Half-year financial report

for the period from January 1 to June 30, 2019

Key figures as of June 30, 2019

Consolidated total assets

EUR 77.5 billion

Bonds issued in the first half of 2019

EUR 5.3 billion

including EUR 3.2 billion of covered bonds issued by CAFFIL and EUR 2.1 billion of EMTN issued by SFIL

Loans acquired from LBP in the first half of 2019

EUR 2.1 billion

Export credit loans transferred in the first half of 2019

EUR 0.3 billion

Common Equity Tier 1 ratio

24.6%

Cost/income ratio on recurring gross operating income

65.5%

Net income

EUR 18 million

External ratings as of June 30, 2019

Moody's

Aa3

Standard & Poor's

AA

DBRS

AA(high)

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

1. Half-year management report

Background

The corporate entity SFIL was authorized as a bank by the *Autorité de contrôle prudentiel et de résolution* (ACPR) on January 16, 2013. Since SFIL was created, the French State has played a special role with regard to the bank by contributing 75% of SFIL's capital and, as the reference shareholder, providing prudential authorities with a strong commitment of financial support, in keeping with current banking regulations. Caisse des dépôts et consignations (CDC) and La Banque Postale (LBP) respectively hold 20% and 5% of the Company's capital.

SFIL holds 100% of the capital of Caisse Française de Financement Local (CAFFIL), its sole subsidiary, a specialized financial institution with the status of a *société de crédit foncier* (SCF) governed by articles L.513-2 *et seq.* of the Monetary and Financial Code.

CAPITAL STRUCTURE OF SFIL AND ITS SOLE SUBSIDIARY

SFIL lies at the heart of a system that serves the State's commitment to provide French local government entities 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 within the framework of the European Commission's decision of December 28, 2012, makes it possible to refinance loans from La Banque Postale to the French local public sector and support the borrowers concerned in their efforts to reduce their high-risk structured loan outstandings.

In 2015, the State entrusted SFIL with a second public interest mission: to refinance buyer credits guaranteed by Bpifrance Assurance Export in the name and on behalf of the French State, which helps increase the competitiveness of large export contracts negotiated by French companies. The objective is to provide market financing in volumes and at maturities adapted to high-value export credits, under conditions matching those of the best French issuers of covered bonds, relying on the issuance capacities of SFIL and its subsidiary CAFFIL. This refinancing is available for all banks that are partners of French exporters for their buyer credits guaranteed by Bpifrance Assurance Export in the name and on behalf of the French State.

As regards the plan announced in March 2018 to extend the benefit of SFIL's export credit refinancing system to loans eligible for the guarantee on projects with a strategic interest for the French overseas economy, the decree covering credit insurance and the finance law relating to the enhanced guarantee came into force in December 2018. The next stage is European Commission approval.

COMPOSITION OF THE BOARD OF DIRECTORS AS OF JUNE 30, 2019

Chantal Lory **Chair of the Board of Directors** **Independent Member of the Board of Directors**	**Philippe Mills** **Chief Executive Officer** **Member of the Board of Directors**
French State Represented by **Schwan Badirou Gafari**	**Frédéric Guillemin** Member of the Board of Directors representing the employees
Jean-Pierre Balligand Independent Member of the Board of Directors	**Cathy Kopp** Independent Member of the Board of Directors
Serge Bayard Member of the Board of Directors representing La Banque Postale, shareholder	**Thomas Morisse** Member of the Board of Directors representing the employees
Pascal Cardineaud Member of the Board of Directors representing the employees	**Françoise de Panafieu** Independent Member of the Board of Directors
Gabriel Cumenge Member of the Board of Directors proposed by the State	**Sandrine Peraud-Chemla** Member of the Board of Directors representing the employees
Marion Domalain Member of the Board of Directors representing the employees	**Pierre Sorbets** Independent Member of the Board of Directors
Virginie Fernandes Member of the Board of Directors representing Caisse des dépôts et consignations, shareholder	

Developments in the first half

1. Highlights in the first half

In the first half of 2019, SFIL fully achieved its core missions, which involve refinancing, through its subsidiary Caisse Française de Financement Local, loans granted by La Banque Postale to local government entities and public healthcare institutions, providing specialized services to La Banque Postale and Caisse Française de Financement Local, and implementing a policy to progressively reduce the sensitivity of its structured loan portfolio. SFIL, which in 2017 became the leading supplier of liquidity to the sector of export credits covered by the State's guarantee, also continued to ramp up its activity in this second field of activity.

Among the highlights of the last six months, the following events are to be noted:

Proposed change to the shareholding structure

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

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

Completion of European legislative process to adopt banking rules

The European Parliament and the Council adopted the "banking package", in particular the amendments to Regulation no. 575/2013 (CRR) and Directive no. 2013/36 (CRD), which were published in the European Union's Official Journal on May 20, 2019.

They notably provide for:

- Leverage ratio calculation rules tailored to the specific nature of public development banks;
- A weighting of the net stable funding ratio (NSFR) tailored to encumbered assets included in the covered bond issuer's cover pool.

Extension of the scope of export credit

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

First social bond issue for CAFFIL

In February 2019, CAFFIL launched its first socially-oriented bond issue, for EUR 1 billion with an eight-year maturity. This transaction – Europe's first social issue dedicated exclusively to the financing of public hospitals – was launched on the back of meetings with European investors and hailed a major success by observers. It is part of the SFIL Group's engagement in corporate social responsibility (CSR) and its public policy missions. It reflects the public development bank's commitment to firmly supporting the funding of social projects – in particular those in the public healthcare institutions sector.

Positive recurring and accounting income

Financial results remained very solid. Recurring income was in line with the first half of the year estimates. Accounting income was impacted by volatility resulting from new accounting standards.

Financial and non-financial ratings

SFIL's ratings were unchanged as of June 30, 2019 from December 31, 2018, underscoring the strong ties binding the Group to the French State, its reference shareholder: Aa3 from Moody's, AA from Standard & Poor's and AA (high) from DBRS.

CAFFIL non-financial ratings as of the same date were:

- Prime from ISS-oekom,
- AA from MSCI
- Positive-BBB (*obligations foncières* issued by CAFFIL) from IMUG.

CAFFIL’s financial ratings, meanwhile, were unchanged at a very high level.

Market volatility

The first half of 2019 was marked by the two following major international events:

- ongoing Brexit negotiations between the European Union and the United Kingdom;
- tensions over the increase in customs duties on certain goods, first between the United States and China and then between the United States and the European Union.

The European Commission and the Italian government also held talks on Italy’s budget deficit.

These events heightened financial market volatility but did not significantly impact the covered bond market or the SFIL Group's issuance capacity.

2. Operations in the first half

2.1. REFINANCING BY THE SFIL GROUP OF INVESTMENTS IN THE LOCAL PUBLIC SECTOR

Local public sector loans originated by La Banque Postale are refinanced by SFIL’s subsidiary, CAFFIL. In the first half of 2019, CAFFIL acquired EUR 2.1 billion of loans via two transfers from La Banque Postale, an increase from the amount acquired during the first half of 2018 (EUR 1.9 billion). As of June 30, 2019, the total volume acquired since SFIL’s creation came to EUR 17.7 billion.

2.2. REFINANCING EXPORT CREDITS

The objective of the SFIL system is to support French exports in terms of funding competitiveness, in accordance with a public refinancing plan comparable to that of other OECD countries, in particular in northern Europe (Sweden and Finland).

It is based on collaboration with commercial banks, from which SFIL offers to buy a portion of the insured part of the export credits that they originate. During the financial tender phase, SFIL informs the banks of its conditions for participation in terms of volume, duration and price. The banks, which are responsible for structuring the transaction and for customer relations, incorporate these terms into their offer to the borrower. When the loan agreement is signed, SFIL buys a portion of the credit from the banks under the terms initially agreed. Once recorded on SFIL’s balance sheet, the export credit is refinanced via a loan from its subsidiary CAFFIL, which in turn benefits from an irrevocable and unconditional 100% guarantee granted by Bpifrance Assurance Export, in the name and on behalf of the State.

SFIL completed two new transactions in the first half of 2019, bringing its total number of refinancing transactions to 12, for a total of EUR 7.4 billion with 15 different banks on behalf of 10 exporters for exports to 4 continents.

2.3. SERVICES FOR LA BANQUE POSTALE

SFIL provides services to La Banque Postale at all stages of loan issuance and management of medium- and long-term loans to the French local public sector (local government entities and public healthcare institutions). The indicators used to measure the quality of SFIL’s services showed a 99% achievement rate for the first half of 2019.

Furthermore, in line with their commitment to regularly monitor their provision of services, SFIL and LBP reviewed their contract, upgrading it in a number of areas. These upgrades are scheduled for completion in the second half of 2019.

2.4. SFIL GROUP’S FINANCING

2.4.1. SFIL bond issues

In the first half of 2019, SFIL continued to develop its franchise as an issuer of bonds to the French agency segment by making regular public issues in euros and dollars to build its reference curve in these two currencies. It raised the equivalent of EUR 2.1 billion through two public issues during the period:

- a 3-year dollar issue in April for USD 1.25 billion;
- a 5-year euro issue in May for EUR 1 billion.

SFIL now has a reference curve both in euros (four maturities) and dollars (three maturities), for total bond outstandings of close to EUR 7.1 billion.

2.4.2. CAFFIL issues (covered bonds, or *obligations foncières*)

CAFFIL was also active in the public issuance market in the first half of 2019, adding three new maturities to its reference curve: a double-tranche, EUR 1.25 billion issue in January with EUR 750 million at 6 years and EUR 500 million at 15 years, followed in February by its first socially-oriented issue, for EUR 1 billion at 8 years. This was Europe's first social issue dedicated exclusively to the financing of public hospitals, and confirms CAFFIL's leading position in this segment.

In addition to this public benchmark issuance, CAFFIL capitalized on investor demand for long-term maturities by raising EUR 340 million through private placements and tapping existing issues for a total amount of EUR 600 million. The average length of financing raised by CAFFIL in the first half of 2019 was close to 11 years.

2.4.3. SFIL Group's other resources

Liquidity provided by shareholders

The SFIL Group's other source of financing is the debt provided by Caisse des dépôts and La Banque Postale under existing credit facility agreements. As of June 30, 2019, SFIL had received EUR 0.75 billion of financing from these two shareholders, down by EUR 1.2 billion from December 31, 2018. In particular, it had no financing outstanding with CDC as of June 30, 2019 against EUR 11.2 billion at the beginning of 2013 and EUR 1.1 billion at the end of 2018.

Short-term liquidity

In the first half of 2019, SFIL remained an active issuer of debt securities dated at less than 12 months under its negotiable European commercial paper (NEU CP) program. As of June 30, 2019, its total NEU CP outstandings stood at EUR 592 million.

3. Corporate social responsibility

Having joined the United Nations Global Compact in 2018, SFIL continued to strengthen its corporate social responsibility approach.

At the end of 2018, SFIL committed to integrating the Sustainable Development Goals into its operations, activities and corporate culture. In view of its activities and existing CSR measures, SFIL chose to prioritize the following nine Sustainable Development Goals (out of the 17 in the Global Compact):

In June 2019, SFIL joined Novethic's "Cercle des Institutionnels" institutional investor community, thereby affirming its ambition to become a major player in the sustainable finance ecosystem.

To meet its commitments as effectively as possible, SFIL bases its approach on three axes:

Axis 1: the conduct of public policy missions,

Axis 2: the deployment of internal policies, and

Axis 3: the involvement of our employees.

3.1. THE CONDUCT OF PUBLIC POLICY MISSIONS

In February 2019, SFIL successfully launched its first covered social bond issue devoted to the financing of French public hospitals. The associated analysis of non-financial risks took into account the evaluation of healthcare added value, which represents an individual hospital's positioning in relation to the overall healthcare offer. Based on a set of defined indicators (number of beds, places and hospital stays), SFIL is able to monitor the social impact of financed loans. The Group has committed to issuing a report by the end of 2019 confirming the social allocation of all funds provided.

SFIL intends to launch a "green" bond issue in late 2019 or early 2020. The funds raised will be earmarked for refinancing green loans granted by its partner LBP to local government entities.

Eligible projects will be in the following five areas: renewable energy, sustainable water treatment and management, waste recycling and management, non-motorized and clean transport, and construction and urban development energy efficiency.

3.2. THE DEPLOYMENT OF INTERNAL POLICIES

3.2.1. Launch of SFIL's first carbon audit

In 2018, SFIL started to measure its greenhouse gas consumption as part of its first carbon audit. Based on the results of this carbon audit in the first half of 2019, SFIL plans in particular to improve its travel policy and review its fixed assets, including by limiting its storage of electronic data. It will regularly self-audit its carbon footprint in the future, and plans to raise its employees' awareness of energy and environmental issues.

3.2.2. Social initiatives and related human resources policies

As provided by law, SFIL calculated its "professional equality index" for the first time, obtaining a score of 87 out of 100. This result shows the importance that the Company places on gender diversity as a lever for cohesion and performance. It scored 37 out of 40 in indicator 1 of the index (reflecting a weighted pay gap of 2.73% in favor of men).

Meanwhile, in May 2019 SFIL renegotiated its "GEPP" jobs and careers management company-wide agreement. It also renewed its corporate patronage of the "Collège de France", which coordinates "Campus de l'innovation pour les lycées", a high-school innovation project designed to promote equal opportunities.

In the area of employee travel, SFIL introduced a distance-based allowance for bicycle users, an employee benefit negotiated in the 2019 annual collective bargaining round. The Company also decided to make available a EUR 300 "green grant" for the purchase of an electric bicycle or push bike, supplementing the existing incentives offered by employees' respective local authorities.

3.3. THE INVOLVEMENT OF OUR EMPLOYEES

Employees on the Sustainable Development Committee worked hard in the first half of 2019 to carry out environmental initiatives and promote good practices at SFIL.

For example, helped by the "Pik Pik" association, they organized various in-company events on Thursday June 6 as part of the European sustainable development week, such as a repair workshop, a healthy and sustainable eating workshop and an environment-friendly office use workshop. A honey sale by SFIL's partner beekeeper was also organized to finance the purchase of seeds and plants for the vegetable garden looked after by the "Chloro'SFIL" employee gardening club. Staff also held an office equipment recycling event to deal with spent pens, highlighters, markers and correctors.

Lastly, promotion of the Microdon "rounding up for charity" system launched in 2018 encouraged participation in the June 30 fundraiser to support the "Planète Urgence" and "L'Etoile de Martin" associations, with 52 employees now signed up.

Change in main balance sheet items

The SFIL Group has applied IFRS 16 and IFRIC 23 as from January 1, 2019. These changes in methods have no impact on the income statement, and their impact on the balance sheet is detailed in the notes to the financial statements.

The main items on the SFIL Group's consolidated balance sheet (management data[1]) as of June 30, 2019, are broken down in the table below.

EUR billions, equivalent value after currency swaps	
ASSETS	**LIABILITIES**
77.5	77.5
Of which notional value of main balance sheet items **62.4**	Of which notional value of main balance sheet items **62.4**
Cash assets *2.9* *(of which 1.7 for CAFFIL and 1.2 for SFIL)*	*SFIL bond issues* *7.1*
Securities *9.7* *(of which 8.1 for CAFFIL and 1.6 for SFIL)*	Obligations foncières *51.1*
Loans *47.4*	*Commercial paper* *0.6*
	Refinancing by shareholders *0.7*
Cash collateral paid *2.4*	*Cash collateral received* *1.8* *(of which 0.7 for CAFFIL and 1.1 for SFIL)*
	Equity and other items *1.1*

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 by SFIL on its derivatives portfolio.

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

- *obligations foncières* on CAFFIL's balance sheet;
- bonds issued by SFIL;
- commercial paper issued by SFIL;
- financing contributed by shareholders (Caisse des dépôts et consignations and La Banque Postale) on SFIL's balance sheet;
- cash collateral received by CAFFIL and SFIL on their derivatives portfolios;
- equity and other resources.

(1) As regards the loans shown in the tables below, balance sheet item notional value corresponds to the outstanding principal for euro transactions and, for foreign currency transactions, the euro-equivalent value after swap hedging. Notional value balance sheet items notably exclude hedging relationships and accrued interest not yet due.

1. Main changes in assets in the first half of 2019

The net change in the SFIL Group's main assets in the first half of 2019 was an increase of EUR 2.0 billion.

This change can be analyzed as follows:

EUR billions, equivalent value after currency swaps	6/30/2019
BEGINNING OF YEAR	**60.3**
Purchase of loans from La Banque Postale	2.1
New loans paid out after reduction in sensitivity	0.1
New loans paid out in connection with export credit activities	1.1
Change in cash collateral paid by SFIL	0.2
Amortization of French public sector loans and securities (excluding cash investment securities)	(2.3)
Amortization of non-French public sector loans and securities (excluding cash investment securities)	(0.2)
Cash investment securities	0.1
Change in cash assets	1.0
Other	-
END OF PERIOD	**62.4**

- Through its subsidiary CAFFIL, SFIL acquired EUR 2.1 billion in loans marketed by La Banque Postale to the French local public sector.
- The export credit activity resulted in EUR 1.1 billion in drawdowns.
- The transactions to reduce sensitivity resulted in the recognition of EUR 0.1 billion of new assets on CAFFIL's balance sheet, under the refinancing of early repayment indemnities and new investment financing. The Group's campaign to reduce the sensitivity of risky structured loans is nearing completion. By the end of 2019, taking into account the sensitivity reduction operations already completed and not counting outstanding loans for which customers have chosen the assistance in paying lower interest rates provided for by the support fund, the SFIL Group's total sensitive structured loan outstandings will have decreased by at least 89% compared with the amount recorded when SFIL was created, and by more than 93% for local government entities alone. The initial sensitive loan outstandings of EUR 8.5 billion will therefore have been reduced to EUR 0.9 billion by the end of 2019, and, for local government entities alone, to a maximum of EUR 0.5 billion compared with EUR 6.7 billion initially.
- As an intermediary in the derivatives transactions between CAFFIL and certain of its counterparties, SFIL paid a total of EUR 2.4 billion in collateral as of June 30, 2019, an increase of EUR 0.2 billion from December 31, 2018.
- The other changes in assets pertained mainly to the amortization at maturity of portfolio loans and securities for EUR 2.5 billion and to the EUR 1 billion change in the cash balance held with the Banque de France.

It should be noted that SFIL held EUR 4.1 billion in cash management securities (banking and European public sector securities) as of June 30, 2019.

2. Main changes in liabilities in the first half of 2019

The net change in the SFIL Group's main liabilities in the first half of 2019 was an increase of EUR 2.0 billion.

This change can be analyzed as follows:

EUR billions, equivalent value after currency swaps	6/30/2019
BEGINNING OF YEAR	**60.3**
Obligations foncières	0.9
of which issues	*3.2*
of which amortization	*(2.3)*
Change in cash collateral received	0.5
Refinancing by shareholders	(1.2)
Bonds issued by SFIL	2.1
Commercial paper	(0.1)
Equity and other items	(0.1)
END OF PERIOD	**62.4**

- Outstanding *obligations foncières* increased by EUR 0.9 billion due to the implementation of the new 2019 program for EUR 3.2 billion and the amortization of existing covered bonds for EUR -2.3 billion.
- The cash collateral paid by the derivatives counterparties of CAFFIL and SFIL increased by EUR 0.5 billion.
- The EUR 1.2 billion decrease in refinancing by shareholders was counterbalanced by the increase in SFIL refinancing in the form of bond issues, for EUR 2.1 billion. Note that as of June 30, 2019 no funding was being drawn down from Caisse des dépôts.

Risk management

Risk profile

The SFIL Group has a low risk profile.

- firstly, CAFFIL mainly has public sector borrowers[1] on its balance sheet. Secondly, the export credit loans on SFIL's balance sheet benefit systematically from a Bpifrance Assurance Export policy covering 100% of the loan principal;
- interest rate risk is also low given the Group's hedging policy, under which it systematically hedges balance sheet items at fixed rates;
- 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. Lastly, the majority of its assets are eligible for refinancing by the Banque de France;
- foreign exchange risk is marginal, outstandings in foreign currencies being systematically hedged when taken onto the balance sheet;
- operational risk is subject to protective procedures;
- the Group has no trading portfolio.

SREP

Following the supervisory review and evaluation process (SREP) conducted by the European Central Bank (ECB) in 2018, SFIL's capital requirement on a consolidated basis as of January 1, 2019 was set at 7.75%, of which:

• 4.50% for Pillar 1 Common Equity Tier 1, the level applicable to all entities;

• 0.75% for the Pillar 2 requirement (P2R), unchanged year on year; and

• 2.50% for the capital conservation buffer, the level applicable to all entities.

The Tier 1 capital requirement, meanwhile, was set at 9.25% and the total capital requirement at 11.25%.

As from July 1, 2019, per a decision by the High Council for Financial Stability, the countercyclical buffer rate applicable by all entities to relevant French credit exposures will be 0.25%.

As of June 30, 2019, the SFIL Group's consolidated CET1 and total capital ratios came to 24.6% and 25.3%, respectively, a level representing more than twice the minimum requirement set by the European supervisory authority.

Leverage ratio

One of the first prudential indicators introduced under European regulations (Regulation no. 575/2013 of June 26, 2013) is the leverage ratio, which corresponds to the amount of Tier 1 capital as a proportion of the total exposure of the entity concerned. Data collection in accordance with the regulatory format began in 2014 and entities have published their leverage ratio since the fiscal year starting January 1, 2015, without this ratio being subject to a specific quantitative requirement.

Based on the methodological principles of currently applicable regulations, the SFIL Group's leverage ratio was 1.93% as of June 30, 2019.

However, these regulations were recently amended by Regulation no. 876/2019 of May 20, 2019. The amendments in question, applicable as from end-June 2021, provide for the introduction of a minimum leverage ratio requirement of 3%, as well as measures designed to recognize the specific nature of public development banks, including the possibility for such banks to exclude certain assets from their leveraged exposure. When these amendments come into force, the SFIL Group will therefore benefit from specific, tailored leverage ratio calculation rules.

Calculated using the methodological principles of the amended regulations, the SFIL Group's leverage ratio comfortably exceeds this minimum 3% requirement.

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[1] *To a lesser degree, CAFFIL may also recognize on its balance sheet exposures on banks considered as replacement assets. The latter benefit from a top or second tier rating and the volume of replacement asset exposures cannot be greater than 15% of* obligations foncières *outstandings. CAFFIL may also enter into derivatives contracts with banks for the sole purpose of hedging interest rate and foreign exchange risks.*

MREL

In June 2019, SFIL was notified of the implementation by the ACPR's Resolution College of the Single Resolution Board's decision of April 16, 2019 setting the minimum requirement for own funds and eligible liabilities (MREL) for SFIL on a consolidated basis.

Based on data as of December 31, 2017, this requirement is set at 1.94% of the SFIL Group's total liabilities and own funds (TLOF). As of June 30, 2019, its eligible liabilities exceeded this requirement by more than five times.

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 the decision-making process (mainly for the granting of 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.

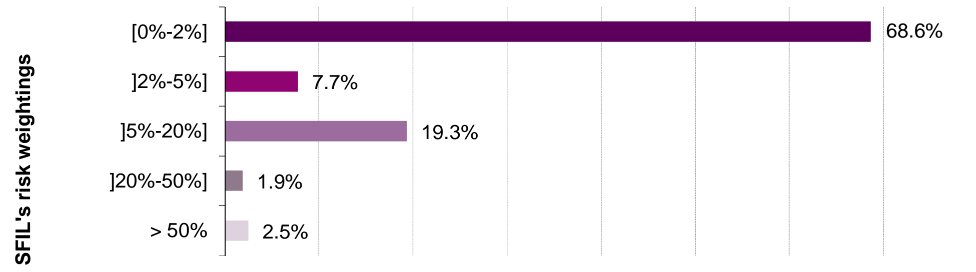
1.2. BREAKDOWN OF EXPOSURES BASED ON BASEL III RISK WEIGHTS

The quality of SFIL and CAFFIL's portfolio can be illustrated by risk-weighted assets (RWA) calculated to determine the solvency ratio.

The Group has chosen the advanced method to calculate regulatory capital requirements for most of its exposures.

As of June 30, 2019, the breakdown of exposures by risk weight level (the risk weight is calculated based on the counterparty's probability of default and the loss given default) was as follows.

Risk weight (Basel III) of the SFIL Group's portfolio as of June 30, 2019 (consolidated basis)



Risk weight levels confirm the quality of the SFIL assets. Indeed, the RW average is 6.4% and only 4.3% of the portfolio has a RW above20%.

The amount of risk weighted exposures (RWA) stands at EUR 5,004 million for credit risk. Including risk weighted assets of credit valuation adjustment (CVA) volatility and those assigned to cover operational risks (weighted assets for market risks are nil), SFIL had a total RWA of EUR 5,849 million. With a CET1 level of EUR 1,438 million, SFIL had a CET1 ratio of 24.6% as of June 30, 2019.

1.3. PAST DUE, NON-PERFORMING LOANS AND PROVISIONS

Total past due amounted to EUR 63 million as of June 30, 2019. Past due amount decreases by 5% compared to December 31, 2018 (EUR 66 million) and concerned only a handful of counterparties.

As a reminder, at the level of CAFFIL and in application of French accounting standards, non-performing and litigious loans totaled EUR 442 million as of June 30, 2019, representing less than 0.8% of its cover pool, a figure that indicates the portfolio's excellent quality. These loans can be broken down as follows:

- EUR 409 million of loans classed as non-performing[(1)], corresponding to loans to customers with total past due of EUR 28 million (of which EUR 22 million on structured loans);

[(1)] A loan is considered non-performing if it presents one of the following characteristics:

• a probable or certain risk of non-recovery (unpaid for more than nine months for local government entities and three months for other counterparties);

• the existence of an observed risk on the counterparty (downgraded financial situation or alert procedure).

When a customer is classified in default in terms of credit risk, not only loans with arrears but also, by extension, all its other loans are

- EUR 33 million of loans classed as litigious, corresponding to unpaid interest subject to legal proceedings.

In application of IFRS standards and, more specifically, with the entry into force on January 1, 2018 of IFRS 9, all financial assets accounted for at amortized cost and at fair value through other comprehensive income, as well as financing commitments, must be classified in three stages of provisions and provisioned on the basis of their expected credit loss.

- Stage 1: performing assets for which credit risk has not significantly deteriorated since initial recognition;
- Stage 2: performing assets for which credit risk has significantly deteriorated since initial recognition; or
- Stage 3: credit-impaired assets.

Loans classified in Stage 3 mainly correspond to customers:

- with past due exceeding 90 days;
- that were in a situation of actual default (i.e. not technical) and for which past due exceeding 90 days have been settled. After settlement of all the unpaid amounts, these outstandings are kept in Stage 3 and in actual default for a minimum of one year, referred to as a "probation period";
- for which the financial situation is such that, independently of the existence of any unpaid amount, it is possible to conclude that they are unlikely to pay.

The definition of default (Stage 3) under IFRS thus covers a broader scope than the concept of non-performing 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).

Provisions are made on all these assets, including Stage 1 and Stage 2 assets in respect of expected credit losses. This impairment they cover is calculated based on forward looking scenarios factoring in the probability of occurrence and losses expected in the next 12 months (Stage 1) or over the asset's life (Stages 2 and 3).

The value of these assets and the related provisions is shown in the following table.

	IFRS book value		**Provisions**	
EUR millions	**12/31/2018**	**6/30/2019**	**12/31/2018**	**6/30/2019**
Stage 1	*54,840*	*56,333*	*-6*	*-6*
Stage 2	*6,317*	*6,373*	*-46*	*-45*
Stage 3	*1,096*	*1,116*	*-10*	*-12*
TOTAL SPPI assets	**62,253**	**63,822**	**-62**	**-63**
Non-performing exposures	*1,454*	*1,444*		

As of June 30, 2019, existing IFRS provisions for expected credit losses totaled EUR 63 million and were virtually unchanged compared to their level as of December 31, 2018.

1.4. RESERVE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Before taxes, the total amount of this reserve at Group level stood at EUR -1 million as of June 30, 2019.

classified as non-performing.

A loan is considered as litigious if it has arrears and is subject to legal proceedings.

2. 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. Similarly, as a *société de crédit foncier*, CAFFIL cannot hold a trading or equity portfolio and is therefore not exposed to regulatory market risk.

SFIL's and CAFFIL's banking activities that may give rise to risks on the income or equity are the result of exposure to market volatility are monitored as non-regulatory market risks.

These risks are mainly:

- risks arising from changes in the value of financial assets recognized at fair value through profit or loss or through other comprehensive income;
- risks associated with a very limited portfolio of swaps, covering loans to customers for which actual defaults have been observed that interrupted the hedging relationship as defined under IFRS;
- risks arising from the export credit activity (monitoring of the value changes of the indicator specific to export credit and, for USD-denominated loans, the change in the valuation of currency swaps hedging this activity);
- changes in accounting valuation adjustments on derivatives, such as credit valuation adjustments (CVA) and 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; and
- 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.

3. Balance sheet risk

3.1. 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.

SFIL's activity is focused mainly on managing its subsidiary CAFFIL, a *société de crédit foncier*.

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

- the financing of balance sheet assets (EUR 62 billion in nominal value), mainly held by CAFFIL (EUR 58 billion); and
- the financing of liquidity needs linked to compliance with regulatory ratios.

As a *société de crédit foncier,* CAFFIL is required to comply with specific regulatory ratios.

As of June 30, 2019, the sources of financing used, other than the entity's equity, were:

- privileged debt, i.e. the *obligations foncières* issued and the cash collateral received by CAFFIL (EUR 51.7 billion);
- negotiable debt securities issued by SFIL (EUR 7.7 billion); and
- credit agreements signed in 2013 between SFIL and its shareholders (EUR 0.7 billion).

In addition, the SFIL Group has a large number of assets held by CAFFIL or SFIL that are eligible for central bank refinancing. The securities held by CAFFIL and SFIL can be made available through European Central Bank refinancing operations, via the Banque de France. There were no operations of this type in the first half of 2019.

SFIL has been refinancing export credit transactions since the first half of 2017. Liquidity is provided by CAFFIL through its issues of *obligations foncières.*

To control their liquidity risk, SFIL and CAFFIL mainly rely on static, dynamic and stressed liquidity projections to ensure that their short- and long-term liquidity reserves will allow them to meet their obligations.

As of June 30, 2019, SFIL's Liquidity Coverage Ratio (LCR) on a consolidated basis came to 1322%.

3.2. INTEREST RATE RISK

There are three different types of interest rate risk for the SFIL Group:

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

These risks are generally hedged with derivatives.

To limit the impact of these risks, CAFFIL has implemented a two-staged hedging strategy:

- in the first stage, all the assets and liabilities benefiting from the legal privilege which do not have a floating rate are hedged against Euribor until maturity as soon as they are recorded on the balance sheet. In practice, acquisitions of loan portfolios are usually macro-hedged. Loans granted individually or bond issues may be micro- or macro-hedged. Assets and liabilities can be hedged either by using new interest rate swaps, or by the cancelation of swaps of opposite direction;
- in the second stage, Euribor asset and liability flows (naturally or after hedging) are swapped against Eonia over a maximum period of two years in order to protect income from the basis risk generated by differences in tenor (Euribor 1, 3, 6, or 12 months) and fixing risk arising from benchmark index refixing dates that differ for the assets and the liabilities. The residual risk is managed through macro-hedges with a management horizon of one week.

Concerning the parent company SFIL, the strategy involves a perfect micro-hedge of the interest rate risk, by swaps against Eonia, 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) sensitivity indicators.

For CAFFIL, these interest rate risks are measured and limited through an indicator of the sensitivity of the net present value of balance sheet items for a shock of 100 x 1 bp:

	Level as of June 30, 2019 EUR millions	**Limit**
Directional interest rate risk	(0.1)	< EUR 25 million
Steepening risk		
Sensitivity by time bucket		
• Short bucket	(5.7)	< EUR 10 million
• Medium bucket	(5.6)	< EUR 10 million
• Long bucket	6.7	< EUR 10 million
• Very long bucket	4.4	< EUR 10 million
Sensitivity by time bucket in absolute value		
• Short bucket	9.3	< EUR 20 million
• Medium bucket	13.3	< EUR 20 million
• Long bucket	6.8	< EUR 20 million
• Very long bucket	8.0	< EUR 20 million

For the parent company SFIL, the limit applies to the fixed rate gap, which stands at zero as a result of its micro-hedging management strategy.

These indicators are calculated on a static basis.

3.3. FOREIGN EXCHANGE RISK

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

Issues and assets denominated in foreign currencies give rise, at the latest when they are recognized on the balance sheet and until maturity, to a cross-currency swap against the euro. The floating rate exposures resulting from this management are integrated into interest rate risk management. For operational reasons, SFIL continues to incur marginal foreign exchange risk affecting the share of margin of USD-denominated export credit transactions not paid on to CAFFIL.

Foreign exchange risk is monitored using the net foreign exchange position in each currency, calculated on all foreign currency balance sheet receivables, commitments and accrued interest not yet due. The net foreign exchange position must be zero for each currency, with the exception of the USD position, for which a marginal position is tolerated for operational reasons.

4. Operational risk

4.1. OPERATIONAL RISK

Operational risk represents the risk of loss resulting from a lack of adaptation or a deficiency relating to internal processes, staff or systems or to external events. It includes legal and model risk but not strategic risk. This definition is in line with the definition adopted by the Basel Committee and with applicable regulations. Management procedures for operational risks apply to all of SFIL and CAFFIL's processes and activities. Capital requirements in respect of operational risks are calculated using the standard 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 information systems security management policy, a business recovery and continuity plan, guidelines on the management of essential outsourced services and, as appropriate, insurance against certain risks.

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

The first half of 2019 was marked by the stabilization of the production phase of a major IT project at SFIL. The potential operational risks attendant on any project of this kind are monitored and reported within the framework of the existing operational risk management system. The program to map the operational risks associated with SFIL's processes also continued.

4.2. 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 accountable officers 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.

5. Compliance risk

Compliance risk is the risk of a legal, administrative or disciplinary sanction, of financial loss or of damage to reputation as a result of failure to comply with rules and regulations governing banking and financial activities, be they legislative or regulatory requirements, business practices, ethical standards or executive guidelines set in application of policy decisions taken by the supervisory bodies.

The Compliance division's role is to ensure control of compliance risk, as defined by article 10 of the decree of November 3, 2014, for all the activities of SFIL and Caisse Française de Financement Local.

The aim of compliance risk control is to protect the Group's reputation and that of its investors and customers, to promote good business practices, to prevent conflicts of interest, to safeguard customers' interests and market integrity, to fight against money laundering, corruption and the financing of terrorism and to ensure compliance with financial embargos.

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

6. Legal and tax risks

6.1. LEGAL RISKS

Regarding litigation, as of June 30, 2019, the number of borrowers in litigation for structured loans was 16, compared with 18 as of December 31, 2018, this number having fallen uninterruptedly since 2014 (210 as of December 31, 2014). Since SFIL's creation, 207 borrowers have dropped their claims against the Group.

In the last two years, there were two rulings, on March 28, 2018 and June 26, 2019, under which the Court of Cassation confirmed the validity of the structured loans recorded on CAFFIL's balance sheet.

All in all, since the entry into force on July 30, 2014 of the law on securing structured loan contracts signed by public sector entities, 45 court decisions have confirmed the validity of such contracts.

However, CAFFIL was found to be liable in three proceedings, two of which are still pending.

As of June 30, 2019, there were no other significant lawsuits or disputes between SFIL or CAFFIL and their borrowers.

6.2. TAX RISKS

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

At the end of 2018, the tax authority formally requested payment of the adjustment relating to the 2012 and 2013 audits. While it reduced the amount of the adjustment relating to the add-back of the income of the former branch in Ireland, it nevertheless upheld the principle of taxation of that income in France. Caisse Française de Financement Local paid this adjustment and reversed the associated provisions. It continued to recognize the amount of the provision set aside for sums not yet paid. There were no developments in this affair in the first half of 2019.

Operating results

According to IFRS(*), the SFIL Group reported consolidated net income as of June 30, 2019, of EUR 18 million for total balance sheet assets of EUR 77.5 billion at that date. The Group's CET1 ratio stood at 24.6%, confirming its unswerving financial stability.

Income as of June 30, 2019, also incorporated non-recurring items(**) linked to (i) volatility in the valuation of the derivatives portfolio, for EUR -5 million, (ii) the impact of the application of IFRS 9 as regards volatility in the valuation of non-SPPI loans on the balance sheet, for EUR 8 million, and (iii) the recognition as of January 1 of each year of certain charges with regard to the application of IFRIC 21, for EUR -4 million.

Restated to account for these non-recurring items, recurring net income as of June 30, 2019, stood at EUR 19 million, compared with net income restated for the same items as of June 30, 2018, of EUR 29 million.

EUR millions	6/30/2019					6/30/2018				
	Accounting income				Recurring income	Accounting income				Recurring income
		Adjustments to fair value of hedges	*Linearization over the year of charges due and recognized in the first quarter*	*Adjustments to fair value of non-SPPI assets*			*Adjustments to fair value of hedges*	*Linearization over the year of charges due and recognized in the first quarter*	*Adjustments to fair value of non-SPPI assets*	
Net banking income	**85**	*-7*		*11*	**81**	**117**	*13*		12	**92**
Operating expenses	**-58**		*-5*	*-*	**-53**	**-59**		*-5*		**-54**
Gross operating income	**27**	***-7***	***-5***	***11***	**28**	**58**	***13***	***-5***	***12***	**38**
Cost of risk	**-1**		*0*		**-1**	**1**				**1**
Pre-tax income	**26**	***-7***	***-5***	***11***	**27**	**59**	***13***	***-5***	***-3***	**39**
Corporate income tax	**-8**	*2*	*1*	*-3*	**-8**	**-16**	*-3*	*1*	*-3*	**-10**
Net income	**18**	***-5***	**-4**	**8**	**19**	**43**	***9***	**-5**	**9**	**29**

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

- Net banking income came to EUR 81 million for the first half of 2019, compared with EUR 92 million for the first half of 2018, a year-on-year decrease of EUR 11 million. This change arose from the slower growth in income than last year, relating mainly to sensitivity reduction transactions (for EUR -10 million);
- Group operating expenses and amortization totaled EUR -53 million, down by EUR 1 million from the first half of 2018, a decrease attributable to a fall in operating expenses driven by lower external consultancy costs;
- The cost of risk remained marginal at EUR -1 million.

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

(**) *Restated non-recurring items are as follows:*

- *Fair value adjustments on hedges: as a reminder, since 2013, book value adjustments have affected hedging implemented by the SFIL Group to cover its interest rate and foreign exchange risks. These adjustments essentially concern accounting for adjustments linked to the application of IFRS 13, which mainly introduced the recognition of valuation adjustments in respect of credit valuation adjustments (CVA) and debit valuation adjustments (DVA). Most of 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.*
- *Changes in the valuation of a non-SPPI loan portfolio (valued per IFRS 9 at fair value through profit or loss despite being intended to be kept to maturity) linked to the change in its credit spread.*
- *The linearization of certain charges taken into account as of January 1 of each year per IFRIC 21.*

Outlook

In 2019, the SFIL Group will aim to maintain its position as the recognized leader for its two activities entrusted by the French State:

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

As regards the plan to extend SFIL's activities to the refinancing of projects of strategic interest, SFIL will be in a position, subject to receipt of the necessary authorizations, to carry out the first transactions in 2020.

In line with the ramping up of its CSR initiatives and the broadening of its funding sources, the SFIL Group decided to develop capacity for making socially and environmentally-themed issues. Following the success of its first "social" issue in February 2019, and with a view to broadening its own funding sources, CAFFIL is planning a "green" issue in the near future. The SFIL Group intends these social and green issues to become a regular source of refinancing for public sector assets in the future.

Regarding issues of *obligations foncières*, the project to harmonize national covered bond regimes at European level and the transposition thereof into national law will continue into early 2020. At this stage, CAFFIL has not identified any significant positive or negative impact on its activities related to the implementation of this new directive and regulation.

From a macroeconomic point of view, as in 2018, the Group will closely monitor important contextual elements in the second half of 2019 and in particular the level of market volatility in a context influenced by Brexit-related measures, international reform aimed at strengthening the methods of setting current indices and introducing new risk-free rates (including for €STER), the geopolitical environment and, in particular, trade tensions between the United States, China and Europe, the fiscal situation in Italy and, lastly, the European Central Bank's mooted reintroduction of non-conventional monetary policy measures to boost growth.

The review of the proposed transfer of the control of SFIL to CDC, begun in early 2019, will continue in the second half of the year.

2. Condensed consolidated financial statements under IFRS

Balance sheet

Assets as of June 30, 2019

EUR millions	Note	12/31/2018	06/30/2019
Central banks		1,927	2,913
Financial Assets at fair value through profit or loss	2.1	5,586	5,350
Hedging derivatives		4,415	5,542
Financial Assets at fair value through OCI	2.2	1,563	1,819
Financial assets at amortized cost			
Loans and advances due from banks at amortized cost	2.3	239	376
Loans and advances to customers at amortized cost	2.3	44,706	46,443
Bonds at amortized cost	2.3	9,384	9,466
Fair value revaluation of portfolio hedge		2,552	3,021
Current tax assets		0	5
Deferred tax assets		80	71
Tangible assets		6	16
Intangible assets		33	32
Accruals and other assets		2,231	2,486
TOTAL ASSET		**72,722**	**77,540**

Liabilities as of June 30, 2019

EUR millions	Note	12/31/2018	06/30/2019
Central banks		-	-
Financial liabilities at fair value through profit or loss	3.1	1 229	1 227
Hedging derivatives		6 134	7 378
Financial liabilities measured at amortized cost			
Due to banks at amortized cost	3.2	1 928	749
Customer borrowings and deposits at amortized cost		-	-
Debt securities at amortized cost	3.2	60 068	64 283
Fair value revaluation of portfolio hedge		343	375
Current tax liabilities (1)		8	9
Deferred tax liabilities		-	-
Accruals and other liabilities		1 429	1 919
Provisions (1)	3.3	20	13
Subordinated debt		-	-
EQUITY		**1 563**	**1 587**
Share capital		1 445	1 445
Reserves and retained earnings		93	155
Other comprehensive income		(38)	(31)
Net income		63	18
TOTAL LIABILITIES		**72 722**	**77 540**

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

Income statement

(EUR millions)	Note	First half 2018	2018	First half 2019
Interest income	*5.1*	1,338	2,723	1,328
Interest expense	*5.1*	(1,265)	(2,594)	(1,264)
Fee and commission income		2	4	5
Fee and commission expense		(2)	(3)	(2)
Net result of financial instruments at fair value though profit or loss	*5.2*	42	43	18
Net result of financial instruments at fair value though OCI		-	-	-
Gains or losses resulting from derecognition of financial instruments at amortized cost	*5.3*	2	12	-
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 OCI to fair value through profit or loss		-	-	-
Other income		-	-	-
Other expense		-	-	-
NET BANKING INCOME		**117**	**186**	**85**
Operating expenses	*5.4*	(55)	(101)	(51)
Depreciation and amortization of property, plant and equipment and intangible assets		(4)	(10)	(7)
GROS OPERATING INCOME		**58**	**75**	**27**
Cost of risk	*5.5*	1	(5)	(1)
OPERATING INCOME		**59**	**69**	**26**
Net gains (losses) on other assets		-	-	-
INCOME BEFORE TAX		**59**	**69**	**26**
Income tax		(16)	(6)	(8)
NET INCOME		**43**	**63**	**18**
EARNINGS PER SHARE (in EUR)				
- Basic		4.57	6.80	1.94
- Diluted		4.57	6.80	1.94

Net income and unrealized or deferred gains and losses through equity

EUR millions	First half 2018	2018	First half 2019
NET INCOME	**43**	**63**	**18**
ITEM THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS	**3**	**(18)**	**7**
Unrealized or deferred gains and losses of financial assets at fair value through OCI	1	(2)	1
Unrealized or deferred gains and losses of cash flow hedges	4	(19)	6
Tax	(2)	3	1
ITEM THAT MAY NOT BE RECLASSIFIED AS PROFIT OR LOSS	**-**	**0**	**-**
Actuarial gains and losses on defined-benefit plans	-	0	-
Tax	-	(0)	-
TOTAL UNREALIZED GAINS OR LOSSES THROUGH EQUITY	**3**	**(18)**	**7**
NET INCOME AND GAINS OR LOSSES THROUGH EQUITY	**46**	**45**	**25**

Equity

EUR millions	Capital and reserves			Unrealized or deferred gains and losses				Total equity
	Share capital, additional paid-in capital	**Retained earnings and net income for the period**	**Total**	**Remeasu-rement gains (losses) related to post employment benefits plans, after tax**	**Financial assets designated as at fair value through equity, after tax**	**Net change in fair value of hedging derivatives, after tax**	**Total**	
EQUITY AS OF DECEMBER 31, 2018	**1,445**	**156**	**1,601**	**(1)**	**(1)**	**(36)**	**(38)**	**1,563**
IFRS 19 first time application (see Note 8)	-	(2)	(2)	-	-	-	-	(2)
EQUITY AS OF 1st JANUARY 2019	**1,445**	**154**	**1,599**	**(1)**	**(1)**	**(36)**	**(38)**	**1,561**
Stocks issued	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Changes in fair value of available for sale financial assets through equity	-	-	-	-	1	-	1	1
Changes in fair value of derivatives through equity	-	-	-	-	-	6	6	6
Changes in fair value of available-for-sale financial assets through profit and loss	-	-	-	-	-	-	-	-
Changes in fair value of derivatives through profit and loss	-	-	-	-	-		-	-
Net income for the period	-	18	18	-	-	-	-	18
Other movements	-	-	-	-	-	-	-	-
EQUITY AS OF JUNE 30, 2019	**1,445**	**173**	**1,618**	**(1)**	**(0)**	**(30)**	**(31)**	**1,587**

Cash flow statement

(EUR millions)	12/31/2018	6/30/2019
INCOME BEFORE TAX	**69**	**26**
+/- Depreciation and write-downs net of reversals	(104)	2
+/- Expense / (income) from investing activities	178	(70)
+/- Expense / (income) from financing activities	8	(196)
+/- Other movements	182	(74)
Non-cash items included in income before tax, and other adjustments	**264**	**(338)**
+/- Cash from interbank operations	(2,243)	(1,263)
+/- Cash from customer operations	(155)	(592)
+/- Cash from financial assets and liabilities	(1,630)	(131)
+/- Cash from non-financial assets and liabilities	(185)	409
- Income tax paid	(15)	(23)
Net decrease / (increase) in cash from operating activities	**(4,228)**	**(1,600)**
CASH FLOW FROM OPERATING ACTIVITIES (A)	**(3,895)**	**(1,912)**
CASH FLOW FROM INVESTING ACTIVITIES (B)	**(5)**	**(2)**
+/- Cash from or for shareholders	(50)	(41)
+/- Other cash from financing activities	3,310	2,942
CASH FLOW FROM FINANCING ACTIVITIES (C)	**3,260**	**2,901**
IMPACT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS (D)	**-**	**-**
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS (A + B + C + D)	**(640)**	**987**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**2,581**	**1,941**
Cash and balances with central banks (assets & liabilities)	2,560	1,927
Interbank accounts (assets & liabilities) and loans / sight deposits	21	14
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**1,941**	**2,928**
Cash and balances with central banks (assets & liabilities)	1,927	2,913
Interbank accounts (assets & liabilities) and loans / sight deposits	14	15
CHANGE IN NET CASH	**(640)**	**987**

Notes to the condensed consolidated financial statements

1. Accounting and valuation policies

1.1. APPLICABLE ACCOUNTING STANDARDS

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

The Group prepares its condensed consolidated financial statements in compliance with IAS 34 Interim Financial Reporting; they have been subject to a limited review 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, 2018. The latter have been prepared in compliance with International Financial Reporting Standards (IFRS), as endorsed by and applicable within the European Union, and have been audited by the Statutory Auditors. There are no seasonal, cyclical or occasional aspects to the Group's activities.

The condensed consolidated financial statements are furthermore in accordance with ANC (French accounting standards board) Recommendation n°2017-02 issued on June 2, 2017 regarding banks' publication of consolidated financial statements under international accounting standards.

The condensed consolidated financial statements as of June 30, 2019 were approved by the Board of Directors on September 5, 2019.

Due to the entry into force of IFRS 16 for reporting periods beginning on or after January 1, 2019, the Group has disclosed in its financial statements presented below the information required under IAS 8 on the transition from IAS 17 to IFRS 16: IFRS 16 first-time application impacts are detailed in note 8.

Due to the entry into force of IFRIC 23 for reporting periods beginning on or after January 1, 2019, the Group has disclosed in its financial statements presented below the information required therein; IFRIC 23 first-time application impacts are detailed in a footnote to the balance sheet and in Note 3.3.

The accounting principles applied to the financial statements are detailed in section 1.2 below.

1.1.2. IASB and IFRIC texts endorsed by the European Union and effective as of January 1, 2019

• **IFRS 16 Leases**: issued by the IASB on January 13, 2016, endorsed by the European Union on October 31, 2017 (EU Regulation no. 2017/1986) and effective for reporting periods beginning on or after January 1, 2019, this standard, which replaces IAS 17, provides that at the commencement date a lessee shall recognize a right-of-use asset and a lease liability.

The Group has identified its leases which fall within this scope: they are limited to the property lease on the Group's registered office in Issy-les-Moulineaux. A right-of-use asset and a lease liability have been recognized for this lease, in compliance with the provisions of IFRS 16. Regarding the transition to IFRS 16, the Group has opted for a simplified retrospective application under IAS 8. Impacts are presented on appendix 8.

The impacts of this standard on the Group's consolidated financial statements have been identified, the transition to IFRS 16 has been completed and the first-time application impact has been accounted for.

• Amendment to **IFRS 9 Financial Instruments**: issued by the IASB on October 12, 2017, endorsed by the European Union on March 22, 2018 (EU Regulation no. 2018/498) and effective for reporting periods beginning on or after January 1, 2019, this amendment provides that instruments whose contractual terms allow for the possibility of prepayment in an amount lower than the outstanding principal and accrued interest meet the SPPI criterion, provided that the prepayment amount essentially represents the outstanding principal and related interest, plus a reasonable compensation irrespective of direction (payment by the holder to the issuer or by the issuer to the holder).

This amendment has no impact on the Group's consolidated financial statements given that it opted to apply this amendment early from January 1, 2018, the transition date from IAS 39 to IFRS 9.

• **IFRIC 23 Uncertainty over Income Tax Treatments**: issued by the IASB on June 7, 2017, endorsed by the European Union on October 23, 2018 (EU Regulation no. 2018/1595) and effective for reporting periods beginning on or after January 1, 2019, this interpretation specifies how to take into account uncertainty over tax treatments applied when determining taxable profit, tax bases, unused tax losses, unused tax credits and tax rates. The entity must assume that the taxation authority will perform an exhaustive examination in which it obtains full knowledge of all relevant information.

This interpretation has a limited impact on the Group's consolidated financial statements, given that its activity does not expose it to material tax uncertainties. Moreover, the Group had already provisioned the non-material tax risks to which it may be exposed due to its activity. The IFRIC 23 stipulations regarding this provision's measurement have not resulted in an adjustment of its amount. As a result, the only impact of this interpretation as of January 1, 2019 is the reclassification from Provisions to Current tax liabilities of the provision for tax risks previously recognized. Regarding the transition to IFRIC 23, the Group has opted for limited retrospective application under IFRIC 23: with regard to a reclassification without re-measurement, the first-time application impact of IFRIC 23 on its opening equity is zero.

The impacts of this interpretation on the Group's consolidated financial statements have been identified and the transition to IFRIC 23 has been completed.

• Amendment to **IAS 28 Investments in Associates**: issued by the IASB on October 12, 2017 within the framework of its regular IFRS improvement process, endorsed by the European Union on February 8, 2019 (EU Regulation no. 2019/237) and effective for reporting periods beginning on or after January 1, 2019, this amendment confirms that IFRS 9 applies to long-term interests in an associate or a joint venture to which the equity method is not applied but which, in substance, form part of the net investment in an associate or joint venture.

This amendment has no impact on the Group's consolidated financial statements given that it holds no associate or joint venture.

• Amendment to **IAS 19 Employee Benefits**: issued by the IASB on February 7, 2018 within the framework of its regular IFRS improvement process, endorsed by the European Union on March 13, 2019 (EU Regulation no. 2019/402) and effective for reporting periods beginning on or after January 1, 2019, this amendment stipulates how to re-measure the net liability (or asset) recognized in the event of the amendment, curtailment or settlement of a defined benefit plan within a reporting period.

This amendment has no impact on the Group's consolidated financial statements given that it has undertaken no amendment, curtailment or settlement of defined benefit plans since the start of the reporting period.

• Amendments to **IAS 12 Income Taxes, IAS 23 Borrowing Costs, IFRS 3 Business Combinations and IFRS 11 Joint Arrangements**: issued by the IASB in December 2017 within the framework of its regular IFRS improvement process, endorsed by the European Union on March 14, 2019 (EU Regulation no. 2019/412) and effective for reporting periods beginning on or after January 1, 2019, these amendments stipulate:
• as regards IAS 12, how the income tax impacts of dividend payments should be recognized: such impacts are linked to past transactions or events that generated distributable profits and should therefore be recognized in the same statement (statement of profit or loss, statement of other comprehensive income, etc.) as these transactions or events;
• as regards IAS 23, how residual borrowing costs should cease to be incorporated in the cost of an asset when it is ready for its intended use or sale: these residual borrowing costs should be included in the general borrowings used to calculate the capitalization rate;
• as regards IFRS 3, how the acquisition of control of a joint operation should be accounted for;
• as regards IFRS 11, how the joint acquisition of control within the framework of a joint operation should be accounted for.

The amendment of IAS 12 has no material impact on the Group's consolidated financial statements. The amendments of IAS 23, IFRS 3 and IFRS 11 have no impact on the Group's consolidated financial statements given that its activities fall outside these standards' scope.

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

• **IFRS 17 Insurance Contracts**: issued by the IASB in May 2017, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2021 (or January 1, 2022 given the IASB's provisional decision of November 14, 2018), this standard, which will replace IFRS 4, stipulates in particular how to account for all insurance contracts (life, non-life, insurance and reinsurance but notably excluding the reporting entity's own contracts).

Given this new standard's distant date of application and as the European Union has not endorsed it, its impact on the Group's consolidated financial statements will be analyzed at a later stage.

• Amendments to **IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors**: issued by the IASB in October 2018, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2020, these amendments aim to clarify and align the definition of materiality across the various IFRS standards to increase the consistency of its application in financial statements.

The impact of these amendments on the Group's consolidated financial statements is being analyzed.

• Amendment to **IFRS 3 Business Combinations**: issued by the IASB in October 2018, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2020, this amendment narrows and clarifies the definition of a business, a key concept that makes it possible to distinguish a business combination from a mere acquisition of a group of assets.

This amendment's impact on the Group's consolidated financial statements is being analyzed. In theory there will be no impact given that its activities fall outside this standard's scope.

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 the financial statements requires management to use 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 its forecasts and the differences may have a material impact on the financial statements.

Judgments were mainly made in the following areas:
- classification of financial instruments;
- determination of the occurrence of a significant increase of credit risk since initial recognition;
- determination of whether or not the market is active for financial instruments measured at fair value;
- hedge accounting; and
- existence of a present obligation with probable cash outflows in the event of litigation.

These judgments are detailed in the following sections.

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, notably in connection with defining the macroeconomic scenarios used; and
- estimation of future taxable profits for the recognition and measurement of deferred tax assets.

1.2.1. Consolidation

The Group's consolidated financial statements include all entities under its control. Entities under its control are fully consolidated.

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

- the Group controls the entity's relevant activities, through voting or other rights;
- the Group is exposed to or has rights to variable returns on account of 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 if a change occurs in one of these conditions. Subsidiaries are consolidated on the date that the Group gains control. All intra-group transactions and balances, as well as unrealized gains or losses resulting from intra-group transactions, are eliminated on consolidation.

The scope of consolidation as of June 30, 2019 was the same as that as of December 31, 2018.

1.2.2. Offsetting of 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 their respective 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 other comprehensive income item Unrealized or deferred gains and losses are accounted for as monetary items under IFRS 9: the exchange difference resulting from changes in the amortized cost of these assets is recognized in profit or loss, while other changes in the carrying amount (except the valuation adjustment for expected credit losses: see below) are recognized in other comprehensive income.

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

1.2.4. Transaction recognition date and settlement date

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

1.2.5. Financial assets

When the Group becomes party to the contractual provisions of a financial asset, it classifies said asset in one of the three categories provided for 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 the Group's financial assets within business models is assessed at a level that reflects how groups of financial assets are managed together to achieve the Group's key business objectives, which are:

- financing local government entities and public hospitals through the acquisition by Caisse Française de Financement Local of medium or long-term loans granted by La Banque Postale;
- reducing the sensitivity of structured loans held by Caisse Française de Financement Local; and
- refinancing export credit contracts guaranteed by Bpifrance Assurance Export.

This assessment generally necessitates the use of judgment and relies on facts, circumstances and, generally speaking, all relevant indicators that are available for the Group as of the date of the assessment. These relevant indicators can be broken down into two groups:

- qualitative indicators: 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 and how managers of the business are compensated (for example, whether their compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- quantitative indicators: 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 the hold-to-collect-and-sell (HTCS) models. The Group holds no financial assets for trading purposes, i.e. it does not issue, acquire, or hold financial assets for the purpose of realizing a net gain by selling or repurchasing them in the near term.

1.2.5.2. Characteristics of contractual cash flows (SPPI criterion)

The solely payments of principal and interest (SPPI) criterion test is intended to assess whether a financial asset's contractual cash flows are consistent with those of a basic lending agreement, i.e. repayment of principal and payment of interest on outstanding principal. Irrespective of the asset's legal form or rate type (fixed or variable), this is the case when the contractual cash flows consist only of compensation for the time value of money, compensation for the credit risk associated with the outstanding principal for a given time period, if applicable compensation for other basic lending risks (e.g. liquidity risk) and ancillary costs (e.g. administrative costs) associated with holding the asset for a given time period and, if applicable, a margin.

A qualitative analysis is generally sufficient to determine whether the asset is SPPI-compliant. Further quantitative analysis is sometimes necessary, involving comparing the contractual cash flows of the financial asset in question with those of a benchmark asset. If the gap determined through this comparison is not material, the asset is classified as 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 fulfills both of the following conditions:

- it is held within a business model the objective of which is to hold financial assets for the purpose of collecting contractual cash flows (HTC model); and
- its contractual provisions result, at specified dates, in cash flows corresponding solely to the repayment of principal and payment of interest on outstanding principal (SPPI criterion).

At initial recognition, the Group recognizes a financial asset belonging to this category at fair value, including any premium or discount if applicable, 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 or discount and transaction costs calculated using the effective interest rate method and taking into account any valuation adjustment for expected credit losses. This adjustment reduces the financial asset's carrying amount, with an offsetting entry to profit or loss under Cost of risk.

Due and accrued interest on loans and fixed income securities belonging to this category as well as the amortization of premiums, discounts 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 exactly discounts the expected future cash flows over the financial instrument's expected life or, where more appropriate, a shorter period, so as to obtain the financial instrument's gross carrying amount or, if the financial asset was impaired on initial recognition or subsequently (see below), its net carrying amount less, in particular, any valuation adjustments for expected credit losses. This rate's calculation takes into account the commissions received or paid by the contract's parties that naturally form an integral part of the contract's effective rate, as well as any premiums and discounts, and transaction costs. Transaction costs are marginal costs that are directly attributable to a financial instrument's acquisition and used for the calculation of the effective interest rate. A marginal 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 other comprehensive income item Unrealized or deferred gains and losses

A financial asset is classified and subsequently measured at fair value through the other comprehensive income item Unrealized or deferred gains and losses if it meets both of the following conditions:

- it is held within a business model the objective of which is both to collect the contractual cash flows and to sell financial assets (HTCS model); and
- its contractual provisions result, at specified dates, in cash flows corresponding solely to the repayment of principal and payment of interest on outstanding principal (SPPI criterion).

At initial recognition, the Group recognizes a financial asset belonging to this category at fair value, including any premium or discount if applicable, and transaction costs. Subsequently, the unrealized gains or losses stemming from changes in the asset's fair value are recognized under other comprehensive income, except for an amount corresponding to the valuation adjustment for expected credit losses, which is recognized in profit or loss under Cost of risk.

Due and accrued interest on loans and fixed income securities belonging to this category as well as the amortization of premiums, discounts and transaction costs, calculated using the effective interest rate method (see above), are recognized under Net interest margin.

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

A financial asset that does not belong to either of the two categories described above (amortized cost or fair value through the other comprehensive income item Unrealized or deferred gains and losses) 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 do not meet the SPPI criterion.

At initial recognition, the Group recognizes a financial asset belonging to this category at fair value, including if applicable any premium or discount and excluding transaction costs. Subsequently, the unrealized gains or losses stemming from changes in this asset's fair value are recognized in profit or loss under net banking income.

In accordance with the principles stipulated under ANC Recommendation 2017-02 issued on June 2, 2017, the Group decided to recognize separately:

- fair value changes excluding accrued interest, under the net banking income item Net result of financial instruments at fair value through profit or loss; and
- due and accrued interest, under 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 only be used if it eliminates or significantly reduces an inconsistency in the recognition of assets or liabilities (accounting mismatch);
- option to present in other comprehensive income subsequent changes in the fair value of specific investments in equity instruments; the Group does not hold any such instruments.

1.2.5.7. Impairment of financial assets

Defining the impairment base

A valuation adjustment for expected credit losses is calculated for all financial assets measured at amortized cost or at fair value through the other comprehensive income item Unrealized or deferred gains and losses. At each closing date, they are broken down into three Stages:

• Stage 1: credit risk on the asset has not increased significantly since its initial recognition;
• Stage 2: credit risk on the asset has increased significantly since its initial recognition;
• Stage 3: the asset is credit-impaired.

At each closing date, the valuation adjustment for a financial asset's expected credit losses is measured as:

• the amount corresponding to the expected credit losses during the next 12 months for Stage 1 assets;
• the amount corresponding to the expected credit losses to maturity for Stage 2 and Stage 3 assets.

No valuation adjustment for expected credit losses is recognized at initial recognition for purchased or originated financial assets credit-impaired at that date. Interest income generated by these assets is determined using an effective interest rate that takes into account expected credit losses. Subsequently, the valuation adjustment recognized on these assets corresponds to the cumulative changes in expected credit losses over their lifetime since initial recognition. It is not part of the Group's purpose to purchase or originate financial assets credit-impaired from the outset.

Assessing whether credit risk has increased significantly

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 on the contract at the closing date with its default risk at the initial recognition date. This assessment takes into consideration all reasonable and supportable information that is relevant and available for the Group without it incurring undue costs or making undue effort, in particular quantitative and qualitative information on past events (use of historical metrics), on the current economic environment and on forward looking projections concerning the economic environment. In practice, the assessment of credit risk increase is carried out at counterparty level:

• either through the comparison of the probability of default (PD) at maturity (weighted average PD of the various forward looking scenarios) with that at initial recognition;
• or through the identification of year-on-year changes in risk levels (ratings produced by internal rating systems) towards risk levels regarded as risky (higher historic default rates).

A contract is classified in Stage 3 when exposures to the counterparty are regarded as non-performing under the Basel definition (non-performing exposures - NPE), i.e.:

• when the counterparty is unlikely to pay, which is evidenced by a credit risk rating indicating actual credit impairment, it being probable that the counterparty will not repay all or part of its debt, not taking into account the triggering of any guarantees; and / or
• when the counterparty has significant arrears of more than 90 days on the principal and / or interest.

A contract is classified in Stage 2 when exposures to the counterparty in question are regarded as performing under the Basel definition but it is in one of the following situations:

• it is being monitored by the Watchlist Committee due to an increase in its credit risk, or it is in forbearance, meaning that the Group has granted a concession to its holding counterparty facing financial difficulties;
• it has arrears of more than 30 days but less than 90 days on the principal and / or interest for public sector, corporate or project debt, or of more than one day for sovereign or bank debt;
• its rating has one of the following characteristics: it is non-investment grade (internal rating of BB+ or lower), it is non-existent, or it has seen or is due to see a rating change regarded as risky under forward looking scenarios. Rating changes regarded as risky are rating downgrades assessed as risky based on quantitative modeling using historical data with input from an expert third party.

If none of the situations detailed above has occurred, it is deemed that credit risk has not increased significantly and the contract is classified in Stage 1.

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

Transitions between Stages must comply with the following rules:

• contracts with an internal credit rating denoting actual credit impairment can be reclassified from Stage 3 to Stage 2 or Stage 1 only after a one-year probationary period during which they are considered as non-performing and remain in Stage 3. Exit from Stage 3 is also subject to the Default Committee's approval and conditional on the full payment of any arrears;
• contracts in forbearance can be reclassified from Stage 2 or Stage 3 to Stage 1 only after a two-year probationary period starting from the concession date for Stage 2 contracts, or after the date when the contract exited Stage 3.

Measuring the amount of the expected credit loss

The provision recognized on the contract is equal to the average expected credit losses of each of the scenarios weighted by their respective probabilities of occurrence. For all material portfolios, the definition of scenarios includes a forward looking dimension, which consists in projecting macroeconomic and financial variables and assessing their impact on provisioning. These scenarios are built either on Credit Risk division projections or on quantitative research based on data produced by advanced models. In the case of French local government entities, the main pieces of information taken into account are the local public expenditure and tax revenue

forecasts and targets presented, in particular, in the State's finance bills and stability programs, as well as assumptions regarding the use of taxation.

For the contracts of counterparties classified in Stage 1 or Stage 2, expected credit losses equal the present value discounted at the contract's initial effective interest rate of the product of three parameters: probability of default (PD), exposure at default (EAD) and loss given default (LGD). These parameters vary depend on the scenario and the year under consideration. The Group has capitalized on the framework provided under Basel regulations for calculating these parameters and introduced adjustments to take into account the specific provisions of IFRS 9: point in time analysis with the integration of a forward looking perspective under IFRS 9, vs. through the cycle analysis of probability of default and downturn analysis for loss given default under the prudential regulations. This approach has resulted in the definition of IFRS 9-specific models for all material portfolios.

For contracts of counterparties classified in Stage 3, 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 contract's materiality, the cash flows that the Group expects to recover are calculated either through individual simulations carried out by the Credit Risk division or through standard recovery scenarios based on predefined management rules. These flows are, if applicable, net of any flows derived from selling collateral securities that form an integral part of the contractual terms and conditions. Recognized expected credit losses cannot be lower than the amount of expected credit losses calculated by applying the methodology used for a Stage 2 contract and integrating a stress factor based on a probability of default corresponding to the worst rating of the scale that the underlying asset belongs to.

At each closing date, the Impairment Committee analyzes and validates the classification in Stages and the valuation adjustments for expected credit losses before recognition. Backtesting procedures have also been introduced involving annual monitoring of the effectiveness of the IFRS 9 expected credit loss calculation mechanism, covering data quality, portfolio structure and forecasting quality.

Recognizing provisions

Positive and negative changes in the amount of the valuation adjustment for expected credit losses are recognized in profit or loss under Cost of risk.

When management classes an asset as irrecoverable, it is derecognized (see below); the valuation adjustment for expected credit losses is reversed and the net loss is recognized in profit or loss under 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 if and only if the contractual rights to the associated cash flows expire or if the 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, but the asset's control has been relinquished. If the asset's control 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 derecognition date. It is recognized in profit or loss of the reporting period in question, under net banking income.

Disposals

Financial assets are derecognized on disposal. The gain or loss realized on disposal takes into account the following:

- for financial assets measured at amortized cost, the disposed asset's carrying amount is systematically determined based on the first in, first out (FIFO) method, on a portfolio basis;
- for financial assets measured at fair value through the other comprehensive income item Unrealized or deferred gains and losses, cumulative gains or losses previously recognized in other comprehensive income are reversed to profit or loss on disposal, applying the FIFO method, under the net banking income item used to recognize net gains and losses of this category.

Repos and reverse repos

Securities sold with 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 liabilities are recognized as financial liabilities at amortized cost. The assets are reported as pledged in the notes.

Securities purchased with a commitment to sell them 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 price and the purchase price is recognized as interest income or expense, capitalized and spread over the contract's lifetime using the effective interest rate method.

Prepayments

A loan's prepayment generally results in the payment of a penalty which is used to calculate the gain or loss realized on derecognition.

In the case of a prepayment without refinancing, the loan no longer exists and is derecognized.

In the case of a prepayment with refinancing, the accounting treatment differs depending on whether the post-restructuring terms are substantially different from the original terms; they are substantially different in the following situations:

- the restructured loan is not classified in the same accounting category as the original loan, either because its contractual cash flows now meet the SPPI criterion (whereas they did not originally) or because they no longer meet the criterion (whereas they did originally);
- the net present value of the cash flows under the new terms, including fees paid net of fees received, differs by more than 10% from the net present value of the cash flows remaining from the original loan, both of these values being discounted at the original effective interest rate.

If the post-restructuring terms are not substantially different from the original terms, the original loan is not derecognized. Its gross carrying amount is adjusted so as to reflect the restructuring, including costs and fees incurred; it corresponds to the present value of the restructured loan's cash flows discounted at the original effective interest rate (or, in the case of assets credit-impaired on purchase or origination, at this rate adjusted to reflect credit quality). This so-called catch-up adjustment represents the excess of the restructured loan's margin over the original loan's margin, and is immediately recognized in profit or loss of the reporting period, under Net interest margin. Furthermore, for financial assets measured at amortized cost or at fair value through the other comprehensive income item Unrealized or deferred gains and losses, the Group assesses whether, due to the modifications in the post-restructuring terms, a significant increase in credit risk since initial recognition has occurred; if so, an adjustment of the valuation adjustment for expected credit losses is recognized (see above).

If the post-restructuring terms are substantially different from the original terms, the original loan is derecognized and the restructured loan 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 loan's restructuring date. This adjustment represents the excess of the restructured loan's margin over normal market conditions at the loan's restructuring date: it is immediately recognized in profit or loss of the reporting period, under the net banking income item used to recognize net gains and losses of the derecognized financial asset's category.

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 legal 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 any redemption 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 under Net interest margin.

Obligations foncières issued and 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, is cancelled or expires.

The restructuring of a financial liability results in the derecognition of this liability if the post-restructuring terms are substantially different from the original terms (see above).

1.2.7. Derivatives

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

All derivatives are recognized initially on the balance sheet at fair value and subsequently revalued at fair value. The fair value of derivatives is calculated using either prices observed in listed markets or internal valuation models.

The amount recorded on the balance sheet includes the premium paid or received after amortization, the amount of changes in fair value and accrued interest, which altogether make up the derivative's fair value. 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 solely to hedge its exposures to interest rate or foreign exchange positions. However, some derivatives must be measured at fair value through profit or loss at the closing date, namely:

- those that failed hedge effectiveness tests at the closing date;
- those that hedge financial assets that are measured at fair value through profit or loss. In this case, the revalued derivative automatically covers the revalued hedged item, eliminating the need to document a hedging relationship.

Both realized and unrealized gains and losses on these derivatives, measured at fair value through profit or loss at the closing date, are recognized in profit or loss under net banking income.

1.2.7.2. Hedging derivatives

Hedging derivatives can be classified as either:

- hedges of the fair value of an asset, a liability or a firm commitment (fair value hedge); or
- hedges of a future cash flow that could ultimately impact future profit or loss and is attributable to a specific asset or liability or a forecast and highly probable future transaction (cash flow hedge).

Hedge accounting may be used to recognize such derivatives, provided certain criteria are met:

- precise and formal documentation on the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and hedged item must be prepared before a hedge is set up;
- the hedge's documentation must show that it is expected to be effective both prospectively and retrospectively at offsetting changes in the fair value or cash flows of the hedged item attributable to the hedged risk, throughout the reporting periods;
- the hedge's effectiveness must have been reliably measured and must be effective at inception and on an ongoing basis; and
- for hedges of a future cash flow, where the hedged item is a future transaction said transaction must be highly probable and must involve an exposure to cash flow changes that could ultimately impact profit or loss.

Changes in the fair value of derivatives that are designated and documented in a fair value hedging relationship and which meet the criteria set out above are recognized in profit or loss, along with the corresponding changes in fair value of the hedged items that are attributable to the hedged risk. Regarding notably structured financial instruments, the existence of a perfect derivative-based hedge and the documentation of the associated hedging relationship serve in effect to revalue the financial instrument in respect of its hedged risk at the same time that the hedging derivative is revalued.

The effective portion of fair value changes in derivatives that are designated and documented in a cash flow hedging relationship and which meet the criteria set out above is recognized in other comprehensive income. The non-effective portion of fair value changes in these derivatives is recognized in profit or loss. Amounts recorded in other comprehensive income are reclassified as income or expense in profit or loss if the hedging commitment or forecast transaction affects profit or loss.

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

- in the case of a fair value hedge, the portion attributable to the hedged risk of the adjustment to the fair value of the hedged interest-bearing financial instrument must be amortized in profit or loss over the hedged item's residual maturity by adjusting said item's yield;
- in the case of a cash flow hedge, the cumulative amounts recognized in other comprehensive income during

previous reporting periods in respect of the effective portion of the derivatives' fair value changes continue to be recognized in other comprehensive income until the derecognition or extinguishment of the hedged item. They are reclassified to profit or loss as and when the item formerly hedged item impacts profit or loss.

1.2.7.3. Hedging of a portfolio's interest rate risk

The Group applies 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 hedge accounting is to reduce the interest rate risk exposure stemming from certain categories of assets or liabilities designated as hedged items.

The Group performs a comprehensive analysis of its interest rate risk exposure, consisting in assessing any such exposure generated by fixed rate balance sheet items. It selects financial assets and liabilities to be included in the hedging of the portfolio's interest rate risk exposure and uses the same methodology to select the relevant portfolio financial assets and liabilities. Financial assets and liabilities are classified by portfolio time buckets. When they are removed from the portfolio, therefore, they must be removed from all time buckets on which they have an impact.

The Group has chosen to constitute homogeneous loan portfolios and issued bond portfolios. Based on a related gap analysis, which is carried out on a net basis, it defines at a contract's inception the risk exposure to be hedged, the length of time buckets and the testing method and frequency.

Most macro-hedging instruments that the Group uses are plain vanilla interest rate swaps designated at inception as fair value hedges of fixed rate assets or liabilities. The effectiveness of these hedging relationships is assessed using target schedules. Effectiveness tests are carried out prospectively (at inception) and retrospectively (at each half-year and annual closing date) to ensure there is no "over" hedging: they are considered successful if, for each time bucket of the target schedule, the nominal amount of hedged items is higher than that of the hedging derivatives.

Hedging instruments constitute a portfolio of derivatives within which positions may be offset. Hedging items (including accrued interest expense or income) are recognized at fair value, and fair value adjustments in profit or loss.

Revaluations related to the hedged risk are recognized on the balance sheet (as assets or liabilities depending on whether the groups of hedged items are assets or liabilities) under Revaluation adjustment on interest rate-hedged portfolios.

1.2.8. Fair value of financial statements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an arm's length transaction between market participants at the measurement date in the instrument's main market or, failing that, the most advantageous market to which the Group has access 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 in the asset or liability take place with sufficient frequency and volume to provide constant pricing information. Active market prices are not, however, available for a significant number of the financial assets and liabilities that the Group holds or issues.

If a financial instrument is not traded on an active market, valuation techniques are used. These techniques include the use of market data from recent arm's length transactions between knowledgeable, willing parties, the fair value of other instruments that are substantially the same, where available, and valuation models.

A valuation model reflects what the transaction price would have been on the measurement date in current market conditions. It incorporates all the factors that market participants would consider when pricing the instrument, such as changes in the credit risk quality of the underlying financial instruments and market liquidity. Within this framework, the Group relies on its own valuation models as well as market assumptions, i.e. the present value of cash flows or any other techniques based on market conditions existing at the accounts closing date.

1.2.8.1. Fair value of financial instruments measured at amortized cost

The following comments concern the determination of the fair value of financial instruments measured at amortized cost and presented in the notes:

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

1.2.8.2. Financial instruments measured at fair value

Non-derivative financial assets measured at fair value either through the other comprehensive income item Unrealized or deferred gains and losses or through profit or loss, and derivative instruments, are measured at fair value by reference to listed market prices, when such are available. When listed market prices are not available, their fair value is estimated using valuation models or the discounted cash flow method, including 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 measurement date and any changes in these financial instruments' credit quality, as well as market liquidity.

To determine the fair value of its derivatives, the Group uses different discount curves depending on whether collateral is exchanged between itself and the counterparty. If collateral is exchanged, the future cash flows on derivatives are discounted using an overnight indexed swap (OIS)-based curve. If no collateral changes hands, these cash flows are discounted using a curve based on Euribor or a similar rate. This differential treatment reflects the different financing costs associated with the derivatives used (funding valuation adjustment - FVA).

As a reminder, Caisse Française de Financement Local does not pay any collateral to its derivatives counterparties, which benefit from the legal privilege on assets, as do the holders of its *obligations foncières*.

In addition, a valuation adjustment is included in the fair value of derivatives to reflect the impact of the counterparty's credit risk (credit valuation adjustment - CVA) or the counterparty's net exposure to the Group's credit risk (debit valuation adjustment - DVA). These valuation adjustments make it possible to switch from a fair value based on cash flows discounted at the risk-free rate, i.e. without taking into account counterparty risk, to a fair value that includes this risk, which is calculated based on the relevant risk exposure combined with loss rates reflecting market data.

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 the 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 re-measurements of financial assets measured at fair value through the other comprehensive income item Unrealized or deferred gains and losses, cash flow hedges and other transactions recognized directly in other comprehensive income are also recognized in other comprehensive income.

1.2.10. Fixed assets

Fixed assets consist exclusively of operating property, plant and equipment and intangible assets. These assets are held to provide services or for administrative purposes. Fixed assets are recognized as assets if:

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

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

When it meets the criteria for recognition, software developed internally is recognized at its development cost, which includes external expenditure on hardware and services and staff expenses that can be directly attributed to the asset's 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 or amortized on a straight-line basis over their expected useful life. Depreciation and amortization is recognized in profit or loss under the item Depreciation and amortization of property, plant and equipment and intangible assets.

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

Components	**Depreciation/amortization 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 and supplies	2 - 12 years

** Purchased licenses and equipment are amortized or depreciated, respectively, over three years. The amortization period of internally developed software depends on whether it is strategic, in which case it is amortized over five years, otherwise over three years.*

Fixed assets are tested for impairment if they show signs of impairment. When a fixed asset's carrying amount exceeds its estimated recoverable amount, an impairment charge is recognized and the carrying amount is written down to the estimated recoverable amount. Impairment charges are recognized in profit or loss under the item Depreciation and amortization of property, plant and equipment and intangible assets.

Gains or losses on the disposal of fixed assets are recognized in Net gains (losses) on other assets.

1.2.11. Leases

The Group contracts leases solely as lessee and is not involved in sale and leaseback transactions. Most of the leases entered into by the Group are commercial leases governed by the French commercial code (*Code de commerce*), commonly referred in France to as "3 / 6 / 9 leases".

Pursuant to the provisions of IFRS 16, a contract is or contains a lease if it conveys, for a set period of time and in exchange for consideration, the right to control the use of an identified asset, in other words the right to both:

- obtain substantially all the economic benefits arising from this asset's use. This can occur directly or indirectly and in a number of ways - by using or holding the asset, for example; and
- control this asset's use. This is the case when the Group has the right to direct how and for what purpose this asset is used or, when these parameters are predetermined, it has the right to operate the asset or has designed it.

The related consideration must be allocated among each of the contract's lease and non-lease components, each lease component within the contract being accounted for as a distinct lease and separately from its non-lease components. However, as a practical expedient, non-lease components may continue to be grouped with the lease component with which they are associated, 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 new may be exempted, as may non-material leases, etc.. The lease payments associated with these leases are recognized over the lease term on a straight-line basis, under Operating expenses.

The lease term starts from the commencement date and extends over the period during which the lease is unilaterally non-cancellable by the lessee, taking into consideration any extension option that the lessee is reasonably certain to exercise and any termination option that it is reasonably certain not to exercise. It cannot go beyond the period for which the contract is enforceable, this period ending 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 lease's commencement date, the Group recognizes:

- a right-of-use asset. This asset is initially measured at cost, which corresponds to the amount of the lease liability's initial valuation including if applicable any lease payments already made, any initial direct costs incurred by the Group and any final restoration costs; and
- a lease liability. This liability is initially measured at the present value of the lease payments not yet made discounted using the interest rate implicit in the lease or, if no such rate exists, 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 are determined by an index or a rate. They are measured using the index or the rate in force at the commencement date;
- if applicable, amounts due in respect of the residual value of guarantees given;
- if applicable, the exercise price of any purchase option that the Group is reasonably certain to exercise;
- if, on the other hand, the Group has assessed the lease term on the assumption that it would exercise its termination option, the penalties incurred in this event.

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

- less accumulated depreciation and, if applicable, impairment. The asset is depreciated on a straight-line basis from the commencement date over its expected useful life or, if shorter, the lease term. The expected useful life must however be used if the Group is reasonably certain to exercise its purchase option or if the asset's legal ownership is substantially transferred to the Group before the end of the lease term; and
- taking into account if applicable any re-measurement 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 not yet due;
- less the part of the lease payments made during the reporting period which corresponds to the repaid principal; and
- taking into account if applicable any re-measurement of the lease liability or modification of the lease.

Any re-measurement of the lease liability is recognized with an offsetting entry to the corresponding right-of-use asset and, if this reduces the asset's value to zero, recognition of the balance in profit or loss. The lease liability is re-measured by discounting the revised lease payments using:

- either a revised discount rate at the re-measurement date (the interest rate implicit in the lease or, if no such rate exists, the Group's incremental borrowing rate). This is applicable in particular when the lease term is modified, and also when the lease is modified but not in such a way that it need be accounted for as a separate lease;
- or the discount rate used for the lease liability's initial recognition. This is applicable in particular on the fixing date of the index or the rate on which is based the sequence of future variable payments.

As regards the disclosure of lease-related information in the financial statements:

- right-of-use assets are recognized under Property, plant and equipment or Intangible assets, as appropriate;
- depreciation and amortization allowances on right-of-use assets and, if applicable, impairment losses, are recognized under Depreciation and amortization of property, plant and equipment and intangible assets;
- lease liabilities are recognized under Accruals and other liabilities;
- due and accrued interest on lease liabilities is recognized under Net interest margin.

1.2.12. Provisions

Provisions mainly include provisions for litigation, restructurings and loan commitments.

Regarding mainly litigation and restructurings, pursuant to 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 representing 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 expenditure expected to be required to settle the obligation. The discount rate used is the pre-tax rate that reflects the market's current assessment of the time value of money.

Regarding loan commitments, a distinction must be made between (see above):

- loan commitments measured at fair value through profit or loss, which are fully in the scope of IFRS 9. They are therefore not provisioned for expected credit losses but valued, their valuation being recognized as an asset; and

- other loan commitments, which are in the scope of IFRS 9 only as regards derecognition and impairment. Valuation adjustments for expected credit losses related to these commitments are therefore measured and recognized the same way as those related to financial assets measured at amortized cost or fair value through the other comprehensive income item Unrealized or deferred gains and losses. The assessment of whether credit risk has significantly increased is performed from the date on which the Group is irrevocably and legally committed, i.e. from when it issues a loan offer letter. At the same time, the related valuation adjustments are recognized as a liability with an offsetting entry to profit or loss under Cost of risk.

1.2.13. Employee benefits

Employee benefits include all expenditure related to employees, particularly that concerning employee profit-sharing and incentive plans for the reporting period. They are classified into four categories:

1.2.13.1. Short-term benefits

Short-term benefits are those expected to be settled within 12 months of the end of the annual reporting period during which the service is rendered; they are not discounted and are recognized as an expense of the reporting period. Paid annual leave is recognized if granted to the employee. A provision is set aside to this end based on the rights vested to 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 12 months after the end of the reporting period during which the employee renders the related service. They comprise in particular 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 a decision by SFIL to terminate an employment contract before the employee's legal retirement age or from an employee's decision to take 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. Termination benefits payable at more than 12 months after the closing date are discounted to their present value.

1.2.13.4. Post-employment benefits

SFIL's employee pension schemes consist solely of defined benefit plans. The assets of these plans are generally entrusted to insurance companies or pension funds. The pension plans are funded by payments from both SFIL and its employees.

Under defined benefit plans, SFIL has a formal or constructive obligation to provide a specific amount or level of benefits and is therefore exposed to a related medium- or long-term risk. It consequently recognizes a provision on the balance sheet, under Provisions, to cover all its retirement commitments.

Retirement commitments are valued using an actuarial method including demographic and financial assumptions and the projected unit credit method, which makes it possible to spread the these commitments over time based on the employees' period of activity.

The defined benefit plan net liability recognized in the balance sheet is calculated by independent actuaries as the difference between the present value of retirement commitments and the fair value of the plan's assets (if any).

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

Measurement of the obligation arising from the scheme and the value of its covering assets is subject to adjustments due to changes in actuarial assumptions, which results in a revaluation of the liability (or asset) recognized in respect of defined benefits. The actuarial gains and losses resulting from these adjustments are recognized directly in other comprehensive income at the closing date.

Under defined benefit plans, the charge recognized as staff expenses represents in particular the rights acquired by each employee during the reporting period corresponding to the cost of services rendered in that period, and the past service cost arising from any 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 under Net interest margin if the loan is granted.

1.2.16. Earnings per share

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

1.2.17. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents are made up of balances at central banks and interbank deposits, including sight deposits and loans.

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 its financial policy or operational decisions. The Group is owned by the French State and by two companies registered in France, Caisse des dépôts et consignations and La Banque Postale. Within this framework, related-party transactions are those with companies with which the Group has a direct or indirect shareholding relationship and with directors.

1.2.19. Segment reporting

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

The Group conducts its business solely from France. It has no direct activity in other countries and therefore cannot present a relevant geographic breakdown of its results.

2. Notes on balance sheet assets (EUR millions)

2.1. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

2.1.1. Analysis by type

	12/31/2018	6/30/2019
Loans and advances to customers	5,573	5,343
Non-hedging derivatives	13	7
TOTAL	**5,586**	**5,350**

2.1.2 Analysis of loans and advances to customers by counterparty

	12/31/2018	6/30/2019
Public sector	5,099	4,886
Other - guaranteed by the public sector	474	457
TOTAL	**5,573**	**5,343**

2.2. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

2.2.1. Analysis by type

	12/31/2018	6/30/2019
Stocks	-	-
Bonds	1,563	1,819
TOTAL	**1,563**	**1,819**

2.2.2. Analysis by counterparty

	12/31/2018	6/30/2019
Public sector	218	-
Banks	1,345	1,619
TOTAL	**1,563**	**1,819**

2.3. LOANS AND ADVANCES AT AMORTIZED COST

	12/31/2018										
	Gross amount				Impairment				Net Amount	Accumulated partial write-offs	Accumulated total write-offs
	Stage 1	*Stage 2*	*Stage 3* (impaired assets)	Total	*Stage 1*	*Stage 2*	*Stage 3*	Total			
Sight accounts	7	-	-	**7**	-	-	-	-	**7**	-	-
Credit institutions	232	-	-	**232**	(0)	-	-	**(0)**	**232**	-	-
Loans and advances due from banks at atmortized cost	**239**	-	-	**239**	**(0)**	-	-	(0)	**239**	-	-
Public sector	38,473	3,153	1,090	**42,716**	(1)	(20)	(10)	**(31)**	**42,685**	-	-
Non financial institutions	1,732	289	-	**2,021**	(1)	(2)	-	**(3)**	**2,018**	-	-
Loans to SFIL's employees	3	-	-	**3**	-	-	-	-	**3**		
Loans and advances to customers at atmortized cost	**40,208**	**3,442**	**1,090**	**44,740**	**(2)**	**(22)**	**(10)**	**(34)**	**44,706**	-	-
Public sector	4,424	2,778	5	**7,207**	(3)	(24)	(0)	**(27)**	**7,180**	-	-
Credit institutions	2,011	-	-	**2,011**	(0)	-	-	**(0)**	**2,011**	-	-
Non financial institutions	118	75	-	**193**	(0)	-	-	**(0)**	**193**	-	-
Bonds at atmortized cost	**6,553**	**2,853**	**5**	**9,411**	**(3)**	**(24)**	**(0)**	**(27)**	**9,384**	-	-
TOTAL	**47,000**	**6,295**	**1,095**	**54,390**	**(5)**	**(46)**	**(10)**	**(61)**	**54,329**	-	-

	6/30/2019										
	Gross amount				Impairment				Net Amount	Accumulated partial write-offs	Accumulated total write-offs
	Stage 1	*Stage 2*	*Stage 3* (impaired assets)	Total	*Stage 1*	*Stage 2*	*Stage 3*	Total			
Sight accounts	10	-	-	**10**	-	-	-	-	**10**	-	-
Credit institutions	366	-	-	**366**	(0)	-	-	**(0)**	**366**	-	-
Loans and advances due from banks at atmortized cost	**376**	-	-	**376**	**(0)**	-	-	(0)	**376**	-	-
Public sector	39,883	3,271	1,110	**44,264**	(1)	(22)	(12)	**(35)**	**44,229**	-	-
Non financial institutions	2,054	161	-	**2,215**	-	(1)	-	**(1)**	**2,214**	-	-
Loans to SFIL's employees	-	-	-	-	-	-	-	-	-		
Loans and advances to customers at atmortized	**41,937**	**3,432**	**1,110**	**46,479**	**(1)**	**(23)**	**(12)**	**(36)**	**46,443**	-	-
Public sector	4,200	2,866	6	**7,072**	(2)	(21)	-	**(23)**	**7,049**	-	-
Credit institutions	2,263	-	-	**2,263**	(1)	-	-	**(1)**	**2,262**	-	-
Non financial institutions	82	74	-	**156**	(0)	(1)	-	**(1)**	**155**	-	-
Bonds at atmortized cost	**6,545**	**2,940**	**6**	**9,491**	**(3)**	**(22)**	-	**(25)**	**9,466**	-	-
TOTAL	**48,858**	**6,372**	**1,116**	**56,346**	**(4)**	**(45)**	**(12)**	**(61)**	**56,285**	-	-

Assets that SFIL considers forborne concern exposures to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognized or forthcoming) that would not have been granted under other circumstances. These concessions may be either a waiver of a part of the debt, a rescheduling of the loan repayment, restructuring measures through an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions carried out under the Group's sensitivity reduction policy.

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

3. Notes on balance sheet liabilities (EUR millions)

3.1. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

3.1.1. Analysis by type

	12/31/2018	6/30/2019
Non-hedging derivatives [(1)]	1,229	1,227
TOTAL	**1,229**	**1,227**

(1) The SFIL Group is only authorized to enter into derivative transactions for hedging purposes. However, as certain hedging derivatives do not meet all the conditions required under 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 classified 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

	12/31/2018	6/30/2019
Sight accounts	-	-
Term deposits	1,928	749
Due to banks at amortized cost	**1,928**	**749**
Commercial paper [(1)]	647	593
Euro medium-term notes [(1)]	4,979	7,216
Obligations foncières	46,794	48,608
Registered covered bonds	7,648	7,866
Debt securities at amortized cost	**60,068**	**64,283**
TOTAL	**61,996**	**65,032**

(1) By contrast with obligations foncières*, these securities do not benefit from the legal privilege.*

3.3. PROVISIONS

	12/31/2018	Additions, including increases in existing provisions	Amounts used	Unused amounts reversed during the period	Increase in the discounted amount (passage of time) and effect of any change in the discount rate	Other movements	6/30/2019
Legal issues and tax litigation [(1)]	7	-	-	-	-	(7)	-
Commitments and guarantees given	7	1	(1)	-	-	-	7
Provision on pensions	6	0	(0)	-	-		6
TOTAL	**20**	**1**	**(1)**	**-**	**-**	**(7)**	**13**

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

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

4.1. TRANSACTIONS WITH RELATED PARTIES

Analysis by type

Analysis by nature

	Parent company [1]		Other related parties [2]	
	12/31/2018	06/30/2019	12/31/2018	06/30/2019
ASSET				
Financial assets at fair value through OCI	-	-	88	238
Loans and advances due from banks at amortized cost	-	-	-	-
Bonds at amortized cost	-	-	145	-
LIABILITIES				
Due to banks at amortized cost	-	-	1 928	749
INCOME STATEMENT				
Financial assets at fair value through OCI	-	-	-	(0)
Credit institutions interest income on Loans at amortized cost	-	-	(0)	(2)
Interest income on bonds at amortized cost	-	-	(10)	(0)
Credit Institutions interest expenses on borrowing at amortized cost	-	-	(0)	(1)
Fees ans commissions	-	-	(5)	2
Gains or losses resulting from derecognitionof financial assets at amortized cost	-	-	4	(0)
OFF BALANCE SHEET				
Foreign exchange derivatives	-	-	-	-
Interest rate derivatives	-	-	415	375
Commitments and guarantees received	-	-	9 969	10 752
Commitments and guarantees issued	-	-	4 943	5 625

[1] SFIL is the sole shareholder of Caisse Française de Financement Local, which it consolidates fully in its financial statements.

[2] This item may include transactions with Caisse des dépôts et consignations and La Banque Postale, shareholders of SFIL.

5. Notes to the income statement (EUR millions)

5.1. INTEREST INCOME AND INTEREST EXPENSE

The SFIL Group presents interest calculated using the effective interest rate method on financial instruments measured at amortized cost or at market value through other comprehensive income under 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 section 5.2).
Interest income and expense on hedging derivatives is recognized under the same heading as the income from the items of which they hedge the risks. At the same time, 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 economic hedging derivatives is included under the headings recording the interest on these financial instruments.

	First half 2018			First half 2019		
	Incomes	Expenses	Net	Incomes	Expenses	Net
Loans / liabilities with banks	(2)	1	(1)	-	-	
Loans / liabilities with customers	89	-	89	75	-	75
Non hedging derivatives	3	(92)	(89)	16	(81)	(65)
Financial assets and liabilities at fair value through profit or loss	**90**	**(91)**	**(1)**	**91**	**(81)**	**10**
Hedging derivatives	729	(560)	169	738	(603)	135
Hedging derivatives	**729**	**(560)**	**169**	**738**	**(603)**	**135**
Bonds	6	-	6	-	-	-
Financial assets at fair value through equity	**6**	**-**	**6**	**-**	**-**	**-**
Central banks accounts	-	(5)	(5)	-	(6)	(6)
Loans / liabilities with banks	8	(5)	3	1	(0)	1
Loans / liabilities with customers	434	-	434	422	-	422
Bonds	71	(604)	(533)	76	(574)	(498)
Other	-	-	-	-	(0)	(0)
Financial assets at amortized cost	**513**	**(614)**	**(101)**	**499**	**(580)**	**(81)**
TOTAL	**1 338**	**(1 265)**	**73**	**1 328**	**(1 264)**	**64**

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

	First Half 2018 *	First half 2019
Net Result on non hedging derivatives	8	(0)
Net result on financial assets or liabilities at fair value through profit or loss	30	21
Net result of hedge accounting	5	(7)
Net result of foreign exchange transactions	(1)	3
TOTAL	**42**	**17**

All interest received and paid on assets, liabilities and derivatives is recognized as net interest income.

Consequently, the net gains or losses on hedging transactions only include the change in the clean value of the derivatives and the revaluation of the assets and liabilities recorded as part of the hedge.

Analysis of net income from hedge accounting

	First Half 2018 *	First half 2019
Fair value hedges	**(9)**	**1**
Fair value changes in the hedged item attributable to the hedged risk	(4)	(419)
Fair value changes in the hedging derivatives	(5)	420
Cash flow hedge	**-**	**-**
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
Portfolio hedge	**(0)**	**-**
Fair value changes in the hedged item	7	489
Fair value changes in the hedging derivatives	(7)	(489)
CVA / DVA Impact [(1)]	**14**	**(8)**
TOTAL	**5**	**(7)**

(1) The effect of the application of IFRS Standard 13 brought to light a net income as of june 30, 2019 of EUR 8 million; this amount was derived using the DVA income for EUR -10 million and the CVA for EUR 2 million.

** The First Half 2018 presentation has been updated compared with the 2018 Fist Half version published.*

5.3. GAINS AND LOSSES RESULTING FROM THE DERECOGNITION OF FINANCIAL INSTRUMENTS AT AMORTIZED COST

	First half 2018	First half 2019
Net result of disposals or prepayments of securities at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to banks at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to customers at amortized cost	6	3
Net result of disposals or prepayments of amounts due to banks at amortized cost	(4)	(3)
Net result of disposals or prepayments of debt securities at amortized cost	-	-
TOTAL	**2**	**0**

Analysis of derecognized assets and liabilities at amortized cost

	First half 2019	
	Nominal amount	Impact on income
Prepayments of securities	-	-
Net result of disposals or prepayments of securities at amortized cost	**-**	**-**
Prepayments of loans and advances to customers	162	2
Restructuring of loans and advances to customers	91	1
Net result of disposals or prepayments of loans and advances to customers at amortized cost	**253**	**3**
Sub-total - Assets	**253**	**3**
Prepayments of debt to banks	966	(3)
Net result of disposals or prepayments of debt to banks at amortized cost	**966**	**(3)**
Prepayments of debt to banks	-	-
Net result of disposals or prepayments of debt securities at amortized cost	**-**	**-**
Sub-total - Liabilities	**966**	**(3)**
TOTAL	**1,219**	**0**

5.4. OPERATING EXPENSES

	First half 2018	First half 2019
Staff expenses	(24)	(25)
Other general and administrative expenses	(21)	(15)
Taxes and duties	(10)	(11)
TOTAL	**(55)**	**(51)**

5.5. COST OF RISK

Specific Impairment	First half 2018				
	1st January	Allocations	Reversals	Losses	06/30/2018
Stage 1	-	(0)	-	-	**(0)**
Stage 2	-	-	-	-	**-**
Stage 3	-	-	-	-	**-**
Financial assets at fair value through equity	**-**	**(0)**	**-**	**-**	**(0)**
Stage 1	(0)	(0)	0	-	**(0)**
Stage 2	-	-	-	-	**-**
Stage 3	-	-	-	-	**-**
Loans and advances due from banks at amortized cost	**(0)**	**(0)**	**0**	**-**	**(0)**
Stage 1	(2)	(1)	1	-	**(2)**
Stage 2	(21)	(4)	2	-	**(23)**
Stage 3	(11)	(6)	8	-	**(9)**
Loans and advances to customers at amortized cost	**(34)**	**(11)**	**11**	**-**	**(34)**
Stage 1	(4)	(2)	2	-	**(4)**
Stage 2	(18)	(3)	4	-	**(17)**
Stage 3	(0)	-	0	-	**-**
Bonds at amortized cost	**(22)**	**(5)**	**6**	**-**	**(21)**
Stage 1	(0)	(0)	0	-	**(0)**
Stage 2	(0)	(1)	0	-	**(1)**
Stage 3	-	-	-	-	**-**
Off-balance sheet commitments at amortized cost	**(0)**	**(1)**	**0**	**-**	**(1)**
TOTAL	**(56)**	**(17)**	**17**	**-**	**(56)**

Specific Impairment	First half 2019				
	1st January	Allocations	Reversals	Losses	06/30/2019
Stage 1	(0)	(0)	0	-	**(0)**
Stage 2	-	-	-	-	**-**
Stage 3	-	-	-	-	**-**
Financial assets at fair value through equity	**(0)**	**(0)**	**0**	**-**	**(0)**
Stage 1	(0)	-	0	-	**(0)**
Stage 2	-	-	-	-	**-**
Stage 3	-	-	-	-	**-**
Loans and advances due from banks at amortized cost	**(0)**	**-**	**0**	**-**	**(0)**
Stage 1	(2)	(1)	1	-	**(2)**
Stage 2	(22)	(3)	2	-	**(23)**
Stage 3	(10)	(2)	0	-	**(12)**
Loans and advances to customers at amortized cost	**(34)**	**(6)**	**3**	**-**	**(37)**
Stage 1	(3)	(0)	0	-	**(3)**
Stage 2	(24)	(0)	2	-	**(22)**
Stage 3	(0)	(0)	-	-	**(0)**
Bonds at amortized cost	**(27)**	**(0)**	**2**	**-**	**(25)**
Stage 1	(0)	(1)	1	-	**(0)**
Stage 2	(0)	-	0	-	**-**
Stage 3	-	-	-	-	**-**
Off-balance sheet commitments at amortized cost	**(0)**	**(1)**	**1**	**-**	**(0)**
TOTAL	**(62)**	**(7)**	**6**	**-**	**(63)**

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

6.1. GUARANTEES

	12/31/2018	6/30/2019
Guarantees received from banks	8	-
Enhanced guarantees[1]	7,383	7,449
Loan guarantee commitments received	7,385	7,458
Guarantees received from customers[2]	2,232	2,040

(1) Irrevocable, unconditional guarantees issued by the French State and received by SFIL for funding large export credits.

(2) Guarantees received from customers are generally granted by local government entities.

6.2. FINANCING COMMITMENTS

	12/31/2018	6/30/2019
Financing commitments granted to banks	-	51
Financing commitments granted to customers[1]	6,312	5,592
Financing commitments received from banks[2]	9,569	10,752
Financing commitments received from customers	-	-

(1) Financing commitments on loans and lines of credit correspond to contracts issued but not paid out as of June 30, 2019. The amount as of June 30, 2019 corresponds mainly to commitments of EUR 5,587 million on export credit activity transactions.

(2) As of June 30, 2019, this amount corresponded to financing commitments received by SFIL from Caisse des dépôts et consignations and La Banque Postale for respective amounts of EUR 10 billion and 752 million.
SFIL recorded the total of its commitments related to the only existing tranches, which is limited to EUR 10 billion. This amount does not take into account the possibility stipulated in the financing agreement with Caisse des dépôts et consignations of negotiating additional funding in good faith, which takes into account the maximum permitted loan principal of EUR 12.5 billion.

7. Notes on risk exposure (EUR millions)

7.1. FAIR VALUE

This note presents fair value adjustments not recognized either in profit or loss or in other comprehensive income because they correspond to assets or liabilities valued at amortized cost in the IFRS financial statements.

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, rating); they also take into account current market conditions in terms of the price or spread of transactions on these assets and liabilities, or of transactions considered similar. The breakdown of assets and liabilities based on the method used to determine their fair value is shown in note 7.1.3 below, which shows that most assets are valued using a technique that takes into account the fact there are no significant observable data for the assets since this exposure consists primarily of loans, a form of debt that is not listed on liquid markets. Certain observable data are used to value liabilities, however.

These fair values provide interesting information but are not relevant for drawing conclusions on the Company's value or on the income it will generate in the future. What can be said is that the assets and liabilities are well matched in terms of rates and maturities, being intended to be kept on the balance sheet until their maturity in light of the Company's specialized activity.

7.1.1. Composition of the fair value of assets

	12/31/2018		
	Book value	**Fair value**	**Unrecognized fair value adjustment**
Central banks	1,927	1,927	-
Financial assets at fair value through profit or loss	5,586	5,586	-
Hedging derivatives	4,415	4,415	-
Financial assets at fair value through other comprehensive income	1,563	1,563	-
Loans and advances to banks at amortized cost	239	254	15
Loans and advances to customers at amortized cost	44,706	44,201	(505)
Securities at amortized cost	9,384	8,165	(1,219)
TOTAL	**67,820**	**66,111**	**(1,709)**

	6/30/2019		
	Book value	**Fair value**	**Unrecognized fair value adjustment**
Central banks	2,913	2,913	-
Financial assets at fair value through profit or loss	5,350	5,350	-
Hedging derivatives	5,542	5,542	-
Financial assets at fair value through other comprehensive income	1,819	1,819	-
Loans and advances to banks at amortized cost	376	384	8
Loans and advances to customers at amortized cost	46,443	46,242	(201)
Securities at amortized cost	9,466	7,984	(1,482)
TOTAL	**71,909**	**70,234**	**(1,675)**

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

	12/31/2018		
	Book value	**Fair value**	**Unrecognized fair value adjustment**
Financial liabilities at fair value through profit or loss	1,229	1,229	-
Hedging derivatives	6,134	6,134	-
Due to banks at amortized cost	1,928	1,934	6
Debt securities at amortized cost	60,068	59,968	(100)
TOTAL	**69,359**	**69,265**	**(94)**

	6/30/2019		
	Book value	**Fair value**	**Unrecognized fair value adjustment**
Financial liabilities at fair value through profit or loss	1,227	1,227	-
Hedging derivatives	7,378	7,378	-
Due to banks at amortized cost	749	759	10
Debt securities at amortized cost	64,283	64,929	646
TOTAL	**73,637**	**74,293**	**656**

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

The fair value of a financial 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 through a valuation technique drawing on 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 instruments considered to be liquid, i.e. their valuation is based on the price observed in a liquid market, for which SFIL has satisfied itself that there are a large number of contributors. Level 1 securities include in particular certain government bonds.

• Level 2 valuation corresponds to instruments for which SFIL cannot directly observe market prices, but can observe prices for similar instruments from the same issuer or guarantor that are listed in the market. In this case, the prices and other observable market data are used and an adjustment is made to reflect the security's lack of liquidity.

• Level 3 valuation corresponds to instruments for which there is no active market or observable market data, the fair value of such instruments therefore being determined using a valuation spread developed from an internal model. Level 3 hedging derivatives are also valued using various internal valuation models.

Derivatives are classified based on an analysis combining the observability of the market data used in the valuation and the robustness of the valuation models in terms of efficiency in providing a valuation in line with market consensus. Applying this principle, the derivatives that SFIL uses to hedge its activities are classified primarily in level 2.

For level 3 derivatives, this classification mainly involves hybrid structured products (interest rate and foreign exchange), spread (correlation) products and options on interest rates. This classification stems mainly from the fact that these products offer complex payoffs that require an advanced statistical model with variable inputs that are sometimes unobservable in the market.

Fair value of financial assets	12/31/2018			
	Level 1 [1]	Level 2 [2]	Level 3 [3]	Total
Central banks	1,927	-	-	1,927
Financial assets at fair value through profit or loss	-	2	5,584	5,586
Hedging derivatives	-	3,453	962	4,415
Financial assets at fair value through OCI	590	963	10	1,563
Loans and advances to banks at amortized cost	7	-	247	254
Loans and advances to customers at amortized cost	-	-	44,201	44,201
Securities at amortized cost	2,488	3,782	1,895	8,165
TOTAL	**5,012**	**8,200**	**52,899**	**66,111**

Fair value of financial assets	6/30/2019			
	Level 1 [1]	Level 2 [2]	Level 3 [3]	Total
Central banks	2,913	-	-	2,913
Financial assets at fair value through profit or loss	-	2	5,348	5,350
Hedging derivatives	-	5,031	511	5,542
Financial assets at fair value through OCI	820	989	10	1,819
Loans and advances to banks at amortized cost	10	-	374	384
Loans and advances to customers at amortized cost	-	-	46,242	46,242
Securities at amortized cost	2,751	3,425	1,808	7,984
TOTAL	**6,494**	**9,447**	**54,293**	**70,234**

Fair value of financial liabilities	12/31/2018			
	Level 1 [1]	Level 2 [2]	Level 3 [3]	Total
Financial liabilities at fair value through profit or loss	-	858	371	1,229
Hedging derivatives	-	5,711	423	6,134
Due to banks at amortized cost	-	1,934	-	1,934
Debt securities at amortized cost	-	59,968	-	59,968
TOTAL	**-**	**68,471**	**794**	**69,265**

Fair value of financial liabilities	6/30/2019			
	Level 1 [1]	Level 2 [2]	Level 3 [3]	Total
Financial liabilities at fair value through profit or loss	-	1,007	220	1,227
Hedging derivatives	-	6,847	531	7,378
Due to banks at amortized cost	-	759	-	759
Debt securities at amortized cost	-	64,929	-	64,929
TOTAL	**-**	**73,542**	**751**	**74,293**

[1] Price listed on an active market for the same type of instrument.

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

[3] Use of a valuation technique in which all significant inputs are unobservable.

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

The following table gives an overview of level 3 financial instruments for which changes in assumptions concerning one or more non-observable inputs would cause a significant change in market value. These amounts illustrate the interval of uncertainty inherent in the use of judgment to estimate level 3 inputs or choose valuation techniques and models. They reflect the valuation uncertainties prevailing at the measurement date. Although these uncertainties result essentially from the portfolio's sensitivity at the measurement date, they do not make it possible to predict or deduce future changes in market value any more than they represent the impact of extreme market conditions on the portfolio's value. To estimate sensitivity, SFIL either values financial instruments using reasonably possible inputs or applies assumptions based on its policy of additional valuation adjustments.

	12/31/2018	6/30/2019
Uncertainty inherent in level 3 market data	8	4
Uncertainty inherent in level 3 derivatives valuation models	37	34
Sensitivity of the market value of level 3 financial instruments	**45**	**38**

7.1.4. Transfers between levels 1 and 2

	12/31/2018	6/30/2019
Level 1 to level 2	-	-
TOTAL	**-**	**-**

7.2. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

	12/31/2018					
	Gross amount before off-setting	Gross amount offset in accordance with IAS 32	Net amount presented in the balance sheet	Other amounts in the application scope but not offset		Net amount in accordance with IFRS 7 and 13
				Impact of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	4,429	-	4,429	(3,213)	(818)	398
Loans and advances at fair value through profit or loss	5,572	-	5,572	-	-	5,572
Loans and advances to banks at amortized cost	239	-	239	-	-	239
Loans and advances to customers at amortized cost	44,706	-	44,706	-	-	44,706
TOTAL	**54,946**	**-**	**54,946**	**(3,213)**	**(818)**	**50,915**

	6/30/2019					
	Gross amount before off-setting	Gross amount offset in accordance with IAS 32	Net amount presented in the balance sheet	Other amounts in the application scope but not offset		Net amount in accordance with IFRS 7 and 13
				Impact of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	5,549	-	5,549	(3,880)	(1,500)	169
Loans and advances at fair value through profit or loss	5,343	-	5,343	-	-	5,343
Loans and advances to banks at amortized cost	376	-	376	-	-	376
Loans and advances to customers at amortized cost	46,443	-	46,443	-	-	46,443
TOTAL	**57,711**	**-**	**57,711**	**(3,880)**	**(1,500)**	**52,331**

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

	12/31/2018					
	Gross amount before off-setting	Gross amount offset in accordance with IAS 32	Net amount presented in the balance sheet	Other amounts in the application scope but not offset		Net amount in accordance with IFRS 7 and 13
				Impact of master netting arrange ments	Financial instruments received as collateral	
Derivatives (including hedging instruments)	7,363	-	7,363	(3,213)	(1,983)	2,167
Due to banks at amortized cost	1,928	-	1,928	-	-	1,928
Due to customers at amortized cost	-	-	-	-	-	-
TOTAL	**9,291**	**-**	**9,291**	**(3,213)**	**(1,983)**	**4,095**

	6/30/2019					
	Gross amount before off-setting	Gross amount offset in accordance with IAS 32	Net amount presented in the balance sheet	Other amounts in the application scope but not offset		Net amount in accordance with IFRS 7 and 13
				Impact of master netting arrange ments	Financial instruments received as collateral	
Derivatives (including hedging instruments)	8,605	-	8,605	(3,880)	(2,190)	2,535
Due to banks at amortized cost	749	-	749	-	-	749
Due to customers at amortized cost	-	-	-	-	-	-
TOTAL	**9,354**	**-**	**9,354**	**(3,880)**	**(2,190)**	**3,284**

8. Impact of first-time application of IFRS 16 on the balance sheet as of January 1, 2019 (EUR millions)

	IAS 17 12/31/2018	Right-of-use (a)		Deferred tax assets (d)		IFRS 16 1/01/2019
ACTIF						
Central banks	1,927	-	-	-	-	**1,927**
Financial Assets at fair value throught profit or loss	5,586	-	-	-	-	**5,586**
Hedging derivatives	4,415	-	-	-	-	**4,415**
Financial assets at fair value throught OCI	1,563	-	-	-	-	**1,563**
Financial assets at amortised cost						
Loans and advances due from banks at amortized cost	239	-	-	-	-	**239**
Loans and advances to customers at amortized cost	44,706	-	-	-	-	**44,706**
Bonds at amortized cost	9,384	-	-	-	-	**9,384**
Fair value revaluation of portfolio hedge	2,552	-	-	-	-	**2,552**
Current tax assets	0	-	-	-	-	**0**
Deferred tax assets	80	-	-	1	-	**81**
Tangible assets	6	11	-	-	-	**17**
Intangible assets	33	-	-	-	-	**33**
Accruals and other assets	2,231	-	-	-	-	**2,231**
TOTAL	**72,722**	**11**	**-**	**1**	**-**	**72,734**

	IAS 17 12/31/2018		Lease liabilities and adjustement (b) +(c)		First time application impact (e)	IFRS 16 1/01/2019
PASSIF						
Central banks	-	-	-	-	-	**-**
Financial liabilities at fair value through profit or loss	1,229	-	-	-	-	**1,229**
Hedging derivatives	6,134	-	-	-	-	**6,134**
Financial liabilities measured at amortised cost						
Due to banks at amortized cost	1,928	-	-	-	-	**1,928**
Customer borrowings and deposits at amortized cost	-	-	-	-	-	**-**
Debt securities at amortized cost	60,068	-	-	-	-	**60,068**
Fair value revaluation of portfolio hedge	343	-	-	-	-	**343**
Current tax liabilities	8	-	-	-	-	**8**
Deferred tax liabilities	-	-	-	-	-	**-**
Accruals and other liabilities	1,429	-	14	-	-	**1,443**
Provisions	20	-	-	-	-	**20**
Subordinated debt	-	-	-	-	-	**-**
EQUITY	**1,563**	-	-	-	(2)	**1,561**
Share capital	1,445	-	-	-	-	**1,445**
Reserves and retained earnings	93	-	-	-	(2)	**91**
Other comprehensive income	(38)	-	-	-	-	**(38)**
Net income	63	-	-	-	-	**63**
TOTAL	**72,722**	**-**	**14**	**-**	**(2)**	**72,734**

SFIL leases its registered office in the Bords de Seine building in Issy-les-Moulineaux.

As of January 1, 2019, the consequences of the transition to IFRS 16 in respect of this lease were:

(a) recognition of a right-of-use asset for a net book value of EUR 11 million;
(b) recognition of a lease liability for EUR 17 million;
(c) an adjustment to accrued expenses for EUR -3 million;
(d) recognition of the tax impact of these adjustments in the form of a deferred tax asset of EUR 1 million;
(e) recognition of a net impact from all these adjustments of EUR -2 million in the equity item Reserves and retained earnings.

9. Post-closing events

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

3. Statutory Auditors’ report on the 2019 first half-year financial information

Statutory Auditors' review report on the 2019 first half-year financial information

For the period from January 1 to June 30, 2019

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

To Shareholders,

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

- the review of the accompanying condensed first half-year consolidated financial statements of SFIL, for the period from January 1 to June 30, 2019;
- the verification of the information presented in the first half-year management report.

These condensed first half-year consolidated financial statements are the responsibility of the Board of Directors. Our role is to express our conclusion on these financial statements, based on our review.

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 condensed first half-year consolidated financial statements do not give a true and a fair view of the assets and liabilities and of the financial position of the Company as at June 30, 2019 and of the results of its operations for the period then ended, in accordance with IFRS as adopted by the European Union.

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

Specific verification

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

We have no matters to report as to its fair presentation and its consistency with the condensed first half-year consolidated financial statements.

Paris-La Défense, September 9, 2019

The Statutory Auditors
French original signed by

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

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 half-year financial statements have been prepared in conformity with applicable accounting standards and provide an accurate and fair view of the assets and liabilities, financial position and earnings of SFIL, and that 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 9, 2019

Philippe Mills

Chief Executive Officer

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French limited company (*Société anonyme*) with
share capital of EUR 130,000,150
Nanterre Trade and Companies Register no.
428 782 585
TVA no.: FR 18 428 782 585