Half-year financial report

for the period from January 1st to June 30, 2020

September 29, 2020 :
This second version of the half-year financial report of Caisse Française de Financement Local includes only one modification compared to the version published on September 10, 2020. On page 69, the wording of the statutory auditors' report has been adjusted in order to specify that the half-year financial statements are condensed and presented in accordance with IAS 34 dedicated to interim financial reporting.

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

Data subject to limited review by the statutory auditors

Half-Year Financial Report
for the period from January 1st to June 30, 2020

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Figures: Due to rounding, column totals in the tables may differ slightly from the sum of the lines comprising them

Key figures

As of June 30, 2020

Portfolio of assets
(cover pool)
EUR 57.7 billion

Obligations foncières
(covered bonds)
EUR 50.9 billion

Regulatory
over-collateralization
111.9%

Covered bonds issued
over the first half 2020
EUR 2.8 billion

Doubtful and litigious loans –
French Gaap
(% cover pool)
0.5%

Assets eligible for the central
bank refinancing
(% cover pool)
69.2%

Common Equity Tier 1 Ratio
(Basel III)
29.0%

Liquidity coverage ratio
(LCR)
267%

External ratings

As of June 30, 2020

Moody's	S&P	DBRS
Aaa	AA+	AAA

1. Management report
for the period from January 1st to June 30, 2020

1. General scope of Caisse Française de Financement Local's business activity

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 et seq. 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 No. 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.

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.

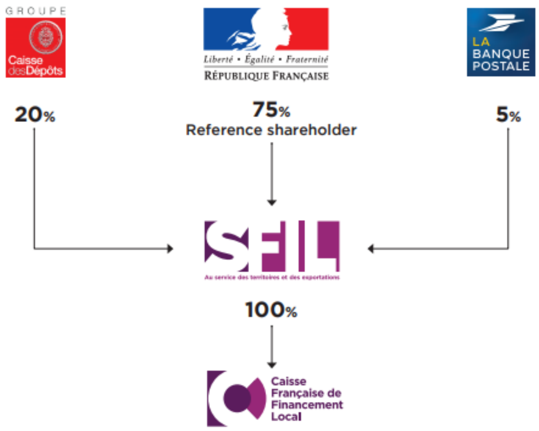
Since 2015, the French State has entrusted SFIL and Caisse Française de Financement Local with a second mission that is the responsibility to refinance large export credits with the guarantee of the State (see 1.1.3.2.). The objective is to enable large export credits, as well as French local governments and public hospitals to benefit from optimal financing conditions through a high rating and irreproachable risk management.

1.2 – SHAREHOLDING STRUCTURE OF THE COMPANY

As of June 30, 2020, Caisse Française de Financement Local was wholly owned by SFIL. SFIL is a credit institution approved by the ACPR. Its shareholders are the French State (75%), the Caisse des Dépôts (CDC) (20%) and La Banque Postale (LBP) (5%). SFIL's shareholders are thus firmly anchored in the public sphere, reflecting the missions the French State assigned it.

The State is the reference shareholder of SFIL and Caisse Française de Financement Local. This commitment, made with the Autorité de contrôle prudentiel et de résolution (ACPR), underlines its involvement 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.

The shareholding structure of SFIL, parent company of Caisse Française de Financement Local, will change in 2020. In this respect, additional information is given in the highlights of the year 2020 (cf. 2.1).



In addition, on January 31, 2013, SFIL, the parent company of Caisse Française de Financement Local, signed a declaration of support ensuring that "Société de Financement Local and the French State, its reference shareholder, will ensure that Caisse Française de Financement Local will always be able to pursue its activity in an ongoing manner and to honor its financial commitments in compliance with the obligations imposed by banking regulations in effect." This declaration of support is reproduced in issuance documents and the annual financial report of Caisse Française de Financement Local.

SFIL is also the institution managing Caisse Française de Financement Local, in accordance with article L.513-15 of the Monetary and Financial Code.

1.3 – CAISSE FRANÇAISE DE FINANCEMENT LOCAL'ECONOMIC MODEL

1.3.1. Financing 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 simple 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. Since mid-2019, La Banque Postale has also been marketing green loans the purpose of which is to finance local investments contributing to the ecological transition carried out by local authorities. The SFIL Group's green issues refinance these loans.

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

- before a loan is originated, an initial analysis of the counterparty is carried out by 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;

- each time Caisse Française de Financement Local acquires loans originated by La Banque Postale, the credits are analyzed again. Caisse Française de Financement Local may then, before the transfer, refuse any loan that does no longer meet its 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

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 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.

This export refinancing 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 issues 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 refinancing activity will increase gradually and will only become significant in several years.

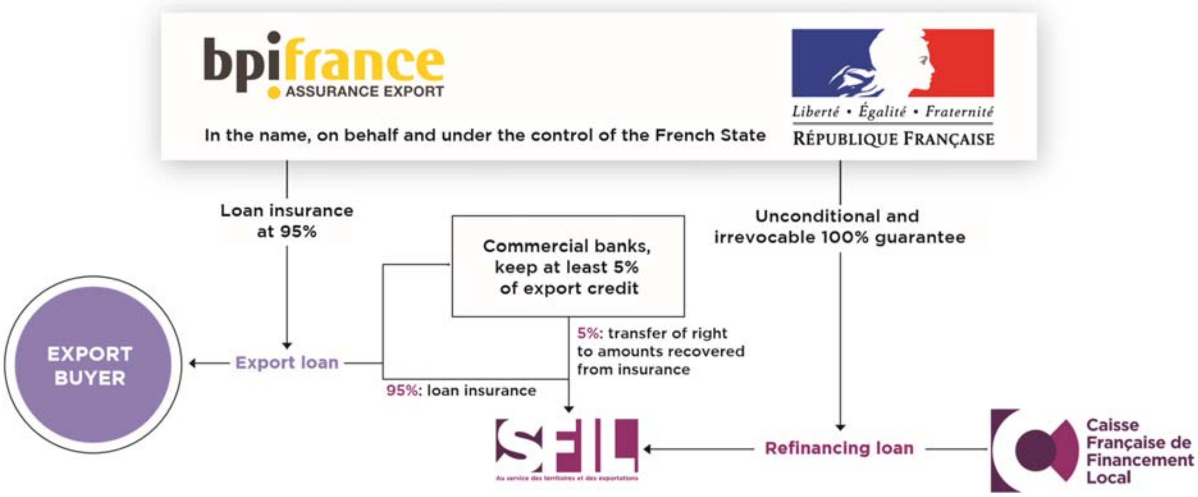
1.3.2.1. The system for refinancing large export credits

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).

OPERATIONAL DIAGRAM OF THE SYSTEM OF EXPORT CREDIT REFINANCING BY SFIL-CAFFIL



(1) The enhanced guarantee was introduced by law 2012-1510 of December 29, 2012, and Decree 2013-693 of July 30, 2013, as amended by Decree 2018-1162 of December 17, 2018, relating to the granting of the State's guarantee for transactions that are likely to contribute to the development of France's foreign trade or are of strategic interest for its overseas economy.

1.3.2.2. French State export guarantees

Since the end of 2016, these guarantees have been managed by Bpifrance Assurance Export, in the name, on behalf, and under the control of the French State, pursuant to article L.432.2 of the French Insurance Code. The guarantees are therefore directly granted by the State, demonstrating the support of the French State for exporters. These guarantees are intended to encourage, support and secure French exports financed over the long- and medium-term as well as French investment abroad:

- the decisions to grant guarantees are made by the Minister of the Economy and Finance after investigation by Bpifrance Assurance Export and the advice of the French Export Credit and Guarantee Commission (Commission des garanties et du crédit au commerce extérieur); Bpifrance Assurance Export manages the French State guarantees in strict compliance with the rules of the WTO, the European Union and the OECD;
- 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. Financing by Caisse Française de Financement Local through the issue of covered bonds

To refinance these two activities, Caisse Française de Financement Local issues *obligations foncières* (covered bonds) on financial markets both in the form of benchmark public issues and in the form of private placements, particularly in the registered covered bonds format, suitable for its broad investor base. These instruments are characterized by the legal privilege, which, as a priority, allocates the sums from the Company's assets to pay their interest, and reimbursements. This source of financing is the main source of liquidity for the SFIL Group and represents an outstanding of EUR 50.9 billion at June, 30 2020.

1.3.4. 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; In this context, SFIL and Caisse Française de Financement Local signed a management agreement developped in a Service Level Agreement (SLA) that precisely determines the tasks entrusted to SFIL and the indicators for monitoring the quality of the service provided. Every year, the parties review this SLA;
- to provide Caisse Française de Financement Local with the non-privileged funding and derivatives it needs to carry out its activities.

SFIL obtains the resources needed to fund Caisse Française de Financement Local's activity (financing of overcollateralization and derivatives) from the markets by issuing long-dated (bonds) debt and, to a lesser degree, short-dated (certificates of deposit) debt. It has gradually established its signature in the French agency segment by launching benchmark EMTN issues in euros and dollars.

SFIL can also fund these liquidity requirements by entering into loan agreements with its shareholders:

- Caisse des dépôts et consignations for needs related to transactions booked before SFIL's acquisition date (January 31, 2013) and for needs relating to the export credit refinancing activity;
- La Banque Postale for needs related to the loans it grants to French local government entities and public hospitals.

The refinancing provided by the shareholders has been replaced since 2016 by funds obtained by SFIL on the financial markets. Nevertheless, shareholder refinancing is still available particularly in the case of liquidity requirements generated under a situation of stress.

In addition to commitments of the French State as the reference shareholder, on January 31, 2013, SFIL signed a declaration of support of Caisse Française de Financement Local, which is reproduced in this annual financial report – General information.

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

1.3.5. 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 assets for their national clientele. These assets are managed in a run-off mode. As of June 2020, 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 the registered covered bonds (RCB) subscribed by German investors is entrusted to Landesbank Baden-Württemberg (LBBW).

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

As of June 30, 2020, Caisse Française de Financement Local's issuance program was rated by three international rating agencies: Moody's, Standard & Poor's (S&P) and DBRS.

The ratings of the bonds issued by Caisse Française de Financement Local provided by these agencies 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 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.).

SFIL is currently rated at the same level as France by S&P and one notch below it by Moody's and DBRS. The agencies have given SFIL these excellent ratings because they consider it to be a French government-related entity. They reflect the strong probability that if necessary the French State would provide extraordinary support to SFIL because of the strategic importance of the public service responsibilities entrusted to it, the State's commitments and its influence on SFIL's governance.

Note that S&P caps the rating of Caisse Française de Financement Local's *obligations foncières* at one notch above that of SFIL and, consequently, one notch above that of the French State, because some of its derivative contracts do not comply with the agency's methodological criteria (counterparties not rated by S&P or absence of a replacement clause).

Lastly, based on the Company's performance in terms of social and environmental responsibility, Caisse Française de Financement Local's *obligations foncières* benefit also from very good ratings from extra-financial rating agencies.

The ratings at June 30, 2020 are presented in section 2.5.

2. Highlights and activities of the first semester 2020

2.1 – HEALTH CRISIS DUE TO THE COVID-19 PANDEMIC

The impacts of the COVID-19 pandemic health crisis and the decisions taken by governments to deal with it have affected all French and global economic and financial sectors of activity.

Within the context of this crisis, the Caisse Française de Financement Local continued its two missions of financing of the local public sector and refinancing of large export credits. It showed its resilience capacity notably in terms of solvency and liquidity, thanks to the public development model of its parent company, SFIL.

On the operational side, SFIL was able to adapt its organization and IT systems in order to function almost entirely remotely and enable all of its activities, and notably its services for the Caisse Française de Financement Local, to continue normally.

The SFIL Group was able to monitor and manage all of its risks, notably those related to market volatility and the economic situation of customers.

For the Caisse Française de Financement Local, the financial impacts of this crisis were very limited, although some impacts can be seen in the income statement due to banking regulations and IFRS accounting rules. These impacts are explained in the different sections of this report.

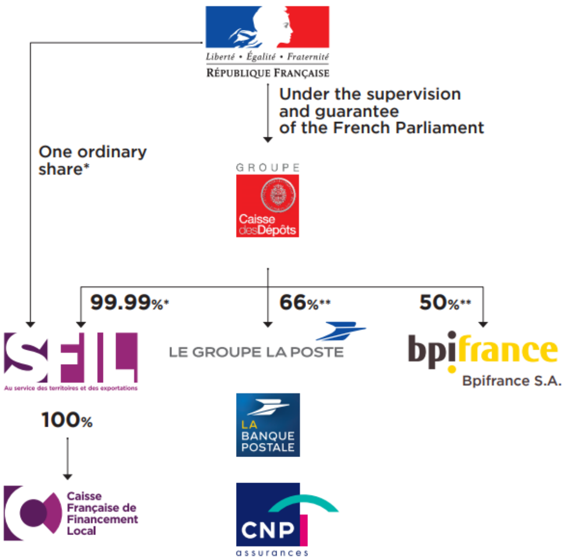
2.2 – PROPOSED CHANGE TO SFIL' SHAREHOLDING STRUCTURE

In accordance with the agreement-in-principle signed by and between the shareholders of SFIL, announced on October 9, 2019, on March 4, 2020, the State, Caisse des Dépôts (CDC) and La Banque Postale (LBP) announced the signing of an agreement on the acquisition by Caisse des Dépôts of all of the SFIL shares held by La Banque Postale (i.e. 5%) and of all of the shares held by the State (i.e. 75%), with the exception of one ordinary share that the State will retain. Caisse des Dépôts will therefore become the reference shareholder of SFIL.

In view of the public interest missions entrusted to SFIL, the State will continue to have a seat on SFIL's Board of Directors by means of a non-voting director (censeur) . SFIL's shareholding structure will therefore remain entirely public and its shareholders will continue to ensure that its financial soundness is retained and its economic base protected, in accordance with the applicable regulations. La Banque Postale, which will retain a central role in this system, has ahead of time decided to extend its partnership with SFIL up to the end of 2026 for the marketing of medium- and long-term loans to French local governments and public hospitals refinanced by Caisse Française de Financement Local.

This transaction is part of the project to create a major public financial group based on Caisse des Dépôts and La Poste, the finalization of which was also announced on March 4. The change in SFIL's shareholding structure should be effective in the third quarter of 2020, subject to obtaining all regulatory and administrative authorizations required from the relevant authorities. With this transaction, the shareholding structure of Caisse Française de Financement Local will remain firmly anchored in the public sphere, thus reflecting the missions entrusted thereto by the State.

The ownership structure of SFIL and its sole subsidiary, Caisse Française de Financement Local, upon completion of the change of ownership:



** Subject to approval from the relevant authorities. The Caisse des Dépôts will hold all SFIL shares with the exception of one ordinary share retainedby the French State.*

*** The French State holds 50% of the capital of Bpifrance S.A. (through EPIC Bpifrance) and 34% of La Poste's capital.*

2.3 – THE COVERED BONDS MARKET

The first half of 2020 was marked by the coronavirus pandemic, which led to significant volatility in financial markets, including the euro-denominated covered bonds market. This volatility culminated at the start of April before declining thanks to the intervention of Eurosystem through the increase in its bond asset purchase programs and its massive supply of liquidity to the banking sector.

Overall, this event did not affect the solidity of the covered bond market. The primary market for public euro-denominated issues remained active throughout the half-year, with a cumulative offer volume of EUR 69.3 billion. This volume declined significantly by 27% compared to the first half of 2019 (EUR 95.4 billion) which saw strong activity. This situation is due to European banks making significant use of the new advantageous refinancing provisions with Eurosystem (TLTRO) at the expense of their issue activity.

Similarly, covered bond market spreads widened throughout March, with a high point at the start of April. Then, they rapidly narrowed and stabilized at the start of June at a level close to that of the start of 2020.

In this fluctuating context, Caisse Française de Financement Local's ability to access the market remained intact, with a constantly growing investor base. Thus, Caisse Française de Financement Local tapped into the primary euro benchmark market three times. Firstly, in February, for a EUR 750 million transaction with the rare 20-year maturity, under good spread conditions, thus taking advantage of the investors' appetite for long maturities. Then, at the end of April, in the context of the COVID-19 pandemic health crisis, for its second social theme issue dedicated to the financing of French public hospitals for EUR 1 billion with a 5-year maturity. This first issue of covered bonds aiming to support the investment made by French public hospitals, affected by the COVID 19 pandemic, saw very strong subscription from a broad base of international investors. Lastly, in June, CAFFIL took advantage of the return to normal market conditions to carry out a 10-year issue for EUR 1 billion.

2.4 – HARMONIZATION OF THE LEGAL FRAMEWORKS FOR COVERED BONDS IN EUROPE

A European directive on covered bonds as well as an amendment to the Article 129 of the Capital Requirements Regulation – CRR) have been published in the Official Journal of the European Union on December 18, 2019. This new legal framework aims at standardizing the different European covered bond models. This directive should be transposed into French national law by mid-2021 to take effect by no later than mid-2022, at the same time as the new version of the Article 129 of the CRR.

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 this new directive and regulation.

2.5 – RATING OF *OBLIGATIONS FONCIÈRES*

The financial rating of *obligations foncières* issued by Caisse Française de Financement Local remained unchanged during the first half of 2020.

As of June 30, 2020, the ratings were as follows: Aaa from Moody's ; AA+ from S&P and AAA from DBRS. The outlooks associated with each of these ratings remained stable.

As of June 30, 2020, the extra-financial ratings of Caisse Française de Financement Local were as follows: Premium C+ by ISS and AA by MSCI, and the extra-financial rating associated with CAFFIL issuance program was Positive-BBB by IMUG.

2.6 – REINFORCEMENT OF THE SFIL GROUP'S CSR COMMITMENT

As a public development bank, SFIL group works for the sustainable and responsible financing of development projects in France.

During the first half of 2020, despite the generalized lockdown, SFIL endeavored to continue its CSR commitments, in line with its strategy and road map.

Thus, after an initial report last year, SFIL published its new CSR report during the first half-year 2020, which accounted for its actions, objectives and results in terms of CSR for 2019. This report is available in English and French on the SFIL website (www.sfil.fr).

Similarly, in February 2020, the Caisse Française de Financement Local published the report on the allocation of the February 2019 inaugural "social" theme issue funds. It also contains the social impact of loans, measured thanks to the indicators defined in the issue's framework document, as well as the "added health value" of the financed institutions, which is an indicator developed by the SFIL Group to measure the hospitals' positioning in the health offering.

2.7 – FINANCING OF PUBLIC SECTOR LOANS

As part of its first mission, Caisse Française de Financement Local refinances the loans granted by LBP to French local governments and public hospitals. The CAFFIL/SFIL/LBP scheme has been recognized as the leader in French local public sector financing since 2015.

Despite a significant decline in demand during April, due to the COVID-19 pandemic lockdown, French local public sector financing saw a sustained level of activity during the first half-year 2020. The volume of loans granted by the CAFFIL/SFIL/LBP system is close to the level of 2019, which was a record year for production.

Since the beginning of the partnership in 2013, the total volume of loans acquired by Caisse Française de Financement Local from La Banque Postale amounted EUR 22.7 billion, including EUR 2.9 billion over the first half of 2020.

The SFIL Group decided to deploy two approaches to support its customers faced with difficulties due to the health crisis:

- One, proactive and systematic, by proposing payment terms to all health institutions in recognition of the cost of their exceptional involvement in the COVID-19 pandemic. Caisse Française de Financement Local proposed payment terms of 180 days to these borrowers for all of their loan contract maturities between March 12 and June 30, 2020, without any late interest or penalties being invoiced. As at June 30, 2020, only 27 health institutions had benefited from these payment terms. The offset payment maturities amounted to EUR 9 million.

- The other approach by responding to incoming requests from health institutions with customized needs and local and equivalent authorities faced with temporary cash flow difficulties due to the health crisis caused by the decline in revenue from specific activities, related to economic, cultural and touristic activities (cinemas, swimming pools, car parks, thermal baths, etc.), on a case by case basis. The offset payment maturities amounted to EUR 8 million for 28 borrowers. Compared to the loan maturities called over the period from March 12 to June 30, the offset maturities represent only 0.3% of borrowers (9,800) and 0.9% of the maturity amounts (EUR 913 million).

In total, the offset maturities represented a very low number of customers (55) and amount (EUR 17 million).

2.8 – REFINANCING OF LARGE EXPORT CREDITS

As part of its second mission, Caisse Française de Financement Local grants loans to SFIL to refinance the large export credits it issues. These loans are unconditionally and irrevocably guaranteed in full by the French government. This activity anchors Caisse Française de Financement Local in the public sphere without changing the risk profile of its cover pool.

In May 2020, the European Commission renewed its authorization for the export credit refinancing activity guaranteed by the French State for 7 years; it maintained its diagnosis of a market failure for export credit refinancing and the appropriate and necessary nature of the intervention of a public development bank, such as SFIL, to remedy it.

Since the start of this mission in the middle of 2015, Caisse Française de Financement Local has granted a total of EUR 8.1 billion in refinancing loans to SFIL.

No new contracts were signed during the first half-year. The impact of the successive lockdown periods in the different regions of the world, led, in the short term, to a slowdown in on-going negotiations for certain projects. However, over the medium term and as part of the economic recovery, the use of SFIL export credit and refinancing could play a counter-cyclical role.

As of June 30, 2020, the outstanding amount of these loans on Caisse Française de Financement Local's balance sheet was EUR 3.1 billion. As a reminder, the payment of loans used to refinance large export credits is spread out over several years.

The COVID-19 pandemic had a limited impact on the SFIL Group's current export refinancing portfolio, with only the cruise ship financing sector requiring specific action (as a reminder, SFIL is present in all cruise ship financing operations through French export credits signed since 2016). The SFIL Group entered into the approach developed jointly by the European export credit guarantee agencies to provide liquidity support for export credits for cruise companies. These companies were impacted by the brutal interruption to their business due to the health crisis and their need to continue to face fixed costs. This liquidity support consists of deferring the repayment of the principal amount of the credits for a 12 month period and spreading repayment over four years. Thus, Caisse Française de Financement Local accepted to defer the payment of maturities on 3 contracts for a total of around EUR 75 million.

3. Change in cover pool and debts

EUR billions value after currency swaps	12/31/2019	6/30/2020	Change 2020 / 2019
Cover pool	**56.5**	**57.7**	**2.2%**
Loans	48.4	49.5	2.3%
Securities	7.6	7.0	(7.6)%
Cash deposit in central bank	0.5	1.2	148.8%
Assets removed from the cover pool	**0.0**	**0.0**	**ns**
Privileged debt	**50.3**	**51.4**	**2.2%**
Obligations foncières (1)	49.8	50.9	2.2%
Cash collateral received	0.6	0.6	(5.0)%
Non-privileged debt	**5.2**	**5.5**	**6.3%**
SFIL	5.2	5.5	6.3%
Equity IFRS (excluding unrealized gains and losses)	**1.4**	**1.4**	**(2.9)%**

(1) Including registered covered bonds

The size of Caisse Française de Financement Local’s cover pool increased by EUR 1.2 billion in 2020, i.e. approximately 2.2%. As of June 30, 2020, the cover pool excluding interest accrued not yet due amounted to EUR 57.7 billion.

Caisse Française de Financement Local’s cover pool is composed of loans and debt securities financing public sector and also includes the temporary cash surplus put aside to anticipate the forthcoming repayment of *obligations foncières* or to prefinance new export loans. This cash is deposited at the Banque de France, or invested in bank or European public sector securities, or loaned to SFIL, the parent company of Caisse Française de Financement Local. The cash surplus, deposited with the Banque de France, was EUR 1.2 billion at the end of June 2020, versus EUR 0.5 billion at the end of December 2019. The cash surplus invested in securities or loaned to SFIL was a total of EUR 1.9 billion as of June 30, 2020 versus EUR 2.6 billion at the end of December 2019.

As of June 30, 2020, 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 51.4 billion, which increased by 2.2% in comparison with December 31, 2019.

As of June 30, 2020, the debt contracted with the parent company totaled EUR 5.5 billion and does not benefit from the legal privilege. It mainly corresponds to the financing of the over-collateralization of the cover pool, which is at a significantly higher level than the amount required by regulators and the rating agencies.

4. Description of the cover pool

4.1 – CHANGE IN ASSETS IN 2020

The net change in the cover pool during the first half of 2020 corresponds to an increase in assets in the amount of EUR 1.2 billion.

This change is explained by the following items.

EUR billions	Q2 2020	
1- Acquisition of loans from La Banque Postale		**2.9**
Loans to the French public sector (vanilla loans in euros)	2.9	
2- Loans disbursements to refinance export credit		**0.6**
Loan disbursements to SFIL to refinance export credit guaranteed by the French State	0.6	
3- Reduction of loan sensitivity		**0.0**
Sensitive structured loans eliminated	(0.1)	
Refinancing loans (vanilla loans in euros)	0.1	
New loans (vanilla loans in euros)	0.0	
4- Amortization of portfolio of loans and securities		**(2.3)**
5- Early reimbursments		**(0.0)**
6- Changes in treasury		**0.0**
Net change in securities investments	(0.7)	
Net change in Banque de France cash deposit	0.7	
Net change in the cover pool		**1.2**

In 2020, Caisse Française de Financement Local acquired a total of EUR 2.9 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 2020 in the amount of EUR 0.6 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 during the year 2020 concerned very low amounts.

The natural amortization of the portfolio of loans and securities was EUR 2.2 billion in 2020, and early reimbursements were very small.

Available cash is globally stable compared to the end of 2019. It is deposited at the Banque de France, invested in bank bonds classified as replacement assets, in European public sector bonds or lent to SFIL.

There were no divestments during 2020.

4.2 – OUTSTANDING ASSETS AS OF June 30, 2020

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). These are specified in the table below :

EUR billions	12/31/2019	6/30/2020
Loans and bonds to the public sector	53.5	54.8
of which local public sector business line	*50.8*	*51.5*
of which large export credits refinancing business line (1)	*2.6*	*3.1*
of which treasury investment in public sector bonds (3)	*0.1*	*0.2*
Banque de France cash deposit (3)	0.5	1.2
Replacement assets (3)	2.5	1.7
COVER POOL	**56.5**	**57.7**
of which liquid and elible to ECB refinancing assets	*39.2*	*39.9*
Financing commitments granted to refinance large export credits(1)(2)	5.5	4.9
Financing commitments granted to other public sector loans	0.0	0.0
FINANCING COMMITMENTS GRANTED	**5.5**	**4.9**

(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 2019 and 2020, commitments granted represented concluded contracts in drawing phase.

(3) Excess treasury amounts to EUR 3.1 billion at the end of June 2020, as at the end of December 2019.

Caisse Française de Financement Local holds cash surpluses in its account at the Banque de France or invests them in either European public sector bonds or replacement assets (banking sector securities or short-term loans to SFIL, its parent company). They are mentioned with a (3) in the table above.

Liquid assets (bank securities eligible to replacement assets) or assets which can be assigned in guarantee in order to obtain financing throughout the central bank tenders amount to EUR 39.9 billion or 69.2% of Caisse Française de Financement Local cover pool.

The amount of financing commitments given came to EUR 4.9 billion as of June 30, 2020. It concerns 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.

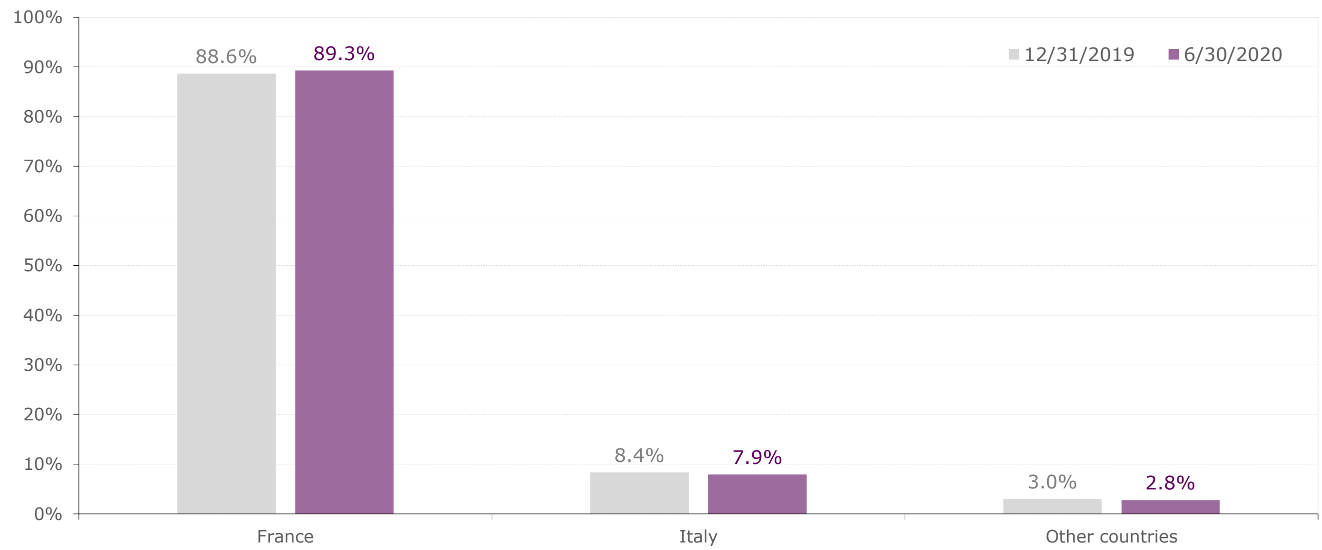
4.2.1. Public sector loans and bonds (excluding replacement assets and treasury placed with the Banque de France)

4.2.1.1. Geographic breakdown

At the end of June 2020, French public sector loans made up the majority (89.3%) of the cover pool, a portion that will increase in the future. They include loans acquired from La Banque Postale since 2013 (EUR 18.6 billion of outstanding principal as of the end of June 2020), representing 34% of the Group's public sector loans and securities and 41% of its loans to the French local public sector. The State-guaranteed loans granted to SFIL for the refinancing of large export credits (EUR 3.1 billion on the balance sheet) represent approximately 5.7% of its public sector loans and bonds.

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:



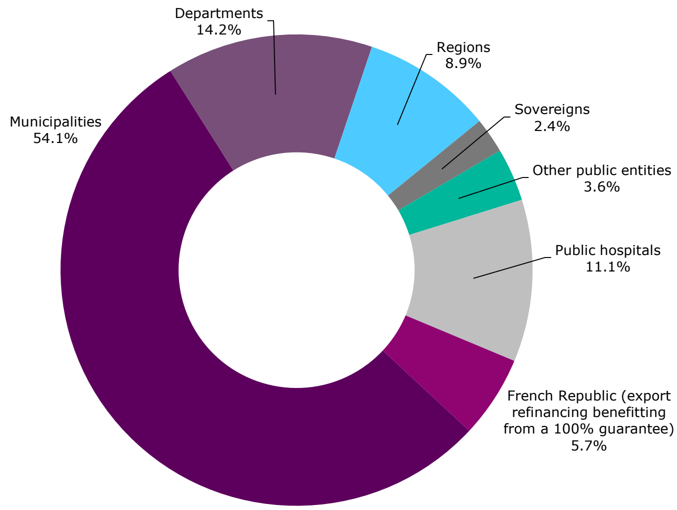
As of June 30, 2020, Italian assets represented the largest portion of non-French assets in run-off, with a total volume of EUR 4.4 billion or 7.9% of the cover pool (excluding replacement assets and Banque de France cash deposits). These assets are granular exposures (more than 200 counterparties consisting mainly of regional and municipal authorities) distributed throughout Italy.

Exposures to other countries as of June 30, 2020, are broken down by country in the "Breakdown of cover pool" section, which is at the end of this activity report.

4.2.1.2. Breakdown by type of counterparty

Caisse Française de Financement Local's portfolio is made up of:

- 77% exposures on municipalities, departments or regions;
- 6% sovereign exposures or commitments on other public sector entities;
- 11% exposures on public hospitals;
- 6% exposures 100% guaranteed by the French State in respect of loans granted to SFIL for the refinancing of large export credits.



4.2.1.3. Securitizations

There are no securitization units in the cover pool of Caisse Française de Financement Local (since July 1, 2013). Its *obligations foncières* respect the conditions of eligibility for refinancing by the European Central Bank and the new CRR/CRD IV requirements.

4.2.2. 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. The amount of the "replacement assets" is limited to 15% of *obligations foncières* and registered covered bonds. As of June 30, 2020, replacement assets represented 3.3% 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 can grant loans to SFIL to invest its surplus cash. These loans are also included in the replacement assets.

Replacement assets EUR millions	**Country**	**12/31/2019**	**6/30/2020**
Step 1 credit rating			
Covered bonds			
	France	474	351
	Other countries	856	720
Other bank bonds			
	France	381	295
	Other countries	509	319
Loans to parent company, SFIL	France	300	-
Step 2 credit rating			
Bank bonds (maturity < 100 days)			
	France	-	-
	Other countries	-	-
Bank accounts balances	France and Other countries	4	8
TOTAL		**2,523**	**1,693**

4.2.3. Assets removed from the cover pool

Thanks to 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 three 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 amounts for a very short time.

Caisse Française de Financement Local may also withdraw assets that it holds from the cover pool if they have become ineligible, pending their disposal or maturity

4.2.4. Structured loans

4.2.4.1. Definition

Certain loans to French counterparties in Caisse Française de Financement Local's cover pool may be classified as structured loans. The Gissler charter, the code of conduct adopted by banking institutions and local government entities, which is available on the French Ministry of the Interior's website, defines structured loans as:

- all loans with structures classified in categories B to E;
- all "not in the charter" loans, i.e. that the charter prohibits from being marketed because of their structure (leverage > 5, etc.), their underlying index (or indices) (foreign exchange, etc.) or their currency (denominated in CHF, JPY, etc.).

4.2.4.2. Part of structured loans in the cover pool

	Outstanding				Number of customers [1]		
EUR billions	12/31/2019	6/30/2020	Change	% cover pool	12/31/2019	6/30/2020	Change
French public sector loans	**44.5**	**45.3**	**0.8**	**78.6%**	**14,142**	**13,702**	(440)
Vanilla loans	**40.7**	**41.8**	**1.1**	**72.5%**	**12,783**	**12,392**	(391)
Structured loans	**3.8**	**3.5**	**(0.3)**	**6.1%**	**1,359**	**1,310**	(49)

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

During 2020, outstanding loans to the French local public sector increased by EUR 0.8 billion. Structured loans on Caisse Française de Financement Local's balance sheet still decreased and amounted to EUR 3.5 billion, representing 6.1% of the cover pool.

4.2.4.3. Sensitive loans and reduction in loan sensitivity

	Sensitive loans outstanding				Number of sensitive customers [1]		
EUR billions	12/31/2019	6/30/2020	Change	% cover pool	12/31/2019	6/30/2020	Change
Sensitive loans not in the charter	0.4	0.3	(0.1)	0.6%	44	41	(3)
Sensitive loans (3E/4E/5E)	0.5	0.5	(0.0)	0.8%	129	126	(3)
Total sensitive loans:	**0.9**	**0.8**	**(0.1)**	**1.4%**	**173**	**167**	(6)

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

The most structured loans according to the Gissler classification (categories 3E, 4E and 5E as well as "not in the charter" loans) may be classified as "sensitive". This portfolio was divided by 10 and, as of June 30, 2020, these loans now represent only EUR 0.8 billion (1.4% of the cover pool) compared with EUR 8.5 billion on SFIL's inception at the end of 2012. The number of customers holding sensitive loans fell over the same period from 879 to 167.

5. Debt benefiting from the legal privilege

As of June 30, 2020, 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	31/12/2019	6/30/2020
Cash collateral received	0.6	0.6
Obligations foncières and registered covered bonds	49.8	50.9
Total	**50.3**	**51.4**

5.1 – CHANGE IN CASH COLLATERAL

The cash collateral received by Caisse Française de Financement Local is stable compared with the situation at the end of December 2019. Its amount stood at EUR 0.6 billion at the end of June 2020.

5.2 – CHANGES IN ISSUES

As part of a recurring EUR 4 to 6 billion annual program, Caisse Française de Financement Local's issue policy aims first and foremost to build a coherent benchmark curve on the euro market while ensuring the strong performance of its issues on the secondary market. Diversification of its sources of financing is necessary to achieve long maturities, in line with its needs; this requires an active presence in the private placements market under the EMTN program or under the issue of registered covered bonds, a format intended for German investors. Moreover, as part of the implementation of the SFIL Group's social and environmental policy and to diversify its sources of financing, Caisse Française de Financement Local is also regularly active on the market of "Social" and "Green" thematic bond issues, as evidenced by the realization of its second "Social" thematic issue (first European covered bond linked to "COVID 19") in April 2020.

5.2.1. New issues in 2020

During the first semester of 2020, Caisse Française de Financement Local raised EUR 2.8 billion through benchmark public issues and the private placements.

Caisse Française de Financement Local thus raised money in the public primary market three times in the total amount of EUR 2.75 billion :

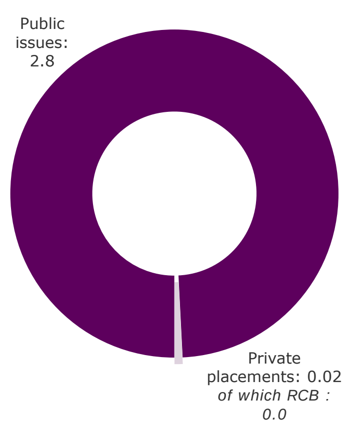
- a public issue with a maturity of 20 years in February in the amount of 0.75 billion,
- a "social" bond issue "Covid-19" with a maturity of 5 years in April in the amount of EUR 1 billion,
- a public issue with maturity of 10 years in June in the amount of EUR 1 billion.

In addition to this public transaction, Caisse Française de Financement Local remained active in the private placement segment through the EMTN and the registered covered bond format, thus making it possible to respond to specific investors' demand. EUR 22 million was raised in this market segment during the semester.

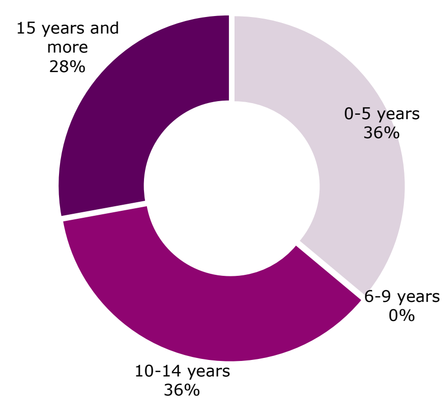
The weighted average life of the public financing raised during the first semester of 2020 was close to 11 years.

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.

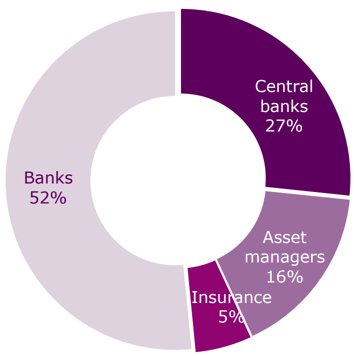
Breakdown of S1 2020 issues by format
EUR billions



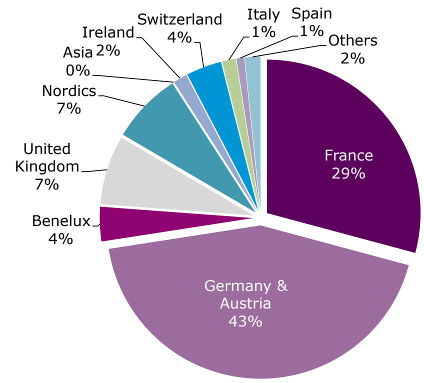
Breakdown of S1 2020 issues by maturity
(%)



Breakdown of benchmark S1 2020 public issues by investor category
(%)



Breakdown of benchmark S1 2020 public issues by geographic zone
(%)



5.2.2. Outstanding debt at the end of June 2020

Outstanding *obligations foncières* and registered covered bonds totaled EUR 50.9 billion in swapped value at the end of June 2020. This includes new issues of *obligations foncières* for EUR 2.8 billion and amortization of issues maturing in the first semester of 2020 for EUR 1.7 billion.

EUR billions, value after currency swaps	2019	Q2 2020
BEGINNING OF THE PERIOD	**50.3**	**49.8**
Issues	4.0	2.8
Amortizations	(4.5)	(1.7)
Buyback	(0.1)	(0.0)
END OF THE PERIOD	**49.8**	**50.9**

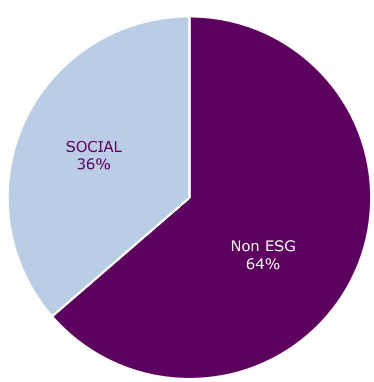
As of June 30, 2020, issues can be broken down by currency as follows:

5.2.3. “Social” and “green” issues

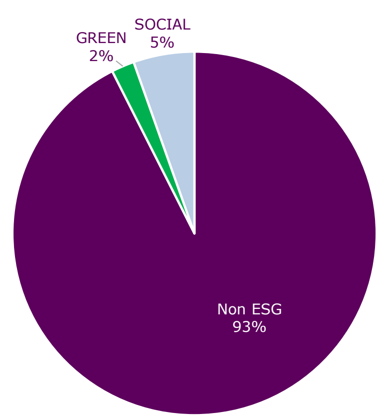
As part of SFIL Group's CSR commitment, the Caisse Française de Financement Local carries out "social" and "green" theme issues. After the success of its first "social" issue for EUR 1 billion with an 8-year maturity and first "green" issue for EUR 750 million with a 10-year maturity in 2019, Caisse Française de Financement Local carried out a second social issue in April 2020 for EUR 1 billion with a 5-year maturity, dedicated to financing French hospitals. Market observers unanimously recognized them as successful and they were notably very largely subscribed, which proves investors’ strong interest in this new type of responsible investment.

The breakdown of the benchmark public issues by issue type and other factors is presented below:

Benchmark S1 2020 public issues by ESG category (%)



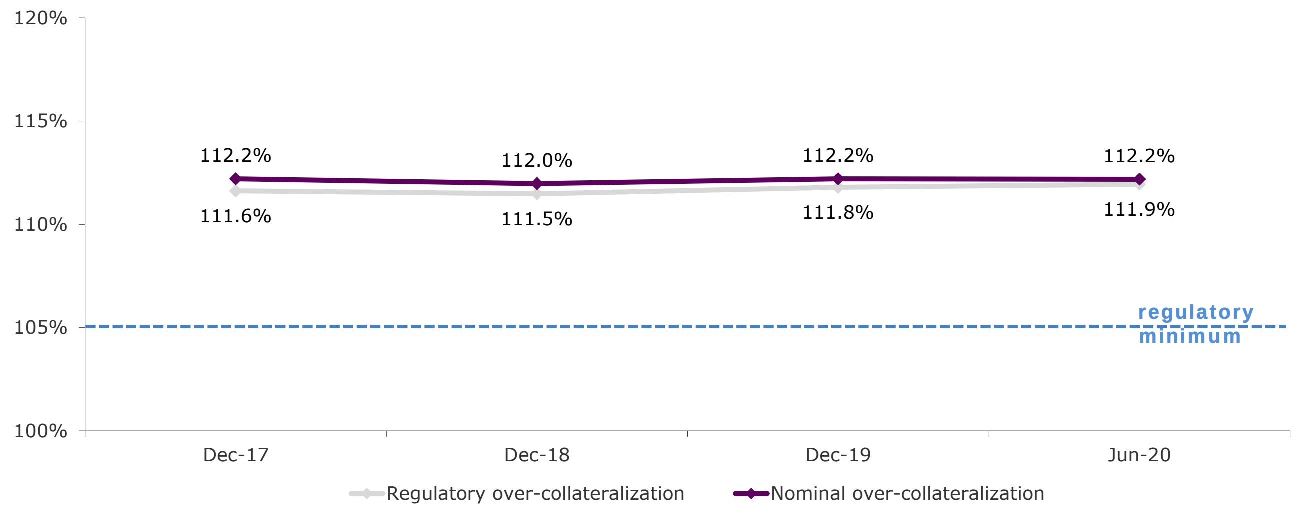
Total benchmark stock public issues by ESG category (%)



6. Changes in the over-collateralization ratio

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

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

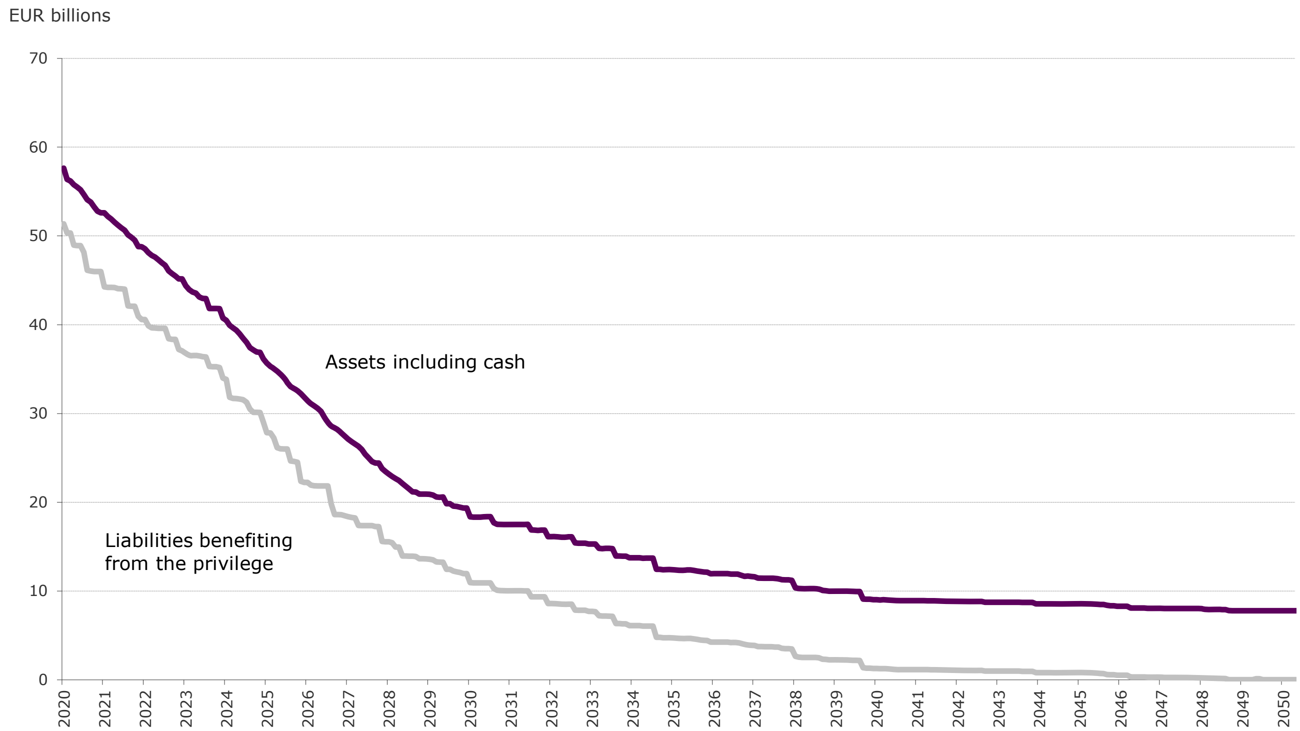


Regulatory over-collateralization may differ from nominal over-collateralization. In fact, it is calculated on the basis of the rules determined by the Autorité de Contrôle Prudentiel et de Résolution (ACPR). In particular, these rules require different weighting levels according to the assets. The assets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

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

Over-collateralization may also be illustrated by the gap between the amortization curves of the assets and liabilities benefiting from the privilege. The following graph presents the curves as of June 30, 2020.

Amortization of assets and liabilities as of June 30, 2020



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 2020, the funds borrowed from SFIL within the framework of the financing agreement were made up of different loans with maturities that could initially run from one day to ten years with an Euribor or Eonia index

Temporary financing may also be obtained from the Banque de France. These funds do not benefit from the privilege stipulated in the law on *sociétés de crédit foncier*, but they are guaranteed by loans and securities assigned for this purpose in the account of Caisse Française de Financement Local at Banque de France. 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	12/31/2019	6/30/2020
SFIL	5.2	5.5
Banque de France	-	-
TOTAL	**5.2**	**5.5**

8. Caisse Française de Financement Local's main risks

8.1 – CREDIT RISK

8.1.1. Definition

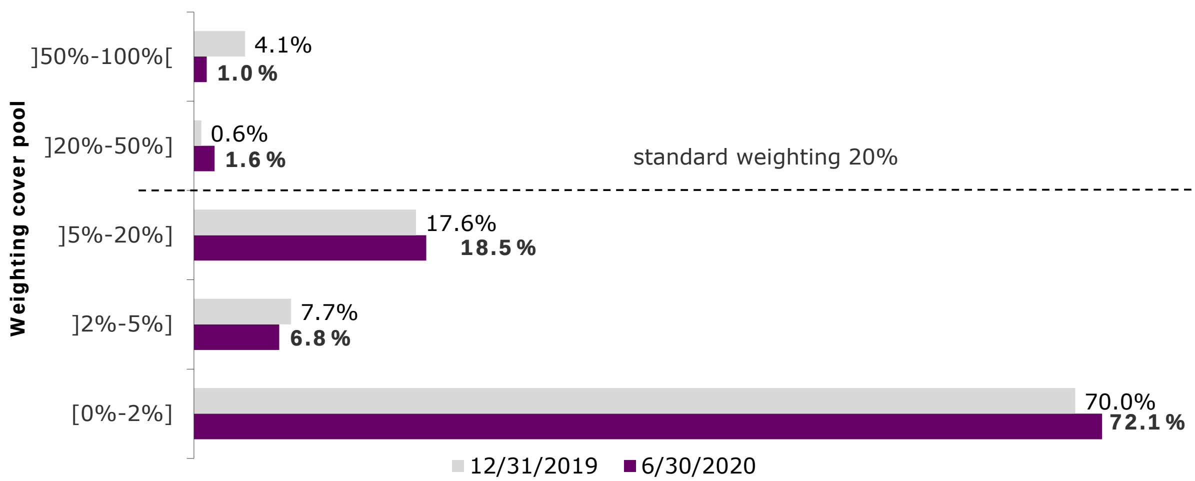
Credit risk represents the potential loss that Caisse Française The Credit Risks division is tasked with the following de Financement Local may incur as the result of the decline missions within the scope of its function to monitor credit in a counterparty's solvency.

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.

This enables Caisse Française de Financement Local to present an analysis of its exposure as of June 30, 2020 (in EAD), broken down by risk weighting, 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, 2020



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

- Almost 79% of the portfolio has a risk weighting of 5% or less;
- less than 3% of the portfolio has a weighting of more than 20%.

The average risk weighting of the cover pool assets is 5.3%, versus 20% for European local government entities according to the Basel standard method. They were 6.6% at the end of the previous year; most of this variation is due to the change in the weighting method for sovereign exposure and exposure on Italian local authorities (now in the standard method).

The impacts of the COVID-19 pandemic are limited at this stage to French local public sector entities. The SFIL Group has supported all health institutions as part of the national mobilization to fight against the global pandemic. The SFIL Group proposed payment terms of 180 days to these entities for all of their loan contract maturities between March 12 and June 30, 2020, without any late interest or penalties being invoiced. Requests for payment terms were also received from certain local authorities or French public sector entities. As at June 30, 2020, these payment terms led to the entry into default of 15 borrowers, representing a limited credit exposure of EUR 31.2 million.

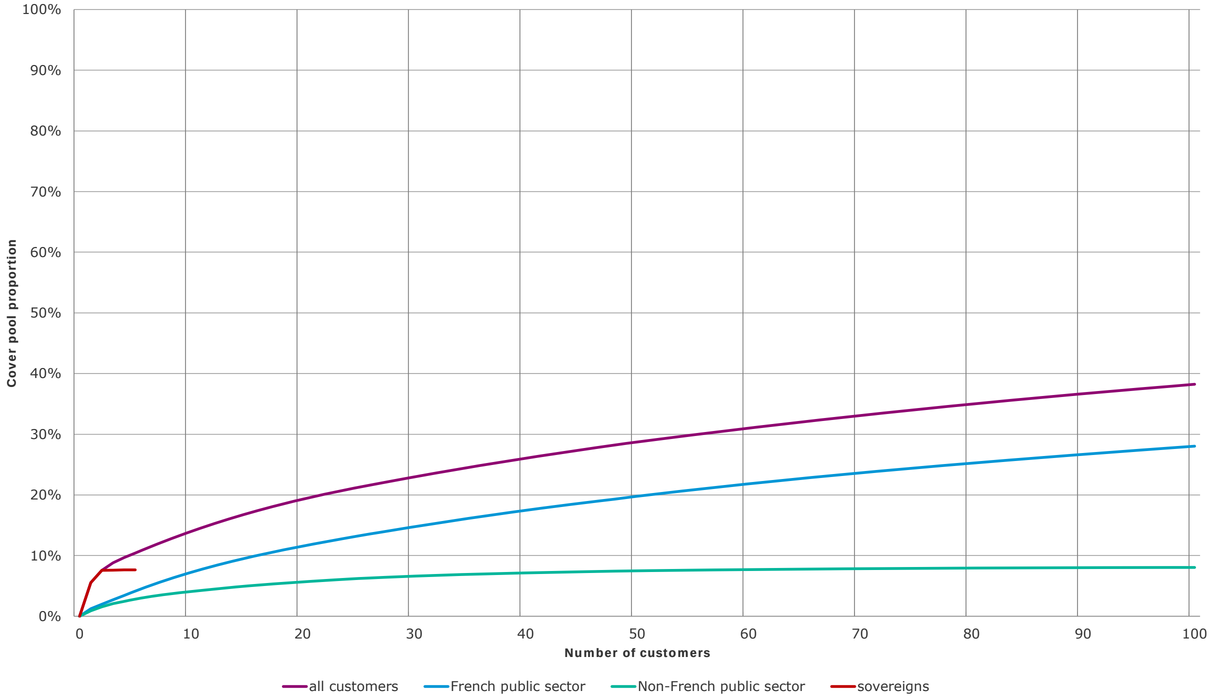
The COVID-19 epidemic had a more significant impact on the export credit portfolio, and specifically on the financing of cruise ships built by the Chantiers de l'Atlantique, due to the interruption of cruise operations. The entire portfolio was placed on the watchlist. As a reminder, all of the export credit portfolio is 100% guaranteed by the French State via BPI AE credit insurance policies.

Weighted exposure with respect to credit risk amounted to EUR 3,847 million. Including other risks, total risk weighted assets came to EUR 4,584 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 Common Equity Tier 1 Ratio of 29.0% as of June 30, 2020.

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 the cover pool by type of counterparty (in outstanding capital); it confirms the great diversity of Caisse Française de Financement Local's portfolio of assets.



As of June 30, 2020, the 20 largest exposures (excluding replacement assets and cash deposits in the Banque de France), all categories combined, represented 19.3% of the cover pool. The largest exposure, the French Republic, represented 5.5% of the cover pool and the twentieth 0.4%.

8.1.4. Non-performing loans, litigious loans, provisions

8.1.4.1. Change in arrears

As of June 30, 2020, arrears amounted to EUR 89 million, up by EUR 24 million from December 31, 2019.

	12/31/2018		12/31/2019		6/30/2020	
	Amounts EUR millions	number of customers(1)	Amounts EUR millions	number of customers(1)	Amounts EUR millions	number of customers(1)
Total arrears	66	73	65	49	89	126
Technical arrears	4	33	1	20	1	50
Non qualifying payment deferrals granted under the COVID-19	-	-	-	-	15	31
Qualifying arrears	62	40	64	29	73	45
of which less than 90 days	*0*	*5*	*0*	*4*	*3*	*17*
of which more than 90 days	*62*	*35*	*64*	*25*	*70*	*28*
of which doubtful loans (French Gaap)	*25*	*32*	*26*	*25*	*33*	*41*
of which litigious loans	*37*	*8*	*38*	*4*	*40*	*4*
of which vanilla loans	*3*	*24*	*5*	*17*	*9*	*36*
of which structured loans	*59*	*16*	*59*	*12*	*64*	*9*

(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.

The increase in past dues corresponds mainly to the deferred payment terms granted to certain customers as part of the measures adopted by the SFIL Group to take into account the effects of the COVID-19 pandemic health crisis. These payment terms represent past dues of EUR 17 million at June 30, 2020. The analysis of the financial situation of the concerned customers led to the declassification of some in doubtful loans (15 customers with outstanding of EUR 31 million and past dues of EUR 2 million), but most (past dues of EUR 15 million) corresponds to customers with sound financial positions.

The past dues of the customers declassified to the doubtful or litigious category represent EUR 73 million.

Excluding payment deferrals resulting from SFIL Group's measures put in place to sustain its customers, unpaid loans are concentrated entirely in a few counterparties, which represent approximately 0.3% of Caisse Française de Financement Local's total customer base. All customers with unpaid loans are located in France. Since the end of 2016, the number of customers with unpaid loans related to a dispute (4 customers) has decreased significantly, mainly due to the success of the policy of reducing the sensitivity of sensitive structured loans.

8.1.4.2. Change in doubtful and litigious loans and provisions under French accounting standards

Under French accounting standards, doubtful and litigious loans represented 0.5% of Caisse Française de Financement Local's cover pool (EUR 304 million) as of June 30, 2020, illustrating the excellent quality of the portfolio. Only French customers had doubtful and litigious loans, which decreased by 13% compared with December 31, 2019 (EUR 349 million). These changes were mainly linked to the addition or removal of counterparties to and from this category for which the outstanding loan amount downgraded due to a contagion effect was significant[1].

Doubtful and litigious loans[2] were as follows:

- EUR 264 million in doubtful loans, corresponding to loans granted to 61 customers where the total amount of unpaid loans was EUR 33 million;
- EUR 40 million in disputed loans, corresponding to interest unpaid by four customers subject to litigation proceedings.

The total amount of provisions, under French accounting standards, is presented in the table below.

Impairments French Gaap EUR millions	**12/31/2019**	**6/30/2020**
Specific impairments	27	29
Collective impairments	36	32
TOTAL	**63**	**61**

At the end of June 2020, the stock of specific provisions under French standards amounted to EUR 29 million, up by 7% compared with December 31, 2019.

In addition, collective provisions are calculated on the various asset portfolios. These provisions amounted to EUR 32 million at end-June 2020 compared with EUR 36 million at the end of 2019. This decrease is notably generated, on the one hand, by a recovery following the annual review of credit risks for the portfolio of loans to French public hospitals and, on the other hand, by an allocation to provisions for the public hospital and retirement home portfolio that requested payment offsets.

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 characteristics of the instrument's contractual cash flows and the business model in which the financial asset is used (see section 1.2.4. of the notes to 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, must be provisioned for expected credit losses. They are classified into three levels of risk (Stages):

- Stage 1: performing assets with no significant credit risk deterioration since initial recognition;
- Stage 2: performing assets with significant credit risk deterioration since initial recognition;
- Stage 3: loans in default.

Stage 3 outstandings correspond mainly to customers cases:

- with an amount due and unpaid for more than 90 days,
- whose financial situation has characteristics which could lead to conclude, 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 default and for which amounts 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".

Thus the definition of default (Stage 3) under IFRS accounting standards covers a larger perimeter than the notion of doubtful and litigious loans under French GAAP and is very close to the regulatory definition of Non-Performing Exposures (NPE). This definition not only covers Stage 3 assets but also non-performing assets recognized at their fair value through profit and loss (i.e. non-performing assets classified as not Solely Payment of Principal and Interest {SPPI}).

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1 *When a customer is classified as in default in terms of credit risk, the outstanding amount of all the customer's loans is classified as doubtful, by contagion, in addition to the unpaid loans.*

2 *A loan is considered doubtful when it has one of the following characteristics:*
• a probable or certain risk that it will not be repaid (unpaid for more than nine months for local governments and for more than three months for other counter-parties);
• the existence of a proven risk for the counterparty (worsening of the financial situation, warning procedure).
A loan is considered litigious when it is unpaid and is the subject of legal proceedings.

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 (with a probability of occurence assigned to each of them), and takes into account expected losses over the *next* twelve months (Stage 1) or until maturity of the loans (Stages 2 and 3).

The following table shows the exposure of Caisse Française de Financement Local (financial assets and off-balance sheet financing commitment) broken down by Stage, the 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	
	12/31/2019	**6/30/2020**	**12/31/2019**	**6/30/2020**
Stage 1 : no significant deterioration	57,097	58,032	(6)	(9)
Stage 2 : credit risk deteriotation	4,547	4,275	(36)	(32)
Stage 3 : credit impaired	963	942	(10)	(10)
TOTAL SPPI assets	**62,607**	**63,249**	**(52)**	**(51)**

	IFRS Net carrying amount	
	12/31/2019	**6/30/2020**
Non-Performing Exposures	1,278	1,249

In the first half of 2020, loans classified as *Non-Performing Exposures* decreased slightly. The stock of IFRS provisions for expected credit losses remained stable at EUR 51 million (with a *Stage 2* decrease and an increase in *Stage 1)*.

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 two types of exposure to banks:
- replacement assets in the amount of EUR 1.7 billion (see 4.2.2);
- derivative contracts, entered into within the framework of its management of interest rate and foreign exchange risks.

All of Caisse Française de Financement Local's derivative operations are conducted within the framework of standard ISDA or FBF (Fédération bancaire française) contracts with major international banks. These contracts have particular characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and other issuers of covered bonds). These interest rate and currency swaps all benefit from the same legal privilege as *obligations foncières*. For this reason, Caisse Française de Financement Local does not pay its derivative counterparties any collateral (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 2020, Caisse Française de Financement Local was exposed (positive fair value of swaps) on nine bank counter-parties, all of these paid cash collateral of EUR 0.6 billion, offsetting total exposure.

All derivative exposures as of June 30, 2020 are listed below.

EUR billions	**Short-term notional amounts**	**Long-term notional amounts**	**% of long-term notional amounts**	***Mark to Market*** -	+	**Collateral received**	**Number of counterparties**
SFIL	-	17.0	22.6%	(1.6)	-	-	1
Other counterparties	26.2	58.2	77.4%	(2.2)	0.6	0.6	24
Total	**26.2**	**75.3**	**100.0%**	**(3.7)**	**0.6**	**0.6**	**25**

The swaps negotiated with external counterparties represented 77,4% of outstanding long-term swaps and those signed with SFIL 22,6%. The long-term swaps signed with the five largest counterparties represented a total of 44% of 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.

Nevertheless, some positions of Caisse Française de Financement Local's banking book and activities are exposed to market volatility which could affect its accounting income and equity. They are monitored under non-regulatory market risks.

In French accounting standards, this also concerns "placement" securities, the losses in value of which are provisioned.

Under IFRS standards, this concerns mainly the following items :

- the assets recorded at fair value through profit or loss or through other comprehensive income, the value of which can fluctuate;
- cross-currency swaps hedging the export credit activity in USD, the changes in value of which pass directly as income as long as the underlying loan is not totally paid;
- derivatives, of which the book value adjustments like the CVA (Credit Valuation Adjustment) and the DVA (Debit Valuation Adjustment), are recorded as income pursuant to IFRS standards.

Over the first half of 2020, the impact of these items on Net Banking Income represented EUR -26 million for the financial assets recognized at fair value through profit or loss and EUR -3 million on book value adjustments. The health crisis due to the COVID-19 pandemic had an impact on these usual items of accounting volatility, but it should be noted that a similar amount of value adjustments has already been seen in the past during periods of market instability.

It should also be noted that these expenses do not have an economic nature, as these transactions are intended to be kept on the balance sheet until maturity. The corresponding results have been recorded as non-recurring items.

8.3 – ALM RISK

8.3.1. Liquidity risk

8.3.1.1. Definition and management of 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 its financing needs.

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.

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

- financing of the assets 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, are:

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

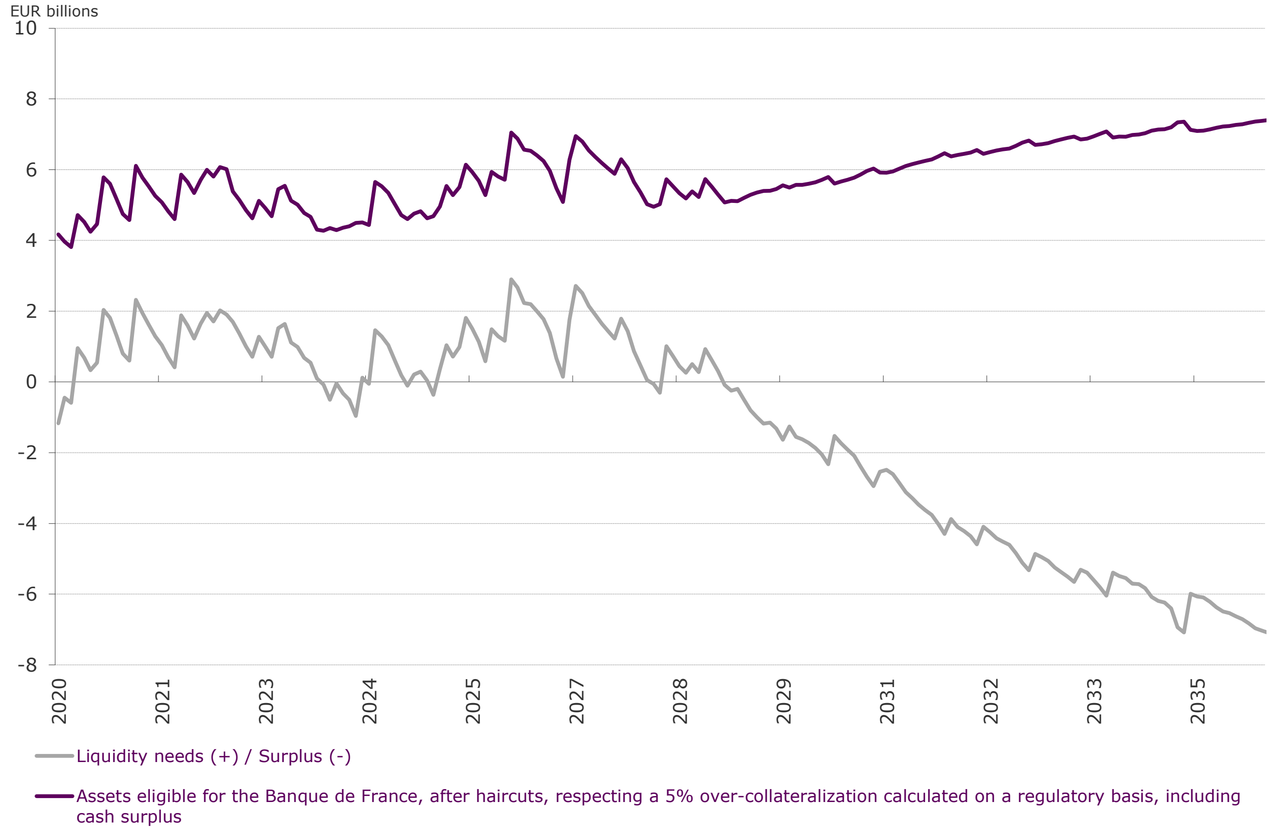
Furthermore, Caisse Française de Financement Local has a very large stock of assets eligible for European Central Bank refinancing via the Banque de France. In addition to access to the central bank refinancing in its own name, Caisse Française de Financement Local can also mobilize certain of these assets by using interbank financing in the form of repurchase agreements. If necessary, these transactions would easily cover its cash flow requirements. Within the framework of the COVID-19 health crisis, liquidity risk management was strengthened, by extending the short-term liquidity requirement steering horizon and more frequently updating these forecasts.

The impacts of the crisis on the Group's liquidity remain very limited. Specifically, the half-year issue program was carried out in line with the budget, despite the temporary closure of financing markets during April. The gradual return to normal of the financing markets gave rise to a return to the issue activity for CAFFIL from end April and for SFIL in May 2020.

The measures decided by the European Central Bank on April 7 (reduction in the discounts applied to claims used as collateral) also enabled a EUR 5.4 billion increase in the amount of financing that can be mobilized from Eurosystem.

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 occasionally 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:

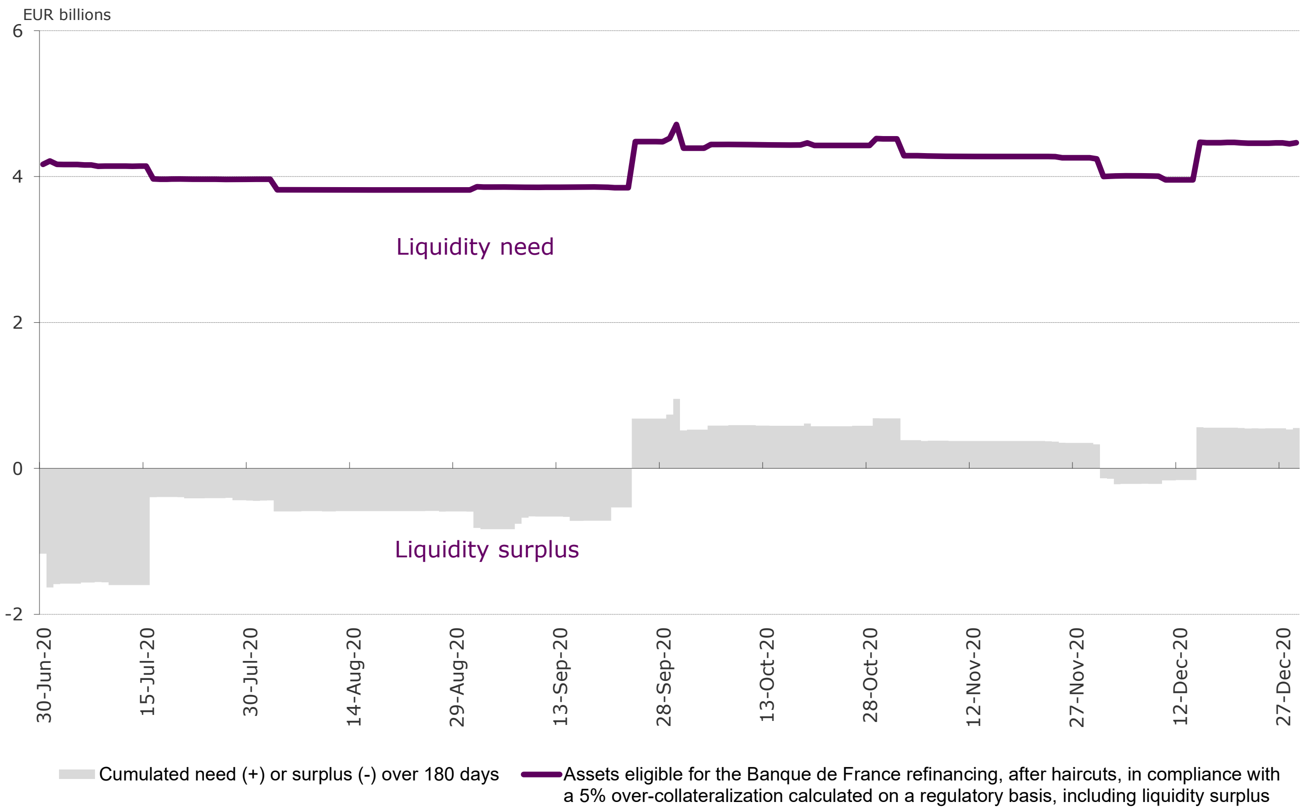


Caisse Française de Financement Local has its own autonomous resources that enable it to cover its temporary liquidity needs, even in the event of the default of its parent company, since any legal proceedings engaged for the bankruptcy or liquidation of its parent company cannot be extended to Caisse 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* (SCF):
  - 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%,
  - the maximum gap of 1.5 years between the average maturity of debt benefiting from the legal privilege and that of assets (see the specific section on transformation risk below),
  - forecast cash needs at 180 days: Caisse Française de Financement Local ensures that, at any time, its cash needs over a period of 180 days are covered by replacement assets and assets eligible for the 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 of cash collateral received (forecasts), 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 2020, forecast cash needs at 180 days presented a maximum liquidity need of EUR 1 Billion for the end of the period. Management measures were taken or will be taken to cover this liquidity needs.



- the regulatory liquidity indicators applicable to credit institutions, in particular Regulation 575/2013 of the European Parliament and Council of June 26, 2013, concerning:
  - the LCR ratio (Liquidity Coverage Ratio): as of June 30, 2020, Caisse Française de Financement Local's LCR ratio is 267%,
  - the Net Stable Funding Ratio (NSFR), a transformation ratio which compares with a one year horizon, the proportion of available stable funding over required stable funding: Regulation 2019/876 which will come into effect in June 2021 defines the methods for calculating this indicator.

- the internal liquidity indicators:
  - the coverage ratio (or over-collateralization ratio), which is steered at an over-collateralization level consistent with the Caisse Française de Financement Local's target rating,
  - the dynamic financing need within one year and the CAFFIL's ability to issue,
  - the one-year survival horizon in stressed conditions,
  - the limit of privileged liability maturities over the same annual period,
  - 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 0.32 year as of June 30, 2020 (see the specific section on transformation risk below),
  - the sensitivity of the net present value of the static liquidity gap to an increase in the Group's financing costs,
  - the consumption of the spread and EUR/USD basis risk appetite for export credit transactions which measures the loss of revenue on these transactions which could result from stress on the financing costs in euros or USD.

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), 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, 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)":

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

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

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

Duration in years	**6/30/2019**	**9/30/2019**	**12/31/2019**	**3/31/2020**	**6/30/2020**
Cover pool	6.83	7.16	7.01	7.20	7.15
Privileged liabilities	6.83	6.98	6.71	6.84	6.83
Gap in asset-liability duration	**0.00**	**0.18**	**0.30**	**0.36**	**0.32**
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)	**6/30/2019**	**9/30/2019**	**12/31/2019**	**3/31/2020**	**6/30/2020**
Cover pool	7.06	7.23	7.21	7.28	7.16
Privileged liabilities	7.06	7.05	6.89	6.92	6.85
Gap in asset-liability weighted average life	**0.00**	**0.18**	**0.32**	**0.36**	**0.31**

Regulatory limit
Current regulations impose a limit of one-and-a-half years on the weighted average life gap between the cover pool and privileged liabilities. 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 types of interest rate risks, which are generally covered using derivatives:

- Fixed interest rate risk : Results from the difference in volume and maturity between assets and liabilities with a fixed rate or an adjustable rate that has already been set. This risk can result in yield curve parallel shifts, steepening, flattening or rotation.
- Basis risk : Results from the gap that may exist in the matching of assets and liabilities which are indexed on variable rates of different types or index tenors.
- Fixing risk : Results from the gap between the fixing dates applied to all the variable rate balance sheet and off-balance sheet item linked to the same index tenor.

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 by entering into interest rate swaps, but also when this is possible, by the cancellation of swaps of opposite direction;
- in the second stage, Euribor lending and borrowing flows (naturally or after hedges) are swapped against Eonia in order to eliminate the basis risk generated by differences in the Euribor (1, 3, 6 or 12 months) and the fixing risk due to the reset 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 an 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 kinds of interest rate risks are monitored, analyzed and managed through :

- the production of gaps (fixed rate, basis and fixing respectively), calculated statically:
  - The fixed rate gap : difference between balance sheet and off-balance sheet assets and liabilities for fixed-rate transactions or transactions for which the rate has been set. It is calculated every month until balance sheet run-off
  - Index gaps : 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 run-off.
  - Basis gaps: gap resulting from the matching of two index gaps. There are therefore as many basis gaps as there are index pairs
  - Fixing gap : corresponds, for a given tenor index, to the difference between adjustable rate balance sheet and off-balance sheet assets and liabilities, by fixing date

- the monthly production of net present value (NPV) sensitivity indicators, calculated for a rate shock of 100bp, which aim to regulate the fixed or set rate residual positions of Caisse Française de Financement Local (after setting up hedges). These indicators are calculated for 4 predefined time buckets (short-term, medium-term, long-term, very long-term) regulated by limits which are calibrated to avoid losing more than 6% of equity (i.e EUR 80 million) with a 99% quantile calculated on a 10-year history :

  In the first half of 2020, the sensitivity limits to interest rate risk were adjusted, while keeping the overall value of interest rate risk appetite unchanged (EUR 80 million). The objective of this reallocation is to optimize the management of short-term interest rate risk by limiting the volume of swaps required. Thus, the sensitivity limit allocated
  - to short-term positions has been increased from EUR 10 million to EUR 15 million,
  - to very long-term positions has been reduced from EUR 10 million to EUR 9 million
  - at each bucket maturity, in absolute value, has been reduced from EUR 40 million to EUR 30 million.

As at June 30, 2020, the sensitivity limits to interest rate risk are the following :

Translation of the rate curve	Limit of EUR 25 million
Sloping / rotation of the interest rate curve on distant points on the curve	EUR 15 million limit over Short term time buckets EUR 10 million limit over Medium term time buckets EUR 10 million limit over Long term time buckets EUR 9 million limit over Very long term time buckets
Sloping / rotation of the interest rate curve inside a time bucket	EUR 30 million limit on the absolute value of the sensitivities inside each time bucket

During the first half-year 2020, the COVID-19 pandemic health crisis did not have a significant impact on interest rate risk, given the very cautious policy of the Caisse Française de Financement Local in this area and the reduced level of non-hedged positions.

Limiting directional risk:
The measurement of sensitivity at the end of each quarter is presented below :

Directional risk
Total sensitivity

EUR millions	Limit	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020
Sensitivity	**(25) / 25**	(0.1)	3.2	(0.3)	(2.7)	**(1.9)**

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*	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020
Short term	**(15)/15**	(5.7)	(0.1)	(5.5)	(6.0)	**(4.0)**
Medium term	**(10)/10**	(5.6)	(8.6)	(9.2)	(2.1)	**(6.6)**
Long term	**(10)/10**	6.7	5.7	8.4	1.6	**4.1**
Very long term	**(9)/9**	4.4	6.2	6.0	3.8	**4.6**

* The limits applicable to points prior to 06/30/2020 were EUR 10 million for each time bucket. As of 06/30/2020, the limit is now EUR 15 million for the short-term time bucket, EUR 10 million for the medium-term and long-term time buckets and EUR 9 million for the very long-term time bucket.

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

EUR millions	Limit*	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020
Short term	**30**	9.3	5.9	10.8	17.3	**9.0**
Medium term	**30**	13.3	11.0	15.3	12.7	**13.0**
Long term	**30**	6.8	8.2	12.3	12.3	**10.4**
Very long term	**30**	8.0	10.5	9.0	7.0	**7.6**

* The limit applicable to points prior to 12/31/2019 was EUR 20 million. As of 12/31/2019 and 03/31/2020, the limit applicable was EUR 40 million. As of 06/30/2020, the limit applicable is now EUR 30 million.

8.3.2.3. 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, 2020.

Breakdown of outstanding swaps EUR billions	**Notional** Absolute value
Euribor against Eonia	
Macro-hedges	26.2
TOTAL SHORT-TERM SWAPS	**26.2**
Fixed rate swaps against Euribor	
Micro-hedges on *obligations foncières*	38.6
Micro-hedges on loans and debt securities	18.9
Macro-hedges on loans	13.2
Subtotal	**70.6**
Currency swaps	
Micro-hedges on *obligations foncières*	0.7
Micro-hedges on loans	3.6
Micro-hedges on debt securities	0.3
Subtotal	**4.6**
TOTAL LONG-TERM SWAPS	**75.3**

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 because 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 in euros 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 case of time shift between effective drawing dates, initially scheduled, and hedged drawing dates. 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, debts (including accrued interest not yet due) and off-balance sheet commitments. The net foreign exchange position per currency must be zero, with the exception of US dollars, in which a marginal position is tolerated for operational reasons.

During the first half-year 2020, the COVID-19 pandemic health crisis did not have a significant impact on foreign exchange risk, given the very cautious policy of the Caisse Française de Financement Local in this area and the reduced level of non-hedged positions.

8.4 – OTHER RISKS

8.4.1. Operational risk

SFIL defines operational risk as the risk of loss arising from an inadequacy or failure in the processes, personnel and the internal systems or from external events including the legal risk. It includes model risks but excludes strategic risks.

Management procedures for operational risks apply to all of SFIL's divisions responsible for Caisse Française de Financement Local's management, activities and processes.

SFIL's policy for measuring and managing operational risks, excluding non-compliance risk, consists of regularly identifying and assessing its risk exposure and the existing mitigation and control systems to establish whether or not the level of residual risk is acceptable. This policy is divided into three main processes:

- the collection and reporting of operational incidents;
- operational risk mapping;
- monitoring key operational risk indicators.

This system is complemented by an IT security management policy, a Recovery and Business Continuity Plan (RBCP) and, where necessary, insurance policies to cover specific risks.

The members of Caisse Française de Financement Local's Executive Board and Supervisory Board are regularly informed of changes in the operational risk mapping, major operational incidents, key indicators of operational risks exceeding the alert thresholds and the corrective action plans developed to reduce identified risks.

During the first half of 2020, as part of the management of the operational risks related to the COVID-19 pandemic, from the first days of March 2020, the SFIL Group set up a crisis unit which met throughout the period with 3 main objectives: protecting the health of internal and external employees, maintaining operational capacity in order to ensure business continuity, notably the services carried out on behalf of the Caisse Française de Financement Local and managing all increased risks during this period, notably cyber risk and the risk of fraud. The crisis unit created a dedicated lockdown exit task force.

Overall, few incidents were reported concerning the COVID-19 crisis and they generated low impacts.

8.4.2. Legal and tax risks

8.4.2.1. Legal risk

The arrêté of November 3, 2014 defines Legal risk as the risk of any dispute with a counterparty resulting from any misunderstanding, lack or insufficiency that may be attributed to the Company in the exercise of its activities.

Caisse Française de Financement Local is monitoring of legal risks focuses on the prevention of litigation, the anticipation of legal developments and the respect of governance principles.

The Executive Board and Supervisory Board of Caisse Française de Financement Local receive regular updates on the progress of litigation. A management report regarding the lawsuits is presented at each Supervisory Board.

As regards litigation, relating to structured loans, as of June 30, 2020, there were 14 borrowers who had brought suit on structured loans, compared to 15 as at December 31, 2019, 18 at the end of 2018, 25 at the end of 2017, 39 at the end of 2016, and 131 at the end of 2015. Since SFIL's creation, 209 borrowers have dropped their claims regarding these loans against the Group. In addition, the Court of Cassation once again confirmed the validity of structured loans entered in CAFFIL's balance sheet by a judgment of May 20, 2020.

As of June 30, 2020, there were no other lawsuits or disputes between SFIL or Caisse Française de Financement Local and its borrowers that were considered significant

8.4.2.3. Tax risk

There was no change during the semester concerning the collection notice issued at the end of 2018, for tax related to the inspection for 2012 and 2013, in relation to the taxation in Ireland of the income of the former Dexia Municipal Agency (CAFFIL's former name) branch which closed in 2013 and which resulted in a tax adjustment notice from the French tax authorities. Caisse Française de Financement Local paid the tax ajustement due at the end of 2018 and kept in its accounts the provision set aside for the sums not yet paid, including those which will be called in 2020.

8.4.3. Risks of non-compliance

Non-compliance risk is defined in French regulations as the risk of legal, administrative or disciplinary sanction, significant financial loss or damage to reputation resulting from failure to respect the provisions directly applicable to banking and financial activities, irrespective of whether they are legislative or regulatory, national or European and irrespective of whether it concerns professional and ethical standards or instructions from accountable officers or the executive body taken pursuant to guidelines from the supervisory body.

Non-compliance risks by the SFIL Group are organized into two major categories: regulatory compliance risks and risks in terms of financial security:

Regulatory non-compliance risks					Risks in terms of financial security		
Professional conduct and preventing conflicts of interest	Integrity of the markets	Protection of the interests of customers	Anti-corruption	Protection of personal data	Customer knowledge (KYC)	AML/CFT	Sanctions, freezing of assets and embargos

A report on the compliance system is prepared and submitted to the governing bodies of SFI and Caisse Française de Financement Local.

The first half of 2020 saw the publishing of the new Ethic and Professional Conduct Code, which now incorporates a code of conduct for preventing corruption, the deployment of a platform to collect alerts and the updating of compliance procedures. These incorporate the latest regulatory changes, notably the 5th European Directive on preventing use of the financial system for money laundering or financing terrorism.

9. Income for the period from January 1st and June 30, 2020

9.1 – INCOME ACCORDING TO IFRS

Caisse Française de Financement Local publishes its financial statements according to IFRS[1], 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. Net income for the first half of 2020

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

1 The implementation as of January 1, 2019 of the IFRS 16 standard and of the interpretation IFRIC 23 was applied by the SFIL Group. These changes in methods have no impact on the income, their impact on the balance sheet are detailed in the notes to the financial statements.

IFRS EUR millions	H1 2019	2019	H1 2020	change H1 2019 / H1 2020
Interest margin	59	119	59	
Net commissions	1	(3)	13	
Net result on financial instruments at fair value through net income	16	16	(18)	
Net result on financial instruments at fair value through equity	-	-	-	
Net result due to derecognition of financial instruments at amortized cost	3	8	5	
Net result resulting from reclassification of financial assets at amortized cost to financial assets at fair value through net income	-	-	-	
Net result resulting from reclassification of financial assets at fair value through equity to financial assets at fair value through net income	-	-	-	
Other income and expense	(0)	-	-	
NET BANKING INCOME	**79**	**140**	**58**	**-26%**
General operating expenses	(48)	(92)	(52)	
Taxes	(5)	(5)	(6)	
GROSS OPERATING INCOME	**26**	**43**	**-**	**-100%**
Cost of risk	(1)	8	1	
INCOME BEFORE TAX	**25**	**51**	**1**	**-96%**
Income tax	(7)	(11)	(1)	
NET INCOME	**18**	**40**	**0**	**-100%**

As of June 30, 2020, net income is balanced, compared with EUR +18 million as of June 30, 2019.

9.1.2. Income restated excluding non-recurring items

Accounting 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. This impact is recognized in the income statement under Net result on financial assets at fair value through profit or loss and is restated under non-recurring items;

(EUR millions)	H1 2019	H1 2020
Fair value adjustment of non SPPI financial assets	11	(26)

- the adjustments in fair value concerning hedges. The application of certain accounting standards or methods (see below) is a source of volatility in Net Banking Income as shown in the table below;

(EUR millions)	H1 2019	H1 2020
Fair value adjustments on hedging	(10)	(3)

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. It concerns mainly:

- fair value adjustments introduced by the standard IFRS 13: Credit Valuation Adjustment/Debit Valuation Adjustment (CVA/DVA);
- adjustment of fair value of derivatives that hedge the foreign exchange risk related to export credit refinancing loans which could not be formally documented as hedging derivatives before the foreign currency loans are recorded on the Company's balance sheet.

These adjustments in the accounting value are recorded in the income statement mainly in the item Net result on financial instruments at fair value through profit or loss.

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

(EUR millions)	H1 2019	H1 2020
Linearization of IFRIC 21 expenses	(3)	(3)

The recurring income statement for the first semester of 2019 and 2020 is as follows :

EUR millions	H1 2019			H1 2020		
	Accounting income statement	Non-reccuring items	Recurring income statement	Accounting income statement	Non-reccuring items	Recurring income statement
NET BANKING INCOME	**79**	**1**	**78**	**58**	**(29)**	**87**
Opertating Expenses	(53)	(3)	(50)	(58)	(3)	(55)
OPERATING INCOME BEFORE COST OF RISK	**26**	**(2)**	**28**	**-**	**(32)**	**32**
Cost of risk	(1)	-	(1)	1	-	1
PRE-TAX INCOME	**25**	**(2)**	**27**	**1**	**(32)**	**33**
Income tax	(7)	-	(7)	(1)	8	(9)
NET INCOME	**18**	**(2)**	**20**	**0**	**(24)**	**24**

Restated for the non-recurring items mentioned above, Net banking income for the year increased by EUR 9 million from EUR 78 million in the first half of 2019 to EUR 87 million in the first half 2020. Net income for the half year rose by EUR 4 million, from EUR 20 million to EUR 24 million.

9.1.3. Analysis of recurring net income

The EUR 9 million increase in Net Banking Income is due to the Net Commissions item which mainly includes earnings received (EUR 13 million in 2020) on swap assignment/restructuring transactions as part of the management of its swap counterparty portfolio.

As a reminder, Caisse Française de Financement Local’s operating expenses consist mainly of amounts that its parent company invoices for its operational management. They increased by EUR 5 million compared with the same period of last year.

Cost of risk is low and stable between the two periods.

The tax charge for the first half of 2020 amounts to EUR 9 million; it notably reflects the non-deductibility of the contribution to the Single Resolution Fund.

9.1.4 Analysis of the impact of the Covid-19 pandemic health crisis on recurring income

The health crisis had a very limited impact on Caisse Française de Financement Local's net recurring income during the first half year 2020. This confirms the Group's resilience to macro-economic shocks. Outside of the usual items of volatility under IFRS (fair value adjustments to non SPPI financial assets and hedging adjustments) for which the half yearly change is certainly partly due to the deterioration and volatility observed in the financial markets since mid-March, the only impact of the crisis on income is the additional EUR 2.8 million (before tax) in provisions on the local public sector clientele.

9.2. INCOME ACCORDING TO FRENCH GAAP

Net income is presented below in a synthetic manner.

French GAAP EUR millions	H1 2019	2019	H1 2020	change H1 2019 / H1 2020
Interest margin	60	133	53	
Net commissions	1	(3)	13	
Provisions and income on trading portfolio	-	(0)	-	
Provisions and income on securities	(2)	8	(11)	
Other income and expense	-	-	-	
NET BANKING INCOME	**59**	**138**	**56**	**-5%**
General operating expenses	(53)	(98)	(58)	
Taxes				
GROSS OPERATING INCOME	**6**	**41**	**(2)**	**-133%**
Cost of risk	3	11	3	
OPERATING INCOME	**9**	**52**	**1**	**-89%**
Income (loss) on fixed assets	-	-	-	
Income tax	(1)	(6)	(1)	
NET INCOME	**8**	**46**	**0**	**-99%**

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. 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 two 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 is down 5% from the first half of 2019, falling by -3 million from EUR +59 million to EUR +56 million. This decrease is mainly attributable to respective drops of EUR -7 million and EUR -9 million in Interest margin and Provisions and results of sales of investment securities. It is partly offset by an increase in Net Commissions of EUR 12 million.

Operating expenses consist mainly of amounts that its parent company invoices for its operational management. They increased by EUR 5 million.

The cost of risk was stable.

The net result is balanced and down by EUR 8 million compared to June 30, 2019.

The health crisis had a very limited impact on Caisse Française de Financement Local's net income during the first half year 2020. This confirms the Group's resilience to macro-economic shocks. The only impact of the crisis on income is the additional EUR 2.8 million (before tax) in provisions on the local public sector clientele.

10. Outlook for 2020

In 2020, and within the COVID-19 pandemic health crisis, the Caisse Française de Financement Local and its parent company, SFIL will aim to maintain their position as recognized leader for their two activities entrusted by the State:

- financing loans to French local authorities and public hospitals, within the framework of the partnership established with La Banque Postale;
- supporting French exporters by refinancing large export credits guaranteed by the State.

With regard to the local public sector, after very sustained activity during the first half year, an increase in the use of loans by local authorities is expected to maintain their investment levels despite the decrease in their income due to the impacts of the Covid-19 pandemic health crisis. This situation should increase the volume of loans to be financed by the Caisse Française de Financement Local as part of its partnership with La Banque Postale.In this context, the Caisse Française de Financement Local and its parent company, SFIL, will provide their support for the post-COVID economic recovery, and notably for the public initiatives for local authorities, health institutions.

With regard to the export credit market, the Covid-19 pandemic health crisis will most likely have a negative impact on the signature of large commercial contracts, and notably those relating to the cruise sector, and on the use of refinancing by the Caisse Française de Financement Local of large export credits guaranteed by the French State to support French exporters. This decrease in the volume of activity for the Caisse Française de Financement Local may, however, be offset in future years as the requirements in terms of infrastructure and equipment for potential customers should remain at a high level. Moreover, the global nature of the crisis should not weigh on the competitiveness of French exporters. In this context, the Caisse Française de Financement Local and its parent company, SFIL, will provide their support to the post-Covid economic recovery. As part of its export refinancing mission, the Caisse Française de Financement Local also intends to be able to intervene in the credit refinancing system covered by the new guarantee for projects with a strategic interest for the French overseas economy. Once the necessary authorizations have been obtained from the European Commission, this extension could come into operation as of end 2020.

In 2020, the SFIL Group will continue its CSR actions, with notably, at the end of 2020, the publication of the allocation and impact report on its first green issue launched in November 2019 and the integration of climatic risks in its methodological risks.
In terms of financing, the first half year showed the Caisse Française de Financement Local's considerable ability to access the market. To cover its financing requirements, as planned in 2020, Caisse Française de Financement Local will actively continue its program to issue between EUR 3.5 and 5.5 billion of covered bonds with a long-dated average maturity, adapted to the profile of the assets financed. It will carry out this program mainly through a number of benchmark *obligations foncières* issued in euros on the primary market and private placements adapted to the needs of its broad investor base. Furthermore, the Caisse Française de Financement Local's very large stock of assets eligible for European Central Bank refinancing also provides a deep source of alternative liquidity.

From a macro-economic viewpoint, the SFIL Group will attentively monitor the potential short to medium term impacts of the COVID-19 pandemic on the Caisse Française de Financement Local's current and forecast operations, on the financial situation of its counterparties (local authorities, hospitals, export credit counterparties, banks, partners) and on market conditions notably for covered bonds. The quality of SFIL's shareholding structure, its status as a public development bank, the resilience of its business model, the quality of CAFFIL's and SFIL's standings, the very rigorous risk management of the Caisse Française de Financement and its solid solvency ratio are all advantages within the current context.

Lastly, the transfer of control of SFIL to the CDC, should be finalized during the third quarter of 2020, subject to authorizations, giving rise to an intensification of exchanges of experience within a large public financial group.

Breakdown of cover pool as of June 30, 2020

EUR millions	6/30/2020					12/31/2019
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	**Loans**	**Bonds**	**Loans**	**Bonds**		
France						
State:						
- export refinancing	-	-	3,097	-	3,097	2,588
- others	20	-		155	175	13
Banque de France	1,177	-	-	-	1,177	473
Regions	2,044	75	244	-	2,363	2,227
Departments	7,019	-	151	-	7,170	6,906
Municipalities	14,797	14	302	-	15,113	15,293
Groups of municipalities	12,879	69	93	-	13,041	12,325
Public sector entities:						
- health	6,090	8	-	-	6,098	6,093
- social housing	1,012	-	-	-	1,012	1,053
- others	793	54	1	-	848	861
Credit institutions	8	646	-	-	654	1,159
Subtotal	**45,839**	**866**	**3,888**	**155**	**50,748**	**48,991**
Germany						
Länder	-	275	-	-	275	275
Credit institutions	-	95	-	-	95	95
Subtotal	**-**	**370**	**-**	**-**	**370**	**370**
Austria						
Länder	-	-	175	-	175	178
Subtotal	**-**	**-**	**175**	**-**	**175**	**178**
Belgium						
Regions	1	-	10	-	11	12
Public sector entities	38	-	-	-	38	43
Credit institutions	-	121	-	-	121	174
Subtotal	**39**	**121**	**10**	**-**	**170**	**229**
Canada						
Municipalities	100	-	-	-	100	100
Public sector entities	34	-	-	-	34	34
Credit institutions	-	226	-	-	226	225
Subtotal	**134**	**226**	**-**	**-**	**360**	**359**
Denmark						
Credit institutions	-	20	-	-	20	91
Subtotal	**-**	**20**	**-**	**-**	**20**	**91**
Spain						
State	-	20	-	-	20	25
Regions	-	50	-	-	50	50
Municipalities	68	-	-	-	68	69
Subtotal	**68**	**70**	**-**	**-**	**138**	**144**

EUR millions	6/30/2020					12/31/2019
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
United States						
Federated States	-	205	-	-	205	234
Subtotal	**-**	**205**	**-**	**-**	**205**	**234**
Finland						
Credit institutions	-	96	-	-	96	96
Subtotal	**-**	**96**	**-**	**-**	**96**	**96**
Italy						
State	-	1,133	-	-	1,133	1,138
Regions	-	1,818	-	-	1,818	1,862
Provinces	-	424	-	-	424	442
Municipalities	5	975	-	-	980	1,030
Subtotal	**5**	**4,350**	**-**	**-**	**4,355**	**4,472**
Japan						
Municipalities	-	25	-	-	25	25
Subtotal	**-**	**25**	**-**	**-**	**25**	**25**
Norway						
Credit institutions	-	222	-	-	222	222
Subtotal	**-**	**222**	**-**	**-**	**222**	**222**
Netherlands						
Credit institutions	-	99	-	-	99	151
Subtotal	**-**	**99**	**-**	**-**	**99**	**151**
Portugal						
State	-	-	-	-	-	-
Municipalities	9	-	-	-	9	11
Public sector entities	3	-	-	-	3	3
Subtotal	**12**	**-**	**-**	**-**	**12**	**14**
United Kingdom						
State	-	-	-	24	24	39
Credit institutions	-	-	-	-	-	10
Subtotal	**-**	**-**	**-**	**24**	**24**	**49**
Sweden						
Municipalities	18	-	-	-	18	18
Credit institutions	-	161	-	-	161	301
Subtotal	**18**	**161**	**-**	**-**	**179**	**319**
Switzerland						
Cantons	162	-	6	-	168	168
Municipalities	241	-	-	-	241	259
Public sector entities	60	-	-	-	60	60
Subtotal	**463**	**-**	**6**	**-**	**469**	**487**
Supranational						
International organizations	17	-	-	-	17	20
Subtotal	**17**	**-**	**-**	**-**	**17**	**20**
TOTAL *COVER POOL*	**46,595**	**6,831**	**4,079**	**179**	**57,684**	**56,451**

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, 2020

IFRS Financial Statements

Assets

EUR millions	Note	12/31/2019	6/30/2020
Central banks	*2.1*	473	1,177
Financial Assets at fair value through profit or loss	*2.2*	4,899	4,677
Hedging derivatives		4,902	5,225
Financial Assets at fair value through equity	*2.3*	91	60
Financial Assets at amortized cost			
Loans and advances due from banks at amortized cost	*2.4*	3,109	3,323
Loans and advances to customers at amortized cost	*2.4*	44,801	46,262
Bonds at amortized cost	*2.4*	9,090	8,660
Fair value revaluation of portfolio hedge		2,774	3,016
Current tax assets		7	12
Deferred tax assets		72	71
Accruals and other assets		15	16
TOTAL ASSETS		**70,233**	**72,499**

Liabilities

EUR millions	Note	12/31/2019	6/30/2020
Central banks		-	-
Financial liabilities at fair value through profit or loss	*3.1*	1,119	1,160
Hedging derivatives		6,813	7,290
Financial liabilities at amortized cost			
Due to banks at amortized cost	*3.2*	5,206	5,535
Customer borrowing and deposits at amortized cost		-	-
Debt securities at amortized cost	*3.2*	54,604	56,107
Fair value revaluation of portfolio hedge		338	338
Current tax liabilities		8	0
Deferred tax liabilities		-	-
Accruals and other liabilities	*3.4*	695	661
Provisions	*3.3*	6	6
Subordinated debt		-	-
EQUITY		**1,444**	**1,402**
Capital		1,350	1,350
Reserves and retained earnings		68	63
Net result through equity		(14)	(11)
Net income		40	-
TOTAL LIABILITIES		**70,233**	**72,499**

Income Statement

EUR millions	Note	H1 2019	2019	H1 2020
Interest income	*5.1*	1,266	2,509	1,167
Interest expense	*5.1*	(1,207)	(2,390)	(1,108)
Fee and commission income	*5.2*	3	3	14
Fee and commission expense	5.2	(2)	(6)	(1)
Net result of financial instruments at fair value through profit or loss	*5.3*	16	16	(18)
Net result of financial instruments at fair value through equity	*5.4*	-	-	-
Gains or losses resulting from derecognition of financial instruments at amortized cost	*5.5*	3	8	5
Gains or losses resulting from reclassification of financial assets at amortized cost to fair value through profit or loss		-	-	-
Gains or losses resulting from reclassification of financial assets at fair value through equity to fair value through profit or loss		-	-	-
Other income		0	0	0
Other expense		(0)	(0)	(0)
NET BANKING INCOME		**79**	**140**	**58**
Operating expenses	*5.6*	(53)	(97)	(58)
GROSS OPERATING INCOME		**26**	**43**	**0**
Cost of risk	*5.7*	(1)	8	1
OPERATING INCOME		**25**	**51**	**1**
Net gains (losses) on other assets		-	-	-
INCOME BEFORE TAX		**25**	**51**	**1**
Income tax		(7)	(11)	(1)
NET INCOME		**18**	**40**	**0**
Earnings per share (EUR)				
- Basic		1.31	2.96	0.01
- Diluted		1.31	2.96	0.01

Net income and unrealized or deferred gains and losses through equity

EUR millions	H1 2019	2019	H1 2020
Net income	**18**	**40**	**0**
Item that may be reclassified as profit or loss	**4**	**4**	**3**
Unrealized or deferred gains and losses of financial assets at fair value through equity	0	0	(0)
Unrealized or deferred gains and losses of cash flow hedges	5	6	4
Tax on items that may subsequently be reclassified as profit or loss	(1)	(2)	(1)
Item that may not be reclassified as profit or loss	**-**	**-**	**-**
Total unrealized or deferred gains or losses through equity	**4**	**4**	**3**
NET INCOME AND GAINS OR LOSSES THROUGH EQUITY	**22**	**44**	**3**

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	Financial assets designated as at fair value through equity, after tax	Net change in fair value of hedging derivatives, after tax	Total	
EQUITY AS OF DECEMBER 31, 2019	**1,350**	**108**	**1,458**	**(0)**	**(14)**	**(14)**	**1,444**
Stocks issued	-	-	-	-	-	-	-
Dividends	-	(45)	(45)	-	-	-	(45)
Changes in fair value of financial assets through equity	-	-	-	(0)	-	(0)	(0)
Changes in fair value of derivatives through equity	-	-	-	-	3	3	3
Changes in fair value of financial assets through profit and loss	-	-	-	-	-	-	-
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-
Net income for the period	-	0	0	-	-	-	0
Other movements	-	-	-	-	-	-	-
EQUITY AS OF JUNE 30, 2020	**1,350**	**63**	**1,413**	**(0)**	**(11)**	**(11)**	**1,402**

The Ordinary Shareholder's meeting decided on May 27, 2020, to distribute a dividend in the amount of EUR 45.225 millions. Each share (13,500,000 shares) received a dividend of EUR 3,35.
Share capital currently stands at EUR 1,350,000,000 represented by 13,500,000 nominative shares.

Cash flow statement

EUR millions	2019	H1 2020
Net INCOME BEFORE TAX	**51**	**2**
+/- Depreciation and write-downs	(27)	(2)
+/- Expense/income from investing activities	49	82
+/- Expense/income from financing activities	(36)	(168)
+/- Other items	(142)	(36)
= Non-monetary items included in net income before tax and other adjustments	**(156)**	**(124)**
+/- Cash from interbank operations	(714)	120
+/- Cash from customer operations	98	(892)
+/- Cash from financing assets and liabilities	547	576
+/- Cash from non-financing assets and liabilities	(18)	(98)
- Income tax paid	(21)	(7)
= Decrease / (increase) in cash from operating activities	**(108)**	**(300)**
CASH FLOW FROM OPERATING ACTIVITIES (A)	**(213)**	**(423)**
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-
+/- Cash from or for shareholders	(41)	(45)
+/- Other cash from financing activities	(537)	1,183
CASH FLOW FROM FINANCING ACTIVITIES (C) (1)	**(578)**	**1,137**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	-	-
Increase / (decrease) in cash equivalents (A + B + C + D)	**(791)**	**715**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,281**	**490**
Cash and balances with central banks (assets & liabilities)	1,271	473
Interbank accounts (assets & liabilities) and loans/deposits at sight	10	17
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**490**	**1,205**
Cash and balances with central banks (assets & liabilities)	473	1,177
Interbank accounts (assets & liabilities) and loans/deposits at sight	17	28
CHANGE IN NET CASH	**(791)**	**715**

(1) Over the first half of 2020, the net cash flow of EUR +1.1 billion linked to financing activities corresponded to the change in debt represented by a security. Compared with the variation of EUR +1,8 billion in debt represented by a security mentioned in note 3.2.1., the difference primarily reflects the change in the revaluation of hedged risk and foreign exchange variations.

Notes to the IFRS financial statements

1. Accounting and valuation policies

1.1 – APPLICABLE ACCOUNTING STANDARDS

1.1.1. Application of the accounting standards endorsed by the European Union

The Company prepares its individual condensed financial statements in compliance with IAS 34 Interim financial reporting; they have been reviewed by the statutory auditors. The accompanying notes relate to significant items of the half year and should be read in conjunction with the individual financial statements as of December 31, 2019. The latters have been prepared in compliance with International Financial Reporting Standards (IFRS), as endorsed by and applicable within the European Union; they have been audited by the statutory auditors. The Company's activities do not show any seasonal, cyclical or occasional aspects.

This publication is voluntary. As a reminder on July 19, 2002, the European Union published regulation EC 1606/2002, which obliged listed groups to apply IFRS as from January 1, 2005 and the Company deliberately decided to apply as from January 1, 2007 all the IAS, IFRS, SIC and IFRIC standards adopted by the European Union.

The individual condensed financial statements as of June 30, 2020 were examined by the Executive Board on September 7, 2020.

Due to Covid-19 outbreak and the widespread of health crisis during the first quarter of 2020, the Company has disclosed in note 8 below qualitative and quantitative information so as to enable the users to measure the impact of this crisis on its individual condensed financial statements. Further information is disclosed in the management report of the Company.

Accounting principles applied to the financial statements are detailed in chapter 1.2. below.

1.1.2. IASB and IFRIC texts endorsed by the European Union and effective as of January 1, 2020

• Amendments to **IAS 1 Presentation of financial statements / IAS 8 Accounting policies, changes in accounting estimates and errors / IAS 34 Interim financial reporting / IAS 37 Provisions, contingent liabilities and contingent assets / IAS 38 Intangible assets / IFRS 2 Share-based payment / IFRS 3 Business combinations / IFRS 6 Exploration for and evaluation of mineral resources / IFRIC 12 Service Concession Arrangements / IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments / IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine / IFRIC 22 Foreign Currency Transactions and Advance Consideration / SIC 32 Intangible Assets – Web Site Costs:** issued by IASB on March 29, 2018, endorsed by the European Union on November 29, 2019 (UE Regulation n° 2019/2075) and effective for reporting periods beginning on or after January 1, 2020, these amendments aim at updating references made to the conceptual framework in existing standards and interpretations. It follows the revision of this framework by IASB.

These amendments have no impact on the Company's individual financial statements given that they are merely an update of the references made to the conceptual framework in existing standards and interpretations.

• Amendments to **IAS 1 Presentation of financial statements / IAS 8 Accounting policies, changes in accounting estimates and errors / IAS 10 Events after the balance sheet date / IAS 34 Interim financial reporting / IAS 37 Provisions, contingent liabilities and contingent assets:** issued by IASB on October 31, 2018, endorsed by the European Union on November 29, 2019 (UE Regulation n° 2019/2104) and effective for reporting periods beginning on or after January 1, 2020, these amendments aim at clarifying and aligning the definition of materiality across the IFRS standards in the purpose of enhancing the consistency of its application in the financial statements.

The Company takes due consideration of these amendments when assessing the materiality of information contained in its individual financial statements.

• Amendments to **IAS 39 Financial instruments: recognition and measurement / IFRS 9 Financial instruments / IFRS 7 Financial instruments: disclosures:** issued by IASB on September 26, 2019, endorsed by the European Union on January 15, 2020 (UE Regulation n° 2020/34) and effective for reporting periods beginning on or after January 1, 2020 with early application permitted, these amendments complete "phase 1" of IASB's project and are intended to avoid that the uncertainty arising from interest rate benchmark reform results in an early discontinuation of hedging relationships. IASB aimed thus at mitigating the impacts of this global reform on the financial statements of entities. These amendments bring in exemptions as regards especially the assessment of whether hedged future flows may be deemed highly probable (CFH), the requirement that hedged risk must be separately identifiable as well as the realization of prospective and retrospective effectiveness tests. These exemptions apply to hedging relationships affected by the reform, namely the ones where uncertainties arise about the interest rate benchmark designated as a hedged risk and / or the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. They cease to apply only when the uncertainty mentioned is no longer present. As part of "phase 2", IASB is working on how to account for the consequences of interest rate benchmark reform; such works may result in additional amendments during the second semester of 2020.

The interest rate benchmark to which the Company is mainly exposed are EURIBOR, EONIA and LIBOR (USD, GBP, CHF and JPY) rates. So as to transition from the former to the new interest rates benchmark in all the currencies and jurisdictions involved, the Company has set-up a steering committee gathering all the departments involved within the bank, in particular the Front office, the Legal department, the Finance division and the Risk division. This committee aims at reducing the risks arising from the transition, monitoring its effective implementation within the times and to follow-up on the industry's work on this matter.

These amendments have no impact on the Company's individual financial statements given that it has opted for an early application of them from January 1, 2019.

• Amendment to **IFRS 3 Business combinations:** issued by IASB in October, 2018, endorsed by the European Union on April 21, 2020 (UE Regulation n° 2020/551) and effective for reporting periods beginning on or after January 1, 2020 (for combinations of those periods), this amendment narrows and clarifies the definition of a business, a key concept that enables to distinguish a business combination from a mere acquisition of a group of assets.

This amendment has no impact on the Company's individual financial statements given that it has undertaken no operation referred to in the amendment during the period.

• Statement of conclusions from ANC **regarding the application of the IFRS 16 standard – Leases:** issued by ANC on July 3, 2020, superseding the previous version issued on February 16, 2018, this statement of conclusions is intended to align ANC opinion regarding French commercial property leases in the scope of French Code de commerce with the clarifications made by IFRIC on November 26, 2019 regarding the requirements for determining the length of the enforceable period and the consistency between the lease term on the one hand and the useful life of non-removable leasehold improvements made in the rent premises on the other hand. ANC specifies in particular that the enforceable period of this kind of leases within the meaning of IFRS 16 is generally of 9 years, but that it can however be longer when the lessee can reasonably expect that he will trigger the tacit renewal clause and / or when the lessor won't then be able to terminate the contract without material penalty.

This opinion from the ANC has no impact on the Company's individual financial statements given that the latter is involved in no leases.

1.1.3. IASB and IFRIC texts endorsed by the European Union or in the process of being endorsed but not yet applicable

• Amendment to **IFRS 16 Leases:** issued by IASB in May 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after June 1, 2020 with early application permitted, this amendment is intended to specify how rent concessions arising as a direct consequence of the Covid-19 pandemic shall be accounted for. It provides a practical expedient to lessee, that enables them to elect not to assess whether such concessions constitute a lease modification and, as a result, to account for them as if it were not a modification. At the European level, ESMA reports in its public statement of July 21, 2020 (ESMA32-61-417) that this amendment is being reviewed by the European Parliament and the European Council. Regarding the concessions within the scope of the amendment, ESMA invites the competent authorities to postpone the assessment of whether such concessions constitute a modification within the meaning of the version of IFRS 16 currently in force in the European Union. As for the issuers, they are invited to disclose whether they apply this amendment.

This amendment has no impact on the Company's individual financial statements given that the latter is involved in no leases.

• Amendment to **IFRS 3 Business combinations:** issued by IASB in May 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2022 (for combinations of those periods) with early application permitted, this amendment updates a reference made to the conceptual framework and furthermore requires the acquirer to determine on the one hand whether for obligations within the scope of IAS 37 a present obligation exists at the acquisition date as a result of past events, and on the other hand whether for levies within the scope of IFRIC 21 the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendment further confirms the prohibition for the acquirer to recognize contingent assets acquired in a business combination.

The impact of this amendment on the Company's individual financial statements is being analyzed. It is expected to have no impact, given that Company's operations are generally out of the scope of IFRS 3.

• Amendment to **IAS 16 Property, plant and equipment:** issued by IASB in May 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2022 with early application permitted, this amendment prohibits henceforth deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Those proceeds as well as related costs shall be recognized in net result.

The impact of this amendment on the Company's individual financial statements is being analyzed. This topic is however not material company-wide.

• Amendment to **IAS 37 Provisions, contingent liabilities and contingent assets:** issued by IASB in May 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2022 with early application permitted, this amendment further specifies how the unavoidable cost of a contract shall be calculated and, as a result, how the assessment of whether the contract is onerous shall be made. More precisely, the amendment specifies that the cost of fulfilling a contract comprises not only the incremental costs that relate to this contract in particular, but also an allocation of other costs that relate directly to fulfilling contracts in general.

The impact of this amendment on the Company's individual financial statements is being analyzed.

• Amendments to **IFRS 1 First-time adoption of International Financial Reporting Standards / IFRS 9 Financial instruments / IFRS 16 Leases / IAS 41 Agriculture :** issued by IASB in May 2020 within the framework of its regular IFRS improvement process, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2022 (except for the amendment of IFRS 16) with early application permitted:
• IFRS 1 amendment extends to the cumulative translation differences from foreign operations the relief available for subsidiaries to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements. It is available for subsidiaries that adopt IFRS later than their parent;
• IFRS 9 amendment clarifies which fees an entity includes when it applies the '10 per cent' test, in the objective of decide whether or not the terms of modified financial liability may be deemed substantially different from initial terms. Only fees paid or received between the borrower and its lender may be taken into account, including those paid or received by one of them on the other's behalf;
• IFRS 16 amendment removes the illustration of the reimbursement of leasehold improvements in the purpose of avoiding any confusion regarding the treatment of lease incentives. As the amendment only regards an illustrative example, no effective date is stated;
• IAS 41 amendment concerns agricultural activity;

The amendment of IFRS 16 has no impact on the Company's individual financial statements. The amendments of IFRS 1 and IAS 41 will have no impact on the Company's individual financial statements. The impact of the amendment of IFRS 9 on the Company's individual financial statements is being analyzed.

• Amendment to **IAS 1 Presentation of financial statements:** issued by IASB in January 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2022 (or January 1, 2023 given the IASB's provisional decision), this amendment clarifies the distinguishing criteria between current liabilities on the one hand and non-current liabilities on the other hand.

This amendment will have no impact on the Company's individual financial statements given that it classifies its liabilities based on a liquidity criterion.

• **IFRS 17 Insurance contracts:** issued by IASB in May 2017, amended by IASB in June 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2023 (June 2020 amendments have postponed by 2 years this date, which was initially January 1, 2021), this standard, which will replace IFRS 4 standard, clarifies in particular how all insurance contracts (life, non-life, insurance and reinsurance) shall be accounted for, contracts for which the entity is the policyholder being in particular out of the scope (excepted reinsurance contracts).

Given the distant date of application of this new standard and as the European Union has not endorsed it, the impacts of this standard on individual financial statements of the Company will be analyzed at a later stage.

1.2 – ACCOUNTING PRINCIPLES APPLIED TO THE FINANCIAL STATEMENTS

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 financial statement preparation and exercises its judgment. While management believes it has considered all available information when making these assumptions, actual results may differ from such estimates and the differences may have a material impact on the financial statements.

Judgments were principally made in the following areas:
- classification of financial instruments;
- determination of 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 following chapters.

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, especially in the framework of the definition of macroeconomic scenarios used;
- estimates of future taxable profits for the recognition and measurement of deferred tax assets.

1.2.1. Offsetting financial assets and 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.

1.2.2. 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 profit or loss.

Financial assets denominated in a foreign currency and measured at fair value through the item Unrealized or deferred gains and losses 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 profit or loss, 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 asset or liability denominated in a foreign currency.

1.2.3. 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.

1.2.4. 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.

1.2.4.1. 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 by Caisse Française de Financement Local of medium/long-run loans granted by La Banque Postale;
• reducing the sensitivity of structured loans held by Caisse Française de Financement Local;
• refinancing SFIL by the Company 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 reporting 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.

1.2.4.2. 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 derived from the outstanding principal for a given time period, 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.

1.2.4.3. Financial assets measured at amortized cost

A financial asset is classified and subsequently measured at amortized cost if it is compliant with both of 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 recognizes 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 and transaction costs 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 profit or loss as cost of risk.

Due and accrued interest on loans and fixed income securities belonging to this category as well as the amortization of premium / discount and transaction costs, 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 instrument or, if the underlying instrument is a purchased or originated credit-impaired financial asset or has been subsequently impaired (see below), its net carrying amount (which takes into account in particular 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.

1.2.4.4. Financial assets measured at fair value through the item Unrealized or deferred gains and losses of equity

A financial asset is classified and subsequently measured at fair value through the item Unrealized or deferred gains and losses of equity if it is compliant with both of 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 recognizes 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 as other comprehensive income in equity, except an amount corresponding to the loss allowance for expected credit losses, which is recognized in profit or loss as cost of risk.

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

1.2.4.5. Financial assets measured at fair value through profit or loss

A financial asset which does not belong to any of the two categories described above (amortized cost and fair value through the item Unrealized or deferred gains and losses of equity) falls under this category and is classified and subsequently measured at fair value through profit or loss: this category is mainly composed of financial assets that are not SPPI compliant.

At initial recognition, the Company recognizes 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 profit or loss as net banking 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 recognize separately:
• the fair value variations excluding accrued interest; they are recognized under the item Net result of financial instruments at fair value through profit or loss of the net banking income;
• due and accrued interest; they are recognized in the net interest margin.

1.2.4.6. Designation options

The Company does not use the following options:
• option to designate a financial asset as measured at fair value through profit or loss: 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.

1.2.4.7. 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 item Unrealized or deferred gains and losses 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 of a financial asset 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 to maturity 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 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 contracts of a counterparty are classified in Stage 3 when the counterparty is in one or the other of the following situations:

• it is in "default" within the meaning of the CRR because it is unlikely to pay: it is probable that the counterparty will not repay all or part of its debt, without recourse to realizing securities if applicable;

• it presents an arrear in payment past due of more than 90 days, irrespective of whether this counterparty is or is not in "default" within the meaning of the CRR.

The contracts of a counterparty in one or the other of the situations previously described are also considered as Non Performing Exposures from a prudential perspective. On the perimeter being broken down into Stages, the accounting base of Stage 3 is therefore larger than the one of the "default" within the meaning of the CRR and is broadly in line with the one of Non Performing Exposures, with just one significant difference: counterparties already in Forbearance and to which a new Forbearance has been granted and / or an incident of payment past due of more than 30 days has occurred. The contracts of a counterparty in this situation are considered as Non Performing Exposures from a prudential perspective but remain classified in Stage 2 from an accounting perspective (see below).

The contracts of a counterparty are classified in Stage 2 when, without however being in one or the other of the situations of Stage 3 (see above), the counterparty is in one or the other of the following situations characterizing a significant increase in credit risk:

• 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 past due of strictly between 31 and 90 days;

• its rating presents one of the following characteristics: it has become 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 statistical 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 contracts of the counterparty remain classified in Stage 1.

Stages transitions must be compliant with the following rules:

• for the contracts of a counterparty in "default", exiting from Stage 3 and "default" (and getting back to Stage 2 or Stage 1) can only occur after a cure period of at least one year during which the counterparty is still considered as being in "default" within the meaning of the CRR and the contracts of this counterparty remain classified in Stage 3. Exit must in addition be formally decided in Default Committee and is conditional to the full repayment of arrears if any;

• for the contracts in Forebearance, exiting from Stage 2 or as appropriate Stage 3 (and getting back to Stage 1) can only occur after a cure period of at least two years which starts from the date when the forbearance had been granted if the counterparty was not in "default" within the meaning of the CRR or from the date of exit from "default" if it was.

Measuring the amount of the expected credit loss

The loss allowance recognized on the contract is equal to the average of expected credit losses of each of the scenarios weighted by their respective probability of occurrence. For all material portfolios, the definition of scenarios integrates 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 quantitative research developed from data issued from advanced models.

In the case of French local communities, the main hypothesis as well as the scenarios and their weighting are presented below. The hypothesis of these scenarios are regularly updated and have in particular been adapted so as to take into account the impacts of Covid-19 pandemic.

• a base scenario, in line with the strategic plan as regards debt financing from local communities, and which is based on the expectations and objectives of the French State in term of local public expenditures and tax revenues developed in the draft budget bills and the programs for stability. This scenario is weighted at 60 % (compromise between the commitment of France towards Europe as regards public deficit reduction and election issues for local communities);

• an upside scenario, in which local communities raise further taxes and stabilize investment expenditures, which results in further deleveraging and improvement of their financial situation. This scenario is weighted at 25 % (election calendar enables to strengthen investment in spite of budget constraints);

• a downside scenario, in which local communities raise investment expenditure without raising further taxes from their taxpayers: they raise debt financing. This scenario is weighted at 15 %.

For the contracts 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. This approach has resulted in the definition of IFRS 9 specific models for each material portfolio. More precisely, specific models have been developed so as to calculate PD and LGD for local communities and inter-municipal grouping with own-source tax revenue, given that this portfolio is the most material for the Company. These calculations have been performed by taking the following steps:
- a migration through the cycle matrix is built upon available historical data;
- it is then distorted to derive point in time PD as well as migration point in time matrix;
- the latter is used in the scenarios, taking into account forward looking information

For the contracts 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.

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 profit or loss as cost of risk.

When an asset is determined by management as being irrecoverable, it is derecognized (see below): the loss allowance for expected credit losses is reversed and the net loss is recognized in profit or loss as cost of risk. Subsequent recoveries, if any, are also recognized in cost of risk.

1.2.4.8. 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 profit or loss of the reporting period considered as net banking income.

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 item Unrealized or deferred gains and losses of equity, cumulative gains or losses previously recognized in equity are, applying FIFO method, reversed in profit or loss on disposal, under the item of the net banking income used for recognizing 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 recognized as 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 recognized off-balance sheet and the corresponding loans are recognized on the balance sheet as 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 contract 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 cash flows of the restructured loan 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 profit or loss of the reporting period, within the net interest margin. Furthermore, for financial assets measured at amortized cost or at fair value through the item Unrealized or deferred gains and losses 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 profit or loss of the reporting period, under the item of the net banking income used for recognizing the net gains and losses of the category of the derecognized financial asset.

1.2.5. Financial liabilities

1.2.5.1. Financial liabilities held for trading

The Company does not hold financial liabilities belonging to this category.

1.2.5.2. Financial liabilities designated at fair value through profit or loss

The Company does not use this option.

1.2.5.3. Financial liabilities at amortized cost

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.

At initial recognition, the Company recognizes a financial liability belonging to this category at fair value, which is its nominal value including if applicable any reimbursement and issue premiums and transaction costs (mainly fees and commissions on bond issues). Subsequently, the financial liability is measured at amortized cost, which corresponds to its carrying amount at initial recognition plus or minus as appropriate the amortization of premiums and transaction costs calculated using the effective interest rate method.

Due and accrued interest on financial liability belonging to this category as well as the amortization of premiums and transaction costs calculated using the effective interest rate method, are recognized in the net interest margin.

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

1.2.5.4. 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 (see above).

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

1.2.6.1. 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 positions. However, some derivatives must be measured at fair value through profit or loss at closing date; they are:
• the ones which failed hedge effectiveness tests at closing date;
• the ones which hedge financial assets that are measured at fair value through profit or loss. In this case, the revaluation of the derivative hedges natively the revaluation of the hedged risk of the hedged item, 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 foreign exchange 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 at fair value through profit or loss at closing date, are recognized in profit or loss within the net banking income.

1.2.6.2. 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 profit or loss 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 profit or loss.

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 recognized in profit or loss, along with the corresponding change in fair value of the hedged items that 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 profit or loss. Amounts deferred in equity are recycled to profit or loss and classified as income or expense when the hedged firm commitment or forecast transaction affects the profit or loss.

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 portion attributable to the hedged risk of 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 profit or loss when or as the item formerly hedged impacts profit or loss.

1.2.6.3. 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. The Company 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 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 date) 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 recognized in profit or loss.

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.

1.2.7. 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, 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 where 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 a 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 if any, 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 the instrument; 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 closing date.

1.2.7.1. 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 penalties are included in determining the fair value these instruments.

1.2.7.2. Financial instruments measured at fair value

Non derivative financial assets measured at fair value, either through the item Unrealized or deferred gains and losses of equity or through profit or loss, and derivative instruments are measured at fair value by reference to listed market prices when available. When listed market prices are not available, fair value is estimated on the basis of valuation models or discounted cash flows method, 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 instruments, when listed prices are not available, the pricing model attempts 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 the Company receives collateral, related future cash-flows are discounted using an OIS-based curve while uncollateralized derivatives related future cash-flows 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 counterparty’s credit risk (CVA - credit valuation adjustment) or the Company’s own credit quality (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.

1.2.8. 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 closing date are used to determine deferred taxes.

Deferred tax assets are recognized to the extent that it is probable that sufficient 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 relating to fair value re-measurements of financial assets measured at fair value through the item Unrealized or deferred gains and losses 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.

1.2.9. Provisions

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

Regarding mainly litigations and restructuring, 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):
• loan commitments measured at fair value through profit or loss: they are fully in the scope of IFRS 9. Therefore, they are not impaired for expected credit losses but valued and their valuation is recognized on the asset side;
• 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 item Unrealized or deferred gains and losses 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 with an offsetting entry to profit or loss as cost of risk.

1.2.10. Interest income and expense

For all interest-bearing instruments, interest income and expense are recognized in profit or loss using the effective interest rate method (see above).

Accrued interest is recognized on the balance sheet under the same item as the related financial assets or liabilities.

1.2.11. Commissions

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 recognized in net interest margin if the loan is granted.

1.2.12. 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 date.

1.2.13. Cash and cash equivalents

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

1.2.14. 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 the Company 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.

1.2.15. 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.

2. Notes to the assets (EUR millions)

2.1 - CENTRAL BANKS

	12/31/2019	6/30/2020
Mandatory reserve deposits with central banks	-	-
Other deposits	473	1,177
TOTAL	**473**	**1,177**

2.2 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

2.2.1. Analysis by nature

	12/31/2019	6/30/2020
Loans and advances to customers	4,894	4,672
Non Hedging derivatives (1)	5	5
TOTAL	**4,899**	**4,677**

(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 profit or loss.
Furthermore, as from January 1, 2018 and the entry into force of IFRS 9, derivatives used to hedge assets reclassified as assets measured at fair value through profit or loss can no longer be classified as hedging instruments for accounting purposes. They are therefore now allocated to this category.

2.2.2. Loans and advances to customers analysis by counterparty

	12/31/2019	6/30/2020
Public sector	4,463	4,243
Other - guaranteed by a State or local government	431	429
TOTAL	**4,894**	**4,672**

2.3 - FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY

2.3.1. Analysis by nature

	12/31/2019	6/30/2020
Loans	-	-
Bonds	91	60
TOTAL	**91**	**60**

2.3.2. Analysis by counterparty

	12/31/2019	6/30/2020
Public sector	-	-
Credit institutions guaranteed by the public sector	91	60
TOTAL	**91**	**60**
of which replacement assets	*91*	*60*

All of the financial assets at fair value through other comprehensive income as at 12/31/2019 and 06/30/2020 were allocated to the *Stage* 1 category.

2.4 - FINANCIAL ASSETS AT AMORTIZED COST

2.4.1. Analysis by nature & counterparty

	12/31/2019	6/30/2020
Current accounts	4	8
SFIL - Refinancing loans for export credits guaranteed by the French State (1)	2,590	3,102
SFIL - Loans not guaranteed by public sector assets (2)	299	-
Loans from credit institutions guaranteed by a local authorithy or municipal credit	216	214
Sub-total loans and receivables from credit institutions at amortized cost	**3,109**	**3,324**
Public sector loans	43,604	45,127
Public sector guaranteed loans	1,197	1,135
Sub-total loans and receivables from customers at amortized cost	**44,801**	**46,262**
Securities issued by the public sector	6,800	6,912
Securities guaranteed by the public sector	116	97
Securities issued by credit institutions	2,174	1,651
Sub-total securities at amortized cost	**9,090**	**8,660**
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	**57,000**	**58,246**

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

2.4.2. Replacement assets

	12/31/2019	6/30/2020
Current accounts	4	8
SFIL - Loans not guaranteed by public sector assets (1)	299	-
Securities issued by credit institutions	2,174	1,651
TOTAL	**2,477**	**1,659**

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

2.4.3. Classification by level of credit risk and impairment

	12/31/2019										
	Gross amount				Impairment				Net Amount	Partial accumulated amount	Total accumulated amounts
	Stage 1	Stage 2	Stage 3	TOTAL	Stage 1	Stage 2	Stage 3	TOTAL			
Loans and receivables from credit institutions at amortized cost	3,109	-	-	**3,109**	(0)	-	-	**(0)**	**3,109**	-	-
Loans and receivables from customers at amortized cost	40,937	2,942	958	**44,837**	(2)	(24)	(10)	**(36)**	**44,801**	-	-
Securities at amortized cost	7,496	1,605	5	**9,106**	(4)	(12)	(0)	**(16)**	**9,090**	-	-
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	**51,542**	**4,547**	**963**	**57,052**	**(6)**	**(36)**	**(10)**	**(52)**	**57,000**	**-**	**-**

	6/30/2020										
	Gross amount				Impairment				Net Amount	Partial accumulated amount	Total accumulated amounts
	Stage 1	Stage 2	Stage 3	TOTAL	Stage 1	Stage 2	Stage 3	TOTAL			
Loans and receivables from credit institutions at amortized cost	3,324	-	-	**3,324**	(0)	-	-	**(0)**	**3,324**	-	-
Loans and receivables from customers at amortized cost	42,610	2,748	937	**46,295**	(5)	(19)	(10)	**(34)**	**46,261**	-	-
Securities at amortized cost	7,146	1,527	5	**8,678**	(4)	(13)	(0)	**(17)**	**8,661**	-	-
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	**53,080**	**4,275**	**942**	**58,297**	**(9)**	**(32)**	**(10)**	**(51)**	**58,246**	**-**	**-**

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 142 forborne contracts as of June 30, 2019, with 79 borrowers, for a total of EUR 578 million.

3. Notes to the liabilities (EUR millions)

3.1 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

3.1.1. Analysis by nature

	12/31/2019	6/30/2020
Non hedging derivatives (1)	1,119	1,160
TOTAL	**1,119**	**1,160**

(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 profit or loss.
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 profit or loss can no longer be classified as hedging instruments for accounting purposes. They are therefore now allocated to this category.

3.2 - FINANCIAL LIABILITIES AT AMORTIZED COST

3.2.1. Analysis by nature

	12/31/2019	6/30/2020
Current accounts	-	-
Term loans from parent company (1)	5,206	5,535
Sub-total debts to credit institutions at amortized cost	**5,206**	**5,535**
Obligations foncières	46,812	48,257
Registered covered bonds	7,792	7,850
Sub-total debt securities at amortized cost	**54,604**	**56,107**
TOTAL FINANCIAL LIABILITIES AT AMORTIZED COST	**59,810**	**61,642**

(1) At the end of June 2020, 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.

3.3 - PROVISIONS

	12/31/2019	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	6/30/2020
Commitments and guarantees given	6	0	-	(0)	-	-	6
TOTAL	**6**	**0**	**-**	**(0)**	**-**	**-**	**6**

3.4 - ACCRUALS AND OTHER LIABILITIES

Cash collateral received by Caisse Française de Financement Local amounted to EUR 552 million as of June 30, 2020 and 580 million as of December 31, 2019.

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

4.1 - TRANSACTIONS WITH RELATED-PARTIES

Analysis by nature

	Parent company (1)		Other related parties (2)	
	12/31/2019	6/30/2020	12/31/2019	6/30/2020
ASSETS				
Loans and advances due from banks at amortized cost	2,889	3,102	-	-
Bonds at amortized cost	-	-	-	-
LIABILITIES				
Due to banks at amortized cost	5,206	5,535	-	-
INCOME STATEMENT				
Interest income on loans and advances due from banks at amortized cost	13	8	(1)	-
Interest income on bonds at amortized cost	-	-	-	-
Interest expense due to banks on borrowings at amortized cost	6	5	-	-
Fees and commissions	(1)	(1)	(0)	(0)
Net results on derecognition of financial assets at amortized cost	(2)	-	-	-
OFF BALANCE SHEET				
Foreign exchange derivatives	920	891	-	-
Interest rate derivatives	15,474	16,278	-	-
Commitments and guarantees received	50	50	-	-
Commitments and guarantees given	5,460	4,890	-	-

(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.

5. Notes to the income statement (EUR millions)

5.1 - INTEREST INCOME - INTEREST EXPENSE

Caisse Française de Financement Local 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 profit or loss 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 profit or loss is recorded under Net result of financial instruments at fair value through profit or loss (see 5.2).
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 2019			H1 2020		
	Income	**Expense**	**Net**	**Income**	**Expense**	**Net**
Loans / debt to credit institutions	-	-	-	-	-	-
Loans / debt to customers	75	-	75	70	-	70
Derivatives without hedging relationship	16	(81)	(65)	15	(78)	(63)
Financial assets and liabilities at fair value through profit or loss	**91**	**(81)**	**10**	**85**	**(78)**	**7**
Hedging derivatives	685	(586)	99	620	(554)	66
Hedging derivatives	**685**	**(586)**	**99**	**620**	**(554)**	**66**
Securities	(0)	-	(0)	(0)	-	(0)
Financial assets at fair value through equity	**(0)**	**-**	**(0)**	**(0)**	**-**	**(0)**
Central bank account	-	(5)	(5)	-	(2)	(2)
Accounts and loans with credit institutions	7	5	12	12	4	16
Accounts and loans with customers	407	-	407	375	-	375
Securities	76	(540)	(464)	75	(478)	(403)
Financial assets and liabilities at amortized costs	**490**	**(540)**	**(50)**	**462**	**(476)**	**(14)**
TOTAL	**1,266**	**(1,207)**	**59**	**1,167**	**(1,108)**	**59**

Income and expenses, measured using the effective interest rate method were EUR 462 million and EUR -476 million respectively for the first half of 2020 and EUR 490 million and EUR -540 million for the first half of 2019.

5.2 - COMMISSIONS

	-65	**15**
Chargeback commissions paid to SFIL	2	(1)
Other commissions [(1)]	(1)	14
TOTAL	**1**	**13**

(1) As at June 30, 2020, this line includes a commission on financial instruments received as part of a hedging derivative allocation transaction.

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

All interest received and paid on assets, liabilities and derivatives is recorded in net interest income, as required by IFRS. Thus, net gains (losses) on hedging transactions include only the change in the clean value of derivatives and the revaluation of assets and liabilities qualified as hedging relation.

	H1 2019	**H1 2020**
Net income from derivatives not documented in a hedging relationship	(73)	(66)
Net result on financial Assets or liabilities at fair value through profit or loss	107	49
Net result of hedge accounting	(21)	(1)
Net result of foreign exchange transactions	3	(0)
TOTAL	**16**	**(18)**

Analysis of net result of hedge accounting

	H1 2019	**H1 2020**
Fair value hedges	**(0)**	**0**
Fair value changes in the hedged item attributable to the hedged risk	(535)	(182)
Fair value changes in the hedging derivatives	535	182
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	**-**	**-**
Fair value changes in the hedged item	489	329
Fair value changes in the hedging derivatives	(489)	(329)
CVA / DVA Impact [(1)]	**(21)**	**(1)**
TOTAL	**(21)**	**(1)**

(1) As of June 30, 2019, the application of IFRS 13 shows a net income of EUR 21 million comprised of EUR +22 million for DVA and EUR +1 million for CVA.

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

	H1 2019	**H1 2020**
Net result of disposals of bonds at fair value through equity	-	-
Net result of disposals of loans at fair value through equity	-	-
TOTAL	**-**	**-**

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

	H1 2019	**H1 2020**
Net result of disposals or prepayments of bonds at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to banks at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to customers at amortized cost	3	5
Net result of disposals or prepayments of due to banks at amortized cost	(0)	-
Net result of disposals or prepayments of debt securities at amortized cost	-	-
TOTAL	**3**	**5**

Detail on derecognition of assets and liabilities at amortized cost

	H1 2020	
	Amount balance sheet	**Impact net result**
Prepayments of securities	-	-
Net result of disposals or prepayments of securities at amortized cost	**-**	**-**
Prepayments of loans and advances to customers	35	3
Restructuring of loans and advances to customers	162	2
Net result of disposals or prepayments of loans and advances to customers at amortized cost	**197**	**5**
Sub-total Assets	**197**	**5**
Prepayments of debt to banks	-	-
Net result of prepayments of debt to banks at amortized cost	**-**	**-**
Prepayments of debt securities	-	-
Net result of prepayments of debt securities at amortized cost	**-**	**-**
Sub-total Liabilities	**-**	**-**
TOTAL		**5**

5.6 - OPERATING EXPENSE

	H1 2019	H1 2020
Payroll costs	-	-
Other general and administrative expense [1]	(48)	(52)
Taxes	(5)	(6)
TOTAL	**(53)**	**(58)**
of which re-invoiced costs by SFIL	*(46)*	*(52)*

Caisse Française de Financement Local has no salaried employees in accordance with Article L. 513-15 of the French 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.

5.7 - COST OF RISK

	H1 2019				
	1/01/2019	Impairments	Reversals	Losses	6/30/2019
Stage 1	(0)	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Financial assets at fair value through equity	**(0)**	**(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	(1)	(0)	0	-	(1)
Stage 2	(21)	(4)	2	-	(23)
Stage 3	(10)	(2)	0	-	(12)
Loans and advances to customers at amortized cost	**(32)**	**(6)**	**2**	**-**	**(36)**
Stage 1	(3)	(0)	0	-	(3)
Stage 2	(24)	(0)	2	-	(22)
Stage 3	(0)	(0)	-	-	(0)
Bonds at amortized cost	**(27)**	**(0)**	**2**	**-**	**(25)**
Stage 1	(0)	(0)	0	-	(0)
Stage 2	(0)	-	0	-	(0)
Stage 3	-	-	-	-	-
Off-balance sheet commitments at amortized cost	**(0)**	**(0)**	**0**	**-**	**(0)**
TOTAL	**(60)**	**(6)**	**5**	**-**	**(61)**

	H1 2020				
	1/01/2020	Impairments	Reversals	Losses	6/30/2020
Stage 1	*(0)*	-	-	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Financial assets at fair value through equity	**(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	*(1)*	*(8)*	*6*	-	(5)
Stage 2	*(24)*	*(4)*	*10*	-	(19)
Stage 3	*(10)*	*(2)*	*2*	-	(10)
Loans and advances to customers at amortized cost	**(35)**	**(14)**	**17**	**-**	**(33)**
Stage 1	*(4)*	*(0)*	*0*	-	(4)
Stage 2	*(12)*	*(2)*	*0*	-	(13)
Stage 3	*(0)*	*(0)*	-	-	(0)
Bonds at amortized cost	**(16)**	**(2)**	**1**	**-**	**(18)**
Stage 1	*(0)*	*(0)*	*0*	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Off-balance sheet commitments at amortized cost	**(0)**	**(0)**	**0**	**-**	**(0)**
TOTAL	**(52)**	**(16)**	**17**	**-**	**(51)**

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

6.1 - GUARANTEES

	12/31/2019	6/30/2020
Guarantees received from credit institutions	-	-
Enhanced guarantees [1]	8,051	7,992
Guarantees received from customers [2]	2,352	2,070

(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.

6.2 - FINANCING COMMITMENTS

	12/31/2019	6/30/2020
Loan commitments granted to credit institutions [1]	5,460	4,890
Loan commitments granted to customers [2]	4	3
Loan commitments received from credit institutions [3]	50	50
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.

6.3 - OTHER COMMITMENTS

	12/31/2019	6/30/2020
Commitments given[(1)]	4	5
Commitments received[(2)]	216	213

(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.

6.4 - IMPAIRMENT ON 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 commitments
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**			
Granted to credit institutions	5,460	-	-	**5,460**	(0)	-	-	**(0)**	5,460		
Granted to customers	4	-	-	**4**	(0)	-	(0)	**(0)**	4		
TOTAL	**5,464**	**-**	**-**	**5,464**	**(0)**	**-**	**(0)**	**(0)**	**5,464**	**-**	

	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 commitments
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**			
Granted to credit intitutions	4,890	-	-	**4,890**	(0)	-	-	**(0)**	**4,890**	-	-
Granted to customers	3	-	-	**3**	(0)	-	-	**(0)**	**3**		-
TOTAL	**4,893**	**-**	**-**	**4,893**	**(0)**	**-**	**-**	**(0)**	**4,893**	**-**	**-**

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 7.1.3. 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

	12/31/2019		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	473	473	-
Financial assets at fair value through profit or loss	4,899	4,899	-
Hedging derivatives	4,902	4,902	-
Financial assets at fair value through equity	91	91	-
Loans and advances due from banks at amortized cost	3,109	3,168	59
Loans and advances to customers at amortized cost	44,801	44,374	(427)
Securities at amortized cost	9,090	7,934	(1,156)
TOTAL	**67,365**	**65,841**	**(1,524)**

	6/30/2020		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1,177	1,177	-
Financial assets at fair value through profit or loss	4,677	4,677	-
Hedging derivatives	5,225	5,225	-
Financial assets at fair value through equity	60	60	-
Loans and advances due from banks at amortized cost	3,323	3,385	62
Loans and advances to customers at amortized cost	46,262	45,766	(496)
Securities at amortized cost	8,660	7,344	(1,316)
TOTAL	**69,384**	**67,634**	**(1,750)**

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

	12/31/2019		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	1,119	1,119	-
Hedging derivatives	6,813	6,813	-
Due to banks at amortized cost	5,206	5,195	(11)
Debt securities at amortized cost	54,604	55,188	584
TOTAL	**67,742**	**68,315**	**573**

	6/30/2020		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	1,160	1,160	-
Hedging derivatives	7,290	7,290	-
Due to banks at amortized cost	5,535	5,499	(36)
Debt securities at amortized cost	56,107	56,624	517
TOTAL	**70,092**	**70,573**	**481**

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	12/31/2019			
	Level 1	Level 2	Level 3	Total
Central banks	473	-	-	473
Financial assets at fair value through profit or loss	-	4	4,895	4,899
Hedging derivatives	-	4,424	477	4,902
Financial assets at fair value through equity	31	60	-	91
Loans and advances due from banks at amortized cost	4	2,900	264	3,168
Loans and advances to customers at amortized cost	-	-	44,374	44,374
Bonds at amortized cost	2,751	3,375	1,808	7,934
TOTAL	**3,259**	**10,763**	**51,818**	**65,841**

Fair value of financial assets	6/30/2020			
	Level 1	Level 2	Level 3	Total
Central banks	1,177	-	-	1,177
Financial assets at fair value through profit or loss	-	3	4,674	4,677
Hedging derivatives	-	4,983	242	5,225
Financial assets at fair value through equity	-	60	-	60
Loans and advances due from banks at amortized cost	8	3,113	264	3,385
Loans and advances to customers at amortized cost	-	-	45,766	45,766
Bonds at amortized cost	2,715	2,750	1,879	7,344
TOTAL	**3,900**	**10,909**	**52,825**	**67,634**

Fair value of financial liabilities	12/31/2019			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	-	925	194	1,119
Hedging derivatives	-	6,631	183	6,813
Due to banks at amortized cost	-	5,195	-	5,195
Debt securities at amortized cost	-	55,188	-	55,188
TOTAL	**-**	**67,939**	**377**	**68,315**

Fair value of financial liabilities	6/30/2020			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	-	1,068	92	1,160
Hedging derivatives	-	7,074	216	7,290
Due to banks at amortized cost	-	5,499	-	5,499
Debt securities at amortized cost	39,646	16,878	-	56,524
TOTAL	**39,646**	**30,519**	**308**	**70,473**

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

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

	12/31/2019	6/30/2020
Uncertainty inherent in level 3 market parameters	4	4
Uncertainty inherent in level 3 derivatives valuation models	34	19
SENSITIVITY OF THE MARKET VALUE OF LEVEL 3 FINANCIAL INSTRUMENTS	**38**	**23**

7.1.4. Transfer between level 1 and 2

	12/31/2019	6/30/2020
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

	12/31/2019					
	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	
Loans and advances at fair value through profit or loss	4,894	-	4,894	-	-	4,894
Derivatives (including hedging instruments)	4,906	-	4,906	(4,083)	(543)	280
Loans and advances due from banks at amortized cost	3,109	-	3,109	-	-	3,109
Loans and advances to customers at amortized cost	44,801	-	44,801	-	-	44,801
TOTAL	**57,710**	**-**	**57,710**	**(4,083)**	**(543)**	**53,084**

	6/30/2020					
	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	
Loans and advances at fair value through profit or loss	4,672	-	4,672	-	-	4,672
Derivatives (including hedging instruments)	5,230	-	5,230	(4,375)	(527)	328
Loans and advances due from banks at amortized cost	3,323	-	3,323	-	-	3,323
Loans and advances to customers at amortized cost	46,262	-	46,262	-	-	46,262
TOTAL	**59,487**	**-**	**59,487**	**(4,375)**	**(527)**	**54,585**

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

	12/31/2019					
	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)	7,932	-	7,932	(4,083)	-	3,849
Due to banks at amortized cost	5,206	-	5,206	-	-	5,206
Customer borrowings and deposits at amortized cost	-	-	-	-	-	-
TOTAL	**13,138**	**-**	**13,138**	**(4,083)**	**-**	**9,055**

	6/30/2020					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application		Net Amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	8,451	-	8,451	(4,375)	-	4,076
Due to banks at amortized cost	5,535	-	5,535	-	-	5,535
Customer borrowings and deposits at amortized cost	-	-	-	-	-	-
TOTAL	**13,986**	**-**	**13,986**	**(4,375)**	**-**	**9,611**

7.3 - EXPOSURE TO CREDIT RISK

Exposure to credit risks, as presented to management, includes the following:
- for assets other than derivatives: the amount on the balance sheet;
- 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

	12/31/2019	6/30/2020
France	61,977	63,702
Italy	5,989	5,966
Germany	448	446
Spain	187	178
United Kingdom	171	123
Belgium	257	189
Other European Union countries	926	654
Norway	239	233
Switzerland	797	778
United States and Canada	845	840
Japan	41	43
TOTAL EXPOSURE	**71,877**	**73,152**

Analysis of exposure by category of counterparty

	12/31/2019	6/30/2020
Sovereigns	10,808	11,569
Local public sector	57,310	58,732
Other assets guaranteed by public sector entities	26	26
Financial institutions	3,724	2,817
Other exposures	9	8
TOTAL EXPOSURE	**71,877**	**73,152**

Exposure on financial institutions is primarily comprised of counterparties in hedging derivatives and replacement assets.
As of June 30, 2020, Caisse Française de Financement Local had no asset-backed securities.

Analysis of exposure by category of instrument

	12/31/2019	6/30/2020
Central banks	473	1,177
Loans at fair value through profit or loss	4,937	4,668
Hedging derivatives	1,124	1,074
Bonds at fair value through equity	209	60
Loans and advances due from banks at amortized cost	303	28
Loans and advances to customers at amortized cost	50,135	52,366
Securities at amortized cost	9,199	8,871
Accruals and other assets	33	15
Financing commitments on loans	5,464	4,893
TOTAL EXPOSURE	**71,877**	**73,152**

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, 2020, 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 80% of the portfolio has a weighting of less than 5% and more than 97% of the portfolio has a weighting that is less than or equal to 20%.

	Risk weighting (Basel III)					
	from 0 to 2%	from 2 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	Total
Central banks	1,177	-	-	-	-	1,177
Loans at fair value through profit or loss	3,571	339	607	-	151	4,668
Hedging derivatives	537	-	14	490	33	1,074
Securities at fair value through equity	-	-	-	60	-	60
Loans to credit institutions at amortized cost	20	-	-	8	-	28
Loans to customers at amortized cost	40,768	4,289	6,803	-	506	52,366
Bonds at amortized cost	3,152	-	5,156	558	5	8,871
Accruals and other assets	7	-	-	0	8	15
Financing commitments on loans	4,893	-	-	0	-	4,893
TOTAL EXPOSURE	**54,125**	**4,628**	**12,580**	**1,116**	**703**	**73,152**
SHARE	**74.0%**	**6.3%**	**17.2%**	**1.5%**	**1.0%**	**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.

8. Impacts of the Covid-19 health crisis on the company's financial statements

The health crisis had a relatively limited impact on the Company's financial statements prepared in accordance with IFRS at end June 2020. This confirms the Caisse Française de Financement Local's resilience to macro-economic shocks. The main financial impacts generated by the pandemic are temporary. They relate to the deterioration and volatility observed in the financial markets since mid-March.

Impacts on the adjustments to the value of financial assets and liabilities recognized at fair value

The context of volatility and deterioration in the financial markets led to changes in the adjustments to the value of financial assets and liabilities as well as hedging instruments. As Caisse Française de Financement Local intends to retain the large majority of its assets until expiry, these valuations may continue to change along with market conditions but will return to balance in the long term. At end June 2020, these changes in values resulted in:
- an adjustment to the value of financial assets recognized at fair value through profit or loss according to IFRS of EUR -26 million. This adjustment is recorded in Net Banking Income under the Net result of financial instruments at fair value through profit or loss item;
- an adjustment in the value of interest rate and foreign exchange hedging instruments of EUR -3 million. This adjustment is recorded in Net Banking Income under the Net result of financial instruments at fair value through profit or loss item.

Impacts on past due, breakdown of net book values by Stages and IFRS provisions

The Caisse Française de Financement Local decided to deploy two approaches to support borrowers faced with difficulties due to the health crisis:
- One, proactive, by proposing payment terms to all health institutions in recognition of their exceptional involvement in the COVID-19 pandemic. CAFFIL proposed payment terms of 180 days to these borrowers for all of their loan contract maturities between March 12 and June 30, 2020, without any late interest or penalties being invoiced. As of June 30, 2020, these offset payment maturities represented EUR 9 million.
- The other approach is to respond to requests from local and equivalent authorities faced with temporary cash flow difficulties. CAFFIL mobilized to respond to all requests from borrowers and to support them in their difficulties due to the health crisis caused by the decline in revenue from specific activities, related to economic, cultural and touristic activities (cinemas, swimming pools, car parks, thermal baths, etc.). As of June 30, 2020, these offset payment maturities represented EUR 8 million.

	Payment terms granted as at June 30, 2020					
	Financial assets at amortized cost				Financial assets at fair value through net income	TOTAL
	Stage 1	Stage 2	Stage 3	TOTAL		
Performing health sector customers	5	0	0	**6**	3	**9**
Other local public sector customers	0	5	2	**7**	1	**8**
TOTAL	**5**	**6**	**2**	**13**	**4**	**17**

The payment terms granted as at June 30, 2020 to customers of the Caisse Française de Financement Local led to an increase in exposures classified in Stages 2 and 3 and a decrease in exposures classified under Stage 1. In addition to the effects of the declassification in Stage 2 and Stage 3 of the exposures of certain customers, the Caisse Française de Financement Local decided to increase its provisions related to the public sector customers by EUR 3 million.

	Financial assets at amortized cost					
	Gross book value			Provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Health sector customers benefiting from payment terms granted as at June 30, 2020	182	26	29	(0)	(0)	(1)
Other local public sector customers benefiting from payment terms granted as at June 30, 2020	293	5	3	(0)	(0)	(0)
SITUATION AS AT DECEMBER 31, 2019	**475**	**31**	**33**	**(0)**	**(0)**	**(1)**
Health sector customers benefiting from payment terms granted as at June 30, 2020	194	24	29	(3)	(0)	(1)
Other local public sector customers benefiting from payment terms granted as at June 30, 2020	6	265	31	(0)	(0)	(0)
SITUATION AS AT JUNE 30, 2020	**200**	**289**	**60**	**(3)**	**(0)**	**(1)**
Health sector customers benefiting from payment terms granted as at June 30, 2020	12	(2)	0	(3)	0	0
Other local public sector customers benefiting from payment terms granted as at June 30, 2020	(287)	260	28	0	0	(0)
IMPACT OF THE COVID-19 HEALTH CRISIS	**(275)**	**258**	**28**	**(3)**	**0**	**(0)**

Summary of the impacts of the Covid-19 health crisis on the Company's income as at June 30,2020

	(1)	(2)			=(1)-(2)
	Published accounting income	***Of which impacts of the Covid-19 health crisis***			**Accounting income restated for the impacts of Covid-19**
		Adjustment to the value of financial assets at fair value through profit or loss	***Adjustment to the value of hedges***	***reinforcement of provisions on the public sector***	
Net banking income	59	*(26)*	*(3)*		87
General operating expenses	(58)				(58)
Gross operating income	**1**	*(26)*	*(3)*	-	**29**
Cost of risk	1			*(3)*	4
Income before non-recurring items and taxes	**2**	*(26)*	*(3)*	*(3)*	**33**
Income tax	(1)	*7*	*1*	*1*	(9)
Net income	**0**	*(19)*	*(2)*	*(2)*	**23**

9. Post-closing events

No significant event that influences the Company’s financial situation has occurred since the closing on June 30, 2020.

3.Statutory auditors' report (IFRS)

This is a free translation into English of the statutory auditors' report on the half-yearly financial information 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 given in the entity's half-yearly management report. The report must be read in conjunction and construed in accordance with French law and French auditing professional standards.

Caisse Française de Financement Local

Statutory auditors' review report on condensed interim financial statements

For the period from January 1 to June 30, 2020

To the Chief Executive Officer,

In our capacity as statutory auditors of the 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 condensed interim financial statements of the Caisse Française de Financement Local for the six-month period ended June 30, 2020.

These interim financial statements are the responsibility of your Executive Board on September 7, 2020, based on information available at that date and in the evolving context of the Covid-19 crisis and the difficulties in assessing its impacts and the future prospects of the Company. Our role is to express a conclusion on these condensed interim financial statements based on our review.

We conducted our review in accordance with professional standards applicable in France. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with 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 condensed interim financial statements have not been prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting", as adopted by the European Union.

This report replaces our first report of September 10, 2020.

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 25, 2020

The Statutory Auditors

Deloitte & Associés	ERNST & YOUNG et Autres
Charlotte Vandeputte	Vincent Roty

4. Financial statements (French GAAP)

for the period from January 1st to June 30, 2020

Financial Statements

Assets

EUR millions	Notes	12/31/2019	6/30/2020
Central banks	*2.1*	473	1,177
Government and public securities	*2.2*	3,340	3,411
Loans and advances due from banks	*2.3*	3,133	3,346
Loans and advances to customers	*2.4*	45,950	46,848
Bonds and other fixed income securities	*2.5*	4,601	3,911
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*	13	18
Accruals and other assets	*2.7*	2,522	2,425
TOTAL ASSETS	*2.8*	**60,032**	**61,137**

Liabilities

EUR millions	Notes	12/31/2019	6/30/2020
Central banks		-	-
Due to banks	*3.1*	5,206	5,535
Customer borrowings and deposits		-	-
Debt securities	*3.2*	50,395	51,359
Other liabilities	*3.3*	691	646
Accruals and other liabilities	*3.4*	2,222	2,117
Provisions	*3.5*	66	74
Subordinated debt		-	-
Equity		**1,452**	**1,406**
Share capital	*3.6*	1,350	1,350
Additional paid-in capital	*3.6*	-	-
Reserves and retained earnings	*3.6*	56	56
Net income	*3.6*	46	0
TOTAL LIABILITIES	***3.7***	**60,032**	**61,137**

Off-balance sheet items

EUR millions	Notes	12/31/2019	6/30/2020
COMMITMENTS GRANTED	*4.1*	**5,468**	**4,897**
Financing commitments		5,464	4,892
Guarantees granted		-	-
Commitments on securities		-	-
Other commitments granted		4	5
COMMITMENTS RECEIVED	*4.2*	**10,669**	**10,112**
Financing commitments		50	50
Guarantees received		10,619	10,062
Commitments on securities		-	-
Forward commitments		-	-
Other commitments received		-	-
OTHER COMMITMENTS		**114,760**	**110,354**
Foreign currency transactions	*4.3*	13,091	13,570
Interest currency derivatives	*4.4*	101,669	96,784
Engagements on bonds		-	-

Income statement

EUR millions	Notes	H1 2019	2019	H1 2020
Interest income	*5.1*	543	1,018	572
Interest expense	*5.1*	(483)	(885)	(519)
Income from variable income securities		-	-	-
Commission income	*5.2*	3	3	14
Commission expense	*5.2*	(2)	(6)	(1)
Net gains (losses) on held for trading portfolio		-	(0)	-
Net gains (losses) on placement portfolio	*5.3*	(2)	8	(11)
Other banking income		-	0	0
Other banking expense		-	(0)	(0)
NET BANKING INCOME		**59**	**138**	**56**
General operating expenses	*5.4*	(53)	(98)	(58)
Depreciation and amortization		-	-	-
GROSS OPERATING INCOME		**6**	**41**	**(2)**
Cost of risk	*5.5*	3	11	3
INCOME FROM OPERATIONS		**9**	**52**	**1**
Gains or losses on fixed assets		-	-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		**9**	**52**	**1**
Non-recurring items		-	-	-
Income tax	*5.6*	(1)	(6)	(1)
NET INCOME		**8**	**46**	**0**
Basic earnings per share		0.61	3.40	0.01
Diluted earnings per share		0.61	3.40	0.01

Equity

EUR millions	Amount
AS OF 12/31/2019	
Share capital	1,350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	56
Net income for the year	46
Interim dividends	-
EQUITY AS OF 12/31/2019	**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 capita	-
Changes in reserves and retained earnings	45
Dividends paid (-)	(45)
Changes in net income for the period	(46)
Other movements	-
AS OF 6/30/2020	
Share capital	1,350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	56
Net income for the period	0
EQUITY AS OF 6/30/2020	**1,406**

Cash flow statement

EUR millions	2019	H1 2020
NET INCOME BEFORE TAXES	**52**	**1**
+/- Depreciation and write-downs	(19)	(1)
+/- Expense / income from operating activities	40	81
+/- Expense / income from financing activities	(36)	(168)
+/- Other items	(142)	(36)
= Non monetary elements included in net income before tax and other adjustments	**(157)**	**(124)**
+/- Cash from interbank operations	(714)	120
+/- Cash from customer operations (loans)	98	(892)
+/- Cash from customer financing assets	547	576
+/- Cash from hedging financial instruments	(18)	(98)
- Income tax paid	(21)	(7)
= Decrease / (increase) in cash from operating activities	**(108)**	**(301)**
CASH FLOW FROM OPERATING ACTIVITIES (A)	**(213)**	**(424)**
CASH FLOW FROM INVESTING ACTIVITIES (B)	**-**	**-**
+/- Cash from or for shareholders	(41)	(45)
+/- Other cash from financing activities	(537)	1,183
CASH FLOW FROM FINANCING ACTIVITIES (C)	**(578)**	**1,138**
EFFECT OF EXCHANGE RATES CHANGES ON CASH (D)	**-**	**-**
Increase / (decrease) in cash equivalents (A + B + C + D)	**(791)**	**715**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,281**	**490**
Central banks (assets and liabilities)	1,271	473
Interbank accounts (assets and liabilities) and loans / deposits at sight	10	17
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**490**	**1,205**
Central banks (assets and liabilities)	473	1,177
Interbank accounts (assets and liabilities) and loans / deposits at sight	17	28
NET CHANGE IN CASH	**(791)**	**715**

Notes to the French GAAP financial statements

1. Accounting and valuation policies

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

The financial statements as of June 30, 2020, were examined by the Executive Board on September 7, 2020.

Caisse Française de Financement Local prepares its financial statements in compliance with ANC Regulation n°2014-07 issued on November 26, 2014 and related to the accounts for the reporting entities of the banking sector, and in particular credit institutions. As stated in it article 3 and subject to the provisions of the latter regulation, these reporting entities prepare their financial statements in compliance with ANC Regulation n°2014-03 issued on June 5, 2014 and related to general accounting plan. The financial statements are furthermore in accordance with the indications of Directive 86/635/EEC of the Council of European Communities.

The financial statements as of June 30, 2020, were prepared using the same accounting policies as those used in the financial statements as of December 31, 2019. Between these two dates, the applicable regulation has in particular been amended as such:

• **ANC Statement made on April 2, 2020 – Covid-19 – Impact on the annual and consolidated financial statements prepared under French GAAP as of December 31, 2019:** this statement from ANC specifies that Covid-19 pandemic became a global event only during the first trimester of 2020, as WHO qualified it a global public health emergency matter on January 30, 2020 and then classified it as a global pandemic on March 11, 2020. Covid-19 pandemic is an event after the balance sheet date as of December 31, 2019 but it is indicative of conditions that arose after the balance sheet date: it does not result in an adjustment of 2019 annual financial statements.

This communication has no impact on 2019 annual financial statements of Caisse Française de Financement Local given that the latter were as of December 31, 2019: they shall not be adjusted. This communication, specific to 2019 annual closing, has no impact on 2020 half-year financial statements of Caisse Française de Financement Local.

• **ANC Recommendations and observations of May 18, 2020 – Regarding how to take the consequences of Covid-19 event into consideration in the financial statements prepared from January 1, 2020:** this statement from ANC aims at accompanying the companies so as for them to communicate efficiently about the economic consequences of Covid-19 pandemic.

This communication has been taken into account by Caisse Française de Financement Local in the preparation of its 2020 half-year financial statements. So as to enable users to measure the impact of this crisis on financial statements, qualitative and quantitative information has been disclosed in note 6 below.

1.2 – ACCOUNTING PRINCIPLES APPLIED TO THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with French generally accepted accounting principles, respecting the principles of prudence, sincerity and true 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.

1.2.1. Loans and advances to banks and to customers

Loans and advances to banks include all loans connected to banking transactions with credit institutions, except securities. They are broken down into sight accounts and term loans. They include in particular loans granted to SFIL refinancing export credit transactions.

Loans and advances to customers comprise loans granted to local governments or guaranteed by local governments.

Loans and advances to customers are recognized in the balance sheet net of impairment for possible losses. The undrawn portion of signed loan contracts is recognized as an off-balance sheet item.

Interest on loans is recognized as Interest income, prorata temporis for accrued amounts due and not yet due, as is interest on past-dues.

Commissions received and marginal 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 immediately recognized in the income statement.

Prepayment indemnities are recognized in the income statement at the date they occur.

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

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

Compromised non-performing loans are loans to borrowers whose recovery outlook is so downgraded that they might be ultimately written off. Loans accounted for as non-performing for more than one year are transferred to this category.

Impairment charges are recognized for non-performing and compromised non-performing loans:
• the fraction of principal impaired is determined by Risk Management in function of incurred losses. Underlying impairment charges and subsequent reversals are recognized as Cost of risk as well as the losses and subsequent recoveries on the principal of non-recoverable loans;
• interest is fully impaired. Underlying impairment charges and subsequent reversals are recognized in the net interest margin as well as the losses and subsequent recoveries on the interest of non-recoverable loans.

1.2.2. Securities

Securities held by Caisse Française de Financement Local are recognized on the asset side of the balance sheet under the item Government and public securities or Bonds and other fixed income securities.

The item Government and public securities includes 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:
• securities issued by public sector entities that are not eligible for refinancing by central banks;
• securities guaranteed by public sector entities.

Securities held by Caisse Française de Financement Local are recognized as either investment securities or placement securities.

1.2.2.1. Investment securities

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

Investment securities are recognized on the date of purchase at acquisition clean price, excluding fees. Accrued interest at the date of acquisition and subsequently accrued interest at each closing date is recognized on the balance sheet in the same categories as the corresponding security. Interest on these securities is recognized 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 closing date, unrealized gains are not recognized and unrealized losses are generally not impaired. By way of exception, unrealized losses are impaired in the following cases:
• a doubt about the issuer's ability to meet his obligations;
• the probability that the Company will not hold these securities until maturity due to new circumstances.

1.2.2.2. Placement securities

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

Placement securities are recognized on the date of purchase at acquisition clean price, excluding fees. Accrued interest at the date of acquisition and subsequently accrued interest at each closing date is recognized on the balance sheet in the same categories as the corresponding security. Interest on these securities is recognized 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 recognized on the balance sheet at their acquisition cost including if applicable the amortization of discount or premium or selling price at closing date, 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 recognized 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 recognized at their acquisition cost and previously recognized impairment is reversed over the residual maturity of the securities concerned.

1.2.3. 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 recognized in liabilities, offsetting income statement.

1.2.4. Debt securities

Debt securities comprise *obligations foncières* and other resources benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code (Registered covered bonds).

Debt securities are recognized at nominal value.

Redemption and issue premiums are amortized according to a quasi-actuarial method over the maturity of the securities concerned prorata temporis. They are recognized on the balance sheet in the same categories as the corresponding debt. Amortization of these premiums is recognized in the income statement as Interest expense. If securities are issued above par, amortization of issue premiums is deducted from Interest expense.

Interest is recognized in the net interest margin for accrued amounts calculated prorata temporis.

Issuance costs and commissions related to issued securities are amortized according to a quasi-actuarial method over the maturity of the related debts and are recognized in the net interest margin.

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

1.2.5. Provisions

Provisions are recognized 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 provision covers the risk of loss in value among the population of loans, bonds and loan commitments not yet covered by any specific loss allowance at closing date. 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 judgment and expert opinion: outstanding on these counterparties forms the base of the collective provision. 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 approach; this model is subject to regular back-testing.

1.2.6. 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. The valuation and accounting treatments of these financial instruments depends on the chosen category.

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

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

1.2.6.1. 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 a set of homogeneous items identified from the outset.

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

Termination fees received or paid because of the early interruption of the hedging instrument are recognized in the income statement at the termination date.

1.2.6.2. 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 recognized in the income statement prorata temporis, respectively as Interest expense and Interest income. The counterpart is recognized in accruals until the payment date.

If the prepayment of a loan leads to the cancellation of macro-hedge swaps, the swaps termination fee is recognized in the income statement at the termination date.

1.2.7. Foreign currency transactions

Caisse Française de Financement Local recognizes 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 each closing date, differences between on the one hand the amounts resulting from a market price valuation at closing date of the foreign exchange position accounts and on the other hand the amounts recognized in the foreign exchange position equivalent accounts are recognized in the income statement.

1.2.8. 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 identified. They are mainly used to hedge certain liabilities, debt securities and customer loans.

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

1.2.9. 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 recognized prorata temporis in the net interest margin.

1.2.10. Non-recurring income and expense

Non-recurring income and expense results 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 income statement are recognized as non-recurring income and expense.

1.2.11. 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 and lump-sum annual tax owed by the Group. Caisse Française de Financement Local recognizes in its accounts the tax expense for which it would be liable if it were not a member of the tax group.

Tax savings realized by the tax group are recognized in the accounts of SFIL.

1.2.12. 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).

1.2.13. Identity of the parent company consolidating the accounts of Caisse Française de Financement Local as of June 30, 2020

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

2. Notes to the assets (EUR millions)

2.1 - CENTRAL BANKS

	12/31/2019	6/30/2020
Mandatory reserves	-	-
Other deposits	473	1,177
TOTAL	**473**	**1,177**

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

2.2.1. Accrued interest included in this item: 33

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
-	126	675	2,577	**3,378**

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

	Net amount as of 12/31/2019	Gross amount as of 6/30/2020	Impairment as of 6/30/2020	Net amount as of 6/30/2020	Unrealized capital gain or loss as of 6/30/2020 (2)
Listed securities (1)	3,291	3,378	-	3,378	(965)
Other securities	-	-	-	-	-
TOTAL	**3,291**	**3,378**	**-**	**3,378**	**(965)**

(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 12/31/2019	Gross amount as of 12/31/2019	Acquisitions	Amortization, redemption or disposals	Others movements	Gross amount as of 6/30/2020
Trading	-	-	-	-	-	-
Placement	502	502	-	(45)	(1)	456
Investment	2,789	2,789	135	-	(2)	2,922
TOTAL	**3,291**	**3,291**	**135**	**(45)**	**(3)**	**3,378**

Portfolio	Gross amount as of 6/30/2020	Impairment as of 6/30/2020	Net amount as of 6/30/2020 (1)	Unrealized capital gain or loss as of 6/30/2020 (2)
Trading	-	-	-	-
Placement	456	(0)	456	(19)
Investment	2,922	-	2,922	(946)
TOTAL	**3,378**	**(0)**	**3,378**	**(965)**

(1) This amount includes a premium / discount of EUR 9 million for the placement portfolio and of EUR 98 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

	12/31/2019	6/30/2020
Sight accounts	4	8
Unallocated sums	-	-
TOTAL	**4**	**8**
of which replacement assets	*4*	*8*

2.3.2. Term loans and advances due from banks

2.3.2.1 Accrued interest included in this item: 3

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
19	281	1,450	1,585	**3,335**

2.3.2.3 Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2019	Gross amount as of 6/30/2020	Decrease in value as of 6/30/2020	Net amount as of 6/30/2020
Loans of less than 1 year	300	-	-	-
Loans of more than 1 year	2,828	3,335	-	3,335
TOTAL	**3,128**	**3,335**	**-**	**3,335**

2.3.2.4 Breakdown by counterparty

	12/31/2019	6/30/2020
SFIL - Export credits refinancing loans guaranteed by the French State (1)	2,589	3,099
SFIL - Others loans (2)	300	-
Banks guaranteed by a local government, *crédits municipaux*	0	0
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	239	236
TOTAL	**3,128**	**3,335**
of which replacement assets	*300*	*-*

(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) 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: 468

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
1,260	3,213	15,569	26,338	**46,380**

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

Economic sector	12/31/2019	6/30/2020
Public sector	43,860	44,830
Other sectors	1,633	1,550
TOTAL	**45,493**	**46,380**

2.4.4. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2019	Gross amount as of 6/30/2020	Impairment as of 6/30/2020	Net amount as of 6/30/2020
Loans of less than 1 year	13	20	-	20
Loans of more than 1 year	45,480	46,389	(29)	46,360
TOTAL	**45,493**	**46,409**	**(29)**	**46,380**

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

	Net amount as of 12/31/2019	Gross amount as of 6/30/2020	Impairment as of 6/30/2020	Net amount as of 6/30/2020
Performing commitments	45,177	46,110	-	46,110
Non-performing loans	162	91	(1)	90
Compromised non-performing loans	154	208	(28)	180
TOTAL	**45,493**	**46,409**	**(29)**	**46,380**

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 142 forborne contracts as of June 30, 2020, with 79 borrowers, for a total of EUR 578 million.

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

	12/31/2019	Allocations	Reversals	Transfers	6/30/2020
For non-performing loans					
On loans	(0)	-	0	-	-
On interest	(2)	(1)	2	-	(1)
For compromised non-performing loans					
On loans	-	-	-	-	-
On interest	(25)	(6)	3	-	(28)
TOTAL	**(27)**	**(7)**	**5**	**-**	**(29)**

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: 15

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
130	782	1,137	1,847	**3,896**

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

	12/31/2019	6/30/2020
Public sector	2,229	2,120
Other sectors (guaranteed by a State or by a local government)	92	74
Credit institutions	2,245	1,702
TOTAL	**4,566**	**3,896**
of which replacement assets	*2,245*	*1,702*

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

	Net amount as of 12/31/2019	Gross amount as of 6/30/2020	Impairment as of 6/30/2020	Net amount as of 6/30/2020	Unrealized capital gain or loss as of 6/30/2020 (2)
Listed securities (1)	2,805	2,273	(1)	2,272	(48)
Other securities	1,761	1,623	(0)	1,623	(106)
TOTAL	**4,566**	**3,897**	**(1)**	**3,896**	**(154)**

(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 value and market value, taking derivatives into account.

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

Portfolio	Net amount as of 12/31/2019	Gross amount as of 12/31/2019	Acquisitions	Amortization, redemption or disposals	Others movements	Gross amount as of 6/30/2020
Trading	-	-	-	-	-	-
Placement	2,439	2,440	-	(570)	(9)	1,862
Investment	2,127	2,127	-	(89)	(4)	2,034
TOTAL	**4,566**	**4,567**	**-**	**(659)**	**(13)**	**3,896**

Portfolio	Gross amount as of 6/30/2020	Impairment as of 6/30/2020	Net amount as of 6/30/2020 (1)	Unrealized capital gain or loss as of 6/30/2020 (2)
Trading	-	-	-	-
Placement	1,862	(1)	1,861	(2)
Investment	2,034	-	2,034	(152)
TOTAL	**3,896**	**(1)**	**3,896**	**(154)**

(1) These amounts include a premium / discount of EUR 16 million for placement portfolio and of EUR 65 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

	12/31/2019	6/30/2020
Taxes	7	12
Other receivables	6	6
TOTAL	**13**	**18**

2.7 - ACCRUALS AND OTHER ASSETS

	12/31/2019	6/30/2020
Deferred losses on hedging transactions	1,165	1,091
Deferred charges on bond issues	51	52
Prepaid charges on hedging transactions	148	148
Premiums on acquisition of loans	464	547
Other prepaid charges	0	0
Accrued interest not yet due on hedging transactions	689	584
Translation adjustments	-	-
Other deferred income	1	1
Other accruals	4	2
TOTAL	**2,522**	**2,425**

2.8 - BREAKDOWN OF ASSETS BY ORIGINAL CURRENCY

Analysis by original currency	Amount in original currency as of 12/31/2019	Amount in euros as of 12/31/2019	Amount in original currency as of 6/30/2020	Amount in euros as of 6/30/2020
EUR	59,140	59,140	60,404	60,404
AUD	20	13	20	12
CAD	510	350	307	200
CHF	134	123	132	124
GBP	128	151	132	145
JPY	16,115	132	16,268	135
NOK	1,039	106	1,012	93
PLN	47	11	48	11
SEK	0	0	0	0
USD	7	6	15	13
TOTAL		**60,032**		**61,137**

2.9 - BREAKDOWN OF IMPAIRMENT BY COUNTRY

	Net amount as of 12/31/2019	Gross amount as of 6/30/2020
Government and public entity - placement securities	**(0)**	**(0)**
France	(0)	(0)
Bonds and other fixed income - placement securities	**(1)**	**(1)**
France	(0)	(0)
Germany	(0)	-
Belgium	-	-
Canada	(0)	(0)
Denmark	-	(0)
Finland	(0)	(0)
Norway	-	-
Netherlands	(0)	(0)
United Kingdom	-	-
Sweden	(0)	(0)
Bonds and other fixed income - investment securities	**-**	-
Loans and advances to customers	**(27)**	**(29)**
France	(27)	(29)

3. Notes to the liabilities (EUR millions)

3.1 - DUE FROM BANKS

At the end of June 2020, 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.

3.1.1 Accrued interest included in this item: (4)

3.1.2 Due from banks excluding accrued interest

	12/31/2019	6/30/2020
Sight accounts	-	-
Current account - parent company	-	-
Term borrowing - parent company	5,210	5,539
TOTAL	**5,210**	**5,539**

3.1.3 Analysis by residual maturity excluding accrued interest

	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Sight	-	-	-	-	-
Term	399	938	3,206	996	5,539
TOTAL	**399**	**938**	**3,206**	**996**	**5,539**

3.2 - DEBT SECURITIES

3.2.1. Debt securities (*obligations foncières*)

3.2.1.1. Accrued interest included in this item: 466

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	2,397	4,545	15,181	22,331	**44,454**
of which net issue premiums [(1)]	*(1)*	*(0)*	*(3)*	*(43)*	***(46)***

3.2.1.3. Changes during the year excluding accrued interest

Type of securities	Amount as of 12/31/2019	Increases	Decreases	Translation adjustments	Amount as of 6/30/2020
Obligations foncières	43,312	2,772	(1,599)	(31)	**44,454**

3.2.2. Other bonds (registered covered bonds)

3.2.2.1. Accrued interest included in this item: 134

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	-	28	955	5,323	**6,306**
of which net issue premiums [(1)]	-	-	*(0)*	*38*	***38***

3.2.2.3. Changes during the year excluding accrued interest

Type of securities	Amount as of 12/31/2019	Increases	Decreases	Translation adjustments	Amount as of 6/30/2020
Registered covered bonds	6,360	-	(55)	1	**6,306**

3.3 - OTHER LIABILITIES

	12/31/2019	Amount as of 6/30/2020
Cash collateral received	580	552
Accrued interest not yet due on cash collateral received	(0)	(0)
Taxes	8	1
Balances to pay on unwound hedging contracts	-	-
Contribution to the support fund [(1)]	90	80
Other creditors	13	13
TOTAL	**691**	**646**

(1) This item includes the residual balance of the commitments made in 2013 by Caisse Française de Financement Local to contribute EUR 10 million per year over 15 years to the multi-year local government entity support funds, for a total of EUR 150 million.

3.4 - ACCRUALS AND OTHER LIABILITIES

	12/31/2019	6/30/2020
Deferred gains on hedging transactions	-	-
Deferred income on hedging transactions	1,231	1,148
Deferred income on loans	144	136
Accrued interest not yet due on hedging transactions	546	496
Other accrued charges	12	15
Translation adjustments	289	321
Other accruals	0	0
TOTAL	**2,222**	**2,116**

3.5 - PROVISIONS FOR RISKS AND CHARGES

	Amount as of 12/31/2019	Increases	Decreases	Translation adjustments	Amount as of 6/30/2020
Loans and commitments	35	4	(8)	-	31
Financial instruments [(1)]	30	12	(0)	-	42
Other provisions	-	-	-	-	-
TOTAL	**66**	**16**	**(8)**	**-**	**74**

(1) The change in provisions for risks and charges on financial instruments relates to the change in the market value of the hedged investment securities concerned.

3.6 EQUITY

	Amount as of 12/31/2019	Amount as of 6/30/2020
Share capital	1,350	1,350
Legal reserve	53	55
Retained earnings (+/-)	3	1
Net income (+/-)	46	0
TOTAL	**1,452**	**1,406**

On May 27, 2020, the Shareholders' Meeting decided to allocate the 2019 net profit, is EUR 46 millions after addition to the legal reserve and taking into account of positive retained earnings, to payment of a dividend in the amount of EUR 41 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 - BREAKDOWN OF LIABILITIES BY ORIGINAL CURRENCY

Analysis by original currency	Amount in original currency as of 12/31/2019	Amount in euros as of 12/31/2019	Amount in original currency as of 6/30/2020	Amount in euros as of 6/30/2020
EUR	59,140	59,140	60,404	60,404
AUD	20	13	20	12
CAD	510	350	307	200
CHF	134	123	132	124
GBP	128	151	132	145
JPY	16,115	132	16,268	135
NOK	1,039	106	1,012	93
PLN	47	11	48	11
SEK	0	0	-	-
USD	7	6	15	13
TOTAL		**60,032**		**61,137**

3.8 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Parent company (1)		Other related parties (2)	
	12/31/2019	6/30/2020	12/31/2019	6/30/2020
ASSETS				
Loans and advances due from banks - sight	-	-	-	-
Loans and advances due from banks - term	2,890	3,102	-	-
Bonds and other fixed income securities	-	-	-	-
LIABILITIES				
Due to banks - sight	-	-	-	-
Due to banks - term	5,206	5,535	-	-
INCOME STATEMENT				
Interest income on loans and advances	12	8	(2)	-
Interest income on debt securities	-	-	(0)	-
Interest expense on borrowings	4	5	-	-
Net commissions	2	(1)	(0)	(0)
OFF-BALANCE SHEET				
Interest rate derivatives	15,481	16,289	-	-
Foreign exchange derivatives	692	652	-	-
Commitments and guarantees received	50	50	-	-
Commitments and guarantees given	5,460	4,890	-	-

(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

	12/31/2019	6/30/2020
Financing commitments granted to credit institutions (1)	5,460	4,890
Financing commitments granted to customers (2)	4	3
Other commitments given, assets assigned in guarantee (3)	4	5
TOTAL	**5,468**	**4,898**

(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 the end of period.
(3) It means the irrevocable payment commitment to the Fonds de garantie et de résolution.

4.2 - COMMITMENTS RECEIVED

	12/31/2019	6/30/2020
Financing commitments received from credit institutions (1)	50	50
Currencies borrowed	-	-
Guarantees received from credit institutions	-	-
Enhanced guarantees (2)	8,051	7,992
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	2,568	2,070
Other commitments received	-	-
TOTAL	**10,669**	**10,112**

(1) It comprises the authorized overdraft in the current account as stipulated in the financing agreement signed with SFIL, for 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.

	12/31/2019	6/30/2020	Fair value as of 6/30/2020
Currencies to receive	6,256	6,464	(343)
Currencies to deliver	6,546	6,785	261
TOTAL	**12,802**	**13,249**	**(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	Amount as of 12/31/2019	Less than 1 year	1 year to 5 years	More than 5 years	6/30/2020
Notional amount	101,669	20,127	36,751	39,906	**96,784**
of which deferred start	*3,036*	*1,500*	-	*85*	***1,585***

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

4.4.2. Analysis of interest rate transactions by product type

	12/31/2019	6/30/2020
Interest rate swaps	101,669	96,784
Term contracts	-	-
Interest rate options	-	-
TOTAL	**101,669**	**96,784**

4.4.3. Analysis of interest rate swap transactions

	12/31/2019	6/30/2020	Fair value as of 6/30/2020
Micro-hedge	58,427	57,431	(217)
Macro-hedge	43,242	39,353	(2,597)
TOTAL	**101,669**	**96,784**	**(2,814)**

4.4.4. Analysis of interest rate transactions by counterparty

	12/31/2019	6/30/2020
Related parties	15,484	16,289
Other counterparties	86,185	80,495
TOTAL	**101,669**	**96,784**

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

5.1 - INTEREST AND RELATED INCOME / EXPENSE

	H1 2019	H1 2020
INCOME	**543**	**572**
Due from banks	3	6
Due from customers	378	394
Bonds and other fixed income securities	39	33
Macro-hedge transactions	123	139
Other commitments	-	-
EXPENSE	**(483)**	**(519)**
Due to banks	-	3
Due to customers	(54)	(96)
Bonds and other fixed income securities	(100)	35
Macro-hedge transactions	(329)	(461)
Other commitments	-	-
INTEREST MARGIN	**60**	**53**

5.2 - COMMISSIONS

	H1 2019	H1 2020
Chargeback commissions paid to SFIL	2	(1)
Other commissions [1]	(1)	14
TOTAL	**1**	**13**

(1) As at June 30, 2020, this line includes a commission on financial instruments received as part of a hedging derivative allocation transaction.

5.3 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

	H1 2019	H1 2020
Transactions on placement securities [1]	(2)	(11)
Transactions on investment securities	-	-
Transactions on interest rate derivatives	-	-
Foreign exchange transactions	(0)	0
TOTAL	**(2)**	**(11)**

(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). Kofiba continues to manage registered covered bonds issued prior to 2015.

General operating expense can be broken down as follows:

	H1 2019	H1 2020
Payroll costs	-	-
Other general operating expense	(48)	(52)
Taxes	(5)	(6)
TOTAL	**(53)**	**(58)**
of which fees charged back by SFIL	(46)	(52)

5.5 - COST OF RISK

	H1 2019	H1 2020
Collective and specific impairments	3	3
TOTAL	**3**	**3**

5.6 - CORPORATE INCOME TAX

	H1 2019	H1 2020
Income tax for the year [1]	(1)	(1)
TOTAL	**(1)**	**(1)**

(1) The corporate taxe rate in France is 32.02%.

6. Impacts of the Covid-19 health crisis on the company's financial statements

The health crisis had a relatively limited impact on the Caisse Française de Financement Local's financial statements prepared in accordance with French GAAP at end June 2020. This confirms the Caisse Française de Financement Local's resilience to macro-economic shocks.

Impacts on arrears, doubtful loans and specific and collective provisions

The Caisse Française de Financement Local decided to deploy two approaches to support borrowers faced with difficulties due to the health crisis:
- One, proactive, by proposing payment terms to all health institutions in recognition of their exceptional involvement in the COVID-19 pandemic. CAFFIL proposed payment terms of 180 days to these borrowers for all of their loan contract maturities between March 12 and June 30, 2020, without any late interest or penalties being invoiced. As of June 30, 2020, these offset payment maturities represented EUR 9 million.
- The other approach is to respond to requests from local and equivalent authorities faced with temporary cash flow difficulties. CAFFIL mobilized to respond to all requests from borrowers and to support them in their difficulties due to the health crisis caused by the decline in revenue from specific activities, related to economic, cultural and touristic activities (cinemas, swimming pools, car parks, thermal baths, etc.). As of June 30, 2020, these offset payment maturities represented EUR 8 million.

	Payment terms granted as at June 30, 2020		
	Performing customers	**Doubtful customers**	**Total**
Health sector customers	9	0	**9**
Other local public sector customers	6	2	**8**
TOTAL	**15**	**2**	**17**

The payment terms granted to customers declassified as doubtful led to a reinforcement of EUR 1 million in specific provisions. In the context of the health crisis, at end June 2020, the Caisse Française de Financement Local also decided to reinforce its provisions for risks and charges related to public sector customers by EUR 3 million.

Impact on the provisions for placement securities

The Covid-19 pandemic led to a deterioration and increased volatility observed in the financial markets since mid-March. These two factors notably led to the reinforcement of the provisions related to the portfolio of placement securities held by the Caisse Française de Financement Local. Thus, the Company decided to set up a provision for these securities of EUR 11 million over the first half year 2020. These provisions are recorded in Net Banking Income under the Net gains (losses) on placement portfolio line.

Summary of the impacts of the Covid-19 health crisis on the Company's results as at June 30,2020

	(1)	(2)			=(1)-(2)
	Published accounting income	***Of which impacts of the Covid-19 health crisis***			**Accounting income restated for the impacts of Covid-**
		Reinforcement of specific provisions	***Reinforcement of provisions for risks and charges***	***Reinforcement of provisions on placement securities***	
Net banking income	56	*(1)*		*(11)*	68
General operating expenses	(58)				(58)
Gross operating income	**(2)**	*(1)*	-	*(11)*	**10**
Cost of risk	3		*(3)*		6
Income before non-recurring items and taxes	**1**	*(1)*	*(3)*	*(11)*	**16**
Income tax	(1)	*0*			(1)
Net income	**0**	*(1)*	*(3)*	*(11)*	**14**

7. Post-closing events

No significant event that influenced the Company's financial situation has occured since the closing on June 30, 2020.

5. Statutory auditors’ report (French GAAP)

This is a free translation into English of the statutory auditors' report on the half-yearly financial information 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 given in the entity's half-yearly management report. The report must be read in conjunction and construed in accordance with French law and French auditing professional standards.

Caisse Française de Financement Local

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

For the period from January 1 to June 30, 2020

To the 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 the Caisse Française de Financement Local, for the period from January 1 to June 30, 2020;

- the verification of the information presented in the half-yearly management report.

These half-yearly financial statements are the responsibility of the Executive Board on September 7, 2020, based on the information available at the date in the evolving context of the crisis related to Covid-19 and of difficulties in assessing its impact and future prospects. Our role is to express a conclusion on these financial statements, based on our limited review.

Conclusion on the financial statements

We conducted our review in accordance with professional standards applicable in France. A review of half-year 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 accompanying 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, 2020 and of the results of its operations for the period then ended, in accordance with accounting rules and principles applicable in France.

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 10, 2020

The Statutory Auditors

Deloitte & Associés	ERNST & YOUNG et Autres
Charlotte Vandeputte	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 10, 2020

Gilles GALLERNE
Chairman of the executive board