

ANNUAL
FINANCIAL
REPORT
2016



**Supporting local
investment and export**



Teams to serve
the French economy



2016: Success, goals... and a new horizon

Consolidation, confirmation, innovation... these are three key words for characterizing 2016, a pivotal year for SFIL, punctuated by major success and goals achieved in the service of the French economy.

Major success was obtained through the professionalism, responsiveness, and determination of the SFIL teams, not to mention the unfailing support of our shareholders, the French State, Caisse des dépôts et consignations and La Banque Postale. I would like to thank them sincerely for their confidence.

Missions accomplished and convincing results

Fully operational and profitable since mid-2015, in 2016 SFIL posted positive annual results for the first time in its short existence, thus confirming the strength of its model. When SFIL was founded in February 2013, its reference shareholder, the French State, had given us three missions:

- financing the French local public sector,
- reducing loan risk sensitivity,
- confirming the status of SFIL's subsidiary CAFFIL, an issuer of covered bonds, among the key issuers of *obligations foncières* in Europe.

Four years later, these three missions have all been successfully accomplished.

The cooperation we have with La Banque Postale has again made us a leader, with EUR 4 billion in loans to the local public sector in 2016, in line with our strategic plan. It is a performance to be praised in a highly competitive environment, owing to the abundant liquidity available in particular to French mutual networks.

SFIL has freed itself from the legacy of its past by successfully completing, in a methodical and coordinated manner, its temporary mission of reducing the sensitivity of high risk loans.

CAFFIL is a recognized and sought-after issuer, with almost EUR 21 billion raised since 2013, and three *Best Euro Issuer* awards given by the international financial press.

And now, what are the challenges, and what are the deadlines?

Our current success must justifiably be accompanied by new objectives and challenges to our expertise.

Among the **goals achieved**, we can cite the expansion of our export credit activity, the second public policy mission entrusted to us by the French State. The impact of this new arrangement is already very positive in terms of the competitiveness of French export offerings. In June 2016, SFIL financed its first export operation: the construction and delivery of two cruise ships at the Saint-Nazaire shipyard to the US Royal Caribbean cruise line. This first success was confirmed by a second operation for General Electric in the energy sector, with a public borrower in Tunisia. In all, EUR 650 million in transactions were financed in 2016. These operations were performed by SFIL *"at exceptional financing terms"*, as Corinne de Bilbao, President and CEO of GE France stated in early March at Bercy Financement Export.



We are also committed to continuing the diversification and optimization of our sources of financing. Thus, in October 2016, SFIL conducted an inaugural issue in the amount of EUR 1 billion on the 8 year maturity. It was a great success in terms of rate level and diversification of our investor base, which is already very broad.

In terms of process and organisation, in 2016 we launched a vast digital transformation program for our bank. I see it as a tremendous lever for modernizing and simplifying our operations. In this regard, we are seeking a far-reaching, rapid impetus to optimize the quality of service offered to our partners and improving our efficiency.

Lastly, our strategic plan, #Horizon2021, was unanimously confirmed by our shareholders in May 2016. It reinforces our position as a public development bank offsetting the shortcomings of the durables market, serving the local public sector and French exports. Indeed, to continue our successful initiatives, our goal for the next five years is threefold:

- to maintain the leadership position acquired with LBP in the long-term financing of the French local public sector, with a market share of 20%-25%;
- to be a major player in export funding, by refinancing a third of new export credits granted by the French State;
- to generate lasting profitability.

From the looks of it, the next five years will be just as demanding and stimulating to experience.

In conclusion, I would note that when SFIL came into being in 2013, it had a history and it embodied a hope. Four years later, it has been able to free itself from its past, while bringing this hope to life through its position as a young, reliable, dynamic public development bank, in order to forge a promising future **in the service of the French economy**.

Philippe Mills
Chairman and Chief Executive Officer

2016 ANNUAL FINANCIAL REPORT

SFIL

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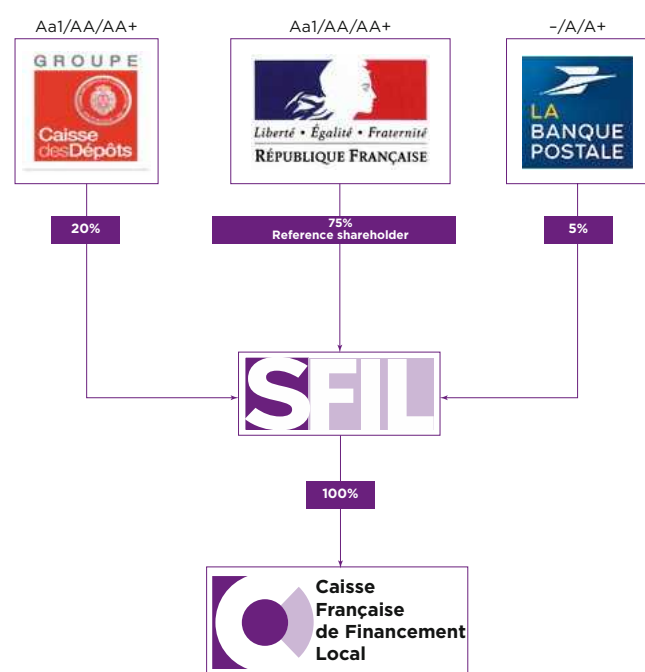
Management report

Context

SFIL was approved 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 in its operation by contributing 75% of SFIL's capital and, as the reference shareholder, ensuring prudential authorities of its strong commitment to provide financial support in keeping with current banking regulations. Caisse des dépôts et consignations and La Banque Postale respectively hold 20% and 5% of the Company's capital. Thus, the shareholders of SFIL are deeply rooted in the public sphere, reflecting the mission entrusted to them by the State to operate as a public development bank.

Since January 31, 2013, SFIL holds 100% of the capital of Caisse Française de Financement Local (CAFFIL), its sole subsidiary with the status of a *société de crédit foncier* governed by articles L.513-2 and following of the French Monetary and Financial Code.

Capital structure of SFIL and its sole subsidiary



SFIL remains at the heart of the system that meets the State's determination to provide French local governments and public hospitals with continuous and efficient access to long-term bank financing, in addition to the offers provided by commercial banks and French or European public institutions operating in this segment. This system, which was launched within the framework of the approval of the European Commission on December 28, 2012, makes it possible to re-finance La Banque Postale's loans to French local governments and actively assist the relevant borrowers in their efforts to reduce their outstanding sensitive loans.

In 2015, the State entrusted SFIL with a second public interest mission to refinance buyer credits insured by Coface (now Bpifrance Assurance Export), which helps increase the competitiveness of the large export contracts negotiated by French companies. The objective is to provide market financing with the volumes and maturities adapted to export credits of significant amounts and under conditions that match those of the best French issuers of covered bonds, relying on the capacities of SFIL and its subsidiary CAFFIL. This refinancing is available for all banks partners of French exporters for their buyer credits insured by Coface/Bpifrance Assurance Export in the name and under the guarantee of the French State.

Highlights of 2016

During the year 2016, SFIL fully accomplished its fundamental missions, which involve going through its subsidiary Caisse Française de Financement Local to refinance loans granted by La Banque Postale to eligible French local governments and public hospitals, supplying specialized services to La Banque Postale and Caisse Française de Financement Local, and implementing a policy to reduce the sensitivity of the structured loans portfolio. This last mission is close to completion. SFIL also initiated its first two export credit transactions and accelerated its IT simplification program.

1. Issues by CAFFIL

CAFFIL issued a total volume of EUR 5.9 billion in 2016, which is close to the level of EUR 6.2 billion reported in 2015.

In particular, CAFFIL launched four public issues in 2016 — from January 2016, the first issue in two tranches, with a first six-year tranche of EUR 1 billion and a second 15-year tranche of EUR 500 million. The three other public issues were launched with long-term maturities of 9, 10, and 15 years.

2. SFIL issues and certificates of deposit

In October 2016, SFIL launched its first public bond issue in the amount of EUR 1 billion with an eight-year maturity. On December 31, 2016, the outstanding total of securities issued by SFIL was close to EUR 600 million, as it was on December 31, 2015.

3. Partnership with La Banque Postale

In 2016, La Banque Postale (LBP) produced EUR 3.5 billion in loans in the local public sector, which represents a 12% decrease from 2015 and is stable compared with the production of 2014. This fourth year of business also enabled Caisse Française de Financement Local to acquire almost EUR 2.9 billion in loans from La Banque Postale in four quarterly transfers. Since 2015, the SFIL/LBP system has become the first financier of the French local public sector.

4. Policy to reduce loan sensitivity

Efforts to reduce loan sensitivity were significantly stable in 2016, as EUR 1.6 billion in sensitive structured loans were transformed into fixed rate loans, close to the level that was reached in 2015, with 198 operations (250 in the previous year). One hundred fifty-six additional borrowers reported the complete elimination of their sensitive loans. Operations to reduce loan sensitivity were accompanied by the creation of new loans for a total of EUR 0.5 billion in 2016.

By the end of 2017, and as customers take into account the sensitivity reduction operations already initiated and after they subtract the outstanding loans, for which they chose to keep the sensitive loan temporarily while having the possibility of receiving assistance from the fund in the event the structured component of their loan would become active (assistance in paying lower interest rates provided for by the support fund), the total of SFIL's sensitive structured loans will have decreased by at least 84% compared with the amount recorded when SFIL was created, and by more than 88% for local governments alone. The initial inventory of EUR 8.5 billion in sensitive loans will be pushed down to a maximum of EUR 1.4 billion by the end of 2017, and for local governments alone, to a maximum of EUR 0.8 billion, compared with EUR 6.7 billion initially. More than 90% of the borrowers who had loans indexed on EUR/CHF no longer have them.

Lastly, 181 borrowers, including 172 local governments, cancelled their litigation proceedings. At the end of 2016, there were still 39 lawsuits before the courts, versus 131 in 2015.

5. Export credit refinancing

In 2015, French state entrusted SFIL with a second mission : the refinancing of large export credits. The set-up, which was authorized by the European Commission in May 2015, enables exporters and lending banks to benefit from the capacities of CAFFIL to raise funds in the market under conditions similar to those of the best French issuers of covered bonds and in volumes adapted to export credit financing with significant amounts. SFIL refinances export contracts insured by Coface of more than EUR 70 million, and Bpifrance handles smaller contracts. Since January 1, 2017, Bpifrance Assurance Export ensures, instead of Coface, the management of public export guarantees in the name, on behalf of, and under the control of the State.

In early July 2016, SFIL carried out its first transaction participating in the financing of two cruise ships built by STX France for the American cruise company RCCL for nearly half of the EUR 1.3 billion total order. The second transaction of EUR 100 million was completed in December in the energy sector to finance the expansion of a natural gas power plant in Tunisia.

6. Strategic plan

On May 26, 2016, the Board of Directors examined and approved SFIL's strategic goals until 2021. The identity of SFIL as a public development bank was reaffirmed with three main objectives: to continue to maintain the leading position with LBP in long-term financing for the local public sector, to become a major player in export refinancing, and to sustain its successful performance.

7. Advance in the IT simplification program

In 2014, SFIL launched a program to simplify its IT system over the next three years. The goal is to equip SFIL with an IT system adapted to its missions that would make it possible to respond efficiently to the risk control and management requirements of SFIL and CAFFIL as well as to the different requests made by regulators. This project is advancing as planned, with the first delivery of the initial phase in the development of a single IT datawarehouse in 2016.

8. Entity ratings

SFIL

Since the beginning of February 2013, SFIL has received ratings from Moody's, Standard & Poor's and Fitch that underscore the very close links between SFIL and the French State, a first set of ratings which are equal to or a notch lower than the State's – Aa2 from Moody's, AA+ from Standard & Poor's, and AA- from Fitch.

Because the State's rating had been lowered since 2013, SFIL's ratings were reviewed as well. As of December 31, 2016, SFIL's ratings stood at Aa3 for Moody's, AA for Standard & Poor's and AA- for Fitch, which remain unchanged in comparison with 2015.

Caisse Française de Financement Local

The rating of the *obligations foncières* issued by CAFFIL remained stable throughout the year 2016, compared with 2015. It should be noted that Fitch and Standard & Poor's apply a ceiling to the rating of CAFFIL linked to the French sovereign rating, in light of the strong link between CAFFIL

and the State, and the concentration of the cover pool in the French local public sector.

At the end of December 2016, the ratings were as follows, with no change when compared with 2015: AA+ for S&P, Aaa for Moody's and AA for Fitch.

9. Governance

In May 2016, the governance of SFIL was also brought into compliance with the provisions of ordinance 2014-948 of August 20, 2014, as amended, relating to governance and capital transactions of publicly-held companies. The annual general meeting of May 26, 2016, brought the Company's by-laws into compliance and appointed seven Board mem-

bers, including two of them proposed by the State. The State, which also remains a Board member, appointed its representative. At the end of this operation, the Board of Directors comprises 15 members.

10. General context

Two major political events marked 2016: the United Kingdom's vote to leave the European Union in late June, and the US presidential election in November. Both of them caused financial market volatility but did not directly influence the issues of SFIL and CAFFIL or adversely affect the reduction of the sensitivity of outstanding sensitive loans.

General business environment

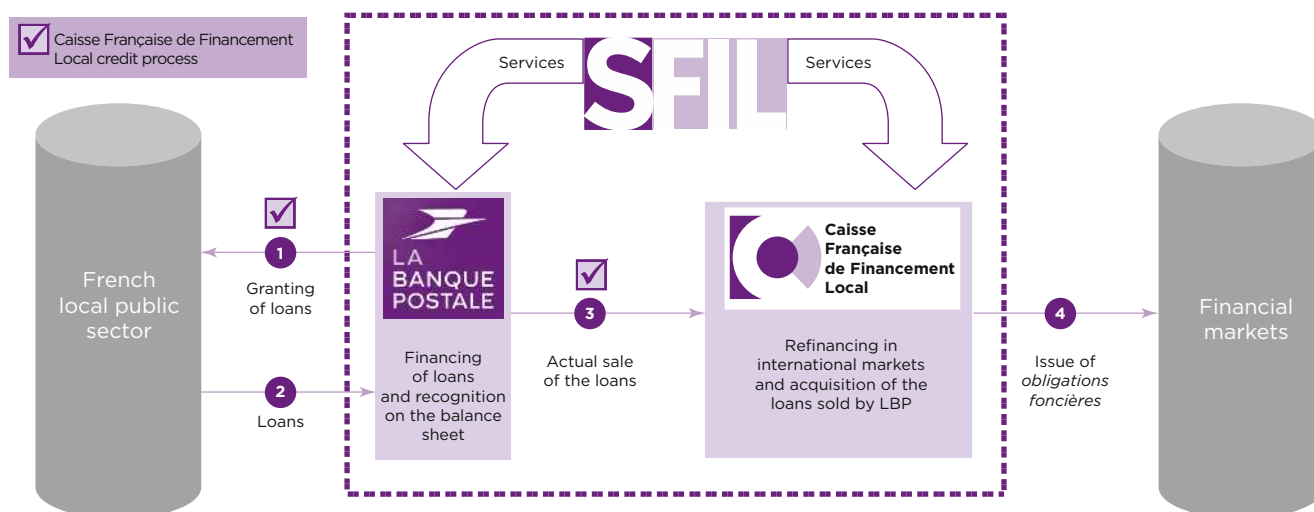
SFIL carries out four missions:

- refinancing, within a strictly defined framework, loans initially granted by La Banque Postale to eligible French local governments and public hospitals⁽¹⁾ via the issue of *obligations foncières* by Caisse Française de Financement Local (CAFFIL);
- refinancing large export credit contracts;
- providing specialized services rendered by SFIL to La Banque Postale and CAFFIL allowing for the proper operation of the scheme;

- reducing the sensitivity of certain structured loans contained in the assets on the balance sheet of CAFFIL, in line with the objectives defined by the State in terms of the management of public finances and respecting SFIL's strategic interests.

The drawing below describes the process of SFIL's operations. More detail on the fourth mission concerning refinancing export credits is provided in section 2 below.

Operational flow diagram of the scheme



1. Refinancing by CAFFIL of local public sector loans initiated by La Banque Postale

The business of refinancing local public sector loans initiated by La Banque Postale has become the responsibility of SFIL's subsidiary, CAFFIL.

CAFFIL is a specialized credit institution approved as a *société de crédit foncier* (SCF). SFIL serves as a backer for CAFFIL's activities, as specified by regulations concerning its status as a *société de crédit foncier* (SCF), in particular in accordance with articles L.513-15 and L.513-2 of the Monetary and Financial Code.

In this context, SFIL is CAFFIL's servicer, and provides full operational management of its subsidiary within the framework of the management agreement it signed with CAFFIL.

The primary market for public issuances of covered bonds in euros was active in 2016, with an offering of EUR 127 billion (compared to EUR 146 billion in 2015 and EUR 117 billion in 2014). The decrease in the issuance volume observed compared to 2015 can be explained in part by the less active presence of Italian and Spanish issuers; they favored the use of long-term refinancing operations (TLTRO) proposed by the European Central Bank (ECB)

at advantageous conditions. This dynamic activity was in part bolstered by investors' need to replace a large volume of bonds that had reached maturity in 2016 (EUR 151.5 billion), but also by the active presence of issuers outside the euro zone who found in this market favorable conditions for their long-term financing.

Within this framework, CAFFIL issued a volume of EUR 5.9 billion while adding four new points to its reference yield curve by playing an active role in complementary operations (taps) and continuing to work in the private placement segment.

Caisse Française de Financement Local launched four issues in the public primary market for a total of EUR 4.3 billion: an issue maturing twice (in 6 years and in 15 years) in January for a total amount of EUR 1.5 billion, a 10-year issue in April for EUR 1.3 billion, a 9-year issue in June for EUR 1 billion, and a 15-year issue in November for EUR 0.5 billion.

At the same time, Caisse Française de Financement Local provided additional liquidity for several of its reference issues via five taps in 2016 for a cumulative amount of EUR 1.1 billion.

In addition to these public transactions, Caisse Française de Financement Local remained active in the private placement segment and especially under the registered covered bond (RCB) format, thus making it possible to respond to investors' search for long and very long maturities. Altogether EUR 600 million was raised in this market segment.

⁽¹⁾ Eligibility within the meaning of the *sociétés de crédit foncier* in its definition of hedging assets, which can be represented on the balance sheet as collateral of issued obligations foncières.

2. Refinancing export credits

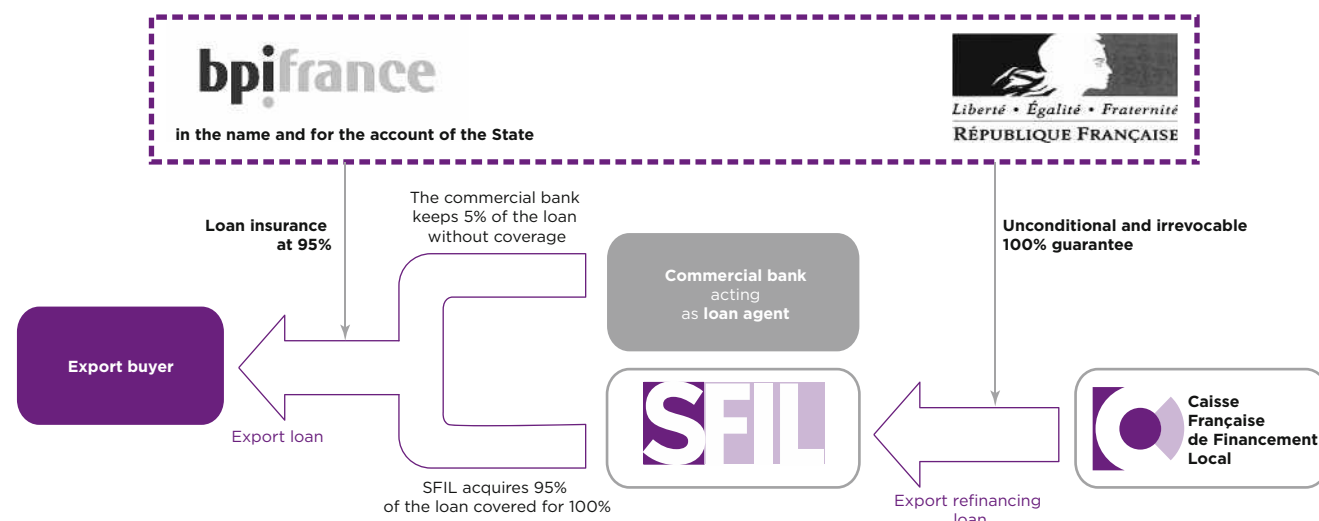
On May 5, 2015, the European Commission authorized SFIL to refinance large export credits.

The Company's procedure is as follows.

- In accordance with the principle of equal treatment, SFIL offers to take the place of commercial banks as lender of all or a part of the portion insured through an export credit, thus allowing them to improve their own offers in terms of volume, term, and price.

- The export bank keeps the risk on the uninsured portion and maintains the commercial relationship over the life of the transaction.
- The export loans acquired by SFIL are refinanced through a loan from its subsidiary CAFFIL, which benefits from the enhanced guarantee mechanism of BPI France Assurance Export introduced in the 2012 law of Finance.

Operational diagram of export credit refinancing by SFIL-CAFFIL



At the end of 2016, 17 banks have signed the protocol agreement to make use of this scheme, a number which represent almost all commercial banks participating in the French export operations.

The system was launched in 2015, and this new mission was implemented in 2016 when the first two transactions were completed.

These two transactions for the large exporters, STX and GE France, in two separate industries (cruise and energy), and for very different borrowers (an American publicly listed company RCCL and a Tunisian public sector borrower), demonstrated that this scheme is successful in terms of competitiveness and efficiency. In both of these transactions, the improvement was significant with regard to the cost of export credits compared with similar transactions. The participation of SFIL did not cause any further delays in the implementation process.

The inaugural transaction, for the refinancing of two cruise ships built by STX France in the Saint Nazaire Shipyard and sold to the American cruise company RCCL, was completed in June 2016. For this export credit totalling EUR 1.3 billion, four out of six banks in the lenders' pool transferred EUR 550 million to SFIL, a sum which represents 43% of the total.

The second transaction, for the refinancing of EUR 95 million in an export credit of EUR 100 million to finance the construction and sale of gas turbines by General Electric to the Tunisian Company of Electricity and Gas (STEG) and for the expansion of an existing gas power plant, was completed in December 2016. Thus, the arranging bank transferred 95% of the export credit to SFIL for this transaction. With regard to future projects, SFIL was requested for the transactions corresponding to roughly 60 potential deals for a total of EUR 21 billion. In order to ensure the effectiveness of the refinancing scheme, SFIL maintains stable part-

nerships with the major French exporters, assisting them in their projects.

3. Services for La Banque Postale

Since 2012, SFIL supplies services for the medium- and long-term financing activity in the local public sector (French local governments and public hospitals) engaged in by La Banque Postale and its joint venture La Banque Postale Collectivités Locales. Within this framework, it provides services at all stages along the chain of loan issue and management (loan offerings, middle and back office management, ALM reporting, management control, accounting, third-party management, etc.).

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

In addition, the service and sale agreement signed in 2015 by SFIL and La Banque Postale in order to offer to certain customers of La Banque Postale the possibility to reschedule their loans recorded at CAFFIL, was renewed in 2016.

4. Reduction in loan sensitivity

In 2016, SFIL was highly effective in its efforts to reduce loan sensitivity on outstanding assets recorded at the moment of its recognition on the balance sheet of its subsidiary, Caisse Française de Financement Local.

Sensitive outstanding assets include those classified as outside of the Gissler Charter (code of good conduct signed between banks and local governments in December 2009)

and assets labelled 3E, 4E and 5E according to the breakdown of the Charter.

The method used by SFIL consists in definitively reducing the sensitivity of loans by converting them into fixed rate loans. To this end, SFIL may, if so required, allocate new liquidity to borrowers in the form of additional funding or refinancing of the indemnity for early reimbursement.

In order to find a permanent and comprehensive solution for the problem of the most sensitive structured loans contracted by French local governments and public hospitals, the French State took the following measures:

- support funds for local governments and other public sector entities endowed with EUR 3.0 billion for 15 years maximum: between September 2015 and late April 2016, a nationwide service was provided to the governments, which submitted an application to the support fund with notifications of assistance. The borrowers have three months to come to an agreement after receiving notification; and
- support funds for public hospitals endowed with EUR 400 million for 10 years.

In this context, 2016 was characterized by maintaining a high level of activities:

- 198 operations to reduce loan sensitivity (156 customers with loan sensitivity entirely eliminated) in 2016, ver-

sus 250 operations (223 customers with loan sensitivity entirely eliminated) in 2015;

- the volume of loans with reduced sensitivity stood at EUR 1.6 billion in 2016, compared with EUR 1.7 billion in 2015.

The number of lawsuits has significantly dropped. As of December 31, 2016, there remained 39 customers who had brought suit against one or more structured loan agreements from CAFFIL. Thus, since the creation of SFIL, a negotiated settlement has been found with 181 borrowers.

Based on the transactions completed as of December 31, 2016, after deduction of outstanding loans, for which the customers chose to keep the sensitive loan temporarily while still having the possibility of receiving assistance from the fund in the event the structured component of their loan would become active (assistance in paying lower interest rates provided for by the support fund), sensitive outstanding assets at the end of 2017 should stand at EUR 1.4 billion maximum (a decrease of more than EUR 7 billion since December 31, 2012, i.e. 84%) for 236 customers (a decrease of 73%). Finally, 91 % of the borrowers who initially had outstanding assets in EUR/CHF do not have them anymore.

Therefore, SFIL successfully realized its sensitivity reduction operation within the limited timeframe imposed by the two schemes (funds for local governments and other public sector entities and support funds of public hospitals for the securitisation of their outstanding assets).

Changes in the main balance sheet items

The main items on the SFIL Group's consolidated balance sheet (management data) as of December 31, 2016, are presented in the table below:

(EUR billions, value after currency swaps)

ASSETS	LIABILITIES
78.9	78.9
The main items of which are cash after swaps	The main items of which are cash after swaps
62.0	62.0
Cash assets 4.9	SFIL bond issues 1.0
Loans 47.0	Refinancing by shareholders 6.7
Securities 7.8	<i>Obligations foncières</i> 50.4
	Certificates of deposit 0.6
Cash collateral paid 2.3	Cash collateral received 1.9
	Equity and other items 1.4

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

- the cash assets of SFIL and CAFFIL;
- the loans and securities on the balance sheet of CAFFIL and the assets held in the form of securitization on the balance sheet of SFIL;
- the cash collateral paid by SFIL on its derivative portfolio.

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

- the *obligations foncières* in the liabilities of CAFFIL;
- SFIL bond issues;
- the certificates of deposit issued by SFIL;
- the funds contributed by the shareholders (Caisse des dépôts et consignations and La Banque Postale) in the liabilities of SFIL;
- the cash collateral received by CAFFIL;
- equity and other resources.

1. Changes in assets

1.1 - MAIN CHANGES IN ASSETS DURING 2016

The net change in the main assets of the SFIL Group in 2016 was EUR -2.6 billion. This change can be analysed as follows:

(EUR billions, value after currency swaps)	2016
BEGINNING OF YEAR	64.6
Purchase of loans from La Banque Postale	2.9
New loans paid out after reduction in sensitivity	2.2
Cash collateral paid by SFIL	(1.0)
Amortization of loans and securities in the French public sector	(3.5)
Amortization of loans and securities outside the French public sector	(2.5)
Change in cash assets	1.5
Other	(2.2)
END OF YEAR	62.0

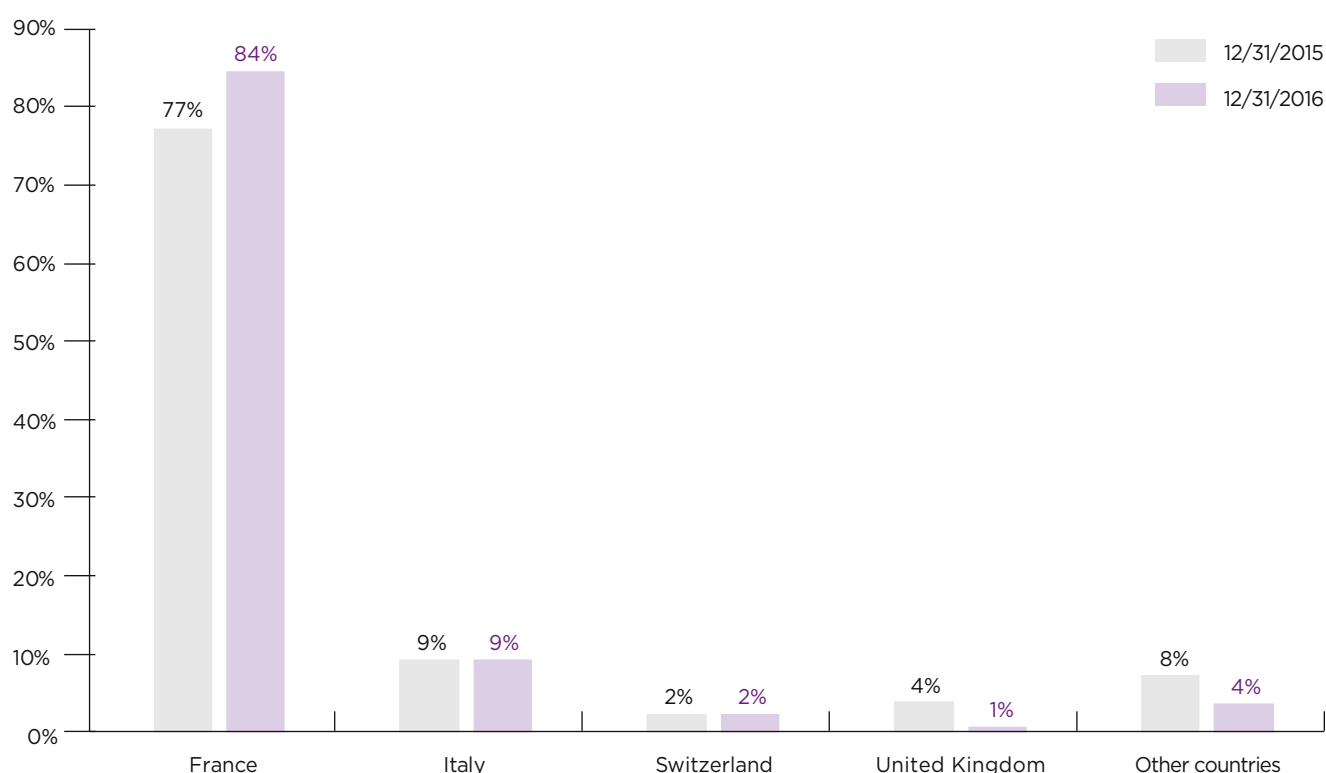
- Through its subsidiary CAFFIL, SFIL acquired EUR 2.9 billion in loans marketed by La Banque Postale to the French local public sector.
- The transactions to reduce sensitivity resulted in EUR 2.2 billion in new payments on the balance sheet of CAFFIL, considered as refinancing of early reimbursement indemnities and new investment financing.
- As an intermediary in the derivative transactions between CAFFIL and certain of its counterparties, SFIL paid a total of EUR 2.3 billion in collateral in 2016, down EUR -1 billion from the end of 2015.
- The other changes in assets pertained mainly to the natural amortization of the loans and securities portfolio (EUR 6.0 billion), to sales or early reimbursements of international assets in the amount of EUR 2.2 billion (including 2.1 billion for the DSFB securitization) partially compensated for the increase in the balance of the Banque de France account of EUR +1.5 billion. The natural

amortization includes the maturing of a loan to Dexia Crédit Local guaranteed by loans to British local governments totalling EUR 1.9 billion.

- It should be noted that as of December 31, 2016, the SFIL Group held EUR 1.1 billion in investment securities from cash surpluses (in the banking sector and European public sector).

1.2 - BREAKDOWN OF OUTSTANDING LOANS AND SECURITIES

The outstanding loans and securities on SFIL's balance sheet represented a total of EUR 55 billion. The predominant recipient is the French local public sector, with 84% of total outstandings in 2016. New loans are granted exclusively to the French local public sector. The export credit transactions initiated in 2016 remained off-balance sheet at



the end of 2016 and did not yet appear in the outstanding loans and securities on the balance sheet.

Loans and securities with counterparties outside France accounted for 16% of total outstandings and corresponded to granular and geographically diverse exposures to public sector entities. These exposures were originated in the past and are now in run-off.

Excluding France, the two largest exposures concerned Italian (9%) and Swiss (2%) local governments. France's relative portion increased by 7% between 2015 and 2016. The other exposures remained stable or decreased, notably, for Belgium and the United Kingdom as a result of the early reimbursements pertaining to the DSFB securitiza-

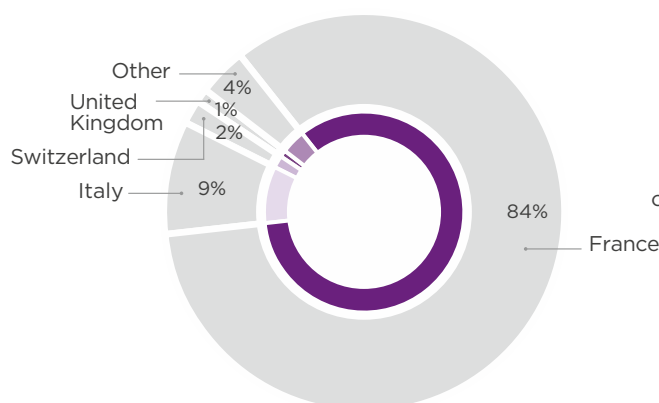
tion and a loan collateralized by the loans to British local governments.

The French local public sector is the only area of activity that continued to develop for the following reasons:

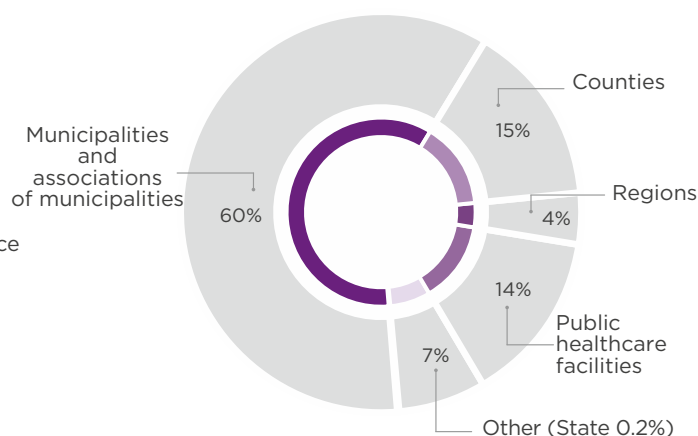
- the acquisition of the loans granted by La Banque Postale to local governments and public hospitals; in this respect, CAFFIL acquired EUR 2.9 billion in loans in 2016, i.e. 622 loans for EUR 1,338 million in outstandings in March 2016, 222 loans for EUR 456 million in outstandings in June 2016, 260 loans for EUR 723 million in outstandings in September 2016, and 205 loans for EUR 417 million in outstandings in December 2016;
- the new loans paid within the framework of the reduction in the sensitivity of structured loans for a total of EUR 2.2 billion.

For France's relative portion of 84% in 2016, the following graph shows the breakdown of loans and securities granted to the French local public sector by type of counterparty.

Geographical breakdown



Breakdown of loans & securities France



1.3 - EXPOSURES TO BANKS (CASH ASSETS AND CASH COLLATERAL)

The exposures to banks recognized in the assets on the SFIL Group's balance sheet are of two types:

- the balance of its cash assets, including assets CAFFIL holds at other institutions. Cash assets deposited with the Banque de France totalled EUR 4.9 billion as of December 31, 2016;
- collateral payments made to banking counterparties to hedge counterparty risk on the derivative portfolio (swaps). This derivative portfolio requires that SFIL constitute collateral, generating a need for SFIL to finance its operations. SFIL paid out EUR 2.3 billion in this regard as of December 31, 2016.

2. Changes in liabilities

2.1 - MAIN CHANGES IN LIABILITIES DURING 2016

The net change in the SFIL Group's main liabilities in 2016 was EUR -2.6 billion.

This change can be analysed as follows:

(EUR billions, value after currency swaps)	2016
BEGINNING OF YEAR	64.6
<i>Obligations foncières</i>	(1.1)
<i>Issues</i>	5.9
<i>Amortization</i>	(6.9)
<i>Buybacks</i>	(0.1)
Change in cash collateral received	(0.1)
Senior unsecured refinancing	(2.1)
SFIL bond issues	1.0
Certificates of deposit	(0.0)
Equity and other	(0.3)
END OF YEAR	62.0

- Outstanding *obligations foncières* decreased by EUR -1.1 billion as a result of the amortization of loans and the buybacks partly offset by the new 2016 program totaling EUR 5.9 billion.
- At the same time, the cash collateral paid by the derivatives counterparties of CAFFIL decreased by EUR -0.1 billion.
- The EUR -2.1 billion decrease in unsecured refinancing is linked to the progressive amortization of the balance sheet and to the reduction in the rate of CAFFIL's over-collateralization, which slid from 13% to 12% between 2015 and 2016.
- SFIL introduced a program to issue bonds in 2016 and posted the outstanding total of EUR 1 billion at the end of the year.

2.2 - SFIL'S REFINANCING IN 2016

In 2016, the SFIL Group raised EUR 6.9 billion in the bond markets. The year 2016 was marked by a diversification of the Group's access to the market with the recognition of SFIL as a French Agency type issuer, with the recurring presence of CAFFIL as a reference issuer in the market of covered bonds. Furthermore, SFIL continued to be refinanced by its shareholders and by short-term issues.

a. SFIL Resources

SFIL issues

In order to diversify its financing resources and to optimize the cost, SFIL introduced a Euro Medium Term Notes (EMTN) program in 2016, which was registered with the French Financial Markets Authority in September 2016. The first issue of EUR 1 billion with an 8-year maturity in the public primary market in euros was successfully conducted in October 2016, thereby establishing SFIL in the French agency market segment. In January 2017, this position was reinforced after SFIL was listed among the European agencies, the issues of which are purchased by the European Central Bank within the framework of its public sector asset purchase program (PSPP). After this first successful operation, SFIL gradually plans to continue to develop its refinancing in the markets and to launch one or two issues in euros or US dollars in the primary public market in 2017.

Resources from the shareholders

In 2016, the other major source of financing for the SFIL Group was the debt acquired from Caisse des dépôts et consignations and La Banque Postale under credit agreements in the amount of EUR 12.5 billion and EUR 1.25 billion, respectively. As of December 31, 2016, the financing SFIL received from these two shareholders totalled EUR 6.7 billion, down EUR 2.1 billion from December 31, 2015.

Short-term resources

In 2016, SFIL actively continued its program to issue debt securities with a maturity of at least one year, which was launched in 2015 (program to issue certificates of deposit). As of December 31, 2016, total outstanding certificates of deposit of SFIL amounted to EUR 595 million.

b. CAFFIL Resources

In 2016, CAFFIL raised a total of EUR 5.9 billion through the issue of debt benefiting from the legal privilege *via* the issues of *obligations foncières*. CAFFIL launched four issues in the public primary market for a total of EUR 4.25 billion, increasing its reference yield curve in the maturities of 6.25 years (EUR 1 billion), 15 years (EUR 500 million), 10 years (EUR 1.25 billion), 9 years (EUR 1 billion), and 15 years (EUR 500 million). In a parallel manner, CAFFIL raised additional liquidity for several of its reference issues *via* five complementary operations in 2016 for a cumulated total of EUR 1.05 billion.

In addition to its public issues, CAFFIL decided to implement an active private placement policy in response to demand from specific investors who were not satisfied with the public issues offered in the primary market, especially with regard to long maturities. Through this activity, it raised EUR 0.6 billion with an average maturity of more than 17 years. Sixty-eight per cent of this amount was documented under a Euro Medium Term Note (EMTN) program, with the balance (32%) issued in the form of registered covered bonds.

Outstanding *obligations foncières* totalled EUR 50.4 billion as of December 31, 2016.

(EUR billions, value after currency swaps)	2016
BEGINNING OF YEAR	51.6
Issues	5.9
Amortization	(6.9)
Buyback	(0.1)
END OF YEAR	50.4

Risk management

SFIL's portfolio, which is principally made up of exposures on public borrowers, has a particularly low risk profile. Risks involving the markets, balance sheet (interest rate, foreign exchange, spread), and liquidity are limited and operational risks are under control.

After the Supervisory Review and Evaluation Process (SREP) conducted by the European Central Bank (ECB) in 2016, the equity ratio (Tier 1 + Tier 2) required on a consolidated base for SFIL has been set at 10% of risk-weighted assets (RWA) as of January 1, 2017. The Tier 1 equity requirement is 8% of risk-weighted assets (RWA) (including a capital conservation buffer of 1.25%), compared with 8.75% of RWA in 2015.

As of December 31, 2016, SFIL's phased Core Equity Tier One (CET1) ratio was 24.2% on a consolidated base (non-phased ratio of 22.8%), representing a level two and a half times the minimal requirement of the European supervisor.

1. Credit risk

Credit risk represents the potential loss that may affect SFIL by reason of a counterparty's downgraded financial position.

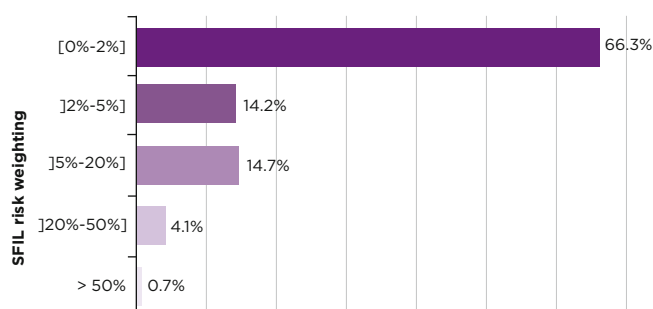
1.1 - BREAKDOWN OF EXPOSURES ACCORDING TO BASEL III RISK WEIGHTING

The quality of the portfolio of SFIL and CAFFIL can also be seen in the weighting of RWA assigned to its assets to calculate the solvency ratio.

The Group mainly chose the advanced method to calculate its solvency ratio and capital adequacy for most of its exposures. It therefore uses its internal models approved by the regulator to calculate its equity requirements for credit risk.

As of December 31, 2016, the breakdown of exposures by risk weighting (calculated on the basis of the probability of default and loss given default (LGD) of the counterparty) was as follows.

Risk weighting (Basel III) of SFIL's portfolio as of December 31, 2016 (consolidated basis)



This analysis confirms the quality of the assets in SFIL's portfolio, for which the average weighting is 6.2% and of which only 4.8% has a weighting of more than 20%.

Weighted exposure with respect to credit risk amounts to EUR 4,743 million. Including the risk of volatility in the Credit Valuation Adjustment (CVA) and operational risks (no market risks), total weighted assets come to EUR 5,426 million. Given a CET1 level of EUR 1,314 million, SFIL had a CET1 ratio of 24.2% as of December 31, 2016.

1.2 - DOUBTFUL AND LITIGIOUS LOANS

At the end of December 2016, specific provisions totalled EUR 60.1 million. These provisions pertained to the capital of doubtful loans for EUR 6 million (recorded as cost of risk provisions) and to Interest and other for EUR 54.1 million (recorded as a decrease in net banking income). In addition, collective statistical provisions are calculated on the various loans and advances portfolios. Collective provisions amounted to EUR 46 million and decreased considerably compared with 2015.

Through CAFFIL, SFIL incorporated in its previous accounts contributions of EUR 150 million paid over 15 years for the support fund for local governments and EUR 38 million to support public hospitals. These amounts represent the total contributions owned by SFIL to the two support funds.

(EUR millions)	12/31/2016
Collective provisions	46
Specific provisions	60
Contributions to the support fund	136
TOTAL	242

As of December 31, 2016, the provisions covering the risks on the entire portfolio amounted to EUR 242 million.

The amount of provisions was at least 0.4% of CAFFIL's total cover pool, attesting to the quality of the portfolio and its low risk profile.

1.3 - AFS RESERVE

As of December 31, 2016, the total amount of the AFS reserve before tax went from EUR -155 million compared with EUR -131 million as of December 31, 2015. Italian sovereign securities accounted for EUR -64 million of this reserve, compared with EUR -42 million at the end of 2015. The widening of spreads on sovereign exposures during the year was the primary reason for this decline.

2. Market and ALM risk

2.1 - MARKET RISK

a. Scope

The notion of regulatory market risk is limited to the market risk of the trading portfolio on a consolidated basis. However, the institution does not conduct trading operations, and is therefore not subject to market risk in the regulatory sense of the term. Moreover, on a consolidated basis, all swaps are carried out for hedging purposes.

The positions or activities of the banking book of SFIL and CAFFIL that pose a risk resulting from exposure to the volatility of market parameters are monitored in terms of non-regulatory market risks. These are mainly market risks resulting from fluctuations in the AFS reserve or in the provision for investment securities in French GAAP. This risk can also materialize at SFIL's corporate level if the derivative transactions carried out externally by SFIL are not fully replicated with CAFFIL as part of its

derivative intermediation activity on behalf of CAFFIL. Non-regulatory market risks also include adjustments in accounting valuations on derivatives like the CVA (Credit Valuation Adjustment), the DVA (Debit Valuation Adjustment), and the FVA (Funding Valuation Adjustment).

b. Risk monitoring

Control of non-regulatory market risks is provided through monitoring of the sensitivities to the market parameters (Greek exposures). They correspond to a change in fair value of instruments for a movement (or shock) in market parameters.

For intermediation swaps between SFIL and CAFFIL, there are no limits in sensitivity.

When they are not at an adjustable rate, securities classified as AFS or investment securities in French GAAP are systematically hedged by swaps. Residual risk of the securities portfolio is limited to credit spread risk. The Risks division calculates the sensitivity of the AFS reserve on the basis of the issuers' credit spreads.

Adjustments in accounting valuations on derivatives are monitored quarterly.

2.2 - ALM RISK

The ALM policy of SFIL and its subsidiary CAFFIL is designed to protect the value of equity and limit the volatility of income while maintaining the equilibrium of their balance sheet.

a. Foreign exchange risk

Foreign exchange risk is the verified or potential risk of volatility or income related to adverse movements in foreign exchange rates.

The reference currency of SFIL is the euro; the foreign exchange risk thus reflects any change in the value of assets and liabilities denominated in a currency other than the euro by reason of a fluctuation of this currency *vis-à-vis* the euro. The Company's policy is to avoid all foreign exchange risk: to this end, liabilities and assets denominated in foreign currencies give rise, at the latest when they are recognized on the balance sheet, to a cross-currency swap against the euro. The floating-rate exposures resulting from this management are incorporated into interest rate risk management (see next paragraph).

For operational reasons, SFIL nonetheless preserves a marginal foreign exchange risk partially resulting from the margin not repaid to CAFFIL for export credit transactions in USD.

b. Interest rate risk

Interest rate risk is the risk incurred in the event of a change in interest rates resulting from all balance sheet and off-balance sheet transactions, with the exception of transactions subject to market risk, where applicable.

SFIL distinguishes three types of interest rate risk:

- the fixed interest rate risk reflects the difference in volume and maturity between fixed-rate assets and liabilities, for which the interest rate has been fixed;
- the fixing risk reflects, for each index, the gap between the revision dates applied to all the variable-rate bal-

ance sheet and off-balance sheet items linked to this index;

- the risk of alteration of the interest rate curve is linked to fluctuations in the differences between short-term and long-term rates. It concerns non-parallel variations in the interest rate curve – sloping, flattening, rotation.

To limit the impact of these risks, CAFFIL has implemented a finely honed hedging strategy.

- In the first step, balance sheet items that do not naturally have a euro floating rate are hedged as soon as they are recognized on the balance sheet to limit the impact of changes in euro long rates on the interest margin. For CAFFIL, these transactions mainly concern the issue of *obligations foncières* and the acquisition of assets from La Banque Postale. In order to limit the multiplication of swaps in opposite directions, CAFFIL has set up an optimization process to provide direct backing for fixed rate vanilla assets and liabilities with similar profiles when LBP loans are acquired.
- In the second step, macro-swaps are carried out against Eonia for a maximum period of two years, in order to limit the volatility of the result linked to the fixing risk (due to refixing dates which are different for assets and liabilities). Macro-hedging is then applied to the residual fixing risk over a week's management horizon.

Concerning the parent company SFIL, the strategy involves a perfect micro-hedge of the interest rate risk, either by swaps against Eonia, or by backing operations of assets and liabilities on the same index, or within the framework of the export credit activities through hedging operations realized by the intermediary of the stabilization procedure. Thus, there is no interest rate risk.

In order to ensure the correct implementation of these interest rate management strategies and their monitoring, the following indicators are produced:

- the fixed rate gap that corresponds to the difference between uses and resources of the balance sheet and the off-balance sheet for fixed rate operations or those for which the rate has been fixed. This gap is calculated every month until balance sheet extinction.
- the fixing gap that corresponds, for a given tenor index, to the difference between uses and resources at a floating rate, of the balance sheet and the off-balance sheet by fixing date;
- index gaps that correspond to the difference between uses and resources of the balance sheet and the off-balance sheet for a given tenor index that has not yet been fixed. This gap is calculated every month until balance sheet extinction.

With regard to interest rate risks and risks of deformation of the interest rate curve that may result from macro-hedges in balance sheet management, curbs aim to limit the impact on the value of items on the balance sheet in the event of a shift in the rate curve or when faced with sloping or rotation movements.

The limits have been calibrated so as not to lose more than EUR 80 million in equity with a quantile of 99%.

The indicators used to limit CAFFIL's interest rate risk are calculated on the basis of indicators of sensitivity of the net present value for an incident of 100 times the rate + 1 bp designed to limit the loss in value in the event of:

- a shift in the interest rate curve: measure of risk of fixed rate or risk of directional rate;
- sloping/rotation of the interest rate curve:

- the calculation and sensitivity limit for net present value using time bucket, by distinguishing four buckets of distinct risks on the yield curve in order to limit risk between points far from one another on the curve within each bucket;
- the calculation and absolute value sensitivity limit for net present value using time buckets, by distinguishing four buckets of distinct risks on the yield curve in order to limit risk between points far from one another on the curve within each bucket.

	CAFFIL's limits
Directional interest rate risk	Total sensitivity < EUR 25 million
Sloping risk	Time bucket sensitivity < EUR 10 million Time bucket sensitivity in present value < EUR 20 million

- For the parent company SFIL, the limit is expressed on the fixed rate gap, and it is null reflecting its strategy of perfect micro-hedge management. Note should be taken that all of these indicators are currently calculated from a static viewpoint.
- As concerns the basis risk linked to a possible difference in the backing of uses and resources indexed on Euribor but on different periods, monitoring at this stage is limited to index gaps.

c. Liquidity risk

Liquidity risk can be defined as the risk that the institution may not be able to find the necessary liquidity to cover the financing needs related to its activity. In terms of liquidity, the SFIL Group's activity is centered almost entirely on the management of its subsidiary CAFFIL, a *société de crédit foncier*.

As a result, the Group's requirements are mainly of three types:

- financing of assets (EUR 47 billion in loans, EUR 7.5 billion in securities, and 3.7 billion in cash deposited with the Banque de France) on CAFFIL's balance sheet to cover the *obligations foncières* it issues;
- financing of liquidity needs related to respect of regulatory ratios and over-collateralization required by the rating agencies for CAFFIL;
- financing of the cash collateral of hedging derivatives intermediated by SFIL between CAFFIL and the market (EUR 1.7 billion, i.e. EUR 2.3 billion of cash collateral paid and 0.6 billion of cash collateral received).

The sources of financing used, other than the entity's equity (EUR 1.4 billion), are as follows:

- privileged debt, i.e. the *obligations foncières* issued by CAFFIL (EUR 50.4 billion) and cash collateral received by CAFFIL (EUR 1.3 billion);
- the credit agreements signed in 2013 between SFIL and its shareholders: the financing provided by Caisse des dépôts et consignations and LBP totalled EUR 6.8 billion as of December 31, 2016;
- the short-term debt securities issued by SFIL totalling EUR 0.6 billion as of December 31, 2016;
- the EMTN issued by SFIL since October 2016 totalling EUR 1 billion as of December 31, 2016.

In addition, the SFIL Group has a large number of assets held by CAFFIL, which are directly eligible for refinancing by the central bank. These securities can be made available through European Central Bank refinancing opera-

tions, *via* the Banque de France. There were no operations of this type in 2016, except for discount tests.

Since the financing of the over-collateralization of CAFFIL is ensured by the credit agreements it has signed with its shareholders, the main liquidity risk comes down to the risk that CAFFIL may not be able to settle its privileged debt commitments by the due date because the gap between the repayment of its assets and privileged liabilities is too great. The risk is controlled by monitoring the following indicators:

- Regulatory indicators specific to *sociétés de crédit foncier* (SCF):
 - the cover ratio (over-collateralization) represents the ratio between the assets and liabilities benefiting from the privilege under the law on *sociétés de crédit foncier*. In 2016, it stands at 112.5% and will stand at 112% in 2017. The regulatory minimum is 105%;
 - the forecast of cash needs in 180 days: CAFFIL ensures that its 180-day cash requirements are covered at all times by replacement assets and by eligible ECB assets;
 - a maximum gap of 1.5 years between the average life of the privileged liabilities and the assets considered as pledged for the minimal amount necessary to satisfy the regulatory coverage ratio.
- General regulatory indicators of liquidity:
 - then respect of the Liquidity Coverage Ratio (LCR) calculated at the end of every month in compliance with the procedure defined in the *acte délégué* published in October 2014.
 - as of December 31, 2016, the level of LCR and CAFFIL was at 776% and that of SFIL at 182%.
- Internal indicators of liquidity:
 - the duration gap between the assets and the privileged liabilities (limited to 3 years) is published quarterly. As of December 31, 2016, it stood at 1.13 years;
 - a maximum gap limited to EUR 2 billion per annum between the assets and liabilities arriving at maturity. This limit is reviewed annually;
 - the survival horizon for each entity for a year in stress conditions;
 - the sensitivity of the net presence value of the consolidated static liquidity gap adapted to the regulatory requirements;
 - the consumption of the spread risk appetite and FX base of different vintages of export credit loans.
- Lastly, the SFIL Group regularly produces dynamic liquidity stress forecasts in order to ensure that the available liquidity is sufficient to confront adverse scenarios.

3. Legal and tax risk

3.1 - LEGAL RISK

As of December 31, 2016, 178 borrowers signed a financial settlement agreement with SFIL, Caisse Française de Financement Local and Dexia Credit Local, thereby putting an end to legal litigation.

At the same time, the number of borrowers who had brought lawsuits totalled 39, down from 131 as of December 31, 2015 and 210 as of December 31, 2014. Among these 39 suits, 9 cases have been tried in first instance

and 5 were judged in the court of appeals. All of these rulings dismissed all the claims of the borrowers except for one case concerning a vanilla loan which gave rise to the in solidum conviction of Dexia Credit Local and Caisse Française de Financement Local, which appealed the decision.

3.2 - TAX RISK

Readers are reminded that in 2015 French tax authorities investigated the income declared and the tax paid by CAFFIL for 2012 and 2013. Following the tax assessment, the tax authorities expressed their disagreement with the tax treatment of the following two points: the taxation in Ireland of the income from the Dublin branch (formerly Dexia Municipal Agency), which has now been closed, and the deductibility of provisions for non-performing loans. The provision for additional tax in the amount of EUR 38 million set up by CAFFIL in 2015 was maintained. CAFIL, nonetheless, does not agree with the position of the tax authorities and appealed in 2016 within the framework of legal recourse allowed by current tax regulations. Exchanges occurring over 2016 do not lead to questioning the amount accrued.

4. Operational risk and permanent control

4.1 - OPERATIONAL RISK

SFIL defines operational risk as the risk of loss resulting from (i) the lack of adaptation or failure on the part of internal processes, staff, and internal systems and (ii) external events. It includes the risks related to the security of IT systems, legal and reputational risks, as well as risks related to the model, but it excludes strategic risks. This definition is in line with the definition used by the Basel Committee. Management procedures for operational risks apply to all of the operating divisions of SFIL.

SFIL's policy with regards to the measurement and management of operational risks involves identifying and evaluating any and all risks as well as existing efforts to attenuate and control them in order to verify whether the level of residual risk is acceptable or not. This policy is complemented by the management of the security of IT systems, by a contingency plan to ensure business continuity, and if required by insuring against certain risks.

The policy applied involves three main processes: the collection of reporting and operating incidents, the mapping of operational risks, and the monitoring of key operational risk indicators.

The collection and systematic analysis of operational incidents provides the information necessary to evaluate SFIL's exposure to operational risk. The process of collecting incidents and operational losses not only allows SFIL to comply with regulatory requirements, but also to gather key data in order to improve the quality of its internal control system.

In addition to the information collected on the incidents and losses, the main operational risks are regularly identified and evaluated by taking into account existing systems and controls in order to define SFIL's risk profile. This mapping is carried out through an evaluation of the

operating divisions with the support of the Operational Risks and Permanent Control division. In light of the results, action plans may be set up to control the level of risk.

This organization is complemented by key operational risk indicators that make it possible to monitor the development of operational risks at SFIL in an ongoing and dynamic manner.

The management of operational risks is piloted by the Operational Risks and Permanent Control division in the Risks division. It relies on a network of correspondents in the operating divisions, who are in charge of the identification and monitoring of risks and operational incidents.

Accountable executive officers, the members of the Executive Committee, and of the Board of Directors, *via* its emanation, the Risks and Internal Control Committee are regularly informed of changes in the mapping of operational risks, major operational incidents, and key indicators of operational risks exceeding the alert thresholds and define corrective action plans to reduce identified risks and incidents.

4.2 - PERMANENT CONTROL

SFIL's permanent control system ensures the efficiency and reliability of the risk control system, the effectiveness of the control of operations and internal procedures, the quality of accounting and financial information and IT systems quality. Permanent control measures apply to all divisions and all activities of the bank.

Permanent control excluding compliance is under the responsibility of the head of the Operational Risks and Permanent Control division, who reports to the head of the Risks Division. The goal is to maintain synergies between permanent control and the monitoring of operational risks, IT security and the business continuity plan. The organization is based on the second level controls conducted by the Operational Risks and Internal Control division, as well as a network of correspondents in the operating divisions in charge of carrying out and monitoring a certain number of these controls.

5. Risks of non-compliance

The risk of non-compliance is the risk of a legal, administrative or disciplinary sanction, of a significant financial loss or of a denigration of reputation caused by the non-respect of procedures specific to banking and financial activities, whether they be of legislative or regulatory nature, or that it is a question of professional and ethical standards or executive instructions, in particular those taken in application of the orientations of the monitoring body.

5.1 - ORGANIZATION AND GOVERNANCE OF THE COMPLIANCE CONTROL SCHEME

The Compliance division is in charge of managing non-compliance risk as it is defined by article 10 of the decree issued November 3, 2014, for all SFIL and Caisse Française de Financement Local operations. The non-compliance risk control regulates, for the protection of the Group's reputation, its investors and customers, ethics of professional behavior, prevents conflicts of inter-

est, protects the interest of clients and market integrity, fights against money laundering, corruption, and financing of terrorism, as well as ensures respect of financial embargoes.

The Compliance department of SFIL constitutes an autonomous division independent of all operating units and particularly of any commercial activity. It reports to the Secretary General, who is a member of the Executive Committee of SFIL and has been designated as the compliance contact for the *Autorité de contrôle prudentiel et de résolution* (ACPR). Reporting directly to SFIL's Chief Executive Officer, the Secretary General has direct and independent access to SFIL's Risk and Internal Control Committee and the Board of Directors. The Secretary also acts as the TRACFIN correspondent within the framework of the obligations of banks in the fight against money laundering and the financing of terrorist activities.

5.2 - THE COMPLIANCE CONTROL ACTIVITIES

In order to ensure the effectiveness of the non-compliance risk control system within the framework of the activities of SFIL and CAFFIL the Compliance division implements a compliance control plan for containing and even removing non-compliance risks.

This plan is based on the non-compliance risks map updated minimum once a year.

The area of competence of the compliance control division does not cover the control of respect of regulations outside the banking and financial field (labor and social security law, regulations on the safety of persons and property, etc.), which are monitored by other divisions.

5.3 - TRAINING OF THE STAFF IN THE COMPLIANCE CONTROL PROCEDURES

The Compliance division trains, informs, and raises awareness of the employees within the current compliance system at SFIL for each compliance field that they may confront during the realizations of their missions at the bank. Therefore, the objective of the training is to present to the employees the specific regulatory aspect in their activities and to develop their abilities to monitor and detect anomalies. This training should establish a "culture of compliance" for all the employees of the bank.

In addition to the developments related to the expansion of the scope of activities performed at the bank, the training content was updated in 2016 in order to consider regulatory developments, in particular (i) the changes of the fourth directive regarding the fight against money laundering, (ii) the new directive on market abuse, and (iii) the Sapin II law adopted on November 15, 2016.

The Compliance division introduced a regulatory monitoring procedure in order to ensure a regular monitoring of the amendments that could be introduced into the applicable texts related to the compliance field.

5.4 - EVALUATION AND MANAGEMENT OF THE REPUTATION RISK

Within the framework of its operation, the Compliance division monitors the prevention of the reputation risk taken into account on the non-compliance risks map.

The reputation risk is defined as the risk resulting from a negative perception of the customers, counterparties, investors, or regulators that could unfavorably affect the capability of the SFIL Group to maintain and commit to

business relations and the continuity of access to financing sources.

Since the first quarter of 2016, the Communications division, which ensures daily monitoring of the e-reputation risk, has established a special quarterly report covering the conformity field.

The update of the code of conduct and ethics of the bank at the end of 2016 contributes to the prevention of this risk.

Finally, a professional or ethical alert system has been in effect since 2015 in accordance with the requirements of the *arrêté* of January 6, 1978, as amended, relating to information technologies, files, and civil liberties, as well as an orientation document adopted by the CNIL on December 8, 2005, for the implementation of such systems.

5.5 - PROCEDURES ALLOWING THE REPORTING OF BREACHES, INFRINGEMENTS, AND MALFUNCTIONS

The Compliance division uses several tools that provide the reporting of breaches, infringements, and malfunctions: a network of compliance correspondents, a procedure of professional and ethical alert, reporting of incidents through a specific tool.

5.6 - RISK OF MONEY LAUNDERING AND TERRORISM FINANCING

In order to fulfil its regulatory obligations and to control the risks of money laundering and terrorism financing, the SFIL Group adopted a formalized system to fight money laundering and the financing of terrorism.

This system, which was adapted to the activities of SFIL in the financing of the local public sector, was reinforced in order to meet the requirements related to export credit refinancing, notably in terms of monitoring the respect of embargoes.

In 2016, the Compliance division introduced operations to increase the awareness of the Executive Committee, the management and the employees involved in the new activity. The complexity of export credit transactions considerably increased the importance of IT tools for maintaining vigilance required by the regulations.

The EU directive 2015/849 relating to the prevention of the use of the financial system for the purpose of money laundering or terrorism financing of June 5, 2015, was adopted in French law by ordinance 2016-1635 of December 1, 2016. Notably, the text intends to bring the law of France in line with EU law in compliance with the recommendations of the Financial Action Task Force (FATF) adopted in February 2012. The developments of the systems that result from this new text were recorded in the development specifications of the compliance tools.

6. Security of means of payment

The means of payment managed by SFIL for its own activity or as the managing institution of CAFFIL or the service provider of La Banque Postale include the following:

- the SWIFT and TARGET 2 networks, for the execution of interbank payments related to trades negotiated by the front office operators of the Market Activities Operating division and of requests for the transfer of funds that can be made by other divisions of SFIL (mainly payment of invoices in foreign currencies);

- the SCBCM network (Ministerial budget and accounting control unit), used for payment and collection of CAF-FIL loans to the public and for the services provided on behalf of La Banque Postale;
- the CORE system (Compensation Retail), used for most payments to customers of CAFFIL and for payment of invoices in euros;
- finally, payments to suppliers are done by electronic bank transfers and sometimes by check.

SFIL does not make means of payment available to its customers or those of CAFFIL.

Various procedures and systems are in place to ensure the security of means of payment, including payment processes under the responsibility of the back offices, segregation of duties, clearly defined rules for validating individual payments, secure message management, business continuity plan, specific controls related to compliance, etc.

Operating results

1. Consolidated financial statements in accordance with IFRS

In 2016, the SFIL Group posted for the first time net consolidated income of EUR 18 million compared with EUR -59 million at the end of 2015.

Moreover, 2016 income includes non-recurring items related to (i) the volatility in the valuation of the portfolio of derivatives for EUR -19 million⁽¹⁾ and (ii) the consideration of the reduction in terms of the companies' tax rate, which reduces the deferred tax assets of EUR -14 million over the year. Restated for these non-recurring items, 2016 net income amounts to EUR 45 million compared with a restated net loss of EUR -5 million in 2015.

This improvement of income primarily reflects the successful sensitivity reduction policy, which resulted in an increase of net banking income arising in particular from reversals of interest provisioned for EUR 5 million in 2016 compared with provisions of EUR 26 million in 2015, as well as by a reversal of provisions in the cost of risk of EUR 18 million compared with provisions of EUR 14 million in 2015. The favorable refinancing conditions of the Group also boosted net banking income.

The Group's operating expenses totalled EUR -107 million compared with EUR -102 million in the previous year. The increase was mainly caused by the increase in taxes and the temporary expenses incurred within the framework of the IT simplification project.

SFIL - IFRS financial statements, consolidated basis

EUR millions	Accounting income statement			Recurrent income statement		Accounting income statement			Recurrent income statement	
		Volatility on value adjustments	Deferred tax adjustment		Tax provision		Volatility on value adjustments	Deferred tax adjustment		
Net banking income	86	(5)		91		139	(19)		158	
General operating expenses and taxes	(103)			(103)		(107)			(107)	
Gross operating income	(17)	(5)		(12)		32	(19)		51	
Cost of risk	(14)		(20)	6		18			18	
Net income before taxes	(30)	(5)	(20)	(5)		49	(19)		69	
Corporate income tax	(29)	2	7	(38)	1	(31)	7	(14)	(23)	
NET INCOME	(59)	(3)	(13)	(38)	(5)	18	(13)	(14)	45	

The total of the balance sheet stood at EUR 79 billion at the end of 2016 and at 24.2%, the Group's CET1 ratio confirms its financial stability.

2. Annual financial statements prepared in accordance with French GAAP

SFIL posted a net loss of EUR 6.3 million at the end of 2016, compared with a loss of EUR 4.4 million at the end of 2015. Net banking income stood at EUR 0.6 million and its operating expenses net of re-billing totalled EUR -8.8 million. The company as a head of the fiscal group recorded a tax consolidation gain of EUR 1.9 million.

SFIL's balance sheet amounts to EUR 9.6 billion and mainly includes:

- the refinancing granted to its subsidiary CAFFIL in the amount of 5.2 billion for the portion of over-collateralization required as a result of its SCF status;
- cash collateral paid in the amount of EUR 2.3 billion;
- within the framework of its cash management, SFIL held a portfolio of sovereign and banking securities for the outstanding assets of EUR 301 million;
- cash assets in the amount of EUR 1.2 billion.

⁽¹⁾ This was the result of a decrease in the Debit Valuation Adjustment, linked to the significant tightening of CAFFIL's spreads.

Shareholding

SFIL acquired all the shares of CAFFIL on January 31, 2013, for EUR 1. It thereby holds 100% of the Company. There was no trading of the Company's shares in 2016.

Participating interest in 2013 representing more than 66% of the capital

CAFFIL SA with a share capital of EUR 1,315,000,000

Invoice payment periods

Pursuant to articles L.441-6-1 and D.441-4 of the French Code of Commerce, SFIL must publish annual information on the due dates of its trade payables. SFIL's trade payables represent a non-material amount of the Company's total balance sheet. SFIL's practice is to always pay its invoices within 45 days unless a contractual agreement signed with the supplier provides for a 30- or 60-day payment period.

Trade payables amounted to EUR 1.5 million as of December 31, 2016, and they date to less than 30 days. As of December 31, 2015, trade payables amounted to EUR 1.1 million and dated to less than 30 days.

Proposed distribution of profit

Given the results of year 2016, the Annual Shareholders' Meeting of May 31, 2017, will not be asked to distribute a dividend.

The loss recorded in 2016, namely EUR 6,329,487.45, will be debited to Retained earnings. This allocation will result in a negative balance of EUR 16,333,287.69 for the Retained earnings account.

Non-deductible costs and expenses

Pursuant to the provisions of Article 223 *quater* of the French General Tax Code, it is specified that during the past year the total sum of non-deductible costs and expenses covered by article 39-4 of the French General Tax Code amounted to EUR 39,733.73, a sum which did not result in additional corporate income tax given the net loss incurred by the Company. The amount of general operating expenses reintegrated following a definitive tax adjustment (articles 223 *quinquies*, 39-5, and 54 *quater* of the French General Tax Code) is nil given the absence of any adjustment.

Research and development

As the Company does not conduct any activities relating to research and development, no such data is mentioned in the financial statements.

3. Monetary and Financial Code indicator of return on assets

Article R.511-16-1 of the French Monetary and Financial Code, created by decree 2014-1315 of November 3, 2014, stipulates that credit institutions publish in their annual financial report their return on assets, defined as the ratio of net income to the balance sheet total. For 2016, this ratio stood at 0.02% in the IFRS consolidated financial statements and at -0.07% for the position in French GAAP.

4. SFIL's annual income for the last five years

	2012	2013	2014 ⁽²⁾	2015	2016
FINANCIAL POSITION					
Share capital	74	130,000	130,000	130,000	130,000
Number of shares	5,315	9,285,725	9,285,725	9,285,725	9,285,725
RESULTS OF OPERATIONS (EUR MILLIONS)					
Revenues ⁽¹⁾	-	112	119	75	36
Income before income tax, amortization, depreciation and contingencies net of reversals	(0)	(2)	(4)	(3)	(3)
Income tax	-	-	(1)	(1)	(2)
Income after income tax, amortization, depreciation and contingencies net of reversals	(0)	(2)	(4)	(4)	(6)
Exceptional distribution	-	-	-	-	-
Dividend	-	-	-	-	-
PER SHARE DATA (EUR)					
Revenues	-	12.05	12.78	8.11	3.88
Income after income tax, before amortization, depreciation and contingencies net of reversals	(1.72)	(0.21)	(0.33)	(0.14)	(0.16)
Income tax	-	-	(0.11)	(0.13)	(0.20)
Income after income tax, amortization, depreciation and contingencies net of reversals	(1.72)	(0.21)	(0.39)	(0.47)	(0.68)
Exceptional distribution	-	-	-	-	-
Dividend per share	-	-	-	-	-

(1) Revenues consist of the following items:

- interest and similar income, net of macro-hedging costs,
- fee income,
- net income on foreign exchange transactions,
- other operating income.

(2) Data concerning 2014 has been adjusted in relation to the publication 2014.

Dexint Developpement, which subsequently became SFIL, did not operate before 2013.

5. Statutory Auditors' fees

EUR thousands	Mazars				Deloitte & Associés			
	Amount		%		Amount		%	
	including VAT				including VAT			
	2015	2016	2015	2016	2015	2016	2015	2016
Audit services rendered								
Audit, certification and review of the annual and consolidated financial statements	445	488	100%	100%	469	500	100%	100%
<i>including SFIL</i>	139	160	31%	33%	137	172	29%	34%
Other audit tasks	-	-	-	-	-	-	-	-
Subtotal	445	488	100%	100%	469	500	100%	100%
Other services								
Legal, tax, labor issues	-	-	-	-	-	-	-	-
Internal audit	-	-	-	-	-	-	-	-
Other (specify if > 10% of audit fees)	-	-	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-	-	-
TOTAL	445	488	100%	100%	469	500	100%	100%

Outlook

The year 2016 confirmed the efficiency of the structure set up by the State in 2013 to finance the French local public sector through SFIL and its subsidiary CAFFIL together with *La Banque Postale* and *Caisse des dépôts et consignations*. The SFIL/La Banque Postale partnership is recognized today as one of the most significant players in the local public sector.

It was also in this year that the mission in export credit refinancing, which the State entrusted to SFIL, demonstrated its first achievements.

Also in 2016, SFIL completed its first long-term bond issue. Finally, the consolidated accounting income reached a positive level for the first time.

For SFIL and CAFFIL, the year 2017 will be a year of development to reveal their potential while consolidating the achievements of its successful launch phase.

SFIL will have to achieve the best results in its two missions:

- the financing of the French local public sector through the partnership with LBP, and
- the development of large export credit activity.

It is in this perspective that CAFFIL plans to issue in 2017 a volume of EUR 6 billion in *obligations foncières*. A first public issue of benchmark *obligations foncières* with a maturity of 10 years for a total of EUR 1.5 billion was launched at the beginning of 2017. These CAFFIL issues had to be completed based on the SFIL issue program.

The resources thus culled will bolster the partnership with La Banque Postale and finance SFIL's operations in the export credit field. The export credit agreements that are currently being negotiated should launch several new transactions for

a significant amount in 2017. In fact, a main agreement on the commercial and industrial aspects of these projects was reached and the financing conditions are currently being negotiated for these projects.

The sensitivity reduction operation, which achieved its ambitious objectives in 2016 due to the efficiency of the two support funds (the support fund for local governments of EUR 3 billion and the support fund for public hospitals of EUR 400 million), will continue in 2017, although at a slower pace, taking into account the residual nature of the outstanding amounts concerned.

In terms of the operational and organizational aspects, in 2017, SFIL will undertake an important step in its IT simplification and reinforcement program Oxygen, with the preparation of a major shift in its information system at the beginning of 2018 and the implementation of the IFRS 9 accounting regulation. The rationalization of the information system will provide greater responsiveness to regulatory development, in a more secure environment and at a lower cost. Moreover, SFIL will take advantage of the opportunities in the digital field in terms of quality of service and efficiency.

During 2017, the operational implementation of the five-year strategic plan, which was launched in the second half of 2016, will continue.

Finally, from a more general standpoint, the two important contextual aspects will be vigorously monitored in 2017: the development of the regulatory environment and the degree of market volatility.

Organization chart



Composition of the Board of Directors (December 31, 2016)

Philippe Mills

Chairman and Chief Executive Officer

Jean-Pierre Balligand

Independent member of the Board of Directors

Serge Bayard

Member representing La Banque Postale
as shareholder

Catherine Boyaval

Member representing employees

Pascal Cardineaud

Member representing employees

Delphine de Chaisemartin

Member representing Caisse des dépôts
et consignations as shareholder

Lorraine Coudel

Member representing employees

State

Represented by Jérôme Reboul

Patrick Galland

Member representing employees

Frédéric Guillemin

Member representing employees

Cathy Kopp

Independent member of the Board of Directors

Chantal Lory

Independent member of the Board of Directors

Françoise de Panafieu

Independent member of the Board of Directors

Antoine Saintoyant

Member proposed by the State

Pierre Sorbets

Member proposed by the State

Concerning the organization of executive management, it should be noted that the Board of Directors' meeting of January 31, 2013 chose to combine the roles of Chairman of the Board of Directors and Chief Executive Officer. This principle of non-separation of duties was authorized by the French regulatory authority (*Autorité de contrôle prudentiel et de résolution*). The Board of Directors' meeting of March 23, 2017 decided to separate these two functions. Accordingly, and subject to the publication of the decree appointing the Chief Executive Officer, the Board of Directors is now chaired by Chantal Lory, Philippe Mills remaining CEO.

Information on the members of the Board of Directors

Pursuant to article L.225-102-1, paragraph 4 of the Code of Commerce, the following list presents the terms and functions of the members of the Board of Directors.

Chairman of the Board of Directors and Chief Executive Officer

Philippe Mills

Principal function: Chairman of the Board of Directors and Chief Executive Officer of SFIL

Born November 4, 1965 – French

Dates of beginning and end of mandate: May 26 2016-2020

Date of first mandate: January 31, 2013

Professional address: SFIL
1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux

Mandates and functions

- SFIL, Chairman of the Board of Directors, Chief Executive Officer and Chairman of the Executive Committee
- CAFFIL, Chairman of the Supervisory Board
- European Investment Bank (EIB) Alternate Expert, Board of Directors
- European Association of Public Banks – EAPB, Member of the Board of Director and Chairman (since June 2016)

Biographical data

- Graduate of l'Institut d'Etudes Politiques de Paris
- Graduate of l'Ecole Nationale d'Administration
- 1990-1994: assigned to the Ministry of the Economy as deputy to the head of the public administrations bureau, then of general macro-economic forecasts, Forecasts division
- 1994-1996: European Bank for Reconstruction and Development
- 1996-1997: Bureau chief, Economic Environment, Forecasts division, Ministry of the Economy
- 1997-2000: Bureau chief, General Economic Forecasts, Forecasts division, Ministry of the Economy
- 2000-2003: Economic counselor to the General Director, Economic and Finance Affairs, European Commission
- 2003: General Secretary, Forecasts division, Ministry of the Economy
- 2004-2006: Deputy Director, Public Finances, Forecasts Division and then Treasury and Economic Policy Division
- 2006-2008: Deputy Commissary for Planning, then Deputy General Director, Strategic Analysis Centre in charge of economic, financial and European issues
- 2008-2013: General Director, Agence France Trésor
- Since 2013: Chairman of the Board of Directors and Chief Executif Officer, SFIL

Representative of the State as a member of the Board of Directors

Jérôme Reboul

Principal function: Deputy Director of Equity Holdings, Services and Finances of the Agence des Participations de l'État

Born on April 27, 1977 – French

Dates of beginning and end of mandate: May 26 2016-2020

Date of first mandate: May 26, 2016

Professional address: Agence des Participations
de l'État
139, rue de Bercy
75572 Paris Cedex 12

Mandates and functions

- Agence des Participations de l'État, Deputy Director of Equity Holdings, Services and Finances
- SFIL, Representative of the State as a Member of the Board of Directors, Member of the Appointments Committee and Member of the Compensation Committee (since May 26, 2016)
- Imprimerie Nationale, Representative of the State as a member of the Board of Directors (since May 2016)
- Agency for IT distribution, member of the Board of Directors (since September 2016)

Biographical data

- Ecole normale supérieure de la rue d'Ulm (Economics, History)
- Harvard University (USA): Visiting student at the Economics Department
- University of Toulouse (Thesis in Economics: Finance, Governance, and Employment)
- Ecole nationale des Ponts et Chaussées: Master's Degree in Public Affairs
- 2007-2008: In charge of mission with the director of studies of the Urbanization and Housing Department – Ministry of Equipment
- 2008-2010: In charge of the follow-up of the RATP and the maritime and river ports of the Agence des Participations de l'État – Ministry of Economy, Finance and Industry
- 2010-2013: Deputy Head of the Office of Banking Affairs at the Treasury Department – Ministry of Economy, Finance and Foreign Trade
- 2013: Head of the Savings and Financial Markets Office of the Treasury Department – Ministry of the Economy and Finance
- 2013-2016: Head of Housing Financing and General Activities Office of the Treasury Department – Ministry of Economy and Finance
- Since 2016: Deputy Director of Equity Holdings, Services and Finances of the Agence des Participations de l'État – Ministry of Economy and Finance

N.B.: The professional address is provided only for staff still working. For the others, all correspondence should be sent by post to SFIL – 1-3 rue du Passeur de Boulogne – 92130 Issy-les-Moulineaux, France.

Members of the Board of Directors representing the shareholders

Serge Bayard

Principal function: Director of the companies and regional development of La Banque Postale

Born on October 24, 1963 – French
Dates of beginning and end of mandate: March 24, 2016 – 2017
Date of first mandate: March 24, 2016

Professional address: La Banque Postale
1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux

Mandates and functions

- La Banque Postale, Director for companies and regional development, Member of the Executive Committee
- FIL, Member of the Board of Directors, Member of the Financial Statements Committee and Member of the Risks and Internal Control Committee (since March 24, 2016)
- La Banque Postale Local Governments, Chairman of the Boards of Directors
- La Banque Postale Crédit Entreprises, Chairman (since October 2016)
- La Banque Postale Home Loan SFH, Member of the Board of Directors and Chairman of the Audit Committee (until September 2016)
- La Banque Postale Assurance Santé, Member of the Board of Directors, Member of the Risks Committee and Member of the Financial Statements Committee (since March 2016)

Biographical data

- DUT in Corporate Management (Université Lyon I)
- Bachelor's Degree in Administration (Université Paris XII)
- École Nationale du Trésor
- Training cycle for Chief Inspectors of the Treasury
- 1984-1999: The Public Accounting Department
 - Category B Treasury Controller of the Administration (1984-1988)
 - In charge of the economic mission of the redevelopment centre of the Creusot/Montceau les Mines (1989-1994)
 - Director of the Treasury Department in charge of the audit and control for the Rhône Alpes region (1994-1999)
- 1999-2002: General Inspection of Finances, financial inspector
- 2002-2004: Caisse des dépôts et consignations, Director of Finances and C3D Strategy (Caisse des Dépôts Développement)
- 2004-2008: Caisse d'Épargne Group
 - Director of the public-private partnerships (2004-2007)
 - Director of the real estate markets (2007-2008)
- Since 2008: La Banque Postale
 - Director of Strategy (2008-2011)
 - Director of the companies and regional development (since 2011)

Delphine de Chaisemartin

Principal function: Head of the Financial Institutions and Capital Investment unit in the Group Management division of Caisse des Dépôts

Born July 14, 1970 – French
Dates of beginning and end of mandate: January 31, 2013-2017
Date of first mandate: January 31, 2013

Professional address: Caisse des Dépôts
56, rue de Lille 75007 Paris

Mandates and functions

- Caisse des Dépôts, Group management division, Financial Institutions and Capital Investment unit
- SFIL, Member of the Board of Directors, Member of the Appointments Committee, Member of the Compensation Committee, Member of the Financial Statements Committee, Member of the Risks and Internal Control Committee
- Bpifrance Financement, Member of the Board of Directors, Member of the Appointments and Compensation Committee, Member of the Financing and Guarantees Committee, Member of the Audit Committee, Member of the Risks Committee, Member of the Innovation Committee
- La Banque Postale Collectivités Locales, Member of the Board of Directors
- Innovation Capital, Member of the Board of Directors (until September 2016)
- Qualium Investissement, Member of the Board of Directors and Member of the Investment Consulting Committee
- CDC Entreprises Elan PME, member of the Board of Directors (since February 2016)
- CNP Assurances, member of the Board of Directors (since November 2016)

Biographical data

- Graduate of l'Ecole de Management de Lyon
- Degree in Accounting and Finance
- MBA Financial Markets, Toronto, Canada
- 1993-1997: Fixed Income Risks Management, Compagnie parisienne de réescompte (CPR)
- 1997-2002: Audit Manager, Financial Services, Pricewaterhousecoopers (PwC)
- 2002-2006: Deputy then Director, Financial Control, Société Générale Investment Banking (SGCIB).
- 2006-2012: Managing Director and COO, Fixed Income Activities for America, then COO, Special Situation Group, Société Générale New York (SCNY), United States
- Since 2012, Strategic Holdings and Subsidiaries in Financial Services, Group Management division, Caisse des Dépôts

Françoise Lombard**Principal function: Director of the Finance and Accounting Department of the Agence Française de Développement**

Born April 6, 1981 – French

Dates of beginning and end of mandate: October 13, 2014 – May 26, 2016

Date of first mandate: October 13, 2014

Professional address: Agence Française
de Développement
5 Rue Roland Barthes
75598 Paris Cedex 12

Mandates and functions

- Agence Française de Développement, Director of the Finance and Accounting Department
- SFIL, Member of the Board of Directors, Member of the Appointments Committee and Member of the Compensation Committee (until May 26, 2016)
- Imprimerie Nationale, Member of the Board of Directors, Member of the Audit Committee, Member of the Strategic Committee and Member of the Compensation Committee (until May, 2016)
- La Française des Jeux, Member of the Board of Directors, Member of the Audit Committee, Member of the Strategic Committee and Member of the Compensation Committee (until July, 2016)
- Radio France, administrateur, Member of the Audit Committee and Member of the Compensation Committee (until May, 2016)
- EPIC Bpifrance, Member of the Board of Directors

Biographical data

- Graduate of l'Institut d'Etudes Politiques de Paris
- Graduate of l'Ecole Nationale d'Administration
- 2008-2010: Deputy then Bureau Chief, Budget, General Secretariat, Financial Affairs, Ministry of Defence
- 2010-2012: Deputy Bureau Chief, Sub-Saharan Africa and Agence Française de Développement, Treasury division
- 2012-2014: *Chargée d'affaires*, La Poste, Orange and other holdings, Agence des Participations de l'État
- 2014 -2016: Deputy to the Director, Services and Finances, Agence des Participations de l'État, Administratrice civile hors classe
- Since 2016: Director of the Finance and Accounting Department of the Agence Française de Développement

Emmanuel Massé**Principal function: Head of Macroeconomic Policies and European Affairs, Treasury division**

Born June 11, 1973 – French

Dates of beginning and end of mandate: August 26, 2015 – April 5, 2016

Date of first mandate: August 26, 2015

Professional address: General Treasury Division
139, rue de Bercy
75572 Paris Cedex 12

Mandates and functions

- Treasury division, Head of Macroeconomic Policies and European Affairs,
- SFIL, Member of the Board of Directors, Member of the Financial Statements Committee and Member of the Risks and Internal Control Committee (until April 5, 2016)
- European Investment Bank (EIB), Member of the Boards of Directors (since January 2016)
- European Investment Fund (EIF), Member of the Board of Directors (since November 2016)

Biographical data

- Master's degree Probabilities and Applications
- Institut des Actuaire
- Graduate of ENSAE, Statistics-Economics
- Graduate of l'Ecole Polytechnique
- 1999-2002; Chargé d'études, INSEE
- 2002-2005: Bureau Chief, Ministry of Ecology
- 2005-2006: Professor of Finance and Insurance, ENSAE
- 2006-2008: Bureau Chief, Industrial Policy, Research and Innovation, Treasury division
- 2008-2011: Head of Economic Analysis in the Financial Sector, Treasury division
- 2011-2015: Deputy Director of Sectorial Policies in the General Treasury Division
- Since 2015: Head of Macroeconomic Policies and European Affairs, Treasury division – Ministry of Economy and Finance

Serge Morvan**Principal function: *Préfet* of Yvelines**

Born September 20, 1959 – French

Dates of beginning and end of mandate: January 31, 2013 – May 26, 2016

Date of first mandate: January 31, 2013

Professional address: Prefecture of Yvelines
1 rue Jean Houdon
78010 Versailles Cedex

Mandates and functions

- Department of Yvelines, *Préfet*
- SFIL, Member of the Board of Directors (until May 26, 2016)
- Établissement Public national d'Aménagement et de Restructuration des Espaces Commerciaux et Artisanaux (EPARECA), administrateur
- Agence de Services et de Paiement (ASP), administrateur
- Other mandates devolving from his functions as *Préfet* of Yvelines

Biographical data

- Graduate of l'Ecole Nationale d'Administration
- Master's degree in Mathematics
- 1994-1996: Civil Administrator 2nd class, Ministry of the Interior Affairs and Local Development, Deputy Director of the Department of the State Financial Assistance
- 1996-1998: Director of the Department of the State Financial Assistance
- 1998-2000: *Sous-Préfet* of Saint Benoît
- 2000-2002: Technical Counsellor to the Minister of the Interior Affairs, Civil Administrator with no class
- 2002-2004: General Secretary for Regional Affairs for the Prefect of the Alsace region
- 2004-2008: General Director of the Departmental Services, Saône-et-Loire
- 2008-2010: General Secretary of the Prefecture of Seine-Saint-Denis
- 2010-2012: General Director, Services of the General Council of Seine-Maritime
- 2012-2015: General Director of the Local Governments, Ministry of Government Reform, Decentralization and Civil Service
- Since August 2015, *Préfet* of Yvelines

Antoine Saintoyant**Principal function: Deputy Director of Banks and General Financing at the General Treasury Division**

Born on August 28, 1977 – French

Dates of beginning and end of mandate: April 5, 2016 – 2020

Date of first mandate: January 31, 2013

Professional address: General Treasury Division
139, rue de Bercy
75572 Paris Cedex 12

Mandates and functions

- SFIL, Member of the Board of Directors, Member of the Financial Statements Committee and Member of the Risks and Internal Control Committee (since April 5, 2016)
- Orange, Member of the Board of Directors (until February 2016)
- Bpifrance Participations, Member of the Board of Directors (until March 2016)
- Bpifrance Investissement, Member of the Board of Directors (until March 2016)
- Institut d'Emission d'Outre-Mer, Member of the Supervisory Board (since January 2016)
- CNP Assurances, Member of the Board of Directors (until March 2016)
- La Poste, Member of the Board of Directors (until March 2016)

Biographical data

- Graduate of l'Institut d'Etudes Politiques de Paris
- Bachelor's Degree in Law and Economics, University of Bonn (Germany)
- Graduate of l'Ecole Nationale d'Administration
- 2003-2007: General Treasury and Economics Policy Division, Deputy Director of the Military Affairs and Development Office
- 2007-2009: Permanent representation of France at the EU, chief counsellor of financial services
- 2009-2012: General Treasury Division, Head of the Banking Affairs Office (Bancfin1)
- 2012-2016: Agence des Participations de l'État, Head of La Poste, France Télécom, Dexia, CNP, then Director of Participations Services & Finances
- Since 2016: General Treasury Division, Deputy Director of Banks and General Financing

Pierre Sorbets**Principal function: Vice Chairman, in charge of the public sector at HSBC France**

Born on August 30, 1950 – French

Dates of beginning and end of mandate: May 26 2016-2020

Date of first mandate: May 26, 2016

Professional address: HSBC France
103, rue des Champs Élysées
75008 Paris

Mandates and functions

- HSBC France, Vice Chairman, in charge of the public sector
- SFIL, Member of the Board of Directors (since May 26, 2016)
- Les Sorbets du Clos Marie, Manager

Biographical data

- Graduate of HEC, Higher Business Studies
- Graduate of l'Institut d'Etudes Politiques de Paris
- Bachelor's Degree in Economic Sciences (Université Paris X)
- Graduate of l'Ecole Nationale d'Administration
- 1977-1990: Ministry of Economics of Finance
- Export Promotion Office (1977-1979)
 - Responsible for Brazil and Mexico (export financing and monitoring of bilateral economic relations) (1979-1980)
 - Economic and commercial counselling at the Consulate General of France in Rio de Janeiro (1980-1983)
 - Manager of the Eastern Countries Office (1983-1984)
 - Manager of the Agricultural Products Office (1985-1986)
 - Economic and commercial counselling at the Embassy of France in Brazil, head of the economic development department in Brazil (1988-1986)
 - Mid-Term Director at Coface (1988-1990)
- 1991-2000: CCF (Crédit Commercial de France)
 - Manager of the External Commerce Division (export credits) (1991-1994)
 - Director of the International Financing Division (1994-2000)
- Since 2000: HSBC France (buyback of CCF by HSBC)
 - In charge of the financial institutions (2001-2002)
 - Managing Director, then Vice Chairman in charge of the French and Belgian public sectors and European institutions (since 2002)

Rémy Weber**Principal function: Deputy Chief Executive Officer, Director of Financial Services of La Poste**

Born on November 18, 1957 – French

Dates of beginning and end of mandate: December 5, 2013 – March 24, 2016

Date of first mandate: December 5, 2013

Professional address: La Banque Postale
115, rue de Sèvres
75275 Paris Cedex 06

Mandates and functions

- La Poste, Deputy CEO, Director of financial services
- SFIL, Member of the Board of Directors, Member of the Financial Statements Committee and Member of the Risks and Internal Control Committee (until March 24, 2016)
- La Banque Postale, Chairman of the Executive Board
- La Banque Postale Asset Management, Chairman of the Supervisory Board and Member of the Compensation Committee
- CRSF Métropole, permanent representative of La Banque Postale, Manager
- CRSF DOM, permanent representative of La Banque Postale, Manager
- SCI Tertiaire Saint Romain, permanent representative of La Banque Postale, Manager
- Sopassure, Chairman of the Board of Directors, Chief Executive Officer (since March 2016)
- CNP Assurances, Member of the Board of Directors and Member of the Strategic Committee
- L'Envol Le Campus de La Banque Postale, Vice Chairman of the Board of Directors and Member of the Board of Directors
- La Banque Postale Assurance Santé, Member of the Board of Directors
- La Banque Postale Assurances IARD, Chairman of the Board of Directors and Chairman of the Compensation Committee
- SF2, Chairman of the Board of Directors
- Association Française des Banques (AFB), Vice Chairman
- Fédération Bancaire Française (FBF), representative of the Association Française des Banques, Member of the Executive Committee
- Poste Immo, Member of the Board of Directors
- Paris Europlace, Member of the Board
- Opéra de Lyon, Chairman of the Board of Directors

Biographical data

- Graduate of l'Institut d'Etudes Politiques d'Aix-en-Provence and of HEC
- As of 1983: projects with large corporate clients, Banque Française du Commerce Extérieur
- 1987-1989: International Affairs, Treasury division
- 1990: Investments, Mergers and Acquisitions, Financière BFCE
- 1993: Regional Director, Lyonnaise de Banque, then General Secretary and COO (1995-1996), Deputy CEO (1996-1999) and CEO (1999-2002)
- 2002-2013: Chairman and Chief Executive Officer, CIC Lyonnaise de Banque, Member of the Executive Board then of the Executive Committee of the CIC Group
- Since October 15, 2013: Chairman of the Executive Board, La Banque Postale, Deputy Chief Executive Officer, Director of Financial Services of La Poste

Independent Members of the Board of Directors**Jean-Pierre Balligand****Principal function: Independent member of the Board of Directors**

Born May 30, 1950 – French

Dates of beginning and end of mandate: May 26 2016-2020

Date of first mandate: January 31, 2013

Professional address: La Banque Postale
115, rue de Sèvres
75275 Paris Cedex 06

Mandates and functions

- La Banque Postale, Chairman of the Steering Committee for Local Finances
- SFIL, Member of the Board of Directors, Member of the Appointments Committee and Member of the Compensation Committee
- Société Nationale Immobilière (SNI), Member of the Supervisory Board and Chairman of the Strategic Orientation Committee
- ADOMA, Member of the Board of Directors and Chairman of the Strategic Committee

Biographical data

- Law degree and a graduate degree in public law
- Elected official (1981-2013)
- Member of the Finance Commission of the National Assembly (1981-2012)
- Chairman (1997-2002) and member (1997-2012) of the Supervisory Commission of Caisse des Dépôts
- Delegated Chairman, APVR (Association des petites villes de France)

Cathy Kopp**Principal function: Independent member of the Board of Directors**

Born on April 13, 1949 – French

Dates of beginning and end of mandate: May 26, 2016 – 2020

Date of first mandate: January 31, 2013

Mandates and functions

- SFIL, Member of the Board of Directors, Chair of the Appointments Committee, Chair of the Compensation Committee
- Schneider Electric SA, Member of the Board of Directors, Member of the Compensation, Human Resources and Social Responsibility Committee

Biographical data

- 1973: After studying mathematics, hired by IBM France
- 1992: Head of Human Relations, IBM France before being named, in 1996, to Vice President, Human Resources, Storage Systems Division, IBM Corp.
- 2000: CEO of IBM France
- 2002-2009: joined the Accor Group as a CEO of Human Resources
- 2003-2009: Chair of the social commission of Service Professions, MEDEF. Lead negotiator for diversity in 2006 and labour market modernisation in 2007

Chantal Lory**Principal function: Independent member of the Board of Directors**

Born April 11, 1953 – French

Dates of beginning and end of mandate: May 26 2016-2020

Date of first mandate: June 5, 2014

Mandates and functions

- SFIL, Member of the Board of Directors, Chair of the Financial Statements Committee, Chair of the Risks and Internal Control Committee
- Imprimerie Nationale, Member of the Board of Directors, Member of the Audit Committee, Member of the Appointments and Compensation Committee

Biographical data

- Graduate of l'Institut d'Etudes Politiques de Paris (section Eco-Fi)
- Graduate of Cesa Finance
- 1979-1984: assistant vice-president – Commercial banking – American Express Bank
- 1984-1989: Vice President, Corporate Finance, Investment Banking, The Chase Manhattan Bank
- 1989-1992: Director, Mergers & Acquisitions, Trianon France, Groupe Marceau Investissements
- 1992-1997: Chief Executive Officer France, HSBC Investment Bank, Paris Branch
- 1997-2008: Director, Financial Management, Cofinoga, then CFO of the holding company, then Director for Strategy and External Relations in the LaSer-Cofinoga Group
- 2009-2014: Member of the CODIR, then COMEX of La Banque Postale, Chair of the Executive Board, La Banque Postale Financement, then of La Banque Postale Asset Management

Françoise de Panafieu**Principal function: Independent Member of the Board of Directors**

Born December 12, 1948 – French

Dates of beginning and end of mandate: May 26 2016-2020

Date of first mandate: January 31, 2013

Mandates and functions

- SFIL, Member of the Board of Directors, Member of the Appointments Committee, Member of the Compensation Committee
- Honorary Member of the National Assembly – former Minister
- La Société des Amis du musée des Arts Premiers (musée Quai Branly), Member of the Board of Directors
- Association Les Rencontres d'Arles Photographie, Member of the Board of Directors
- Fondation des Parcs et Jardins de France, Member of the Board

Biographical data

- Institut Français des Administrateurs (IFA)
- License in Sociology
- Diploma from the Chamber of Commerce and Industry of Paris
- 1983-1995: Deputy Mayor of Paris, in charge of Culture
- 1986-2012: Deputy of Paris to the National Assembly
- 1995: Minister of Tourism
- 1996-1997: Ambassador delegate of France to UNESCO
- 1997-2002: Deputy Mayor of Paris, in charge of the environment
- 2001-2008: Mayor of the 17th arrondissement of Paris

Members of the Board representing the employees**Catherine Boyaval****Principal function: Deputy Head of Regulatory and Finance Solutions, Steering of IT Strategic Projects, SFIL**

Born July 12, 1958 – French

Dates of beginning and end of mandate: April 24, 2013-2018

Date of first mandate: April 24, 2013

Professional address:

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

Mandates and functions

- SFIL, Deputy Head of Regulatory and Finance Solutions, Steering of IT Strategic Projects
- SFIL, Member of the Board of Directors

Biographical data

- Degree in Accounting and Audit
- Graduate of ESLSCA (option: tax law)
- 1996-2012: Successively Head of Management Control in the commercial network, of banking production accounting, of Quality and IT Accounting, of coordination of IT, then Deputy Accounting Director, Dexia Credit Local
- 2013-2015: Director of Organization, Systems, and Quality at the Finance Division of SFIL
- Since 2015: Deputy Head of Regulatory and Finance Solutions, Steering of IT Strategic Projects, SFIL

Pascal Cardineaud

Principal function: Mediator, SFIL

Born August 12, 1961 – French
 Dates of beginning and end of mandate: April 24, 2013-2018
 Date of first mandate: April 24, 2013

Professional address: SFIL
 1-3, rue du Passeur de Boulogne
 92130 Issy-les-Moulineaux

Mandates and functions

- SFIL, Mediator
- SFIL, Member of the Board of Directors, Member of the Appointments Committee and Member of the Compensation Committee

Biographical data

- MS in Sciences and Financial and Accounting Techniques (DECF and MSTCF)
- 1986-1990: Worked at a broker's office and trader in equity and derivatives markets
- 1990-1992: Back office operator in various markets, La Compagnie Financière Edmond de Rothschild Banque
- 1992-1994: Head of back office markets and depository, Caisse Central du Credit Mutuel
- 1997-2001: Financial Engineer, Asset Management, Dexia CLF Banque
- 2001-2012: Director, Marketing, Dexia Credit Local
- 2013-2016: Financial Engineering Manager, SFIL
- Since 2016: Mediator, SFIL

Lorraine Coudel

Procurement Officer, SFIL

Born December 1, 1959 – French
 Dates of beginning and end of mandate: April 24, 2013-2018
 Date of first mandate: April 24, 2013

Professional address: SFIL
 1-3, rue du Passeur de Boulogne
 92130 Issy-les-Moulineaux

Mandates and functions

- SFIL, Procurement Officer
- SFIL, Member of the Board of Directors, Member of the Financial Statements Committee (until March 24, 2016)

Biographical data

- Graduate degree in Finance (DESS)
- Agronomic engineer (ENSAR), Master's degree, Agri-food business (INA Paris-Grignon)
- 1983-1987: Chargée d'affaires, INODEV, then ANVAR
- 1987-1991: General Secretary, ASSURECO
- 1991-1997: Management controller, Credit Local de France
- 1997-2002: General Secretary of a regional division, Dexia Credit Local
- 2002-2010: Various functions, Human Resources, Dexia Credit Local
- 2011-2013: Head of Resources, Dexia Credit Local
- Since 2013: Procurement Officer, SFIL

Patrick Galland

Principal function: Deputy Director, Financial Planning, SFIL

Born February 27, 1966 – French
 Dates of beginning and end of mandate: November 13, 2015-2018
 Date of first mandate: November 13, 2015

Professional address: SFIL
 1-3, rue du Passeur de Boulogne
 92130 Issy-les-Moulineaux

Mandates and functions

- SFIL, Deputy Director, Financial Planning
- SFIL, Member of the Risk and Internal Control Committee (since March 24, 2016)
- CAFFIL, Member of the Supervisory Board (since December 7, 2016)

Biographical data

- Graduate of l'Ecole Nationale de la Statistique et de l'Administration Economique (specialization: Finance and Actuary)
- 1990-1992: Auditor, Guy Barbier et Associés, Arthur Andersen
- 1992-1996: Management Controller, Group Credit Lyonnais
- 1996-1999: Paribas Group: Assets/Liabilities Manager at ALM Service of the Compagnie Bancaire Group in 1996-1998 then Head of the Marketing Products Division at Cofica in 1998-1999
- 1999-2013: Dexia Crédit Local Group: various posts at the Planning and Management Control Division in 1999-2008, then Director, in charge of the Planning and Management Control Division in 2008-2013
- Since 2013: Deputy Director of the Financial Planning Division, SFIL

Frédéric Guillemin

Principal function: Head of Defaults division, Risks division, SFIL

Born December 1, 1963 – French
 Dates of beginning and end of mandate:
 December 12, 2014-2018
 Date of first mandate: December 12, 2014

Professional address: SFIL
 1-3, rue du Passeur de Boulogne
 92130 Issy-les-Moulineaux

Mandates and functions

- SFIL, Head of Defaults division, Risks division
- SFIL, Member of the Board of Directors, Member of the Risk and Internal Control Committee (until March 24, 2016) and Member of the Financial Statements Committee (since March 24, 2016)

Biographical data

- Ph.D. in Mathematics
- 1987-2000: Cash Management, Mutual funds management, Debt Management, Crédit Coopératif
- 2000-2013: New Product Development, Marketing Director, Clientele and Social Media, Head of Defaults division, Dexia Credit Local
- Since 2013: Head of Defaults division, SFIL

Representative of the Works Council

Sandrine Barbosa

Statutory Auditors

The Statutory Auditors of SFIL and their alternates are:

Mazars

Exaltis – 61, rue Henri Regnault – 92075 – La Défense Cedex

represented by Virginie Chauvin, Partner, and Anne Veaute, Partner

Appointed by the Ordinary and Extraordinary Shareholders' Meeting of January 29, 2013, to replace the firm Caderas Martin, until the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2016.

Alternate: Franck Boyer

Appointed by the Ordinary Shareholders' Meeting of October 17, 2013, to replace Anne Veaute, until after the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2016.

Since the terms of the Statutory Auditors Mazars and their alternate Franck Boyer came to an end with the Shareholders' Meeting of May 31, 2017, a selection procedure by tender was initiated by the Risks and Internal Control Committee in keeping with the provisions of ordinance 2016-315 of March 17, 2016. Subsequent to the tender procedure and in light of the Committee's recommendation, the Board of Directors,

at their meeting of March 23, 2017, asked the Shareholders' Meeting of May 31, 2017, to appoint Ernest & Young et Autres as Statutory Auditors for a term of six years, until after the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2022.

In addition, as a result of the new provisions of article L.823-1 of the Code of Commerce (from the Sapin II law of December 9, 2016), the shareholders are asked to allow the Company to operate without an alternate Statutory Auditor.

Deloitte & Associés

185, avenue Charles de Gaulle – 92524 Neuilly-sur-Seine Cedex

Represented by Sylvie Bourguignon, Partner, and José-Luis Garcia, Partner

Alternate: BEAS, represented by Mireille Berthelot, Partner

Appointed by the Ordinary and Extraordinary Shareholders' Meeting of January 29, 2013, for six years, until after the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2018.

Compensation and benefits paid to members of management bodies in the fiscal year 2016

(EUR thousands)	Fixed gross compensation	Variable gross compensation	Exceptional gross compensation	Benefits in kind	Total
Philippe Mills ⁽¹⁾	320 ⁽²⁾	-	-	-	320

(1) Chairman of the Board of Directors and Chief Executive Officer

(2) Excluding reintegration of surplus pension contributions

Board members' fees paid by SFIL

Board members	Fees paid for 2015	Fees paid for 2016
Philippe Mills	/	/
Jean-Pierre Balligand	14,500.00 ⁽¹⁾	13,500.00 ⁽¹⁾
Serge Bayard	/	11,625.00 ⁽²⁾
Catherine Boyaval	/ ⁽³⁾	/ ⁽³⁾
Pascal Cardineaud	/ ⁽³⁾	/ ⁽³⁾
Delphine de Chaisemartin	14,500.00 ⁽⁴⁾	17,500.00 ⁽⁴⁾
Lorraine Coudel	/ ⁽³⁾	/ ⁽³⁾
State, represented by Jérôme Reboul	/	5,750.00 ⁽⁵⁾
Patrick Galland	/ ⁽³⁾	/ ⁽³⁾
Frédéric Guillemin	/ ⁽³⁾	/ ⁽³⁾
Cathy Kopp	18,500.00 ⁽¹⁾	14,750.00 ⁽¹⁾
Françoise Lombard	/ ⁽⁶⁾	/ ⁽⁶⁾
Chantal Lory	21,500.00 ⁽⁷⁾	20,500.00 ⁽⁷⁾
Emmanuel Massé	/ ⁽⁶⁾	/ ⁽⁶⁾
Serge Morvan	/ ⁽⁶⁾	/ ⁽⁶⁾
Françoise de Panafieu	12,500.00 ⁽¹⁾	13,500.00 ⁽¹⁾
Antoine Saintoyant	/	5,625.00 ⁽⁵⁾
Pierre Sorbets	/	5,625.00 ⁽⁸⁾
Rémy Weber	10,000.00 ⁽²⁾	/

(1) Including the amount paid for participation in the Appointments Committee and the Compensation Committee.

(2) Including the amount paid for participation in the Financial Statements Committee and the Risks and Internal Control Committee. The fees are paid to La Banque Postale.

(3) Pursuant to the provisions of the ordinance of August 20, 2014 and law 83-675 of July 26, 1983, on the democratization of the public sector, the functions of members of the Board of Directors representing the employees are not paid.

(4) Including the amount paid for participation in the Financial Statements Committee, the Risks and Internal Control Committee, the Appointments Committee and the Compensation Committee. The fees are paid to Caisse des dépôts et consignations.

(5) Fees paid to the budget of the State.

(6) Before the ordinance of August 20, 2014, decided by the Board of Directors on 24 March 2016, came into effect, pursuant to provisions of Act No. 83-675 of 26 July 1983 on the democratization of the public sector the mandates of members of the Board of Directors representing the State were free of charge.

(7) Including the amount paid for participation in the Financial Statements Committee and the Risks and Internal Control Committee.

(8) Including 70% of directors' fees paid to the State budget and 30% paid to Pierre Sorbets pursuant to the provisions of the ordinance of December 18, 2016 issued pursuant to Article 6-V of the ordinance of 20 August 2014.

Social, environmental and societal information

1. Social information

1.1 - INFORMATION RELATED TO EMPLOYMENT

a. Total staff and gender, age, and geographical zone breakdown of employees

SFIL employed 402 people as of December 31, 2016. In 2016, SFIL hired a total of 69 people, including 35 under contracts for an unlimited period of time, 28 under fixed-term contracts and 16 under work-study contracts. Six interns were also hired under their internship program.

1. Gender breakdown of employees

	Staff presence	2013	2014	2015	2016
Men		157	204	215	226
Women		168	179	186	176
TOTAL		325	383	401	402

2. Age and socio-professional category breakdown of employees

2016	<25 years	From 25 to 29 years	From 30 to 34 years	From 35 to 39 years	From 40 to 44 years	From 45 to 49 years	From 50 to 54 years	From 55 to 59 years	60 years and older	Total
Managers	3	29	64	71	76	49	37	22	4	355
Non-managers	18	5	3	7	2	5	5	1	1	47
TOTAL	21	34	67	78	78	54	42	23	5	402

3. Geographical zone breakdown of employees

	2015	2016
Issy les Moulineaux	370	380
Lyon	31	22
TOTAL	401	402

b. Hiring and layoffs

	2015	2016
Hiring with permanent contracts	22	23
Movement towards permanent contract employment	-2	-14
Layoffs/terminations of permanent contracts	-4	-9
Resignations with permanent contracts	-11	-7
Retirements/other reasons	0	-3
Hiring with temporary contracts (incl. Interns)	42	44
Layoffs/Resignations with temporary contracts	-8	-5
End of temporary contracts	-26	-28

c. Compensations and their development

1. Compensation policy

SFIL's Compensation Committee prepares all items related to the compensation policy. Its proposals are submitted to the Board of Directors of SFIL which decides on the appropriate measures and approves the compensation policy. SFIL defines its compensation policy in accordance with five key principles. The compensation policy must:

- be in line with market practices;
- be transparent;
- comply with regulations;
- ensure equal opportunity;

- guarantee a balance between fixed and variable compensation and motivate employees.

This approach relates to both fixed compensation (not performance-related) and variable compensation (performance-related) and the general principles apply to all employees. The principle of balance between fixed and variable compensation seeks to discourage excessive risk-taking and to encourage a sufficiently flexible and coherent variable compensation policy at SFIL.

2. Cap on variable compensation

By virtue of the transposition into French law of the measure to cap the variable compensation of bankers adopted at the European level on April 16, 2013 (CRD IV approved in 2013 for application in 2015 for 2014), the variable compensation for a given year cannot exceed 100% of the fixed compensation.

3. Compensation of the Chairman and Chief Executive Officer

Pursuant to the provisions of the decree 53-707 of August 9, 1953, amended by decree 2012-915 of July 26, 2012, relating to government control of the national public companies and certain organizations pursuing economic or social goals, which apply to SFIL, the annual gross compensation of the Chief Executive Officer⁽¹⁾ of SFIL may not exceed EUR 450,000.

On this basis, the compensation of the Chairman and Chief Executive Officer of SFIL is proposed by the Compensation Committee for the approval of the Board of Directors, subject to the authorization of the Ministry of the Economy and Finance.

(1) According to the aforementioned decree of 1953, this includes, in the case of SFIL, the Chairman and Chief Executive Officer, then the Chief Executive Officer and the Chairman of the Board of Directors.

4. Compensation paid to the members of the Management Committee, the general auditor and individuals whose professional activities have a material impact on the Company's risk profile

SFIL's compensation policy contains special provisions applicable to a clearly identified group of people whose duties may impact the risk profile of SFIL.

They include members of the Executive Committee, the General Auditor, financial market professionals, risk managers, those engaged in internal control and compliance, and all employees whose variable compensation exceeds EUR 87,500 during a given year.

The compensation of members of the Executive Committee and the General Auditor, with the exception of the Chief Executive Officer, is submitted for consideration to the Compensation Committee before being presented to the Board of Directors. If the variable compensation paid for year N exceeds EUR 87,500, a portion of the variable compensation will be paid on a non-deferred basis (60%) during year N+1, and a portion will be paid on a deferred basis (40%) over three years (starting in the year following that in which it was awarded). This deferred portion will be subject to the level of performance being maintained. This principle of spreading out variable compensation applies to all SFIL employees (including members of the Executive Committee and the General Auditor).

In 2016, the gross compensation paid to the aforementioned group of people totalled EUR 4.63 million and concerned 28 employees.

5. Gross payroll

In 2016, the annual gross payroll was EUR 28.43 million (in 2015, this amount was EUR 26.83 million).

6. Average fixed annual compensation

The average fixed annual compensation of employees with permanent contracts present as of December 31.

EUR	2015	2016
Permanent contract	62,015	63,345

7. Incentive and profit-sharing schemes

Incentive and profit-sharing schemes are in effect at SFIL (agreements of June 27, 2014).

8. Status of employee shareholding

Pursuant to the provisions of article L.225-102 of the Code of Commerce, the employees of the Company and associated companies in the sense of article L.225-180 of the Code of Commerce had no shares in the capital of the Company at the close of the year.

1.2 - ORGANIZATION OF WORK

a. Organization of work schedule

	Number of employees	% of employees
2016		
Part-time employees	45	11%
Teleworking employees	84	21%
Employees with flat daily rate	344	86%
Employees with hourly rate	58	14%

b. Absence rate*

In 2016, the absence rate was 2.0% (in 2015, this rate was 2.0%).

* Absence due to sickness, work/commuting accidents.

1.3 - LABOR RELATIONS

a. Organization of labor relations, notably the procedures for informing and consulting the staff as well as negotiations with them

In 2016, employee representative bodies were convened according to legal and contractual regulations in force, and when it was required, including:

- 15 meetings for the Works Council,
- 4 meetings for the CHSCT, and
- 11 meetings for the staff representatives.

b. The balance sheet of collective agreements

The year 2016 was marked by numerous negotiations, which resulted in signing the following agreements:

- agreement on labor relations (10/10/2016);
- amendment on the employee savings plan (3/14/2016),
- agreement on the healthcare costs and welfare (10/17/2016),
- agreement on the GPEC (1/19/2016),
- agreement on CHSCT Mandate Extension (2/10/2016),
- agreement of teleworking (11/14/2016).

A record of disagreement was drawn up concerning the mandatory annual negotiation (02/11/2016).

1.4 - HEALTH AND SAFETY

a. Health and work safety conditions

In 2016, a new occupational physician was appointed.

New work was conducted regarding the safety of working conditions (preparation of the 2017 negotiations on the following issues: work safety, professional equality, personal / professional time).

b. The record of the agreements signed with the trade union organizations or the representatives of the personnel in the field of health and safety at work

SFIL organized several internal events regarding health and safety of workers (dependency workshops, sleep workshops, team accompaniment in difficult situations, disability awareness day, etc.).

The employees were informed about the existing tools to prevent human risks: *allodiscrim*, counselling, mediator, etc.

c. Accidents at work, including their frequency and severity, as well as occupational diseases

2016	Number of employees	Frequency rate	Severity rate
Work accidents	0	-	-
Commuting accidents	6	9.34	0.14
Professional diseases	0	-	-

(1) The frequency rate measures the number of accidents involving a group of workers over a determined period of time = the number of accidents x 1,000,000 / the number of hours of exposure to risks. The severity rate measures the number of calendar days of work incapacity of a group of workers over a determined period of time = the number of calendar days of work incapacity x 1,000,000 / the number of hours of exposure to risks.

1.5 – TRAINING

a. Implemented training policies

SFIL remains particularly attentive to maintaining and developing the skills of its managers and employees.

The most important aspects and activities of training included:

- strengthening managers' skills in order to homogenize managerial practices and develop collective intelligence (12% of training hours);
- supporting managers and employees in the development of their behavioural skills: interpersonal relations – “Process Communication Management”; public speaking and conducting meetings; change management, etc. (22% of training hours);
- maintaining and optimizing professional skills of employees: regulations, credit and markets risks, local budgets, export credit, ALM, market products, compliance, linguistics, office software and IT, etc. (57% of training hours);
- improving the quality of working conditions and work/lifebalance: for example, workshops for preventing sleep or teleworking in the context of their development at the Company (5% of training hours);
- training of employee representatives (5% of training hours).

SFIL also assists its managers and employees through its coaching program.

b. Total number of training days

In 2016, 1,329 days were provided (i.e. 9,308 hours on a basis of 7 hours a day) which represents 3.5 days per employee (381 employees with permanent and temporary contracts).

1.6 – EQUALITY OF TREATMENT

a. Measures on establishing equality between women and men

In 2016, a EUR 31,242 budget was devoted to professional equality. This specific budget allowed for an increase in the remuneration of 21 employees (17 women and 4 men) for an average annual amount of 1,675 euros/employee.

Moreover, on November 17, 2016, SFIL presented to its Compensation Committee its project for the development of professional mix defining in particular the quantitative objectives for the upcoming years.

b. Measures on the employment and employees with disabilities

In 2016, the first three-year Company agreement for the recruitment and retention of persons with disabilities, which was approved by the State services (DIRECCTE 92). The objective of doubling the employment rate of people with disabilities has been achieved, which stands at 2.5%.

The most significant actions include:

- The continuation of awareness-raising activities within the Company, in particular at the SEEPH: workshops on visual and auditory handicapped persons, relying on independent handicapped workers (TIH) for demonstrations;
- The employment of workers with disabilities was made possible by the adapted SOTRES 92 program with two projects on going paper-free within several months;
- Based on the Macron law, the partnership with TIH Business was established in order to increase the employment of persons with disabilities at the Company;

- Training was provided to the teams, including, for example, responsible purchasing from EA and ESAT.

c. Anti-discrimination policy

At the beginning of 2016, SFIL reinforced its anti-discrimination scheme, in particular including services offered by ALLODISCRIM, which represents an external organization of attorneys offering counselling (free and completely anonymous for employees) to employees and interns who experience discriminations or inequality (consultations with the attorneys are protected by the confidentiality regulation provided for by the law).

SFIL's objective is to prevent and resolve the situations at work that could cause non-compliance with the principle of equal treatment and non-discrimination, harassment and cases of racist or discriminatory abuse.

1.7 – PROMOTION AND COMPLIANCE WITH THE PROVISIONS OF THE RELEVANT FUNDAMENTAL INTERNATIONAL CONVENTIONS ON LABOR ORGANIZATION

SFIL fully applies the French labour law, which fully incorporates the ILO conventions on:

- Respect for freedom of association and the right to collective bargaining,
- The elimination of discrimination in respect of employment and occupation,
- The elimination of forced or compulsory labour,
- To the effective abolition of child labour.

2. Environmental information

2.1 – GENERAL ENVIRONMENTAL POLICY

In early 2016, SFIL set up a sustainable development committee comprising employees of the Company, whose objective is to implement awareness-raising actions on waste management, energy savings and CO₂ reduction.

The renewal of the HQE certification for commercial buildings in operation of the headquarters building based on the axes of sustainable buildings, sustainable management and sustainable use was granted on January 29, 2016 at a very good level.

Amount of provisions and guarantees for environmental risks

The financial statements as of December 31, 2016 do not include any provision or guarantee regarding environmental risks.

2.2 – POLLUTION

a. Measures to prevent, reduce or repair discharges into the air, water and soil that seriously affect the environment

SFIL uses environmental cleaning products as part of its site cleaning contracts.

b. Taking into account noise and other forms of pollution specific to an activity

Due to the activities of SFIL, no specific arrangements were provided regarding this matter.

2.3 - CIRCULAR ECONOMY

a. Waste prevention and management

SFIL has implemented a policy to control its waste and responsibly manage consumables *via* a paper and internal waste sorting, collection and recycling system (toner, electronic waste, obsolete equipment, etc.) as well as a policy to reduce its paper consumption (printer settings, reduced paper weight, use of recycled paper, Ecolabel ISO 14001, etc.).

With reference to efforts to reduce food waste, SFIL takes no specific measures. Given the sector of activity and the number of employees, the fight against food waste does not represent a significant issue.

b. Sustainable use of resources

In terms of energy consumption, the head office has an automated LED lighting system with presence detection and changes in light intensity. Since December 1, 2016, SFIL is committed, under its contract with EDF Companies for its two sites, to the 100% renewable energy option; indeed, EDF is committed to introducing to the network an amount of renewable electricity that is equivalent to 100% of the amount of electricity consumed by SFIL.

To reduce the consumption of water, special equipment has been installed on all the faucets on Company sinks.

2.4 - CLIMATE CHANGE

a. Significant amounts of greenhouse gas emissions generated as a result of the Company's activity, in particular through the use of the goods and services it produces

In order to control CO₂ emissions, the Company has agreed to pay 60% of the cost of public transportation passes for its employees working at the head office.

The consumption of energy is addressed by a renewable energy contract with EDF. This initiative helps limit the emission of greenhouse gases.

b. Adapting to the consequences of climate change

Due to the activities of SFIL, no specific arrangements were provided regarding this matter.

2.5 - PROTECTION OF BIODIVERSITY

Due to the activities of SFIL, no specific arrangements were provided regarding this matter.

3. Societal information

3.1 - TERRITORIAL, ECONOMIC AND SOCIAL IMPACT OF THE COMPANY'S ACTIVITIES

a. With regard to employment and regional development

SFIL employed an average of 409 employees (with different work status) in 2016 at its two office sites in Issy-les-Moulineaux and Lyon (Issy-les-Moulineaux 382 employees, and Lyon 27 employees).

b. On local populations

None

3.2 - RELATIONSHIPS WITH THE PERSONS OR ORGANIZATIONS INTERESTED IN THE COMPANY'S OPERATION

a. The conditions for dialogue with such persons or organizations

- Financing of the training of alternating employees with 22 institutions of higher education.
- Financing *via* the 2016 Learning Tax of:
 - 5 schools: Morteau (29) : Lycée Edgar Faure, Romans-sur-Isère (26): Lycée Notre Dame; St Maur des Fossés (94): Lycée Gourdou Lesseure; Asnières-sur-Seine (92); Lycée de Prony; Saint-Etienne (42): Lycée Ste Marie.
 - 5 institutions of higher education: ENSAE, Université PARIS DAUPHINE, Université PARIS SORBONNE, IEP Paris, Université PARIS XIII.
 - 3 associations promoting diversity: PASSEPORT AVENIR, INSTITUT TELEMAQUE, HANDICAP.

b. Partnership or patronage activities

Since 2013, SFIL has participated in the Campus l'Envol project with its partner La Banque Postale. L'Envol was conceived to foster the schooling every year of some 150 talented and hard-working young people from modest backgrounds, both in rural and urban areas, by coaching them individually from high school to their entry into a high-level selective employment pool throughout France and including overseas territories.

In January 2016, L'Envol launched a professionally oriented program for students in professional training schools in the fields of food services, art and metallurgy.

SFIL also took part in other partnerships to encourage diversity and equal opportunity.

SFIL is likewise a member of Club Être Entreprises, which was created to favor the employment of the disabled and to lobby to promote diversity in the public sector.

SFIL also signed a partnership agreement with TREMPILIN, a non-profit organization to integrate disabled recent graduates into businesses, and with TIH Business, an organization founded by the creator of Restaurants in the Dark, which highlights the contribution of disabled self-employed individuals to corporate goals.

SFIL is a member of the HANDECO PAS-à-PAS, which works to encourage the employment of mentally retarded individuals in the workplace.

3.3 - SUBCONTRACTING AND SUPPLIERS

Consideration of social and environmental issues in the purchasing policy and the importance of subcontracting and taking into account their social and environmental responsibility in their relations with suppliers and subcontractors

SFIL pays great attention to the choice of its suppliers and subcontractors.

The purchasing policy of SFIL indicates that the company promotes sustainable and socially responsible purchases whenever it is possible. In particular, SFIL uses companies in the adapted sector. In 2016, workers with disabilities were

made available to SFIL by the adapted SOTRES 92 program to carry out projects on going paper-free.

The referencing of SFIL's suppliers and their possible sub-contractors takes into account the CSR certifications obtained.

In addition, ratings obtained from SFIL's internal vendor evaluation campaigns integrate the social ethics practices perceived through the services provided.

Finally, SFIL's framework contracts remind its suppliers of the tax and social legislation and the legal provisions in force concerning the performance of services. For this purpose, SFIL regularly carries out the required checks.

3.4 - LOYALTY OF PRACTICES

a. Actions to prevent corruption

Today, SFIL, as a public development bank with an international presence since 2016, has chosen to integrate the risk of corruption into its organization, alongside reputation risk, operational risk, or financial risk. As such, SFIL pays a particular attention to fighting this threat, both within the Company itself and in the context of the projects in which it is involved. The strengthening of the corruption prevention system in 2016 clearly positions this action at the heart of the Bank's concerns.

Indeed, SFIL, which is not itself within the scope of the SAPIN II Act, has nevertheless opted for 2016 to implement

complementary compliance measures in line with the measures required by the Sapin II law, with the aim of strengthening the Group's anti-corruption system. This approach will be continued in 2017, with the establishment of a charter and an anti-corruption policy, respectively.

The Group is committed to implementing the necessary measures to prevent the risk of exposure to corruption. The updating of the Group's code of ethics at the end of 2016 is an important step in attesting to this desire to remain a committed player in preventing corruption. The objective is to identify and define for each process the specific responsibilities of SFIL/CAFFIL and its collaborators in preventing corruption, as well as those of all third parties with whom the bank is or may be involved, i.e. its customers, its financial counterparties, its suppliers and its service providers.

The system of the Bank thus provides for an internal alert procedure, a training plan for all employees, and in particular the executive committee, executives and exposed personnel, a risk mapping, and an adequate internal control system.

b. Measures on health and safety of consumers

Due to the activities of SFIL, no specific arrangements were provided regarding this matter.

3.5 - OTHER HUMAN RIGHTS ACTIONS

None

Report of one of the Statutory Auditors, appointed as an independent third body, on social, environmental and societal information in the Management Report Year ended December 31, 2016

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

To the Shareholders,

In our capacity as Statutory Auditor of SFIL SA, appointed as independent third party and certified by COFRAC under number(s) 3-1048⁽¹⁾, we hereby report to you on the human resources, environmental and social information for the year ended December 31, 2016, included in the management report (hereinafter named CSR Information), pursuant to article L.225-102-1 of the Code of Commerce.

COMPANY'S RESPONSIBILITY

The Board of Directors is responsible for preparing a company's management report including the CSR Information required by article R.225-105-1 of the Code of Commerce in accordance with the procedures used by the Company (hereinafter the "Guidelines"), summarised in the management report.

INDEPENDENCE AND QUALITY CONTROL

Our independence is defined by regulatory texts, the French Code of ethics (*Code de déontologie*) of our profession and the requirements of article L.822-11 of the Code of Commerce. In addition, we have implemented a system of quality control including documented policies and procedures regarding compliance with the ethical requirements, French professional standards and applicable legal and regulatory requirements.

STATUTORY AUDITOR'S RESPONSIBILITY

On the basis of our work, our responsibility is to:

- attest that the required CSR Information is included in the management report or, in the event of non-disclosure of a part or all of the CSR Information, that an explanation is provided in accordance with the third paragraph of article R.225-105 of the Code of Commerce (Attestation regarding the completeness of CSR Information);
- express a limited assurance conclusion that the CSR Information taken as a whole is, in all material respects, fairly presented in accordance with the Guidelines (Conclusion on the fairness of CSR Information).

Our work involved 3 persons and was conducted in March 2017 during a two week period. We were assisted in our work by our sustainability experts.

We performed our work in accordance with the order dated May 13, 2013, defining the conditions under which the independent third party performs its engagement and the professional guidance issued by the French Institute of Statutory Auditors (Compagnie nationale des commissaires aux comptes) relating to this engagement.

(1) whose scope is available at www.cofrac.fr

1. Attestation regarding the completeness of CSR Information

NATURE AND SCOPE OF OUR WORK

On the basis of interviews with the individuals in charge of the relevant departments, we obtained an understanding of the Company's sustainability strategy regarding human resources and environmental impacts of its activities and its social commitments and, where applicable, any actions or programmes arising from them.

We compared the CSR Information presented in the management report with the list provided in article R.225-105-1 of the Code of Commerce.

For any information that is not disclosed, we verified that explanations were provided in accordance with article R.225-105, paragraph 3 of the Code of Commerce.

We verified that the CSR Information covers the scope of consolidation, i.e., the Company, its subsidiaries as defined by article L.233-1 and the controlled entities as defined by article L.233-3 of the Code of Commerce.

CONCLUSION

Based on the work performed, we attest that the required CSR Information has been disclosed in the management report.

2. Conclusion on the fairness of CSR Information

NATURE AND SCOPE OF OUR WORK

We conducted three interviews with the persons responsible for preparing the CSR Information in the departments in charge of collecting the information and, where appropriate, responsible for internal control and risk management procedures, in order to:

- assess the suitability of the Guidelines in terms of their relevance, completeness, reliability, neutrality and understandability, and taking into account industry best practices where appropriate ;
- verify the implementation of data-collection, compilation, processing and control process to reach completeness and consistency of the CSR Information and obtain an understanding of the internal control and risk management procedures used to prepare the CSR Information.

We determined the nature and scope of our tests and procedures based on the nature and importance of the CSR Information with respect to the characteristics of the Company, the human resources and environmental challenges of its activities, its sustainability strategy and industry best practices.

Regarding the CSR Information at SFIL that we considered to be the most important ⁽¹⁾:

- we referred to documentary sources and conducted interviews to corroborate the qualitative information (organisation, policies, actions), performed analytical procedures on the quantitative information and verified, using sampling techniques, the calculations and the consolidation of the data. We also verified that the information was consistent and in agreement with the other information in the management report;
- we conducted interviews to verify that procedures are properly, and we performed tests of details, using sampling techniques, in order to verify the calculations and reconcile the data with the supporting documents. The selected sample covers all the employees and activities of the group.

*(1) Social information: Total employees and distribution of employees by sex, age and geographical area; Hiring and dismissals; Total gross payroll distributed; Work accidents; Total number of training days.
Other information: Headquarters HQE certification, renewable energy contract with EDF, update of the Group's code of ethics and professional conduct*

For the remaining CSR Information, we assessed its consistency based on our understanding of the company.

We also assessed the relevance of explanations provided for any information that was not disclosed, either in whole or in part.

We believe that the sampling methods and sample sizes we have used, based on our professional judgement, are sufficient to provide a basis for our limited assurance conclusion; a higher level of assurance would have required us to carry out more extensive procedures. Due to the use of sampling techniques and other limitations inherent to information and internal control systems, the risk of not detecting a material misstatement in the CSR information cannot be totally eliminated.

CONCLUSION

Based on the work performed, no material misstatement has come to our attention that causes us to believe that the CSR Information, taken as a whole, is not presented fairly in accordance with the Guidelines.

Neuilly-sur-Seine, March 29, 2017.

One of the Statutory Auditors

DELOITTE & ASSOCIÉS

Sylvie Bourguignon

Additional information

1. Review of the by-laws

Amendment of Article 4 of the by-laws with respect to the possibility for the Board of Directors to transfer the registered office to the entire French territory

In order to take account of the possibility offered by law 2016-1691 of December 9, 2016, to allow the Board of Directors to transfer the registered office to the entire French territory and not only in the same department or in a neighbouring department, it is proposed to amend article 4 of the by-laws ("Registered Office").

Amendment of article 22 of the by-laws in relation to the procedure of informing the ACPR about the Statutory Auditors and (ii) the lack of any obligation to appoint an alternate Statutory Auditor

In order to bring the by-laws into conformity with (i) the provisions of instruction 2016-I-07 on the information to be transmitted to the Autorité de contrôle prudentiel de résolution on the Statutory Auditors, and (ii) the provisions of article L.823-1 of the Code of Commerce amended by the Sapin II law, it is proposed to amend article 22 of the by-laws ("Statutory Auditors").

2. Composition of the Board of Directors

Appointment of a member

It is proposed that Pierre Sorbets, who has resigned as a Board of Directors' member appointed by a proposal from the State, be appointed by the Shareholders' Meeting of May 31, 2017 as Board of Director's Member for a period of

four years, i.e. until the end of the Ordinary Annual Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2020.

Reappointment of two members

The terms of office of Delphine de Chaisemartin and Serge Bayard expire at the Shareholders' Meeting of May 31, 2017 and it is therefore proposed to renew their mandates as Members of the Board of Directors for a period of four years, i.e. until the Ordinary Annual Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2020.

3. Increase of total Board Members' fees

Taking into account the separation of the functions of Chairman of the Board of Directors and of Chief Executive Officer and any changes to take place – specialized committees – the Shareholders' Meeting of May 31, 2017, is asked to augment total Board Members' fees from EUR 170,000 to EUR 180,000.

It is to be noted that since the beginning of the year, the Company has pursued its activity in a normal fashion.

No convention as stipulated in the last paragraph of article L.225-102-1 of the Code of Commerce requires mention.

Report prepared in accordance with article L.225-37-2 of the Code of Commerce

This report presents and details the principles and criteria for determining, distributing, and allocating fixed, variable and exceptional components of the total compensation and benefits of any kind attributable to the Chairman of the Board of Directors and the Chief Executive Officer by virtue of their mandate for the year 2017 and constituting their remuneration policy.

1. Compensation of the Chairman of the Board of Directors and the Chief Executive Officer from the proposed separation of the duties of Chairman of the Board of Directors and Chief Executive Officer

Pursuant to the provisions of the decree 53-707 of August 9, 1953, amended by decree 2012-915 of July 26, 2012, relating to government control of the national public companies and certain organizations pursuing economic or social order, which apply to SFIL, the annual gross compensation of Chief Executive Officer⁽¹⁾ of SFIL may not exceed EUR 450.000. It comprises a fixed portion and a variable portion which is less than 10% of the fixed amount allocated. The payment of the variable portion is assessed on the basis of criteria based on a financial indicator (RBE) and strategic objectives related to the Company's business. The achievement of the objectives is assessed by the Compensation Committee and then by the Board of Directors. Under the provisions of the aforementioned decree of 1953, the determination of this variable compensation is approved by the Minister of Economy.

On this basis, the compensation of the Chairman of the Board of Directors and Chief Executive Officer from the proposed separation of the functions of Chairman of the Board of Directors and Chief Executive Officer of SFIL is proposed by the Compensation Committee to the Board of Directors for approval, subject to the approval of the Minister of Economy.

2. Compensation of the Chairman of the Board of Directors and the Chief Executive Officer from the proposed separation of the duties of Chairman of the Board of Directors and Chief Executive Officer

The Chairman of the Board of Directors receives compensation in the form of directors' fees, including a lump sum in addition to fees received for attendance at meetings of the Board and, if applicable, meetings of specialized com-

mittees in accordance with the proposed ceilings by the Compensation Committee and approved by the Board of Directors.

Pursuant to the provisions of the aforementioned decree of 1953, the Minister of Economy approves the amount and method of allocation of the attendance fees as well as the remuneration of the Chairman of the Board of Directors.

3. Presentation of proposed resolutions submitted to shareholders' vote

Pursuant to the AFEP-MEDEF Code, a resolution on the compensation of the Chairman of the Board of Directors and Chief Executive Officer for 2016 is submitted to the Shareholders' Meeting of May 31, 2017 (cf. the ninth resolution set out below).

As of fiscal year ended on December 31, 2017, pursuant to article L.225-37-2 of the Code of Commerce, the payment of variable and exceptional remunerations for the previous year will be subject to the approval by the Annual Ordinary Shareholders' Meeting that will be held during the following year, the compensation of the person concerned.

Ninth resolution: Opinion on the elements of compensation due or allocated for the year ended December 31, 2016 to Philippe Mills, Chairman of the Board of Directors and Chief Executive Officer

The Shareholders' Meeting, consulted pursuant to the recommendation of § 24.3 of the AFEP-MEDEF Corporate Governance Code, which constitutes the company's reference code pursuant to article L.225-37 of the Code of Commerce, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, issued a favorable opinion regarding the compensation elements owed or allocated for the fiscal year closed December 31, 2016 to Philippe Mills, Chairman of the Board of Directors and Chief Executive Officer, as presented under the section, « Compensation and other benefits granted to company officers for the fiscal year 2016 » in the annual financial statement.

⁽¹⁾ According to the aforementioned decree of 1953, this includes, in case of SFIL, the Chairman and Chief Executive Officer, then the Chief Executive Officer and the Chairman of the Board of Directors.

Tenth resolution: approval of the principles and criteria for determining, distributing and allocating fixed, variable and exceptional components of the total compensation and benefits of any kind attributable to Philippe Mills

Having examined the report provided for by article L.225-37-2 of the Code of Commerce, the Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, approved the principles and criteria for determining, distributing, and allocating the fixed, variable, and exceptional elements making up the total compensation and benefits of any nature presented in the aforementioned report and payable, due to his office of Chairman of the Board of Directors and Chief Executive Officer, then of Chief Executive Officer to Philippe Mills.

Eleventh resolution: Approval of the principles and criteria for determining, distributing and allocating the fixed, variable and exceptional components of the total compensation and benefits of any kind attributable to Chantal Lory

Having examined the report provided for by article L.225-37-2 of the Code of Commerce, the Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, approved the principles and criteria for determining, distributing, and allocating the fixed, variable, and exceptional elements making up the total compensation and benefits of any nature presented in the aforementioned report and payable, due to her office of Chair of the Board of Directors, to Chantal Lory.



#HORIZON2021

SFIL's strategic plan

#Definition

#Horizon2021 is **the strategic five-year action plan** designed to affirm SFIL's unique identity as a public development bank that pursues public policy missions while sustainably offsetting market shortcomings.

#Goals

- **To maintain the position of leadership** we have acquired with our partner, La Banque Postale, in the long-term financing of the French local public sector,
- **To be a major player in export refinancing,**
- **To generate lasting profitability.**

#Assets

- **A unique link with the French State,** forged by our status as a successful public development bank,
- **Exceptional financing capacity,** with high ratings, a diversified investor base and an unparalleled issuance capacity for long durations,
- Seasoned, united **teams, who achieve operational excellence as they do their jobs every day.**



Environment



Infrastructures



Education



Healthcare



Major projects

Corporate governance and internal control

Report of the Chairman of the Board of Directors on internal control prepared in accordance with article L.225-37 of the Code of Commerce

This report details the composition of the Board of Directors and the application of the principle of balanced representation of men and women on the Board, the conditions of preparation and organization of the deliberations of the Board, as well as the internal control and risk management procedures applied by the Company, in particular by examining the procedures which are used to prepare and process accounting and financial information for the annual financial statements and consolidated accounts.

SFIL, a *société anonyme* with a Board of Directors, is owned as follows: 75% held by the French State, 20% by the Caisse des dépôts et consignations, and 5% by La Banque Postale. It received its approval to operate as a bank on January 16, 2013. SFIL is subject to the Code of Commerce as a commercial enterprise, to national regulations (Monetary and Financial Code, *arrêté* of November 3, 2014, regarding the internal control of companies in the sector of banking, payment services and investment services subject to the control of the Autorité de contrôle prudentiel et de résolution - ACPR) and EU regulations applicable to its status as a credit institution, as well as to the provisions of the ordinance of August 20, 2014, ratified and amended by the law of August 6, 2015, by reason of its shareholding structure.

This report was prepared by the Chairman and Chief Executive Officer of SFIL, who collected the necessary information from the Internal Audit division, the General Secretariat, and all of the Company's operational divisions involved in the management of operations. It presents all the principles and procedures applied in 2016.

1. Conditions of preparation and organization of the deliberations of the Board of Directors

1.1 - BOARD OF DIRECTORS

The Board of Directors determines SFIL's business strategy and ensures its proper implementation. Subject to the powers expressly conferred to the shareholders' meetings and within the limits of the Company's corporate purpose, it addresses all issues affecting the Company's operations and, through its deliberations, settles all matters concerning such.

In May 2016, the Company's governance was brought into conformity with the provisions of ordinance 2014-948 of August 20, 2014, amended, regarding capital operations of public sector companies. The Ordinary and Extraordinary Shareholders' Meeting of May 26, 2016, thus modified the Company's by-laws and appointed seven members to

the Board of Directors, two of whom were proposed by the French State (Antoine Saintoyant and Pierre Sorbets). The French State, which is also a Board member, named Jérôme Reboul as its representative. Following this operation, and considering the resignations of Françoise Lombard, Emmanuel Massé, and Serge Morvan, the Board of Directors remained composed of 15 members (nine named by the Ordinary Shareholders' Meeting, one named by *arrêté*, and five elected by the employees of the Company. Of the Board's fifteen members, six are women (excluding Board members representing the employees, the representation of woman/men is 40% women and 60% men). The Appointments Committees recognized, according to the terms of the AFEP/MEDEF Code, the independence of the four Board members who were confirmed by the Board of Directors. While respecting the specific conditions for appointments linked to the status of SFIL, the members of the Board of Directors are chosen on the basis of their skills and experience with regard to the Company's activities. The new appointments were approved by the European supervisor on the basis of a "fit and proper" analysis.

Pursuant to the recommendations of the AFEP-MEDEF Code, the Ordinary and Extraordinary Shareholders' Meeting held on May 26, 2016, reduced the term of office of members of the Board of Directors from five to four years. Philippe Mills assumed the position of Chairman of the Board of Directors and Chief Executive Officer. This principle of non-separation of duties was approved by the French regulatory authority (Autorité de contrôle prudentiel et de résolution - ACPR) when the Company was set up. As Chairman of the Board of Directors, Philippe Mills organizes and directs the Board's deliberations, ensures the efficiency of the Company's oversight bodies and participates in the Company's relations with regulatory and supervisory authorities. As Chief Executive Officer, he exercises the broadest powers to act under all circumstances on behalf of the Company. He exercises these powers within the limits of the Company's corporate purpose and subject to the powers expressly conferred by law and the Company's by-laws to shareholders' meetings and to the Board of Directors. At request of regulatory authorities, when the Board of Directors meets to approve the financial statements for the year 2016, it will be asked to separate the two functions by appointing a Chairman of the Board of Directors and a Chief Executive Officer.

An internal rulebook, updated in 2016, defines the operation of the Company's Board of Directors. More specifically, the aim of these rules is to present the manner in which the Board of Directors can best assume its role as guardian of the common interests of all the Company's stakeholders, including in particular its shareholders, employees and partners. It specifies, in particular, the rights and duties of the members of the Board of Directors.

The Board of Directors meets at least once every quarter. In 2016, the Board of Directors met four times. The attendance rate was 87%.

The Chairman and Chief Executive Officer provides the Board members with all information, particularly of a strategic nature, they may need to perform their duties properly.

Prior to Board meetings, members of the Board receive an agenda and a file containing memoranda and documents related to the agenda.

During Board meetings, the Chairman and Chief Executive Officer present the activity and accounts of the previous period (or the financial position if there is no account closure) and an update of the main projects under way within the Company or important issues it may face. The Board is also periodically asked to review the deliberations of the Company's specialized committees.

In 2016, the Company's Board of Directors demonstrated a particular interest in the following topics:

- the bond issuance strategy of SFIL, under which a first issue was launched in 2016, and of its subsidiary, Caisse Française de Financement Local (CAFFIL);
- export credit refinancing, a business in which the first two operations were signed in June 2016;
- the pursuit of the strategy to reduce the sensitivity of structured loans with anticipation of the implementation of the support funds earmarked for local governments and public healthcare facilities, as well as the management of litigation related to these loans and the evaluation of residual risks;
- services rendered to its subsidiary Caisse Française de Financement Local, as well as to La Banque Postale;
- progress of the program designed to simplify the IT system;
- risks, particularly with the approval of the Company's risk appetite, the review for the approval of the ICAAP-ILAAP reports and the recovery plan in accordance with the banking supervision requirements;
- changes in the organisation;
- the Company's 2016-2021 strategic plan.

In accordance with current legislation, the Board was informed of the opinion of the Works' Council on the strategic orientations it had been presented with, providing responses to the observations made.

In addition, the Board of Directors was also informed of interventions by the Court of Auditors and the Supervisors, and of the responses made to the recommendations of the latter by the Company's management.

In terms of governance, it should be recalled that the Company refers to the AFEP/MEDEF code of governance. The switch to operation under ordinance 2014-948 in 2016 eliminated some provisions or constraints arising from the Public Sector Democratization Act which were applicable to SFIL. Nevertheless, there remain some specifics regarding its shareholding structure, and more particularly the fact that the French State is its majority shareholder. The main measures presenting a deviation between the company's governance and the provisions of the Code are the following.

- The number of shares held by the members of the Board of Directors. This provision is not applied by SFIL, whose shareholding structure is described above and whose shares are not publicly traded.
- The number of independent members on the Risks and Internal Control Committee and on the Financial Statements Committee. The threshold of two-thirds independent members is not respected owing to the necessary

attention paid by shareholders to the development of activities in order to ensure compliance with the conditions set by the European Commission in its decisions regarding the financing of French local governments and public hospitals, on the one hand, and the export refinancing system, on the other. It is expected that there will be more independent Board Members on these committees in 2017.

- The succession plan for Company officers. In 2016, priority was given to changes in governance tied to the switch to operation under ordinance 2014-948 (see above); this provision will be treated in 2017 by the Appointments Committee.

With regard to the operations of the Board of Directors, the evaluation conducted in 2015 found that the Board members were generally satisfied with the composition of the Board, the frequency of meetings, the level of information, the quality of the work accomplished, and of the reports submitted, as well as the quality of the work of the specialised committees. Nevertheless, improvements were deemed necessary, particularly with regard to the production and presentation of files (breakdown of time, development of alternatives, etc.). Suggestions were made by the Appointments Committee and submitted to the Board during the year. Thus, at the end of 2016, after examining the available tools, a platform was set up to provide files to the Board. Another area earmarked for improvement is to ensure that more complicated files are posted online at a date more in advance of Board meetings. Furthermore, an effort was made to breakdown discussion time on certain subjects during the meetings.

The Board called an Ordinary and Extraordinary Shareholders' Meeting on May 26, 2016. Its purpose, in the Ordinary Meeting, was to ratify the election of one Board member, the appointment of Board members, the approval of the annual and consolidated financial statements, the allocation of earnings, the approval of regulatory agreements, the determination of the amount of attendance fees, the overall amount of compensation, and the compensation items for the Chairman and Chief Executive Officer. In the Extraordinary Shareholders' Meeting, the issues discussed concerned bringing the by-laws into compliance with the provisions of the ordinance of August 20, 2014, ratified and amended by the law of August 6, 2015, reducing the length of the term of office of the Board members and making a proposal (rejected by the shareholders) to delegate the competency to increase capital reserved for employees.

1.2 – SPECIALIZED COMMITTEES OF THE BOARD OF DIRECTORS

The Board of Directors may decide to create committees made up of its members tasked with assisting the Board, for which it determines the composition, powers, and compensation, if any, of the members who carry out their activities under its responsibility and report on their work. The Chairman of each committee is appointed by the Board of Directors.

The members are from the Board of Directors, but do not have a position within the Company's management. Members are chosen on the basis of their skills and the contribution they may make to the work of the committee in question. Their chairmanship is entrusted to an independent Board member, who has proven competency in the areas under review by the committees.

a. The Financial Statements Committee and the Risks and Internal Control Committee

These two committees are composed of five members. The proportion of independent members (one member) is less than the recommendation in the AFEF-MEDEF Code (see Point 1.1). These committees meet at least four times per year. In 2016, Antoine Saintoyant replaced Emmanuel Massé on both committees. Furthermore, Patrick Galland succeeded Frédéric Guillemain on the Risks and Internal Control Committee, with the latter replacing Lorraine Coudel on the Financial Statements Committee.

In 2016, the Risks and Internal Control Committee met five times. The primary purpose of the first meeting in 2016 was to study the procedures employed (mapping, risk management procedures, annual control plan, and the results of controls) in internal control activities at SFIL and Caisse Française de Financement Local and the results of the intermediary review by the Company's Statutory Auditors. This committee brought together a limited number of participants, i.e. the Committee members, the Statutory Auditors and the heads of internal control at SFIL (the Operational Risks and Permanent Control division, the Compliance division and the Internal Audit and Inspection division). The other meetings held in 2016, in the presence of the Chairman and Chief Executive Officer and of the heads of the operating units concerned by these questions, basically discussed the quarterly reports on risk surveillance, risk appetite, ICAAP and ILAAP reports, updating the SFIL preventive recovery plan, the review of risk and compliance guidelines on the export credit refinancing activity, the IT simplification program, and semi-annual reports on compliance and audit activities.

In 2016, the Financial Statements Committee met four times. It examined the financial statements of SFIL and Caisse Française de Financement Local as of December 31, 2015, and of June 30, 2016, as well as the first quarter financial statements as of March 31, 2016 and September 30, 2016, and the corresponding Statutory Auditors' reports, efforts to reduce loan sensitivity, the strategic orientations for 2021, the SFIL EMTN programme, and the 2017 budget.

b. The Appointments Committee and the Compensation Committee

These committees are composed of six members (including three independent members). In 2016, Jérôme Reboul replaced Françoise Lombard. The members are chosen on the basis of the same criteria as those cited for the previous committees. These committees meet at least twice a year.

In 2016, the Appointments Committee met four times. Meetings were dedicated in particular to the appointment of new Board members, the renewal of the terms of office of the members of the Executive Board of Caisse Française de Financement Local, and the approval of the draft internal rulebook of the Supervisory Board of Caisse Française de Financement Local. The committee also approved the change in SFIL's organisational principles and their implementation.

In 2016, the Compensation Committee met three times. Meetings were dedicated in particular to updating the compensation policy and to reviewing the compensation of the Chairman and Chief Executive Officer. Other subjects included the project to develop gender diversity, with a definition of quantitative objectives and a review of salary measures in 2016.

2. Internal control

2.1 - ORGANIZATION OF INTERNAL CONTROL

a. Responsibilities and overall architecture of internal control

SFIL is one of the large banks that has been under the direct supervision of the European Central Bank (ECB) since November 2014 in the framework of the Single Supervisory Mechanism (SSM).

Since it manages Caisse Française de Financement Local, SFIL has been delegated to exercise the functions of internal control for Caisse Française de Financement Local pursuant to its management agreement. Consequently, internal control at SFIL also meets the regulatory obligations of Caisse Française de Financement Local in this regard.

The objectives and organization of SFIL's internal control system are defined within the framework set by the Monetary and Financial Code, and by the *arrêté* of November 3, 2014. According to these legal texts, the internal control system requires that different control procedures are applied to provide:

- a control system for operations and internal procedures;
- an organization of financial and accounting data;
- systems to measure risks and results;
- systems to monitor and control risks;
- a system for documentation and information;
- an arrangement for monitoring cash and securities flows.

This internal control system is a process put into practice by the management and all the employees of SFIL, at the initiative of its Board of Directors. The organization is designed to provide reasonable but not absolute assurance with regard to the achievement of the objectives that SFIL has set in terms of performance, profitability and protection of its financial assets. It addresses the four responsibilities which its shareholders entrusted to the Company: refinancing loans granted by La Banque Postale, supplying support services for La Banque Postale and the CDC-LBP joint venture, conducting a responsible and proactive policy to reduce the sensitivity of loans, and refinancing large French export credits.

The objectives of the internal control system at SFIL target the following goals:

- verifying the efficiency of the risk control system. The risk control system aims to guarantee that the risks taken by the Company are in line with the policy defined by the Board of Directors and do not exceed an agreed-upon level of risk;
- ensuring that the financial and accounting data produced is reliable and relevant. The main objective of the financial information is to give a true and fair view of the position of SFIL in a regular, complete and transparent manner;
- overseeing SFIL's compliance with the regulations and rules that govern ethical and professional conduct, particularly its legislative and regulatory obligations with regard to corporate governance and compliance;
- making sure that SFIL's processes are effective and efficient, in order to ensure the correct execution of its operations and the optimisation of its resources.

Pursuant to the *arrêté* of November 3, 2014, the general architecture of SFIL's internal control structure is comprised of three levels, so as to allow it to achieve its assigned objectives.

- The first level of control takes place in the operating teams. It is exercised by each employee and the corresponding chain of command who ensure that the operations they are responsible for are consistent with the internal procedures in effect;
- The second level of control involves permanent control activities. Specific controls are performed by a network of correspondents designated within the operational divisions, who report to the Operational Risks and Permanent Control division, itself a part of the Risks division, for these tasks. These controls are supplemented by those conducted for non-compliance risks (in the four areas of compliance: organisation of compliance, professional conduct and ethics, protection of customer interests and financial security) by the Compliance division;
- The third control level is the periodic audit of the Internal Audit and Inspection division by an independent team. Reporting to the Chairman and Chief Executive Officer of SFIL, the objective of this team is periodically to check that the two controls mentioned above are applied correctly.

The different entities in charge of internal control (Operational Risks and Permanent Control division, Compliance division and Internal Audit and Inspection division) meet every two months as an Internal Control Committee in order to share information about the risks each division has identified in its field of competence, in order to coordinate internal control initiatives to remedy risk situations and analyse the conclusions in their respective control plans.

In this context, a shared computer system provides continuous automated management so that the teams can monitor risks, controls, recommendations and action plans for the full range of internal control functions at SFIL.

The managers of the Internal Control division report to the Chairman and Chief Executive Officer and the Board of Directors, if the latter deems it necessary. They regularly report to the appropriate board committee (the Risk and the Internal Control Committee). They may be extended by the committee at their request. They may submit a case directly to the Board or the relevant committee if they feel that an event which might have a significant impact should be submitted to them.

These different levels of control are deployed under the aegis of the management bodies of SFIL, within the following framework.

b. Oversight and executive management

The Risks and Internal Control Committee, composed of members of SFIL's Board of Directors, is responsible, in keeping with the Code of Commerce and the *arrêté* of November 3, 2014, for ensuring the efficiency of internal control and risk management systems, for giving an assessment of the quality of internal control, in particular the consistency of measurement, surveillance and risk control systems, and for suggesting, if need be, any additional action. This committee is also responsible for monitoring SFIL's permanent control, compliance and periodic control system. It likewise examines, with the Company's Statutory Auditors, any risks weighing on their independence.

The Chairman and Chief Executive Officer and the Deputy CEO of SFIL, as executive officers under current banking regulations, guarantee the efficient operation of the SFIL's internal control system. They allocate the resources required to carry out the missions of the different divisions

in charge of control, verify that the objectives are attained and that the internal control system is adapted to the needs of SFIL. To this end, they regularly receive activity reports and the results of the controls carried out in terms of permanent control, compliance and periodic control. Furthermore, these reports are presented and discussed at meetings of SFIL's Executive Committee, and the issues raised are the subject of proposed action and decisions in order to ensure continuous improvement of the internal control system.

c. Operating divisions

As the first level of the internal control system, the employees and managers of SFIL's operating divisions are in charge of analysing the risks involved in all the transactions they have initiated, organizing and conducting first-level controls for such operations, verifying that internal control procedures in their division are adapted to such risks and contributing to their development. To this end, they rely on the policies, procedures, limits and indicators with a clear separation of duties between the launch of operations and their validation, control or settlement. These policies, procedures, limits and indicators are defined by several specialized committees, composed of operational, support, and control staff, and chaired by a member of the SFIL Executive Committee, such as the Risks Committee, the New Products Committee and the Operational Risks and Permanent Control Committee.

d. The Risks division

SFIL and Caisse Française de Financement Local have set up, starting from their founding in February 2013, a full risk management system aimed at (i) identifying, monitoring, managing, and measuring risks using specific methodologies, (ii) deciding on limits to be implemented, (iii) deciding on delegations to assign to the front office teams, (iv), deciding on the amount of impairment required, (v) informing the competent committee regarding developments of these risks, proactively warning them in the event that a limit or threshold is exceeded.

The level of risk that is acceptable for SFIL and Caisse Française de Financement Local is defined by the general management and the Risks Committee at SFIL, according to the risk appetites of SFIL/CAFFIL. It is approved by the SFIL Risks and Internal Control Committee and finally by the Board of Directors. Within this framework, policies are defined for all the activities performed as well as limits and rules that govern the delegation of decisions. The Risks division monitors these limits and if required proposes measures to general management to ensure these limits are respected.

A quarterly risks review is presented to the Risks and Internal Control Committee by the Chief Risks Officer. This document provides a summary view of the main risks at SFIL and Caisse Française de Financement Local and any changes during the quarter (credit risks, balance sheet and market risks, operational risks) as well as changes in regulations over the period.

e. Committees

The Risks division relies on several committees, the missions and composition of which have been approved by the SFIL Risks and Internal Control Committee. They are cross-divisional committees - the Risks Committee, the Methods and

Models Validation Committees, the New Products Committee - and committees which are specialised in credit risks, balance sheet and market risks and the operational risks described below.

The Risks Committee defines SFIL's risk profile, validates the risk management systems and oversees compliance. In particular, it is in charge of defining delegations in the granting of credit and approving the risk policies of SFIL concerning all types of risks and the limits defined by the Risks division. The Model Validation Committees (Market Validation Committee, Credit and Quality Control Validation Committee) are in charge of validating market risk and pricing models, as well as implementing the internal rating systems that make it possible to calculate capital requirements.

The New Products Committee, headed by the Chief Risks Officer, examines and issues decisions on all new products and management processes or any transformation of a pre-existing product or process. This committee also studies new products intended for financing, refinancing or hedging risks, as well as the development of any existing product or service to the extent that it substantially modifies the risk profile or the internal processes of the company. It also determines and evaluates the risks of non-compliance connected to the creation of new products and of significant modifications of existing products/new services based on the compliance opinion submitted to it.

f. Permanent control excluding compliance

1. Organization and governance of permanent control, excluding compliance

Permanent Control excluding compliance ensures the efficiency and reliability of the risk control system, the effectiveness of the control of operations and internal procedures, the accounting and financial information quality, and IT systems quality. Permanent control measures apply to all divisions and all activities of the bank.

Permanent control, excluding compliance, is monitored by the Operational Risks and Permanent Control division, which is a part of the Risks division, in order to maintain synergies with operational risk management practices, the security of IT systems, and business continuity. This system is based both on the management of operational risks and permanent control, which performs a number of second level controls, and on a network of correspondents within the operational divisions, which are in charge of performing and monitoring certain controls.

2. Activities of permanent control, excluding compliance

The management principles governing permanent control, excluding compliance, are described in the management policy for operational risks and permanent control. Permanent control is based on a control plan covering the various business processes within SFIL and Caisse Française de Financement Local. These controls are determined in connection with the operational divisions and are reviewed every year, in order to adapt them to the SFIL position, by integrating:

- the results of controls carried out during the year (their adequacy in terms of the risks to be covered, their efficiency, formalization and the pertinence of the associated metrics);
- the review of incidents noted;

- the recommendations of the Internal Audit division, external auditors, and the regulator;
- new activities and new processes at SFIL.

Thus, this ongoing improvement effort makes it possible to develop the control plan by adapting it to the existing controls, adding new controls and/or removing controls which are redundant or are no longer useful.

The Operational Risks and Permanent Control division and their correspondents conduct or evaluate controls within their scope at pre-determined frequencies (usually quarterly, though some are conducted biannually or annually). This evaluation is documented by a commentary and supporting documentation. The results of the controls conducted or evaluated by the correspondents are reviewed by the Operational Risks and Permanent Control division, which has the option of validating the control or not, on a case-by-case basis, particularly if the documentation is deemed insufficient. In this latter case, action plans are launched to obtain a satisfactory result for subsequent periods. These action plans are regularly monitored and a quarterly report is submitted to the Operational Risks and Permanent Control Committee.

As of the end of 2016, 136 permanent controls were in place.

3. Reporting on the activities of permanent control, excluding compliance

The accountable officers, the members of the Executive Committee and the members of SFIL's Board of Directors, through its product, the Risks and Internal Control Committee, are kept regularly informed of permanent control activities.

The Operational Risks and Permanent Control division publishes a quarterly report presented to the Operational Risks and Permanent Control Committee. This committee, chaired by SFIL's Deputy CEO, includes all the members of the Executive Committee, including the heads of Strategic IT Projects and Information Systems. It meets quarterly. It examines the monitoring, performance, and adaptation of the permanent control plan: the result of the control assessment, monitoring action plans, additions, removals, or modifications of controls. It also looks at the main issues linked to permanent control and at areas of anticipated improvements. The main points raised in this committee are presented to the Risks and Internal Control Committee by the Chief Risks Officer as part of the quarterly risk review.

Furthermore, a meeting at the start of the fiscal year of the Risks and Internal Control Committee is dedicated to the subjects related to internal control, and therefore also deals with subjects regarding permanent control (action plans, key items and corrective measures already available or in the process of being developed in the area of permanent control are the subject of a detailed presentation). In 2016, the presentation was held during the committee meeting on January 26, 2017.

g. Compliance

1. Organization and governance of compliance

Compliance control at SFIL is an integral part of the internal control system of credit institutions.

The Compliance division is in charge of managing non-compliance risk as is defined by Article 10 of the *arrêté* issued on November 3, 2014, for all SFIL and Caisse Française de Financement Local operations. Non-compliance risk man-

agement aims to ensure compliance with: laws, regulations, professional conduct rules and guidelines, the reputation of the group, its investors and customers, ethical rules inherent in professional conduct, the prevention of conflicts of interest, the protection of customers' interests and market integrity, the fight against money laundering, corruption and the financing of terrorism, and compliance with financial embargoes.

Pursuant to article 29 of the *arrêté*, SFIL's Compliance division is autonomous, independent of all operational units and particularly of any commercial activity. Compliance reports to the General Secretary, who is a member of the Executive Committee of SFIL and has been designated as the compliance contact for the ACPR. Reporting directly to the Chairman and Chief Executive Officer, the General Secretary has direct and independent access to SFIL's Risks and Internal Control Committee and the Board of Directors. The General Secretary also acts as the TRAC-FIN correspondent within the framework of the obligations of banks in the fight against money laundering and the financing of terrorist activities.

2. Activities of compliance

To ensure the effectiveness of the SFIL and CAFFIL non-compliance risk management system, the Compliance division uses a compliance control plan with which to contain or even eliminate non-compliance risks.

This control plan is based on a mapping of the non-compliance risks, and is updated at least annually.

The Compliance division establishes and documents the second-level controls based on the first level controls performed by the compliance correspondents named from the eight divisions most concerned by the non-compliance risks. Regarding the duties performed by compliance as such, the controls performed when they deal with the aspects requiring a specific expertise constitute level 1 controls by the compliance officers. Dysfunctions identified as part of the performance of the control plan are systematically the subject of specific action plans addressed to the divisions in charge of implementing remediation actions. These action plans are subject both to specific monitoring by the compliance correspondents and to overall progress monitoring by Compliance.

This control plan is updated at least annually in order to account for changes in the internal and external environments of SFIL and CAFFIL.

The Compliance division has made it a mission to develop the non-compliance risk mapping methodology and the ensuing control plan in order to take into account the particularities of the large scale export loans refinancing activity. The non-compliance risk scoring methodology has also been developed so as to align with the internal audit methodology. On this basis, in December 2016 the Compliance division conducted its annual risk evaluation and updated the mapping of non-compliance risks, starting from those the annual control plan was based on by the Compliance division. This plan was approved by the Risks and Internal Control Committee in the session held on January 26, 2017. The risk mapping was also presented to the committee.

The scope of the compliance control does not extend to the control of compliance with rules not falling under the banking and financial sphere (labour law and social security, regulations regarding personal and property safety, etc.) and surveillance regarding other divisions.

3. Reporting compliance control activities

The accountable officers of SFIL, according to banking regulations, the members of the Executive Committee and the members of the Board of Directors of SFIL are regularly informed of the compliance system. The Compliance division prepares a semi-annual report which is presented to the Risks and Internal Control Committee. They examine the results of the activities conducted by the Compliance division and the result of the controls: results of the compliance controls, monitoring of the action plans, presentation of the non-compliance risk mapping and annual control plan. The Executive Committee issues decisions on the main stakes of the compliance system and the areas requiring improvement.

A detailed presentation is also made annually during a meeting of the Risks and Internal Control Committee meeting dedicated to hearing the officers of the Risks, Compliance, and Periodic Control divisions without the presence of general management. For 2016, this presentation was made during the Risks and Internal Control Committee on January 26, 2017.

h. Periodic control

1. Organization and governance of periodic control

Periodic control, in the sense of the November 3, 2014 *arrêté*, is exercised by the Internal Audit⁽¹⁾ and Inspection division⁽²⁾. The scope of this intervention covers all the activities, operational processes, and systems of SFIL without any reservations or exceptions, including outsourced essential activities and anti-fraud techniques.

The independence and efficiency of the internal audit and inspection function are guaranteed by the fact that the head is the General Auditor who reports to SFIL's Chairman and Chief Executive Officer. The other factors that also play a role are: the absence of involvement in the operating management of SFIL's activities, unconditional, immediate access to all information, documents, premises, systems or persons its activities require, the resources made available by management to carry out these missions and the respect of the principles of integrity, objectivity, confidentiality and competence (through a permanent training plan to inculcate audit techniques and regulatory developments) on the part of the staff of the Internal Audit division. These principles are reflected in the internal audit charter and the inspection charter, of which an update (to the audit charter) was proposed to the SFIL Risks and Internal Control Committee on January 26, 2017. After this update is approved, it will again be communicated to all SFIL employees in order to remind them of the rights and duties of auditors and auditees. As of January 1, 2017, the Internal Audit and Inspection division counted nine people (plus two alternates), including six auditors and audit managers. The General Auditor supervises all audit activities and reports issued by the division. The General Auditor is assisted by a deputy, who is in charge of the team of auditors and oversees the audit missions carried out by the auditors under the responsibility of the audit managers. In addition, every auditor and audit manager is responsible for a specific field through

(1) Internal Audit is an independent and objective activity which assures SFIL of the degree of control of its operations, contributes advice on how to improve, and creates value added. It helps the organization to reach its objectives by applying a systematic and methodical approach to evaluate its risk management, control and governance processes and by making proposals to reinforce their efficiency.

(2) In the SFIL Group, inspection activities work in an independent and objective manner to help control the risk of fraud.

permanent documentation, risk oversight, and the monitoring of recommendations for implementation by SFIL's operating divisions.

2. Activities of the Internal Audit and Inspection division

The division's activities in this area are described in an internal audit brochure that is regularly updated and based on the reference framework of the professional internal audit practices of IFACI⁽¹⁾. The most recent update to this manual was in August 2016. Quantitative and qualitative indicators were introduced and are regularly measured to monitor the efficiency and performance of these activities and to identify opportunities for improvement.

Internal Audit and Inspection have adopted a top-down approach for the annual evaluation of risks, in line with the recommendations of the Institute of Internal Auditors. They are based on the identification of SFIL's objectives, then on a study of risks critical to the success of such goals.

In 2016, an annual assessment of risks was carried out in the second half and it gave rise to an update of the mapping of SFIL's major risks. This map was compared to the 2015 map and was used as a basis for the 2017 and multiple year audit and inspection proposal made by the Internal Audit and Inspection division. This plan was approved by the Risks and Internal Control Committee on January 26, 2017. The risk mapping is likewise presented to the Board of Directors once a year.

SFIL's multi-year audit plan, which is reviewed every year, is broken down into audit missions that are conducted throughout the year on the basis of a pre-established schedule and budget, dependent on audit resources. These different missions include four main stages (preparation, accomplishment, conclusion, and finalization). The audit methodology, which is based on IFACI methods, was reviewed in 2016 in terms of operating efficiency and in particular to focus on the significant risks identified within the audited scope. Audit missions are carried out using this methodology, which is described in a Company brochure on internal audits that is regularly updated. The latest update to this manual was in February 2017. The audit missions are summed up in a report that is presented to the Executive Committee, which compares a general assessment of the mission's theme with an evaluation of residual risks, so that the Executive Committee may validate the match with SFIL's risk profile, and make recommendations to improve the efficiency of the processes and internal controls. In 2016, the internal audit missions focused on issues constituting the core of the SFIL Group's operations (acquisition of LBP assets by Caisse Française de Financement Local, refinancing of large export loans), operating processes (budget, payroll), risk monitoring and internal models (management of bank counterparties, ICAAP procedures, internal rating system for credit risk), the information system (IT simplification program, and IT security) and outsourced services. In 2016, the audit plan was 82 % completed, exceeding the initial objective of 80 %. In addition to the recommendations made, the conclusions of each of these missions were presented to the Executive Committee of SFIL for discussion and decision, as well as to the Risks and Internal Control Committee on September 6, 2016, and January 26, 2017.

Follow-up on recommendations made after the missions conducted by the Internal Audit and Inspection division,

oversight authorities or the Company Auditors, as applicable, is carried out in a continuous and automated process to monitor the deployment of action plans resulting from these recommendations. Responsibility for the appropriate implementation of the recommendations is incumbent on identified managers. The follow-up of this implementation is under the responsibility of the auditors and audit managers based on their field of competence. The validation of the progress status or accomplishment of these action plans is the responsibility of the Supervisor and the General Auditor. All of these recommendations prompted continuous monitoring in 2016 and official reports based on the financial statements as of May 31 and October 31, 2016, as well as presentations to the Executive Committee (in July 2016 and January 2017) and the Risks and Internal Control Committee on September 6, 2016, and January 26, 2017.

Internal Audit and Inspection is also in charge of the preparation, organization, and follow-up of the missions regulatory authorities carried out at SFIL. It also coordinates the preparation of responses to reports and the monitoring of action plans subsequent to the recommendations made.

In addition, under the aegis of the Chair of the Financial Statements Committee and the Risks and Internal Control Committee, Internal Audit and Inspection handles the organization of all the meetings of these committees. It oversees the respect of deadlines in the transmission and communication of information and files required for decision-making. It monitors the annual program of works set out by the Chair of these committees. It also provides the minutes that are drafted at each of the meetings in close cooperation with the Chair of the committee. Furthermore, it is responsible for the safe storage of the minutes. In 2016, Internal Audit and Inspection organized five meetings for the Risks and Internal Control Committee and four for the Financial Statements Committee.

Finally, Internal Audit and Inspection is also in charge of inspection at SFIL. The purpose of this function is to play a role in fraud prevention, detection, and investigation, and to propose corrective measures in the event of dysfunctions. This unit may also respond to particular requests from the SFIL legal division to provide information that may serve the Company's interests. SFIL's management may also solicit the inspection function to carry out missions and address certain specific issues. In 2016, inspection services focused on the rules governing the staff's use of SFIL's resources, access to sensitive computer applications and directories.

3. Reporting on Internal Audit and Inspection activities

The SFIL Executive Committee receives regular updates on the activities of the Internal Audit and Inspection division. In particular, the audit plan is presented every year for information after discussion with SFIL's general management. Every audit mission is discussed (scope, objectives, planning, etc.) for information and commentary before it effectively takes place, and its conclusions are presented for discussion and decision. A report on the follow-up of the recommendations of internal audit, inspection, oversight bodies and Statutory Auditors as well as the implementation of any related action plans is likewise presented every six months.

Moreover, the internal audit charter and the charter of inspection activities are submitted for validation to the Risks and Internal Control Committee. The audit and inspection plan is also submitted annually to this committee for vali-

(1) Institut Français de l'Audit et du Contrôle Interne (IFACI).

dation. This committee is informed every six months of the results of the follow-up recommendations of internal audit, inspection, oversight bodies and Statutory Auditors and of the progress made in related action plans. Regular divisional activity reports and reports on the results of completed audit missions are also presented for study. In addition, the annual report on internal control (articles 258 and following of the *arrêté* of November 3, 2014) is presented every year for review. A summary of these different reports is presented to SFIL's Board of Directors by the Chair of the Risks and Internal Control Committee.

2.2 - PREPARATION OF ACCOUNTING AND FINANCIAL INFORMATION

a. Financial statements

A company's annual financial statements, in addition to all the financial data produced by the accounting department should give a true and fair view of its assets, financial position and results. For credit institutions, the *arrêté* of November 3, 2014, on internal control, highlights in its accounting chapter that the organization adopted should guarantee the existence of procedures called audit trails. They make it possible to establish a link between accounting data and the original supporting documentation, and vice-versa. All these items should make it possible to reconstitute, justify and explain any and all financial items produced for accounting or regulatory purposes. This principle grounds the organization of accounting practices in the SFIL Group and also applies to both SFIL and Caisse Française de Financement Local.

In 2016, the main innovations introduced were aimed at bolstering cross-divisional cooperation in the organization of SFIL. This approach was designed to secure the financial information produced as well as to share any useful elements to facilitate the analysis of data in the teams participating in the preparation of the financial statements. In addition, within the framework of the analysis of its processes, SFIL has made sure to identify the improvements that could be made by replacing or improving management tools in an effort to increase the use of automated processes. This approach serves to reduce the operational risks associated with manual data entry.

1. Role and organization of Accounting

The Accounting division at SFIL reports to SFIL's Chief Financial Officer (CFO), who oversees the Back Office and Financial Performance Management division, including the oversight of balance sheets, management control, and purchasing. Accounting plays a central role in the piloting of SFIL and in financial management, thereby making it possible to benefit from this central viewpoint.

It is also responsible for producing the basic accounting data and the financial statements, separate and consolidated, for SFIL and Caisse Française de Financement Local. It also handles the ancillary accounting for La Banque Postale within the context of the activities assigned to it. It is likewise responsible for producing the consolidated financial statements of the SFIL Group and ensuring, in cooperation with the Risks division, that all regulatory and prudential standards are respected.

Accounting has the role of analysing and verifying accounting data. It relies on the reconciliation of this data with the other teams in Finance. This approach is used to explain the

formation of the results, but also to confirm the information on the Company's balance sheet, and in particular entries to risk bases used to calculate prudential indicators.

To carry out its mission, Accounting participates in committees that may impact its activity and has access to a broad spectrum of information either directly or through the CFO. It participates in the development of IT systems, and relies on a cross-divisional team within the Strategic IT Project division to improve, secure, and ensure long life to its IT system. This division is in charge of accounting and regulatory tools as well as ALM, control and financial communication tools. It participates actively in the development and the improvement of the tools used by SFIL's operating divisions. This system makes it possible to ensure continuous improvement in terms of quality, process efficiency and the reliability of financial information.

2. Preparation of the annual and consolidated accounts

In the preparation of the financial statements, SFIL's accounting system is in large measure automatically supplied by upstream management systems that manage transactions with customers and market counterparties as well as operating expenses. When data is entered into one of the management systems, it is automatically recorded in accounting according to a pre-determined plan. This automatic entry system also includes manual entry of certain types of specific transactions. SFIL can record operations in a single accounting system based on a double set of accounting standards (French GAAP and EU IFRS). The summary of this data is thus obtained automatically using configured publication tools.

The internal control system in the operating divisions guarantees the completeness and accuracy of accounting entries. The team in charge of accounting standards ensures compliance with standards, validates automated accounting procedures and examines complex or unusual operations. When certain operations cannot be completely incorporated into the available management tools, they are processed using specific internal control procedures.

A first-level control is conducted by accounting teams that are specialised by business line, in particular through the analysis of accounting/management data reconciliation, and through bank reconciliation and technical suspense accounts. Monthly comparisons with management data and reconciliations of micro-hedges make it possible to ensure the correct transcription of financial operations. In order to verify the consistency of interest expense and income from one period to another, this data is compared with average outstanding amounts to produce average rates that are easier to compare from one period to the next. Finally, these teams also prepare a synthetic memorandum on the work done which points out areas that need attention and improvement for the processes to be used in future financial statements.

Complementary controls are carried out by other teams from Accounting at the monthly, quarterly and annual closings. Through specific reviews, the teams in charge of preparing the financial statements check the quality of the work done by the teams responsible for first-level control. These teams also reconcile the accounting data from net banking income with management data produced by separate teams. This cross-referencing is done at least once a quarter and consistency from one period to the next is verified using analytical controls. The main changes must be accompanied by an explanation. The work and means expended during the year

made it possible to stabilize the management data collected both for the validation of the results and for the estimates required within the framework of the forecasts requested by the Finance division.

To carry out its control plan, Accounting has a monitoring tool at its disposal with which it can verify the deployment of key controls and their validation. This information and any comments on discrepancies are subject to review by the head of Accounting with the main team members.

The preparation of the financial statements is carried out by the aggregation of the accounts thus produced according to an automated process. This function requires parameters administered by a dedicated and independent team. Consolidation operations are included in a set of developments provided for in the SFIL Group accounting computer system. Internal operation reconciliations are facilitated by keeping the contributions of both group entities in the same system. Notes to consolidated financial statements are based on a compatible database stocked with management elements related to the underlying operations, thus making it possible to have accurate, detailed information.

Stability in reporting, which represents a key point in terms of communication, is thereby verified. Notes to the consolidated and financial statements are generally produced based on accounting data that may be enhanced by management information. Qualitative analyses are then carried out through cross-referenced controls of synthetic data in Accounting as well as with the contribution of the teams in charge of monitoring the Group's balance sheet. Cross-referenced controls are also conducted between the financial statements and the notes to the financial statements. Throughout this process, reviews and controls are carried out according to the hierarchical delegations that exist.

3. Approval of the financial statements

The financial statements, balance sheet, income statement and notes are subject to particular scrutiny during the preparatory phase and in their final form by the head of Accounting and the CFO. The financial statements are presented quarterly to the Financial Statements Committee. The Board of Directors approves the financial statements annually.

The Statutory Auditors review only the annual and semi-annual financial statements.

4. Publication of financial statements

This accounting and financial information is disclosed to the public in several ways. In addition to the regulatory publication in the BALO, the semi-annual and annual financial statements, together with the corresponding reports, are posted on the Internet site: www.sfil.fr. Since SFIL is an issuer listed, the financial statements are submitted to AMF, via the regulated information broadcaster (NASDAQ) which is approved with AMF.

5. Role of Statutory Auditors

The SFIL-CAFFIL Group is audited by two auditing firms working together to audit the financial statements of SFIL. The same applies to Caisse Française de Financement Local. The Statutory Auditors are regularly consulted throughout the process of preparation of accounting data and the financial statements in order to ensure efficiency and transparency. In due diligence, they analyse accounting procedures and evaluate current internal control systems to determine the scope of their controls of the principal areas of risk. During these analyses, they may make recommendations on internal control procedures and systems that

could improve the quality of financial and accounting information produced. They have access to all memoranda and notes produced by staff that are in charge of accounting principles and standards, and they also review the accounting manuals, as well as the analyses conducted by the Accounting teams. They consult Internal Audit and Inspection reports. They verify the consistency of the data in the management report with the accounting information, as well as the conformity of the management report and the financial statements with all the items they have reviewed and audited. Their contribution includes a review of all regulated agreements. In a specific report, they provide a full and complete accounting at the end of their legal mission. The exercise of this due care enables them to obtain reasonable assurance that the financial statements are free of any material misstatement.

b. Management reporting

The financial statements (balance sheet, off-balance sheet, income statement, cash flow statement and notes) that SFIL communicates to its shareholders and to the general public are completed by quarterly activity reports prepared by its subsidiary Caisse Française de Financement Local in particular when this subsidiary issues *obligations foncières*. This management information also includes items related to loans originated by La Banque Postale and acquired by Caisse Française de Financement Local, as well as updates on the reduction of the sensitivity of structured loans, and data related to the business of export credit refinancing. They are also accompanied by prospects and risk evaluations, which are included in the annual report. These elements are provided directly by the operational divisions or the Risks division. Their accuracy is therefore guaranteed by the internal control system of the divisions concerned.

New financing business takes place in France for activity with LBP, and for the reduction of sensitivity, and will take place in France and outside of France for export credit refinancing. A geographic breakdown of assets according to the counterparty's country of residence (France and other countries) is presented in the management report. This data is prepared by the Accounting and Finance divisions based on management data reconciled with Accounting.

SFIL also manages the Caisse Française de Financement Local and provides services for La Banque Postale. To this end, a specific analytical cost accounting method is used to ensure proper billing of the services rendered as a financial services provider.

2.3 - IDENTIFICATION OF MAIN RISKS AND THEIR SPECIFIC INTERNAL CONTROL PROCEDURES

a. Credit risk

Credit risk represents the potential loss that may affect SFIL by reason of a counterparty's downgraded financial position. The Risks division defines the policies, guidelines and procedures relating to credit risk. It is responsible for developing the decision-making process (principally the granting of loans) and the framework of delegations and for supervising the analysis and internal rating process. The final approval is granted by SFIL's Risks Committee.

Within the framework of its credit-risk monitoring, the Risks division provides for:

- the determination of credit risk policies in conformity with the risk appetite of SFIL and Caisse Française de Financement Local ;

- the determination of the limits by counterparty type setting the maximum exposure considered to be acceptable for a given counterparty for public sector entities or bank counterparties that belong to the same group;
- the proactive monitoring of limits, which the Risks division may reduce at any time according to developments in the related risks;
- the determination of delegations by type of counterparty and the monitoring of compliance with lending rules;
- the management of the lending process for both new commitments and rescheduled loans through credit analyses and ratings (by using either the internal rating systems or expert advice);
- the monitoring of credit risk in all the portfolios of SFIL and Caisse Française de Financement Local (local public sector in France, international, bank counterparty, export refinancing, etc.) by generating credit analyses and reviewing ratings annually;
- the identification of assets with downgraded risks susceptible to be put on the watchlist;
- proposing specific or segment-based provisions for the portfolio.

The Risks division is also in charge of maintaining and developing internal rating systems (including statistical models) for the French and Italian local public sector, for banks and sovereigns of the Pillar II model (economic capital). Lastly, it deals with different stress tests.

The Risks division relies on several specialized committees, described below.

- The Credit Committee approves new commitments⁽¹⁾ by Caisse Française de Financement Local and SFIL (loans and swaps) and the rescheduled loan agreements on the balance sheet of Caisse Française de Financement Local. It sets credit limits when certain predefined thresholds are exceeded. Each file presented to the Credit Committee contains an independent analysis conducted by the Risks division. At each meeting, the Credit Committee is also informed of commitments made within the framework of delegations granted to the Risks division, the Debt Portfolio Management division or the marketing teams of La Banque Postale. This committee meets on a weekly basis.
- The Watchlist Committee is in charge of monitoring assets kept under particular scrutiny because of the downgrade of risk. It may propose specific impairment. This committee meets quarterly.
- The Default Committee decides whether a file should be given default status or be upgraded, and it qualifies default as real default, operating defaults or technical default. This committee meets quarterly.
- Every quarter, the Impairment Committee sets the amount of collective impairment and finalizes the calculation of specific impairment on the basis of the provision rate decided by the Watchlist Committee.
- The Rating Committee ensures the proper application of the internal rating systems and the appropriateness of the rating processes. This committee meets quarterly. Although it is an integral part of the credit risk management process, the committee is organized by the head of the Validation and Quality Control team, which reports directly to the Chief Risks Officer so as to ensure the independence of the control process.
- The Non-Performing Exposures and Forbearance Committee quarterly approves the list of counterparties with non-performing exposures and a second list for counter-

parties that benefited from financial concessions due to their financial difficulties.

b. Market risk

Due to its nature, SFIL does not carry market risks in the regulatory sense of the term.

Nonetheless, unregulated market risks are subject to continuous supervision by SFIL's Market and Balance Sheet Risks division, which is responsible for:

- the definition of policies, guidelines and procedures related to the monitoring of market risks;
- the determination of limits;
- the determination of calculation and assessment methods for these risks;
- the control of the accounting valuation of derivatives in their recording in the accounts;
- the control of cash collateral;
- the valuation of balance sheet items (assets, liabilities, AFS reserve);
- the monitoring of risks associated with swaps that are not related to hedges.

The governance of market risks is built around the Market Risks Committee, which conducts a quarterly review of risk indicators for the different market and ALM activities (sensitivity, changes in mark to market for structured swaps hedging loans to customers in default, monitoring of AFS reserves, provisions on placement securities in French GAAP, limits, cash collateral, etc.). This committee is in charge of the approval of policies, guidelines and procedures regarding market risks before they are submitted to the Risks Committee.

c. Structural risk: interest rate, foreign exchange and liquidity

The operational implementation of these policies is ensured, within the Finance division, by the asset-liability management department, in charge of implementing the ALM policies determined for SFIL and its affiliate, Caisse Française de Financement Local, within the limits of management and the regulatory framework. The Market and Balance Sheet Risks division is in charge of defining the general policy concerning balance sheet risks, calibrating and monitoring the limits on ALM indicators and performing second-level controls on these indicators.

1. Definition of ALM policy

In the hedging of interest rate risk, the ALM policy is designed to protect the value of the Group's equity.

At the level of SFIL, the current ALM policy involves foreign exchange and interest rate micro-hedges for all its operations at the latest when they are recorded on the balance sheet. In terms of liquidity, this policy aims to ensure that SFIL will have enough liquidity to meet its needs given their sensitivity to fluctuations in the financial markets through variations in cash collateral posted/received on its derivatives, business forecasts, regulatory constraints and the lending conditions of partner banks and the conditions of issuance of short-term debt securities or EMTN. This liquidity risk is evaluated in an environment that is static, dynamic, and dynamic under stress by monitoring liquidity gaps, be they short-term (1 day to 3 months), medium-term (up to 3 years) or very long-term (up to the maturity of operations). Considered in these liquidity projections are compliance with SFIL corporate's regulatory constraints, as

(1) Not delegated to the Risks division, the Debt Portfolio Management division and the commercial network of La Banque Postale.

well as constraints specific to Caisse Française de Financement Local.

At the level of Caisse Française de Financement Local, the interest rate policy consists in neutralizing the exposure of the Company's value and earnings to the interest rate risk to the extent possible. To achieve this, interest rate risk is hedged at two levels by Caisse Française de Financement Local.

- In the first stage, all the preferred assets and the liabilities which are not naturally subject to a floating rate are hedged against Euribor until maturity, from recognition. In practice, acquisitions of loan portfolios (the unit value of which is generally low) are usually macro-hedged. Loans granted individually or bonds may be micro- or macro-hedged. Assets and liabilities are usually hedged with interest rate swaps, but the same effect may be obtained whenever possible by the cancellation of liability positions.
- In the second stage, Euribor lending and borrowing flows (whether naturally or after hedging) are swapped against Eonia generally over a sliding period of 2 years in order to eliminate the basis risk generated by Euribor differences (1, 3, 6, or 12 months) and the fixing risk due to refixing the dates of the reference indices which differ for the assets and the liabilities.

This interest rate risk is placed within a framework of three indicators subject to limits restricting the loss to 6% of stockholders' equity for a change in rates with 99% probability, i.e. EUR 80 million. These three indicators aim to limit losses in value in the event of a change in the interest rate curve, either for points far from one another or for points close to one another (sloping/rotation).

ALM policy is also designed to limit as much as possible liquidity risk in static, dynamic and dynamic under stress scenarios by monitoring liquidity gaps, be they short-term (1 day to 3 months), medium-term (up to 3 years) or very long-term (up to the maturity of operations). Regulatory restrictions are taken into account (Liquidity Coverage Ratio, need for cash at 180 days, regulatory limit of 1.5 years of the gap between the average life of the liabilities and that of the assets capped at 105% of liabilities), and so are the over-collateralization requirements expressed by the regulator and rating agencies, and internal constraints (pre-financing rate for the various years of export credit loans). Moreover, Caisse Française de Financement Local has a ceiling on its transformation capacity by limiting to three years the maximum duration gap between the assets and the resources benefiting from the privilege and limits the volume of debt arriving at maturity in a year by reference to assets maturing the same year.

Finally, the ALM policy avoids any foreign exchange risk.

2. Committees

Balance sheet risk management is organized around three committees.

- The ALM Committee, with the participation of the Market and ALM Risks division, and the other bank divisions concerned by this management, decides ALM strategy and oversees deployment through the use of management indicators.
- The ALM Interest Rate and ALM Liquidity Committees handle the operational implementation of its decisions.

3. Operational management

In terms of interest rate risk, ALM manages the overall interest rate risk linked to fixed rate assets and liabilities with no

micro-hedges and the basis risk linked to imbalances between assets and liabilities in each tenor index (principally Eonia, Euribor three months, Euribor six months, for Caisse Française de Financement Local), as well as the residual fixing risk, after hedging of the basis risk, linked to the difference in dates between asset and liability fixings of the same tenor index.

These different types of risks are monitored, analysed and managed through the production of reports on fixed rate, basis and fixing gaps, which make it possible to determine the nature and the amount of hedges to be negotiated. Only fixed rate interest risk (contractual or after the fixing date) is bordered by an indicator of sensitivity in net present value subject to limit. In the case of Caisse Française de Financement Local, these hedges may be done either directly on the market or through SFIL acting as an intermediary, which then trades on the market for itself.

ALM manages the liquidity of SFIL and Caisse Française de Financement Local, while respecting regulatory liquidity ratios, based on the internal objectives for these ratios, as well as specific restrictions in legislation relative to mortgage credit institutions. To this end, it uses a static analysis of balance sheet and off-balance sheet items likely to influence the liquidity trend – changes in available liquidity reserves, sensitivity of cash collateral on derivatives, off-balance sheet commitments, etc. It is also based on a dynamic analysis of liquidity needs by completing the static scenario of hypotheses related to a commercial policy (asset acquisition, reduction in sensitivity) and to the strategy of refinancing. Stressed liquidity forecasts are also performed. These analyses aim to define the amounts and maturity of the different sources of financing that may be raised by each entity: for Caisse Française de Financement Local, these sources are the issue of *obligations foncières* and refinancing by its parent company SFIL. For SFIL, sources of funding are drawn down from the liquidity lines provided by its shareholders (Caisse des dépôts et consignations and La Banque Postale) or come from the issue of short-term debt securities (TCN) or euro Medium Term Notes (EMTN). With regard to the management of foreign exchange risk, the covered bonds and assets denominated in foreign currencies give rise, at the latest, when they are recorded on the balance sheet to the signing of a cross-currency swap against the euro. The foreign currency loans outstanding and interest margins are therefore converted into Euros, thereby ensuring complete hedging of the nominal rate and the rates attached to these balance sheet items. ALM guarantees the absence of any residual foreign exchange risk through a net foreign exchange position in each currency, calculated over all the commitments, loans and accrued interest not yet due on the balance sheet. For SFIL, in the context of its export credit business, keeping a small interest margin in USD not hedged for operational reasons is tolerated.

d. Operational risks

SFIL defines operational risk as the risk of loss resulting from (i) the lack of adaptation or failure on the part of internal processes, staff, systems or (ii) external events. It includes the risks linked to the security of IT systems, legal and reputational risks, as well as risks tied to the model, but it excludes strategic risks. This definition is in line with the definition used by the Basel Committee. Management procedures for operational risks apply to all of the operating divisions of SFIL.

1. Organization and monitoring

SFIL has opted for the standard method for calculation of equity in terms of operating risk, as provided by the Basel

Committee directives. It has implemented an organization, procedures and a management system for monitoring and controlling its risks.

The Operational Risks and Permanent Control division defines the management policy to be used for operational risks, as well as the methods employed to identify and limit them. It implements the operational risk management system and relies on a network of correspondents who are designated within each operational division. Their role is to coordinate the collection of operating incidents and losses, to assess risks, and to measure key risk indicators with the help of the staff of the Operational Risks and Permanent Control division. The involvement of business line managers strengthens the effectiveness of the operational risk management system, of which they are the primary guarantors.

The policy applied involves three main processes: the collection of reporting and operating incidents, the mapping of operational risks, and the monitoring of key operational risk indicators.

SFIL has defined a process of collection and reporting of operating incidents and losses with a directive and procedures. Various collection thresholds have been defined and communicated to SFIL's various operational divisions. The threshold of the mandatory declaration for financial impacts is EUR 2,500. The threshold of the mandatory declaration for non-financial impacts is 3 work days. The identification and the analysis of incidents are the responsibility of the operational risks correspondents, with the support of the Operational Risks and Permanent Control division. To this end, SFIL uses a dedicated operational risk management tool and in particular a module for incident collection. Depending on the results of the incident analysis, corrective or preventive actions are taken in order to reduce SFIL's exposure to operational risk.

In addition to the information collected on the incidents and losses, operational risk mapping involves evaluating operational risks incurred by each SFIL division every two years, in collaboration with the Operational Risks and Permanent Control division. It provides regular insights into the different risks run in the operating divisions, in order to identify the mitigation factors for existing risks (systems and controls) so as to determine the residual impacts, be they financial or non-financial and decide on their acceptance. If they are not accepted, improvement measures are immediately launched (bolstering of organization and procedures, strengthening of procedures and the permanent control plan, introduction of new surveillance and risk management systems, etc.). The operational risks mapping was updated for 2016, covering all SFIL divisions. The Operational Risks and Permanent Control division has also implemented the key risk indicators associated with these thresholds, in collaboration with the operational divisions of SFIL. Changes in these indicators act as signals (i) of growth in the level of operational risk, (ii) of a gradual decline in process performance, or (iii) of a dysfunction of the internal control system itself. They make it possible to survey in a continuous and dynamic manner the development of operational risk, together with operational risk mapping, which periodically gives a snapshot of SFIL's risk profile.

The operational risk profile of each SFIL division is presented to the Operational Risks and Permanent Control Committee on a regular basis. This committee is chaired by SFIL's Deputy CEO, and its members are the entire Executive Committee, as well as the heads of Strategic IT

Projects and Information Systems. It meets quarterly. This committee studies the major operational risks so identified and key risk indicators that have exceeded their alert threshold. It decides as to whether they are acceptable or not and what corrective measures should be taken. It also validates management policies and methods with regard to the management of operational risks. It examines operating incidents that have occurred in the quarter and monitors risk prevention and improvement proposals (permanent control, operational risk management, IT security, back-up plan, etc.).

A synthesis of highlights in terms of operational risks is presented every quarter to the Risks and Internal Control Committee in the form of a Quarterly Risks Review. Moreover, a detailed presentation of action plans, key items and corrective measures proposed or already implemented to limit operational risk was also organized for the Risks and Internal Control Committee on January 26, 2017.

2. IT security

The IT security policy is an integral part of operational risk management. The Operational Risks and Permanent Control division has set up a system with a policy and directives based on ISO standard 27000, which is applicable to all of SFIL's operational divisions. These provisions aim to protect the information against any threats to its confidentiality, integrity or availability.

This policy and these directives define the principles applicable by security category, as well as the roles and responsibilities of the different security players in SFIL. It comprises operational rules, procedures and processes determined with the Information Systems division, especially those involving the management of authorizations to access SFIL's IT applications and systems. In addition, a three-year information systems security plan has been defined in order to improve the existing system. A campaign to heighten awareness was also launched in 2016.

The risk monitoring systems for information security were strengthened at the end of 2016 through the transfer of the IT security manager to the Operational Risks and Permanent Control division. The IT security manager works closely with the information systems security manager.

Developments in this field are piloted on a quarterly basis by the Information Systems Security and Business Continuity Plan Committee, and validated by the Operational Risks and Permanent Control Committee.

A synthesis of information systems security highlights is presented every quarter to the Risks and Internal Control Committee in the form of a Quarterly Risks Review. Moreover, a detailed presentation is made of the actions that have been taken and each year this committee also reviews the information security areas requiring attention. This presentation was made to the Risks and Internal Control Committee on January 26, 2017.

3. Business continuity

Together with all the operating divisions, SFIL drew up a business continuity plan and an IT recovery plan. The business continuity plan is the responsibility of the Operational Risks and Permanent Control division, and the IT recovery plan is the responsibility of the Information Systems division. Contingency locations have been chosen to ensure operational continuity for SFIL's activities. Official operational procedures are in place for this emergency system. These

plans and procedures are updated and tested regularly. The tests were conducted on March 25, 2016, and May 10, 2016.

Crisis scenarios were also defined and tested, in particular a scenario involving the unavailability of transportation resulting from a terrorism risk.

Developments in this field are piloted on a quarterly basis by the Information Systems Security and Business Continuity Plan Committee and approved by the Operational Risks and Permanent Control Committee.

A synthesis of business continuity highlights is regularly presented to the Risks and Internal Control Committee in the form of a Quarterly Risks Review. A detailed presentation of the general organisation to ensure business continuity and IT recovery is also organized by this committee on a yearly basis. This presentation was made to the Risks and Internal Control Committee on January 26, 2017.

4. Operational risk insurance

The reduction in operational risks to which SFIL is exposed is also taken into consideration when insurance policies are subscribed. SFIL has active insurance policies covering standard damages, comprehensive insurance for premises, facilities and IT equipment and operating liability insurance. SFIL has also taken out insurance policies to cover the liability of its Company officers, professional liability, and fraud. SFIL has also taken out insurance policy regarding the risks of cyber-crime. These policies cover SFIL and its subsidiary Caisse Française de Financement Local.

e. Legal and tax risk

SFIL's monitoring of legal risks focuses on the prevention of litigation, the anticipation of legal developments and the respect of governance principles. The management system for this risk relies on the Legal division, which is part of the General Secretariat. The Legal division has a double role: (i) to counsel other SFIL divisions, so as to enable them to measure the risks inherent in their activities, and (ii) to defend the interests of SFIL and Caisse Française de Financement Local.

Furthermore, the Legal division contributes to the work of the bank's various committees.

- Within the framework of its regulatory monitoring, it provides information on the principles underlying legal and regulatory provisions that affect the operations of the bank.
- Within the New Products Committee, it advises, as necessary, on the cases presented to it.
- It analyzes legal risks associated with the cases presented for the Credit Committee.
- It reviews the cases under litigation and the progress of procedures at the Loan Sensitivity Reduction Committee meeting.

It also expresses its opinion when a risk reduction operation involves a legal risk.

The Legal division may also participate in formulating comments made as part of the audit and internal control operations.

General management, the Board of Directors and the Executive Committee of SFIL and the Supervisory Board of Caisse Française de Financement Local receive regular updates on the progress of litigation. A management report regarding the disputes related to sensitive loans is presented at each meeting.

Furthermore, a presentation of legal risks and litigation is included in the management report accompanying the financial statements.

The SFIL Finance division is responsible for monitoring and controlling tax risks. This division relies on the General Secretariat for advice on tax issues.

f. Risks of non-compliance

Article 10-p of the *arrêté* of November 3, 2014, regarding the internal control of banks, defines the risk of non-compliance as the risk of a legal, administrative or disciplinary sanction, of a significant financial loss or of a denigration of reputation caused by the non-respect for procedures specific to banking and financial activities, whether they be of a legislative or regulatory nature, or whether it involves professional and ethical standards or executive instructions, in particular those taken in application of the orientations of the strategy defining body.

Pursuant to the provisions of the *arrêté* of November 3, 2014, the SFIL Group, for itself and for Caisse Française de Financement Local, monitors and controls the risk of non-compliance by mapping risks and developing a control plan.

This mapping reviews the legislative, regulatory and professional provisions and those which refer exclusively to the Group and are applicable to each business line or function, and the procedures and controls implemented to ensure compliance with said provisions. The mapping is updated at least once every year. It provides a visual indication of the Company's exposure to non-compliance risks and outlines the bank's non-compliance risk profile. To this end, the non-compliance risks are:

- identified and classified,
- evaluated (frequency of occurrence and level of severity),
- compared and ranked,
- managed with the assistance of indices.

Once the risk zone is identified through the non-compliance risk mapping, the Compliance division ensures that the risk control system is adequate and able to reduce the gross risk.

Non-compliance risks inherent in the activities of the Group lie in the following areas: ethical business practices by employees and prevention of conflicts of interest, the compensation policy, the protection of the integrity and transparency of financial markets, the protection of customers, the compliance with the rules of good practice to protect customers' interests, the processing of claims, international financial sanctions, the fight against money laundering, the financing of terrorism, and the fight against corruption, maintenance of the confidentiality of information and the protection of personal data.

Moreover, the Compliance division and the Legal division monitor the amendments to legal and regulatory provisions and changes in jurisprudence that can potentially affect the Group. To this end, they participate in the SFIL Regulatory Monitoring Committee. The Compliance division defines the procedure for applying these changes within SFIL and pre-emptively updates related systems, as applicable.

The identification and oversight of compliance with the specific regulations govern SFIL's operational divisions having appropriate expertise and resources (accounting standards, prudential ratios, control of large exposure counterparty

risks, recommendations relative to information system security, etc.). These divisions are responsible for oversight and compliance with regulations regarding their specific fields of activity.

In addition to creating the compliance control plan, the Compliance division oversees non-compliance risks.

- by overseeing updates to its procedural guidelines. The year 2016 was thus marked by the continued adaptation of the anti-money laundering/terrorism funding system (LCB-FT), particularly with the overhaul of country/financial security risk policies and the LCB-FT procedure regarding export credit funding;
- by disseminating its rules of good conduct. In 2016, the division revised the code of ethics and professional conduct. This code includes the ethical provisions which are applicable to all employees relative to compliance with the principles of confidentiality, compliance with the laws and regulations, and professional integrity. These provisions may also be supplemented in each of the bank's businesses or activities, with specific codes and/or manuals that contain the operating procedures implemented within each of the divisions concerned;

- by raising awareness of the all the bank's employees with regard to the compliance requirements at SFIL-CAFFIL. Compliance must be everyone's business. To do this, the Compliance division provides mandatory training on the compliance systems to enable each member of the staff to comprehend adequately and concretely the stakes involved for the bank and to be correctly informed regarding the best practices to apply. This training should enable each employee to perform everyday tasks with total integrity and in full compliance with the bank's values. In coordination with the human resources department, the Compliance division organized ten training sessions in 2016 that enabled it to train nearly 100% of the total staff;
- by monitoring regular changes regarding the areas of compliance impacting the SFIL-CAFFIL Group. In this context, in 2016, it actively participated in the application (FATCA, Sapin II, EMIR) through its contributions within the dedicated multidisciplinary project structures.

Chairman of the Board of Directors

Statutory Auditors' report prepared in accordance with article L. 225-235 of Code of Commerce on the report prepared by the Chairman of the Board of Directors Year ended December 31, 2016

This is a free translation into English of the Statutory Auditors' report issued in French prepared in accordance with article L.225-235 of the Code of Commerce on the report prepared by the Chairman of the Board of Directors on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information issued in French and is provided solely for the convenience of English-speaking users.

This report should be read in conjunction and construed in accordance with French law and the relevant professional standards applicable in France.

To the Shareholders,

In our capacity as Statutory Auditors of SFIL and in accordance with article L.225-235 of the Code of Commerce, we hereby report on the report prepared by the Chairman of your company in accordance with article L.225-37 of the Code of Commerce for the year ended December 31, 2016.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report on the internal control and risk management procedures implemented by the company and containing the other disclosures required by article L.225-37 of the Code of Commerce, particularly in terms of corporate governance.

It is our responsibility:

- to report to you on the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information, and
- to attest that this report contains the other disclosures required by article L.225-37 of the Code of Commerce, it being specified that we are not responsible for verifying the fairness of these disclosures.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the infor-

mation provided in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information. These procedures consisted mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and the existing documentation;
- determining if any significant weaknesses in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our engagement are properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with article L.225-37 of the Code of Commerce.

Other disclosures

We hereby attest that the Chairman's report includes the other disclosures required by article L.225-37 of the Code of Commerce.

Neuilly-sur-Seine and Courbevoie, March 29, 2017

The Statutory Auditors
French original signed by:

DELOITTE & ASSOCIÉS
Sylvie Bourguignon
José Luis Garcia

MAZARS
Anne Veaute
Virginie Chauvin

Nicolas

General Resources Director

“

Improving our operational processes is a major component of the **#Horizon2021** plan. Each employee must be empowered to make proposals, particularly on questions of operations and optimizing our everyday jobs.

”



I believe in **#HORIZON2021**
SFIL's strategic plan
I'm taking part in it!



Marie-Paule

General Auditor

“

At certain key steps in our existence, we had to know how to question our operating methods, processes, and tools in order to find paths toward optimization, digitalize our exchanges, and be more agile.

”

Consolidated financial statements

prepared in accordance with IFRS

Assets as of December 31, 2016

EUR millions	Note	12/31/2015	12/31/2016
Central banks	2.1	3,361	4,878
Financial assets at fair value through profit or loss	4.1	2	-
Hedging derivatives	4.1	7,037	6,441
Financial assets available for sale	2.2	1,304	2,037
Loans and advances due from banks	2.3	2,530	390
Loans and advances to customers	2.4	63,209	59,682
Fair value revaluation of portfolio hedge		2,784	3,053
Financial assets held to maturity		-	-
Current tax assets	2.5	5	0
Deferred tax assets	2.5	116	113
Property and equipment	2.6	8	7
Intangible assets	2.7	13	20
Accruals and other assets	2.8	3,314	2,316
TOTAL ASSETS		83,683	78,937

Liabilities as of December 31, 2016

EUR millions	Note	12/31/2015	12/31/2016
Central banks		-	-
Financial liabilities at fair value through profit or loss	4.1	2	4
Hedging derivatives	4.1	12,088	9,861
Due to banks	3.1	8,837	6,720
Customer borrowings and deposits		-	-
Debt securities	3.2	57,740	57,681
Fair value revaluation of portfolio hedge		1,447	1,198
Current tax liabilities	3.3	2	6
Deferred tax liabilities	3.3	-	-
Accruals and other liabilities	3.4	2,139	2,034
Provisions	3.5	43	45
Subordinated debt		-	-
EQUITY		1,385	1,388
Share capital and reserves		1,445	1,445
Reserves and retained earnings		113	53
Other comprehensive income		(114)	(128)
Net income		(59)	18
TOTAL LIABILITIES		83,683	78,937

Income statement

EUR millions	Note	2015	2016
Interest income	5.1	4,095	3,341
Interest expense	5.1	(4,006)	(3,199)
Fee and commission income	5.2	4	4
Fee and commission expense	5.2	(8)	(4)
Net result of financial instruments at fair value through profit or loss	5.3	2	(16)
Net result of financial assets available for sale	5.4	(1)	13
Other income		0	0
Other expense		(0)	(0)
NET BANKING INCOME		86	139
Operating expense	5.5	(99)	(102)
Depreciation and amortization property and equipment and intangible assets	5.6	(3)	(5)
GROSS OPERATING INCOME		(16)	31
Cost of risk	5.7	(14)	18
OPERATING INCOME		(30)	49
Net gains (losses) on other assets		-	-
INCOME BEFORE TAX		(30)	49
Income tax	5.7	(29)	(31)
NET INCOME		(59)	18
Earnings per share (in EUR)			
- Basic		(6.38)	1.98
- Diluted		(6.38)	1.98

Net income and unrealized or deferred gains and losses through equity

EUR millions	2015	2016
NET INCOME	(59)	18
ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS	34	(14)
Unrealized or deferred gains and losses of financial assets available for sale	49	(26)
Unrealized or deferred gains and losses of cash flow hedges	4	4
Tax	(19)	8
ITEMS THAT MAY NOT BE RECLASSIFIED TO PROFIT OR LOSS	0	0
Actuarial gains and losses on defined-benefit plans	0	(0)
Tax	(0)	0
OTHER COMPREHENSIVE INCOME	34	(14)
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	(25)	4

Consolidated statement of changes in equity

EUR millions	Share capital and reserves		Consolidated retained earnings	Total of gains and losses through equity		Net income	Total consolidated equity
	Share capital	Capital reserves		Net change in fair value of available for sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax		
EQUITY AS OF 12/31/2014	1,445	-	146	(119)	(29)	(34)	1,409
Capital increase	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-
Allocation of 2014 net income	-	-	(34)	-	-	34	-
Dividends paid on 2014 income	-	-	-	-	-	-	-
Subtotal of transactions with shareholders	1,445	-	113	(119)	(29)	-	1,409
Net income for the period	-	-	-	-	-	(59)	(59)
Changes of gains and losses through equity	-	-	-	31	3	-	34
EQUITY AS OF 12/31/2015	1,445	-	113	(88)	(26)	(59)	1,385
Capital increase	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-
Allocation of 2015 net income	-	-	(59)	-	-	59	-
Dividends paid on 2015 income	-	-	-	-	-	-	-
Subtotal of transactions with shareholders	1,445	-	53	(88)	(26)	-	1,384
Net income for the period	-	-	-	-	-	18	18
Changes of gains and losses through equity	-	-	-	(16)	2	-	(14)
EQUITY AS OF 12/31/2016	1,445	-	53	(104)	(24)	18	1,388

Management report

Report -
article L.225-37-2Governance and
internal controlConsolidated financial
statements in
accordance with IFRSAnnual financial
statements in accordance
with French GAAPShareholders' Meeting
May 31, 2017

General information

Cash flow statement

EUR millions	12/31/2015	12/31/2016
NET INCOME BEFORE TAXES	(30)	49
+/- Depreciation and write-downs	43	(18)
+/- Expense / income from investing activities	277	111
+/- Expense / income from financing activities	(194)	(69)
+/- Other non-cash items	116	297
= Non-monetary items included in net income before tax and other adjustments	242	321
+/- Cash from interbank operations	(657)	17
+/- Cash from customer operations	(769)	(963)
+/- Cash from financing assets and liabilities	4,435	1,920
+/- Cash from not financing assets and liabilities	(758)	343
- Income tax paid	(39)	(7)
= Decrease / (increase) in cash from operating activities	2,212	1,310
CASH FLOW FROM OPERATING ACTIVITIES (A)	2,424	1,680
CASH FLOW FROM INVESTING ACTIVITIES (B)	(12)	(2)
+/- Cash from or for shareholders	-	-
+/- Other cash from financing activities	58	(159)
CASH FLOW FROM FINANCING ACTIVITIES (C)	58	(159)
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	-	-
INCREASE / (DECREASE) IN CASH EQUIVALENTS (A + B + C + D)	2,470	1,519
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	901	3,371
Cash and balances with central banks (assets & liabilities)	877	3,361
Interbank accounts (assets & liabilities) and loans / deposits at sight	24	10
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	3,371	4,890
Cash and balances with central banks (assets & liabilities)	3,361	4,878
Interbank accounts (assets & liabilities) and loans / deposits at sight	10	12
CHANGE IN NET CASH	2,470	1,519

Notes to the consolidated financial statements in accordance with IFRS

1. Accounting policies and valuation methods

ACCOUNTING PRINCIPLES AND METHODS APPLIED

a. Scope of consolidation

Société de Financement Local (SFIL) holds 100% of Caisse Française de Financement Local. The Group consists of these two entities. The activity of the group is to refinance French public sector entities, public hospitals and credit export loans.

Name	Method	Voting (%)	Interest (%)
PARENT COMPANY			
SFIL			
CONSOLIDATED ENTITY			
Caisse Française de Financement Local	Full	100%	100%

b. Accounting policies and presentation rules

1. Applicable accounting standards

SFIL has prepared its consolidated financial statements as of December 31, 2016, in accordance with International Financial Reporting Standards as endorsed by the European Union on that date.

Accounting policies applied by the Group are detailed in note 1.b.3

IASB and IFRIC texts endorsed by the European Commission and effective as of January 1, 2016

- Amendments to IAS 27 - Equity Method in Separate Financial Statements: entities now have the option to use the equity method to measure investments in subsidiaries, joint ventures and associates, when preparing their individual financial statements
- Amendments to IAS 1- Disclosure Initiative: these amendments clarify the application of the concepts of materiality (specifying this is also applicable to the notes to the financial statements and that including non-relevant information can be detrimental to their understanding) and professional judgment (by modifying certain formulations judged as prescriptive).
- Annual Improvements to the IFRS 2012-2014 Cycle: these are minor changes to existing standards.
- Amendments to IAS 16 Tangible assets and IAS 38 Intangible assets - Clarification of Acceptable Methods of Depreciation and Amortisation: the amendments clarify that a revenue-based method is not considered to be an appropriate manifestation of consumption. This is because revenue represents the generation of expected economic benefits rather than the consumption of economic benefits
- Amendments to IFRS 11- Joint Ventures: The amendments clarify that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3

- Amendments to IAS 19 - Defined Benefit Plans: Employee Contributions. They permit a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required, to be recognised as a reduction in the service cost in the period in which the related service is rendered.
- Annual Improvements to the IFRS 2010-2012 Cycle: these are minor changes to existing standards. These amendments will be applicable as from January 1, 2016. Their impact is not expected to be significant.

New accounting standards published but not yet applicable in the European Union

- IFRS 9 Financial Instruments: This standard, which will replace IAS 39, was adopted by the European Union on November 22, 2016 and will come into effect for fiscal years beginning on or after January 1, 2018. It sets out new principles for:
 - classification and valuation of financial assets: accounting will be defined on the basis of the management model implemented on the one hand, and the nature of the flows received (consisting exclusively of payments of principal and interest, or including other elements) on the other hand;
 - impairment for credit risk: the standard introduces a loss impairment model that requires to account for 12-month expected credit losses for all assets that enter into the balance sheet, and lifetime expected credit losses if the credit risk increased significantly since the initial recognition of the asset;
 - hedge accounting, with the exception of macro-hedging transactions, which are to be the subject of a separate draft standard currently being studied by the IASB.

As for financial instruments recorded as liabilities on the balance sheet, the only change is the recognition of changes in fair value of own credit risk, for financial liabilities designated at fair value (fair value option). They will be recorded in shareholders' equity without any subsequent recycling in profit or loss.

SFIL initiated in the second half of 2015 the analysis on the "classification and evaluation" component of the new standard, with the aim of identifying potential impacts:

- a review of the instruments was carried out in order to identify the assets currently recognized at amortized cost which, due to their contractual characteristics, will be recorded at fair value in the new framework;
- an analysis of the documentation of loan and bond contracts was carried out to identify the different contractual prepayment clauses and qualify them in relation to the future standard⁽¹⁾;
- the management model implemented has been formalized for the different portfolios of financial assets;
- on the basis of these first elements, work is under way to evaluate the potential impacts of the entry into force of the new standard.

The main expected change relates to some loans that should be recorded at fair value through profit or loss, as they do not meet the cash flow criterion representing solely principal and interests.

(1) The IASB is studying a limited amendment proposal on this point.

Moreover, although SFIL's business model is essentially based on an asset holding activity in order to collect the contractual cash flows, a part of the securities portfolio, corresponding to the most liquid assets, may also be subject to sales. This sub-portfolio will be accounted for at fair value through equity.

The analysis of the changes in the impairment methodology began in the first half of 2016. Work focused first on the definition of a significant increase of credit risk applied to the portfolio of loans to french local authorities, and on the assessment of the resulting impairment level.

SFIL plans to build on the advanced models it has defined for the prudential capital requirements for credit risk, supplementing them by taking into account additional information to integrate the forward-looking dimension.

In the case of hedge accounting, the standard leaves the choice, when first applying IFRS 9, to apply the new provisions or to maintain the provisions in force under IAS 39 until the entry into force of the future macro-hedging standard. The choice to use the new opportunities opened by the new standard will be finalized in 2017.

The implementation of the new standard is based on a Steering Committee involving the General Management, the Finance Department, the Risk Department, as well as the Head of Information Systems.

Lastly, work on changes to the information systems related to this new standard has been integrated into the work plan and planning of the business teams and IT teams for 2017.

- IFRS 15 Revenue from contracts with customers: This standard will apply to all contracts with customers, except for financial instruments, insurance contracts and leases contracts.
- IFRS 16 Leases: This new standard, that supersedes the existing standard, IAS 17, will come into effect on January 1st, 2019. It requires the lessee to recognize in its balance sheet a right to use the leased asset as well as a financial liability.
- Amendments to IAS 12 *accounting for deferred tax assets for unrealized losses*: the standard clarifies that unrealized losses on financial assets measured at fair value in the financial statements and at cost from a tax point of view can generate deductible temporary differences.
- Amendments to IAS 7 *information initiative*: it is assumed that an entity shall disclose information that enables users of financial statements to evaluate changes in liabilities included in its financing activities, whether these changes arise or not from cash flows on fundings.

2. Presentation of information and reporting date

The financial statements are prepared on a going concern basis. They are stated in millions of euros (EUR) unless otherwise noted. They are compliant with ANC (French accounting standards board) recommendation 2013-04 issued on November 7, 2013. The consolidated financial statements were approved by the Board of Directors on March 24, 2016.

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

Judgments were principally made in the following areas:

- Classification of financial instruments;

- Determination of whether or not the market is active for financial instruments measured at fair value;
- Hedge accounting;
- Existence of a present obligation with probable outflows in the event of litigation;
- Identification of impairment triggers.

These judgments are detailed in the corresponding sections of these applicable accounting standards.

Estimates were principally made in the following areas:

- Determination of fair value for financial instruments measured at fair value;
- Determination of the recoverable amount of impaired financial assets;
- Estimates of future taxable profit for the recognition and measurement of deferred tax assets.

3. Accounting principles applied to the financial statements

Consolidation

The consolidated financial statements of SFIL include all entities under its control. Entities under control are fully consolidated.

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

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

The analysis of the level of control is reviewed when a change occurs in one of these criteria.

Subsidiaries are consolidated on the date that the Group gains control. All intra-group transactions and balances are eliminated on consolidation.

Offsetting financial assets and financial liabilities

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

Foreign currency transactions

Foreign currency transactions are accounted for using the exchange rate prevailing on the trade date. Monetary assets and liabilities denominated in foreign currencies are recognized at closing rates. Non-monetary assets and liabilities recognized at fair value and denominated in foreign currencies existing at the closing date are recorded at closing rates, whereas non-monetary assets and liabilities recognized at amortized cost are recorded at their historical rates. Any resulting exchange differences from monetary assets and liabilities are recognized in the income statement, except for the foreign exchange impact of fair value adjustments on available-for-sale assets which are recognized in equity. Foreign exchange differences from non-monetary assets and liabilities recognized at fair value are recorded as fair value adjustments.

Trade date and settlement date accounting

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

Financial assets

The management determines the appropriate classification of investments at their purchase. However, under certain circumstances, financial assets may be subsequently reclassified.

Loans and advances to banks and customers

Loans are defined as non-derivative financial assets with fixed or determinable payments that are not listed on an active market, other than:

- Those that the entity intends to sell immediately or in the near future, which should be classified as held for trading, and those that the entity, upon initial recognition, designates as being at fair value through profit or loss;
- Those that the entity, upon initial recognition, designates as available for sale; or
- Those for which the holder may not recover substantially all of the initial investment for reasons other than the deterioration of credit, which should be classified as available for sale.

The Group recognizes loans and advances initially at fair value plus any directly attributable transaction costs. Later estimates are made at amortized cost, less any impairment losses. Interest is calculated by the effective interest rate method and recognized in net interest income. The effective interest rate is the rate that exactly discounts expected future cash flows through the life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. The calculation includes all fees paid or received by the Group that are an integral part of the effective interest rate of a financial asset, transaction costs and premiums or discounts.

Financial assets held to maturity

Listed securities with fixed maturity are classified as Financial assets held to maturity when management has both the intent and the ability to hold the assets to maturity. Assets held to maturity are initially recognized at fair value (including transaction costs) and subsequently measured at amortized cost, less any impairment losses. Interest is recognized in net interest income using the effective interest rate method.

Financial assets available for sale

Assets intended to be held for an indefinite period of time and which may be sold in response to a need for liquidity or changes in interest rates, exchange rates or equity prices are classified as Available-for-sale financial assets.

Available-for-sale investments are initially recognized at fair value (including transaction costs). Interest on fixed-income securities is recognized using the effective interest rate method in net interest income. Dividends received on variable income securities are recognized as Net gains (losses) on available-for-sale assets.

Unrealized gains and losses arising from fair value re-measurements are recognized in other comprehensive income. On disposal, the related accumulated fair value adjustments are reversed in the income statement in Net gains (losses) on available-for-sale assets.

When available-for-sale assets are restated as loans and advances at a later date on the basis of the October 2008 amendment to IAS 39, the reserve representative of changes in the fair value of available-for-sale financial assets as presented in the financial statements as of December 31, 2016, corresponds to the part of this reserve still to be amortized with regard to the securities restated as of October 1, 2008.

Financial assets held for trading

The Group does not hold any trading assets.

Financial assets designated at fair value through profit or loss

The Group does not use the option to designate its financial assets at fair value through profit or loss.

Realized gains and losses on sales of financial assets

For financial assets held at amortized cost, realized gains or losses on disposals are the differences between the proceeds received (net of transaction costs) and the costs or amortized costs of the assets. The cost is systematically determined based on the "first in, first out" approach (FIFO method) on a portfolio basis.

When available-for-sale assets are sold, cumulative gains and losses previously recognized in other comprehensive income are reversed in the income statement.

Accounting for prepayment penalties

The Group has determined the accounting principles applicable to the restructuring of loans in accordance with AG 62 of IAS 39 concerning financial liabilities.

Regarding the method of accounting for prepayment penalties, there are several possibilities depending on whether the prepayment is recognized as being a prepayment with refinancing or an extinguishment without refinancing.

Prepayment with refinancing

The method of accounting for prepayment penalties differs depending on whether the restructuring conditions are substantially different from those set initially.

In line with the principles of AG 62 of IAS 39, the Group considers that the conditions are substantially different when the net present value of the cash flows under the new conditions, including any fees paid net of any fees received, is more than 10% different from the discounted net present value of the cash flows remaining from the original loan.

Prepayment penalties are recognized immediately in income or else amortized over the life of the new loan depending on the results of the eligibility test.

If the eligibility test is passed (i.e. the difference in net present value is less than 10%), any prepayment penalties are amortized over the term of the new loan, as there is continuity between the two operations. If not (i.e. the difference exceeds 10%), prepayment penalties are recognized immediately in the income statement.

Prepayment without refinancing

When a loan has been extinguished, the Group recognizes prepayment penalties and any gains or losses of unamortized premium or discount, as income for the period.

Impairment of financial assets

The Group records impairment charges when there is objective evidence that a financial asset or group of financial assets is impaired, as a result of one or more events occurring since initial recognition and when that loss event has an impact on the estimated future cash flows that can be reliably estimated. Impairment represents management's best estimate of losses in the value of assets at each balance-sheet date.

Financial assets measured at amortized cost

The Group first assesses whether objective evidence of impairment exists for a financial asset when taken individually. If no such evidence exists, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

- **Determination of the impairment**
 - Individually assessed financial assets: if there is objective evidence that loans or other receivables, or held-to-maturity assets are impaired, the impairment charge is calculated as the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, net of any guarantees and collateral, discounted at the financial instrument's original effective interest rate (except for reclassified assets, see below). When an asset is individually impaired, it will be excluded from the portfolio on which a collective impairment is calculated. SFIL recognizes provisions to cover all the interest due and accrued on non-performing loans.
 - Collective impairment: this covers the risk of loss in value not covered by specific impairment where there is objective evidence that probable losses are present in certain segments of the portfolio or other lending commitments at the balance-sheet date. These losses are estimated on the basis of past performance and historical loss experience in each segment and the current economic environment in which borrowers operate. For this purpose, the Group uses a credit risk model based on an approach that combines default probabilities and losses in the event of default. These models are subject to regular back-testing and are based on Basel III data and risk models, consistent with the incurred loss model.
- **Accounting treatment of the impairment**
 Impairment charges are recognized in the income statement in Cost of risk. If the amount of impairment subsequently decreases due to an event occurring after its recognition, the excess is written back by reducing the impairment allowance account accordingly. The write-back is credited to the Cost of risk.
 When an asset is determined by management as being irrecoverable, the outstanding specific impairment is reversed *via* the income statement, in Cost of risk and the net loss is recorded under the same heading. Subsequent recoveries are also accounted for in this heading.

Reclassified financial assets

Regarding impairment, reclassified financial assets follow the same rules as financial assets initially valued at amortized cost for calculation of the impairment. If there is objective evidence that reclassified financial assets are impaired, the amount of the impairment on reclassified assets is calculated as the difference between the net carrying amount of the asset and the net present value of the expected cash-flows discounted at the effective interest rate at the date of reclassification. Any existing unamortized available-for-sale reserve will be taken to profit or loss account in Cost of risk.

In the event of a positive update to expected cash flows, the impairment amount is reversed through net interest income over the new schedule of expected cash flows, not by a reversal of impairment.

Available-for-sale assets

Impairment of available-for-sale financial assets is recognized on an individual basis if there is objective evidence of impairment as a result of one or more events occurring since their initial recognition. Available-for-sale assets are only subject to specific impairment.

- **Determination of the impairment**
 The Group only holds available-for-sale debt securities. Their impairment is triggered by the same criteria as those applied to financial assets valued at amortized cost (see above).

- **Accounting treatment of the impairment**

When available-for-sale assets are impaired, the total AFS reserve is recycled into profit or loss and the Group reports these impairment losses in the income statement in Cost of risk (for debt instruments) or Net result of financial assets available for sale (for equity instruments). Any subsequent decline in fair value constitutes an additional impairment loss, recognized in the income statement. In the event of an increase in the fair value of an interest bearing financial instrument that relates objectively to an event occurring after the last impairment was recognized, the Group recognizes a reversal of the impairment loss in the income statement in Cost of risk (for debt instruments).

Off-balance sheet commitments

Off-balance sheet commitments such as credit substitutes (e.g. guarantees and standby letters of credit) and loan commitments are converted into on-balance sheet items when called. However, under specified circumstances such as uncertainty about the counterparty's creditworthiness, the off-balance sheet commitment should be classified as impaired if the creditworthiness has deteriorated to an extent that makes repayment of any loan and associated interest payments doubtful.

Sale and repurchase agreements (including securities lending)

Sold securities that are subject to a commitment to repurchase them at a predetermined price (repos) are not de-recognized and remain on the balance sheet in their original category. The corresponding liability is included in Customer borrowings and deposits or Due to banks as appropriate. The asset is reported as pledged in the notes. Securities purchased under commitment to sell (reverse repos) are recorded as off-balance sheet items and the corresponding loans are recorded in Loans and advances to customers or Loans and advances to banks as appropriate. The difference between the sale and repurchase price is recognized as interest income or expense and is amortized over the maturity of the agreement using the effective interest rate method.

Securities lent to third parties are retained in the financial statements. Securities borrowed are not recognized in the financial statements. If these borrowed securities are sold on to third parties, an obligation to return them is recorded at fair value in Financial liabilities at fair value through profit or loss, and any gains or losses are included in Net gains (losses) on financial instruments at fair value through profit or loss.

Financial liabilities

Liabilities designated at fair value through profit or loss

The Group does not use this option.

Financial liabilities at amortized cost

Financial liabilities at amortized cost are recognized initially at fair value, being their issue proceeds net of directly attributable transaction costs incurred. They are subsequently measured at amortized cost and any difference between their initial carrying amount and the redemption value is recognized in the income statement over the expected life of the instruments using the effective interest rate method.

Financial liabilities at amortized cost include *obligations financières* and other resources that benefit from the privilege on assets defined in article L.513-11 of the Monetary and Financial Code.

Obligations foncières are recorded at nominal value. Reimbursement and issue premiums are amortized according to a quasi-actuarial method over the expected life of the securities concerned, as of the first year, *prorata temporis*. They are recorded on the balance sheet in items corresponding to the type of debt concerned. The amortization of these premiums is recorded in the income statement as interest income and expense on debt securities.

In the case of bonds issued above par, the amortization of issue premiums is deducted from related interest income on debt securities.

Interest paid on *obligations foncières* is accounted for as interest expense on debt securities for accrued amounts, due and not yet due, calculated *prorata temporis* on the basis of contractual rates.

Fees paid on bond issues are amortized according to a quasi-actuarial method over the life of the related financial liabilities.

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

Registered covered bonds are private placements recorded at nominal value. Issue premiums and interest expense are treated the same way as for *obligations foncières* (see above). Pursuant to article L.513-12 and article R.513-8 of the Monetary and Financial Code, total assets must at all times be greater than 105% of total liabilities benefiting from the privilege mentioned in article L.513-11 of the above-mentioned Monetary and Financial Code.

Derivatives

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

The amount registered on the balance sheet includes the premium paid or received after amortization, the amount of changes in fair value and accrued interest, which altogether make up the fair value of the derivative. Derivative instruments are recorded as assets if their fair value is positive and as liabilities if it is negative.

Derivatives not documented in a hedging relationship

Derivatives that do not qualify for hedge accounting are considered to be trading instruments. Gains and losses from changes in their fair value are reported in Net result of financial instruments at fair value through profit or loss.

As of December 31, 2016, trading derivatives resulted from operations in which hedge ineffectiveness arose after the hedged items were impaired. Gains and losses (realized and unrealized) were recognized as Net result of financial instruments at fair value through profit and loss.

Hedging derivatives

Hedging derivatives can be categorized as either:

- hedge of the fair value of a recognized asset or liability or a firm commitment (fair value hedge);
- A hedge of a future cash flow attributable to a recognized asset or liability or forecast transaction (cash flow hedge).

Hedge accounting may be used for derivatives designated in this way, provided certain criteria are met:

- Formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied;
- The hedge is documented showing that it is expected to be effective both prospectively and retrospectively in

offsetting changes in fair value or cash flows attributable to the hedged risk on the hedged item throughout the reporting period;

- The hedge shall be effective at inception and on a going concern basis.

Changes in the fair value of derivatives that are designated and documented in a fair value hedging relationship, and that respect the criteria set out above, are recorded in the income statement, along with the corresponding change in fair value of the hedged assets or liabilities that are attributable to that specific hedged risk.

Regarding notably structured financial instruments, the existence of a perfect hedge with a derivative, and the documentation of the associated hedging relationship, have the effect of re-evaluating the hedged risk of the financial instrument, in parallel with the revaluation of the hedging derivative. This results in the same accounting effects as if the derivative embedded in the financial instrument has been separated.

If at any time the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortized to profit or loss over the residual maturity of the hedged item by adjusting the yield on the hedged item.

The efficient portion of the changes in the fair value of derivatives that are designated in a cash flow hedging relationship, that respect the criteria set out above, and that prove to be efficient in relation to the hedged risk, is recognized in equity as Unrealized or deferred gains and losses of cash flow hedges. The non-efficient portion of the changes in the fair value of the derivatives is recognized in the income statement.

Amounts deferred in equity are transferred to the income statement and classified as income or expense in the periods during which the hedged firm commitment or forecast transaction affect the income statement.

Hedging of the interest rate risk of a portfolio

The Group uses the provisions of IAS 39 as adopted by the European Union (IAS 39 carve-out) because it better reflects the way the Group manages its financial instruments. The objective of hedging relationships is to reduce the interest rate risk exposure stemming from certain categories of assets or liabilities designated as the qualifying hedged items.

The Group performs a comprehensive analysis of its interest rate risk exposure. It consists in assessing fixed-rate exposure generated by all fixed-rate balance sheet items. It selects financial assets and liabilities to be included in the hedge of the portfolio's interest rate risk exposure. The same methodology is constantly applied to select financial assets and liabilities that are included in the portfolio. Financial assets and liabilities are classified by time-buckets. Hence, when they are removed from the portfolio, they must be removed from all time-buckets on which they have an impact.

The Group chose to put together homogeneous portfolios of loans and portfolios of bonds. Based on this gap analysis, which is realized on a net basis, the Group defines at inception the risk exposure to be hedged, the length of time-buckets and the testing method and frequency.

Hedging instruments are made up of a portfolio of derivatives, in which positions may be offset. Hedging items are recognized at fair value (including accrued interest expense or income) with adjustments recorded in the income statement. Revaluation related to the hedged risk is recognized on the balance sheet (in asset or liability depending on positive or negative revaluation) as Fair value revaluation of portfolio hedge.

Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to the Group has access to that date. The fair value of a liability reflects its non-performance risk, which includes the Group's own credit risk.

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

If the financial instrument is not listed on an active market, valuation techniques are used. Valuation techniques include the use of data from recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, and valuation models.

A valuation model reflects what the transaction price would have been on the measurement date in current market conditions. The valuation model incorporates all the factors that market participants would consider when pricing a transaction. Within this framework, the Group uses its own valuation models and market assumptions, i.e. present value of cash flows or any other techniques based on market conditions existing at the balance-sheet date.

Fair value of financial instruments measured at amortized cost

The following comments are applicable to the fair value of loans and advances presented in the notes.

- The fair value of fixed-rate loans is estimated by comparing market interest rates when the loans were granted with current market interest rates offered on similar loans.
- Caps, floors and early repayment options are included in determining the fair value of loans and advances.

Financial instruments measured at fair value

Available-for-sale financial assets and derivatives are measured at fair value by reference to listed market prices when available. When listed market prices are not available, fair values are estimated on the basis of pricing models or discounted cash flows, using observable or non-observable market data.

For available-for-sale investments, when listed prices are not available, the pricing models attempt to reflect as accurately as possible the market conditions on the valuation date as well as any changes in the credit quality of these financial instruments and the market liquidity. To determine the fair value of its derivatives, the Group uses different discount curves depending on whether collateral was actually exchanged. Collateralized derivatives are discounted using an OIS-based curve. Uncollateralized transactions are discounted with a Euribor-based curve. This differential treatment reflects the different financing cost associated with the derivatives used (FVA - Funding Valuation Adjustment). As a reminder, the entity Caisse Française de Financement Local does not pay any collateral to its derivative counterparties, which benefit from the legal privilege on assets, as well as the legal holders of covered bonds. In addition, a value adjustment is included in the fair value of derivatives to reflect the impact of counterparty credit risk (CVA - Credit Valuation Adjustment) or the Group's own credit quality (DVA - Debit Valuation Adjustment). Value adjustment allows switching from a fair value based on cash flows discounted at risk-free rate, i.e. into a fair value including

credit risk. Its calculation is based on the risk exposures combined with loss rates including market parameters.

Interest income and expense

For all interest-bearing instruments at amortized cost, interest income and expense are recognized in the income statement using the effective interest rate method (including transaction costs).

The effective interest rate is the rate that exactly discounts expected future cash flows through the life of the financial instrument, or when appropriate, a shorter period to determine the net carrying amount of the financial asset.

The calculation of this rate includes commissions received or paid that are an integral part of the effective interest rate due to their nature, transaction costs and any premiums and discounts.

Transaction costs are incremental costs that are directly attributable to the acquisition of a financial asset or liability and are used for the calculation of the effective interest rate.

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

Once an interest-bearing financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognized based on the interest rate used to discount the future cash flows in order to measure the impairment loss.

Fee income and expense

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

Loan commitment fees are recognized as an adjustment to the effective interest rate and recorded in Interest income if the loan is granted. They are recorded as fee income on the expiry date of the commitment if no loan has been granted.

Deferred taxes

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

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

Deferred tax liabilities are recognized to account for temporary differences arising from investments in subsidiaries, jointly controlled companies and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes relating to fair value re-measurements of available for sale investments and cash flow hedging instruments, and other operations which are charged or credited directly to other comprehensive income, are also credited or charged to other comprehensive income.

Provisions

Provisions mainly include provisions for litigations, restructuring, and off-balance sheet loan commitments.

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

Provisions are recognized when:

- The Group has a present legal or constructive obligation as a result of past events;

- It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- A reliable estimate of the amount of the obligation can be made.

Provisions on loan commitments are accounted for according to the same method used for financial assets valued at amortized cost.

Tangible and intangible assets

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

- It is probable that the associated future economic benefits will flow to the entity, and
- Their cost can be measured reliably.

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

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

After initial recognition, assets are carried at cost less accumulated depreciation and impairment. When they are ready to be used, assets are depreciated linearly over their expected useful life. Depreciation is recognized in Depreciation, amortization and impairment of tangible and intangible assets.

The Group applies the component approach to all of its assets. The depreciation periods are as follows:

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

* Purchased licenses and equipment are depreciated over 3 years. The depreciation period of internally developed software depends on whether it is strategic for the company. If considered strategic, it is depreciated over five years; if not, it is amortized over three years.

Fixed assets are tested for impairment when impairment indicators are identified. When the carrying amount of an asset is greater than its estimated recoverable amount, an impairment charge is recognized and the carrying amount of the asset is written down to the estimated recoverable amount. Impairment charges are recognized in Depreciation, amortization and impairment of tangible and intangible assets.

Gains or losses on disposal of assets are charged to Gains or losses on assets.

Leases

SFIL contracts leases as lessee. Agreements that transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. All other leases are classified as operating leases.

Under finance leases, leased assets are reported in Property, plant and equipment at their fair value or, if lower, the present value of the minimum lease payments. Subsequently, they are recognized in accordance with accounting rules applicable to Property, plant and equipment. Corresponding liabilities are recorded as Accruals and other liabilities and finance charges payable are recognized in the income statement using the effective interest method.

Under operating leases, leased assets are not recognized on the balance sheet. Rentals payable under operating leases are accounted for on a straight-line basis over the periods of the leases. When leases are terminated early, all penalties payable to the lessor are reported as expenses in the period in which the termination has occurred.

Employee benefits

Employee benefits are classified in four categories, as follows.

Short-term benefits

Short-term benefits are those expected to be settled wholly in twelve months after the end of the annual reporting period during which employee services are rendered.

The undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in an accounting period is recognized in that period.

Post-employment benefits

Post-employment benefits are only made of defined contribution plans.

The assets of these plans are generally held by insurance companies or pension funds. The pension plans are generally funded by payments from both SFIL and its employees. Under defined benefit plans, SFIL has the obligation to provide the agreed benefits to current and former employees. Actuarial and investment risks fall on SFIL; as a result, this obligation is measured and recognized as a liability.

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

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

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

The net charge to the income statement comprises the current service cost, the past service arising from plan amendments or curtailments and the net interest costs. The measurement of defined benefit net liability (or asset) and the fair value of assets is subject to adjustments as a result in changes in actuarial assumptions. Actuarial gains and losses resulting from these adjustments are recognized in other comprehensive income.

Other long-term benefits

These benefits are generally related to length of service, such as long-service awards. Their payment is deferred for more than twelve months after the end of the annual period during which the employees rendered the related service.

Employee entitlement to annual leave or long-service leave is recognized when it is granted to the employee. A provision is recorded to estimate the liability for annual leave and long service leave arising from services rendered by employees up to the balance-sheet date.

Actuarial gains and losses relating to these benefits are immediately recognized in the profit and loss account.

Termination benefits

Termination benefits are employee benefits payable as a result of either SFIL's decision to terminate an employee's employ-

ment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. Termination benefits are recorded as expenses only when SFIL no longer has the option to withdraw its compensation offer. Termination benefits due more than twelve months after the balance sheet date are discounted.

Dividends on shares

Dividends on shares are recognized in liabilities in the period in which they are declared (they must be authorized). Dividends for the year that are declared after the balance sheet date are disclosed in the note on post-closing events.

Earnings per share

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

Related-party transactions

Two parties are considered to be related if one party has the ability to control the other party or exercise significant

influence over the other party when making financial or operational decisions. Sfil 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 parties include shareholders and members of the Board of Directors.

Segment reporting

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

The Group conducts its business solely from Paris. It has no direct activity in other countries and is unable to present a relevant geographic breakdown of its results.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include balances at central banks and interbank deposits at sight.

2. Notes to the assets (EUR millions)

2.1 - CENTRAL BANKS

	12/31/2015	12/31/2016
Mandatory reserve deposits with central banks	-	-
Other deposits	3,361	4,878
TOTAL	3,361	4,878

2.2 - LOANS AND ADVANCES TO CUSTOMERS

a. Analysis by nature

	12/31/2015	12/31/2016
Loans	-	-
Bonds	1,304	2,037
TOTAL	1,304	2,037

b. Analysis by counterparty

	12/31/2015	12/31/2016
Public sector	1,304	1,189
Credit institutions guaranteed by the public sector	-	-
Total public sector	1,304	1,189
Replacement assets	-	848
TOTAL	1,304	2,037
<i>of which eligible for central bank refinancing</i>	<i>1,015</i>	<i>1,621</i>

c. Impairment

	12/31/2015	12/31/2016
Public sector	1,304	1,189
Replacement assets	-	848
Total performing assets	1,304	2,037
Public sector	-	-
Replacement assets	-	-
Total impaired assets	-	-
Specific impairment	-	-
TOTAL ASSETS AFTER IMPAIRMENT	1,304	2,037

d. Analysis by residual maturity

See note 7.4

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

See note 4.4

2.3 - LOANS AND ADVANCES DUE FROM BANKS**a. Analysis by nature**

	12/31/2015	12/31/2016
Sight accounts	10	12
Other loans and advances due from banks	2,520	378
Performing assets	2,530	390
Impaired loans and advances	-	-
Impaired assets	-	-
Total assets before impairment	2,530	390
Specific impairment	-	-
Collective impairment	-	-
TOTAL	2,530	390

b. Analysis by counterparty

	12/31/2015	12/31/2016
Credit institutions	10	12
Swiss cantonal banks benefiting from their cantons' legal guarantee	373	113
Banks guaranteed by a local government, crédits municipaux	58	33
Other credit institutions : loans benefiting from the assignment in guarantee of refinanced public debt	2,089	232
TOTAL	2,530	390
<i>of which eligible for central bank refinancing</i>	-	-

c. Analysis by residual maturity

See note 7.4

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

See note 4.4

2.4 - LOANS AND ADVANCES TO CUSTOMERS

a. Analysis by counterparty

	12/31/2015	12/31/2016
Public sector	56,585	56,469
Other - guaranteed by a State or local government	3,725	2,751
Other - ABS made up solely of public commitments ⁽¹⁾	2,341	-
Other - loans to SFIL's employees	14	11
Performing assets	62,665	59,231
Impaired loans and advances	673	557
Impaired assets	673	557
Total assets before impairment	63,338	59,788
Specific impairment	(66)	(60)
Collective impairment	(63)	(46)
TOTAL	63,209	59,682
<i>of which eligible for central bank refinancing</i>	<i>39,227</i>	<i>39,122</i>
<i>Assets assigned in guarantee to the central bank</i>	<i>-</i>	<i>-</i>

(1) In 2016, the structure bought back all shares held by SFIL.

Impaired loans concern customers that represent an identified credit risk (non-performing loans: EUR 530 million) and customers with unpaid loans corresponding to disagreement on the amount due (compromised non-performing loans: EUR 27 million). SFIL, through its subsidiary, Caisse Française de Financement Local, has reduced its level of collective provisions with regard to the progress of its sensitivity reduction policy.

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

There were 197 forborne contracts as of December 31, 2016, with 106 borrowers, for a total of EUR 1,541 million.

b. Public sector ABS

	Rating	12/31/2015	12/31/2016
DSFB - Dexia Secured Funding Belgium 4	A- S&P, Fitch AA-	2,341	-
TOTAL		2,341	-

c. Analysis by residual maturity

See note 7.4

d. Unrealised or deferred gains and losses breakdown by country

See note 4.4

2.5 - TAX ASSETS

	12/31/2015	12/31/2016
Current income tax	5	-
Other taxes	0	0
Current tax assets	5	0
Deferred tax assets (see note 4.2)	116	113
TOTAL TAX ASSETS	121	113

Deferred tax assets were submitted to a recoverability test taking into account the business plans presented to the Board of Directors according to realistic hypotheses. Deferred taxes as of December 31, 2016, are recoverable on the basis of this analysis within seven years by taking tax rules governing the treatment of past deficits into account⁽¹⁾.

The SFIL tax group has no deferred tax related to carry forward tax losses.

SFIL group took into account the legislative measures designed to reduce the corporate income tax rate to 28% as of 2020. SFIL group reduces its deferred tax assets and recorded an expense of EUR 14 millions.

(1) In application of the 2013 law of Finances (article 24), the assignment of deficits has a ceiling of EUR 1 million plus 50% of the fraction of taxable income in the year in which the ceiling was exceeded. The non-attributable fraction of the deficits can be carried forward to the following years with no time limit and under the same conditions.

2.6 - TANGIBLE ASSETS

	Computer equipment	Other equipment	Fixtures	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2015	1	0	8	0	9
Changes during the year:					
*increases	0	0	0	0	0
*decreases	-	-	-	(0)	(0)
*other	-	-	-	-	-
ACQUISITION COST AS OF 12/31/2016	1	0	8	0	9
Depreciation and impairments as of 12/31/2015	(0)	(0)	(1)	-	(1)
Changes during the year:					
*amortization	(0)	(0)	(1)	-	(1)
*write-back	-	-	-	-	-
*other	-	-	-	-	-
Depreciation and impairments as of 12/31/2016	(0)	(0)	(2)	-	(2)
NET CARRYING AMOUNT AS OF 12/31/2016	1	0	6	0	7

2.7 - INTANGIBLE ASSETS

	Software	Internally developed assets	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2015	1	9	5	15
Changes during the year:				
*increases	2	4	7	13
*decreases	-	-	(2)	(2)
*other	-	-	-	-
ACQUISITION COST AS OF 12/31/2016	3	13	10	26
Depreciation and impairments as of 12/31/2015	(0)	(2)	-	(2)
Changes during the year:				
*amortization	(1)	(3)	-	(4)
*write-back	-	-	-	-
*other	-	-	-	-
Depreciation and impairments as of 12/31/2016	(1)	(5)	-	(6)
NET CARRYING AMOUNT AS OF 12/31/2016	2	8	10	20

2.8 - ACCRUALS AND OTHER ASSETS

	12/31/2015	12/31/2016
Cash collateral paid	3,303	2,278
Other accounts receivable	0	1
Prepaid charges	4	5
Other assets	7	32
TOTAL ACCRUALS AND OTHER ASSETS	3,314	2,316

2.9 - RESTATEMENT OF FINANCIAL ASSETS (IAS 39 AMENDED)

	From "Financial assets held for trading" to "Loans and advances" ⁽¹⁾	From "Financial assets held for trading" to "Financial assets available for sale" ⁽²⁾	From "Financial assets available for sale" to "Loans and advances" ⁽³⁾
Carrying amount of assets reclassified, as of October 1, 2008	-	-	17,855
Carrying amount of reclassified assets, as of December 31, 2016	-	-	4,349
Fair value of reclassified assets as of December 31, 2016	-	-	3,515
AMOUNT NOT RECOGNIZED THROUGH PROFIT AND LOSS (1) AND (2) DUE TO RECLASSIFICATION	-	-	-
AMOUNT NOT RECOGNIZED THROUGH ASSETS AVAILABLE FOR SALE (3) DUE TO RECLASSIFICATION	-	-	(834)
Premium/discount amortization through profit and loss	-	-	-
Premium/discount amortization through AFS reserve	-	-	4

3. Notes to the liabilities (EUR millions)**3.1 - DUE TO CREDIT INSTITUTIONS BANKS****a. Analysis by nature**

Analysis by nature	12/31/2015	12/31/2016
Demand deposits	-	-
Term deposits	8,837	6,720
TOTAL	8,837	6,720

Analysis by nature	12/31/2015	12/31/2016
Current account	-	-
Interest accrued not yet due	-	-
Long-term borrowing	8,822	6,713
Interest accrued not yet due	15	7
Sight accounts	-	-
TOTAL	8,837	6,720

b. Analysis by residual maturity

See note 7.4

3.2 - DEBT SECURITIES**a. Analysis by nature**

Analysis by nature	31/12/2015	31/12/2016
Certificates of deposit	599	595
<i>Obligations foncières</i>	49,643	49,265
Registered covered bonds	7,498	7,821
TOTAL	57,740	57,681

b. Analysis by residual maturity

See note 7.4

3.3 - TAX LIABILITIES

	12/31/2015	12/31/2016
Current income tax	0	5
Other taxes	2	1
Current tax liabilities	2	6
Deferred tax liabilities (see note 4.2)	-	-
TOTAL TAX LIABILITIES	2	6

3.4 - ACCRUALS AND OTHER LIABILITIES

	12/31/2015	12/31/2016
Cash collateral received	1,937	1,856
Other accrued charges	35	35
Deferred income	-	-
Contributions to the support funds ⁽¹⁾	162	136
Other accounts payable and other liabilities	5	7
TOTAL	2,139	2,034

(1) This item corresponds to the residual balance of the commitment Caisse Française de Financement Local made in 2013 to contribute to the multi-year support fund for local governments in the amount of EUR 10 million for 15 years, for a total of EUR 150 million, as well as commitments to contribute to the support fund for public healthcare facilities in the amount of EUR 18 millions in 2014 and EUR 20 millions in 2015.

3.5 - PROVISIONS

	12/31/2015	12/31/2016
Provision on pensions	5	7
Tax provisions ⁽¹⁾	38	38
TOTAL	43	45

(1) In 2015, French tax authorities investigated the income declared and the tax paid by Caisse Française de Financement Local for 2012 and 2013. Following the tax assessment, the tax authorities expressed their disagreement with the tax treatment of the following two points: the taxation in Ireland of the income from the Irish branch, which has now been closed, and the deductibility of provisions for non-performing loans. In 2016, Caisse Française de Financement Local introduced the right of appeal stipulated by regulations and maintained its position. Caisse Française de Financement Local will continue this approach in 2017. Provisions recorded beforehand have been maintained.

4. Other balance sheet notes (EUR millions)

4.1 - DERIVATIVES

a. Analysis by nature

	12/31/2015		12/31/2016	
	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss	2	2	-	4
Derivatives designated as fair value hedges	4,644	8,158	4,527	6,464
Derivatives designated as cash flow hedges	6	162	5	140
Derivatives designated as portfolio hedges	2,397	3,811	1,918	3,283
Hedging derivatives	7,047	12,131	6,450	9,887
CVA /DVA Impact	(10)	(43)	(9)	(26)
TOTAL DERIVATIVES	7,039	12,090	6,441	9,865

b. Detail of derivatives designated as fair value hedges

	12/31/2015			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	7,051	6,952	482	372
Interest rate derivatives	62,274	62,255	4,162	7,786
TOTAL	69,325	69,207	4,644	8,158

	12/31/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	6,857	6,548	590	304
Interest rate derivatives	59,637	59,611	3,937	6,160
TOTAL	66,494	66,159	4,527	6,464

c. Detail of derivatives designated as cash flow hedges

	12/31/2015			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	954	1,071	6	162
Interest rate derivatives	-	-	-	-
TOTAL	954	1,071	6	162

	12/31/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	825	923	5	140
Interest rate derivatives	-	-	-	-
TOTAL	825	923	5	140

	12/31/2015	12/31/2016
Amount removed from equity and included in the carrying amount of a non-financial instrument (hedging of cash flows of a highly favorable transaction)	-	-

d. Detail of derivatives designated as portfolio hedges

	12/31/2015			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	90,293	90,288	2,397	3,811
TOTAL	90,293	90,288	2,397	3,811

	12/31/2016			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	78,519	78,514	1,918	3,283
TOTAL	78,519	78,514	1,918	3,283

4.2 - DEFERRED TAXES

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

a. Analysis by nature

	12/31/2015	12/31/2016
Deferred tax assets before impairment	116	113
Impairment on deferred tax assets	-	-
Deferred tax assets	116	113
Deferred tax liabilities	-	-
TOTAL	116	113

b. Movements

	12/31/2015	12/31/2016
As of January 1	116	116
Charge/credit recognized in the income statement	18	3
Effect of change in tax rates - impact on the income statement	-	(14)
Movements directly recognized in equity	(18)	8
Effect of change in tax rates - impact on equity	-	-
Translation adjustment	-	-
Other movements	-	-
As of December 31	116	113

(1) SFIL Group took into account the legislative measures designed to reduce the corporate income tax rate to 28% as of 2020. SFIL Group reduced its deferred tax assets and recorded an expense of EUR 14 millions.

c. Deferred taxes from assets on the balance sheet

	12/31/2015	12/31/2016
Loans	71	347
Securities	47	58
Derivatives	183	(141)
Accruals and other assets	14	13
TOTAL	315	277

d. Deferred taxes from liabilities on the balance sheet

	12/31/2015	12/31/2016
Borrowings, deposits and issues of debt securities	(199)	(164)
Derivatives	-	-
Provisions	-	-
Accruals and other liabilities	-	-
TOTAL	(199)	(164)

4.3 - TRANSACTIONS WITH RELATED-PARTIES

Breakdown by nature

	Parent company ⁽¹⁾		Other related parties ⁽²⁾	
	12/31/2015	12/31/2016	12/31/2015	12/31/2016
ASSETS				
Loans and advances	-	-	-	-
Bonds	-	-	-	100
LIABILITIES				
Due to banks - sight accounts	-	-	-	-
Due to banks - term loans	-	-	8,837	6,720
INCOME STATEMENT				
Interest income on loans and advances	-	-	(10)	(4)
Interest income on bonds	-	-	-	37
Interest expense on borrowings	-	-	(57)	(13)
Fees and commissions	-	-	4	0
OFF-BALANCE SHEET				
Foreign exchange derivatives	-	-	-	-
Interest rate derivatives	-	-	1,261	863
Commitments and guarantees received	-	-	5,062	5,023
Commitments and guarantees issued	-	-	5,511	5,220

(1) This item exclusively includes Caisse Française de Financement Local, which is fully consolidated.

(2) It includes transactions with Caisse des dépôts et consignations and La Banque Postale, shareholders of SFIL.

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

	12/31/2015	12/31/2016
Unrealized gains and losses on available for sale securities	(48)	(78)
Canada	0	0
Germany	-	(0)
Spain	-	0
France	(2)	(4)
Italy	(42)	(64)
United-States	(4)	(10)
Unrealized gains and losses on loans and receivable securities	(85)	(81)
Spain	(1)	(1)
France	3	3
Italy	(87)	(83)
Unrealized gains and losses on derivatives designated as cash-flow hedges	(39)	(36)
Unrealized gains and losses on employee benefits plan	(1)	(1)
TOTAL	(173)	(196)
Deferred taxes on gains and losses, available for sale securities	17	27
Deferred taxes on gains and losses, loans and receivable securities	29	28
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	13	13
Deferred taxes on employee benefits plan	0	0
TOTAL	(114)	(128)

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4.5 - BREAKDOWN OF GOVERNMENT BONDS IN A SELECTION OF EUROPEAN COUNTRIES

Breakdown of government bonds in a selection of European countries

The credit risk exposure reported represents the accounting net carrying amount of exposure, being the notional amounts after deduction of specific impairment, and taking into account accrued interest.

	12/31/2015					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	-	-	472	-	-	472
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances			113			113
TOTAL	-	-	585	-	-	585
UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES	-	-	(42)	-	-	(42)
UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES	-	-	-	-	-	-

	12/31/2016					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	302	-	458	-	-	760
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	113	-	-	113
TOTAL	302	-	571	-	-	873
UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES	0	-	(64)	-	-	(64)
UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES	-	-	-	-	-	-

5. Notes to the income statement (EUR millions)

5.1 - INTEREST INCOME - INTEREST EXPENSE

	2015	2016
INTEREST INCOME	4,095	3,341
Central banks	0	0
Loans and advances due from banks	36	10
Loans and advances to customers	1,660	1,435
Financial assets available for sale	39	38
Financial assets held to maturity	-	-
Derivatives used for hedging	2,360	1,848
Impaired assets	-	-
Other	-	10
INTEREST EXPENSE	(4,006)	(3,199)
Accounts with central banks	(5)	(18)
Due to banks	(52)	(27)
Customer borrowings and deposits	(2)	-
Debt securities	(1,846)	(1,582)
Subordinated debt	-	-
Derivatives used for hedging	(2,101)	(1,572)
Other	-	0
INTEREST MARGIN	89	142

5.2 - FEES AND COMMISSIONS

	2015			2016		
	Income	Expense	Net	Income	Expense	Net
Lending activity	4	-	4	4	-	4
Purchase and sale of securities	-	(2)	(2)	-	(1)	(1)
Financial engineering	-	-	-	-	-	-
Services on securities other than custodian services	-	(5)	(5)	-	(3)	(3)
Issuance and underwriters of securities	-	(1)	(1)	-	(0)	(0)
TOTAL	4	(8)	(4)	4	(4)	(0)

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

	2015	2016
Net trading income	1	6
Net result of hedge accounting	1	(21)
Net result of foreign exchange transactions	(0)	(1)
TOTAL	2	(16)

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

Analysis of net result of hedge accounting

	2015	2016
Fair value hedges	18	(4)
Fair value changes in the hedged item attributable to the hedged risk	1,063	514
Fair value changes in the hedging derivatives	(1,045)	(518)
Cash flow hedges	-	-
Fair value changes in the hedging derivatives - ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
Portfolio hedge	(4)	(1)
Fair value changes in the hedged item	(41)	12
Fair value changes in the hedging derivatives	37	(13)
CVA / DVA Impact⁽¹⁾	(13)	(16)
TOTAL	1	(21)

(1) As of December 31, 2016, the impact of the application of IFRS 13 was a net charge of EUR -16 million for the year, a sum that can be broken down into a decrease in DVA income for EUR -16.3 million and in that of CVA for EUR 0.3 million.

5.4 - NET RESULT OF FINANCIAL ASSETS AVAILABLE FOR SALE

	2015	2016
Net result of disposals of loans and securities available for sale	0	1
Net result of disposals of debt securities	(5)	(3)
Net result of the sale or cancellation of loans and advances	4	15
TOTAL	-	0
TOTAL	(1)	13

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5.5 - GENERAL EXPENSES

	2015	2016
Payroll costs	(47)	(49)
Other general and administrative expense	(41)	(42)
Taxes	(11)	(11)
TOTAL	(99)	(102)

5.6 - DEPRECIATION AND AMORTIZATION, PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	2015	2016
Depreciation and amortization, property and equipment ⁽¹⁾	(1)	(1)
Depreciation and amortization, intangible assets ⁽¹⁾	(2)	(4)
TOTAL	(3)	(5)

(1) see notes 2.6 and 2.7

5.7 - COST OF RISK

	2015			Total
	Collective impairment	Specific impairment and losses	Contribution to support fund	
Credit (loans, commitments and securities held to maturity)	(1)	7	(20)	(14)
Fixed income securities available for sale	-	-	-	-
TOTAL	(1)	7	(20)	(14)

	2016			Total
	Collective impairment	Specific impairment and losses	Contribution to support fund	
Credit (loans, commitments and securities held to maturity)	18	0	-	18
Fixed income securities available for sale	-	-	-	-
TOTAL	18	0	-	18

Detail of collective and specific impairments

	2015			2016		
	Charges	Recoveries and uses	Total	Charges	Recoveries and uses	Total
Loans and borrowings	(5)	4	(1)	(2)	20	18
Off-balance sheet commitments	-	-	-	-	-	-
TOTAL	(5)	4	(1)	(2)	20	18

Specific Impairment	2015				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(4)	11	(0)	-	7
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	(4)	11	(0)	-	7
Fixed income securities	-	-	-	-	-
TOTAL	(4)	11	(0)	-	7

Specific Impairment	2016				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(2)	2	0	-	0
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	(2)	2	0	-	0
Fixed income securities	-	-	-	-	-
TOTAL	(2)	2	0	-	0

5.8 - INCOME TAX

a. Detail of tax expense

	2015	2016
Current taxes	(9)	(19)
Deferred taxes	18	(12)
Tax on prior years' income	-	(0)
Deferred taxes on prior years	-	-
Provisions for tax litigation	(38)	-
TOTAL	(29)	(31)

b. Effective tax expense as of December 31, 2016

The difference between the effective tax rate and the French corporate income tax can be explained as follows:

	2015	2016
INCOME BEFORE INCOME TAXES	(30)	49
Net income from associates	-	-
TAX BASE	(30)	49
Applicable tax rate at end of the period	38.00%	34.43%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	11	(17)
Impact of differences between foreign tax rates and the French standard tax rate	(1)	(2)
Tax effect of non-deductible expenses	-	-
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	(1)	2
Other additional taxes or tax savings	-	-
Provisions for tax litigation	(38)	-
Effect of French tax rate as of 2020	-	(14)
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	(29)	(31)

(1) SFIL Group took into account the legislative measures designed to reduce the corporate income tax rate to 28% as of 2020. SFIL Group reduced its deferred tax assets and recorded an expense of EUR 14 millions.

c. Tax consolidation

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

6. Off-balance sheet notes (EUR millions)

6.1 - REGULAR WAY TRADE

	12/31/2015	12/31/2016
Assets to be delivered	-	-
Liabilities to be received ⁽¹⁾	1,937	-

6.2 - GUARANTEES

	12/31/2015	12/31/2016
Guarantees received from credit institutions	184	84
Enhanced guarantees received ⁽¹⁾	-	2,597
Loan guarantee commitments received	-	3,722
Guarantees received from customers ⁽²⁾	5,867	2,863

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

(2) Guarantees received from customers are generally given by local governments.

6.3 - FINANCING COMMITMENTS

	12/31/2015	12/31/2016
Loan commitments granted to credit institutions	0	-
Loan commitments granted to customers ⁽¹⁾	518	2,722
Loan commitments received from credit institutions ⁽²⁾	4,922	4,972
Loan commitments received from customers	-	-

(1) The financing commitments on loans and lines of credit corresponded to contracts issued but not paid out as of December 31, 2016. The amount as of December 31, 2016, included a commitment of EUR 2,597 million on an operation in the new business line of export credit.

(2) This amount incorporates in particular financing commitments of EUR 3,076 from CAFFIL in order to finance the parent company SFIL within the framework of export activities. It also includes the residual amount which corresponds to the financing commitments of SFIL's shareholders, Caisse des dépôts et consignations and La Banque Postale for respectively EUR 4,584 million and EUR 388 million in 2016.

As of 2016, SFIL recorded total commitments relating solely to existing tranches. This total is limited to EUR 4,484 million. This amount does not account for the possibility provided for in the financing agreement with Caisse des dépôts et consignations to negotiate in good faith additional funds. Given the fact that this amount may not exceed EUR 12.5 billion, these commitments would not be more than EUR 2,061 million as of December 31, 2016.

6.4 - OTHER COMMITMENTS

	12/31/2015	12/31/2016
Commitments granted ⁽¹⁾	5,511	5,220
Commitments received ⁽²⁾	238	232

(1) This concerns the value of a group of loans pledged to Caisse des dépôts et consignations.

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

7. Notes on risk exposure (EUR millions)

7.1 - FAIR VALUE

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

These fair value adjustments take into account the characteristics of the assets and liabilities concerned (maturity, interest rate risk hedging, amortization profile, and for assets, the rating); they are also influenced by current market conditions in terms of price or spread of these very operations or operations to which they can be assimilated. The breakdown of assets and liabilities in function of the method used to determine their fair value is presented in note c. below; in fact, the great majority of the assets are valued according to a technique that accounts for the fact that significant parameters are not observable for the assets, since exposure mainly concerns loans, a commitment format that is not listed in liquid markets. To value liabilities, certain observable parameters are taken into account.

These fair values are useful information, but it would not be relevant to draw conclusions from them on the value of the company or on the earnings that will be generated in the future. In fact, the assets and liabilities present a good congruence in rate and maturity and are intended to be kept on the balance sheet until maturity, considering the company's specialized business.

a. Composition of the fair value of the assets

	12/31/2015		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	3,361	3,361	-
Loans and advances due from banks	2,530	2,545	15
Loans and advances to customers	63,209	61,845	(1,364)
Financial assets available for sale	1,304	1,304	-
Derivatives	7,039	7,039	-
TOTAL	77,443	76,094	(1,349)

	12/31/2016		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	4,878	4,878	-
Loans and advances due from banks	390	384	(6)
Loans and advances to customers	59,682	58,288	(1,394)
Financial assets available for sale	2,037	2,037	-
Derivatives	6,441	6,441	-
TOTAL	73,428	72,028	(1,400)

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

	12/31/2015		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	8,837	8,865	28
Derivatives	12,090	12,090	-
Debt securities	57,740	58,263	523
TOTAL	78,667	79,218	551

	12/31/2016		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	6,720	6,742	22
Derivatives	9,865	9,865	-
Debt securities	57,681	58,765	1,084
TOTAL	74,266	75,372	1,106

c. 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 with the help of a technical evaluation utilizing observable market data. A hierarchy of the methods used to establish fair value has been drawn up. It is composed of the following three levels:

- Level 1 corresponds to the instruments considered to be liquid, i.e. that their valuation is based on the price observed in a liquid market where SFIL Group knows there are a large group of participants. Level 1: financial instruments notably include certain government bonds.
- Level 2: another method to determine the value of instruments is used, for which SFIL cannot observe market prices, but observes such for similar instruments by the same issuer or guarantor listed in the market. In this case, observable prices and other data observable in the market are used and an adjustment is made to account for the degree of the security's lack of liquidity.
- Level 3: the instruments are assessed according to a level 3 method when there is no active market or observable market data; they are then valued by using a valuation spread derived from an internal model. Derivatives are valued using these internal models.

SFIL has revised its approach to qualifying the valuations of derivative instruments. The qualification of derivatives is based on a combined analysis of the observability of market data used in the valuation and the reliability of the valuation models measured in terms of efficiency to provide a valuation within the market consensus. This application shows that the derivatives used by SFIL to hedge its activities are mainly level 2.

For derivatives classified as level 3, this classification is mainly composed of hybrid structured products (rate/exchange), Spread products (correlation) as well as interest rate options.

This classification is mainly due to the fact that these products present complex payoffs that require advanced statistical modeling presenting parameters which are variable and sometimes non-observable on the market.

Fair value of financial assets	12/31/2015			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Central banks	3,361	-	-	3,361
Loans and advances due from banks	10	2,535	-	2,545
Loans and advances to customers	1,525	623	59,697	61,845
Subtotal of assets at amortized costs	4,896	3,158	59,697	67,751
Financial assets available for sale	1,107	197	-	1,304
Hedging derivatives	-	5,519	1,520	7,039
Subtotal of assets at fair value	1,107	5,716	1,520	8,343
TOTAL	6,003	8,874	61,217	76,094

Fair value of financial assets	12/31/2016			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Central banks	4,878	-	-	4,878
Loans and advances due from banks	12	-	372	384
Loans and advances to customers	1,475	2,366	54,447	58,288
Subtotal of assets at amortized costs	6,365	2,366	54,819	63,550
Financial assets available for sale	1,035	1,002	-	2,037
Hedging derivatives	-	5,847	594	6,441
Subtotal of assets at fair value	1,035	6,849	594	8,478
TOTAL	7,400	9,215	55,413	72,028

Fair value of financial liabilities	12/31/2015			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Due to banks	-	8,865	-	8,865
Debt securities	-	58,263	-	58,263
Derivatives	-	67,128	-	67,128
Hedging derivatives	-	7,768	4,322	12,090
Derivatives	-	7,768	4,322	12,090
TOTAL	-	74,896	4,322	79,218

Fair value of financial liabilities	12/31/2016			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Due to banks	-	6,742	-	6,742
Debt securities	-	58,765	-	58,765
Derivatives	-	65,507	-	65,507
Hedging derivatives	-	8,577	1,288	9,865
Derivatives	-	8,577	1,288	9,865
TOTAL	-	74,084	1,288	75,372

(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 the significant parameters are not observable.

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

The table below provides a summary presentation of the financial products classified as level 3 and for which assumption changes concerning one or more pieces of non-observable data would result in a significant change in the market value. These amounts are aimed at illustrating the uncertainty interval inherent to the use of the judgement implemented in estimating the level 3 parameters, or in the selection of valuation techniques or models. They reflect the valuation uncertainties prevailing on the assessment date, and although they are essentially the result of portfolio sensitivities on the assessment date, they do not make it possible to predict or deduce future variations in the market value, and they also do not reflect the effect of extreme market conditions on the portfolio value. In order to estimate sensitivities, SFIL has either valued the financial instruments using reasonably possible parameters, or applied assumptions based on its policy of additional valuation adjustments.

	12/31/2016
Uncertainty inherent to level 3 market parameters	20
Uncertainty inherent to level 3 derivatives valuation models	32
Sensitivity of level 3 financial instruments	52

d. Transfer between levels 1 and 2

	12/31/2015	12/31/2016
Level 1 to level 2	-	-
TOTAL	-	-

e. Level 3: analyses of flow

	Financial assets available for sale	Derivatives	TOTAL FINANCIAL ASSETS	Derivatives	TOTAL FINANCIAL LIABILITIES
12/31/2015	-	1,520	1,520	4,322	4,322
Total gains and losses through profit and loss	-	2	2	(549)	(549)
Total unrealized or deferred gains and losses	-	4	4	(1,139)	(1,139)
Total OCI unrealized or deferred gains and losses	-	-	-	-	-
Purchase	-	1	1	22	22
Sales	-	-	-	-	-
Direct origination	-	-	-	-	-
Settlement	-	154	154	(4)	(4)
Transfer in activities destined to be transferred	-	-	-	-	-
Transfert to level 3	-	1	1	22	22
Transfert out of level 3	-	(1,098)	(1,098)	(1,396)	(1,396)
Others variations	-	10	10	10	10
12/31/2016	-	594	594	1,288	1,288

7.2 - OFFSETTING FINANCIAL ASSETS AND LIABILITIES**a. Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements**

	12/31/2015					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	7,039	-	7,039	(5,130)	(1,792)	117
Loans and advances due from banks	2,530	-	2,530	-	(1,851)	679
Loans and advances to customers	63,209	-	63,209	-	-	63,209
TOTAL	72,778	-	72,778	(5,130)	(3,643)	64,005

	12/31/2016					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	6,441	-	6,441	(4,563)	(1,615)	263
Loans and advances due from banks	390	-	390	-	-	390
Loans and advances to customers	59,682	-	59,682	-	-	59,682
TOTAL	66,513	-	66,513	(4,563)	(1,615)	60,335

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b. Financial liabilities subject to offsetting, enforceable master netting arrangements or similar agreements

	12/31/2015					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	12,090	-	12,090	(5,130)	(3,283)	3,677
Loans and advances due from banks	8,837	-	8,837	-	-	8,837
Loans and advances to customers	-	-	-	-	-	-
TOTAL	20,927	-	20,927	(5,130)	(3,283)	12,514

	12/31/2016					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	9,865	-	9,865	(4,563)	(2,275)	3,027
Loans and advances due from banks	6,720	-	6,720	-	-	6,720
Loans and advances to customers	-	-	-	-	-	-
TOTAL	16,585	-	16,585	(4,563)	(2,275)	9,747

7.3 - EXPOSURE TO CREDIT RISKS

Exposure to credit risks, as presented to management, includes the following:

- For assets other than derivatives: the amount on the balance sheet (i.e. after deduction of specific provisions);
- For derivatives: the market value on the balance sheet (i.e. after deduction of cash collateral and CVA provisions);
- For off-balance sheet commitments: the amount intact of financing commitment drawdowns, is stated in the notes to the financial statements.

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

Breakdown of exposure to credit risks**Analysis of exposure by geographic region**

	12/31/2015	12/31/2016
France	58,380	61,904
Belgium	2,541	176
Italy	6,610	6,687
Spain	285	542
Germany	627	623
United Kingdom	2,263	286
Other European Union countries	314	272
Switzerland	2,123	1,685
United States and Canada	700	700
Japan	39	41
TOTAL EXPOSURE	73,882	72,916

Analysis of exposure by category of counterparty

	12/31/2015	12/31/2016
States	6,634	10,239
Local public sector	64,005	61,518
ABS	2,341	-
Other - guaranteed by local public sector	143	23
Financial institutions	759	1,136
TOTAL EXPOSURE	73,882	72,916

Analysis of exposure by category of counterparty

	12/31/2015	12/31/2016
Debt securities	1,304	2,047
Loans and advances	72,043	68,098
Financing commitments on loans	517	2,722
Hedging derivatives	18	49
TOTAL EXPOSURE	73,882	72,916

Evaluation of asset credit quality

This enables SFIL to present on December 31, 2016, an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements. Credit weighting is mainly calculated on the basis of the probability of default of the counterparty and of the loss incurred in the event of default.

This analysis confirms the excellent quality of the assets in SFIL's portfolio. More than 80.5% of the portfolio has a weighting of less than 5% and 95.6% of the portfolio has a weighting that is less than or equal to 20%.

	Risk weighting (Basel III)				Total
	from 0 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	
Debt securities	54	1,004	989	-	2,047
Loans and advances	55,936	10,024	1,676	462	68,098
Guarantees	-	10	-	-	10
Financing commitments on loans	2,716	6	-	-	2,722
Hedging derivatives	1	0	27	21	49
TOTAL EXPOSURE	58,707	11,034	2,692	483	72,916
SHARE OF TOTAL EXPOSURE	80.5%	15.1%	3.7%	0.7%	100%

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

7.4 - LIQUIDITY RISK: ANALYSIS ACCORDING TO RESIDUAL DURATION UP TO REPAYMENT DATE

a. Analysis of assets

	12/31/2016						Total broken down
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	
Central banks	4,879	-	-	-	-	-	4,879
Derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	525	421	320	560	-	1,826
Loans and advances due from banks	12	9	84	80	198	-	383
Loans and advances to customers	5	1,513	3,600	15,746	34,115	-	54,979
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	0	-	-	113	113
Tangible assets	-	-	-	-	-	9	9
Intangible assets	-	-	-	-	-	26	26
Accruals and other assets	-	2,302	6	-	9	-	2,317
TOTAL	4,896	4,349	4,111	16,146	34,882	148	64,532

	12/31/2016				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	4,879	(1)	-	-	4,878
Derivatives	-	812	5,629	-	6,441
Financial assets available for sale	1,826	11	200	-	2,037
Loans and advances due from banks	383	2	5	-	390
Loans and advances to customers	54,979	642	4,167	(106)	59,682
Fair value revaluation of portfolio hedge	-	-	3,053	-	3,053
Financial assets held to maturity	-	-	-	-	-
Tax assets	113	-	-	-	113
Tangible assets	9	-	-	(2)	7
Intangible assets	26	-	-	(6)	20
Accruals and other assets	2,317	(1)	-	-	2,316
TOTAL	64,532	1,465	13,054	(114)	78,937

b. Breakdown of liabilities, excluding equity

	12/31/2016						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Due to banks	-	687	1,125	2,295	2,609	-	6,716
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	2,870	5,205	17,538	27,622	-	53,235
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	6	-	-	-	6
Accruals and other liabilities	-	1,898	-	66	70	-	2,034
Provisions	-	-	-	45	-	-	45
Subordinated debt	-	-	-	-	-	-	-
TOTAL	-	5,455	6,336	19,944	30,301	-	62,036

	12/31/2016			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Derivatives	-	635	9,230	9,865
Due to banks	6,716	7	(3)	6,720
Customer borrowings and deposits	-	-	-	-
Debt securities	53,235	879	3,567	57,681
Fair value revaluation of portfolio hedge	-	-	1,198	1,198
Tax liabilities	6	-	-	6
Accruals and other liabilities	2,034	(0)	-	2,034
Provisions	45	-	-	45
Subordinated debt	-	-	-	-
TOTAL	62,036	1,521	13,992	77,549

c. Net liquidity gap

	12/31/2016							Total
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total not broken down	
AMOUNT	4,896	(1,106)	(2,225)	(3,798)	4,581	148	(1,108)	1,388

This table presents the balance sheet at the closing date; it does not take into account the management decisions that will make it possible to manage differences in maturity or the future production of assets and liabilities. The liquidity of Caisse Française de Financement Local is provided by the financing agreement in effect with its parent company, SFIL, and by the issue of *obligations foncières*. In addition, CAFFIL may obtain funding from the Banque de France, by giving certain of these assets in guarantee. Thus, Caisse Française de Financement Local can obtain financing from the Banque de France enabling it to repay its *obligations foncières* upon maturity; the assets pledged as guarantee are then excluded from the calculation of the coverage ratio.

7.5 - RISK ON RESETTING OF INTEREST RATES: ANALYSIS BY MATURITY UNTIL THE NEXT INTEREST RATE RESET

a. Analysis of assets

	12/31/2016						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	4,879	-	-	-	-	-	4,879
Derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	655	291	320	560	-	1,826
Loans and advances due from banks	12	78	140	66	87	-	383
Loans and advances to customers	5	7,421	8,579	11,860	27,114	-	54,979
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	0	-	-	113	113
Tangible assets	-	-	-	-	-	9	9
Intangible assets	-	-	-	-	-	26	26
Accruals and other assets	-	2,302	6	-	9	-	2,317
TOTAL	4,896	10,456	9,016	12,246	27,770	148	64,532

	12/31/2016				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	4,879	(1)	-	-	4,878
Derivatives	-	812	5,629	-	6,441
Financial assets available for sale	1,826	11	200	-	2,037
Loans and advances due from banks	383	2	5	-	390
Loans and advances to customers	54,979	642	4,167	(106)	59,682
Fair value revaluation of portfolio hedge	-	-	3,053	-	3,053
Financial assets held to maturity	-	-	-	-	-
Tax assets	113	-	-	-	113
Tangible assets	9	-	-	(2)	7
Intangible assets	26	-	-	(6)	20
Accruals and other assets	2,317	(1)	-	-	2,316
TOTAL	64,532	1,465	13,054	(114)	78,937

b. Ventilation of liabilities, excluding equity

	12/31/2016						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Due to banks	-	687	1,125	2,295	2,609	-	6,716
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	4,134	6,005	16,415	26,681	-	53,235
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	6	-	-	-	6
Accruals and other liabilities	-	1,898	-	66	70	-	2,034
Provisions	-	-	-	45	-	-	45
Subordinated debt	-	-	-	-	-	-	-
TOTAL	-	6,719	7,136	18,821	29,360	-	62,036

	12/31/2016			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Derivatives	-	635	9,230	9,865
Due to banks	6,716	7	(3)	6,720
Customer borrowings and deposits	-	-	-	-
Debt securities	53,235	879	3,567	57,681
Fair value revaluation of portfolio hedge	-	-	1,198	1,198
Tax liabilities	6	-	-	6
Accruals and other liabilities	2,034	0	-	2,034
Provisions	45	-	-	45
Subordinated debt	-	-	-	-
TOTAL	62,036	1,521	13,992	77,549

c. Net liquidity gap

	12/31/2016						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total not broken down
AMOUNT	4,896	3,738	1,880	(6,575)	(1,590)	148	(1,108)

This table presents the balance sheet at the closing date; it does not take into account the management decisions that will make it possible to manage differences in maturity or the future production of assets and liabilities. The liquidity of SFIL Group is provided by the financing agreement in effect with its parent company, SFIL, and by the issue of *obligations foncières*. In addition, CAFFIL may obtain funding from the Banque de France, by giving certain of these assets in guarantee. Thus, Caisse Française de Financement Local can obtain financing from the Banque de France enabling it to repay its *obligations foncières* upon maturity; the assets pledged as guarantee are then excluded from the calculation of the coverage ratio.

7.6 - CURRENCY RISK

Classification by original currency	12/31/2015				Total
	EUR	Other EU currencies	U.S. dollars	Other currencies	
Total assets	77,283	3,214	1,585	1,601	83,683
Total liabilities	77,283	3,214	1,585	1,601	83,683
NET BALANCE SHEET POSITION	-	-	-	-	-

Classification by original currency	12/31/2016				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	73,518	2,255	1,576	1,588	78,937
Total liabilities	73,518	2,255	1,576	1,588	78,937
NET BALANCE SHEET POSITION	-	-	-	-	-

7.7 - SENSITIVITY TO INTEREST RATE RISK

The policy applied by the SFIL Group makes it possible to be protected from interest rate risk.

For Caisse Française de Financement Local:

- In the first stage, all the assets and the liabilities benefiting from the privilege which do not naturally have a floating rate are macro-hedged as soon as they are recorded on the balance sheet so as to limit the impact of changes in long-term euro rates on the value of items on the balance sheet. In practice, acquisitions of loan portfolios (the unit value of which is generally low) are usually macro-hedged. Loans granted individually or bonds may be micro or macro-hedged. Assets and liabilities are usually hedged with interest rate swaps, but the same effect may be obtained whenever possible by the cancellation of liability positions;
- In the second step, macro-swaps are carried out against Eonia for a maximum period of two years, in order to limit the volatility of the result linked to the fixing risk (due to re-fixing dates which are different for assets and liabilities). The residual risk is managed through macro-hedges with a management horizon of one week.

The sensitivity of residual positions that remain after the first stage and after the second level of hedges is monitored carefully and kept within strict limits.

The set of limits on interest rate risk guarantees, with 99% probability, a maximum one year loss of less than EUR 80 million in the event of a major change in interest rates (translation, sloping or rotation). This calibration is based on a directional shift in rates corresponding to the 1% at one-year decile observed over the period 2005-2015.

A set of three limits control the sensitivity of the fixed rate risk and together guarantee the maximum loss mentioned above. The measures of sensitivity at the ends of quarters for a change of 100 bp in interest rates are presented below:

Directional risk

Total sensitivity

End of quarter	Limit	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Sensitivity	25.0	0.6	(3.7)	(5.6)	(0.5)

Risk of sloping between two points far from one another on the rate curve

Total sensitivity

End of quarter	Limit	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Short term	10.0	-	(1.5)	(1.9)	(0.9)
Medium term	10.0	1.0	(1.8)	(2.3)	0.3
Long term	10.0	(0.7)	(0.5)	(2.6)	0.1
Very long term	10.0	0.3	0.1	1.2	0.1

Risk of sloping between two close points on the rate curve

Total of sensitivities in absolute value

End of quarter	Limit	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Short term	20.0	4.8	4.5	2.6	4.4
Medium term	20.0	10.7	14.5	12.1	4.3
Long term	20.0	5.8	10.7	11.0	8.1
Very long term	20.0	6.5	6.4	7.4	5.9

For SFIL:

Concerning the parent company SFIL, the strategy involves a perfect micro-hedge of the interest rate risk, either by swaps against Eonia, or by backing operations of assets and liabilities on the same index. There is thus no interest rate risk.

For SFIL, the interest rate risk is measured through gaps of fixed rates and fixing rates; these gaps should be non-existent, and are so.

8. Post-closing events

No significant event that influenced the Company's financial situation has occurred since the closing on December 31, 2016.

Statutory Auditors' report on the consolidated financial statements

Year ended December 31, 2016

This is a free translation into English of the Statutory Auditors' report on the consolidated financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the consolidated financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the consolidated financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report also includes information relating to the specific verification of information given in the group management report.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying consolidated financial statements of SFIL;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

I - Opinion on the consolidated financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as of December 31, 2016 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

II - Justification of our assessments

In accordance with the requirements of article L.823-9 of the Code of Commerce relating to the justification of our assessments, we bring to your attention the following matters:

Provision for credit and counterparty risks

As described in Note "1.b.3 Accounting principles applied to the financial statements" to the consolidated financial statements, your company recognises impairment losses to cover the credit risks inherent to any banking activity. As part of our assessment of the significant estimates adopted for the

account closing, we analysed the control system relating to credit risk monitoring, impairment methodologies, non-recovery risk assessment and the level of impairment loss cover provided by individual or collective provisions.

Valuation of financial instruments

As described in Note "1.b.3 Accounting principles applied to the financial statements" to the consolidated financial statements, your company uses internal models and methodologies to value financial instruments that are not listed on active markets and to set aside provisions. Our procedures consisted in reviewing the control system related to the identification of financial instruments that can no longer be traded in an active market or whose valuation parameters are no longer observable, as well as the determination of the models used to value them, and in assessing the data and assumptions used, as well as the consideration of the risks and results relating to these instruments.

Deferred tax assets

As mentioned in Note "2.5 Tax assets" to the consolidated financial statements, your company displays the recoverability assumptions of deferred tax assets taking into account the business plan as presented to the Board of Directors and based on realistic assumptions. Our procedures consisted in reviewing these assumptions.

Tax assessment provisions

Your company has recorded a provision to cover risks due to the control of the fiscal situation of the Caisse Française de Financement Local, as described in the Note "3.5 - Provisions for risks and charges, deferred tax liabilities and regulated provisions" to the consolidated financial statements. Based on the elements available at this time, our appreciation has been based upon the analysis of the data and assumptions used by your company to identify and evaluate these risks. These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III - Specific verification

As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

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

Neuilly-sur-Seine and Courbevoie, March 29, 2017

The statutory auditors
French original signed by:

DELOITTE & ASSOCIÉS
Sylvie Bourguignon
José Luis Garcia

MAZARS
Anne Veaute
Virginie Chavin

Claire

Organization
and Cross-disciplinary
Steering Manager

“

Simplifying and optimizing our IT system are key factors in the success of our strategic plan.

”



I believe in **#HORIZON2021**
SFIL's strategic plan
I'm taking part in it!



Idris

Quantitative Analyst

“

In accordance with our strategic plan, it is essential to change our risk assessment models and ensure their compliance when faced with new regulatory risks.

”

Annual financial statements

prepared in accordance with French GAAP

Assets as of December 31, 2016

EUR millions	Note	12/31/2015	12/31/2016
Central banks	2.1	865	1,194
Government and public securities	2.2	415	101
Loans and advances to banks	2.3	5,526	5,233
Loans and advances to customers	2.4	14	11
Bonds and other fixed income securities	2.5	2,341	200
Equities and other variable income securities		-	-
Investments in non-consolidated companies and other long-term investments		0	0
Investments in consolidated companies	2.6	0	0
Intangible assets	2.7	13	20
Property and equipment	2.8	8	7
Other assets	2.9	3,311	2,289
Accruals and other assets	2.10	1,030	559
TOTAL ASSETS	2.11	13,523	9,614

Liabilities as of December 31, 2016

EUR millions	Note	12/31/2015	12/31/2016
Central banks		-	-
Due to banks	3.1	11,185	6,724
Customer borrowings and deposits		-	-
Debt securities	3.2	599	1,588
Other liabilities	3.3	551	603
Accruals and other liabilities	3.4	1,063	580
Provisions	3.5	5	5
EQUITY		120	114
Subscribed capital	3.6	130	130
Additional paid-in capital		-	-
Reserves and retained earnings		(6)	(10)
Net income	3.6	(4)	(6)
TOTAL LIABILITIES	3.6	13,523	9,614

Off-balance sheet items as of December 31, 2016

EUR millions	Note	12/31/2015	12/31/2016
COMMITMENTS GRANTED	4.1	8,128	8,512
Financing commitments		275	2,647
Guarantees granted		-	645
Other commitments granted		7,853	5,220
COMMITMENTS RECEIVED	4.2	7,458	11,290
Financing commitments		7,458	8,693
Guarantees received		-	2,597
Forward commitments		-	-
Other commitments received		-	-
OTHER COMMITMENTS	4.3	56,781	45,475
Foreign currency transactions		17,072	13,974
Interest rate derivatives		39,709	31,501
Commitments related to securities transactions		-	-

Income statement

EUR millions	Note	2015	2015 Pro forma ⁽¹⁾	2016
Interest income	5.1	52	52	29
Interest expense	5.1	(75)	(75)	(47)
Income from variable income securities		-	-	-
Commission income	5.2	23	23	7
Commission expense	5.2	(0)	(0)	(0)
Net gains (losses) on trading portfolio	5.3	1	1	11
Net gains (losses) on placement portfolio	5.4	0	0	1
Other income	5.5	0	87	89
Other expense	5.5	(0)	(0)	(0)
NET BANKING INCOME		1	88	90
General operating expense	5.6	(3)	(90)	(93)
Depreciation and amortization		(3)	(3)	(5)
OPERATING INCOME BEFORE COST OF RISK		(5)	(5)	(8)
Cost of risk		-	-	-
INCOME FROM OPERATIONS		(5)	(5)	(8)
Income (loss) on fixed assets		-	-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		(5)	(5)	(8)
Non-recurring items		-	-	-
Income tax	5.7	1	1	2
Net allocation to general banking risks reserve and regulated provisions		-	-	-
NET INCOME		(4)	(4)	(6)
Basic earnings per share		(0.47)	(0.47)	(0.68)
Diluted earnings per share		(0.47)	(0.47)	(0.68)

(1) SFIL restated as "Other banking income" the expenses rebilled to CAFFIL in the amount of EUR 87 million (see "Notes to the French gaap financial statements - j. Other banking income").

Equity

EUR millions	Amount
AS OF 12/31/2015	
Share capital	130
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	(6)
Net income for the year	(4)
Interim dividends	-
EQUITY AS OF 12/31/2015	120
MOVEMENTS FOR THE PERIOD	
Changes in share capital	-
Changes in APIC	-
Changes in commitments to increase share capital and APIC	-
Changes in reserves and retained earnings	-
Dividends paid (-)	-
Net income for the period	(6)
Other movements	-
AS OF 12/31/2016	
Share capital	130
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	(10)
Net income for the period	(6)
EQUITY AS OF 12/31/2016	114

Management report

Report -
article L.225-37-2Governance and
internal controlConsolidated financial
statements in
accordance with IFRSAnnual financial
statements in accordance
with French GAAPShareholders' Meeting
May 31, 2017

General information

Notes to annual financial statements in accordance with French GAAP

1. Significant accounting and valuation policies

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

SFIL prepares its annual financial statements in compliance with Regulation n° 2014-07 issued on November 26, 2014 and related to the annual accounts for the banking sector.

The financial statements as of December 31, 2016, were prepared using the same accounting principles as those used in the financial statements as of December 31, 2015.

The financial statements have been prepared in accordance with French generally accepted accounting principles, respecting the principle of prudence, on the basis of the following assumptions:

- going concern principle,
- segregation of accounting periods,
- consistency of methods.

The accounts are in accordance with the indications of directive 86/635/EEC of the Council of European Communities.

1.2 - ACCOUNTING PRINCIPLES

a. Loans and advances to banks and to customers

Loans and advances to banks include all loans connected to banking transactions with credit institutions, except securities. They are broken down between demand loans and term loans.

Loans to customers represent loans granted to staff.

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

Interest on loans is recorded as *Interest income, prorata temporis* for accrued amounts due, as is interest on past-dues.

Fees received and transaction costs related to the granting or the acquisition of a loan, if they are significant, are amortized over the maturity of the loan. Other commission income is immediately recorded in the income statement.

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

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

Compromised non-performing loans are loans to borrowers whose recovery outlook is so downgraded that they are written off. Loans unpaid for more than one year are recorded in this category.

Impairment charges are recorded for non-performing and compromised non-performing loans. Risk management determines the percentage of impaired capital in function of incurred losses. Interest income is fully impaired.

Impairment charges and reversals for credit risk are recognized as *Cost of risk* as well as the losses on non-recoverable loans and recoveries on amortized loans.

b. Securities

Securities held by SFIL are recorded in the assets as "Government and public entity securities eligible for central bank refinancing" or "Bonds and other fixed income securities".

The item "Government and public entity securities eligible for central bank refinancing" includes debt securities issued by public sector entities that may be refinanced through the European system of central banks.

The item "Bonds and other fixed income securities" includes the following categories of securities:

- debt securities issued by public sector entities that are not eligible for refinancing by central banks;
- debt securities guaranteed by public sector entities.

Securities held by SFIL are recognized as either *investment securities* or *placement securities*.

Investment securities

Fixed-income securities with a specified maturity are recognized as *Investment securities* when SFIL intends to and has the financial capacity to hold them to maturity. Securities in this category are subject to back-financing or interest-rate hedging over their residual maturity.

Investment securities are recorded on the date of purchase at acquisition clean price excluding fees. Accrued interest at the date of acquisition is recorded as other assets. Interest on these securities is recorded in income as Interest income on bonds and fixed income securities.

The difference between the redemption value and the market clean price (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

At the end of the reporting period, unrealized gains are not recognized, and unrealized losses are not recorded except in the case of:

- a doubt about the issuer's ability to meet his obligations;
- the probability that the company will not hold these securities until maturity owing to new circumstances.

Placement investments

Placement investments are securities that are not classified in one of the other categories.

Securities are recorded on the date of purchase at acquisition clean cost excluding fees. Accrued interest at the date of acquisition is recorded as other assets. Interest on these securities is recorded as *Interest income on bonds and fixed income securities*.

The difference between the redemption value and the acquisition clean cost (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

In application of the principle of prudence, placement securities are recorded at their acquisition cost or selling price at closing, whichever is lower, after accounting, when relevant, for the value of the micro-hedge swap.

If the market for a financial instrument is not active, valuation techniques are used to calculate the selling price (or market value as defined in the notes to the financial statements). The valuation model should take into account all the factors that market players would consider to value the asset. Within this framework, SFIL relies on its own valuation models, making every effort to take into account the market conditions at the date of the valuation as well as any changes in the credit quality of these financial instruments and market liquidity.

When the decrease in the value of the security exceeds the unrealized gain on the micro-hedge, the decrease in net value is recorded as asset impairment in *Net gains (losses) on placement portfolio transactions*, as well as impairment reversals and gains and losses on sale.

Placement securities transferred to investment securities are recorded at their acquisition cost and previously recognized impairment is reversed over the residual maturity of those securities.

c. Debt due to banks

Amounts due to banks are classified according to their type (demand deposits, current accounts or long-term debt) and their maturity (demand debt or term debt).

Accrued interest is recorded as *Interest accrued not yet due* on the balance sheet and as expense in the income statement.

d. Debt securities

Debt securities are broken down between short term (Certificates of Deposit) and medium to long term (Euro Medium Term Notes) negotiable debt securities.

Redemption and issue premiums are amortized according to a quasi-actuarial method over the maturity of the securities *prorata temporis*.

Interest on bonds is recorded in the interest margin for accrued amounts calculated *prorata temporis*.

Bond issue costs and commissions are amortized according to a quasi-actuarial method over the life of the related bonds.

e. Provisions

Provisions are recognized based on their discounted value when the three following conditions are met:

- SFIL has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources representing economic benefits will be required to settle the obligation;
- a reliable estimate of the amount of the obligation can be made.

f. Derivative transactions

SFIL concludes derivative transactions to hedge specific items against interest rate risks or to manage its trading portfolio.

The notional amount of these transactions is recognized off-balance sheet over the maturity of the instruments. The amount recorded is adjusted to reflect any changes in notional amounts in order to represent the current or future maximum commitment.

The accounting treatment of these financial instruments depends on the chosen investment strategy.

Micro-hedge transactions

Swaps are booked as micro-hedging transactions when they are designed to hedge interest rate risks of an item or a set of homogenous items identified from the outset.

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

Termination fees received or paid because of the early interruption of the hedging instrument are recorded in the income statement at the termination date, in accordance with article 2526-1 of Regulation n° 2014-07.

Isolated open positions

SFIL acts as an intermediary between Caisse Française de Financement Local, its subsidiary and certain banking counterparties. These transactions with its subsidiary constitute isolated open positions.

Expense and income on these transactions are recorded in the income statement *prorata temporis*. The contra entry is recorded in accruals until the date of payment or settlement of the funds.

A provision is recorded in respect of any unrealized losses. Unrealized gains are not recognized.

g. Foreign currency transactions

SFIL recognizes foreign currency transactions in accounts opened and denominated in each of the currencies used.

Specific foreign exchange position accounts and foreign exchange position equivalent accounts are opened in each currency.

At the end of each reporting period, differences between the amounts resulting from a market price valuation of the foreign exchange position accounts and the amounts recorded in the foreign exchange position equivalent accounts are recorded in the income statement.

h. Foreign exchange transactions

In order to systematically hedge its foreign exchange risk, SFIL enters into currency swaps. These currency swaps are initiated to eliminate the risk of foreign exchange rate fluctuations that might affect an asset or liability as soon as such a risk is identified. They are mainly used to hedge certain liabilities, debt securities and loans to customers.

Results of foreign exchange hedging transactions are accounted for by recording the difference between the

hedging rate and the spot rate *prorata temporis* in the income statement.

i. Guarantees

As part of its new activity to refinance export credits, SFIL enters into credit insurance policies received from BPI France Assurance Export, acting on behalf of the State. Expenses related to these transactions are recorded *prorata temporis* in the income statement.

j. Other banking income

Charges which are not re-invoiced exactly up to the same amount are recorded as other banking income, in accordance with Regulation ANC 2014-07 (Article 1123-2).

k. Employee benefits

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

- Short-term benefits

Short-term benefits, payable within a maximum of twelve months after rendering the service, are not discounted and are recognized as an expense of the reporting period.

- Long-term benefits

These benefits, generally related to seniority, are paid to current employees. Their payment is deferred for more than twelve months after the end of the annual period during which the employees render the related service. They represent, specially, long service awards.

Annual leave is recognized when the benefits are granted to the employee. To this purpose, a provision is recorded based on rights vested by employees at the end of the reporting period.

The actuarial gains and losses related to these benefits and all service costs are recognized immediately in the income statement.

- Termination benefits

Employee termination benefits result from the decision by SFIL to terminate an employment contract before the legal retirement age or by a decision of voluntary redundancy in exchange for termination benefits.

A charge for termination benefits at the end of the employment contract is recorded only SFIL is no longer able to withdraw its offer. Termination benefits payable at more than twelve months after the end of the reporting period are discounted to their present value.

- Post-employment benefits

Post-employment benefits are only made of defined contribution plans.

The assets of these plans are generally held by insurance companies or pension funds. The pension plans are generally funded by payments from both SFIL and its employees.

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

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

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

Re-measurements of defined benefit net liability (or asset) and the fair value of assets is subject to adjustments due to changes in actuarial assumptions. These re-measurements are recorded according to the corridor method. Under this method, SFIL is allowed to recognize, over the average remaining service lives of employees, only the portion of actuarial gains and losses that exceeds the corridor. The corridor is the greatest of 10% of the present value of the gross defined benefit plans or 10% of the fair value of plan assets.

The annual expense recognized as staff expenses comprises the current service cost, interest cost (the effect of discounting the obligation), the expected return on any plan assets, amortization of actuarial gains and losses and past service cost arising from plan amendments, and the effect of any plan curtailments or settlements.

l. Tangible and intangible assets

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

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

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

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

After initial recognition, assets are carried at cost less accumulated depreciation and impairment. When they are ready to be used, assets are depreciated linearly over their expected useful life. Depreciation is recognized in *Depreciation, amortization and impairment of tangible and intangible assets*.

SFIL applies the component approach to all of its assets. The depreciation periods are:

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

*Purchased licenses and materials are depreciated over 3 years.

The depreciation period of internally developed software depends on whether they are strategic for the company. Those which are considered strategic are depreciated over 5 years; those which are not are amortized over 3 years.

Fixed assets are tested for impairment when impairment indicators are identified. When the carrying amount of an

asset is greater than its estimated recoverable amount, an impairment charge is recognized and the carrying amount of the asset is written down to the estimated recoverable amount. Impairment charges are recognized in *Depreciation, amortization and impairment of tangible and intangible assets*.

Gains or losses on disposal of assets are charged to *Gains or losses* on assets.

m. Non-recurring income and expense

Non-recurring income and expense result from events or transactions that do not relate to ordinary business operations or routine management of the Company's assets and liabilities.

Furthermore, the income or expense involved does not depend on decisions taken within the framework of usual management of the Company's activities or assets, but

results from external events of a completely exceptional nature. Only items of this nature that have a significant impact on the period's net income are recorded as non-recurring income and expense.

n. Tax consolidation

Since January 1, 2014, SFIL is the head of the tax group which consolidates Caisse Française de Financement Local.

o. Offices and activities in uncooperative states and territories

In application of article L.511-45 of the Monetary and Financial Code, it should be noted that SFIL has no offices in countries that have not signed with France an administrative assistance agreement (subsidiaries, branches, including *ad hoc* entities, and equity interest in other entities over which the Company has exclusive or joint (or *de facto*) control).

2. Notes to the assets (EUR millions)

2.1 - CENTRAL BANKS

	12/31/2015	12/31/2016
Mandatory reserve deposits with central banks	-	-
Other deposits	865	1,194
TOTAL	865	1,194

2.2 - GOVERNMENT AND PUBLIC SECURITIES

a. Accrued interest included in this item : 0

b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
-	101	-	-	101

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

	Amount as of 12/31/2015	Amount as of 12/31/2016	Impairment as of 12/31/2016	Unrealized capital gain or loss as of 12/31/2016 ⁽²⁾
Listed securities ⁽¹⁾	409	101	-	(0)
Other securities	-	-	-	-
TOTAL	409	101	-	(0)

(1) Listed securities are registered for trading on a stock exchange.

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

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

Portfolio	Net amount as of 12/31/2015	Gross amount as of 12/31/2015	Increases ⁽¹⁾	Decreases	Transfers	Conversion differences	Impairment as of 12/31/2016	Net amount as of 12/31/2016	Unrealized capital gain or loss as of 12/31/2016 ⁽²⁾
Trading	-	-	-	-	-	-	-	-	-
Placement	409	409	101	(409)	-	-	-	101	(0)
Investment	-	-	-	-	-	-	-	-	-
TOTAL	409	409	101	(409)	-	-	-	101	(0)

(1) It corresponds to Spain's state bonds acquisition.

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

2.3 - LOANS AND ADVANCES TO BANKS

a. Sight loans and advances to banks

	12/31/2015	12/31/2016
Sight accounts	6	8
Unallocated sums	-	-
TOTAL	6	8

b. Time loans and advances to banks

This item consists of loans to Caisse Française de Financement Local in the amount of EUR 5,220 million (excluding accrued interest).

b.a. Accrued interest included in this item: 5**b.b. Analysis by residual maturity excluding accrued interest**

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
707	986	1,756	1,771	5,220

b.c. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2015	Gross amount as of 12/31/2016	Decrease in value as of 12/31/2016	Net amount as of 12/31/2016
Loans of less than 1 year	150	1,693	-	1,693
Loans of more than 1 year	5,361	3,527	-	3,527
TOTAL	5,511	5,220	-	5,220

b.d. Breakdown by counterparty

	12/31/2015	12/31/2016
Loans to Caisse Française de Financement Local	5,511	5,220
TOTAL	5,511	5,220

2.4 - LOANS AND ADVANCES TO CUSTOMER**a. Accrued interest included in this item: 0****b. Analysis by residual maturity excluding accrued interest**

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
0	-	0	11	11

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

Economic sector	12/31/2015	12/31/2016
Other sectors ⁽¹⁾	14	11
TOTAL	14	11

(1) This concerns loans granted to employees of SFIL

d. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2015	Gross amount as of 12/31/2016	Decrease in value as of 12/31/2016	Net amount as of 12/31/2016
Loans of less than 1 year	-	-	-	-
Loans of more than 1 year	14	11	-	11
TOTAL	14	11	-	11

e. Analysis of loans by category of outstanding commitments excluding accrued interest

	Net amount as of 12/31/2015	Gross amount as of 12/31/2016	Decrease in value as of 12/31/2016	Net amount as of 12/31/2016
Performing commitments	14	11	-	11
Non-performing loans	-	-	-	-
Compromised non-performing loans	-	-	-	-
TOTAL	14	11	-	11

2.5 - BONDS AND OTHER FIXED INCOME SECURITIES

a. Accrued interest included in this item: 0

b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
-	200	-	-	200

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

	Amount as of 12/31/2015	Amount as of 12/31/2016	Unrealized capital gain or loss as of 12/31/2016 ⁽¹⁾
ABS - Dexia Secured Funding Belgium - (DSFB) ⁽²⁾	2,339	-	-
Banks	-	200	(0)
TOTAL	2,339	200	(0)
- of which eligible for Central bank refinancing	-	-	-

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

(2) In July 2016, the securization vehicle bought back all shares held by SFIL.

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

	Amount as of 12/31/2015	Amount as of 12/31/2016	Unrealized capital gain or loss as of 12/31/2016 ⁽¹⁾
Listed securities	-	70	(0)
Other securities	2,339	130	(0)
TOTAL	2,339	200	(0)

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

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

Portfolio	Gross amount as of 12/31/2015	Increases	Decreases	Transfers	Conversion differences	Impairment as of 12/31/2015	Net amount as of 12/31/2016
Trading	-	-	-	-	-	-	-
Placement	-	200	-	-	-	-	200
Investment	2,339	-	(2,339)	-	-	-	-
TOTAL	2,339	200	(2,339)	-	-	-	200

2.6 - INVESTMENTS IN NON-CONSOLIDATED COMPANIES AND OTHER LONG-TERM INVESTMENTS

SFIL acquired for EUR 1, 100% of the capital of CAFFIL on January 31, 2013.

2.7 - INTANGIBLE ASSETS

	Software	Internally developed assets	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2015	1	9	5	15
Changes during the year:				
*increases	2	4	7	13
*decreases	-	-	(2)	(2)
*other	-	-	-	-
ACQUISITION COST AS OF 12/31/2016	3	13	10	26
Depreciation and impairments as of 12/31/2015	(0)	(2)	-	(2)
Changes during the year:				
*amortization	(1)	(3)	-	(4)
*write-back	-	-	-	-
Depreciation and impairments as of 12/31/2016	(1)	(5)	-	(6)
NET CARRYING AMOUNT AS OF 12/31/2016	2	8	10	20

2.8 - PROPERTY AND EQUIPMENT

	Computer equipment	Other equipment	Fixtures	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2015	1	0	8	0	9
Changes during the year:					
*increases	0	0	0	0	0
*decreases	-	-	-	(0)	(0)
*other	-	-	-	-	-
ACQUISITION COST AS OF 12/31/2016	1	0	8	0	9
Depreciation and impairments as of 12/31/2015	(0)	(0)	(1)	-	(1)
Changes during the year:					
*amortization	(0)	(0)	(1)	-	(1)
*write-back	-	-	-	-	-
Depreciation and impairments as of 12/31/2016	(0)	(0)	(2)	-	(2)
NET CARRYING AMOUNT AS OF 12/31/2016	1	0	6	0	7

Management report

Report -
article L.225-37-2**2.9 - OTHER ASSETS**

	Amount as of 12/31/2015	Amount as of 12/31/2016
Cash collateral granted	3,303	2,278
Other receivables	8	11
TOTAL	3,311	2,289

Governance and
internal control**2.10 - ACCRUALS AND OTHER ASSETS**

	Amount as of 12/31/2015	Amount as of 12/31/2016
Deferred charges on hedging transactions	567	196
Other prepaid charges	4	7
Accrued interest not yet due on hedging transactions	451	345
Other accounts receivable on hedging transactions	-	-
Other deferred income	8	11
TOTAL	1,030	559

Consolidated financial
statements in
accordance with IFRS**2.11 - TOTAL ASSETS**

Analysis by original currency	Amount in original currency as of 12/31/2015	Amount in euros as of 12/31/2015	Amount in original currency as of 12/31/2016	Amount in euros as of 12/31/2016
EUR	13,486	13,486	9,581	9,581
CAD	4	3	4	3
CHF	21	19	15	14
GBP	3	3	2	3
JPY	688	5	585	5
SEK	0	0	-	-
USD	4	4	5	4
NOK	31	3	39	4
TOTAL		13,523		9,614

Annual financial
statements in accordance
with French GAAPShareholders' Meeting
May 31, 2017

General information

3. Notes to the liabilities (EUR millions)

3.1 - DUE TO BANKS

	Amount as of 12/31/2015	Amount as of 12/31/2016
Sight accounts	-	-
Current account	-	-
Term borrowing	11,168	6,717
Interest accrued not yet due	17	7
Unallocated sums	-	-
TOTAL	11,185	6,724

Analysis by residual maturity excluding accrued interest

	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Amount as of 12/31/2016
Sight	-	-	-	-	-
Term	687	1,125	2,295	2,610	6,717
TOTAL	687	1,125	2,295	2,610	6,717

Analysis of term borrowing by counterparty excluding accrued interest

	Amount as of 12/31/2015	Amount as of 12/31/2016
Caisse des dépôts et consignations	8,117	5,855
Caisse Française de Financement Local	2,339	-
La Banque Postale	712	862
TOTAL	11,168	6,717

3.2 - DEBT SECURITIES

Accrued interest included in this item: 0

Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Certificates of deposit	453	142	-	-	595
EMTN	-	-	-	993	993
TOTAL	453	142	-	993	1,588
<i>of which net issue premiums</i>	-	-	-	(7)	(7)

Changes during the year excluding accrued interest

	Amount as of 12/31/2015	Increases	Decreases	Translation adjustments	Amount as of 12/31/2016
Certificates of deposit	599	-	(4)	-	595
EMTN	-	993	-	-	993
TOTAL	599	993	(4)	-	1,588

3.3 - OTHER LIABILITIES

	Amount as of 12/31/2015	Amount as of 12/31/2016
Cash collateral received	540	593
Taxes	7	5
Other payables	4	5
TOTAL	551	603

3.4 - ACCRUALS AND OTHER LIABILITIES

	Amount as of 12/31/2015	Amount as of 12/31/2016
Deferred income on hedging transactions	576	206
Accrued interest not yet due on hedging transactions	458	345
Other accounts payable on hedging transactions	-	-
Other accrued charges	29	29
TOTAL	1,063	580

Management report

3.5 - PROVISIONS

	Amount as of 12/31/2015	Increases	Decreases	Conversion differences	Amount as of 12/31/2016
Provisions on pensions	4	0	-	-	4
Provisions on financial instruments	1	-	(0)	-	1
TOTAL	5	0	(0)	-	5

Report -
article L.225-37-2**3.6 - EQUITY**

	Amount as of 12/31/2015	Amount as of 12/31/2016
Share capital	130	130
Legal reserve	-	-
Retained earnings (+/-)	(6)	(10)
Net income (+/-)	(4)	(6)
TOTAL	120	114

Governance and
internal control

SFIL's share capital totalled EUR 130 million, comprising 9,285,725 shares with a face value of EUR 14.

Consolidated financial
statements in
accordance with IFRS**3.7 - TOTAL LIABILITIES**

Analysis by original currency	Amount in original currency as of 12/31/2015	Amount in euros as of 12/31/2015	Amount in original currency as of 12/31/2016	Amount in euros as of 12/31/2016
EUR	13,486	13,486	9,581	9,581
CAD	4	3	4	3
CHF	21	19	15	14
GBP	2	3	2	3
JPY	688	5	585	5
SEK	-	-	-	-
USD	4	4	5	4
NOK	31	3	39	4
TOTAL		13,523		9,614

Annual financial
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3.8 - TRANSACTIONS WITH RELATED PARTIES

Ventilation par nature	Consolidated entity CAFFIL ⁽¹⁾		Other related parties ⁽²⁾	
	12/31/2015	12/31/2016	12/31/2015	12/31/2016
ASSETS				
Loans and advances to banks - sight	-	-	-	-
Loans and advances to banks - term	5,520	5,225	-	-
Bonds and other fixed income securities	-	-	-	101
LIABILITIES				
Due to banks - sight	-	-	-	-
Due to banks - term	2,341	-	8,844	6,724
INCOME STATEMENT				
Interest income on loans and advances	37	25	0	(0)
Interest income on debt securities	-	-	-	(0)
Interest expense on borrowings	(11)	(5)	(57)	(37)
Net commissions	19	3	4	4
OFF-BALANCE SHEET				
Interest rate derivatives	17,497	13,855	1,261	863
Foreign exchange derivatives	4,137	3,478	-	-
Commitments and guarantees received	600	3,722	6,858	4,972
Commitments and guarantees granted	2,341	695	5,511	5,220

(1) Caisse Française de Financement Local.

(2) Other related parties concern La Banque Postale and Caisse des dépôts et consignations.

4. Notes to the off-balance sheet items (EUR millions)**4.1 - COMMITMENTS GRANTED**

	Amount as of 12/31/2015	Amount as of 12/31/2016
Financing commitments granted to banks	50	50
Financing commitments granted to customers ⁽¹⁾	225	2,597
Other guarantees granted to banks	-	645
Other commitments given, assets assigned in guarantee	7,853	5,220
TOTAL	8,128	8,512

(1) Within the framework of the new business of export credit refinancing, this amount corresponded to a commitment made by SFIL to an exporter customer, as part of a project contract.

4.2 - COMMITMENTS RECEIVED

	Amount as of 12/31/2015	Amount as of 12/31/2016
Financing commitments received from banks ⁽¹⁾	7,458	8,693
Guarantees received from banks ⁽²⁾	-	2,597
Other commitments received	-	-
TOTAL	7,458	11,290

(1) This amount incorporates in particular financing commitments of EUR 3,076 from CAFFIL in order to finance the parent company SFIL within the framework of export activities. It also includes the residual amount which corresponds to the financing commitments of SFIL's shareholders, Caisse des dépôts et consignations and La Banque Postale for respectively EUR 4,584 million and EUR 388 million in 2016.

As of 2016, SFIL recorded total commitments relating solely to existing tranches. This total is limited to EUR 4,484 million. This amount does not account for the possibility provided for in the financing agreement with Caisse des dépôts et consignations to negotiate in good faith additional funds. Given the fact that this amount may not exceed EUR 12.5 billion, these commitments would not be more than EUR 2,061 million as of December 31, 2016.

(2) Irrevocable and unconditional guarantees issued by the French State and received by SFIL to finance major export credits.

4.3 - FOREIGN CURRENCY TRANSACTIONS AND COMMITMENTS ON INTEREST RATE DERIVATIVES

A. Foreign currency transactions

Cash and forward foreign exchange transactions are recorded at their value in foreign currencies translated at the exchange rate at the end of the period.

The items "Currencies to receive" and "Currencies to deliver" are composed of long currency swaps with intermediate payment flows corresponding to hedging transactions.

	Amount as of 12/31/2015	Amount as of 12/31/2016	Fair value as of 12/31/2016
Currencies to receive	8,536	6,987	29
Currencies to deliver	8,536	6,987	(29)
TOTAL	17,072	13,974	-

B. Commitments on interest rate derivatives

Commitments on interest rate derivatives are recorded in accordance with CRB standards 88-02 and 90-15: amounts related to unconditional operations are recorded at the contractual notional value.

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

Type of transaction	Less than 1 year	1 year to 5 years	More than 5 years	Total
Unconditional transactions	2,632	4,055	24,814	31,501
of which deferred start	-	-	-	-

b. Analysis of interest rate transactions by product type

	Amount as of 12/31/2015	Amount as of 12/31/2016
Interest rate swaps	39,709	31,501
Term contracts	-	-
Interest rate options	-	-
TOTAL	39,709	31,501

c Analysis of interest rate transactions by counterparty

	Amount as of 12/31/2015	Amount as of 12/31/2016
Caisse Française de Financement Local	17,497	13,855
Other related parties	1,261	863
Other counterparties	20,951	16,783
TOTAL	39,709	31,501

C. Foreign exchange transactions and commitments to derivative financial instruments by type of transaction

Type of transaction	Amount as of 12/31/2015	Micro-hedge	Isolated open position	Amount as of 12/31/2016	Fair value as of 12/31/2016
Foreign currency transactions - to receive	8,536	3,509	3,478	6,987	29
Foreign currency transactions - to deliver	8,536	3,478	3,509	6,987	(29)
Interest rate swaps	39,709	13,855	17,646	31,501	(11)
TOTAL	56,781	20,842	24,633	45,475	(11)

5. Notes to the income statement (EUR millions)

5.1 - INTEREST AND RELATED INCOME

	2015	2016
INTEREST AND RELATED INCOME	52	29
Loans and advances to banks	35	18
Loans and advances to customers	0	1
Bonds and other fixed income securities	17	10
Macro-hedge transactions	-	-
Other commitments	-	-
INTEREST AND RELATED EXPENSE	(75)	(47)
Due to banks	(69)	(42)
Due to clients	(0)	-
Bonds and other fixed income securities	(6)	(5)
Macro-hedge transactions	-	-
Other commitments	-	-
INTEREST MARGIN	(23)	(18)

5.2 - ANALYSIS OF COMMISSIONS RECEIVED AND PAID

	2015	2016
Billing commissions received from Caisse Française de Financement Local	19	3
Other commissions ⁽¹⁾	4	4
TOTAL	23	7

(1) This concerns mainly servicing commission received from La Banque Postale.

5.3 - NET GAINS OR LOSSES ON TRADING PORTFOLIO

	2015	2016
Provision on financial instruments ⁽¹⁾	1	11
Foreign exchange income	0	0
TOTAL	1	11

(1) It is mainly a question of the result of the assignment of swaps.

5.4 - OTHER INCOME AND EXPENSE

	2015	2016
Other income	(0)	(0)
Other expense	0	1
TOTAL	0	1

5.5 - OTHER INCOME AND EXPENSE FROM BANKING OPERATIONS

	2015	2015 Pro forma	2016
Additional income	0	0	0
Rebilled expense ⁽¹⁾	-	87	89
Additional expense	(0)	(0)	(0)
TOTAL	0	87	89

(1) This item is made up of expenses rebilled to CAFFIL.

SFIL restated in "Other banking income" expense rebilled to its subsidiary CAFFIL for EUR 87 million at the end of 2015 (see "Notes to the French GAAP financial statements").

5.6 - GENERAL EXPENSES

	2015	2015 Pro forma ⁽¹⁾	2016
Payroll expense	(29)	(29)	(31)
Social security taxes	(17)	(17)	(17)
Taxes	(5)	(5)	(4)
Other general operating expense ⁽¹⁾	48	(39)	(41)
TOTAL	(3)	(90)	(93)

(1) This item is made up of expenses rebilled to CAFFIL.

SFIL restated in "Other banking income" expense rebilled to its subsidiary CAFFIL for EUR 87 million at the end of 2015 (see "Notes to the French GAAP financial statements").

5.7 - INCOME TAX

	2015	2016
Corporate income tax ⁽¹⁾	1	2
TOTAL	1	2

(1) This item includes a tax consolidation gain of EUR 2 million.

6. Financial relations with members of the Executive Committee and the Board of Directors (EUR millions)

Gross compensation allocated to members of the Executive Committee and Board of Directors of the company owing to their functions within them, in the subsidiaries and affiliated companies	2015	2016
Executive Committee	3	2
Board of Directors	-	-
TOTAL	3	2
Amount, at year end, of the debt liabilities in their favor and of other obligations undertaken on their behalf	2015	2016
Executive Committee	0	0
Board of Directors	-	-
TOTAL	0	0

7. Information on subsidiaries and shareholdings (EUR millions)

Companies	Capital	Share premiums, reserves and retained earnings	Net Banking Income (NBI) of last year (2016)	Profit or loss of last year (2016)	Percentage of capital held	Carrying amount of shares held ⁽¹⁾	Dividends received by SFIL during the year	Loans and advances granted by SFIL	Total guarantees granted by SFIL	Business
Caisse Française de Financement Local 1-3 Rue du Passeur de Boulogne - 92130 Issy les Moulineaux	1,315	41	163	67	100%	0	-	5,525	-	Société de crédit foncier

(1) SFIL acquired 100% of the shares of Caisse Française de Financement Local, for EUR 1, on January 31, 2013.

8. Post-closing events

No significant event that influenced the Company's financial situation has occurred since the closing on December 31, 2016.

Statutory Auditors' report on the annual financial statements

Year ended December 31, 2016

This is a free translation into English of the Statutory Auditors' report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users.

The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the audit opinion on the financial statements and includes an explanatory paragraph discussing the auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions or disclosures.

This report also includes information relating to the specific verification of information given in the management report.

This report should be read in conjunction with and construed in accordance with French law and professional auditing standards applicable in France.

To the Shareholders

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended December 31, 2016, on:

- the audit of the accompanying financial statements of SFIL;
- the justification of our assessments;
- the specific verification and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I - Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as of December 31, 2016, and of the results of its operations for the year then ended in accordance with French accounting principles.

II - Justification of our assessments

In accordance with the requirements of article L.823-9 of the Code of Commerce relating to the justification of our assessments, we bring to your attention that our assessments concerned the appropriateness of the accounting principles and the reasonableness of the significant estimates.

These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III - Specific procedures and disclosures

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Executive Board and in the documents addressed to shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L.225-102-1 of the Code of Commerce relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from companies controlling your company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

Neuilly-sur-Seine and Courbevoie, March 29, 2017

The Statutory Auditors
French original signed by:

DELOITTE & ASSOCIÉS
Sylvie Bourguignon
José Luis Garcia

MAZARS
Anne Veaute
Virginie Chauvin

Julie

Financial Operations Manager

“

In addition to transforming internal processes, **#Horizon2021** will lead to the emergence of new objectives. In the Outstanding Loans Management division, in particular, we are going to reorient the missions related to our partnership with La Banque Postale and to manage our non-sensitive debt.

”



I believe in **#HORIZON2021**
SFIL's strategic plan
I'm taking part in it!



François

Compliance Manager

“

Reaching our development objectives as defined in our strategic plan is a priority with integrity and respect for our values, in order to best serve the interests of economy, both in France and internationally.

”

Ordinary and Extraordinary Shareholders' Meeting of May 31, 2017

Statutory Auditors' special report on regulated agreements and commitments

Shareholders' Meeting held to approve the financial statements for the year ended December 31, 2016

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments with third parties that is issued in the French language and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the Code of Commerce and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

To the Shareholders,

In our capacity as Statutory Auditors of your Company, we hereby report to you on regulated agreements and commitments.

The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have discovered during the course of our audit, without expressing an opinion on their usefulness and appropriateness or identifying such other agreements and commitments, if any. It is your responsibility, pursuant to article R.225-58 of the Code of Commerce, to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.

Our role is also to provide you with the information stipulated in article R.225-58 of the Code of Commerce relating to the implementation during the past year of agreements and commitments previously approved by the Shareholders' Meeting, if any.

We conducted the procedures we deemed necessary in accordance with the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) relating to this engagement.

AGREEMENTS AND COMMITMENTS SUBMITTED TO THE APPROVAL OF THE SHAREHOLDERS' MEETING

Pursuant to article L.225-40 of the Code of Commerce, we have been advised of the following agreements and commitments which were previously authorized by the Board of Directors.

A. Amendment to the assignment of receivables agreement entered with La Banque Postale (hereinafter "LBP") and La Caisse Française de Financement Local (hereinafter "CAFFIL").

Persons concerned:

Serge Bayard, representative of interest of LBP, shareholder, Chairman of the Board of Directors of the Joint-Venture

(JV) *LBP Collectivités Locales* and Member of the Board of Directors of SFIL

Delphine de Chaisemartin, Member of the Board of Directors of SFIL and of the JV *LBP Collectivités Locales*

Type and purpose:

The assignment of receivables agreement was signed on January 31, 2013. Given the market changes and the experience acquired since 2013, the following modifications have been made to the agreement by a new amendment signed on November 23, 2016:

- Modification of the terms and conditions for sharing the margin between SFIL/CAFFIL and LBP (67%/33%)
- Continuation of the agreement until 2021
- Removal of the clause binding LBP not to transfer a certain number of low-margin loans
- Agreement in principle to accelerate asset acquisitions

Terms and conditions:

This amendment was authorized by the Board of Directors on September 8, 2016. The nominal amount of the loans acquired in 2016 amounts to EUR 2.93 billion, the commissions represent an expense of EUR 11.4 million and the commissions of business referral agents spread out in the balance sheet total EUR 39.8 million with respect to fiscal year 2016.

AGREEMENTS AND COMMITMENTS PREVIOUSLY APPROVED BY THE SHAREHOLDERS' MEETING

Agreements and commitments approved in previous years

Pursuant to article R.225-30 of the Code of Commerce, we have been advised that the following agreements and commitments, already approved by the Shareholders' Meeting in previous years, have continuing effect during the year.

A. Agreement to assign loans from LBP to CAFFIL, with SFIL as party.

Persons concerned:

Philippe Mills, Chairman of the Board of Directors and CEO of SFIL and Chairman of the Supervisory Board of CAFFIL.

Philippe Wahl, Chairman of the Management Board of LBP and Member of the Board of Directors of SFIL until December 5, 2013.

Type and purpose:

This agreement was signed on January 31, 2013 for a period of 5 years with a renewal option.

LBP undertakes to propose that CAFFIL acquire all of the eligible loans, as such are defined in the agreement, granted by LBP or the joint-venture created between LBP and la Caisse des dépôts et consignations (hereinafter "CDC"), in accordance with the provisions described in the agreement.

Terms and conditions:

This agreement was authorized by the Board of Directors on January 31, 2013. The financial impacts with respect to the fiscal year are described in I.A.

1. Amendment of August 8, 2013:

Persons concerned:

Delphine de Chaisemartin, Member of the Board of Directors of SFIL and of the JV LBP Collectivités Locales.

Philippe Mills, Chairman of the Board of Directors and CEO of SFIL and Chairman of the Supervisory Board of CAFFIL. Philippe Wahl, Chairman of the Management Board of LBP and Member of the Board of Directors of SFIL, until December 5, 2013.

Type and purpose:

The assignment of receivables agreement was signed on January 31, 2013. Pursuant to the agreement, several points still needed to be clarified which was the purpose of the amendment signed on August 8, 2013.

The points covered by the amendment are:

- making the JV LBP, CDC a party to this agreement;
- adding a new exception to the principle of exclusivity of the assignment of eligible loans concerning the loans proposed as part of the marketing of the programs of the BEI;
- appointing a calculation agent (SFIL);
- adding to the appendices the following documents: "assignment of receivables form", "selection criteria for new loans by CAFFIL", "CAFFIL loan granting decision-making process" and "terms and conditions for calculating the assignment price."

Terms and conditions:

This amendment was authorized by the Board of Directors on June 6, 2013. The financial impacts with respect to fiscal year 2016 are presented in I.A.

2. Amendment of December 20, 2013 :

Persons concerned:

Philippe Mills, Chairman of the Board of Directors and CEO of SFIL and Chairman of the Supervisory Board of CAFFIL. Rémy Weber, Chairman of the Management Board of LBP and Member of the Board of Directors of SFIL until March 24, 2016.

Delphine de Chaisemartin, Member of the Board of Directors of SFIL and of the JV LBP Collectivités Locales

Type and purpose:

This amendment was signed on December 20, 2013.

The agreement governs the terms and conditions in which CAFFIL buys loans originated/marketed by La Banque Post-

ale. The amendment, which contains technical adjustments, does not impact the form or the type of agreement but includes the new loans made available to its clients by LBP and adjusts the terms and conditions for calculating the assignment price.

Terms and conditions:

This amendment was authorized by the Board of Directors on December 5, 2013. The financial impacts with respect to fiscal year 2016 are presented in I.A.

B. LBP-SFIL services agreement.

Persons concerned:

Philippe Wahl, Chairman of the Management Board of LBP and Member of the Board of Directors of SFIL, until December 5, 2013.

Type and purpose:

This agreement was signed on January 31, 2013.

SFIL must provide support functions to LBP which it needs for itself or the joint-venture to develop its marketing activities. SFIL will provide services related to the accounting matters for operations, back-office loan management and monitoring of risks.

Terms and conditions:

This agreement was authorized by the Board of Directors on January 31, 2013. The financial impacts of this agreement and the amendment signed on August 8, 2013 with respect to fiscal year 2016 are presented in B.1.

1. Amendment to the LBP-SFIL services agreement.

Persons concerned:

Delphine de Chaisemartin, Member of the Board of Directors of SFIL and of the JV LBP Collectivités Locales
Philippe Wahl, Chairman of the Management Board of LBP and Member of the Board of Directors of SFIL, until December 5, 2013.

Type and purpose:

This amendment was signed on August 8, 2013.

The provision of services agreement signed on January 31, 2013 between SFIL and LBP sets forth all of the services that SFIL provides to LBP as part of the marketing of loans to local territories and public hospitals.

The purpose of the amendment is to add the following clauses to this agreement:

- Introduction of a civil liability ceiling
- Several services have been specified
- Monthly meeting of the partnership committee to monitor the smooth running of this service
- Introduction of an invoicing limit insofar as SFIL must equip itself to provide the services requested by LBP.

The SLA describes the operational aspects of all the services listed in the agreement and those provisions which take precedence over those in the agreement. It defines the quality indicators and their acceptable thresholds as well as the mechanism for imposing penalties in the event of non-compliance of these indicators.

Terms and conditions:

This amendment was authorized by the Board of Directors on June 6, 2013. The financial impact with respect to fiscal year 2016 is income of EUR 4.1 million.

C. Agreement of liquidity support between LBP and SFIL.Persons concerned:

Philippe Wahl, Chairman of the Management Board of LBP and Member of the Board of Directors of SFIL, until December 5, 2013

Type and purpose:

This agreement was signed on August 8, 2013.

A financing agreement was set up between CDC and SFIL. Furthermore, on January 31, 2013, LBP and SFIL agreed to enter into a liquidity support agreement from LBP to SFIL.

As part of the overall agreements, LBP must contribute to the non-preferred financing which CAFFIL needs to finance the acquisition of the production of LBP. CAFFIL will contribute to 65% of these needs and CDC 35%. The agreement of liquidity support between LBP and SFIL specifies the terms and conditions for setting up this financial support, which are based on the financing terms and conditions in the financing agreement between CDC and SFIL.

Terms and conditions:

This agreement was authorized by the Board of Directors on June 6, 2013. The financial impacts with respect to fiscal year 2016 are presented in C.1.

1. Amendment to the liquidity agreement between LBP and SFIL.Persons concerned:

Rémy Weber, Chairman of the Management Board of LBP and Member of the Board of Directors of SFIL until March 24, 2016.

Type and purpose:

This amendment was signed on July 16, 2015. It provides, as a result of the launch of the new credit export activity, a modification of the contribution of LBP to the preferred funding of CAFFIL.

LBP accepts to fully finance (100%), and not only 65%, the needs related to the activity in the public sector and the hospitals and also to assume the financing already paid by the CDC, i.e., 35%.

Terms and conditions:

It concerns a renewable loan agreement for a maximum amount of EUR 1.1 billion of which EUR 0.9 billion has already been drawn down as of December 31, 2016. The financial impact is an expense of EUR 3.6 million with respect to fiscal year 2016.

D. Amendment to the liquidity agreement between CDC and SFIL.Persons concerned:

Delphine de Chaisemartin, Member of the Board of Directors of SFIL and representative of Caisse des dépôts et consignations shareholder

Type and purpose:

This amendment, signed on May 28, 2014, covers a loan agreement between SFIL and CDC to ensure compliance with the requests of ACPR, reduce the overall financing cost of SFIL and reduce the amount of the commitment ceiling of CDC and its exposure on SFIL.

Terms and conditions:

This agreement was authorized by the Board of Directors on May 23, 2014. The financial impacts with respect to fiscal year 2016 are presented in D.1.

1. Amendment to the liquidity agreement between CDC and SFIL.Persons concerned:

Delphine de Chaisemartin, Member of the Board of Directors of SFIL and representative of interest of the Caisse des dépôts et consignations, shareholder.

Type and purpose:

This amendment was signed on July 16, 2015. It provides, as a result of the launch of the new credit export activity, the following modifications to the loan agreement between SFIL and CDC:

- halt in funding related to the LBP activity;
- unsecured requirements financed by CDC with an amount premium (increase by 5bp for amounts exceeding EUR 750 million);
- SFIL undertakes to continue to reduce the over-collateralization rate up to 11.5% in 2018.

Terms and conditions:

The debt of SFIL amounts to EUR 5.9 billion as of December 31, 2016, the expense recorded in the income statements for fiscal year 2016 totals EUR 33.5 million.

Courbevoie and Neuilly-sur-Seine, on March 29, 2017

The Statutory Auditors

MAZARS
Anne Veaute
Virginie Chauvin

DELOITTE & ASSOCIÉS
Sylvie Bourguignon
José Luis Garcia

Resolutions proposed to the Ordinary and Extraordinary Shareholders' Meeting of May 31, 2017

To the Ordinary Shareholders' Meeting

First resolution: approval of the annual financial statements

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, after hearing the reports of the Board of Directors, the Chairman of the Board of Directors, and the Statutory Auditors, approved the annual financial statements as of December 31, 2016, as presented to it, with all transactions translated by these statements or which are mentioned in said statements, showing a loss of EUR 6,329,487.45.

The Ordinary Shareholders' Meeting approved the overall amount of expenses and charges not deductible from the corporate income tax (article 39.4 of the General Tax Code) come to EUR 39,733.73, which did not result in a corporate income tax surcharge considering the loss recorded by the company.

Second resolution: allocation of net income

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary general shareholders' meetings, decided to fully allocate the loss for the fiscal year, EUR 6,329,487.45 to the « Retained earnings » account.

This allocation will result in a negative balance of EUR 16,333,287.69 for the « Retained earnings » account.

The Shareholders' Meeting recalled, pursuant to article 243 bis of the General Tax Code, that it has not distributed any dividends over the three previous fiscal years.

Third resolution: approval of the consolidated financial statements

The general shareholders' meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, after hearing the reports from the Board of Directors, the Chairman of the Board of Directors, and the auditors, approved the consolidated financial statements as of December 31, 2016, as presented to it, with all transactions translated by these statements or which are mentioned in said statements, showing a group profit of EUR 18,411,129.23.

Fourth resolution: approval of the regulated agreement entered into with La Banque Postale

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, after hearing the special auditors' report on the regulatory agreements referred to in article L.225-38 of the Code of Commerce approved, under the conditions of article L.225-40 of the same code, the regulatory agreement mentioned therein and entered into with La Banque Postale.

Fifth resolution: full discharge of company officers

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, as a consequence of approving the previous resolutions, fully and unreservedly discharged the company officers from their term of office for the fiscal year closed December 31, 2016.

Sixth resolution: certification of the financial statements

Pursuant to article L.822-14 of the Code of Commerce, the Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary general shareholders' meetings, acknowledged that the accounts for the fiscal year closed December 31, 2016 were certified by the auditors:

- Anne Veaute and Virginie Chauvin, associates, representing the company, Mazars, on the one hand; and
- Sylvie Bourguignon and José-Luis Garcia, associates, representing the firm of Deloitte & Associés, on the other hand.

Seventh resolution: establishing the amount of attendance fees

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary general shareholders' meetings, after reading the report by the Board of Directors, decided, after acknowledging that the overall amount for attendance fees must be approved by a decision of the Minister of the Economy, in accordance with the provisions of article 3, decree 53-707 of August 9, 1953, to establish the amount for attendance fees allocated annually to the Board of Directors for the current fiscal year and each subsequent fiscal year, at EUR 180,000.

Subject to approval by the Minister of the Economy, this amount will remain unchanged until a new decision by the general shareholders' meeting.

Eighth resolution: opinion on the overall compensation package for 2016 fiscal year

Pursuant to article L.511-73 of the Monetary and Financial Code, the Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary general shareholders' meetings, issued a favorable opinion on the overall package of all types of compensation paid during the fiscal year closed December 31, 2016, to the members of the Executive Committee, the General Auditor, the financial markets professionals, to the risks professionals, and to those performing an activity related to internal control and to compliance, as well as all employees whose variable compensation over a year exceeds EUR 87,500, and the amount of which comes to EUR 4.63 million.

Ninth resolution: opinion on the compensation elements owed or allocated for the fiscal year closed December 31, 2016 to Philippe Mills, Chairman of the Board of Directors and Chief Executive Officer

The Shareholders' Meeting, consulted pursuant to the recommendation of § 24.3 of the AFEP-MEDEF Corporate Governance Code, which constitutes the company's reference code pursuant to article L.225-37 of the Code of Commerce, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, issued a favorable opinion regarding the compensation elements owed or allocated for the fiscal year closed December 31, 2016 to Philippe Mills, Chairman of the Board of Directors and Chief Executive Officer, as presented under the section, « Compensation and other benefits granted to company officers for the fiscal year 2016 » in the annual financial statement.

Tenth resolution: approval of the principles and criteria for determining, distributing, and allocating the fixed, variable and exceptional elements making up the total compensation and benefits of any nature payable to Philippe Mills

Having examined the report provided for by article L.225-37-2 of the Code of Commerce, the Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, approved the principles and criteria for determining, distributing, and allocating the fixed, variable, and exceptional elements making up the total compensation and benefits of any nature presented in the aforementioned report and payable, due to his office of Chairman of the Board of Directors and Chief Executive Officer, then of Chief Executive Officer to Philippe Mills.

Eleventh resolution: approval of the principles and criteria for determining, distributing, and allocating the fixed, variable and exceptional elements making up the total compensation and benefits of any nature payable to Chantal Lory

Having examined the report provided for by article L.225-37-2 of the Code of Commerce, the Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, approved the principles and criteria for determining, distributing, and allocating the fixed, variable, and exceptional elements making up the total compensation and benefits of any nature presented in the aforementioned report and payable, due to her office of Chair of the Board of Directors, to Chantal Lory.

Twelfth resolution: appointment of a Member of the Board of Directors

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, having examined the report by the Board of Directors,

acknowledged the resignation of Pierre Sorbets from his office of Member of the Board of Directors (as proposed by the State),

appointed Pierre Sorbets as Member of the Board of Directors for a period of four years, i.e., until the annual ordinary shareholders' meeting deciding on the accounts for the fiscal year to be closed on December 31, 2020.

Thirteenth resolution: renewal of a Member of the Board of Directors' term of office

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary general shareholders' meetings, having examined the report by the Board of Directors,

acknowledged the expiration of the term of office of Member of the Board of Directors Serge Bayard over the course of this meeting,

decided to renew Serge Bayard's term of office as Member of the Board of Directors for a period of four years, i.e., until the annual ordinary general shareholders' meeting deciding on the accounts for the fiscal year to be closed on December 31, 2020.

Fourteenth resolution: renewal of a Member of the Board of Directors' term of office

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, having examined the report by the Board of Directors,

acknowledged the expiration of the term of office of Member of the Board of Directors Delphine de Chaisemartin over the course of this meeting,

decided to renew Delphine de Chaisemartin's term of office as Member of the Board of Directors for a period of four years, i.e., until the annual ordinary shareholders' meeting deciding on the accounts for the fiscal year to be closed on December 31, 2020.

Fifteenth resolution: appointment of a Statutory Auditor

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, having examined the report by the Board of Directors,

noted the expiration of the term of office of the Statutory Auditor, Mazars, and

decided to appoint Ernst & Young et Autres as Statutory Auditor for a period of six years, i.e., until the annual ordinary shareholders' meeting deciding on the accounts for the fiscal year to be closed on December 31, 2022.

Sixteenth resolution: non-renewal of an alternate Statutory Auditor

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for ordinary shareholders' meetings, having examined the report by the Board of Directors,

noted the expiration of the term of office of the alternate Statutory Auditor, Franck Boyer, and

acknowledged that the new provisions of article L.823-1 of the Code of Commerce no longer impose, except in special cases, the requirement of an alternate Statutory Auditor, and

decided as a result, not to renew Franck Boyer as alternate Statutory Auditor.

To the Extraordinary Shareholders' Meeting

Seventeenth resolution: modification of article 4 of the by-laws ("registered offices")

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for extraordinary general shareholders' meetings, having examined the report by the Board of Directors,

decided to modify article 4 of the by-laws ("registered office") in order to provide for the ability given to the Board of Directors, by article L.225-36 of the Code of Commerce, to transfer the company's registered office throughout French territory, and

decided as a result to replace article 4 of the Company by-laws with the following article,

"ARTICLE 4 - REGISTERED OFFICE

The company's registered offices are set at 1-3, Rue du Passeur de Boulogne - Issy-les-Moulineaux (92130).

It may be transferred throughout French territory by decision of the Board of Directors, subject to the ratification of this decision by the soonest Ordinary Shareholders' Meeting. In the event of a transfer decided upon in accordance with the law by the Board of Directors, it is authorized to modify the by-laws accordingly."

Eighteenth resolution: modification of article 22 of the by-laws ("Statutory Auditors")

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for extraordinary general shareholders' meetings, having examined the report by the Board of Directors,

decided to modify article 22 of the by-laws ("Statutory Auditors") in order to bring it into compliance with (i) the provisions of Instruction 2016-I-07 regarding the information to be transmitted to the ACPR (Autorité de contrôle prudentiel et de résolution) regarding the Statutory Auditors, and (ii) with article L.823-1 of the Code of Commerce, modified by law 2016-1691 of 9 December, 2016 ("Sapin II"),

decided as a result to replace article 22 of the Company by-laws with the following article:

"ARTICLE 22 - STATUTORY AUDITORS

The general shareholders' meeting shall name the Statutory Auditor(s) fulfilling the conditions set by law and the regulations.

The Company shall inform the Autorité de contrôle prudentiel et de résolution of the naming of one or more Statutory Auditors, under the conditions set by law and the regulations or according to the instructions from the supervisory authorities.

The Statutory Auditors shall be named for six fiscal years, with their duties expiring after the general shareholders' meeting deciding on the accounts for the sixth fiscal year.

The Statutory Auditors shall be given the duties and powers conferred upon them by law. Their compensation shall be established according to the regulatory provisions in effect."

Nineteenth resolution: powers to carry out formalities

The Shareholders' Meeting, voting according to the conditions governing the quorum and majority required for extraordinary general shareholders' meetings, gives all powers to the bearer of an original, copy, or extract of these minutes for the fulfillment of all filing and publication formalities provided for by law.

General information

Legal and administrative information

Company name

SFIL

Acronym

SFIL

Registered office

The Company's registered office is located at:
1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux

Legal structure

Société anonyme with a Board of Directors

Official approval

The Company was approved as a bank by the Collège de l'Autorité de contrôle prudentiel et de résolution on January 16, 2013.

Applicable legislation

SFIL is a *Société anonyme* governed by the provisions of the Commercial Code relating to commercial companies, the provisions of the French Monetary and Financial Code relating to credit institutions, the provisions of ordinance 2014-948 of August 20, 2014, as amended relating to corporate governance and capital transactions of public companies (hereinafter « the ordinance »), as well as the provisions of law 83-675 of July 26, 1983, on the democratization of the public sector (in its provisions applicable to representatives of the employees referred to in Section I of article 7 of ordinance 2014-948 of August 20, 2014).

Incorporation date and duration of the Company

The company was founded on December 28, 1999 for a period of 99 years.

Corporate purpose (Article 3 of the by-laws)

The company is a credit institution, approved by the Autorité de contrôle prudentiel et de résolution, the objective of which is to carry out on a regular basis:

- (a) all banking operations, within the meaning of article L.311-1 of the French Monetary and Financial Code;
- (b) all transactions relating to the transactions referred to in (a) the aforementioned, including the investment, subscription, purchase, management, custody, and sale of securities and any financial products;
- (c) all transactions involving the receipt of funds from its shareholders and the *société de crédit foncier* it controls;
- (d) pursuant to article L.513-15 of the French Monetary and Financial Code, all services relating to the management and recovery from exposures, debt securities and other securities, bonds, or other resources provided for in article L.513-2 of the French Monetary and Financial Code of a duly authorized *société de crédit foncier* controlled by the Company;
- (e) provision of services on behalf of third parties with a view to carrying out banking operations in connection with credit transactions for the local public sector in France and export credit refinancing operations.

Therefore, the Company may, within the framework of the conditions defined by the current banking and financial regulations:

- (a) obtain any adapted resources, notably (i) issue any transferable securities, any negotiable debt securities, or other financial instruments in France or abroad and (ii) more generally, use any mechanism for the mobilization of debts and assets with or without transfer of ownership;
- (b) acquire and hold shares in existing or newly created companies contributing to the realization of its operations and sell these shares; and
- (c) in more general terms, directly or indirectly carry out, for itself and on behalf of third parties or in cooperation, all financial, commercial, industrial, personal property or real estate transactions with a view to conducting the aforementioned activities.

RCS number and APE business identification code

SFIL is registered at the Trade and Companies Register (RCS) under the number: NANTERRE 428 782 585.
Its APE code: 6492Z.

Location for consulting the legal documents concerning the Company

Legal documents concerning SFIL may be consulted at the Company's registered office located at:
1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux

Fiscal year (article 33 of the by-laws)

The Company's fiscal year begins on January 1 and ends on December 31 of each year.

Exceptional events and legal proceedings

Please refer to the text pertaining to legal and tax risks on pages 16 and 17 of this Annual Financial Report

Statutory distribution of profits (article 35 of the by-laws)

1 - Each year, amounts to be transferred to reserves as provided by law shall be deducted from the profit for the year, less prior-year losses if applicable. Thus, 5% shall be deducted to constitute the legal reserve fund; this deduction ceases to be mandatory when this fund reaches one-tenth of the share capital; it resumes when, for any reason, the legal reserve has fallen below this fraction.

Distributable profit consists of the profit for the year, less prior-year losses, and amounts transferred to reserves in accordance with law or the by-laws, plus any retained earnings carried forward from previous years.

2 - Distributable profit is allocated as follows:

- The Preferred Dividend (as defined below) shall be paid first to the Preferred Shareholders under the conditions and limits set forth below;
- The balance of the distributable profit shall be distributed among the holders of Common Shares after deducting any amounts deemed by the general meeting to be transferred of any reserve funds or to the retained earnings account; no dividend may be paid to the holders of Common Shares if the Preferred Dividend relating to the considered financial year, plus any Preferred Dividend relating to a prior but undistributed financial year has not been distributed and paid in full.

The Preferred Dividend due for each fiscal year to the Preferred Shares shall be equal to a total amount of 20 euro cents for all the Preferred Shares outstanding. The Preferred Dividend shall be allocated among the Preferred Shareholders pro rata to the Preferred Shares held by them.

In the event the distributable profit of a financial year (within the meaning of article L.232-11 of the Code of Commerce) is not sufficient to allow the distribution of the total amount of the Preferred Dividend for the relevant financial year, this Preferred Dividend or, if applicable, the portion of this Preferred Dividend that has not been distributed, shall be carried over to future years without limitation of duration and shall be paid to Preferred Shareholders as soon as the distributable profit of the Company will be sufficient.

As an exception to the above provisions, the Preferred Dividend payable for the current fiscal year, in which a Preferred Share is issued, shall be equal to the proceeds of the Preferred Dividend as determined above and the number of days between the issue date of the relevant Preferred Share and December 31 of the relevant fiscal year in relation to a 365-day basis, or 366 days for leap years.

The Preferred Dividend shall be paid to the holders of Preferred Shares on the date of payment of the dividend to the Common Shareholders for the same financial year or, in the absence of a dividend allocated to the Common Shareholders, on the tenth (10th) business day following the date of the Annual General Meeting (the « **Payment Date** »).

General Shareholders' Meetings**Calling of meetings (article 24 of the by-laws)**

General Shareholders' Meetings shall be convened either by the Board of Directors or otherwise by the Statutory Auditor(s) or by a representative appointed by the President of the Commercial Court ruling in summary proceedings upon the request of one or more shareholders representing at least 5% of the share capital.

During the liquidation period, the meetings shall be convened by the liquidator(s). General meetings shall be held at the registered office or at any other location indicated in the notice of meeting.

The convening notice shall be given fifteen days before the date of the meeting, either by a simple or registered letter addressed to each shareholder, or by electronic mail sent to each shareholder, and in this case subject to the implementation of the provisions of the article R.225-63 of the Code of Commerce⁽¹⁾, or by a notice published in a Journal of Legal Notices at the headquarters. In the latter case, each shareholder must also be convened by simple letter or, at his or her request and at his or her own expense, by registered letter.

In the event of recourse to video-conferencing or telecommunication, the notice shall specify the means used.

If a meeting has not been able to meet and deliberate without due quorum, the second meeting and, if necessary, the second continuing meeting, shall be convened in the same form as the first one and the notice of meeting shall recall the date of the first one and reproduces its agenda.

Right to attend General Shareholders' Meetings (article 26 of the by-laws)

Each shareholder has the right to participate in general meetings and deliberations personally or by proxy, irrespective of the number of his shares, on simple proof of his or her identity, provided that these shares have been fully paid up and recorded in the financial statements on his or her name on the day of the general meeting.

Any shareholder may vote by correspondence by means of a form, which he or she may receive under the conditions specified in the notice of meeting.

⁽¹⁾ The use of electronic telecommunication for the convening of shareholders presupposes that the Company has submitted to them a proposal to this effect and has obtained their agreement.

A shareholder may only be represented by another shareholder who has a mandate, by his or her spouse or by the partner, with whom he or she has concluded a civil solidarity pact.

Voting rights (article 28 of the by-laws)

The voting rights attached to the capital shares or jouissance shares shall be proportional to the fraction of capital they represent. Each share conveys one voting right.

Voting shall be realized by show of hands, by roll call, or by secret ballot, according to the decision of the board of the meeting or the shareholders. Shareholders may also vote by mail.

Information about capital and shares

Amount of the capital, number and nature of the shares

The share capital of SFIL amounts to EUR 130,000,150; it is divided into 9,285,725 shares, each with a voting right and not subject to any pledge.

The shares are divided into two categories:

- 7,428,580 common shares and;
- 1,857,145 preferred shares issued in accordance with the provisions of article L.228-11 of the Code of Commerce and containing the rights and obligations defined in the by-laws.

There are no other securities giving access to the capital of SFIL.

Breakdown of capital

The share capital of SFIL is held at:

- 75% by the French State, *via* the Agence des Participations de l'État, i.e. 6,964,293 common shares;
- 20% by Caisse des dépôts et consignations, i.e. 1,857,145 preferred shares;
- 5% by La Banque Postale, i.e. 464,287 common shares.

Statement by the person responsible

I, Philippe Mills, Chief Executive Officer of SFIL, here by affirm that, to the best of my knowledge, the financial statements have been prepared in conformity with applicable accounting standards and present fairly, in all material aspects, the assets and liabilities, financial position, and results of SFIL, and that the management report presents a fair image of trends in the Company's business, results and financial position, as well as a description of the main risks and uncertainties it faces.

Signed in Issy-les-Moulineaux, on March 29, 2017

Philippe Mills
Chief Executive Officer



**Supporting local
investment and export**

SFIL

Société anonyme

With capital of EUR 130,000,150
RCS NANTERRE 428 782 585

Headquarters

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

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