Half-year financial report

For the period from
January 1 to June 30, 2022

Data subject to a limited audit by the
Statutory Auditors

Supporting local
investment and export

Key figures as of June 30, 2022

Assets in consolidated statement of financial position

EUR 69.1 billion

Bonds issued in the first half of 2022

EUR 4.1 billion

including EUR 3.1 billion of covered bonds issued by CAFFIL and EUR 1.0 billion of EMTN issued by SFIL

Loans acquired from LBP during the first half-year 2022

EUR 3.3 billion

Export credit loans transferred during the first half-year 2022

EUR 0.1 billion

Common Equity Tier 1 Ratio

36.4%

Operating coefficient on recurring gross operating income

59%

Recurring net income

EUR +34 million

External ratings as of June 30, 2022

Moody's

Aa3

S&P Global Ratings

AA

Morningstar | DBRS

AA (high)

Sustainalytics, a Morningstar company

Negligible ESG Risk

6.6

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

Figures: due to rounding, the totals for the table columns may differ slightly from the sum of the component lines.

1. HALF-YEAR MANAGEMENT REPORT

BACKGROUND

The first half of 2022 was marked by the invasion of Ukraine by Russia and the sanctions against Russia and Belarus. The Covid-19 crisis also continued during the first half-year 2022, particularly in China, with the effect of increasing inflationary pressures on the international supply chains of manufactured products.

As mentioned in SFIL's 2021 annual financial report, the negative impacts related to the conflict in Ukraine and the Covid-19 pandemic remain very limited for the SFIL Group. They are discussed in the body of the report, particularly in the sections devoted to highlights, risk management and business results, and in the notes to the condensed consolidated financial statements. Conversely, given the relevance and usefulness of the Public Development Bank missions entrusted to it, SFIL will have an important role to play in a context characterized by the consequences on public strategies of the accelerated change in the energy mix and more broadly, taking into account the consequences of the climate transition. The conflict in Ukraine also underlines the renewed importance of Europe's strategic autonomy and the strengthening of its defense capacity, to which SFIL would contribute via the financing of certain export credits.

SFIL was authorized as a bank by the Autorité de Contrôle Prudentiel et de Résolution on January 16, 2013. Since September 30, 2020, the date on which the French State, with the exception of one share, and La Banque Postale sold their stakes to Caisse des Dépôts, the latter has become SFIL's reference shareholder. The French State continues to be present on SFIL's Board of Directors through a non-voting member, given the public interest missions entrusted to SFIL.

The fully public shareholding structure is one of the characteristics of the public development bank model in which SFIL operates. The objective of public development banks is not to maximize their profit or market share, but to carry out public policy missions entrusted to them by the public authorities (State, region or local authorities) in order to compensate for identified market failures. while ensuring their own viability. In addition, in its new strategic plan #Objectif2026, SFIL has reaffirmed its public development bank model, which will thus be strengthened and extended, particularly with regard to the operational translation of its purpose "Financing a sustainable future".

From 2015, in addition to its initial mission of providing long-term financing for the local public sector, SFIL was also entrusted with a key mission for refinancing major export credit contracts as part of a market system aimed at strengthening the competitiveness of French companies in the export market. This scheme, authorized by the European Commission for a period of five years, was renewed in 2020 for a further seven years.

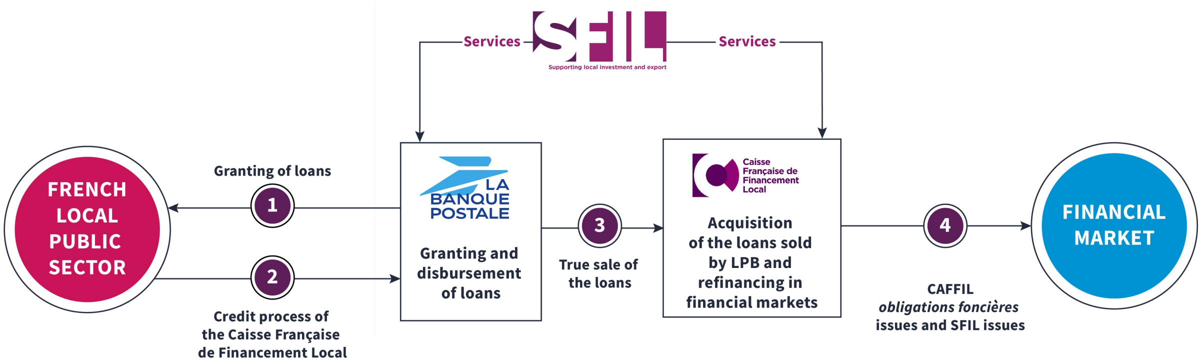
As a reminder, since January 31, 2013, SFIL has held 100% of the capital of Caisse Française de Financement Local (CAFFIL), its sole subsidiary, with the status of *société de crédit foncier* (SCF) governed by articles L.513-2 et seq. of the French Monetary and Financial Code (*Code monétaire et financier*). SFIL serves as a support institution for CAFFIL's activities, as specified by regulations concerning its SCF status, in particular in accordance with articles L.513-15 and L.513-2 of the French Monetary and Financial Code. In this context, SFIL is CAFFIL's servicer, and provides full operational management of its subsidiary within the framework of the management agreement it signed with CAFFIL.

GENERAL BUSINESS ENVIRONMENT

1. The SFIL Group's financing of public sector investments

The SFIL Group, part of the Caisse des Dépôts Group, is at the heart of a system whose objective is to provide French regional authorities and public healthcare institutions with continuous and efficient access to long-term bank financing, alongside the offers of commercial banks and French and European public institutions operating in this sector. This system, which was launched following European Commission authorization on December 28, 2012, makes it possible to refinance La Banque Postale's loans to French local authorities and public hospitals and assist the relevant borrowers in their efforts to reduce their outstanding sensitive loans.

The diagram below describes the operational system for financing of French local authorities and public hospitals.



The local public sector financing activity involves SFIL's subsidiary, CAFFIL, acquiring from La Banque Postale loans that it has marketed.

The loans in question are intentionally simple, being exclusively at fixed rates or with a single indexation (Euribor + margin) or two-phase structure (fixed rate then variable rate). Certain loans involve a staggered-release phase or benefit from a deferred start-date mechanism. The range of amounts extends from EUR 40,000 to several tens of millions of euros. Maturities range mainly between 10 and 30 years. New loans are mostly repayment loans with an initial average life of around 10 years.

This loan offer is intended for all types of local authorities throughout France, from the smallest municipalities to the largest inter-municipal, departmental or regional structures.

The SFIL-LBP scheme also offers a range of green loans, launched in June 2019. The green loan is a tool dedicated to financing projects contributing to ecological transition and sustainable development, in the fields of renewable energies, sustainable management of water and sanitation, waste management and recovery, soft mobility and clean transport, and energy efficiency in construction and urban planning. The loans are refinanced by the green issues issued by the SFIL Group. This financing offer enables the SFIL Group's commitment to sustainable finance and its role as a public development bank serving the regions.

Similarly, the public hospital financing activity is carried out through the acquisition by CAFFIL of loans marketed by La Banque Postale. These loans are refinanced by the SFIL Group's social issues as part of an issuance program dedicated to financing French public hospitals in accordance with the best market standards.

2. Refinancing export credits

Since 2015, the French State has entrusted SFIL with a second public interest mission, according to a public refinancing scheme that already exists in several OECD countries, consisting of refinancing buyer credit contracts insured by Bpifrance Assurance Export in the name and on behalf of the French State, thus contributing to the improvement of the competitiveness of the major export contracts of French companies. The objective is to provide market financing in volumes and durations adapted to export credits of large amounts, by relying on the excellent issuing capacities of SFIL and its subsidiary CAFFIL. This refinancing system is open to all partner banks of French exporters for their loans insured by Bpifrance Assurance Export in the name and on behalf of the French Republic.

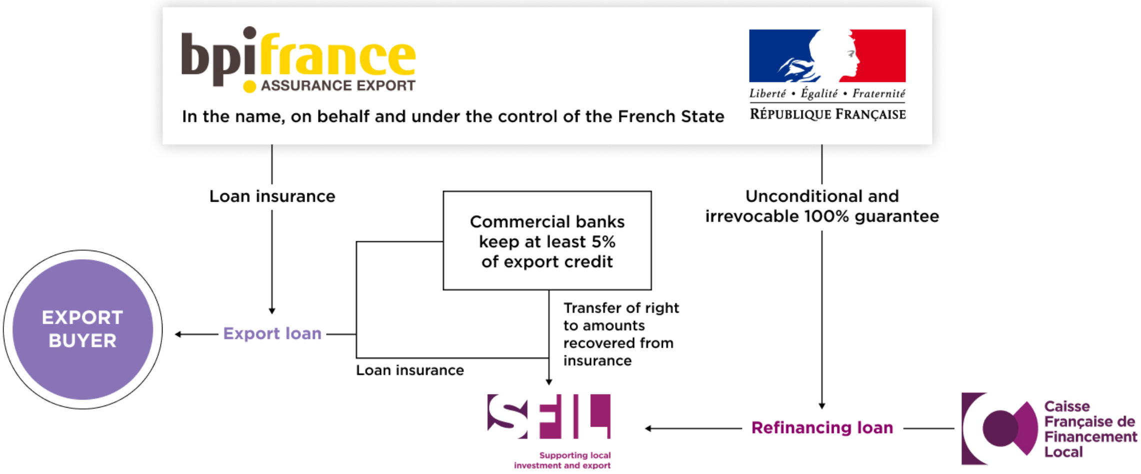
Within this framework, SFIL organized its relationship with almost all banks active in the French export credit market through bilateral agreements. SFIL may acquire up to 95% of the investment of each of these banks in an export credit. At the end of June 2022, the system had 27 partner banks.

The SFIL export market refinancing system was authorized on May 5, 2015 and renewed by the European Commission on May 7, 2020 for a period of seven years.

The Company's operating procedure is as follows:

- in accordance with the principle of equal treatment, SFIL offers to take the place of commercial banks as lender of part of the insured portion of export credits, thus allowing them to improve their own offers in terms of volume, term, and price;
- the export bank retains the risk on the uninsured portion and maintains the entire commercial relationship over the life of the transaction;
- the export loans acquired by SFIL are refinanced through a loan from its subsidiary CAFFIL, which benefits from the enhanced guarantee mechanism introduced by the 2012 finance law. This guarantee at 100% by the French Republic is irrevocable, unconditional and on first demand. In this context, Bpifrance Assurance Export acts in the name, on behalf and under the control of the French Republic;
- it should be noted that the civil aeronautics sector benefits from a Pure and Unconditional Guarantee, whose guaranteed percentage is 100% issued by Bpifrance Assurance Export. For transactions that benefit from this Irrevocable and Unconditional Guarantee at 100%, the enhanced guarantee in favor of CAFFIL is not required.

OPERATIONAL FLOW DIAGRAM OF THE SYSTEM FOR REFINANCING OF EXPORT CREDITS BY SFIL-CAFFIL[1]



To ensure the effectiveness of the refinancing system, SFIL maintains an ongoing relationship with the main French exporters, providing assistance with these early stages. On their request, SFIL issues letters of interest in their commercial offers to accompany Bpifrance Assurance Export's letters of interest. There are now 32 for 15 exporters.

3. Services for La Banque Postale

SFIL also provides services for the medium- and long-term financing activity in the local public sector (French local authorities and public hospitals) of La Banque Postale. Within this framework, it provides services at all stages of medium and long-term loan issuance and management process (loan offerings, middle and back office management, ALM reporting, management control, accounting, third-party management, etc.).

The performance indicators in place to measure the quality of the services that SFIL provided for the first half of 2022 were satisfied at 95%.

[1]Scheme applicable to export credit refinancing operations excluding civil aviation that benefit from a Pure and Unconditional Guarantee in replacement of 95% credit insurance and the enhanced guarantee.

SFIL also coordinates and implements projects needed by La Banque Postale for this activity, in particular by adapting the applications it makes available to La Banque Postale.

4. Financing of the SFIL Group

In order to refinance its two activities, the SFIL Group, via its subsidiary, Caisse Française de Financement Local, issues *obligations foncières* (covered bonds) in the financial markets both in the form of benchmark public issues but also in the form of private placements, particularly in the registered covered bonds format, adapted to its large investor base. These instruments are characterized by the legal privilege which assigns in priority the sums deriving from the Company's assets to the payment of their interest and their repayments.

This source of financing is the main source of liquidity for the SFIL Group and represented outstandings of EUR 51.9 billion at June 30, 2022.

In addition to and in order to diversify the Group's sources of financing and investor base, SFIL itself issues debt securities:

- in the medium term by being regularly issuing euro-denominated and US dollar-denominated public bond issues. At June 30, 2022, SFIL's total discounted bonds outstanding amounted to EUR 9.2 billion.
- in the short term, via its specific program for issuing debt securities of less than one year (NeuCP issuance program), whose total outstandings at June 30, 2022 stood at EUR 1.4 billion.

Finally, consistent with its social and environmental policy, the SFIL Group implements a voluntary ESG financing policy that takes the form of regular "Social" and "Green"-themed issues. In total, within the group refinancing, the outstanding amount of thematic issues carried out since 2019 amounted to EUR 5 billion at June 30, 2022. The green and social issues programs have been rewarded nine times since their launch. The CAFFIL social issue of April 2021, for an amount of EUR 750 million, was distinguished in April 2022 by the publication "Environmental Finance" in the "asset-backed/asset-based/covered social bond of the year" category.

HIGHLIGHTS IN THE FIRST HALF OF THE YEAR

1. Macroeconomic context

During the first half of the year, the international macroeconomic context was strongly impacted by the Covid-19 health crisis, particularly in China, as well as by the war in Ukraine since the end of February 2022. These two events had the effect of amplifying the rise in the consumer price index, mainly via energy and commodity prices in the United States and Europe. To respond to this threat, central banks have begun to increase their key rates. In this context, the financial markets remained volatile throughout the first half of the year. At the same time, equity market valuations fell sharply and a significant increase in money market and long-term rates was observed.

Faced with these changes, SFIL has fully carried out all of its missions in accordance with its strategic objectives by continuing to demonstrate the solidity and relevance of its public development bank model. Thus, the SFIL Group refinanced itself on the international financial markets under good conditions. The local public sector financing activity remained strong with a production volume slightly higher than in the first half of 2021. With regard to the export credit refinancing activity, many files are being examined and a signature took place during the first half-year 2022. From an operational standpoint, SFIL, which had adapted its organization and information systems during the health crisis to operate almost entirely remotely, has since set up a hybrid mode of operation enabling it to carry out all of its activities in an efficient and stable manner.

With regard in particular to the impacts of the war situation in Ukraine, it should be noted that these remain very limited for the SFIL Group, which has no exposure in Russia or Belarus. SFIL has only one exposure in Ukraine, which at June 30, 2022 represented balance sheet outstandings of EUR 50 million and an off-balance sheet financing commitment of EUR 14 million. This exposure was granted as part of the export credit activity and is 100% guaranteed by the French Republic. SFIL is not, therefore, directly exposed to credit risk on this file.

Lastly, at this stage, the effects related to the increase in inflation, in particular on the SFIL Group's general operating expenses, are not considered significant.

2. Implementation of the #Objectif2026 strategic plan

The first half of 2022 enabled SFIL to initiate the implementation of its second strategic plan: #Objectif2026. Within the powerful Caisse des Dépôts group, SFIL aims to strengthen its growth around the following three areas:

- fully exploiting the strengths of its public development bank model;
- broadening its intervention horizons in response to the challenges of the recovery plans and the climate transition;
- engaging in a new phase of internal transformation with, in particular, the adaptation of its operating methods to hybrid mode. These are integrated into the actions carried out as part of the Demain@SFIL projects with, for example, the University of Agile practices.

SFIL's CSR commitment, anchored in its DNA, and materialized by joining the United Nations Global Compact in 2018, is based on three focuses: the conduct of public policy missions, the deployment of internal policies and the commitment of employees.

The project to set up a new partnership with Banque des Territoires, in addition to the one that has existed with La Banque Postale since the creation of SFIL for the financing of the local public sector, is also part of the desire to develop green and social financing for local authorities and public health institutions.

3. Financing loans to the local public sector

The activity of refinancing loans to the local public sector marketed by La Banque Postale is entrusted to SFIL's subsidiary CAFFIL. In the first half of 2022, the latter acquired EUR 3.3 billion in loans from La Banque Postale in two acquisitions, i.e. slightly more than the volume acquired from La Banque Postale in the first half of 2021 (EUR 3.1 billion). As of June 30, 2022, the total volume acquired since SFIL's creation came to EUR 32.2 billion.

In the first half of 2022, the SFIL/La Banque Postale system granted EUR 1,104 million in loans to local authorities (stable compared to the first half-year 2021), of which EUR 298 million in green loans, i.e. 27% of local authorities loans production, and EUR 279 million to Public Healthcare institutions, up 11% compared to the first half-year 2021.

In the context of the rapid rise in interest rates observed since the beginning of the year, production was slowed down due to the definition of the wear rate threshold, as was the case for all marketplace banks. During the second quarter, there was a marked de-correlation between the wear rate and the instantaneous position of the financial markets which severely penalized the supply of fixed-rate loans. As a reminder, over the last two financial years, the scheme has produced exclusively at a fixed rate.

In the first half of the year, the SFIL Group continued to support the digitization of its relations with the local public sector with its DIGISFIL platform, which enables borrowers to securely update their information, make transaction requests or consult their due date notices online. At June 30, 2022, DIGISFIL has more than 1,323 authorized borrowers, representing 55% of CAFFIL's outstanding loans.

Work on the operational implementation of the new partnership with Banque des Territoires (Caisse des Dépôts) to refinance an offer complementary to that of La Banque Postale, consisting of long-term and very long-term fixed-rate loans for local authorities in France, were initiated during the first half of 2022 to allow the subsequent start-up of this new activity under the best possible conditions. On this occasion, regular collaboration in project mode between SFIL and Banque des Territoires was implemented.

4. Refinancing of large export credits

During the first half of 2022, the twenty-first transaction was signed, bringing the cumulative amount refinanced by SFIL to EUR 10.6 billion, contributing to the EUR 19.7 billion of export credit signed.

The number of consultations and files under review reached a record level in terms of volume during the first half-year 2022 despite a brief slowdown at the start of the war in Ukraine - 149 markets are currently active, at different stages of negotiation for a total amount of EUR 59 billion (respectively 147 markets and EUR 52 billion in the first half-year 2021). Depending on the progress of negotiations, a significant volume of transactions could be concluded at the end of 2022 or early 2023.

For the export credit activity, the total outstandings drawn down at June 30, 2022 was EUR 5.4 billion.

5. Issues

Issues of covered bonds by CAFFIL

During the first half of 2022, CAFFIL was very active in the public issuance market by adding four new issues along its benchmark curve and by completing its fourth social-themed issue:

- in January, taking advantage of the favorable market context at the beginning of the year to issue a total amount of EUR 1.25 billion with a maturity of 10 years (EUR 750 million) and 20 years (EUR 500 million); these large-scale issues were carried out under good conditions, particularly in terms of spreads.
- in April, taking advantage of a stabilization of market conditions to issue EUR 1 billion with six-year maturity.
- in May, making the most of its social-themed issuance capacity by launching a fourth issue dedicated to refinancing French public hospitals for EUR 500 million with a 12-year maturity. This transaction found significant demand from ESG investors representing 46% of the placement.

In parallel with these public transactions, EUR 315 million of private placements were completed, including EUR 10 million of social-themed issues. Over the first half of the year, the average maturity of the financing raised by CAFFIL was 11 years.

SFIL's bond issues

In the first half of 2022, SFIL ensured that it maintained its franchise as a bond issuer in the French Agency segment by being active in the euro public issue market. Over the period, SFIL raised EUR 1 billion via a 10-year issue launched in April.

With this transaction, SFIL posted a benchmark curve in euros (eight maturities, including two "Green" themed issues) and another in dollars (two maturities) for a total discounted bond outstandings at the end of the period of EUR 9.2 billion.

ESG financing

The first half of 2022 was marked by the continued development of the SFIL Group's social and environmental policy and its implementation in its financing policy to further diversify its sources of financing and its investor base through regular "Social" and "Green"-themed issues. This strategy resulted in the successful launch in May of the SFIL Group's fourth "Social"-themed bond issue, issued as a covered bond by CAFFIL and intended to provide new funding to the French public hospital sector. This transaction brings the total outstandings of the SFIL Group's "Social" and "Green"-themed issues to EUR 5 billion (seven transactions).

The green and social issues programs were rewarded nine times since their launch. The CAFFIL social issue of April 2021 for an amount of EUR 750 million was distinguished in April 2022 by the publication "Environmental Finance" in the "asset-backed/asset-based/covered social bond of the year" category.

6. Financial and non-financial ratings

The ratings of SFIL and CAFFIL remained very high and were unchanged as of June 30, 2022 from as of December 31, 2021:

- For SFIL: Aa3 from Moody's (stable), AA from Standard & Poor's (stable) and AA (high) from DBRS;
- For CAFFIL: Aaa from Moody's, AA+ from S&P and AAA from DBRS (stable outlook for the three agencies).

SFIL is rated by the non-financial rating agency Sustainalytics at 6.6 (Negligible Risk), with 0 being the best potential rating. This ESG rating places SFIL in the first percentile of institutions rated and ranked ninth out of 116 development banks rated by Sustainalytics (at December 17, 2021).

CAFFIL is rated C+ "Prime" by the non-financial rating agency ISS on a scale from D- to A+, with A+ being the best potential rating. This ESG rating places CAFFIL in the first decile of the 130 institutions in its "Mortgage & Public Sector Finance" industry category (at August 26, 2020).

7. SFIL within the Caisse des Dépôts group

The Group Vision project launched in the spring of 2021 within the Caisse des Dépôts group gave rise to a broad consultation to define its purpose, unveiled in early 2022: *"The Caisse des Dépôts Group, a unique alliance of public and private economic players, is committed, at the heart of the regions, to accelerating the environmental transformation and to contributing to a better life for all".*

This purpose, which defines the shared culture serving the Group's missions, fully echoes SFIL's purpose: *"To finance a sustainable future by sustainably and responsibly supporting local development and the international activity of large companies".*

SFIL is tangibly committed to achieving cooperation projects that are an integral part of its #Objectif2026 strategic plan with, in particular, the launch from the beginning of 2022 of its partnership project with Banque des Territoires for the refinancing of long-term loans at fixed rates.

SFIL also participates in the numerous projects and intra-group working groups in place, particularly in terms of sustainable development, and continues its collaboration on carbon offsetting projects with Société Forestière, a subsidiary of the CDC Group.

Finally, at the beginning of the year, SFIL contributed to the collection of non-financial indicators that fed into the Group's activity and sustainable development report.

8. Changes in the regulatory environment

During the first half of 2022, SFIL continued its analysis of the various European texts governing the new regulatory obligations for the publication of non-financial information, in particular the CSRD directive (Corporate Sustainability Reporting Directive) and the European Taxonomy regulation.

As part of the development of the CSRD directive, which revises and reinforces the requirements of the NFRD (Non-Financial Reporting Directive), the European Commission mandated the European Financial Reporting Advisory Group (EFRAG), which published draft sustainability standards for future non-financial reporting. In this context, SFIL continued its analysis of the anticipated impacts in terms of external communication.

In anticipation of the future application of the European Taxonomy, in early 2022, SFIL continued initial work to identify, among its assets, those whose business sectors are eligible. It will then begin to analyze their alignment with the Taxonomy criteria, in accordance with the timetable for the gradual implementation of this new regulation.

The legal and regulatory framework for covered bonds was amended by a European directive aimed at standardizing European covered bonds models and creating two labels: "European covered bond" and "European high-quality covered bond". This directive was transposed into French law and came into force on July 8, 2022. Caisse Française de Financement Local (CAFFIL) has complied with this new framework in order to obtain the "European High Quality Covered Bond" label for its *obligations foncières*. As the new texts are more restrictive with regard to the eligibility of certain assets and the use of certain derivatives, CAFFIL processed the transactions concerned (which represented less than 1% of the cover pool) and adapted its processes for managing regulatory overcollateralization and liquidity ratios.

The accounting impacts associated with these transactions at June 30, 2022 may be considered negligible.

CHANGES IN THE MAIN BALANCE SHEET ITEMS

The main items on the SFIL Group's consolidated statement of financial position (management data[1]) as of June 30, 2022, are broken down in the table below:

<table>
<tr><th colspan="2">(In EUR billions, equivalent value after currency swaps)</th></tr>
<tr><th>ASSETS</th><th>LIABILITIES</th></tr>
<tr><td>69.1</td><td>69.1</td></tr>
<tr><td>of which main balance sheet items in notional amount
64.0</td><td>of which main balance sheet items in notional amount
64.0</td></tr>
<tr><td>Cash assets
2.6
(of which 1.1 for CAFFIL and 1.5 for SFIL)</td><td>SFIL bond issues
9.2</td></tr>
<tr><td>Securities
6.1
(of which 5.4 for CAFFIL and 0.7 for SFIL)</td><td>Obligations foncières
51.9</td></tr>
<tr><td rowspan="2">Loans
53.0
(of which 47.6 for CAFFIL and 5.4 for SFIL)</td><td>Certificates of deposit
1.4</td></tr>
<tr><td>Cash collateral received
0.2
(of which 0.0 for CAFFIL and 0.2 for SFIL)</td></tr>
<tr><td>Cash collateral paid by SFIL
2.3</td><td>Equity
1.7</td></tr>
<tr><td></td><td>Others
(0.4)</td></tr>
</table>

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

- loans and securities on CAFFIL's balance sheet and export credit loans, as well as assets held in the form of securities on SFIL's balance sheet;
- cash assets of SFIL and CAFFIL;
- cash collateral paid in respect of its derivatives portfolio.

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

- CAFFIL's *obligations foncières* liabilities;
- SFIL's bond issues;
- the certificates of deposit issued by SFIL;
- cash collateral received in respect of their derivative portfolios;
- equity;
- other resources.

[1] The notional balance sheet item, considered as an alternative performance indicator, means that the outstandings reported in the tables below correspond to the outstanding principal of euro-denominated transactions and the euro equivalent after hedging swaps for foreign currency transactions. Notional balance sheet items notably exclude hedging relationships and accrued interest not yet due.

1. Main changes in assets in the first half of 2022

The net change in the SFIL Group's main assets in the first half of 2022 was a decrease of EUR (0.4) billion. This change can be analyzed as follows:

(In EUR billions, equivalent value after currency swaps)	H1 2022
BEGINNING OF YEAR	**64.4**
Purchase of loans from La Banque Postale	3.3
New export credit loans granted	0.6
New post-sensitivity reduction loans granted	0.1
Change in cash collateral paid by SFIL	0.1
Amortization of loans and securities to the French public sector (excluding cash investment securities)	(2.7)
Change in cash investment securities	(0.4)
Change in cash at Banque de France	(1.4)
Other variations	-
END OF PERIOD	**64.0**

- Through its subsidiary CAFFIL, SFIL acquired EUR 3.3 billion in loans marketed by La Banque Postale to the French local public sector and hospitals.
- The export credit activity resulted in EUR 0.6 billion of drawdowns over the half-year.
- The sensitivity reduction operations resulted in EUR 0.1 billion of new assets on CAFFIL's balance sheet, recognized under the refinancing of early repayment indemnities and new investment financing.
- As an intermediary in the derivatives transactions between CAFFIL and some of its counterparties, SFIL paid a total of EUR 2.3 billion in collateral as of June 30, 2022, an increase of EUR 0.1 billion compared to end-2021.
- The other changes in assets correspond mainly to the natural amortization of the portfolio of loans and securities granted to public sector entities for EUR (2.7) billion, as well as the change in cash invested in securities for EUR (0.4) billion or deposited with the Banque de France for EUR (1.4) billion.

It should be noted that SFIL held EUR 1.9 billion in cash management securities (banking and European public sector securities) as of June 30, 2022, down EUR (0.4) billion compared to end 2021.

2. Main changes in liabilities in the first half of 2022

The SFIL Group's main liabilities remained virtually stable in the first half-year 2022. The change of EUR (0.4) billion is detailed below:

(In EUR billions, equivalent value after currency swaps)	First half 2022
BEGINNING OF YEAR	**64.4**
CAFFIL covered bonds	*(0.4)*
Of which new issues	*3.1*
Of which amortization	*(3.5)*
Change in cash collateral received	(0.8)
EMTN SFIL program bonds	(0.1)
Of which new issues	*1.0*
Of which amortization	*(1.1)*
Change in outstanding SFIL certificates of deposit	0.6
Change in equity	0.1
Other variations	0.2
END OF PERIOD	**64.0**

- Outstanding covered bonds issued by CAFFIL remained virtually stable over the period, at EUR (0.4) billion. The new issues of EUR 3.1 billion were more than offset by the amortization of the stock of EUR 3.5 billion.
- SFIL's outstanding bond issues also remained stable over the period, at EUR (0.1) billion. The new issue of EUR 1.0 billion offset the amortization of the stock of EUR 1.1 billion.

OPERATING RESULTS

The SFIL Group reported consolidated net income as of June 30, 2022, of EUR +46 million for total balance sheet outstandings of EUR 69.1 billion at that date. The effects of the war in Ukraine and the Covid-19 health crisis have no significant impact on the SFIL Group's 2022 half-year net income.

The CET1 ratio stood at a record level of 36.4% and improved by 1.8 point compared to end 2021, testifying to the Group's very strong financial position.

The net income as of June 30, 2022 incorporated non-recurring items[1] linked to (i) the change in the valuation of the derivatives portfolio for EUR (4) million, (ii) the volatility related to the application of IFRS 9 in the valuation of so-called non-SPPI loans on the balance sheet for EUR +29 million, and (iii) the recognition as of January 1 of each year of certain charges related to the application of IFRIC 21 for EUR (8) million. Restated to account for these non-recurring items, recurring net income[2] as of June 30, 2022, stood at EUR +34 million, compared with net income restated for the same items as of June 30, 2021, of EUR +33 million. This half-year recurring net income is the highest level of half-year results since the creation of SFIL in early 2013.

In EUR millions	6/30/2021					6/30/2022				
	Accounting income				Recurring income	Accounting income				Recurring income
		A	*B*	*C*			*A*	*B*	*C*	
Net banking income	104	*1*	-	*0*	103	126	*(4)*	-	*29*	100
General operating expenses	(62)	-	*(6)*	-	(55)	(67)	-	*(8)*	-	(59)
Gross operating profit (loss)	**42**	***1***	***(6)***	***0***	**48**	**59**	***(4)***	***(8)***	***29***	**41**
Cost of risk	(1)	-	-	-	(1)	7	-	-	-	7
Net profit/(loss) before tax	**41**	***1***	***(6)***	***0***	**47**	**66**	***(4)***	***(8)***	***29***	**48**
Income tax	(13)	*0*	*1*	*0*	(14)	(20)	*1*	*1*	*(7)*	(14)
Net income	**28**	***1***	***(6)***	***0***	**33**	**46**	***(3)***	***(7)***	***22***	**34**

A: *Fair value adjustment on hedges*
B: *Linear extrapolation over the year of charges due and recognized in the first quarter (IFRIC 21)*
C: *Adjustment to fair value of non-SPPI assets*

An item-by-item analysis of this change in recurring income shows that:

- net banking income stood at EUR 100 million for the first half of 2022, compared with EUR 103 million for the first half of 2021, a slight year-on-year decrease of EUR 3 million;
- the SFIL Group's operating expenses and depreciation amounted to EUR -59 million, up by EUR 4 million compared to June 30, 2021. This increase is notably driven by the significant increase in the contribution to the single resolution fund and, to a lesser extent, taxes;
- the cost of risk is a net reversal of EUR 7 million, an improvement of EUR 8 million compared to 2021. This improvement is mainly due to the exit from the watchlist and Stage 2, in particular, of several hospitals whose financial situation has improved.

[1] *Restated non-recurring items are as follows:*

- *Fair value adjustments concerning hedges: as a reminder, since 2013, carrying amount adjustments have affected hedging implemented by the SFIL Group to cover its interest rate and foreign exchange risks. These adjustments mainly concern accounting for adjustments linked to the application of IFRS 13, which mainly introduced the recognition of Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA). These accounting valuation adjustments are recorded in the income statement as net gains or losses on financial instruments at fair value through profit or loss;*
- *The variations in the valuation of a non-SPPI loan portfolio (valued at fair value through profit or loss in IFRS 9 although intended to be held) linked to the change of its credit spread;*
- *The linear extrapolation of charges taken into account as of January 1 of each year per IFRIC 21.*

[2] *Alternative performance indicator*

RISK MANAGEMENT

Risk profile

Ratios	CET1 ratio	Total capital ratio	Leverage ratio
Minimum requirement	7.75% (SREP)	11.25% (SREP)	3%
Value as of 6/30/2022	36.4%, i.e. more than 4x higher than the minimum requirement	36.4%, i.e. 3x higher than the minimum requirement	10.2%, i.e. more than 3x higher than the minimum requirement

Ratios at June 30, 2022	SFIL Consolidated
Liquidity Coverage Ratio	475 %
NSFR	120 %

The SFIL Group's risk profile is low:

- CAFFIL mainly has public sector borrowers[1] on its balance sheet, while the principal amount of the export credit loans on SFIL's balance sheet are 100% covered by a Bpifrance Assurance Export policy;
- interest rate risk is also low given the Group's hedging policy, under which it systematically hedges balance sheet items at fixed rates, by taking out new or canceling existing hedging instruments (interest rate derivatives);
- liquidity risk is, on the one hand, strictly controlled using various internal liquidity stress tests, and on the other hand limited, with the Group refinancing itself mainly over the long term by issuing covered bonds, liquid instruments that provide investors with a safe legal framework. In addition, the Group continues to diversify its sources of financing, as SFIL issues bonds in the market as a State agency. Finally, the majority of the Group's assets are eligible for the Banque de France's refinancing transactions;
- foreign exchange risk is marginal, outstandings in foreign currencies being systematically hedged when taken onto the balance sheet and until their maturity;
- operational risk is governed by protective procedures;
- the Group has no trading portfolio.

SREP

After adapting its SREP (Supervisory Review and Evaluation Process) in 2020 in the context of the health crisis, the European Central Bank resumed its "traditional" SREP exercise in 2021.

The Common Equity Tier 1 (CET1) capital requirement that the SFIL Group must meet on a consolidated basis is therefore 7.75% of which:

- 4.50% for Pillar 1 Common Equity Tier 1, the level applicable to all entities;
- 0.75% in respect of the P2R (Pillar 2 requirement), unchanged compared to 2019;
- 2.50% for the capital conservation buffer, the level applicable to all entities;
- 0.0% in respect of the countercyclical buffer[1].

The Tier 1 capital requirement, meanwhile, stands at 9.25% and the Total capital requirement at 11.25%.

At June 30, 2022, SFIL's consolidated CET1 and Total capital ratios both stood at 36.4%, a level representing more than three times the minimum requirement set by the European supervisor.

Leverage ratio

Regulation No. 876/2019 of May 20, 2019 provides, since the end of June 2021, for the introduction of a minimum requirement of 3% for the leverage ratio, as well as measures to exclude development loans and export credit activity from the calculation of the total exposure. Thus, the SFIL Group benefits from specific and appropriate calculation rules for establishing its leverage ratio.

Based on these methodological principles, the SFIL Group's leverage ratio at June 30, 2022 was 10.2%, i.e. more than three times higher than this minimum requirement of 3%.

[1]It should be noted that the High Council for Financial Stability decided on April 7, 2022 (decision D-HCSF-2022-1) to increase the rate of this buffer to 0.5%. Banks will have to comply with this new requirement from April 7, 2023.

MREL

On February 22, 2021, the ACPR Resolution College notified SFIL of its decision to implement the Single Resolution Board's September 23, 2020 decision setting the Minimum Requirement for Equity and Eligible Liabilities (MREL) for SFIL.

As Ordinary Insolvency Processing has now been selected as SFIL's preferential resolution strategy, the MREL requirement is therefore limited to SFIL's Loss Absorption Amount (LAA). This MREL requirement also applies solely to SFIL's consolidation scope.

1. Credit risk

1.1. DEFINITION AND MANAGEMENT OF CREDIT RISK

Credit risk represents the potential loss that could affect the SFIL Group due to the deterioration of a counterparty's solvency.

The Risks division defines the policies, procedures and guidelines relating to credit risk. It designs and manages the process for granting loans and the framework of delegations, and oversees the analysis and internal rating processes. Final approval of credit risk policies is the Risks Committee's responsibility.

1.2. BREAKDOWN OF EXPOSURES BASED ON BASEL III RISK WEIGHTS

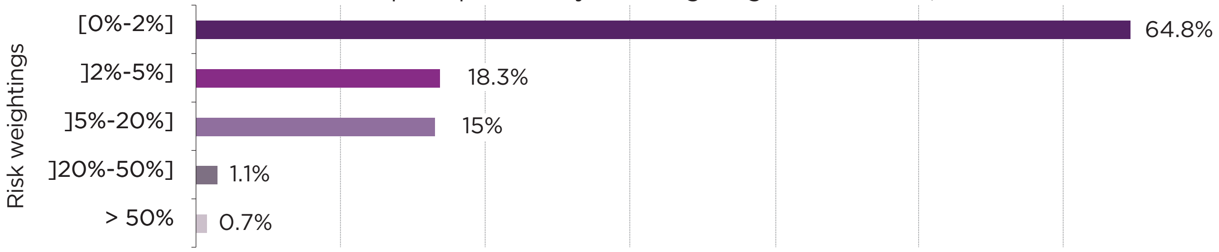
Credit risk exposures measured with the EAD (Exposure At Default) metric amounted to EUR 70.4 billion as of June 30, 2022 (excluding non-current assets and accruals and other liabilities):

- nearly 60% of this exposure is concentrated in French local public authorities (regions, departments and communities and groups of communities, etc.);
- 22% of this exposure is included in "Sovereign" items including 70% as a result of the export credit activity;
- almost 10% of this exposure comes from public sector entities, including 91% from public stakeholders in the hospital sector.

The high quality of SFIL's and CAFFIL's portfolio can also be seen in the Risk-weighted asset (RWA) weightings assigned to their assets to calculate the Group's solvency ratio.

The Group has chosen the advanced method to calculate regulatory equity requirements for its main core business outstandings: the exposures on French local public administrations (regions, departments, municipalities, own tax groups and equivalent) are processed according to the A-IRB[1] method.

The breakdown of the SFIL Group's exposures by risk weighting as of June 30, 2022 is as follows:



The average weighting on credit risk exposures stands at 4.8% with only 1.8% of the portfolio having a risk weighting exceeding 20%, this testifies to the very low level of credit risk of SFIL and CAFFIL's portfolio.

The foreseeable impacts to date related to the war situation in Ukraine are very limited for the SFIL Group: the Group has only one exposure in Ukraine which as of June 30, 2022 represented balance sheet outstandings of EUR 50 million and an off-balance sheet financing commitment of EUR 14 million as part of its export credit activity. As this exposure is 100% guaranteed by the French Republic, SFIL is not directly exposed to credit risk on this issue.

[1] *A-IRB : Weightings calculated based on the probability of counterparty default and the loss incurred in the event of default.*

1.3. IMPACT OF THE COVID-19 PANDEMIC ON CREDIT RISK

The impacts of the Covid-19 pandemic are limited for local public administrations and the French public sector entities.

As a public development bank and the leading financier of public hospitals in partnership with La Banque Postale, SFIL supported all health institutions in 2020 as part of the national effort to fight against the global pandemic. SFIL proposed offset payment of 6 months without late payment interest and penalties, for their loan maturities between March 12, 2020 and June 30, 2020.

The table below shows the breakdown by residual maturity of the payment extensions granted to these entities since the start of the pandemic and which constituted a Forbearance (in EUR):

	Gross carrying amount						
		Performing loans			Non-performing loans		
			of which exposures with forbearance measures	of which instruments with significant increase in credit risk since initial recognition, but not doubtful (Stage 2)		of which exposures with forbearance measures	of which unlikely to pay that are not arrears or arrears <= 90 days
Loans subjects to payment delay outstanding as of 6/30/2022	-	-	-	-	-	-	-

	Cumulative impairment, cumulative negative changes in fair value for credit risk							Gross carrying amount
		Performing loans			Non-performing loans			Inflows to non-performing exposures
			of which exposures with forbearance measures	of which instruments with significant increase in credit risk since initial recognition, but not doubtful (Stage 2)		of which exposures with forbearance measures	of which unlikely to pay that are not arrears or arrears <= 90 days	
Loans subjects to payment delays outstanding as of 6/30/2022	-	-	-	-	-	-	-	-

	Number of obligors	Gross carrying amount								
					Residual maturity of payment delays					
			Of which legislative moratoria	Of which expired	<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 12 months <= 18 months	> 18 months
Loans for which payment delays have been offered	35	87,086,568.93								
Loans for which payment delays have been granted	34	86,191,463.35		86,191,463.35	-	-	-	-	-	-

Requests for payment delays, limited in number and amount, were also received from certain local authorities or French public sector entities.

Payment delays were granted by SFIL to French public hospitals and local authorities in 2020. From the beginning of 2022, all the payment extensions granted have been paid by the concerned customers. It should be noted that the public health institutions had already paid all maturities due before the end of 2021.

The Covid-19 epidemic has had a greater impact on the export credit portfolio and in particular on the financing of cruise ships in the portfolio (whether under construction by Chantiers de l'Atlantique or already in operation), due to the interruption of cruise operations. The entire portfolio has been placed on the watchlist since 2020. The whole export credit portfolio is 100% guaranteed by the French Republic via BPI AE credit insurance policies.

1.4. ARREARS, DOUBTFUL LOANS AND PROVISIONS

Arrears (excluding technical arrears)	Doubtful loans and litigious loans (French accounting standards) at the level of CAFFIL	Gross amount of financial assets and financing commitments classified under Stage 3	Non-performing exposures
EUR 4 million	**EUR 142 million**	**EUR 254 million**	**EUR 297 million**

Arrears (excluding technical arrears) reached a very low residual level and amounted to EUR 4 million at June 30, 2022. This is the lowest level of arrears recorded since the creation of SFIL in early 2013. They are down significantly by EUR 9 million, or -69%, compared to December 31, 2021 (EUR 13 million) and are concentrated on a few only French counterparties. This decrease is mainly due to a reclassification of payment terms to traditional receivables carried out after an analysis conducted in early 2022.

As a reminder, no arrear amounts related to the Covid-19 epidemic have been recognized in the export credit and international local authorities' portfolios. As indicated previously, payment delays were granted by SFIL to French public hospitals and local authorities during 2020. From the beginning of 2022, all the payment extensions granted have been paid by the concerned customers. Public health institutions had already paid all maturities due before the end of 2021.

At June 30, 2022, for the CAFFIL scope and in application of French accounting standards, doubtful and litigious loans amounted to EUR 142 million, or less than 0.2% of CAFFIL's cover pool, which attests to the portfolio's excellent quality. They were down compared to December 31, 2021 (EUR 155 million).

Pursuant to IFRS accounting standards, and more specifically to IFRS 9, all financial assets recognized at amortized cost and at fair value through equity income, as well as financing commitments, are provisioned for expected credit loss. They are classified in three Stages:

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

Stage 3 outstandings correspond mainly to customers:

- with an outstanding unpaid for more than 90 days;
- whose financial position is such that, even in the absence of an unpaid outstanding, it is possible to conclude that the debtor is unlikely to pay;
- that were in a situation of real default and for which arrears of more than 90 days were settled.

These outstandings are kept in Stage 3 for a minimum period of one year, referred to as a "probation period". The definition of default (Stage 3) under IFRS thus covers a broader scope than the concept of doubtful and litigious loans under French accounting standards, and is very close to the regulatory concept of non-performing exposures (NPE). Indeed, in addition to Stage 3 assets, NPEs include non-performing assets recorded at fair value through profit or loss (i.e. classified as non-SPPI (Solely Payment of Principal and Interest)).

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 12 months (Stage 1) or the asset's life (Stages 2 and 3).

The table below shows SFIL's financial assets and financing commitments broken down by Stages, the associated IFRS provisions for expected credit losses, as well as regulatory non-performing exposures.

	IFRS net carrying amount (before impairment)		**IFRS impairments**	
EUR millions	**12/31/2021**	**6/30/2022**	**12/31/2021**	**6/30/2022**
Stage 1	55,438	54,166	(10)	(10)
Stage 2	8,801	8,312	(43)	(40)
Stage 3	377	254	(6)	(3)
TOTAL	**64,616**	**62,732**	**(59)**	**(53)**
Non-performing exposures	442	297		

As a reminder, in 2020 and in the context of the health crisis, it was decided to monitor on a watchlist and consequently to transfer from Stage 1 to Stage 2, part of the export credit portfolio corresponding to the refinancing of the cruise sector. At June 30, 2022, it was decided to maintain these exposures in Stage 2. It should be noted that a significant portion of these loans has not yet been drawn down as at June 30, 2022. At the same date, the impairments associated with this portfolio represented EUR 16 million.

The book values allocated to Stage 3 as well as the non-performing exposures are limited and amounted to EUR 0.3 billion at June 30, 2022 compared to EUR 0.4 billion at December 31, 2021. These amounts are the lowest levels observed since the beginning of 2018 and the implementation of IFRS 9.

2. Climate risks

Climate change and the transition to carbon neutrality in 2050 are one of the European Union's political priorities. Climate issues are also one of the main focuses of SFIL's strategic plan, in line with Caisse des Dépôts' sustainable policy to promote the success of the environmental and energy transition. SFIL's purpose, as a public development bank, is to "finance a sustainable future by sustainably and responsibly supporting the development of regions and the international activity of large companies", by being aligned with the United Nations Sustainable Development Goals (and the principles of the Global Compact, signed in 2018), and by prioritizing nine sustainable development goals, broken down into indicators.

This is reflected in the setting of annual production volume targets for green loans for French local authorities.

As part of its credit and investment risk policy, SFIL already applies the following principles:

- Exclusion of certain activities for its financing:
  - Exclusion of sectors exposed to fossil fuels as described in the CDC Group's 2021 climate policy for finance activities
  - Coal exploration and/or extraction
  - Fur industry
  - Tobacco industry
  - Pornographic industry
  - Controversial and unconventional weapons industry
- The positive consideration of green loan production objectives in the delegated scheme and in the credit decisions.

As part of its cash investment policy, SFIL has also defined ESG criteria:

- exclusions by country and sector
- criteria specific to bank, sovereign and public sector issuers

SFIL also monitors the share of investments made in ESG securities on a monthly basis (22% at June 30, 2022).

As recommended by the regulator, SFIL wants to integrate climate risks into all its risk management processes and has defined a climate roadmap for 2022 that is in line with previous roadmaps.

In the first half of 2022, SFIL has already implemented the following actions:

- qualitative mapping of climate-induced risks;

- integration of ESG risks into the ICAAP and ILAAP, by taking into account assumptions relating to the investments of local authorities as part of the climate transition, and assumptions relating to the occurrence of exceptional climate events;
- in-depth assessment of expenditure related to the transition risk for local authorities as part of the partnership with the I4CE institute (Institute for Climate Economics);
- participation in the ECB's 2022 climate stress tests.

3. Market risk

As a public development bank, the SFIL Group is not intended to carry out transactions for trading purposes and is therefore not subject to market risk in the regulatory sense of the term. On a consolidated basis, all swaps are carried out for hedging purposes. Furthermore, as a société de crédit foncier, CAFFIL cannot hold a trading or investment portfolio and is therefore not exposed to regulatory market risk.

SFIL's and CAFFIL's banking portfolio positions that may give rise to risks on the accounting income or equity are the result of exposure to market volatility are monitored as non-regulatory market risks. It concerns mainly:

- risks arising from changes in the value of financial assets recognized at fair value through profit or loss or through equity;
- changes in accounting valuation adjustments on derivatives, such as Credit Valuation Adjustments (CVA) and Debt Valuation Adjustments (DVA), recognized in profit or loss in accordance with IFRS;
- the provision for investment securities in accordance with the French accounting standards;
- risks that may materialize at the level of SFIL's individual financial statements, in connection with its derivatives intermediation activity carried out on behalf of CAFFIL, if the derivatives that SFIL enters into with external counterparties are not perfectly mirrored with CAFFIL.

During the half-year, the fair value of non-SPPI loans, with nominal outstanding amounts of EUR 2.7 billion, varied by EUR -502 million, reflecting the decrease in outstandings as well as the decrease in hedged interest rate risk, while the change in value related to the change in the credit component is positive (EUR +38 million), due in particular to the favorable change in certain parameters of the model used for the valuation of these assets. The sensitivity of the portfolio value to a one basis point change in credit spreads is EUR 1.8 million, continuing its decrease compared to December 2021 (EUR 2.1 million), and reflecting the decline in this portfolio, which no longer records any new transactions.

The value of the securities portfolio recognized at fair value through other comprehensive income was also little changed: the impact recognized in equity amounted to EUR -0.1 million at June 30, 2022. The sensitivity of the portfolio to a one basis point change in credit spreads is EUR 0.1 million.

4. Balance sheet management risk

In an environment made uncertain by a large number of events (conflict in Ukraine, interest rate hikes, inflationary pressures, ECB announcements of the end of the asset purchase program, questions about global growth, etc.), the SFIL Group was able to seize the opportunities that enabled it at the end of June to have achieved 75% of the issuance program initially planned for the year. Despite a significant deterioration in issuance conditions over the half-year, the Group's financing costs remained broadly in line with those of the first half-year 2021. On the other hand, the Group remains little exposed to interest rate and foreign exchange rate risks, given the prudent policy pursued in this area and the low level of unhedged positions.

4.1. LIQUIDITY RISK

Liquidity risk can be defined as the risk that the institution may not be able to find the necessary liquidity in a timely manner and at a reasonable price to cover the financing needs related to its activity.

For CAFFIL, the main liquidity risk lies in its ability to not be able to repay its debt benefitting from the privileged debt on time due to a too great delay in the repayment rate of its assets and that of its privileged liabilities or a market closure.

With regard to SFIL, this risk lies in its inability to have sufficient resources to meet the maturities of the securities issued, CAFFIL's unsecured financing needs, the margin calls of its swap counterparties or the redemption of its own issues.

The SFIL Group's liquidity requirements are mainly of three types:

- the financing of balance sheet assets (EUR 60 billion in notional amount), mainly carried by CAFFIL to hedge the *obligations foncières* issued;
- the financing of liquidity requirements in connection with compliance with regulatory ratios;
- the financing of cash collateral paid on SFIL derivatives (EUR 2 billion).

As of June 30, 2022, the sources of financing used, other than the entity's equity, were:

- privileged debt, i.e. *obligations foncières* issued by CAFFIL (EUR 51.9 billion) and the cash collateral it receives, and
- negotiable debt securities (EUR 1.4 billion) as well as EMTN issues by SFIL (EUR 9,2 billion).

In addition, the SFIL Group has a large number of securities and loans held by CAFFIL or SFIL that are eligible for central bank refinancing. These assets can be assigned through European Central Bank refinancing transactions through the Banque de France.

To control their liquidity risk, SFIL and CAFFIL mainly rely on static, dynamic and stressed liquidity projections to ensure that the liquidity reserves they have in the short and long term will enable them to meet their commitments.

Dynamic liquidity forecasts take into account business assumptions (new assets and new financing), under normal and stressed conditions:

- under normal conditions, these projections are intended to define the amounts and maturities of the various sources of financing that can be raised by each entity (issuance of "*obligations foncières*" for CAFFIL, issuance of negotiable debt securities (TCN), EMTNs or drawdowns on available liquidity lines for SFIL);
- under stressed conditions, these forecasts aim to assess the Group's capacity to withstand a liquidity shock and to determine its survival horizon, which, in line with its risk appetite, must remain longer than one year.

The Group's liquidity risk is also subject to compliance with regulatory liquidity ratios supplemented by internal liquidity indicators.

In addition, CAFFIL, as a société de crédit foncier (SCF), must also comply with the following specific regulatory indicators:

- the regulatory over-collateralization: this represents the ratio between assets and liabilities benefiting from the legal privilege under the law on SCFs, and must be at least 105%;
- the 180-day cash needs forecast: CAFFIL ensures that, at all times, its cash needs over 180 days are covered by replacement assets and ECB-eligible assets;
- the maximum gap of 1.5 years between the average maturity of liabilities benefiting from the legal privilege and that of assets eligible to make up the minimum amount necessary to meet the regulatory over-collateralization.

SFIL and CAFFIL must also comply with the regulatory liquidity indicators applicable to banks in application of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013, regarding:

- the LCR ratio (Liquidity Coverage Ratio): at June 30, 2022, the LCR amounted to 475% for SFIL on a consolidated basis;
- the stable funding ratio (NSFR), a transformation ratio that measures stable resources over a one-year horizon and relates them to stable financing requirements. The level of the NSFR stands at 120% for SFIL on a consolidated basis.

With regard more specifically to the LCR, an amendment to Delegated Act 2015/61 relating to its calculation was published by the European Commission, which has the effect of capping in all circumstances CAFFIL's LCR at the level of 100%, with the vehicle's assets only being considered unencumbered up to the level of the net disbursements recorded in the denominator of the ratio. These provisions come into force on July 8, 2022. CAFFIL has adapted its processes for managing regulatory overcollateralization and liquidity ratios to comply with these provisions.

4.2. INTEREST RATE RISK

The SFIL Group distinguishes between the following interest rate risks, which are generally hedged using derivatives:

Fixed interest rate risk	Results from the difference in volume and maturity between assets and liabilities with a fixed rate or an adjustable rate that has already been set. This risk can result in the case of yield curve parallel shifts, steepening, flattening or rotation.
Basis risk	Results from the gap that may exist in the matching of assets and liabilities which are indexed on variable rates of different types or index tenors.
Fixing risk	Results, 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.
Option risk	Results from the triggering of implicit or explicit options due to a change in interest rates, or the possibility given to the institution or its customer to change the level and/or timing of cash flows of an operation.

The Group has defined a fixed-rate risk appetite for CAFFIL of EUR 80 million. To limit the impact of this risk, the hedging strategy implemented is as follows:

- micro-hedging of interest rate risk on balance sheet items denominated in a currency other than the euro or indexed to a complex rate structure. Certain euro-denominated vanilla transactions may also be micro-hedged if their notional value or duration could lead to a sensitivity limit being exceeded. Micro-hedging is carried out exclusively by swaps;
- macro-hedging of interest rate risk on all transactions that are not micro-hedged. The transactions concerned are mainly (i) loans to the local public sector and (ii) issues of *obligations foncières* denominated in euros. This macro-hedging is obtained as much as possible by matching fixed-rate assets and liabilities via the unwinding of swaps and, for the rest, by setting up new swaps against Euribor or €str;

This fixed-rate risk management is supplemented by the monitoring of the fixing of transactions at adjustable rates to ensure that they do not lead to the sensitivity limit of the net interest margin (NIM) over 12 months being exceeded. Where appropriate, swaps against €str may be entered into to hedge the fixing risk.

Concerning the parent company SFIL, the hedging strategy involves a perfect microhedge of the interest rate risk, by swaps against Eonia or €STR either by matching asset and liability transactions on the same index or, as regards the export credit activity, by hedging transactions carried out under the stabilization mechanism. This process results in zero interest rate risk.

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) and net interest margin (NIM) sensitivity indicators.

Sensitivity of CAFFIL's NPV:

Until December 31, 2021, CAFFIL's fixed-rate risk appetite framework consisted of a set of limits governing overall and time bucket sensitivities of the NPV. This framework was materialized by the monthly production of sensitivity indicators for the NPV to an interest rate shock of 100 bps. These indicators were calculated for four predefined time buckets (short-term, medium-term, long-term, very long-term), and governed by limits that were calibrated for the same risk appetite with a quantile of 99% calculated on the basis of a 10-year history.

Since January 1, 2022, the Group has implemented a new interest rate risk management methodology by basing the calibration of these risks on the maximum loss observed in NPV compared to eight different interest rate scenarios. These eight scenarios correspond to the six scenarios used to calculate the regulatory outlier ratio to which are added two additional internal scenarios defined on the basis of historical changes in interest rates.

The maximum loss observed at the end of the half-year among the eight scenarios considered is presented below:

(EUR millions)	Limit	12/31/2021 (pro forma)	6/30/2022
Maximum NPV loss observed	**(80)/80**	**(24.6)**	**(30.8)**

Sensitivity of revenue risk (NIM):

Based on a dynamic vision of the balance sheet and taking into account the renewal of operations on the basis of the outstandings recorded as of the reporting date (projected at constant outstandings), the sensitivity of the Group's 12-month net interest margin to a +/- 200 bps change is as follows:

Net interest margin sensitivity over 12 months - consolidated SFIL (EUR millions)	6/30/2022	*Limit*
Parallel increase in rates of 200 bps	**2**	**(40)**
Parallel decrease in rates of 200 bps	**(8)**	**(40)**

For SFIL as parent company, the limit is expressed on the fixed rate gap. It is 0 given its perfect micro-hedging management strategy.

These indicators are calculated from a static viewpoint.

4.3. FOREIGN EXCHANGE RISK

Foreign exchange risk is defined as the risk of recorded or unrealized net income volatility, linked to a change in the exchange rate of currencies against a reference currency. The SFIL Group's reference currency is the euro; foreign exchange risk thus reflects any change in the value of assets and liabilities denominated in a currency other than the euro resulting from that currency's fluctuation against the euro.

It enters into swaps against the euro for the assets and issues denominated in foreign currencies, on initial recognition at the latest and until their final maturity, thereby ensuring that these balance sheet items' principal and interest are hedged.

As an exception to this policy, foreign exchange positions, limited in terms of time and volume, are accepted for operational reasons, particularly in the context of the refinancing of export credits.

The foreign exchange risk is monitored using the total net foreign exchange position in each currency, calculated on all receivables, payables and off-balance sheet commitments. At June 30, 2022, SFIL's foreign exchange position on USD, GPB and CHF was EUR 2.7 million for a limit of EUR 4.5 million.

5. Operational risk and permanent control (excluding compliance)

5.1. OPERATIONAL RISK

SFIL defines the operational risk as the risk of loss resulting from a lack of adaptation or a deficiency relating to internal processes, staff or systems or to external events, including legal risk. It includes model risks but excludes strategic risks. This definition is in line with the definition adopted by the Basel Committee and with applicable regulations. The operational risk management system applies to all SFIL and CAFFIL's processes and activities. The capital requirement for operational risk is calculated using the standardized method.

SFIL's policy with regard to the measurement and management of operational risks involves regularly identifying and assessing incurred risks as well as existing arrangements to mitigate and control them in order to ascertain whether the level of residual risk is acceptable. The policy applied involves three main processes: the collection of operational incidents, the mapping of operational risks and the monitoring of key operational risk indicators. This system is rounded out by an IT system security management policy, a Recovery and Business Continuity Plan, guidelines on the management of essential outsourced services and, as appropriate, insurance against certain risks.

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

As part of its continuous improvement and optimization of its operational risk management systems, from the end of 2021, SFIL initiated a plan to develop its application dedicated to the management of operational risks, the collection of incidents as well as the monitoring of permanent control campaigns. This initiative, which will continue throughout 2022, aims to continue the industrialization of the reporting production processes, improve the relevance of controls and enrich the various guidelines in order to harmonize practices in accordance with the CDC Group's operational risk management policy.

During the first half of 2022, SFIL joined the Operational Risk division of the CDC Group and, in this context, launched actions to harmonize its operational risk management policy, its directive on the management of outsourced essential services and also its operational risk taxonomy in anticipation of the consolidation by the CDC Group of data from all its entities.

Since May 2022, the crisis unit has no longer been systematically mobilized to monitor the Covid-19 pandemic. However, the monitoring of surveillance indicators and vigilance in terms of compliance with the health protocol remain in force. Employees have now returned on-site.

The volume of incidents related to the Covid-19 crisis remained particularly low, with impacts that were still limited, and in any case, below the regulatory collection thresholds.

In the current international context of conflict between Russia and Ukraine, the cybercrime monitoring process has been particularly strengthened, with in particular the blocking by default of all incoming/outgoing traffic to/from our IS and Russia, Ukraine, Belarus, Georgia and Moldova. No security incidents or impacts have been identified at this stage. The configuration of security equipment was strengthened by taking into account new sources of information on threats. The focus was also put back on the risks related to phishing and best practices to follow via general communications as well as more formal presentations.

5.2. PERMANENT CONTROL

The purpose of SFIL's permanent control system is to ensure the efficiency and reliability of the risk control system, the efficiency of the control of operations and internal procedures, the quality of accounting and financial information, and the quality of information systems. Permanent control measures apply to all of the Company's divisions and activities.

SFIL's effective managers and members of the Executive Committee and Board of Directors are regularly informed of the results of permanent controls and the corrective action plans drawn up.

With the aim of regularly updating its operational risk mapping and controls, SFIL has implemented a three-year 2022-2024 plan to overhaul its permanent control plan. This approach requires a review of all the bank's processes, a reassessment of gross and residual risks, and above all an update of permanent controls as close as possible to operational reality.

6. Non-compliance risk

With regard to the fight against money laundering and the financing of terrorism (AML/CFT) and the freezing of assets, the first half of 2022 was particularly marked by the international context due to the sanctions against Russia and Belarus, with a high level of complexity in their implementation likely to generate significant operational risks for financial institutions, bearing in mind that the SFIL Group has no activity with Russia and Belarus or with the persons sanctioned. SFIL also continued to develop its system by updating several key elements of its procedural corpus in order to adapt to regulatory changes and harmonize it with the CDC Group corpus.

At the same time, the improvement of the professional conduct and ethics system continued with the updating of the normative framework relating to the prevention and management of conflicts of interest, which recalls the principles and systems implemented.

With regard to the corruption prevention system, the corruption risk mapping has been updated to take into account the latest recommendations of the French Anti-Corruption Agency. Work is underway to optimize the evaluation of suppliers with regard to corruption risks.

In terms of product governance, a new product policy has been drawn up in collaboration with the Risks division, which manages the New Products Committee.

During the first half-year 2022, mandatory compliance training continued. The mandatory training offer on compliance topics concerns:

- all Group employees who are required to follow a training course,
- employees who are particularly exposed to certain non-compliance risks, who follow an additional training course including the fight against corruption, AML/CFT and data protection.

7. Legal and tax risks

7.1. LEGAL RISKS

As of June 30, 2022, the number of borrowers in lawsuits for sensitive structured loans was 2, compared with 3 as of December 31, 2021 and 7 as of June 30, 2021, this number having fallen continuously since 2014 (210 as of December 31, 2014). Since SFIL's creation, 221 borrowers have ended lawsuits they had brought.

As of June 30, 2022, there were no other significant disputes between SFIL or Caisse Française de Financement Local and their borrowers. The processing of the most sensitive structured loans can be considered as completed.

7.2. TAX RISKS

There was no change during the first half of 2022 concerning the case related to the treatment of the taxation in Ireland of the results of the former branch of Dexia Municipal Agency (former name of CAFFIL) in Dublin, which was closed down in 2013, and which resulted in an adjustment by the French tax authorities. The French and Irish administrations that met in 2021 should continue their discussions in the second half of 2022. As a reminder, Caisse Française de Financement Local has settled all of the duties assessed.

SOCIAL AND ENVIRONMENTAL INFORMATION

In 2021, the SFIL Group placed sustainable development issues at the heart of its new strategic plan, and strengthened its commitments in this area from the first half of 2022.

In accordance with its commitments to the United Nations Global Compact, SFIL published, on April 29, 2022, its 4th CSR report, in which it defined strong medium- and long-term commitments to support recovery plans and the climate transition. This year, the report was also enhanced by an appendix dedicated to climate risks.

In line with its sustainable development approach, SFIL also launched a vast project during the first half of the year to expand its carbon strategy and be part of a carbon footprint management trajectory, in line with France's National Low Carbon Strategy, the Paris Agreement and the CDC Group's Climate Policy. The projects carried out in this context will also make it possible to anticipate the new regulatory requirements (Green taxonomy, CSRD and CRR2) that will apply to SFIL in the coming years.

1. Carrying out public policy missions

In the first half of 2022, EUR 298 million of green loans were produced by the SFIL-LBP scheme, i.e. 27% of local authorities loans production.

Production for Public Health Institutions amounted to EUR 279 million, up compared to previous years.

In order to take into account the environmental and social challenges faced by local authorities, in early 2022, SFIL undertook a project to overhaul its range of thematic loans, in partnership with La Banque Postale, opting for both broadening loans to projects with a social impact and adapting its green loans to the implementation of the new European green taxonomy.

During the first half of 2022, as part of the work carried out with the CDC Group on the implementation of the European taxonomy, SFIL took part in the first assessment exercise of the portion of assets eligible for the Green Asset Ratio, the main KPI (Key Performance Indicator) of the Taxonomy.

2. Implementing internal policies

In the pursuit of quality social dialog, SFIL, an inclusive company, signed a new agreement on Diversity and Living Well at Work (BVT) on June 20, 2022.

The signing of this agreement materializes SFIL's commitment to diversity and inclusion. The priority areas focus on the following themes:

- disability;
- employees aged 50 and over;
- social diversity;
- the inclusion of "LGBT+" people in its ranks and the continuation of the fight against gender stereotypes; awareness-raising workshops on this subject will initially be rolled out to the Human Resources Department, members of the Executive Committee, managers and elected officials, then open to all employees;
- awareness raising of the expression of religion in companies. Awareness-raising workshops on this subject will initially be rolled out to the Human Resources Department, members of the Executive Committee, managers and elected officials, then open to all employees;
- mental health.

The diversity of employees, whatever their singularities, is an asset and a driver of economic and social performance for SFIL.

Climate risks

SFIL continued its work on climate risks, as described in point 2 on risk management.

Carbon footprint

Exceeding the target of -15% in emissions over three years

In accordance with its commitments, SFIL carried out a voluntary measurement of its greenhouse gas emissions for 2021 in the first quarter of 2022. As every year, the measurement was carried out at the Issy-les-Moulineaux and Lyon sites, according to the three scopes of greenhouse gas emissions, with a result of 5,390 TCO2.

As a reminder, three years ago, SFIL made a commitment to reduce its greenhouse gas emissions by at least 15%. Thanks to the various reduction actions carried out since 2019, which include the rationalization of IT data management, the evolution of the travel policy or the perpetuation of the remote working agreement, a reduction of 31% was obtained, i.e. double the planned target.

SFIL's next objective is the integration of the entire scope 3 in the next measurements of its carbon footprint.

Expanding the carbon strategy

Among the work carried out as part of the project launched in 2022, two projects will, in particular, enable SFIL to initiate a new phase in its approach to enriching its carbon strategy.

As a first step, the broadening of the greenhouse gas (GHG) measurement scope related to its financing and investment portfolios aims to refine SFIL's carbon footprint and determine areas for improvement that will then enable the definition and deployment of a GHG emissions trajectory compatible with the target of 1.5°C to 2°C.

In order to mobilize employees around these ambitions, an awareness-raising session on the challenges of climate change as well as a training session on the implementation of the European Taxonomy were organized.

Green IT

In order to continue to raise employee awareness of the environmental challenges of digital technology, a new face-to-face workshop was organized in March 2022. It enabled 10 new employees to better understand the impact of our uses and to discuss possible solutions.

In addition, as part of its approach to responsible digital technology, SFIL took part in the 6th edition of the Green IT benchmark, with the aim of quantifying the environmental footprint of its Information System (IS). The first results of this benchmark made it possible to define three priority areas for 2022:

- the definition of a more "sober" equipment policy as part of the Demain@SFIL projects,
- the conducting of a responsible IT and telecoms purchasing policy,
- the deployment of an eco-design training plan for all developers and technical architects.

Finally, several actions are being implemented in relations with suppliers:

- following the signing by SFIL of the Responsible Suppliers Charter of the National Purchasing Council and the French Ministry of Finance's Ombudsman, a review was undertaken on the implementation of a SFIL Charter for strategic suppliers;
- in early 2022, SFIL launched a new collection of CSR information from its suppliers, which enables it to improve the integration of these criteria in its consultations;
- lastly, SFIL is working to strengthen its procedure for evaluating its third-party suppliers in terms of corruption. A tool search is underway and SFIL will also study the market offer for the treatment of other CSR aspects (environmental and social).

3. Employee engagement

The e-learning module dedicated to Sustainable Development and CSR rolled out by SFIL at the end of 2021 had been followed by 45% of the Company's employees at June 31, 2022.

Second SFIL'ANTHROPIE day

After a successful first edition at the end of 2021, the SFIL'ANTHROPIE day was renewed in June 2022. Proposing to enable employees to engage in a solidarity and useful action during a working day, it again brought together more than 30 employees, with three actions proposed, on the themes of disability, environmental protection and youth:

- Disability: 20 CVs produced for adults with disabilities at ESAT Les Voies du Bois;
- Environment: 25 kg of waste collected in the Bois de Boulogne in Paris;
- Youth: 10 young people from the Second Chance School coached in St Denis (93).

Visits to a waste sorting center

SFIL offered its employees the opportunity to take part in visits to the Agence métropolitaine des déchets ménagers (SYCTOM) household waste sorting center in Paris XV.

As part of the ongoing efforts to raise awareness of sustainable development and the issue of waste, these educational guided tours enable employees to learn more about the treatment and fate of waste and to improve their practices at work and at home.

In the first half of the year, 20 employees took part in these visits, which will be repeated during the second half year.

The signing of a partnership with Hop We Care

As the leading financier of public hospitals and the local public sector in partnership with La Banque Postale, SFIL wished to reaffirm its commitment to hospitals by adding a solidarity dimension to this role.

In early 2022, the Group set up a sponsorship partnership with Hop We Care, an endowment fund implementing initiatives to promote better living in hospitals through cultural, artistic and musical actions for patients, caregivers and healthcare managers.

Since June, SFIL has been the sponsor of three concerts for which around 10 volunteer employees have mobilized: a jazz concert by the MC Big Band at the Georges Pompidou European Hospital, a music & art performance by ArtMusik during the National Days of Hospital Directors' Associations, and a new concert by the MC Big Band for the GHU-Paris Hospital.

OUTLOOK

2022 is the first year of SFIL's new "Objectif 2026" strategic plan, which aims to continue and accentuate its growth along three key areas:

- fully exploiting the strengths of its public development bank model,
- broadening its intervention horizons in response to the challenges of the recovery plans and the climate transition, and
- engaging in a new phase of internal transformation with, in particular, the adaptation of its operating methods to hybrid mode, by relying on the strengths of a powerful group, the Caisse des Dépôts,

With regard to the financing of loans to the French local public sector (local authorities and public hospitals), activity should increase from 2022 thanks to the dynamism of the partnership formed with La Banque Postale (LBP) and the operational implementation of the new partnership with Banque des Territoires (Caisse des Dépôts) to refinance a fixed-rate offer complementary to that of La Banque Postale.

SFIL and its partners will support the post-Covid economic recovery as part of the government recovery plan for investments in local authorities and the "Ségur de la Santé" plan for investments in public health institutions. In particular, they will encourage the development of financing for the environmental transition thanks, in particular, to the current range of green loans (local authorities) as well as the new loan offer carried out in partnership with the Banque des Territoires. The SFIL Group will also actively support its customers' social projects via the range of social loans dedicated to hospitals in France and the development of a new range of social loans for local authorities. In the second half of the year, the SFIL/LBP scheme will launch the new financing offer dedicated to social projects in the following areas:

- fire and rescue services,
- health, social and family actions,
- education, professional training,
- sport, culture and community life,
- regional development and cohesion.

The deployment of this new range of loans, alongside the existing thematic loan ranges, will be accompanied by a broad awareness-raising among borrowers in order to ensure that it is fully in line with the actions carried out by local authorities and their groups in social and environmental areas.

The level of production should therefore be sustained in 2022, but will nevertheless be conditioned by the speed of familiarization of local authorities with this type of financing as well as by changes in interest rates. Given the central role of local authorities in the recovery plan and the environmental transition, the prospects in terms of green financing needs for the coming years are very important, with annual amounts of "climate investment" that should be multiplied by 2 to 5 depending on the sector.

At the same time, the regulatory corpus of the new European taxonomy will continue to be enriched during the second half of 2022 with the upcoming publication of two new delegated regulations, one covering the other four environmental objectives of the Taxonomy (protection of aquatic resources, circular economy, pollution prevention and restoration of diversity) and the other on non-financial information to be published. The overhaul of the range of thematic loans for local authorities will thus integrate the sustainability criteria resulting from this new classification into the green loan offer.

With regard to the refinancing of large export credits to support French companies, the outlook for the coming years is positive. The historically present challenges of security, sovereignty and sustainable development have taken on a new dimension with the war in Ukraine and will probably lead to an increase in investments in the defense and energy sectors, part of which could be financed through export credits to which SFIL would contribute. In addition, SFIL continues to support all sectors that use export credit, in particular major transport infrastructures, cruise ships, whose activity has resumed since the end of 2021, the space industry and telecommunications and, potentially, aviation. Lastly, as part of its strategic plan, the SFIL Group wishes to broaden the type of refinancing offered for sustainable projects in which there is a French interest and which call upon sources of financing covered by a European or multilateral public guarantee. The objective is to increase SFIL's impact in terms of sustainable development. The SFIL Group also wishes to be able to intervene in the mechanism for refinancing loans covered by the new guarantee for projects of strategic interest to the French economy abroad. The implementation of these projects is subject to obtaining the necessary authorizations from the European Commission.

The financing needs of the two growing business lines will be covered by SFIL and its subsidiary CAFFIL. 2022 will be marked by the expansion of the SFIL Group's bond offering with a new type of "sustainable" thematic bonds intended to finance a new range of social loans to local authorities marketed via La Banque Postale. The Group's issuance program in 2022 remains relatively modest, since it voluntarily anticipated in 2021 the covering of its needs due to excellent market conditions and in order to have a certain leeway to manage any increase in volatility. Thus, the SFIL Group plans to use the financial markets in 2022 for volumes between EUR 5 and 8 billion.

The SFIL Group will closely monitor the international situation and macroeconomic developments, in particular:

- the degree of market volatility in a context influenced by the evolution of the pandemic, the inflationary surge, the geopolitical environment and more particularly the conflict in Ukraine, whose foreseeable impacts for SFIL remain limited to date, as well as the monetary policy of the European Central Bank and the FED in response to the aforementioned events;
- the pace and methods of combating global warming by its borrowers and partners, taking into account European taxonomy;
- changes in the regulatory environment and, more specifically, the finalization of Basel 3 and the calibration of the criteria that will be applicable to SFIL.

In terms of resources, SFIL will strengthen its workforce and its IT investments in order to support its development ambitions, particularly in CSR, to face the increase in regulatory requirements and to continue strengthening its defenses against cyber risk.

A new phase of internal transformation will be put in place over the coming months with, in particular, the continued evolution of working methods and the provision to the teams of a modernized framework with a move planned in 2023 (Biome Paris 15 building), adapted to new hybrid working methods. These new premises, shared with La Banque Postale, will constitute a framework conducive to the intensification of the strategic partnership between the teams of the two entities in the financing of the local public sector.

2. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS

IFRS FINANCIAL STATEMENTS

Assets

EUR millions	Note	12/31/2021	6/30/2022
Central banks	2.1	3 961	2 550
Financial Assets at fair value throught profit or loss	2.2	3 518	3 024
Hedging derivatives		3 310	2 386
Financial Assets at fair value through equity	2.3	403	289
Financial Assets at amortized cost			
Loans and advances to banks at amortized cost	2.4	312	297
Loans and advances to customers at amortized cost	2.4	50 881	50 416
Securities at amortized cost	2.4	7 846	6 674
Fair value revaluation of portfolio hedge		1 988	777
Current tax assets		9	2
Deferred tax assets		73	76
Tangible assets		8	6
Intangible assets		23	22
Accruals and other assets		2 466	2 532
TOTAL ASSET		**74 799**	**69 050**

Liabilities

EUR millions	Note	12/31/2021	6/30/2022
Central banks		-	-
Financial liabilities at fair value through profit or loss	3.1	762	453
Hedging derivatives		5 557	4 968
Financial liabilities at amortized cost			
Due to banks at amortized cost	3.2	-	-
Customer borrowings and deposits at amortized cost		-	-
Debt securities at amortized cost	3.2	65 250	61 374
Fair value revaluation of portfolio hedge		430	211
Current tax liabilities		3	10
Deferred tax liabilities		-	-
Accruals and other liabilities		1 088	274
Provisions	3.3	23	21
Subordinated debt		-	-
EQUITY		**1 686**	**1 737**
Capital		1 445	1 445
Reserves and retained earnings		215	292
Net result through equity		(50)	(46)
Net income		76	46
TOTAL LIABILITIES		**74 799**	**69 050**

INCOME STATEMENT

EUR millions	Note	H1 2021	2021	H1 2022
Interest income	*5.1*	1 165	2 259	1 135
Interest expense	*5.1*	(1 090)	(2 098)	(1 057)
Fee and commission income	*5.2*	3	8	3
Fee and commission expense	*5.2*	(2)	(3)	(2)
Net result of financial instruments at fair value though profit or loss	*5.3*	18	52	40
Net result of financial instruments at fair value though equity		-	-	0
Gains or losses resulting from derecognition of financial instruments at amortized cost	*5.4*	9	17	7
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		**103**	**235**	**126**
Operating expenses	*5.5*	(53)	(97)	(58)
Depreciation and amortization of property and equipment and intangible assets		(9)	(18)	(8)
GROS OPERATING INCOME		**42**	**119**	**59**
Cost of risk	*5.6*	(1)	3	7
OPERATING INCOME		**41**	**122**	**66**
Net gains (losses) on other assets		0	(0)	-
INCOME BEFORE TAX		**41**	**122**	**66**
Income tax		(13)	(46)	(20)
NET INCOME		**28**	**76**	**46**
EARNINGS PER SHARE (in EUR)			-	-
- Basic		2.99	8.24	4.99
- Diluted		2.99	8.24	4.99

NET INCOME AND UNREALIZED OR DEFFERRED GAINS AND LOSSES THROUGH EQUITY

EUR millions	H1 2021	2021	H1 2022
NET INCOME	**28**	**76**	**46**
Items that may subsequently be reclassified through profit or loss	**(18)**	**(25)**	**5**
Unrealized or deferred gains and losses of financial assets at fair value through equity	(0)	(0)	(1)
Unrealized or deferred gains and losses of cash flow hedges derivatives	(23)	(33)	69
Unrealized or deferred gains and losses of cost of hedging derivatives	-	-	(62)
Tax on items that may subsequently be reclassified through profit or loss	6	9	(2)
Items that may not be reclassified through profit or loss	**(0)**	**0**	**-**
Actuarial gains and losses on defined-benefit plans	(0)	0	-
Tax on items that may not subsequently be reclassified through profit or loss	0	(0)	-
TOTAL UNREALIZED GAINS OR LOSSES THROUGH EQUITY	**(18)**	**(25)**	**5**
NET INCOME AND GAINS OR LOSSES THROUGH EQUITY	**10**	**52**	**51**

EQUITY

	Capital and reserves			Unrealized or deferred gains and losses					
EUR millions	**Share capital, additional paid-in capital**	**Retained earnings and net income for the period**	**Total**	**Remeasurement gains (losses) related to post-employment benefit plans, after tax**	**Net change in fair value of financial assets at fair value through equity, after tax**	**Net change in fair value of cash flow hedging derivatives, after tax**	**Net change in fair value of cost of hedging derivatives, after tax**	**Total**	**Total equity**
EQUITY AS OF JANUARY 1, 2020	**1 445**	**248**	**1 693**	**(1)**	**0**	**(25)**	**-**	**(26)**	**1 667**
Stocks issued	-	-	-	-	-	-	-	-	-
Dividends	-	(33)	(33)	-	-	-	-	-	(33)
Changes in fair value of financial assets through equity	-	-	-	-	(0)	-	-	(0)	(0)
Changes in fair value of derivatives through equity	-	-	-	0	-	(25)	-	(24)	(24)
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-	-	-
Net income for the period	-	76	76	-	-	-	-	-	76
Other movements	-	-	-		-	-	-	-	-
EQUITY AS OF DECEMBER 31, 2021	**1 445**	**292**	**1 737**	**(1)**	**(0)**	**(50)**	**-**	**(50)**	**1 686**
Stocks issued	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-
Changes in fair value of financial assets through equity	-	-	-	-	0	-	-	0	0
Changes in fair value of derivatives through equity	-	-	-	-	-	51	(46)	5	5
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-	-	-
Net income for the period	-	46	46	-	-	-	-	-	46
Other movements	-	-	-		-	-	-	-	-
EQUITY AS OF JUNE 30, 2022	**1 445**	**338**	**1 783**	**(1)**	**0**	**1**	**(46)**	**(46)**	**1 737**

CASH FLOW STATEMENT

EUR millions	12/31/2021	H1 2022
NET INCOME BEFORE TAX	**122**	**66**
+/- Net depreciation and amortization of tangible and intangible fixed assets	18	8
+/- Depreciation and write-downs	(26)	(19)
+/- Expense / income from investing activities	428	33
+/- Expense / income from financing activities	(116)	(86)
+/- Other non-cash items	305	488
Non-monetary items included in net income before tax and other adjustments	**609**	**424**
+/- Cash from interbank operations	77	143
+/- Cash from customer operations	(1 627)	(1 877)
+/- Cash from financing assets and liabilities	1 219	768
+/- Cash from not financing assets and liabilities	(814)	(1 035)
- Income tax paid	(56)	(35)
Decrease / (increase) in cash from operating activities	**(1 201)**	**(2 037)**
CASH FLOW FROM OPERATING ACTIVITIES (A)	**(470)**	**(1 547)**
CASH FLOW FROM INVESTING ACTIVITIES (B)	**(2)**	**(1)**
+/- Cash from or for shareholders	(33)	-
+/- Other cash from financing activities	2 540	141
CASH FLOW FROM FINANCING ACTIVITIES (C)	**2 507**	**141**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	**-**	**-**
INCREASE / (DECREASE) IN CASH EQUIVALENTS (A + B + C + D)	**2 035**	**(1 407)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1 960**	**3 996**
Cash and balances with central banks (assets & liabilities)	1 932	3 961
Interbank accounts (assets & liabilities) and loans / sight deposits	28	35
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**3 995**	**2 589**
Cash and balances with central banks (assets & liabilities)	3 960	2 550
Interbank accounts (assets & liabilities) and loans / sight deposits	35	39
CHANGE IN NET CASH	**2 035**	**(1 407)**

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 Group prepares its consolidated 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 consolidated financial statements as of December 31, 2020. 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 Group's activities do not show any seasonal, cyclical or occasional aspects.

The consolidated condensed financial statements are furthermore in accordance with ANC (French accounting standards Board) Recommendation No. 2017-02 issued on June 2, 2017 regarding disclosure of consolidated financial statements for banking reporting entities under IFRS.

Group SFIL has furthermore voluntarily decided to use as from 2020 the new European Single Electronic Format (ESEF) format for the preparation of its yearly financial statements.

The consolidated condensed financial statements as of June 30, 2022, were approved by the Board of directors on September 9, 2022.

Due to Covid-19 outbreak in 2020 and the widespread of health crisis between 2020 and 2022, the Group has disclosed in note 8 below qualitative and quantitative information so as to enable the users to measure the impact of this crisis on its consolidated condensed financial statements. Further information is disclosed in the activity report of the Group.

In a same way, the quantitative impacts on the financial statements and qualitative information associated with the war in Ukraine are presented by the company in note 9 below. Additional information is also disclosed in the activity report of the Group.

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

The Group applies IFRS 9 transitional arrangements as regards hedge accounting starting from January 1, 2022. IFRS 9 standard applies prospectively from this date to all of the Group's micro-hedging (FVH and CFH) relationships. Macro-hedging (PHE) relationships keep being recognized under IAS 39 requirements, in accordance with the arrangements stated by the 2086/2004 regulation of the European commission regarding IAS 39 (IAS 39 "carve out"). All affected hedging relationships recognized under IAS 39 were maintained under IFRS 9, without a need of rebalancing, and no profit and loss impact was observed as of January 1, 2022. The first time application (FTA) impacts are thus very limited: they only relate to the choice from the Group to apply the option introduced by IFRS 9 which consists in retrospectively applying the so-called "cost of hedging of foreign currency basis spread" to cross currency basis swaps used for export credit purposes documented as Cash-Flow Hedge relationships, and, to a lesser extent, cross currency interest rate swaps documented as Fair-Value-Hedge relationships. This approach enables to initially account for the fair value movement of hedging derivatives attributable to basis spread under a new section of other comprehensive income called "Cost of hedging". This reserve is recycled to profit or loss when the hedged cash flows impact profit or loss. The treatment applied until December 31, 2021 already consisted in a recognition in other comprehensive income and an amortization through profit or loss for derivatives initially documented in a Cash Flow Hedge relationship: the only difference is the section used within other comprehensive income. Thus, there is no overall impact on financial statements.

The below table presents the details of the FTA incidence as of January 1, 2022 in the Group's accounts:

	Accounting sense (credit = +)	DISCLOSE	TOTAL FTA	RESTATED	
OCI reserve	Cash-Flow Hedge reserve	-67 225 139	69 360 601	2 135 462	The residual amount stems from a cash-flow hedge relationship that had been put to an end in the past; it does not correspond to a basis element and thus shall not migrate to the Cost of Hedging reserve.
	Cost of Hedging reserve	0	-69 360 601	-69 360 601	

1.1.2 IASB and IFRIC texts endorsed by the European Union and effective as of January 1, 2022

- Amendment to **IFRS 3 Business combinations**: issued by the IASB in May 2020, endorsed by the European Union on June 28, 2021 (UE Regulation No. 2021/1080) and effective for reporting periods beginning on or after January 1, 2022 (for combinations in those periods) with early application permitted, this amendment updates a reference made to the conceptual framework and furthermore requires the acquirer to determine on the one hand whether for obligations within the scope of IAS 37 a present obligation exists at the acquisition date as a result of past events, and on the other hand whether for levies within the scope of IFRIC 21 the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendment further confirms the prohibition for the acquirer to recognize contingent assets acquired in a business combination.

This amendment has no impact on the Group's consolidated financial statements, given that its operations are out of the scope of IFRS 3.

- Amendment to **IAS 16 Property, plant and equipment**: issued by the IASB in May 2020, endorsed by the European Union on June 28, 2021 (UE Regulation No. 2021/1080) and effective for reporting periods beginning on or after January 1, 2022 with early application permitted, this amendment prohibits henceforth deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Those proceeds as well as related costs shall be recognized in net result.

This amendment has no impact on the Group's consolidated financial statements, given that the latter does not account for any proceeds that relate to items produced by assets under construction.

- Amendment to **IAS 37 Provisions, contingent liabilities and contingent assets**: issued by the IASB in May 2020, endorsed by the European Union on June 28, 2021 (UE Regulation No. 2021/1080) and effective for reporting periods beginning on or after January 1, 2022 with early application permitted, this amendment further specifies how the unavoidable cost of a contract shall be calculated and, as a result, how the assessment of whether the contract is onerous shall be made. More precisely, the amendment specifies that the cost of fulfilling a contract comprises not only the incremental costs that relate to this contract in particular, but also an allocation of other costs that relate directly to fulfilling contracts in general.

This amendment has no impact on the Group's consolidated financial statements, given that the latter is not a party of an onerous contract.

- Amendments to **IFRS 1 First-time adoption of International Financial Reporting Standards/IFRS 9 Financial instruments/IFRS 16 Leases/IAS 41 Agriculture**: issued by the IASB in May 2020 within the framework of its regular IFRS improvement process, endorsed by the European Union on June 28, 2021 (UE Regulation No. 2021/1080) and effective for reporting periods beginning on or after January 1, 2022 (except for the amendment to IFRS 16) with early application permitted:
- IFRS 1 amendment extends to the cumulative translation differences from foreign operations the relief available for subsidiaries to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements. It is available for subsidiaries that adopt IFRS later than their parent;
- IFRS 9 amendment clarifies which fees an entity includes when it applies the "10 per cent" test, with the objective of deciding whether or not the terms of modified financial liability may be deemed substantially different from initial terms. Only fees paid or received between the borrower and its lender may be taken into account, including those paid or received by one of them on the other's behalf;
- IFRS 16 amendment removes the illustration of the reimbursement of leasehold improvements in the purpose of avoiding any confusion regarding the treatment of lease incentives. As the amendment only regards the removal of an illustrative example, no effective date is stated;
- IAS 41 amendment concerns agricultural activity.

The amendment to IFRS 1 is not applicable to the Group's consolidated financial statements. The amendments to IAS 41 and IFRS 16 have no impact on the Group's consolidated financial statements. The amendment to IFRS 9 has no impact on the Group's consolidated financial statements, given that the latter already took into account all the fees exchanged between the borrower and the lender, excluding those exchanged with third parties, for the purpose of the "10 per cent" test.

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

- Amendment to **IAS 1 Presentation of financial statements**: issued by IASB in January 2020, not yet endorsed by the European Union and initially effective for reporting periods beginning on or after January 1, 2023 with potential postponement to January 1, 2024, and with early application permitted, this amendment clarifies the distinguishing criteria between current liabilities on the one hand and non-current liabilities on the other hand.

This amendment will have no impact on the Group's consolidated financial statements given that it classifies its assets and liabilities based on a liquidity criterion, as most credit institutions do.

- **IFRS 17 Insurance contracts**: issued by IASB in May 2017, amended by IASB in June 2020, endorsed by the European Union on November 23, 2021 (UE Regulation No. 2021/2036) and effective for reporting periods beginning on or after January 1, 2023 (June 2020 amendments have postponed by 2 years this date, which was initially January 1, 2021), this standard, which will replace IFRS 4 standard, clarifies in particular how all insurance contracts (life, non-life, insurance and reinsurance) shall be accounted for, contracts for which the entity is the policyholder being in particular out of the scope (excepted reinsurance contracts).

This amendment will have no impact on the Group's consolidated financial statements given that the latter does not have insurance activities.

- Amendment to **IAS 8 Accounting policies, changes in accounting estimates and errors**: issued by IASB in February 2021, endorsed by the European Union on March 2, 2022 (UE Regulation No. 2022/357) and effective for reporting periods beginning on or after January 1, 2023 with early application permitted, this amendment modifies the definition of "accounting estimates" so as to being able to better distinguishing between a change in an accounting estimate and the correction of an error.

The Group will take due consideration of this amendment when assessing events to be qualified as corrections of errors or changes in accounting estimates.

- Amendment to **IAS 1 Presentation of financial statements**: issued by IASB in February 2021, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2023 with early application permitted, this amendment specifies that entities must from now on provide information on "material accounting policy information" rather than on "significant accounting policies". Additional information has also been provided in order to help entities to assess the materiality of the information to be disclosed as regards accounting policies.

The Group will take due consideration of this amendment when assessing the information to be disclosed in its consolidated financial statements.

- Amendment to **IAS 12 Income taxes**: issued by IASB in May 2021, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2023 with early application permitted, this amendment requires to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. This narrows the scope of application of the initial recognition exception specified under IAS 12. In-scope transactions mainly comprise leases for the lessee and decommissioning obligations.

This amendment is expected to have no impact on the Group's consolidated financial statements given that the latter does not operate transactions impacted by this amendment.

- **ANC Recommendation n° 2022-01 regarding the format of credit institutions' consolidated accounts according to international accounting standards**: this ANC recommendation disclosed on April 8, 2022 cancels and replaces that of June 2, 2017 (n° 2017-02) starting from the first application date of IFRS 17 Insurance contracts standard, i.e., from January 1, 2023. This recommendation is mainly intended to take into account the future IFRS 17 standard as well as the application of IFRS 9 Financial instruments to insurance activities. Besides, it also takes into account IFRS 16 Leasing contracts standard (in application since 2019) as well as the IFRS IC10 recommendation disclosed in March 2018, which recalls that interest incomes computed through the effective interest rate are presented on a separate line of the income statement of profit and loss.

This recommendation is expected to have no impact on the Group's consolidated financial statements, given that the latter does not have insurance activities, already applies the IFFS IC10 recommendation, and already uses the recommended format when accounting for leasing contracts under IFRS 16.

1.1.4 Treatment and impacts of effects induced by Regulation (EU) 2016/1011 of the European Parliament and of the Council on indices used as benchmarks in financial instruments and contracts.

- Amendments to **IAS 39 Financial instruments: recognition and measurement/IFRS 9 Financial instruments/IFRS 7 Financial instruments: disclosures**: issued by IASB on September 26, 2019, endorsed by the European Union on January 15, 2020 (Regulation (EU) N° 2020/34) and effective for reporting periods beginning on or after January 1, 2020 with early application permitted, these amendments complete "phase 1" of IASB's project and are intended to avoid that the uncertainty arising from interest rate benchmark reform results in an early discontinuation of hedging relationships. IASB aimed thus at mitigating the impacts of this global reform on the financial statements of entities. These amendments bring in exemptions as regards especially the assessment of whether hedged future flows may be deemed highly probable (CFH), the requirement that hedged risk must be separately identifiable as well as the realization of prospective and retrospective effectiveness tests. These exemptions apply to hedging relationships affected by the reform, namely the ones where uncertainties arise about the interest rate benchmark designated as a hedged risk and/or the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. They cease to apply only when the uncertainty mentioned is no longer present. As part of "phase 2", IASB has finalized during the second semester of 2020 its works on how to account for the consequences of interest rate benchmark reform; such works have resulted in additional amendments (see below).
- Amendments to **IAS 39 Financial instruments: recognition and measurement/IFRS 9 Financial instruments/IFRS 7 Financial instruments: disclosures/IFRS 4 Insurance contracts/IFRS 16 Leases**: issued by the IASB on August 27, 2020, endorsed by the European Union on January 13, 2021 (Regulation (EU) No. 2021/25) and effective for reporting periods beginning on or after January 1, 2021 with early application permitted, these amendments, which complement those from "phase 1" of IASB's project (see above), finalize "phase 2" of the project and are intended to address the financial reporting consequences of the actual replacement of existing interest rate benchmarks with alternative reference rates specified under the interest rate benchmark reform. These amendments thus apply to every change in the basis for determining the contractual cash flows provided that this change is a direct consequence of the reform and there is an economic equivalence between the former and the new basis for determining those flows.

The "phase 2" amendments (the one to IFRS 9 in particular) provide a practical expedient that enables to account for the impact of such changes to be accounted for prospectively through an adjustment of the EIR.

When such changes relate to financial assets or financial liabilities involved in an hedge relationship, the latter shall be re-documented and the IAS 39 "phase 2" amendment specifies further reliefs so as to enable the continuation of hedged relationships beyond the end of application of "phase 1" reliefs.

These reliefs apply in particular to the way retrospective effectiveness tests shall be performed (option to set at zero the cumulative change in fair value of the hedged item and the hedging instrument), the retention of the CFH reserve that relates to forecast transactions (the cumulative gains and losses recognized in Other comprehensive income are deemed to have been determined on the basis of the same rate as the one of future hedged cash flows), the hedging of group of items (requirement to split the group into two sub-groups, one based on the former rate and another on the new one) and the "separately identifiable" requirement of a non-contractually specified portion of hedged risk (deemed fulfilled as regards an alternative benchmark rate provided that there is a reasonable expectation that it will fulfil the requirement within 24 months).

The "phase 2" amendment to IFRS 7 specifies the qualitative and quantitative information that shall be disclosed as regards financial instruments during the application of "phase 2".

The amendment to IFRS 4 is mainly intended to extend the practical expedient specified under IFRS 9 "phase 2" amendment to insurers that have opted for the temporary exemption to apply IFRS 9.

The amendment to IFRS 16 provides a practical expedient that enables any modification of a lease resulting from the reform to be accounted for as if it were a reevaluation and using an unchanged discount rate. In practice, this amendment concerns the leases whose variable payments are indexed to a rate affected by the reform.

As a reminder, the Group has opted for an early application of the "phase 1" amendments from January 1, 2019, while it has not chosen early application of the "phase 2" amendments: the "phase 2" amendments have therefore been applied since January 1, 2021. In compliance with the provisions of the "phase 2" amendments, the first time application of these amendments has been made retrospectively; however, in compliance with the exceptions provided, the Group has opted for not restating the comparative period (2020). No first time application impact on opening equity (2021) has been recognized with regard to the "phase 2" amendments.

Broadly speaking, the impacts of the "phase 2" amendments on the Group's consolidated financial statements are for now relatively limited due to the low number of transitions to alternative benchmark rates to date. More specifically, the impacts of these amendments are the following:

- "Phase 2" amendment to IFRS 9 is applied by the Group, notably the practical expedient provided by this amendment;
- Regarding hedge accounting, "phase 1" amendment to IAS 39 is applied by the Group to hedging relationships that have yet to transition to alternative benchmark rates, while "phase 2" amendment to IAS 39 is applied to hedging relationships that are in the transition period;
- The Group discloses the qualitative and quantitative information required by "phase 1" and "phase 2" amendments to IFRS 7. Qualitative information is presented below, in the next paragraph. As for quantitative information, the required pieces of information are disclosed below in note 4.1: notably notional amounts of derivatives to which "phase 1" amendments are applied and, regarding "phase 2", outstanding principal amounts of non-derivative financial instruments, and notional amounts of derivatives that have yet to transition or that are not in the scope of the transition to alternative benchmark rates;
- The amendment to IFRS 4 has no impact on the Group's consolidated financial statements given that the latter does not have any insurance businesses;
- The amendment to IFRS 16 has no impact on the Group's consolidated financial statements given that the future variable payments of leases where the Group is the lessee are not indexed on rates affected by the reform.

The benchmark interest rates to which the Group is mainly exposed are EURIBOR, EONIA, LIBOR (USD, GBP, CHF) and less materially STIBOR rates. So as to transition from the former to the new interest rates benchmark in all the currencies and jurisdictions involved, the Group has set up a steering committee gathering all the departments involved within the bank, in particular the Finance and financial markets division, the Local Public Sector and Operations division, the Legal department and also the Risk division. This committee aims at reducing the risks arising from the transition, monitoring its effective implementation within the times and to follow-up on the industry's work on this matter. This committee oversees transition operations to contracts indexed on benchmark interest rate affected by the reform and is generally speaking responsible for ensuring a smooth transition towards alternative reference rates.

Without changing its risk management strategy, the Group has identified, in the context of the abovementioned committee, the risks to which it is exposed arising from financial instruments because of the transition to the new benchmark rates:

- litigation risk, arising from the renegotiation of legacy contracts (related, for instance, to the introduction of fallback provisions);
- market risk, arising from the outbreak of a basis risk between the various interest rate curves, from potential market disruption due to the various transitions, or from a potential liquidity stress during the transition on some market segments;
- operational risk, arising from the changes to information systems and processes;
- accounting risk, this risk might from a theoretical perspective result in some P&L volatility through ineffectiveness in the event that for example the hedged item and the hedging instrument of the same hedging relationship do not simultaneously transition towards alternative reference rates. Similarly, the outbreak of a basis risk between the various interest rate curves previously mentioned might also result in some P&L volatility. At this stage, such a volatility seems however to be immaterial.

Since 2020, the Group has reinforced its access to derivatives markets of alternative reference rates. The Group has moreover pursued its negotiation efforts with its borrowers, its lenders and its derivatives counterparties in the objective of transitioning towards alternative reference rates or alternatively of inserting resilient fallback provisions. The Group has adhered to the ISDA Protocol covering those aspects. Regarding EONIA index rate, LCH clearing house transitioned from EONIA to €STER during the fourth quarter of 2021; this replacement resulted in cash collateral being paid, and hedging relationships have thus been maintained. Regarding LIBOR CHF and LIBOR GBP, the transition was operated though restructuring mechanisms. LIBOR USD migration should happen in 2022, while STIBOR's should happen before the end of 2023. Financial assets, financial liabilities and derivative contracts of the Group affected by the reform are presented in note 4.1.

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 make 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 in credit risk since initial recognition;
- determination of whether or not there is an active market 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, in particular 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 Consolidation

The consolidated financial statements of the Group include all entities under its control. Controlled entities are fully consolidated.

The Group controls a subsidiary when the following conditions are all met:

- the Group has the power over the relevant activities of the entity, through voting rights or other rights;
- the Group is exposed to or has rights to variable returns from its involvement with the entity;
- the Group has the ability to use its power over the entity to affect the amount of those returns.

The analysis of the level of control is reviewed when a change occurs in one of these criteria. Subsidiaries are consolidated on the date that the Group gains control. All intra-group transactions and balances, including unrealized gains or losses resulting from intra-group transactions, are eliminated on consolidation.

The scope of consolidation as of June 30, 2021 is the same as that as of December 31, 2021.

1.2.2 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.

1.2.3 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 Other comprehensive income 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 Group holds no non-monetary asset or liability denominated in a foreign currency.

1.2.4 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 one company of the Group. Derivative instruments are recognized at fair value on the transaction date.

1.2.5 Financial assets

When the Group 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.

1.2.5.1 Business model

The inclusion of Group's financial assets within business models is assessed at a level that reflects how groups of financial assets are managed together to achieve Group'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;
- refinancing export credit contracts covered by Bpifrance Assurance Export insurance policy;
- reducing the sensitivity of remaining sensitive structured loans held by Caisse Française de Financement Local.

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 Group at the date of the assessment. These relevant evidence can be broken down into two groups:

- qualitative evidence: how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group'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 evidence: the frequency, value and timing of sales in prior reporting periods, the reasons for those sales and expectations about future sales activity.

It can be inferred from this assessment that the Group only uses the Hold-To-Collect (HTC) model and, to a lesser extent, the Hold-To-Collect-and-Sell (HTCS) model. The Group does not hold any financial assets for trading purposes, i.e. the Group 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.

1.2.5.2 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 nature of its rate (fixed or variable), this is the case when the contractual cash flows comprise 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 given 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.

1.2.5.3 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 tow 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 Group 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.

1.2.5.4 Financial assets measured at fair value through the item Other comprehensive income

A financial asset is classified and subsequently measured at fair value through the item Other comprehensive income 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 Group 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.

1.2.5.5 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 Other comprehensive income) 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 Group 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.

In accordance with the principles stated under ANC Recommendation 2017-02 issued on June 2, 2017, the Group 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.

1.2.5.6 Designation options

The Group 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 Group does not hold such instruments.

1.2.5.7 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 Other comprehensive income. 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 Group 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 Group does not use the collective basis approach. The objective of the assessment is to compare the default risk at closing date with its default risk at the date of initial recognition. This assessment takes into consideration all reasonable and supportable information that is relevant and that is available for the Group 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) with the PD at initial recognition;
- or through the characterization of risk levels (ratings coming from internal rating systems) year-to-year migrations towards risk levels regarded as risky (higher historic default rates).

The contracts of a counterparty are classified in Stage 3 when the counterparty is in one or other of the following situations:

- it is in "default" within the meaning of the CRR because it is unlikely to pay: it is probable that the counterparty will not repay all or part of its debt, without taking any guarantees into account, if applicable;
- it presents an arrear in payment past due of more than 90 days, irrespective of whether this counterparty is or is not in "default" within the meaning of the CRR.

The contracts of a counterparty in one or the other of the situations previously described are also considered as Non-Performing Exposures from a prudential perspective. On the perimeter being broken down into Stages, the accounting base of Stage 3 is therefore larger than the one of the "default" within the meaning of the CRR and is broadly in line with the one of Non-Performing Exposures, with just one significant difference: counterparties already in Forbearance and to which a new Forbearance has been granted and/or an incident of payment past due of between 31 and 90 days has occurred. The contracts of a counterparty in this situation are considered as Non-Performing Exposures from a prudential perspective but remain classified in Stage 2 from an accounting perspective (see below).

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

- it is followed by the Watchlist Committee, due to an increase in its credit risk, or it is in Forbearance, which means that the Group has refrained the enforcement of its rights towards counterparty facing financial difficulties;
- it presents arrears in payment past due of strictly between 31 and 90 days;
- its rating presents one of the following characteristics: it has become non-Investment grade (internal rating inferior or equal to BB+), it has no internal 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 on the basis of a statistical analysis using historical data and complemented by the use of expert judgment.

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

Stages transitions must be compliant with the following rules:

- for the contracts of a counterparty in "default", exiting from Stage 3 and "default" (and getting back to Stage 2 or Stage 1) can only occur after a cure period of at least one year during which the counterparty is still considered as being in "default" within the meaning of the CRR and the contracts of this counterparty remain classified in Stage 3. Exit must in addition be formally decided in Default Committee and is conditional to the full repayment of arrears if any. It shall be noted that this cure period is not applicable to the contracts of a counterparty that was in Stage 3 without simultaneously being in "default" in the meaning of the CRR;
- for the contracts in Forbearance, exiting from Stage 2 or as appropriate Stage 3 (and getting back to Stage 1) can only occur after a cure period of at least two years which starts from the date when the forbearance had been granted if the counterparty was not in "default" within the meaning of the CRR or from the date of exit from "default" if it was.

Measuring the amount of the expected credit loss

The loss allowance recognized on the contract is equal to the average of expected credit losses of each of the scenarios weighted by their respective probability of occurrence. For all material portfolios, the definition of scenarios integrates a forward-looking dimension, which consists in projecting macroeconomic and financial variables and assessing their impacts on loss allowances. These scenarios are built upon either projections realized by the credit risk direction, or quantitative studies.

In the case of French local authorities, the main hypothesis as well as the scenarios and their weighting are presented below. The hypothesis of these scenarios are regularly updated and have in particular been adapted so as to take into account the impacts of Covid-19 pandemic. To date, the impacts of the war in Ukraine on financial situation of French local authorities and the assumptions of forward-looking scenarios are being defined. Nevertheless, the impacts are expected to be low and will be implemented for the December 31, 2022 financial statements. In general, two types of hypothesis are used to model macro-budgetary variables:

- operating revenue and expenses;
- investment revenue and expenses. As regards investment expenses, their evolution is more and more influenced by the electoral cycle and the planned climate-related investments.

Three scenarios are therefore built:

- a base scenario (weighted at 60%) that foresees an evolution of local authorities accounts through an increase in operating revenue slightly more dynamic than that of operating expenses, which entails a significant increase in gross and net savings.

- an upside scenario (weighted at 15%) that deviates from the base scenario through more favorable macroeconomic hypothesis (GDP evolution, inflation and unemployment), a lower indexation of staff expenses on GDP growth and a stronger increase in State endowments.
- a downside scenario (weighted at 25%) that deviates from the base scenario through less favorable macroeconomic hypothesis (GDP evolution, inflation and unemployment), freeze on State endowments and steady volume overhead costs despite the contraction in GDP and a stronger increase in intervention expenditures.

The impact of changing weights between the three scenarios on the amounts of expected credit losses is deemed very limited. As an illustration, as of June 30, 2022, the following table presents the accounted ECL (EUR 53.2 million) and the unweighted ECL of the three scenarios. The respective weights of each scenario and the detail of macro-budgetary variables used are also specified.

Scenarios	Weight	Macro-budgetary variables	Var. 2021/2022	Var. 2022/2023	Var. 2023/2024	Unweighted ECL (in EUR millions)	Weighted ECL (in EUR millions)
BASE	60%	Carrying debt as of 12/31/2021	(0.5)%	0.7%	1.0%	52.9	53.2
		Leveraging ratio (in % of AOE)	4.5	4.4	4,4		
		Gross savings ratio (in % of AOE)	76.3%	75.3%	74.6%		
		Carrying debt as of 12/31/2021	16.8%	16.9%	17.1%		
DOWN-SIDE	25%	Deleveraging capacity (in years)	1.1%	3.2%	4.1%	54.3	
		Leveraging ratio (in % of AOE)	5.2	5.6	5.9		
		Gross savings ratio (in % of AOE)	79.9%	82.3%	85.2%		
		Carrying debt as of 12/31/2021	15.5%	14.8%	14.4%		
UPSIDE	15%	Deleveraging capacity (in years)	(1.7)%	(1.5)%	(1.8)%	52.7	
		Leveraging ratio (in % of AOE)	4.2	3.9	3.6		
		Gross savings ratio (in % of AOE)	74.9%	71.9%	68.8%		
		Leveraging ratio (in % of AOE)	17.7%	18.4%	19.0%		

AOE: actual operating expenses

For the contracts classified in Stage 1 or Stage 2, the expected credit losses equals the present value of the product of three parameters discounted at the original effective interest rate of the contract: the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD), respectively on a one-year horizon for the contracts classified in Stage 1 and on the residual lifetime horizon for the contracts classified in Stage 2. The three parameters depend on the scenario and the year considered. The Group has capitalized on the framework of calculation of these parameters under Basel regulation and has introduced adjustments so as to comply with specific provisions of IFRS 9. This approach has resulted in the definition of IFRS 9 specific models for each material portfolio. More precisely, specific models have been developed so as to calculate PD and LGD for local authorities and inter-municipal grouping with own-source tax revenue, given that this portfolio is the most material for the Group. These calculations have been performed by taking the following steps:

- a migration through-the-cycle matrix is built upon available historical data;
- it is then distorted to derive point-in-time PD as well as migration point in time matrix;
- the latter is used in the scenarios, taking into account forward-looking information.

For the contracts classified in Stage 3, the expected credit losses are computed according to two different methodologies depending on the type of counterparty:

- as regards local authorities and inter-municipal grouping with own-source tax revenue, the methodology is the same as for Stages 1 and 2. PD is set at 100% (recognized default) and a "Default" LGD model has been developed;
- as regards other counterparties, the expected credit losses equal the loss at maturity, i.e. the difference between the sequence of cash flows contractually due to the Group and the sequence of cash flows that the Group expects to recover, both discounted at the original effective interest rate. Depending on the materiality of the contract, the cash flows that the Group expects to recover are calculated either through individual simulations performed by the credit risk division or through standard recovery scenarios using predefined management rules. These flows are, if applicable, net of any flows derived from realizing securities which form an integral part of contractual provisions.

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

Recognizing the impairment

Positive and negative variations of the amount of the loss allowance for expected credit losses are recognized in profit or loss as cost of risk.

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

1.2.5.8 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 Group'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 Other comprehensive income, 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 term of 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 loner 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 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 Other comprehensive income, the Group 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 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.

1.2.6 Financial liabilities

1.2.6.1 Financial liabilities held for trading

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

1.2.6.2 Financial liabilities designated at fair value through profit or loss

The Group does not use this option.

1.2.6.3 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 Group 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 liabilities 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).

1.2.6.4 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).

1.2.7 Derivatives

The Group has decided to apply the provisions of IFRS 9 for hedge accounting from January 1, 2022. In accordance with paragraph 6.1.3 of IFRS 9, IFRS 9 applies prospectively from that date to all of the Group's micro-hedging relationships (FVH and CFH). Macro-hedging relationships (PHE) continue to be recognized in accordance with the provisions of IAS 39, in compliance with the provisions of European Commission regulation 2086/2004 amending IAS 39 (IAS 39 "carve out"). Moreover, the Group 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 together 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.

1.2.7.1 Derivatives not documented in a hedging relationship

The Group 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. It comprises mainly the financial assets that are not compliant with the SPPI criterion. 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;

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.

1.2.7.2 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 flows 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:

- the hedging relationship only includes qualifying hedging instruments and qualifying hedged items;
- the hedging relationship is formally designated at inception and documented in a structured manner that describes: the hedging strategy, the entity's risk management objective, the hedging instrument, the item being hedged, the nature of the risk being hedged, and how the entity assesses the effectiveness of the hedge;
- the hedging relationship meets all of the following hedge effectiveness constraints that together constitute the prospective effectiveness test:
  - there is an economic relationship between the hedged item and the hedging instrument;
  - the effect of the credit risk does not be predominant over the changes in value that result from the economic link;
  - there is no lack of balance in the used hedge ratio that would create hedge ineffectiveness.

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 reevaluating the hedged risk of the financial instrument, in parallel with the revaluation of the hedging derivative.

The effective 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. Considering that hedged items are financial instruments or futures transactions, amounts deferred in equity are recycled to profit or loss and classified as income or expense when the hedged items affects the profit or loss.

In addition, the component of the change in fair value for hedging derivatives corresponding to the basis spread (if any) is, in accordance with the option offered by IFRS 9, initially recognized in other comprehensive income. As the basis spread of the hedged items is linked to a series of future transactions, the amounts recorded in equity are reclassified in net income and classified as income or expense when the hedged items affect net income.

If at any time the hedge no longer meets the criteria for hedge accounting, one of the following accounting treatments shall be applied:

- in the case of a fair value hedge, the 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 effective interest rate 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 effective 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.

1.2.7.3 Hedging of the interest rate risk of a portfolio

The Group uses the provisions of IAS 39 as adopted by the European Union (IAS 39 carve-out) because it better reflects the way the Group 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 Group 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 Group 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 Group 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 Group 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 Group 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) effectiveness 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 with fair value adjustments recognized in profit or loss.

1.2.8 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 Group has access to on that date. The fair value of a liability reflects its non-performance risk, which includes in particular the Group'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 Group.

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 as well as instrument and market liquidity. Within this framework, the Group 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.

1.2.8.1 Fair value of financial instruments measured at amortized cost

The following additional comments are applicable to the fair value of financial instruments measured at amortized cost presented in note 7 of the financial statements:

- 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.

1.2.8.2 Financial instruments measured at fair value

Non-derivative financial assets measured at fair value, either through other comprehensive income 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 Group uses different discount curves depending on whether collateral was actually exchanged. Collateralized derivatives related future cash-flows are discounted using an OIS-based curve or an €STER curve for centrally cleared derivatives for which the discounting index has transitioned in the year 2020. In contrast, 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, if they 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 Group's own credit risk (DVA – debit valuation adjustment). Value adjustment allows switching from a fair value based on cash flows discounted at risk-free rate, i.e. without considering credit risk, into a fair value including this risk. Its calculation is based on the risk exposures combined with loss rates including market parameters.

1.2.9 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 remeasurements of financial assets measured at fair value through other comprehensive income and cash flow hedges, and other operations which are charged or credited directly to other comprehensive income, are also charged or credited to other comprehensive income.

1.2.10 Tangible and intangible assets

Fixed assets consist exclusively of operating tangible and intangible assets. These assets are held for production or administrative purposes. Fixed assets are recognized as assets if:

- it is probable that the associated future economic benefits will flow to the entity; and
- their cost can be measured reliably.

Fixed assets are recognized at acquisition cost plus any directly attributable expenses.

Software developed internally, when it meets the criteria for recognition, is recognized at its development cost, which includes external expenditures on hardware and services and staff expenses that can be directly attributed to its production and preparation for use.

After initial recognition, fixed assets are carried at cost less accumulated depreciation and impairment. When they are ready to be used, fixed assets are depreciated linearly over their expected useful life. Depreciation is recognized in profit or loss under the item Depreciation and amortization property and equipment and intangible assets.

The component approach is applied to all fixed assets. The depreciation periods are as follows:

Components	Depreciation period
Technical Installations	10-20 years
Fixtures and fittings	10-20 years
IT equipment	3 years
Software developed or acquired*	3 or 5 years
Office equipment	2-12 years

**Purchased licenses and equipments are depreciated over 3 years. The depreciation period of internally developed softwares depends on whether they are strategic. Those which are considered strategic, are amortized over 5 years; those which are not are amortized over 3 years.*

Fixed assets are tested for impairment when impairment indicators are identified. When the carrying amount of a fixed asset is greater than its estimated recoverable amount, an impairment charge is recognized and the carrying amount of the fixed asset is written down to the estimated recoverable amount. Impairment charges are recognized in profit or loss under the item Depreciation and amortization property and equipment and intangible assets.

Gains or losses on disposal of fixed assets are charged to Net gains (losses) on other assets.

1.2.11 Leases

The Group contracts leases as lessee and it is not involved in sale and leaseback transactions. Most of the leases entered into by the Group are commercial leases governed by the French trade law (Code de Commerce), commonly referred to as “3/6/9 leases”.

In compliance with the provisions of IFRS 16 standard, a contract is or contains a lease if it conveys, for a period of time in exchange for consideration, the right to control the use of an identified asset, namely both rights:

- to obtain substantially all the economic benefits from the use of this asset. It may be the case directly or indirectly and in several ways: for example by using or holding the asset; and
- to direct the use of this asset. It is evidenced when the Group has the right to direct how and for what purpose this asset is used or, when these parameters are predetermined, the Group has the right to operate the asset or has designed it.

This consideration shall be allocated to each of the lease and non-lease components of the contract, each lease component within the contract being accounted for as a distinct lease and separately from non-lease components. However, as a practical expedient, non-lease components may not be separated from the lease component they are associated to, the whole being then accounted for as a single lease.

Short-term leases and leases for which the underlying asset is of low value when it is new may be exempted. Non material leases are also exempted. Lease payments associated with those leases are recognized on a straight-line basis under the item Operating expenses over the lease term.

The lease term starts from the commencement date and extends over the period during which the lease is non-cancellable, taking into consideration each extension option that the lessee is reasonably certain to exercise and each termination option that the lessee is reasonably certain not to exercise. It shall not go beyond the period for which the contract is enforceable; the contract is no longer enforceable as soon as the lessee and the lessor each have the unilateral right to terminate the contract with no more than an insignificant penalty.

At initial recognition, which occurs at the commencement date of the lease, the Group recognizes:

- a right-of-use asset. This asset is initially measured at cost, which corresponds to the amount of the initial measurement of the lease liability including if applicable any lease payments already made, any initial direct costs incurred by the Group and any final restoration costs;
- a lease liability. This liability is initially measured at the present value of the lease payments yet not made discounted using the interest rate implicit in the lease or, by default, using the Group's incremental borrowing rate.

The lease payments included in this measurement are the contractual payments for the right to use the underlying asset; they comprise:

- fixed payments, net of any lease incentives receivable;
- variable payments, which depend on an index or a rate. The measurement is performed using the index or the rate in force at the commencement date;
- if applicable, amounts due under residual value guarantees;
- if applicable, the exercise price of any purchase option that the Group is reasonably certain to exercise;
- if however the Group has assessed the lease term assuming it exercises a termination option, the penalties incurred in this event.

Subsequently, the Group measures the right-of-use asset at cost:

- minus accumulated depreciation and, if applicable, impairment. From the commencement date, depreciation is being accounted for, linearly over the shorter period between the useful expected life of this asset and the lease term. The useful expected life shall however be used if the Group is reasonably certain to exercise a purchase option it has or if the legal ownership of the asset is transferred to the Group before the end of the lease term;
- taking into account if applicable any remeasurement of the lease liability.

Subsequently, the Group measures the lease liability at amortized cost, which corresponds to its carrying amount at initial recognition:

- plus accrued interest;
- minus the part of the payments made during the reporting period which corresponds to the repayed capital;
- taking into account if applicable any remeasurement of the lease liability or any lease modification.

Any remeasurement of the lease liability is recognized with an offsetting entry to the right-of-use corresponding asset and, in the event that it leads to reduce to zero the carrying amount of this asset or to reduce the lease duration, with an offsetting entry to the profit or loss for the remaining. The lease liability is remeasured by discounting the revised lease payments using:

- either the revised discount rate at the reameasurement date (the interest rate implicit in the lease or, by default, the Group's incremental borrowing rate). It is especially the case when the lease term is modified. It is also the case when the lease is modified in a way that the lease modification shall not be accounted for as a separate lease;
- or the discount rate used for the initial recognition of the lease liability. It is especially the case on the fixing date of the index or the rate on which is based the sequence of future variable payments.

Regarding leases-related disclosures in the financial statements:

- right-of-use assets are recognized under the item Tangible assets or Intangible assets as the case may be;
- depreciation allowances of right-of-use assets and, if applicable, impairment loss allowances are recognized under the item Depreciation and amortization of property and equipment and intangible assets;
- lease liabilities are recognized under the item Accruals and other liabilities;
- due and accrued interest on lease liabilities are recognized in the net interest margin.

1.2.12 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 Group 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 other comprehensive income. The assessment of whether credit risk has significantly increased since initial recognition is performed from the date on which the Group 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.

1.2.13 Employee benefits

Staff expenses include all costs related to employees, particularly expenses of the reporting period related to profit-sharing and incentive plans. Employee benefits are classified in four categories:

1.2.13.1 Short-term benefits

Short-term benefits are those expected to be settled wholly in twelve months after the end of the annual reporting period during which employee services are rendered; they are not discounted and are recognized as an expense of the reporting period. Annual leave is recognized when the benefits are granted to the employee. To this purpose, a provision is recognized based on rights vested by employees at the closing date.

1.2.13.2 Long-term benefits

These benefits, generally related to seniority, are paid to current employees. Their payment is deferred for more than twelve months after the end of the reporting period during which the employees rendered the related service. They represent, specially, long service awards. The actuarial gains and losses related to these benefits and all service costs are recognized immediately in profit or loss.

1.2.13.3 Termination benefits

Employee termination benefits result either from the decision by SFIL to terminate an employment contract before the legal retirement age or by a decision of voluntary redundancy in exchange for termination benefits. A charge for termination benefits at the end of the employment contract is recognized only when SFIL is no longer able to withdraw its offer.

1.2.13.4 Post-employment benefits

Post-employment benefits are only made of defined contribution plans. The assets of these plans are generally held by insurance companies or pension funds. The pension plans are generally funded by payments from both SFIL and its employees.

Under defined benefit plans, SFIL has a formal or constructive obligation to provide the agreed benefits to current and former employees. Actuarial and investment risks fall on SFIL; as a result, this obligation is measured and recognized as a liability under the item Provisions.

Post-employment benefit obligations are measured using an actuarial valuation technique that includes demographic and financial assumptions and the Projected Unit Credit Method, under which each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation.

The defined benefit net liability recognized in the balance sheet is valued by independent actuaries and represents the present value of defined benefit obligations reduced by the fair value of plan assets (if any).

When the fair value of assets exceeds the amount of the obligation, an asset is recognized if it represents a future economic benefit for SFIL in form of a reduction in future contributions to the plan or a future partial refund.

Remeasurements of defined benefit net liability (or asset) and the fair value of its covering assets is subject to adjustments due to changes in actuarial assumptions, which results in revaluating the liability (or asset) recognized under defined contribution plans. Actuarial gains and losses resulting from these adjustments are recognized as other comprehensive income at the closing date.

Under defined benefit plans, the expense recognized as staff expenses represents in particular the acquired rights during the reporting period by each employee and comprises the current service cost and past service cost arising from plan amendments, curtailments or settlements.

1.2.14 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.

1.2.15 Commissions

Most of the commissions arising from the Group'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 withdrawn.

1.2.16 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.

1.2.17 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.

1.2.18 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 Group is owned by the Caisse des Dépôts group, an institution registered in France, and by French State. Within this framework, related-party transactions are those with companies owned directly or indirectly by the same final shareholders, in particular the subsidiaries of Caisse des Dépôts group, and with directors.

1.2.19 Segment reporting

The Group's unique activity involves the financing or refinancing of loans to public sector entities and exporters.

The Group 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

	12/31/2021	6/30/2022
Mandatory reserve deposits with central banks	-	-
Other deposits	3 961	2 550
TOTAL	**3 961**	**2 550**

2.2. Financial assets at fair value through profit or loss

2.2.1. Analysis by nature

	12/31/2021	6/30/2022
Loans and advances to customers	3 514	3 013
Non Hedging derivatives (1)	4	11
TOTAL	**3 518**	**3 024**

(1) SFIL is only authorized to enter into derivative transactions for hedging purposes. However, as certain hedging derivatives do not meet all the conditions required by IFRS to be classified as hedging instruments for accounting purposes, they are classified as derivative instruments at fair value through profit or loss.

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

2.2.2. Analysis of loans and advances to customers analysis by counterparty

	12/31/2021	6/30/2022
Public sector	3 157	2 682
Other - guaranteed by a State or local government	357	331
TOTAL	**3 514**	**3 013**

2.3. Financial assets at fair value through equity

2.3.1. Analysis by nature

	12/31/2021	6/30/2022
Stocks	-	-
Bonds	403	289
TOTAL	**403**	**289**

2.3.2. Analysis by counterparty

	12/31/2021	6/30/2022
Public sector	22	22
Credit institutions	381	267
TOTAL	**403**	**289**

All financial assets measured at fair value through equity as of December 31, 2021, and June 30, 2022, were allocated to the Stage 1 category.

2.4. Financial assets at amortized cost

	31/12/2021										
	Gross amount				Impairment				Net carrying amount	Accumulated partial write-offs	Accumulated total write-offs
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total			
Sight accounts	15	-	-	**15**	-	-	-	**-**	**15**	-	-
Credit institutions	298	-	-	**298**	(0)	-	-	**(0)**	**298**	-	-
Loans and advances to banks at amortized cost	**312**	**-**	**-**	**312**	**(0)**	**-**	**-**	**(0)**	**312**	**-**	**-**
Public sector	44 787	1 586	371	**46 744**	(3)	(14)	(5)	**(22)**	**46 722**	-	-
Non-financial institutions	1 257	2 913	0	**4 170**	(0)	(10)	(1)	**(11)**	**4 159**	-	-
Loans and advances to customers at amortized cost	**46 044**	**4 499**	**371**	**50 914**	**(4)**	**(24)**	**(6)**	**(33)**	**50 881**	**-**	**-**
Public sector	5 252	1 327	4	**6 582**	(4)	(12)	(0)	**(15)**	**6 567**	-	-
Credit institutions	1 280	-	-	**1 280**	(0)	-	-	**(0)**	**1 279**	-	-
Non-financial institutions	-	-	-	**-**	-	-	-	**-**	**-**	-	-
Bonds at amortized cost	**6 531**	**1 327**	**4**	**7 862**	**(4)**	**(12)**	**(0)**	**(16)**	**7 846**	**-**	**-**
TOTAL	**52 888**	**5 825**	**375**	**59 088**	**(8)**	**(35)**	**(6)**	**(49)**	**59 039**	**-**	**-**

	6/30/2022										
	Gross amount				Impairment				Net carrying amount	Accumulated partial write-offs	Accumulated total write-offs
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total			
Sight accounts	18	-	-	**18**	-	-	-	**-**	**18**	-	-
Credit institutions	279	-	-	**279**	(0)	-	-	**(0)**	**278**	-	-
Loans and advances to banks at amortized cost	**297**	**-**	**-**	**297**	**(0)**	**-**	**-**	**(0)**	**297**	**-**	**-**
Public sector	44 505	1 475	249	**46 229**	(3)	(11)	(3)	**(17)**	**46 211**	-	-
Non-financial institutions	1 126	3 090	1	**4 216**	(0)	(11)	(0)	**(12)**	**4 205**	-	-
Loans and advances to customers at amortized cost	**45 631**	**4 564**	**250**	**50 445**	**(3)**	**(22)**	**(3)**	**(29)**	**50 416**	**-**	**-**
Public sector	4 457	1 260	4	**5 720**	(4)	(12)	(0)	**(16)**	**5 705**	-	-
Credit institutions	970	-	-	**970**	(0)	-	-	**(0)**	**970**	-	-
Non-financial institutions	-	-	-	**-**	-	-	-	**-**	**-**	-	-
Bonds at amortized cost	**5 426**	**1 260**	**4**	**6 690**	**(4)**	**(12)**	**(0)**	**(16)**	**6 674**	**-**	**-**
TOTAL	**51 354**	**5 824**	**254**	**57 432**	**(7)**	**(34)**	**(3)**	**(45)**	**57 387**	**-**	**-**

In summary, the gross amounts decreased by around EUR 1.7 billion between the two periods, notably due to the increase in long-term rates observed in the first half of 2022, which led to a downward adjustment of the hedged risk, particularly on bonds at amortized cost. Loans and advances to customers at amortized cost also decreased over the period.

Expected credit losses decreased by EUR 4 million in the first half of 2022. This decrease relates entirely to loans and advnaces at amortized cost and is localized in Stages 2 and 3. The decrease identified in Stage 3 corresponds to customers who left their cure period. The decrease in Stage 2 is due to the review of the ratings of certain customers whose financial situation has improved and who have, therefore, switched back to Stage 1. This improvement on Stage 2 is mitigated by the additional provisioning of the drawdowns of export credit lines associated with the cruise sector. In parallel with these provisions, equivalent reversals have been made on impairments on off-balance sheet financing commitments (see note 6.5).

As a reminder, it was decided during the year 2020 and in the context of the Covid-19 health crisis, to record all exposures concerning the cruise sector on the watchlist and consequently to transfer them from Stage 1 to Stage 2. This downgrading was accompanied by an increase in the impairments relating to these balance sheet exposures (see note 8).

The SFIL group's forborne outstandings correspond to the exposure of contracts on which concessions have been granted due to the debtor's financial difficulties (actual or future), which would not have been granted otherwise. These concessions may be waivers of receivables, deferred payments or restructuring subject to an amendment to the contract; they can also be granted during a total or partial refinancing subject to a new contract, including within the framework of the policy of desensitization.

The number of forborne contracts thus amounted to 94 as of June 30, 2022, carried by 75 borrowers, for a total risk exposure of EUR 398 million.

3. NOTES TO THE LIABILITIES (EUR MILLIONS)

3.1. Financial liabilities at fair value through profit or loss

	12/31/2021	6/30/2022
Non hedging derivatives[1]	762	453
TOTAL	**762**	**453**

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

3.2. Financial liabilities at amortized cost

	12/31/2021	6/30/2022
Current account	-	-
Term deposits	-	-
Sub-total due to credit institutions at amortized cost	**-**	**-**
Certificates of deposit[1]	798	1 397
Euro medium term notes[1]	9 289	8 833
Obligations foncières	47 826	44 570
Registered covered bonds	7 337	6 575
Sub-total debt securities at amortized cost	**65 250**	**61 374**
TOTAL	**65 250**	**61 374**

(1) By contrast with obligations foncières *and registered covered bonds, these bonds do not benefit from the legal privilege.*

3.3. Provisions

	12/31/2021	Additions, including increases in existing provisions	Used amount	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	6/30/2022
Commitments and guarantees given	11	0	-	(2)	-	-	9
Provisions on pensions	8	0	-	(0)	-	-	8
Other provisions[1]	4	0	-	(1)	-	-	3
TOTAL	**23**	**0**	**-**	**-2**	**0**	**-**	**21**

(1) As a reminder, in the context of the health crisis and the consequences for the cruise industry, the SFIL Group decided during 2020 to set up a provision for risks on the foreign exchange financial hedging instruments used to refinance the export credits in dollars in this sector. This provision was raised to EUR 3.9 million at the end of 2021. The SFIL Group decided to reduce the amount of this provision by EUR 0.5 million at the end of June 2022 (see note 8).

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

The hedging derivatives below are part of the SFIL group's risk policy detailed in the activity report.

4.1. Financial instruments broken down by type of index rate including those impacted by the benchmark interest rate reform

The table below shows the breakdown by benchmark index of financial assets and liabilities as well as derivative instruments affected by the benchmark interest rate reform, whether or not they have been migrated to the new indices. The amendments to IFRS 9, IAS 39 and IFRS 7, which allow exemption from certain hedge accounting conditions under this reform, were applied, when the conditions were met, to maintain the impacted hedging relationships. For the sake of completeness, this table also lists the financial instruments that are not affected by the reform.

Current benchmark interest rate	Exposures as of 12/31/2021			Exposures as of 6/30/2022		
	Outstanding amount		Net notional amount	Outstanding amount		Net notional amount
	Financial assets (excluding derivatives)	Financial liabilities (excluding derivatives)	Derivatives	Financial assets (excluding derivatives)	Financial liabilities (excluding derivatives)	Derivatives
INTEREST RATES BENCHMARK AFFECTED BY THE REFORM						
EONIA	569	-	-	-	-	-
LIBOR CHF	222	-	(212)	1	-	-
LIBOR GBP	76	-	(364)			
LIBOR USD	409	-	(1 663)	453	-	(1 742)
STIBOR	17	-	(17)	16	-	(16)
INTEREST RATES BENCHMARK NOT AFFECTED BY THE REFORM						
SONIA	-	-	(185)	131	-	(563)
SARON	-	-	-	221	-	(221)
SOFR	-	-	-	-	-	(88)
EURIBOR	9 595	972	1 514	9 108	972	(1 202)
€STER	14	125	(2 406)	567	220	(2 296)
FIXED RATE	47 401	59 118	3 528	48 969	59 807	6 223
OTHERS	104	2 075	(402)	87	1 654	(365)
TOTAL	**58 406**	**62 289**	**(206)**	**59 552**	**62 653**	**(270)**

In 2021, transactions against EONIA all switched to €STER. As of 12/31/2021, financial assets remaining against EONIA corresponded to a portfolio of loans with TAM/TAG type interest rates. Since January 1, 2022, the calculation of this interest rate refers to €STER. The financial assets and derivatives indexed to CHF LIBOR and GBP LIBOR were be subject to a transition respectively to SARON and SONIA over the first half 2022. Assets, liabilities and derivatives indexed to USD LIBOR and STIBOR should be subject to a transition to the new benchmark indices by mid-2023.

4.2. Transactions with related parties

4.2.1 Analysis by nature

	Parent company (1)		Others related parties(2)	
	12/31/2021	6/30/2022	12/31/2021	6/30/2022
ASSET				
Financial assets at fair value through profit or loss	-	-	-	-
Hedging derivatives	-	-	-	-
Financial assets at fair value through equity	115	65	66	65
Loans and advances to banks at amortized cost	-	-	-	-
Securities at amortized cost	-	-	-	-
Accruals and other assets	1	0	1	1
LIABILITIES	-	-	-	-
Hedging derivatives	-	-	-	-
Due to banks	-	-	-	-
Debt securities at amortized cost	-	-	383	344
Accruals and other liabilities	-	-	0	0
INCOME STATEMENT	-	-	-	-
Interest income	(0)	(0)	0	0
Interest expense	(2)	(1)	(15)	(6)
Fee and commission income	-	-	4	3
Fee and commission expense	-	-	(0)	(0)
Net result of financial instruments at fair value through profit or loss	(1)	(2)	16	12
Net result of financial instruments at fair value through equity	-	-	-	-
Gains or losses resulting from derecognition of financial instruments at amortized cost	-	-	-	-
Other income	-	-	0	0
Other expense	-	-	-	-
Operating expense	-	-	(0)	0
Cost of risk	0	0	0	0
OFF BALANCE SHEET	-	-	-	-
Foreign exchange derivatives	-	-	-	-
Interest rate derivatives	-	-	-	-
Financing commitments received	4 000	4 000	1 000	1 000
Financing commitments given	-	-	-	-

(1) This item includes transactions with Caisse des dépôts, the parent company of SFIL.
(2) This item includes transactions with La Banque Postale and Bpifrance, subsidiaries of Caisse des dépôts group.

5. NOTES TO THE INCOME STATEMENT (EUR MILLIONS)

5.1. Interest income - interest expense

SFIL 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 note 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 profit or loss; the interest income and expense on these hedging derivatives are included in the headings recording the interest on these financial instruments.

	H1 2021			H1 2022		
	Income	**Expense**	**Net**	**Income**	**Expense**	**Net**
Loans / loans with credit institutions	-	-	-	-	-	-
Loans / loans with customers	56	-	56	49	-	49
Derivatives outside the hedging relationship	15	(67)	(52)	16	(61)	(45)
Financial assets and liabilities at fair value through profit or loss	**71**	**(67)**	**4**	**65**	**(61)**	**4**
Hedging derivatives	637	(564)	73	605	(603)	2
Hedging derivatives	**637**	**(564)**	**73**	**605**	**(603)**	**2**
Securities	0	-	0	1	-	1
Financial assets at fair value through equity	**0**	**-**	**0**	**1**	**-**	**1**
Central bank accounts	-	(4)	(4)	-	(8)	(8)
Accounts and loans with credit institutions	16	(24)	(8)	15	(28)	(13)
Accounts and loans with customers	365	-	365	376	-	376
Securities	75	(431)	(356)	73	(357)	(284)
Other	-	-	-	-	-	-
Financial assets and liabilities at amortized cost	**456**	**(459)**	**(3)**	**464**	**(394)**	**71**
TOTAL	**1 164**	**(1 090)**	**74**	**1 135**	**(1 057)**	**78**

Interest income and expenses measured using the effective interest rate method represented EUR 456 million and EUR -459 million at June 30, 2021 and EUR 465 million and EUR -394 million at June 30, 2022.

At June 30, 2021, the negative interest paid on financial instruments in assets and received on financial instruments in liabilities represented EUR -12 million and EUR +5 million respectively. At June 30, 2022, the negative interest paid on financial instruments in assets and received on financial instruments in liabilities represented EUR -15 million and EUR +4 million, respectively.

5.2. Fees and commissions

	H1 2021	H1 2022
LBP servicing commission received	2	3
Other commissions	(1)	(2)
TOTAL	**1**	**1**

5.3. Net result of financial instruments at fair value through profit or loss

All interest received and paid on the assets, liabilities and derivatives is recognized as net interest income, as required under IFRS. Consequently, the net gains or losses on hedging operations merely include the change in the clean value of the derivatives and the re-valuation of the assets and liabilities registered in relation to the hedge.

	H1 2021	H1 2022
Net result on financial assets or liabilities at fair value through profit or loss	23	42
Net result of hedge accounting	(3)	(1)
Net result of foreign exchange transactions	(1)	(1)
TOTAL	**18**	**40**

Analysis of net result of hedge accounting

	H1 2021	H1 2022
Fair value hedges	**(5)**	**(8)**
Fair value changes in the hedged item attributable to the hedged risk	284	1 360
Fair value changes in the hedging derivatives	(288)	(1 368)
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	**2**	**4**
Fair value changes in the hedged item	(323)	(957)
Fair value changes in the hedging derivatives	324	961
CVA / DVA Impact	**0**	**3**
TOTAL	**(3)**	**(1)**

5.4. Gains and losses resulting from derecognition of financial instruments at amortized costs

	H1 2021	H1 2022
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	9	7
Net result of disposals or prepayments of due to banks at amortized cost	-	-
Net result of disposals or prepayments of debt securities at amortized cost	-	-
TOTAL	**9**	**7**

Detail of on derecognition of assets and liabilities at amortized cost

	H1 2022	
	Notional amount	**Impact on result**
Prepayments of securities	-	-
Net result of disposals or prepayments of securities at amortized cost	**-**	**-**
Prepayments of loans and advances to customers	29	1
Restructuring of loans and advances to customers[1]	2 973	7
Net result of disposals or prepayments of loans and advances to customers at amortized cost	**3 001**	**7**
Sub-total assets	**3 001**	**7**
Prepayments of debt to banks	-	-
Net result of prepayments of debt to banks at amortized cost	**-**	**-**
Prepayments of debt securities	-	-
Net result of prepayments of debt securities at amortized cost	**-**	**-**
Sub-total liabilities	**-**	**-**
TOTAL	**-**	**7**

(1) The notional amount of restructuring of customer loans includes loans affected by the liquidity support measures granted to customers in the cruise industry as part of the export credit activity. SFIL is part of the approach developed jointly by the European export credit insurance agencies to provide liquidity support to these customers who have been particularly affected by the pandemic. This liquidity support consists of deferring the repayment of the principal amount of the credits. As a reminder, these loans benefit from credit insurance issued by BPI AE in the name, on behalf and under the control of the French Republic.

Impacts on the result on this line are mostly associated with the activity of restructuring loans to local public sector customers, which lead to the upfront recognition of income in accordance with the principles of IFRS standards (see note 1.2.5.8).

5.5. Operating expenses

	H1 2021	H1 2022
Payroll costs	(25)	(27)
Other general and administrative expenses	(14)	(15)
Taxes	(14)	(16)
TOTAL	**(53)**	**(58)**

5.6. Cost of risk

Specific impairment	H1 2021				
	1st January	Allocations	Reversals	Losses	June 30
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	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Loans and advances to banks at amortized cost	**(0)**	**(0)**	**0**	**0**	**(0)**
Stage 1	(5)	(1)	3	(2)	(5)
Stage 2	(23)	(4)	2	2	(23)
Stage 3	(7)	(2)	1	0	(8)
Loans and advances to customers at amortized cost	**(34)**	**(7)**	**6**	**0**	**(36)**
Stage 1	(4)	(0)	0	(0)	(4)
Stage 2	(13)	(1)	2	0	(13)
Stage 3	(0)	-	-	-	(0)
Bonds at amortized cost	**(17)**	**(1)**	**2**	**(0)**	**(17)**
Stage 1	(0)	(0)	0	-	(0)
Stage 2	(10)	(1)	1	-	(9)
Stage 3	(0)	-	0	-	(0)
Off-balance sheet commitments at amortized cost	**(10)**	**(1)**	**1**	**-**	**(10)**
Other provisions	**(5)**	**(0)**	**-**	**-**	**(5)**
TOTAL	**(66)**	**(10)**	**9**	**0**	**(67)**

Specific impairment	H1 2022				
	1st January	Allocations	Reversals	Losses	June 30
Stage 1	(0)	-	-	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Financial assets at fair value through equity	**(0)**	**-**	**-**	**-**	**(0)**
Stage 1	(0)	-	0	(0)	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Loans and advances to banks at amortized cost	**(0)**	**-**	**0**	**(0)**	**(0)**
Stage 1	(4)	(1)	7	(6)	(3)
Stage 2	(24)	(7)	5	4	(22)
Stage 3	(6)	(0)	1	2	(3)
Loans and advances to customers at amortized cost	**(33)**	**(8)**	**13**	**(0)**	**(29)**
Stage 1	(4)	0	0	0	(4)
Stage 2	(12)	(1)	0	(0)	(12)
Stage 3	(0)	(0)	-	0	(0)
Bonds at amortized cost	**(16)**	**(1)**	**1**	**(0)**	**(16)**
Stage 1	(2)	(0)	0	-	(2)
Stage 2	(8)	(0)	2	-	(6)
Stage 3	(0)	-	0	-	-
Off-balance sheet commitments at amortized cost	**(10)**	**(0)**	**2**	**-**	**(9)**
Other provisions	**(5)**	**-**	**1**	**-**	**(4)**
TOTAL	**(64)**	**(9)**	**15**	**(0)**	**(57)**

6. NOTE ON OFF-BALANCE SHEET ITEMS (EUR MILLIONS)

6.1. Regular way trade

	12/31/2021	6/30/2022
Assets to be delivered	-	-
Liabilities to be received	-	-

6.2. Guarantees

	12/31/2021	6/30/2022
Guarantees received from credit institutions	-	-
Enhanced guarantees(1)	10 071	10 558
Loan guarantee commitments received	-	-
Guarantees received from customers(2)	1 557	1 484

(1) Irrevocable, unconditional guarantees issued by the French Republic and received by SFIL for funding major export credits.
(2) Guarantees received from customers are generally granted by local governments.

6.3. Financing commitments

	12/31/2021	6/30/2022
Loan commitments granted to credit institutions (1)	9	9
Loan commitments granted to customers(1)	5 117	5 003
Loan commitments received from credit institutions(2)	5 000	5 010
Loan commitments received from customers	-	-

'(1) Financing commitments on loans and lines of credit related to contract issued but not paid out. These amounts mainly relates to commintments on operations in export credit business line.
(2) It corresponded to funding commitments received from Caisse des Dépôts and La Banque Postale for respective amounts of EUR 4,000 million, and EUR 1,000 million. Regarding Caisse des Dépôts commitments, SFIL recorded the total of its commitments related to the only tranches existing, which is limited to EUR 4,000 million. This amount does not take into account the possibility stipulated in the financing agreement with Caisse des Dépôts to negotiate additional funding in good faith.

6.4. Other commitments

	12/31/2021	6/30/2022
Commitments given(1)	9	11
Commitments received(2)	223	220

(1) It mainly concerns the irrevocable payment commitment to the Deposit Guarantee and Resolution Fund.

(2) It mainly concerns a loan granted to a credit institution guaranteed by a public institution.

6.5. Impairments on financing commitments and other commitments granted

	Financing commitments and financial guarantees under IFRS 9 as of 12/31/2021								Commitments and financial guarantees measured at fair value	
	Gross amount				Impairment			Net carrying amount	Notional 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			
Granted to credit institutions	9	-	-	**9**	(0)	-	-	9	-	-
Granted to customers	2 139	2 976	2	**5 117**	(2)	(8)	(0)	5 107	-	-
TOTAL	**2 148**	**2 976**	**2**	**5 126**	**(2)**	**(8)**	**(0)**	**5 116**	**-**	**-**

	Financing commitments and financial guarantees under IFRS 9 as of 6/30/2022								Commitments and financial guarantees measured at fair value	
	Gross amount				Impairment			Net carrying amount	Notional 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			
Granted to credit institutions	9	-	-	9	(0)	-	-	9	-	-
Granted to customers	2 515	2 488	-	5 003	(2)	(6)	-	4 995	-	-
TOTAL	**2 524**	**2 488**	**-**	**5 012**	**(2)**	**(6)**	**-**	**5 003**	**-**	**-**

Financing commitments increased by EUR 0.1 billion in the first half of 2022 with an increase of EUR 0,4 billion in Stage 1 exposures and a decrease of EUR 0.5 billion in Stage 2 exposures in line with the export credit activity and the drawdowns on previously signed loans granted to the cruise sector. At the same time, provisions decreased by EUR 2 million in line with the decrease in financing commitments given for the cruise sector.

As a reminder, it was decided during the year 2020 and in the context of the Covid-19 health crisis, to record all exposures concerning the cruise sector on the watchlist and consequently to transfer them from Stage 1 to Stage 2. This downgrading was accompanied by an increase in the impairments relating to these financing commitment exposures (see note 8).

7. NOTES ON RISK EXPOSURE (EUR MILLIONS)

7.1. Fair value

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

These fair value adjustments take into account the features of the relevant assets and liabilities (maturity, hedging of interest rate risk, amortization profile, and, for assets, their rating); they also take into account current market conditions in terms of price or spread of these same operations, or operations to which they could be assimilated. The breakdown of assets and liabilities as a function of the method used to determine their fair value is shown in Note 7.1.3. below; it can be seen that most assets are valued according to a technique that takes into account the fact that significant parameters are not observable for the assets since the exposure primarily consists of loans, a form of debt that is not listed on liquid markets. For the valuation of liabilities, certain observable parameters have been used.

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

7.1.1. Composition of the fair value of the assets

	12/31/2021		
	Book value	**Fair value**	**Unrecognized fair value adjustment**
Central banks	3 961	3 961	-
Financial assets at fair value through profit or loss	3 518	3 518	-
Hedging derivatives	3 310	3 310	-
Financial assets at fair value through equity	403	403	-
Loans and advances to banks at amortized cost	312	354	42
Loans and advances to customers at amortized cost	50 881	50 451	(430)
Bonds at amortized cost	7 846	7 182	(665)
TOTAL	**70 232**	**69 179**	**(1 053)**

	6/30/2022		
	Book value	**Fair value**	**Unrecognized fair value adjustment**
Central banks	2 550	2 550	-
Financial assets at fair value through profit or loss	3 024	3 024	-
Hedging derivatives	2 386	2 386	-
Financial assets at fair value through equity	289	289	-
Loans and advances to banks at amortized cost	297	318	21
Loans and advances to customers at amortized cost	50 416	48 039	(2 377)
Bonds at amortized cost	6 674	5 993	(682)
TOTAL	**65 635**	**62 598**	**(3 038)**

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

	12/31/2021		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	762	762	-
Hedging derivatives	5 557	5 557	-
Due to banks at amortized cost	-	-	-
Debt securities at amortized cost	65 250	65 373	124
TOTAL	**71 569**	**71 692**	**124**

	6/30/2022		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	453	453	-
Hedging derivatives	4 968	4 968	-
Due to banks at amortized cost	-	-	-
Debt securities at amortized cost	61 374	58 316	(3 058)
TOTAL	**66 795**	**63 737**	**(3 058)**

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 SFIL 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 SFIL 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. Level 3 Hedging 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 SFIL group 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.

	12/31/2021			
Fair value of financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Central banks	3 961	-	-	3 961
Financial assets at fair value through profit or loss	-	3	3 515	3 518
Hedging derivatives	-	3 085	226	3 311
Financial assets at fair value through equity	403	-	-	403
Loans and advances to banks at amortized cost	15	94	245	354
Loans and advances to customers at amortized cost	-	-	50 451	50 451
Bonds at amortized cost	3 686	2 181	1 314	7 182
TOTAL	**8 065**	**5 363**	**55 751**	**69 179**

	6/30/2022			
Fair value of financial assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Central banks	2 550	-	-	2 550
Financial assets at fair value through profit or loss	-	10	3 014	3 024
Hedging derivatives	-	1 530	855	2 386
Financial assets at fair value through equity	289	-	-	289
Loans and advances to banks at amortized cost	18	77	222	318
Loans and advances to customers at amortized cost	-	-	48 039	48 039
Bonds at amortized cost	2 730	2 053	1 209	5 993
TOTAL	**5 588**	**3 671**	**53 339**	**62 598**

	12/31/2021			
Fair value of financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at fair value through profit or loss	-	704	58	762
Hedging derivatives	-	5 180	377	5 557
Due to banks at amortized cost	-	-	-	-
Debt securities at amortized cost	50 713	7 291	7 370	65 373
TOTAL	**50 713**	**13 175**	**7 805**	**71 692**

	6/30/2022			
Fair value of financial liabilities	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial liabilities at fair value through profit or loss	-	359	94	453
Hedging derivatives	-	4 621	347	4 968
Due to banks at amortized cost	-	-	-	-
Debt securities at amortized cost	45 113	7 170	6 032	58 316
TOTAL	**45 113**	**12 150**	**6 473**	**63 737**

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, SFIL either values financial instruments using reasonably possible parameters or applies hypotheses based on its policy of additional valuation adjustments.

	12/31/2021	6/30/2022
Uncertainty inherent in level 3 market parameters	3	4
Uncertainty inherent in level 3 derivatives valuation models	12	31
Sensitivity of the market value of level 3 financial instruments	**15**	**35**

7.1.4. Transfer between level 1 and 2

	12/31/2021	6/30/2022
Level 1 to level 2	-	-
TOTAL	**-**	**-**

7.2. Off-setting of financial assets and liabilities

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

	12/31/2021					
	Gross amount before off-setting	Gross amount off-set according to IAS 32	Net amount presented in the balance sheet	Other amounts in the application scope but not offset		Net amount according to IFRS 7 and 13
				Effect of master netting arrange-ments	Financial Instruments received as collateral	
Loans and advances at fair value through profit or loss	3 314	-	3 314	(2 259)	(923)	132
Derivatives (including hedging instruments)	3 514	-	3 514	-	-	3 514
Loans and advances to banks at amortized cost	312	-	312	-	-	312
Loans and advances to customers at amortized cost	50 881	-	50 881	-	-	50 881
TOTAL	**58 022**	**-**	**58 022**	**(2 259)**	**(923)**	**54 840**

	6/30/2022					
	Gross amount before off-setting	Gross amount off-set according to IAS 32	Net amount presented in the balance sheet	Other amounts in the application scope but not offset		Net amount according to IFRS 7 and 13
				Effect of master netting arrange-ments	Financial Instruments received as collateral	
Loans and advances at fair value through profit or loss	2 397	-	2 397	(1 433)	(123)	841
Derivatives (including hedging instruments)	3 013	-	3 013	-	-	3 013
Loans and advances to banks at amortized cost	297	-	297	-	-	297
Loans and advances to customers at amortized cost	50 416	-	50 416	-	-	50 416
TOTAL	**56 122**	**-**	**56 122**	**(1 433)**	**(123)**	**54 566**

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

	12/31/2021					
	Gross amount before offsetting	Gross amount offset according to IAS 32	Net amount presented in the balance sheet	Other amounts in the application scope but not offset		Net amount according to IFRS 7 and 13
				Effect of master netting arrange-ments	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	6 319	-	6 319	(2 259)	(2 105)	1 954
Due to banks at amortized cost	-	-	-	-	-	-
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	**6 319**	**-**	**6 319**	**(2 259)**	**(2 105)**	**1 954**

	6/30/2022					
	Gross amount before offsetting	Gross amount offset according to IAS 32	Net amount presented in the balance sheet	Other amounts in the application scope but not offset		Net amount according to IFRS 7 and 13
				Effect of master netting arrange-ments	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	5 421	-	5 421	(1 433)	(1 992)	1 996
Due to banks at amortized cost	-	-	-	-	-	-
Customer borrowings and deposits at amortized cost	-	-	-	-	-	-
TOTAL	**5 421**	**-**	**5 421**	**(1 433)**	**(1 992)**	**1 996**

7.3. Exposure to credit risk

In 2021, exposure to credit risks, includes:

- for assets other than derivatives: the amount shown on the balance sheet;
- for derivatives: the standardized approach to measure the couterparty credit risk (SA-CCR methodology) was applied from June 30, 2021; the Exposure at Default (EAD) is thus calculated on the basis of the following formula (alpha x (Replacement cost + Potential future exposure)) in accordance with the recommendations of the Basel Committee.
- for off-balance sheet commitments: the undrawn amount of financing commitments, which is shown 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

	12/31/2021	6/30/2022
France	66 310	63 439
Germany	319	29
Belgium	145	96
Italy	5 235	4 629
Spain	328	317
Other European Union countries	438	338
Switzerland	592	573
Norway	262	121
United Kingdom	95	114
United States and Canada	805	741
Japan	39	32
TOTAL EXPOSURE	**74 569**	**70 429**

Analysis of exposure by category of counterparty

	12/31/2021	6/30/2022
Sovereigns	16 662	15 656
Local public sector	55 872	53 118
Other assets guaranteed by public sector entities	243	213
Financial institutions	1 767	1 414
Other exposures	26	28
TOTAL EXPOSURE	**74 569**	**70 429**

Analysis of exposure by category of instrument

	12/31/2021	6/30/2022
Central banks	4 081	3 521
Loans and advances at fair value through profit of loss	3 505	3 001
Hedging derivatives	196	217
Bonds at fair value through equity	403	289
Loans to banks at amortized cost	35	39
Loans to customers at amortized cost	53 073	51 989
Bonds at amortized cost	7 969	6 714
Accruals and other assets	49	46
Financing commitments	5 257	4 613
TOTAL EXPOSURE	**74 569**	**70 429**

7.3.2. Evaluation of asset credit quality

SFIL 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. SFIL 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 SFIL to present on December 31, 2020, an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements. Credit weighting is mainly calculated on the basis of the probability of default of the counterparty and of the loss incurred in the event of default.

This analysis confirms the excellent quality of the assets. More than 83% of the portfolio has a weighting of less than 5% and more than 98% 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	3 521	-	-	-	-	3 521
Financial assets at fair value through profit or loss	1 844	789	281	0	87	3 001
Hedging derivatives	2	-	2	174	39	217
Bonds at fair value through equity	87	-	137	65	-	289
Loans and advances due from banks at amortized cost	20	-	5	13	-	39
Loans and advances to customers at amortized cost	33 113	12 127	6 369	6	375	51 989
Bonds at amortized cost	2 426	-	3 785	498	4	6 714
Accruals and other assets	13	-	-	2	31	46
Financing commitments	4 613	0	-	-	0	4 613
TOTAL EXPOSURE	**45 639**	**12 916**	**10 580**	**758**	**535**	**70 429**
SHARE OF TOTAL EXPOSURE	**64.8%**	**18.3%**	**15.0%**	**1.1%**	**0.8%**	**100.0%**

Certain exposures do not yet benefit from an internal evaluation system validated by banking supervisors; in this case, their weighting is the one in the standard method, which is, for example, 20% for local governments.

8. IMPACTS OF THE COVID-19 HEALTH CRISIS ON THE FINANCIAL STATEMENTS OF THE COMPANY (EUR MILLIONS)

At June 30, 2022, the impacts associated with the Covid-19 health crisis on SFIL's consolidated financial statements prepared in accordance with IFRS remained very limited.

Firstly, it is recalled that from spring 2020, the SFIL Group decided to deploy two approaches to support borrowers in coping with their difficulties as a result of the health crisis:

- one, proactive, offering extensions to payment terms for all health institutions due to their exceptional commitment in the Covid-19 pandemic. SFIL proposed payment terms of 180 days to these borrowers for all of their loan contract maturities between March 12 and June 30, 2020, without any late interest or penalties being invoiced. These payment terms could be renewed at the request of customers.
- the other approach was to respond to requests from local and equivalent authorities faced with temporary cash flow difficulties. SFIL thus mobilized to respond to all requests from borrowers and to support them in their difficulties due to the health crisis caused by the decline in revenue from specific activities, related to economic, cultural and touristic activities (cinemas, swimming pools, car parks, thermal baths, etc.).

From the beginning of 2022, all the payment extensions granted have been paid by the concerned customers. It should be noted that the public health institutions had already paid all maturities due before the end of 2021.

SFIL is present in all cruise ship financing transactions through French export credits signed since 2016. Within this context, SFIL entered into the approach developed jointly by the European export credit guarantee agencies to provide liquidity support for export credits for cruise companies, which were particularly affected by the pandemic. This liquidity support consisted of deferring the repayment of the principal amount of the credits. In 2020, SFIL decided to put all exposures concerning the cruise sector on the watchlist and consequently to transfer them from Stage 1 to Stage 2. This resulted in the recognition of a provision for this business segment of EUR 15 million in 2020. This approach was retained in 2021 as well as in the first half of 2022 and exposures remained allocated to Stage 2. The provision recognized in 2020 was increased by EUR 1 million in 2021 and remained stable in the first half of 2022. At the end of June 2022, it reached a total amount of EUR 16 million.

Lastly, in 2020, it also decided to set up a provision for risks on the foreign exchange hedging instruments used to refinance export credits in dollars in this sector. This provision was increased to EUR 3.9 million at the end of 2021. The SFIL Group decided to reduce the amount of this provision by EUR 0.5 million at the end of June 2022. As a result, this provision for risks and expenses represented EUR 3.3 million at end June 2022.

9. IMPACT OF THE WAR IN UKRAINE ON THE FINANCIAL STATEMENTS OF THE COMPANY (EUR MILLIONS)

The foreseeable impacts to date related to the war situation in Ukraine are limited for the SFIL Group. As a reminder, the SFIL Group does not have any offices outside France. Moreover, the Group does not have any exposure in Russia or Belarus and has only one exposure in Ukraine, which as of June 30, 2022 represented balance sheet outstandings of EUR 50 million and an off-balance sheet financing commitment of EUR 14 million. This exposure was granted as part of the export credit activity and is 100% guaranteed by the French Republic. SFIL is not, therefore, directly exposed to credit risk on this file. SFIL has nevertheless decided, as of February 24, 2022, to place this asset on the watchlist and consequently to classify it in Stage 2. The increase in Expected Credit Losses (ECL) associated with this downgrade is very limited and represents approximately EUR 0.3 million.

The consequences of the war in Ukraine on the forward-looking macroeconomic scenarios used to calculate the ECLs associated with local authorities in France are being finalized and will be implemented by the end of the year. These impacts are currently expected to be very limited.

10. POST-CLOSING EVENTS

No significant event that influences the Company's financial situation has occurred since the closing on June 30, 2022.

3. STATUTORY AUDITORS' REVIEW REPORT ON INTERIM FINANCIAL STATEMENTS

STATUTORY AUDITORS ' REVIEW REPORT ON INTERIM FINANCIAL STATEMENTS

This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

For the period from January 1 to June 30, 2022

To the Shareholders,

In compliance with the assignment entrusted to us by Annual General Meeting and in accordance with 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 condensed half-yearly consolidated financial statements of SFIL S.A., for the period from January 1 to June 30, 2022,
- the verification of the information presented in the half-yearly management report.

These condensed half-yearly consolidated financial statements are the responsibility of the Board of Directors. Our role is to express a 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 accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

II. Specific verification

We have also verified the information presented in the half-yearly management report on the condensed half-yearly consolidated financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed half-yearly consolidated financial statements.

Paris La Défense, on the 14 septembre 2022
KPMG S.A.
Jean-Francois Dandé
Partner

Neuilly-sur-Seine, on the 14 September 2022
PricewaterhouseCoopers Audit
Ridha Ben Chamek
Partner

4. STATEMENT BY THE PERSON RESPONSIBLE

STATEMENT BY THE PERSON RESPONSIBLE

I, the undersigned, Philippe Mills, Chief Executive Officer of SFIL,

hereby affirm that, to the best of my knowledge, these condensed half-yearly consolidated financial statements have been prepared in conformity with applicable accounting standards and provide an accurate and fair view of the assets and liabilities, financial position and earnings of SFIL, and that this half-year financial report accurately describes significant events that have taken place in the first six months of the fiscal year and their impact on the half-year financial statements, as well as all the major risks and uncertainties concerning the remaining six months of the fiscal year.

Signed in Issy-les-Moulineaux, September 14, 2022

Philippe Mills
Chief Executive Officer

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