



Supporting local
investment and export

ANNUAL FINANCIAL
REPORT

2017

“2017 confirms our DNA as a public development bank”

Long-term financing of public sector assets to improve service to the French economy. Everyone at SFIL has now been hard at work every day for some five years to ensure the efficiency and value of this mission. And in this, SFIL's fifth year, I would like to salute their conviction, professionalism and tenacity.

SFIL is **a tangible success story** in every area, but when we started out in February 2013 that was by no means a given. In five years, we have shown the relevance of our business model and provided the public authorities with a unique, efficient and powerful financing tool.

I would like to thank our shareholders, the French State, Caisse des Dépôts and La Banque Postale, whose support and trust, together with the unwavering commitment of all of SFIL's staff, have contributed continuously to this venture's success.

Repeat successes and new achievements

2017 confirmed our unique **DNA as a public development bank**, a specific model that is now widely recognized in our institutional environment, particularly in Europe. Our bank's special regulatory treatment, particularly in terms of leverage ratio, is now very well established.

It also offered confirmation of **our exceptional financing capacity**, in terms of volume, maturity and cost, which is a major asset for fulfilling our public policy missions.

SFIL, together with its subsidiary CAFFIL, is now France's **biggest public bond issuer** after the State.

In five years, we have raised more than EUR 31 billion in long-term funding - of which EUR 8 billion in 2017 - from an exceptionally broad investor base (452 investors), under extremely tight conditions and over ultra-long maturities (more than half of the issues being longer than ten years). Another feature of 2017 was the ramping up of SFIL's bond issuance in euros and now also in dollars. This diversification of our financing sources has enabled us to repay the liquidity provided by our shareholders far ahead of forecasts.

Local public sector financing leader

Another confirmation: SFIL and its partner La Banque Postale are the **leading local public sector funder**. Since its creation, SFIL has provided total financing of EUR 20 billion.

The density of La Banque Postale's network gives SFIL access to the whole local public sector, with borrowers of all sizes and geographic origins. This was reflected in loan amounts ranging from EUR 40,000 to EUR 90 million in 2017.



SFIL's extensive issuance capabilities enable it to provide loans at longer maturities (15 to 30 years) than commercial banks, and on very competitive terms. In 2017, 57% of loans were granted at maturities of more than 15 years (compared with 18% in 2013).

2017, the year that export credit took off

Despite this activity not having been planned at the outset, in 2017 SFIL became France's **biggest liquidity provider for State-guaranteed export credits, with a more than 50% market share**. In 2017, it signed four contracts worth EUR 2.6 billion of confirmed refinancing.

SFIL has thus become a key player in the sector, in partnership with all commercial banks active in French export credits. Our business outlook is very strong as we have more than 70 projects under consideration, worth nearly EUR 24 billion, across a broad range of sectors. Further proof of our effectiveness lies in the State's recent decision to extend SFIL's export support to strategic projects carried out by French companies abroad eligible for public guarantee.

The availability of SFIL refinancing in support of this new tool to promote foreign trade will enable France to offer its manufacturers backing comparable to that of its largest peers.

Positive and sustainable financial results

Lastly, in 2017 **the bank also delivered positive results, in the amount of EUR 54 million**. Thanks to the robust development of our business, our profitability far exceeds that forecast in our #Horizon2021 strategic plan.

A solid financial equilibrium, profitable businesses and a protective financial backing model are all assets that enable SFIL to carry out its business profitably and sustainably.

In 2018, in addition to the introduction of a new type of CAFFIL issue and the operational preparation for our mandate extension in export financing, we are continuing our efforts to improve operational efficiency and will increase our agility and the bank's digitalization.

With five years of successful activity under its belt, SFIL aims to offer its borrowers and partners better service every day, while continuing to exploit fully the potential of its unique model.

Philippe Mills
Chief Executive Officer

ANNUAL FINANCIAL REPORT 2017

SFIL

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This free translation of the annual financial report published in French is provided
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Management report

Context

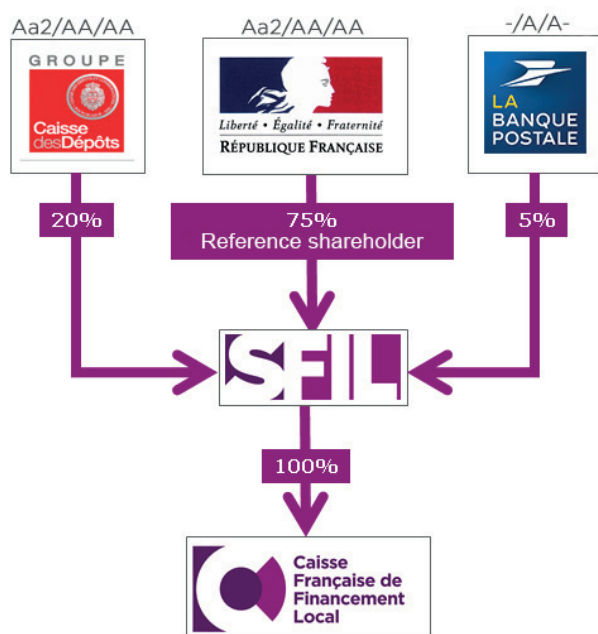
SFIL was authorized as a bank by the Collège de l'Autorité de contrôle prudentiel et de résolution on January 16, 2013. Since SFIL was created, the French State has played a special role in its operation by contributing 75% of its capital and, as the reference shareholder, assuring prudential authorities 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. This wholly public shareholder structure is a characteristic of the public development bank model that SFIL is based on, which comprises financial institutions whose objective is not to maximize profitability or market share, but to carry out public policy missions entrusted by State, regional or local authorities to compensate for identified market failures. SFIL has accordingly become part of the financing system for local government entities and public hospitals established in early 2013 to provide a sustainable response to the contraction in supply of long-term financing for the local public sector. From 2015, SFIL was also entrusted with responsibility for refinancing major export contracts as part of a market system designed to strengthen the French export industry's competitiveness.

Since January 31, 2013, SFIL holds 100% of the capital of Caisse Française de Financement Local (CAFFIL), its sole subsidiary, with the status of *société de crédit foncier* (SCF) and governed by articles L.513-2 *et seq* of the French Monetary and Financial Code. SFIL serves as a backer for CAFFIL's activities, as specified by regulations concerning its SCF status, in particular in accordance with articles L.513-15 and L.513-2 of the 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.

SFIL is at the heart of the system that embodies 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 following European Commission authorization on December 28, 2012, makes it possible to refinance 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 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 most highly rated issuers of French covered bonds, relying on the issuance capacities of SFIL and its subsidiary CAFFIL. This refinancing is available for all partner banks of French exporters for their buyer credits insured by Bpifrance Assurance Export in the name and under the guarantee of the French State.

Capital structure of SFIL and its sole subsidiary CAFFIL⁽¹⁾



(1) SFIL and CAFFIL make up the SFIL Group.

Highlights of 2017

In 2017, SFIL fully discharged its key missions, which involve going through its subsidiary Caisse Française de Financement Local to refinance loans granted by La Banque Postale to eligible French local government entities 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 loan portfolio. This last mission is close to completion. SFIL also became the leading liquidity provider in France's export credit sector in 2017, with a more than 50% market share of the financing of State-backed export loans. Lastly, SFIL made significant progress in its IT streamlining program.

The SFIL Group's highlights of the fiscal year are described below.

1. Issues by Caisse Française de Financement Local (CAFFIL)

CAFFIL issued a total volume of EUR 6.0 billion in 2017, which is close to the level of EUR 5.9 billion reported in 2016.

CAFFIL made three public issues in 2017, the first of which in January for EUR 1.5 billion over ten years. Its second was a two-tranche issue in May, the first tranche being for EUR 1 billion over seven years and the second for EUR 750 million over 15 years. The third issue was in September, for EUR 750 million over ten years.

2. SFIL issues and certificates of deposit program

SFIL launched two issues in 2017, including in June its first dollar-denominated issue, for USD 1 billion over three years. It made its second bond issue in October, in the amount of EUR 1 billion over five years.

As of December 31, 2017, the outstanding total of securities issued by SFIL was close to EUR 600 million, unchanged from December 31, 2016.

3. Partnership with La Banque Postale (LBP)

In 2017, La Banque Postale granted EUR 3.3 billion in loans to the local public sector, a decrease of 6% compared with 2016. During this fifth year of activity, Caisse Française de Financement Local also acquired nearly EUR 3.3 billion in loans from La Banque Postale, in five transfers. The SFIL/LBP system has been recognized as the largest source of financing for the French local public sector.

4. Export credit refinancing

After the first two transactions carried out in 2016, for a total amount of EUR 650 million, in 2017 SFIL's export credit activity increased significantly with four transactions carried out for a total amount of EUR 2.6 billion. In two years, SFIL has thus become the leading liquidity provider in the French export credit market.

5. Loan sensitivity reduction policy

After a high level of activity in 2016, made possible by the support of the French government's assistance mechanisms, the SFIL Group carried on its loan sensitivity reduction program in 2017 based on the same scope and methodology as in previous years.

By the end of 2018, taking into account the sensitivity reduction operations already completed and not counting outstanding loans which customers have chosen to

keep temporarily while having the possibility of receiving assistance from the fund in the event the structured component of their loan becomes active (assistance in paying lower interest rates provided by the support fund), the total of the SFIL Group's sensitive structured loans will have decreased by at least 86% compared with the amount recorded when SFIL was created, and by more than 91% for local government entities alone. The initial sensitive loan outstandings of EUR 8.5 billion will therefore be reduced to a maximum of EUR 1.2 billion by the end of 2018, and for local government entities alone, to a maximum of EUR 0.6 billion, compared with EUR 6.7 billion initially.

Lastly, 198 borrowers have withdrawn their litigation proceedings. This left 25⁽¹⁾ lawsuits still ongoing as of end-2017, 14 fewer than as of December 31, 2016.

6. 2021 Plan

In 2016, SFIL adopted a strategic 2021 plan affirming its identity as a public development bank with three main objectives: maintaining the leading position with LBP in long-term financing of the local public sector, becoming a major export refinancing player and generating consistently positive results over time. In this context, in 2016 SFIL began to roll out this project with an all-inclusive, cross-cutting approach. The main associated developments in 2017 were:

- the enhancement of SFIL's reputation, notably with the development of a new employer brand;
- operational efficiency improvements, with a program to overhaul business processes based on a specific multi-year work plan;
- an increase in the organization's agility, with the launch of digital transformation and implementation of management-level coordinator, expert and manager roles.

7. IT streamlining program progress

In 2014, SFIL launched a three-year IT system streamlining program. With the aim of equipping itself with an IT system adapted to its missions that would make it possible to respond more efficiently to the risk control and management requirements of SFIL and CAFFIL as well as to the different requests made by regulators. This program's deadline was extended from 2017 to mid-2018 to ensure that the old IT system is fully migrated to the new one with a broader scope than initially planned.

8. Entity ratings

SFIL

SFIL's ratings underscore the strong ties binding it to the French State, its reference shareholder.

As of December 31, 2017, SFIL's ratings stood at Aa3 with Moody's, AA with Standard & Poor's and AA- with Fitch, unchanged from 2016.

Caisse Française de Financement Local

There was no change in the rating of the *obligations foncières* issued by Caisse Française de Financement Local in 2017.

As of December 31, 2017, the ratings were as follows: AA+ with Standard & Poor's, Aaa with Moody's and AA with Fitch. The outlook for each of these ratings is stable.

⁽¹⁾ After reintegrating a case for which the court had refused the statute of limitations.

Lastly, since the end of 2017, the *obligations foncières* issued by Caisse Française de Financement Local benefit from a Prime rating from the extra-financial rating agency Oekom by reason of the Company's performance in societal and environmental issues.

9. Governance

In accordance with the wishes of the banking supervisor, SFIL's Board of Directors decided to separate the functions of Chairman of the Board of Directors and Chief Executive Officer. It also reviewed the composition of certain specialized committees in order to increase their proportion of independent directors.

General business environment

The SFIL Group successfully discharged its key responsibilities:

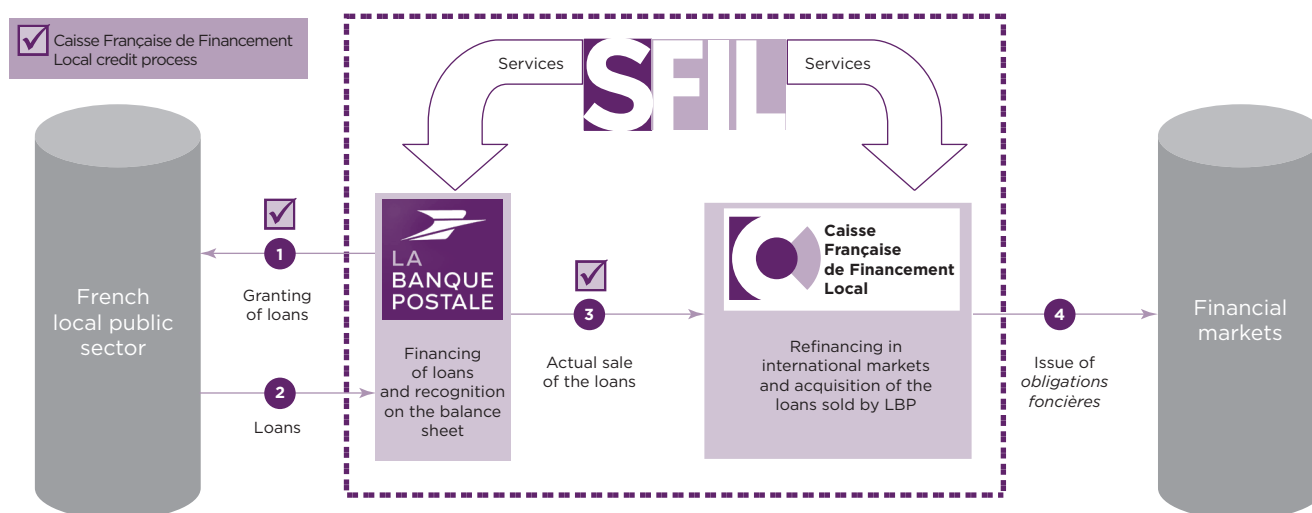
- refinancing, within a strictly defined framework, loans initially granted by La Banque Postale to eligible local government entities and public hospitals⁽¹⁾ via CAFFIL-issued *obligations foncières*;
- refinancing large export credit contracts;
- SFIL's provision of specialized services to La Banque Postale and CAFFIL to enable the system to function correctly;
- reducing the sensitivity of certain structured loans listed as assets on CAFFIL initial balance sheet, in line with the objectives defined by the State in terms of the manage-

ment of public finances and in accordance with SFIL's strategic interests.

The SFIL Group's refinancing capacity, based on SFIL and CAFFIL's issues, enabled it to fulfill these responsibilities.

The diagram below describes the SFIL Group's associated operating system. A more detailed diagram showing export credit refinancing is provided in section 2 below.

Operational flow diagram of the schema



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

The business of refinancing local public sector loans granted by La Banque Postale is carried out by SFIL's subsidiary, CAFFIL, through its issues of *obligations foncières*.

In 2017, CAFFIL acquired EUR 3.3 billion in loans granted by La Banque Postale to the French local public sector, i.e. nearly 14% more than the volume acquired in 2016 (EUR 2.9 billion). Since the partnership began in 2013, CAFFIL has refinanced a total of EUR 12.2 billion in loans.

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

As of December 31, 2017, SFIL signed a memorandum of understanding governing its relations with 20 commercial banks, thereby ensuring established relationships with almost all the banks active in the French export credit market.

2. Refinancing export credits

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

The Company's operating procedure is as follows.

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

After a first year of activity in 2016, SFIL carried out four new transactions in 2017 for a total amount of EUR 2.6 billion, two related to cruise ships and the other two to the energy and oil and gas sectors.

As for geographic distribution, one cruise ship transaction was for a European borrower and the other an American borrower, while the other two transactions were in Africa.

In total, since June 2016 SFIL has refinanced EUR 3.3 billion in six transactions representing EUR 6 billion in export credits with nine banks. SFIL has thus become the sector's leading provider of liquidity, with an average market share of more than 50%.

⁽¹⁾ Eligibility within the meaning of the law on sociétés de crédit foncier, pursuant to which on-balance sheet hedging assets can be considered collateral of issued obligations foncières.

Operational diagram of export credit refinancing by SFIL-CAFFIL



With regard to future projects, discussions have been held regarding transactions corresponding to roughly 70 potential deals for a total of EUR 23 billion. In order to ensure the effectiveness of the refinancing scheme, SFIL maintains stable partnerships with the major French exporters, assisting them in these initial stages. On their request, SFIL issues letters of interest in their commercial offers to support those that Bpifrance Assurances Export issues. Since the activity's launch, SFIL has issued 18 letters of support for 11 large exporters.

3. Services provided to La Banque Postale

SFIL provides services for the medium- and long-term financing activity in the local public sector (French local government entities and public hospitals) carried on by La Banque Postale and its joint venture with CDC, 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 to LBP.

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 restructure their loans taken out with CAFFIL, expired in 2016 and was replaced by a business provision agreement.

4. Loan sensitivity reduction

In 2017, despite the termination of the French government's assistance fund, SFIL continued with its program to reduce the sensitivity of loans held on the initial 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 labeled 3E, 4E and 5E in accordance with that Charter.

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

In this context, sensitivity reduction activity in 2017 involved 58 transactions, fully eliminating the sensitivity of 46 customers and EUR 320 million of loans.

Meanwhile, the number of lawsuits continued to fall. As of December 31, 2017, there remained 25⁽¹⁾ customers in litigation regarding one or more structured loan agreements from CAFFIL. Thus, since the creation of SFIL, a negotiated settlement has been found with 198 borrowers.

Based on the transactions completed as of December 31, 2017, 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 becomes active, sensitive outstanding loans as of end-2018 should come to a maximum of EUR 1.2 billion (a decrease of more than EUR 7.3 billion since December 31, 2012, i.e. 86%) for 211 customers (a decrease of 76%). Lastly, 93% of the borrowers who initially had outstanding loans in EUR/CHF no longer have them.

5. SFIL and CAFFIL issues

In 2017, the SFIL Group raised EUR 7.9 billion in the bond markets. The year 2017 was marked by a major diversification of the Group's access to the market with the development of SFIL's reputation as a euro and dollar issuer to French agencies and CAFFIL's continued activity as a leading covered bond market issuer. Furthermore, SFIL continues to refinance itself through short-term issues and with its shareholders.

In the wake of the successful 2016 inaugural issue on the French agencies market, in 2017 SFIL grew its bond market franchise by raising a total of EUR 1.9 billion via two public issues, the first, denominated in dollars, in June for USD

(1) After reintegrating a case for which the court had refused the statute of limitations.

1 billion over three years and the second, denominated in euros, in October for EUR 1 billion over seven years. These two successful transactions made it possible to confirm the SFIL Group as a recognized issuer in the French agencies segment and to broaden its investor base. In January 2017, this strategic position was strengthened by SFIL's listing among the European agencies whose issues are purchased by the European Central Bank within the framework of its public sector asset purchase program (PSPP). These issues supplement the financing SFIL receives from its shareholders, Caisse des dépôts et consignations and La Banque Postale.

As for CAFFIL, in 2017 it raised a total of EUR 6 billion through the issue of debt benefiting from the legal privilege, in the form of *obligations foncières*. CAFFIL launched

three issues in the public primary market for a total of EUR 4 billion, boosting its reference yield curve offering at seven years (EUR 1 billion), 15 years (EUR 750 million) and, via two tranches totaling EUR 2.25 billion, ten years. At the same time, in 2017 CAFFIL enhanced the liquidity of several of its reference issues via six tap transactions for a total of EUR 1 billion.

In addition to these public transactions, CAFFIL remained active in the investment segment, making it possible to meet investor demand for long and very long maturities. Through this activity, it raised EUR 1 billion with an average maturity of more than 16 years. It issued 55% of this amount under a euro medium-term note (EMTN) program and the balance of 45% in the form of registered covered bonds.

Changes in the main balance sheet items

The main items on the SFIL Group's consolidated balance sheet (management data⁽¹⁾) as of December 31, 2017, are presented in the table below:

(In EUR billions, equivalent value after currency swaps)

ASSETS	LIABILITIES
72.4	72.4
of which main items of the notional balance sheet	of which main items of the notional balance sheet
59.5	59.5
Cash assets 2.6 (of which 1.7 for CAFFIL and 0.9 for SFIL)	SFIL bond issues 2.9
Loans 46.6	Refinancing by shareholders 4.2
Securities 7.9 (of which 7.2 for CAFFIL and 0.7 for SFIL)	<i>Obligations foncières</i> 49.0
	Certificates of deposit 0.6
Cash collateral paid 2.4	Cash collateral received 1.3 (of which 0.7 for CAFFIL and 0.6 for SFIL)
	Equity and other items 1.5

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

- the loans and securities on CAFFIL's balance sheet and the securities on SFIL's balance sheet;
- the cash assets of SFIL and CAFFIL;
- the cash collateral paid by SFIL on its derivatives portfolio.

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

- CAFFIL's *obligations foncières* liabilities;
- SFIL bond issues;
- certificates of deposit issued by SFIL;
- the debt financing provided by SFIL's shareholders.
- The last three items cover SFIL's financing requirements, which are mainly made up of the refinancing of CAFFIL's over-collateralization and of its specific needs related to the cash collateral paid in respect of its off-balance sheet derivatives and to the refinancing of its cash reserves.
- the cash collateral received by CAFFIL or SFIL;
- equity and other resources.

1. Changes in assets

1.1 - MAIN CHANGES IN ASSETS IN 2017

The net change in the main assets of the SFIL Group in 2017 was EUR -2.5 billion. This change can be analyzed as follows:

(In EUR billions, equivalent value after currency swaps)

	2017
BEGINNING OF YEAR	62.0
Purchase of loans from La Banque Postale	3.3
New export credit loans granted	0.2
New post-sensitivity reduction loans granted	0.3
Change in cash collateral paid by SFIL	0.1
Amortization of loans and securities granted to the French public sector (excluding cash investment securities)	(3.8)
Amortization of loans and securities granted outside the French public sector (excluding cash investment securities)	(0.9)
Cash investment securities	0.8
Change in cash assets	(2.3)
Other	(0.2)
END OF YEAR	59.5

- Through its subsidiary CAFFIL, the SFIL Group acquired EUR 3.3 billion in loans marketed by La Banque Postale to the French local public sector.
- The export credit activity resulted in a EUR 0.2 billion drawdown.
- The transactions to reduce sensitivity resulted in EUR 0.3 billion in new assets on CAFFIL's balance sheet, recognized as refinancing of early repayment indemnities and new investment financing.

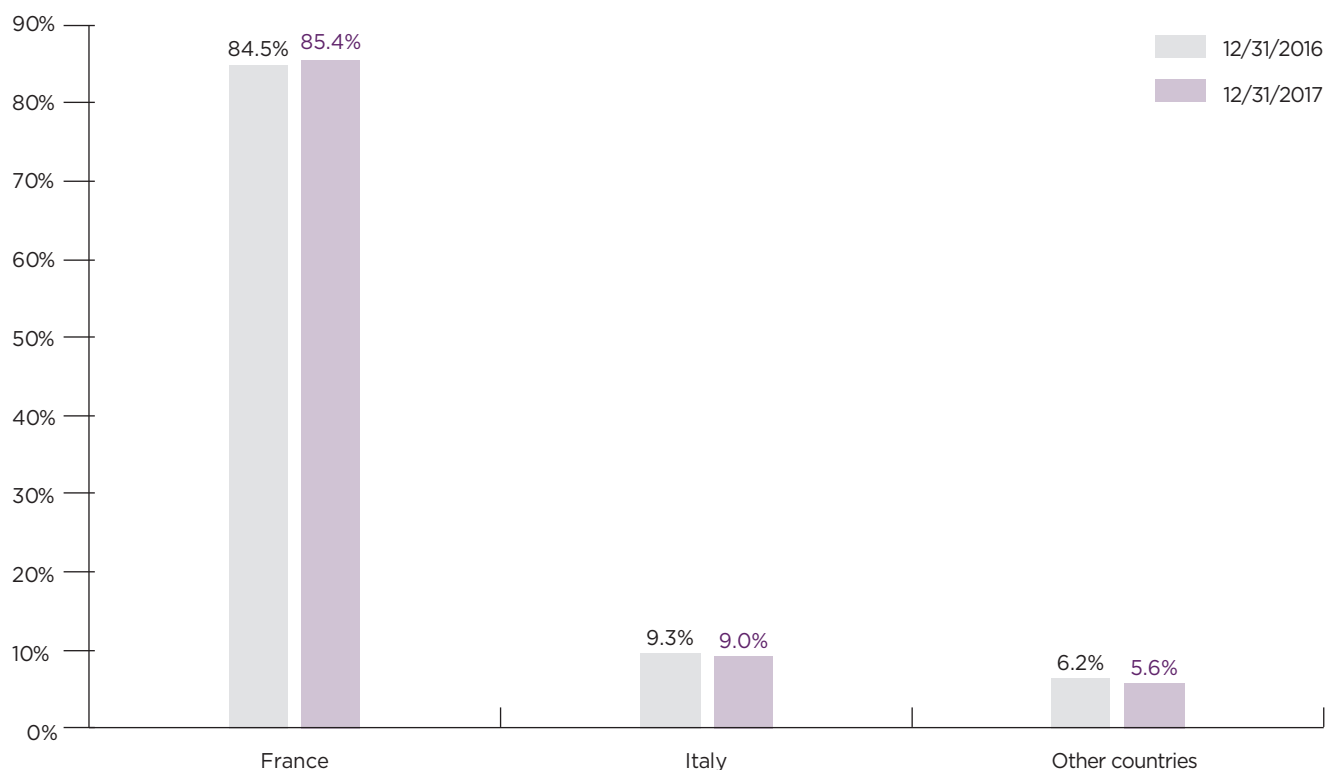
- SFIL may be led to intermediate certain of CAFFIL's swaps, and in this event, SFIL had paid a total of EUR 2.4 billion in collateral at end-2017, up EUR 0.1 billion compared with end-2016.
- Other changes in assets correspond mainly to the natural amortization of the loan and securities portfolio for EUR 4.7 billion, the decrease in the balance of the Banque de France account for EUR -2.3 billion and the early repayment of assets amounting to EUR 0.2 billion.

It should be noted that as of December 31, 2017, the SFIL Group held EUR 2.0 billion in cash surplus investment securities, in the banking sector and the European public sector.

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

1.2 - BREAKDOWN OF OUTSTANDING LOANS AND SECURITIES

The outstanding loans and securities on SFIL's balance sheet totaled EUR 54.5 billion. The majority of outstandings in 2017 were with the French public sector, which accounted for 85% of the total. New loans are now exclusively originated with the French local public sector. Outstanding loans in respect of the export credit activity accounted for EUR 0.2 billion on the balance sheet as of December 31, 2017.



Loans and securities with counterparties outside France accounted for 15% of total outstandings and corresponded to granular and geographically diverse exposures to public sector entities. These exposures, excluding cash investments, were originated in the past and are now in run-off.

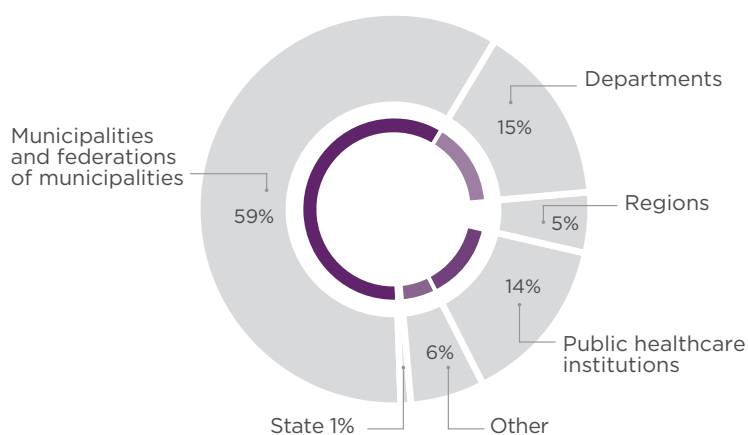
Excluding France, the two largest exposures concerned local government entities in Italy and central government entities in Italy (9%) and Switzerland (2%). France's relative share was up slightly from 2016.

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

- the acquisition of the loans granted by La Banque Postale to local government entities and public hospitals; in this respect, CAFFIL acquired EUR 3.3 billion of loans in 2017;
- the new loans granted within the framework of the reduction in the sensitivity of structured loans for a total of EUR 0.3 billion;
- drawdowns on export loans for EUR 0.2 billion.

For France's relative share of 85% in 2017, the following graph shows the breakdown of loans and securities granted to the French local public sector by type of counterparty.

Breakdown of loans and 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:

- cash assets deposited chiefly with the Banque de France, which totaled EUR 2.6 billion as of December 31, 2017;
- cash collateral payments made to banking counterparties or clearing brokers to hedge counterparty risk on the derivatives portfolio (swaps). This derivatives portfolio requires that SFIL constitute collateral, generating a financing need for SFIL. SFIL had paid out EUR 2.4 billion in this regard as of December 31, 2017.

2. Changes in liabilities

The net change in the SFIL Group's main liabilities in 2017 was EUR -2.5 billion.

This change can be analyzed as follows:

(In EUR billions, equivalent value after currency swaps)	2017
BEGINNING OF YEAR	62.0
Obligations foncières	(1.4)
<i>Issues</i>	6.0
<i>Amortization</i>	(7.2)
<i>Buybacks</i>	(0.2)
Change in cash collateral received	(0.6)
Shareholder refinancing	(2.5)
SFIL bond issues	1.9
Certificates of deposit	0.0
Equity and other items	0.1
END OF YEAR	59.5

- Outstanding *obligations foncières* decreased by EUR 1.4 billion as a result of the amortization of loans, partly offset by the new 2017 program for a total of EUR 6.0 billion.
- At the same time, the cash collateral paid by the derivatives counterparties of CAFFIL and SFIL decreased by EUR 0.6 billion.
- The EUR 2.5 billion decrease in shareholder refinancing relates to the amortization of the balance sheet and, for EUR 1.9 billion, to the increase in SFIL's bond issuance-based refinancing.
- This bond issuance program, which SFIL first launched in 2016, totaled EUR 2.9 billion at the end of 2017.

Internal control and preparation and processing of accounting and financial information

1. Overall internal control system

1.1 – RESPONSIBILITIES AND OVERALL ARCHITECTURE OF INTERNAL CONTROL

The SFIL Group is one of the large banks that have 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 a corresponding 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 comply with the provisions of the Monetary and Financial Code and the *arrêté* of November 3, 2014.

These texts require that an internal control system be put in place to ensure the existence of the following control mechanisms:

- a control system for transactions and internal procedures;
- an accounting and data processing system;
- systems to measure risks and results;
- systems to monitor and control risks;
- a system for documentation and information;
- a mechanism for monitoring cash and securities flows.

This internal control system is a process put into practice by SFIL's General Management and all of its employees, 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. This is notably the case as regards carrying out the four key responsibilities with which its shareholders have entrusted it: 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.

SFIL's internal control system has the following objectives:

- verifying the efficiency of the risk control system. The risk control system aims to guarantee that the risks taken by SFIL 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 accounting and financial data produced is reliable and relevant in order 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 transactions and the optimization of its resources.

Pursuant to the *arrêté* of November 3, 2014, the general architecture of SFIL's internal control system comprises three levels, so as to allow it to achieve its assigned objectives:

- the first level of control takes place in the operating teams;

- the second level corresponds to the permanent control activities carried out under the responsibility of the Operational Risks and Permanent Control division or, for compliance risks, the Compliance division (in the four compliance areas: organization of compliance, ethics and market abuse, protection of customer interests, and financial security);
- the third control level is periodic control, carried out by an independent team, the Internal Audit and Inspection division. Reporting to SFIL's Chief Executive Officer, the objective of this team is periodically to check that the two control levels mentioned above are applied correctly.

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

In this context, a shared computer system enables the Operational Risk and Permanent Control and the Internal Audit divisions to monitor risks, controls, recommendations and action plans.

The managers of the internal control functions report to the 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 Internal Control Committee). If they feel that an event might have a significant impact, they may submit proposals to said Committee, another relevant committee or directly to the Board, on their own initiative.

These different levels of control are deployed under the aegis of SFIL's executive and decision-making bodies.

1.2 – SUPERVISORY BODY AND ACCOUNTABLE OFFICERS

The Risk and Internal Control Committee, composed of members of SFIL's Board of Directors, is responsible, pursuant to the French Commercial Code and the *arrêté* of November 3, 2014, for ensuring the effectiveness of internal control and risk management systems, for giving an assessment of the quality of internal control, in particular the consistency of risk measurement, monitoring and 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.

SFIL's Chief Executive Officer and Deputy Chief Executive Officer, as accountable officers under current banking regulations, guarantee the efficient operation of 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 regulations and SFIL's activities. 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 actions and decisions in order to ensure continuous improvement of the internal control system.

1.3 – OPERATING UNIT CONTROLS

As the first level of the internal control system, the employees and managers of SFIL's operating divisions are in charge of analyzing the risks involved in all the transactions they have initiated, organizing and conducting first-level controls for such transactions, verifying that internal control procedures in their division are adapted to such risks and contributing to their development. To this end, they rely on policies, procedures, limits and indicators with a clear separation of duties between the initiation of transactions and their validation, control or settlement. These policies, procedures, limits and indicators are defined by a number of internal committees, composed of employees from the operating, support and control functions and chaired by a member of SFIL's Executive Committee.

1.4 – PERMANENT CONTROL EXCLUDING COMPLIANCE

1.4.1. Organization and governance of the permanent control system, excluding compliance

SFIL's permanent control system (excluding compliance) aims to ensure the effectiveness and reliability of the risk control system, the effectiveness of the transaction control system and internal procedures, and the quality of accounting and financial information and IT systems. Permanent control measures apply to all group divisions and activities (SFIL and CAFFIL).

They are managed by the Operational Risk and Permanent Control division in such a way as to maintain synergies with the operational risk management, IT systems security and business continuity systems. This system relies both on a network of correspondents within the operating divisions, which are responsible for the execution and monitoring of certain controls, and on the Operational Risk and Permanent Control division, which steers the system and carries out a number of second-level controls.

The Operational Risk and Permanent Control Committee, chaired by the Deputy Chief Executive Officer, is composed of all members of the Executive Committee. It meets quarterly to review the monitoring, completion and adaptation of the permanent control plan: control evaluation results, monitoring of action plans, additions, deletions or changes in controls, and review of the frequency of these controls. It also looks at the main issues linked to permanent control and at broad areas of anticipated improvements in the internal control process.

Via the presentation of the quarterly risk review to the Risk and Internal Control Committee, the Board of Directors is also informed of the results of the permanent controls and the follow-up of the action plans. In addition, a detailed presentation of the permanent control plan, areas to monitor closely and corrective actions implemented or to be implemented within the framework of the permanent control system is also given annually at a specific internal con-

trol committee meeting. This presentation was made to the Risk and Internal Control Committee on January 25, 2018.

1.4.2. Permanent control system 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 SFIL and CAFFIL's various business activities. These controls are determined in liaison with the operating divisions and are reviewed every year in order to adapt them to the SFIL Group's situation, by integrating:

- the results of controls carried out during the year (their adequacy in terms of the risks to be covered, their effectiveness, formalization and the relevance 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 and if necessary adding new controls and/or removing redundant controls.

The Operational Risk and Permanent Control division and its correspondents carry out or evaluate controls within their scope as often as required based on the criticality of the underlying risks. 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 Risk 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 the event the control results are unsatisfactory, action plans are systematically put in place to improve the result for subsequent periods

As of the end of 2017, 133 permanent controls were in place.

1.5 – COMPLIANCE CONTROL

1.5.1. Organization and governance of the compliance control system

SFIL's Compliance division is in charge of managing compliance risk, as defined by article 10 of the *arrêté* of November 3, 2014, for all SFIL and Caisse Française de Financement Local activities. Compliance risk management aims to ensure compliance with laws and regulations, professional conduct rules and guidelines, rules to protect the Group's reputation and that of its investors and customers, ethical rules governing professional conduct, rules to prevent conflicts of interest and protect customers' interests and uphold market integrity, anti-money laundering, corruption and financing of terrorism rules, and financial embargo compliance rules.

Pursuant to article 29 of the *arrêté*, SFIL's Compliance division is autonomous, independent of all operating units and particularly of any commercial activity. The Compliance division reports to the General Secretary, who is a member of SFIL's Executive Committee and has been designated as the compliance contact for the ACPR. Reporting directly to the 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 Secre-

tary also acts as the TRACFIN correspondent in connection with the bank's anti-money laundering and financing of terrorism obligations.

SFIL's accountable officers, Executive Committee members and Board of Directors are regularly briefed on the compliance system. The Compliance division prepares a semi-annual report which is presented to the Executive Committee and the Risk and Internal Control Committee. These bodies therefore examine the results of the Compliance division's activities as well as the compliance control results: control evaluation results, monitoring of action plans, presentation of the compliance risk mapping and the annual control plan. The Executive Committee issues decisions on the main compliance system issues and broad areas requiring improvement.

Lastly, a detailed presentation and annual activity report are submitted annually to a meeting of the Risk and Internal Control Committee dedicated to hearing the officers of the Risks, Compliance, and Periodic Control divisions, without the presence of General Management. For 2017, this presentation was made at the Risk and Internal Control Committee meeting of January 25, 2018.

1.5.2. Compliance control activities

To ensure the effectiveness of SFIL's and CAFFIL's compliance risk management system, the Compliance division uses a compliance control plan with which to contain and if possible eliminate compliance risks. This control plan is based on a mapping of compliance risks, and is updated at least annually.

The Compliance division implements and documents compliance controls in accordance with the control plan approved by the Risks and Internal Control Committee at the start of the year. Regarding the duties performed by Compliance as such, the controls performed dealing with aspects requiring specific expertise constitute first-level controls by the compliance officers. Dysfunctions identified as part of the performance of the control plan are systematically the subject of specific action plans sent to the divisions in charge of implementing remediation actions. The Compliance division monitors overall progress on these action plans.

This control plan is updated at least annually in order to take into account changes in SFIL's and CAFFIL's internal and external environments.

The Compliance division endeavors to make all changes necessary to the mapping of compliance risks and the resulting control plan in order to take into account changes in SFIL's activity and those arising from the entry into force of new regulations. The methodology for rating "gross" and "net" compliance risks is identical to the internal audit methodology. The updated compliance risk mapping and control plan are submitted every January for approval by the Risks and Internal Control Committee. The 2018 compliance risk mapping and control plan were presented to and approved by the Risk and Internal Control Committee on January 25, 2018.

The compliance control scope does not extend to the control of compliance with rules outside the banking and financial sphere (labor and social security law, regulations regarding personal and property safety, etc.), which other divisions are responsible for monitoring.

Lastly, the Compliance division uses various internal tools to report shortcomings, breaches and malfunctions: a network of compliance correspondents, a professional and ethical alert procedure and an incident reporting system.

1.6 – PERIODIC CONTROL

1.6.1. Organization and governance of the periodic control system

Periodic control within the meaning of the *arrêté* of November 3, 2014 is carried out by the Internal Audit and⁽¹⁾ Inspection division⁽²⁾. This division's scope of intervention covers all SFIL Group activities, operational processes and systems without any reservations or exceptions, including outsourced essential activities and anti-fraud procedures.

The independence and effectiveness of the internal audit and inspection function are guaranteed by the fact that its head is the General Auditor who reports to SFIL's Chief Executive Officer. The other factors that 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, as its activities require, the resources made available by management to carry out these missions and compliance with 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 division's staff. These principles are reflected in the internal audit charter and the inspection charter, approved by SFIL's Risk and Internal Control Committee on January 26, 2017, and distributed to all SFIL employees to remind them of the rights and duties of auditors and auditees. As of January 1, 2018, the Internal Audit and Inspection division had nine staff (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 Supervisor, 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, with duties covering continuous documentation updating, risk monitoring, and the following up of recommendations for implementation by SFIL's operating divisions.

1.6.2. Internal Audit and Inspection division activities

The division's activities are described in a regularly updated internal audit manual that is based on the IFACI reference framework of professional internal audit practices⁽³⁾. This manual was last updated in June 2017. 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.

The Internal Audit and Inspection division has adopted a top down approach for the annual evaluation of risks, in line with the recommendations of the *Institute of Internal Audi-*

(1) Internal audit is an independent and objective activity that provides SFIL with assurance on the degree of control of its operations, provides it with advice for improving them and helps create added value. It helps the organization achieve its objectives by evaluating, through a systematic and methodical approach, its risk management, control and corporate governance processes, and by making proposals to increase their effectiveness.

(2) The mission of the inspection function within the SFIL Group is to contribute, independently and objectively, to controlling the risk of fraud.

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

tors, based on the identification of SFIL's objectives, then on a study of risks critical to the success of such goals.

An annual assessment of risks was carried out in the second half of 2017, giving rise to an update of the mapping of SFIL's major risks. This mapping was compared to the 2016 mapping and used as a basis for the 2018 and multi-year audit and inspection plan proposed by the Internal Audit and Inspection division. This plan was approved by the Risk and Internal Control Committee on January 25, 2018. The risk map is also presented to the Board of Directors every 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 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 regularly updated Company internal audit methodological manual, which was last updated in June 2017. The audit missions are summarized 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, enabling the Executive Committee to validate their appropriateness to SFIL's risk profile, and make recommendations to improve the effectiveness of the processes and internal controls.

In 2017, internal audit assignments focused on themes related to the SFIL Group's core business (management of French local public sector debt), key operational processes (corporate governance, cash management, financing provided by SFIL's shareholders) or support processes (training management, logistics and security processes), risk monitoring and internal models (recovery plan, managing derivatives-related operational risk), the information system (management of local applications) and outsourced services. In 2017, the audit plan was 83% completed, exceeding the initial objective of 80%. These missions' findings and recommendations were presented to the Executive Committee for discussion and decision, as well as to the Risks and Internal Control Committee on September 5, 2017, and January 25, 2018.

Follow-up on recommendations made after the missions conducted by the Internal Audit and Inspection division, regulatory authorities or the statutory 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 lies with the identified managers. The follow-up of this implementation is 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 2017 and official reports based on their status as of May 31 and October 31, 2017, as well as presentations to the Executive Committee (in July 2017 and January 2018) and the Risks and Internal Control Committee on September 5, 2017, and January 25, 2018.

The Internal Audit and Inspection division is also in charge of the preparation, organization and follow-up of regulatory

authority assignments carried out at the SFIL Group. 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 Chairman of the Financial Statements Committee and the Risk and Internal Control Committee, the Internal Audit and Inspection division handles the organization of all the meetings of these committees. It oversees compliance with the timely transmission and communication of information and files required for meetings and decision-making. It monitors the annual program of works set out by the Chair of these committees. It also drafts the minutes of each of their meetings in close cooperation with the relevant Chairman. Furthermore, it is responsible for the safe storage of discussion minutes. In 2017, it organized six meetings for the Risks and Internal Control Committee and four for the Financial Statements Committee.

Lastly, the Internal Audit and Inspection division 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, in support of SFIL's legal departments, to particular requests from its Legal division to provide information and facts that may serve the Company's interests. SFIL's General Management may also call upon the inspection function to carry out missions and address specific issues. In 2017, inspection function controls focused on compliance with the rules governing the staff's use of SFIL's resources and on access to computer applications and sensitive directories..

1.6.3. Internal Audit and Inspection division activity reporting

SFIL's Executive Committee receives regular updates on the activities of the Internal Audit and Inspection division. In particular, the audit plan is presented to it every year for information after discussion with SFIL's General Management. Before audit missions actually take place, their scope, objectives, schedules, etc. are presented for information and comment. The results and conclusions of each completed mission are presented for discussion and decision-making via a report that includes:

- a general assessment of the topic under audit;
- an assessment of residual risks, so that the Executive Committee can validate their appropriateness to the SFIL Group's risk profile;
- recommendations to enhance the effectiveness of processes and internal controls.

A report on the follow-up of the recommendations of internal audit, inspection, regulatory bodies and the statutory auditors as well as the implementation of any related action plans is presented every six months.

Moreover, the internal audit charter and the charter of inspection activities are submitted for validation to the Risk and Internal Control Committee. The audit and inspection plan is also submitted annually to this committee for validation. This committee is informed every six months of the results of the follow-up of recommendations of internal audit, inspection, regulatory bodies and the 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 review. In addition, the annual report on SFIL's and CAFFIL's internal

control system (articles 258 *et seq* 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 Chairman of the Risk and Internal Control Committee.

2. Preparation and processing of accounting and financial information

2.1 - FINANCIAL STATEMENTS

The main purpose of a company's annual financial statements and all the financial data produced by the accounting department is to give a true and fair view of its assets, liabilities, financial position and results. The accounting section of the *arrêté* of November 3, 2014, on internal control stresses that the organization adopted should guarantee the existence of audit trail procedures, making it possible to establish a link between any 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 dictates the organization of accounting practices in the SFIL Group and applies equally to SFIL and Caisse Française de Financement Local.

In 2017, the main areas of focus were preparation for changes resulting from the introduction of new accounting standards applicable in 2018, in particular preparation for the implementation of IFRS 9, the expected impacts of which are set out in detail in the notes to the financial statements and in the management report. The accounting teams also contributed significantly to the work carried out on the Group's information system, of which a number of components are being overhauled in 2017 and 2018.

2.1.1. Role and organization of the Accounting division

SFIL's Accounting division reports to the Finance division, which also comprises the Back Office and the Financial Performance Management division, which in turn includes the balance sheet oversight functions, management control and the Purchasing division. The Accounting division plays a central role in SFIL's steering and financial management, thereby making it possible to benefit from a central viewpoint.

The Accounting division is also responsible for producing the basic separate and consolidated accounting data and summary financial statements 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 complied with.

The Accounting division is tasked with analyzing and verifying accounting data. It relies notably on the reconciliation of this data against that of the other Finance division units, in particular as regards the formation of managed entities' results. This approach is also used to confirm the information on the Company's balance sheet, and in particular entries in the risk databases used to calculate prudential indicators.

To carry out its role, the Accounting division sits on the main committees with a potential impact on its activity and has

access to an extensive range of information either directly or through the Chief Financial Officer. It participates actively in the technical development of IT systems, and relies on a cross-divisional team within the Strategic IT Project division to improve, secure and ensure the sustainability of its IT system. The Strategic IT Project division is notably in charge of accounting and regulatory tools as well as ALM, control and management control tools. Its role is to participate 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 process quality and efficiency and in the reliability of financial information.

2.1.2. Preparation of the annual and consolidated financial statements

In the preparation of the annual financial statements, SFIL's accounting system is mostly automatically fed by upstream 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 recorded immediately and directly as one or more accounting entries, based on an automated treatment. This automatic entry system also includes manual entry for certain specific transactions. SFIL's accounting system can handle dual accounting for compliance with French GAAP and EU IFRS. The summary of this data is then 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 business accounting procedures and individually examines complex or unusual operations. When certain transactions cannot be completely incorporated into the available management tools, the accounting teams process them using specific internal control procedures.

A first-level control is conducted by accounting teams specialized by business line, in particular through the analysis of accounting and management data reconciliations, and through bank reconciliations and technical suspense account checks. Monthly comparisons with management data and reconciliations of micro-hedged transactions make it possible to ensure that financial structuring is correctly replicated. 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. Lastly, these teams also draft a summary work report highlighting areas that need particular attention and process improvements needed ahead of future account closings.

Additional controls are carried out by other teams from the Accounting division 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 net banking income data with the 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 resources deployed during the year made it possible to stabilize the management data collected both for the validation of the current period's

results and for the estimates required within the framework of the forecasts requested by the Finance division.

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

The preparation of the financial statements is carried out by aggregating the accounts thus produced using an automated process. This function requires parameters administered by a dedicated and independent team. Consolidation operations are included in a set of developments contained in the SFIL Group's accounting information system. Internal transaction reconciliations are facilitated by keeping the contributions of both group entities in the same system. The notes to the consolidated financial statements are drafted using an accounting database containing management information related to the underlying transactions, thus making it possible to have accurate, detailed information.

Stability in reporting, which represents a key point in terms of communication, is thereby verified. The notes to the annual and statutory financial statements are generally produced from accounting data, in some cases rounded out by management information. The Accounting division then carries out qualitative analyses through cross-cutting controls of summary data. The team in charge of monitoring the Group's balance sheet also contributes to this process. Cross-cutting controls are also carried out between the financial statements and the notes to the financial statements. Throughout this process, reviews and controls are carried out pursuant to the hierarchical delegations that exist.

2.1.3. Financial statements approval process

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 the Accounting division and the Chief Financial Officer. 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.

2.1.4. Publication of financial statements

This accounting and financial information is disclosed to the public in several ways. In addition to the BALO regulatory publication, the semi-annual and annual financial statements, together with the corresponding reports, are publicly available on the Internet site www.sfil.fr. Since SFIL's listing as an issuer, its financial statements have been submitted to the AMF via the AMF-registered regulated information provider, NASDAQ.

2.1.5. Statutory auditors' role

Statutory audit for the SFIL-CAFFIL Group is carried out by two auditing firms working together to audit the statutory financial statements of both SFIL and Caisse Française de Financement Local. The statutory auditors are regularly consulted throughout the process of preparation of accounting and financial data in order to ensure efficiency and transparency. Their duties involve analyzing the accounting procedures and evaluating the current internal

control systems to determine their audit scope, having established the main areas of risk. During these analyses, they may make recommendations to the Company's management on areas for improvement that could enhance the financial and accounting information production processes and make them more reliable. They have access to all documents and memos drafted by the staff in charge of accounting principles and standards, and also review the accounting manuals and the summary analyses produced by the Accounting division teams. They have access to the Internal Audit and Inspection division's reports. They verify the consistency of the data in the management report with the financial statements, as well as the consistency of the management report and the financial statements with all audited information. Their contribution includes a review of all regulated agreements. They provide a full and complete account of their work in a specific report at the end of their statutory assignment. These tasks enable them to obtain reasonable assurance that the financial statements are free of any material misstatement.

2.2 - MANAGEMENT INFORMATION

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 complemented by quarterly activity reports prepared by its subsidiary Caisse Française de Financement Local. This management information also includes information relating to loans originated by La Banque Postale and acquired by Caisse Française de Financement Local, as well as on the reduction of the sensitivity of structured loans, and data on the export credit refinancing activity. Forecasts and risk assessments are also included in the annual report. This information is provided directly by the operating divisions or the Risks division. Their accuracy is therefore ensured by the internal control system of the divisions concerned.

New financing business takes place in France for activity with LBP, the sensitivity reduction activity and the export credit refinancing activity. A geographic breakdown of assets based on the counterparty's country of residence among France and other countries is presented in the management report. This information is prepared by the Accounting and Finance divisions based on management and accounting data reconciliations.

SFIL also acts as manager for Caisse Française de Financement Local and service provider for La Banque Postale. To this end, it has implemented a specific cost accounting procedure to ensure proper billing of the services it renders as a financial services provider.

Risk management

1. Overall risk management system

The SFIL Group has implemented a comprehensive 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 provisions required, and (v) informing the competent committees regarding changes in these risks and proactively warning them in the event that a limit or alert threshold is exceeded.

The level of risk that is acceptable for SFIL and Caisse Française de Financement Local is defined by SFIL's General Management and Risks Committee based on SFIL/CAFFIL's risk appetite. It is approved by SFIL's Risks and Internal Control Committee and ultimately by its Board of Directors and CAFFIL's governing bodies. Within this framework, policies have been defined for the entire scope as well as limits and rules for delegating decisions. The Risk division monitors these limits and, where appropriate, proposes measures to general management to ensure compliance therewith.

A quarterly risk review (QRR) is presented to the Risk and Internal Control Committee by the Chief Risk Officer. This document provides a summary view of the Group's main risks and any changes therein during the quarter (credit risk, balance sheet and market risk, operational risk) as well as changes in regulations over the period.

The Risk division relies on several committees, the responsibilities and composition of which have been approved by SFIL's Risk and Internal Control Committee. They are either cross-divisional committees — the Risk Committee, the Methods and Models Validation Committees, or the New Products Committee — or specialized committees dealing with credit risk, balance sheet and market risk and operational risk described below

The Risk Committee defines the SFIL Group's risk profile, validates the risk management systems and ensures compliance therewith. In particular, it is in charge of defining delegations for the grant of loans, approving the SFIL Group's risk policies concerning all types of risks and approving the limits defined by the Risks division.

The Market Validation Committee is responsible for validating and implementing market risk and derivatives valuation models. The Credit Validation and Quality Assurance Committee is responsible for validating and implementing the internal rating systems (IRS) used to calculate regulatory capital, the IFRS 9 impairment models and the economic capital models.

The New Products Committee (CNP), chaired by the Chief Risk Officer, examines and issues opinions on all new products and management processes or any change to a pre-existing product or process. This committee notably studies new products intended for financing, refinancing or hedging customer risks, as well as the development of any existing product or service to the extent that it substantially modifies the SFIL Group's risk profile or internal processes. It also determines and evaluates the compliance risks associated with the creation of new products and material changes to existing products or new services based on the compliance opinion submitted to it.

2. SFIL Group key risks

The SFIL Group's risk profile is low:

- CAFFIL may only recognize public law borrowers on its balance sheet, and to a lesser extent exposures on credit institutions as replacement assets. The latter benefit from the first or second quality rank and the volume of exposures as replacement assets can not be greater than 15% of the *obligations foncières*. CAFFIL may also subscribe to derivative contracts with credit institutions in the sole goal of hedging interest rate and foreign exchange risks;
- interest rate risk is also low given the Group's hedging policy, which systematically covers its fixed rate balance sheet items;
- liquidity risk is, on the one hand, strictly managed using various internal liquidity stress tests, and on the other hand limited, as the Group mainly finances itself over the long term by issuing covered bonds, liquid instruments that offer investors a protective legal framework. Furthermore, the Group continues to diversify its sources of financing, SFIL having begun to issue on the market by positioning itself as a State agency. Lastly, the majority of its assets are eligible for refinancing with the Banque de France;
- foreign exchange risk is marginal, as foreign currency outstandings are systematically hedged as soon as they enter the balance sheet;
- operational risk is governed by protective procedures;
- the Group has no trading portfolio.

Following the Supervisory Review and Evaluation Process (SREP) conducted by the European Central Bank (ECB) in 2017, SFIL's phased-in Common Equity Tier 1 (CET1) capital requirement on a consolidated basis was set at 7.125% as of January 1, 2018. The Tier 1 capital requirement is set at 8.625% for 2018 and the Total capital requirement at 10.625%. As of December 31, 2017, the SFIL Group's phased-in consolidated CET1 and Total capital ratios were 23.1% and 23.8%, respectively, levels representing more than double the minimum requirement set by the European supervisor.

2.1 – CREDIT RISK

2.1.1. Definition and management of credit risk

Credit risk represents the potential loss that may affect the SFIL Group owing to a deterioration in a counterparty's solvency.

The Risk division defines the policies, guidelines and procedures relating to credit risk. It is responsible for developing the decision-making process (mainly as regards the grant of loans) and the delegation framework, and for supervising the analysis and internal rating process. The Risk Committee ultimately approves the credit risk policies.

Within the framework of its credit risk monitoring function, the Credit Risk division:

- defines the credit risk policies in accordance with SFIL and CAFFIL's risk appetite;
- defines the limits by counterparty type, setting the maximum exposure considered to be acceptable for a given counterparty for public sector entities or bank counterparties;
- proactively monitors limits, with the possibility of reducing them at any time depending on changes in the related risks;

- defines delegations by counterparty type and monitors compliance with lending rules;
- manages the lending process for both new commitments and restructured loans by carrying out credit analyses and assigning internal ratings (by using either the internal rating systems or expert advice);
- monitors the credit risk of all SFIL and CAFFIL portfolios (local public sector in France, international, bank counterparties, export refinancing, etc.) by generating credit analyses and reviewing portfolio ratings annually;
- identifies assets with downgraded risks for potential addition to the watch list;
- proposes specific or sector-based provisions for the portfolio.

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

2.1.2. Governance

Credit risks are governed via a number of specialized committees:

- the Credit Committee approves new commitments⁽¹⁾ by CAFFIL and SFIL (loans and market transactions) and restructured loans on CAFFIL's balance sheet. It sets credit limits when certain predefined thresholds are exceeded. Each file presented to the Credit Committee contains an independent analysis conducted by the Risk division. At each meeting, the Credit Committee is also informed of commitments made within the framework of delegations granted to the Risk division, the Customer Debt Management division, the Financial Markets division or the sales and 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 an associated risk downgrade, and proposing specific provisions if necessary. This committee meets quarterly;
- The Default Committee decides whether a file should enter or exit default status, and classes defaults as actual 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 provisioning rate set 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, this committee is organized by the head of the Credit Validation and Quality Assurance team, which reports directly to the Chief Risk Officer so as to ensure the independence of the control process.
- Every quarter, the Non-Performing Exposures and Forbearance Committee approves the list of counterparties with non-performing exposures and the list of counterparties experiencing financial difficulties and to which concessions have been granted.

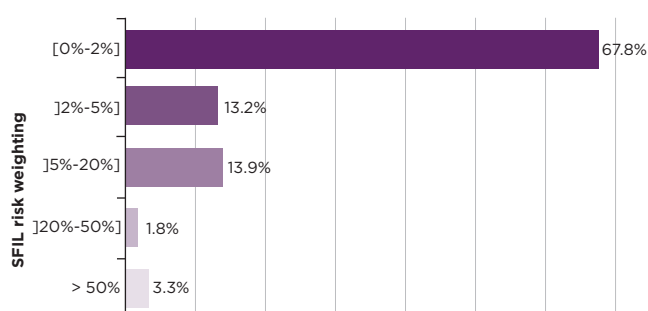
(1) Not delegated to the Risk division, the Customer Debt Management division or the sales and marketing teams of La Banque Postale.

2.1.3. Breakdown of exposures based on Basel III weightings

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

For most of its assets, the Group has opted for the advanced method of calculating regulatory capital requirements. As of December 31, 2017, the breakdown of exposures by risk weighting (calculated on the basis of the counterparty's probability of default and the Group's loss given default) was as follows:

Basel III risk weightings of the SFIL Group's portfolio as of December 31, 2017 (consolidated basis)



The metric used is the EAD (Exposure At Default).

This analysis confirms the quality of the assets in SFIL's portfolio, for which the average weighting is 6.67% and of which only 5.1% has a weighting of more than 20%.

Weighted exposure with respect to credit risk amounts to EUR 4,728 million. Including weighted assets associated with the Credit Valuation Adjustment (CVA) volatility risk and with operational risk (risk weighted assets associated with market risk are zero), total Risk Weighted Assets came to EUR 5,776 million. Given a non-phased-in CET1 level of EUR 1,306 million, SFIL had a CET1 ratio of 22.6% as of December 31, 2017.

In addition, one of the prudential indicators introduced under European regulations is a leverage ratio, which corresponds to the amount of Tier 1 capital as a proportion of the total exposure of the institution concerned. Data collection in accordance with the regulatory format began in 2014 and institutions have published their leverage ratio since the fiscal year starting January 1, 2015, without this ratio being subject to a specific quantitative regulatory requirement.

However, this could soon change: in accordance with the provisions of article 511 of Regulation 575/2013 of June 26, 2013, the European Commission published a proposed amendment to this regulation in November 2016 with a view to completing implementation of the prudential framework defined at international level by the Basel Committee. The related proposals provide for the introduction of a minimum leverage ratio requirement of 3% as well as requirements specific to certain business models, including the possibility for public development banks to exclude certain assets from their leverage exposure. Subject to their adoption by European co-legislators, these measures are expected to be implemented in 2020 or 2021.

Based on the methodological principles currently in force, as of December 31, 2017, SFIL's leverage ratio was 2.0% taking into account regulatory transitional provisions and 1.9% using fully loaded Basel III criteria.

In the event of deduction of public development bank assets in accordance with the proposed amendment to Regulation 575/2013, SFIL's leverage ratio would be far higher than the minimum requirement of 3% provided for by the draft regulation.

2.1.4. Doubtful and litigious loans

As of December 31, 2017, specific provisions under IFRS totaled EUR 23 million.

In addition, collective statistical provisions are calculated on the various loans and advances portfolios. These provisions amounted to EUR 30 million, down considerably compared with 2016.

Through CAFFIL, the SFIL Group has included in its previous results respective contributions of EUR 150 million paid over 15 years for the local government entity support fund and EUR 38 million for the public healthcare institution support fund. These amounts represent the total contributions that the SFIL Group owes the two support funds. As of December 31, 2017, the remaining amount payable was EUR 110 million.

EUR millions	12/31/2017
Specific provisions	23
Collective provisions	30
Contributions still to be paid to the support funds	110
TOTAL	163

As of December 31, 2017, provisions covering risks on the entire portfolio amounted to EUR 163 million.

These provisions amounted to less than 0.3% of CAFFIL's total cover pool, attesting to the portfolio's quality and low risk profile.

2.1.5. AFS reserve

The total amount of the AFS reserve as of December 31, 2017 decreased to EUR -121 million from EUR -155 million as of December 31, 2016. Italian sovereign bonds contributed EUR -48 million to this reserve, compared with EUR -64 million at the end of 2016. The tightening over the year of spreads on sovereign exposures accounted for this improvement.

2.2 - MARKET RISK

2.2.1. Definition and scope of market risk

Market risk is defined as the risk of loss, whether recognized on the income statement or directly through equity, that may result from fluctuations in the price of the financial instruments that make up a specific portfolio. Regulatory market risk involves daily monitoring of the portfolio's risk and result indicators if the transactions that make up that portfolio are entered into for trading purposes. Changes in the value of trading portfolios directly impact the income statement.

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

SFIL's and CAFFIL's banking portfolio positions and activities that pose a risk to their accounting income or equity as a result of exposure to market volatility are monitored as non-regulatory market risks. The main risks concerned result from fluctuations in the available-for-sale (AFS) reserve or the provision for investment securities under French GAAP, and from the export credit activity (monitoring of changes in the value of the indicator specific to export credit and, for USD-denominated loans, the change in the valuation of currency swaps hedging this activity). This risk may also materialize at the company level in SFIL in connection with its derivatives intermediation activity carried out on behalf of CAFFIL, if the derivatives that SFIL enters into in the market are not fully matched at CAFFIL. Changes in accounting valuation adjustments on derivatives, such as credit valuation adjustments (CVA) and debit valuation adjustments (DVA) are also considered as non-regulatory market risks.

2.2.2. Governance and monitoring of market risk

The governance of market risk monitoring revolves around the Market Risk Committee, which carries out quarterly monitoring of defined risk indicators (sensitivity, market-to-market changes in structured swaps hedging loans to customers in default, and monitoring of the AFS reserve, provisions for investment securities under French GAAP, limits, cash collateral received or paid and export credit activity indicators). This committee is notably responsible for approving policies, guidelines and procedures regarding non-regulatory market risks before they are submitted to the Risks Committee.

The continuous monitoring of non-regulatory market risks is carried out by SFIL's Market and Balance Sheet Risk division, which is mainly responsible for:

- defining policies, guidelines and procedures related to the monitoring of market risks;
- defining limits;
- defining calculation and measurement methods for these risks;
- certifying the valuation of derivatives for recognition in the accounts;
- carrying out daily controls of margin calls on derivatives (cash collateral);
- valuing balance sheet items (assets and liabilities);
- monitoring the valuation of currency swaps entered into to hedge USD-denominated export credit loans not yet recognized under hedge accounting;
- monitoring the valuation of swaps that can no longer be classified under hedge accounting following the default of certain customers.

Control of non-regulatory market risks is carried out by monitoring sensitivity to market variables ("Greeks"), which reflects instruments' fair value changes in response to a standardized movement (or shock) in market variables. For portfolios of intermediation swaps between SFIL and CAFFIL, the sensitivity limits are set to zero.

Securities not offering an adjustable rate at outset that are classified as AFS or investment securities under French GAAP are generally hedged by swaps. The securities portfolio's residual risk is limited to the credit spread risk: the Risks division calculates the AFS reserve's sensitivity to issuers' credit spreads.

Changes in accounting value adjustments on derivatives (CVA, DVA and FVA) are monitored quarterly.

2.3 – BALANCE SHEET RISK

2.3.1. Definition and governance of balance sheet risk

Balance sheet risk management revolves around three committees:

- the Asset-Liability Management (ALM) Committee, on which sit representatives of the Finance division's ALM unit, the Market and Balance Sheet Risk division and the other bank business lines concerned by this management; it determines the strategy for managing balance sheet risks and ensures that it is correctly applied by monitoring management indicators;
- the Interest Rate ALM and Liquidity ALM committees prepare information for the ALM Committee and are responsible for implementing its decisions operationally.

The Finance division's ALM Management unit is responsible for implementing the ALM management policies defined in compliance with the relevant management limits and regulatory framework. The Market and Balance Sheet Risk division is in charge of defining the general balance sheet risk management policy, calibrating and monitoring the limits on ALM indicators and performing second-level controls on most of these indicators.

2.3.2. Liquidity risk

Liquidity risk is defined as the risk that the institution may not be able to find the necessary liquidity on a timely basis and at a reasonable cost to cover the financing needs related to its activity.

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

Regarding SFIL, these risks lie in its ability to deploy sufficient resources to meet all the Group's cash requirements, either by renewing expiring market and/or shareholder refinancing or by obtaining new market and/or shareholder refinancing.

As the SFIL Group's activity is largely focused on managing its *société de crédit foncier* subsidiary, CAFFIL, its liquidity requirements at Group level fall into three main categories:

- financing CAFFIL's balance sheet assets (EUR 46.6 billion in loans, EUR 7.2 billion in securities and EUR 1.7 billion in cash deposited with the Banque de France) to cover the *obligations foncières* it issues;
- financing the liquidity requirements related to compliance with regulatory ratios, SCF-specific ratios and constraints arising from the rating agency methodologies used to meet a rating target;
- financing the cash collateral of hedging derivatives intermediated by SFIL between CAFFIL and the market (EUR 1.8 billion, of which EUR 2.4 billion of cash collateral paid and EUR 0.6 billion of cash collateral received).

The sources of financing used, other than the entity's equity (EUR 1.5 billion), are as follows:

- debt benefiting from the legal privilege, i.e. the *obligations foncières* that CAFFIL issues (EUR 49.0 billion) and the cash collateral that it receives (EUR 0.7 billion);

- the financing received from the shareholders under the credit agreements implemented in 2013 between SFIL and its shareholders: the financing provided by CDC and LBP amounted to EUR 4.2 billion as of December 31, 2017;
- the EMTN issued by SFIL since October 2016, totaling EUR 2.9 billion as of December 31, 2017;
- the short-term debt securities issued by SFIL, totaling EUR 0.6 billion as of December 31, 2017.

Furthermore, the SFIL Group has a number of assets held by CAFFIL and eligible for refinancing operations by the European Central Bank, via the Banque de France. In addition, to access to the central bank in its own name, CAFFIL can also mobilize certain of its assets by using interbank financing in the form of repurchase agreements. If necessary, these transactions would easily cover CAFFIL's cash flow requirements. There were no transactions of this type in 2017, except for operational tests.

Liquidity risk is controlled by monitoring and managing the following indicators:

- Regulatory indicators specific to *sociétés de crédit foncier* (SCF):
 - the regulatory coverage ratio (or over-collateralization ratio): this represents the ratio between assets and liabilities benefiting from the legal privilege under the law on SCFs, and must be at least 105%;
 - forecast cash needs at 180 days: CAFFIL ensures that, at any times, its cash needs over a period of 180 days are covered by replacement assets and ECB-eligible assets;
 - the maximum gap of 1.5 years between the average maturity of debt benefiting from the legal privilege and that of assets eligible to make up the minimum amount necessary to meet the regulatory coverage ratio.
 - Regulatory liquidity indicators applicable to credit institutions, in particular the liquidity coverage ratio (LCR): as of December 31, 2017, CAFFIL's LCR was 371% and SFIL's 725%.
 - Internal liquidity indicators:
 - SFIL's and CAFFIL's liquidity projections for the short term (three months) and long term (two years);
 - the management coverage ratio (or over-collateralization ratio), which targets an over-collateralization level consistent with CAFFIL's target rating;
 - the duration gap between assets and debt benefiting from the legal privilege (limited to three years): this is published quarterly. As of December 31, 2017, it stood at 0.95 years;
 - the maximum difference between assets and liabilities maturing at CAFFIL within the same year. This limit is reviewed annually;
 - the one-year survival horizon in stressed conditions;
 - the sensitivity of the net present value of the consolidated static liquidity gap adjusted for regulatory constraints (compliance with the LCR and the over-collateralization ratio);
 - indicators linked to the export credit activity: consumption of the spread and EUR/USD basis risk appetite by the various maturities of refinancing loans for export credit loans, the monitoring of geographical and sector limits and the limits relating to firm offers over one year.
- Lastly, the SFIL Group regularly carries out dynamic liquidity forecasts (taking into account new asset and refinancing assumptions) in normal and stressed conditions, aimed at (i) defining the amounts and maturity of the various sources of financing that each entity can raise (issues

(1) Part of this over-collateralization is refinanced by CAFFIL's own funds.

of obligations foncières for CAFFIL, or of short-term debt securities, EMTN or use of shareholder financing for SFIL) and (ii) assessing the Group's ability to withstand a liquidity shock.

2.3.3. Interest rate risk

Interest rate structural risk is defined as the risk of loss incurred in the event of a change in interest rates that would lead to a loss in value of balance sheet and off-balance sheet transactions, excluding any trading portfolio transactions. As SFIL and CAFFIL do not hold a trading portfolio they are not affected by this exception.

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

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

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

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

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

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

More specifically, the following indicators are produced in a static view:

- the fixed rate gap, which corresponds to the difference between balance sheet and off-balance sheet assets and liabilities for fixed rate transactions or transactions for which the rate has been fixed. This gap is calculated every month until balance sheet extinction;

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

The sensitivity of the residual in fixed rate and variable rates fixed for a determining period of time that remain after the two levels of hedging of CAFFIL is monitored on a monthly basis. Limits provide a framework for this sensitivity and are designed to reduce the impact on the value of the balance sheet items in the event of a shift in the yield curve or a move in sloping/rotation. They are calibrated so as not to lose more than 6% of equity (i.e. EUR 80 million) with a quantile of 99% calculated based on 2007-2017 historical data.

The net present value (NPV) sensitivity indicators are calculated for a rate shock of 100 x +1 basis point (bp), aiming to limit losses in value in the event of:

- a parallel yield curve shift (limit of EUR 25 million for a shock of 100 x 1bp): measurement of the fixed rate or directional rate risk;
- sloping/rotation of the interest rate curve:
 - NPV sensitivity calculation and limiting by time bucket (TB), using four buckets of distinct risks on the yield curve in order to limit risk between distant points on the curve (limit per bucket of EUR 10 million for a shock of 100 x 1bp);
 - NPV sensitivity calculation in terms of absolute value (AV) and limiting by time bucket, using four buckets of distinct risks on the yield curve in order to limit risk between distant points on the curve within each bucket (limit per bucket of EUR 20 million for a shock of 100 x 1bp).

CAFFIL's ALM management is governed by the following limits:

	CAFFIL limits
Directional interest rate risk	Total sensitivity < EUR 25 million
Slope risk	TB sensitivity < EUR 10 million TB sensitivity in AV < EUR 20 million

For the parent company SFIL, the limit is imposed on the fixed rate gap. It is currently at zero, reflecting SFIL's strategy of perfect micro-hedge management.

The main risks identified and associated with a low interest rate environment are:

- exposure to a rapid normalization of rates;
- an increase in early repayments not offset by early repayment penalties;
- margin reduction.

SFIL and CAFFIL have little exposure to interest rate changes and therefore to a rapid normalization of rates: each entity uses interest rate risk management indicators to manage and monitor exposure to the risks of both parallel and non-parallel shifts in the yield curve, including exposure to the risk associated with the sudden normalization of interest rates.

The Group also has little exposure to early repayment risk as almost all of its loan agreements contain early repayment penalty clauses.

Lastly, SFIL's and CAFFIL's business model, which is based on the refinancing via covered bond issuance of the local public sector and large export credit, is relatively insensitive to the low interest rate environment. In particular, because the Group does not take sight deposits, it is unaffected by the issue of transformation margin reduction in a low interest rate environment.

2.3.4. Foreign exchange risk

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

Issues and assets denominated in foreign currencies give rise, at the latest when they are recognized on the balance sheet and until their final maturity, to a cross-currency swap against the euro. The floating rate exposures resulting from this management are incorporated into interest rate risk management. Nonetheless, certain loans to refinance large export credits denominated in USD may cause a very limited risk of foreign exchange during their drawing phase. This residual risk is handled through the calculation of a very low sensitivity limit. In addition, for operational reasons, SFIL continues to incur marginal foreign exchange risk affecting the share of margin of USD-denominated export credit transactions not paid on to CAFFIL.

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

2.4 - OPERATIONAL RISK

2.4.1. Definition

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

2.4.2. Organization and governance

SFIL has implemented an organization, procedures and a management system for monitoring and controlling its risks. The Operational Risk and Permanent Control division, within the Risk division, draws up the management policy to be used for operational risks, as well as the methods employed to identify and control them. It implements the operational risk management system and relies on a network of correspondents designated in each operating division. The correspondents' role is to collect operating incident data,

assess risks and measure key risk indicators with the help of the staff of the Operational Risk and Permanent Control division. The involvement of operating division managers strengthens the system's effectiveness, of which they are the primary guarantors.

The Operational Risk and Permanent Control Committee, chaired by the Deputy Chief Executive Officer, is composed of all members of the Executive Committee. It meets quarterly. It validates the operational risk management policy and methods. It examines operating incidents that have occurred in the quarter and monitors risk prevention and system improvement proposals (permanent control, operational risk management, IT security, business continuity, etc.). This committee also examines the operational risks identified and key risk indicators that have exceeded their alert threshold. It decides whether or not they are acceptable and if necessary what corrective measures should be taken.

Thanks to quarterly risk review submitted to the Risk and Internal Control Committee, the Board of Directors is also kept up to date with changes in the mapping of operational risks, major operational incidents, key operational risk indicators that have exceeded their alert threshold and corrective action plans defined to mitigate identified risks and incidents. Moreover, a detailed presentation of action points, areas for improvement and corrective measures proposed or already implemented to limit operational risk is also given annually at a specific Internal Control Committee meeting. This presentation was made to the Risk and Internal Control Committee on January 25, 2018.

2.4.3. SFIL operational risk policy

SFIL has opted for the standard method of calculating its regulatory capital for operational risk.

SFIL's policy for measuring and managing operational risks consists of regularly identifying and assessing its risk exposure and the existing mitigation and control systems to check whether the level of residual risk is acceptable.

The policy applied involves three main processes: the collection and reporting of operational incidents, the mapping of operational risks and the monitoring of key operational risk indicators. This system is rounded out by an IT security policy, an emergency and business continuity plan (PUPA) and, where necessary, insurance policies to cover specific risks.

2.4.4. Risk measurement and management

Collection of operational incidents

SFIL has defined an operational incident and loss collection process governed by guidelines and procedures. The systematic collection and analysis of operational incident data provides the information needed to assess the SFIL Group's exposure to operational risk. This operational incident and loss collection process allows SFIL not only to comply with regulatory requirements but also to gather key data to improve the quality of its internal control system.

Various collection thresholds have been defined and communicated to SFIL's operating divisions. The mandatory reporting threshold for financial impacts has been set at EUR 2,500. Responsibility for identifying and analyzing incidents lies with the operational risk correspondents, supported by the Operational Risk and Permanent Control division. To this end, the SFIL Group uses a dedicated oper-

ational risk management tool and, in particular, an incident collection module. Depending on the results of the incident analysis, preventive or corrective actions are taken in order to reduce SFIL's exposure to operational risk.

Operational risk identification and assessment

Based on the incidents and losses collected, operational risks are mapped and the resulting mapping is regularly updated. This mapping consists of assessing risks that each SFIL operating division incurs. In addition, SFIL is currently mapping its operational risks by process under a three-year plan to formalize the Group's processes and activities, launched in the second half of 2016. It has defined four main types of activity (steering, asset acquisition, assets and liabilities management until their maturity, and resource provision) and 37 major bank processes within these broad categories. As part of this plan, the Operational Risk and Permanent Control division has introduced a new methodology for identifying and assessing operational risks by process. This is being deployed as and when the SFIL Group's processes are formalized, in collaboration with the process manager and the operational risk correspondents of the divisions involved.

This methodology makes it possible to identify and assess the various process-associated risks, identify factors (systems or controls in place) to mitigate them and determine the residual impacts in order to decide whether or not to accept them. In the event of non-acceptance of the risks, corrective or improvement actions must be implemented (strengthening of systems and procedures, strengthening of the permanent control plan, implementation of systems for monitoring and controlling risks).

Monitoring of key operational risk indicators

In addition to the operational risk mapping, which regularly provides an instant snapshot of the risk profile, the SFIL Group has implemented key risk indicators accompanied by alert thresholds. These indicators are used to continuously and dynamically monitor changes in operational risks. Changes in these indicators act as signals of (i) any increase in the level of operational risk, (ii) any decline in process performance, or (iii) internal control system dysfunctions.

IT security management

The Operational Risk and Permanent Control division has introduced a range of measures governed by a policy and guidelines based on ISO 27000 requirements applicable to all of SFIL's operating divisions. These provisions aim to protect its data against any threat to its confidentiality, integrity or availability. This policy and these guidelines define the principles applicable by security area, as well as the roles and responsibilities of the SFIL Group's various security players. They are broken down into rules, procedures and operational processes determined in collaboration with the Information Systems division, and are subject to regular checks, in particular with regard to the management of access rights to SFIL's applications and systems and compliance with IT security principles.

In addition, a three-year IT security plan has been defined in order to improve the existing IT security systems. It is monitored regularly.

The IT security procedures and changes therein are monitored quarterly by the IT Security and Business Continuity Plan Committee and validated by the Operational Risk and Permanent Control Committee.

Business continuity and crisis management

SFIL has developed an emergency and business continuity plan (PUPA). It comprises a set of measures and procedures designed to ensure, in various operational crisis scenarios including extreme shocks, that the services or other essential operational tasks that SFIL provides or performs continue, if necessary temporarily or in degraded mode. It also provides for the programmed recovery of these activities so as to limit the losses caused by operation in degraded mode. This plan is based on a business impact assessment (BIA) that formalizes the needs of SFIL's operating divisions to enable them to restart and resume business based on their criticality.

The SFIL Group's PUPA system is structured around three systems:

- the operational business continuity plan, which is managed by the Operational Risk and Permanent Control division and documented in guidelines and operational procedures. These plans and procedures are updated and tested regularly. Disaster recovery sites have been selected for the Issy-les-Moulineaux and Lyon offices to enable the resumption and operational continuation of SFIL's activities. A number of tests on the functioning of these sites were carried out in March, May and June 2017.
- the IT disaster recovery plan (PSI), which is managed by the Information Systems division and documented in guidelines and operational procedures. This plan is also regularly tested, with the most recent full live test for SFIL carried out in September 2017.
- the crisis management system, which is managed by the Operational Risk and Permanent Control division. This system is governed by a crisis management operational procedure. A crisis unit has been identified and regularly tested crisis scenarios have been defined. In particular, a transportation unavailability scenario associated with potential terrorist risk is tested three times a year. A crisis unit exercise, based on a specific scenario, was carried out in November 2017.

The IT security procedures and changes therein are monitored quarterly by the IT Security and Business Continuity Plan Committee and validated by the Operational Risk and Permanent Control Committee.

Operational risk insurance

The reduction of any financial impacts associated with the operational risks to which the SFIL Group is exposed is also taken into consideration when it takes out insurance policies. SFIL has insurance policies covering standard damages, premises-related multi-risks, IT equipment and civil liability insurance. It has also taken out insurance policies to cover the third-party liability of members of its management and supervisory bodies, professional liability and fraud, as well as a specific cyber crime risk policy. These policies cover SFIL and its subsidiary CAFFIL.

Security of means of payment

The means of payment managed by SFIL for its own activity, as Caisse Française de Financement Local's managing institution of CAFFIL or as La Banque Postale's service provider are as follows:

- the SWIFT and TARGET 2 networks, for the execution of interbank payments related to transactions entered into by the front office operators of the Market Activities operating division or the Export Credit division and to execute any transfers requested by other SFIL divisions (mainly payment of invoices in foreign currencies);

- the SCBCM (ministerial budget and accounting control unit) network, used for the disbursements and repayments on CAFFIL loans to its public sector customers and for the services provided on behalf of La Banque Postale;
- the CORE (Compensation Retail) system, used for most payments to Caisse Française de Financement Local's customers with bank accounts and for payment of invoices in euros;
- lastly, certain supplier invoices may be settled by check.

SFIL does not provide its customers or those of CAFFIL with any means of payment.

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 and specific controls related to compliance.

2.5 - COMPLIANCE RISKS

2.5.1. Definition

Article 10 p) of the *arrêté* of November 3, 2014, on the internal control of banks defines compliance risk as "the risk of judicial, administrative or disciplinary sanction, of significant financial loss or loss of reputation resulting from failure to comply with the prevailing laws and regulations and professional and ethical standards relating to banking and financial activities or with instructions from the executive body issued in particular pursuant to directives from the decision-making body".

2.5.2. Organization and governance

Pursuant to the provisions of the *arrêté* of November 3, 2014, the SFIL Group uses compliance risk mapping and a control plan to monitor and control both its own compliance risk and that of Caisse Française de Financement Local.

This mapping reviews the legislative, regulatory, professional and Group-specific provisions applicable to each business line or function, and the procedures and controls implemented to ensure compliance with these provisions. Updated whenever necessary, and at least once a year, it provides a visual indication of the Company's exposure to compliance risks and defines the boundaries of the bank's compliance risk profile. To this end, compliance risks are:

- identified and classified;
- assessed (frequency of occurrence and level of severity);
- compared and ranked.

Once the compliance risk mapping has identified the risk areas, the Compliance division ensures that the risk management system is capable of mitigating gross risk.

2.5.3. Monitoring of compliance and reputation risks

Compliance risks associated with the Group's activities include the following areas: employee ethics and the prevention of conflicts of interest, compensation policy, protection of the integrity and transparency of financial markets, protection of customers' interests, financial security including compliance with international financial sanctions, the fight against money laundering, the financing of terrorism and corruption, maintenance of data confidentiality and the protection of personal data.

At the same time, the Compliance division carries out a regulatory watch to monitor legislative and regulatory changes as well as case law developments liable to impact

the Group's compliance activities. It accordingly sits on SFIL's Regulatory Watch Committee. If the institution is impacted by one of these developments, the Compliance division liaises with the divisions concerned to enable them to define and implement the new mechanisms required or, where applicable, propose changes or updates to the associated tools.

Responsibility for identifying and monitoring compliance with more specific regulations (concerning accounting standards, prudential ratios, control of major counterparty risks, recommendations on IT security, etc.) lies with SFIL's relevant operating divisions, insofar as they have the appropriate expertise and tools at their disposal. These divisions are responsible for oversight and compliance with regulations regarding their specific fields of activity.

In addition to carrying out the compliance control plan, the Compliance division controls compliance risks:

- by maintaining an up-to-date procedural framework. The main activities in this area in 2017 were:
 - extensive adaptation of the compliance procedures to take into account regulatory changes, involving in particular completing the overhaul of the anti-money laundering and financing of terrorism (AML-CFT) system and the financial security policy relating to the export credit refinancing activity;
 - updating of the system for combating market abuse;
 - updating of the procedures for protecting customers' interests.

The Compliance division prepared for regulatory changes in the field of personal data protection planned for May 2018 by setting up a steering committee, which it chairs, in May 2017.

- by continuing its compliance system awareness raising and training initiatives for all of the bank's employees. This involved providing mandatory compliance system training to give all employees a full and practical understanding of the importance for the bank of compliance and the systematic use of best practices. This training aims to enable employees to carry out their duties with total integrity. The Compliance division also trained employees under its AML-CFT obligations and raised awareness among employees classified as insiders on the market abuse prevention system. The training system is a key platform for disseminating a compliance culture within the SFIL Group.

The SFIL Group has also set up a formal system to counter money laundering and the financing of terrorism. This system, which is adapted to SFIL's local public sector financing activities, has been strengthened to meet the requirements of its export credit refinancing activity, notably in terms of monitoring compliance with embargoes.

EU directive 2015/849 of June 5, 2015 on the prevention of the use of the financial system for the purposes of money laundering or financing terrorism was transposed into French law by ordinance 2016-1635 of December 1, 2016. In 2017, the Company's AML-CFT system was adapted to incorporate the new provisions and obligations arising from the fourth European anti-money laundering directive.

Lastly, the Compliance division ensures the prevention of reputation risk, which is defined as the risk resulting from customers', counterparties', investors' or regulators' negative perception of the bank that could undermine the SFIL Group's ability to initiate or maintain business relationships and/or its continued access to financing sources. At the request of the Compliance division, the Communications

division has introduced an e-reputation risk monitoring system, and submits a specific quarterly report on this subject to the Compliance division.

2.6 – LEGAL AND TAX RISKS

2.6.1. Legal risk

SFIL's monitoring of legal risks focuses on the prevention of lawsuits, preparation for legal changes and compliance with governance principles. The Legal division, which is part of the General Secretariat, has specific responsibility for managing these risks. It accordingly plays a dual role: (i) providing the bank's various divisions with advice enabling them to measure the risks inherent in their activities, and (ii) defending 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 the Regulatory Watch Committee, it disseminates principle positions on legal and regulatory provisions that affect the operations of the bank;
- Within the framework of the New Products Committee, it issues an opinion, as necessary, on the subjects discussed;
- Within the framework of the Credit Committee, it analyzes the legal risks associated with the subjects discussed;
- Within the framework of the Loan Sensitivity Reduction Committee, it reviews the cases in litigation and the progress of proceedings.

It also gives its opinion when a loan sensitivity reduction operation raises a legal risk.

The Legal division may also participate in discussions within the framework of audit and internal control operations.

SFIL's General Management, Executive Committee and Board of Directors and the Supervisory Board of Caisse Française de Financement Local receive regular updates on the progress of litigation. A sensitive loan litigation management report is presented at each Board meeting.

As regards lawsuit developments, as of December 31, 2017, the number of borrowers in litigation for structured loans was 25⁽¹⁾, compared with 39 as of December 31, 2016, and

131 as of December 31, 2015. Since SFIL's creation 198 borrowers have dropped their claims against the Group.

Since the entry into force on July 30, 2014, of the law on the securing of structured loan contracts taken out by common law legal entities, the Nanterre Court of First Instance, the Nanterre Commercial Court and the Versailles Court of Appeal have handed down 31 court decisions ruling in favor of Dexia Crédit Local, SFIL and Caisse Française de Financement Local. Only one unfavorable decision, concerning a single non-structured loan, has been handed down, and this is a first-instance ruling yet to be ratified. Caisse Française de Financement Local, SFIL and Dexia Crédit Local have appealed this decision.

As of December 31, 2017, there were no other significant lawsuits or disputes between SFIL or CAFFIL and their borrowers.

2.6.2. Tax risk

SFIL's Finance division is responsible for tax declarations and may consult the Group's General Secretariat for tax advice. SFIL relies notably on tax advisory firms of excellent repute for managing its tax risk.

Readers are reminded that in 2015 the French tax authorities audited the income declared and tax paid by CAF-FIL, SFIL's subsidiary, in respect of fiscal years 2012 and 2013. Following this inspection, the auditors disputed the tax treatment in Ireland of the results of the former Dublin branch of Dexia Municipal Agency (CAFFIL's former name), which closed in 2013, and the deductibility of provisions for non-performing loans. In order to safeguard its rights over the disputed adjustment, in 2017 the tax authorities opened a verification procedure relating to the consequences of the previous inspections of taxable income for the 2014 to 2016 fiscal years. The disputed areas and their consequences have been confirmed. There were no other new developments.

In order to take into account the risk of a negative outcome, CAFFIL recorded an additional tax provision of EUR 38 million in its 2015 financial statements drawn up in accordance with IFRS as adopted by the European Commission. However, as CAFFIL does not agree with the tax authorities' position, in 2016 it began to formulate a case for appealing the decision under currently applicable regulations. Neither the discussions that took place during 2017 nor the new tax inspection called into question the assumptions used to calculate the amount provisioned in the accounts.

(1) After reintegrating a case for which the court had refused the statute of limitations.

Operating results

1. Consolidated financial statements in accordance with IFRS

In 2017, the SFIL Group posted consolidated net income of EUR 54 million compared with EUR 18 million in 2016.

Moreover, 2017 income includes non-recurring items related to (i) the volatility in the valuation of the derivatives portfolio for EUR -8 million⁽¹⁾ and (ii) the factoring in of the reduction over time of the corporate tax rate, resulting in a decrease in deferred tax assets of EUR -2 million over the fiscal year. Restated for these non-recurring items, 2017 net income amounts to EUR 64 million compared with restated net income of EUR 45 million in 2016.

This improvement in results primarily reflects the success of the loan sensitivity reduction policy⁽²⁾ which gave rise to:

- an increase in net banking income, resulting in particular from reversals of interest provisions for EUR 31 million in 2017 compared with EUR 5 million in 2016, and

- a reversal of provisions in Cost of risk for EUR 22 million in 2017 compared with EUR 18 million in 2016.

Thanks in particular to SFIL's issues, the Group's refinancing conditions also improved, which supported net banking income.

The Group's operating expenses totaled EUR 113 million compared with EUR 107 million in 2016. The increase is mainly driven by the expenses incurred in connection with the IT streamlining project.

The tax charge amounted to EUR 41 million in 2017.

Total assets stood at EUR 72 billion at the end of 2017 and the Group's CET1 ratio came to 23.1%, confirming its financial stability.

SFIL - CONSOLIDATED IFRS FINANCIAL STATEMENTS

EUR million	12/31/2016			12/31/2017		
	Accounting income	Restated non-recurring items	Recurring income	Accounting income	Restated non-recurring items	Recurring income
		Volatility on value adjustments	Deferred tax adjustment		Volatility on value adjustments	Deferred tax adjustment
Net banking income	139	(19)	158	184	(12)	196
Operating expenses	(107)		(107)	(113)		(113)
Gross operating income	32	(19)	51	71	(12)	83
Cost of risk	18		18	22		22
Net income before taxes	49	(19)	69	93	(12)	105
CT	(31)	7	(14)	(39)	4	(2)
NET INCOME	18	(13)	(14)	54	(8)	64

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

- Fair value adjustments relating to hedges: Readers are reminded that since 2013, book value adjustments have impacted the hedging transactions that the SFIL Group enters into to cover its interest rate and foreign exchange risks. These adjustments mainly concern the factoring in of adjustments related to the application of IFRS 13, the main impact of which was to introduce the inclusion of credit valuation adjustments (CVA), debit valuation adjustments (DVA) and funding valuation adjustments (FVA). These book valuation adjustments are recorded in the income statement, mainly on the Net result of assets at fair value line.

- The effects of the change in the corporate tax rate: SFIL has taken into account the 2017 legislative measures reducing the corporate tax rate to 25% from 2022. This led to a decrease in deferred tax assets and recognition of a non-recurring charge of EUR 2 million in 2017. Readers are reminded that in 2016, SFIL had also taken into account legislative measures reducing the tax rate to 28% from 2020, and recorded a charge of EUR 14 million.

(2) Given the resounding success of its loan sensitivity reduction policy since 2016 and the confirmation of court decisions in its favor, the SFIL Group was able to make reasonable and prudent refinements to the method used to estimate the recoverability of non-performing loans on its balance sheet to take into account, in particular, the impact of spreading payments. This approach, which is consistent with IFRS, allows long-term recoverability assumptions to be taken into account so that interest receivables need not always be provisioned in full. It led to an improvement in the net interest margin through recognition of a EUR 31 million provision reversal on December 31, 2017.

2. First-time application of IFRS 9

The new IFRS 9 standard, which relates to financial instruments and will replace IAS 39, is applicable as from January 1, 2018. It comprises three main components: classification and measurement, impairment and hedge accounting. Its application to SFIL's activity is presented below.

Classification and measurement

The new standard only provides for three categories of financial instruments: those recognized at amortized cost, those recognized at fair value through profit or loss and those recognized at fair value through other comprehensive income. This classification depends both on the business model in which the financial asset is used and the instrument's contractual characteristics.

A financial asset is at amortized cost if:

- the sole purpose for holding it is to collect the contractual cash flows;
- these contractual cash flows represent solely payments of principal and interest (SPPI⁽³⁾).

(3) SPPI: Solely Payments of Principal and Interest

Most of the loans and securities listed as assets of Caisse Française de Financement Local meet these simplicity criteria (hold to collect models and SPPI characteristics) and continue to be recognized at amortized cost. However, certain portfolios will have to be recognized at fair value: these are mainly cash investments under a hold to collect and sell model (fair value recognized directly through other comprehensive income) and structured loans, which are currently recognized at amortized cost and whose financial flows are not SPPI (fair value recognized through profit or loss). Furthermore, sensitivity reduction operations and certain restructurings of non-SPPI loans as SPPI loans are now systematically considered as capable of derecognition, which will lead to:

- for restructuring transactions carried out prior to January 1, 2018: recognition of the early repayment penalty in the 2018 opening equity to reflect the first-time application of IFRS 9;
- for restructuring transactions carried out after January 1, 2018: immediate recognition of the early repayment compensation in the income statement.

Depreciation

In accordance with the new IFRS 9, loans and securities measured at amortized cost or at fair value through other comprehensive income will be classified in one of three levels:

- level 1: performing loans;
- level 2: loans whose risk has deteriorated significantly;
- level 3: non-performing loans.

Provisions will be recorded in respect of all these assets, including performing loans. The related impairment will be based on forward looking scenarios (defined by probability of occurrence), and will take into account expected losses over the next 12 months (level 1) or over the asset's life (levels 2 and 3).

In addition, changes in the credit risk of loans and securities recognized at fair value through profit or loss will be included in their valuation.

Hedge accounting

Pending the entry into force of the future macro-hedging standard, the SFIL Group has chosen to continue applying IAS 39 in this area.

Expected impacts on future equity and results

The first-time application of IFRS 9 to transactions on the SFIL Group's balance sheet as of January 1, 2018, will have a limited impact on equity as regards the new provisioning methods, but a more significant impact from the classification and measurement standpoint.

Overall, the first-time application of the standard will have a positive impact of less than 1% on the CET1 solvency ratio. IFRS 9 will also have an impact on future results due mainly to changes in the fair value of non-SPPI loans, which will

lead to increased income volatility. This standard will therefore increase the volatility of NBI in a way unrelated to the SFIL Group's activity, as its business model involves holding all loans until maturity. It will therefore be necessary to be able to isolate these impacts for the purposes of recalculating the Company's performance analyses.

3. Annual financial statements prepared in accordance with French GAAP

SFIL posted a net profit of EUR 29.8 million at the end of 2017, compared with a loss of EUR 6.3 million at the end of 2016. This result includes the payment of a dividend from its subsidiary CAFFIL for EUR 35 million; adjusted for this item, SFIL's result for the year was a loss of EUR 5.3 million.

Net banking income adjusted for rebilling to CAFFIL and the dividend paid by its subsidiary amounted to EUR 1.5 million and operating expenses net of rebilling amounted to EUR 7.9 million. As head of its fiscal group, the Company recorded a tax consolidation gain of EUR 1.1 million.

SFIL's total assets came to EUR 9.6 billion and included mainly:

- the refinancing granted to its subsidiary Caisse Française de Financement Local in the amount of EUR 4.8 billion for the portion of over-collateralization required as a result of its SCF status;
- cash collateral paid in the amount of EUR 2.4 billion;
- SFIL's portfolio of sovereign and banking securities held for cash management purposes, in the amount of EUR 740 million;
- cash assets in the amount of EUR 0.8 billion.

Shareholdings

SFIL acquired all the shares of Caisse Française de Financement Local on January 31, 2013, for EUR 1. In 2017, it increased its stake by subscribing to the whole EUR 35 million capital increase. SFIL owns CAFFIL outright.

Equity investment in 2013 representing more than 66% of the capital

Caisse Française de Financement Local SA with share capital of EUR 1,350,000,000

Supplier payment periods

Pursuant to articles L.441-6-1 and D.441-4 of the 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 1.7 million as of December 31, 2017, and were mostly dated within the last 30 days. Readers are reminded that as of December 31, 2016, trade payables dated within the last 30 days amounted to EUR 1.5 million.

The breakdown of unpaid trade payables that came due at the end of 2017 is as follows :

Arrears on invoices received by the closing date						
(A) Breakdown of payment delay	0 (For information)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	TOTAL
Number of invoices concerned	5	35	21	5	9	75
Total amount of invoices concerned excluding VAT (EUR thousands)	18	195	205	18	60	496
% of total purchases in the year excluding VAT	0.0	0.4	0.4	0.0	0.1	0.9
(B) Invoices excluded from (A) relating to litigious or unaccounted for debt and invoices						
Number of invoices concerned				-		
Total amount of invoices concerned				-		
Payment delays used as reference		Contractual delays, generally 45 days				

Proposed allocation of net income

The Annual Shareholders' Meeting of May 29, 2018, will not be asked to approve a dividend distribution. The Annual Shareholders' Meeting will be asked to vote a resolution to allocate net income as follows:

(EUR)	
ALLOCATION OF NET INCOME	
Net income for the year	29,821,747.08
Retained earnings	(16,333,287.69)
Income available	13,488,459.39
Legal reserve (5%)	(674,422.97)
Retained earnings after allocation to legal reserve	12,814,036.42

Non-tax-deductible charges and expenses

Pursuant to the provisions of article 223 *quater* of the French General Tax Code, it is specified that in the past fiscal year non-tax-deductible charges and expenses covered by article 39-4 of the French General Tax Code totaled EUR 36,681.45. The amount of 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 research and development activities, no related data is mentioned in the financial statements.

4. Indicators of return on assets

Article R.511-16-1 of the Monetary and Financial Code, created by decree 2014-1315 of November 3, 2014, stipulates that credit institutions must publish in their annual report their return on assets, defined as the ratio of net income to total assets. For 2017, this ratio stood at 0.07% in the consolidated financial statements under IFRS and at 0.03% in SFIL's company financial statements under French GAAP.

5. SFIL's income for the last five years

	2013	2014 ⁽²⁾	2015	2016	2017
FINANCIAL POSITION					
Share capital (EUR thousands)	130,000	130,000	130,000	130,000	130,000
Number of shares	9,285,725	9,285,725	9,285,725	9,285,725	9,285,725
RESULTS OF OPERATIONS (EUR MILLIONS)					
Revenues ⁽¹⁾	112	119	75	36	127
Income before income tax, amortization, depreciation and contingencies net of reversals	(2)	(4)	(3)	(3)	35
Income tax	-	(1)	(1)	(2)	(1)
Income after income tax, amortization, depreciation and contingencies net of reversals	(2)	(4)	(4)	(6)	30
Exceptional distribution	-	-	-	-	-
Dividend	-	-	-	-	-
PER SHARE DATA (EUR)					
Revenues	12.05	12.78	8.11	3.88	13.66
Income after income tax, before amortization, depreciation and contingencies net of reversals	(0.21)	(0.33)	(0.14)	(0.16)	3.89
Income tax	-	(0.11)	(0.13)	(0.20)	(0.12)
Income after income tax, amortization, depreciation and contingencies net of reversals	(0.21)	(0.39)	(0.47)	(0.68)	3.21
Exceptional distribution	-	-	-	-	-
Dividend per share	-	-	-	-	-

(1) Revenue consists 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) The amount published in 2014 has been corrected.

Outlook

The year 2017 confirmed the effectiveness 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 a leading player in local public sector financing in France. Accordingly, in 2018 SFIL will continue strengthening this partnership and implementing projects necessary for LBP to continue its business.

SFIL will continue and develop its French export support activity in 2018. With regard to future projects, discussions have been held regarding transactions corresponding to roughly 70 potential deals for a total of EUR 23 billion. These transactions are at different stages of progress ranging from industrial tender to loan documentation negotiation.

In addition, as was announced on March 8, 2018, at Bercy Financement Export, plans have been made to expand SFIL's export credit refinancing system to include credits covered by the Strategic Projects Guarantee. This new public guarantee is designed to serve as a tool to support corporate internationalization but also to boost French technology. Its goal is to finance projects considered strategic for France without being necessarily linked by an underlying export.

The loan sensitivity reduction activity will continue in 2018 at a rate comparable to that of 2017.

As regards issuance, SFIL plans to continue to develop its refinancing in the markets and in 2018 will seek to launch at least two issues in euros and US dollars in the primary public market. This refinancing, combined with CAFFIL's, is expected to bring the SFIL Group's 2018 issuance to at least the same level as that achieved in 2017, while optimizing its use of shareholder financing.

As far as operations and organization are concerned, in 2018 with a lag of a few months SFIL will complete its IT system switchover within the framework of the related streamlining program. The Group will also continue its digital initiatives, including a planned automated borrower relationship platform and modernization of its employees' working environment.

Lastly, from a macroeconomic viewpoint and as in 2017, two important background elements will be closely monitored in 2018:

- changes in the regulatory environment, including as they relate specifically to public development banks, and
- the degree of market volatility in a context influenced by an outlook of expected exit from quantitative easing, Brexit-related measures and, generally, the geopolitical environment.

Social, environmental and societal information

1. Social information

1.1 - JOB-RELATED INFORMATION

1.1.1. Total headcount and breakdown of employees by gender, age and site

SFIL had a total of 405 employees as of December 31, 2017. In 2017, SFIL hired a total of 68 people, including 18 under permanent contracts, 21 under temporary contracts and 29

under work-study contracts. It also took 13 interns on work placement schemes.

1.1.1.1. Employee breakdown by gender

Headcount	2013	2014	2015	2016	2017
Men	157	204	215	226	227
Women	168	179	186	176	178
TOTAL	325	383	401	402	405

1.1.1.2. Employee breakdown by age and grade

Year 2017	<25 years	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	2	23	59	65	75	47	41	25	7	344
Non-managers	33	5	2	6	4	3	6	1	1	61
TOTAL	35	28	61	71	79	50	47	26	8	405

1.1.1.3. Employee breakdown by site

	2016	2017
Issy-les-Moulineaux	380	384
Lyon	22	21
TOTAL	402	405

1.1.2. Changes in staff under permanent and temporary contracts

	2016	2017
Hired under permanent contracts	23	13
Net switched to permanent contracts	(14)	(4)
Layoffs/terminations from permanent contracts	(9)	(6)
Resigned from permanent contracts	(7)	(15)
Switched from temporary to permanent contracts	11	5
Hired under temporary contracts (incl. work-study)	44	50
Layoffs/resignations from temporary contracts	(5)	(6)
Retired from permanent contracts	(1)	(1)
End of permanent/temporary contract probationary period (incl. work-study)	0	3
Expired temporary contracts	(28)	(29)

1.1.3. Compensation

1.1.3.1. Compensation policy

SFIL's Compensation Committee prepares all items related to the compensation policy. Its proposals are submitted to SFIL's Board of Directors, 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 opportunities;
- ensure 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 its general principles apply to all employees. One such principle is ensuring a balance between fixed and variable compensation, which is aimed at discouraging excessive risk-taking and encouraging a sufficiently flexible and coherent variable compensation policy at SFIL.

1.1.3.2. Cap on variable compensation

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

1.1.3.3. Compensation of the Chief Executive Officer

Pursuant to the provisions of decree 1953, amended by decree 2012-915 of July 26, 2012 relating to government control of executive pay in public companies, which apply to SFIL, a chief executive officer's annual gross compensation may not exceed EUR 450,000.

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

1.1.3.4. Compensation paid to members of the Executive 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 SFIL's risk profile.

These people are the members of the Executive Committee, the General Auditor, financial market professionals, senior managers or staff with managerial responsibilities within a significant business unit, staff responsible for a function in charge of legal affairs, finance including tax and budget preparation, human resources, the compensation policy or information and economic analysis technologies, risk function staff and any staff involved in an activity related to internal control and compliance, as well as all

employees whose variable compensation in a given year exceeds EUR 87,500.

The compensation of members of the Executive Committee (excluding the Chief Executive Officer) and the General Auditor is submitted, on the proposal of the Chief Executive Officer, to the Compensation Committee.

If the variable compensation awarded for year N exceeds EUR 87,500, one portion of the variable compensation (60%) will be paid on a non-deferred basis in year N+1 and the other (40%) on a deferred basis over three years (starting in the year following that in which it was awarded). This deferred portion will be subject notably to the level of performance being maintained. This principle of spreading variable compensation applies to all SFIL employees (including members of the Executive Committee and the General Auditor).

In 2017, the gross compensation paid to the abovementioned group of people totaled EUR 7.42 million for 53 employees, compared with EUR 4.63 million for 28 employees in 2016. This change can be explained by an increase in the scope related to application of the EBA guidelines of June 27, 2016 (EBA GL/2015/22).

1.1.3.5. Gross payroll

In 2017, the annual gross payroll was EUR 28.78 million (in 2016, this amount was EUR 28.43 million).

1.1.3.6. Average annual fixed compensation

This is the average annual fixed compensation of employees with permanent contracts at the Company as of December 31.

EUR	2016	2017
Permanent contract	63,345	64,244

1.1.3.7. Incentive and profit-sharing schemes

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

1.1.3.8. Employee shareholding situation

Pursuant to the provisions of article L.225-102 of the Code of Commerce, it is hereby stated that the employees of the Company and associated companies within the meaning of article L.225-180 of the Code of Commerce had no shares in the capital of the Company at the close of the 2017 fiscal year.

1.2 - ORGANIZATION OF WORK

1.2.1. Organization of work time

Year 2017	Number of employees	% of employees
Part-time employees	43	11%
Teleworking employees	92	23%
Employees with flat daily rate	335	83%
Employees with hourly rate	70	17%

1.2.2. Absenteeism (*)

In 2017, the absence rate was 2.0% (in 2016, this rate was 2.0%).

(*) Absence due to sickness or work or commuting accidents.

1.3 - LABOR RELATIONS

1.3.1. Organization of labor relations, notably the procedures for informing, consulting and negotiating with staff

In 2017, the employee representative bodies were convened according to the statutory, regulatory and contractual provisions in force and as required, including:

- 14 meetings for the Works Council,
- 6 meetings for the CHSCT (health, safety and working conditions committee), and
- 11 meetings for the staff representatives.

1.3.2. Collective bargaining agreement review

Numerous negotiations took place in 2017, resulting in the signing of the following agreements:

- Job and career management amendment (3/30/2017),
- Professional integration agreement for disabled persons (5/30/2017),
- Employee rights amendment (12-month compensation) (6/22/2017),
- Incentive plan agreement (6/27/2017),
- Equal opportunities agreement (12/1/2017).

A record of disagreement was drawn up regarding the mandatory annual negotiations on compensation, working time and sharing of added value (2/3/2017).

1.4 - HEALTH AND SAFETY

1.4.1. Work health and safety conditions

In 2017, negotiations were started on quality of life at work ("QVT" and the "right to disconnect").

1.4.2. Review of agreements signed with the trade union organizations or staff representatives regarding health and safety at work

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

The employees were informed about the existing tools for limiting human risks: "Allodiscrim" discrimination information and support service, employee support unit, mediator, etc.

1.4.3. Work accident frequency and severity and occupational diseases

Year 2017	Number of employees	Frequency	Severity
Work accidents	0	-	-
Commuting accidents ⁽¹⁾	3	3.18	0.01
Occupational diseases	0	-	-

(1) The frequency is the number of accidents for a given group of workers over a set period of time = number of accidents x 1,000,000 / number of hours of exposure to risks.

The severity is the number of calendar days of work incapacity for a given group of workers over a set period of time = number of calendar days of work incapacity x 1,000,000 / number of hours of exposure to risks.

1.5 – TRAINING

1.5.1. Skills development at SFIL

SFIL attaches particular importance to developing the skills of the Company's employees and executives, whether managers, coordinators or experts.

The main themes of the training policy reflect the Horizon 2021 strategic plan and training preferences expressed by employees in various one-to-one or group meetings (specifically career reviews, professional interviews and evaluation interviews) involving the human resources and business line teams. The members of the Executive Committee are involved in the co-construction of the training policy.

The actions deployed aim to optimize employees' employability and promote professional mobility and career development within a managed framework.

This year, the focus was on three areas of skills development:

- Change and transformation management;
- Support for mobility and career development;
- Living well at work and mitigating human risks.

The various initiatives rolled out included:

- The continued development of skills and sharing of good practices at executive level, among managers, coordinators and experts;
- Training initiatives for SFIL's digital community;
- The deployment of initiatives aimed at developing an agility culture ("agile methods") and creativity ("design thinking" workshops, collaborative tools, etc.);
- The development of behavioral skills such as "Process Communication Management";
- Updating employees' business skills (regulations, compliance, credit and market risks, local budgets, financial analysis, export credit, ALM, capital markets, etc.);
- Training initiatives to combat discrimination, promote equality and prevent psychological and sexual harassment in the workplace.

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

1.5.2. Number of training days

In 2017, the Group dispensed 1,268 days of training (i.e. 8,876 hours on a basis of 7 hours a day), which represents 3.5 days per employee (367 employees with permanent and temporary contracts).

1.6 – EQUALITY OF TREATMENT

1.6.1. Measures to promote gender equality

In 2017, SFIL allocated a budget of EUR 31,617 to workplace equality. This specific budget made it possible to increase the compensation of 27 employees (21 women and 6 men) for an average annual amount of EUR 1,172 per employee.

In 2017, management and the social partners signed a new, ambitious agreement on workplace equality, notably making the following commitments:

- Awareness-raising and communication: raising awareness among all employees about gender equality issues and increasing communication on this theme;
- Recruitment: ensuring the neutrality of job offers at SFIL and encouraging agencies to put forward a balanced mix of applicants;

- Training and careers: offering training in equal proportions to both genders, systematically interviewing employees returning after a long absence and developing the possibility of maintaining links with the Company during such absences, and promoting equal numbers of women and men;
- Compensation: applying strict equality between women and men concerning:
 - the number of beneficiaries of individual increases;
 - the average amount of individual increases in absolute value;
 - the average rate of achievement of variable compensation.
- In terms of work-life balance, it will promote teleworking, facilitate coordinated leave for families and set up a work-time donation program.

1.6.2. Measures to promote the employment and integration of people with disabilities

At the end of 2016, SFIL achieved the objective of doubling the employment rate targeted in its first three-year company agreement in favor of recruiting and keeping in employment people with disabilities, this rate now standing at 2.5%.

In 2017, SFIL signed a new three-year company agreement approved by State agencies (DIRECCTE 92).

The most significant related initiatives include:

- the continuation of awareness-raising actions within the Company, in particular during the Week for the Employment of People with Disabilities with the "SLAM" collective workshop on disabilities, for example;
- the employment on paperless document projects of workers with disabilities made available by SOTRES 92, a disabled persons employer;
- the signing of an innovative partnership with HASC ("Le Handicap Au Service des Compétences", "Disabilities serving skills"), a new third-sector company set up by three self-employed workers with disabilities;
- the signing of a partnership with the French army and CABAT, its casualty assistance unit, to employ military personnel with combat-related disabilities on an internship scheme for work-based reintegration into civil life. The scheme's first intern has been working for the Company since September 2017.

1.6.3. Anti-discrimination policy

SFIL continued to fight discrimination through its continued partnership with Allodiscrim, an external body of lawyers offering a free listening and advice service, anonymous with regard to employers, to employees and interns who have faced alleged discriminatory or unequal treatment, in which discussions are protected by a rule of guaranteed absolute confidentiality under the legislation applicable to the lawyers' code of ethics.

In 2017, SFIL decided to deepen its related commitment as regards its recruitment process, now referring to this organization in its job offers to enable candidates to access it as well.

SFIL's objective is to prevent and resolve situations at work inducing a risk of non-compliance with the principles of equal treatment, non-discrimination and non-harassment (sexual or psychological), and cases of racist or discriminatory abuse. It carried out related awareness-raising initiatives over the course of the year within the HR division

and in collaboration with the CHSCT (training, discussions to define discrimination).

1.7 - PROMOTION AND COMPLIANCE WITH THE PROVISIONS OF THE INTERNATIONAL LABOR ORGANIZATION'S FUNDAMENTAL CONVENTIONS

SFIL fully applies the French labor law, which in turn fully incorporates the related 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 labor,
- The effective abolition of child labor.

2. Environmental information

2.1 - GENERAL ENVIRONMENTAL POLICY

In 2016, SFIL set up a sustainable development committee bringing together a group of employees, the aim of which is to propose and coordinate the implementation of sustainable development initiatives in the Company. The committee met regularly in 2017 and has put in place awareness-raising actions on waste sorting, food, eco-mobility, water management, eco-consumption and biodiversity in partnership with an educational and fun-oriented sustainable development non-for profit organization.

The Group's headquarters' commercial operating property HEQ certification, focused on sustainable buildings, management and use, was renewed on April 7, 2017, with a good score.

Amount of provisions and guarantees for environmental risks

The financial statements as of December 31, 2017, do not include any provision or guarantee regarding environmental risks.

2.2 - POLLUTION

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

SFIL stipulates the use of environment-friendly cleaning products in its site cleaning contracts.

2.2.2. Taking into account noise pollution and other forms of business-specific pollution

SFIL's activities require no specific measures in this area.

2.3 - CIRCULAR ECONOMY

2.3.1. Waste prevention and management

SFIL has implemented a policy for responsible consumables management including a paper and internal waste collection and recycling system for toner cartridges, electronic waste, obsolete equipment, stoppers, batteries, etc., and a policy

to reduce paper consumption (printer set-up, lower density paper, use of ISO 14001 ecolabel recycled paper, etc.). A monthly indicator tracking print usage at each multi-function printer has been put into place to encourage employees to print only when necessary.

In 2017, SFIL also introduced a collection and recycling system for aluminum cans, coffee capsules, plastic and paper cups and plastic bottles on every floor of its head office. This measure enabled the collection and recycling of nearly 500 kilograms of waste over the year.

SFIL has introduced no specific measures as regards the reduction of food waste, as its business sector and number of employees mean that this issue does not have material implications.

2.3.2. Sustainable use of resources

In terms of energy consumption, the head office has an LED lighting system with automated presence detection and light intensity adjustment. Since December 1, 2016, SFIL has subscribed to the EDF 100% renewable energy option for both its sites (Issy-les-Moulineaux and Lyon). In this option, EDF commits to injecting into the grid an equivalent amount of renewable electricity to that consumed by SFIL.

2.4 - CLIMATE CHANGE

2.4.1. Material greenhouse gas emissions generated as a result of the Company's activity, notably through use of its goods and services

In the area of carbon emissions, the Company has agreed to pay 65% of the cost of annual public transportation passes for employees working at its two sites (head office and regional).

Energy consumption is dealt with by a renewable energy contract with EDF that helps limit the emission of greenhouse gases.

2.4.2. Adapting to the consequences of climate change

SFIL's activities require no specific measures in this area.

2.5 - PROTECTION OF BIODIVERSITY

SFIL's activities require no specific measures in this area.

3. Societal information

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

3.1.1. Impact on employment and regional development

In 2017, SFIL employed an average of 407 people under permanent, temporary, work-study and internship contracts at its two office sites in Issy-les-Moulineaux (382 employees) and Lyon (25 employees).

3.1.2. Impact on local populations

None.

3.2 – RELATIONSHIPS WITH THE PERSONS OR ORGANIZATIONS WITH INTERESTS IN THE COMPANY'S BUSINESS

3.2.1. The conditions for dialog with such persons or organizations

SFIL has provided:

- Financing for the training of work-study employees with 24 higher education institutions.
- Financing via the 2017 "learning tax" of:
 - 5 schools: Lormont (33) - Elie Faure general and technological lycée; Jaunay Clan (86) - Innovative international pilot lycée; Carvin (62) - Lycée Diderot; Loos (59) - Saint Vincent private multi-discipline lycée; Tournefeuille (31) - Marie-Louise Dissard Françoise multi-discipline lycée.
 - 4 higher education institutions: ENSAE; Paris-Dauphine University; Paris Sorbonne University; IEP Paris.
 - 3 associations promoting diversity: PASSEPORT AVENIR, INSTITUT TELEMAQUE, LADAPT VAL D'OISE - CRP; LADAPT RHONE - ESAT Hors-les-mur.

3.2.2. Partnership and patronage activities

Since 2013, SFIL has participated in the Campus l'Envol project with its partner La Banque Postale. L'Envol was set up to support the schooling every year of 105 talented and deserving young people from modest backgrounds in both rural and urban areas, by coaching them individually from high school to entry into a high-level selective channel for further education or employment anywhere in France, including its overseas departments.

Sponsorship by volunteer employees is one of the program's pillars.

SFIL has also formed various other partnerships to encourage diversity and equal opportunity.

SFIL is thus a member of Club Être Entreprises, which was created to promote the employment of disabled people and lobby public authorities on diversity issues.

It has also signed a partnership agreement with non-profit organizations Tremplin, which was set up to help disabled graduates obtain work, and TIH Business, whose founder also set up "Restaurants dans le noir" to promote business services provided by disabled freelancers.

SFIL is a member of the Handeco Pas-à-Pas network, which works to encourage the use by companies of sheltered employment service providers staffed by people with disabilities.

SFIL has made a commitment to support equal opportunity and social diversity by backing the efforts of the Collège de France to help secondary schools located in disadvantaged school zones. A sponsorship agreement linking SFIL and BNP Paribas with the Collège de France was signed in order to contribute to the success of the program called "Campus de l'innovation pour les lycées". This program developed by the Collège de France first focuses on high-school students registered in institutions located in disadvantaged urban and rural areas. The goal is to enable students to demystify their relationship with academic knowledge, have confidence in themselves at a key moment in their education in which they must project themselves into the future and make career choices.

Concretely, the professors at the Collège de France involved in this program - who are world-famous specialists in their fields, be they scientific or literary - will come to visit and

teach in these schools. E-exchanges between the students and their professors will also be published.

3.3 – SUBCONTRACTING AND SUPPLIERS

Consideration of social and environmental issues and subcontracting in the purchasing policy, and taking into account suppliers and subcontractors' social and environmental responsibility in the Group's relations with them

SFIL chooses its suppliers and subcontractors very carefully. Its purchasing policy stipulates that the Company promotes sustainable and socially responsible purchasing whenever its various constraints allow. SFIL notably uses sheltered employment sector companies. In 2016, SOTRES 92, a disabled persons employer, provided SFIL with workers for paperless document production.

The listing of SFIL's suppliers and any subcontractors they use takes into account the CSR certifications obtained.

Meanwhile, the ratings that SFIL's internal supplier evaluation campaigns produce reflect its perception of these suppliers' socio-ethical practices, as evidenced through their service provision.

Lastly, SFIL's framework agreements remind its suppliers of the tax and social legislation and statutory labor provisions in force as regards the performance of services. SFIL regularly carries out the required checks pursuant to these obligations.

3.4 – FAIR PRACTICES

3.4.1. Anti-corruption initiatives

The SFIL Group operates today in an ecosystem where the requirements for preventing and combating corruption have intensified and are coupled with growing demands from foreign regulators.

The SFIL Group's activities fall within the scope notably of US and UK extraterritorial laws. SFIL's shareholders on the one hand and its banking partner banks on the other fall within the direct scope of the Sapin II law applicable under French law since 2016.

For these reasons, as a public development bank with domestic and now international operations, SFIL has chosen to factor corruption risk into its organization, alongside reputation risk, operational risk and financial risk. As such, SFIL attaches particular importance to fighting this threat, both within the Company itself and in the context of the projects in which it takes part. The effectiveness of the corruption prevention system is central to the bank's concerns.

Indeed, SFIL, which itself does not fall within the scope of the SAPIN II law, nevertheless opted as from 2016 to implement additional compliance measures in line with those required by the Sapin II law, with the aim of strengthening the Group's anti-corruption system. This approach will be continued in 2018, 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 and professional conduct at the end of 2016 provided a strong signal of its desire to be a committed player in preventing corruption. The objective is to identify and define for each process the specific respon-

sibilities of SFIL, CAFFIL and their employees in preventing corruption, as well as those of all third parties with whom the bank has current or future dealings, i.e. its customers, its financial counterparties, its suppliers and its service providers. The system implemented at the bank thus provides for an internal alert procedure, a training plan for all employees, and in particular for the Executive Committee, executives and exposed personnel, risk mapping and a tailored internal control system.

3.4.2. Measures to promote consumers' health and safety

SFIL's activities require no specific measures in this area.

3.5 - OTHER HUMAN RIGHTS ACTIONS

No action was taken in favor of human rights.

Report by one of the statutory auditors, appointed as an independent third party, on the consolidated, social, environmental and societal information included in the management report

Year ended December 31, 2017

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' Meeting,

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 31st, 2017 included in the management report (hereinafter named "CSR Information"), pursuant to article L.225-102-1 of the French Code of Commerce (*Code de 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).

It is not our responsibility to provide any conclusion on the compliance with other applicable legal expectations, in particular those concerning the French law 2016-1691 (fight against corruption).

⁽¹⁾ scopes available at www.cofrac.fr

Our work involved three persons and was conducted in March 2018 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. 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 program 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 under-

standability, 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⁽²⁾:

- -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 followed, 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.

⁽²⁾ **Social information:** Total employees; Total number of training days.

Other information: Headquarters HQE certification.

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, April 3, 2018
One of the statutory auditors

Deloitte et Associés
Sylvie Bourguignon

Additional information

Composition of the Board of Directors

Ratification of appointment of directors to fill vacancies

It is proposed to ratify the Board of Director's decision of September 7, 2017, to appoint Jérôme Reboul as a director to fill the vacancy left by Antoine Saintoyant, who stepped down, for the remainder of his term, i.e. until the end of the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2019.

It is proposed to ratify the Board of Director's decisions of March 29, 2018, to appoint:

- Virginie Fernandes as a director to fill the vacancy left by Delphine de Chaisemartin, who stepped down, for the remainder of her term, i.e. until the end of the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2020.

- Gabriel Cumenge as a director to fill the vacancy left by Jérôme Reboul, who stepped down, for the remainder of his term, i.e. until the end of the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2019.

* * *

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

Chronology



Objective: ensure the stability
of local public sector financing
in France



Objective: provide refinancing
for large export credit contracts



Leader

in French local public
sector financing

Biggest

liquidity provider
for State-guaranteed
export credits

**Seventh-
largest**

French bank in
balance sheet terms

Corporate governance

Report on corporate governance prepared in accordance with article L.225-37 of the Code of Commerce

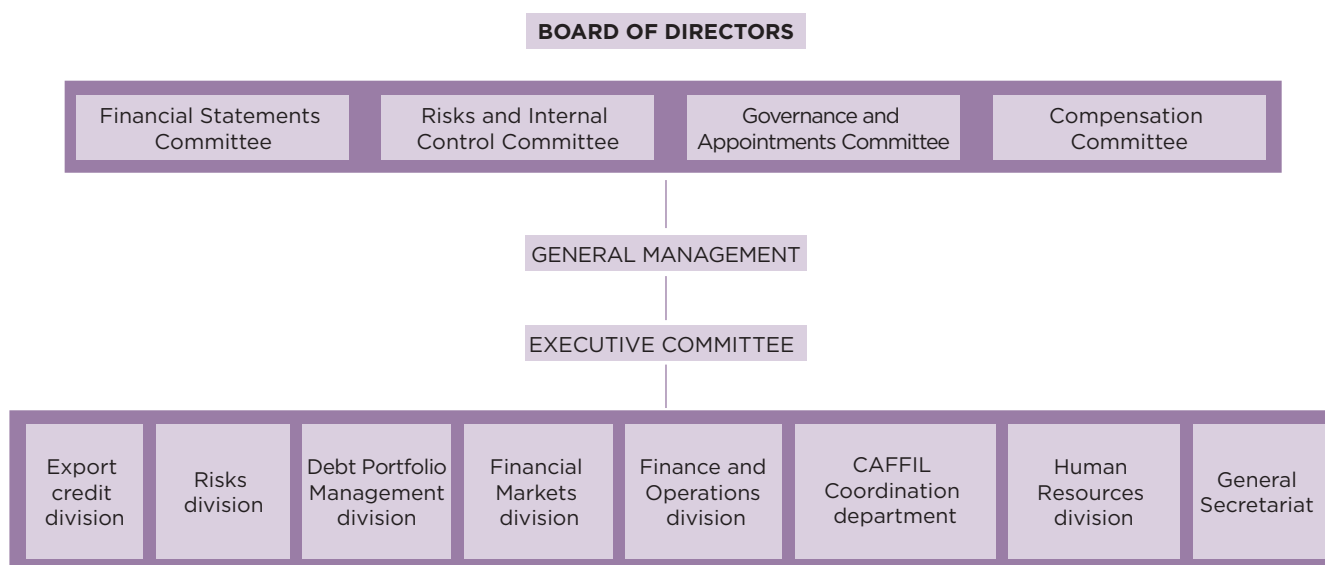
This report was prepared by the Board of Directors of SFIL, which gathered the necessary information specifically from the General Secretariat and the Human Resources division. The report focuses on the governance of SFIL by describing in particular the role and composition of its Board of Directors, compensation for members of supervisory and management bodies and information on matters that could be affected in the event of a takeover bid or public exchange offer.

SFIL, a limited liability corporation with a Board of Directors (*société anonyme à conseil d'administration*) is 75%-owned

by the French State, 20% by Caisse des dépôts et consignations and 5% by La Banque Postale. It received its banking license on January 16, 2013. SFIL is subject to the Code of Commerce as a commercial enterprise, to applicable French and European laws in its capacity as a credit institution as well as the provisions of the ordinance of August 20, 2014, ratified and amended by the Law of August 6, 2015, because of its ownership structure. In addition, SFIL structured its governance rules with reference to the Afep/Medef Code (see the conditions for its application below) and by relying on the provisions or guidance of the European Central Bank and European Banking Authority.

1. Information on governance

1.1 - CORPORATE GOVERNANCE STRUCTURE AND BODIES



1.2 - THE BOARD OF DIRECTORS

1.2.1. Its role, organization and work

The Board of Directors determines SFIL's business strategy and ensures its proper implementation. Subject to the powers expressly conferred to 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.

The Board of Directors comprises 15 directors, including five independent directors and five directors representing employees. As of December 31, 2017, the Board of Directors had six women and nine men (a 40% ratio of female directors, even excluding directors representing employees). A Works Council representative participates in Board meetings as a non-voting member. The term of office for

Board members is four years. The average age of directors is 56.

Chantal Lory is the Chair of the Company's Board of Directors; Philippe Mills is the Company's Chief Executive Officer. The separation of duties between the Chair of the Board of Directors and the Chief Executive Officer was decided by the Board of Directors at its meeting on March 23, 2017. The Chair of the Board of Directors organizes and directs the work of the Board, ensures the smooth operation of the Company's governance bodies and participates in the Company's relations with control and supervisory authorities. The Chief Executive Officer has the broadest authority to act in the name of the Company in all circumstances. 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.

An internal rulebook, updated in March 2018, 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 lists the rights and responsibilities of the members of the Board of Directors, including conflict of interest rules.

The Board of Directors meets at least once each quarter. In 2017, the Board of Directors therefore met four times. The attendance rate by members was 88%.

The Chair of the Board of Directors provides Board members with all information, particularly of a strategic nature, that they may need to perform their duties properly.

Prior to the meeting, directors receive an agenda and a file containing memoranda and documents related to the agenda. During Board meetings, General Management presents the activity and accounts of the previous period (or the financial position if there is no accounts 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 2017, the Board of Directors focused on the following matters in particular:

- the bond issuance strategy of SFIL, including its first US dollar bond offering, as well as of its subsidiary Caisse Française de Financement Local (CAFFIL);
- the development of the export credit refinancing activity;
- the continued implementation of the strategy to reduce structured loan sensitivity;
- services provided to its subsidiary CAFFIL as well as those performed on behalf of La Banque Postale;
- continuation of the program to simplify the IT system;
- risks, in particular the review for approval of the ICAAP-IL-AAP reports and the updating of the backup recovery plan in accordance with the banking supervision requirements;
- financial statements, the new IFRS 9 standard and its impact on the 2018 budget;
- governance, in particular the separation of duties between the Chairman of the Board of Directors and the Chief Executive Officer, the amendment to the composition of the specialized committees, the review of the "fit and proper" analyses related to the appointment of directors

and the establishment of a procedure for the succession plan;

- changes to the organization and progress with respect to gender diversity in the workforce;
- compensation for managers and salary measures at the Company as well as Board attendance fees;
- the terms of office of the statutory auditors, with the proposed renewal of the term of office of Deloitte et Associés and proposed replacement of Mazars by Ernst & Young et Autres;
- the review of regulated agreements.

Based mainly on the reports submitted by the chairs of the Board's specialized committees (see the section below on the work of these committees), it discussed the various reports on risks (major risk maps, report on risk monitoring, Pillar 3 report, etc.), internal control and compliance (including AML-CFT and market abuse provisions).

In addition, the Board of Directors was informed of the report of the Cour des comptes (Court of Auditors) and the interventions by supervisors as well as the responses made to the recommendations of the latter by the Company's management.

In terms of its operations, the Board decided to provide its members with documents transmitted electronically instead of delivered in hard copy format as in the past.

Finally, the Board convened a combined Ordinary and Extraordinary Shareholders' Meeting for May 31, 2017. The purpose of the Ordinary Shareholders' Meeting was to approve the Company and consolidated financial statements, appropriation of earnings, approve a regulated agreement, set the amount of Board attendance fees, offer an opinion on the overall budget for compensation and compensation components of the Chair of the Board and Chief Executive Officer, the appointment of a director, the renewal of two directors' terms of office, the appointment of a principal statutory auditor and non-renewal of the term of office of an alternate statutory auditor. As for the Extraordinary Shareholders' Meeting, proposals were made to amend articles 4 ("registered office") and 22 (statutory auditors") of the by-laws.

The Board also set the date for elections of employee representatives to the Board of Directors for April 3, 2018.

1.2.2. Composition of the Board of Directors as of December 31, 2017

Chantal Lory Chair of the Board of Directors independent director	Philippe Mills Chief Executive Officer director
French State represented by Schwan Badirou Gafari	Patrick Galland director representing employees
Jean-Pierre Balligand independent director	Frédéric Guillemin director representing employees
Serge Bayard director representing La Banque Postale, shareholder	Cathy Kopp independent director
Catherine Boyaval director representing employees	Françoise de Panafieu independent director
Pascal Cardineaud director representing employees	Jérôme Reboul director proposed by the French State
Delphine de Chaisemartin director representing Caisse des dépôts et consignations, shareholder	Pierre Sorbets independent director
Lorraine Coudel director representing employees	

The following changes were made to the composition of the Board of Directors in 2017:

	2017	Comments
	Chantal Lory	Appointment as Chair of the Board of Directors, replacing Philippe Mills, who remains Chief Executive Officer (see separation of duties for Chairman of the Board of Directors and Chief Executive Officer)
Exit	Antoine Saintoyant	Resignation following assumption of responsibilities in the cabinet of the French Prime Minister
Arrival	Schwan Badirou Gafari	Appointment as a representative of the French State on the Board of Directors, replacing Jérôme Reboul
	Jérôme Reboul	Appointment as director to fill a vacancy left by Antoine Saintoyant
	Pierre Sorbets	Resignation of term of office as a director (appointed on the recommendation of the French State) and appointment by the Shareholders' Meeting as a director

1.2.3. Conditions for appointing directors and qualification of independent members

While respecting the specific conditions for appointments linked to the status of SFIL as a State-backed company, 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 Governance and Appointments Committee performs an analysis for each appointment based on a matrix that lists the main areas of expertise sought by the Board for its candidates. Potential candidates are assessed individually while taking into account the Board's

overall expertise. New appointments are approved by the European supervisor on the basis of a "fit and proper" analysis.

In accordance with the Afep/Medef Code, the Board of Directors, acting on the report of its Governance and Appointments Committee, reviewed the situation of each of its members with respect to the code criteria. The Board determined that five Board members qualified as independent – Chantal Lory, Cathy Kopp, Françoise de Panafieu, Jean-Pierre Balligand and Pierre Sorbets – or 50% of all Board members not including the five directors representing employees.

	Criterion 1	Criterion 2	Criterion 3	Criterion 4	Criterion 5	Criterion 6	Criterion 7	Criterion 8
Chantal Lory	ok	ok	ok	ok	ok	ok	ok	ok
Philippe Mills	x	x	x	ok	ok	ok	x	ok
Jean-Pierre Balligand	ok	ok	ok	ok	ok	ok	ok	ok
Serge Bayard	ok	ok	x	ok	ok	ok	ok	ok
Delphine de Chaisemartin	ok	ok	x	ok	ok	ok	ok	x
État, représenté par Schwan Badirou Gafari	ok	ok	ok	ok	ok	ok	ok	x
Cathy Kopp	ok	ok	ok	ok	ok	ok	ok	ok
Françoise de Panafieu	ok	ok	ok	ok	ok	ok	ok	ok
Jérôme Reboul	ok	ok	ok	ok	ok	ok	ok	x
Pierre Sorbets	ok	ok	ok	ok	ok	ok	ok	ok

Legend:

"ok" represents that the independence criteria have been satisfied under the Afep/Medef Code

"x" represents a criterion not satisfied under the Afep/Medef Code

Criterion 1: Not having been an employee or member of the management or supervisory bodies during the past five years

Criterion 2: Not having cross-directorships

Criterion 3: Not having material business relationships

Criterion 4: Not having close family ties to a member of a management or supervisory body

Criterion 5: Not having served as statutory auditor of the Company during the past five years

Criterion 6: Not having been a director of the Company for more than 12 years

Criterion 7: Not receiving variable compensation in cash or shares or any other compensation tied to the performance of the Group

Criterion 8: Not being a representative of a major shareholder

1.3 - THE 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 expertise (finance, banking, human resources management, etc.) 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. Eleven members of the Board of Directors are therefore members of the specialized committees.

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

These two committees are composed of seven members (including three independent members). They meet at least four times per year.

In 2017, Jean-Pierre Balligand was appointed a member of these two committees, and Schwan Badirou Gafari replaced Jérôme Reboul on both committees. Meanwhile, Pierre Sorbets took over the chairmanship of both committees from Chantal Lory, who remained a member of both.

In 2017, the Risks and Internal Control Committee met six times. The primary purpose of the first meeting in 2017 was to study the procedures used (mapping, risk management procedures, annual control plan, and the results of controls) for internal control activities at SFIL and Caisse Française de Financement Local and the results of the intermediary review by the Company's statutory auditors. The

participants of this first committee meeting included only 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 2017, in the presence of General Management and representatives of operating units concerned by the matters under review, for the most part discussed the quarterly reports on risk monitoring, the Pillar 3 report, the ICAAP and ILAAP reports, updates to the SFIL backup recovery plan, the IT simplification program, and semi-annual reports on compliance and audit activities.

In 2017, the Financial Statements Committee met four times. It examined the financial statements of SFIL and Caisse Française de Financement Local as of December 31, 2016 and those as of June 30, 2017, as well as the quarterly financial statements as of March 31, 2017, and September 30, 2017, and the corresponding statutory auditors' reports, efforts to reduce loan sensitivity, the IFRS 9 project and the 2018 budget.

1.3.2. The Governance and Appointments Committee and Compensation Committee

These committees are composed of six members (including three independent members). In 2017, Schwan Badirou Gafari replaced Jérôme Reboul. 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. At its December 7, 2017, meeting, the Appointments Committee changed its name to the Governance and Appointments Committee.

In 2017, the Governance and Appointments Committee met three times. Meetings were dedicated in particular to the separation of duties between the Chairman and Chief Executive Officer of SFIL, the appointments of Chantal Lory as Chair of the Board of Directors, of Philippe Mills as Chief

Executive Officer and of new directors, the renewals of two Board terms of office (Delphine de Chaisemartin and Serge Bayard), changes in the composition of the Financial Statements Committee / Risks and Internal Control Committee and updates to the internal rules of these two specialized committees. The committee also issued a favorable opinion on the independence of SFIL directors Cathy Kopp, Chantal Lory, Françoise de Panafieu, Pierre Sorbets and Jean-Pierre Balligand. Lastly, the committee validated the procedure related to the succession plan for members of the management and supervisory bodies.

In 2017, the Compensation Committee met twice. Meetings were dedicated in particular to updating the compensa-

tion policy and the committee's internal rules in order to implement the orientations on sound compensation policies in connection with articles 74 and 75 of directive 2013/36/EU, of the EBA published on June 27, 2016, reviewing the compensation of the Chair of the Board of Directors and Chief Executive Officer and a review of compensation for the members of SFIL's Executive Committee. The Committee also issued a favorable opinion on the April 2017 payment of variable compensation for the year 2016 proposed by General Management. Lastly, presentations were made on progress in gender diversity and the review of salary measures in 2017.

Composition of the committees

The following table summarizes the composition of all of the Board's specialized committees.

Composition of the specialized committees (as of December 31, 2017)	Financial Statements Committee	Risks and Internal Control Committee	Governance and Appointments Committee	Compensation Committee
Schwan Badirou-Gafari	✓	✓	✓	✓
Jean-Pierre Balligand	✓	✓	✓	✓
Serge Bayard	✓	✓		
Pascal Cardineaud			✓	✓
Delphine de Chaisemartin	✓	✓	✓	✓
Patrick Galland		✓		
Frédéric Guillemin	✓			
Cathy Kopp			✓✓	✓✓
Chantal Lory	✓	✓		
Françoise de Panafieu			✓	✓
Pierre Sorbets	✓✓	✓✓		

Legend: ✓✓: Chair of the committee
✓: Member of the committee

1.4 - APPLICATION OF THE CORPORATE GOVERNANCE CODE

With respect to governance, the Company refers to the Afep/Medef Code⁽¹⁾, whose recommendations it applies with a few exceptions. These exceptions pertain to its shareholding structure, and more particularly the fact that the French State is its majority shareholder. The main differences between the Company's governance and provisions of the Code are as follows.

- 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: even though the ratio of independent members increased to 50% (not including directors representing employees), the threshold of two-thirds independent directors was not reached, notably due to the composition of the Board of Directors and the number of independent directors who can be members of specialized committees. It should be noted that the Board includes representatives from each shareholder (as shareholders oversee the Company's activities in accordance with the conditions set by the European Commission) as well as five directors representing employees.

- The meeting of the Board of Directors at least once a year without the presence of executive members of management and supervisory bodies: a Risks and Internal Control Committee takes place without members of management and supervisory bodies in order to review the bank's entire internal control system. Although no one has expressed at this time the need for a meeting of the Board of Directors without such members present, the issue may be raised in the report to be prepared in 2018 by the outside consultant on the Board's operations (see below).
- Training for directors: this provision is currently under review.
- Participation by directors at Shareholders' Meetings: since all shareholders are represented on the Board of Directors and all of the agenda items have already been presented in Board meetings, the participation of directors in Shareholders' Meetings aside from those who also represent shareholders does not have the same importance as for a company with a diverse group of shareholders.

Regarding the assessment of the Board of Directors' operations, a status report on the areas for improvement identified in March 2016 was presented at the Board of Directors' meeting on May 31, 2017. The improvements made since March 2016 mainly involve Board appointments designed to strengthen financial and banking expertise, the preparation of more concise presentation documents, a better allocation of roles/times between the specialized committees and the Board of Directors and more information provided to the

(1) Code updated in November 2016, available at www.afep.com.

Board on certain subjects identified by directors. The Board of Directors' meeting of May 31, 2017, decided that a formalized study on the Board's operations and expertise should be initiated in late 2017 and early 2018, with support from an outside consultant.

1.5 - INFORMATION ON MEMBERS OF THE BOARD OF DIRECTORS

The following section contains the information on the terms of office (mandates) and functions of members of the Board of Directors required pursuant to article L.225-37-4-1 of the Code of Commerce.

Note: the business address is only mentioned for persons still active. For the others, mail can be sent to the following mailing address: SFIL (1-3 rue du Passeur de Boulogne - 92130 Issy-les-Moulineaux).

Chair of the Board of Directors

Chantal Lory

Principal function: Chair of the Board of Directors of SFIL, independent director

Born on April 11, 1953 - French
Dates of beginning and end of mandate: May 26, 2016 - 2020
Date of initial mandate: June 5, 2014

Mandates and functions

- SFIL, director, Chair of the Board of Directors (since April 3, 2017), Chair of the Financial Statements Committee and Chair of the Risks and Internal Control Committee (until May 31, 2017), member of the Financial Statements Committee and of the Risks and Internal Control Committee
- Imprimerie Nationale, director, Chair of the Audit Committee, member of the Strategy Committee and member of the Appointments and Compensation Committee
- Barclays France SA, director, Chair of the Audit Committee (since August 2017)

Biographical data

- Graduate of Institut d'Études 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: Head of Mergers & Acquisitions - Trianon France - Marceau Investissements Group
- 1992-1997: Chief Executive Officer France HSBC Investment Bank - Paris Branch
- 1997-2008: Head of Financial Management at Cofinoga, then Chief Financial Officer of the holding company, then Head of Strategy and Outside Relations for the LaSer-Cofinoga Group
- 2009-2014: Member of the Management Committee then of the Executive Committee of La Banque Postale (LBP), Chair of the Executive Board of La Banque Postale Financement, then of La Banque Postale Asset Management

Attendance at Board meetings	100%
Attendance at Financial Statements Committee meetings	100%
Attendance at Risks and Internal Control meetings	100%

Chief Executive Officer

Philippe Mills

Principal function: Chief Executive Officer SFIL, Member of the Board of Directors

Born on November 4, 1965 - French
Dates of beginning and end of mandate: May 26, 2016 - 2020
Date of initial mandate: January 31, 2013

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

Mandates and functions

- SFIL, director, Chairman of the Board of Directors (until April 3, 2017), Chief Executive Officer and Chairman of the Executive Committee
- Caisse Française de Financement Local, Chairman of the Supervisory Board
- European Investment Bank (EIB), Alternate expert, Board of Directors
- European Association of Public Banks - EAPB, director and Chairman

Biographical data

- Graduate of Institut d'Études Politiques de Paris
- Graduate of École 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 advisor to the General Director, Economic and Financial 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
- 008-2013: General Director, Agence France Trésor
- 2013-2017: Chairman of the Board of Directors and Chief Executive Officer of SFIL
- Since 2017: Chief Executive Officer of SFIL

Attendance at Board meetings *	75%
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* one absence due to unavoidable circumstances

Representative of the State on the Board of Directors

Schwan Badirou Gafari

Principal function: Deputy Director of “Services and Finance” Investments of Agence des Participations de l'État

Born on May 1, 1983 – French

Dates of beginning and end of mandate: August 8, 2017 - 2021

Date of initial mandate: August 8, 2017

Business 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 “Services and Finance” investments (since July 2017)
- SFIL, representative of the State on the Board of Directors (since August 8, 2017), Member of the Governance and Appointments Committee, Member of the Compensation Committee, Member of the Financial Statements Committee and Member of the Risks and Internal Control Committee (since September 7, 2017)
- Imprimerie Nationale, representative of the State on the Board of Directors (since September 2017)
- La Française des Jeux, representative of the State on the Board of Directors (since September 2017)
- Société anonyme d'économie mixte d'aménagement et de gestion du marché d'intérêt national de la région parisienne (SEMMARIS), representative of the State on the Board of Directors (since September 2017)

Biographical data

- Graduate of École Nationale d'Administration
- Graduate of Institut d'Études Politiques de Paris
- Master's degree in Public Affairs
- 2010-2012: Deputy to the Environment and Agriculture bureau chief
- 2012-2014: Deputy to the Banking Affairs bureau chief
- 2014-2015: Advisor to the Director's Office for France at the IMF and at the World Bank
- 2015-2017: alternate director for France at the IMF
- Since August 2017: Deputy Director of Services and Finance investments, Agence des Participations de l'Etat, Ministry of the Economy and Finance

Attendance at Board of Directors' meetings*	100%
Attendance at Governance and Appointments Committee meetings *	100%
Attendance at Compensation Committee meetings *	100%
Attendance at Financial Statements Committee meetings *	0% **
Attendance at Risks and Internal Control Committee meetings *	50% **

* Appointed during the year

** Presence of a non-voting representative

Members of the Board of Directors representing shareholders' interests

Serge Bayard

Principal function: Director of Companies and Regional Development at La Banque Postale

Born on October 24, 1963 – French

Dates of beginning and end of mandate: May 31, 2017 - 2021

Date of initial mandate: March 24, 2016

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

Mandates and functions

- La Banque Postale, Director of Companies and Regional Development, Member of the Executive Committee
- SFIL, director, member of the Financial Statements Committee and member of the Risks and Internal Control Committee
- La Banque Postale Collectivités Locales, Chairman of the Board of Directors
- La Banque Postale Crédit Entreprises, Chairman of the Executive Board (since January 2017)
- La Banque Postale Home Loan SFH, director
- La Banque Postale Assurance Santé, director, Member of the Development Committee
- KissKissBankBank & Co, Member of the Administration Committee (since July 2017)

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: Public Accounting Department
 - Category B Treasury Controller of the Administration (1984-1988)
 - In charge of the economic mission of the redevelopment center of Creusot/Montceau les Mines (1989-1994)
 - Director of the Treasury Department in charge of 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: Groupe Caisse d'Épargne
 - Director of public-private partnerships (2004-2007)
 - Director of real estate markets (2007-2008)
- Since 2008: La Banque Postale
 - Director of Strategy (2008-2011)
 - Director of companies and regional development (since 2011)

Attendance at Board of Directors' meetings	100%
Attendance at Financial Statements Committee meetings	50%
Attendance at Risks and Internal Control Committee meetings	50%

Delphine de Chaisemartin**Principal function: Head of Financial Institutions and Private Equity unit of the Group Steering Department of Caisse des Dépôts**

Born on July 14, 1970 – French

Dates of beginning and end of mandate: May 31, 2017 – 2021

Date of initial mandate: January 31, 2013

Business address: Caisse des Dépôts
56, rue de Lille 75007 Paris**Mandates and functions**

- Caisse des Dépôts, Group Steering Department, Head of Financial Institutions and Private Equity unit
- SFIL, director, member of the Governance and Appointments Committee, member of the Compensation Committee, Member of the Financial Statements Committee and member of the Risks and Internal Control Committee
- Bpifrance Financement, director, member of the Appointments and Compensation Committee, member of the Financing and Guarantees Committee, member of the Audit Committee, member of the Risks Committee and member of the Innovation Committee
- La Banque Postale Collectivités Locales, director
- Qualium Investissement, director and member of the Investment Advisory Committee
- CDC Entreprises Elan PME, director
- CNP Assurances, director

Attendance at Board of Directors' meetings	100%
Attendance at Governance and Appointments Committee meetings	100%
Attendance at Compensation Committee meetings	100%
Attendance at Financial Statements Committee meetings	100%
Attendance at Risks and Internal Control Committee meetings	67%

Biographical data

- Graduate of École de Management de Lyon
- Degree in Accounting and Finance
- MBA, Financial Markets, Toronto, Canada
- 1993-1997: Risk and results control for the fixed income activities of Compagnie parisienne de réescompte (CPR)
- 1997-2002: "Financial Services" audit manager at PricewaterhouseCoopers (PwC)
- 2002-2006: Deputy, then Director, Financial Control, Société Générale Investment Banking (SGCIB)
- 2006-2012: Managing Director – COO, Fixed Income, Americas, then COO "Special Situations Group," Société Générale New York (SGNY), United States
- Since 2012: Strategic Holdings and Subsidiaries in Financial Services (banks, insurance companies and other financial institutions) Manager, Group Steering Department, Caisse des Dépôts

Jérôme Reboul**Principal function: Deputy Director Public-Interest Banking and Finance, Directorate General of the Treasury**

Born on April 27, 1977 – French

Dates of beginning and end of mandate: September 7, 2017 – 2020

Date of initial mandate: May 26, 2016

Business address: Agence des Participations de l'État
139, rue de Bercy
75572 Paris Cedex 12**Mandates and functions**

- Directorate General of the Treasury, Deputy Director, Public-Interest Banking and Finance
- SFIL, representative of the State on the Board of Directors, member of the Appointments Committee and member of the Compensation Committee (until August 8, 2017), member of the Financial Statements Committee and member of the Risks and Internal Control Committee (from March 23 to August 8, 2017), director (since September 7, 2017)
- Imprimerie Nationale, representative of the State on the Board of Directors (until September 2017)
- Agence pour la diffusion de l'information technologique (ADIT), director (until July 2017)
- La Française des Jeux, representative of the State on the Board of Directors (until September 2017)
- ADOMA, representative of the State on the Board of Directors
- Société d'économie mixte d'aménagement et de gestion du marché d'intérêt national de la région parisienne (SEMMARIS), representative of the State on the Board of Directors (until September 2017)
- Bpifrance Participations, representative of the State on the Board of Directors (from July to September 2017)
- Bpifrance Investissement, representative of the State on the Board of Directors (July to September 2017)
- La Poste, representative of the State on the Board of Directors (from July to September 2017)
- Banque de France, Alternate non-voting member, General Council (since September 2017)
- Caisse des dépôts, Alternate member of the Supervisory Committee (since September 2017)

Attendance at Board of Directors' meetings*	100%
Attendance at Governance and Appointments Committee meetings *	100%
Attendance at Compensation Committee meetings*	100%
Attendance at Financial Statements Committee meetings*	100%
Attendance at Risks and Internal Control Committee meetings*	100%

* *Appointement during the year***Biographical data**

- École normale supérieure de la rue d'Ulm (Economics, History)
- Harvard University (USA): Visiting student, Economics
- Université de Toulouse (Thesis in Economics "Finance, Governance and Employment")
- École nationale des Ponts et Chaussées: Master's in Public Affairs
- 2007-2008: Assistant to the Director of Research, Urban Planning and Housing Department – Ministry of Infrastructure
- 2008-2010: Agent, responsible for oversight of RATP maritime and river ports of Agence des Participations de l'État – Ministry of the Economy, Finance and Industry
- 2010-2013: Deputy Bureau Chief for Banking Affairs, Treasury Department – Ministry of the Economy, Finance and Foreign Trade
- 2013: Bureau Chief, "Savings and Financial Markets", of the Treasury Department – Ministry of the Economy and Finance
- 2013-2016: Bureau Chief, "Housing and Public-Interest Activities Finance", Treasury Department – Ministry of the Economy and Finance
- 2016-2017: Deputy Director of "Services and Finance" investments at l'Agence des Participations de l'État – Ministry of the Economy and Finance
- Since 2017: Deputy Director, Public-Interest Banking and Finance – Directorate General of the Treasury

Antoine Saintoyant**Principal function: Advisor for the Economy, Finance and Industry in the Cabinet of the Prime Minister**

Born on August 28, 1977 – French

Dates of beginning and end of mandate: April 5, 2016 – September 1, 2017

Date of initial mandate: January 31, 2013

Business address: Cabinet du Premier Ministre
58, rue de Varenne
75007 Paris

Mandates and functions

- Cabinet of the Prime Minister, Advisor for the Economy, Finance and Industry
- SFIL, director (until September 1, 2017), Member of the Financial Statements Committee and member of the Risks and Internal Control Committee (until March 23, 2017)
- Institut d'émission d'Outre-Mer (IEOM), member of the Supervisory Board (until May 2017)
- Banque de France, alternate non-voting member, General Council (until August 2017)

Biographical data

- Graduate of Institut d'Études Politiques de Paris
- Bachelor's degree, Law and Economics – Bonn University
- Graduate of École Nationale d'Administration
- 2003-2007: Directorate General of the Treasury and Economic Policy, Deputy Bureau Chief for multilateral affairs and development
- 2007-2009: France's Permanent Representation to the EU, advisor responsible for Financial Services
- 2009-2012: Directorate General of the Treasury, Bureau Chief, Banking Affairs (Bancfin1)
- 2012-2016: Agence des Participations de l'État, Bureau Chief La Poste, France Télécom, Dexia, CNP, then Director of Services & Finance investments
- 2016-2017: Directorate General of the Treasury, Deputy Director of Public-Interest Banking and Finance
- Since 2017: Cabinet of the Prime Minister, Advisor for the Economy, Finance and Industry (Head of unit)

Attendance at Board of Directors' meetings *	50%
Attendance at Financial Statements Committee meetings *	0% **
Attendance at Risks and Internal Control Committee meetings *	0% **

* Resignation during the year

** Presence of a non-voting representative

Independent members of the Board of Directors**Jean-Pierre Balligand****Principal function: independent director**

Born on May 30, 1950 – French

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

Date of initial mandate: January 31, 2013

Business 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, director, member of the Governance and Appointments Committee and member of the Compensation Committee, member of the Financial Statements Committee (since May 31, 2017) and member of the Risks and Internal Control Committee (since May 31, 2017)
- Société Nationale Immobilière (SNI), member of the Supervisory Board and Chairman of the Strategic Orientation Committee
- ADOMA, director
- Institut de la Décentralisation, Chairman of the Board of Directors

Biographical data

- Law degree and 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 of APVF (Association des Petites Villes de France)

Attendance at Board of Directors' meetings	75%
Attendance at Governance and Appointments Committee meetings	100%
Attendance at Compensation Committee meetings	100%
Attendance at Financial Statements Committee meetings *	50%
Attendance at Risks and Internal Control Committee meetings *	100%

* Appointment during the year

Cathy Kopp**Principal function: independent director**

Born on April 13, 1949 – French

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

Date of initial mandate: January 31, 2013

Mandates and functions

- SFIL, director, Chair of the Governance and Appointments Committee and Chair of the Compensation Committee
- Schneider Electric SA, director and member of the Compensation, Human Resources and Social Responsibility Committee

Biographical data

- After studying mathematics, joined IBM France in 1973
- 1992: Head of Human Resources at IBM France, then in 1996 appointed Vice President, Human Resources, Storage Systems Division of IBM Corp.
- In 2000, appointed Chief Executive Officer of IBM France
- In 2002, joined Accor Group as Managing Director of Group Human Resources, a position held until 2009
- Chair of the Social Commission of Service Professions, MEDEF from 2003 to 2009
- Lead negotiator for the industry-wide negotiations on diversity at MEDEF in 2006, and on labor market modernization in 2007

Attendance at Board of Directors' meetings	75%
Attendance at Governance and Appointments Committee meetings	100%
Attendance at Compensation Committee meetings	100%

Françoise de Panafieu**Principal function: independent director**

Born on December 12, 1948 – French

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

Date of initial mandate: January 31, 2013

Mandates and functions

- SFIL, director, Member of the Governance and Appointments Committee and member of the Compensation Committee
- Honorary member of the National Assembly – former minister
- La société des Amis du musée des Arts Premiers (Quai Branly museum), director
- Association Les Rencontres d'Arles Photographie, director
- Fondation des Parcs et Jardins de France, member of the Board
- Maison Européenne de la Photographie, member of the Board (since January 2017)

Biographical data

- Institut Français des Administrateurs (IFA)
- Bachelor's degree in sociology
- Diploma from the Chamber of Commerce and Industry of Paris
- 1983-1995: Deputy Mayor of Paris, in charge of culture
- 1986-2012: elected official for Paris in 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

Attendance at Board of Directors' meetings	50%
Attendance at Governance and Appointments Committee meetings	100%
Attendance at Compensation Committee meetings	100%

Pierre Sorbets**Principal function : independant director**

Born on August 30, 1950 – French

Dates of beginning and end of mandate: May 31, 2017 – 2021

Date of initial mandate: May 26, 2016

Mandates and functions

- HSBC France, Vice Chairman, in charge of the public sector (until December 2017)
- SFIL, director, Chairman of the Financial Statements Committee (since May 31, 2017) and Chairman of the Risks and Internal Control Committee (since May 31, 2017)
- Les Sorbets du Clos Marie, Manager
- Magnard Finance Conseil, Chairman (since November 2017)

Biographical data

- Graduate of HEC (Hautes Études Commerciales)
- Graduate of Institut d'Études Politiques de Paris
- Bachelor's degree in Economics (Université Paris X)
- Graduate of École Nationale d'Administration
- 1977-1990: Ministry of Economics and Finance
 - Export Promotion Office (1977-1979)
 - Agent responsible for Brazil and Mexico (export finance structuring and monitoring of bilateral economic relations) (1979-1980)
 - Economic and Trade Advisor at the French Consulate General in Rio de Janeiro (1980-1983)
 - Bureau Chief for Eastern Countries (1983-1984)
 - Bureau Chief for Agricultural Products (1985-1986)
 - Economic and trade advisor at the French embassy in Brasilia, head of the economic development department in Brazil (1988-1986)
 - Head of Medium-Term at Coface (1988-1990)
- 1991-2000: CCF (Crédit Commercial de France)
 - Head of the foreign trade division (export credits) (1991-1994)
 - Director of the International Financing Division (1994-2000)
- 2000-2017: HSBC France (acquisition of CCF by HSBC)
 - Manager responsible for financial institutions (2001-2002)
 - Managing Director then Vice Chairman, responsible for the French and Belgian public sectors and European institutions (2002-2017)

Attendance at Board of Directors' meetings	75%
Attendance at Financial Statements Committee meetings *	100%
Attendance at Risks and Internal Control Committee meetings *	100%

* Appointment during the year

Members of the Board of Directors representing employees

Catherine Boyaval

Principal function: Deputy Head of Strategic IT Projects division, responsible for regulatory and financial reporting solutions

Born on July 12, 1958 – French

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

Date of initial mandate: April 24, 2013

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

Mandates and functions

- SFIL, Deputy Head of Strategic IT Projects, in charge of regulatory and financial reporting solutions unit
- SFIL, director

Biographical data

- Degree in accounting and audit
- Graduate of ESLSA (major: tax law)
- 1996-2012: Successively, Head of Management Control in the branch network, Head of Banking Production Accounting, Head of Quality and IT Accounting and IT Systems Coordinator, then Deputy Accounting Manager responsible for the organization at Dexia Crédit Local
- 2013-2015: Director of Organization, Systems and Quality in the Finance division of SFIL
- Since 2015: Deputy Director of Strategic IT Projects department, responsible for the regulatory and financial reporting solutions unit

Attendance at Board of Directors' meetings

100%

Pascal Cardineaud

Principal function: Head of Mediation at SFIL

Born on August 12, 1961 – French

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

Date of initial mandate: April 24, 2013

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

Mandates and functions

- SFIL, Head of Mediation
- SFIL, director, Member of the Governance and Appointments Committee and member of the Compensation Committee

Biographical data

- MS in Sciences and Financial and Accounting Techniques (DECF and MSTCF)
- FFA
- 1986-1990: clerk at currency desk and equities and derivatives trader
- 1990-1992 back office operator for various markets at La Compagnie Financière Edmond de Rothschild Banque
- 1992-1994: Head of back office markets and depositary at Caisse Centrale du Crédit Mutuel
- 1997-2001: Financial Engineer, asset manager at Dexia CLF Banque
- 2001-2012: Head of Client Relations at Dexia Crédit Local
- 2013-2016: Head of Financial Engineering at SFIL
- Since 2016: Head of Mediation at SFIL

Attendance at Board of Directors' meetings

100%

Attendance at Governance and Appointments Committee meetings

100%

Attendance at Compensation Committee meetings

100%

Lorraine Coudel

Principal function: Head of Purchasing at SFIL

Born on December 1, 1959 – French

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

Date of initial mandate: April 24, 2013

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

Mandates and functions

- SFIL, Head of Purchasing
- SFIL, director

Biographical data

- Graduate degree (DESS) in Finance
- Agronomic engineer (ENSAR) – Masters in Agri-business (INA Paris-Grignon)
- 1983-1987: Chargée d'affaires at INODEV then at ANVAR
- 1987-1991: General Secretary, ASSURECO
- 1991-1997: Management Controller at Crédit Local de France
- 1997-2002: General Secretary of a regional division, Dexia Crédit Local
- 2002-2010: various functions, Human Resources, Dexia Crédit Local
- 2011-2013: Head of Resources, Dexia Crédit Local
- Since 2013: Head of Purchasing at SFIL

Attendance at Board of Directors' meetings

100%

Patrick Galland**Principal function: Coordination Director, Financial Performance Management division at SFIL**

Born on February 27, 1966 – French

Dates of beginning and end of mandate: November 13, 2015 – 2018

Date of initial mandate: November 13, 2015

*Business address:*SFIL
1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux**Mandates and functions**

- SFIL, Coordination Director, Financial Performance Management division
- SFIL, director and member of Risks and Internal Control Committee
- Caisse Française de Financement Local, member of Executive Board

Biographical data

- Graduate of École Nationale de la Statistique et de l'Administration Économique (major in Finance and Actuary)
- 1990-1992: Auditor at Guy Barbier et Associés, Arthur Andersen
- 1992-1996: Management controller in the programs and management control department at Crédit Lyonnais Group
- 1996-1999: Paribas Group: assets and liabilities management for ALM department of Groupe Compagnie Bancaire from 1996 to 1998, then Head of Marketing Products at Cofica from 1998 to 1999
- 1999-2013: Dexia Crédit Local Group: various positions in the Planning and Management Control division from 1999 to 2008, then Director, responsible for planning and management control from 2008 to 2013
- Since 2013: Coordination Director of the Financial Performance Management division at SFIL

Attendance at Board of Directors' meetings

100%

Attendance at Risks and Internal Control Committee meetings

83%

Frédéric Guillemin**Principal function: Head of Reporting department of the Risks division at SFIL**

Born on April 1, 1963 – French

Dates of beginning and end of mandate: December 12, 2014 – 2018

Date of initial mandate: December 12, 2014

*Business address:*SFIL
1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux**Mandates and functions**

- SFIL, Head of Reporting department in the Risks division
- SFIL, director, member of the Financial Statements Committee

Biographical data

- Ph.D. in mathematics
- 1987-2000: treasury manager, fund manager and then Head of Debt Management Advisory at Crédit Coopératif
- 2000-2013: Head of New Product Development, then Head of Marketing, the Head of Client and Social Media Relations, then Head of Defaults unit at Dexia Crédit Local
- Since 2013: Head of Reporting department of the Risks division of SFIL

Attendance at Board of Directors' meetings

100%

Attendance at Financial Statements Committee meetings

100%

Works council representative**Sandrine Barbosa**

2. Compensation information

This section presents and describes the principles and criteria for determining, allocating and granting the fixed, variable and exceptional components of total compensation and benefits of all kind attributable to the Chair of the Board of Directors and Chief Executive Officer in connection with their terms of office in 2017 and constituting the compensation policy applicable to them.

2.1 – PRINCIPLES AND RULES FOR DETERMINING COMPENSATION FOR THE CHAIR OF THE BOARD OF DIRECTORS AND THE CHIEF EXECUTIVE OFFICER

2.1.1. Compensation of the Chair of the Board of Directors

The Chair of the Board of Directors receives compensation in the form of attendance fees consisting of a standard amount to which are added attendance fees for attendance at Board meetings and, where applicable, specialized com-

mittee meetings, subject to a cap proposed by the Compensation Committee and approved by the Board of Directors.

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 national public companies and certain organizations pursuing economic or social goals, which apply to SFIL, the minister responsible for the economy approves the amount and allocation method for attendance fees as well as compensation items for the activity of the Chair of the Board of Directors.

2.1.2. Compensation of the Chief Executive Officer

Pursuant to the above-mentioned 1953 decree, the annual gross compensation of the Chief Executive Officer⁽¹⁾ of SFIL may not exceed EUR 450,000.

It includes a fixed portion as well as a variable portion, which is less than 10% of the fixed compensation paid out.

⁽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.

The payment of the variable portion is determined on the basis of criteria that take into account a financial indicator (gross operating income) and strategic objectives linked to the Company's activity. The achievement of these objectives is assessed by the Compensation Committee, followed by the Board of Directors. The determination of this variable compensation is approved by the minister responsible for the economy. On this basis, the compensation of the Chairman and Chief Executive Officer and – following the separation of duties for SFIL's Chair of the Board of Directors and Chief Executive Officer functions – the Chief Executive Officer, is proposed by the Compensation Committee to the Board of Directors for approval, subject to the approval of the Minister responsible for the economy

2.2 – PRESENTATION OF PROPOSED RESOLUTIONS SUBMITTED TO SHAREHOLDERS' VOTE

Pursuant to the provisions of article L.225-37-2 of the Code of Commerce, a resolution on the compensation components of the Chief Executive Officer for 2017 as well as a resolution on compensation components for the Chair of the Board of Directors is submitted to the Shareholders' Meeting of May 29, 2018, for a vote (see ninth and tenth resolutions below).

Pursuant to the above-mentioned article, the payment of variable and exceptional compensation amounts for the previous year is subject to the approval of the Annual Ordinary Shareholders' Meeting that will be held on May 29, 2018.

Ninth resolution: approval of compensation items due or granted for the year ended December 31, 2017, to Philippe Mills, Chairman and Chief Executive Officer, then Chief Executive Officer

The Shareholders' Meeting, consulted pursuant to the provisions of articles L.225-37-2 and L.225-100 of the Code of Commerce, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, issues a favorable opinion regarding the compensation items due or granted for the fiscal year ended December 31, 2017, to Philippe Mills, Chairman and Chief Executive Officer then Chief Executive Officer, as presented in the Board of Directors' report on corporate governance to the Shareholders' Meeting, and approves the payment of variable and exceptional compensation items.

Tenth resolution: approval of compensation items due or granted for the year ending December 31, 2017, to Chantal Lory, Chair of the Board of Directors

The Shareholders' Meeting, consulted pursuant to the provisions of articles L.225-37-2 and L.225-100 of the Code of Commerce, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, issues a favorable opinion regarding the compensation items due or granted for the fiscal year ended December 31, 2017, to Chantal Lory, Chair of the Board of Directors, as presented in the Board of Directors' report on corporate governance to the Shareholders' Meeting.

Eleventh resolution: Approval of the principles and criteria for determining, allocating and granting the 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 the last paragraph of article L.225-37-2 of the Code of Commerce, the Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, approves the principles and criteria for determining, allocating and granting the fixed, variable, and exceptional components of the total compensation and benefits of any kind presented in the aforementioned report and payable, due to his term of office as Chief Executive Officer, to Philippe Mills.

Twelfth resolution: Approval of the principles and criteria for determining, allocating and granting 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 the last paragraph of article L.225-37-2 of the Code of Commerce, the Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, approves the principles and criteria for determining, allocating and granting the fixed, variable, and exceptional components of the total compensation and benefits of any kind presented in the aforementioned report and payable, due to her term of office as Chair of the Board of Directors, to Chantal Lory.

2.3 – COMPENSATION AND BENEFITS TO MEMBERS OF MANAGEMENT AND SUPERVISORY BODIES

Summary compensation table for each member of management and supervisory bodies (in euros)

Chantal Lory Chair of Board of Directors	2016		2017	
	Amount due	Amount paid	Amount theoretically due	Amount paid
Gross fixed compensation				
Gross variable compensation				
Exceptional gross compensation				
Attendance fees		20,500	23,667	
Benefits in-kind				
TOTAL		20,500	23,667	

Philippe Mills Chief Executive Officer	2016		2017	
	Amount due	Amount paid	Amount due**	Amount paid
Gross fixed compensation		320,000		320,000
Gross variable compensation (*)		27,210	24,786	
Exceptional gross compensation				
Attendance fees	/	/	/	/
Benefits in kind				
TOTAL		347,210	24,786	320,000

(*) Variable compensation paid for the year

(**) Subject to the approval of the Minister responsible for the economy and of the Shareholders' Meeting

Contractual status of members of management and supervisory bodies

Members of Management and Supervisory boards	Employment contract		Supplementary pension plan		Payments or benefits due or potentially due as a result of the cessation or change in positions		Payment related to a non-competence clause	
	Yes	No	Yes	No	Yes	No	Yes	No
Chantal Lory Chair of the Board of Directors		✓		✓		✓		✓
Philippe Mills Chief Executive Officer		✓		✓		✓		✓

2.4 - ATTENDANCE FEES PAID BY SFIL TO MEMBERS OF THE BOARD OF DIRECTORS

The rules for allocating attendance fees set by the Board of Directors, within the overall budget determined by the Shareholders' Meeting and approved by the Minister responsible for the economy, are as follows:

- EUR 7,500 per year and per director participating in all Board meetings. This amount is pro-rated according to the

ratio of the number of meetings attended divided by the total number of meetings;

- EUR 1,000 for each specialized committee meeting attended, with a cap of EUR 10,000 per year for the cumulative attendance at the various committee meetings;
- an additional EUR 6,000 per year for the Chair of the Board of Directors;
- an additional EUR 2,000 per year for the Chair of each specialized committee.

Board members	Gross amounts paid in respect of 2016	Gross amounts paid in respect of 2017
Philippe Mills	/	/
Jean-Pierre Balligand	13,500 ⁽¹⁾	14,625 ⁽⁹⁾
Serge Bayard	11,625 ⁽²⁾	12,500 ⁽²⁾
Catherine Boyaval	/ ⁽³⁾	/ ⁽³⁾
Pascal Cardineaud	/ ⁽³⁾	/ ⁽³⁾
Delphine de Chaisemartin	17,500 ⁽⁴⁾	17,500 ⁽⁴⁾
Lorraine Coudel	/ ⁽³⁾	/ ⁽³⁾
French State, represented by Jérôme Reboul	5,750 ⁽⁵⁾	7,750 ⁽¹⁰⁾
French State, represented by Schwan Badirou Gafari	/	6,750 ⁽¹⁰⁾
Patrick Galland	/ ⁽³⁾	/ ⁽³⁾
Frédéric Guillemin	/ ⁽³⁾	/ ⁽³⁾
Cathy Kopp	14,750 ⁽¹⁾	14,625 ⁽¹⁾
Chantal Lory	20,500 ⁽⁶⁾	/
Françoise de Panafieu	13,500 ⁽¹⁾	8,750 ⁽¹⁾
Jérôme Reboul	/	3,750 ⁽⁷⁾
Antoine Saintoyant	5,625 ⁽⁷⁾	1,875 ⁽⁷⁾
Pierre Sorbets	5,625 ⁽⁸⁾	12,958 ⁽¹¹⁾
TOTAL	108,375	101,083

(1) Including the amount paid for participation in the Governance and 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 terms of office of members of the Board of Directors representing employees are not paid.

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

(5) Including the amount paid for participation in the Governance and Appointments Committee and the Compensation Committee. Fees paid in the State budget.

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

(7) Fees paid to the State budget.

(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.

(9) Including the amount paid for participation in the Financial Statements Committee, the Risks and Internal Control Committee, the Governance and Appointments Committee and the Compensation Committee.

(10) Including the amount paid for participation in the Financial Statements Committee, the Risks and Internal Control Committee, the Governance and Appointments Committee and the Compensation Committee. Fees paid to the State budget.

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

3. Information on items that could be affected by a takeover bid or public exchange offer

Given that SFIL's stock is not listed and that the securities issued by the Company do not provide access to its share capital, and given the composition of the share capital itself, it is not necessary to provide specific information regarding a takeover bid or public exchange offer (see article L.225-37-5 of the Code of Commerce).

Information on the share capital and shares

Total share capital, number of shares and types of shares

SFIL's share capital totals EUR 130,000,150; it is divided into 9,285,725 shares, with one vote per share and no shares pledged as collateral.

The shares are divided into two categories:

- 7,428,580 ordinary shares;
- 1,857,145 preferred shares issued in accordance with the provisions of article L.228-11 of the Code of Commerce and entitled to the rights and obligations set forth in the by-laws.

No other securities provide access to SFIL's share capital.

4. Additional information

Information concerning transactions by executive officers on the company's shares and those of its including CAFFIL

No transaction is to be reported (cf. article 223-26 of the General Regulations of the Autorité des Marchés Financiers).

Allocation of share capital

SFIL's share capital is held as follows:

- 75% by the French State through l'Agence des Participations de l'État, for a total of 6,964,293 ordinary shares;
- 20% by Caisse des dépôts et consignations, comprising 1,857,145 preferred shares;
- 5% by La Banque Postale, comprising 464,287 ordinary shares.

Information on voting rights (article 28 of the by-laws)

The voting rights attached to capital shares or income shares are proportional to the relative amount of share capital they represent. Each share has one vote.

Voting is performed by a show of hands, roll call or secret ballot, depending on the method chosen by the officers of the Shareholders' Meeting or by the shareholders. Shareholders may also vote by mail.

Agreements covered by Article L.225-37-4-2° of the Code of Commerce

No agreement covered by article L.225-37-4-2° of the Code of Commerce requires disclosure.

Statutory auditors

SFIL's statutory auditors are:

Mazars (until May 31, 2017)

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

Company represented by Anne Veaute, partner, and Virginie Chauvin, partner

Alternate: Franck Boyer

Not renewed by the combined Ordinary and Extraordinary Shareholders' Meeting of May 31, 2017.

Deloitte & Associés

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

Company represented by Sylvie Bourguignon, partner

Alternate: BEAS represented Mireille Berthelot, partner

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

Ernst & Young et Autres

Tour First – TSA 14444 – 92037 – Paris-La Défense Cedex

Company represented by Vincent Roty, partner

Appointed at the combined Ordinary and Extraordinary Shareholders' Meeting of May 31, 2017, for six years, i.e. until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2022.

In accordance with the option allowed by article L.823-1 of the Code of Commerce, an alternate statutory auditor was not appointed.

Financing

BOND ISSUANCE

SFIL and its subsidiary CAFFIL

Biggest public sector bond issuer
after the State

EUR 31 billion

of long-term financing raised
since outset

EUR 8 billion

raised in 2017

Numerous awards

for best European covered bond
issuer for CAFFIL



**Best Euro
covered bond issuer**
CBR Awards
2016



**Best Euro
covered bond issuer**
The Cover Awards
2016



**Best
covered bond issuer**
CMD Portal Awards
2016



**Best
covered bond issuer**
CMD Portal Awards
2017

Consolidated financial statements

in accordance with IFRS

Assets as of December 31, 2017

EUR millions	Note	12/31/2016	12/31/2017
Central banks	2.1	4,878	2,560
Financial assets at fair value through profit or loss		-	-
Hedging derivatives	4.1	6,441	4,715
Financial assets available for sale	2.2	2,037	2,790
Loans and advances due from banks	2.3	390	295
Loans and advances to customers	2.4	59,682	57,014
Fair value revaluation of portfolio hedge		3,053	2,518
Financial assets held to maturity		-	-
Current tax assets	2.5	0	14
Deferred tax assets	2.5	113	64
Property and equipment	2.6	7	6
Intangible assets	2.7	20	29
Accruals and other assets	2.8	2,316	2,427
TOTAL ASSETS		78,937	72,432

Liabilities as of December 31, 2017

EUR millions	Note	12/31/2016	12/31/2017
Central banks		-	-
Financial liabilities at fair value through profit or loss	4.1	4	4
Hedging derivatives	4.1	9,861	8,063
Due to banks	3.1	6,720	4,215
Customer borrowings and deposits		-	-
Debt securities	3.2	57,681	56,315
Fair value revaluation of portfolio hedge		1,198	883
Current tax liabilities	3.3	6	1
Deferred tax liabilities	3.3	-	-
Accruals and other liabilities	3.4	2,034	1,434
Provisions	3.5	45	48
Subordinated debt		-	-
EQUITY		1,388	1,469
Share capital and reserves		1,445	1,445
Reserves and retained earnings		53	72
Other comprehensive income		(128)	(102)
Net income		18	54
TOTAL LIABILITIES		78,937	72,432

Income statement

EUR millions	Note	2016	2017
Interest income	5.1	3,341	2,657
Interest expense	5.1	(3,199)	(2,483)
Fee and commission income	5.2	4	7
Fee and commission expense	5.2	(4)	(4)
Net result of financial instruments at fair value through profit or loss	5.3	(16)	(7)
Net result of financial assets available for sale	5.4	13	14
Other income		0	0
Other expense		(0)	(0)
NET BANKING INCOME		139	184
Operating expense	5.5	(102)	(107)
Depreciation and amortization property and equipment and intangible assets	5.6	(5)	(6)
GROSS OPERATING INCOME		31	71
Cost of risk	5.7	18	22
OPERATING INCOME		49	93
Net gains (losses) on other assets		-	-
INCOME BEFORE TAX		49	93
Income tax	5.8	(31)	(39)
NET INCOME		18	54
EARNINGS PER SHARE (IN EUR)			
- Basic		1.98	5.80
- Diluted		1.98	5.80

Net income and unrealized or deferred gains and losses through equity

EUR millions	2016	2017
NET INCOME	18	54
ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS	(14)	27
Unrealized or deferred gains and losses of financial assets available for sale	(26)	34
Unrealized or deferred gains and losses of cash flow hedges	4	7
Tax	8	(14)
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	(14)	27
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	4	81

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 12/31/2015	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
Capital increase	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-
Allocation of 2016 net income	-	-	18	-	-	(18)	-
Dividends paid on 2016 income	-	-	-	-	-	-	-
Subtotal of transactions with shareholders	1,445	-	72	(104)	(24)	-	1,389
Net income for the period	-	-	-	-	-	54	54
Changes of gains and losses through equity	-	-	-	21	5	-	26
EQUITY AS OF 12/31/2017	1,445	-	72	(83)	(19)	54	1,469

Management report

Corporate governance

Consolidated financial statements in accordance with IFRS

Annual financial statements in accordance with French GAAP

Shareholders' Meeting of May 29, 2018

General information

Cash flow statement

EUR millions	12/31/2016	12/31/2017
NET INCOME BEFORE TAXES	49	93
+/- Depreciation and write-downs	(18)	(56)
+/- Expense / income from investing activities	111	118
+/- Expense / income from financing activities	(69)	(95)
+/- Other non-cash items	297	42
= Non-monetary items included in net income before tax and other adjustments	321	9
+/- Cash from interbank operations	17	(2,403)
+/- Cash from customer operations	(963)	452
+/- Cash from financing assets and liabilities	1,920	(127)
+/- Cash from non-financing assets and liabilities	343	(712)
- Income tax paid	(7)	(36)
= Decrease / (increase) in cash from operating activities	1,310	(2,826)
CASH FLOW FROM OPERATING ACTIVITIES (A)	1,680	(2,724)
CASH FLOW FROM INVESTING ACTIVITIES (B)	(2)	-
+/- Cash from or for shareholders	-	(0)
+/- Other cash from financing activities	(159)	410
CASH FLOW FROM FINANCING ACTIVITIES (C)	(159)	410
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	-	-
INCREASE / (DECREASE) IN CASH EQUIVALENTS (A + B + C + D)	1,519	(2,314)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	3,371	4,895
Cash and balances with central banks (assets & liabilities)	3,361	4,878
Interbank accounts (assets & liabilities) and loans / deposits at sight	10	17
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	4,890	2,581
Cash and balances with central banks (assets & liabilities)	4,878	2,560
Interbank accounts (assets & liabilities) and loans / deposits at sight	12	21
CHANGE IN NET CASH	1,519	(2,314)

(1) In 2017, the net cash flow of EUR +0.4 billion linked to financing operations corresponds to the fluctuation in debt represented by a security. Compared with the change of EUR -1.4 billion in debt represented by a security mentioned in the notes to the financial statements 3.2.a., the gap primarily corresponded to changes in the revaluation of the covered risk and to foreign exchange fluctuations.

Notes to the consolidated financial statements in accordance with IFRS

1. Accounting policies and valuation methods

ACCOUNTING PRINCIPLES AND METHODS APPLIED

1.1 - SCOPE OF CONSOLIDATION

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 healthcare facilities and export credit loans.

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

1.2 - ACCOUNTING POLICIES AND PRESENTATION RULES

1.2.1. Applicable accounting standards

SFIL has prepared its consolidated financial statements as of December 31, 2017, in accordance with International Financial Reporting Standards as endorsed by and applicable within the European Union.

Significant accounting policies applied by the Group are detailed in note 1.2.3.

1.2.1.1. IASB and IFRIC texts endorsed by the European Union and effective as of January 1, 2017

- **Amendment to IAS 12 Income taxes:** endorsed by the European Union on November 6, 2017 (UE Regulation n° 2017/1989), and effective for reporting periods beginning on or after January 1, 2017, this amendment intends to clarify how to assess under IAS 12 the recoverability of deductible temporary differences generated by unrealized losses on assets measured at fair value in the financial statements and at cost for tax purposes.

This amendment has no impact on SFIL's accounting treatment of deferred tax assets given that SFIL's methodology was already in line with the clarifications made by the amendment. Deferred tax assets are actually regularly reviewed and taxable results projections make it possible to ensure they can be utilized against future taxable profits in a reasonable time horizon. In addition, SFIL takes into account the limitations possibly imposed by tax authorities regarding the origins of taxable profit against which deductible temporary differences can be utilized. Finally it shall be noticed that SFIL is within the exclusive authority of the French tax authorities.

- **Amendment to IAS 7 Cash-flow statements:** endorsed by the European Union on November 6, 2017 (UE Regulation n° 2017/1990), and effective for reporting periods beginning on or after January 1, 2017, this amendment intends to give more insights on the variation of the debt related to financing activities by breaking it down into two kinds of variations: cash-flow related variations (to be put in

perspective with cash-flow statements) and other variations (perimeter variations, foreign exchange fluctuation impact, fair-value variation, etc.).

So as to comply with this amendment, additional pieces of information have been inserted at the bottom of cash-flow statements; they are linked with the variation of some aggregate balances of the balance sheet.

1.2.1.2. IASB and IFRIC texts endorsed by the European Union but not yet applicable

- **IFRS 9 Financial Instruments:** This standard, which will replace IAS 39, was adopted by the European Union on November 22, 2016 (UE Regulation n°2016/2067), 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, i.e. consisting exclusively of payments of principal and interest (SPPI⁽¹⁾), or including other elements (non-SPPI), on the other hand;
 - impairment for credit risk: the standard introduces a single 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 one's 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.

Classification and Measurement

The management model implemented by SFIL has been formalized for the different portfolios of financial assets:

- the management model implemented for all loan portfolios and most securities portfolios is the Hold-To-Collect model: such assets will be accounted for and measured at amortized cost except the ones which do not meet the cash flow criterion representing solely principal and interests;
- only securities held for cash investment purposes, which amount to approximately 10% of the overall outstanding securities as of December 31, 2017, may if appropriate be classified within an Hold-To-Collect-and-Sale management model: this comes from the higher sales frequency and volume for these assets, the objective of which is specifically to address day-to-day liquidity management needs of SFIL. These assets shall be accounted for and measured at fair value through other comprehensive income.

Some loans, which do not meet the cash flow criterion representing solely principal and interests and amount to a EUR 7.0 billion outstanding, about 12% of non-derivative financial instruments held in SFIL's balance sheet, shall be

(1) SPPI: Solely Payments of Principal and Interest

accounted for and measured at fair value through profit or loss. Such measurement will be performed according to a mark-to-model-based methodology due to the absence of observable prices in an active market.

Furthermore, the policy implemented by SFIL from its creation to reduce loan sensitivity resulted in the transformation of a large number of loans with a structured (non-SPPI) component into fixed or variable rate loans (SPPI). These transactions did not give rise to derecognition of the initial assets under IAS 39, as the financial conditions of the new loan comply with the principle of IAS 39 AG62. However, under IFRS 9, the terms of the restructured transaction are substantially different, as there is a change in the SPPI criterion, which is a key factor for the definition of the applicable accounting treatment. Since the application of the standard is retroactive, SFIL has therefore determined the impacts that would have resulted from derecognition of financial instruments on the date of the transformation. The corresponding impact (adjusted for the time-related amortization) will be recorded as a counterpart to equity on the date of first application of the standard.

Moreover, on October 12, 2017, IASB issued an amendment to IFRS 9 entitled "Prepayment Features with Negative Compensation" which deals with instruments whose contractual terms may eventually result in a prepayment inferior to the sum of the outstanding principal and accrued interest. Under this amendment, such instruments do meet the SPPI criterion, provided that the prepayment essentially represents the outstanding principal and the related interest plus a reasonable compensation irrespective of its sign (payment by the borrower to the lender or by the lender to the borrower). Effective for reporting periods beginning on or after January 1, 2019, an earlier application of this amendment is permitted. SFIL opted for an earlier application of this amendment, given on the one hand the recommendation for endorsement issued in November 2017 by EFRAG, and on the other hand the support expressed by the French Autorité des Marchés Financiers for an earlier application when such application enhance consistency and continuity in the application of accounting principles.

Finally, as above mentioned, some securities which were or had been accounted for in a portfolio of assets available for sale under IAS 39, shall be now accounted for at amortized cost under IFRS 9: as for the first time application impact, the accounting change results in the reclassification in 2018 opening equity of the unrealized gain or losses accumulated in equity up to December 31, 2017.

Impairment of Financial Assets

As required under IFRS 9, the Group has defined the set of rules to break down its exposure into three categories, "buckets", depending on credit quality evolution since initial recognition. This set of rules relies on the existing risk monitoring framework of processes and committees (watchlist committee, default committee...).

The Standard also requires to define forward-looking scenarios in the objective of prospectively determining expected credit losses.

The Group has leveraged on its existing framework of calculation of the capital requirements involved by credit risk pursuant to Prudential Regulation (advanced models and prudential calculation rules) and, in the prospect of integrating a prospective dimension, forward-looking scenarios

(projections of financial information impacting the portfolios) have been taken into consideration.

For bucket 1 and bucket 2 assets, the Expected Credit Losses calculation under IFRS 9 is inspired by the Expected Loss calculation under Basel committee rules (use of Exposure at Default, Probability of Default and Loss Given Default parameters and discounting at the effective interest rate). For bucket 3 assets, the Expected Credit Losses calculation is based mainly on individual recovery hypotheses made by the Credit Risk Department.

Finally, as regards the prudential requirements, SFIL will not apply the *phase-in* provisions embedded within UE Regulation n° 2017/2395 regarding the first time application impact of the standard.

Hedge accounting

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. SFIL has decided to maintain the provisions of IAS 39 for hedge accounting at the date of entry into force of IFRS 9. However, the Group will publish the financial information on hedge accounting that is required as a result of the amendments to IFRS 7 Financial Instruments: Disclosures.

Implementation of IFRS 9

The implementation of the new standard is based on a steering committee involving executive management, the finance division, the risks division, as well as the head of information systems, as well as the Chairman of the Executive Board of Caisse Française de Financement Local.

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. All the components of the information system affected by the implementation of IFRS 9 are subject to tests which are partly integrated into the IT simplification and reinforcement program Oxygen.

The governance of SFIL has been adapted so as to integrate the elements relating to the new standard into the existing procedures: asset-liability management committee will be in charge of determining and monitoring the management model pursued while new product committee will be in charge of assessing whether products meet the SPPI criterion.

Politics and procedures embedded within the existing risk management framework (watchlist and defaults) have been reviewed and updated through the inclusion of ad-hoc documents, with the purpose of addressing the issue of impairment under IFRS 9.

Similarly, methodologies (models and parameters used), forward-looking scenarios and likelihood of occurrence related to impairment under IFRS 9 have been validated by the department credit validation and quality control. These scenarios are embedded within the formal reporting sent to the Credit Validation Committee and then to the Risk Committee and the Internal Control and Risk Committee, the latter being a specialized committee of the Board.

Moreover, backtesting procedures have been defined in order to monitor on an annual basis the efficiency of the framework of Expected Credit Loss calculation under IFRS 9; such procedures encompass the assessment of data quality, portfolio structure and forecast accuracy.

On each balance sheet date, the split in buckets as well as the impairment amounts are submitted for assessment and approbation to the Impairment Committee prior to their integration in the information systems. Impairment amounts are disclosed both internally – through a quarterly presentation to the Internal Control and Risk Committee and the risk quarterly review – and externally – through financial reports.

The Accounts Committee of the Group, which is an emanation of the executive board of SFIL, the Executive Board and the Supervisory Board of Caisse Française de Financement Local have been regularly informed on IFRS 9 project progress and on the financial impacts of the entry into force of this new standard.

Amendments of IFRS framework induced by IFRS 9

IFRS 9 amends some other IFRS, in particular:

- IAS 1 Presentation of financial statements: the accounting headings belonging to net banking income and other comprehensive income are modified and adapted to IFRS 9;
- IFRS 7 Financial Instruments: Disclosures: additional pieces of information in Annex are required, especially relating to hedge accounting.

- ANC Recommendation n° 2017-02 Regarding disclosure of consolidated financial statements for banking reporting entities under IFRS: This ANC recommendation issued on June 2, 2017, supersedes and replaces the one issued on November 7, 2013 (n° 2013-04) effective on the date of first time application of IFRS 9. It introduces a template of consolidated financial statements compliant with the new IFRS 9 standard.

2018 half-yearly financial statements of SFIL will be compliant to this Recommendation.

- Amendment to IFRS 15 Revenue from contracts with customers: endorsed by the European Union on September 22, 2016 (UE Regulation n° 2016/1905), and effective for reporting periods beginning on or after January 1, 2018, this standard deals with contracts with customers, excluding financial instruments, insurance contracts and leases.

Contracts concluded by SFIL are out of the scope of this standard.

- Amendment to IFRS 16 Leases: endorsed by the European Union on October 31, 2017 (UE Regulation n° 2017/1986), and effective for reporting periods beginning on or after January 1, 2019, this standard, which will eventually replace IAS 17, states that at the commencement date a lessee shall recognize both a right-of-use asset and a lease liability.

The impacts of this standard on the consolidated financial statements of SFIL are being analyzed. The calculation of IFRS 16 first time application impact is being performed and, applying IFRS 16.C5.(b), SFIL moves towards the limited restatement method. SFIL has not opted for an earlier application of this standard.

1.2.2. 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 specified. 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 29, 2018.

The preparation of financial information requires management to resort to estimates and assumptions that affect the amounts reported. In order to make these assumptions and estimates, management uses the information available at the date of financial statement preparation and exercises its judgment. While management believes it has considered all available information when making these assumptions, actual results may differ from such estimates and the differences may have a material impact on the financial statements.

Judgments were principally made in the following areas:

- classification of financial instruments;
- determination of 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 the 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 profits for the recognition and measurement of deferred tax assets.

Applying AMF Recommendation (DOC-2017-09) and ESMA Recommendation (ESMA32-63-340) issued on October 27, 2017, SFIL hereby confirms that the decision of the United Kingdom to leave the European Union ("Brexit") has no material impact on its consolidated financial statements as of December 31, 2017. Moreover, no material impact of such decision on the consolidated financial statements of SFIL during the next reporting periods has been foreseen.

1.2.3. Accounting principles applied to the financial statements

1.2.3.1. 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 all met:

- the group has the power over the relevant activities of the entity, through voting rights or other rights;
- the group is exposed to or has rights to variable returns from its involvement with the entity; 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, including unrealized gains or losses resulting from intra-group transactions, are eliminated on consolidation.

1.2.3.2. 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 expected future cash flows on a net basis or to simultaneously realize the asset and settle the liability.

1.2.3.3. Foreign currency transactions

Foreign currency transactions are accounted for using the exchange rate prevailing on the transaction 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.

1.2.3.4. Trade date and settlement date accounting

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

1.2.3.5. Financial assets

Management determines the appropriate classification of its investments at their initial recognition. However, under certain conditions, 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 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. Subsequent measurements are made at amortized cost, less any impairment. Interest is recognized in net interest income based on the effective interest rate method.

The effective interest rate is the rate that accurately discounts the expected future cash flows over the life of the financial instrument or, where more appropriate, a shorter period, so as to obtain the net carrying amount of the financial asset. The calculation of this rate takes into account the commissions received or paid which, because of their nature, form an integral part of the effective rate of the contract, transaction costs and possible premiums and discounts.

Financial assets held to maturity

The Group holds no assets held to maturity.

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 Financial assets available-for-sale.

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

Unrealized gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized in equity. When assets are disposed of, the related accumulated fair value adjustments are reversed in the income statement in Net gains (losses) on financial assets available-for-sale.

On October 1, 2008 available-for-sale financial assets have been 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, 2017, corresponds to the part of this reserve still to be amortized with regard to the securities restated as of October 1, 2008, and which had been frozen on that date.

Financial assets held for trading

The Group holds no assets for trading purposes.

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 measured at amortized cost, realized gains or losses on disposals are the differences between the proceeds received (net of transaction costs) and the net carrying amount of the asset. 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 by analogy 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.

By analogy 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.

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 income of the related period.

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, the latter 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. As from the impairment of the asset, the Interest income section of the income statement records the theoretical remuneration of the asset calculated by applying the original effective interest rate to the net book value of impairment.
 - 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. This model is subject to regular back-testing and is 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

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 "frozen" reserve of unrealized gains or losses on available-for-sale financial assets will be taken to the 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 margin over the new schedule of expected cash flows, not by a reversal of impairment in Cost of risk.

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 financial assets are only subject to specific impairment.

- **Determination of the impairment**
The Group only holds available-for-sale debt securities generating interests. 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 financial 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 in Net Banking Income (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 rec-

recognizes a reversal of the impairment loss in the income statement in Cost of risk when the available-for-sale financial asset is a fixed income financial asset.

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. Off-balance sheet commitment are 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 derecognized 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 at a predetermined price (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 credit institutions 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.

1.2.3.6. 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 foncières* 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 related to *obligations foncières* is accounted for in interest margin as interest expense for accrued amounts, due and not yet due, calculated *prorata temporis* on the basis of contractual rates.

Fees and commissions on bond issues are amortized according to a quasi-actuarial method over the life of the bond to which they are attached and are accounted for in interest margin as interest expense.

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

Registered covered bonds are private placements recorded at nominal value. Related issue premiums and interest expense are treated the same way as *obligations foncières* (see above).

1.2.3.7. 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.

As of December 31, 2017, trading derivatives result from operations in which hedge effectiveness tests failed after the hedged items were impaired. Both realized and unrealized gains and losses are recognized in Net result of financial instruments at fair value through profit or loss.

Hedging derivatives

Hedging derivatives can be categorized as either:

- hedges of the fair value of a recognized asset or liability or a firm commitment (fair value hedge); or
- hedges of a future cash flow that might eventually impact the future income statement and that is attributable to a recognized asset or liability or a forecast and highly probable future transaction (cash flow hedge).

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

- precise and formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied;

- the hedge is documented showing that it is expected to be effective both prospectively and retrospectively in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the reporting period;
- the hedge, effectiveness of which has been reliably measured, shall be effective at inception and on an ongoing basis;
- for hedges of a future cash flow, the future transaction that constitutes the hedged item must be highly probable and must involve an exposure to variations in cash flows that could ultimately affect the income statement.

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 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.

1.2.3.8. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, 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; for example modifications in the credit risk quality of the underlying financial instruments and market liquidity. Within this framework, the Group uses its own valuation models and market assumptions, i.e. present value of cash flows or any other techniques based on market conditions existing at 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 as much as possible observable, and if necessary 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. without considering credit risk, into a fair value including this risk. Its calculation is based on the risk exposures combined with loss rates including market parameters.

1.2.3.9. 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. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.

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.

1.2.3.10. Commission income and expense

Most of the commissions arising from the Group's activities are recognized on an accrual basis over the life of the underlying transaction.

Loan commitment commissions are recognized as an adjustment to the effective interest rate and recorded in Interest income if the loan is granted. They are recorded as commission income on the expiry date of the commitment if no loan has been granted.

1.2.3.11. 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 cannot be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes relating to fair value re-measurements of 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.

1.2.3.12. 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.

1.2.3.13. 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 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 Net gains (losses) on other assets.

1.2.3.14. Leases

SFIL contracts leases as lessee. Given that they are 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.

1.2.3.15. Employee benefits

Employee benefits are classified in four categories:

Short-term benefits

Short-term benefits are those expected to be settled wholly in twelve months after the end of the annual reporting period during which employee services are rendered; they are not discounted and are recognized as an expense of the reporting period.

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 rendered 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 either from the decision by SFIL to terminate an employment contract before the legal retirement age or by a decision of voluntary redundancy in exchange for termination benefits. A charge for termination benefits at the end of the employment contract is recorded only when 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 a formal or constructive obligation to provide the agreed benefits to current and former employees. Actuarial and investment risks fall on SFIL; as a result, this obligation is measured and recognized as a liability.

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 is valued by independent actuaries and represents the present value of defined benefit obligations reduced by the fair value of plan assets (if any).

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

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.

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.

1.2.3.16. Dividends on shares

Dividends on shares are recognized in liabilities in the period in which they are declared after having been authorized. Dividends for the year that are declared after the balance sheet date are disclosed in the note on post-closing events.

1.2.3.17. 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.

1.2.3.18. Related-party transactions

Two parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party when making financial or operational decisions. 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.

1.2.3.19. 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 France. It has no direct activity in other countries and is unable to present a relevant geographic breakdown of its results.

1.2.3.20. 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

	12/31/2016	12/31/2017
Mandatory reserve deposits with central banks	-	-
Other deposits	4,878	2,560
TOTAL	4,878	2,560

2.2 - FINANCIAL ASSETS AVAILABLE FOR SALE

a. Analysis by nature

	12/31/2016	12/31/2017
Loans	-	-
Bonds	2,037	2,790
TOTAL	2,037	2,790

b. Analysis by counterparty

	12/31/2016	12/31/2017
Public sector	1,189	1,647
Credit institutions guaranteed by the public sector	-	-
Total public sector	1,189	1,647
Credit institutions	848	1,143
TOTAL	2,037	2,790
<i>of which eligible for central bank refinancing</i>	<i>1,621</i>	<i>2,572</i>

c. Impairment

	12/31/2016	12/31/2017
Public sector	1,189	1,647
Credit institutions	848	1,143
Total performing assets	2,037	2,790
Public sector	-	-
Credit institutions	-	-
Total impaired assets	-	-
Specific impairment	-	-
TOTAL ASSETS AFTER IMPAIRMENT	2,037	2,790

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

	12/31/2016	12/31/2017
Sight accounts	12	17
Other loans and advances due from banks	378	278
Performing assets	390	295
Impaired loans and advances	-	-
Impaired assets	-	-
Total assets before impairment	390	295
Specific impairment	-	-
Collective impairment	-	-
TOTAL	390	295

b. Breakdown by counterparty

	12/31/2016	12/31/2017
Credit institutions	12	17
Swiss cantonal banks benefiting from their cantons' legal guarantee	113	30
Banks guaranteed by a local government, <i>crédits municipaux</i>	33	22
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	232	226
TOTAL	390	295
<i>of which eligible for central bank refinancing</i>	-	-

d. Analysis by residual maturity

See note 7.4

e. Unrealized or deferred gains and losses, breakdown by country

See note 4.4

2.4 - LOANS AND ADVANCES TO CUSTOMERS

a. Analysis by counterparty

	12/31/2016	12/31/2017
Public sector	56,469	54,284
Other - guaranteed by a State or local government	2,751	2,219
Other - loans to SFIL's employees	11	6
Performing assets	59,231	56,509
Impaired loans and advances	557	558
Impaired assets	557	558
Total assets before impairment	59,788	57,067
Specific impairment	(60)	(23)
Collective impairment	(46)	(30)
TOTAL	59,682	57,014
<i>of which eligible for central bank refinancing</i>	<i>39,122</i>	<i>39,575</i>
<i>assets assigned in guarantee to the central bank</i>	-	-

Impaired loans concern customers that represent an identified credit risk (non-performing loans: EUR 526 million) and customers with unpaid loans corresponding to disagreement on the amount due (compromised non-performing loans: EUR 32 million).

Within the framework of the successful policy to reduce the interest rate sensitivity in 2016 and the confirmation of legal decisions favorable to the bank, SFIL Group was able to hone, in a reasonable and prudent manner, the methods it uses to estimate the recoverability of flows of non-performing loans on its balance sheet. In particular, in order to account for the impact of the spread of payments. The implementation of this approach, which is in compliance with IFRS, makes it no longer systematically necessary to estimate the total amount of interest to account for hypotheses of future recovery. Thus, the net interest rate expense is improved through a recovery of provisions in the amount of EUR 31 million, recorded as of December 31, 2017.

Assets considered as "forbonne" by SFIL concern exposures to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognised or forthcoming) that would not have been granted under other circumstances. These concessions may be either a waiver of a part of the debt, a rescheduling of the loan repayment, restructuring measures through an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions aimed at reducing the sensitivity of the loan.

There were 211 forbonne contracts as of December 31, 2017, with 108 borrowers, for a total of EUR 1,364 million.

b. Analysis by residual maturity

See note 7.4

c. Unrealised or deferred gains and losses breakdown by country

See note 4.4

2.5 - TAX ASSETS

	12/31/2016	12/31/2017
Current income tax	-	14
Other taxes	0	0
Current tax assets	0	14
Deferred tax assets (see note 4.2)	113	64
TOTAL TAX ASSETS	113	78

Deferred tax assets were submitted to a recoverability test taking into account the business plans presented to the Supervisory Board according to realistic hypotheses. Deferred taxes as of December 31, 2017, are recoverable on the basis of this analysis within seven years by taking into account the tax rules governing the treatment of past deficits.

As of December 31, 2017, SFIL Group has no deferred tax assets related to carry forward tax losses.

In 2017, SFIL Group took into account the legislative measures designed to reduce the corporate income tax rate to 25% as of 2022. As of December 31, 2017, SFIL Group reduced its deferred tax assets and recorded an expense of EUR 2 million.

(1) In application of the 2013 Law of Finance (article 24), there is a ceiling on the attribution of deficits of EUR 1 million increased by 50% of the fraction of the year's taxable profit that exceeds this ceiling. The non-chargeable fraction of deficits can be carried forward with no time limit and under the same conditions.

2.6 - PROPERTY AND EQUIPMENT

	Computer equipment	Other equipment	Fixtures	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2016	1	0	8	0	9
Changes during the year:					
*increases	0	0	0	-	0
*decreases	-	-	-	(0)	(0)
*other	-	-	-	-	-
ACQUISITION COST AS OF 12/31/2017	1	0	8	-	9
Depreciation and impairments as of 12/31/2016	(0)	(0)	(2)	-	(2)
Changes during the year:					
*amortization	(0)	(0)	(1)	-	(1)
*write-back	-	-	-	-	-
*other	-	-	-	-	-
Depreciation and impairments as of 12/31/2017	(0)	(0)	(3)	-	(3)
NET CARRYING AMOUNT AS OF 12/31/2017	1	0	5	0	6

2.7 - INTANGIBLE ASSETS

	Software	Internally developed assets	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2016	3	13	10	26
Changes during the year:				
*increases	1	4	12	17
*decreases	-	-	(3)	(3)
*other	-	-	-	-
ACQUISITION COST AS OF 12/31/2017	4	17	19	40
Depreciation and impairments as of 12/31/2016	(1)	(5)	-	(6)
Changes during the year:				
*amortization	(1)	(4)	-	(5)
*write-back	-	-	-	-
*other	-	-	-	-
Depreciation and impairments as of 12/31/2017	(2)	(9)	-	(11)
NET CARRYING AMOUNT AS OF 12/31/2017	2	8	19	29

2.8 - ACCRUALS AND OTHER ASSETS

	12/31/2016	12/31/2017
Cash collateral paid	2,278	2,359
Other accounts receivable	1	3
Prepaid charges	5	29
Other assets	32	36
TOTAL ACCRUALS AND OTHER ASSETS	2,316	2,427

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, 2017	-	-	3,735
Fair value of reclassified assets as of December 31, 2017	-	-	2,974
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	-	-	(761)
Premium/discount amortization through profit and loss	-	-	-
Premium/discount amortization through AFS reserve	-	-	3

3. Notes to the liabilities (EUR millions)

3.1 - DUE TO BANKS

a. Analysis by nature

	12/31/2016	12/31/2017
Demand deposits	-	-
Term deposits	6,720	4,215
TOTAL	6,720	4,215
	12/31/2016	12/31/2017
Current account	-	-
Interest accrued not yet due	-	-
Long-term borrowing	6,713	4,213
Interest accrued not yet due	7	2
Sight accounts	-	-
TOTAL	6,720	4,215

b. Analysis by residual maturity

See note 7.4

3.2 - DEBT SECURITIES

a. Analysis by nature

	12/31/2016	12/31/2017
Certificates of deposit	595	625
Euro medium term notes ⁽¹⁾	976	2,793
<i>Obligations foncières</i>	48,289	45,156
Registered covered bonds	7,821	7,741
TOTAL	57,681	56,315

(1) Contrary to obligations foncières, these bonds do not benefit from the legal privilege. This subdivision was not specified in the financial statements as of December 13, 2016.

b. Analysis by residual maturity

See note 7.4

3.3 - TAX LIABILITIES

	12/31/2016	12/31/2017
Current income tax	5	1
Other taxes	1	0
Current tax liabilities	6	1
Deferred tax liabilities (see note 4.2)	-	-
TOTAL TAX LIABILITIES	6	1

3.4 - ACCRUALS AND OTHER LIABILITIES

	12/31/2016	12/31/2017
Cash collateral received	1,856	1,276
Other accrued charges	35	40
Deferred income	-	-
Contributions to the support funds ⁽¹⁾	136	110
Other accounts payable and other liabilities	7	8
TOTAL	2,034	1,434

(1) The item corresponds the residual balance of the commitment CAFFIL 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 a commitment to contribute to the support fund for public healthcare facilities in the amount of EUR 18 million in 2014 and EUR 20 million in 2015.

3.5 - PROVISIONS

	12/31/2016	12/31/2017
Provision on pensions	7	7
Tax provisions ⁽¹⁾	38	41
TOTAL	45	48

(1) For the record, 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 Dublin branch of Dexia Municipal Agency, which has now been closed, and the deductibility of provisions for non-performing loans. In order to safeguard its rights to the disputed adjustment, in 2017 the tax authority initiated a verification procedure relating to the consequences of its previous assessment of taxable income for the 2014 to 2016 fiscal years. The two points of disagreement resulting from the 2015 assessment still held following this tax audit. There were no other new developments.

In 2016 and 2017, Caisse Française de Financement Local introduced the right of appeal stipulated by regulations and maintained its position. In 2017, the provisions recorded in 2015 were however adjusted for due interest regarding the new fiscal year.

4. Other notes on the balance sheet (EUR millions)**4.1 - DERIVATIVES****a. Analysis by nature**

	12/31/2016		12/31/2017	
	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss	-	4	-	4
Derivatives designated as fair value hedges	4,527	6,464	3,356	5,422
Derivatives designated as cash flow hedges	5	140	3	56
Derivatives designated as portfolio hedges	1,918	3,283	1,360	2,587
Hedging derivatives	6,450	9,887	4,719	8,065
CVA /DVA Impact	(9)	(26)	(4)	(2)
TOTAL DERIVATIVES	6,441	9,865	4,715	8,067

b. Detail of derivatives designated as fair value hedges

	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

	12/31/2017			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	7,108	7,290	174	387
Interest rate derivatives	60,429	60,394	3,182	5,035
TOTAL	67,537	67,684	3,356	5,422

c. Detail of derivatives designated as cash flow hedges

	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

	12/31/2017			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	499	521	3	56
Interest rate derivatives	-	-	-	-
TOTAL	499	521	3	56

	12/31/2016	12/31/2017
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

	12/31/2016			
	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

	12/31/2017			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	67 646	67 642	1 360	2 587
TOTAL	67 646	67 642	1 360	2 587

4.2 - DEFERRED TAXES

Deferred tax and assets and liabilities are netted out when they concern the same tax entity.

a. Analysis by nature

	12/31/2016	12/31/2017
Deferred tax assets before impairment	113	64
Impairment on deferred tax assets	-	-
Deferred tax assets	113	64
Deferred tax liabilities	-	-
TOTAL	113	64

b. Movements

	12/31/2016	12/31/2017
As of January 1	116	113
Charge/credit recognized in the income statement	3	(33)
Effect of change in tax rates - impact on the income statement	(14)	(2)
Movements directly recognized in equity	8	(14)
Effect of change in tax rates - impact on equity	-	-
Translation adjustment	-	-
Other movements	-	-
As of December 31	113	64

(1) The SFIL Group took into account the legislative measures reducing the tax rate on companies to 25% as of 2022. To this end, it reduced the inventory of actions deferred taxes by EUR 2 million.

c. Deferred taxes from assets on the balance sheet

	12/31/2016	12/31/2017
Loans	347	705
Securities	58	60
Derivatives	(141)	(183)
Accruals and other assets	13	14
TOTAL	277	596

d. Deferred taxes from liabilities on the balance sheet

	12/31/2016	12/31/2017
Borrowings, deposits and issues of debt securities	(164)	(532)
Derivatives	-	-
Provisions	-	-
Accruals and other liabilities	-	-
TOTAL	(164)	(532)

4.3 - TRANSACTIONS WITH RELATED PARTIES**Analysis by nature**

	Parent company and entities consolidated ⁽¹⁾		Other related parties ⁽²⁾	
	12/31/2016	12/31/2017	12/31/2016	12/31/2017
ASSETS				
Loans and advances	-	-	-	-
Bonds	-	-	100	57
LIABILITIES				
Due to banks - sight accounts	-	-	-	-
Due to banks - term loans	-	-	6,720	4,215
INCOME STATEMENT				
Interest income on loans and advances	-	-	(13)	(12)
Interest income on bonds	-	-	(0)	(0)
Interest expense on borrowings	-	-	(37)	(20)
Fees and commissions	-	-	4	4
OFF-BALANCE SHEET				
Foreign exchange derivatives	-	-	-	-
Interest rate derivatives	-	-	863	554
Commitments and guarantees received	-	-	5,023	7,031
Commitments and guarantees issued	-	-	5,220	4,821

(1) This item exclusively includes the Caisse Française de Financement Local, which is fully integrated.

(2) This item 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

	12/31/2016	12/31/2017
Unrealized gains and losses on available for sale securities	(78)	(47)
Germany	(0)	0
Belgium	-	0
Canada	0	-
Spain	0	1
United States	(10)	0
France	(4)	0
United Kingdom	-	0
Italy	(64)	(48)
Norway	-	(0)
Netherlands	-	(0)
Sweden	-	(0)
Unrealized gains and losses on loans and receivable securities	(81)	(78)
Spain	(1)	(1)
France	3	2
Italy	(83)	(79)
Unrealized gains and losses on derivatives designated as cash-flow hedges	(36)	(29)
Unrealized gains and losses on employee benefits plan	(1)	(1)
TOTAL	(196)	(155)
Deferred taxes on gains and losses, available for sale securities	27	16
Deferred taxes on gains and losses, loans and receivable securities	28	27
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	13	10
Deferred taxes on employee benefits plan	0	0
TOTAL	(128)	(102)

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 exposures, i.e. the notional amounts after deduction of specific impairment and taking into account accrued interest.

	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	-	-	-	-	-	-
	12/31/2017					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	203	-	451	-	-	654
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	112	-	-	112
TOTAL	203	-	563	-	-	766
UNREALIZED GAINS AND LOSSES ON AVAILABLE FOR SALE SECURITIES	1	-	(48)	-	-	(47)
UNREALIZED GAINS AND LOSSES ON LOANS AND RECEIVABLE SECURITIES	-	-	-	-	-	-

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General information

5. Notes to the income statement (EUR millions)

5.1 - INTEREST INCOME - INTEREST EXPENSE

	2016	2017
INTEREST INCOME	3,341	2,657
Central banks	0	-
Loans and advances due from banks	10	2
Loans and advances to customers	1,435	1,335
Financial assets available for sale	38	35
Financial assets held to maturity	-	-
Derivatives used for hedging	1,848	1,280
Impaired assets	-	-
Other	10	5
INTEREST EXPENSE	(3,199)	(2,483)
Accounts with central banks	(18)	(16)
Due to banks	(27)	(15)
Customer borrowings and deposits	-	-
Debt securities	(1,582)	(1,308)
Subordinated debt	-	-
Derivatives used for hedging	(1,572)	(1,140)
Other	0	(4)
INTEREST MARGIN	142	174

5.2 - FEES AND COMMISSIONS

	2016			2017		
	Income	Expense	Net	Income	Expense	Net
Lending activity	4	-	4	4	-	4
Purchase and sale of securities	-	(1)	(1)	-	(1)	(1)
Financial engineering	-	-	-	-	-	-
Services on securities other than custodian services	-	(3)	(3)	-	(3)	(3)
Issuance and underwriters of securities	-	(0)	(0)	3	-	3
TOTAL	4	(4)	(0)	7	(4)	3

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

	2016	2017
Net trading income	6	2
Net result of hedge accounting	(21)	(9)
Net result of foreign exchange transactions	(1)	0
TOTAL	(16)	(7)

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

	2016	2017
Fair value hedges	(4)	11
Fair value changes in the hedged item attributable to the hedged risk	514	(46)
Fair value changes in the hedging derivatives	(518)	57
Cash-flow hedges	-	-
Fair value changes in the hedging derivatives - ineffective portion	-	-
Discontinuation of cash-flow hedge accounting (Cash-flow no longer expected to occur)	-	-
Portfolio hedge	(1)	0
Fair value changes in the hedged item	12	(223)
Fair value changes in the hedging derivatives	(13)	223
CVA / DVA Impact⁽¹⁾	(16)	(20)
TOTAL	(21)	(9)

(1) The effect of the application of IFRS Standard 13 brought to light a net charge as of December 31, 2017, of EUR -20 million for the year; this amount was derived using the DVA income for EUR -24 million and the CVA for EUR +5 million.

5.4 - NET RESULT OF FINANCIAL ASSETS AVAILABLE FOR SALE

	2016	2017
Net result of disposals of loans and securities available for sale	1	0
Net result of disposals of debt securities	(3)	(4)
Net result of the sale or cancellation of loans and advances	15	18
Net result of the sale of property and equipment or intangible assets	0	-
TOTAL	13	14

5.5 - OPERATING EXPENSE

	2016	2017
Payroll costs	(49)	(51)
Other general and administrative expense	(42)	(44)
Taxes	(11)	(12)
TOTAL	(102)	(107)

5.6 - DEPRECIATION AND AMORTIZATION, PROPERTY AND EQUIPEMENT AND INTANGIBLE ASSETS

	2016	2017
Depreciation and amortization, property and equipment ⁽¹⁾	(1)	(1)
Depreciation and amortization, intangible assets ⁽¹⁾	(4)	(5)
TOTAL	(5)	(6)

(1) See notes 2.6 and 2.7

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5.7 - COST OF RISK

	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

	2017			Total
	Collective impairment	Specific impairment and losses	Contribution to support fund	
Credit (loans, commitments and securities held to maturity)	16	6	-	22
Fixed income securities available for sale	-	-	-	-
TOTAL	16	6	-	22

Detail of collective and specific impairments

Collective impairment	2016			2017		
	Charges	Recoveries and uses	Total	Charges	Recoveries and uses	Total
Loans and borrowings	(2)	20	18	(1)	17	16
Off-balance sheet commitments	-	-	-	-	-	-
TOTAL	(2)	20	18	(1)	17	16

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

Specific Impairment	2017				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(0)	6	-	-	6
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	(0)	6	-	-	6
Fixed income securities	-	-	-	-	-
TOTAL	(0)	6	-	-	6

5.8 - CORPORATE INCOME TAX

a. Detail of tax expense

	2016	2017
Current taxes	(19)	(1)
Deferred taxes	(12)	(35)
Tax on prior years' income	(0)	-
Deferred taxes on prior years	-	-
Provisions for tax litigation	-	(3)
TOTAL	(31)	(39)

b. Effective tax expense as of December 31, 2017

The difference with the French tax rate can be analysed as follows:

	2016	2017
INCOME BEFORE INCOME TAXES	49	(93)
Net income from associates	-	-
TAX BASE	49	(93)
Applicable tax rate at end of the period	34,43%	34,43%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	(17)	(32)
Tax effect of non-deductible expenses	(2)	(2)
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Other additional taxes or tax savings	2	(0)
Liability method	-	-
Provisions for tax litigation	-	(3)
Change in corporate income tax rate in 2022 ⁽¹⁾	(14)	(2)
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	(31)	(39)

(1) The SFIL Group took into account the legislative measures reducing the tax rate on companies to 25% as of 2022. To this end, it reduced the inventory of actions deferred taxes by EUR 2 million.

c. Tax consolidation

Caisse Française de Financement Local has been a member of SFIL tax group since January 1, 2014.

6. Note on off-balance sheet items (EUR millions)**6.1 - REGULAR WAY TRADE**

	12/31/2016	12/31/2017
Assets to be delivered	-	-
Liabilities to be received	-	-

6.2 - GUARANTEES

	12/31/2016	12/31/2017
Guarantees received from credit institutions	84	22
Guarantees received from Coface ⁽¹⁾	2,597	3,247
Commitments on loan guarantees received	3,722	3,248
Guarantees received from customers ⁽²⁾	2,863	2,549

(1) Irrevocable and 100% unconditional guarantees issued by the French State to the benefit of SFIL to finance large export loans.

(2) Guarantees received from customers are generally given by local governments.

6.3 - FINANCING COMMITMENTS

	12/31/2016	12/31/2017
Loan commitments granted to credit institutions	-	-
Loan commitments granted to customers ⁽¹⁾	2,722	3,318
Loan commitments received from credit institutions ⁽²⁾	4,972	7,031
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, 2017. The amount as of December 31, 2017, included a commitment of EUR 3,028 million on an operation in the new business line of export credit.

(2) At the end of 2017, these commitments corresponded to funding commitments received from Caisse des dépôts et consignations and La Banque Postale to SFIL for respectively EUR 6,843 million and EUR 188 million.

SFIL recorded the total of its commitments related to the only tranches existing, which is limited to EUR 6,843 million. This amount does not take into account the possibility stipulated in the financing agreement with Caisse des dépôts et consignations to negotiate additional funding in good faith. Since the principal in a loan may not exceed EUR 12,5 billion, this financing would be at most EUR 2,500 million as of December 2017.

6.4 - OTHER COMMITMENTS

	12/31/2016	12/31/2017
Commitments granted ⁽¹⁾	5,220	4,826
Commitments received ⁽²⁾	232	226

(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 government entity.

7. Notes on risk exposure (EUR millions)

7.1 - FAIR VALUE

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

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

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

a. Composition of the fair value of the assets

	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)

	12/31/2017		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	2,560	2,560	-
Loans and advances due from banks	295	307	12
Loans and advances to customers	57,014	54,000	(3,014)
Financial assets available for sale	2,790	2,790	-
Derivatives	4,715	4,715	-
TOTAL	67,374	64,372	(3,002)

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

	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

	12/31/2017		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	4,215	4,259	44
Derivatives	8,067	8,067	-
Debt securities	56,315	57,603	1,288
TOTAL	68,597	69,929	1,332

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

The fair value of a financial instrument is assessed based on observable market prices for this instrument or for a comparable instrument, or using an assessment technique that relies on observable market data.

A hierarchy of methods used to assess fair value has been established; it features the following 3 levels:

- Level 1: instruments that are considered liquid, i.e. their value is derived from an observed price on a liquid market, for which SFIL is assured to have a large number of contributors. Level 1 securities include some State bonds.
- Level 2: instruments for which SFIL cannot directly observe the market price, but has observed it for similar listed instruments of the same issuer or guarantor. In this case, the prices and other observable market data are used, and an adjustment is performed to take the degree of liquidity of the security into account.
- In level 3, instruments for which there is no active market or observable market data; they are therefore valued by using a valuation spread that stems from an internal model. Level 3 derivative instruments are valued using various internally developed assessment models.

SFIL has reviewed its approach for qualifying the valuation of derivative instruments. The qualification of derivatives is based on a combined analysis of the observability of market data in the valuation and the robustness of the assessment models, as measured in terms of their effectiveness in supplying a market consensus value. This application shows that the derivatives used by the SFIL Group for hedging its activities are mainly level 2.

The level 3 derivative classification is mainly made up of structured hybrid products (rate-exchange), of spread products (correlation) and interest rate options.

This classification is primarily due to the fact that these products offer complicated payoffs, which require prior statistical modelling involving variable parameters and are sometimes unobservable in the market.

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 assets	12/31/2017			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Central banks	2,560	-	-	2,560
Loans and advances due from banks	16	-	291	307
Loans and advances to customers	488	2,868	50,644	54,000
Subtotal of assets at amortized costs	3,064	2,868	50,935	56,867
Financial assets available for sale	1,863	927	-	2,790
Hedging derivatives	-	4,155	560	4,715
Subtotal of assets at fair value	1,863	5,082	560	7,505
TOTAL	4,927	7,950	51,495	64,372

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
Subtotal of liabilities at amortized costs	-	65,507	-	65,507
Hedging derivatives	-	8,577	1,288	9,865
Subtotal of liabilities at fair value	-	8,577	1,288	9,865
TOTAL	-	74,084	1,288	75,372

Fair value of financial liabilities	12/31/2017			
	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3 ⁽³⁾	Total
Due to banks	-	4,259	-	4,259
Debt securities	-	57,603	-	57,603
Subtotal of liabilities at amortized costs	-	61,862	-	61,862
Hedging derivatives	-	7,166	901	8,067
Subtotal of liabilities at fair value	-	7,166	901	8,067
TOTAL	-	69,028	901	69,929

(1) Price quoted 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 changes in reasonably possible hypotheses

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

	12/31/2016	12/31/2017
Uncertainty inherent in level 3 market parameters	20	5
Uncertainty inherent in level 3 derivatives valuation models	32	36
Sensitivity of the market value of level 3 financial instruments	52	41

d. Transfer between levels 1 and 2

	12/31/2016	12/31/2017
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
12/31/2016	-	594	594	1,288	1,288
Total gains and losses through profit and loss	-	1	1	(48)	(48)
Total unrealized or deferred gains and losses	-	(19)	(19)	161	161
Total OCI unrealized or deferred gains and losses	-	-	-	-	-
Purchase	-	4	4	12	12
Sales	-	-	-	-	-
Direct origination	-	-	-	-	-
Settlement	-	2	2	-	-
Transfer in activities destined to be transferred	-	-	-	-	-
Transfer to level 3	-	-	-	91	91
Transfer out of level 3	-	(22)	(22)	(603)	(603)
Other variations	-	-	-	-	-
12/31/2017	-	560	560	901	901

7.2 - OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

	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 and 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

	12/31/2017					
	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 and 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	4,715	-	4,715	(3,493)	(1,039)	183
Loans and advances due from banks	295	-	295	-	-	295
Loans and advances to customers	57,014	-	57,014	-	-	57,014
TOTAL	62,024	-	62,024	(3,493)	(1,039)	57,492

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

	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 and 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

	12/31/2017					
	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 and 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	8,067	-	8,067	(3,493)	(2,189)	2,385
Loans and advances due from banks	4,215	-	4,215	-	-	4,215
Loans and advances to customers	-	-	-	-	-	-
TOTAL	12,282	-	12,282	(3,493)	(2,189)	6,600

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7.3 - EXPOSURE TO CREDIT RISK

Exposure to credit risks, as presented to management, includes the following:

- for assets other than derivatives: the amount on the balance sheet (i.e. after deduction of specific provisions);
- for derivatives: the market value on the balance sheet plus an add-on representing a margin for future potential credit risks;
- 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

	12/31/2016	12/31/2017
France	61,904	58,710
Belgium	176	219
Italy	6,687	6,161
Spain	542	487
Germany	623	371
United Kingdom	286	229
Switzerland	1,685	1,339
Norwen	-	102
Other European Union countries	61	301
United States and Canada	700	513
Japan	41	39
Others	211	123
TOTAL EXPOSURE	72,916	68,594

Analysis of exposure by category of counterparty

	12/31/2016	12/31/2017
States	10,239	8,350
Local public sector	61,518	58,878
ABS	-	-
Other - guaranteed by local public sector	23	22
Financial institutions	1,136	1,344
TOTAL EXPOSURE	72,916	68,594

Analysis of exposure by category of instrument

	12/31/2016	12/31/2017
Debt securities	2,047	2,808
Loans and advances	68,088	62,588
Guarantee	10	10
Financing commitments on loans	2,722	3,117
Hedging derivatives	49	71
TOTAL EXPOSURE	72,916	68,594

Evaluation of asset credit quality

This enables SFIL to present on December 31, 2017, below 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 95.4% 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	611	1,025	544	628	2,808
Loans and advances	51,916	8,749	287	1,636	62,588
Guarantee	-	10	-	-	10
Financing commitments on loans	3,117	0	-	-	3,117
Hedging derivatives	41	1	8	21	71
TOTAL EXPOSURE	55,685	9,785	839	2,285	68,594
SHARE OF TOTAL EXPOSURE	81.2%	14.3%	1.2%	3.3%	100.0%

The metric used is the MCRE (Maximum Credit Risk Equivalent).

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 BY TERM TO MATURITY**a. Analysis of assets**

	12/31/2017						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	2,560	-	-	-	-	-	2,560
Derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	276	709	1,086	515	-	2,586
Loans and advances due from banks	16	75	94	23	84	-	292
Loans and advances to customers	5	1,643	3,305	15,662	32,893	-	53,508
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	14	-	-	64	78
Tangible assets	-	-	-	-	-	9	9
Intangible assets	-	-	-	-	-	40	40
Accruals and other assets	-	2,350	14	-	-	64	2,428
TOTAL	2,581	4,344	4,136	16,771	33,492	177	61,501

	12/31/2017				Total
	Total broken down	Accrued interest	Fair value adjustment	Impairment	
Central banks	2,560	-	-	-	2,560
Derivatives	-	752	3,963	-	4,715
Financial assets available for sale	2,586	14	190	-	2,790
Loans and advances due from banks	292	2	1	-	295
Loans and advances to customers	53,508	593	2,966	(53)	57,014
Fair value revaluation of portfolio hedge	-	-	2,518	-	2,518
Financial assets held to maturity	-	-	-	-	-
Tax assets	78	-	-	-	78
Tangible assets	9	-	-	(3)	6
Intangible assets	40	-	-	(11)	29
Accruals and other assets	2,428	(1)	-	-	2,427
TOTAL	61,501	1,360	9,638	(67)	72,432

b. Analysis of liabilities, excluding equity

	12/31/2017						
	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	-	-	4,219	-	-	-	4,219
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	2,191	2,158	19,493	29,192	-	53,034
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	1	-	-	-	1
Accruals and other liabilities	-	1,319	15	40	60	-	1,434
Provisions	-	-	-	48	-	-	48
Subordinated debt	-	-	-	-	-	-	-
TOTAL	-	3,510	6,393	19,581	29,252	-	58,736

	12/31/2017			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Derivatives	-	543	7,524	8,067
Due to banks	4,219	2	(6)	4,215
Customer borrowings and deposits	-	-	-	-
Debt securities	53,034	750	2,531	56,315
Fair value revaluation of portfolio hedge	-	-	883	883
Tax liabilities	1	-	-	1
Accruals and other liabilities	1,434	(0)	-	1,434
Provisions	48	-	-	48
Subordinated debt	-	-	-	-
TOTAL	58,736	1,295	10,932	70,963

c. Net liquidity gap

	12/31/2017							
	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	Total
AMOUNT	2,581	834	(2,257)	(2,810)	4,240	177	(1,296)	1,469

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. SFIL Group's liquidity is provided by its refinancing agreement with its shareholders and by issue *obligations financières*. In addition, Caisse Française de Financement Local may obtain funding from the Banque de France, by giving certain of these assets in guarantee. Caisse Française de Financement Local can thus obtain funding from the Banque de France enabling it to reimburse *obligations foncières* when they arrive at maturity; the assets given in guarantee are therefore excluded (as well as the matured bonds) from the calculation of the solvency ratio, which remains practically unchanged.

7.5 - RISK ON RESETTING OF INTEREST RATES: ANALYSIS BY TIME UNTIL NEXT INTEREST RATE RESET DATE

a. Analysis of assets

	12/31/2017						
	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	2,560	-	-	-	-	-	2,560
Derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	565	500	1,086	435	-	2,586
Loans and advances due from banks	16	75	94	23	84	-	292
Loans and advances to customers	5	7,077	8,453	11,929	26,044	-	53,508
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Financial assets held to maturity	-	-	-	-	-	-	-
Tax assets	-	-	14	-	-	64	78
Tangible assets	-	-	-	-	-	9	9
Intangible assets	-	-	-	-	-	40	40
Accruals and other assets	-	2,350	14	-	-	64	2,428
TOTAL	2,581	10,067	9,075	13,038	26,563	177	61,501

	12/31/2017					
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total	
Central banks	2,560	-	-	-	2,560	
Derivatives	-	752	3,963	-	4,715	
Financial assets available for sale	2,586	14	190	-	2,790	
Loans and advances due from banks	292	2	1	-	295	
Loans and advances to customers	53,508	593	2,966	(53)	57,014	
Fair value revaluation of portfolio hedge	-	-	2,518	-	2,518	
Financial assets held to maturity	-	-	-	-	-	
Tax assets	78	-	-	-	78	
Tangible assets	9	-	-	(3)	6	
Intangible assets	40	-	-	(11)	29	
Accruals and other assets	2,428	(1)	-	-	2,427	
TOTAL	61,501	1,360	9,638	(67)	72,432	

b. Analysis of liabilities, excluding equity

	12/31/2017						
	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	-	-	4,219	-	-	-	4,219
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	2,211	2,138	19,493	29,192	-	53,034
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	1	-	-	-	1
Accruals and other liabilities	-	1,334	-	40	60	-	1,434
Provisions	-	-	-	48	-	-	48
Subordinated debt	-	-	-	-	-	-	-
TOTAL	-	3,545	6,358	19,581	29,252	-	58,736

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Shareholders' Meeting of May 29, 2018

General information

	12/31/2017			Total
	Total broken down	Accrued interest	Fair value adjustment	
Central banks	-	-	-	-
Derivatives	-	543	7,524	8,067
Due to banks	4,219	2	(6)	4,215
Customer borrowings and deposits	-	-	-	-
Debt securities	53,034	750	2,531	56,315
Fair value revaluation of portfolio hedge	-	-	883	883
Tax liabilities	1	-	-	1
Accruals and other liabilities	1,434	0	-	1,434
Provisions	48	-	-	48
Subordinated debt	-	-	-	-
TOTAL	58,736	1,295	10,932	70,963

c. Net liquidity gap

	12/31/2017					No fixed maturity	Total not broken down	Total
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years			
AMOUNT	2,581	6,522	2,717	(6,543)	(2,689)	177	(1,296)	1,469

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. SFIL Group's liquidity is provided by its refinancing agreement with its shareholders and by issue *obligations foncières*. In addition, Caisse Française de Financement Local may obtain funding from the Banque de France, by giving certain of these assets in guarantee. Caisse Française de Financement Local can thus obtain funding from the Banque de France enabling it to reimburse *obligations foncières* when they arrive at maturity; the assets given in guarantee are therefore excluded (as well as the matured bonds) from the calculation of the solvency ratio, which remains practically unchanged.

7.6 - CURRENCY RISK

Classification by original currency	12/31/2016				Total
	EUR	Other EU currencies	U.S. dollars	Other currencies	
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	-	-	-	-	-

Classification by original currency	12/31/2017				Total
	EUR	Other EU currencies	U.S. dollars	Other currencies	
Total assets	69,202	1,380	1,263	587	72,432
Total liabilities	69,202	1,380	1,263	587	72,432
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 CAFFIL:

- In the first stage, all the assets and the liabilities benefiting from the privilege which do not naturally have a floating rate are hedged against Euribor until maturity as soon as they are recorded on the balance sheet. In practice, acquisitions of loan portfolios (in which the unit amount is generally small) are usually macro-hedged. Loans granted individually or bond issues can be micro- or macro-hedged. Hedging of assets and liabilities is more often obtained in using new interest rate swaps, but the same effect can also be obtained whenever possible by the cancelation of swaps of opposite direction;
- In the second step, macro-swaps are conducted against Eonia over a maximum period of two years in order to limit the volatility of income linked to the fixing risk (owing to refixing dates based on different reference indices in the assets and the 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 (translations, 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 makes it possible to have a grasp of the slope risk, as well as the directional risk.

The measures of sensitivity at the end of quarters for a change of 100 bp in interest rates are presented below:

Directional risk

Total sensitivity

End of quarter	Limit	3/31/2017	6/30/2017	9/30/2017	12/31/2017
Sensitivity	25.0	(0.1)	(1.6)	1.0	1.5

Risk of slope between two distant points on the rate curve

Sum of sensitivities

End of quarter	Limit	3/31/2017	6/30/2017	9/30/2017	12/31/2017
Short term	10.0	0.1	0.4	(1.7)	0.2
Medium term	10.0	2.0	(4.5)	(2.4)	(4.6)
Long term	10.0	(2.6)	1.5	3.8	3.1
Very long term	10.0	0.4	1.1	1.3	2.7

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

End of quarter	Limit	3/31/2017	6/30/2017	9/30/2017	12/31/2017
Short term	20.0	3.3	7.8	10.2	11.6
Medium term	20.0	5.1	12.4	10.9	14.8
Long term	20.0	4.9	3.5	7.1	3.6
Very long term	20.0	5.3	5.6	6.5	6.9

For SFIL:

As regards 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 with 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, 2017.

9. STATUTORY AUDITOR'S FEES IN 2017 (EUR thousands)

EUR thousands	Mazars				Deloitte & Associés				Ernst & Young et Autres			
	Amount including VAT		%		Amount including VAT		%		Amount including VAT		%	
	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
Audit services rendered												
Audit, certification, examination of company financial statements	390	31	80%	66%	390	379	78%	78%	-	348	-	86%
of which SFIL	132	31	-	-	132	139	-	-	-	108	-	-
Other than the certification of the financial statements	98	16	20%	34%	110	106	22%	22%	-	59	-	14%
of which SFIL	28	-	-	-	40	55	-	-	-	36	-	-
Sub-total	488	46	100%	100%	500	484	100%	100%	-	407	-	100%
Other services												
Legal, tax, labor issues	-	-	-	-	-	-	-	-	-	-	-	-
Internal audit	-	-	-	-	-	-	-	-	-	-	-	-
Other (to specify if > 10% of audit fees)	-	-	-	-	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL	488	46	100%	100%	500	484	100%	100%	-	407	-	100%

In 2017, services other than the certification of the financial statements included missions to review the social, environmental and societal data in the management report and the issue of letters of comfort for the update of programs for the issue of securities and for issues.

Statutory auditors' report on the consolidated financial statements For the year ended December 31, 2017

To the Annual General Meeting of SFIL,

OPINION

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying consolidated financial statements of SFIL for the year ended December 31, 2017.

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 at December 31, 2017 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.

The audit opinion expressed above is consistent with our report to the Audit Committee ("Comité des Comptes").

BASIS FOR OPINION

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January, 1 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics (Code de déontologie) for Statutory Auditors.

Justification of Assessments – Key Audit Matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the Code of Commerce (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Credit Risk related to French local communities

Considerations

The loans and advances to customers is one the largest items of the balance sheet as of December 31, 2017 appearing for a net amount of EUR 57,014 million.

The outstanding amount of loans and receivables to French local communities alone represents main part of the credit stock. These loans and receivables to French local communities correspond mainly to loans acquired from *La Banque Postale* (LBP) and the remaining stock of loans and sensitive loans that were transferred to SFIL from *Dexia Crédit Local*.

As stated in the first note to annual consolidated financial statements, if there is an objective indication of deterioration of the credit risk, a specific depreciation is accounted for. In a context of refinement of the estimation method of the recoverability of the cash flow, the amount of the impairment is calculated as the difference between the value of the assets on the balance sheet and its recoverable value. The recoverable value are the recoverable cash-flows discounted at the effective interest rate of the asset at the origin of expected cash-flow, net of the guarantees and collateral. As of December 31, 2017, the stock of specific impairment amounts to EUR 22.9 million.

The Risks division of SFIL sets the policies, guidelines and procedures related to credit risk. It is responsible for overseeing the process of credit analysis and internal rating (either using internal rating based on a statistical modeling systems, or to an expert).

The estimation of specific impairments on the French local communities requires the identification of the assets exposed to credit risk, and a judgmental exercise of the Risks division to assess the recoverability of the cash-flows. Given the inherent uncertainty of some elements, including the probability of recovery scenarios, we regard the estimate of specific impairments of the loans and advances to French local communities to be a significant risk to our accounting

Summary of planned audit procedure

With the support of our experts in local public sector, our credit risk modelling expert and our IT specialists we have reviewed:

The acquisition process of loans originally granted by LBP in order to assess the quality of the acquired loans;

The credit risk monitoring process, including by

Acknowledging the role of the specialized committees and the controls assessing the credit risk;

- Acknowledging the role of the specialized committees and the controls assessing the credit risk;
- Reviewing the minutes of these committees and the internal audit reports;
- Reviewing the follow-up process of high-risk structured loans as part of the desensitization policy;
- Analyzing the internal rating update process (frequency, criteria...);
- Reviewing the identification process of loans with a higher-risk profile that require an estimate of a specific depreciation
- Reviewing healthy loans, via the selection of a panel, in order to ensure the correct classification of loans between healthy and doubtful loans

The assessment process of the Risks division toward the determination of specific impairments on French local communities, which is based on their financial structure, in particular by:

- Testing, via a panel, the selected cash-flows used for the determination of specific impairments, net of potential guarantees or collateral;
- Testing, via a panel, the actualization of these cash-flows used for the determination of specific impairments;
- Reviewing the contagion process of doubtful loans.

Valuation of derivative instruments – measurement of the fair value of derivative instruments classified in level 2 and 3

Risk identified

As part of its business activities, the SFIL Group owns financial instruments.

When no active market exists or there is no directly observable market data, the SFIL Group uses, to calculate the fair value of financial instruments classified in level 2 and 3, valuation techniques based on observable data for similar instruments or internal models which are based on data which is not observable on the market, as indicated in chapter C of Note 7.1 “Fair value” to the consolidated financial statements. The models and parameters used to value these financial instruments are based on estimates.

As of December 31, 2017, the fair value of the derivative instruments measured in level 2 and 3 amounts to EUR 4.715 million in assets and EUR 8.067 million in liabilities as of 12/31/2017, respectively, as indicated in Note 7.1 c. to the consolidated financial statements.

Due to the complexity in determining valuation models, the sensitivity of these models to the assumptions used by Risk Management, and the uncertainty inherent to judgments used to estimate the level 3 parameters, we consider the valuation of financial instruments classified in level 2 and 3 to be a key audit matter.

Our response

Our audit approach is focused on certain key processes of the internal control framework related to the valuation of derivative financial instruments, notably:

- governance principles set up for new products and their related models,
- regular review and validation of the valuation models by Risk Management,
- compliance of the accounting treatments in conjunction with our IFRS experts,
- verification of market data and parameters used in the models,
- criteria used to classify the instruments in accordance with their fair value levels.

With the support of our experts in risk modeling and valuation techniques, we have created an approach including the following main steps:

- Critical analyzing the authorization and validation processes for new products and their valuation models;
- Critical analyzing the governance principles set up as part of the verification of the valuation models used by Risk Management;
- Verifying certain market parameters used to create valuation models;
- Reviewing Mark to Market changes in derivative instruments and their verification by Risk Management;
- Obtaining the results of independent valuation verification processes based on non-market data and analysis of market data in the event of a material impact;

- Verifying that the estimates used are based on documented methods in accordance with the principles described in chapter C of Note 7.1 “Fair value” to the consolidated financial statements and an analysis of the criteria used to determine fair value levels;
- Reviewing the information provided in the notes of the financial statements.

Verification of the Information Pertaining to the Group Presented in the Management Report

As required by law, we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the management report of the group.

Information provided in the Management Report and in the Other Documents Provided to the Shareholders with respect to the financial position and the financial statements

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements of the information given in the management report of the Board of Directors and in the other documents provided to the Shareholders with respect to the financial position and the financial statements.

Report on Corporate Governance

We attest that the Board of Directors’ Report on Corporate Governance sets out the information required by articles L.225-37-3 and L.225-37-4 of the Code of Commerce. Concerning the information given in accordance with the requirements of article L.225-37-3 of the Code of Commerce relating to remunerations and benefits received by the directors and any other commitments made in their favor, 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 controlling and controlled companies. Based on these procedures, we attest the accuracy and fair presentation of this information.

Report on Other Legal and Regulatory Requirements

Appointment of the statutory auditors

We were appointed as statutory auditors of SFIL by the annual general meeting held on January, 29 2013 for Deloitte et Associés and on May, 31 2017 for Ernst & Young et Autres.

As at December 31, 2017 Deloitte et Associés and Ernst & Young et Autres were in the 5th year and the 1st year of total uninterrupted engagement.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee ("Comité des Comptes") is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in article L.823-10-1 of the Code of Commerce (Code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and

related disclosures made by management in the consolidated financial statements.

- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee ("Comité des Comptes")

We submit a report to the Audit Committee ("Comité des Comptes") which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee ("Comité des Comptes") includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters, that we are required to describe in this report.

We also provide the Audit Committee ("Comité des Comptes") with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by articles L.822-10 to L.822-14 of the Code of Commerce (Code de commerce) and in the French Code of Ethics (Code de déontologie) for Statutory Auditors. Where appropriate, we discuss with the Audit Committee ("Comité des Comptes") the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Neuilly-sur-Seine and Paris-La Défense, April 3, 2018

The statutory auditors
French original signed by

Deloitte & Associés
Sylvie Bourguignon

Ernst & Young et Autres
Vincent Roty

Mission

LOCAL REFINANCING

Leader

in local public sector financing,
in partnership with La Banque
Postale

15,000

borrowers throughout the local
public sector

23%

market share

EUR 20 billion

in local public sector loans since
the start of its business

Annual financial statements

in accordance with French GAAP

Assets as of December 31, 2017

EUR millions	Note	12/31/2016	12/31/2017
Central banks	2.1	1,194	853
Government and public securities	2.2	101	124
Loans and advances to banks	2.3	5,233	4,827
Loans and advances to customers	2.4	11	204
Bonds and other fixed income securities	2.5	200	616
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	35
Intangible assets	2.7	20	29
Property and equipment	2.8	7	6
Other assets	2.9	2,289	2,380
Accruals and other assets	2.10	559	574
TOTAL ASSETS	2.11	9,614	9,648

Liabilities as of December 31, 2017

EUR millions	Note	12/31/2016	12/31/2017
Central banks		-	-
Due to banks	3.1	6,724	4,799
Customer borrowings and deposits		-	-
Debt securities	3.2	1,588	3,460
Other liabilities	3.3	603	613
Accruals and other liabilities	3.4	580	627
Provisions	3.5	5	5
EQUITY		114	144
Subscribed capital	3.6	130	130
Additional paid-in capital		-	-
Reserves and retained earnings		(10)	(16)
Net income	3.6	(6)	30
TOTAL LIABILITIES	3.6	9,614	9,648

Off-balance sheet items as of December 31, 2017

EUR millions	Note	12/31/2016	12/31/2017
COMMITMENTS GRANTED	4.1	8,512	11,148
Financing commitments		2,647	3,078
Guarantees granted		645	3,247
Other commitments granted		5,220	4,823
COMMITMENTS RECEIVED	4.2	11,290	13,306
Financing commitments		8,693	10,058
Guarantees received		2,597	3,248
Forward commitments		-	-
Other commitments received		-	-
OTHER COMMITMENTS	4.3	45,475	39,935
Foreign currency transactions		13,974	7,319
Interest rate derivatives		31,501	32,616
Commitments related to securities transactions		-	-

Income statement

EUR millions	Note	2016	2017
Interest income	5.1	29	16
Interest expense	5.1	(47)	(29)
Income from variable income securities		-	35
Commission income	5.2	7	15
Commission expense	5.2	(0)	(0)
Net gains (losses) on trading portfolio	5.3	11	(0)
Net gains (losses) on placement portfolio	5.4	1	(0)
Other income	5.5	89	95
Other expense	5.5	(0)	(0)
NET BANKING INCOME		90	132
General operating expense	5.6	(93)	(97)
Depreciation and amortization		(5)	(6)
OPERATING INCOME BEFORE COST OF RISK		(8)	29
Cost of risk		-	-
INCOME FROM OPERATIONS		(8)	29
Income (loss) on fixed assets		-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		(8)	29
Non-recurring items		-	-
Income tax	5.7	2	1
Net allocation to general banking risks reserve and regulated provisions		-	-
NET INCOME		(6)	30
Basic earnings per share		(0.68)	3.23
Diluted earnings per share		(0.68)	3.23

Equity

EUR millions	Amount
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 year	(6)
Interim dividends	-
EQUITY AS OF 12/31/2016	114
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	30
Other movements	-
AS OF 12/31/2017	
Share capital	130
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	(16)
Net income for the period	30
EQUITY AS OF 12/31/2017	144

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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 ANC 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, 2017, were prepared using the same accounting principles as those used in the financial statements as of December 31, 2016.

The financial statements have been prepared in accordance with French generally accepted accounting principles, respecting the principles of prudence, sincerity and true and faithful image on the basis of the following assumptions:

- going concern principle,
- segregation of accounting periods,
- consistency of methods,
- historical costs,
- no netting principle,
- intangibility of the opening balance sheet.

The accounts are in accordance with the indications of directive 86/635/EEC of the Council of European Communities.

1.2 – ACCOUNTING PRINCIPLES

1.2.1. Loans and advances to banks and to customers

Loans and advances to banks include all loans connected to banking transactions with credit institutions, except securities. They are broken down 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.

- The fraction of capital impaired is determined by Risk Management in function of incurred losses. Underlying impairment charges and reversals are recognized as *Cost of risk* as well as the losses and subsequent recoveries on the principal of non-recoverable loans.
- Interest on non-performing and compromised non-performing loans is fully impaired. Underlying impairment charges and reversals are recognized as *Net interest margin* as well as the losses and subsequent recoveries on the interest of non-recoverable loans.

1.2.2. Securities

Securities held by 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*.

The difference between the redemption value and the acquisition clean cost (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

At the end of the reporting period, unrealized gains are not recognized, and unrealized losses are not recorded except in the following cases:

- a doubt about the issuer's ability to meet his obligations;
- the probability that the company will not hold these securities until maturity due to new circumstances.

Placement investments

Securities that do not fit in investment securities are recognized as placement securities.

Placement 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 as *Interest income*.

The difference between the redemption value and the acquisition clean cost (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

In application of the principle of prudence, placement securities are 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 its selling price. 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 price and previously recognized impairment is reversed over the residual maturity of those securities.

1.2.3. 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.

1.2.4. 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 as *Interest income* for accrued amounts calculated *prorata temporis*.

Bond issue costs and commissions are amortized according to a quasi-actuarial method over the maturity of the related bonds and are recorded in the interest margin as *Interest expense*.

1.2.5. 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.

1.2.6. Derivative transactions

SFIL concludes derivative transactions that can be broken down into two categories: *Micro-hedge transactions* and *Isolated open positions*. The valuation and accounting treatments of these financial instruments depends on the chosen category.

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

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

Micro-hedge transactions

Swaps are booked as micro-hedging transactions when they are designed to hedge interest rate risks or foreign exchange risk 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 ANC 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.

1.2.7. 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 on the one hand the amounts resulting from a market price valuation of the foreign exchange position accounts and on the other hand the amounts recorded in the foreign exchange position equivalent accounts are recorded in the income statement.

1.2.8. 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 customer loans.

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

1.2.9. Guarantees

As part of its activity to refinance large export credits, SFIL enters into credit insurance policies received from BPI France Assurance Export, acting on behalf of the French State. Expenses related to these guarantees are recorded *prorata temporis* in the interest margin as *Interest expense*.

1.2.10. Other banking income

Charges which are not re-invoiced exactly up to the same amount are recorded as other banking income, in accordance with ANC Regulation n° 2014-07 (Article 1123-2).

1.2.11. 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 are those expected to be settled wholly in twelve months after the end of the annual reporting period during which employee services are rendered; they are not discounted and are recognized as an expense of the reporting period.

- 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 either from the decision by SFIL to terminate an employment contract before the legal retirement age or by a decision of voluntary redundancy in exchange for termination benefits. A charge for termination benefits at the end of the employment contract is recorded only when 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 a formal or constructive obligation to provide the agreed benefits to current and former employees. Actuarial and investment risks fall on SFIL; as a result, this obligation is measured and recognized as a liability.

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 is valued by independent actuaries and 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 its covering assets is subject to adjustments due to changes in actuarial assumptions, which results in revaluing the liability (or asset) recognized under defined contribution plans. These re-measurements are recorded according 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 at the end of the previous reporting period.

Under defined benefit plans, the annual expense recognized as staff expenses represents the acquired rights during the reporting period by each employee and 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.

1.2.12. 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 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 materials are depreciated over 3 years. The depreciation period of internally developed softwares 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 *Income (loss) on fixed assets*.

1.2.13. 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.

1.2.14. Tax consolidation

Since January 1, 2014, SFIL is the head of the tax group which consolidates Caisse Française de Financement Local.

1.2.15. 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 States 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

	Amount as of 12/31/2016	Amount as of 12/31/2017
Mandatory reserve deposits with central banks	-	-
Other deposits	1,194	853
TOTAL	1,194	853

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
-	-	124	-	124

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

	Net amount as of 12/31/2016	Gross amount as of 12/31/2017	Impairment as of 12/31/2017	Net amount as of 12/31/2017	Unrealized capital gain or loss as of 12/31/2017 ⁽²⁾
Listed securities ⁽¹⁾	101	124	-	124	1
Other securities	-	-	-	-	-
TOTAL	101	124	-	124	1

(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 12/31/2016	Gross amount as of 12/31/2016	Increases	Decreases	Transfers	Conversion differences	Impair- ment as of 12/31/2016	Net amount as of 12/31/2017 ⁽¹⁾	Unrealized capital gain or loss as of 12/31/2017 ⁽²⁾
Trading	-	-	-	-	-	-	-	-	-
Placement	101	101	124	(101)	-	-	-	124	1
Investment	-	-	-	-	-	-	-	-	-
TOTAL	101	101	124	(101)	-	-	-	124	1

(1) This amount includes a discount / surplus of EUR 2 million.

(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

	Amount as of 12/31/2016	Amount as of 12/31/2017
Sight accounts	8	6
Unallocated sums	-	-
TOTAL	8	6

b. Time loans and advances to banks

This item consists of loans to Caisse Française de Financement Local in the amount of EUR 4,821 million (excluding accrued interest).

b.a. Accrued interest included in this item: 0**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
200	587	2,465	1,569	4,821

b.c. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2016	Gross amount as of 12/31/2017	Impairment as of 12/31/2017	Net amount as of 12/31/2017
Loans of less than 1 year	1,693	200	-	200
Loans of more than 1 year	3,527	4,621	-	4,621
TOTAL	5,220	4,821	-	4,821

b.d. Breakdown by counterparty

	Amount as of 12/31/2016	Amount as of 12/31/2017
Loans to Caisse Française de Financement Local	5,220	4,821
TOTAL	5,220	4,821

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
-	8	54	142	204

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

Economic sector	12/31/2016	12/31/2017
Export credit	-	197
Other sectors ⁽¹⁾	11	7
TOTAL	11	204

(1) This concerns loans granted to employees of SFIL.

d. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2016	Gross amount as of 12/31/2017	Impairment as of 12/31/2017	Net amount as of 12/31/2017
Loans of less than 1 year	-	-	-	-
Loans of more than 1 year	11	204	-	204
TOTAL	11	204	-	204

e. Analysis of loans by category of outstanding commitments excluding accrued interest

	Net amount as of 12/31/2016	Gross amount as of 12/31/2017	Impairment as of 12/31/2017	Net amount as of 12/31/2017
Performing commitments	11	204	-	204
Non-performing loans	-	-	-	-
Compromised non-performing loans	-	-	-	-
TOTAL	11	204	-	204

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
-	440	170	6	616

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

	Amount as of 12/31/2016	Amount as of 12/31/2017	Unrealized capital gain or loss as of 12/31/2017 ⁽¹⁾
Banks	200	616	2
TOTAL	200	616	2
- of which eligible for central bank refinancing	-	-	-

(1) The unrealized capital gain or loss is the difference between accounting value and market value.

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

	Amount as of 12/31/2016	Amount as of 12/31/2017	Unrealized capital gain or loss as of 12/31/2017 ⁽¹⁾
Listed securities	70	266	2
Other securities	130	350	(0)
TOTAL	200	616	2

(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	Net amount as of 12/31/2016	Gross amount as of 12/31/2016	Increases	Decreases	Transfers	Conversion differences	Impairment as of 12/31/2017	Net amount as of 12/31/2017 ⁽¹⁾	Unrealized capital gain or loss as of 12/31/2017 ⁽²⁾
Trading	-	-	-	-	-	-	-	-	-
Placement	200	200	616	(200)	-	-	-	616	2
Investment	-	-	-	-	-	-	-	-	-
TOTAL	200	200	616	(200)	-	-	-	616	2

(1) This amount includes a discount / surplus of EUR 3 million.

(2) The unrealized capital gain or loss is the difference between accounting value and market value.

2.6 - INVESTMENTS IN CONSOLIDATED COMPANIES

SFIL acquired for EUR 1, 100% of the capital of CAFFIL on January 31, 2013.

In 2017, SFIL subscribed the total capital increase of its subsidiary CAFFIL for EUR 35 million for a total share of EUR 35 million.

2.7 - INTANGIBLE ASSETS

	Software	Internally developed assets	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2016	3	13	10	26
Changes during the year:				
*increases	1	4	12	17
*decreases	-	-	(3)	(3)
*others	-	-	-	-
ACQUISITION COST AS OF 12/31/2017	4	17	19	40
Depreciation and impairments as of 12/31/2016	(1)	(5)	-	(6)
Changes during the year:				
*amortization	(1)	(4)	-	(5)
*write-back	-	-	-	-
Depreciation and impairments as of 12/31/2017	(2)	(9)	-	(11)
NET CARRYING AMOUNT AS OF 12/31/2017	2	8	19	29

2.8 - PROPERTY AND EQUIPMENT

	Computer equipment	Other equipment	Fixtures	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2016	1	0	8	0	9
Changes during the year:					
*increases	0	0	0	-	0
*decreases	-	-	-	(0)	(0)
*other	-	-	-	-	-
ACQUISITION COST AS OF 12/31/2017	1	0	8	0	9
Depreciation and impairments as of 12/31/2016	(0)	(0)	(2)	-	(2)
Changes during the year:					
*amortization	(0)	(0)	(1)	-	(1)
*write-back	-	-	-	-	-
Depreciation and impairments as of 12/31/2017	(0)	(0)	(3)	-	(3)
NET CARRYING AMOUNT AS OF 12/31/2017	1	0	5	-	6

2.9 - OTHER ASSETS

	Amount as of 12/31/2016	Amount as of 12/31/2017
Cash collateral granted	2,278	2,359
Other receivables	11	21
TOTAL	2,289	2,380

2.10 - ACCRUALS AND OTHER ASSETS

	Amount as of 12/31/2016	Amount as of 12/31/2017
Deferred charges on hedging transactions	196	217
Other prepaid charges	7	5
Accrued interest not yet due on hedging transactions	345	331
Other accounts receivable on hedging transactions	-	-
Other deferred income	11	21
TOTAL	559	574

2.11 - BREAKDOWN OF ASSETS BY CURRENCY

Analysis by original currency	Amount in original currency as of 12/31/2016	Amount in euros as of 12/31/2016	Amount in original currency as of 12/31/2017	Amount in euros as of 12/31/2017
EUR	9,581	9,581	8,784	8,784
CAD	4	3	2	1
CHF	15	14	14	12
GBP	2	3	2	2
JPY	585	5	-	-
SEK	-	-	-	-
USD	5	4	1,013	845
NOK	39	4	39	4
TOTAL		9,614		9,648

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3. Notes to the liabilities (EUR millions):

3.1 - DUE TO BANKS

	Amount as of 12/31/2016	Amount as of 12/31/2017
Sight accounts	-	-
Current account	-	-
Term borrowing	6,717	4,798
Interest accrued not yet due	7	1
Unallocated sums	-	-
TOTAL	6,724	4,799

Analysis by residual maturity excluding accrued interest

	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Sight	-	-	-	-	-
Term	-	1,094	1,750	1,954	4,798
TOTAL	-	1,094	1,750	1,954	4,798

Analysis of term borrowing by counterparty excluding accrued interest

	Amount as of 12/31/2016	Amount as of 12/31/2017
Caisse des dépôts et consignations	5,855	3,158
Caisse Française de Financement Local	-	578
La Banque Postale	862	1,062
TOTAL	6,717	4,798

3.2 - DEBT SECURITIES

Accrued interest included in this item : 9

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	468	156	-	-	624
EMTN	-	-	1,833	994	2,827
TOTAL	468	156	1,833	994	3,451
<i>of which net issue premiums</i>	-	-	-	(7)	(7)

Changes during the year excluding accrued interest

	Amount as of 12/31/2016	Increases	Decreases	Translation adjustments	Amount as of 12/31/2017
Certificates of deposit	595	1,928	(1,899)	-	624
EMTN	993	1,834	-	-	2,827
TOTAL	1,588	3,762	(1,899)	-	3,451

3.3 - OTHER LIABILITIES

	Amount as of 12/31/2016	Amount as of 12/31/2017
Cash collateral received	593	590
Taxes	5	0
Other payables	5	23
TOTAL	603	613

3.4 - ACCRUALS AND OTHER LIABILITIES

	Amount as of 12/31/2016	Amount as of 12/31/2017
Deferred income on hedging transactions	206	207
Accrued interest not yet due on hedging transactions	345	321
Other accounts payable on hedging transactions	-	64
Other accrued charges	29	35
TOTAL	580	627

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3.5 - PROVISIONS

	Amount as of 12/31/2016	Increases	Decreases	Conversion differences	Amount as of 12/31/2017
Provisions on pensions	4	1	-	-	5
Provisions on financial instruments	1	-	(1)	-	-
TOTAL	5	1	(1)	-	5

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3.6 - EQUITY

	Amount as of 12/31/2016	Amount as of 12/31/2017
Share capital	130	130
Legal reserve	-	-
Retained earnings (+/-)	(10)	(16)
Net income (+/-)	(6)	30
TOTAL	114	144

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SFIL's share capital totaled EUR 130 million, comprising 9,285,725 shares with a face value of EUR 14.

3.7 - BREAKDOWN OF LIABILITIES BY CURRENCY

Analysis by original currency	Amount in original currency as of 12/31/2016	Amount in euros as of 12/31/2016	Amount in original currency as of 12/31/2017	Amount in euros as of 12/31/2017
EUR	9,581	9,581	8,784	8,784
CAD	4	3	2	1
CHF	15	14	14	12
GBP	2	3	2	2
JPY	585	5	-	-
SEK	-	-	-	-
USD	5	4	1,013	845
NOK	39	4	39	4
TOTAL		9,614		9,648

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3.8 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Consolidated entity CAFFIL ⁽¹⁾		Other related parties ⁽²⁾	
	12/31/2016	12/31/2017	12/31/2016	12/31/2017
ASSETS				
Loans and advances to banks - sight	-	-	-	-
Loans and advances to banks - term	5,225	4,821	-	-
Bonds and other fixed income securities	-	-	101	-
LIABILITIES				
Due to banks - sight	-	-	-	-
Due to banks - term	-	578	6,724	4,221
INCOME STATEMENT				
Interest income on loans and advances	25	10	(0)	(0)
Interest income on debt securities	-	0	(0)	(0)
Interest expense on borrowings	(5)	(0)	(37)	(23)
Net commissions	3	11	4	4
OFF-BALANCE SHEET				
Interest rate derivatives	13,855	28,004	863	554
Foreign exchange derivatives	3,478	1,271	-	-
Commitments and guarantees received	3,722	3,028	4,972	7,031
Commitments and guarantees granted	695	-	5,220	4,821

(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 12/31/2016	Amount as of 12/31/2017
Financing commitments granted to credit institutions	50	50
Financing commitments granted to customers ⁽¹⁾	2,597	3,028
Other guarantees given to banks ⁽²⁾	645	3,247
Other commitments given, assets assigned in guarantee	5,220	4,823
TOTAL	8,512	11,148

(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.

(2) This amount corresponds to the sell-back, to the benefit of Caisse Française de Financement Local, of guarantees received from its export credit activity.

4.2 - COMMITMENTS RECEIVED

	Amount as of 12/31/2016	Amount as of 12/31/2017
Financing commitments received from credit institutions ⁽¹⁾	8,693	10,497
Guarantees received from banks ⁽²⁾	2,597	3,248
Other commitments received	-	-
TOTAL	11,290	13,745

(1) In particular, this amount integrates funding commitments of EUR 3,027 million from Caisse Française de Financement Local in order to finance the parent company SFIL within the framework of its export credit activity. It also includes the residual amount corresponding to the financing commitments of SFIL's shareholders, Caisse des dépôts et consignations and La Banque Postale for respective amounts of EUR 6,843 million, and EUR 188 million.

SFIL recorded the total of its commitments related to the only tranches existing, which is limited to EUR 6,843 million. This amount does not take into account the possibility stipulated in the financing agreement with Caisse des dépôts et consignations to negotiate additional funding in good faith. Since the principal in a loan may not exceed EUR 12.5 billion, this financing would be at most EUR 2,500 million as of December 2017.

(2) Irrévocable and inconditionnal guarantees issued by the French State 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 12/31/2016	Amount as of 12/31/2017	Fair value as of 12/31/2017
Currencies to receive	6,987	3,596	183
Currencies to deliver	6,987	3,723	(183)
TOTAL	13,974	7,319	-

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	Amount as of 12/31/2017
Unconditional transactions	2,197	5,210	25,209	32,616
of which deferred start	-	-	-	-

b. Analysis of interest rate transactions by product type

	Amount as of 12/31/2016	Amount as of 12/31/2017
Interest rate swaps	31,501	32,616
Term contracts	-	-
Interest rate options	-	-
TOTAL	31,501	32,616

c. Analysis of interest rate transactions by counterparty

	Amount as of 12/31/2016	Amount as of 12/31/2017
Caisse Française de Financement Local	13,855	14,026
Other related parties	863	554
Other counterparties	16,783	18,036
TOTAL	31,501	32,616

C. Foreign exchange transactions and commitments to derivative financial instruments by type of transaction

Type of transaction	Amount as of 12/31/2016	Micro-hedge	Isolated open position	Amount as of 12/31/2017	Fair value as of 12/31/2017
Foreign currency transactions - to receive	6,987	1,491	2,105	3,596	183
Foreign currency transactions - to deliver	6,987	1,271	2,389	3,660	(183)
Interest rate swaps	31,501	14,026	18,590	32,616	(65)
TOTAL	45,475	16,788	23,084	39,872	(65)

5. Notes to the income statement (EUR millions)

5.1 - INTEREST AND RELATED INCOME

	2016	2017
INTEREST AND RELATED INCOME	29	16
Loans and advances to banks	18	5
Loans and advances to customers	1	6
Bonds and other fixed income securities	10	5
Macro-hedge transactions	-	-
Other commitments	-	-
INTEREST AND RELATED EXPENSE	(47)	(29)
Due to banks	(42)	(26)
Due to clients	-	(2)
Bonds and other fixed income securities	(5)	(1)
Macro-hedge transactions	-	-
Other commitments	-	-
INTEREST MARGIN	(18)	(13)

5.2 - ANALYSIS OF COMMISSIONS RECEIVED AND PAID

	2016	2017
Billing commissions received from Caisse Française de Financement Local	3	11
Other commissions ⁽¹⁾	4	4
TOTAL	7	15

(1) This concerns mainly servicing commission received from La Banque Postale.

5.3 - NET GAINS OR LOSSES ON TRADING PORTFOLIO

	2016	2017
Provision on financial instruments ⁽¹⁾	11	(0)
Foreign exchange income	0	(0)
TOTAL	11	(0)

(1) It is mainly a question of the result of the assignment of swaps.

5.4 - NET GAINS OR LOSSES ON PLACEMENT PORTFOLIO

	2016	2017
Losses on placement portfolio	(0)	(0)
Gains on placement portfolio	1	0
TOTAL	1	(0)

5.5 - OTHER INCOME AND EXPENSE

	2016	2017
Other income	0	0
Rebilled expense ⁽¹⁾	89	95
Other expense	(0)	(0)
TOTAL	89	95

(1) This item mainly includes expenses billed to Caisse Française de Financement Local.

5.6 - GENERAL EXPENSES

	2016	2017
Payroll expense	(31)	(31)
Social security taxes	(17)	(18)
Taxes	(4)	(6)
Other general operating expense	(41)	(42)
TOTAL	(93)	(97)

5.7 - INCOME TAX

	2016	2017
Current income tax ⁽¹⁾	2	1
TOTAL	2	1

(1) This item includes a tax consolidation gain of EUR 1 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	2016	2017
Executive Committee	2	3
Board of Directors	-	-
TOTAL	2	3
Amount, at year end, of the debt liabilities in their favor and of other obligations undertaken on their behalf	2016	2017
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 (2017)	Profit or loss of last year (2017)	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	1,350	-	78	30	100%	35	35	4,821	-	Société de crédit foncier

(1) SFIL acquired 100% of the shares of Caisse Française de Financement Local, for EUR 1, on January 31, 2013.

In 2017, SFIL subscribed the total capital increase of its subsidiary CAFFIL for EUR 35 million for a total share of EUR 35 million.

8. Post-closing events

No significant event exerting influence on the Company's financial situation occurred after the closing on December 31, 2017.

Statutory auditors' report on the financial statements For the year ended December 31, 2017

To the Annual General Meeting of SFIL,

OPINION

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying financial statements of SFIL for the year ended December 31, 2017.

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 at December 31, 2017, and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee ("Comité des Comptes").

BASIS FOR OPINION

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "statutory auditors' Responsibilities for the Audit of the Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics (Code de déontologie) for statutory auditors.

JUSTIFICATION OF ASSESSMENTS - KEY AUDIT MATTERS

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Code of Commerce (Code de commerce) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

We determined that there was no key point of the audit to be communicated in our report

VERIFICATION OF THE MANAGEMENT REPORT AND OF THE OTHER DOCUMENTS PROVIDED TO SHAREHOLDERS

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information provided in the Management Report and in the Other Documents Provided to the Shareholders with respect to the financial position and the financial statements

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 Board of Directors and in the other documents provided to Shareholders with respect to the financial position and the financial statements.

Report on Corporate Governance

We attest that the Board of Directors' Report on Corporate Governance sets out the information required by articles L.225-37-3 and L.225-37-4 of the Code of Commerce (Code de commerce).

Concerning the information given in accordance with the requirements of article L.225-37-3 of the Code of Commerce (Code de 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 controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Appointment of the statutory auditors

We were appointed as statutory auditors of SFIL by the annual general meeting held on January 29, 2013, for Deloitte et Associés and on May 31, 2017, for Ernst & Young et Autres.

As at December 31, 2017, Deloitte et Associés and Ernst & Young et Autres were in the 5th year and the 1st year of total uninterrupted engagement.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the

preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee ("Comité des Comptes") is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

STATUTORY AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in article L.823-10-1 of the Code of Commerce (Code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are

appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation

Report to the Audit Committee ("Comité des Comptes")

We submit a report to the Audit Committee ("Comité des Comptes") which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee ("Comité des Comptes") includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee ("Comité des Comptes") with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by articles L.822-10 to L.822-14 of the Code of Commerce (Code de commerce) and in the French Code of Ethics (Code de déontologie) for statutory auditors. Where appropriate, we discuss with the Audit Committee ("Comité des Comptes") the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Neuilly-sur-Seine and Paris-La Défense, April 3, 2018

The statutory auditors
French original signed by

Deloitte & Associés
Sylvie Bourguignon

Ernst & Young et Autres
Vincent Roty

Mission

EXPORT REFINANCING

A mechanism put in place by the State

to make French exports more
competitive

Biggest liquidity provider

for State-guaranteed
export credits

20

partner banks

50%

market share

EUR 3.3 billion

in refinancing provided
since 2016

Ordinary Shareholders' Meeting of May 29, 2018

Statutory auditors' special report on regulated agreements and commitments

Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2017

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 French 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 French Code of Commerce (Code de 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.

I. Agreements and commitments submitted to the approval of the shareholders' meeting

AGREEMENTS AND COMMITMENTS PREVIOUSLY APPROVED

Pursuant to article L.225-40 of the French 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 financing agreement entered into with SFIL and La Banque Postale (hereinafter "LBP").

Persons concerned:

Serge Bayard, representative of LBP and director of SFIL

Type and purpose:

The amendment entails a modification of the agreement to even out the drawdowns on LBP's credit facility.

Terms and conditions:

This amendment was signed on December 15, 2017 and authorized by the Board of Directors on May 31, 2017. The financial impacts of the contract and its amendments in respect of fiscal year 2017 are presented in section 1.B.

B. Amendment n°3 to the financing agreement entered into between SFIL and La Banque Postale (hereinafter "LBP").

Persons concerned:

Serge Bayard, representative of LBP and director of SFIL

Schwan Badirou Gafari, representative of the French State, director of SFIL and with the French State being a member of the Supervisory Board of LBP

Type and purpose:

The amendment to the financing agreement contains an increase in the cap (from EUR 1.250 million to EUR 1.500 million) and an easing of the terms and conditions of use. The term of the agreement was extended and the spread applicable to new drawdowns was reduced.

Terms and conditions:

This amendment was authorized by the Board of Directors on December 7, 2017 and signed on December 15, 2017. The agreement covers a renewable credit facility for a maximum amount of EUR 1.1 billion, of which EUR 1.062 million has been drawn down as of December 31, 2017. The financial impact is an expense of EUR 3 million in respect of fiscal year 2017.

C. Amendment to the provision of services agreement entered into between SFIL and La Banque Postale (hereinafter "LBP").**Persons concerned:**

Serge Bayard, representative of LBP and director of SFIL

Delphine de Chaisemartin, director of SFIL and of the JV LBP Collectivités Locales

Schwan Badirou Gafari, representative of the French State, director of SFIL and with the French State being a member of the Supervisory Board of LBP.

Type and purpose:

The amendment to the provision of services agreement covers the pricing and provides for 15bp on management fees paid by LBP to SFIL for the loans held by the latter. This amendment modifies the service cost from 15bp to 8bp, for the most recent outstanding loans and future loans, to align it with market conditions. These new conditions apply as from January 1, 2018.

Terms and conditions:

This amendment was authorized by the Board of Directors on December 7, 2017 and signed on October 31, 2017. The financial impact of the agreement and its amendments in respect of fiscal year 2017 is income of EUR 4 million.

AGREEMENTS AND COMMITMENTS NOT PREVIOUSLY APPROVED

Pursuant to articles L.225-42 and L.823-12 of the Code of Commerce, we have been advised that the following agreement, have not been previously approved by the Board of Directors.

D. Amendment to the provision of services contract entered into with SFIL and La Banque Postale (hereinafter "LBP").**Persons concerned:**

Serge Bayard, representative of LBP and director of SFIL

Delphine de Chaisemartin, director of SFIL and of the JV LBP Collectivités Locales

Schwan Badirou Gafari, representative of the French State, director of SFIL and with the French State being a member of the Supervisory Board of LBP.

Type and purpose:

The purpose of this amendment is to extend the contract by 3 months in order to renegotiate the terms and conditions of the contract, before one of the parties decides to give notice of possible termination in the absence of reaching an agreement between them.

Terms and conditions:

This amendment, signed on July 12, 2017 and authorized by the Board of Directors on September 7, 2017, had no impact on the financial statements for the year ended December 31, 2017.

II. 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.

E. Agreement to assign loans from LBP to CAFFIL, with SFIL as a party.**Persons concerned:**

Philippe Mills, CEO of SFIL and Chairman of the Supervisory Board of CAFFIL

Philippe Wahl, Chairman of the Management Board of LBP and director 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 of this agreement and its amendments in respect of fiscal year 2017 are presented in E.3.

1. Amendment of August 8, 2013**Persons concerned:**

Delphine de Chaisemartin, director of SFIL and of the JV LBP Collectivités Locales

Philippe Mills, CEO of SFIL and Chairman of the Supervisory Board of CAFFIL

Philippe Wahl, Chairman of the Management Board of LBP and director 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 (La Banque Postale Collectivités Locales) 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 of the agreement and its amendments in respect of fiscal year 2017 are presented in E.3.

2. Amendment of December 20, 2013**Persons concerned:**

Philippe Mills, CEO of SFIL and Chairman of the Supervisory Board of CAFFIL

Rémy Weber, Chairman of the Management Board of LBP and director of SFIL until March 24, 2016

Delphine de Chaisemartin, director 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 Postale. 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 of the agreement and its amendments in respect of fiscal year 2017 are presented in E.3.

3. Amendment of November 23, 2016**Persons concerned:**

Serge Bayard, representing the interests of LBP, shareholder, Chairman of the Board of Directors of the Joint-Venture (JV) LBP Collectivités Locales and director of SFIL

Delphine de Chaisemartin, director 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 2017 amounts to EUR 3.32 billion, the commissions represent an expense of EUR 11 million and the commissions of business referral agents spread out in the balance sheet total EUR 46.3 million with respect to fiscal year 2017.

F. LBP-SFIL services agreement.**Persons concerned:**

Philippe Wahl, Chairman of the Management Board of LBP and director 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 the agreement and its amendments in respect of fiscal year 2017 are presented in 1.C.

1. Amendment of August 8, 2013**Persons concerned:**

Delphine de Chaisemartin, director of SFIL and of the JV LBP Collectivités Locales

Philippe Wahl, Chairman of the Management Board of LBP and director 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 impacts of the agreement and its amendments in respect of fiscal year 2017 are presented in 1.C.

G. Agreement of liquidity support between LBP and SFIL.**Persons concerned:**

Philippe Wahl, Chairman of the Management Board of LBP and director 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 of the agreement and its amendments in respect of fiscal year 2017 are presented in 1.B.

1. Amendment of July 16, 2015

Persons concerned:

Mr. Rémy Weber: Chairman of the Management Board of LBP and director 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 credit facility for a maximum amount of EUR 1.1 billion of which EUR 1.062 billion has already been drawn down as of December 31, 2017. The financial impacts of the agreement and its amendments in respect of fiscal year 2017 are presented in I.B.

H. Amendment to the loan agreement between CDC and SFIL.

Persons concerned:

Delphine de Chaisemartin, director 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 of the agreement and its amendments in respect of fiscal year 2017 are presented in H.1.

1. Amendment of July 16, 2015

Persons concerned:

Delphine de Chaisemartin, director of SFIL and representing the interests 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 3.2 billion in respect of fiscal year 2017, the expense recorded in the income statement totals EUR 19.6 million.

Paris-la-Défense et Neuilly-sur-Seine, on April 3, 2018
The statutory auditors

Ernst & Young et Autres
Vincent Roty

Deloitte & Associés
Sylvie Bourguignon

Proposed resolutions to the Ordinary Shareholders' Meeting of May 29, 2018

First resolution: approval of the annual financial statements

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings and having heard the reports of the Board of Directors and the statutory auditors, approves the annual financial statements as of December 31, 2017, as presented to it, with all transactions reflected in these financial statements or mentioned in these reports, and showing an income of EUR 29,821,747.08.

The Ordinary Shareholders' Meeting approves the total amount of costs and expenses not deductible for corporate income tax purposes (article 39.4 of the General Tax Code), an amount of EUR 36,681.45.

Second resolution: allocation of net loss / income

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, decided to allocate the net income for the year totaling as follows:

In EUR	
ALLOCATION OF NET INCOME	
Net income for the year	29,821,747.08
Retained earnings	(16,333,287.69)
Income available	13,488,459.39
Legal reserve (5%)	(674,422.97)
Retained earnings after allocation to legal reserve	12,814,036.42

In accordance with article 243 bis of the General Tax Code, the Shareholders' Meeting notes that no dividends were paid out during the past three years.

Third resolution: approval of the consolidated financial statements

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings and having heard the reports of the Board of Directors and the statutory auditors, approves the consolidated financial statements as of December 31, 2017, as presented to it, with all transactions reflected in these financial statements or mentioned in these reports, and showing an income attributable to owners of the parent company of EUR 53,883,044.50.

Fourth resolution: approval of regulated agreements entered into with La Banque Postale

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings and having heard the statutory auditors' special report on regulated agreements subject to article L.225-38 of the Code of Commerce, approves, in accordance with the conditions of article L.225-40 of this same code, the relevant regulated agreements entered into with La Banque Postale.

Fifth resolution: approval of regulated agreements entered into with La Banque Postale and the Collectivités Locales joint venture

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings and having heard the statutory auditors' special report on regulated agreements subject to articles L.225-38 and L.225-42 of the Code of Commerce, approves, in accordance with the conditions of articles L.225-40 and L.225-42 of this same code, the relevant regulated agreements entered into with La Banque Postale and the Collectivités Locales joint venture.

Sixth resolution: discharge for members of management and supervisory bodies

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, and in light of the approval of the previous resolutions, gives full and unqualified discharge to the members of management and supervisory bodies for the fulfillment of their duties for the year ending December 31, 2017.

Seventh resolution: certification of financial statements by the statutory auditors

Pursuant to article L.822-14 of the Code of Commerce, the Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, duly notes that the financial statements for the year ended December 31, 2017, have been certified by the statutory auditors:

- Vincent Roty, partner, representing Ernst & Young et Autres, on the one hand; and
- Sylvie Bourguignon, partner, representing Deloitte & Associés, on the other.

Eighth resolution: opinion on the overall budget for compensation in 2017

Pursuant to article L.511-73 of the Monetary and Financial Code, the Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, issues a favorable opinion on the overall budget for all forms of compensation paid during the year ended December 31, 2017, to members of the Executive Committee, the Auditor General, financial market professionals, senior managers or employees exercising managerial duties at a major operational unit, personnel managing a function responsible for legal affairs, finance (including tax and budget preparations), human resources, compensation policy, information technologies or economic analysis, risk management professionals and employees performing functions related to internal control and compliance as well as all employees whose variable compensation during the year exceeds EUR 87,500, the total of which was EUR 7.42 million.

Ninth resolution: approval of compensation items due or granted for the year ended December 31, 2017, to Philippe Mills, Chairman and Chief Executive Officer, then Chief Executive Officer

The Shareholders' Meeting, consulted pursuant to the provisions of articles L.225-37-2 and L.225-100 of the Code of Commerce, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, issues a favorable opinion on the compensation items due or granted for the year ended December 31, 2017, to Philippe Mills, Chairman and Chief Executive Officer, then Chief Executive Officer, as presented in the Board of Directors' report on corporate governance the Shareholders' Meeting, and approves the payment of the variable or exceptional compensation items.

Tenth resolution: approval of compensation items due or granted for the year ended December 31, 2017, to Chantal Lory, Chair of the Board of Directors

The Shareholders' Meeting, consulted pursuant to the provisions of articles L.225-37-2 and L.225-100 of the Code of Commerce, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, issues a favorable opinion on the compensation items due or granted for the year ended December 31, 2017, to Chantal Lory, Chair of the Board of Directors, as presented in the Board of Directors' report on corporate governance to the Shareholders' Meeting.

Eleventh resolution: approval of the principles and criteria for determining, allocating and granting the 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 the last paragraph of article L.225-37-2 of the Code of Commerce, the Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, approves the principles and criteria for determining, allocating and granting the fixed, variable, and exceptional items making up the total compensation and benefits of any kind presented in the aforementioned report and payable, due to his term of office as Chief Executive Officer, to Philippe Mills.

Twelfth resolution: approval of the principles and criteria for determining, allocating and granting 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 the last paragraph of article L.225-37-2 of the Code of Commerce, the Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, approves the principles and criteria for determining, allocating and granting the fixed, variable, and exceptional items making up the total compensation and benefits of any kind presented in the aforementioned report and payable, due to her term of office as Chair of the Board of Directors, to Chantal Lory.

Thirteenth resolution: ratification of appointment of a director to fill a vacancy

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings and having been informed of the Board of Directors' report, ratifies the Board of Directors' decision on September 7, 2017, to appoint Jérôme Reboul as a director, replacing Antoine Saintoyant, who resigned, for the remainder of his term of office, i.e. until the close of the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2019.

Fourteenth resolution: ratification of appointment of a director to fill a vacancy

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings and having been informed of the Board of Directors' report, ratifies the Board of Directors' decision on March 29, 2018, to appoint Virginie Fernandes as a director to replace Delphine de Chaisemartin, who resigned, for the remainder of his term of office, i.e. until the close of the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2020.

Fifteenth resolution: ratification of appointment of a director to fill a vacancy

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings and having been informed of the Board of Directors' report, ratifies the Board of Directors' decision on March 29, 2018, to appoint Gabriel Cumenge as a director to replace Jérôme Reboul, who resigned, for the remainder of his term of office, i.e. until the close of the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2019.

Sixteenth resolution: authority to carry out formalities

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, gives full authority to the bearer of an original, copy or excerpt of these minutes to carry out all filing and publication formalities required 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 Code of Commerce 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, including the internal rule book of the board of directors, 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 page 28 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(), 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.

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 April 3, 2018

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
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