



# Half-year Financial Report

for the period from January 1 to June  
30, 2020

Data subject to a limited audit by the Statutory Auditors



## Key figures as of June 30, 2020

Consolidated total assets

**EUR 77.8 billion**

Bonds issued in the first half of 2020

**EUR 3.9 billion**

including EUR 2.8 billion of covered bonds issued by CAFFIL and EUR 1.1 billion of EMTN issued by SFIL

Loans acquired from LBP during the 1<sup>st</sup> half-year 2020

**EUR 2.9 billion**

Export credit loans transferred during the first half of 2020

**EUR 0.0 billion**

Common Equity Tier 1 Ratio

**30.0%**

Operating coefficient on recurring gross operating income

**56%**

Recurring net income

**EUR +24 million**

## External ratings as of June 30, 2020

Moody's<sup>(1)</sup>

**Aa3**

Standard & Poor's<sup>(1)</sup>

**AA**

DBRS<sup>(1)</sup>

**AA(high)**

ISS<sup>(2)</sup>

**Prime C**

MSCI<sup>(2)</sup>

**AA**

IMUG<sup>(3)</sup>

**Positive  
BBB**

<sup>(1)</sup> SFIL's Bonds

<sup>(2)</sup> CAFFIL

<sup>(3)</sup> CAFFIL's obligations foncières

# Half-year financial report

## for the period from January 1 to June 30, 2020

### Contents

<b>1. HALF-YEAR MANAGEMENT REPORT .....</b>	<b>5</b>
Background .....	7
Highlights in the first half .....	8
General business environment.....	12
Changes in the main balance sheet items .....	15
Operating results.....	18
Risk management.....	20
Social and environmental initiatives .....	30
Outlook.....	31
<b>2. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS.....</b>	<b>33</b>
Balance sheet .....	34
Income statement .....	35
Net income and unrealized or deferred gains and losses through equity .....	36
Equity .....	37
Cash flow statement .....	38
Notes to the condensed consolidated financial statements (accounting principles) .....	39
<b>3. STATUTORY AUDITORS' REVIEW REPORT ON INTERIM FINANCIAL STATEMENTS ESTABLISHED UNDER IFRS STANDARDS .....</b>	<b>68</b>
<b>4. STATEMENT BY THE PERSON RESPONSIBLE .....</b>	<b>72</b>

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

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

# 1. Half-year management report



---

## Background

---

The general context for the half year was the COVID-19 pandemic, including the effects on SFIL's business which are covered in the report body, notably in the sections devoted to highlights, risk management, results of operations and in the notes to the condensed consolidated financial statements. The items relating to the context characterizing SFIL are recalled below.

SFIL was authorized as a bank by the Autorité de contrôle prudentiel et de résolution (ACPR) on January 16, 2013. Since SFIL was created, the French Republic 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. The Caisse des dépôts et consignations (CDC) and La Banque Postale (LBP) respectively hold 20% and 5% of the Company's capital. This entirely public shareholder structure, which will remain so in the project consisting of entrusting control of SFIL to the Caisse des Dépôts, is one of the characteristics of public development bank including SFIL.

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

SFIL lies at the heart of a system that serves the State's commitment to provide French local government entities and public healthcare institutions with continuous and efficient access to long-term bank financing, alongside the offers of commercial banks and French and European public institutions operating in this sector. This system, which was launched within the framework of the European Commission's decision of December 28, 2012, makes it possible to refinance loans from La Banque Postale to the French local public sector. It has shown its strong resilience in the context of the crisis due to the COVID-19 pandemic.

Similarly, in 2015, the State entrusted SFIL with a second public interest mission: to refinance buyer credits guaranteed by Bpifrance Assurance Export (BPIAE) in the name and on behalf of the French Republic, which helps increase the competitiveness of large export contracts negotiated by French companies. The aim is to provide market financing in volumes and for periods suited to large export credits, at conditions that are those of the best issuers of French covered bonds, by building on the issue capabilities of SFIL and its subsidiary CAFFIL. This refinancing system, authorized by the European Commission on May 5, 2015, renewed for a 7-year term on May 7, is open to all banks that are active in the European Union and partners of French exporters for their credits guaranteed by Bpifrance Assurance Export in the name and on behalf of the French Republic.

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

---

## Highlights in the first half

---

In the first half of 2020, marked by the pandemic, SFIL continued its missions, which involve refinancing, through its subsidiary Caisse Française de Financement Local, loans granted by La Banque Postale to local government entities and public hospitals, providing specialized services to La Banque Postale and Caisse Française de Financement Local, and refinancing export credits.

Also during this first half, SFIL decided a corporate purpose, entered into its bylaws " *To finance a sustainable future by effectively and responsibly supporting local development and the international activity of large companies.*"

### 1. COVID-19 pandemic

During this crisis, SFIL's strategy - based on its public development bank model - showed its strength and large resilience capacity notably in terms of solvency and liquidity. As regards operations, the bank, which was prepared, was able to adapt its organization and IT systems to function entirely remotely during the lockdown phase, then to gradually return its employees to its Issy-les-Moulineaux and Lyon sites from June with the implementation of social distancing measures to fully ensure staff safety. During this period, all of the teams were mobilized, all activities were fully guaranteed and SFIL did not use the furlough scheme set up by the public authorities.

Overall, SFIL was able to manage all of its risks and, as a public development bank, will be able to provide its full support to the public policies required for the economic recovery.

The French local public sector financing activity saw a half-year at a very sustained level, despite the lockdown. It is close to the level for the same period in 2019, with 2019 being a record year in terms of production.

SFIL decided to deploy two approaches to support borrowers facing difficulties due to the health crisis:

- One, proactive and systematic, by proposing payment terms to all health players in recognition of their exceptional involvement in the COVID-19 pandemic. SFIL proposed payment terms of 180 days to these borrowers for all of their loan contract maturities between March 12 and June 30, 2020, without any late interest or penalties invoiced. As at June 30, 2020, 27 health institutions had benefited from these payment terms from SFIL.
- The other approach is to respond to requests from local authorities and equivalent faced with temporary cash flow difficulties due to the health crisis caused by the decline in revenue from specific activities, related to economic, cultural and touristic activities (cinemas, swimming pools, car parks, thermal baths, etc), on a case by case basis. As at June 30, 2020, 62 borrowers had requested new payment terms from SFIL. The payment terms granted should be compared to the base of maturities called: over the period from March 12 to June 30, almost 9,800 local authorities had maturities for a cumulative amount of EUR 913 million. The current requests therefore represent 0.6% of borrowers and less than 2% of the maturity amounts.

In order to maintain contact with its borrowers during the lockdown period and best meet their requests, the use of audio and video conference tools was strongly developed to replace in-person meetings.

In the export credit area, SFIL is present in all cruise ship financing operations through French export credits signed since 2016. In this context, SFIL entered into the approach developed jointly by the European export credit guarantee agencies to provide liquidity support for export credits for cruise companies, in a sector particularly affected by the epidemic. The latter were impacted by the brutal interruption to their business due to the health crisis and their need to continue to face inherent fixed costs. This liquidity support consists of deferring the repayment of the principal amount of the credits for an 18-month period.

In the other sectors concerned by SFIL export credit and refinancing, the impact of the successive lockdown periods in the different regions of the world, led, in the short term, to a slowdown in on-going negotiations for certain projects. No new contracts were signed during the first half-year. However, over the medium term and as part of the economic recovery, the use of SFIL export credit and refinancing could play a counter-cyclical role. From the end of March, this led to a 30 to 50% increase in bank requests. This trend was confirmed at the end of the half-year indicating a possible stronger use of SFIL export credits and refinancing over the coming months and years.

SFIL Group's issue program for the first half of 2020 was not generally affected by the health crisis. The return to normal for financial markets from mid-April thanks to the vigorous and rapid action of the central banks constituted a favorable context for progress in SFIL Group's program, with a social issue on April 28 dedicated to hospital financing, an issue in USD on May 27 and an issue in EUR on June 16. These issues were all carried out in excellent financial conditions with very diversified investors. SFIL Group's ability to access the market remains



intact with a constantly growing investor base. SFIL Group's social issue program was recognized by the financial press on several occasions:

- Covered Bond Report Awards for Excellence 2019 – Best ESG Issue,
- Global Capital SRI Awards 2019 – Most impressive social of sustainability issuer,
- IFR Awards 2019 – Best Social Bond,
- Environmental Finance Bond Awards 2020 – Best social bond – asset based and covered bonds,
- Covered Bond Report Awards for Excellence 2020 - Best ESG Issue.

Since the beginning of March 2020, with regard to risk management, attention has been paid to the credit risks and the impacts sector-specific shocks, particularly on the cruise industry, on the liquidity risks, on the operational risks for the Group, to cyber risk and the risk of fraud during such a period. The induced effects of market volatility as a result of the pandemic on valuation standards within the framework of the IFRS9 accounting standard and liquidity requirements was also a consideration. All of these risks were subject to specific *monitoring* and regular reporting to the supervisor.

As part of the measures to ensure business continuity, a crisis unit was set up from the beginning of March to analyze the pandemic's progression and take the necessary measures to ensure operating continuity and risk monitoring with, notably, mid-March, the implementation of remote working for all employees. The professional activity continued with the maintained risk management system. For example, the regulatory reporting deadlines were met.

The lockdown began to be lifted at the start of June with a cautious and gradual return of employees and service providers to the premises, in a protective framework of distancing and health security. The few employees that were infected (confirmed or possible cases) by the virus all recovered.

The main regulatory ratios remained at very high levels, with little fluctuation. The Group's fully-loaded CET1 ratio stood at 30.0%, confirming its unswerving financial stability.

The impact of the health crisis on SFIL's financial results is limited and confined to temporary and reversible effects, mainly due to the deterioration and volatility observed in the financial markets since mid-March. The Group's accounting result at end June is almost balanced (EUR -2 million) whilst recurring net income (which precisely corrects the impact of changes in value of balance sheet items, and specifically non SPPI loans) reached EUR +24 million, exceeding the budget and the first half year 2019 under the effect of an increase in NBI which reached EUR 98 million and an operating ratio limited to 56% (despite the increase in the contribution to the Urban Renewal Fund - FRU).

Increases in provisions, mainly due to the decision to put all export credit exposures for the cruise sector on the watchlist, also relate to the health crisis, taking the net accounting income, restated for the impacts of the health crisis, to EUR +29 million.

Overall, the management of the acute phase of the health crisis was a triple success for SFIL from the point of view of protecting employee health, maintaining operational capacity and demonstrating the resilience of its business model.

## **2. Activity over the first half-year**

The refinancing of loans to the local public sector granted by La Banque Postale is assigned to SFIL's subsidiary, CAFFIL. In the first half of 2020, the latter acquired EUR 2.9 billion in loans from La Banque Postale via two acquisitions, which is significantly higher than the volume acquired from La Banque Postale during the first half-year 2019 (EUR 2.1 billion). As of June 30, 2020, the total volume acquired since SFIL's creation came to EUR 22.7 billion.

During the first half-year 2020, in the context of the health crisis, no new export credit operations were signed. EUR 0.5 billion in export credit drawdowns took place during the first half-year 2020, bringing the total outstanding drawn down to EUR 3.1 billion.

## **3. Renewal of the European Commission's agreement for export credit financing**

The European Commission's authorization for the export credit refinancing activity carried out by BPIAE on behalf of the State was renewed on May 7, 2020 based on the maintained diagnosis of a market failure for export credit refinancing and the appropriate and necessary nature of the intervention of a public development bank, such as SFIL, to remedy it. The duration of this authorization was extended to 7 years (instead of 5 years for the first), expiring in 2027.

With regard to the extension of the scope of export credit, obtaining the European Commission's authorization is the last condition to fulfill to enable SFIL to begin operating its system of refinancing loans eligible for the

guarantee on projects with a strategic interest for the French overseas economy. Discussions will restart during the second half year on this matter, with the item on the renewal of the credit export authorization now closed.

#### 4. Change of governance within the Board of Directors

The Ordinary Shareholders' Meeting held on May 28, 2020 reappointed Cathy Kopp, Gabriel Cumenge and Philippe Mills as Directors and appointed two new Directors, Brigitte Daurelle and Eckhard Forst.

SFIL's Board of Directors appointed Pierre Sorbets as Chairman. He replaces Chantal Lory who did not wish to renew her term of office.

##### COMPOSITION OF THE BOARD OF DIRECTORS (AS OF JUNE 30, 2020)

<b>Pierre Sorbets</b> <b>Chairman of the Board of Directors</b> <b>Independent Member of the Board of Directors</b>	<b>Philippe Mills</b> <b>Chief Executive Officer</b> <b>Member of the Board of Directors</b>
<b>French Republic</b> represented by <b>Elodie Boulch</b>	<b>Marion Domalain</b> Member of the Board of Directors representing the employees
<b>Virginie Fernandes</b> Member of the Board of Directors representing the Caisse des dépôts et consignations, shareholder	<b>Eckhard Forst</b> Independent Member of the Board of Directors
<b>Serge Bayard</b> Member of the Board of Directors representing La Banque Postale, shareholder	<b>Frédéric Guillemin</b> Member of the Board of Directors representing the employees
<b>Pascal Cardineaud</b> Member of the Board of Directors representing the employees	<b>Cathy Kopp</b> Independent Member of the Board of Directors
<b>Gabriel Cumenge</b> Member of the Board of Directors proposed by the State	<b>Thomas Morisse</b> Member of the Board of Directors representing the employees
<b>Brigitte Daurelle</b> Independent Member of the Board of Directors	<b>Sandrine Peraud-Chemla</b> Member of the Board of Directors representing the employees

The composition of the specialized Board committees was also changed to take into account the changes within the Board of Directors.

#### 5. Proposed change of control

Pursuant to an agreement in principle between SFIL shareholders announced on October 9, 2019, the French Republic, the Caisse des Dépôts and La Banque Postale announced on March 4, 2020 the signature of a commitment for the purchase by the Caisse des Dépôts of the entire investment held by La Banque Postale in SFIL's share capital (5%) and the entire investment held by the French Republic (75%) with the exception of one ordinary share retained by the French Republic. The Caisse des Dépôts will become SFIL's reference shareholder.

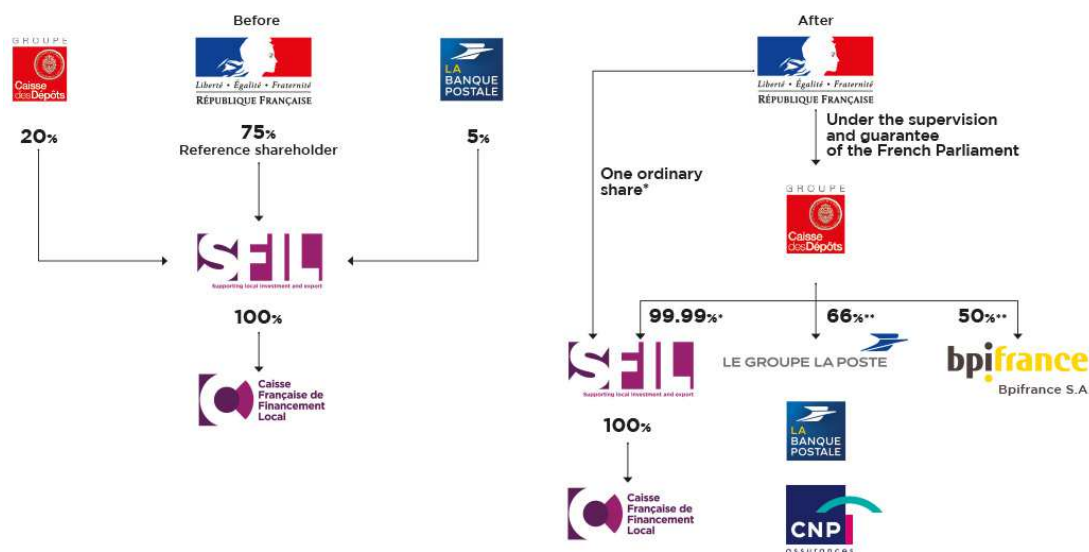
The State will continue to attend SFIL's Board of Directors through a non-voting director, given the public interest missions entrusted to SFIL.

SFIL's shareholder structure will remain fully public and its shareholders will continue to ensure that SFIL's financial solidity is preserved and its economic base protected and will continue to provide it with support, in accordance with the applicable regulations.

La Banque Postale, which will retain a central role in the system, decided to renew its partnership early with SFIL until end 2026 for the commercialization of medium- and long term loans to local authorities and public hospitals. This operation is part of the proposed creation of a major public finance hub around the Caisse des Dépôts and La Poste, for which the completion was also announced on March 4, 2020. The change to SFIL's shareholding

structure is due to take effect in the third quarter of 2020, notably after the necessary regulatory and administrative permissions are obtained from the competent authorities.

## DIAGRAMS OF THE CAPITAL OF SFIL AND ITS SOLE SUBSIDIARY CAFFIL BEFORE AND AFTER THE CHANGE OF CONTROL (PLANNED FOR 2020)



\* Subject to approval from the relevant authorities. The Caisse des Dépôts will hold all SFIL shares with the exception of one ordinary share retained by the French Republic.

\*\* The French Republic holds 50% of the share capital of Bpifrance S.A. (via EPIC Bpifrance) and 34% of La Poste's capital.

## 6. Financial and non-financial ratings

The ratings of SFIL and CAFFIL remained very high and were unchanged as of June 30, 2020 from December 31, 2019.

- For SFIL: Aa3 from Moody's (stable), AA from Standard & Poor's (stable) and AA (high) from DBRS, which adapted SFIL's rating to that of the French Republic with a negative outlook, following the example of other financing players in the public sector.
- For CAFFIL: Aaa from Moody's, AA+ from S&P and AAA from DBRS (stable outlook for the three agencies)

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

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

# General business environment

## 1. Refinancing by the SFIL group of investments in the local public sector

SFIL lies at the heart of a system that serves the State's commitment to provide French local government entities and public healthcare institutions with continuous and efficient access to long-term bank financing, alongside the offers of commercial banks and French and European public institutions operating in this sector. This system, which was launched following European Commission authorization on December 28, 2012, makes it possible to refinance La Banque Postale's loans to French local government entities and assist the relevant borrowers in their efforts to reduce their outstanding sensitive loans.

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

### OPERATIONAL FLOW DIAGRAM OF THE SYSTEM



The local public sector financing activity involves CAFFIL acquiring from La Banque Postale loans that it has marketed.

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

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

Since mid-2019, La Banque Postale also markets green loans with the aim of financing local investments that contribute to the ecological transition carried out by the local authorities. These loans are refinanced by SFIL Group's green issues as part of a green emissions program dedicated in accordance with the best market standards ("framework").

The public hospital financing activity is also carried out through the acquisition by CAFFIL of loans marketed by La Banque Postale. Since 2019, all of these loans are refinanced by SFIL Group's social issues as part of an issue program dedicated to financing French public hospitals in accordance with the best market standards ("framework"). Note that the transaction launched during the first half of 2020 specifically responds to the investment requirements resulting from the current health crisis.

## 2. Refinancing export credits

In 2015, according to the public refinancing body model that already exists in several OECD countries, the State entrusted SFIL with a second public interest mission: to refinance buyer credits guaranteed by Bpifrance Assurance Export thus helping to increase the competitiveness of large export contracts negotiated by French companies. The aim is to provide market financing in volumes and for periods suited to large export credits, at conditions that are those of the best issuers of French covered bonds, by building on the issue capabilities of SFIL and its subsidiary CAFFIL. This refinancing system is open to all banks that are active in the European Union and partners of French exporters for their credits guaranteed by Bpifrance Assurance Export in the name and on behalf of the French Republic.

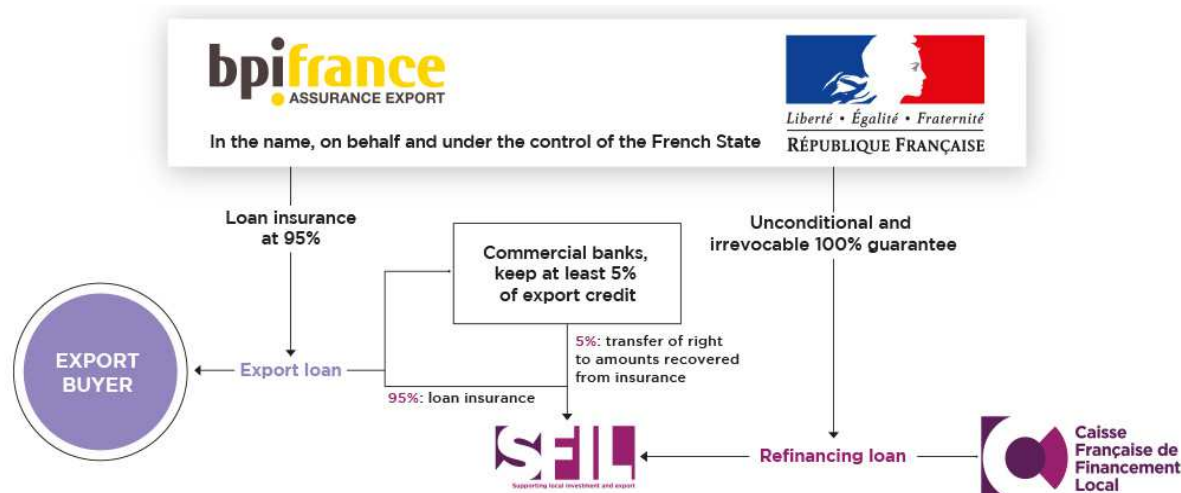
Within this framework, SFIL organized its relationship with almost all banks active in the French export credit market through bilateral agreements. SFIL may acquire all or part of the investment of each of these banks in an export credit.

On May 5, 2015, the European Commission authorized SFIL to refinance large export credits (authorization renewed in 2020).

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;
- the export bank retains the risk on the uninsured portion and maintains the entire commercial relationship over the life of the transaction;
- the export loans acquired by SFIL are refinanced through a loan from its subsidiary CAFFIL, which benefits from the enhanced guarantee mechanism of Bpifrance Assurance Export introduced by the 2012 finance law. This 100% guarantee by the French Republic is also irrevocable and unconditional. In this context, Bpifrance Assurance Export acts in the name, on behalf and under the control of the State.

#### OPERATIONAL FLOW DIAGRAM OF THE SYSTEM FOR REFINANCING OF EXPORT CREDITS BY SFIL-CAFFIL



To ensure the effectiveness of the refinancing system, SFIL maintains an ongoing relationship with the main French exporters, providing assistance with these early stages. On their request, SFIL issues letters of interest in their commercial offers to accompany Bpifrance Assurance Export's letters of interest. There are now 26 for 13 exporters.

### 3. Services for 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 LBP-CDC, "La Banque Postale Collectivités Locales". Within this framework, it provides services at all stages of medium and long-term loan issuance and management process (loan offerings, middle and back office management, ALM reporting, management control, accounting, third-party management, etc.).

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 La Banque Postale.

During the health crisis lockdown period, thanks to the rapid activation of its remote working system for almost all staff, SFIL maintained the operational continuity of its servicing to LBP with an unchanged level of service compared to normal. The performance indicators in place to measure the quality of the services that SFIL provided for the first half of 2020 were satisfied at 100%.

### 4. SFIL group's financing

The first half-year of 2020 saw the continued implementation of SFIL Group's social and environmental policy as part of its refinancing, which resulted in the successful launch of its second social theme bond issue by CAFFIL in April 2020 (first issue of European covered bonds related to COVID-19) which followed the inaugural issue under this format in 2019.

#### **4.1. ISSUES OF COVERED BONDS VIA CAFFIL**

During the first half of 2020, CAFFIL was very active in the public issue market by adding 2 new maturities to its reference curve and by carrying out its second social theme issue:

- on February 4, a first issue with a rare 20-year maturity of EUR 750 million;
- on April 28, a social theme public issue dedicated to the refinancing of the French public hospital sector for EUR 1 billion with a 5-year maturity. The very substantial subscription from a broad base of international investors for this operation shows the considerable recognition by market operators of this first issue of covered bonds related to COVID-19 ;
- on June 16, a new issue with a 10-year maturity for EUR 1 billion.

EUR 22 million in private placements were carried out alongside these public transactions. Over the half-year, the average length of financing raised by CAFFIL is close to 11 years.

#### **4.2. SFIL'S BOND ISSUES**

In the first half of 2020, SFIL continued to maintain its franchise as an issuer of bonds to the French agency segment by making regular public issues in dollars. Over the period, SFIL raised the equivalent of EUR 1.14 billion through a 3-year dollar issue launched in May for USD 1.25 billion.

With this transaction, SFIL posts a reference curve in euros (4 maturities) and another in dollars (3 maturities) for total discounted bond outstandings at the end of the period of EUR 7.2 billion.

#### **4.3. SFIL'S SHORT-TERM DEBT ISSUES**

In the first half of 2020, SFIL remained an active issuer of debt securities dated at less than 12 months under its negotiable European commercial paper (NEU CP) program. As of June 30, 2020, its total NEU CP outstandings stood at EUR 682 million.

#### **4.4. SHAREHOLDER REFINANCING**

The SFIL Group's other source of financing is the debt provided by Caisse des Dépôts et Consignations (CDC) and La Banque Postale (LBP) under existing credit facility agreements. As at June 30, 2020, the financing received by SFIL from these two shareholders amounted to EUR 0.4 billion, unchanged from December 31, 2019; it had no financing outstanding with CDC as of June 30, 2020.

## Changes in the main balance sheet items

The main items on the SFIL Group's consolidated balance sheet (management data<sup>(1)</sup>) as of June 30, 2020, are broken down in the table below:

(In EUR billions, equivalent value after currency swaps)	
ASSET	LIABILITIES
77.8	77.8
of which main items of the notional balance sheet item	
<b>61.7</b>	<b>61.7</b>
<i>Cash assets</i> 1.5 <i>(of which 1.2 for CAFFIL and 0.3 for SFIL)</i>	<i>SFIL bond issues</i> 7.2
<i>Securities</i> 8.2 <i>(of which 7.0 for CAFFIL and 1.2 for SFIL)</i>	<i>Obligations foncières</i> 50.8
<i>Loans</i> 49.4 <i>(of which 46.3 for CAFFIL and 3.1 for SFIL)</i>	<i>Certificates of deposit</i> 0.7 <i>Refinancing by shareholders</i> 0.4
<i>Cash collateral paid by SFIL</i> 2.6	<i>Cash collateral received</i> 1.7 <i>(of which 0.6 for CAFFIL and 1.1 for SFIL)</i>
	<i>Equity and other items</i> 1.0

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

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

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

- CAFFIL's *obligations foncières* liabilities;
- SFIL's bond issues;
- the certificates of deposit issued by SFIL;
- the debt financing provided by SFIL's shareholders;
- cash collateral received by CAFFIL and SFIL on their derivatives portfolios;
- equity and other resources.

<sup>(1)</sup> As regards the loans shown in the tables below, notional balance sheet item concept value, considered as an alternative performance indicator, corresponds to the outstanding principal for euro transactions and, for foreign currency transactions, the euro-equivalent value after swap hedging. Notional balance sheet items notably exclude hedging relationships and accrued interest not yet due.

## 1. Main changes in assets in the first half of 2020

The net change in the SFIL Group's main assets in the first half of 2020 was an increase of EUR 1.2 billion.

This change can be analyzed as follows:

(In EUR billions, equivalent value after currency swaps)	06/30/2020
<b>BEGINNING OF YEAR</b>	<b>60.5</b>
Purchase of loans from La Banque Postale	2.9
New post-sensitivity reduction loans granted	0.1
New export credit loans granted	0.5
Change in cash collateral paid by SFIL	0.3
Amortization of loans and securities to the French public sector (excluding cash investment securities)	(2.0)
Amortization of loans and securities outside of the French public sector (excluding cash investment securities)	(0.2)
Cash investment securities	(0.5)
Change in cash assets	0.3
Other	-
<b>END OF PERIOD</b>	<b>61.7</b>

- Through its subsidiary CAFFIL, SFIL acquired EUR 2.9 billion in loans marketed by La Banque Postale to the French local public sector.
- The export credit activity resulted in EUR 0.5 billion in drawdowns.
- The sensitivity reduction operations resulted in EUR 0.1 billion of new assets on CAFFIL's balance sheet, recognized under the refinancing of early repayment indemnities and new investment financing. The Group's campaign to reduce the sensitivity of risky structured loans is nearing completion.
- As an intermediary in the derivatives transactions between CAFFIL and certain of its counterparties, SFIL paid a total of EUR 2.6 billion in collateral as of June 30, 2020, an increase of EUR 0.3 billion from December 31, 2019.
- The other changes in assets pertained mainly to the amortization at maturity of portfolio loans and securities for EUR 2.2 billion and to the EUR 0.3 billion decrease in the cash balance held with the Banque de France.

It should be noted that SFIL held EUR 3.7 billion in cash management securities (banking and European public sector securities) as of June 30, 2020, down EUR 0.5 billion compared to end 2019.



## 2. Main changes in liabilities in the first half of 2020

The net change in the SFIL Group's main liabilities in the first half of 2020 was an increase of EUR 1.2 billion.

This change can be analyzed as follows:

(In EUR billions, equivalent value after currency swaps)	06/30/2020
<b>BEGINNING OF YEAR</b>	<b>60.5</b>
<i>Obligations foncières</i>	1.1
<i>Of which new issues</i>	2.8
<i>Of which amortization</i>	(1.7)
Change in cash collateral received	0.0
Shareholder refinancing	(0.0)
SFIL bond issues	0.2
<i>Of which new issues</i>	1.1
<i>Of which amortization</i>	(0.9)
Certificates of deposit	0.1
Equity and other items	(0.1)
<b>END OF PERIOD</b>	<b>61.7</b>

- Outstanding *obligations foncières* increased by EUR 1.1 billion due to the implementation of the new 2020 program for EUR 2.8 billion and the amortization of existing covered bonds for EUR -1.7 billion.
- SFIL's outstanding bond issues increased by EUR 0.2 billion due to the implementation of the new 2020 program for EUR 1.1 billion and the amortization of existing bonds for EUR -0.9 billion.

## Operating results

Consolidated net income for SFIL Group, according to IFRS, as at June 30, 2020 amounted to EUR -2 million for a balance sheet outstanding of EUR 77.8 billion at that date. The Group's CET1 ratio stood at 30.0%, confirming its unswerving financial stability.

Income as of June 30, 2020, also incorporated non-recurring items<sup>(1)</sup> linked to (i) volatility in the valuation of the derivatives portfolio, for EUR -3 million, (ii) the volatility related to application of IFRS 9 in the valuation of so-called non-SPPI loans on the balance sheet, for EUR -19 million, and (iii) the recognition as of January 1 of each year of certain charges with regard to the application of IFRIC 21, for EUR -5 million.

Restated to account for these non-recurring items, recurring net income<sup>(2)</sup> as of June 30, 2020, stood at EUR 24 million, compared with net income restated for the same items as of June 30, 2019, of EUR 19 million.

EUR millions	6/30/2019				6/30/2020					
	Accounting income	Recurring income			Accounting income	Recurring income				
		A	B	C		A	B	C		
Net banking income	85	-7		11	81	69	-4		-26	98
Operating expenses	-58		-5		-53	-60		-6		-55
<b>Gross operating income</b>	<b>27</b>	<b>-7</b>	<b>-5</b>	<b>11</b>	<b>28</b>	<b>8</b>	<b>-4</b>	<b>-6</b>	<b>-26</b>	<b>43</b>
Cost of risk	-1				-1	-9		0		-9
<b>Operating income before tax</b>	<b>26</b>	<b>-7</b>	<b>-5</b>	<b>11</b>	<b>27</b>	<b>0</b>	<b>-4</b>	<b>-6</b>	<b>-26</b>	<b>35</b>
Corporate income tax	-8	2	1	-3	-8	-2	1	1	7	-10
<b>Net income</b>	<b>18</b>	<b>-5</b>	<b>-4</b>	<b>8</b>	<b>19</b>	<b>-2</b>	<b>-3</b>	<b>-5</b>	<b>-19</b>	<b>24</b>

A: Adjustment to fair value of hedges

B: Linearization over the year of charges due and recognized in the first quarter

C: Adjustment to fair value of non-SPPI assets

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

- Net banking income stood at EUR 98 million for the first half of 2020, compared with EUR 81 million for the first half of 2019, a year-on-year increase of EUR 17 million. This change arose from the higher growth in income compared to last year, relating mainly to swap allocation transactions;
- Group operating expenses and amortization amounted to EUR -55 million, up by EUR 2 million compared to 2019, due to the increase in operating costs and the FRU contribution
- the cost of risk amounted to EUR -9 million, following the decision during the COVID-19 pandemic to add to watchlist monitoring and, consequently, to transfer from Stage 1 to Stage 2 all export credit exposure for the cruise sector.

The health crisis had a relatively limited impact on SFIL's net income at end June 2020. This confirms the Group's resilience to macro-economic shocks.

<sup>(1)</sup> Restated non-recurring items are as follows:

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

<sup>(2)</sup> Alternative performance indicator

EUR millions	6/30/2020					restated for accounting impact Covid 19
	Accounting result	Impact on income of Covid 19				
		A	B	C		
Net banking income	69	-4	-26			98
Operating expenses	-61					-61
Gross operating income	8	-4	-26	0	0	37
Cost of risk	-9			-10	-3	4
Pre-tax income	0	-4	-26	-10	-3	42
Income tax	-2	1	7	3	1	-13
Net income	-2	-3	-19	-7	-2	29

A: Adjustment to the value of hedges

B: Adjustment to the value of financial assets at fair value through profit or loss

C: Reinforcement of provisions for the export credit - cruise sector

D: Reinforcement of provisions for the public sector

The impacts of the health crisis are mainly due to the deterioration and volatility observed in the financial markets since mid-March, and specifically:

- an unfavorable change in adjustments to the fair value of non SPPI financial assets recognized at fair value through profit or loss according to IFRS. The adjustment in the value of these assets reached a low point in April 2020 and represents an expense of EUR -26 million in the financial statements at end June 2020;
- an unfavorable change in adjustments to the fair value of financial assets recognized at fair value through other comprehensive income according to IFRS. This adjustment of EUR -2 million before tax at end June 2020 is recognized within items that may subsequently be reclassified to profit or loss under the unrealized or deferred gains and losses on securities at fair value through other comprehensive income item;
- limited effects of the volatility of the rates on the adjustments in the value of derivatives (an impact of around EUR -4 million at end June).

As SFIL aims to retain the large majority of its assets until they expire, these valuations may continue to change according to market conditions, but will become balanced at maturity.

In addition to these impacts related to financial markets, SFIL decided to register all of the export credit exposures in the cruise sector on the watchlist and, consequently, to transfer them from Stage 1 to Stage 2 and reinforce the related provisions by EUR -10 million. SFIL also decided to increase its provisions for the local public sector customers by EUR -3 million.

Thus, the amount of effects related to the pandemic on SFIL's net accounting income at end June 2020 represents an expense after tax of EUR 31 million. Net income restated for these items would be EUR +29 million. This is close to the recurring net income of EUR +24 million, with the difference being that operating expenses were not linearized and the cost of risk was not restated.

# Risk management

## Risk profile

Ratios	CET1 ratio	Total capital ratio	Leverage ratio
Minimum requirement	7.75% (SREP)	11.25% (SREP)	3%
Value at 06/30/2020	30.0%, i.e. almost 4x higher than the minimum requirement	30.5%, i.e. 2.7x higher than the minimum requirement	8.9% (based on the methodological principles of CRR II)

The SFIL Group's risk profile is low:

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

## SREP

During the 2019 SREP (Supervision Review and Evaluation Process) review and evaluation, the European Central Bank notified SFIL of the equity and Common Equity Tier 1 (CET1) requirements that SFIL must comply effective January 1, 2020.

The capital and Common Equity Tier 1 (CET1) requirement that SFIL Group must meet on a consolidated basis from April 2, 2020 (date on which the High Council for Financial Stability decided to take the countercyclical buffer rate to 0%) amounts to 7.75% including :

- 4.50% for Pillar 1 Common Equity Tier 1, the level applicable to all entities;
- 0.75% for the P2R (Pillar 2 Requirement), unchanged year on year;
- 2.50% for the capital conservation buffer, the level applicable to all entities.

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

As of June 30, 2020, the SFIL Group's consolidated CET1 and total capital ratios came to 30.0% and 30.5%, respectively, a level representing more than twice the minimum requirement set by the European supervisory authority.

The CET1 ratio improved by 5.60% compared to its level of 24.4% at December 31, 2019. This improvement is mainly due to the decrease of Risk Weighted Assets (RWA) related to several changes in methods for calculating regulatory equity requirements: see chapter 1-2.

## Leverage ratio

The Regulation No. 575/2013 of June 26, 2013 has introduced a leverage ratio, which corresponds to the amount of Tier 1 capital as a proportion of the total exposure of the entity concerned. Data collection in accordance with the regulatory format began in 2014 and entities have published their leverage ratio since the fiscal year starting January 1, 2015, without this ratio being subject to a specific quantitative requirement.

Based on the methodological principles of currently applicable regulations, the SFIL Group's leverage ratio was 2.0% as of June 30, 2020.

(1) On an ancillary basis, CAFFIL may also hold credit institution exposures on its balance sheet, as replacement securities. These exposures must be ranked in one of the top two tiers for credit quality and replacement security outstandings may not exceed 15% of covered bonds outstandings. CAFFIL may also enter into derivative contracts with credit institutions, solely to hedge its interest rate and currency risks.

However, these regulations were recently amended by Regulation No. 876/2019 of May 20, 2019. The amendments in question, applicable as from end-June 2021, provide for the introduction of a minimum leverage ratio requirement of 3%, as well as measures designed to exclude development loans and the Export Credit business when calculating the total exposure. When these amendments come into force, the SFIL Group will therefore benefit from specific, tailored leverage ratio calculation rules.

Calculated using the methodological principles of the amended regulations, the SFIL Group's leverage ratio is 8.9% and thus comfortably exceeds this minimum 3% requirement.

## **MREL**

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

Based on data as of December 31, 2017, this requirement is set at 1.94% of the SFIL Group's total liabilities and own funds (TLOF). As at June 30, 2020, the eligible liabilities are over six times higher than this requirement.

## **1. Credit risk**

### **1.1. DEFINITION AND MANAGEMENT OF CREDIT RISK**

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

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

### **1.2. BREAKDOWN OF EXPOSURES BASED ON BASEL III RISK WEIGHTS**

Credit risk exposures measured with the EAD (Exposure At Default) metric amounted to EUR 76.7 billion at June 30, 2020 (excluding fixed assets and accruals and other liabilities):

- nearly 60% of this exposure originates from French local public authorities (regions, departments and authorities);
- 16% of these exposures are included in "Sovereign" items including 68% as a result of the export credit activity;
- 11% of these exposures come from public sector entities, including 85% from public stakeholders in the healthcare sector.

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.

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

Upon the proposal by SFIL and following a favorable decision by the ECB on April 29, 2020, the exposures on sovereigns, Italian local public administrations (provinces, regions and communes) and social housing entities, which were handled using the advanced method, have been processed using the standard method since this decision.

Exposures on banks are now processed using the F-IRB method<sup>2</sup>. These changes generated contrasting changes in the amount of weighted exposures of the different counterparty types, with nevertheless, a significant decrease in this amount: as at June 30, 2020, the amount of weighted exposures in respect of credit risk was EUR 4.2 billion compared to EUR 5.1 billion as at December 31, 2019.

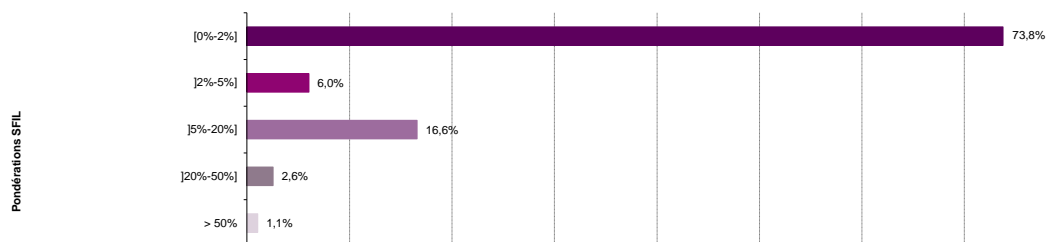
---

<sup>1</sup> A-IRB : Weightings calculated based on the probability of counterparty default and the loss incurred in the event of default.

<sup>2</sup> F-IRB : weightings calculated based on the probability of counterparty default, a flat-rate loss incurred in the event default of 11.25% on Covered Bonds or 45% in the other cases and a maturity of 2.5 years.

The breakdown of the exposures by risk weighting is as follows:

**Risk weight (Basel III) of the SFIL Group's portfolio as of June 30, 2020 (consolidated basis)**



The average weighting on credit risk exposures stands at 5.4%, with only 3.7% of the portfolio having a risk weighting exceeding 20%, this testifies to the low level of credit risk of SFIL and CAFFIL's portfolio.

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

The impacts of the COVID-19 pandemic are limited at this stage for local public administrations and the French public sector entities.

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

The following tables present the details of the payment delays operations granted as at June 30, 2020 to health institutions, according to the format proposed by the European Banking Authority in its guidelines GL/2020/07 appendix 3 of June 2, 2020 on the publication of information concerning the measures implemented by institutions in response to the Covid-19 pandemic (table no. 3 of the EBA concerning Information on newly originated loans and advances provided under newly applicable public guarantee schemes introduced in response to Covid-19 crisis is not applicable to SFIL):

- Information on outstanding loans to health institutions that have been subject to payment delays (in EUR)

	Gross carrying amount						
		Performing loans			Non-performing loans		
			Of which exposures with forbearance measures	Of which instruments with significant increase in credit risk since their initial recognition, but which are not doubtful (Stage 2)		Of which exposures with forbearance measures	Of which unlikely to pay that are not past due or past due <= 90 days
Loans subject to payment delays	247,996,380	224,258,013	-	43,721,704	23,738,367	-	17,276,624
	Accumulated impairment, Accumulated negative changes in fair value due to credit risk						
		Performing loans			Non-performing loans		
			Of which exposures with forbearance measures	Of which instruments with significant increase in credit risk since their initial recognition, but which are not doubtful (Stage 2)		Of which exposures with forbearance measures	Of which unlikely to pay with past due or past due <= 90 days

Loans subject to payment delays	-2,153,573	-1,707,249	-	-349,504	-446,324	-	-385,879
---------------------------------	------------	------------	---	----------	----------	---	----------

The absence of new non-performing exposure flows in gross carrying amount should be noted.

#### - Breakdown of the payment delay granted to health institutions by residual maturity (in EUR)

	Number of obligors	Gross carrying amount							
			Of which legislative moratoria	Of which expired	Residual maturity of payment delays				
					<= 3 months	> 3 months <= 6 months	> 6 months <= 9 months	> 9 months <= 12 months	> 1 year
Loans for which payment delays was offered	28	249,554,385							
Loans for which payment delays have been granted	27	247,996,380	-	-	12,804,954	235,191,426	-	-	-

Requests for payment delays were also received from certain local authorities or French public sector entities. The COVID-19 epidemic had a more significant impact on the export credit portfolio, and specifically on the financing of cruise ships built by the Chantiers de l'Atlantique, due to the interruption of cruise operations. The entire portfolio was placed on the watchlist. All of the export credit portfolio is 100% guaranteed by the French Republic via BPI AE credit insurance policies.

#### 1.4. PAST DUE, DOUBTFUL LOANS AND PROVISIONS

Past due	Doubtful and litigious loans (French accounting standards) at the level of CAFFIL	Net amount of financial assets and financing commitments classified under Stage 3	Non-performing exposures
EUR 89 million	EUR 304 million	EUR 1,076 million	EUR 1,334 million
(0.15% of CAFFIL's cover pool)	(of which loans with no past dues EUR 143 million)	(of which loans with no past dues EUR 1,009 million)	(of which loans with no past dues EUR 1,048 million)

Total past dues amounted to EUR 89 million as of June 30, 2020. These increased by EUR 24 million compared to December 31, 2019 (EUR 65 million) and are concentrated on a handful of solely French counterparties.

Past dues breakdown into EUR 73 million for receivables declassified in doubtful or litigious categories and EUR 16 million past dues not exceeding the thresholds of materiality with regard to ECB regulations. The volume of these so-called "non qualifying" past dues increased by EUR 15 million since December 31, 2019. This increase is the result of the systems implemented by SFIL to support its customers, and specifically its counterparties in the public health sector, as part of the COVID-19 health crisis. These systems are described in the paragraph "Impact of the COVID-19 pandemic on credit risk".

No past dues related to the COVID-19 epidemic have been recognized in the export credit and international local authorities' portfolios.

As at June 30, 2020, for the CAFFIL scope and in application of French accounting standards, doubtful and litigious loans amounted to EUR 304 million, or less than 0.5% of CAFFIL's cover pool, which attests to the portfolio's

excellent quality. These are down 13% compared with December 31, 2019 (EUR 349 million). This change is mainly due to the entry/exit in this category of counterparties for which the loan outstandings declassified by contagion effect represented EUR 230 million.

CAFFIL's doubtful and litigious loans according to French accounting standards comprise:

- EUR 264 million of receivables classified as doubtful<sup>(1)</sup>, corresponding to loans granted to customers whose total past dues came to EUR 34 million (of which EUR 24 million on structured loans);
- EUR 40 million of loans classified as litigious, corresponding to unpaid interest subject to legal proceedings.

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

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

Stage 3 outstandings correspond mainly to customers:

- with an outstanding unpaid for more than 90 days;
- whose financial situation is such that, even in the absence of an unpaid outstanding, it is possible to conclude that the debtor is unlikely to pay,
- that were in a situation of real default and for which arrears of more than 90 days were settled. These outstandings are kept in Stage 3 for a minimum period of one year, referred to as a "probation period".

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

Provisions are set aside for all of these outstandings, including Stage 1 and Stage 2 outstandings, for expected credit losses. The related impairment is based on forward looking scenarios (defined by probability of occurrence), and takes into account expected losses over the next 12 months (Stage 1) or the outstanding's life (Stages 2 and 3).

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

	IFRS net carrying amount (before provisions)		Provisions	
	12/31/2019	06/30/2020	12/31/2019	06/30/2020
<i>(EUR millions)</i>				
Stage 1	57,978	53,548	(7)	(10)
Stage 2	4,610	10,252	(37)	(43)
Stage 3	1,103	1,076	(11)	(11)
<b>TOTAL LOANS/LOANS WITH CREDIT INSTITUTIONS</b>	<b>63,691</b>	<b>64,876</b>	<b>(55)</b>	<b>(64)</b>
<i>Non-performing exposures</i>	1,368	1,334		

In the context of the health crisis, it was decided to transfer part of the export credit portfolio corresponding to the refinancing of the cruise sector from Stage 1 to Stage 2. It should be noted that a significant portion of these loans has not yet been drawn down as at June 30, 2020. This transfer explains most of the change in the breakdown in book values by Stage as well as the change in provisions recognized between December 31, 2019 and June 30, 2020. These went respectively from EUR 55 million to EUR 64 million.

Outstandings for health institutions that benefited from the moratorium set up by SFIL were not subject to declassification in Stage 3, in accordance with SFIL's interpretation of the European regulations.

(1) A loan is considered doubtful if it presents one of the following characteristics:

- a probable or certain risk of non-recovery (unpaid for more than nine months for local government entities and three months for other counterparties);
- the existence of an observed risk on the counterparty (downgraded financial situation or alert procedure).

When a customer is classified in default in terms of credit risk the outstanding amount of all its loans is automatically classified as doubtful, in addition to its existing past dues.

A receivable is considered to be litigious when it is unpaid and is the subject of legal proceedings.



Over the same period, the book values allocated to Stage 3 as well as the Non-performing exposures remained relatively stable at EUR 1.1 billion and EUR 1.3 billion respectively at end June 2020.

## 2. Market risk

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

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

- risks arising from changes in the value of financial assets recognized at fair value through profit or loss or through equity;
- risks associated with a very limited portfolio of swaps, covering loans to customers for which actual defaults have been observed that interrupted the hedging relationship as defined under IFRS;
- risks arising from the export credit activity (monitoring of the value changes of the indicator specific to export credit and, for USD-denominated loans, the change in the valuation of currency swaps hedging this activity);
- changes in accounting valuation adjustments on derivatives, such as credit valuation adjustments (CVA) and debt valuation adjustments (DVA), recognized in profit or loss in accordance with IFRS;
- the provision for investment securities in accordance with the French accounting standards;
- risks that may materialize at the level of SFIL's individual financial statements, in connection with its derivatives intermediation activity carried out on behalf of CAFFIL, if the derivatives that SFIL enters into with external counterparties are not perfectly mirrored with CAFFIL.

The crisis affected the Group's results notably due to the unfavorable change in the market value of certain loans which, in application of international accounting rules, must be recognized at fair value through profit or loss: the fair value of these assets, for which the nominal outstanding stands at EUR 3.7 billion, suffered a deterioration related mainly to the deterioration of credit spreads, modeled based on a market index covering public counterparties with comparable credit quality. The portfolio value's sensitivity to a 1 basis point change in credit spread is EUR 2.9 million. Having reached a low point mid-April, the value of these assets improved, but, as at June 30, still shows a deterioration of EUR -26 million over the first half-year.

It should also be noted that these expenses do not have an economic nature as they are intended to be maintained in the balance sheet up to maturity. The corresponding results are recorded in non-recurring items.

The deterioration in credit spreads had a more limited impact on the value of securities held within the portfolio of securities that may be held or sold, which are recognized at fair value through other comprehensive income: the portfolio sensitivity to a 1 basis point change in credit spread is EUR 0.1 million and its valuation at market conditions gave rise to a negative impact on equity of EUR 1 million as at June 30, 2020.

## 3. Balance sheet risk

From March 2020, measures were taken to reinforce the monitoring of liquidity risk in a context where the SFIL group chose not to issue whilst spreads remain at an abnormally high level. At end June, the half-year issue program had been completed according to budget.

The SFIL group's liquidity risk management was reinforced through the extension to 6 months of the short term liquidity requirement steering horizon and a weekly update of these forecasts. The calculation frequency for liquidity reserves also became weekly and, from mid-March, the Group pre-positioned securities with the Banque de France in order to increase its refinancing capacity. With the exception of the closure of financing markets, the impacts of the crisis on the Group's liquidity (past dues, changes in collateral paid on derivatives) were very limited. The measures decided by the European Central Bank on April 7 also enabled an increase in the amount of financing that can be mobilized from Eurosystem by EUR 5.4 billion, due to the reduction in discounts applied to receivables provided as guarantees. The gradual return to normal of financing markets gave rise to the resumption of CAFFIL's issues from end April, followed by SFIL's issues in May 2020.

Up to now, the crisis has not had a significant impact on interest rate and exchange rate risk, given the very cautious policy conducted by the Group in this area and the reduced level of non-hedged positions.

### 3.1. LIQUIDITY RISK

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

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

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

- the financing of balance sheet assets (EUR 62 billion in nominal value), mainly held by CAFFIL (EUR 58 billion);
- the financing of liquidity requirements in connection with compliance with regulatory ratios;

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

As of June 30, 2020, the sources of financing used, other than the entity's equity, were:

- privileged debt, i.e. the *obligations foncières* issued and the cash collateral received by CAFFIL (EUR 51.4 billion);
- negotiable debt securities as well as EMTN issues by SFIL (EUR 7.9 billion); and
- credit agreements signed in 2013 between SFIL and its shareholders (EUR 0.4 billion).

In addition, the SFIL Group has a large number of securities and loans held by CAFFIL or SFIL that are eligible for central bank refinancing. The securities held by CAFFIL and SFIL can be made available through European Central Bank refinancing operations, via the Banque de France. There were no operations of this type in the first half of 2020.

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

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

As of June 30, 2020, SFIL's Liquidity Coverage Ratio (LCR) on a consolidated basis came to 349%.

### 3.2. INTEREST RATE RISK

SFIL Group distinguishes three types of interest rate risks that are generally hedged with derivatives:

<b>Fixed rate risk</b>	Results from the difference in volume and maturity between fixed rate assets and liabilities, or adjustable rates for which the interest rate has been fixed. This risk can result in yield curve parallel shifts, steepening, flattening or rotation.
<b>Basis risk</b>	Results from the gap that may exist in the matching of assets and liabilities indexed to variable rates of different types or index tenors.
<b>Fixing risk</b>	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 variable rate are hedged against EURIBOR until maturity as soon as they are recorded on the balance sheet. In practice, acquisitions of loan portfolios are usually macro-hedged. Loans granted individually or bond issues may be micro- or macro-hedged. Assets and liabilities can be hedged either by using new interest rate swaps, or by the cancelation of swaps of opposite direction;
- in the second stage, Euribor lending and borrowing flows (scheduled or posthedging) are swapped against Eonia over a maximum period of two years in order to protect income from the basis risk generated by differences in tenor (Euribor 1, 3, 6, or 12 months) and the fixing risk arising from reference index refixing dates that differ for the assets and the liabilities. The residual risk is managed through macro-hedges with a management horizon of one week.

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

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

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

	<b>Level as at June 30, 2020</b>	<b>Limit</b>
	EUR millions	
Directional interest rate risk	(1.9)	< EUR 15 million
<b>Steepening risk</b>		
<i>Sensitivity by time bucket</i>		
• Short bucket	(4.0)	< EUR 15 million
• Medium bucket	(6.6)	< EUR 10 million
• Long bucket	4.1	< EUR 10 million
• Very long bucket	4.6	< EUR 9 million
<i>Sensitivity by time bucket in absolute value</i>		
• Short bucket	9.0	< EUR 30 million
• Medium bucket	13.0	< EUR 30 million
• Long bucket	10.4	< EUR 30 million
• Very long bucket	7.6	< EUR 30 million

For the first half-year 2020, CAFFIL's sensitivity limits to interest rate risk were adjusted, whilst keeping the overall value of the interest risk appetite unchanged (EUR 80 million); the aim of this reallocation is to optimize the management of short term interest risk by limiting the volume of swaps required.

Thus, the sensitivity allocated:

- to short-term positions was increased from EUR 10 million to EUR 15 million,
- to very long term positions was reduced from EUR 10 million to EUR 9 million,
- to each maturity bucket, in absolute value, was reduced from EUR 40 million to EUR 30 million.

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

These indicators are calculated from a static viewpoint.

### 3.3. FOREIGN EXCHANGE RISK

Foreign exchange risk is defined as the risk of loss, observed or unrealized, 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 that 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 maturity, to a cross-currency swap against the euro. The floating rate exposures resulting from this management are covered by interest rate risk management. For operational reasons, SFIL continues to incur marginal foreign exchange risk affecting the share of margin of USD-denominated export credit transactions not paid on to CAFFIL.

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

## 4. Operational risk

### 4.1. OPERATIONAL RISK

Operational risk represents the risk of loss resulting from a lack of adaptation or a deficiency relating to internal processes, staff or systems or to external events. It includes legal and model risk but not strategic risk. This definition is in line with the definition adopted by the Basel Committee and with applicable regulations.

Management procedures for operational risks apply to all of SFIL and CAFFIL's processes and activities. The equity requirement in respect of operational risk is calculated based on the standard method.

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

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

From the first days of March 2020, SFIL set up a crisis unit dedicated to managing the COVID-19 pandemic crisis, with 3 main objectives:

- Protecting the health of internal and external employees (the few employees that were infected by the virus - confirmed or possible cases - all recovered);
- Maintaining the institution's operational capacity in order to ensure business continuity;
- Managing all increased risks during this period.

This crisis unit, steered by the Deputy Chief Executive Officer and the Risk Director, comprising representatives of most of SFIL's departments (Risks, IT System, Finance, Financial Markets, Human Resources, Legal, Communication, Purchasing, etc.), met 24 times during the period.

Amongst the actions carried out by this crisis unit, we can note:

- the implementation and management of remote working for all internal and external employees;
- the increase in the capacity of collaborative working tools, audio and video conferences, documentary sharing;
- the reinforcement of cyber risk monitoring and awareness raising of employees with regard to this risk during the period;
- specific monitoring of key activities, essential externalized services, IT projects and business lines.

A review of the most critical processes was also conducted to ensure business continuity, identify the increased risks during this lockdown period and implement new controls if required. This review indicated that business continuity with massive use of remote working could be carried out under good conditions. Some additional procedures and controls were set up during the lockdown period. They did not detect any major anomalies in the usual procedures.

The crisis unit created a dedicated lockdown exit task force steered by the Deputy Chief Executive Officer in order to organize a cautious and gradual return of employees on site whilst protecting their health. Overall, few incidents were reported concerning the COVID-19 crisis. They generated low impacts, which were lower than regulatory collection thresholds.

## **4.2. PERMANENT CONTROL**

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

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

## **5. Non-compliance risk**

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

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

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

The first half of 2020 saw the publishing of the new Ethic and Professional Conduct Code, which now incorporates a code of conduct for preventing corruption, the deployment of a platform to collect alerts and the updating of compliance procedures. These incorporate the latest regulatory changes, notably the 5<sup>th</sup> European Directive on preventing use of the financial system for money laundering or financing terrorism.

## **6. Legal and tax risks**

### **6.1. LEGAL RISKS**

As at June 30, 2020, the number of borrowers in lawsuits for sensitive structured loans was 14, compared with 15 as of December 31, 2019, this number having fallen uninterruptedly since 2014 (210 as of December 31, 2014). Since SFIL's creation, 209 borrowers have ended lawsuits they had brought.

As an extension to its decisions of March 28, 2018 and June 26, 2019, the Court of Cassation once again confirmed the validity of the structured loans recorded on CAFFIL's balance sheet through a ruling on May 20, 2020.

In this context, since the entry into force on July 30, 2014 of the law on securing structured loan agreements entered into by legal entities governed by public law, almost 60 court decisions, including three rulings by the Court of Cassation and sixteen rulings on appeal, have rejected all means by which borrowers have attempted to call into question the validity of the structured loans recorded on CAFFIL's balance sheet.

As of June 30, 2020, there were no other significant lawsuits or disputes between SFIL or the Caisse Française de Financement Local and their borrowers.

### **6.2. TAX RISKS**

There was no change over the half-year of 2020 in the case concerning the tax treatment in Ireland of the income of the former Dexia Municipal Agency branch (former name of CAFFIL) in Dublin, which was closed in 2013, and, which was subject to an audit by the French tax authorities. The Caisse Française de Financement Local paid the rights assessed.

Moreover, the audit procedure started by the tax authorities in 2019 with regard to SFIL's 2016 to 2018 financial years, continued during the first half-year 2020. The conclusions of the audit were presented in July 2020. The Company was notified of insignificant technical adjustments, corresponding mainly to a shift in fiscal year for social security tax matching. This adjustment only results in deferred tax, which SFIL had taken into consideration when closing its 2019 financial statements.

---

## Social and environmental initiatives

---

During the first half of 2020, despite the generalized lockdown, SFIL endeavored to continue its Corporate Social Responsibility (CSR) commitments, in line with its strategy and road map.

On April 30, SFIL published its 2019 CSR report incorporating the measurement of its second carbon footprint on schedule and in line with its commitments to the United Nations Global Compact. The English version of the report was published on June 10.

### 1. THE CONDUCT OF PUBLIC POLICY MISSIONS

Within the context of the health crisis, on April 28, SFIL launched a social issue dedicated to hospitals in support of public hospital investment in France. In the format of *obligations foncières* issued by CAFFIL, this transaction for EUR 1 billion with maturity 5 years, is the 2nd operation by SFIL Group in the social format dedicated to Hospital financing.

The allocation report on the inaugural social issue of February 2019 – Europe's first social issue dedicated exclusively to the financing of public hospitals – was published in February 2020. It notably contains the social impact of the loans, measured thanks to the indicators defined in the issue framework document, i.e. the number of beds, places and stays carried out, and the "added health value" of the institutions financed, which is an indicator developed by SFIL to measure the hospital's positioning in the health offering.

Lastly, SFIL wanted to support French health institutions following their exceptional involvement in the treatment of patients suffering from COVID-19 by offering payment terms of 180 days for all of their contract maturities between March 12 and June 30, 2020, without any late interest or penalties invoiced.

### 2. THE DEPLOYMENT OF INTERNAL POLICIES

During the first half-year 2020 and the lockdown period due to the COVID-19 pandemic, SFIL continued to maintain quality social dialog, with the signature of a new profit-sharing agreement for 2020 to 2023 particularly CSR objectives (decrease in Carbon Footprint, decrease in the volume of data storage in office directories, improvement to the gender equality index).

SFIL also set up specific measures to improve remote working conditions notably by offering a refund of EUR 200 to employees for equipment expenses (PC screen, ergonomic chair, audio headset).

SFIL carried out regular surveys of employees in order to assess their morale and level of satisfaction. The latest survey, carried out in July 2020, showed that 91% of employees felt well or very well (51%) and 95% felt that they were supported by the Company.

Lastly, in July, the Company launched a study "Demain@SFIL" to benefit from the measures implemented during the lockdown, in order to identify new resources (IT and logistics) as well as new work organization solutions for the future to improve the quality of life for its employees and operational efficiency.

At the beginning of April, SFIL completed the measurement of its greenhouse gas emissions (GHG) for 2019, with a result of 5,790 TCO<sub>2e</sub>, compared to 7,860 TCO<sub>2e</sub> in 2018. This measurement was audited by Carbone 4, which issued a compliance certificate to SFIL.

The reduction in SFIL's GHG is notably due to the completion of the IT system simplification program ("Oxygène"), the increase in remote working and the resulting decrease in home-to-work travel.

In order to reduce the increase in its emissions, SFIL has implemented an action plan notably including the change in its purchasing policy and by more strongly incorporating the CSR aspect, and the reduction in data stored in its IT system.

### 3. THE INVOLVEMENT OF OUR EMPLOYEES

Despite the health crisis situation, SFIL maintained the commitment momentum of its employees as well as some of the actions initially planned for the first half-year 2020:

- The awareness raising conference on "Zero waste", initially planned at Issy-les-Moulineaux at the end of March, was offered to employees as a video conference.
- An Eco-Gesture challenge on the theme "How to be eco-friendly in the office? " was launched in June, with the aim of bringing together best practices and construct a corporate eco-gesture guide on the subjects of IT habits, lunch, plastic and travel.
- Lastly, with regard to the health crisis itself, a communication was made to employees to inform them of the simple and accessible solidarity actions for all during the health crisis :support for health personnel, giving blood, giving solidarity days to the Fondation de France association, etc.

---

## Outlook

---

For the local public sector market, whilst the decrease in GDP, combined with a decrease in income for territorial authorities, may temporarily deteriorate the risk profile of some of them, this effect should remain temporary and limited, given the excellent overall solvency level of these players. We may, however, expect that this decrease in income will lead to an increase in the use of loans to limit the decrease in local authority investments, from the end of 2020 or 2021, which should increase the volume of loans granted by La Banque Postale/SFIL system. This is even more likely as public investment is a key factor in the French economy recovery plan, and the Government has affirmed its intention to maintain it. The public hospitals support plan (announced prior to the pandemic) has already led to an increase in loans granted to this sector. SFIL was able to maintain its activity objectives for 2020. SFIL Group aims to maintain its position as leader for the financing of loans to French local authorities and public hospitals, as part of its partnership with La Banque Postale. The status of public development bank, the very high resilience of SFIL's model and the ability to access the markets through its bond issues are strengths, and foundations for implementing the bank's strategy, responding to its borrowers' requirements and actively participating in public initiatives for the economic recovery. In parallel, SFIL will continue its actions within the EAPB to promote and stimulate the public banks' initiatives, which are able to play an essential role in the face of the complexity and long term consequences of the health crisis, whilst continuing to affirm their role in the development of sustainable finance.

With regard to export credit, beyond the specific unfavorable impact on the cruise sector (see item 1 of the highlights of the first half), the brake on international trade will most likely have a negative impact on the large commercial contracts and the use of SFIL refinancing in 2020. This decrease in the business volume for SFIL may, however, be compensated in future years, as this crisis should not weigh on the competitiveness of French exporters nor generally reduce the infrastructure and equipment requirements of potential customers due to its global nature. Moreover, the use of export credit could increase in a context where access to financing is made more difficult for certain borrowers in a crisis or crisis exit context. This was the case during previous crises, and an increase in requests in certain sectors has already been observed. SFIL will provide the expected support for the economic recovery in line with the credit guarantee policy for the major contracts steered by the French Republic. Financing may be destined either for export contracts in the traditional meaning, or projects covered by the Strategy Project Guarantee subject to rapid progress in authorization discussions by the European Commission.

In terms of financing, the first half year showed the very high quality of access to the market that SFIL benefits from as a development bank - public sector issuer. The changes in its cost of financing in the markets have been lower than those observed for the commercial banks at the heart of the crisis and the Group was one of the first to be able to return to the primary market under almost normal conditions. SFIL will actively continue its bond issue program during the second half-year, in particular within the framework of sustainable bond issues, will publish the allocation and impact report on its first green issue launched in November 2019 at the end of 2020, and will continue to roll-out its comprehensive and ambitious CSR strategy, with notably the integration of climatic risks in the methodological risks. Moreover, it should be highlighted that the very high stock of loans to public authorities eligible for central bank refinancing held by SFIL Group provides it with a very deep source of alternative liquidity to market issues, that can be mobilized immediately.

On the organizational and operational level, and as an extension to the "Demain@SFIL" study launched in July 2020, work will be carried out to capitalize on the measures implemented during the lock-down and thus define the new operational work modalities within the Company, with the aim of improving operational efficiency and the quality of working life for employees. It is also from the second half-year 2020, that SFIL will gradually deploy its DigiSFil internet platform for local public sector borrowers, with the main aim of supporting their dematerialization and offering them the possibility of carrying out all information exchanges online.

In the coming period, whilst continuing to carefully monitor the short to medium term impacts of the health crisis on the financial situation of the local authorities, hospitals and export credit counterparties, as well as more broadly all economies and market volatility, SFIL will commit all of its capacities related to its public development bank status and its operational model to serve the recovery plans initiated by the French Republic and the European Union.

Lastly, during the third quarter, the transfer of control of SFIL to the CDC should be completed, subject to authorizations, giving rise to an increase in the exchange of experience already carried out within the major public financing hub.





## 2. Condensed consolidated financial statements under IFRS

## Balance sheet

### Assets as of June 30, 2020

EUR millions	Note	12/31/2019	06/30/2020
Central banks		1 191	1 454
Financial assets at fair value through profit or loss	2.1	4 906	4 677
Hedging derivatives		5 177	5 838
Financial assets at fair value through equity	2.2	1 334	769
Financial assets at amortized cost			
Loans and advances due from banks at amortized cost	2.3	323	315
Loans and advances to customers at amortized cost	2.3	47 332	49 679
Bonds at amortized cost	2.3	9 184	9 171
Fair value revaluation of portfolio hedge		2 774	3 016
Current tax assets		8	11
Deferred tax assets		70	75
Tangible assets		16	14
Intangible assets		31	29
Accruals and other assets		2 450	2 758
<b>TOTAL ASSET</b>		<b>74 796</b>	<b>77 806</b>

### Liabilities as of June 30, 2020

EUR millions	Note	12/31/20219	06/30/2020
Central banks		-	-
Financial liabilities at fair value through profit or loss	3.1	1 120	1 151
Hedging derivatives		7 062	8 271
Financial liabilities measured at amortized cost			
Due to banks at amortized cost	3.2	379	379
Customer borrowings and deposits at amortized cost		-	-
Debt securities at amortized cost	3.2	62 466	64 228
Fair value revaluation of portfolio hedge		338	338
Current tax liabilities		8	2
Deferred tax liabilities		-	-
Accruals and other liabilities		1 788	1 796
Provisions	3.3	14	21
Subordinated debt		-	-
<b>EQUITY</b>		<b>1 621</b>	<b>1 620</b>
Capital		1 445	1 445
Reserves and retained earnings		155	204
Net result through equity		(29)	(27)
Net income		50	(2)
<b>TOTAL LIABILITIES</b>		<b>74 796</b>	<b>77 806</b>

## Income statement

EUR millions	Note	H1 2019	2019	H1 2020
Interest income	5.1	1 328	2 675	1 316
Interest expense	5.1	(1 264)	(2 544)	(1 249)
Fee and commission income		5	7	16
Fee and commission expense		(2)	(5)	(0)
Net result of financial instruments at fair value through profit or loss	5.2	18	31	(19)
Net result of financial instruments at fair value through equity		-	-	-
Gains or losses resulting from derecognition of financial instruments at amortized cost	5.3	0	2	5
Gains or losses resulting from reclassification of financial assets at amortized cost to fair value through profit or loss		-	-	-
Gains or losses resulting from reclassification of financial assets at fair value through equity to fair value through profit or loss		-	-	-
Other income		0	0	0
Other expense		(0)	(0)	(0)
<b>NET BANKING INCOME</b>		<b>85</b>	<b>166</b>	<b>69</b>
Operating expenses	5.4	(51)	(94)	(52)
Depreciation and amortization of tangible and intangible assets		(7)	(16)	(9)
<b>GROS OPERATING INCOME</b>		<b>27</b>	<b>56</b>	<b>8</b>
Cost of risk	5.5	(1)	7	(9)
<b>OPERATING INCOME</b>		<b>26</b>	<b>63</b>	<b>(0)</b>
Net gains (losses) on other assets		-	-	-
<b>INCOME BEFORE TAX</b>		<b>26</b>	<b>63</b>	<b>(0)</b>
Income tax		(8)	(14)	(2)
<b>NET INCOME</b>		<b>18</b>	<b>50</b>	<b>(2)</b>
<b>EARNINGS PER SHARE (in EUR)</b>				
- Basic		1,94	5,35	(0,26)
- Diluted		1,94	5,35	(0,26)

## Net income and unrealized or deferred gains and losses through equity

EUR millions	H1 2019	2019	H1 2020
<b>NET INCOME</b>	<b>18</b>	<b>50</b>	<b>(2)</b>
<b>ITEM THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS</b>	<b>7</b>	<b>9</b>	<b>2</b>
Unrealized or deferred gains and losses of financial assets at fair value through equity	1	2	(2)
Unrealized or deferred gains and losses of cash flow hedges	6	10	5
Tax on items that may subsequently be reclassified as profit or loss	1	(3)	(1)
<b>ITEM THAT MAY NOT BE RECLASSIFIED AS PROFIT OR LOSS</b>	<b>-</b>	<b>(0)</b>	<b>-</b>
Actuarial gains and losses on defined-benefit plans	-	(1)	-
Tax on items that may not subsequently be reclassified as profit or loss	-	0	-
<b>TOTAL UNREALIZED GAINS OR LOSSES THROUGH EQUITY</b>	<b>7</b>	<b>9</b>	<b>2</b>
<b>NET INCOME AND GAINS OR LOSSES THROUGH EQUITY</b>	<b>25</b>	<b>59</b>	<b>(0)</b>

## Equity

EUR millions	Capital and reserves			Unrealized or deferred gains and losses				Total equity
	Share capital, additional paid-in capital	Retained earnings and net income for the period	Total	Remeasurement gains (losses) related to post employment benefits plans, after tax	Financial assets designated as at fair value through equity, after tax	Net change in fair value of hedging derivatives, after tax	Total	
<b>EQUITY AS OF DECEMBER 31, 2019</b>	1 445	205	1 650	(1)	-	(28)	(29)	1 621
Stocks issued	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Changes in fair value of available for sale financial assets through equity	-	-	-	-	(1)	-	(1)	(1)
Changes in fair value of derivatives through equity	-	-	-	-	-	3	3	3
Changes in fair value of available-for-sale financial assets through profit and loss	-	-	-	-	-	-	-	-
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-	-
Net income for the period	-	(2)	(2)	-	-	-	-	(2)
Other movements	-	-	-	-	-	-	-	-
<b>EQUITY AS OF JUNE 30, 2020</b>	1 445	203	1 648	(1)	(1)	(25)	(28)	1 620

## Cash flow statement

EUR millions	12/31/2019	06/30/2020
<b>NET INCOME BEFORE TAX</b>	<b>63</b>	<b>(0)</b>
+/- Depreciation and write-downs	(25)	9
+/- Expense / income from investing activities	(110)	(123)
+/- Expense / income from financing activities	(12)	(204)
+/- Other non-cash items	(119)	(33)
<b>Non-monetary items included in net income before tax and other adjustments</b>	<b>(266)</b>	<b>(351)</b>
+/- Cash from interbank operations	(1 637)	11
+/- Cash from customer operations	(1 239)	(1 405)
+/- Cash from financing assets and liabilities	654	696
+/- Cash from not financing assets and liabilities	238	(42)
- Income tax paid	(36)	(20)
<b>Decrease / (increase) in cash from operating activities</b>	<b>(2 020)</b>	<b>(759)</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES (A)</b>	<b>(2 223)</b>	<b>(1 110)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES (B)</b>	<b>(6)</b>	<b>(1)</b>
+/- Cash from or for shareholders	(41)	(45)
+/- Other cash from financing activities	1 540	1 431
<b>CASH FLOW FROM FINANCING ACTIVITIES (C)</b>	<b>1 499</b>	<b>1 385</b>
<b>EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)</b>	<b>-</b>	<b>-</b>
<b>INCREASE / (DECREASE) IN CASH EQUIVALENTS (A + B + C + D)</b>	<b>(730)</b>	<b>274</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>1 941</b>	<b>1 212</b>
Cash and balances with central banks (assets & liabilities)	1 927	1 191
Interbank accounts (assets & liabilities) and loans / sight deposits	14	21
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>1 212</b>	<b>1 486</b>
Cash and balances with central banks (assets & liabilities)	1 191	1 454
Interbank accounts (assets & liabilities) and loans / sight deposits	21	32
<b>CHANGE IN NET CASH</b>	<b>(730)</b>	<b>274</b>

---

# Notes to the condensed consolidated financial statements

---

## 1. Accounting and valuation policies

### 1.1. APPLICABLE ACCOUNTING STANDARDS

#### 1.1.1. Application of the accounting standards endorsed by the European Union

The Group prepares its consolidated condensed financial statements in compliance with IAS 34 Interim financial reporting; they have been reviewed by the statutory auditors. The accompanying notes relate to significant items of the half year and should be read in conjunction with the consolidated financial statements as of December 31, 2019. The latter have been prepared in compliance with International Financial Reporting Standards (IFRS), as endorsed by and applicable within the European Union; they have been audited by the statutory auditors. The Group's activities do not show any seasonal, cyclical or occasional aspects.

The consolidated condensed financial statements are furthermore in accordance with ANC (French accounting standards board) Recommendation n°2017-02 issued on June 2, 2017 regarding disclosure of consolidated financial statements for banking reporting entities under IFRS.

The consolidated condensed financial statements as of June 30, 2020 were approved by the Board of Directors on September 11, 2020.

Due to Covid-19 outbreak and the widespread of health crisis during the first quarter of 2020, the Group has disclosed in note 8 below qualitative and quantitative information so as to enable the users to measure the impact of this crisis on its consolidated condensed financial statements. Further information is disclosed in the management report of the Group. 22

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

#### 1.1.2. IASB and IFRIC texts endorsed by the European Union and effective as of January 1, 2020

• Amendments to **IAS 1 Presentation of financial statements / IAS 8 Accounting policies, changes in accounting estimates and errors / IAS 34 Interim financial reporting / IAS 37 Provisions, contingent liabilities and contingent assets / IAS 38 Intangible assets / IFRS 2 Share-based payment / IFRS 3 Business combinations / IFRS 6 Exploration for and evaluation of mineral resources / IFRIC 12 Service Concession Arrangements / IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments / IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine / IFRIC 22 Foreign Currency Transactions and Advance Consideration / SIC 32 Intangible Assets – Web Site Costs**: issued by IASB on March 29, 2018, endorsed by the European Union on November 29, 2019 (UE Regulation n° 2019/2075) and effective for reporting periods beginning on or after January 1, 2020, these amendments aim at updating references made to the conceptual framework in existing standards and interpretations. It follows the revision of this framework by IASB.

These amendments have no impact on the Group's consolidated financial statements given that they are merely an update of the references made to the conceptual framework in existing standards and interpretations.

• Amendments to **IAS 1 Presentation of financial statements / IAS 8 Accounting policies, changes in accounting estimates and errors / IAS 10 Events after the balance sheet date / IAS 34 Interim financial reporting / IAS 37 Provisions, contingent liabilities and contingent assets**: issued by IASB on October 31, 2018, endorsed by the European Union on November 29, 2019 (UE Regulation n° 2019/2104) and effective for reporting periods beginning on or after January 1, 2020 with early application permitted, these amendments aim at clarifying and aligning the definition of materiality across the IFRS standards in the purpose of enhancing the consistency of its application in the financial statements.

The Group takes due consideration of these amendments when assessing the materiality of information contained in its consolidated financial statements.

• Amendments to **IAS 39 Financial instruments: recognition and measurement / IFRS 9 Financial instruments / IFRS 7 Financial instruments: disclosures**: issued by IASB on September 26, 2019, endorsed by the European Union on January 15, 2020 (UE Regulation n° 2020/34) and effective for reporting periods beginning on or after January 1, 2020 with early application permitted, these amendments complete "phase 1" of IASB's project and are intended to avoid that the uncertainty arising from interest rate benchmark reform results in an early discontinuation of hedging relationships. IASB aimed thus at mitigating the impacts of this global reform on the financial statements of entities. These amendments bring in exemptions as regards especially the assessment of whether hedged future flows may be deemed highly probable (CFH), the requirement that hedged risk must be separately identifiable as well as the realization of prospective and retrospective effectiveness tests. These exemptions apply to hedging relationships affected by the reform, namely the ones where uncertainties arise about the interest rate benchmark designated as a hedged risk and / or the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. They cease to apply only when the uncertainty mentioned is no longer present. As part of "phase 2", IASB is working on how to account for the consequences of interest rate benchmark reform; such works may result in additional amendments during the second semester of 2020.

The interest rate benchmark to which the Group is mainly exposed are EURIBOR, EONIA and LIBOR (USD, GBP, CHF and JPY) rates. So as to transition from the former to the new interest rates benchmark in all the currencies and jurisdictions involved, the Group has set-up a steering committee gathering all the departments involved within the bank, in particular the Front office, the Legal department, the Finance division and the Risk division. This committee aims at reducing the risks arising from the transition, monitoring its effective implementation within the times and to follow-up on the industry's work on this matter.

These amendments have no impact on the Group's consolidated financial statements given that it has opted for an early application of them from January 1, 2019.

- Amendment to **IFRS 3 Business combinations**: issued by IASB in October 22, 2018, endorsed by the European Union on April 21, 2020 (UE Regulation n° 2020/551) and effective for reporting periods beginning on or after January 1, 2020 (for combinations of those periods) with early application permitted, this amendment narrows and clarifies the definition of a business, a key concept that enables to distinguish a business combination from a mere acquisition of a group of assets.

This amendment has no impact on the Group's consolidated financial statements given that it has undertaken no operation referred to in the amendment during the period.

- Statement of conclusions from ANC **regarding the application of the IFRS 16 standard – Leases**: issued by ANC on July 3, 2020, superseding the previous version issued on February 16, 2018, this statement of conclusions is intended to align ANC opinion regarding French commercial property leases in the scope of French Code de commerce with the clarifications made by IFRIC on November 26, 2019 regarding the requirements for determining the length of the enforceable period and the consistency between the lease term on the one hand and the useful life of non-removable leasehold improvements made in the rent premises on the other hand. ANC specifies in particular that the enforceable period of this kind of leases within the meaning of IFRS 16 is generally of 9 years, but that it can however be longer when the lessee can reasonably expect that he will trigger the tacit renewal clause and / or when the lessor won't then be able to terminate the contract without material penalty.

This opinion from the ANC has no impact on the Group's consolidated financial statements : it confirms the estimate made by the Group as regards the term to be used in compliance with IFRS 16 provisions for the French commercial property leases to which it is the lessee.

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

- Amendment to **IFRS 16 Leases**: issued by IASB in May 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after June 1, 2020 with early application permitted, this amendment is intended to specify how rent concessions arising as a direct consequence of the Covid-19 pandemic shall be accounted for. It provides a practical expedient to lessee, that enables them to elect not to assess whether such concessions constitute a lease modification and, as a result, to account for them as if it were not a modification. At the European level, ESMA reports in its public statement of July 21, 2020 (ESMA32-61-417) that this amendment is being reviewed by the European Parliament and the European Council. Regarding the concessions within the scope of the amendment, ESMA invites the competent authorities to postpone the assessment of whether such concessions constitute a modification within the meaning of the version of IFRS 16 currently in force in the European Union. As for the issuers, they are invited to disclose whether they apply this amendment.

This amendment has no impact on the Group's consolidated financial statements. In the absence of endorsement by the European Union, the Group has not opted for an early application of this amendment from January 1, 2020. So far, as a lessee, the Group has not benefited from any rent concession from its lessors arising as a direct consequence of the Covid-19 pandemic.

- Amendment to **IFRS 3 Business combinations**: issued by IASB in May 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2022 (for combinations of those periods) with early application permitted, this amendment updates a reference made to the conceptual framework and furthermore requires the acquirer to determine on the one hand whether for obligations within the scope of IAS 37 a present obligation exists at the acquisition date as a result of past events, and on the other hand whether for levies within the scope of IFRIC 21 the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendment further confirms the prohibition for the acquirer to recognize contingent assets acquired in a business combination.

The impact of this amendment on the Group's consolidated financial statements is being analyzed. It is expected to have no impact, given that Group's operations are generally out of the scope of IFRS 3.

- Amendment to **IAS 16 Property, plant and equipment**: issued by IASB in May 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2022 with early application permitted, this amendment prohibits henceforth deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Those proceeds as well as related costs shall be recognized in net result.

The impact of this amendment on the Group's consolidated financial statements is being analyzed. This topic is however not material group-wide.

- Amendment to **IAS 37 Provisions, contingent liabilities and contingent assets**: issued by IASB in May 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2022 with early application permitted, this amendment further specifies how the unavoidable cost of a contract shall be calculated and, as a result, how the assessment of whether the contract is onerous shall be made. More precisely, the amendment specifies that the cost of fulfilling a contract comprises not only the incremental costs that relate to this contract in particular, but also an allocation of other costs that relate directly to fulfilling contracts in general.

The impact of this amendment on the Group's consolidated financial statements is being analyzed.



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

The amendment of IFRS 16 has no impact on the Group's consolidated financial statements. The amendments of IFRS 1 and IAS 41 will have no impact on the Group's consolidated financial statements. The impact of the amendment of IFRS 9 on the Group's consolidated financial statements is being analyzed.

- Amendment to **IAS 1 Presentation of financial statements**: issued by IASB in January 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2022 (or January 1, 2023 given the IASB's provisional decision), this amendment clarifies the distinguishing criteria between current liabilities on the one hand and non-current liabilities on the other hand.

This amendment will have no impact on the Group's consolidated financial statements given that it classifies its liabilities based on a liquidity criterion.

- **IFRS 17 Insurance contracts**: issued by IASB in May 2017, amended by IASB in June 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2023 (June 2020 amendments have postponed by 2 years this date, which was initially January 1, 2021), this standard, which will replace IFRS 4 standard, clarifies in particular how all insurance contracts (life, non-life, insurance and reinsurance) shall be accounted for, contracts for which the entity is the policyholder being in particular out of the scope (excepted reinsurance contracts).

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

The financial statements are prepared on a going concern basis. They are stated in millions of euros (EUR) unless otherwise specified.

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

Judgments were principally made in the following areas:

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

These judgments are detailed in the following chapters.

Estimates were principally made in the following areas:

- determination of fair value for financial instruments measured at fair value;
- assessment of the amount of expected credit losses, especially in the framework of the definition of macroeconomic scenarios used;
- estimates of future taxable profits for the recognition and measurement of deferred tax assets.

### 1.2.1. Consolidation

The consolidated financial statements of the Group 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;
- the Group has the ability to use its power over the entity to affect the amount of those returns.

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

The scope of consolidation as of June 30, 2020 is the same as that as of December 31, 2019.

### **1.2.2. Offsetting financial assets and liabilities**

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

### **1.2.3. Foreign currency transactions**

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

As a reminder, the main feature of a monetary item is the right to receive (or the obligation to deliver) a fixed or determinable number of units of currency. Under IAS 21, monetary assets and liabilities denominated in foreign currencies are recognized at closing rates and any resulting exchange differences are recognized in profit or loss.

Financial assets denominated in a foreign currency and measured at fair value through the item Unrealized or deferred gains and losses of equity are accounted for as monetary items under IFRS 9: the exchange difference resulting from the adjustment of the amortized cost of these assets is recognized in profit or loss, while further adjustments of the carrying amount (except the loss allowance for expected credit losses: see below) are recognized in equity.

The Group holds no non monetary asset or liability denominated in a foreign currency.

### **1.2.4. Trade date and settlement date accounting**

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

### **1.2.5. Financial assets**

When the Group becomes party to the contractual provisions of a financial asset, the latter is classified under one of the three categories instituted by IFRS 9, depending on the business model it is held within on the one hand and the characteristics of its contractual cash flows on the other hand.

#### **1.2.5.1. Business model**

The inclusion of Group's financial assets within business models is assessed at a level that reflects how groups of financial assets are managed together to achieve Group's business objectives, which are:

- refinancing local government entities and public hospitals through the acquisition by Caisse Française de Financement Local of medium/long-run loans granted by La Banque Postale;
- reducing the sensitivity of structured loans held by Caisse Française de Financement Local;
- refinancing export credit contracts covered by BPI Assurance Export insurance policy.

This assessment implies most of the time the use of judgment and relies on facts, circumstances and, generally speaking, all relevant evidence that is available for the Group at the date of the assessment. These relevant evidences can be broken down into two groups.

#### **1.2.5.2. Characteristics of contractual cash flows (SPPI criterion)**

The SPPI (Solely Payments of Principal and Interests) criterion test is intended to assess whether the contractual cash flows of a financial asset are consistent with the ones of a basic lending agreement, i.e. payment of principal and interest on that outstanding principal. Irrespective of the legal form of the asset and the form of its rate (fixed or variable), this is the case when the contractual cash flows embed only a compensation for the time value of money, a compensation for the credit risk derived from the outstanding principal for a given time period, if applicable a compensation for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) associated with holding the asset for a particular period of time, plus if applicable a margin.

Most of the time a qualitative analysis is sufficient to determine whether the asset is SPPI compliant or not. Sometimes, an additional quantitative analysis is necessary: it intends to compare the contractual cash flows of the financial asset considered with the ones of a benchmark asset. If the gap assessed through this comparison is not material, the asset is assimilated to a basic lending agreement.

#### **1.2.5.3. Financial assets measured at amortized cost**

A financial asset is classified and subsequently measured at amortized cost if it is compliant with both of the two following conditions:

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

At initial recognition, the Group recognizes a financial asset belonging to this category at fair value, including if applicable any premium / discount and transaction costs. Subsequently, the financial asset is measured at amortized cost, which corresponds to its carrying amount at initial recognition minus repaid principal, plus or minus as appropriate the amortization of the premium / discount and transaction costs calculated using the effective interest rate method and taking into account any loss allowance for expected credit losses. The latter reduces the carrying amount of the financial asset with an offsetting entry to the profit or loss as cost of risk.

Due and accrued interest on loans and fixed income securities belonging to this category as well as the amortization of premium / discount and transaction costs, calculated using the effective interest rate method, are recognized in the net interest margin.

The effective interest rate is the rate that accurately discounts the expected future cash flows over the expected life of the financial instrument or, where more appropriate, a shorter period, so as to obtain the gross carrying amount of the financial instrument or, if the underlying instrument is a purchased or originated credit-impaired financial asset or has been subsequently impaired (see below), its net carrying amount (which takes into account in particular the loss allowance for expected credit losses). The calculation of this rate takes into account the commissions received or paid by the parties which, because of their nature, form an integral part of the effective rate of the contract, possible premiums and discounts and transaction costs. Transaction costs are incremental costs that are directly attributable to the acquisition of a financial instrument and are used for the calculation of the effective interest rate. An incremental cost is one that would not have been incurred if the entity had not acquired the financial instrument.

#### **1.2.5.4. Financial assets measured at fair value through the item Unrealized or deferred gains and losses of equity**

A financial asset is classified and subsequently measured at fair value through the item Unrealized or deferred gains and losses of equity if it is compliant with both of the two following conditions:

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

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

Due and accrued interest on loans and fixed income securities belonging to this category as well as the amortization of premium / discount and transaction costs, calculated using the effective interest rate method (see above), are recognized in the net interest margin.

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

A financial asset which does not belong to any of the two categories described above (amortized cost and fair value through the item Unrealized or deferred gains and losses of equity) falls under this category and is classified and subsequently measured at fair value through profit or loss: this category is mainly composed of financial assets that are not SPPI compliant.

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

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

- the fair value variations excluding accrued interest; they are recognized under the item Net result of financial instruments at fair value through profit or loss of the net banking income;
- due and accrued interest; they are recognized in the net interest margin.

#### **1.2.5.6. Designation options**

The Group does not use the following options:

- option to designate a financial asset as measured at fair value through profit or loss: this option can be exercised only if it eliminates or significantly reduces a recognition inconsistency for assets or liabilities (accounting mismatch);
- option to present in other comprehensive income subsequent changes in fair value of particular investments in equity instruments; the Group does not hold such instruments.

#### **1.2.5.7. Impairment of financial assets**

##### **Defining the impairment base**

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

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

At each closing date, the loss allowance for expected credit losses of a financial asset is measured as:

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

No loss allowance is recognized at initial recognition for purchased or originated credit-impaired financial assets. Interest incomes generated by these assets are determined using an effective interest rate that embeds expected credit losses. Subsequently, the loss allowance recognized on these assets corresponds to the accumulated variations of lifetime expected credit losses from initial recognition. The Group does not primarily intend to purchase or originate purchased or originated credit-impaired financial assets.

#### **Assessing whether credit risk has significantly increased**

The assessment of credit risk increase is performed on an individual basis: the Group does not use the collective basis approach. The objective of the assessment is to compare the default risk at closing date with its default risk at the date of initial recognition. This assessment takes into consideration all reasonable and supportable information that is relevant and that is available for the Group without incurring undue cost or making undue effort, in particular qualitative and quantitative information on past events (use of historic metrics), on current economic environment and on expectations on future economic environment (forward looking information). In practice, the assessment of credit risk increase is realized at counterparty level:

- either through the comparison of the probability of default (PD) at maturity (weighted average PD of the forward looking scenarios) to the PD at initial recognition;
- or through the characterization of risk levels (ratings coming from internal notation systems) year-to-year migrations towards risk levels regarded as risky (higher historic default rates).

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

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

The contracts of a counterparty in one or the other of the situations previously described are also considered as Non Performing Exposures from a prudential perspective. On the perimeter being broken down into Stages, the accounting base of Stage 3 is therefore larger than the one of the "default" within the meaning of the CRR and is broadly in line with the one of Non Performing Exposures, with just one significant difference: counterparties already in Forbearance and to which a new Forbearance has been granted and / or an incident of payment past due of more than 30 days has occurred. The contracts of a counterparty in this situation are considered as Non Performing Exposures from a prudential perspective but remain classified in Stage 2 from an accounting perspective (see below).

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

- it is followed by the Watchlist Committee, due to an increase in its credit risk, or it is in Forbearance, which means that the Group has refrained the enforcement of its rights toward a counterparty facing financial difficulties;
- it presents arrears in payment past due of strictly between 31 and 90 days;
- its rating presents one of the following characteristics: it has become non Investment grade (internal rating inferior or equal to BB+), it has no rating, it has experimented or is to experiment a rating migration regarded as risky in the forward looking scenarios. The rating migrations regarded as risky have been assessed to be as such based on a quantitative modeling realized on the basis of a statistical analysis using historical data and completed by the use of expert judgment.

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

Stages transitions must be compliant with the following rules:

- for the contracts of a counterparty in "default", exiting from Stage 3 and "default" (and getting back to Stage 2 or Stage 1) can only occur after a cure period of at least one year during which the counterparty is still considered as being in "default" within the meaning of the CRR and the contracts of this counterparty remain classified in Stage 3. Exit must in addition be formally decided in Default Committee and is conditional to the full repayment of arrears if any;
- for the contracts in Forbearance, exiting from Stage 2 or as appropriate Stage 3 (and getting back to Stage 1) can only occur after a cure period of at least two years which starts from the date when the forbearance had been granted if the counterparty was not in "default" within the meaning of the CRR or from the date of exit from "default" if it was.

#### **Measuring the amount of the expected credit loss**

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

In the case of French local communities, the main hypothesis as well as the scenarios and their weighting are presented below. The hypothesis of these scenarios are regularly updated and have in particular been adapted so as to take into account the impacts of Covid-19 pandemic.

- a base scenario, in line with the strategic plan as regards debt financing from local communities, and which is based on the expectations and objectives of the French Republic in term of local public expenditures and tax revenues developed in the draft budget bills and the programs for stability. This scenario is weighted at 60 % (compromise between the commitment of France towards Europe as regards public deficit reduction and election issues for local communities);
- an upside scenario, in which local communities raise further taxes and stabilize investment expenditures, which results in further deleveraging and improvement of their financial situation. This scenario is weighted at 25 % (election calendar enables to strengthen investment in spite of budget constraints);
- a downside scenario, in which local communities raise investment expenditure without raising further taxes from their taxpayers: they raise debt financing. This scenario is weighted at 15 %.

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

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

For the contracts classified in Stage 3, the expected credit losses equals the loss at maturity, i.e. the difference between the sequence of cash flows contractually due to the Group and the sequence of cash flows that the Group expects to recover, both discounted at the original effective interest rate. Depending on the materiality of the contract, the cash flows that the Group expects to recover are calculated either through individual simulations performed by the credit risk direction, or through standard recovery scenarios using predefined management rules. These flows are if applicable net of any flows derived from realizing securities which form an integral part of contractual provisions.

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

### **Recognizing the impairment**

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

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

#### **1.2.5.8. Derecognition of financial assets**

A financial asset is derecognized when and only when the contractual rights to the cash flows from this asset expire or if this asset is transferred and the transfer meets one of the following conditions:

- substantially all the risks and rewards of ownership of this asset have been transferred; or
- substantially all the risks and rewards of ownership of this asset have been neither transferred nor retained and the control on this asset has not been retained. If the control on this asset has been retained, the underlying asset continues to be recognized to the extent of Group's continuing involvement in it.

The gain or loss realized when derecognizing a financial asset equals the difference between on the one hand the consideration received (net of transaction costs and including any new asset obtained less any new liability assumed) and on the other hand the carrying amount of this asset measured at the date of derecognition. It is recognized in profit or loss of the reporting period considered as net banking income.

#### **Case of disposals**

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

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

#### **Case of repos and reverse repos operations**

Sold securities that are subject to a commitment to repurchase them at a predetermined price (repos) are not derecognized and remain on the balance sheet in their original category. The corresponding liability is recognized as financial liabilities at amortized cost. The asset is reported as pledged in the notes.

Securities purchased under commitment to sell at a predetermined price (reverse repos) are recognized off-balance sheet and the corresponding loans are recognized on the balance sheet as financial assets at amortized cost.

The difference between the sale and the repurchase price is recognized as interest income or expense and is capitalized and amortized over the maturity of the contract using the effective interest rate method.

#### **Case of prepayments**

The prepayment of a loan results in general in the payment of a penalty which is included within the gain or the loss realized on derecognition.

In the case of a prepayment without refinancing, the loan does not exist any longer and is derecognized.

In the case of a prepayment with refinancing, the accounting treatment differs depending on whether the restructured terms are substantially different from the original terms; it is the in particular the case in one of the following situations:

- the restructured loan is not classified in the same accounting category as the original loan, either because its contractual cash flows are from now compliant with the SPPI criterion (while they were not originally) or because they are not any longer (while they were originally);
- the net present value of the cash flows under the new conditions, including any fees paid net of any fees received, is more than 10% different from the net present value of the cash flows remaining from the original loan, both of these present values being discounted at the original effective interest rate.

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

If restructured terms are substantially different from original terms, the original loan is derecognized and the loan under restructured terms is recognized as a new financial asset. Its gross carrying amount is adjusted so as to reflect the market conditions; it corresponds to the present value of the restructured cash flows discounted at the effective interest rate of a loan granted under normal market conditions at the date when the loan is restructured. Such an adjustment constitutes the excess of the restructured margin of the loan over normal market conditions at the date when the loan is restructured: it is immediately recognized in profit or loss of the reporting period, under the item of the net banking income used for recognizing the net gains and losses of the category of the derecognized financial asset.

## 1.2.6. Financial liabilities

### 1.2.6.1. Financial liabilities held for trading

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

### 1.2.6.2. Financial liabilities designated at fair value through profit or loss

The Group does not use this option.

### 1.2.6.3. Financial liabilities at amortized cost

Financial liabilities at amortized cost are mainly obligations foncières and other resources that benefit from the privilege defined in article L.513-11 of the Monetary and Financial Code.

At initial recognition, the Group recognizes a financial liability belonging to this category at fair value, which is its nominal value including if applicable any reimbursement and issue premiums and transaction costs (mainly fees and commissions on bond issues). Subsequently, the financial liability is measured at amortized cost, which corresponds to its carrying amount at initial recognition plus or minus as appropriate the amortization of premiums and transaction costs calculated using the effective interest rate method.

Due and accrued interest on financial liability belonging to this category as well as the amortization of premiums and transaction costs calculated using the effective interest rate method, are recognized in the net interest margin.

Bonds issued which are denominated in foreign currencies are accounted for using the same method as foreign currency transactions (see above).

### 1.2.6.4. Derecognition of financial liabilities

A financial liability is derecognized when and only when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

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

## 1.2.7. Derivatives

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

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

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

### 1.2.7.1. Derivatives not documented in a hedging relationship

The Group enters into derivative contracts for the unique purpose of hedging its exposures to interest rate or foreign exchange positions. However, some derivatives must be measured at fair value through profit or loss at closing date; they are:

- the ones which failed hedge effectiveness tests at closing date;
- the ones which hedge financial assets that are measured at fair value through profit or loss. In this case, the revaluation of

the derivative hedges natively the revaluation of the hedged risk of the hedged item, making pointless the documentation of a hedging relationship;

- the ones that hedge the foreign exchange risk related to export credit financing loans denominated in a currency other than the euro. These derivatives are concluded before the end of the drawing phase of the hedged loans but foreign exchange hedging relationship has been documented only from the complete payment in the Group's balance sheet.

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

#### **1.2.7.2. Hedging derivatives**

Hedging derivatives can be classified as either:

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

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

- precise and formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be effective both prospectively and retrospectively in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the reporting periods;
- the hedge, effectiveness of which has been reliably measured, shall be effective at inception and on an ongoing basis;
- for hedges of a future cash flow, the future transaction that constitutes if applicable the hedged item must be highly probable and must involve an exposure to variations in cash flows that could ultimately affect the profit or loss.

Changes in the fair value of derivatives that are designated and documented in a fair value hedging relationship, and that respect the criteria set out above, are recognized in profit or loss, along with the corresponding change in fair value of the hedged items that are attributable to that specific hedged risk. Regarding notably structured financial instruments, the existence of a perfect hedge with a derivative, and the documentation of the associated hedging relationship, have the effect of re-evaluating the hedged risk of the financial instrument, in parallel with the revaluation of the hedging derivative.

The efficient portion of the changes in the fair value of derivatives that are designated and documented in a cash flow hedging relationship and that respect the criteria set out above, is recognized in equity. The non-efficient portion of the changes in the fair value of the derivatives is recognized in profit or loss. Amounts deferred in equity are recycled to profit or loss and classified as income or expense when the hedged firm commitment or forecast transaction affects the profit or loss.

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

- in the case of a fair value hedge, the portion attributable to the hedged risk of the adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortized to profit or loss over the residual maturity of the hedged item by adjusting the yield on the hedged item;
- in the case of a cash flow hedge, the amounts deferred in equity during the previous reporting periods, i.e. the efficient portion of the changes in the fair value of derivatives, are maintained in equity until the derecognition or the extinguishment of the hedged item. They are recycled to profit or loss when or as the item formerly hedged impacts profit or loss.

#### **1.2.7.3. Hedging of the interest rate risk of a portfolio**

The Group uses the provisions of IAS 39 as adopted by the European Union (IAS 39 carve-out) because it better reflects the way the Group manages its financial instruments.

The objective of hedging relationships is to reduce the interest rate risk exposure stemming from certain categories of assets or liabilities designated as the hedged items.

The Group performs a comprehensive analysis of its interest rate risk exposure. It consists in assessing fixed-rate exposure generated by all fixed-rate balance sheet items. The Group selects financial assets and liabilities to be included in the hedge of the portfolio's interest rate risk exposure. The same methodology is constantly applied to select financial assets and liabilities that are included in the portfolio. Financial assets and liabilities are classified by time-buckets. Hence, when they are removed from the portfolio, they must be removed from all time-buckets on which they have an impact.

The Group chose to put together homogeneous portfolios of loans and portfolios of bonds. Based on this gap analysis, which is realized on a net basis, the Group defines at inception the risk exposure to be hedged, the length of time-buckets and the testing method and frequency.

Most of macro-hedging instruments used by the Group are plain-vanilla interest rate swaps designated at inception within a fair value hedge of fixed-rate resources or expenses. Hedge effectiveness is assessed through the use of target schedules. Prospective (realized at inception) and retrospective (realized at each half-year and annual closing date) efficiency tests are intended to ensure there is no "over" hedging: they are successful if, for each time-bucket of the target schedule, the nominal amount of hedged items is superior to the notional amount of hedging derivatives.

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

Revaluation related to the hedged risk is recognized on the balance sheet (respectively in asset or liability depending on whether the groups of hedged items are assets or liabilities) as Fair value revaluation of portfolio hedge.

### 1.2.8. Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence, the most advantageous market the Group has access to on that date. The fair value of a liability reflects its non-performance risk, which includes in particular the Group's own credit risk.

Market prices are used to determine fair value where an active market exists. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on a going concern basis. Active market prices are not, however, available for a significant number of the financial assets and liabilities held or issued by the Group.

If a financial instrument is not listed on an active market, valuation techniques are used. Valuation techniques include the use of market data from recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same if any, and valuation models.

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

#### 1.2.8.1. Fair value of financial instruments measured at amortized cost

The following comments are applicable to the fair value of financial instruments measured at amortized cost presented in the notes:

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

#### 1.2.8.2. Financial instruments measured at fair value

Non derivative financial assets measured at fair value, either through the item Unrealized or deferred gains and losses of equity or through profit or loss, and derivative instruments are measured at fair value by reference to listed market prices when available. When listed market prices are not available, fair value is estimated on the basis of valuation models or discounted cash flows method, using as much as possible observable, and if necessary non-observable, market data.

For non derivative financial assets measured at fair value and for derivative instruments, when listed prices are not available, the pricing model attempts to reflect as accurately as possible the market conditions on the valuation date as well as any changes in the credit quality of these financial instruments and the market liquidity.

To determine the fair value of its derivatives, the Group uses different discount curves depending on whether collateral was actually exchanged. Collateralized derivatives related future cash-flows are discounted using an OIS-based curve while uncollateralized derivatives related future cash-flows are discounted using an Euribor-based curve. This differential treatment reflects the different financing costs associated with the derivatives used (FVA - funding valuation adjustment).

As a reminder, Caisse Française de Financement Local does not pay any collateral to its derivative counterparties, which benefit from the legal privilege on assets, as well as the legal holders of covered bonds.

In addition, a value adjustment is included in the fair value of derivatives to reflect the impact of counterparty's credit risk (CVA - credit valuation adjustment) or the 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.

### 1.2.9. Deferred taxes

Deferred taxes are recognized using the liability method to account for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The tax rates enacted or substantively enacted at closing date are used to determine deferred taxes.

Deferred tax assets are recognized to the extent that it is probable that sufficient future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax liabilities are recognized to account for temporary differences arising from investments in subsidiaries, jointly controlled companies and associates, except where the timing of the reversal of the temporary difference cannot be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes relating to fair value re-measurements of financial assets measured at fair value through the item Unrealized or deferred gains and losses of equity and cash flow hedges, and other operations which are charged or credited directly to other comprehensive income, are also credited or charged to other comprehensive income.

### 1.2.10. Tangible and intangible assets

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

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



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

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

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

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

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

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

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

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

### 1.2.11. Leases

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

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

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

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

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

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

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

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

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

- fixed payments, net of any lease incentives receivable;
- variable payments, which depend on an index or a rate. The measurement is performed using the index or the rate in force at the commencement date;

- if applicable, amounts due under residual value guarantees;
- if applicable, the exercise price of any purchase option that the Group is reasonably certain to exercise;
- if however the Group has assessed the lease term assuming it exercises a termination option, the penalties incurred in this event.

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

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

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

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

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

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

Regarding leases-related disclosures in the financial statements:

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

### 1.2.12. Provisions

Provisions mainly include mainly provisions for litigations, restructuring, and loan commitments.

Regarding mainly litigations and restructuring, under IAS 37, a provision is recognized when and only when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

A provision is measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money.

Regarding loan commitments, the followings must be distinguished (see above):

- loan commitments measured at fair value through profit or loss: they are fully in the scope of IFRS 9. Therefore, they are not impaired for expected credit losses but valued and their valuation is recognized on the asset side;
- other loan commitments: they are in the scope of the provisions of IFRS 9 related to derecognition and impairment only. Therefore, loss allowances for expected credit losses related to these commitments are measured and recognized the same way as the ones related to financial assets measured at amortized cost or fair value through the item Unrealized or deferred gains and losses of equity. The assessment of whether credit risk has significantly increased since initial recognition is performed from the date on which the Group is irrevocably and legally committed, i.e. from the issuing of a letter of loan offer. Besides, related loss allowances are recognized on the liability side with an offsetting entry to profit or loss as cost of risk.

### 1.2.13. Employee benefits

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

#### 1.2.13.1. Short-term benefits

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

#### 1.2.13.2. Long-term benefits

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

#### 1.2.13.3. Termination benefits

Employee termination benefits result either from the decision by SFIL to terminate an employment contract before the legal

retirement age or by a decision of voluntary redundancy in exchange for termination benefits. A charge for termination benefits at the end of the employment contract is recognized only when SFIL is no longer able to withdraw its offer. Termination benefits payable at more than twelve months after the closing date are discounted to their present value.

#### **1.2.13.4. Post-employment benefits**

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

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

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

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

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

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 revaluating the liability (or asset) recognized under defined contribution plans. Actuarial gains and losses resulting from these adjustments are recognized as other comprehensive income at closing date.

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

#### **1.2.14. Interest income and expense**

For all interest-bearing instruments, interest income and expense are recognized in profit or loss using the effective interest rate method (see above).

Accrued interest is recognized on the balance sheet under the same item as the related financial assets or liabilities.

#### **1.2.15. Commissions**

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

Loan commitment commissions are recognized as an adjustment to the effective interest rate and recognized in net interest margin if the loan is granted.

#### **1.2.16. Earnings per share**

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

#### **1.2.17. Cash and cash equivalents**

For the purpose of the cash flow statement, cash and cash equivalents include balances at central banks and interbank deposits and demand deposits on credit institutions.

#### **1.2.18. Related-party transactions**

Two parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party when making financial or operational decisions. The Group is owned by the French Republic and by two companies registered in France, Caisse des Dépôts et Consignations and La Banque Postale. Within this framework, related-party transactions are those with companies owned directly or indirectly by the same final shareholder and with directors.

#### **1.2.19. 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.

## 2. Notes on balance sheet assets (EUR millions)

### 2.1. CENTRAL BANKS

	12/31/2019	06/30/2020
Mandatory reserve deposits with central banks	-	-
Other deposits	1,191	1,454
<b>TOTAL</b>	<b>1,191</b>	<b>1,454</b>

### 2.2. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

#### 2.2.1. Analysis by type

	12/31/2019	06/30/2020
Loans and advances to customers	4,894	4,672
Non Hedging derivatives <sup>(1)</sup>	12	5
<b>TOTAL</b>	<b>4,906</b>	<b>4,677</b>

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

#### 2.2.2 Analysis of loans and advances to customers by counterparty

	12/31/2019	06/30/2020
Public sector	4,463	4,243
Other - guaranteed by a State or local government	431	429
<b>TOTAL</b>	<b>4,894</b>	<b>4,672</b>

### 2.3. FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY

#### 2.3.1. Analysis by type

	12/31/2019	06/30/2020
Stocks	-	-
Bonds	1,334	769
<b>TOTAL</b>	<b>1,334</b>	<b>769</b>

#### 2.3.2. Analysis by counterparty

	12/31/2019	06/30/2020
Public sector	124	124
Credit institutions	1,210	645
<b>TOTAL</b>	<b>1,334</b>	<b>769</b>

All financial assets measured at fair value through other comprehensive income as at 12/31/2019 and 06/30/2020 were allocated to the Stage 1 category.

## 2.4. FINANCIAL ASSETS AT AMORTIZED COST

	12/31/2019											
	Gross amount				Impairment				Net Amount	Accumulated partial write-offs	Accumulated total write-offs	
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total				
Sight accounts	8	-	-	8	-	-	-	-	8	-	-	
Credit institutions	315	-	-	315	(0)	-	-	(0)	315	-	-	
<b>Loans and advances due from banks at amortized cost</b>	<b>323</b>	<b>-</b>	<b>-</b>	<b>323</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>(0)</b>	<b>323</b>	<b>-</b>	<b>-</b>	
Public sector	41 345	2 870	1 029	45 244	(1)	(23)	(11)	(35)	45 209	-	-	
Non financial institutions	1 972	135	18	2 125	-	(1)	-	(1)	2 124	-	-	
Loans to SFIL's employees	-	-	-	-	-	-	-	-	-	-	-	
<b>Loans and advances to customers at amortized cost</b>	<b>43 317</b>	<b>3 005</b>	<b>1 047</b>	<b>47 369</b>	<b>(1)</b>	<b>(24)</b>	<b>(11)</b>	<b>(36)</b>	<b>47 333</b>	<b>-</b>	<b>-</b>	
Public sector	5 279	1 531	6	6 816	(4)	(11)	-	(15)	6 801	-	-	
Credit institutions	2 269	-	-	2 269	(1)	-	-	(1)	2 268	-	-	
Non financial institutions	42	73	-	115	(0)	(1)	-	(1)	114	-	-	
<b>Bonds at amortized cost</b>	<b>7 590</b>	<b>1 604</b>	<b>6</b>	<b>9 200</b>	<b>(5)</b>	<b>(12)</b>	<b>-</b>	<b>(17)</b>	<b>9 183</b>	<b>-</b>	<b>-</b>	
<b>TOTAL</b>	<b>51 230</b>	<b>4 609</b>	<b>1 053</b>	<b>56 892</b>	<b>(6)</b>	<b>(36)</b>	<b>(11)</b>	<b>(53)</b>	<b>56 839</b>	<b>-</b>	<b>-</b>	

	06/30/2020											
	Gross amount				Impairment				Net Amount	Accumulated partial write-offs	Accumulated total write-offs	
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total				
Sight accounts	11	-	-	11	-	-	-	-	11	-	-	
Credit institutions	304	-	-	304	(0)	-	-	(0)	304	-	-	
<b>Loans and advances due from banks at amortized cost</b>	<b>315</b>	<b>-</b>	<b>-</b>	<b>315</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>(0)</b>	<b>315</b>	<b>-</b>	<b>-</b>	
Public sector	42,783	2,626	1,021	46,430	(5)	(18)	(11)	(34)	46,396	-	-	
Non financial institutions	1,315	1,972	0	3,287	(0)	(4)	-	(4)	3,283	-	-	
<b>Loans and advances to customers at amortized cost</b>	<b>44,098</b>	<b>4,598</b>	<b>1,021</b>	<b>49,717</b>	<b>(5)</b>	<b>(22)</b>	<b>(11)</b>	<b>(38)</b>	<b>49,679</b>	<b>-</b>	<b>-</b>	
Public sector	5,469	1,454	5	6,928	(4)	(12)	(0)	(16)	6,912	-	-	
Credit institutions	2,163	-	-	2,163	(0)	-	-	(0)	2,163	-	-	
Non financial institutions	24	73	-	97	(0)	(1)	-	(1)	96	-	-	
<b>Bonds at amortized cost</b>	<b>7,656</b>	<b>1,527</b>	<b>5</b>	<b>9,188</b>	<b>(4)</b>	<b>(13)</b>	<b>(0)</b>	<b>(17)</b>	<b>9,171</b>	<b>-</b>	<b>-</b>	
<b>TOTAL</b>	<b>52,069</b>	<b>6,125</b>	<b>1,026</b>	<b>59,220</b>	<b>(9)</b>	<b>(35)</b>	<b>(11)</b>	<b>(56)</b>	<b>59,165</b>	<b>-</b>	<b>-</b>	

Assets considered as "forborne" by SFIL concern exposures to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (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 142 forborne contracts as of June 30<sup>th</sup>, 2020, with 79 borrowers, for a total of EUR 578 million.

### 3. Notes on balance sheet liabilities (EUR millions)

#### 3.1. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

##### 3.1.1. Analysis by type

	12/31/2019	06/30/2020
Non hedging derivatives <sup>(1)</sup>	1 120	1 151
<b>TOTAL</b>	<b>1 120</b>	<b>1 151</b>

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

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

#### 3.2. FINANCIAL LIABILITIES AT AMORTIZED COST

	12/31/2019	06/30/2020
Current accounts	-	-
Term deposits	379	379
<b>Sub-total due to credit institutions at amortized cost</b>	<b>379</b>	<b>379</b>
Certificates of deposit <sup>(1)</sup>	611	623
Euro medium term notes <sup>(1)</sup>	7 251	7 498
Obligations foncières	46 812	48 257
Registered covered bonds	7 792	7 850
<b>Sub-total debt securities at amortized cost</b>	<b>62 466</b>	<b>64 228</b>
<b>TOTAL</b>	<b>62 845</b>	<b>64 607</b>

<sup>(1)</sup> Contrary to obligations foncières and registered covered bonds, these bonds do not benefit from the legal privilege.

#### 3.3. PROVISIONS

	12/31/2019	Additions, including increases in existing provisions	Used amounts	Unused amounts reversed during the period	Increase in the discounted amount (passage of time) and effect of any change in the discount rate	Other movements	06/30/2020
Commitments and guarantees given	7	7	-	(0)	-	-	14
Provision on pensions	7	0	-	-	-	-	7
<b>TOTAL</b>	<b>14</b>	<b>7</b>	<b>-</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>21</b>

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

### 4.1. TRANSACTIONS WITH RELATED PARTIES

#### Analysis by type

	Related parties <sup>(1)</sup>	
	12/31/2019	06/30/2020
<b>ASSET</b>		
Financial assets at fair value through equity	237	115
Loans and advances due from banks at amortized cost	-	-
Bonds at amortized cost	-	-
<b>LIABILITIES</b>		
Due to banks at amortized cost	379	379
<b>INCOME STATEMENT</b>		
interest income on financial assets at fair value through profit or loss	(0)	-
interest on financial assets at fair value through equity	(1)	(0)
interest on credit institutions at amortized cost	(0)	(1)
Interest income on bonds at amortized cost	(3)	-
Credit institutions interest expenses on borrowing at amortized cost	4	(1)
Fees and commissions	(2)	2
<b>OFF BALANCE SHEET</b>		
Foreign exchange derivatives	-	-
Interest rate derivatives	375	375
Commitments and guarantees received	11,121	11,121
Commitments and guarantees issued	5,210	5,539

<sup>(1)</sup> This item includes transactions with Caisse des dépôts et Consignations and La Banque Postale, shareholders of SFIL.

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

### 5.1. INTEREST INCOME AND INTEREST EXPENSE

Group SFIL presents interest calculated using the effective interest rate method on financial instruments measured at amortized cost or at market value through equity under the headings "Interest income" and "Interest expense". These headings also include interest income and expense on financial instruments recognized at fair value through profit or loss because they do not meet the SPPI criterion due to the fact that the cash flows received do not consist solely of principal and interest payments. However, the change in value calculated excluding accrued interest on these financial instruments at fair value through profit or loss is recorded under Net result of financial instruments at fair value through profit or loss (see section 5.2).

Interest income and expense on hedging derivatives is recognized under the same heading as the income from the items of which they hedge the risks. At the same time, certain derivatives not classified as hedging instruments for accounting purposes are held as economic hedges of financial instruments carried at fair value through profit or loss; the interest income and expense on these economic hedging derivatives is included under the headings recording the interest on these financial instruments."

	First half 2019			First half 2020		
	Incomes	Expenses	Net	Incomes	Expenses	Net
Loans / liabilities with banks	-	-		-	-	
Loans / liabilities with customers	75	-	75	70	-	70
Non hedging derivatives	16	(81)	(65)	15	(78)	(63)
<b>Financial assets and liabilities at fair value through profit or loss</b>	<b>91</b>	<b>(81)</b>	<b>10</b>	<b>85</b>	<b>(78)</b>	<b>7</b>
Hedging derivatives	738	(603)	135	735	(626)	109
<b>Hedging derivatives</b>	<b>738</b>	<b>(603)</b>	<b>135</b>	<b>735</b>	<b>(626)</b>	<b>109</b>
Bonds	(0)	-	(0)	0	-	0
<b>Financial assets at fair value through equity</b>	<b>(0)</b>	<b>-</b>	<b>(0)</b>	<b>0</b>	<b>-</b>	<b>0</b>
Central banks accounts	-	(6)	(6)	-	(3)	(3)
Loans / liabilities with banks	1	(0)	1	18	(20)	(2)
Loans / liabilities with customers	422	-	422	403	-	403
Bonds	76	(574)	(498)	76	(522)	(446)
Other	-	(0)	(0)	-	(0)	(0)
<b>Financial assets at amortized cost</b>	<b>499</b>	<b>(580)</b>	<b>(81)</b>	<b>497</b>	<b>(545)</b>	<b>(48)</b>
<b>TOTAL</b>	<b>1,328</b>	<b>(1,264)</b>	<b>64</b>	<b>1,316</b>	<b>(1,249)</b>	<b>67</b>

Interest income and expense measured using the effective interest rate method: EUR 497 million and EUR -545 million in the first half of 2020 and EUR 499 million and EUR -580 million in the first half of 2019 respectively.

## 5.2. FEES AND COMMISSIONS

	First half 2019	First half 2020
LPB servicing commission received	2	2
Other commissions <sup>(1)</sup>	1	14
<b>TOTAL</b>	<b>3</b>	<b>16</b>

<sup>(1)</sup> As at June 30, 2020, this line includes a commission on financial instruments received as part of a hedging derivative allocation transaction.

## 5.3. NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

	12/31/2019	06/30/2020
Net Result on non hedging derivatives	(0)	(66)
Net result on financial assets or liabilities at fair value through profit or loss	21	49
Net result of hedge accounting	(7)	(2)
Net result of foreign exchange transactions	3	(0)
<b>TOTAL</b>	<b>17</b>	<b>(19)</b>

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



## Analysis of net income from hedge accounting

	12/31/2019	06/30/2020
<b>Fair value hedges</b>	<b>1</b>	<b>0</b>
Fair value changes in the hedged item attributable to the hedged risk	(419)	130
Fair value changes in the hedging derivatives	420	(130)
<b>Cash flow hedge</b>	<b>-</b>	<b>-</b>
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
<b>Portfolio hedge</b>	<b>-</b>	<b>(1)</b>
Fair value changes in the hedged item	489	329
Fair value changes in the hedging derivatives	(489)	(330)
<b>CVA / DVA Impact</b>	<b>(8)</b>	<b>(0)</b>
<b>TOTAL</b>	<b>(7)</b>	<b>(1)</b>

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

	12/31/2019	06/30/2020
Net result of disposals or prepayments of bonds at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to banks at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to customers at amortized	3	5
Net result of disposals or prepayments of debt to banks at amortized cost	(3)	-
Net result of disposals or prepayments of debt securities at amortized cost	-	-
<b>TOTAL</b>	<b>0</b>	<b>5</b>

## Analysis of derecognized assets and liabilities at amortized cost

	Amount balance sheet	Impact net resultat
Prepayments of securities	-	-
<b>Net result of disposals or prepayments of securities at amortized cost</b>	<b>-</b>	<b>-</b>
Prepayments of loans and advances to customers	35	3
Restructuring of loans and advances to customers	162	2
<b>Net result of disposals or prepayments of loans and advances to customers at amortized cost</b>	<b>197</b>	<b>5</b>
<b>Sub-total Assets</b>	<b>197</b>	<b>5</b>
Prepayments of debt to banks	-	-
<b>Net result of disposals or prepayments of debt to banks at amortized cost</b>	<b>-</b>	<b>-</b>
Prepayments of debt securities	-	-
<b>Net result of disposals or prepayments of debt securities at amortized cost</b>	<b>-</b>	<b>-</b>
<b>Sub-total Liabilities</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>-</b>	<b>5</b>

## 5.5. OPERATING EXPENSES

	12/31/2019	06/30/2020
Payroll costs	(25)	(25)
Other general and administrative expenses	(15)	(15)
Taxes and duties	(11)	(12)
<b>TOTAL</b>	<b>(51)</b>	<b>(52)</b>

## 5.6. COST OF RISK

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

Specific Impairment	first half 2020				
	January 1	Allocations	Reversals	Losses	June 30
<i>Stage 1</i>	(0)	(0)	0	-	(0)
<i>Stage 2</i>	-	-	-	-	-
<i>Stage 3</i>	-	-	-	-	-
<b>Financial assets at fair value through equity</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>-</b>	<b>(0)</b>
<i>Stage 1</i>	(0)	(0)	0	-	(0)
<i>Stage 2</i>	-	-	-	-	-
<i>Stage 3</i>	-	-	-	-	-
<b>Loans and advances due from banks at amortized cost</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>-</b>	<b>(0)</b>
<i>Stage 1</i>	(2)	(9)	6	-	(5)
<i>Stage 2</i>	(24)	(7)	10	-	(22)
<i>Stage 3</i>	(11)	(2)	2	-	(11)
<b>Loans and advances to customers at amortized cost</b>	<b>(37)</b>	<b>(18)</b>	<b>18</b>	<b>-</b>	<b>(38)</b>
<i>Stage 1</i>	(4)	(0)	0	-	(4)
<i>Stage 2</i>	(12)	(2)	0	-	(13)
<i>Stage 3</i>	(0)	(0)	-	-	(0)
<b>Bonds at amortized cost</b>	<b>(16)</b>	<b>(2)</b>	<b>0</b>	<b>-</b>	<b>(18)</b>
<i>Stage 1</i>	(1)	(0)	1	-	(0)
<i>Stage 2</i>	-	(8)	-	-	(8)
<i>Stage 3</i>	(0)	-	0	-	(0)
<b>Off-balance sheet commitments at amortized cost</b>	<b>(1)</b>	<b>(8)</b>	<b>1</b>	<b>-</b>	<b>(8)</b>
<b>TOTAL</b>	<b>(54)</b>	<b>(28)</b>	<b>19</b>	<b>-</b>	<b>(63)</b>

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

### 6.1. GUARANTEES

	12/31/2019	06/30/2020
Guarantees received from credit institutions	-	-
Enhanced guarantees <sup>(1)</sup>	8,051	7,992
Loan guarantee commitments received	8,055	7,998
Guarantees received from customers <sup>(2)</sup>	2,568	2,070

<sup>(1)</sup> Irrevocable, unconditional guarantees issued by the French Republic and received by SFIL for funding major export credits.

<sup>(2)</sup> Guarantees received from customers are generally granted by local governments.

### 6.2. FINANCING COMMITMENTS

	12/31/2019	06/30/2020
Loan commitments granted to credit institutions	48	48
Loan commitments granted to customers <sup>(1)</sup>	5,416	4,844
Loan commitments received from credit institutions <sup>(2)</sup>	11,121	11,121
Loan commitments received from customers	-	-

<sup>(1)</sup> Financing commitments on loans and lines of credit corresponded to contracts issued but not paid out as of June 30, 2020. The amount as of June 30, 2020, mainly related to on operations in the export credit business line.

<sup>(2)</sup> At of June 30, 2020, this amount corresponded to funding commitments received from Caisse des dépôts et consignations and La Banque Postale for respective amounts of EUR 10,000 million, and 1,121 million. SFIL recorded the total of its commitments related to the only tranches existing, which is limited to 10,000 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. The principal in a loan received from Caisse des dépôts et consignations may not exceed EUR 12.5 billion.

### 6.3. OTHER COMMITMENTS

	12/31/2019	06/30/2020
Commitments given <sup>(1)</sup>	5,217	6,034
Commitments received <sup>(2)</sup>	216	239

<sup>(1)</sup> In 2019, this mainly represents the value of a set of loans pledged to the Caisse des Dépôts. The 2020 amount also includes a portfolio of securities provided as a guarantee to the Banque de France.

<sup>(2)</sup> It mainly concerns a loan granted to a credit institution and guaranteed by a public sector entity.

## 6.4. IMPAIRMENT ON FINANCING COMMITMENTS AND OTHER COMMITMENTS GRANTED

	Financing commitments and financial guarantees under IFRS 9 as of 12/31/2019								Commitments and financial guarantees measured at fair value		
	Gross amount				Impairment				Net Amount	Nominal amount	Accumulated negative changes in fair value due to credit risk on non-performing commitments
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Net amount			
Granted to credit institutions	48	-	-	48	(0)	-	-	(0)	48	-	-
Granted to customers	5,366	-	50	5,416	(1)	-	(0)	(1)	5,415	-	-
<b>Total</b>	<b>5,414</b>	<b>-</b>	<b>50</b>	<b>5,464</b>	<b>(1)</b>	<b>-</b>	<b>(0)</b>	<b>(1)</b>	<b>5,463</b>	<b>-</b>	<b>-</b>

	Financing commitments and financial guarantees under IFRS 9 as of 06/30/2020								Commitments and financial guarantees measured at fair value		
	Gross amount				Impairment				Net Amount	Nominal amount	Accumulated negative changes in fair value due to credit risk on non-performing commitments
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Net amount			
Granted to credit institutions	48	-	-	48	(0)	-	-	(0)	48	-	-
Granted to customers	668	4,126	50	4,844	0	(8)	0	(8)	4,836	-	-
<b>Total</b>	<b>716</b>	<b>4,126</b>	<b>50</b>	<b>4,892</b>	<b>0</b>	<b>(8)</b>	<b>0</b>	<b>(8)</b>	<b>4,884</b>	<b>-</b>	<b>-</b>

## 7. Notes on risk exposure (EUR millions)

### 7.1. FAIR VALUE

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

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

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

### 7.1.1. Composition of the fair value of assets

	12/31/2019		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1 191	1 191	-
Financial assets at fair value through profit or loss	4 906	4 906	-
Hedging derivatives	5 177	5 177	-
Financial assets at fair value through equity	1 334	1 334	-
Loans and advances due from banks at amortized cost	323	272	(51)
Loans and advances to customers at amortized cost	47 332	47 064	(268)
Bonds at amortized cost	9 184	7 934	(1 250)
<b>TOTAL</b>	<b>69 447</b>	<b>67 878</b>	<b>(1 569)</b>

	06/30/2020		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1 454	1 454	-
Financial assets at fair value through profit or loss	4 677	4 677	-
Hedging derivatives	5 838	5 838	-
Financial assets at fair value through equity	769	769	-
Loans and advances due from banks at amortized cost	315	374	59
Loans and advances to customers at amortized cost	49 679	49 216	(463)
Bonds at amortized cost	9 171	7 852	(1 319)
<b>TOTAL</b>	<b>71 903</b>	<b>70 180</b>	<b>(1 723)</b>

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

	12/31/2019		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	1 120	1 120	-
Hedging derivatives	7 062	7 062	-
Due to banks at amortized cost	379	386	7
Debt securities at amortized cost	62 466	62 999	533
<b>TOTAL</b>	<b>71 027</b>	<b>71 566</b>	<b>540</b>

	06/30/2020		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	1 151	1 151	-
Hedging derivatives	8 271	8 271	-
Due to banks at amortized cost	379	383	4
Debt securities at amortized cost	64 228	64 688	460
<b>TOTAL</b>	<b>74 029</b>	<b>74 493</b>	<b>464</b>

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

The fair value of a financial instrument is determined on the basis of prices that can be observed in the market for the instrument itself or for a comparable instrument, or with the help of a technical evaluation utilizing observable market data. A hierarchy of the methods used to establish fair value has been drawn up. It is composed of the following three levels:

- Level 1 corresponds to the instruments considered to be liquid, i.e. that their valuation is based on the price observed in a liquid market, for which SFIL assured itself of the existence of a large number of contributors. Level 1 securities include in particular certain government bonds.
- Level 2 uses another method to determine the value of instruments for which SFIL can not observe market prices, but observes such for similar instruments by the same issuer or guarantor listed in the market. In this case, observable prices and other data observable in the market are used and an adjustment is made to account for the degree of the security's lack of liquidity.
- In level 3, when there is no active market or observable market data, the fair value of instruments is determined by using a valuation spread developed from an internal model. Derivatives are valued using these internal models.

The measurement of derivatives is based on an analysis combining the observability of the market data used in the assessment and the robustness of the valuation models measured in terms of efficiency to provide a valuation in market consensus. The result of this application is that the derivatives used by SFIL in hedging its activities are primarily of level 2.

For the derivatives in level 3, this classification mainly involves hybrid, structured products (interest rate – foreign exchange), spread (correlation) products and options on interest rates. This classification is mainly due to the fact that these products present complex payoffs which require an advanced statistical model with variable parameters which are sometimes unable to be seen in the market.

Fair value of financial assets	12/31/2019			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
Central banks	1,191	-	-	1,191
Financial assets at fair value through profit or loss	-	4	4,902	4,906
Hedging derivatives	-	4,644	4,533	5,177
Financial assets at fair value through equity	760	574	-	1,334
Loans and advances due from banks at amortized cost	8	-	264	272
Loans and advances to customers at amortized cost	-	-	47,064	47,064
Bonds at amortized cost	2,751	3,375	1,808	7,934
<b>TOTAL</b>	<b>4,710</b>	<b>8,597</b>	<b>54,571</b>	<b>67,878</b>

Fair value of financial assets	06/30/2020			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
Central banks	1,454	-	-	1,454
Financial assets at fair value through profit or loss	-	3	4,674	4,677
Hedging derivatives	-	5,593	245	5,838
Financial assets at fair value through equity	684	85	-	769
Loans and advances due from banks at amortized cost	11	-	363	374
Loans and advances to customers at amortized cost	-	-	49,216	49,216
Bonds at amortized cost	3,005	3,104	1,743	7,852
<b>TOTAL</b>	<b>5,154</b>	<b>8,785</b>	<b>56,241</b>	<b>70,180</b>

Fair value of financial liabilities	12/31/2019			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
Financial liabilities at fair value through profit or loss	-	925	194	1,120
Hedging derivatives	-	6,677	385	7,062
Due to banks at amortized cost	-	386	-	386
Debt securities at amortized cost	-	62,999	-	62,999
<b>TOTAL</b>	<b>-</b>	<b>70,987</b>	<b>579</b>	<b>71,566</b>

Fair value of financial liabilities	06/30/2020			
	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3 <sup>(3)</sup>	Total
Financial liabilities at fair value through profit or loss	-	1,058	93	1,151
Hedging derivatives	-	7,532	739	8,271
Due to banks at amortized cost	-	383	-	383
Debt securities at amortized cost	45,960	18,728	-	64,688
<b>TOTAL</b>	<b>45,960</b>	<b>27,701</b>	<b>832</b>	<b>74,493</b>

<sup>(1)</sup> Price quoted on active market for the same type of instrument

<sup>(2)</sup> 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.

<sup>(3)</sup> 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 either values financial instruments using reasonably possible parameters or applies hypotheses based on its policy of additional valuation adjustments.

	12/31/2019	06/30/2020
Uncertainty inherent in level 3 market parameters	4	4
Uncertainty inherent in level 3 derivatives valuation models	34	19
<b>Sensitivity of the market value of level 3 financial instruments</b>	<b>38</b>	<b>23</b>

#### 7.1.4. Transfers between levels 1 and 2

	12/31/2019	06/30/2020
Level 1 to level 2	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>

## 7.2. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

	12/31/2019					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application scope but not offset	Financial Instruments received as collateral	Net Amounts according to IFRS 7 and 13
Loans and advances at fair value through profit or loss	4,894	-	4,894	-	-	4,894
Derivatives (including hedging instruments)	5,189	-	5,189	(3,409)	(1,248)	532
Loans and advances due from banks at amortized cost	323	-	323	-	-	323
Loans and advances to customers at amortized cost	47,320	-	47,320	-	-	47,320
<b>TOTAL</b>	<b>57,726</b>	<b>-</b>	<b>57,726</b>	<b>(3,409)</b>	<b>(1,248)</b>	<b>53,069</b>

	06/30/2020					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application scope but not offset	Financial Instruments received as collateral	Net Amounts according to IFRS 7 and 13
Loans and advances at fair value through profit or loss	4,672	-	4,672	-	-	4,672
Derivatives (including hedging instruments)	5,843	-	5,843	(3,990)	(1,211)	642
Loans and advances due from banks at amortized cost	315	-	315	-	-	315
Loans and advances to customers at amortized cost	49,679	-	49,660	-	-	49,660
<b>TOTAL</b>	<b>60,509</b>	<b>-</b>	<b>60,490</b>	<b>(3,990)</b>	<b>(1,211)</b>	<b>55,289</b>



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

	12/31/2019					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net Amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net Amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	8,182	-	8,182	(3,409)	(2,214)	2,559
Due to banks at amortized cost	379	-	379	-	-	379
Customer borrowings and deposits	-	-	-	-	-	-
<b>TOTAL</b>	<b>8,561</b>	<b>-</b>	<b>8,561</b>	<b>(3,409)</b>	<b>(2,214)</b>	<b>2,938</b>

	06/30/2020					
	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)	9,422	-	9,422	(3,990)	(2,513)	2,919
Due to banks at amortized cost	379	-	379	-	-	379
Customer borrowings and deposits	-	-	-	-	-	-
<b>TOTAL</b>	<b>9,801</b>	<b>-</b>	<b>9,801</b>	<b>(3,990)</b>	<b>(2,513)</b>	<b>3,298</b>

## 8. Impacts of the COVID-19 health crisis on the financial statements

The health crisis had a relatively limited impact on the Company's financial statements prepared in accordance with IFRS at end June 2020. This confirms SFIL Group's resilience to macro-economic shocks. The main financial impacts generated by the pandemic are temporary. They relate to the deterioration and volatility observed in the financial markets since mid-March.

### 8.1. IMPACTS ON THE ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS AND LIABILITIES RECOGNIZED AT FAIR VALUE

The context of volatility and deterioration in the financial markets led to changes in the adjustments to the value of financial assets and liabilities as well as hedging instruments. As SFIL intends to retain the large majority of its assets until expiry, these valuations may continue to change along with market conditions but will return to balance in the long term. At end June 2020, these changes in values resulted in:

- an adjustment to the value of financial assets recognized at fair value through profit or loss according to IFRS of EUR -26 million before tax. This adjustment is recorded in Net banking income under the Net result of financial instruments at fair value through profit or loss item;
- an adjustment in the value of financial assets at fair value through other comprehensive income according to IFRS of EUR -2 million before tax. This adjustment is recorded within items that may subsequently be reclassified to profit or loss under the Unrealized or deferred gains and losses on securities at fair value through other comprehensive income item;
- an adjustment in the value of interest rate and foreign exchange hedging instruments of EUR -4 million before tax. This adjustment is recorded in Net banking income under the Net result of financial instruments at fair value through profit or loss item.

## 8.2. IMPACTS ON PAST DUE, BREAKDOWN OF NET BOOK VALUES BY STAGES AND IFRS PROVISIONS

SFIL decided to deploy two approaches to support borrowers faced with difficulties due to the health crisis:

- One, proactive, by proposing payment terms to all health institutions in recognition of their exceptional involvement in the COVID-19 pandemic. SFIL proposed payment terms of 180 days to these borrowers for all of their loan contract maturities between March 12 and June 30, 2020, without any late interest or penalties being invoiced. As of June 30, 2020, these offset payment maturities represented EUR 9 million.
- The other approach is to respond to requests from local and equivalent authorities faced with temporary cash flow difficulties. SFIL mobilized to respond to all requests from borrowers and to support them in their difficulties due to the health crisis caused by the decline in revenue from specific activities, related to economic, cultural and touristic activities (cinemas, swimming pools, car parks, thermal baths, etc.). As of June 30, 2020, these offset payment maturities represented EUR 8 million.

Payment terms granted as at June 30, 2020					Financial Assets at fair value through profit or loss	Total
Financial assets at amortized cost						
	Stage 1	Stage 2	Stage 3	Total		
Health sector customers	5	0	0	6	3	9
Other local public sector customers	0	5	2	7	1	8
<b>TOTAL</b>	<b>5</b>	<b>6</b>	<b>2</b>	<b>13</b>	<b>4</b>	<b>17</b>

The payment terms granted as at June 30, 2020 to customers of the Caisse Française de Financement Local led to an increase in exposures classified in Stages 2 and 3 and a decrease in exposures classified under Stage 1. In addition to the effects of the declassification in Stage 2 and Stage 3 of the exposures of certain customers, the Caisse Française de Financement Local decided to increase its provisions related to the public sector clientele by EUR 3 million before tax.

	Financial assets at amortized cost					
	Gross carrying amount			Provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Health sector customers benefiting from payment terms granted as at June 30, 2020	182	26	29	(0)	(0)	(1)
Other local public sector customers benefiting from payment terms granted as at June 30, 2020	293	5	3	(0)	(0)	(0)
<b>SITUATION AS OF DECEMBER 31, 2019</b>	<b>475</b>	<b>31</b>	<b>33</b>	<b>(0)</b>	<b>(0)</b>	<b>(1)</b>
Health sector customers benefiting from payment terms granted as at June 30, 2020	194	24	29	(3)	(0)	(1)
Other local public sector customers benefiting from payment terms granted as at June 30, 2020	6	265	31	(0)	(0)	(0)
<b>SITUATION AS OF JUNE 30, 2020</b>	<b>200</b>	<b>289</b>	<b>60</b>	<b>(3)</b>	<b>(0)</b>	<b>(1)</b>
Health sector customers benefiting from payment terms granted as at June 30, 2020	12	(2)	0	(3)	0	0
Other local public sector customers benefiting from payment terms granted as at June 30, 2020	(287)	260	28	0	0	(0)
<b>IMPACT OF THE COVID-19 HEALTH CRISIS</b>	<b>(275)</b>	<b>258</b>	<b>28</b>	<b>(3)</b>	<b>0</b>	<b>(0)</b>

SFIL is present in all cruise ship financing operations through French export credits signed since 2016. Within this context, SFIL entered into the approach developed jointly by the European export credit guarantee agencies to provide liquidity support for export credits for cruise companies, which were particularly affected by the pandemic. In parallel, SFIL decided to put all of the exposures related to the cruise sector on the watchlist and, as a result, to transfer them from Stage 1 to Stage 2, leading to an increase in provisions of EUR 10 million before tax as at June 30, 2020.

	Financial assets at amortized cost					
	Gross carrying amount			Provisions		
	Stage 1	Stage 2	Stage3	Stage 1	Stage 2	Stage3
Financial assets on the balance sheet – export credit cruise sector	989			(0)		
Off balance sheet financing commitments – export credit cruise sector	4,530			(0)		
<b>SITUATION AS OF DECEMBER 31, 2019</b>	<b>5,519</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>-</b>
Financial assets on the balance sheet – export credit cruise sector		1,807			(3)	
Off balance sheet financing commitments – export credit cruise sector		4,126			(8)	
<b>SITUATION AS OF JUNE 30, 2020</b>	<b>-</b>	<b>5,933</b>	<b>-</b>	<b>-</b>	<b>(11)</b>	<b>-</b>
Financial assets on the balance sheet – export credit cruise sector	(989)	1,807	-	0	(3)	-
Off balance sheet financing commitments – export credit cruise sector	(4,530)	4,126	-	0	(8)	-
<b>IMPACT OF THE COVID-19 HEALTH CRISIS</b>	<b>(5,519)</b>	<b>5,933</b>	<b>-</b>	<b>1</b>	<b>(11)</b>	<b>-</b>

### 8.3. SUMMARY OF THE IMPACTS ON RESULTS AS AT JUNE 30, 2020

	(1)	(2)				=(1)-(2)
	Published accounting income	<i>Of which impacts of the Covid-19 health crisis</i>				Accounting income restated for the Covid-19 impacts
		<i>Adjustment to the value of financial assets at fair value through profit or loss</i>	<i>Adjustment to the value of hedges</i>	<i>Reinforcement of provisions for the public sector</i>	<i>Reinforcement of provisions for the export credit - cruise sector</i>	
Net banking income	69	(26)	(4)			98
Operating expenses	(61)					(61)
<b>Gross operating income</b>	<b>8</b>	<b>(26)</b>	<b>(4)</b>	<b>-</b>	<b>-</b>	<b>37</b>
Cost of risk	(9)			(3)	(10)	4
<b>Operating income before tax</b>	<b>(0)</b>	<b>(26)</b>	<b>(4)</b>	<b>(3)</b>	<b>(10)</b>	<b>42</b>
Incoe tax	(2)	7	1	1	3	(13)
<b>Net income</b>	<b>(2)</b>	<b>(19)</b>	<b>(3)</b>	<b>(2)</b>	<b>(7)</b>	<b>29</b>

## 9. Post-closing events

No significant event that influences the Company's financial situation has occurred since the June 30, 2020 closing date.



### 3. Statutory Auditors' review report on interim financial statements established under IFRS standards



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

For the period from January 1 to June 30, 2020

*This is a free translation into English of the statutory auditors' report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking readers. This report includes information relating to the specific verification of information given in the entity's half-yearly management report. The report must be read in conjunction and construed in accordance with French law and French auditing professional standards.*

To the Shareholders,

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

- the review of the accompanying condensed half-year consolidated financial statements of SFIL, for the period from January 1 to June 30, 2020;
- the verification of the information contained in the half-year management report.

These condensed half-year consolidated financial statements are the responsibility of the Board of Directors on September 11, 2020, based on information available at that date and in the evolving context of the Covid-19 crisis and the difficulties in assessing its impacts and the future prospects of the Company. Our role is to express a conclusion on these financial statements based on our review.

## Conclusion on the financial statements

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

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-year consolidated financial statements have not been prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting", as adopted by the European Union.

## Specific verification

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

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

Paris-La Défense, September 11, 2020

The Statutory Auditors  
Deloitte & Associés      ERNST & YOUNG et Autres

Charlotte VANDEPUTTE

Vincent ROTY





## 4. Statement by the person responsible





## STATEMENT BY THE PERSON RESPONSIBLE

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

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

Signed in Issy-les-Moulineaux, September 11, 2020

**Philippe Mills**  
**Chief Executive Officer**

**SFIL**  
1-3, rue du Passeur de Boulogne  
CS 80054  
92861 Issy-les-Moulineaux Cedex 9 – France  
Tel: +33 (0) 1 73 28 90 90

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

