
Changes in additional paid-in capital	-
Changes in commitments to increase share capital and additional paid-in capit	-
Changes in reserves and retained earnings	31
Dividends paid (-)	(50)
Net income for the period	(35)
Other movements	-
AS OF 6/30/2018	
Share capital	1,350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	53
Net income for the period	(5)
EQUITY AS OF 6/30/2018	**1,398**

Cash flow statement

EUR millions	H1 2017	2,017	H1 2018
NET INCOME BEFORE TAXES	**22**	**35**	**(2)**
+/- Depreciation and write-downs	4	(40)	(2)
+/- Expense / income from operating activities	88	146	59
+/- Expense / income from financing activities	(100)	(99)	(138)
+/- Other items	(7)	24	64
= Non monetary elements included in net income before tax and other adjustments	**(15)**	**31**	**(17)**
+/- Cash from interbank operations	(187)	(883)	(297)
+/- Cash from customer operations (loans)	(600)	620	102
+/- Cash from customer financing assets	(88)	313	(655)
+/- Cash from hedging financial instruments	(343)	(607)	(219)
- Income tax paid	(24)	(29)	(10)
= Decrease / (increase) in cash from operating activities	**(1,242)**	**(586)**	**(1,079)**
CASH FLOW FROM OPERATING ACTIVITIES (A)	**(1,235)**	**(520)**	**(1,098)**
CASH FLOW FROM INVESTING ACTIVITIES (B)	**-**	**-**	**-**
+/- Cash from or for shareholders	(0)	(0)	(50)
+/- Other cash from financing activities	1,442	(1,452)	2,177
CASH FLOW FROM FINANCING ACTIVITIES (C)	**1,442**	**(1,452)**	**2,127**
EFFECT OF EXCHANGE RATES CHANGES ON CASH (D)	**-**	**-**	**-**
Increase / (decrease) in cash equivalents (A + B+ C + D)	**207**	**(1,972)**	**1,029**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**3,693**	**3,693**	**1,721**
Central banks (assets and liabilities)	3,684	3,684	1,706
Interbank accounts (assets and liabilities) and loans / deposits at sight	9	9	15
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**3,900**	**1,721**	**2,750**
Central banks (assets and liabilities)	3,884	1,706	2,740
Interbank accounts (assets and liabilities) and loans / deposits at sight	16	15	10
NET CHANGE IN CASH	**207**	**(1,972)**	**1,029**

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, 2018, were examined by the Executive Board on September 03, 2018.

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 financial statements in compliance with ANC 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, 2018, were prepared using the same accounting principles as those used in the financial statements as of December 31, 2017.

The financial statements have been prepared in accordance with French generally accepted accounting principles, respecting the principles of prudence, sincerity and faithful image on the basis of the following assumptions:
• going concern principle,
• segregation of accounting periods,
• consistency of methods,
• historical costs,
• no netting principle,
• intangibility of the opening balance sheet.

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

1.3.1. 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 recorded for non-performing and compromised non-performing loans:
• The fraction of capital impaired is determined by Risk management in function of incurred losses. Underlying impairment charges and reversals are recognized as “Cost of risk” as well as the losses and subsequent recoveries on the principal of non-recoverable loans.
• Interest on non-performing and compromised non-performing loans is fully impaired. Underlying impairment charges and reversals are recognized as “Net interest margin” as well as the losses and subsequent recoveries on the interest of non-recoverable

loans.

1.3.2. 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.

1.3.2.1. 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 and subsequently accrued interest at the end of each reporting period is recorded as other assets. Interest on these securities is recorded in income as Interest income.

The difference between the redemption value and the acquisition clean 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 and unrealized losses are generally not recognized. By way of exception, unrealized losses are impaired 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.

1.3.2.2. Placement securities

Securities that do no fit in investment securities are recognized as placement securities.

Placement securities are recorded on the date of purchase at acquisition price excluding fees. Accrued interest at the date of acquisition and subsequently accrued interest at the end of each reporting period is recorded as other assets. Interest on these securities is recorded as Interest income.

The difference between the redemption value and the acquisition clean 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 including if applicable the amortization of discount or premium or selling price at closing, 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 its selling price. The valuation model should take into account all the factors that market players would consider to valuate the asset. Within this framework, Caisse Française de Financement Local relies on its own valuation models, making every effort to take into account the market conditions at the date of the valuation as well as any changes in the credit 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 in Net gains (losses) on placement portfolio transactions, as well as subsequent 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.

1.3.3. 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.

1.3.4. 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.

1.3.4.1. *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 *prorata temporis*. They are recorded on the balance sheet in the same categories as the corresponding debt. Amortization of these premiums is recorded in the income statement as Interest expense. If bonds are issued above par, amortization of issue premiums is deducted from Interest expense.

Interest on bonds is recorded in the interest margin as Interest income 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 and are recorded in the interest margin as Interest expense.

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

1.3.4.2. 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).

1.3.5. Provisions

Provisions are recorded based on their discounted 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.

Collective impairment covers the risk of loss in value among the population of loans, bonds and loan commitments not yet covered by specific impairment at the end of the reporting period. Among this population, counterparties that are reviewed in watchlist committee or might be reviewed in a foreseeable future are identified through the use of automatic criteria (based in particular on internal ratings and warning indicators for rating migration determined to be risky) and ad-hoc analysis based on the use of professional judgement and expert opinion: outstanding on these counterparties is collectively impaired. In this objective, losses on these counterparties are estimated on the basis of past events (use of historical patterns), current economic environment and expectations on future economic environment. For this purpose, Caisse Française de Financement Local uses a credit risk model based on an approach derived from Basel III approach that combines default probabilities, exposure at the time of default and losses in the event of default; this model is subject to regular back-testing.

1.3.6. Derivative transactions

Caisse Française de Financement Local engages in derivative transactions only 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 and Caisse Française de Financement Locas's equity, which are not hedged.

The notional amount of these hedging transactions 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.

1.3.6.1 Micro-hedge transactions

Derivatives are booked as micro-hedges when they are designed to hedge against the interest rate risk or the foreign exchange risk related to an item or set of homogeneous items identified from the outset. 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.

1.3.6.2. 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 and Interest income. 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.

1.3.7. 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 on the one hand the amounts resulting from a market price valuation of the foreign exchange position accounts and on the other hand the amounts recorded in the foreign exchange position equivalent accounts are recorded in the income statement.

1.3.8. 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.

1.3.9. 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 guarantees are recorded *prorata temporis* in the interest margin as Interest expense.

1.3.10. 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.

1.3.11. 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.

1.3.12. 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).

1.3.13. Identity of the parent company consolidating the accounts of Caisse Française de Financement Local as of June 30, 2018

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

2. Notes to the assets (EUR millions)

2.1 - CENTRAL BANKS

	6/30/2017	12/31/2017	6/30/2018
Mandatory reserves	-	-	-
Other deposits	3,884	1,706	2,740
TOTAL	**3,884**	**1,706**	**2,740**

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

2.2.1. Accrued interest included in this item: 45

2.2.2. 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
721	192	794	2,631	**4,338**

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

	Amount as of 6/30/2017	Amount as of 12/31/2017	Amount as of 6/30/2018	Impairment as of 6/30/2018	Unrealized capital gain or loss as of 6/30/2018 (2)
Listed securities (1)	3,767	3,755	4,052	(0)	(1,117)
Other securities	288	283	286	-	(53)
TOTAL	**4,055**	**4,038**	**4,338**	**(0)**	**(1,170)**

(1) Listed securities are registered for trading on a stock exchange.
(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

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

Portfolio	Net amount as of 6/30/2017	Net amount as of 12/31/2017	Gross amount as of 12/31/2017	Acquisitions	Amortization, redemption or disposals	Transfers	Subtotal as of 6/30/2018
Trading	-	-	-	-	-	-	-
Placement	1,057	1,076	1,076	691	(321)	-	1,446
Investment	2,998	2,962	2,962	-	(70)	-	2,892
TOTAL	**4,055**	**4,038**	**4,038**	**691**	**(391)**	**-**	**4,338**

Portfolio	Subtotal as of 6/30/2018	Translation adjustments	Impairment as of 6/30/2018	Net amount as of 6/30/2018 (1)	Unrealized capital gain or loss as of 6/30/2018 (2)
Trading	-	-	-	-	-
Placement	1,446	-	(0)	1,446	(68)
Investment	2,892	1	-	2,893	(1,102)
TOTAL	**4,338**	**1**	**(0)**	**4,339**	**(1,170)**

(1) This amount includes a premium / discount of EUR 16 million for the placement portfolio and of EUR 86 million for the investment portfolio.
(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

2.2.5. Impairment breakdown by country
See note 2.9

2.3 - LOANS AND ADVANCES DUE FROM BANKS

2.3.1. Sight loans and advances due from banks

	6/30/2017	12/31/2017	6/30/2018
Sight accounts	9	10	5
Unallocated sums	0	13	-
TOTAL	**9**	**23**	**5**
of which replacement assets	*9*	*10*	*5*

2.3.2. Term loans and advances due from banks

2.3.2.1 Accrued interest included in this item: 0

2.3.2.2 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
428	838	27	215	**1,508**

2.3.2.3 Analysis by initial maturity excluding accrued interest

	Net amount as of 6/30/2017	Net amount as of 12/31/2017	Gross amount as of 6/30/2018	Decrease in value as of 6/30/2018	Net amount as of 6/30/2018
Loans of less than 1 year	-	-	-	-	-
Loans of more than 1 year	495	880	1,508	-	1,508
TOTAL	**495**	**880**	**1,508**	-	**1,508**

2.3.2.4 Breakdown by counterparty

	6/30/2017	12/31/2017	6/30/2018
SFIL - Export credits refinancing loans guaranted by the French State (1)	113	218	422
SFIL - Others loans (2)	-	360	800
Swiss cantonal banks benefiting from their cantons' legal guarantee	105	29	29
Banks guaranteed by a local government, *crédits municipaux*	21	21	8
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	256	252	248
TOTAL	**495**	**880**	**1,507**
of which replacement assets		*360*	*800*

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

(2) Since 2017, Caisse Française de Financement Local has invested some of its surplus cash in loans granted to its parent company SFIL.

2.4 - CUSTOMER LOANS AND ADVANCES

2.4.1. Accrued interest included in this item: 540

2.4.2. 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
1,254	3,173	15,232	26,561	**46,220**

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

Economic sector	6/30/2017	12/31/2017	6/30/2018 (1)
Public sector	45,389	44,173	44,172
Other sectors	2,275	2,168	2,048
TOTAL	**47,664**	**46,341**	**46,220**

(1) Of which EUR 39,807 eligible for central bank refinancing

2.4.4. Analysis by initial maturity excluding accrued interest

	Net amount as of 6/30/2017	Net amount as of 12/31/2017	Gross amount as of 6/30/2018	Impairment as of 6/30/2018	Net amount as of 6/30/2018
Loans of less than 1 year	7	5	7	-	7
Loans of more than 1 year	47,657	46,336	46,243	(30)	46,213
TOTAL	**47,664**	**46,341**	**46,250**	**(30)**	**46,220**

2.4.5. Analysis of loans by category of outstanding loans excluding accrued interest

	Net amount as of 6/30/2017	Net amount as of 12/31/2017	Gross amount as of 6/30/2018	Impairment as of 6/30/2018	Net amount as of 6/30/2018
Performing commitments	47,195	45,828	45,805	-	45,805
Non-performing loans	200	273	230	(3)	227
Compromised non-performing loans	269	240	215	(27)	188
TOTAL	**47,664**	**46,341**	**46,250**	**(30)**	**46,220**

Assets considered as forborne by Caisse Française de Financement Local concern exposures to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognized or to come) that would not have been granted in other circumstances. These concessions may either be a waiver of a part of the debt, a rescheduling of the loan repayment, restructuring measures through an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions targeting the reduction of the sensitivity of the loan.

There were 193 forborne contracts as of June 30, 2018, with 96 borrowers, for a total of EUR 1,160 million.

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

	6/30/2017	12/31/2017	Allocations	Reversals	Transfers	6/30/2018
For non-performing loans						
On loans	(3)	(0)	-	-	-	-
On interest	(8)	(6)	(2)	5	-	(3)
For compromised non-performing loans						
On loans	(3)	(0)	(0)	0	-	-
On interest	(51)	(30)	(6)	9	-	(27)
TOTAL	**(65)**	**(36)**	**(8)**	**14**	**-**	**(30)**

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

2.4.7. Impairment breakdown by country

See note 2.9

2.5 - BONDS AND OTHER FIXED INCOME SECURITIES

2.5.1. Accrued interest included in this item: 7

2.5.2. 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
	280	189	1,024	2,259	**3,752**

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

	6/30/2017	12/31/2017	6/30/2018
Public sector	2,722	2,550	2,542
Other sectors (guaranteed by a State or by a local government)	289	246	212
Credit institutions	781	581	998
TOTAL	**3,792**	**3,377**	**3,752**
of which eligible for central bank refinancing	*840*	*629*	*965*
of which replacement assets	*781*	*581*	*998*

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

	Amount as of 6/30/2017	Amount as of 12/31/2017	Amount as of 6/30/2018	Impairment as of 6/30/2018	Unrealized capital gain or loss as of 6/30/2018 (1)
Listed securities	1,722	1,563	1,751	(0)	(120)
Other securities	2,070	1,814	2,001	(0)	(92)
TOTAL	**3,792**	**3,377**	**3,752**	**(0)**	**(212)**

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

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

Portfolio	Net amount as of 6/30/2017	Net amount as of 12/31/2017	Gross amount as of 12/31/2017	Acquisitions	Amortization, redemption or disposals	Transfers	Subtotal as of 6/30/2018
Trading	-	-	-	-	-	-	-
Placement	1,178	920	920	595	(193)	-	1,322
Investment	2,614	2,457	2,457	-	(39)	-	2,418
TOTAL	**3,792**	**3,377**	**3,377**	**595**	**(232)**	**-**	**3,740**

Portfolio	Subtotal as of 6/30/2018	Translation adjustments	Impairment as of 6/30/2018	Net amount as of 6/30/2018 (1)	Unrealized capital gain or loss as of 6/30/2018 (2)
Trading	-	-	-	-	-
Placement	1,322	5	(0)	1,327	(36)
Investment	2,418	7	-	2,425	(176)
TOTAL	**3,740**	**12**	**(0)**	**3,752**	**(212)**

(1) These amounts include a premium / discount of EUR 24 million for placement portfolio and of EUR 110 million for investment portfolio

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

2.5.6. Breakdown of impairment by country

See note 2.9

2.6 - OTHER ASSETS

	6/30/2017	12/31/2017	6/30/2018
Other receivables	12	17	24
TOTAL	**12**	**17**	**24**

2.7 - ACCRUALS AND OTHER ASSETS

	6/30/2017	12/31/2017	6/30/2018
Deferred losses on hedging transactions	1,563	1,472	1,392
Deferred charges on bond issues	51	48	55
Prepaid charges on hedging transactions	179	183	167
Premiums on acquisition of loans	257	256	263
Other prepaid charges	0	-	0
Accrued interest not yet due on hedging transactions	780	748	652
Translation adjustments	-	-	-
Other deferred income	0	1	1
Other accruals	(0)	15	3
TOTAL	**2,830**	**2,723**	**2,533**

2.8 - TOTAL ASSETS

Analysis by original currency	Amount in original currency as of 6/30/2017	Amount in euros as of 6/30/2017	Amount in original currency as of 12/31/2017	Amount in euros as of 12/31/2017	Amount in original currency as of 6/30/2018	Amount in euros as of 6/30/2018
EUR	60,377	60,377	57,725	57,725	60,308	60,308
AUD	20	13	20	13	20	13
CAD	513	346	511	340	510	332
CHF	1,512	1,384	1,035	884	626	542
GBP	321	365	129	145	132	149
HKD	206	23	0	0	-	-
JPY	26,336	206	21,168	157	16,267	126
NOK	1,012	106	1,039	105	1,012	106
PLN	42	10	43	10	44	10
SEK	-	-	0	0	0	0
USD	632	553	402	335	147	126
TOTAL		**63,383**		**59,714**		**61,712**

2.9 - BREAKDOWN OF IMPAIRMENT BY COUNTRY

	Amount as of 6/30/2017	Amount as of 12/31/2017	Amount as of 6/30/2018
Government and public entity - placement securities	**(0)**	**(0)**	**(0)**
France	(0)	(0)	(0)
Bonds and other fixed income - placement securities	**(1)**	**(0)**	**(0)**
France	(1)	(0)	(0)
Belgium	(0)	(0)	(0)
United Kingdom	(0)	(0)	(0)
Sweden	-	(0)	(0)
Bonds and other fixed income - investment securities	**(65)**	**-**	-
Loans and advances to customers	**(65)**	**(36)**	**(30)**
France		(36)	(30)

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.

	12/31/2017					
	Spain	**Ireland**	**Italy**	**Portugal**	**Greece**	**Total**
Investment securities	-	-	451	-	-	451
Placement securities	203	-	112	-	-	315
TOTAL	203	-	**563**	-	-	**766**

	6/30/2018					
	Spain	**Ireland**	**Italy**	**Portugal**	**Greece**	**Total**
Investment securities	-	-	452	-	-	452
Placement securities	205	-	115	10	-	330
TOTAL	**205**	-	**567**	**10**	-	**782**

3. Notes to the liabilities (EUR millions)

3.1 - DUE FROM BANKS

At the end of June 30, 2018, funding obtained from SFIL, within the framework of the financing agreement, was comprised of different loans with maturities initially between one day and ten years, indexed on Euribor or Eonia.

	6/30/2017	12/31/2017	6/30/2018
Sight accounts	-	-	2
Current account - parent company	-	-	-
Interest accrued not yet due	-	-	-
Term borrowing - parent company	5,130	4,821	5,153
Interest accrued not yet due	4	0	(3)
Unallocated sums	-	-	8
TOTAL	**5,134**	**4,821**	**5,160**

Analysis by residual maturity excluding accrued interest

	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Sight	10	-	-	-	10
Term	393	88	2,864	1,808	5,153
TOTAL	**403**	**88**	**2,864**	**1,808**	**5,163**

3.2 - DEBT SECURITIES

3.2.1. Debt securities (*obligations foncières*)

3.2.1.1. Accrued interest included in this item: 508

3.2.1.2. 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	1,360	2,276	17,880	23,300	**44,816**
of which net issue premiums [(1)]	*(0)*	*(1)*	*(8)*	*(76)*	***(85)***

(1) The gross amount of positive and negative issue premiums totaled EUR -173 million before amortization.

3.2.1.3. Changes during the year excluding accrued interest

Type of securities	Amount as of 12/31/2017	Increases	Decreases	Translation adjustments	Amount as of 6/30/2018
Obligations foncières	42,719	4,346	(2,273)	24	**44,816**

3.2.2. Other bonds (registered covered bonds)

3.2.2.1. Accrued interest included in this item: 139

3.2.2.2. 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	50	88	387	5,852	**6,377**
of which net issue premiums [(1)]	-	-	-	*42*	***42***

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

3.2.2.3. Changes during the year excluding accrued interest

Type of securities	Amount as of 12/31/2017	Increases	Decreases	Translation adjustments	Amount as of 6/30/2018
Registered covered bonds	6,459	96	(178)	-	**6,377**

3.3 - OTHER LIABILITIES

	6/30/2017	12/31/2017	Amount as of 6/30/2018
Cash collateral received	871	687	503
Accrued interest not yet due on cash collateral received	0	(0)	(0)
Taxes	1	0	1
Balances to pay on unwound hedging contracts	-	-	-
Contribution to the support fund [(1)]	110	110	100
Other creditors	-	0	-
TOTAL	**982**	**797**	**604**

(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

	6/30/2017	12/31/2017	6/30/2018
Deferred gains on hedging transactions	-	-	-
Deferred income on hedging transactions	1,667	1,569	1,494
Deferred income on loans	167	160	167
Accrued interest not yet due on hedging transactions	675	658	602
Other accrued charges	24	24	18
Translation adjustments	93	139	245
Other accruals	10	2	0
TOTAL	**2,636**	**2,552**	**2,526**

3.5 - PROVISIONS FOR RISKS AND CHARGES

	Amount as of 6/30/2017	Amount as of 12/31/2017	Increases	Decreases	Translation adjustments	Amount as of 6/30/2018
Loans and commitments [(1)]	45	30	4		-	34
Financial instruments	35	30	7		-	37
Other provisions [(2)]	110	113	-	-	-	113
TOTAL	**190**	**173**	**11**	**-**	**-**	**184**

(2) Since the 1st of January 2018, provisions on loans and commitments have taken into account forecast features.

(2) 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 safeguard its rights to the disputed adjustment, in 2017 the tax authority initiated a verification procedure relating to the consequences of its previous assessment of taxable income for the 2014 to 2016 fiscal years. The two points of disagreement resulting from the 2015 assessment still held following this tax audit. There were no other new developments.

Since 2016, Caisse Française de Financement Local has started an appeal within the framework of legal recourse allowed by current tax regulations. Neither the discussions that took place with the tax authorities nor the new tax audit called into question the assumptions used to calculate the amount provisioned in the accounts.

3.6 EQUITY

	Amount as of 6/30/2017	Amount as of 12/31/2017	Amount as of 6/30/2018
Share capital	1,350	1,350	1,350
Legal reserve	49	49	51
Retained earnings (+/-)	24	23	2
Net income (+/-)	19	30	(5)
TOTAL	**1,442**	**1,452**	**1,398**

On May 28, 2018, the Ordinary and Extraordinary Shareholders' Meeting decided to allocate the 2017 net profit, ie EUR 52 millions after taking into account of positive retained earnings, to payment of a dividend in the amount of EUR 50 million, the difference EUR 2 million has been allocated to the retained earnings.
Caisse Française de Financement Local's share capital totaled EUR 1,350 million, comprising 13,500,000 shares.

3.7 - TOTAL LIABILITIES

Analysis by original currency	Amount in original currency as of 6/30/2017	Amount in euros as of 6/30/2017	Amount in original currency as of 12/31/2017	Amount in euros as of 12/31/2017	Amount in original currency as of 6/30/2018	Amount in euros as of 6/30/2018
EUR	60,377	60,377	57,725	57,725	60,308	60,308
AUD	20	13	20	13	20	13
CAD	513	346	511	340	510	332
CHF	1,512	1,384	1,035	884	626	542
GBP	321	365	129	145	132	149
HKD	206	23	0	0	-	-
JPY	26,336	206	21,168	157	16,267	126
NOK	1,012	106	1,039	105	1,012	106
PLN	42	10	43	10	44	10
SEK	-	-	0	0	0	0
USD	632	553	402	335	147	126
TOTAL		**63,383**		**59,714**		**61,712**

3.8 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Parent company [1]			Other related parties [2]		
	6/30/2017	12/31/2017	6/30/2018	6/30/2017	12/31/2017	6/30/2018
ASSETS						
Loans and advances due from banks - sight	-	-	-	-	-	-
Loans and advances due from banks - term	113	578	1,221	-	-	-
Bonds and other fixed income securities	-	-	-	9	9	108
LIABILITIES						
Due to banks - sight	-	-	-	-	-	-
Due to banks - term	5,134	4,821	5,150	-	-	-
INCOME STATEMENT						
Interest income on loans and advances	0	1	0	(6)	(11)	(5)
Interest income on debt securities	-	-	-	(0)	0	(0)
Interest expense on borrowings	(7)	(11)	(0)	-	-	-
Net commissions	(4)	(11)	(6)	-	0	(0)
OFF-BALANCE SHEET						
Interest rate derivatives	14,539	14,029	14,624	-	-	-
Foreign exchange derivatives	1,781	1,271	1,139	-	-	-
Commitments and guarantees received	200	50	50	52	-	-
Commitments and guarantees given	3,168	3,028	4,563	-	-	-

(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

	6/30/2017	12/31/2017	6/30/2018
Financing commitments granted to credit institutions [1]	3,168	3,028	4,563
Financing commitments granted to customers [2]	143	90	48
Commitments on securities	5		182
Other commitments given, assets assigned in guarantee [3]	2	3	4
TOTAL	**3,318**	**3,121**	**4,797**

(1) Within the framework of the export credit business, this amount corresponds to a commitment by Caisse Francaise 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 year-end.
(3) It means the irrevocable payment commitment to the Fonds de garantie et de résolution.

4.2 - COMMITMENTS RECEIVED

	6/30/2017	12/31/2017	6/30/2018
Financing commitments received from credit institutions [1]	320	50	135
Currencies borrowed	-	-	-
Guarantees received from credit institutions	73	22	8
Enhanced guarantees [2]	3,281	3,247	4,986
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	2,989	2,774	2,587
Commitments on securities	5		-
Other commitments received	-	-	-
TOTAL	**6,668**	**6,093**	**7,716**

(1) At the end of June 2018, this item corresponded to the amount of the overdraft, authorized in the current account agreement set up with SFIL, totaling EUR 50 million.
(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.

	6/30/2017	12/31/2017	6/30/2018	Fair value as of 6/30/2018
Currencies to receive	7,113	6,983	6,398	(312)
Currencies to deliver	7,112	7,122	6,643	230
TOTAL	**14,225**	**14,105**	**13,041**	**(82)**

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.

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

Type of transaction	Less than 1 year	1 year to 5 years	More than 5 years	6/30/2018
Notional amount	31,917	33,860	46,196	**111,973**
of which deferred start	-	*262*	*295*	***557***

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

4.4.2. Analysis of interest rate transactions by product type

	6/30/2017	12/31/2017	6/30/2018
Interest rate swaps	134,348	123,616	111,973
Term contracts	-	-	-
Interest rate options	-	-	-
TOTAL	**134,348**	**123,616**	**111,973**

4.4.3. Analysis of interest rate swap transactions

	6/30/2017	12/31/2017	6/30/2018	Fair value as of 6/30/2018
Micro-hedge	66,988	62,306	64,082	(2,293)
Macro-hedge	67,360	61,310	47,891	(669)
TOTAL	**134,348**	**123,616**	**111,973**	**(2,962)**

4.4.4. Analysis of interest rate transactions by counterparty

	6/30/2017	12/31/2017	6/30/2018
Related parties	14,539	14,029	14,624
Other counterparties	119,809	109,587	97,348
TOTAL	**134,348**	**123,616**	**111,972**

5. Notes to the statement of income (EUR millions)

5.1 - INTEREST AND RELATED INCOME / EXPENSE

	H1 2017	H1 2018
INCOME	**509**	**500**
Due from banks	4	4
Due from customers	540	469
Bonds and other fixed income securities	35	36
Macro-hedge transactions	(70)	(9)
Other commitments	-	-
EXPENSE	**(429)**	**(432)**
Due to banks	(12)	(4)
Due to customers	(178)	(113)
Bonds and other fixed income securities	(70)	(105)
Macro-hedge transactions	(169)	(210)
Other commitments	-	-
INTEREST MARGIN	**80**	**68**

5.2 - COMMISSIONS

	H1 2017			H1 2018		
	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	3	(2)	1	-	(2)	(2)
Commissions on financial instruments	-	(0)	(0)	-	(0)	(0)
Rebilling by parent company	-	(4)	(4)	-	(6)	(6)
TOTAL	**3**	**(6)**	**(3)**	**0**	**(8)**	**(8)**

5.3 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

	H1 2017	H1 2018
Transactions on placement securities [1]	(3)	(7)
Transactions on investment securities	-	-
Transactions on interest rate derivatives	-	0
Foreign exchange transactions	0	(0)
TOTAL	**(3)**	**(7)**

(1) This item regroups capital gains and losses on sales and 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 clientele. These assets are managed in a run-off mode. At the end of June 2018, there were agreements with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium), and Dexia Crediop (Italy). These agreements already existed in previous years.
Starting in 2015, management of new registered covered bonds (RCB) is entrusted to Landesbank Baden-Württemberg (LBBW). Dexia Kommunalbank Deutschland continues to manage registered covered bonds issued prior to 2015.

General operating expense can be broken down as follows:

	H1 2017	H1 2018
Payroll costs	-	-
Other general operating expense [1]	(47)	(47)
Taxes	(7)	(5)
TOTAL	**(54)**	**(52)**

(1) of which EUR 46 million with SFIL.

5.5 - COST OF RISK

	H1 2017	H1 2018
Collective and specific impairments	1	(3)
TOTAL	**1**	**(3)**

5.6 - GAINS AND LOSSES ON FIXED ASSETS

	H1 2017	H1 2018
Transactions on investment securities	-	-
Other operations	-	-
TOTAL	**-**	**-**

5.7 - CORPORATE INCOME TAX

	H1 2017	H1 2018
Income tax for the year [1]	(2)	(3)
Provisions for tax litigation [2]	(1)	-
TOTAL	**(3)**	**(3)**

(1) The corporate tax rate in France in 2017 is 34.43%.
(2) See note 3.5

6. Post-closing events

No significant event that influenced the Company's financial situation has occured since the closing on June 30, 2018.

5. Statutory auditors' report (French GAAP)

DELOITTE & ASSOCIES
6 Place de la Pyramide
92908 Paris-La Défense Cedex
Société Anonyme
S.A. au capital de € 1.723.040

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

ERNST & YOUNG et Autres
Tour First
TSA 14444
92037 Paris-La Défense Cedex
S.A.S. à capital variable

Commissaire aux Comptes
Membre de la compagnie
régionale de Versailles

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

Caisse Française de Financement Local

Société Anonyme

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

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

Period from January 1 to June 30, 2018

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, 2018;
- 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 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 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, 2018 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.

Paris-La Défense, September 7, 2018

The Statutory Auditors

French original signed by

DELOITTE & ASSOCIES	ERNST & YOUNG et Autres
Sylvie BOURGUIGNON	Vincent ROTY

6. Statement by the person responsible

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 affirms 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, 2018

Gilles GALLERNE
Chairman of the executive board

Caisse Française de Financement Local
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92130 Issy-les-Moulineaux - France

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