Half-year financial report

For the period from January 1st to June 30, 2019

CAFFIL

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

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, 2019

CONTENTS

Key figures

As of June 30, 2019

Portfolio of assets
(cover pool)
EUR 58.0 billion

Obligations foncières
(covered bonds)
EUR 51.1 billion

Regulatory
over-collateralization
111.6%

Covered bonds issued
over the first half 2019
EUR 3.2 billion

Doubtful and litigious loans –
French Gaap
(% cover pool)
0.8%

Assets eligible for the central
bank refinancing
(% cover pool)
65.6%

Common Equity Tier 1 Ratio
(Basel III)
24.4%

Liquidity coverage ratio
(LCR)
1,323%

External ratings

As of June 30, 2019

Moody's	S&P	DBRS
Aaa	AA+	AAA

1. Management report

for the period from January 1st to June 30, 2019

1. Reminder of shareholding structure, economic model and ratings of Caisse Française de Financement Local

1.1 – NATURE AND ACTIVITIES OF THE COMPANY

Caisse Française de Financement Local (also known by its acronym CAFFIL) is a credit institution active in the refinancing of loans to public sector entities through the issue of covered bonds, which are called *obligations foncières*.

It is a specialized credit institution authorized to operate as a *société de crédit foncier*. As a credit institution, the Company is subject to all legal and regulatory provisions that apply to credit institutions. It conducts banking transactions in its ordinary course of business. As a *société de crédit foncier*, it engages in transactions that are specialized and have an exclusive purpose, as defined in articles L.513-2 and following of the Monetary and Financial Code.

In the case of Caisse Française de Financement Local, this specialization is exclusively limited to transactions with public sector entities or entities they guarantee as specified in its October 1, 1999, authorization and its own by-laws:

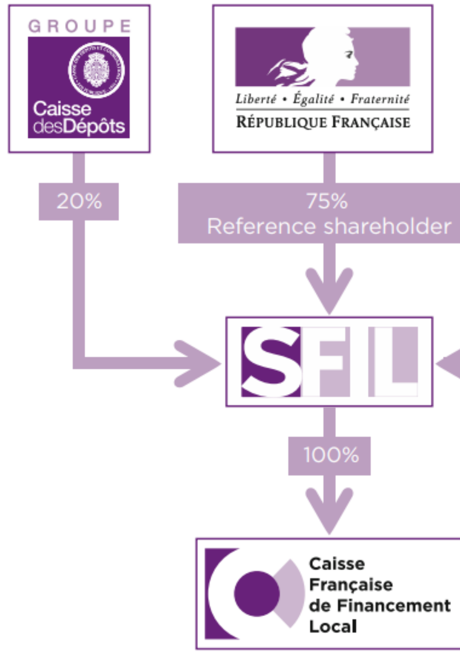
- The authorization mentions that the Company "is approved as a *société de crédit foncier,* the activities of which exclusively concern the granting or acquisition of loans to public sector entities or those they guarantee, as well as the holding of securitization units or shares of similar entities when the assets in these securitizations are for at least 90% composed of assets of the same nature as the above-mentioned loans, in accordance with article 94-II and III of law 99-532".
- The purpose of the Company (article 2 of the by-laws) specifies that the exclusive purpose of the Company is:
  - to grant or to acquire exposures on public sector entities as defined in article L.513-4 of the Monetary and Financial Code as well as securitization units or shares of similar entities considered as exposures on public sector entities as defined in article L.513-5 of the Monetary and Financial Code;
  - to hold securities and other assets under the conditions set by decree to be considered as replacement assets.

Sociétés de crédit foncier, which were created by the law of June 1999, are now well-known in the world of bond issuers and investors. They issue covered bonds called *obligations foncières* and contract other covered debt negotiable or not in regulated markets. All these instruments are characterized by the legal privilege that primarily affects cash flows from the Company's assets to pay the interest and reimbursement of the *obligations foncières*. *Sociétés de crédit foncier* may also issue or contract non-covered debt. *Obligations foncières* constitute a significant element in the international covered bond market.

1.2 – SHAREHOLDING STRUCTURE OF THE COMPANY

Caisse Française de Financement Local and its parent company SFIL are key elements in the financing of local governments and public hospitals in France. The organization, introduced by the French State in 2013, is based on a commercial activity developed by La Banque Postale with refinancing provided by Caisse Française de Financement Local.
Since 2015, the French State has entrusted SFIL and Caisse Française de Financement Local with a second mission that is the responsibility to refinance large export credits with the guarantee of the State (see 1.3.2.). The objective is to enable large export credits, as well as French local governments and public hospitals to benefit from optimal financing conditions through a high rating and irreproachable risk management.

The capital of Caisse Française de Financement Local is 100% held by SFIL, which also manages the Company in accordance with article L.513-15 of the Monetary and Financial Code. SFIL is a credit institution approved by the Autorité de contrôle prudentiel et de résolution (ACPR). Its shareholders are the French State (75%), Caisse des dépôts et consignations (20%) and La Banque Postale (5%). SFIL's shareholders are thus firmly anchored in the public sphere, reflecting the missions the French State assigned it.



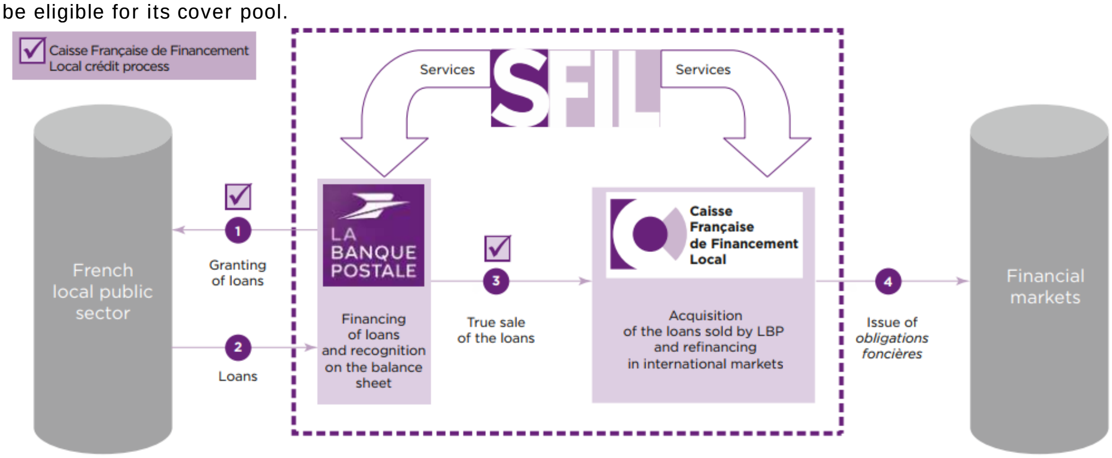
The French State is the “reference shareholder” of SFIL and Caisse Française de Financement Local for ACPR, underlining its commitment to ensure oversight and to influence strategic decisions, as well as its determination to ensure Caisse Française de Financement Local’s and SFIL’s ongoing financial transactions and to comply with regulatory requirements, if so required.

On November 15, 2018, as part of the project to create a major public finance hub centered around CDC and La Poste, the French State and CDC announced that they had entered into discussions with a view to entrusting the control of SFIL, Caisse Française de Financement Local’s parent company, to CDC. SFIL’s shareholder base will remain – as today – fully public. Its shareholders will ensure that SFIL’s financial solidity is preserved and its economic base protected, and will continue to provide it with the necessary support, in accordance with the applicable regulations. This change in shareholding structure is expected to take place at the same time as the changes to that of La Poste and CNP Assurances.

1.3 – ECONOMIC MODEL OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL

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 vanilla interest rate. La Banque Postale committed to propose to Caisse Française de Financement Local all the loans that would be eligible for its cover pool.



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

- Before a loan is originated, an initial analysis of the counterparty is carried out at the two entities. The loans that do not meet the credit and eligibility criteria of Caisse Française de Financement Local cannot be transferred to its balance sheet. Caisse Française de Financement Local's eligibility criteria are strictly monitored by internal management policies and limit eligible counterparties to French local public sector entities and public hospitals.
- Before loans originated by La Banque Postale are sold to Caisse Française de Financement Local, a new analysis of the assets is conducted, and Caisse Française de Financement Local may refuse a loan prior to the sale if the asset no longer meets the criteria.

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

1.3.2. Refinancing of large export credits

In addition to their mission of refinancing French local governments and public hospitals, SFIL and Caisse Française de Financement Local have been entrusted with a second mission by the French State: to refinance large French export contracts, with the objective to support French exports in terms of financial competitiveness, in accordance with a public refinancing plan comparable to that of other OECD countries. In this context, SFIL signed a protocol agreement governing relations with 25 commercial banks, thereby confirming relations with almost all the banks active in the French export credit market. SFIL may acquire all or a part of the participation of each of these banks in an export credit.

In this context, Caisse Française de Financement Local grants loans to SFIL in order to refinance its export credits. Such loans benefit from an irrevocable and unconditional 100% guarantee by the French State (enhanced guarantee[(1)]). This business brings Caisse Française de Financement Local closer to the French State, without modifying the risk profile of its cover pool.

These 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 issue of *obligations foncières*. Given the current size of the cover pool and the growth of its traditional line of business, the percentage share of this refinancing activity will increase gradually and will only become significant in several years. This share may reach 15% within four to five years.

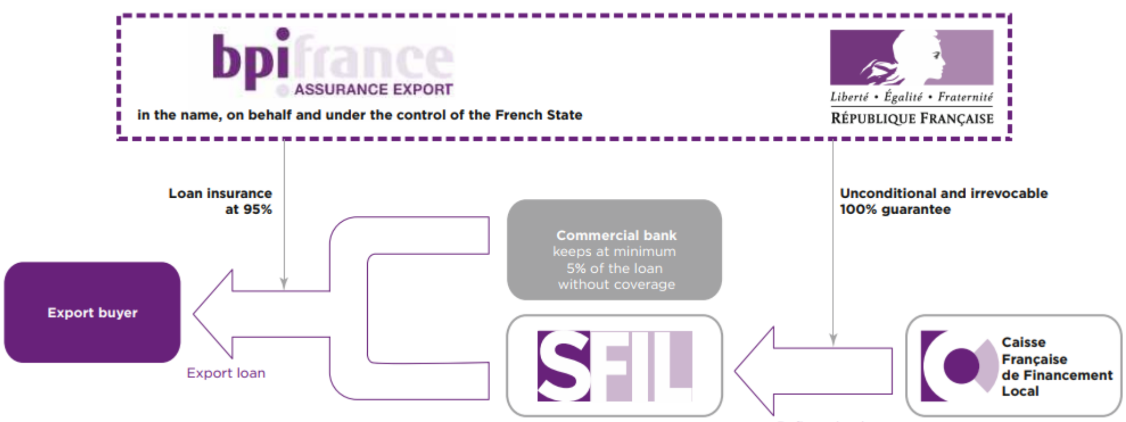
1.3.2.1. Organization

The system functions as follows:

- SFIL contributes to the financial proposal made by one or more banks in the banking syndicate granting the buyer credit covered by the export credit insurance guaranteed by the French State.
- After the export contract finalization, these banks sell a part of the loans (and the attached rights) to SFIL and keep at least the share of the export credit not covered by the insurance (usually 5%).
- Caisse Française de Financement Local grants a loan to SFIL to enable it to refinance the acquired export credit. This refinancing loan benefits from an irrevocable and unconditional 100% guarantee by the French State, referred to as an enhanced guarantee.

Loans granted by Caisse Française de Financement Local to SFIL to refinance the purchased export credits thus constitute exposures that are totally guaranteed by the French State and eligible for the cover pool of a *société de crédit foncier*. These loans also comply with the European CRR regulation (article 129, which specifies the assets authorized for inclusion in a cover pool to ensure that the covered bonds will benefit from the best prudential treatment).

Usual operational diagram of export credit refinancing by SFIL-CAFFIL



1.3.2.2. French State export guarantees

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

(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.

directly by the State, demonstrating its support for exporters, and are intended to promote, support and secure French exports financed over the medium and long term as well as French overseas investment:

- Guarantee-granting decisions are made by the Minister in charge of the Economy and Finances after instruction by Bpifrance Assurance Export and the opinion of the French Export Credit and Guarantee Commission (*Commission des garanties et du crédit au commerce extérieur)*; Bpifrance Assurance Export manages the State guarantees in strict compliance with the international 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. Servicing and financing provided by SFIL

The role of SFIL primarily involves the following:

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

SFIL obtains the resources needed to fund Caisse Française de Financement Local's activity (financing of overcollateralization and derivatives) from the markets by issuing short-dated (certificates of deposit) and long-dated (bonds) 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 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.

Since 2016, shareholder refinancing has been largely replaced by the financing that SFIL has obtained on the financial markets; it nevertheless remains available, particularly in the event of liquidity needs arising under stressed circumstances.

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 2018 – General information.

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

1.3.4. Other management agreements

Specific individual agreements have been established with entities that, in the past, have transferred assets to the *société de crédit foncier*, and continue to ensure partly or totally the management of these agreements for their national clientele. These assets are now managed in a run-off mode. At the end of June 2019, 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 (ex-Dexia Kommunalbank Deutschland) continues to manage registered covered bonds issued prior to 2015.

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

As of June 30, 2019, 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 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.

See part 2.5 for the current ratings.

2. Highlights of the first half of 2019

2.1 – PROPOSED CHANGE TO THE SHAREHOLDING STRUCTURE OF SFIL, PARENT COMPANY OF CAISSE FRANCAISE DE FINANCEMENT LOCAL

As a reminder, on November 15, 2018, in line with the proposed creation of a major public finance hub centered around CDC and La Poste, the French government and CDC announced that they had entered into discussions with a view to entrusting the control of SFIL, Caisse Française de Financement Local's parent company, to CDC. SFIL's shareholder base will remain – as today – fully public. Its shareholders will ensure that SFIL's financial solidity is preserved and its economic base protected, and will continue to provide it with the necessary support, in accordance with the applicable regulations.

The assessment of this proposed transfer began in early 2019 and continued throughout the first half of the year. It is expected to be completed at the same time as the changes to the shareholding structure of La Poste and CNP Assurances.

2.2 – THE COVERED BONDS MARKET

The market for euro-denominated public covered bond issues (benchmark public issues) was very active over the first half of 2019, with primary offerings of EUR 95 billion, up by 7% compared with the first half of 2018 (EUR 89 billion). This level of activity was well absorbed by investors despite the significant decrease in the Eurosystem's purchase program on the primary market. The higher level of spreads compared with 2018, particularly at the beginning the year, combined with the anticipation of a more accommodative monetary policy by the European Central Bank in 2019, spurred investor demand. After that early start, primary and secondary spreads for the entire covered bonds segment decreased significantly, returning to their end-2018 levels.

Against this backdrop, Caisse Française de Financement Local launched euro-denominated issues on the benchmark primary market on two occasions: in January, with a two-tranche transaction totaling EUR 1.25 billion with maturities of six years (EUR 750 million) and 15 years (EUR 500 million) and then in February, with its first social-themed issue with a maturity of eight years (EUR 1 billion). This transaction, the first social issue in Europe dedicated exclusively to public hospital financing, was launched following investor meetings held in Europe and was welcomed by observers as a great success. It is part of the SFIL Group's engagement in corporate social responsibility (CSR) and its public policy missions. It reflects the public development bank's commitment to firmly supporting the funding of social projects – in particular those in the public healthcare institutions sector. At the same time, CAFFIL took advantage of demand by investors seeking long maturities by completing private placements in the amount of EUR 340 million (18-year average maturity) and by increasing the amount of existing issues for a total of EUR 600 million (January 2026, January 2034 and January 2038 issues, twice for the latter).

The average maturity of financing raised by Caisse Française de Financement Local in the first half of 2019 was close to 11 years.

2.3 – INTERNATIONAL CONTEXT THAT LED TO HIGHER MARKET VOLATILITY

The first half of 2019 was characterized by two major international events:
- ongoing negotiations between the European Union and the United Kingdom over Brexit;
- tensions over the increase in customs duties on certain goods, first between the United States and China and then between the United States and the European Union.

The talks held on Italy's budget deficit between the European Commission and the Italian government also marked the first half of 2019.

These events heightened financial market volatility but did not significantly impact the covered bond market and Caisse Française de Financement Local's issue capability.

2.4 – HARMONIZATION OF THE LEGAL FRAMEWORKS FOR EUROPEAN COVERED BONDS

Significant progress was made in harmonizing the legal frameworks for European covered bonds (draft directive and proposed amendment to Article 129 of the Capital Requirements Regulation – CRR) in the first half of 2019:
- a political agreement was reached between the European Commission, the European Parliament and the European Council on Feb-

ruary 26, 2019 as part of the trilogue negotiations;
• the committee of the permanent representatives of the European Council then approved the agreed text on March 20, 2019;
• the members of the Committee on Economic and Monetary Affairs (ECON) of the European Parliament voted in favor of this text on April 1, 2019. The European Parliament also approved this text during its plenary session on April 18, 2019.

A final vote by the European Parliament and the Council is expected by the end of 2019 with a view to publication in the European Official Journal in late 2019 or early 2020. Starting on that date, the Member States will have 18 months to transpose the directive into national law and simultaneously bring into force the amendments to 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 in the first half of 2019.

As of June 30, 2019, 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 that same date, the ratings assigned by non-financial ratings agencies were as follows:
• Premium by ISS-oekom
• Positive-BBB by IMUG
• AA by MSCI.

2.6 – THE SFIL GROUP'S CSR COMMITMENT

At the end of 2018, the SFIL Group joined the United Nations Global Compact and pledged to promote nine of the 17 principles of the Global Compact and sustainably integrate them into its strategy and operations.

At the same time, the SFIL Group bases its CSR approach on the following three axes:
• public policy missions in support of the regions and exports: in particular, financing of local public sector infrastructure projects, the vast majority of which are social or environmental in nature (public hospitals, local public transport, water and waste treatment);
• the company's internal policies and sponsorship development: promotion of diversity, reduction of the ecological footprint, sponsorship initiatives;
• the commitments made by SFIL's employees: for example, sponsorship of students from low-income neighborhoods and the implementation of a salary rounding system.

2.7 – FINANCING OF PUBLIC SECTOR LOANS INITIATED BY LA BANQUE POSTALE

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.

During the first half of 2019, Caisse Française de Financement Local acquired EUR 2.1 billion in loans.

The total volume of loans acquired since the beginning of the partnership in 2013 is EUR 17.7 billion.

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.

During the first half of 2019, Caisse Française de Financement Local granted two new refinancing loans to SFIL for a total of EUR 0.3 billion.

Since the start of this mission in the middle of 2015, Caisse Française de Financement Local has granted a total of EUR 7.4 billion in refinancing loans to SFIL. As of June 30, 2019, the outstanding amount of these loans on Caisse Française de Financement Local's balance sheet was EUR 1.8 billion. As a reminder, the payment of loans used to refinance large export credits is spread out over several years.

Meanwhile, obtaining the European Commission's authorization is now the last condition to fulfill to enable SFIL to begin operating its system of refinancing loans eligible for the guarantee on projects with a strategic interest for the French overseas economy. The plan to extend SFIL's activity to this new guarantee will enable France to offer an export financing system comparable to the best foreign equivalents, in line with the practices observed in major exporting countries, particularly in Asia.

3. Change in cover pool and debts

EUR billions value after currency swaps	12/31/2018	6/30/2019	Change 2019 / 2018
Cover pool	**56.9**	**58.0**	**1.9%**
Loans	47.5	48.2	1.5%
Securities	8.1	8.0	(0.6)%
Cash deposit in central bank	1.3	1.7	32.5%
Assets removed from the cover pool	**0.0**	**0.0**	**ns**
Privileged debt	**50.8**	**51.7**	**1.8%**
Obligations foncières (1)	50.3	51.1	1.7%
Cash collateral received	0.5	0.6	24.3%
Non-privileged debt	**4.9**	**5.3**	**7.2%**
SFIL	4.9	5.3	7.2%
Equity IFRS (excluding unrealized gains and losses)	**1.5**	**1.4**	**(1.5)%**

(1) Including registered covered bonds

Caisse Française de Financement Local's cover pool grew by approximately 1.9% during the first half of 2019. As of June 30, 2019, the cover pool excluding accrued interest not yet due amounted to EUR 58.0 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 the refinancing of new export loans. This cash is deposited at the Banque de France, or invested in bank or European public sector securities. The cash surplus, placed with the Banque de France, represents EUR 1.7 billion at the end of June 2019, versus EUR 1.3 billion at the end of December 2018. The cash surplus invested in securities or lent to SFIL represents a total of EUR 3.4 billion as of June 30, 2019 versus EUR 3.3 billion at the end of December 2018.

As of June 30, 2019, 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 51.7 billion, which increased by 1.8% in comparison with December 31, 2018.

As of June 30, 2019, the debt contracted with the parent company totaled EUR 5.3 billion and does not benefit from the legal privilege. It mainly corresponds to the financing of the over-collateralization of the cover pool which is at a significantly higher level than the amount required by regulators and the rating agencies.

4. Cover pool

4.1 – CHANGE IN ASSETS IN 2019

The net change in the cover pool during the first half of 2019 corresponded to an increase in assets in the amount of EUR 1.1 billion. This change is explained by the following items.

EUR billions	First half 2019	
1- Acquisition of loans from La Banque Postale		**2.1**
Loans to the French public sector (vanilla loans in euros)	2.1	
2- Export credits drawings		**0.7**
Loans to SFIL to refinance export credit guaranteed by the French State	0.7	
3- Reduction of loan sensitivity		**0.1**
Sensitive structured loans eliminated	(0.1)	
Refinancing loans (vanilla loans in euros)	0.1	
New loans (vanilla loans in euros)	0.1	
4- Amortization of portfolio of loans and securities		**(2.1)**
5- Early reimbursments		**(0.2)**
6- Changes in treasury		**0.5**
Net change in securities investments	0.1	
Net change in Banque de France cash deposit	0.4	
Net change in the cover pool		**1.1**

During the first half of 2019, Caisse Française de Financement Local acquired a total of EUR 2.1 billion in loans to the French local public sector and public hospitals originated by La Banque Postale.

Drawings on refinancing loans of large export credits granted to SFIL became effective during the first half of 2019 in the amount of EUR 0.7 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 first half of 2019 made it possible to decrease outstanding loans considered as sensitive by EUR 0.1 billion through their replacement with fixed rate loans. They were accompanied by new fixed rate loans in the amount of EUR 0.1 billion.

The natural amortization of the portfolio of loans and securities represented EUR 2.1 billion during the first half of 2019, and early reimbursements represented EUR 0.2 billion.

Available cash increased by EUR 0.5 billion. 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, except for treasury investments, during the fist half of 2019.

4.2 – OUTSTANDING ASSETS AS OF JUNE 30, 2019

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

EUR billions	12/31/2018	6/30/2019
Loans and bonds to the public sector	52.8	53.1
of which local public sector business line	*51.2*	*51.0*
of which large export credits refinancing business line (1)	*1.1*	*1.8*
of which treasury investment in public sector bonds (3)	*0.5*	*0.3*
Banque de France cash deposit (3)	1.3	1.7
Replacement assets (3)	2.8	3.1
COVER POOL	**56.9**	**58.0**
of which liquid and elible to ECB refinancing assets	*37.9*	*38.0*

Financing commitments granted to refinance large export credits(1)(2)	6.0	5.6
Financing commitments granted to other public sector loans	0.0	0.0
FINANCING COMMITMENTS GRANTED	**6.0**	**5.6**

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

(2) In 2018 and 2019, commitments granted represented concluded contracts in drawing phase.

(3) The total amount of excess treasury increased from EUR 4.6 billion at the end of 2018 to EUR 5.1 billion at the end of first half of 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 38.0 billion or 65.6% of Caisse Française de Financement Local cover pool.

The amount of financing commitments given came to EUR 5.6 billion as of June 30, 2019, 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.

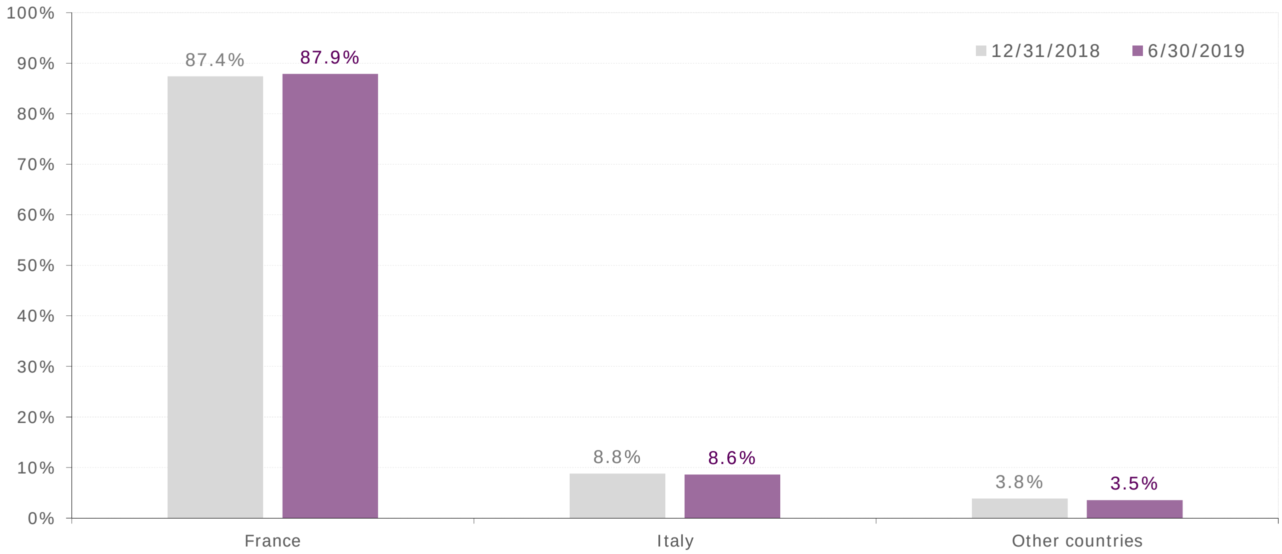
4.2.1. Public sector loans and bonds (excluding replacement assets and treasury placed with the Banque de France)

4.2.1.1. Geographic breakdown

As of June 30, 2019, French public sector loans made up the majority (87.9%) of the cover pool, a share due to increase in the future. They include loans acquired from La Banque Postale since 2013 (EUR 14.9 billion of outstanding principle as of June 30, 2019), representing 28% of the Group's public sector loans and securities and more than 33% of its loans to the French local public sector. The State-guaranteed loans granted to SFIL for the refinancing of large export credits (EUR 1.8 billion on balance sheet) represent approximately 3.4% 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.



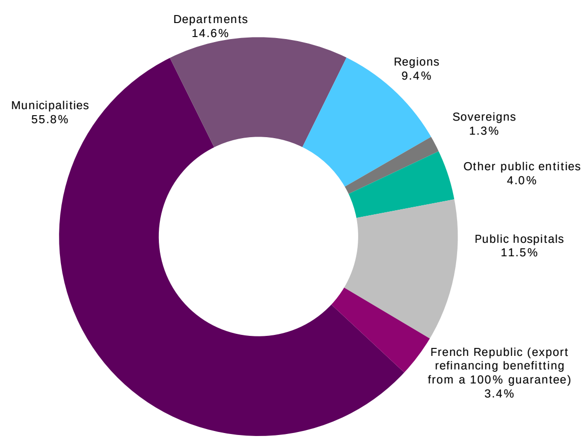
As of June 30, 2019, Italian assets represented the largest share of non-French assets in run-off, with a total volume of EUR 4.6 billion, or 8.6% of the cover pool (excluding replacement assets and Banque de France cash deposits). These assets are granular exposures (more than 200 counterparties consisting mainly of regional and municipal authorities) distributed throughout Italy.

Exposures to Other countries as of June 30, 2019, are broken down by country in the section Breakdown of cover pool, which is presented at the end of this management report.

4.2.1.2. Breakdown by type of counterparty

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

- for 80%: exposures on municipalities, departments or regions;
- for 6%: sovereign exposures or commitments on other public sector entities;
- for 12%: exposures on public hospitals;
- for 3%: 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 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, and their total amount is limited to 15% of *obligations foncières* and registered covered bonds. As of June 30, 2019, replacement assets represented 6.1% of *obligations foncières* and registered covered bonds.

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

Replacement assets EUR millions	**Country**	**12/31/2018**	**6/30/2019**
Step 1 credit rating			
Covered bonds			
	France	278	474
	Other countries	677	765
Other bank bonds			
	France	417	448
	Other countries	219	590
Loans to parent company, SFIL	France	800	800
Step 2 credit rating			
Bank bonds (maturity < 100 days)			
	France	285	-
	Other countries	122	50
Bank accounts balances	France and Other countries	3	4
TOTAL		**2,801**	**3,131**

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 unit amounts.

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(es) (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	**12/31/2018**	**6/30/2019**	**Change**	**% cover pool**	**12/31/2018**	**6/30/2019**	**Change**
French local public sector loans	**44.3**	**44.4**	**0.1**	**76.7%**	**14,615**	**14,149**	**(466)**
Vanilla loans	**39.9**	**40.3**	**0.4**	**69.5%**	**13,168**	**12,746**	**(422)**
Structured loans	**4.4**	**4.1**	**(0.3)**	**7.1%**	**1,447**	**1,403**	**(44)**
Sensitive loans not in the charter	0.4	0.4	(0.0)	0.7%	51	50	(1)
Sensitive loans (3E/4E/5E)	0.6	0.5	(0.1)	0.9%	145	140	(5)
Subtotal sensitive loans:	**1.0**	**0.9**	**(0.1)**	**1.6%**	**196**	**190**	**(6)**
Structured loans benefiting from the derogatory mechanism of the support fund	0.4	0.4	(0.0)	0.6%	62	53	(9)
Other structured loans	3.0	2.8	(0.2)	4.8%	1,189	1,160	(29)

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

During the first half of 2019, outstanding loans to the French local public sector increased by EUR 0.1 billion. Structured loans on

Caisse Française de Financement Local's balance sheet amounted to EUR 4.1 billion, representing 7.1% of the cover pool.

4.2.4.3. Sensitive loans and reduction in loan sensitivity

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". As of June 30, 2019, they now represent only EUR 0.9 billion (1.6% of the cover pool) compared with EUR 8.5 billion on SFIL's inception at the end of 2012, i.e. a fall of more than 89%. The number of customers holding sensitive loans fell over the same period from 879 to 190.

Given the transactions of reduction in loan sensitivity already signed, the sensitive structured loans outstanding will decrease to a maximum amount of EUR 0.9 billion by end 2019 and to EUR 0.5 billion for local communities only. On this same basis, sensitive loans with a rate exceeding 5% will amount by end 2019 to less than EUR 0.1 billion and concern 24 customers, i.e. 0.2% of the cover pool and 0.2% of French local public sector customers. The scope of sensitive structured loans is therefore extremely limited and the associated risk is no longer material for Caisse Française de Financement Local.

5. Debt benefiting from the legal privilege

As of June 30, 2019, debt benefiting from the legal privilege is composed of *obligations foncières* and registered covered bonds issued by Caisse Française de Financement Local as well as of cash collateral received from counterparties in derivative transactions.

EUR billions	12/31/2018	6/30/2019
Cash collateral received	0.5	0.6
Obligations foncières and registered covered bonds	50.3	51.1
Total	**50.8**	**51.7**

5.1 – CHANGE IN CASH COLLATERAL

Cash collateral received by Caisse Française de Financement Local increase slightly compared with the situation at the end of December 2018. Its level stood at EUR 0.6 billion at the end of June 2019.

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 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, in February 2019 CAFFIL completed its first social-themed issue (the first in Europe dedicated exclusively to the financing of French public hospitals). This issue is a first step for the SFIL Group before contemplating a new "green"-themed issue by the end of 2019.

5.2.1. New issues in 2019

Over the first half of 2019, Caisse Française de Financement Local raised EUR 3.2 billion through benchmark public issues, as well as tap issues, while at the same continuing to work on the private placements segment.

Caisse Française de Financement Local raised money in the public primary market two times, for a total amount of EUR 2.25 billion:
- a dual tranche issue (6 and 15 years) in January for a total amount of EUR 1.25 billion;
- first "social" bond issue (8 years) in February for an amount of EUR 1 billion.

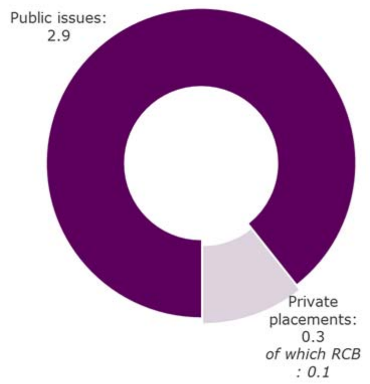
Caisse Française de Financement Local also provided additional liquidity on two of its reference issues via 4 taps for a cumulative amount of EUR 0.6 billion.

In addition to these public transactions, Caisse Française de Financement Local remained active in the private placement segment through the EMTN and the registered covered bond (RCB) format, thus making it possible to respond to investors' demand for long and very long maturities. Altogether, it raised EUR 0.3 billion in this market segment.

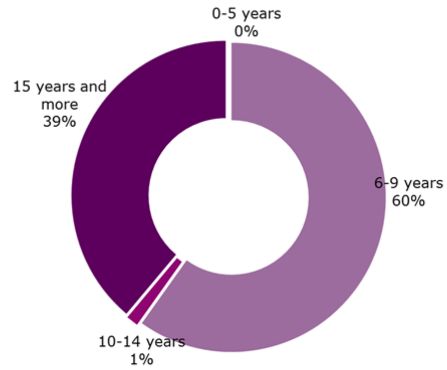
The weighted average life of the financing raised over the first half of of 2019 was close to 11 years.

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.

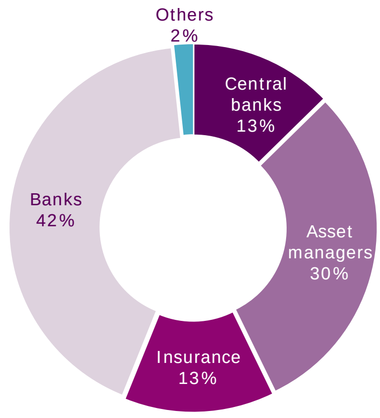
Breakdown of 2019 issues by format
EUR billions



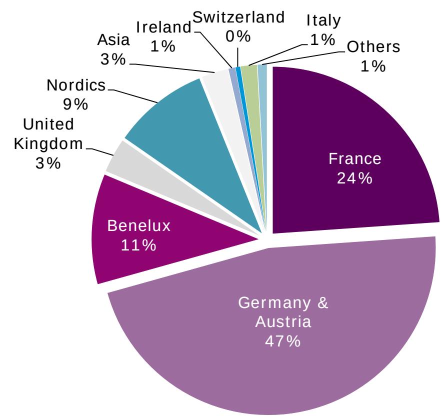
Breakdown of 2019 issues by maturity
(%)



Breakdown of benchmark 2019 public issues by investor category
(%)



Breakdown of benchmark 2019 public issues by geographic zone
(%)



5.2.2. Outstanding debt at the end of June 2019

Outstanding *obligations foncières* and registered covered bonds totaled EUR 51.1 billion in swapped value at the end of June 2019. This includes new issues of *obligations foncières* for EUR 3.2 billion and amortization of issues maturing in the first half of 2019 for EUR 2.4 billion.

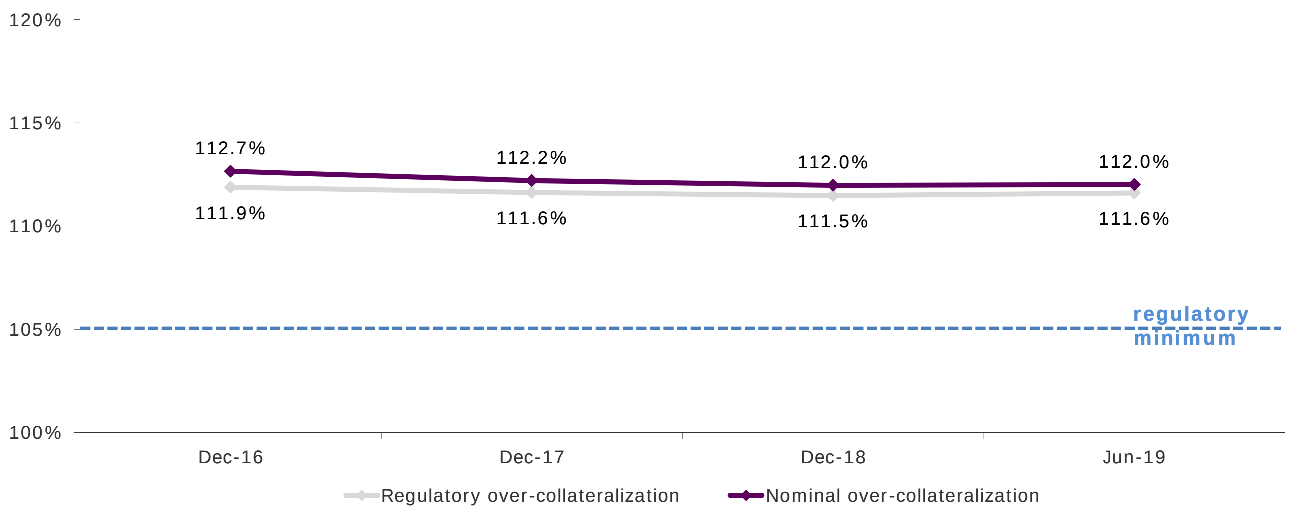
EUR billions, value after currency swaps	2018	H1 2019
BEGINNING OF THE PERIOD	**49.0**	**50.3**
Issues	4.9	3.2
Amortizations	(3.6)	(2.4)
Buyback	-	-
END OF THE PERIOD	**50.3**	**51.1**

As of June 30, 2019, issues can be broken down by currency as follows:

6. Changes in the over-collateralization ratio

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

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

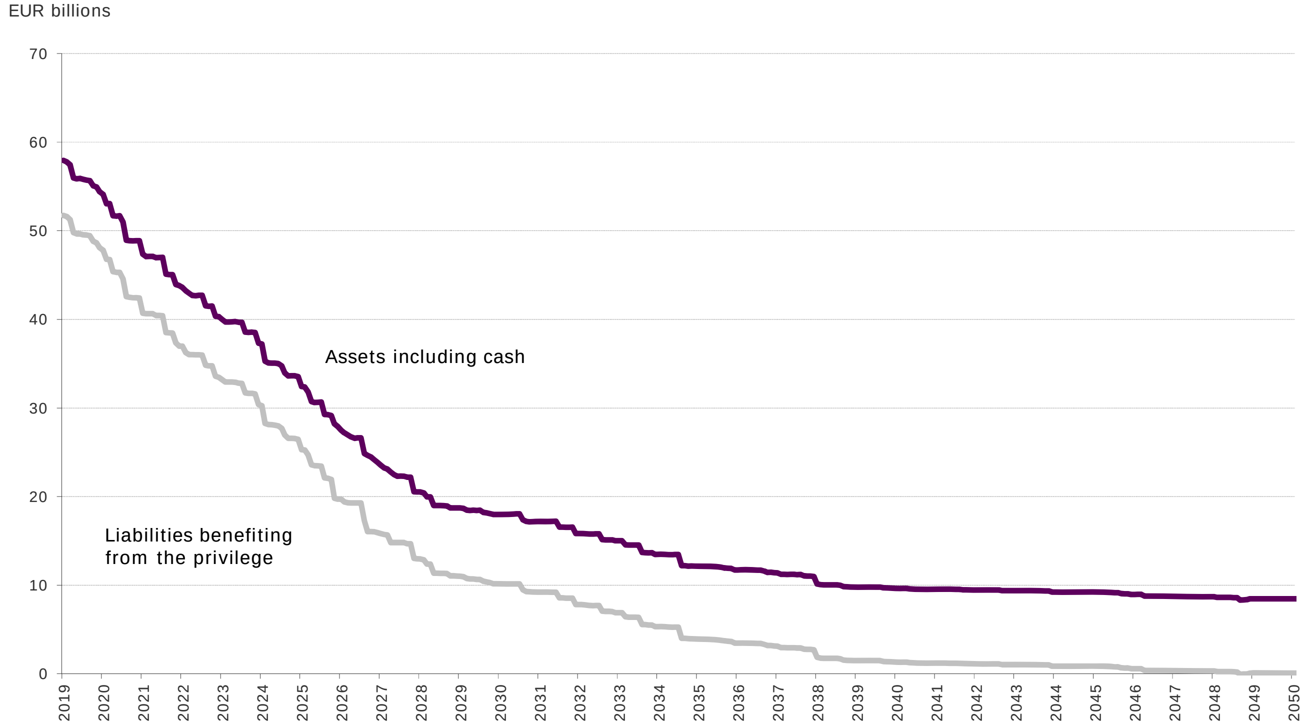


Regulatory over-collateralization may differ from nominal over-collateralization. In fact, it is calculated on the basis of the rules determined by the Autorité de contrôle prudentiel et de résolution (ACPR). In particular, these rules require different weighting levels according to the assets. The assets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

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

Over–collateralization may also be illustrated by the gap between the amortization curves of the assets and liabilities benefiting from the privilege. The following graph presents the curves as of June 30, 2019.

Amortization of assets and liabilities as of June 30, 2019



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 2019, 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	**12/31/2018**	**6/30/2019**
SFIL	4.9	5.3
Banque de France	-	-
TOTAL	**4.9**	**5.3**

8. Caisse Française de Financement Local’s main risks

8.1 – CREDIT RISK

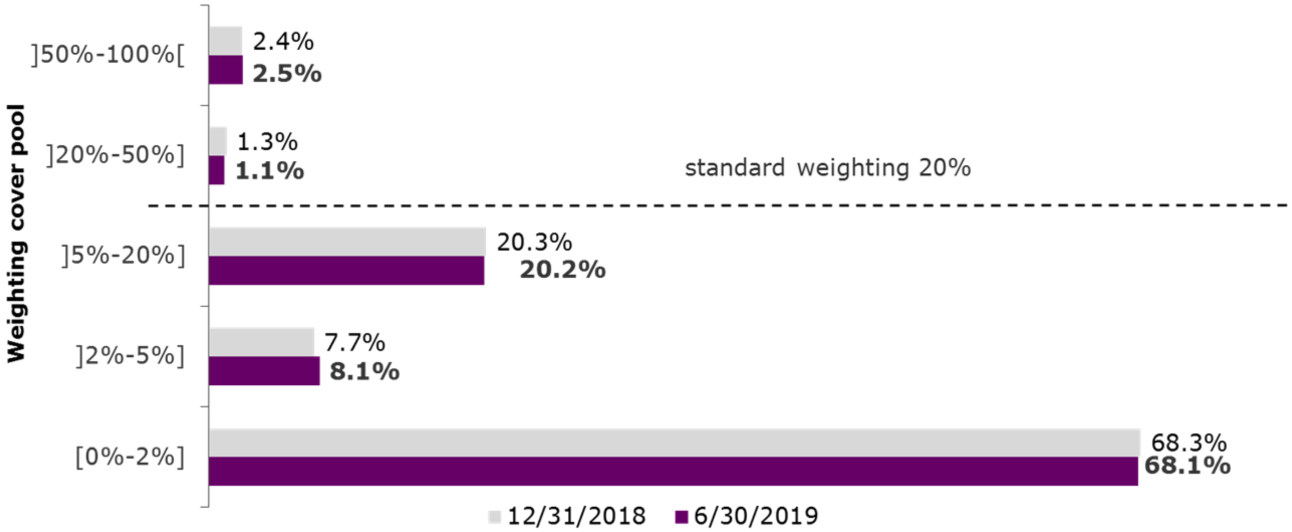
8.1.1. Definition

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

8.1.2. Breakdown of exposures according to risk weighting

The quality of Caisse Française de Financement Local’s portfolio is illustrated by the risk weighting assigned to its assets (Risk Weighted Assets) for the calculation of the bank’s solvency ratio. This reflects the fact that for most of its assets SFIL has opted for the advanced method of calculating regulatory capital requirements.
This enables Caisse Française de Financement Local to present an analysis of its exposure as of June 30, 2019, broken down by risk weighting, such as used for the calculation of capital requirements for credit risk.

Risk weighting of Caisse Française de Financement Local’s portfolio as of June 30, 2019



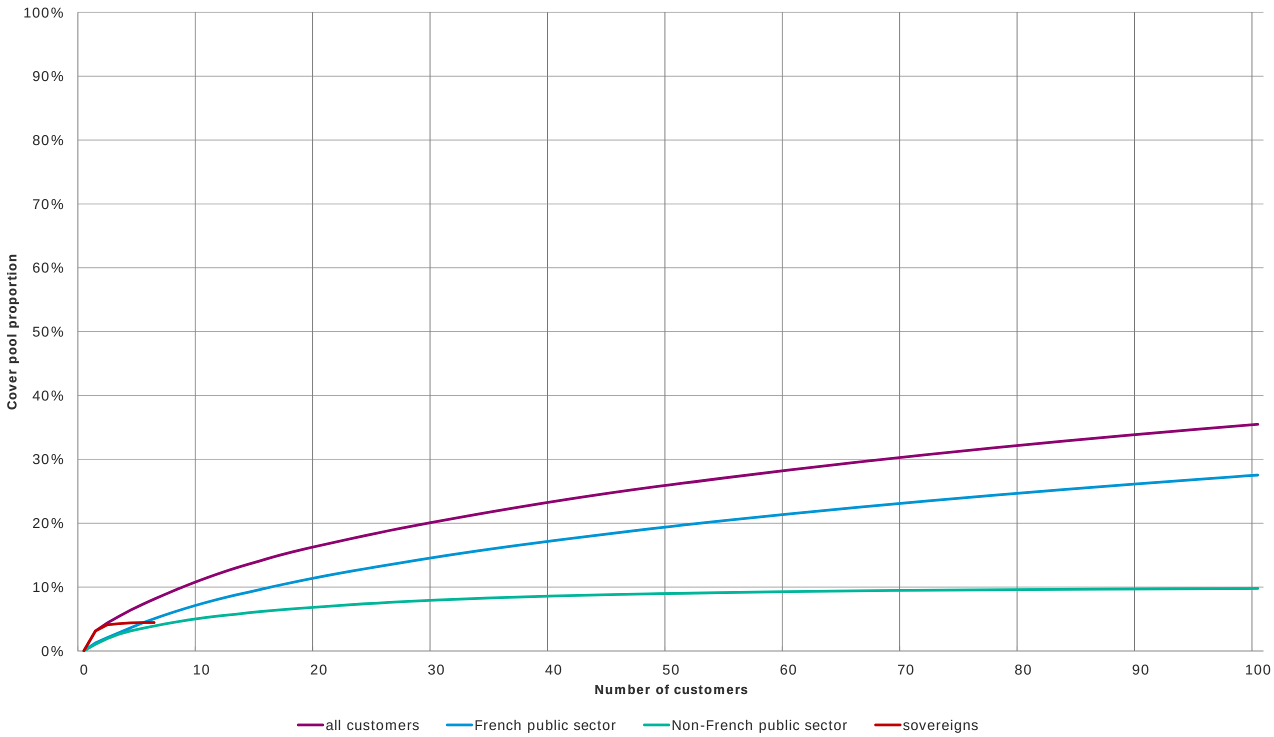
This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local’s portfolio:
- 76% of the portfolio has a weighting of 5% or less;
- the average risk weighting of the cover pool assets is 6.2%, versus 20% for European local governments according to the Basel II/III standard method;
- less than 4% of the portfolio has a weighting of more than 20%.

Weighted exposure with respect to credit risk amounted to EUR 4,608 million. Including other risks, total risk weighted assets came to EUR 5,383 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 24.4% as of June 30, 2019.

8.1.3. Concentration by customer

The risk of concentration refers to exposure to a limited number of counterparties. Diversification can make it possible to avoid this problem, and it is a risk management tool to protect from any loss in capital.

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



As of June 30, 2019 the 20 largest exposures (excluding replacement assets and cash deposits in Central Bank), all categories combined, represented 16.5% of the cover pool. The biggest exposure represented 3.1% of the cover pool and the 20th 0.4%.

8.1.4. Non-performing loans, litigious loans, provisions

8.1.4.1. Change in arrears

As of June 30, 2019, unpaid loans amounted to EUR 63 million, down by nearly 5% from December 31, 2018 (EUR 66 million) and by nearly 7% compared with December 31, 2017 (EUR 68 million).

	12/31/2017		12/31/2018		6/30/2019	
	Amounts EUR millions	number of customers(1)	Amounts EUR millions	number of customers(1)	Amounts EUR millions	number of customers(1)
Total arrears	68	116	66	73	63	79
Technical arrears	3	64	4	33	2	42
Qualifying arrears	65	52	62	40	61	37
of which less than 90 days	-	-	*0*	*5*	*0*	*5*
of which more than 90 days	*65*	*52*	*62*	*35*	*61*	*32*
of which doubtful loans (French Gaap)	*33*	*45*	*25*	*32*	*28*	*33*
of which litigious loans	*32*	*7*	*37*	*8*	*33*	*4*
of which vanilla loans	*5*	*27*	*3*	*24*	*6*	*25*
of which structured loans	*60*	*25*	*59*	*16*	*55*	*12*

(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.

Excluding technical arrears, 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 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 less than 0.8% of Caisse Française de Financement Local's cover pool (EUR 442 million) as of June 30, 2019, illustrating the excellent quality of the portfolio. Only French customers had doubtful and litigious loans, which increased by 15% compared with December 31, 2018 (EUR 384 million) and decreased by 21% compared with December 31, 2017. 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].

(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.

Doubtful and litigious loans[1] were as follows:
- EUR 409 million in doubtful loans, corresponding to loans granted to customers where the total amount of unpaid loans was EUR 28 million (of which EUR 22 million in unpaid structured loans);
- EUR 33 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	**12/31/2018**	**6/30/2018**
Specific impairments	27	29
Collective impairments	47	44
TOTAL	**74**	**73**

At the end of June 2019, the stock of specific provisions under French standards amounted to EUR 29 million, up slightly compared with December 31, 2018, in line with the increase in doubtful and disputed debts.
In addition, collective provisions are calculated on the various asset portfolios. These provisions amounted to EUR 44 million at end-June 2019 compared with EUR 47 million at the end of 2018. This change was mainly due to the additions to/removals from the watchlist approved in the first half of 2019.

8.1.4.3. Change in receivables and provisions under IFRS

Effective January 1, 2018, IFRS 9 introduced changes to the classification of Caisse Française de Financement Local's financial assets. As a reminder, this standard now only provides for three categories of financial instruments: those recognized at amortized cost, those recognized at fair value through profit or loss and those recognized at fair value through other comprehensive income. This classification depends on both the business model in which the financial asset is used and the characteristics of the instrument's contractual cash flows (see section 1.2.4. of the financial statements under IFRS).

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

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

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

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

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

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

(1) 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 counterparties);
• 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.

Breakdown of assets by stages and IFRS impairments	**Net carrying amount before impairments** EUR millions		**Impairments** EUR millions	
	12/31/2018	**6/30/2019**	**12/31/2018**	**6/30/2019**
Stage 1 : no significant deterioration	48,160	49,677	(5)	(4)
Stage 2 : credit risk deteriotation	6,225	6,307	(45)	(45)
Stage 3 : credit impaired	1,096	1,116	(10)	(12)
TOTAL SPPI assets	**55,481**	**57,100**	**(60)**	**(61)**

	IFRS Net carrying amount	
	12/31/2018	**6/30/2019**
Non-Performing Exposures	1,454	1,444

Loans classified as *Non-Performing Exposures* remained stable in the first half of 2019 and the stock of IFRS provisions for expected credit losses rose slightly to EUR 61 million, mainly in *Stage 3*.

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 3.1 billion (see 4.2.2.);
- its derivative contracts, entered into within the framework of its management of interest rate and foreign exchange risks.

All of Caisse Française de Financement Local's derivative operations are conducted within the framework of standard ISDA or FBF (Fédération bancaire française) contracts with major international banks. These contracts have particular characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and other issuers of covered bonds). In 2017, Caisse Française de Financement Local amended these contracts to take into account recent regulatory changes (signing of variation margin amendments). These interest rate and currency swaps all benefit from the same legal privilege as *obligations foncières*. For this reason, Caisse Française de Financement Local 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 2019, Caisse Française de Financement Local was exposed (positive fair value of the swaps) on nine bank counterparties, all of these paid cash collateral of EUR 0.6 billion, offsetting total exposure.

All derivative exposures as of June 30, 2019, 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	-	15.8	20.1%	(1.4)	-	-	1
Other counterparties	33.8	62.8	79.9%	(2.4)	0.6	0.6	25
Total	**33.8**	**78.6**	**100.0%**	**(3.7)**	**0.6**	**0.6**	**26**

The swaps negotiated with external counterparties represented 80% of outstanding long-term swaps and those signed with SFIL 20%. 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.

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

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 the financing needs related to its activity.

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

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

- financing of the assets 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:

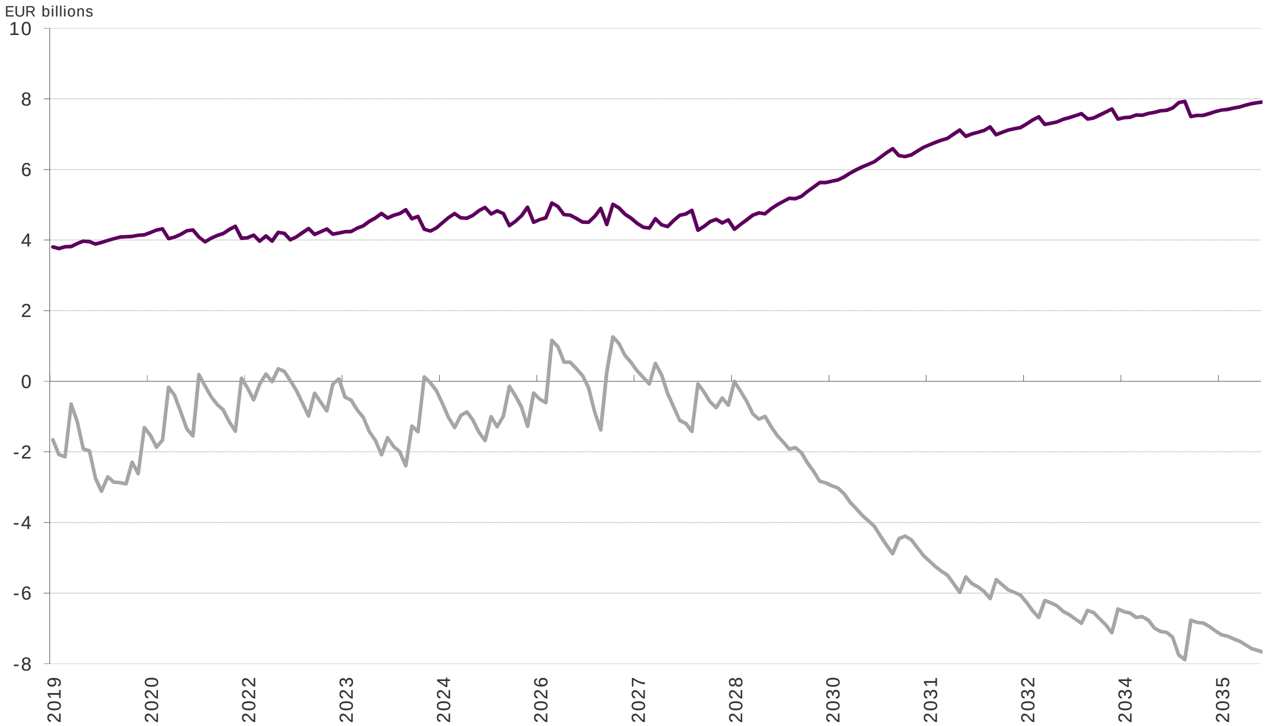
- debt benefiting from the legal privilege, i.e. *obligations foncières,* registered covered bonds and the cash collateral received by Caisse Française de Financement Local ;
- refinancing arising from the loan agreement entered into with SFIL to cover the financing requirements related to Caisse Française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

Furthermore, Caisse Française de Financement Local has a large stock of assets eligible for European Central Bank refinancing via the Banque de France. In addition to access to the central bank in its own name, Caisse Française de Financement Local can also mobilize certain of its assets by using interbank financing in the form of repurchase agreements. If necessary, these transactions would easily cover its cash flow requirements. There were no transactions of this type over the first half of 2019.

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

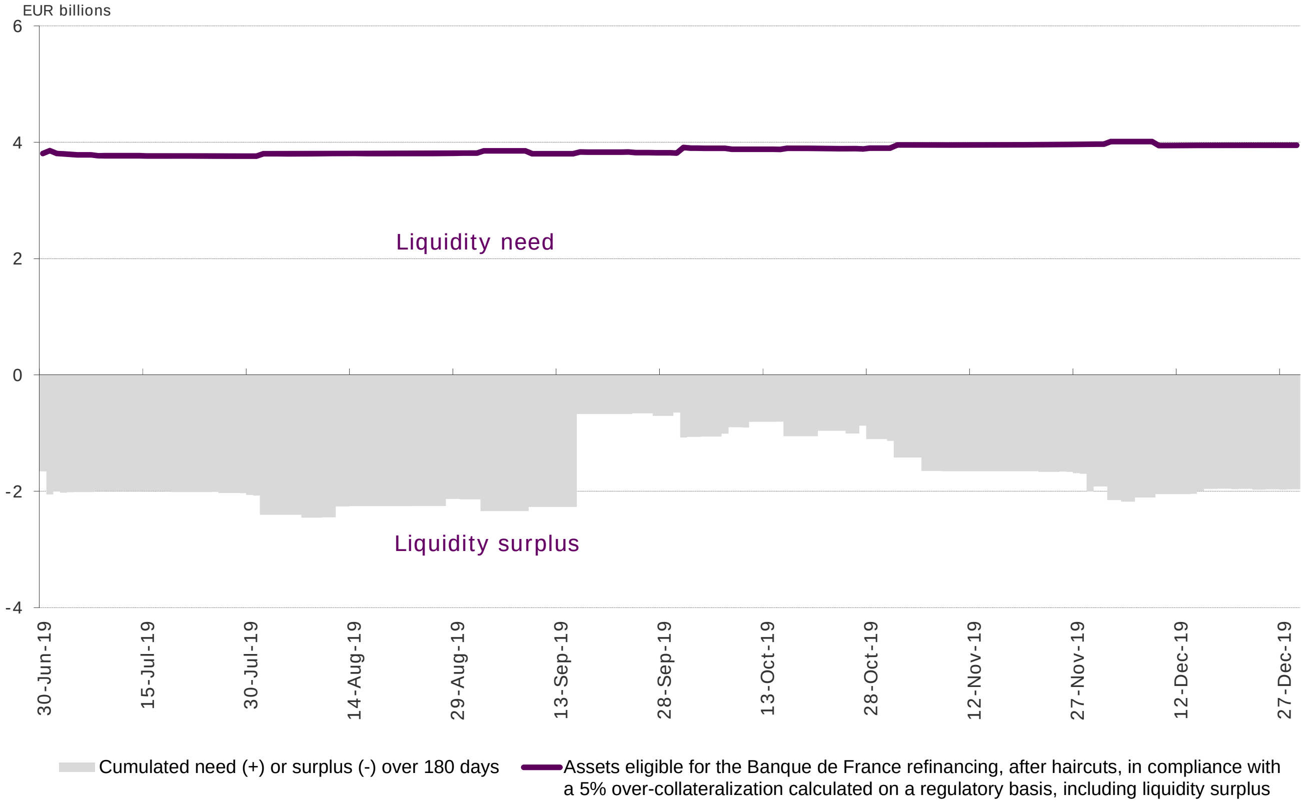
The chart below shows the forecast aggregate liquidity requirement and the assets needed to cover this requirement.

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



Caisse Française de Financement Local has its own autonomous resources that enable it to cover its temporary liquidity needs, even in the event of the default of its parent company, since any legal proceedings engaged for the bankruptcy or liquidation of its parent company cannot be extended to Caisse Française de Financement Local (article L.513-20 of the Monetary and Financial Code).

Meanwhile, Caisse Française de Financement Local manages its liquidity risk using the following indicators:
- Regulatory indicators specific to *sociétés de crédit foncier (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% (see section 6.);
  – the maximum gap of 1.5 years between the average maturity of debt benefiting from the legal privilege and that of assets (see the specific section on transformation risk below).
  – forecast cash needs at 180 days: Caisse Française de Financement Local ensures that, at any times, its cash needs over a period of 180 days are covered by replacement assets and assets eligible for Banque de France's credit operations. Cash needs include repayments of *obligations foncières* and registered covered bonds, debt not benefiting from the legal privilege and forecast repayments of cash collateral received, after deduction of cash flows from amortization of assets. This forecast is published quarterly in the Asset Quality Report, and is shown below. At the end of June 2019, there was a liquidity surplus for the whole period.



- The regulatory liquidity indicators applicable to credit institutions, in particular the liquidity coverage ratio (LCR). As of 30 June, 2019, Caisse Française de Financement Local's LCR was 1,323%.

- Internal liquidity indicators:
  – the management coverage ratio (or over-collateralization ratio), which targets an over-collateralization level consistent with the Caisse Française de Financement Local's target rating (see section 6.);
  – the difference in duration between assets and debts benefiting from the legal privilege (limited to three years): this is published every quarter and came to 0 year as of June 30, 2019 (see the specific section on transformation risk below);
  – the one-year survival horizon in stressed conditions;
  – the sensitivity of the net present value of the static liquidity gap adjusted for regulatory constraints (compliance with the LCR and the over-collateralization ratio);
  – the consumption of the spread and EUR/USD basis risk appetite by the various maturities of refinancing loans for large export credits.

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

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

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

Duration gap

The difference in maturity between assets and liabilities can lead to liquidity risk. As interest rate risk is controlled (see section 8.3.2.3.), Caisse Française de Financement Local ensures that asset and liability maturities match by keeping the difference in duration between assets and debts benefiting from the legal privilege to three years or less.

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

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

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	**6/30/2018**	**9/30/2018**	**12/31/2018**	**3/31/2019**	**6/30/2019**
Cover pool	6.71	6.82	6.78	6.79	6.83
Privileged liabilities	6.73	6.72	6.52	6.88	6.83
Gap in asset-liability duration	**-0.02**	**0.10**	**0.26**	**-0.09**	**0.00**
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)	**6/30/2018**	**9/30/2018**	**12/31/2018**	**3/31/2019**	**6/30/2019**
Cover pool	7.24	7.35	7.27	7.15	7.06
Privileged liabilities	7.19	7.19	6.96	7.21	7.06
Gap in asset-liability weighted average life	**0.05**	**0.16**	**0.31**	**-0.06**	**0.00**

Regulatory limit

Current regulations impose a limit of one and a half years on the weighted average life gap between the cover pool Caisse Française de Financement Local respects this limit.

8.3.2. Interest rate risk

8.3.2.1. Definition

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

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

These risks are generally hedged using derivatives.

8.3.2.2. Hedging strategy

To limit its impact, interest rate risk is hedged in two stages by Caisse Française de Financement Local:
- In the first stage, all the assets and the liabilities benefiting from the privilege which do not naturally have a floating rate are hedged against Euribor until maturity as soon as they are recorded on the balance sheet. In practice, acquisitions of loan portfolios (in which the unit amount is generally small) are usually macro-hedged. Loans granted individually or bond issues can be micro- or macro-hedged. Hedging of assets and liabilities is more often obtained in using new interest rate swaps, but the same effect can also be obtained whenever possible by the cancelation of swaps of opposite direction.
- In the second stage, Euribor lending and borrowing flows (naturally or after hedges) are swapped against Eonia in order to eliminate the basis risk generated by differences in the tenor (Euribor 1, 3, 6 or 12 months) and the fixing risk due to refixing dates of reference indices that differ for the assets and the liabilities. The residual risk is managed using macro-hedges with a management horizon of one week.

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

Non-privileged debt is not concerned by these hedging operations. In fact, debt contracted by Caisse Française de Financement Local with its shareholder to finance over-collateralization is borrowed either directly with a Eonia index and does not need to be swapped, or with a Euribor index and thus finances assets also indexed on Euribor. Short-term debt owed the Banque de France with a fixed rate (if any) is not hedged, but finances fixed rate assets.

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

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

8.3.2.3. Limits governing interest rate risk

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

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

Limiting directional risk

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

Directional risk

Total sensitivity

EUR millions	Limit	6/30/2018	9/30/2018	12/31/2018	3/31/2019	6/30/2019
Sensitivity	**(25)/25**	1.7	(2.0)	0.9	(0.2)	**(0.1)**

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	6/30/2018	9/30/2018	12/31/2018	3/31/2019	6/30/2019
Short term	**(10)/10**	(4.3)	(5.5)	(5.8)	(5.5)	**(5.7)**
Medium term	**(10)/10**	(1.0)	(4.9)	0.0	(3.5)	**(5.6)**
Long term	**(10)/10**	4.6	4.6	2.5	5.3	**6.7**
Very long term	**(10)/10**	2.4	3.8	4.3	3.6	**4.4**

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

EUR millions	Limit	6/30/2018	9/30/2018	12/31/2018	3/31/2019	6/30/2019
Short term	**20**	8.8	10.3	9.2	15.0	**9.3**
Medium term	**20**	14.4	9.9	10.0	9.8	**13.3**
Long term	**20**	8.7	13.0	12.9	8.9	**6.8**
Very long term	**20**	10.8	14.1	13.3	12.8	**8.0**

8.3.2.4. Outstanding derivatives

The strategies employed to hedge interest rate risk and foreign exchange risk are illustrated by notional outstanding swaps analyzed in the following table, broken down between external counterparties and an internal counterparty (SFIL), as of June 30, 2019.

Breakdown of outstanding swaps EUR billions	**Notional** Absolute value
Euribor against Eonia	
Macro-hedges	33.8
TOTAL SHORT-TERM SWAPS	**33.8**
Fixed rate swaps against Euribor	
Micro-hedges on *obligations foncières*	40.6
Micro-hedges on loans and debt securi	20.3
Macro-hedges on loans	13.4
Subtotal	**74.2**
Currency swaps	
Micro-hedges on *obligations foncières*	1.3
Micro-hedges on loans	2.7
Micro-hedges on debt securities	0.4
Subtotal	**4.4**
TOTAL LONG-TERM SWAPS	**78.6**

8.3.3. Foreign exchange risk

8.3.3.1. Definition

The foreign exchange risk is defined as the risk of a loss, linked to a change in the exchange rate of currencies vis-à-vis a reference currency. The reference currency of Caisse Française de Financement Local is the euro. The foreign exchange risk reflects a change in the value of assets and liabilities denominated in a currency other than the euro by reason of fluctuations of this same currency vis-à-vis the euro.

8.3.3.2. Hedging Strategy

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

Foreign exchange risk is monitored using the net foreign exchange position in each currency, calculated on all foreign currency balance sheet receivables, commitments and accrued interest not yet due. 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.

8.4 – OTHER RISKS

8.4.1. Operational risk

The *arrêté* of November 3, 2014, defines operational risk as follows: "In accordance with definition 52 of section 1 of Article 4 of the above-mentioned Regulation (EU) No. 575/2013, the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk includes, in particular, risks related to events of low probability of occurrence but with a high impact, the internal and external fraud risks defined in Article 324 of the above-mentioned Regulation (EU) No. 575/2013, and model 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 regarding operational risk measurement and management entails regularly identifying and assessing the risks incurred as well as existing mitigation and control measures in order to verify whether or not the residual risk level is acceptable. This policy is implemented through three main mechanisms: the collection of operational incidents, the mapping of operational risks and the monitoring of key operational risk indicators. It is supplemented by an IT systems security management policy, a contingency and business continuity plan and a guideline related to the management of outsourced essential services and, when necessary, insurance coverage of certain risks.

SFIL's accountable officers, the members of SFIL's Management Committee, SFIL's Board of Directors and 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.

The start of production of a major IT project for SFIL was stabilized in the first half of 2019. The potential operational risks related to any project of this type are monitored and reported under the existing operational risk management policy. The mapping of the operational risks of SFIL's processes also continued.

8.4.2. Legal and tax risks

8.4.2.1. Definition

Legal risk is the risk of any litigation with a counterparty resulting from any misunderstanding, lack or insufficiency that may be attributed to the Company in the exercise of its activities.

8.4.2.2. Legal risk

In terms of lawsuits, as of June 30, 2019 the number of borrowers who had brought suit with respect to structured loans was 16 compared with 18 at December 31, 2018 and has decreased steadily since the end of 2014 (210 at December 31, 2014). Since SFIL's creation, 207 borrowers have dropped their claims against the Group.

In the last two years, there were two rulings, on March 28, 2018 and June 26, 2019, under which the Court of Cassation confirmed the validity of the structured loans recorded on CAFFIL's balance sheet. All in all, since the entry into force on July 30, 2014 of the law on securing structured loan contracts signed by public sector entities, 42 court decisions on the merits have confirmed the validity of such contracts. However, CAFFIL was found to be liable in three proceedings, two of which are still pending.

As of June 30, 2019, 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

As a reminder, in 2015 the French tax authorities conducted an audit of the income reported and tax paid by CAFFIL, SFIL's subsidiary, for 2012 and 2013. Following this audit, the tax authorities expressed their disagreement with the tax treatment in Ireland of the income of the former Dexia Municipal Agency branch (former name of CAFFIL) in Dublin, which was closed in 2013, and the deductibility of the provisions for doubtful loans. To safeguard its rights to the contested reassessments, in 2017 the tax authorities initiated an audit procedure relating to the consequences of the previous audit, i.e. cancellation of the loss at the end of 2013, of the taxable income for the 2014 to 2016 fiscal years. The two points of disagreement expressed in connection with the 2015 audit were upheld following this tax audit. To cover the risk of an unfavorable outcome, Caisse Française de Financement Local had set up a provision for taxes. However, since 2016 Caisse Française de Financement Local has contested the tax authorities' position on the income of the former branch in Ireland and has presented its arguments through the appeal procedures provided by law.

At the end of 2018, the tax authorities levied the adjustments related to the 2012 and 2013 audits. However, it reduced the amount of the reassessment relating to the add-back of the income of the former branch in Ireland, but upheld the principle of taxation of this income in France. Caisse Française de Financement Local paid this adjustment and reversed the relevant provisions. It kept in its accounts the amount of the provision set aside for the sums not yet paid. There were no changes in this case during the first half of 2019.

8.4.3. Risks of non-compliance

8.4.3.1. Definition

Non-compliance risk is the risk of judicial, administrative or disciplinary sanction, of significant financial loss or loss of reputation resulting from failure to comply with the prevailing laws and regulations and professional and ethical standards relating to banking and financial activities or with instructions from the executive body issued in particular pursuant to directives from the decision-making body.

The Compliance Division is responsible for managing non-compliance risk, as defined by Article 10 of the decree of November 3, 2014, for all SFIL and Caisse Française de Financement Local activities.

The aim of non-compliance risk management is to protect the reputation of the Group, its investors and its customers, ensure ethics and good professional behavior, prevent conflicts of interest, protect customers' interests and market integrity, prevent money laundering, corruption and terrorist financing and ensure compliance with financial embargoes.

The first half of 2019 was marked by the continued implementation of the GDPR policy, the change of anti-corruption procedures and the updating of compliance procedures in order to incorporate the latest regulatory developments.

9. Income for the period from January 1st and June 30, 2019

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

(1) IFRS 16 standard and IFRIC 23 interpretation have been applied by the SFIL's group since January 1, 2019. These changes in accounting methods have no impact on Net income and the impacts on the balance sheet are detailed in the notes to the half-year financial statements.

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 2019

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

IFRS EUR millions	H1 2018	2018	H1 2019	change H1 2018 / H1 2019
Interest margin	75	128	59	
Net commissions	(8)	(7)	1	
Net result on financial instruments at fair value through net income	39	36	16	
Net result on financial instruments at fair value through equity	-	0	-	
Net result due to derecognition of financial instruments at amortized cost	5	14	3	
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	**111**	**171**	**79**	**(29)%**
General operating expenses	(47)	(96)	(48)	
Taxes	(5)	(5)	(5)	
GROSS OPERATING INCOME	**59**	**70**	**26**	**(56)%**
Cost of risk	1	(4)	(1)	
INCOME BEFORE TAX	**60**	**66**	**25**	**(58)%**
Income tax	(17)	(4)	(7)	
NET INCOME	**43**	**62**	**18**	**(58)%**

As of June 30, 2019, net income was positive at EUR +18 million, compared with EUR +43 million as of June 30, 2018.

9.1.2. Income restated excluding non-recurring items

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

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

En EUR millions	H1 2018	H1 2019
Fair value adjustment of non SPPI financial assets	12	11

- 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.

En EUR millions	H1 2018	H1 2019
Fair value adjustments on hedging	10	(10)

For the record, since 2013, fair value adjustments have an effect on existing hedging transactions the Company uses to cover its interest rate and foreign exchange risks. These adjustments impacted asymmetrically the hedged item and its hedging derivative, although the Company applies strict financial hedging rules, and this factor was therefore the cause of major changes in Net banking income. 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 denominated in USD, which in 2018, 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 assets at fair value through net income.

- 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.

En EUR millions	H1 2018	H1 2019
linearization of IFRIC 21 expenses	(4)	(3)

The recurring income statement for the first semester of 2018 and 2019 is as follows.

EUR millions	H1 2018			H1 2019		
	Accounting income statement	Non-reccuring items	Recurring income statement	Accounting income statement	Non-reccuring items	Recurring income statement
NET BANKING INCOME	**111**	**22**	**89**	**79**	**1**	**78**
Opertating Expenses	(52)	(4)	(48)	(53)	(3)	(50)
OPERATING INCOME BEFORE COST OF RISK	**59**	**19**	**41**	**26**	**(2)**	**28**
Cost of risk	1	-	1	(1)	-	(1)
PRE-TAX INCOME	**60**	**19**	**42**	**25**	**(2)**	**27**
Income tax	(17)	(7)	(10)	(7)	0	(7)
NET INCOME	**43**	**12**	**32**	**18**	**(2)**	**20**

Restated for the non-recurring items mentioned above, Net banking income for the year fell from EUR 89 million in the first half of 2018 to EUR 78 million in the first half 2019, a decrease of EUR 11 million. Net income for the half year fell by EUR 12 million, from EUR 32 million to EUR 20 million.

9.1.3. Analysis of recurring net income

The EUR 11 million fall in net banking income is mainly attributable to the year-on-year decrease in restructured loans resulting from the recognition in net banking income, per IFRS 9, of the surplus margin on these loans (taking into account hedging impact) over market rates on the restructuring date; this amount came to around EUR 14 million at end-June 2018 compared with around EUR 3 million at end-June 2019. Adjusted for this impact, net banking income was virtually unchanged. Note that income from a transaction completed in the first half of 2019 was recorded under Net commissions.

As a reminder, Caisse Française de Financement Local's operating expenses consist mainly of amounts that its parent company invoices for its operational management, which were virtually unchanged in the first half of 2019 compared with the first half of 2018.

Cost of risk was minimal, having increased very slightly year on year.

The tax charge for the first half of 2019 was EUR 7 million; it reflected in particular the impact of the non-deductibility of the contribution to the Single Resolution Fund.

9.2. INCOME ACCORDING TO FRENCH GAAP

Net income is presented below in a synthetic manner.

French GAAP EUR millions	H1 2018	2018	H1 2019	change H1 2018 / H1 2019
Interest margin	68	150	60	
Net commissions	(8)	(7)	1	
Provisions and income on trading portfolio	-	-	-	
Provisions and income on securities	(7)	(9)	(2)	
Other income and expense	-	-	-	
NET BANKING INCOME	**53**	**134**	**59**	**11%**
General operating expenses	(47)	(96)	(48)	
Taxes	(5)	(5)	(5)	
GROSS OPERATING INCOME	**1**	**33**	**6**	**500%**
Cost of risk	(3)	(16)	3	
OPERATING INCOME	**(2)**	**17**	**9**	**550%**
Income (loss) on fixed assets	-	-	-	
Income tax	(3)	27	(1)	
NET INCOME	**(5)**	**44**	**8**	**260%**

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 was up 11% from the first half of 2018, increasing by EUR 6 million from EUR 53 million to EUR 59 million.
This rise was mainly attributable to respective increases of EUR 9 million and EUR 5 million in Net commissions and Provisions and income on securities. Income from a transaction completed in the first half of 2019 was recorded under Net commissions. The interest margin fell by EUR 8 million, mainly as a result of the decline in loan restructurings in the first half of 2019. As a reminder, under French GAAP, transactions of this type result in the recognition on the restructuring date of the early repayment penalty net of the hedging swap termination fees (see italicized section above).

Operating expenses consisted mainly of amounts billed by the parent company for Caisse Française de Financement Local's operational management. They were virtually unchanged.

Cost of risk was positive due to reversals of general provisions.

Net income rose to EUR 8 million in the first half of 2019 compared with a net loss of EUR 5 million in the first half of 2018.

10. Outlook for 2019

In 2019, Caisse Française de Financement Local and its parent company SFIL will aim to maintain their position as the recognized leader for their two activities entrusted by the French State:
- financing loans to French local government entities and public hospitals, within the framework of the system established with La Banque Postale;
- supporting French exporters by refinancing large export credits guaranteed by the State.

The implementation of the extension of the large export credit activity to projects of strategic interest for France is expected to come on stream in the near future. The SFIL group will be in a position, subject to receipt of the necessary authorizations, to participate in the first transactions in 2020.

To cover its financing requirements, in 2019 Caisse Française de Financement Local plans to issue between EUR 4 and 5 billion of *obligations foncières* 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 issues in euros and private placements adapted to the needs of its broad investor base. Meanwhile, as part of the implementation of the SFIL Group's social and environmental policy, following the successful of the first social bon issuance executed in February 2019 and in order to diversify its sources of financing, CAFFIL plans to continue its work in order to issue a "green" thematic bond in the near future. SFIL group plans to be regular issuer of “green” and “social” thematic bonds in the future in order to refinance public sector assets.

Moreover, from a macroeconomic perspective, as in 2018, two important factors will be monitored closely in the second half of 2019:
- the degree of market volatility in an environment impacted by the Brexit process; the geopolitical environment, and particularly trade tensions between the United States, China and Europe; the budget situation in Italy; and the possible reintroduction of unconventional monetary policies by the European Central Bank in order to spur growth;
- changes in the regulatory environment, particularly the proposed European harmonization of national covered bond frameworks and its transposition into national law.

Lastly, the assessment of the project transfer to CDC of the control of SFIL, Caisse Française de Financement Local's parent company, announced by the State and CDC on November 15, 2018, will continue over the second half of 2019.

Breakdown of cover pool as of June 30, 2019

EUR millions	6/30/2019					12/31/2018
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
France						
State:						
- export refinancing	-	-	1,812	-	1,812	1,101
- others	5	-	0	-	5	120
Banque de France	1,684	-	-	-	1,684	1,271
Regions	1,854	230	250	-	2,334	2,410
Departments	6,876	-	166	-	7,042	6,980
Municipalities	14,958	17	345	-	15,320	15,513
Groups of municipalities	11,816	76	120	-	12,012	11,647
Public sector entities:						
- health	6,111	23	-	-	6,134	6,162
- social housing	1,114	-	-	-	1,114	1,164
- others	839	54	1	-	894	1,006
Credit institutions	804	922	-	-	1,726	1,783
Subtotal	**46,061**	**1,322**	**2,694**	**-**	**50,077**	**49,157**
Germany						
Länder	-	275	-	-	275	275
Subtotal	**-**	**275**	**-**	**-**	**275**	**275**
Austria						
Länder	-	-	180	-	180	183
Subtotal	**-**	**-**	**180**	**-**	**180**	**183**
Belgium						
Regions	2	-	15	-	17	19
Public sector entities	44	-	-	-	44	49
Credit institutions	-	174	-	-	174	176
Subtotal	**46**	**174**	**15**	**-**	**235**	**244**
Canada						
Municipalities	100	-	-	-	100	100
Public sector entities	35	-	-	-	35	35
Credit institutions	-	134	-	-	134	96
Subtotal	**135**	**134**	**-**	**-**	**269**	**231**
Denmark						
Credit institutions	-	91	-	-	91	91
Subtotal	**-**	**91**	**-**	**-**	**91**	**91**
Spain						
State	-	75	-	-	75	125
Regions	-	50	-	-	50	50
Municipalities	73	-	-	-	73	73
Subtotal	**73**	**125**	**-**	**-**	**198**	**248**

EUR millions	6/30/2019					12/31/2018
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
United States						
Federated States	-	234	-	-	234	253
Subtotal	**-**	**234**	**-**	**-**	**234**	**253**
Finland						
Credit institutions	-	96	-	-	96	-
Subtotal	**-**	**96**	**-**	**-**	**96**	**-**
Italy						
State	-	531	-	-	531	535
Regions	-	1,887	-	-	1,887	1,912
Provinces	-	462	-	-	462	479
Municipalities	6	1,687	-	-	1,693	1,733
Subtotal	**6**	**4,567**	**-**	**-**	**4,573**	**4,659**
Japan						
Municipalities	-	25	-	-	25	25
Subtotal	**-**	**25**	**-**	**-**	**25**	**25**
Norway						
Credit institutions	-	222	-	-	222	222
Subtotal	**-**	**222**	**-**	**-**	**222**	**222**
Netherlands						
Credit institutions	-	243	-	-	243	95
Subtotal	**-**	**243**	**-**	**-**	**243**	**95**
Portugal						
State	-	-	-	-	-	10
Municipalities	12	-	-	-	12	14
Public sector entities	3	-	-	-	3	4
Subtotal	**15**	**-**	**-**	**-**	**15**	**28**
United Kingdom						
State	-	-	-	90	90	138
Credit institutions	-	154	-	-	154	216
Subtotal	**-**	**154**	**-**	**90**	**244**	**354**
Sweden						
Municipalities	18	-	-	-	18	18
Credit institutions	-	291	-	-	291	122
Subtotal	**18**	**291**	**-**	**-**	**309**	**140**
Switzerland						
Cantons	257	-	6	-	263	263
Municipalities	326	-	-	-	326	335
Public sector entities	60	-	-	-	60	60
Subtotal	**643**	**-**	**6**	**-**	**649**	**658**
Supranational						
International organizations	22	-	-	-	22	24
Subtotal	**22**	**-**	**-**	**-**	**22**	**24**
TOTAL *COVER POOL*	**47,019**	**7,953**	**2,895**	**90**	**57,957**	**56,887**

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, 2019

IFRS Financial Statements

Assets

EUR millions	Note	12/31/2018	6/30/2019
Central banks	*2.1*	1,271	1,684
Financial Assets at fair value through profit or loss	*2.2*	5,584	5,350
Hedging derivatives		4,134	5,289
Financial Assets at fair value through equity	*2.3*	124	186
Financial Assets at amortized cost			
Loans and advances due from banks at amortized cost	*2.4*	2,132	2,832
Loans and advances to customers at amortized cost	*2.4*	43,781	44,741
Bonds at amortized cost	*2.4*	9,384	9,466
Fair value revaluation of portfolio hedge		2,552	3,021
Current tax assets		-	8
Deferred tax assets		79	71
Accruals and other assets		15	17
TOTAL ASSETS		**69,056**	**72,665**

Liabilities

EUR millions	Note	12/31/2018	6/30/2019
Central banks		-	-
Financial liabilities at fair value through profit or loss	*3.1*	1,195	1,218
Hedging derivatives		5,994	7,131
Financial liabilities at amortized cost			
Due to banks at amortized cost	*3.2*	4,941	5,260
Customer borrowing and deposits at amortized cost		-	-
Debt securities at amortized cost	*3.2*	54,442	56,474
Fair value revaluation of portfolio hedge		342	375
Current tax liabilities (1)		8	7
Deferred tax liabilities		-	-
Accruals and other liabilities	*3.4*	681	773
Provisions (1)	*3.3*	13	6
Subordinated debt		-	-
EQUITY		**1,440**	**1,421**
Capital		1,350	1,350
Reserves and retained earnings		47	68
Net result through equity	*4.4*	(19)	(15)
Net income		62	18
TOTAL LIABILITIES		**69,056**	**72,665**

(1) Since 1st January 2019, as a consequence of the application of IFRIC 23, provisions on tax matters are reclassified from Provisions *to* Current tax liabilities.

Income Statement

EUR millions	Note	H1 2018	2018	H1 2019
Interest income	*5.1*	1,314	2,653	1,266
Interest expense	*5.1*	(1,239)	(2,525)	(1,207)
Fee and commission income	*5.2*	-	1	3
Fee and commission expense	*5.2*	(8)	(8)	(2)
Net result of financial instruments at fair value through profit or loss	*5.3*	39	36	16
Net result of financial instruments at fair value through equity	*5.4*	-	0	-
Gains or losses resulting from derecognition of financial instruments at amortized cost	*5.5*	5	14	3
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		**111**	**171**	**79**
Operating expenses	*5.6*	(52)	(101)	(53)
GROSS OPERATING INCOME		**59**	**70**	**26**
Cost of risk	*5.7*	1	(4)	(1)
OPERATING INCOME		**60**	**66**	**25**
Net gains (losses) on other assets		-	-	-
INCOME BEFORE TAX		**60**	**66**	**25**
Income tax		(17)	(4)	(7)
NET INCOME		**43**	**62**	**18**
Earnings per share (EUR)				
- Basic		3.23	4.59	1.31
- Diluted		3.23	4.59	1.31

Net income and unrealized or deferred gains and losses through equity

EUR millions	H1 2018 [1]	2018	H1 2019
Net income	**43**	**62**	**18**
Item that may be reclassified as profit or loss	**3**	**(0)**	**4**
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	4	5	5
Tax on items that may subsequently be reclassified as profit or loss	(1)	(5)	(1)
Item that may not be reclassified as profit or loss	**-**	**-**	**-**
Total unrealized or deferred gains or losses through equity	**3**	**(0)**	**4**
NET INCOME AND GAINS OR LOSSES THROUGH EQUITY	**46**	**62**	**22**

(1) : Reclassified in accordance with financial presentation as of December 31, 2018

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, 2018	**1,350**	**109**	**1,459**	**(0)**	**(19)**	**(19)**	**1,440**
Stocks issued	-	-	-	-	-	-	-
Dividends	-	(41)	(41)	-	-	-	(41)
Changes in fair value of financial assets through equity	-	-	-	0	-	0	0
Changes in fair value of derivatives through equity	-	-	-	-	4	4	4
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	-	18	18	-	-	-	18
Other movements	-	-	-	-	-	-	-
EQUITY AS OF JUNE 30, 2019	**1,350**	**86**	**1,436**	**-**	**(15)**	**(15)**	**1,421**

The Ordinary Shareholder's meeting decided on May 28, 2019 , to distribute a dividend in the amount of EUR 40.50 millions. Each share (13,500,000 shares) received a dividend of EUR 3,00.
Share capital currently stands at EUR 1,350,000,000 represented by 13,500,000 nominative shares.

Cash flow statement

EUR millions	2018	H1 2019
Net INCOME BEFORE TAX	**66**	**25**
+/- Depreciation and write-downs	(104)	2
+/- Expense/income from investing activities	(62)	92
+/- Expense/income from financing activities	(13)	(194)
+/- Other items	165	(79)
= Non-monetary items included in net income before tax and other adjustments	**(14)**	**(179)**
+/- Cash from interbank operations	(1,151)	(378)
+/- Cash from customer operations	679	(9)
+/- Cash from financing assets and liabilities	(934)	55
+/- Cash from non-financing assets and liabilities	(286)	64
- Income tax paid	4	(12)
= Decrease / (increase) in cash from operating activities	**(1,688)**	**(280)**
CASH FLOW FROM OPERATING ACTIVITIES (A)	**(1,636)**	**(434)**
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	**-**
+/- Cash from or for shareholders	(50)	(41)
+/- Other cash from financing activities	1,246	887
CASH FLOW FROM FINANCING ACTIVITIES (C) (1)	**1,196**	**846**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	**-**	**-**
Increase / (decrease) in cash equivalents (A + B + C + D)	**(440)**	**412**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,721**	**1,281**
Cash and balances with central banks (assets & liabilities)	1,706	1,271
Interbank accounts (assets & liabilities) and loans/deposits at sight	15	10
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**1,281**	**1,693**
Cash and balances with central banks (assets & liabilities)	1,271	1,684
Interbank accounts (assets & liabilities) and loans/deposits at sight	10	9
CHANGE IN NET CASH	**(440)**	**412**

(1) Over the first half of 2019, the net cash flow of EUR +0.8 billion linked to financing activities corresponded to the change in debt represented by a security. Compared with the variation of EUR +2 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, 2018. 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, 2019 were examined by the Executive Board on September 2, 2019.

Due to the entry into force of IFRIC 23 for reporting periods beginning on or after January 1, 2019, the Company has disclosed in its financial statements presented below the information required: IFRIC 23 first time application impacts are detailed in a foot note below the Balance-sheet and in note 3.3.

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, 2019

• **IFRS 16 Leases:** issued by IASB on January 13, 2016, endorsed by the European Union on October 31, 2017 (UE Regulation n° 2017/1986) and effective for reporting periods beginning on or after January 1, 2019, this standard, which replaces IAS 17 standard, provides that at the commencement date a lessee shall recognize a right-of-use asset and a lease liability.

This standard has no impact on individual financial statements of the Company given that the latter is involved in no leases.

• **Amendment to IFRS 9 Financial instruments:** issued by IASB on October 12, 2017, endorsed by the European Union on March 22, 2018 (UE Regulation n° 2018/498) and effective for reporting periods beginning on or after January 1, 2019, this amendment clarifies that instruments whose contractual terms may eventually result in a prepayment inferior to the sum of the outstanding principal and accrued interest meet the SPPI criterion, provided that the prepayment amount essentially represents the outstanding principal and the related interest, plus a reasonable compensation irrespective of its sign (payment by the borrower to the lender or by the lender to the borrower).

This amendment has no impact on individual financial statements of the Company given that the latter had opted for an earlier application of this amendment from January 1, 2018, which was the transition date from IAS 39 standard to IFRS 9 standard.

• **IFRIC 23 Uncertainty over income tax treatments:** issued by IASB on June 7, 2017, endorsed by the European Union on October 23, 2018 (UE Regulation n° 2018/1595) and effective for reporting periods beginning on or after January 1, 2019, this interpretation specifies how to reflect uncertainty over tax treatments applied when determining taxable profit, tax bases, unused tax losses, unused tax credits and tax rates. The entity shall assume that the taxation authority will perform exhaustive examinations and that, during these examinations, it will have full knowledge of all related information.
This interpretation has a limited impact on individual financial statements of the Company, given that the activity of the latter does not expose it to material tax uncertainties. Moreover, the Company had already provisioned the non material tax risks to which it may be exposed due to its activity. The provisions of IFRIC 23 regarding the measurement of this provision have resulted in no adjustment of its amount. As a result, the only impact of this interpretation is, as of January 1, 2019, the reclassification from the item Provisions to the item Current tax liabilities of the provision for tax risks previously recognized. Regarding the transition to IFRIC 23, the Company has opted for a limited retrospective application under IFRIC 23: with regard to a reclassification without re-measurement, the first time application impact of IFRIC 23 on the opening equity is zero.

The impacts of this interpretation on the individual financial statements of the Company have been identified and the transition to IFRIC 23 has been realized.

• **Amendment to IAS 28 Investments in associates:** issued by IASB on October 12, 2017 in the framework of its regular IFRS improvement process, endorsed by the European Union on February 8, 2019 (UE Regulation n° 2019/237) and effective for reporting periods beginning on or after January 1, 2019, this amendment confirms that IFRS 9 applies to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in an associate or joint venture.

This amendment has no impact on individual financial statements of the Company given that the latter holds no associate or joint venture.

• **Amendment to IAS 19 Employee benefits:** issued by IASB on February 7, 2018 in the framework of its regular IFRS improvement process, endorsed by the European Union on March 13, 2019 (UE Regulation n° 2019/402) and effective for reporting periods beginning on or after January 1, 2019, this amendment elaborates on how the net liability (or asset) accounted for shall be remeasured in case of amendment, curtailment or settlement of a defined contribution plan within a reporting period.

This amendment has no impact on individual financial statements of the Company given that the latter has no salaried employees in accordance with the provisions of article L.513-15 of the Monetary and Financial Code, the general management of its operations having been entrusted by a contract to its parent company, SFIL, a credit institution.

• **Amendments to IAS 12 Income taxes / IAS 23 Borrowing costs / IFRS 3 Business combinations / IFRS 11 Joint arrangements:** issued by IASB in December 2017 in the framework of its regular IFRS improvement process, endorsed by the European Union on March 14, 2019 (UE Regulation n° 2019/412) and effective for reporting periods beginning on or after January 1, 2019, these amendments elaborate on:
• as regards IAS 12, how income tax consequences of dividend payments shall be recognized: such consequences are linked to past transactions or events that generated distributable profits and shall therefore be recognized in the same statement (statement of profit or loss, statement of other comprehensive income, etc.) as these transactions or events ;
• as regards IAS 23, how the residual borrowing costs shall ceased to be incorporated in the cost of an asset when the latter is ready for its intended use or sale : these residual borrowing costs shall become part of the general borrowings used for computing the capitalization rate;
• as regards IFRS 3, how the acquisition of control of a joint operation shall be accounted for;
• as regards IFRS 11, how the joint acquisition of control in the framework of a joint operation shall be accounted for.

The amendment of IAS 12 has no material impact on individual financial statements of the Company. The amendments of IAS 23, IFRS 3 and IFRS 11 have no impact on individual financial statements of the Company given that the operations of the latter are out of the scope of these standards.

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

• **IFRS 17 Insurance contracts:** issued by IASB in May 2017, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2021 (if not January 1, 2022 given the tentative decision of IASB's Board taken on November 14, 2018), 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.

• **Amendments to IAS 1 Presentation of financial statements / IAS 8 Accounting policies, changes in accounting estimates and errors:** issued by IASB in October, 2018, not yet endorsed by the European Union 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 impacts of these amendments on individual financial statements of the Company are being analyzed.

• **Amendment to IFRS 3 Business combinations:** issued by IASB in October, 2018, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2020, 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.

The impacts of this amendment on individual financial statements of the Company are being analyzed. It will at a first sight have no impact on individual financial statements of the Company given that the operations of the latter are out of the scope of this standard.

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 expec-

tations 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 on the contract at closing date with its default risk at the date of initial recognition. This assessment takes into consideration all reasonable and supportable information that is relevant and that is available for the Company without incurring undue cost or making undue effort, in particular qualitative and quantitative information on past events (use of historic metrics), on current economic environment and on expectations on future economic environment (forward looking information). In practice, the assessment of credit risk increase is realized at counterparty level:
• either through the comparison of the probability of default (PD) at maturity (weighted average PD of the forward looking scenarios) to the PD at initial recognition;
• or through the characterization of risk levels (ratings coming from internal notation systems) year-to-year migrations towards risk levels regarded as risky (higher historic default rates).

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

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

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

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

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 integrate a forward looking dimension, which consists in projecting macroeconomic and financial variables and assessing their impacts on loss allowances. These scenarios are built upon either projections realized by the credit risk direction, or quantitative research developed from data issue from advanced models. In the case of French local communities, the main pieces of information taken into account are the expectations and objectives in term of local public expenditures and tax revenues developed, in particular, in the draft budget bills and the programs for stability of the State, as well as the hypothesis regarding recourse to taxation.

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

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

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

Recognizing the impairment
Positive and negative variations of the amount of the loss allowance for expected credit losses are recognized in 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

	12/31/2018	6/30/2019
Mandatory reserve deposits with central banks	-	-
Other deposits	1,271	1,684
TOTAL	**1,271**	**1,684**

2.2 - FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

2.2.1. Analysis by nature

	12/31/2018	6/30/2019
Loans and advances to customers	5,572	5,343
Non Hedging derivatives	12	7
TOTAL	**5,584**	**5,350**

2.2.2. Loans and advances to customers analysis by counterparty

	12/31/2018	6/30/2019
Public sector	5,098	4,886
Other - guaranteed by a State or local government	474	457
TOTAL	**5,572**	**5,343**

2.3 - FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY

2.3.1. Analysis by nature

	12/31/2018	6/30/2019
Stocks	-	-
Debt securities	124	186
TOTAL	**124**	**186**

2.3.2. Analysis by counterparty

	12/31/2018	6/30/2019
Public sector	94	75
Credit institutions	30	111
TOTAL	**124**	**186**
of which replacement assets	*30*	*111*

2.4 - FINANCIAL ASSETS AT AMORTIZED COST

2.4.1. Analysis by nature & counterparty

	12/31/2018	6/30/2019
Sight accounts	3	4
SFIL - loans to refinance large export credit guaranteed by the French state (1)	1,099	1,810
SFIL - other loans non secured by public sector assets (2)	798	799
Loans to banks guaranteed by a local government, *crédits municipaux*	232	219
Sub-total loans and advances due from banks at amortized cost	**2,132**	**2,832**
Loans to public sector	42,296	43,450
Loans guaranteed by public sector	1,485	1,291
Sub-total loans and advances to customers at amortized cost	**43,781**	**44,741**
Public sector bonds	7,181	7,048
Other bonds guaranteed by a State or local government	192	155
Bank bonds	2,011	2,263
Sub-total bonds at amortized cost	**9,384**	**9,466**
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	**55,297**	**57,039**

(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

	12/31/2018	6/30/2019
Sight accounts	3	4
SFIL - other loans non secured by public sector assets (1)	798	799
Bank bonds	2,011	2,263
TOTAL	**2,812**	**3,066**

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

2.4.3. Breakdown by stage of credit risk and impairment

	12/31/2018										
	Gross amount				Impairment				Net Amount	Partial reversals amount	Total reversals amounts
	Stage 1	Stage 2	Stage 3	TOTAL	Stage 1	Stage 2	Stage 3	TOTAL			
Loans and advances due from banks at amortized cost	2,132	-	-	**2,132**	(0)	-	-	**(0)**	**2,132**	-	-
Loans and advances to customers at amortized cost	39,351	3,372	1,091	**43,814**	(2)	(21)	(10)	**(33)**	**43,781**	-	-
Bonds at amortized cost	6,553	2,853	5	**9,411**	(3)	(24)	(0)	**(27)**	**9,384**	-	-
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	**48,036**	**6,225**	**1,096**	**55,357**	**(5)**	**(45)**	**(10)**	**(60)**	**55,297**	**-**	**-**

	6/30/2019										
	Gross amount				Impairment				Net Amount	Partial reversals amount	Total reversals amounts
	Stage 1	Stage 2	Stage 3	TOTAL	Stage 1	Stage 2	Stage 3	TOTAL			
Loans and advances due from banks at amortized cost	2,832	-	-	**2,832**	(0)	-	-	**(0)**	**2,832**	-	-
Loans and advances to customers at amortized cost	40,300	3,367	1,110	**44,777**	(1)	(23)	(12)	**(36)**	**44,741**	-	-
Bonds at amortized cost	6,545	2,940	6	**9,491**	(3)	(22)	(0)	**(25)**	**9,466**	-	-
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	**49,677**	**6,307**	**1,116**	**57,100**	**(4)**	**(45)**	**(12)**	**(61)**	**57,039**	**-**	**-**

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 169 forborne contracts as of June 30, 2019, with 87 borrowers, for a total of EUR 968 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

	12/31/2018	6/30/2019
Non hedging derivatives [1]	1,195	1,218
TOTAL	**1,195**	**1,218**

(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 - DEBT AT AMORTIZED COST

3.2.1. Analysis by nature

	12/31/2018	6/30/2019
Sight accounts	-	-
Term borrowing - parent company [1]	4,941	5,260
Sub-total due to banks at amortized cost	**4,941**	**5,260**
Obligations foncières	46,794	48,608
Registered covered bonds	7,648	7,866
Sub-total debt securities at amortized cost	**54,442**	**56,474**
TOTAL DEBT AT AMORTIZED COST	**59,383**	**61,734**

(1) At the end of June 2019, 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

	12/31/2018	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	6/30/2019
Legal issues and tax litigation [1]	7	-	-	-	-	(7)	-
Commitments and guarantees given	6	-	-	-	-	-	6
TOTAL	**13**	**-**	**-**	**-**	**-**	**(7)**	**6**

(1) Since 1st January 2019, as a consequence of the application of IFRIC 23, provisions on tax matters are reclassified from Provisions *to* Current tax liabilities.

3.3 - Accruals and other liabilities

Cash collateral received by Caisse Française de Financement Local amounted to EUR 640 million as of June 30, 2019, and EUR 514 million as of December 31, 2018.

4. Other note to the balance sheet (EUR millions)

4.1 - TRANSACTIONS WITH RELATED-PARTIES

Analysis by nature

	Parent company [1]		Other related parties [2]	
	12/31/2018	6/30/2019	12/31/2018	6/30/2019
ASSETS				
Loans and advances due from banks at amortized cost	1,897	2,609	-	-
Bonds at amortized cost	-	-	145	-
LIABILITIES				
Due to banks at amortized cost	4,941	5,260	-	-
INCOME STATEMENT				
Interest income on loans and advances due from banks at amortized cost	5	6	(10)	(1)
Interest income on bonds at amortized cost	-	-	(0)	-
Interest expense due to banks on borrowings at amortized cost	3	3	-	-
Fees and commissions	(5)	(0)	(0)	(0)
Net results on derecognition of financial assets at amortized cost	(1)	(0)	-	-
OFF BALANCE SHEET				
Foreign exchange derivatives	1,202	1,159	-	-
Interest rate derivatives	14,302	14,772	-	-
Commitments and guarantees received	270	50	-	-
Commitments and guarantees given	6,284	5,638	-	-

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

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 5.3).
Interest income and expense on hedging derivatives are included with the revenue generated by the associated hedged items. Meanwhile, certain derivatives not classified as hedging instruments for accounting purposes are held as economic hedges of financial instruments carried at fair value through net income; the interest income and expense on these hedging derivatives are included in the headings recording the interest on these financial instruments.

	H1 2018			H1 2019		
	Interest income	Interest expense	Interest margin	Interest income	Interest expense	Interest margin
Loans / debt to banks	-	-	-	-	-	-
Loans / debt to customers	89	-	89	75	-	75
Derivatives without hedge relationship	19	(93)	(74)	16	(81)	(65)
Financial assets and liabilities at fair value through profit or loss	**108**	**(93)**	**15**	**91**	**(81)**	**10**
Hedging derivatives	692	(553)	139	685	(586)	99
Hedging derivatives	**692**	**(553)**	**139**	**685**	**(586)**	**99**
Securities	7	-	7	(0)	-	(0)
Financial assets at fair value through equity	**7**	**-**	**7**	**(0)**	**-**	**(0)**
Central bank account	-	(4)	(4)	-	(5)	(5)
Accounts and loans / debt to banks	4	1	5	7	5	12
Accounts and loans / debt to customers	432	-	432	407	-	407
Securities	71	(590)	(519)	76	(540)	(464)
Financial assets and liabilities at amortized costs	**507**	**(593)**	**(86)**	**490**	**(540)**	**(50)**
TOTAL	**1,314**	**(1,239)**	**75**	**1,266**	**(1,207)**	**59**

5.2 - FEES AND COMMISSIONS

	H1 2018			H1 2019		
	Income	Expense	Net	Income	Expense	Net
Lending activity	-	-	-	0	-	0
Purchase and sale of securities	-	(0)	(0)	-	(1)	(1)
Services on securities	-	(2)	(2)	-	(1)	(1)
Commissions on financial instruments	-	(0)	(0)	1	-	1
Rebilling by parent company	-	(6)	(6)	2	(0)	2
TOTAL	**-**	**(8)**	**(8)**	**3**	**(2)**	**1**

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 hedge relation.

	H1 2018	H1 2019
Net income from derivatives not documented in a hedging relationship	109	(73)
Net result on financial Assets or liabilities at fair value through profit or loss	(97)	107
Net result of hedge accounting	28	(21)
Net result of foreign exchange transactions	(1)	3
TOTAL	**39**	**16**

Analysis of net result of hedge accounting

	H1 2018	H1 2019
Fair value hedges	**(4)**	**(0)**
Fair value changes in the hedged item attributable to the hedged risk	7	(535)
Fair value changes in the hedging derivatives	(11)	535
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	7	489
Fair value changes in the hedging derivatives	(7)	(489)
CVA / DVA Impact (1)	**32**	**(21)**
TOTAL	**28**	**(21)**

(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 2018	H1 2019
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 2018	H1 2019
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	6	3
Net result of disposals or prepayments of debt to banks at amortized cost	-	(0)
Net result of disposals or prepayments of debt securities at amortized cost	(1)	-
TOTAL	**5**	**3**

Detail on derecognition of assets and liabilities at amortized cost

	H1 2019	
	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	162	2
Restructuring of loans and advances to customers	91	1
Net result of disposals or prepayments of loans and advances to customers at amortized cost	**253**	**3**
Sub-total Assets	**253**	**3**
Prepayments of debt to banks	45	(0)
Net result of prepayments of debt to banks at amortized cost	**45**	**(0)**
Prepayments of debt securities	-	-
Net result of prepayments of debt securities at amortized cost	**-**	**-**
Sub-total Liabilities	**45**	**(0)**
TOTAL		**3**

5.6 - OPERATING EXPENSE

	H1 2018	H1 2019
Payroll costs	-	-
Other general and administrative expense [1]	(47)	(48)
Taxes	(5)	(5)
TOTAL	**(52)**	**(53)**

(1) Of which EUR 46 million to the benefit of SFIL as of June 30, 2019.

Caisse Française de Financement Local has no salaried employees in accordance with article L.513-15 of the Monetary and Financial Code. The general management of the operations of Caisse Française de Financement Local has been entrusted by an agreement to its parent company, SFIL, a credit institution.
Specific individual agreements have been established with entities that have transferred assets to the *société de crédit foncier*, and continue to ensure management for their national clients. These assets are managed in a run-off mode. At the end of June 2019, there were agreements with the following entities : Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium), and Dexia Crediop (Italy). These agreements already existed in previous years.

Management of registered covered bonds (RCB) issued since 2015 is entrusted to Landesbank Baden-Württemberg (LBBW). Kofiba continues to manage registered covered bonds issued prior to 2015.

5.7 - COST OF RISK

	H1 2018				
	1/01/2018	Impairments	Reversals	Losses	6/30/2018
Stage 1	-	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Financial assets at fair value through equity	**-**	**(0)**	**0**	**-**	**(0)**
Stage 1	(0)	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Loans and advances due from banks at amortized cost	**(0)**	**(0)**	**0**	**-**	**(0)**
Stage 1	(2)	(1)	1	-	(2)
Stage 2	(21)	(4)	3	-	(22)
Stage 3	(11)	(6)	8	(0)	(9)
Loans and advances to customers at amortized cost	**(34)**	**(11)**	**12**	**(0)**	**(33)**
Stage 1	(4)	(2)	2	-	(4)
Stage 2	(18)	(3)	4	-	(17)
Stage 3	(0)	-	-	-	(0)
Bonds at amortized cost	**(22)**	**(5)**	**6**	**-**	**(21)**
Stage 1	(0)	(0)	0	-	(0)
Stage 2	(0)	(1)	0	-	(1)
Stage 3	-	-	-	-	-
Off-balance sheet commitments at amortized cost	**(0)**	**(1)**	**0**	**-**	**(1)**
TOTAL	**(56)**	**(17)**	**18**	**(0)**	**(55)**

	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)**

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

6.1 - GUARANTEES

	12/31/2018	6/30/2019
Guarantees received from credit institutions	8	-
Enhanced guarantees [1]	7,383	7,449
Guarantees received from customers [2]	2,232	2,040

(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

	12/31/2018	6/30/2019
Loan commitments granted to credit institutions [1]	6,284	5,638
Loan commitments granted to customers [2]	28	5
Loan commitments received from credit institutions [3]	270	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

	12/31/2018	6/30/2019
Commitments given[(1)]	4	4
Commitments received[(2)]	223	218

(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	6,284	-	-	**6,284**	-	-	-	**-**	**6,284**		
Granted to customers	5	23	-	**28**	(0)	(0)	-	**(0)**	**28**		
TOTAL	**6,289**	**23**	**-**	**6,312**	**(0)**	**(0)**	**-**	**(0)**	**6,312**	**-**	**-**

	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	5,638	-	-	**5,638**	(0)	-	-	**(0)**	**5,638**		
Granted to customers	5	-	-	**5**	(0)	-	-	**(0)**	**5**		
TOTAL	**5,643**	**-**	**-**	**5,643**	**(0)**	**-**	**-**	**(0)**	**5,643**	**-**	**-**

7. Notes on risk exposure (EUR millions)

7.1 - FAIR VALUE

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

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

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

7.1.1. Composition of the fair value of the assets

	12/31/2018		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1,271	1,271	-
Financial assets at fair value through profit or loss	5,584	5,584	-
Hedging derivatives	4,134	4,134	-
Financial assets at fair value through equity	124	124	-
Loans and advances due from banks at amortized cost	2,132	2,150	18
Loans and advances to customers at amortized cost	43,781	43,166	(615)
Bonds at amortized cost	9,384	8,165	(1,219)
TOTAL	**66,410**	**64,594**	**(1,816)**

	6/30/2019		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1,684	1,684	-
Financial assets at fair value through profit or loss	5,350	5,350	-
Hedging derivatives	5,289	5,289	-
Financial assets at fair value through equity	186	186	-
Loans and advances due from banks at amortized cost	2,832	2,889	57
Loans and advances to customers at amortized cost	44,741	44,505	(236)
Bonds at amortized cost	9,466	7,984	(1,482)
TOTAL	**69,548**	**67,887**	**(1,661)**

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

	12/31/2018		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	1,195	1,195	-
Hedging derivatives	5,994	5,994	-
Due to banks at amortized cost	4,941	4,897	(44)
Debt securities at amortized cost	54,442	54,381	(61)
TOTAL	**66,572**	**66,467**	**(105)**

	6/30/2019		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	1,218	1,218	-
Hedging derivatives	7,131	7,131	-
Due to banks at amortized cost	5,260	5,239	(21)
Debt securities at amortized cost	56,474	57,128	654
TOTAL	**70,083**	**70,716**	**633**

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	12/31/2018			
	Level 1	Level 2	Level 3	Total
Central banks	1,271	-	-	1,271
Financial assets at fair value through profit or loss	-	2	5,582	5,584
Hedging derivatives	-	3,391	743	4,134
Financial assets at fair value through equity	-	114	10	124
Loans and advances due from banks at amortized cost	3	1,900	247	2,150
Loans and advances to customers at amortized cost	-	-	43,166	43,166
Bonds at amortized cost	2,488	3,782	1,895	8,165
TOTAL	**3,762**	**9,189**	**51,643**	**64,594**

Fair value of financial assets	6/30/2019			
	Level 1	Level 2	Level 3	Total
Central banks	1684	-	-	1,684
Financial assets at fair value through profit or loss	-	2	5,348	5,350
Hedging derivatives	-	4,846	443	5,289
Financial assets at fair value through equity	81	95	10	186
Loans and advances due from banks at amortized cost	4	2,615	270	2,889
Loans and advances to customers at amortized cost	-	-	44,505	44,505
Bonds at amortized cost	2,751	3,425	1,808	7,984
TOTAL	**4,520**	**10,983**	**52,384**	**67,887**

Fair value of financial liabilities	12/31/2018			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	-	823	372	1,195
Hedging derivatives	-	5,683	311	5,994
Due to banks at amortized cost	-	4,897	-	4,897
Debt securities at amortized cost	-	54,381	-	54,381
TOTAL	**-**	**65,784**	**683**	**66,467**

Fair value of financial liabilities	6/30/2019			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	-	1,007	211	1,218
Hedging derivatives	-	6,793	338	7,131
Due to banks at amortized cost	-	5,239	-	5,239
Debt securities at amortized cost	-	57,128	-	57,128
TOTAL	**-**	**70,167**	**549**	**70,716**

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.

	12/31/2018	6/30/2019
Uncertainty inherent in level 3 market parameters	8	4
Uncertainty inherent in level 3 derivatives valuation models	37	34
SENSITIVITY OF THE MARKET VALUE OF LEVEL 3 FINANCIAL INSTRUMENTS	**45**	**38**

7.1.4. Transfer between level 1 and 2

	12/31/2018	6/30/2019
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

	12/31/2018					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net Amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	4,146	-	4,146	(3,629)	(471)	46
Loans and advances at fair value through profit or loss	5,572	-	5,572	-	-	5,572
Loans and advances due from banks at amortized cost	2,132	-	2,132	-	-	2,132
Loans and advances to customers at amortized cost	43,781	-	43,781	-	-	43,781
TOTAL	**55,631**	**-**	**55,631**	**(3,629)**	**(471)**	**51,531**

	6/30/2019					
	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)	5,296	-	5,296	(4,650)	(579)	67
Loans and advances at fair value through profit or loss	5,343	-	5,343	-	-	5,343
Loans and advances due from banks at amortized cost	2,832	-	2,832	-	-	2,832
Loans and advances to customers at amortized cost	44,741	-	44,741	-	-	44,741
TOTAL	**58,212**	**-**	**58,212**	**(4,650)**	**(579)**	**52,983**

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

	12/31/2018					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net Amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	7,188	-	7,188	(3,629)	-	3,559
Due to banks at amortized cost	4,941	-	4,941	-	-	4,941
Customer borrowings and deposits at amortized cost	-	-	-	-	-	-
TOTAL	**12,129**	**-**	**12,129**	**(3,629)**	**-**	**8,500**

	6/30/2019					
	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)	8,348	-	8,348	(4,650)	-	3,698
Due to banks at amortized cost	5,260	-	5,260	-	-	5,260
Customer borrowings and deposits at amortized cost	-	-	-	-	-	-
TOTAL	**13,608**	**-**	**13,608**	**(4,650)**	**-**	**8,958**

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

	12/31/2018	6/30/2019
France	61,996	63,501
Italy	6,097	6,218
Germany	374	373
Spain	307	257
United Kingdom	436	382
Belgium	281	278
Other European Union countries	634	1,034
Norway	255	254
Switzerland	1,025	1,029
United States and Canada	673	757
Japan	38	42
TOTAL EXPOSURE	**72,116**	**74,125**

Analysis of exposure by category of counterparty

	12/31/2018	6/30/2019
Sovereigns	9,917	10,157
Local public sector	58,197	59,388
Other assets guaranteed by public sector entities	12	27
Financial institutions	3,990	4,553
TOTAL EXPOSURE	**72,116**	**74,125**

Exposure on financial institutions is primarily comprised of counterparties in hedging derivatives and replacement assets.
As of June 30, 2019, Caisse Française de Financement Local had no asset-backed securities.

Analysis of exposure by category of instrument

	12/31/2018	6/30/2019
Central banks	1,271	1,684
Loans at fair value through profit or loss	5,839	5,381
Hedging derivatives	977	1,206
Bonds at fair value through equity	124	186
Loans and advances due from banks at amortized cost	798	803
Loans and advances to customers at amortized cost	46,964	49,243
Bonds at amortized cost	9,816	9,957
Accruals and other assets	15	22
Financing commitments on loans	6,312	5,643
TOTAL EXPOSURE	**72,116**	**74,125**

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, 2019, 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 76% of the portfolio has a weighting of less than 5% and more than 96% 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	1,684	-	-	-	-	1,684
Loans at fair value through profit or loss	4,094	556	555	-	176	5,381
Hedging derivatives	75	-	61	50	-	186
Bonds at fair value through equity	640	-	18	469	79	1,206
Loans and advances due from banks at amortized cost	-	-	803	-	-	803
Loans and advances to customers at amortized cost	37,088	4,769	6,596	93	697	49,243
Bonds at amortized cost	1,232	695	6,924	237	869	9,957
Accruals and other assets	10	-	2	-	10	22
Financing commitments on loans	5,643	-	-	-	-	5,643
TOTAL EXPOSURE	**50,466**	**6,020**	**14,959**	**849**	**1,831**	**74,125**
SHARE	**68.1%**	**8.1%**	**20.2%**	**1.1%**	**2.5%**	**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. Post-closing events

No significant event that influences the Company's financial situation has occurred since the closing on June 30, 2019.

3. Statutory auditors' report (IFRS)

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

Caisse Française de Financement Local

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

For the period from January 1 to June 30, 2019

To the Chief Executive Officer,

In our capacity as statutory auditors of Caisse Française de Financement Local (the "Company") and pursuant to your request, in the context of the wish of your Company to provide more extensive financial information to investors, we have performed a review on the accompanying condensed interim financial statements of Caisse Française de Financement Local for the six-month period ended June 30, 2019.

These interim financial statements are the responsibility of your Executive Board. Our role is to express a conclusion on these financial statements, based on our review.

We conducted our review in accordance with professional standards applicable in France and the professional guidance issued by the French Institute of statutory auditors (Compagnie nationale des commissaires aux comptes) relating to this engagement. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with the professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements do not present fairly, in all material respects, the results of operations for the six-month period ended June 30th, 2019 and the financial position of Caisse Française de Financement Local and its assets at that date, in accordance with IFRS as adopted by the European Union.

Without qualifying the above conclusion, we draw your attention to the application of IFRS 16 "Leases" standard and IFRIC 23 "uncertainty related to the treatment of income taxes" starting from January 1st, 2019 and set out in Note 1 "Accounting policies and valuation methods".

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 9, 2019

The Statutory Auditors
French original signed by

DELOITTE & ASSOCIES	ERNST & YOUNG et Autres
Sylvie Bourguignon	Vincent Roty

4. Financial statements (French GAAP)

for the period from January 1st to June 30, 2019

Financial Statements

Assets

EUR millions	Notes	12/31/2018	6/30/2019
Central banks	*2.1*	1,271	1,684
Government and public securities	*2.2*	3,160	2,917
Loans and advances due from banks	*2.3*	2,157	2,856
Loans and advances to customers	*2.4*	46,114	46,149
Bonds and other fixed income securities	*2.5*	5,299	5,473
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*	7	13
Accruals and other assets	*2.7*	2,576	2,463
TOTAL ASSETS	*2.8*	**60,584**	**61,555**

Liabilities

EUR millions	Notes	12/31/2018	6/30/2019
Central banks		-	-
Due to banks	*3.1*	4,941	5,260
Customer borrowings and deposits		-	-
Debt securities	*3.2*	51,052	51,779
Other liabilities	*3.3*	635	743
Accruals and other liabilities	*3.4*	2,418	2,266
Provisions	*3.5*	92	93
Subordinated debt		-	
Equity		**1,446**	**1,414**
Share capital	*3.6*	1,350	1,350
Additional paid-in capital	*3.6*	-	-
Reserves and retained earnings	*3.6*	52	56
Net income	*3.6*	44	8
TOTAL LIABILITIES	***3.7***	**60,584**	**61,555**

Off-balance sheet items

EUR millions	Notes	12/31/2018	6/30/2019
COMMITMENTS GRANTED	*4.1*	**6,316**	**5,652**
Financing commitments		6,312	5,643
Guarantees granted		-	-
Commitments on securities		-	5
Other commitments granted		4	4
COMMITMENTS RECEIVED	*4.2*	**10,117**	**9,761**
Financing commitments		270	50
Guarantees received		9,847	9,706
Commitments on securities		-	5
Forward commitments		-	-
Other commitments received		-	-
Foreign currency transactions	*4.3*	12,449	12,361
Interest rate derivatives	*4.4*	107,325	108,034

Income statement

EUR millions	Notes	H1 2018	2018	H1 2019
Interest income	*5.1*	500	1,013	543
Interest expense	*5.1*	(432)	(863)	(483)
Income from variable income securities		-	-	-
Commission income	*5.2*	-	1	3
Commission expense	*5.2*	(8)	(8)	(2)
Net gains (losses) on held for trading portfolio		-	-	-
Net gains (losses) on placement portfolio	*5.3*	(7)	(9)	(2)
Other banking income		-	-	-
Other banking expense		-	-	-
NET BANKING INCOME		**53**	**134**	**59**
General operating expenses	*5.4*	(52)	(101)	(53)
Depreciation and amortization		-	-	-
GROSS OPERATING INCOME		**1**	**33**	**6**
Cost of risk	*5.5*	(3)	(16)	3
INCOME FROM OPERATIONS		**(2)**	**17**	**9**
Gains or losses on fixed assets		-	-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		**(2)**	**17**	**9**
Non-recurring items		-	-	-
Income tax	*5.6*	(3)	27	(1)
NET INCOME		**(5)**	**44**	**8**
Basic earnings per share		(0.39)	3.23	0.61
Diluted earnings per share		(0.39)	3.23	0.61

Equity

EUR millions	Amount
AS OF 12/31/2018	
Share capital	1,350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	52
Net income for the year	44
Interim dividends	-
EQUITY AS OF 12/31/2018	**1,446**
MOVEMENTS FOR THE PERIOD	
Changes in share capital	-
Changes in additional paid-in capital	-
Changes in commitments to increase share capital and additional paid-in capit	-
Changes in reserves and retained earnings	45
Dividends paid (-)	(41)
Changes in net income for the period	(36)
Other movements	
AS OF 6/30/2019	
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 period	8
EQUITY AS OF 6/30/2019	**1,414**

Cash flow statement

EUR millions	2,018	H1 2019
NET INCOME BEFORE TAXES	**17**	**9**
+/- Depreciation and write-downs	(98)	1
+/- Expense / income from operating activities	(19)	109
+/- Expense / income from financing activities	(13)	(194)
+/- Other items	165	(79)
= Non monetary elements included in net income before tax and other adjustments	**35**	**(163)**
+/- Cash from interbank operations	(1,151)	(378)
+/- Cash from customer operations (loans)	679	(9)
+/- Cash from customer financing assets	(934)	55
+/- Cash from hedging financial instruments	(286)	64
- Income tax paid	4	(12)
= Decrease / (increase) in cash from operating activities	**(1,688)**	**(280)**
CASH FLOW FROM OPERATING ACTIVITIES (A)	**(1,636)**	**(434)**
CASH FLOW FROM INVESTING ACTIVITIES (B)	**-**	**-**
+/- Cash from or for shareholders	(50)	(41)
+/- Other cash from financing activities	1,246	887
CASH FLOW FROM FINANCING ACTIVITIES (C)	**1,196**	**846**
EFFECT OF EXCHANGE RATES CHANGES ON CASH (D)	**-**	**-**
Increase / (decrease) in cash equivalents (A + B + C + D)	**(440)**	**412**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,721**	**1,281**
Central banks (assets and liabilities)	1,706	1,271
Interbank accounts (assets and liabilities) and loans / deposits at sight	15	10
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**1,281**	**1,693**
Central banks (assets and liabilities)	1,271	1,684
Interbank accounts (assets and liabilities) and loans / deposits at sight	10	9
NET CHANGE IN CASH	**(440)**	**412**

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, 2019, were examined by the Executive Board on September 2, 2019.

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 European Directive 86/635/EEC of the Council..

The financial statements as of June 30, 2019, were prepared using the same accounting policies as those used in the financial statements as of December 31, 2018. Between these two dates, the applicable regulation has not been significantly amended. For the record, the following regulation, issued in 2018, is applicable from January 1, 2019:

• **ANC Regulation n°2018-02 issued on July 6, 2018 (amending ANC Regulation n°2014-03):** this regulation amends the general accounting plan so as to adapt it to the entry into force of the income tax at source on January 1, 2019. Applicable from this date, the regulation clarifies the principles of recognition of the income tax at source and introduces the new accounts created in that purpose.

This regulation has no impact on Caisse Française de Financement Local financial statements, given that the latter has no salaried employees in accordance with the provisions of article L.513-15 of the Monetary and Financial Code, the general management of its operations having been entrusted by a contract to its parent company, SFIL, a credit institution.

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 to refinance export credits.

Loans and advances to customers comprise only loans granted to local governments or fully 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.

Pursuant to article L.513-10 of the Monetary and Financial Code, these transactions benefit from the privilege defined in article L.513-11 of the Monetary and Financial Code provided that their purpose is to hedge the assets or debt benefiting from the privilege and the overall risk on the assets, liabilities and off-balance sheet items. The law stipulates that derivative transactions do not benefit from the privilege when related to sources of financing that do not benefit from the privilege. For Caisse Française de Financement Local, the only resources that do not benefit from the privilege comprise the debt contracted from SFIL and Caisse Française de Financement Locas's equity, which are not hedged.

The notional amount of these 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, 2019

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

2. Notes to the assets (EUR millions)

2.1 - CENTRAL BANKS

	12/31/2018	6/30/2019
Mandatory reserves	-	-
Other deposits	1,271	1,684
TOTAL	**1,271**	**1,684**

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

2.2.1. Accrued interest included in this item: 23

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
160	99	657	1,978	**2,894**

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

	Amount as of 12/31/2018	Amount as of 6/30/2019	Impairment as of 6/30/2019	Unrealized capital gain or loss as of 6/30/2019 (2)
Listed securities (1)	2,858	2,894	(0)	(486)
Other securities	280	-	-	-
TOTAL	**3,138**	**2,894**	**(0)**	**(486)**

(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 12/31/2018	Gross amount as of 12/31/2018	Acquisitions	Amortization, redemption or disposals	Transfers (1)	Subtotal as of 6/30/2019
Trading	-	-	-	-	-	-
Placement	891	891	153	(346)	-	698
Investment	2,247	2,247	-	(19)	(32)	2,196
TOTAL	**3,138**	**3,138**	**153**	**(365)**	**(32)**	**2,894**

Portfolio	Subtotal as of 6/30/2019	Translation adjustments	Gross amount as of 6/30/2019	Impairment as of 6/30/2019	Net amount as of 6/30/2019 (2)	Unrealized capital gain or loss as of 6/30/2019 (3)
Trading	-	-	-	-	-	-
Placement	698	-	698	(0)	698	(41)
Investment	2,196	-	2,196	-	2,196	(445)
TOTAL	**2,894**	**-**	**2,894**	**(0)**	**2,894**	**(486)**

(1) The transfer corresponds to a reclassification in the Bonds and other fixed income securities detailed in 2.5. in the same accounting portfolio.
(2) This amount includes a premium / discount of EUR 12 million for the placement portfolio and of EUR 104 million for the investment portfolio.
(3) 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

	12/31/2018	6/30/2019
Sight accounts	3	4
Unallocated sums	-	-
TOTAL	**3**	**4**
of which replacement assets	*3*	*4*

2.3.2. Term loans and advances due from banks

2.3.2.1 Accrued interest included in this item: 1

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
4	1,992	409	446	**2,851**

2.3.2.3 Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2018	Gross amount as of 6/30/2019	Decrease in value as of 6/30/2019	Net amount as of 6/30/2019
Loans of less than 1 year	110	110	-	110
Loans of more than 1 year	2,043	2,741	-	2,741
TOTAL	**2,153**	**2,851**	-	**2,851**

2.3.2.4 Breakdown by counterparty

	12/31/2018	6/30/2019
SFIL - Export credits refinancing loans guaranted by the French State (1)	1,097	1,809
SFIL - Others loans (2)	800	800
Banks guaranteed by a local government, *crédits municipaux*	8	0
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	248	242
TOTAL	**2,153**	**2,851**
of which replacement assets	*800*	*800*

(1) Caisse Française de Financement Local grants loans to its parent company, SFIL, to refinance large export credits granted by SFIL. These loans benefit from an irrevocable and unconditional 100% guarantee by the French State, referred to as enhanced guarantee.
(2) 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: 502

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
1,107	3,411	15,231	25,898	**45,647**

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

Economic sector	12/31/2018	6/30/2019
Public sector	43,681	44,060
Other sectors	1,944	1,587
TOTAL	**45,625**	**45,647**

2.4.4. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2018	Gross amount as of 6/30/2019	Impairment as of 6/30/2019	Net amount as of 6/30/2019
Loans of less than 1 year	7	5	-	5
Loans of more than 1 year	45,618	45,671	(29)	45,642
TOTAL	**45,625**	**45,676**	**45,647**	**45,647**

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

	Net amount as of 12/31/2018	Gross amount as of 6/30/2019	Impairment as of 6/30/2019	Net amount as of 6/30/2019
Performing commitments	45,275	45,241	-	45,241
Non-performing loans	194	287	(4)	283
Compromised non-performing loans	156	148	(25)	123
TOTAL	**45,625**	**45,676**	**(29)**	**45,647**

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 169 forborne contracts as of June 30, 2019, with 87 borrowers, for a total of EUR 968 million.

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

	12/31/2018	Allocations	Reversals	Transfers	6/30/2019
For non-performing loans					
On loans	-	(0)	-	-	(0)
On interest	(3)	(2)	1	-	(4)
For compromised non-performing loans					
On loans	-	-	-	-	-
On interest	(24)	(4)	3	-	(25)
TOTAL	**(27)**	**(6)**	**4**	-	**(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: 33

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
80	926	1,792	2,642	**5,440**

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

	12/31/2018	6/30/2019
Public sector	3,039	2,948
Other sectors (guaranteed by a State or by a local government)	171	131
Credit institutions	2,030	2,361
TOTAL	**5,240**	**5,440**
of which replacement assets	*2,030*	*2,361*

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

	Amount as of 12/31/2018	Amount as of 6/30/2019	Impairment as of 6/30/2019	Unrealized capital gain or loss as of 6/30/2019 (2)
Listed securities (1)	2,990	3,294	(0)	(575)
Other securities	2,250	2,146	(0)	(220)
TOTAL	**5,240**	**5,440**	**(0)**	**(795)**

(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 12/31/2018	Gross amount as of 12/31/2018	Acquisitions	Amortization, redemption or disposals	Transfers (1)	Subtotal as of 6/30/2019
Trading	-	-	-		-	-
Placement	2,330	2,331	644	(382)	-	2,593
Investment	2,910	2,910	-	(96)	32	2,846
TOTAL	**5,240**	**5,241**	**644**	**(478)**	**32**	**5,439**

Portfolio	Subtotal as of 6/30/2019	Translation adjustments	Gross amount as of 6/30/2019	Impairment as of 6/30/2019	Net amount as of 6/30/2019 (2)	Unrealized capital gain or loss as of 6/30/2019 (3)
Trading	-	-	-	-	-	-
Placement	2,593	-	2,593	(0)	2,593	12
Investment	2,846	1	2,847	-	2,847	(807)
TOTAL	**5,439**	**1**	**5,440**	**(0)**	**5,440**	**(795)**

(1) The transfer corresponds to a reclassification from the government securities portfolio detailed in 2.2. in the same accounting portfolio category.
(2) These amounts include a premium / discount of EUR 33 million for placement portfolio and of EUR 73 million for investment portfolio
(3) 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

	12/31/2018	6/30/2019
Taxes	-	8
Other receivables	7	5
TOTAL	**7**	**13**

2.7 - ACCRUALS AND OTHER ASSETS

	12/31/2018	6/30/2019
Deferred losses on hedging transactions	1,310	1,235
Deferred charges on bond issues	51	53
Prepaid charges on hedging transactions	154	156
Premiums on acquisition of loans	304	388
Other prepaid charges	-	0
Accrued interest not yet due on hedging transactions	752	624
Translation adjustments	-	-
Other deferred income	1	3
Other accruals	4	4
TOTAL	**2,576**	**2,463**

2.8 - BREAKDOWN OF ASSETS BY ORIGINAL CURRENCY

Analysis by original currency	Amount in original currency as of 12/31/2018	Amount in euros as of 12/31/2018	Amount in original currency as of 6/30/2019	Amount in euros as of 6/30/2019
EUR	59,188	59,188	60,120	60,120
AUD	20	12	20	12
CAD	510	327	510	342
CHF	609	540	618	556
GBP	129	144	132	147
HKD	-	-	-	-
JPY	16,115	128	16,268	133
NOK	1,039	105	1,012	104
PLN	45	10	46	11
SEK	0	0	0	0
USD	148	130	148	130
TOTAL		**60,584**		**61,555**

2.9 - BREAKDOWN OF IMPAIRMENT BY COUNTRY

	Amount as of 12/31/2018	Amount as of 6/30/2019
Government and public entity - placement securities	**(0)**	**(0)**
France	(0)	(0)
Bonds and other fixed income - placement securities	**(0)**	**(0)**
France	(1)	(0)
United Kingdom	(0)	(0)
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 2019, 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.

	12/31/2018	6/30/2019
Sight accounts	-	-
Current account - parent company	-	-
Interest accrued not yet due	-	-
Term borrowing - parent company	4,943	5,264
Interest accrued not yet due	(2)	(4)
Unallocated sums	-	-
TOTAL	**4,941**	**5,260**

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	45	780	2,776	1,663	5,264
TOTAL	**45**	**780**	**2,776**	**1,663**	**5,264**

3.2 - DEBT SECURITIES

3.2.1. Debt securities (*obligations foncières*)

3.2.1.1. Accrued interest included in this item: 491

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	2,024	1,886	16,547	24,332	**44,789**
of which net issue premiums (1)	*(0)*	*(0)*	*(9)*	*(53)*	***(62)***

(1) The gross amount of positive and negative issue premiums totaled EUR -138 million before amortization.

3.2.1.3. Changes during the year excluding accrued interest

Type of securities	Amount as of 12/31/2018	Increases	Decreases	Translation adjustments	Amount as of 6/30/2019
Obligations foncières	43,871	3,090	(2,216)	44	44,789

3.2.2. Other bonds (registered covered bonds)

3.2.2.1. Accrued interest included in this item: 138

3.2.2.2. Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Registered covered bonds	-	50	685	5,626	6,361
of which net issue premiums (1)	-	-	(0)	42	42

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

3.2.2.3. Changes during the year excluding accrued interest

Type of securities	Amount as of 12/31/2018	Increases	Decreases	Translation adjustments	Amount as of 6/30/2019
Registered covered bonds	6,391	100	(130)	-	6,361

3.3 - OTHER LIABILITIES

	12/31/2018	Amount as of 6/30/2019
Cash collateral received	514	640
Accrued interest not yet due on cash collateral received	(0)	(0)
Taxes	8	-
Balances to pay on unwound hedging contracts	-	-
Contribution to the support fund (1)	100	90
Other creditors	13	13
TOTAL	**635**	**743**

(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

	12/31/2018	6/30/2019
Deferred gains on hedging transactions	-	-
Deferred income on hedging transactions	1,399	1,314
Deferred income on loans	157	147
Accrued interest not yet due on hedging transactions	585	556
Other accrued charges	54	30
Translation adjustments	223	219
Other accruals	0	-
TOTAL	**2,418**	**2,266**

3.5 - PROVISIONS FOR RISKS AND CHARGES

	Amount as of 12/31/2018	Increases	Decreases	Translation adjustments	Amount as of 6/30/2019
Loans and commitments	47	-	(3)	-	44
Financial instruments (1)	38	4	(0)	-	42
Other provisions	7	-	-	-	7
TOTAL	**92**	**4**	**(3)**	**-**	**93**

(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 12/31/2018	Amount as of 6/30/2019
Share capital	1,350	1,350
Legal reserve	50	53
Retained earnings (+/-)	2	3
Net income (+/-)	44	8
TOTAL	**1,446**	**1,414**

On May 28, 2019, the Shareholders' Meeting decided to allocate the 2018 net profit, ie EUR 43 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 12/31/2018	Amount in euros as of 12/31/2018	Amount in original currency as of 6/30/2019	Amount in euros as of 6/30/2019
EUR	59,188	59,188	60,120	60,120
AUD	20	12	20	12
CAD	510	327	510	342
CHF	609	540	618	556
GBP	129	144	132	147
HKD	-	-	-	-
JPY	16,115	128	16,268	133
NOK	1,039	105	1,012	104
PLN	45	10	46	11
SEK	0	0	0	0
USD	148	130	148	130
TOTAL		**60,584**		**61,555**

3.8 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Parent company (1)		Other related parties (2)	
	12/31/2018	6/30/2019	12/31/2018	6/30/2019
ASSETS				
Loans and advances due from banks - sight	-	-	-	-
Loans and advances due from banks - term	1,897	2,609	-	-
Bonds and other fixed income securities	-	-	145	-
LIABILITIES				
Due to banks - sight	-	-	-	-
Due to banks - term	4,941	5,260	-	-
INCOME STATEMENT				
Interest income on loans and advances	2	6	(10)	(2)
Interest income on debt securities	-	-	(0)	(0)
Interest expense on borrowings	2	3	-	-
Net commissions	(5)	2	(0)	(0)
OFF-BALANCE SHEET				
Interest rate derivatives	14,313	14,783	-	-
Foreign exchange derivatives	1,022	970	-	-
Commitments and guarantees received	270	50	-	-
Commitments and guarantees given	6,284	5,638	-	-

(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

	12/31/2018	6/30/2019
Financing commitments granted to credit institutions (1)	6,284	5,638
Financing commitments granted to customers (2)	28	5
Commitments on securities	-	5
Other commitments given, assets assigned in guarantee (3)	4	4
TOTAL	**6,316**	**5,652**

(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

	12/31/2018	6/30/2019
Financing commitments received from credit institutions(1)	270	50
Guarantees received from credit institutions	8	-
Enhanced guarantees(2)	7,383	7,448
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	2,456	2,258
Commitments on securities	-	5
TOTAL	**10,117**	**9,761**

(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.

	12/31/2018	6/30/2019	Fair value as of 6/30/2019
Currencies to receive	6,002	5,962	238
Currencies to deliver	6,225	6,180	(308)
TOTAL	**12,227**	**12,142**	**(70)**

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 12/31/2018	Less than 1 year	1 year to 5 years	More than 5 years	6/30/2019
Notional amount	107,325	24,699	37,928	45,407	**108,034**
of which deferred start	*2,636*	*800*	*120*	*1,435*	***2,355***

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

4.4.2. Analysis of interest rate transactions by product type

	12/31/2018	6/30/2019
Interest rate swaps	107,325	108,034
Term contracts	-	-
Interest rate options	-	-
TOTAL	**107,325**	**108,034**

4.4.3. Analysis of interest rate swap transactions

	12/31/2018	6/30/2018	Fair value as of 6/30/2019
Micro-hedge	61,760	60,851	(60)
Macro-hedge	45,565	47,183	(2,703)
TOTAL	**107,325**	**108,034**	**(2,763)**

4.4.4. Analysis of interest rate transactions by counterparty

	12/31/2018	6/30/2019
Related parties	14,313	14,782
Other counterparties	93,012	93,252
TOTAL	**107,325**	**108,034**

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

5.1 - INTEREST AND RELATED INCOME / EXPENSE

	H1 2018	H1 2019
INCOME	**500**	**543**
Due from banks	4	3
Due from customers	469	378
Bonds and other fixed income securities	36	39
Macro-hedge transactions	(9)	123
Other commitments	-	-
EXPENSE	**(432)**	**(483)**
Due to banks	(4)	-
Due to customers	(113)	(54)
Bonds and other fixed income securities	(105)	(100)
Macro-hedge transactions	(210)	(329)
Other commitments	-	-
INTEREST MARGIN	**68**	**60**

5.2 - COMMISSIONS

	H1 2018			H1 2019		
	Income	Expense	Net	Income	Expense	Net
Lending activity	0	-	0	-	-	-
Purchase and sale of securities	-	(0)	(0)	-	(1)	(1)
Services on securities	-	(2)	(2)	-	(1)	(1)
Commissions on financial instruments	-	(0)	(0)	1	-	1
Rebilling by parent company	-	(6)	(6)	2	(0)	2
TOTAL	**0**	**(8)**	**(8)**	**3**	**(2)**	**1**

5.3 - ANALYSIS OF GAINS AND LOSSES ON PORTFOLIO TRANSACTIONS

	H1 2018	H1 2019
Transactions on placement securities (1)	(7)	(2)
Transactions on investment securities	-	-
Transactions on interest rate derivatives	0	-
Foreign exchange transactions	(0)	(0)
TOTAL	**(7)**	**(2)**

(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 2018	H1 2019
Payroll costs	-	-
Other general operating expense (1)	(47)	(48)
Taxes	(5)	(5)
TOTAL	**(52)**	**(53)**

(1) of which EUR 46 million with SFIL.

5.5 - COST OF RISK

	H1 2018	H1 2019
Collective and specific impairments	(3)	3
TOTAL	**(3)**	**3**

5.6 - CORPORATE INCOME TAX

	H1 2018	H1 2019
Income tax for the year (1)	(3)	(1)
TOTAL	**(3)**	**(1)**

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

6. Post-closing events

No significant event that influenced the Company's financial situation has occured since the closing on June 30, 2019.

5. Statutory auditors' report (French GAAP)

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

Caisse Française de Financement Local

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

Period from January 1 to June 30, 2019

To Shareholders,

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

- the review of the accompanying half-yearly financial statements of Caisse Française de Financement Local, for the period from January 1 to June 30, 2019;

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

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

I- Conclusion on the financial statements

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

Based on our review, nothing has come to our attention that causes us to believe that the half-yearly financial statements do not give a true and a fair view of the assets and liabilities and of the financial position of the Company as at June 30, 2019 and of the results of its operations for the period then ended, in accordance with accounting rules and principles applicable in France.

II- Specific verification

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

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

Paris-La Défense, September 9, 2019

The Statutory Auditors
French original signed by

DELOITTE & ASSOCIES	ERNST & YOUNG et Autres
Sylvie Bourguignon	Vincent Roty

6. Statement by the person responsible

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

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

Issy-les-Moulineaux, September 9, 2019

Gilles GALLERNE
Chairman of the executive board

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Société anonyme à directoire et conseil de surveillance au capital de 1 350 000 000 euros
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