Annual Financial Report 2019

Supporting local investment and export

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

Figures

Due to rounding, column totals in the tables may differ slightly from the sum of the lines comprising them.

SFIL
Supporting local investment and export

Annual financial report 2019

Interview with the CEO

2019: a successful year in line with our DNA as a public development bank.

Philippe Mills
Chief Executive Officer, SFIL

How would you sum up 2019?

Philippe Mills: In three words: performance, authenticity, and recognition!

Performance, since our position as leader on our two target markets has again been attained and even strengthened for local financing. Our financial results are also better than expected.

Authenticity, since these results, consistent with our DNA as a public development bank, are fully in line with our main purpose: "to finance a sustainable future". They also align with our financial credo: moderate profitability, excellent solvency and liquidity and low-risk appetite.

Recognition, since these results all illustrate the remarkable achievements carried out for seven years - as SFIL is about to join the Caisse des Dépôts group.

"Finance a sustainable future": in concrete terms, what does this mean for SFIL?

P.M.: As a public development bank, the CSR is naturally inscribed in our DNA, as several investors noted during dedicated road-shows.

2019 shall remain the year in which our access to sustainable funding became a reality, a logical long-term development.

Today, several important bricks are in place: the adoption of a social and environmental strategy, the publication of our first CSR report and the inclusion of our carbon footprint in our strategy.

In February, we successfully launched the first social issue in Europe dedicated exclusively to financing public hospitals. In November, we successfully issued our first green issue financing exclusively green investments for French local government entities/local authorities.

What can be learned from the results recorded on the local public sector refinancing sector?

P.M.: 2019 is a record year in financing made to local government entities/local authorities and public hospitals. We provided them with EUR 5.7 billion in new financing, with 2,671 contracts with an average maturity of 19.4 years. This high volume, EUR 2.2 billion greater than the budget forecast and EUR 2 billion compared to 2018, was achieved by consolidating our profitability.

These results illustrate significant gains in market shares that make the SFIL/La Banque Postale partnership, more than ever, the leader in this activity, for the fifth consecutive year.

Given this strong balance sheet, the partnership with La Banque Postale was renewed through the end of 2026.

What were the trends for financing large export contracts?

P.M.: 2019 again confirms SFIL's vital place on this sector with a market share still greater than 40%. SFIL is still the leading contributor of liquidity, for the fourth consecutive year, on a sharply declining market.

We signed four transactions for EUR 1 billion. Our cumulative financial support of French exports is now EUR 8.1 billion in 14 transactions with 15 partner banks. Ten exporters on four continents have now benefited from the system for more than EUR 14 billion in contracts. The value creation associated with this activity is significant and in fact a mission as important as the local public sector.

This mission is essential for the French industrial base to remain competitive and may, in the future, and under certain conditions, constitute a component of our social and environmental strategy.

Finally, the expansion to the financing of strategic interest projects will further reinforce the relevance of SFIL's export system.

You talk about performance. How strong is SFIL's financial position?

P.M.: Our net profit is much greater than the 2016 strategic plan. We have recorded 18 consecutive quarters of positive results since mid-2015. Each of SFIL's two activities is profitable and the increase in overhead expenses is contained.

Our results show the soundness of our financial ratios, the complementary nature of our two missions of risk management and business cycle, and the strong dynamism of our market shares.

To that effect, we now have proof that the capital requirements of the European supervisory authority, under Pillar 2, are the lowest of all the large European banks.

> **"These results illustrate the incredible progress made in seven years, while SFIL prepared to join the Caisse des Dépôts group."**

How do you envision SFIL's role within the large public finance sector?

P.M.: It's a new and important step for our young public development bank.

The concrete terms of this backing fully acknowledge the specific features of our model; there are many possible synergies.

For seven years, SFIL's teams have put in considerable work to sustainably anchor our model as a public development bank in the French and European financial landscape.

I would like to take this opportunity to express my gratitude to all our directors whose commitment to SFIL's governance has played an important part in our Company's success.

In cooperation within the large public finance sector, I am sure that this new step in the history of our young public development bank shall pave the way for new successes in serving financing a sustainable future.

Covid-19

Concerning the Coronavirus (COVID-19) pandemic which has recently developed, SFIL is following the recommendations of the French government and has quickly adapted its working methods in order to best protect the health of its works and their loved ones, while maintaining operational continuity in its business activities and responsibilities. Within this context, I would like to remind you of all the attributes that give SFIL its status as a public development bank, the quality of its standing and its very strong risk management.

SFIL
Public development bank supporting local investment and export

A vision

To finance a sustainable future by effectively and responsibly supporting local development and the international activity of large companies

Two public policy missions

Long-term financing of local government entities/local authorities and public hospitals in France

Long-term financing of large contracts of French businesses internationally

Status as a renowned public development bank

A very low-risk profile and strong resilience in the current interest rate environment

A moderate profitability consistent with the status of a public development bank

A socially balanced model

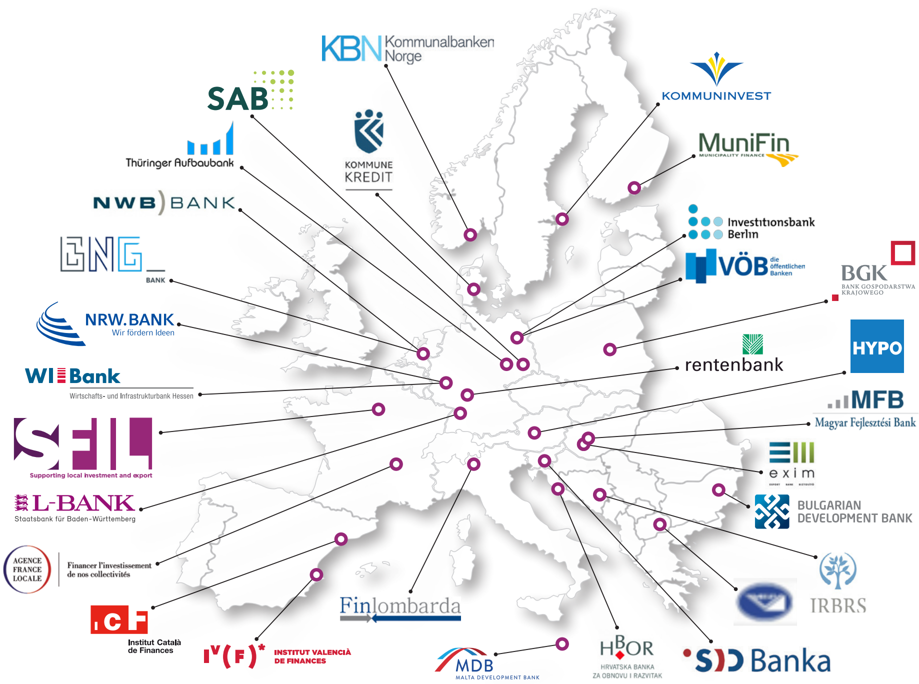
| Focus on public development banks

“A stronger presence in Europe since the crisis”

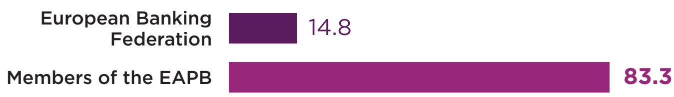
27 key players
grouped together in the EAPB
(European Association of Public Banks)

4 characteristics
recognized by European regulations

- An exclusively public shareholding structure
- A scope of action strictly limited to public policy missions
- An explicit or implicit guarantee granted by the shareholders
- No objective to maximize profit or market share



Agile banks The ratio between the size of the balance sheet and the number of employees is far above average *(in EUR millions per employee)*



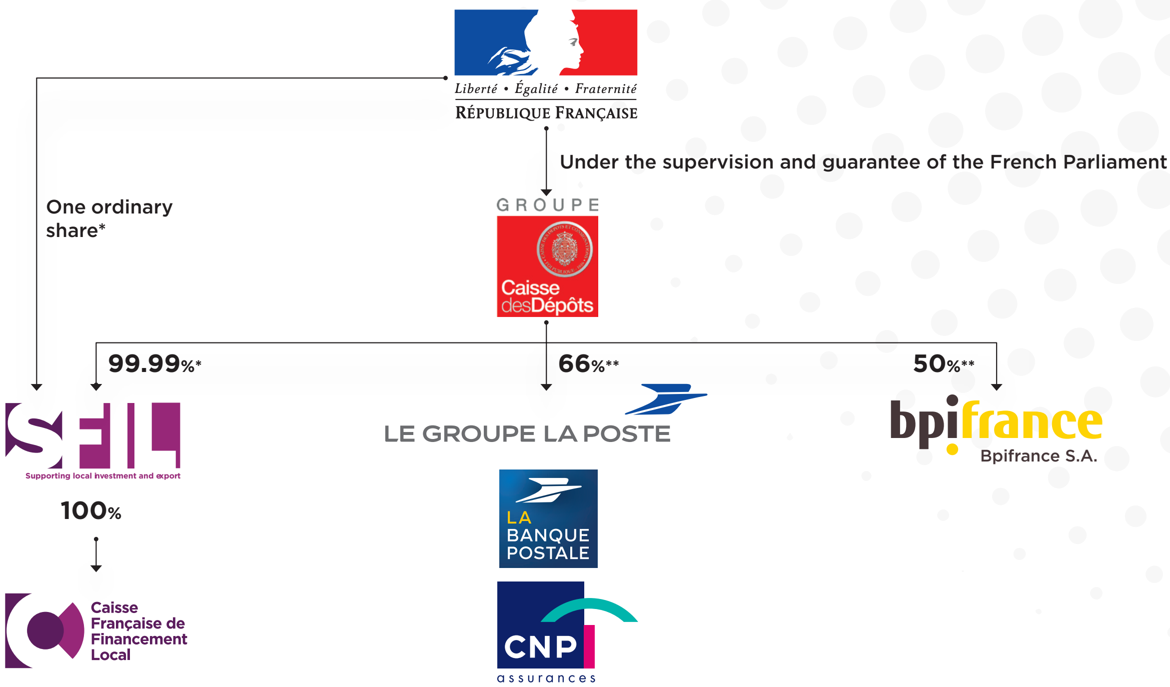
A 100% public shareholder structure along with strong public support

SFIL'S SHAREHOLDING STRUCTURE AS OF 12/31/2019

I Focus on the project to create a large public funding sector in 2020

The CDC will become SFIL's reference shareholder

- SFIL's fully public shareholder structure
- Maintaining the status of a public development bank
- The Caisse des Dépôts and the French State have agreed to protect SFIL's economic base and financial viability



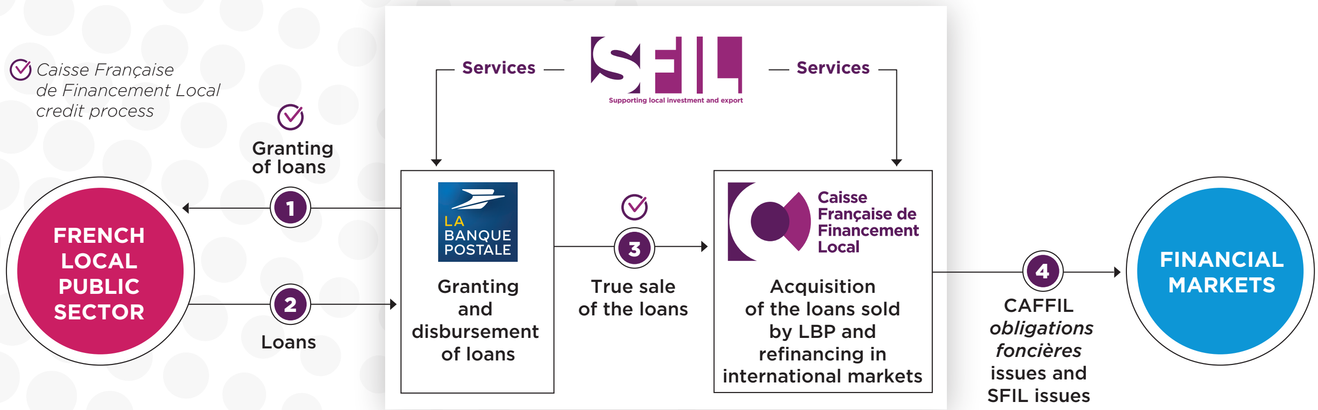
* *Subject to approval from the relevant authorities. The Caisse des Dépôts will hold all SFIL shares with the exception of one ordinary share retained by the French State.*

** *The French State holds 50% of the capital of Bpifrance S.A. (through EPIC Bpifrance) and 34% of La Poste's capital.*

The leading financier of the local public sector in France in partnership with La Banque Postale

An exclusive partnership renewed with La Banque Postale through to the end of 2026

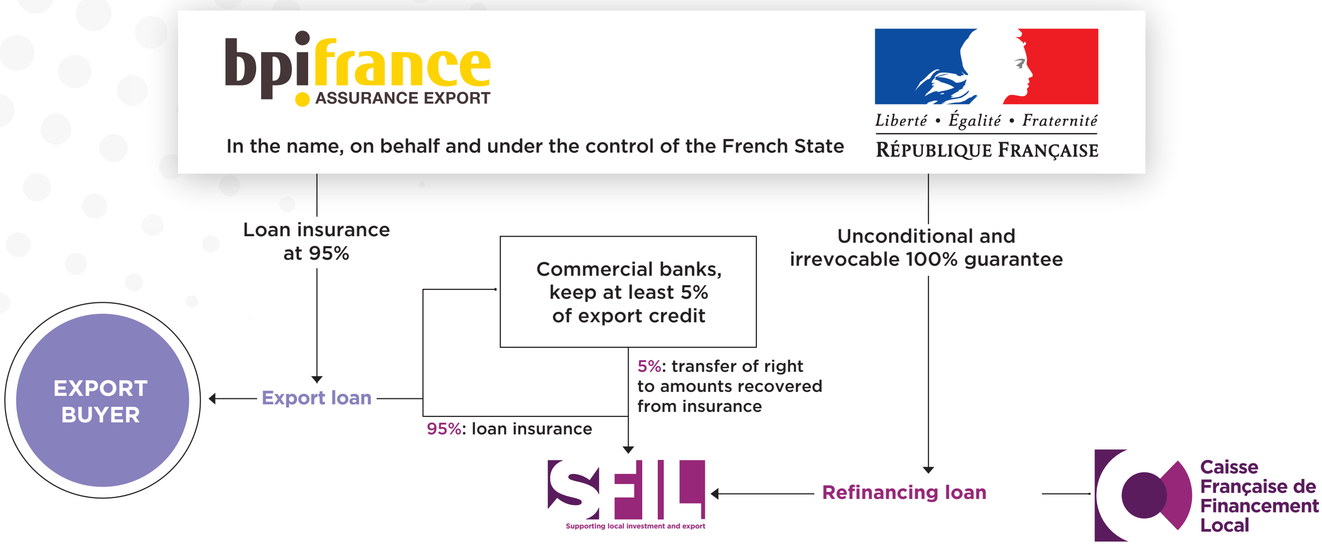
OPERATIONAL FLOW DIAGRAM OF THE SYSTEM



SFIL refinances medium- and long-term loans originated by La Banque Postale to local government entities/authorities and public health establishments. These loans are refinanced by bond issues intended for institutional investors.

The leading contributor of liquidities on the export credit market

A system within the public sphere



Business 2019

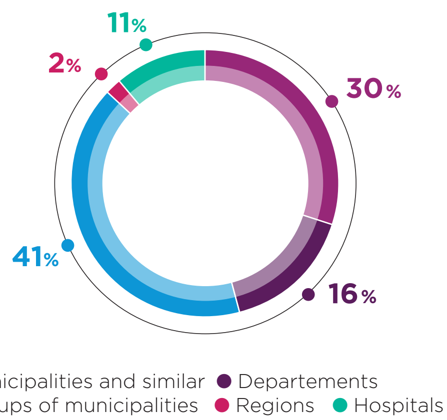
I The SFIL group: leader on both of its markets

Financing the local public sector

- Since the launch of the business, total production of **EUR 29.5 billion**
- Average amount **EUR 2 million**
- Average maturity **18 years** and loans up to **30 years**
- Since 2013 : **6,800 borrowers** of which **3,500** municipalities of less than 5,000 inhabitants
- **leading funder** of hospitals (295 public hospitals)

EUR 5.7 billion
New loans to the local public sector
in 2019

DISTRIBUTION OF LOANS TO THE LPS IN 2019

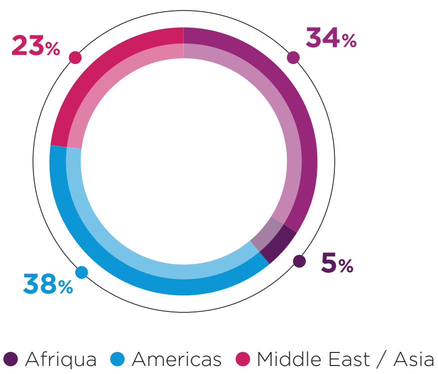


Export credit

- Since the launch of the business, total production of **EUR 8.1 billion**
- 14 transactions representing more than **EUR 14 billion** in contracts
- **10** recipient **exporters** on **4 continents**
- **25** partner **banks**

EUR 1.0 billion
Export loan refinancing
in 2019

DISTRIBUTION OF EXPORT CREDIT LOANS IN 2019



Financing

CERTIFICATES OF DEPOSIT PROGRAM

Diversification of short-term financing

•••

Average outstanding issued by SFIL around EUR 600 m

SFIL ISSUES

Issue program planned for 2020 of between EUR 1 and 2 Bn

•••

Benchmark issues in EUR and/or USD

•••

Current outstanding of EUR 7,1 Bn equivalent

CAFFIL *OBLIGATIONS FONCIÈRES*

Issue program planned for 2020 of between EUR 3.5 and 5.5 Bn

•••

Regular benchmark issues in EUR and private placements (EMTN and RCB)

•••

Almost EUR 50 Bn in current outstanding as of 12/31/2019

ESG ISSUE

Regular benchmark issues by SFIL and CAFFIL in the ESG market

•••

Inaugural social and green issues in 2019

•••

At least one green or social transaction planned for 2020

I Of excellent standing

High ratings reflecting the ties with the French State

	MOODY'S	S&P	DBRS
Liberté • Égalité • Fraternité RÉPUBLIQUE FRANÇAISE	Aa2	AA	AAA
SFIL	Aa3	AA	AA High
Caisse Française de Financement Local	Aaa	AA+	AAA

Extra-financial notes in line with our DNA as a public development bank

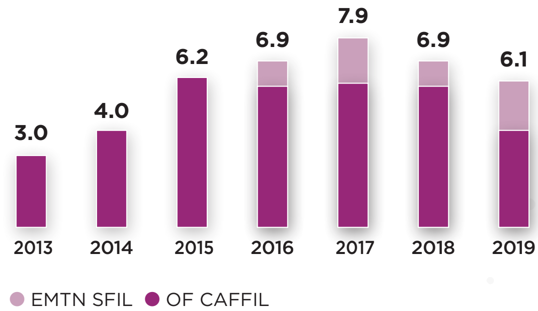
ISS : Prime C FOR CAFFIL

MSCI : AA for CAFFIL

IMUG : Positive BBB for bonds issued by CAFFIL

An exceptional funding capacity

THE GROUP'S BOND ISSUES SINCE 2013



EUR **6.1** billion

SFIL group's bond issues
2019

Issues awarded internationally

Best Covered Bond Issuer
2019 CMD Portal Awards

Best ESG Issue
2019 CBR Awards

Most impressive Social or Sustainability Issuer
2019 SRI Awards

Best Social Bond
2019 IFR Awards

Balance sheet and income statement: 7th largest French bank by the size of its balance sheet

EUR **75** billion
Balance sheet assets
as of 12/31/2019

EUR **57** billion
The SFIL group's outstanding bonds
as of 12/31/2019

EUR **50** million
Net Income
for the 2019 fiscal year

Moderate profitability, excellent solvency and liquidity

340
Permanent contract employees
Present as of 12/31/2019

65.3%
Operating coefficient*
2019 Fiscal year

3.1%
ROE
2019 Fiscal year

24.4%
Ratio CET1
Since 01/01/2020 *vs* 7.99% required by the ECB (SREP)

1,804%
LCR
As of 12/31/2019 *vs* 100% required by the ECB

* *On non-recurring income.*

The CSR commitment is enshrined in the group's DNA

Reflected by our joining the Global Compact / a commitment on 9 SDGs*

* *Sustainable Development Goals.*

A 3-fold strategy

AXIS 1 — Public policy missions

Social or environmental nature of projects of the local public service financed by SFIL

•••

Long-term, responsible financing role dedicated to investment in the French public service

•••

Export credit limited to refinancing loans consistent with the social and environmental principles of the OECD

AXIS 2 — Internal policies

Promoting diversity, gender equality, quality of work life

•••

Reducing the ecological footprint: supporting soft mobility, measures in favor of teleworking

•••

Combating all forms of corruption, conducting business with complete transparency

AXIS 3 — Involvement of our employees and sponsors

Rounding on salary in favor of associations

•••

Awareness actions and green measures proposed by the Sustainable Development Committee

•••

Contributing to equal opportunity by sponsoring students from low-income households, etc.

2019: concrete accomplishments

FIRST CARBON FOOTPRINT

FIRST CSR REPORT

FIRST THEMATIC ISSUES

Thematic issues

3 objectives for the SFIL group

1

Finance green and social public investments

In the healthcare, clean public transport, clean water and waste processing sectors

2

Develop a new funding channel

Consistent with the increasingly important role played by the environmental, social and governance criteria in investment decisions

3

Develop the responsible finance ecosystem

Contribute to the growth of the thematic bonds market

TIMELINE

FEBRUARY 2019

First social issue in Europe dedicated exclusively to financing public hospitals

EUR 1 billion
Volume

8 years
Maturity

114
Investors

2.7 x
Oversubscription

JUNE 27, 2019

The Covered Bond Report Awards 2019

"Best ESG Transaction*"

SEPTEMBER 17, 2019

2019 GlobalCapital SRI Awards

"Most Impressive Social or Sustainability Bond issuer"**

"An issue that has already won two international awards"

IFR AWARDS 2019

NOVEMBER 2019

First green issue exclusively financing green investments for French local government entities/local authorities

EUR 750 million
Volume

10 years
Maturity

103
Investors

4.3 x
Oversubscription

* *Awarded by the magazine "The Covered Bond Report" at the Frankfort ICMA international conference.*

** *2019 Global Capital SRI Conference in Amsterdam.*

Effective governance serving the group's strategy

Summary presentation of the governance bodies

Composition of the Board of Directors

Chantal Lory
Chair

Philippe Mills
Chief Executive Officer

5 Independent members
Jean-Pierre Balligand
Cathy Kopp
Françoise de Panafieu
Pierre Sorbets

5 Members Representing the employees
Pascal Cardineaud
Marion Domalain
Frédéric Guillemin
Thomas Morisse
Sandrine Peraud-Chemla

4 representing the shareholders

- French State, represented by Élodie Boulch
- Representing La Banque Postale: Serge Bayard
- Representing Caisse des Dépôts: Virginie Fernandes
- Proposed by the French State: Gabriel Cumenge

50%* Independence

50%* of women

93% Attendance rate

54 years old Average age

4 years Average length of service

Committees of the Board of Directors

Financial Statements Committee
- **7** Members
- **4** Meetings
- **50%** Independence
- **71.4%** Attendance rate

Risks and Internal Control Committee
- **7** Members
- **5** Meetings
- **50%** Independence
- **68.6%** Attendance rate

Governance and Appointments Committee
- **5** Members
- **4** Meetings
- **75%** Independence
- **85%** Attendance rate

Compensation Committee
- **5** Members
- **3** Meetings
- **75%** Independence
- **80%** Attendance rate

Management bodies

GENERAL MANAGEMENT

EXECUTIVE COMMITTEE

10 members **+ 1** permanent guest**

27% women***

- Export credit division
- Risks division
- Debt Portfolio Management division
- Financial Markets division
- Finance and Operations division
- CAFFIL Coordination department
- Human Resources division
- General Secretariat

* *Not counting Members of the Board of Directors representing the employees.*
** *The General Auditor is a permanent guest of the Executive Committee.*
*** *27%, taking into account the participation of the General Auditor (permanent guest).*

1

Management report

Management report

SFIL was authorized as a bank by the Collège de l'Autorité de contrôle prudentiel et de résolution on January 16, 2013. Since SFIL was created, the French State has played a special role in its operation by contributing 75% of its capital and, as the reference shareholder, assuring prudential authorities of its strong commitment to provide financial support, in keeping with current banking regulations. Caisse des Dépôts (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 announced in 2018 consisting of entrusting control of SFIL to the Caisse des Dépôts, is one of the characteristics of public development bank including SFIL. The objective of public development banks is not to maximize profitability or market share, but to carry out public policy missions entrusted by State, regional or local authorities to compensate for identified market failures, while ensuring the conditions for their own viability are in place. SFIL is a key component of the financing system for local government entities and public hospitals established in early 2013 to provide a sustainable response to the contraction in supply of long-term financing for the local public sector.

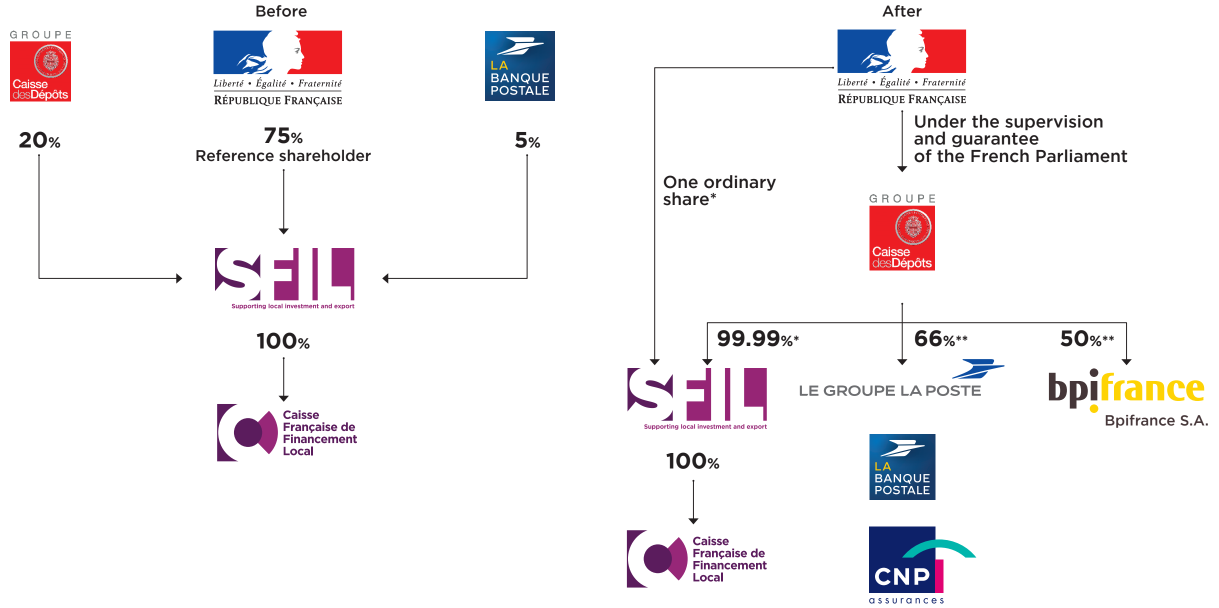
From 2015, SFIL was also entrusted with responsibility for refinancing major export credit contracts as part of a market system designed to strengthen the French export industry's competitiveness. The plan to extend the benefit of SFIL's export credit refinancing system to guaranteed loans for projects of strategic interest for the French overseas economy was announced in 2018. After the entry into force end-2018 of the decree governing credit insurance and the finance law relating to the enhanced guarantee, the procedure to extend the scope of strategic projects has been initiated with the European Commission.

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

CAPITAL STRUCTURES OF SFIL AND ITS SOLE SUBSIDIARY CAFFIL(1) BEFORE AND AFTER THE CHANGE IN CONTROL (PLANNED FOR THE 1ST HALF OF 2020)

In 2020, the shareholding structure of SFIL, which is the parent company of Caisse Française de Financement Local, is set to change. Indeed, pursuant to the agreement in principle between SFIL shareholders announced on October 9, 2019, on March 4, 2020 the French State, the Caisse des Dépôts and La Banque Postale announced that they had signed a binding agreement for the repurchase by the Caisse des Dépôts of the entire investment held by La Banque Postale in SFIL's share capital (5%) and of the entire investment held by the French State (75%) with the exception of one ordinary share to be retained by the French State. Caisse des Dépôts will therefore become SFIL's reference shareholder. The French State would continue to attend SFIL's Board of Directors through a non-voting director, given the public interest duties entrusted to SFIL.

SFIL's shareholder base will remain – as today – fully public. Its shareholders will ensure that SFIL's financial solidity is preserved and its economic base protected, and will continue to provide it with the support it needs, in accordance with the applicable regulations. SFIL's new reference shareholder CDC would materialize its commitment by a letter of support, along with a letter of support from the French State, as part of maintaining SFIL's status as a public development bank.



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

** *The French State holds 50% of the capital of Bpifrance S.A. (through EPIC Bpifrance) and 34% of La Poste's capital.*

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

1.1 Highlights of 2019

1.1.1 Activity of the SFIL Group in 2019

2019, a record year for financing loans to the French local public sector and hospitals in partnership with La Banque Postale

The SFIL Group, via its subsidiary Caisse Française de Financement Local (CAFFIL), finances loans granted by La Banque Postale to French local authorities and public hospitals.

In 2019, the SFIL/CAFFIL/La Banque Postale partnership clearly consolidated its leadership position in the financing of the French local public sector that it has held since 2015. During 2019, this partnership produced a record EUR 5.7 billion in loans, up by over 55% compared to 2018, with a market share most probably up sharply. The local authorities and public hospital financing market was particularly dynamic in 2019, notably for municipalities in a context of a pre-election year. At the same time, CAFFIL acquired EUR 4.2 billion in loans initiated by La Banque Postale. This is also the highest level of loans acquired since the creation of SFIL Group and the launch of its partnership with La Banque Postale in 2013. Since the partnership began, the total volume of loans acquired stands at EUR 19.8 billion.

Since May 2019, the SFIL Group, in partnership with La Banque Postale, also proposes "green" loans to finance environmental projects carried out by French local authorities in sectors such as clean local public transport, water treatment, waste recycling and ecological public buildings (see section 1.1.2 "Strengthening of the SFIL Group's CSR commitment").

Maintaining the leadership position in the refinancing of large export credits

Since the State entrusted it with this task in 2015, the SFIL Group has granted loans for the refinancing of large export credits. These loans benefit from an irrevocable and unconditional 100% guarantee by the French State.

Whilst the export credit market had reached particularly high volumes in 2018, it was at an historically low level in 2019. However, with four transactions signed for a total of EUR 1 billion in 2019, SFIL's contribution remains over 40%, thus confirming its position as leading provider of liquidity over the last four consecutive years. Since the launch of this mission mid-2015, the total volume refinanced by the SFIL Group stands at EUR 8.1 billion for EUR 14 billion in total export credits.

The French authorities have made a request to renew this system to the European Commission. A project is also underway concerning the extension to the scope of strategic projects. The aim is to allow the SFIL Group to refinance export credits under the system hedged by the Strategic Projects Guarantee. This plan to extend the SFIL Group's activity will enable France to offer a financing system in line with the best practices observed in other major exporting countries, particularly in Asia.

The SFIL Group's high performance and diversified refinancing

To refinance its two activities, in 2019, the SFIL Group raised EUR 6.1 billion in long-term issues in the bond markets. As part of the implementation of its social and environmental policy, it fully succeeded in launching its first "Social" and "Green" theme bond issues, carried out by CAFFIL (see section 1.1.2 "Strengthening of the SFIL Group's CSR commitment").

The market for public issues of covered bonds in euros was very active in 2019 with a primary offering volume of EUR 140 billion. In this context, CAFFIL raised a total of EUR 4.0 billion via its issues of covered bonds. It launched three issues in the public primary market for a total of EUR 3.0 billion, adding to its reference yield curve in the 6-year (EUR 750 billion), 8-year (EUR 1 billion), 10-year (EUR 750 million) and 15-year (EUR 500 million) maturities. At the same time, over the course of the year it raised additional liquidity on several of its reference issues via four tap transactions for a total of EUR 600 million. In addition to these public issues, CAFFIL implemented an active private placement policy, in response to specific demand from investors for long and very long maturities. This activity enabled it to raise EUR 440 million with an average maturity close to 16 years.

In 2019, SFIL continued to develop its franchise in the French agency market in both euros and dollars. SFIL accordingly tapped the public primary market twice for a total of EUR 2.1 billion, with a first issue in dollars of USD 1.25 billion over 3 years in April and a second issue in euros of EUR 1 billion over 5 years in May. These two successfully completed transactions enabled the Group in particular to continue to enlarge and diversify its investor base.

1.1.2 Strengthening of the SFIL Group's CSR commitment

2019 was marked by the strengthening of the SFIL Group's strong commitment in terms of Corporate Social Responsibility (CSR), which had already been affirmed at the end of 2018 with its membership of the United Nations Global Compact:

- Early 2019, the SFIL Group identified 9 Sustainable Development Goals (SDGs) out of the 17 set up by the United Nations which it has committed to integrating sustainably into its operations, activities and corporate culture.
- In July 2019, for the first time, SFIL measured its carbon footprint for 2018 (excluding investments) and announced its commitment to reducing its CO_2 emissions. An action plan for the highest emitting balance sheet items was launched with this aim in mind.

- In September 2019, SFIL published its first CSR report, which reports on its actions, targets and results in terms of CSR for 2018. The report was also published on the United Nations Global Compact site as “Communication on Progress”.
- During Q4 2019, SFIL announced that it had set up a dedicated CSR governance to strengthen the transversal nature of the Group’s CSR involvement and increase its visibility.

The SFIL Group’s CSR commitment has three major areas of focus: conducting sustainable public policy missions, the deployment of balanced internal policies and employees' commitment.

Public policy missions: as a public development bank, SFIL participates in the sustainable and responsible financing of development projects in France, and specifically the financing of local public sector infrastructure projects, which in the great majority have a social or environmental nature (public hospitals, local public transport, water and waste treatment, etc.).

The deployment of internal policies: the commitment is reflected in the strengthening of the procedures to fight against corruption, ethics and compliance, the fight against all types of discrimination via adapted Human Resources policies, and the first actions to reduce the Group’s carbon footprint.

Employees' commitment: SFIL’s philanthropy program, focusing on equal opportunities and integration, allows, among others, employees to sponsor young people from disadvantaged backgrounds. The “Employees' Commitment” group brings together employees that wish to carry out actions in the areas of environmental protection and solidarity, and implement best practices within the Company.

As part of its CSR commitment, in 2019, SFIL Group, via its CAFFIL subsidiary, carried out its first two “social” and “green” issues. A “social” issue was carried out in February 2019 for EUR 1 billion with an 8-year maturity, while the “green” issue was carried out in November 2019 for EUR 750 million with a 10-year maturity. These two issues were respectively exclusively dedicated to financing French public hospitals and financing projects to promote the ecological transition within French local authorities. They were unanimously recognized by market observers as an enormous success and benefited in particular from very significant oversubscription rates, thus testifying to investor interest for this new type of responsible investment.

These thematic issues will become a regular and significant source of refinancing for the SFIL Group in future years.

1.1.3 Planned change in SFIL’s shareholder structure

Pursuant to an agreement in principle between SFIL shareholders announced on October 9, 2019, the French State, 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 State (75%) with the exception of one ordinary share retained by the French State. 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 transaction, to which the Caisse des Dépôts’ Supervisory Board gave a unanimous favorable opinion on October 23, 2019, forms part of the project to create a major public financing hub structured around the Caisse des Dépôts and La Poste, the completion of which was announced on March 4. The change to SFIL’s shareholding structure is due to take effect in the second quarter of 2020, provided that the necessary regulatory and administrative permissions are obtained from the competent authorities.

1.1.4 The SFIL Group’s resilience in the geopolitical context and the low-rate environment

2019 was marked by the international geopolitical context, the extremely low-rate environment and the prospect of the United Kingdom’s exit from the European Union. This disturbed context had very little impact on the SFIL Group and its business model showed its strong resilience.

2019 was marked by the continued negotiations between the European Union and the United Kingdom within the framework of Brexit, the tensions relating to the increase in customs duties on certain goods between the United States and China and between the United States and the European Union, and the discussions between the European Commission and the Italian government on Italy’s budget deficit. These geopolitical events increased the volatility of financial markets, but did not significantly affect the covered bonds market and the issue capacity of the SFIL Group, which was able to execute its issue program in line with its forecasts.

The low-rate environment lasted throughout 2019 and was even reinforced during the 2nd half year. On September 12, 2019, the European Central Bank announced its decision to reactivate its non-conventional monetary policies in order to support growth and inflation in Europe. These policies resulted in interest rates remaining at very low or even negative levels depending on maturities. This type of environment is generally very unfavorable to commercial banks’ margins and promotes loan renegotiations by borrowers. the SFIL Group is not very exposed to these risks due to its backing policy and the presence of early repayment clauses in almost all of its contracts. Moreover, the reduction in bank margins associated with the low-rate environment had little impact on the SFIL Group due notably to its liability structure that does not include customer deposits.

Lastly, the outlook for the United Kingdom’s exit from the European Union has had little impact on SFIL and CAFFIL. the SFIL Group:

- has low exposure to public borrowers in the United Kingdom. As of December 31, 2019, CAFFIL's exposure to United Kingdom borrowers represented an outstanding amount of EUR 49 million, or only 0.1% of the cover pool. This exposure only concerns one security and one counterparty benefiting from the United Kingdom's guarantee;
- took advantage of 2019 to renegotiate the documentation for derivative contracts with its United Kingdom counterparties in order to sign new transactions with subsidiary counterparties located within the European Union or to transfer its historical derivative contracts towards entities within the European Union, if applicable.

1.1.5 Solid financial and non-financial ratings

As of December 31, 2019, SFIL's financial ratings were unchanged compared to December 31, 2018: Aa3 with Moody's, AA with Standard & Poor's and AA (high) with DBRS.

At the same date, the financial ratings for CAFFIL's issue program were also unchanged compared to December 31, 2018: AAA with Moody's, AA+ with Standard & Poor's and AAA with DBRS.

In a newsletter published in October, Standard & Poor's highlighted the State support that SFIL benefited from as part of the change in control[(1)]. With regard to CAFFIL's green issue, in an article published in November, Moody's highlighted the "credit positive effect" for SFIL and CAFFIL[(2)].

The non-financial ratings associated with CAFFIL's issue program or CAFFIL as an entity are as follows:

- prime from ISS-oekom;
- AA from MSCI;
- positive-BBB (*obligations foncières* issued by CAFFIL) from IMUG.

1.1.6 Favorable regulatory changes

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

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

The directive and amendment to article 129 of the CRR with regard to the harmonization of the European legal frameworks for covered bonds were published in the European Union's Official Journal on December 18, 2019. The directive should be transposed 18 months after this date and the texts will enter into force in France in July 2022 at the latest. At this stage, CAFFIL has not identified any significant (positive or negative) impact on its activities, related to the application of these new provisions.

(1) *"French public bank SFIL would still benefit from almost certain likelihood of extraordinary support from the French government if it is taken over by Groupe Caisse des dépôts (CDC)" source: newsletter published by Standard&Poors on October 10, 2019.*
(2) *"On November 5, Caisse Française de Financement Local (CAFFIL), the covered bond vehicle of French state-owned bank SFIL (Aa3/Aa3 stable, a3), issued a EUR 750 million green covered bond backed by public-sector assets. The issuance – the first of its kind in Europe – is credit positive for SFIL and CAFFIL because it has the potential to reduce their funding costs over time." source: article published by Moody's on November 12, 2019.*

1.2 General business environment

The SFIL Group successfully discharged its key responsibilities:

- the financing of French local authorities and public hospitals in partnership with La Banque Postale;
- the refinancing large export credit contracts;
- SFIL's provision of specialized services to La Banque Postale and CAFFIL to enable the system to function correctly.

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

1.2.1 The SFIL Group's financing of public sector investments

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.

1.2.2 Refinancing export credits

In addition to the French local public sector and public hospital financing mission, in 2015, the State entrusted SFIL according to a public refinancing body model that exists within several OECD countries, 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 partner banks of French exporters for their loans guaranteed by Bpifrance Assurance Export, on behalf of and with the guarantee of the French State.

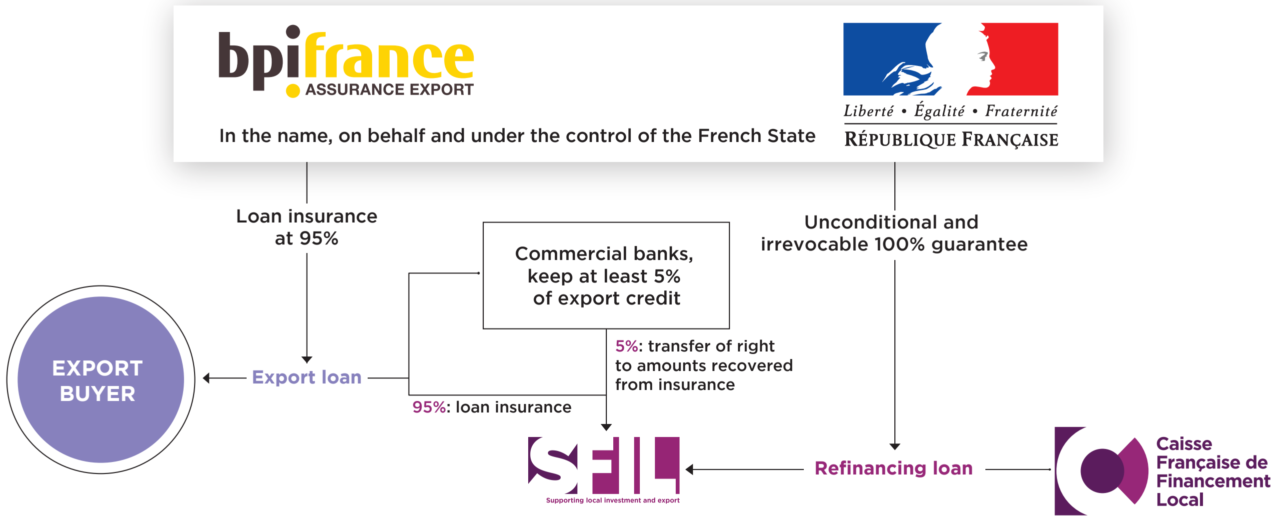
Within this framework, SFIL organized its relationship with almost all banks active in the French export credit market through bilateral agreements. SFIL may acquire all or part of the investment of each of these banks in an export credit.

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

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 State 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 25 for 13 exporters.

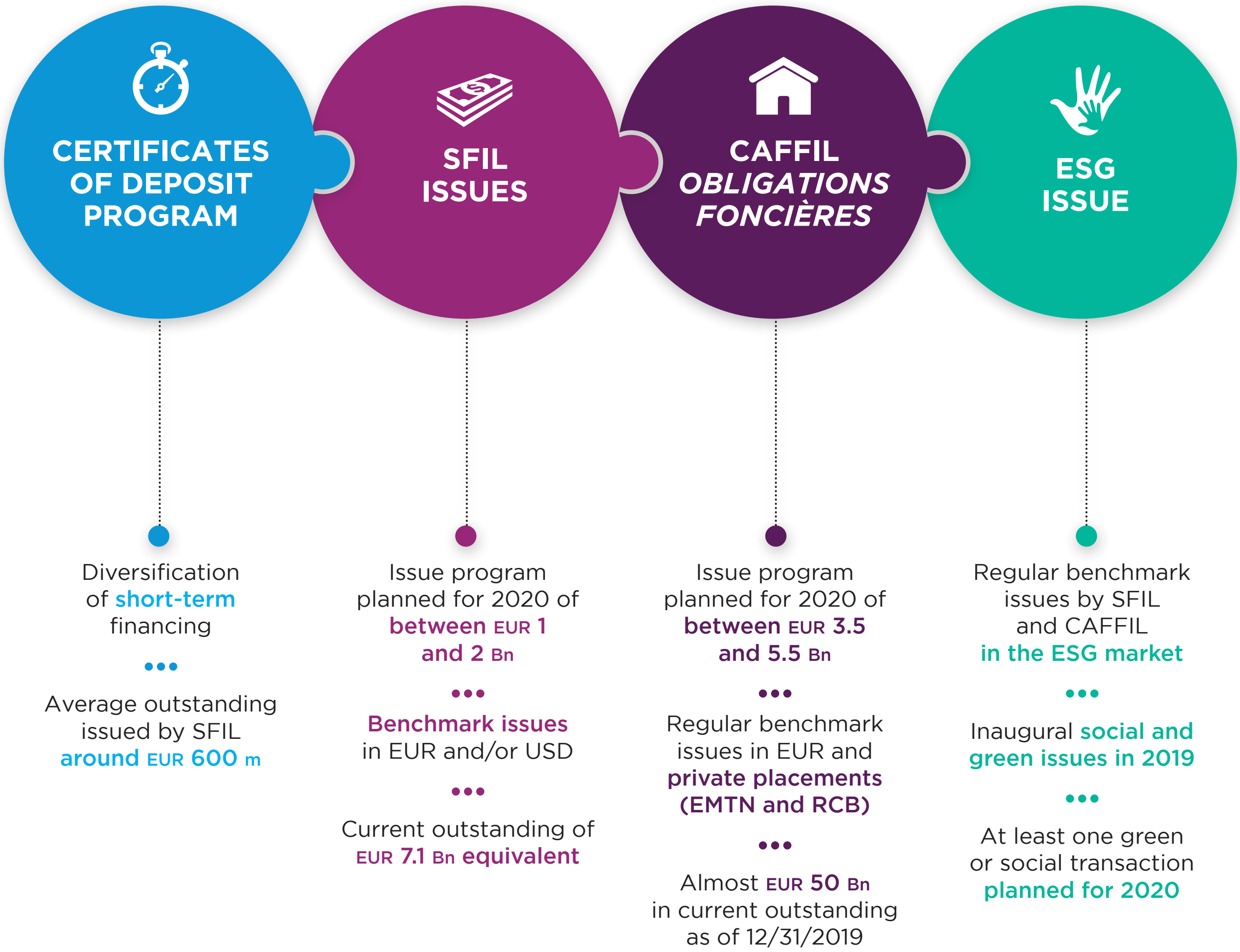
1.2.3 Services provided to La Banque Postale

SFIL provides services for the medium and long-term financing activity in the local public sector (French local government entities and public hospitals) carried on by La Banque Postale and its joint venture with 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.). The performance indicators introduced to measure the quality of the services that SFIL provided in 2019 were satisfied at 99%.

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

1.2.4 The SFIL Group financing

To ensure the financing for these two missions, the SFIL Group benefits from financing sources as described below.



1.2.4.1 Issues of covered bonds via CAFFIL

The SFIL Group's main source of financing comes from the issue of covered bonds by CAFFIL. The outstanding of CAFFIL's covered bonds was EUR 49.8 billion as of December 31, 2019.

The market for public issues of covered bonds in euros (benchmark size) was very active in 2019 with a primary offering volume of EUR 140 billion (compared to EUR 138 billion in 2018 and EUR 115 billion in 2017). This level of activity is mainly due to the coming to maturity of a significant volume of bonds (EUR 107 billion). In 2019, we can note the significant presence of German, French and Canadian issuers (respectively 21%, 19% and 8% of the offering). The latter notably took advantage of more favorable conditions in euros than in dollars. We can also note the return of periphery jurisdiction issuers (Spain, Italy and Portugal for a total of around 10% of the offering) and the United Kingdom (5% of the offering). This high level of activity was well absorbed by investors despite the slowdown in the Eurosystème purchasing program in the primary market up to November. Investor demand was also supported at the beginning of the year by higher spreads than in 2018.

Having ended its new issue purchase program, the European Central Bank decided at the beginning of September to relaunch it in order to support growth and inflation in Europe. At end-2019, the outstanding of covered bonds purchased by the European Central Bank under its programs was EUR 264 billion. It remained stable in 2019 after a EUR 22 billion increase during 2018.

1.2.4.2 SFIL's bond issues

The SFIL Group's second source of financing is from bond issues in EUR and USD under the ETMN format. SFIL's total ETMN bond outstandings came to EUR 7.1 billion as of December 31, 2019.

The French market of the "agency" sector in which SFIL issues saw a significant increase in volumes in 2019 at EUR 21.7 billion (up +64% vs 2018 at EUR 13.3 billion). This change is notably due to the arrival of new issuers, two of which benefited from programs solely focusing on Green/Sustainable themes. These formats have seen their use strongly increase with almost one-third of issues (EUR 7 billion) generated by all French agencies under the Green or Sustainable labels.

In 2019, in a context of significant rate decreases, long maturities were the most in demand with 65% of 10-year transactions or more whereas this part of the curve only represented 22% in 2018.

Lastly, on the currency side, French agencies were active in USD, going from a volume of USD 4.5 billion in 2018 to USD 6.4 billion in 2019. These transactions were launched during the first half year, in which the financial conditions - for issuers - made refinancing in USD rather than euros more attractive.

1.2.4.3 ESG financing

As part of its public policy missions, the SFIL Group made its first "social" and "green" issues in 2019. These two issues were respectively dedicated to financing French public hospitals and financing projects to promote the ecological transition within French local authorities.

These thematic issues will become a regular and significant source of refinancing for the SFIL Group in future years, particularly as part of its role as a public development bank dedicated exclusively to financing a sustainable future. The SFIL Group's thematic bond outstanding amounted to EUR 1.750 billion as of December 31, 2019 (this amount is included in the outstanding of covered bonds indicated previously).

1.2.4.4 SFIL's short-term debt issues

In addition to the Group's bond issues, SFIL also issues certificates of deposit. The outstanding for certificates of deposit was EUR 0.6 billion as of December 31, 2019.

1.2.4.5 Shareholder refinancing

As of December 31, 2019, the financing that SFIL received under the loan agreements with its shareholders amounted to EUR 0.4 billion for La Banque Postale and zero for the Caisse des Dépôts. Shareholder refinancing was gradually replaced from 2016 by financing obtained by SFIL in the financial markets. However, shareholder refinancing remains available, notably in the event of likely liquidity requirements generated during a situation of stress.

1.3 Changes in the main balance sheet items

The main items on the SFIL Group's consolidated balance sheet (management data)[1] as of December 31, 2019, are presented in the table below:

(In EUR billions, equivalent value after currency swaps)

ASSETS	LIABILITIES
74.8	**74.8**
of which main items of the notional balance sheet	of which main items of the notional balance sheet
60.5	**60.5**
Cash assets 1.2 (of which 0.5 for CAFFIL and 0.7 for SFIL)	SFIL bond issues 7.1
Derivatives 8.9 (of which 7.6 for CAFFIL and 1.3 for SFIL)	*Obligations foncières* CAFFIL 49.7
	Certificats of deposit SFIL 0.6
Loans 48.1 (of which 45.5 for CAFFIL and 2.6 for SFIL)	Refinancing by shareholders 0.4
Cash collateral paid by SFIL 2.3	Cash collateral received 1.6 (of which 0.6 for CAFFIL and 1.0 for SFIL)
	Equity and other items 1.1

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

- the loans and securities on CAFFIL's balance sheet and on SFIL's balance sheet;
- the cash collateral paid by SFIL in respect of its derivatives portfolio;
- the cash assets of SFIL and CAFFIL, cash deposited at Banque de France.

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;

  The last three items cover SFIL's financing requirements, which are mainly made up of the refinancing of CAFFIL's over-collateralization and of its specific needs related to the cash collateral paid in respect of its off-balance sheet derivatives and to the refinancing of its cash reserves:
- the cash collateral received by CAFFIL or SFIL;
- equity and other resources.

1.3.1 Changes in assets

The net change in the SFIL Group's main assets in 2019 was an increase of EUR 0.2 billion.

This change can be analyzed as follows:

(In EUR billions, equivalent value after currency swaps)	**2019**
BEGINNING OF YEAR	**60.3**
Purchase of loans from La Banque Postale	4.2
New export credit loans granted	1.5
New post-sensitivity reduction loans granted	0.1
Change in cash collateral paid by SFIL	0.1
Amortization of French public sector loans and securities (excluding cash investment securities)	(4.3)
Amortization of non-French public sector loans and securities (excluding cash investment securities)	(1.8)
Cash investment securities	1.0
Change in cash assets	(0.7)
Others	0.2
END OF YEAR	**60.5**

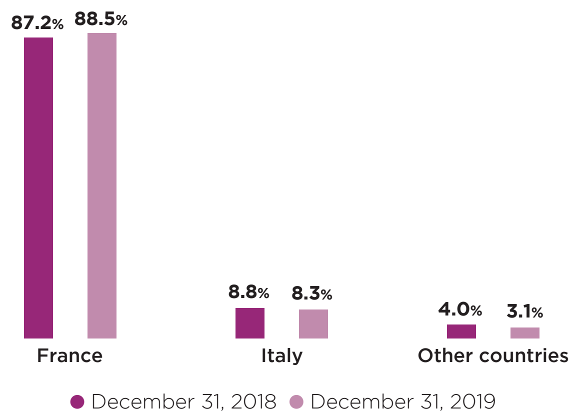
(1) *As regards the loans shown in the tables below, the notional balance sheet item concept which is an alternative performance indicator, corresponds to outstanding principal for euro transactions and, for foreign currency transactions, the euro equivalent value after swap hedging. Notional balance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

- Through its subsidiary CAFFIL, the SFIL Group acquired EUR 4.2 billion in loans marketed by La Banque Postale to the French local public sector.
- The export credit activity resulted in a EUR 1.5 billion drawdown.
- 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. By the end of 2020, taking into account the sensitivity reduction operations already completed and excluding outstanding loans for which customers have opted into the support fund's lower interest rate assisted payment scheme, the SFIL Group's total sensitive structured loan outstandings will have decreased by at least 91% compared with the amount recorded when SFIL was created, and by more than 94% for local government entities alone. The initial sensitive loan outstandings of EUR 8.5 billion will therefore be reduced to less than EUR 0.76 billion by the end of 2020 and, for local government entities alone, to a maximum of EUR 0.4 billion, compared with EUR 6.7 billion initially.
- In some cases SFIL acts as an intermediary for certain of CAFFIL's swaps or concludes swaps for its own needs; to that end it had paid a total of EUR 2.3 billion in cash collateral at end-2019, up EUR 0.1 billion compared with end-2018.
- Other changes in assets correspond mainly to scheduled repayments on the loan and securities portfolio for EUR 6.1 billion, the decrease in the balance of the Banque de France account for EUR -0.7 billion and the early repayment of assets for EUR 0.1 billion.

It should be noted that as of December 31, 2019, the SFIL Group held EUR 3.6 billion in cash surplus investment securities (banking sector and European public sector).

1.3.1.1 Breakdown of outstanding public sector loans and securities

The outstanding loans and securities on the SFIL Group's balance sheet totaled EUR 57.0 billion, of which EUR 53.6 billion to public sector. The majority of outstandings in 2019 were with the French public sector, which accounted for 89% of the total. New loans are now exclusively originated with the French local public sector. Outstanding loans in respect of the export credit activity accounted for EUR 2.6 billion on the balance sheet as of December 31, 2019.



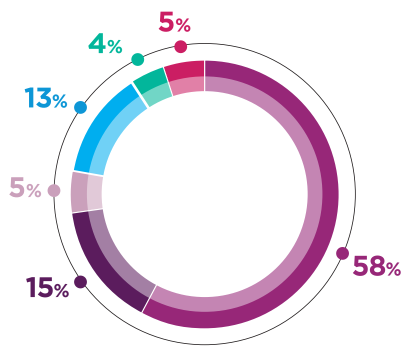
Excluding France, the two largest exposures concerned local government entities in Italy and central government entities in Italy (8%) and Switzerland (1%). Loans and securities with counterparties outside France corresponded to granular and geographically diverse exposures to public sector entities. These exposures, excluding cash investments, were originated in the past and are now in run-off.

France's relative share was up slightly from 2018.

The development of the French public sector has occurred through:

- the acquisition of the loans granted by La Banque Postale to local government entities and public hospitals; CAFFIL acquired EUR 4.2 billion of loans in this area in 2019;
- new loans granted within the framework of the sensitivity reduction of the outstanding of structured loans, for a total of EUR 0.1 billion;
- drawdowns on export loans for EUR 1.5 billion.

For France's relative share of 89% in 2019, the following graph shows the breakdown of loans and securities granted to the French public sector by type of counterparty.



1.3.1.2 Exposure to banks (cash assets, bank cash investment securities and cash collateral)

Exposures to banks recognized as assets on the SFIL Group's balance sheet are of three types:

- cash assets deposited with the Banque de France, which totaled EUR 1.2 billion as of December 31, 2019;
- bank cash investment securities for EUR 3.6 billion as of December 31, 2019, compared with EUR 3.3 billion as of December 31, 2018;
- cash collateral payments made to banking counterparties or clearing brokers to hedge counterparty risk on the derivatives portfolio (swaps). This derivatives portfolio requires that SFIL constitute collateral, generating a financing need for SFIL. The amount paid in this respect by SFIL as at December 31, 2019 was EUR 2.3 billion.

1.3.2 Changes in liabilities

The net change in the SFIL Group's main liabilities in 2019 was an increase of EUR 0.2 billion.

This change can be analyzed as follows:

(In EUR billions, equivalent value after currency swaps)	2019
BEGINNING OF YEAR	**60.3**
Obligations foncières	(0.5)
Issues	*4.0*
Amortization	*(4.5)*
Redemptions	*(0.1)*
Change in cash collateral received	0.4
Shareholder refinancing	(1.6)
SFIL bond issues	2.1
Certificates of deposit	(0.0)
Equity and other items	(0.2)
END OF YEAR	**60.5**

Outstanding *obligations foncières* decreased by EUR 0.5 billion as a result of associated amortization (EUR -4.5 billion), partly offset by the new 2019 program for a total of EUR 4.0 billion.

At the same time, the cash collateral paid by the derivatives counterparties of CAFFIL and SFIL slightly increased by EUR +0.4 billion over the period.

The EUR 1.6 billion decrease in shareholder refinancing relates to the amortization of the balance sheet and to the increase in SFIL's bond issuance-based refinancing for EUR 2.1 billion which gradually replaces it.

1.4 Operating results

1.4.1 IFRS consolidated financial statements

The SFIL Group reported consolidated net income as of December 31, 2019, of EUR +50 million for total balance sheet assets of EUR 74.8 billion at that date. The Group's fully loaded CET1 ratio stood at 24.4%, confirming its very strong financial position.

SFIL – Consolidated IFRS financial statements
EUR millions

	12/31/2018					12/31/2019				
	Accounting income	*Restated non-recurring items*			Recurring income	Accounting income	Restated non-recurring items			Recurring income
		Adjustments to fair value of hedges	Fair value adjustment of non-SPPI financial assets	Tax adjustment effects			Adjustments to fair value of hedges	Fair value adjustment of non-SPPI financial assets	Tax adjustment effects	
Net banking income	186	7	(5)		184	166	(11)	9		168
Operating expenses	(111)				(111)	(110)				(110)
GROSS OPERATING INCOME	**74**	**7**	**(5)**		**73**	**56**	**(11)**	**9**		**58**
Cost of risk	(5)				(5)	7				7
NET INCOME BEFORE TAXES	**69**	**7**	**(5)**		**68**	**63**	**(11)**	**9**		**65**
Income tax	(6)	(2)	1	14	(20)	(14)	3	(2)	4	(18)
NET INCOME	**63**	**5**	**(4)**	**14**	**49**	**50**	**(8)**	**7**	**4**	**47**

Net income as of December 31, 2019 also incorporated non-recurring items[(1)] linked to (i) the volatility of the valuation of the derivatives portfolio for EUR -8 million, (ii) the impact of the application of IFRS 9 as concerns the volatility in the valuation of non-SPPI loans on the balance sheet for EUR +7 million and (iii) the recognition of the effects of the 2013 and 2014 tax adjustments on the 2015 to 2018 fiscal years for EUR +4 million.

Restated to account for these non-recurring items, recurring net income[(2)] as of December 31, 2019, stood at EUR +47 million, very close to the net income restated for the same items as of December 31, 2018 of EUR +49 million.

An item-by-item analysis of this change shows the following:

- net banking income stood at EUR 168 million for 2019, as compared with EUR 184 million in 2018, down EUR 16 million from the previous year. This change is mainly due to the effects of adjusted or reduced sensitivity loans during the year (IFRS 9 led to an acceleration of future income during this type of transaction);
- Group operating expenses and amortization totaled EUR -110 million, and were down by EUR 1 million from 2018. This decrease was mainly attributable to a reduction in operating expenses and notably external consulting costs (end of the Oxygen project);
- the cost of risk at December 31, 2019 saw a significant provision reversal related to the entries and exits from the Stage 2 scope.

1.4.2 Annual financial statements prepared in accordance with french GAAP

SFIL posted a net profit of EUR 41 million at the end of 2019, compared with a net profit of EUR 44 million at the end of 2018. This result includes the payment of a dividend from its subsidiary CAFFIL for EUR 41 million. Adjusted for this item, SFIL's result for the year was balanced.

Net banking income amounted to EUR 146 million. It includes EUR 91 million in expenses rebilled to CAFFIL. Operating expenses, including amortization, were slightly down compared to 2018 at EUR 102 million.

SFIL's total assets came to EUR 12.8 billion and included mainly:

(1) *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 destinated to be kept) linked to the variation of its credit spread;
• as of the end of 2018, the tax authority had levied adjustments relating to the 2012 and 2013 tax audit. It nevertheless reduced the amount of the adjustment relating to the add-back of the results of the former branch in Ireland, but maintained the principle of taxation of these results in France. Caisse Française de Financement Local settled this adjustment and reversed the relevant provisions. It kept in its account the amount of the provision set aside in respect of sums not yet paid. After this file was closed, Caisse Française de Financement Local also took into account the effects of the adjustment on the income tax base for the 2014-2018 fiscal years.

(2) *Alternative performance indicator.*

- the refinancing granted to its subsidiary Caisse Française de Financement Local in the amount of EUR 5.2 billion for the portion of over-collateralization required as a result of its SCF status;
- cash collateral paid in the amount of EUR 2.3 billion;
- outstanding loans of EUR 2.5 billion under its export refinancing activity;
- SFIL's portfolio of sovereign and banking securities held for cash management purposes, in the outstanding amount of EUR 1.2 billion;
- cash assets at the Banque de France for EUR 0.7 billion.

Shareholdings

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

Equity investment in 2013 representing more than 66% of the capital
Caisse Française de Financement Local SA with share capital of EUR 1,350,000,000

Supplier payment periods

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

Trade payables amounted to EUR 0.7 million as of December 31, 2019 and were mostly dated within the last 30 days. Readers are reminded that as of December 31, 2018, trade payables dated within the last 30 days amounted to EUR 1.3 million.

The breakdown of unpaid trade payables due as of the end of 2019 is as follows:

	Invoices received but outstanding at the closing date of the fiscal year which are in arrears					
	0 (for information)	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 days and more**	**TOTAL**
(A) CLASSES OF LATE PAYMENT						
Number of invoices concerned	0	14	7	1	0	22
Total amount of invoices concerned excluding VAT *(EUR thousands)*	0	118	26	9	0	153
% of total purchases in the year excluding VAT	0.0%	0.3%	0.1%	0.0%	0.0%	0.4%
(B) INVOICES EXCLUDED FROM (A) RELATING TO LITIGIOUS OR UNRECOGNIZED LOANS AND DEBTS						
Number of invoices concerned						-
Total amount of invoices concerned						-
Reference payment period	Contractual period – generally 45 days					

Banking and related operations are not included in the information on payment terms.

Proposed allocation of net income

The Annual Shareholders' Meeting of May 28, 2020, will not be asked to approve a dividend distribution.

It will be asked to approve a resolution to allocate net income as follows:

Allocation of net income
In EUR

NET INCOME FOR THE YEAR	**41,282,604.95**
Legal reserve (5%)	(2,064,130.25)
Retained earnings	54,513,679.03
INCOME AVAILABLE	**93,732,153.73**
RETAINED EARNINGS AFTER ALLOCATION TO LEGAL RESERVE	**93,732,153.73**

Non-tax-deductible charges and expenses

Pursuant to article 223 *quarter* of the French General Tax Code (*Code général des impôts*), it is specified that in the past fiscal year non-tax-deductible charges and expenses covered by article 39-4 of the French General Tax Code totaled EUR 39,428.01.

The amount of operating expenses added back following a definitive tax adjustment (articles 223 *quinquies*, 39-5 and 54 *quarter* of the French General Tax Code) is nil given the absence of any adjustment.

Research and development

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

1.4.3 Indicators of return on assets

Article R.511-16-1 of the French Monetary and Financial Code, introduced pursuant to decree 2014-1315 of November 3, 2014, requires credit institutions to publish in their annual report their return on assets, defined as the ratio of net income to total assets. For 2019, this ratio is equal to +0.06% on the IFRS consolidated financial statements and +0.32% on the French GAAP financial position.

1.4.4 SFIL's results over the past five fiscal years

	2015	2016	2017	2018	**2019**
FINANCIAL POSITION					
Share capital (EUR thousands)	130,000	130,000	130,000	130,000	130,000
Number of shares	9,285,725	9,285,725	9,285,725	9,285,725	9,285,725
RESULT OF OPERATIONS *(EUR MILLIONS)*					
Revenue(1)	75	36	127	105	133
Income before income tax, amortization, depreciation and contingencies net of reversals	(3)	(3)	35	58	54
Income tax	(1)	(2)	(1)	(1)	(2)
Income after income tax, amortization, depreciation and contingencies net of reversals	(4)	(6)	30	44	41
Exceptional distribution	–	–	–	–	–
Dividend	–	–	–	–	–
PER SHARE DATA *(EUR)*					
Revenue	8.11	3.88	13.66	11.35	14.33
Income after income tax, before amortization, depreciation and contingencies net of reversals	(0.14)	(0.16)	3.89	6.05	5.63
Income tax	(0.13)	(0.20)	(0.12)	(0.16)	(0.20)
Income after income tax, amortization, depreciation and contingencies net of reversals	(0.47)	(0.68)	3.21	4.73	4.45
Exceptional distribution	–	–	–	–	–
Dividend per share	–	–	–	–	–

(1) Revenue consists of the following items:
- *interest and similar income, net of macro-hedging costs;*
- *fee income;*
- *net income on foreign exchange transactions;*
- *other operating income.*

1.5 Outlook

With a record level of financing volume, 2019 very clearly confirmed the effectiveness of the financing structure set up by the French State in 2013 to finance the French local public sector through SFIL and its subsidiary CAFFIL together with La Banque Postale and Caisse des Dépôts. The SFIL/La Banque Postale partnership is firmly recognized today as a leading player in local public sector financing in France. Accordingly, in 2020, SFIL will continue strengthening this partnership and implementing the projects necessary for La Banque Postale to continue its business. Furthermore, after conclusive tests carried out in 2019, the DigiSFIL internet platform which aims to dematerialize communications between SFIL, the local authorities and the public hospitals, should gradually be deployed with SFIL borrowers from the second half of 2020.

After an exceptional year in 2018, and a lower volume in 2019 due to a strong market downturn, SFIL will continue to develop its export credit activity in support of major French export contracts in 2020. SFIL has already been approached in connection with transactions corresponding to around 111 potential agreements for a total of EUR 32 billion. These projects are at different stages ranging from calls for tender to funding search.

Moreover, the French authorities have made a request to renew this system to the European Commission. A project is also underway concerning the extension to the scope of strategic projects. With the operational implementation of the latter planned for 2020, the SFIL Group will broaden its scope of activity by financing international projects considered to be strategic in which a French company operates not as an exporter but as a supplier, investor, operator, service provider or subcontractor.

To hedge its financing needs, the SFIL Group plans to use market financing in 2020 at least as much as in 2019.

CAFFIL intends to issue between EUR 3.5 and EUR 5.5 billion in covered bonds with a long average maturity, suited to the profile of the financed assets. Its program will mainly be achieved through several issues of *obligations foncières* in euros of benchmark size in the primary public market as well as private placements suited to the needs of its large investor base. CAFFIL's issue program should be carried out in a dynamic market context given:

- the coming to maturity of higher volumes of covered bonds than in 2019 (almost EUR 120 billion);
- investor interest for this asset class that benefits in particular from privileged regulatory treatment;
- strong support provided by the European Central Bank with the restarting of the covered bonds purchasing program in November 2019.

SFIL, for its part, plans to launch at least two issues in euros and dollars in the primary public market in 2020.

The share of financing granted by SFIL's shareholders will continue to decrease to zero during 2020.

In 2020, SFIL will continue its CSR measures, with notably:

- reinforced gender equality and continued initiatives on education, integration and disability;
- continued efforts to reduce its CO_2 emissions in line with its commitments;
- increased possibilities for employee commitment and improved practices (campaign to reduce the use of plastics within the Company, awareness raising in fair trade, zero waste conference, etc.).

At the same time, the SFIL Group intends to launch part of its 2020 bond issues as social and/or green issues. The latter should become a sustainable, significant source of refinancing in order to support the investments required by French public hospitals, and those dedicated to ecological transition for French local authorities. These new types of financing will enable SFIL to fully play its role as the public development bank for a sustainable future.

From a macroeconomic viewpoint and as in 2019, two important background elements will be closely monitored in 2020:

- the degree of market volatility in a context influenced by the ECB's return to non-conventional policies, and provisions related to the post-Brexit negotiations and the geopolitical environment;
- changes in the regulatory environment with the completion of Basel III, and for CAFFIL, the transposition into national law of the European directive to harmonize Member State covered bonds regimes.

Concerning the Coronavirus (COVID-19) pandemic, the SFIL group is following the recommendations of the World Health Organization and the French government and has implemented the measures necessary to maintain operational continuity in all its business activities, in particular, almost all of its employees are working remotely and a crisis cell has been meeting daily to adapt the working methods used. The SFIL group's teams have been very closely monitoring the disruptions to the financial markets since the crisis began. The impact on current and planned future operations for SFIL and CAFFIL, and on their counterparties (customers, banks, partners) are being reassessed regularly. On the date this report was published, no impact was identified that may have significant consequences on the group's financial situation and its capacity to honor its commitments. Time lags in the collection of income from some of its assets (consisting entirely of exposures to public sector borrowers) may be considered, as well as the postponement of certain bond issues in the event of unfavorable market conditions. Nevertheless, the liquidity risk is limited by the good matching of the maturity profiles of assets and liabilities and the ability to benefit from the financing proposed by the European Central Bank through high-quality assets in the portfolio. Moreover, the quality of SFIL's shareholding structure, its status as a public development bank, the quality of CAFFIL's and SFIL's standings, the very rigorous risk management and the solid solvency ratio are all advantages within the current context.

Lastly, implementation of the transfer to the Caisse des Dépôts of the control of SFIL, in accordance with the agreement signed on March 4, 2020, should be completed during the first half-year 2020. This operation will contribute to the ongoing streamlining of the organization of public financial institutions in the service of France's regions, by merging them into a major public financing hub, structured around the Caisse des Dépôts and La Poste.

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

1.6 Internal control and preparation and processing of accounting and financial information

1.6.1 Overall internal control system

1.6.1.1 Responsibilities and overall architecture of internal control

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

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

The objectives and organization of the SFIL Group's internal control system are guided mainly by the provisions of the ministerial arrêté of November 3, 2014. This text requires that an internal control system be set up and specifies the principles relating to systems to oversee transactions and internal procedures, accounting organization and information processing, systems for measuring risks and results, systems for monitoring and managing risks, and the internal control documentation and information system.

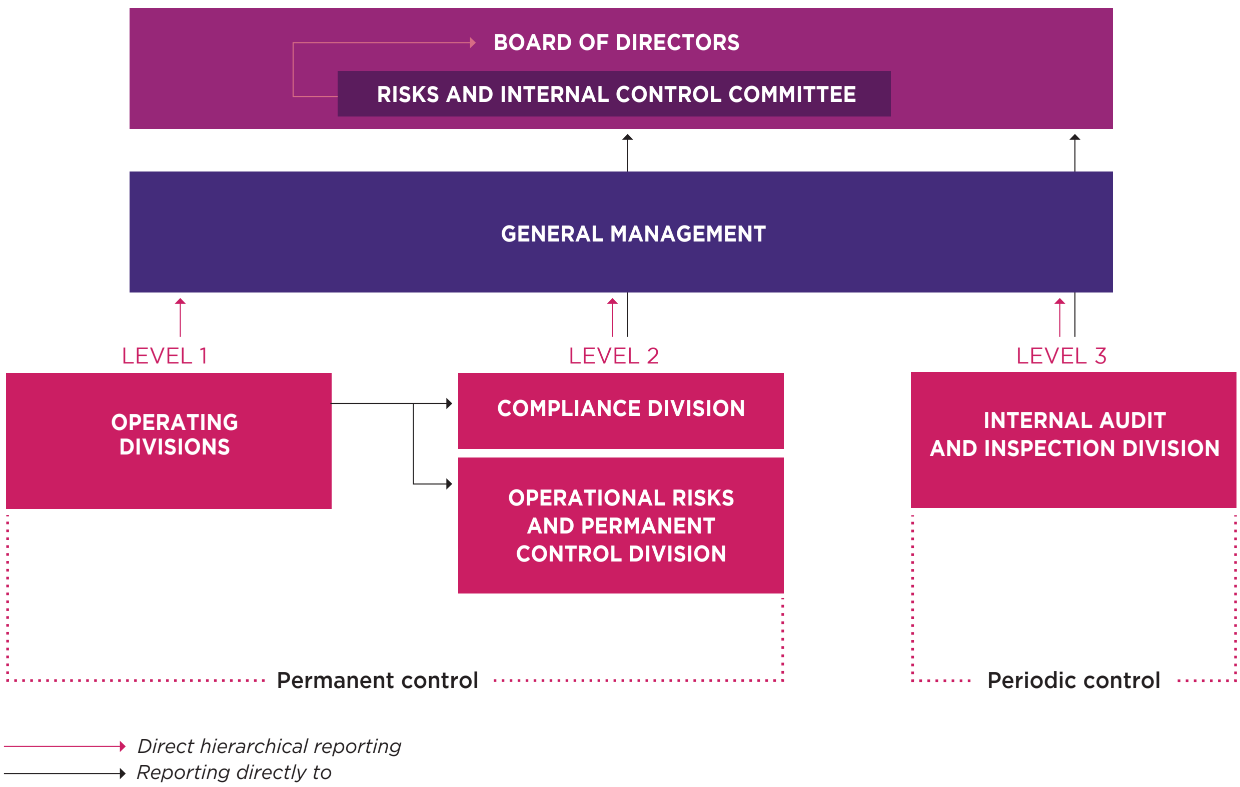
The internal control system is a process applied by SFIL's General Management and all of its employees, at the initiative of its Board of Directors. Its main purpose is to ensure overall risk management and to provide reasonable, but not absolute, assurance that the SFIL Group will achieve the objectives it has set itself in this area.

The SFIL Group's internal control system has the following objectives:

- verify the efficiency of the risk control system to ensure that risks are in line with the risk appetite defined by the Group's governing bodies;
- ensure that the accounting and financial information produced is reliable and relevant;
- ensure compliance with laws, regulations and internal policies;
- ensure the operational security of the SFIL Group's processes, in order to guarantee the due execution of transactions.

In accordance with the *arrêté* of November 3, 2014, the general architecture of the SFIL Group's internal control system is based on three levels, reporting to the effective managers and supervised by the SFIL Board of Directors:

THREE LEVELS OF CONTROL



Permanent control is the continuous implementation of the risk management system and is carried out by the first two levels. Periodic control, the third level, is an audit and evaluation function for the first two levels which operates according to its own audit cycle. The second and third level functions are independent control functions. They report directly to the effective managers and report on the performance of their duties to the relevant committee of the Board of Directors (the Risks and Internal Control Committee). At their request, they can be heard by this committee and by the Board. They can directly approach the Board or the appropriate committee if they consider that an event having a significant impact must be submitted to them.

Those involved in the second and third levels of internal control meet regularly in the Internal Control Coordination Committee. This committee met three times in 2019. It is in charge of the operational management of the internal control system, notably:

- steering the project to roll out a new risk management and internal control tool shared by the three levels. This new tool will replace the current software, which already tracks operational incidents, controls, recommendations and action plans;
- the functional workstreams aimed at better structuring the internal control system (redefined and clarified roles and responsibilities, shared and standardized risk nomenclature, common risk assessment methodology and metrics, structure of the control plan and uniform associated assessment methodology).

1.6.1.2 The supervisory body and the effective managers

Reporting to the Board of Directors, the Risks and Internal Control Committee is responsible for:

- monitoring the effectiveness of the internal control and risk management systems;
- assessing the quality of internal control, notably the consistency of the systems for measuring, monitoring and controlling risks, particularly with regard to the "Risk Appetite Statement" validated by the SFIL Board of Directors;
- proposing further action where necessary;
- monitoring the SFIL's permanent control, compliance and periodic control system;
- examining different possible scenarios, including stress scenarios, to assess how the institution's risk profile would respond to external and internal events;
- participating in the appointment and oversight of the Statutory Auditors.

The SFIL Chief Executive Officer and Deputy Chief Executive Officer, as effective managers within the meaning of the regulations, ensure the efficient operation of SFIL's internal control system. They allocate the resources necessary to carry out the tasks of the various divisions in charge of this control, and verify that the objectives assigned are achieved and that the system is in line with regulations and appropriate to SFIL's activities. To this end, they regularly receive reports on the process and outcomes of permanent, compliance and periodic controls. These reports are also presented and discussed at meetings of SFIL's Operational Risks and Permanent Control Committee and the Executive Committee. Issues raised are the subject of proposed actions and decisions in order to ensure continuous improvement of the internal control system.

1.6.1.3 First level of control: operating unit controls

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

1.6.1.4 Second level of control: permanent control excluding compliance

The Operational Risks and Permanent Control division (ORPCD) and the Compliance division carry out permanent control activities at the SFIL Group. Those conducted by the Compliance division are described in section 1.6.1.5.

1.6.1.4.1 Definition

SFIL's permanent control system, excluding compliance, is designed to ensure:

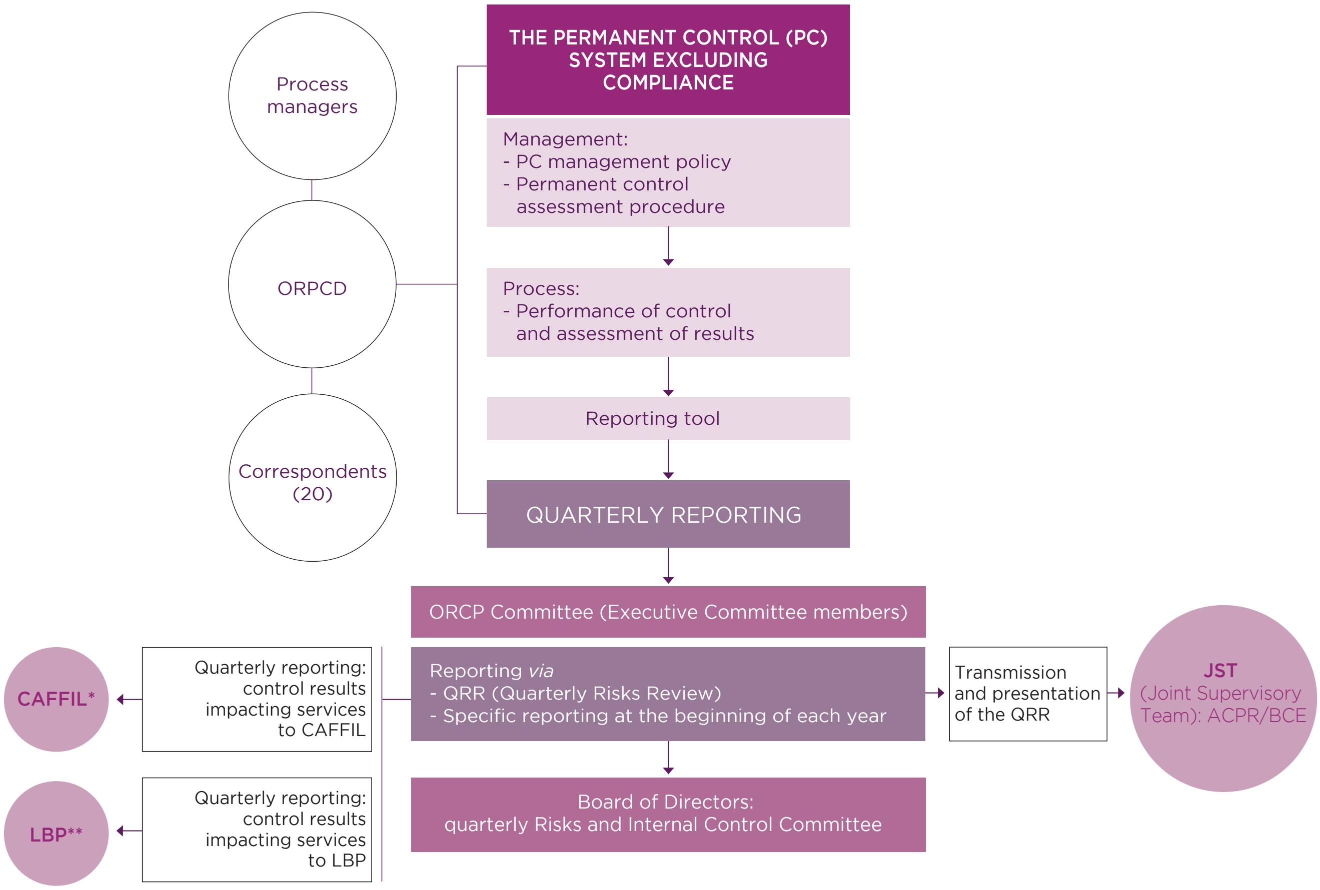
- the effectiveness and robustness of the risk control system;
- the effectiveness of the transactions and internal procedures control system;
- the quality of the accounting and financial information and the quality of the information systems.

Permanent control measures apply to all Group divisions, activities and processes (SFIL and CAFFIL).

1.6.1.4.2 Organization and governance

The system is managed by the Operational Risks and Permanent Control division (ORPCD) which is composed of five employees and one manager. It is supported:

- by a network of correspondents in the operating divisions, who are responsible for carrying out and monitoring certain controls;
- by the process managers responsible for ensuring the robustness and effectiveness of the internal control system in their scope on an ongoing basis;
- by the Operational Risks and Permanent Control division, which steers the system and carries out second-level controls on operational risks (for example: approvals for IT applications, IT backups, management of Essential Outsourced Services (EOS)).



* *Within the framework of the SFIL/CAFFIL agreement*
** *Within the framework of the SFIL/LBP agreement*

1.6.1.4.3 Permanent control system excluding compliance

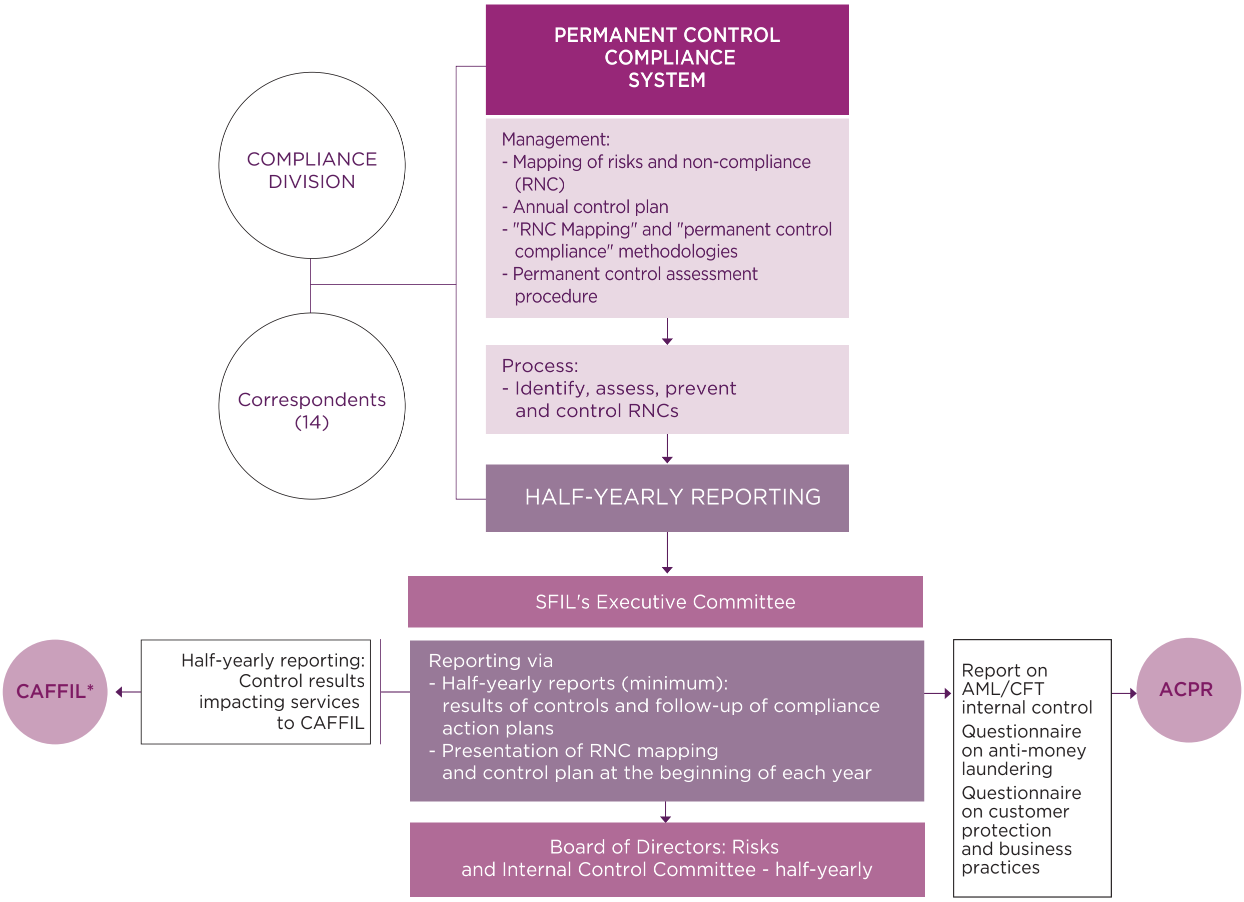
Permanent control is based on a control plan covering the various SFIL and CAFFIL divisions, activities and processes. These controls are determined in liaison with the operating divisions and are reviewed every year in order to adapt them to the SFIL Group's situation, by integrating:

- the results of controls carried out during the year (their adequacy in terms of the risks to be covered, their effectiveness, formalization and the relevance of the associated metrics);
- the review of incidents noted;
- the results of the operational risk mapping by process;
- the recommendations of the Internal Audit division, external auditors and the regulator;
- new activities and new processes at SFIL.

Duties	Activities and results in 2019
Implementation and evaluation of permanent controls	Permanent control plan comprising 127 controls
Regular monitoring of action plans	43 action plans in progress over the period, 23 of which have already been implemented
Internal and external reporting	Four Committee meetings Contribution to four quarterly risk reviews (QRR) for the Risks and Internal Control Committee (RICC) and filed with the ECB One RICC meeting devoted to internal control
Coordination of the correspondents network	Reports following the Committee meetings One annual plenary meeting

1.6.1.5 Second level of control: compliance control

1.6.1.5.1 Organization and governance of the compliance control system



* *Within the framework of the SFIL/CAFFIL agreement*

The permanent control system for non-compliance risks, as defined by Article 10 p) of the ministerial *arrêté* of November 3, 2014, is the responsibility of SFIL's Compliance division, which is independent of the operational teams. The permanent control of compliance is separated within a "permanent control" unit of the Compliance division (for a more precise description of the organization and governance of the compliance system, please refer to section 1.7.2.5. of the management report on non-compliance risk). The system also covers the Caisse Française de Financement Local (CAFFIL), a subsidiary of SFIL, which delegated its management to it pursuant to Article L.513-15 of the French Monetary and Financial Code.

Identifying and monitoring compliance with Regulations in specific areas is the responsibility of the functions of the second line of defense, which have the appropriate expertise and resources (accounting standards, prudential ratios, control of major counterparty risks, IT security, etc.). The Compliance division's scope does not extend to the control of compliance with rules outside the banking and financial sphere (labor and social security law, Regulations regarding personal and property safety, etc.), which other divisions are responsible for monitoring.

To ensure the effectiveness of SFIL's and CAFFIL's non-compliance risk management system, the Compliance division establishes a compliance control plan. This plan is based on the identification and assessment of the non-compliance risks identified in the non-compliance risk map. This map is reviewed at least once a year in order to take into account changes in SFIL's business and regulatory changes. The methodology used for non-compliance risk assessment is identical to that for internal audit so the two risk management lines share a common language.

The risk map and control plan are presented for validation at the beginning of each year to the accountable officers at a meeting of the Executive Committee. They are then presented for approval at a meeting of the Risk and Internal Control Committee dedicated to hearing from the heads of the risk, compliance and periodic control functions without the presence of General Management.

The Compliance division implements its control plan as agreed. Any amendment and/or adaptation of the control plan must be brought to the attention of the SFIL and CAFFIL governance bodies.

Dysfunctions or non-compliance identified in the course of carrying out the control plan are systematically addressed by specific action plans sent to the divisions concerned, which are responsible for their implementation. These action plans are monitored by compliance and reported to the SFIL and CAFFIL governance bodies.

Within the framework of permanent control, the Compliance division also relies on internal systems for reporting breaches, infringements and malfunctions, namely: a network of 14 compliance correspondents and 17 GDPR officers, a professional or ethical alert procedure, and incident reporting. In 2019, no alerts or personal data protection violations were reported to the Compliance division.

SFIL's effective managers, the Board of Directors of SFIL and the governance bodies of CAFFIL are regularly briefed on the compliance control system. Every six months, the General Secretary presents the results of ongoing compliance controls to the Executive Committee, on which SFIL's persons effectively running the undertaking sit, and to the Risk and Internal Control Committee. These bodies examine the results of the controls and the progress of the action plans. They assess the relevance of the controls, decide on improvements to be implemented and, more generally, give their opinion on the main issues related to the compliance system.

1.6.1.5.2 Permanent control activities of the Compliance division

During the 2019 fiscal year, the Compliance division carried out the following work as part of its compliance permanent control duties:

Duties	Work in 2019
Identify and evaluate non-compliance risks	Presentation of the updated non-compliance risk map and the first corruption risk map to the Risks and Internal Control Committee on January 24, 2019. In total, 62 non-compliance risks mapped.
Control non-compliance risks	• The 2019 control plan was presented to the Risks and Internal Control Committee on January 24, 2019. The plan comprised 25 thematic controls to be carried out on a semiannual or annual basis. • On the date of the report, the controls had been implemented in accordance with the 2019 plan, with the exception of two controls which were deferred until 2020. • The control for the GDPR compliance system was outsourced to an external specialized firm.
Define the action plans and monitor them	All action plans were monitored on an ongoing basis during 2019 and their progress was presented to the Executive Committee and the Risks and Internal Control Committee. 68 new action plans opened during the period; 27 action plans were still open at December 31, 2019, the same as at December 31, 2018.
Inform General management and the governance bodies	The results of the permanent controls relating to compliance and of action plan monitoring were presented to the: • Persons effectively running the undertaking at the Executive Committee meetings of January 15, May 21, August 28, 2019 and January 28, 2020; • Risks and Internal Control Committee meetings of January 24, May 27 and September 9, 2019 and January 30, 2020; highlighting the main risk points identified, the actions completed and those still to be addressed.
Report to the Banking Supervisor	Contribution to the 2019 report on internal control which is steered by Internal Audit. Preparation of the first AML/CFT report on internal control Anti-money laundering questionnaire (sent on March 26, 2019 for SFIL and CAFFIL). Questionnaire on customer protection and commercial practices (sent on June 27, 2019 for SFIL and CAFFIL).

1.6.1.6 Third level of control: periodic control

1.6.1.6.1 Organization and governance of the periodic control system

The periodic control function is exercised by the Internal Audit and Inspection division. This division's scope of intervention covers all SFIL activities, operational processes and systems, with no reservations or exceptions, including outsourced essential activities and anti-fraud procedures.

The independence and effectiveness of the Internal Audit and Inspection division are guaranteed, in addition to the reporting line of the General Auditor to the SFIL Chief Executive Officer, by:

- the absence of involvement in the operating management of SFIL's activities;
- unconditional, immediate access to all information, documents, premises, systems and people, as its activities require;
- the resources made available by General Management to carry out these missions;
- compliance by the division's staff with the principles of integrity, objectivity, confidentiality and competence (through a permanent training plan on audit techniques and regulatory changes).

These principles are reflected in the internal audit charter and the inspection charter approved by the Risks and Internal Control Committee and distributed to all SFIL employees to remind them of the rights and duties of auditors and auditees.

As of January 1, 2020, the Internal Audit and Inspection division had nine staff (plus two work-study interns), including six auditors and audit managers. The General Auditor supervises all audit activities and reports issued by the division. She is assisted by a Supervisor, who is in charge of the team of auditors and oversees the audit missions carried out by the auditors under the responsibility of the audit managers. In addition, the auditors and audit managers are each responsible for a particular field, through updating permanent documentation, participation as observers in certain SFIL Group Governance Committees, risk monitoring, and following-up on recommendations to be implemented by the SFIL operating divisions.

1.6.1.6.2 Internal Audit and Inspection division activities

The division's activities are described in a manual on internal audit activities, based on the IFACI's Professional Practices Framework for Internal Auditing,[1] and are mapped in a dedicated process for the management of major risks.

Duties	Work in 2019
Annual risk assessment An approach based on identifying SFIL's strategic objectives, followed by an independent review of the critical risks that could prevent them being achieved.	SFIL's map of major risks was updated during the fourth quarter. The number of identified risks remains stable and the overall criticality level is decreasing compared to the 2018 assessment.
Development and implementation of the multi-year audit plan The multi-year plan is drawn up on the basis of the results of the annual risk assessment and the objective of covering all of the SFIL Group's activities over a three-year cycle. The annual audit plan is implemented through a series of audits conducted from February 1 of the reference year to January 31 of the following year.	The third 2020-2022 multi-year audit cycle was drawn up during the fourth quarter and provides for 13 audits to be carried out over this period. Under the previous 2019 audit plan defined at the end of 2018, 12 audits had been carried out as of the end of January 2020, *i.e.* 92% of the target for the year. The remainder have all since been completed since March 2020. These internal audit assignments concerned: • the SFIL Group's core business (refinancing of export credit transactions, acquisition of local public sector assets); • key operational processes (CAFFIL private placements, balance sheet management); • support processes (accounts closing, operational processing of derivatives, IT security including the SWIFT payment system, permanent control systems, IT change management); • risk monitoring and internal models (annual and general risk assessment of internal credit models, operational risk management, ICAAP process, financial security risk management in the origination of export credit transactions).

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

Duties	Work in 2019
Development and implementation of the inspection plan	
The purpose of this function is to participate in fraud prevention, detection and investigation in accordance with its inspection plan or at the request of the General Secretary or General Management.	The 2020 inspection plan was defined during the fourth quarter, and foresees the implementation of 3 inspections. Three of the four planned inspections in the 2019 plan were carried out. They related to oversight of how compensation policy was applied, compliance with the rules for the using the resources SFIL made available to its employees, compliance with the “purchasing” policy including compliance with the rules for tenders and competitive bidding. The fourth inspection on the management of the process for recording and checking the bank account identity of employees and suppliers is currently being completed, as at the publication date of this report.
Monitoring of post-audit or inspection recommendations issued by the Internal Audit and Inspection division, supervisory authorities or Statutory Auditors	
This work is carried out through an automated process for monitoring implementation of the action plans resulting from these recommendations. Responsibility for the appropriate implementation of the recommendations lies with the identified managers. The follow-up of this implementation is the responsibility of the auditors and audit managers, based on their area of competence. Validation of the progress or completion of these action plans is the responsibility of the supervisor and the General Auditor.	All of these recommendations gave rise to ongoing monitoring during 2019 and to the issue of two updates on May 31, 2019 and October 31, 2019, highlighting the main risk points closed during the review periods and those still to be addressed.
Financial Statements Committee and Risks and Internal Control Committee Secretariat	
Under the aegis of the Chairman of these committees, organization of the committees and follow-up of the actions they decide.	Five Risk and Internal Control Committee meetings and four Financial Statements Committee meetings were held. The information and files required for meetings and deliberations were made available and communicated in a timely manner.

Indicators dedicated to monitoring the effectiveness and performance of the Internal Audit division’s activities were redesigned at the end of 2019 and will be monitored on a quarterly basis starting in 2020. Opportunities for optimization have also been identified, notably as regards the written communication of the results of internal audit assignments, and will be institutionalized in 2020.

1.6.1.6.3 Internal Audit and Inspection division activity reporting

The supervision of periodic control by the Board of Directors and the Risk and Internal Control Committee (RICC) is based on a structured and recurring reporting system for all the activities of the Internal Audit and Inspection division. The effective managers responsible for the efficient operation of the periodic control system are kept informed of the division's activities and progress via reports to the SFIL Executive Committee and the CAFFIL Executive Board.

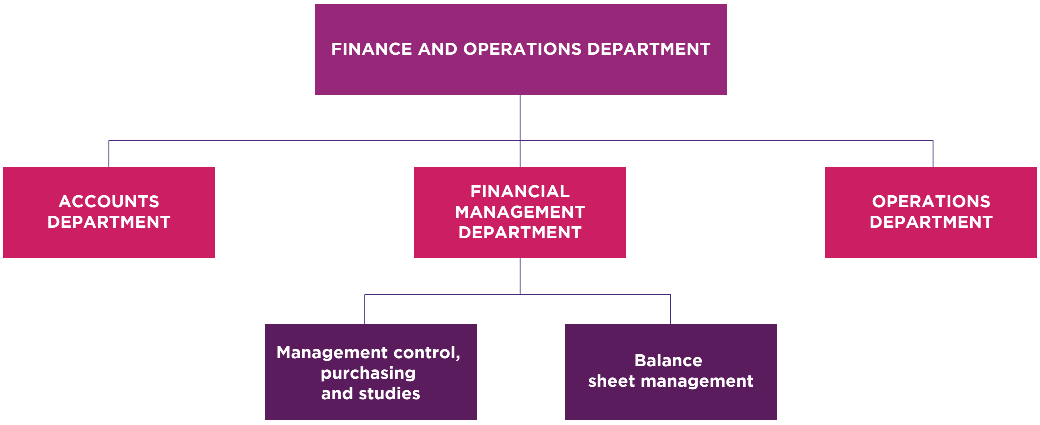
1.6.2 Preparation and processing of accounting and financial information

1.6.2.1 Financial statements

The main purpose of a company's annual financial statements and all the financial data produced by the Accounting department is to give a true and fair view of its assets, liabilities, financial position and results. The ministerial *arrêté* of November 3, 2014 emphasizes in its accounting section that the organization put in place must guarantee the existence of a set of procedures called an "audit trail". This audit trail must make it possible to link all accounting information to a proof of origin, and vice versa. All these items should make it possible to reconstitute, justify and explain any and all financial items produced for accounting or regulatory purposes. This principle dictates the organization of accounting practices in the SFIL Group and applies equally to SFIL and Caisse Française de Financement Local.

1.6.2.1.1 Role and organization of the Accounting division

SFIL's Accounting division reports to SFIL's Finance Division. It interacts with numerous SFIL divisions, giving it a cross-functional view of current activities.



The Accounting division is also responsible for producing the basic separate and consolidated accounting data and summary financial statements for SFIL and Caisse Française de Financement Local. It also handles the ancillary accounting for La Banque Postale within the context of the activities assigned to it. In conjunction with the Risks division teams, it oversees compliance with regulatory or prudential standards.

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

To carry out its role, the Accounting division sits on the main committees with a potential impact on its activity and has access to an extensive range of information, either directly or through the Chief Financial Officer. It participates actively in the technical development of IT systems, and relies on a cross-divisional team within the Technology and Organization division to improve, secure and ensure the sustainability of its IT system. The Technology and Organization division is notably in charge of accounting and regulatory tools as well as ALM and management control tools. Its mission is to actively participate in the development and improvement of the systems used by SFIL's operating divisions. This system makes it possible to ensure continuous improvement in terms of process quality and efficiency and in the reliability of financial information.

1.6.2.1.2 Preparation of the annual and consolidated financial statements

SFIL's accounting information system, which is used to prepare the annual financial statements, is mostly automatically fed by upstream systems that manage transactions with customers and market counterparties, as well as operating expenses. When data is entered into one of the management systems, it is recorded immediately and directly as one or more accounting entries, based on an automated process. This automatic entry system also includes manual entry for certain specific transactions. SFIL's accounting system can handle dual accounting for compliance with French GAAP and IFRS-EU standards. The summary of this data is then obtained automatically using configured publication tools.

The internal control system in the operating divisions ensures the completeness and accuracy of accounting entries. The team in charge of accounting standards ensures compliance with standards, validates automated business accounting procedures and individually examines complex or unusual transactions. When certain transactions cannot be completely incorporated into the available management tools, the accounting teams process them using specific internal control procedures.

A first-level control is conducted by accounting teams specialized by business line, in particular through the analysis of unit accounting and management data reconciliations, and through bank reconciliations and technical suspense account checks. Monthly comparisons with management data and reconciliations of microhedged transactions also make it possible to ensure that financial structuring is correctly replicated. In order to verify the consistency of interest expense and income from one period to another, this data is compared with average outstanding amounts to produce average rates that are easier to compare from one period to the next. Lastly, these teams also draft a summary work report highlighting areas that need particular attention and process improvements needed ahead of future account closings.

Additional controls are carried out by other teams from the Accounting division at the monthly, quarterly and annual closings. Through specific reviews, the teams in charge of preparing the financial statements check the quality of the work done by the teams responsible for first-level control. These teams also reconcile the net banking income data with the management data produced by separate teams. This cross-referencing is done at least once a quarter and consistency from one period to the next is verified using analytical controls. The main changes must be accompanied by an explanation. The work and resources deployed during the year made it possible to markedly improve the management data collected both for the validation of the current period's results and for the estimates required within the framework of the forecasts requested by the Finance division.

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

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

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

1.6.2.1.3 Financial statements approval process

The financial statements (including balance sheet and income statement) and the related notes are subject to particular scrutiny during the preparatory phase and in their final form by the head of the Accounting division and the Chief Financial Officer. The financial statements are presented quarterly to the Financial Statements Committee. The semi-annual and annual financial statements are approved by the Board of Directors. The main items of the management report for the period are also reviewed at this time. These annual and semi-annual financial statements are audited and reviewed (respectively) by the Statutory Auditors.

1.6.2.1.4 Publication of financial statements

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

1.6.2.1.5 Statutory Auditors' role

SFIL's financial statements are audited by a panel of two Statutory Auditors. The same is true for the Caisse Française de Financement Local.

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

1.6.2.2 Management information

The financial statements (balance sheet, off-balance sheet, income statement, cash flow statements and notes) that SFIL communicates to its shareholders and the public are complemented by the semi-annual management reports. In addition, the Caisse Française de Financement Local publishes quarterly activity reports containing management information. This management information also includes information on loans originated by La Banque Postale and acquired by Caisse Française de Financement Local and data on export credit refinancing and the sensitivity reduction of structured loans. Outlooks and risk assessments are also included in the semi-annual financial reports. This information is provided directly by the operating divisions or the Risks division. Their accuracy is therefore ensured by the internal control system of the divisions concerned. The Statutory Auditors also review the consistency of this information as part of their review of the management report section of the semi-annual and annual financial report.

New financing is all granted in France, for products offered by LBP, for the refinancing of large export credits (after credit insurance policies received from Bpifrance Assurance Export have been factored in and, to a lesser extent, for sensitivity reduction). A geographic breakdown of assets based on the counterparty's country of residence, between France and other countries, is presented in the management report. This information is prepared by the Accounting and Finance divisions based on management and accounting data reconciliations.

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

1.7 Risk management

1.7.1 Overall risk management system

The SFIL Group has implemented a comprehensive risk management system aimed at:

- identifying, monitoring, managing and measuring risks using specific methodologies;
- deciding on limits to be implemented;
- deciding on the delegations to assign to the front office teams;
- deciding on the amount of provisions required;
- informing the competent committees regarding changes in these risks and proactively alerting them in the event a limit or alert threshold is potentially exceeded.

Risk appetite

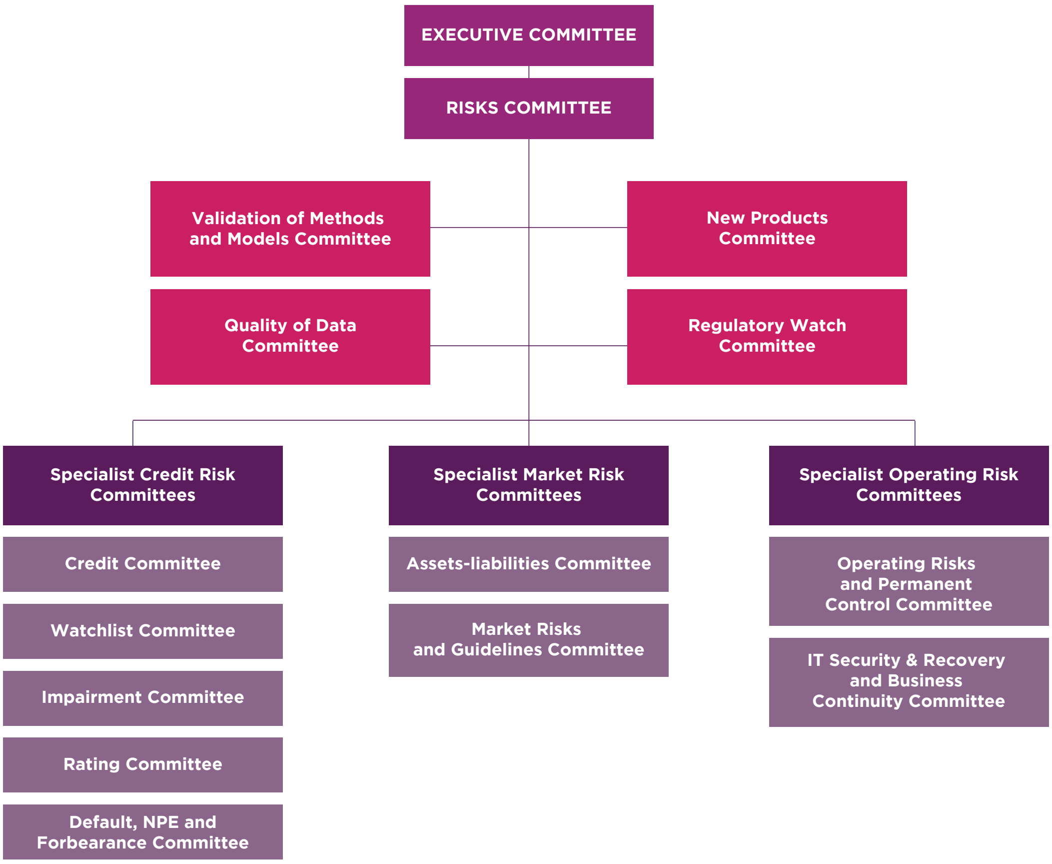
SFIL and CAFFIL's appetite for risk is defined by SFIL's General Management and Risks Committee in alignment with SFIL/CAFFIL's risk appetite. It is approved by SFIL's Risks and Internal Control Committee and ultimately by SFIL's Board of Directors and CAFFIL's governing bodies. Within this framework, policies have been defined for the entire scope, as well as limits and rules for delegating decisions. The Risks division monitors these limits and, where appropriate, proposes measures to General Management to ensure compliance therewith.

Risk review

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

Overall risk governance

The Risks division relies on several committees whose missions and composition have been approved by SFIL's Risks and Internal Control Committee. These are either cross-divisional committees - Risks Committee, Methods and Models Validation Committee and New Products Committee - or committees specializing in credit risk, ALM and market risks and operational risks:



The missions of the cross-divisional committees are described below; those of the main specialized committees are described in the sections dedicated to the relevant risk.

Risks Committee

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

Validation of Methods and Models Committee

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

New Products Committee (CNP)

The CNP is chaired by the Chief Risk Officer. It is tasked with examining all new products and management processes and changes to existing products or processing (to the extent where it substantially modifies the risk profile or the internal processes). It also determines and assesses the compliance risks associated with the creation of new products and material changes to existing products or new services based on the compliance opinion submitted to it.

1.7.2 The SFIL Group's risk profile

Ratios	CET1 ratio	Total capital ratio	Leverage ratio
Minimum requirement	7.99% (SREP)	11.49% (SREP)	3%
Value at 12/31/2019	24.4%, *i.e.* 3x higher than the minimum requirement	25.2%, *i.e.* 2.2x higher than the minimum requirement	8.6% (based on the methodological principles of CRR II)

The SFIL Group's risk profile is low:

- firstly, CAFFIL mainly has public sector borrowers[(1)] on its balance sheet. Secondly, the export credit loans on SFIL's balance sheet benefit systematically from a Bpifrance Assurance Export policy covering 100% of the loan principal;
- interest rate risk is also low given the Group's hedging policy, under which it systematically hedges balance sheet items at fixed rates, by taking out new or canceling existing hedging instrument positions (interest rate derivatives);
- liquidity risk is, on the one hand, strictly managed using various internal liquidity stress tests, and on the other hand limited, as the Group mainly finances itself over the long term by issuing covered bonds – liquid instruments that offer investors a protective legal framework. 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.

As of January 1, 2020, the SFIL Group must comply with a Common Equity Tier 1 (CET1) requirement of 7.99% on a consolidated basis, of which:

- 4.50% in respect of Pillar 1 Common Equity Tier 1 capital, the level applicable to all institutions;
- 0.75% in respect of the Pillar 2 requirement (P2R), unchanged compared with last year following the 2018 SREP;
- 2.50% in respect of the conservation buffer, the level applicable to all institutions;
- 0.24% in respect of the countercyclical buffer, based on current estimated data.

The Tier 1 capital requirement, meanwhile, was set at 9.49% and the total capital requirement at 11.49%.

As of December 31, 2019, SFIL's consolidated CET1 and total capital ratios were 24.4% and 25.2% respectively, putting the SFIL Group at a level that is more than double the minimum requirement set by the European supervisory authority.

(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.

Leverage ratio

The Regulation n°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. 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 2.01% as of December 31, 2019.

However, these regulations were recently amended by Regulation No. 876/2019 of May 20, 2019. The amendments in question, applicable as from end-June 2021, provide for the introduction of a minimum leverage ratio requirement of 3%, as well as measures designed to 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 8.6% 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 of December 31, 2019, eligible liabilities exceeded this requirement by more than five times.

1.7.2.1 Credit risk

1.7.2.1.1 Definition and management of credit risk

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

As part of its credit risk monitoring role, the Credit Risk division is responsible for the following:

Definition	In line with the risk appetite of SFIL and CAFFIL: • the credit risk policies and directives; • the various concentration limits; • the delegations to be granted.
Management	• the lending process (new commitments and restructured loans) by performing credit analyses and assigning ratings.
Monitoring of existing portfolios	• conducting annual reviews; • re-rating portfolios annually; • identifying assets with downgraded risks (watchlist, in default or NPE, contract in Forbearance); • estimating the provisions to be established; • proactively monitoring limits; • conducting stress tests.
Models	• development and monitoring of IRBA credit models, economic capital models or expert models.

1.7.2.1.2 Governance

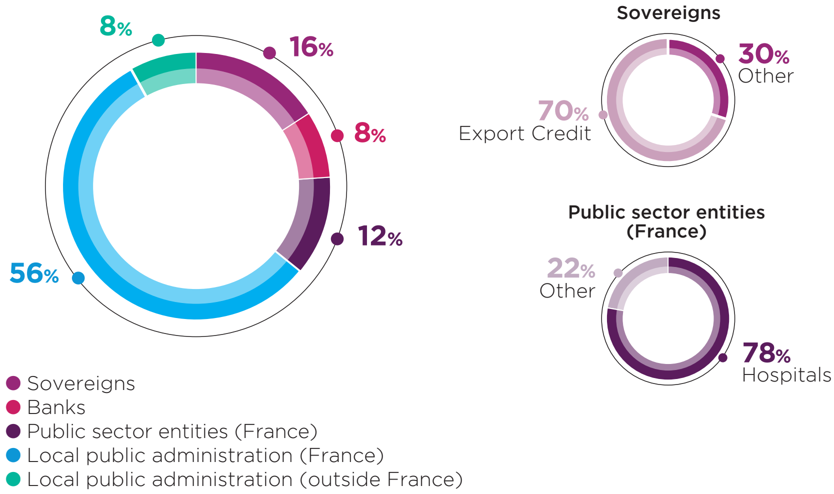
Credit risk governance relies on specialized committees meeting quarterly, except for the Credit Committee which meets weekly:

- the **Credit Committee**:
  - approves new commitments[1] undertaken by CAFFIL or SFIL (loans and market transactions) and restructured loans based on an independent analysis completed by the Risks division,
  - sets credit limits when certain predefined thresholds are exceeded,
  - reports on the commitments made under the granted delegations (to the Risks division, the Customer's Debt Management division, the Financial Markets division and the sales teams of La Banque Postale);
- the **Watchlist Committee**:
  - is responsible for monitoring assets requiring special attention given the associated risk downgrade. This committee meets quarterly;
- the **Default**, **Non-Performing Exposures & Forbearance Committee**:
  - decides the default or recovery from default status for borrowers,
  - determines whether arrears constitute a real default situation or technical arrears,
  - validates the list of counterparties whose loans are non-performing,
  - validates the list of loans in Forbearance,

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

- the **Impairment Committee**:
  - sets the amount of Expected Credit Losses (ECL) for each of the three Stages, and in the case of Stage 3 does so based on the collection scenarios that the Watchlist Committee determines;
- the **Rating Committee** (managed by the Credit Validation and Quality Assurance team to ensure the independence of the control process):
  - ensures the proper application of the internal rating systems and the appropriateness of the rating processes.

1.7.2.1.3 Credit risk exposure

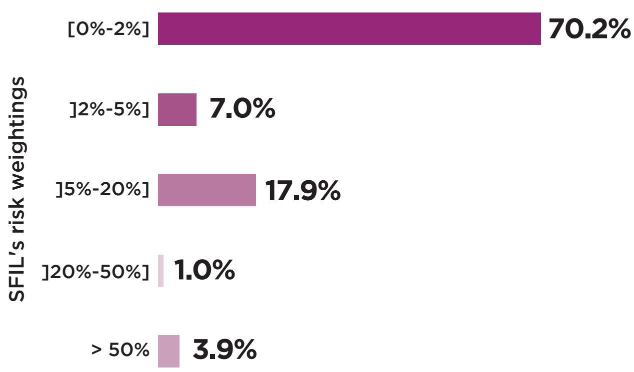


Exposure to credit risk, which is measured using the EAD (Exposure at Default) metric, amounted to EUR 75.6 billion as at 12/31/2019 (excluding fixed assets and accruals and other liabilities):

- nearly 60% of this exposure originates from French local public authorities (regions, departments and authorities);
- 16% of this exposure originates from Central government entities, of which 70% from the export credit business;
- 12% of the exposure originates from public sector entities, of which 78% 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. For most of its assets, the Group has opted for the advanced method of calculating regulatory capital requirements. As of December 31, 2019, the breakdown of exposures by risk weighting (calculated on the basis of the counterparty's probability of default and the Group's loss given default) was as follows:

RISK WEIGHT (BASEL III) OF THE SFIL GROUP'S PORTFOLIO AS OF DECEMBER 31, 2019 (CONSOLIDATED BASIS)



This analysis confirms the excellent quality of the assets in SFIL's portfolio. More than 77% of the portfolio has a weighting of less than 5% and more than 96% of the portfolio has a weighting that is less than or equal to 20%.The amount of risk weighted exposures (RWA) stands at EUR 5.1 billion for credit risk.

1.7.2.1.4 Arrears, non-performing loans and provisions

Arrears as of 12/31/2019	Doubtful and litigious loans (French accounting standards) at the CAFFIL level	Net amount of financial assets and financing commitments classified under Stage 3	*Non-performing exposures*
EUR 65 million	**EUR 349 million**	**EUR 1,103 million**	**EUR 1,368 million**
(0.1% of CAFFIL's cover pool)	(of which loans with no arrears EUR 227 million)	(of which loans with no arrears EUR 1,059 million)	(of which loans with no arrears EUR 1,107 million)

Total arrears amounted to EUR 65 million as of December 31, 2019. They dropped slightly by 1.5% compared with December 31, 2018 (EUR 66 million) and were concentrated on a few, exclusively French counterparties.

As of December 31, 2019, at the level of CAFFIL and in application of French accounting standards, doubtful and litigious loans amounted to EUR 349 million, *i.e.* 0.6% of CAFFIL's cover pool, which attests to the portfolio's excellent quality. These are down 9% compared with December 31, 2018 (EUR 384 million). This change is mainly due to the addition/deletion in this category of counterparties whose outstandings, downgraded by spillover effect, is significant(1). These outstandings downgraded by spillover effect represented EUR 284 million as of December 31, 2019.

Doubtful and litigious loans(2) according to French accounting standards consist of:

- EUR 311 million of receivables classified as doubtful, corresponding to loans granted to customers whose total arrears came to EUR 27 million;
- EUR 38 million of receivables classified as litigious, corresponding to interest unpaid by four clients who are subject to ongoing 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 there is a known risk (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 non-performing and litigious loans under French accounting standards, and is very close to the regulatory concept of non-performing exposures (NPE). Indeed, in addition to Stage 3 assets, NPEs include non-performing assets recorded at fair value through profit or loss (*i.e.* classified as non-SPPI (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		Provisions	
EUR millions	12/31/2018	**12/31/2019**	12/31/2018	**12/31/2019**
Stage 1	54,840	57,978	(6)	(7)
Stage 2	6,317	4,610	(46)	(37)
Stage 3	1,096	1,103	(10)	(11)
TOTAL	**62,253**	**63,691**	**(62)**	**(55)**
Non-performing exposures	1,454	1,368		

Outstandings classified as Non-Performing Exposures experienced a slight decrease between December 31, 2018 and December 31, 2019. Existing IFRS provisions dropped by EUR 7 million to EUR 55 million as of December 31, 2019. This decrease is mainly due to transfers between Stage 2 and Stage 1.

(1) *When a customer is classified in default in terms of credit risk the outstanding amount of all its loans is automatically classified as non-performing, in addition to its existing past dues.*
(2) *A loan is considered as non-performing when it presents one of the following characteristics:*
• a probable or certain risk of that it will not be repaid (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).
A receivable is considered to be litigious when it is unpaid and is the subject of legal proceedings.

1.7.2.2 Market risk

1.7.2.2.1 Definition and scope of market risk

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

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

Some of the SFIL Group's banking portfolio positions constitute exposure to market volatility and pose a risk to its accounting income or equity. These are monitored as non-regulatory market risks. These risks are mainly:

- risks arising from fluctuations in the valuation of financial assets recognized at fair value through profit or loss or through equity;
- 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 debit valuation adjustments (DVA), recognized in profit or loss in accordance with IFRS;
- the provision for investment securities within the meaning of 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.

1.7.2.2.2 Governance and monitoring of market risk

Governance of market risk monitoring is led by the Market Risks Committee, which monitors the following risk indicators on a quarterly basis:

- valuation of assets recognized at fair value through profit or loss or equity and provisions for investment securities under French accounting standards;
- interest rate limits;
- cash collateral paid/received;
- export credit activity indicators.

This committee is also responsible for approving policies, guidelines and procedures regarding non-regulatory market risks before they are submitted to the Risks Committee.

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

Definition	In line with the risk appetite of SFIL and CAFFIL: • market risk policies and directives; • the various limits; • methodologies for the calculation and measurement of various risks.
Certification	• valuation of derivatives for recognition in the accounts.
Valuation	• of balance sheet items (asset and liability); • adjustments to the value of derivatives (CVA and DVA).
Monitoring	• of the valuation of currency swaps for export credits in USD not yet used for hedging purposes; • of the valuation of swaps that are no longer used as hedges following the default of the hedged loan.
Daily controls	• margin calls on derivatives (cash collateral) via the monitoring of market sensitivity. These correspond to the change in fair value of the instruments for a standardized movement (or shock) in market data.
Calculations and controls	• of the impact of the spread risk on the securities portfolio.

Securities without an adjustable rate at outset that are recognized at fair value through equity under IFRS or as investment securities under French GAAP are generally hedged by swaps. The securities portfolio's residual risk is limited to credit spread risk, with the Market and ALM Risks division calculating the impact recognized as a result of changes in the issuers' credit spreads.

1.7.2.3 ALM risk

1.7.2.3.1 Governance

ALM risk management revolves around three committees:

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

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

1.7.2.3.2 Liquidity risk

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

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

With regard to SFIL, the risk lies in its capacity to deploy sufficient resources to meet all the Group's cash requirements, via market and/or shareholder financing.

Financing requirements and sources

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

- the financing of balance sheet assets;
- the financing of liquidity requirements in connection with compliance with regulatory ratios;
- the financing of the cash collateral paid on SFIL derivatives.

As of December 31, 2019, the sources of financing used, other than the entity's equity, were as follows:

- privileged debt, *i.e.* the *obligations foncières* issued by CAFFIL and the cash collateral it receives;
- the negotiable debt securities issued by SFIL;
- the financing provided by shareholders CDC and LBP under the credit agreements implemented between SFIL and its shareholders.

In addition, the SFIL Group has a large number of assets held by CAFFIL or SFIL that are eligible for central bank refinancing. These securities can be made available for ECB refinancing operations via the Banque de France. In addition to accessing central bank financing in its own name, the Caisse Française de Financement Local can also refinance certain of its assets by using interbank financing in the form of repurchase agreements (repo).

Liquidity reserves

EUR billions	**12/31/2019**
Deposits in central bank	1.2
High-quality liquid assets (HQLA)(1)	2.3
Other eligible available securities in central bank(2)	3.0
Eligible private loans in central bank(3)	20.5
TOTAL LIQUIDITY RESERVES	**27.0**

(1) Value of high-quality liquid assets recognized by prudential regulation, after prudential discount.
(2) Value of other eligible securities with a central bank of the Eurosystem, after the discount applied by the central bank.
(3) Value of eligible loans with a central bank of the Eurosystem, after discount applied by the central bank.

Principles liquidity risk management implemented by the Group

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.

In normal conditions, dynamic liquidity forecasts take activity assumptions into account (new assets and new financing), under normal and stressed conditions:

- under normal conditions, these forecasts aim to define the amounts and maturities of the various sources of financing that may be raised by each entity (issuance of *obligations foncières* for CAFFIL and, for SFIL, of negotiable debt securities or EMTN issuances, or drawdowns of shareholder liquidity lines);
- under stressed conditions, these forecasts aim to assess the Group's capacity to withstand a liquidity shock and to determine its survival expectancy, which must remain longer than one year.

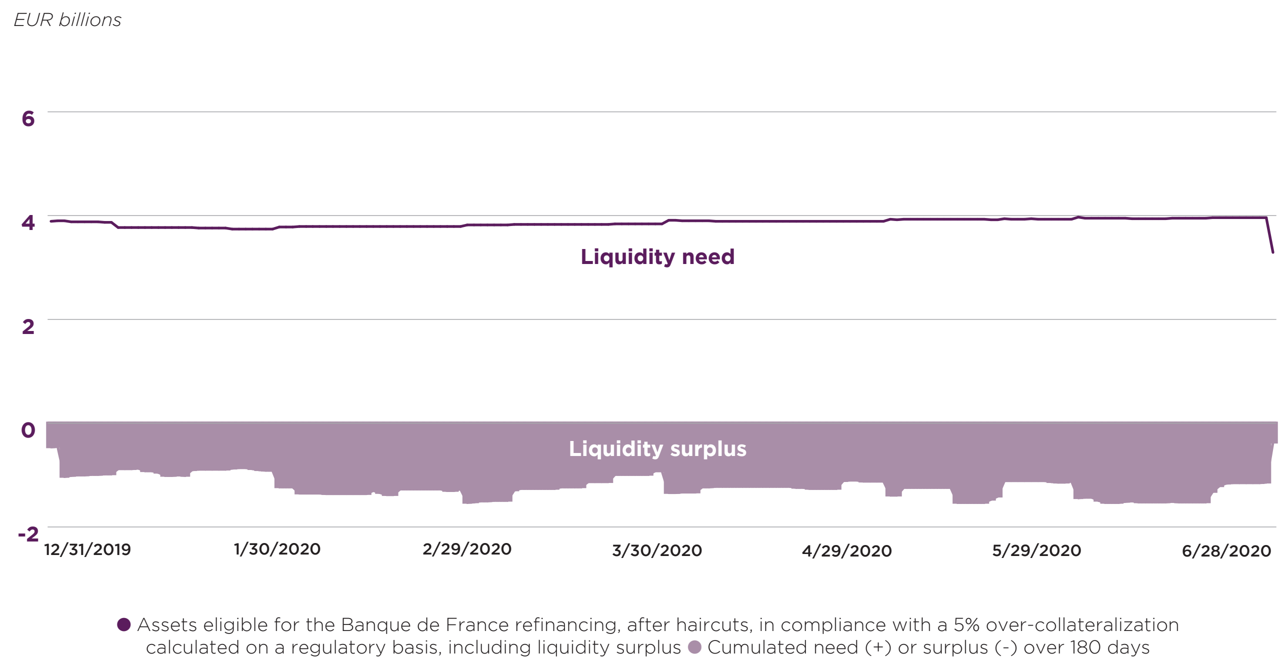
The Group's liquidity risk is also subject to compliance with regulatory liquidity ratios supplemented by internal liquidity indicators.

Regulatory liquidity indicators

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

- the regulatory coverage ratio (or over-collateralization ratio): this represents the ratio between assets and liabilities benefiting from the legal privilege under the law on SCFs, and must be at least 105%;
- forecast cash needs at 180 days: CAFFIL ensures that, at all times, its cash needs over 180 days are covered by replacement assets and ECB-eligible assets;

COVERAGE OF LIQUIDITY NEEDS OVER 180 DAYS



- the maximum gap of 1.5 years between the average maturity of debt benefiting from the legal privilege and that of assets eligible to make up the minimum amount necessary to meet the regulatory coverage ratio.

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

- the LCR (Liquidity Coverage Ratio) ratio: as of December 31, 2019, CAFFIL's CLR level was 10,510% for CAFFIL, 1,647% for SFIL on a parent-company basis, and 1,804% for SFIL on a consolidated basis;
- the net stable funding ratio (NSFR), a transformation ratio that measures stable resources over the next year in relation to stable financing requirements: Regulation 2019/876 defines the calculation methods for this indicator, which will come into effect in June 2021.

Internal liquidity indicators

The Group monitors the following main internal liquidity indicators:

- the management coverage ratio (or over-collateralization ratio), which targets an over-collateralization level consistent with CAFFIL's target rating;
- the Group's dynamic funding requirements over the next year, as well as the respective issuance conditions for SFIL and CAFFIL;
- the one-year survival horizon in stressed conditions;
- support for the Group's financing maturities over the same year, on the one hand for the maturities of privileged liabilities issues by CAFFIL and, on the other, for the maturities of the unsecured financing available to SFIL;
- the level of unencumbered assets available in the event of a liquidity crisis;
- the duration gap between assets and debt benefiting from the legal privilege (limited to three years): this is published quarterly. As of December 31, 2019, it stood at 0.3 years;
- sensitivity of the net present value of the consolidated static liquidity gap to an increase in the Group's financing costs;
- the consumption of the EUR/USD spread and basis risk appetite of export credit transactions, which measures the loss of revenues on these transactions that may result from stress affecting the cost of financing in euros or in USD.

1.7.2.3.3 Interest rate risk

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

SFIL identifies three types of interest rate risks, which are generally hedged with derivatives:

Fixed rate risk	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.
Basis risk	Results from the gap that may exist in the matching of assets and liabilities indexed to variable rates of different types or index tenors.
Fixing risk	Results, for each index, from the gap between the adjustment dates applied to all the variable rate balance sheet and off-balance sheet items linked to the same tenor.

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 (in which the unit amount is generally small) are usually macro-hedged. Loans granted individually or bond issues may be micro or macro-hedged. Assets and liabilities are usually hedged by entering into interest rate swaps, but also, whenever possible, by canceling swaps of opposite direction;
- in the second stage, lending and borrowing flows indexed on Euribor (scheduled or post-hedging) are swapped against Eonia to protect income from the basis risk generated by differences in tenor (Euribor 1, 3, 6, or 12 months) and the fixing risk. 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. SFIL therefore does not incur any interest rate risk.

These different types of interest rate risks are monitored, analyzed and managed through:

- the production of gaps (fixed rate, basis and fixing), calculated on a static basis:

Fixed-rate gap	Difference between balance sheet and offbalance sheet assets and liabilities for fixed rate transactions or variable rate transactions for which the rate has been fixed. It is calculated every month until balance sheet extinction.
Index gaps	Difference between balance sheet and offbalance sheet assets and liabilities for a given index tenor that has not yet been fixed. This gap is calculated every month until balance sheet extinction.
Basis gaps	Basis gaps, which result from the matching of two index gaps. There are therefore as many basis gaps as there are index pairs.
Fixing gap	For a given index tenor, the difference between adjustable rate balance sheet and offbalance sheet assets and liabilities, by fixing date.

- net present value (NPV) sensitivity indicators at an interest rate shock of 100 bps are produced monthly, to protect residual fixed rate positions set by CAFFIL (after hedging has been set up). These indicators are calculated based on four predefined time buckets (1 year, ST, MT & LT), and supported by limits calibrated to restrict capital loss to no more than 6% of equity (EUR 80 million) with a 99% quantile calculated based on ten-year historical data:

Shift in the yield curve	Limit of EUR 25 million
Sloping/rotation of the yield curve on points distant from the curve	EUR 10 million limit on each of the 4 time buckets
Sloping/rotation of the yield curve within a time bucket	EUR 40 million limit* on sensitivity by time bucket in absolute value

* *The limit applicable to points prior to December 31, 2019 was EUR 20 million. As of December 31, 2019, it stood at EUR 40 million.*

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

These indicators are calculated from a static viewpoint.

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

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

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

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

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

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

Net Interest rate margin sensitivity over 12 months - consolidated SFIL *(EUR millions)*	**12/31/2019**
Parallel increase in rates of 200 bps	(17)
Parallel decrease in rates of 200 bps	23

1.7.2.3.4 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 their final maturity, to a cross-currency swap against the euro, thereby ensuring perfect currency hedging of these balance sheet items' nominal and interest rates. 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. Certain loans to refinance large export credits denominated in USD may also result in very limited foreign exchange risk during their drawing phase. This residual risk is managed by setting a very low sensitivity limit.

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.

1.7.2.4 Operational risk

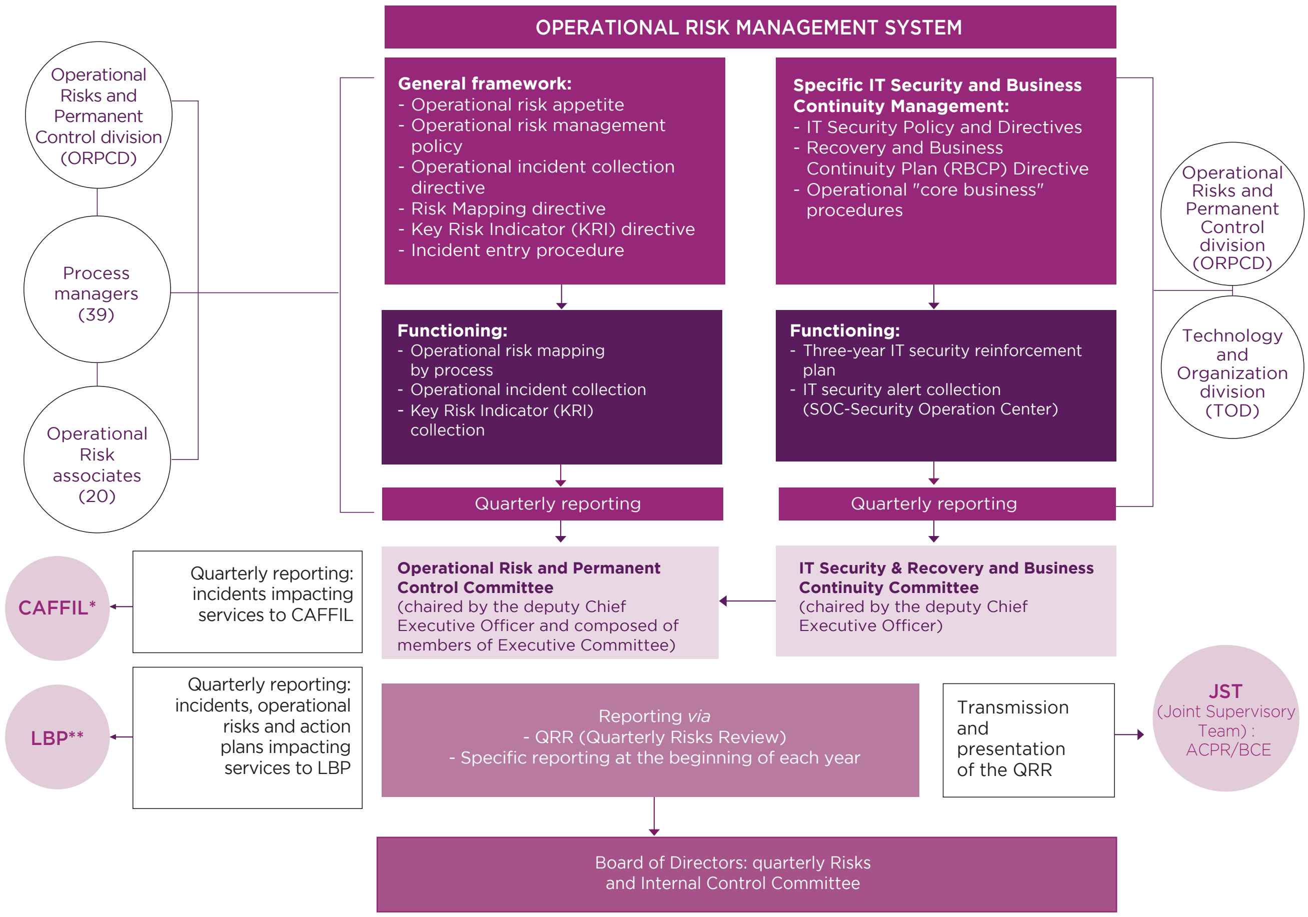
1.7.2.4.1 Definition

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.

The operational risk management processes apply to all Group divisions, activities and processes (SFIL and CAFFIL).

1.7.2.4.2 Organization and governance

SFIL has implemented an organization, procedures and a management system for monitoring and controlling its operational risks. This system is managed by the Operational Risks and Permanent Control Division (ORPCD) which is composed of five employees and one manager.



* *Within the framework of the SFIL/CAFFIL agreement.*
** *Within the framework of the SFIL/LBP agreement.*

The Compliance division is responsible for the policy and supervision of the non-compliance and reputation risk management system (see overall internal control system).

1.7.2.4.3 Operational risk measurement and management (excluding non-compliance risk)

SFIL has opted for the standard method of calculating its regulatory capital for operational risk. This capital requirement stood at EUR 26.8 million at December 31, 2019.

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. This policy is implemented via three main processes:

- collection and reporting of operational incidents;
- mapping of operational risks;
- monitoring of key operational risk indicators.

This system is rounded out by an IT security policy, a Recovery and Business Continuity Plan (RBCP) and, where necessary, insurance policies to cover specific risks.

Duties	Activities and results in 2019
Definition of operational risk appetite	2 indicators defined and monitored on a regular basis
Collection of operational incidents	4 incidents in 2019 that led to losses in excess of the collection threshold (EUR 2,500) and whose financial impacts in 2019 were limited
Operational risk identification and assessment	Operational risk was mapped for 78% of SFIL's processes (see following item on operational risk identification)
Definition and monitoring of action plans	SFIL's Executive Committee monitored implementation of the action plans defined for residual risks assessed as major
Monitoring of key operational risk indicators	64 key operational risk indicators monitored and analyzed
IT security management	Implementation of most of the actions identified in the three-year (2017-2019) IT security reinforcement plan
	Responses provided to 4 IT security self-assessment questionnaires from within the industry or at the request of the supervisory authority
	5 e-learning training modules to raise SFIL employees' awareness of IT security
Business continuity and crisis management	6 tests of the operational system (backup sites)
	3 tests of the IT recovery plan
	1 test of the crisis unit
Internal and external reporting	4 IT Security and Business Continuity Committee meetings held
	4 Operational Risk and Permanent Control Committee meetings held
	Contribution made to 4 quarterly risk reviews (QRRs) for SFIL's Risks and Internal Control Committee
	Specific contribution made at the annual meeting of the Risks and Internal Control Committee
Coordination of the associates network	4 reports following ORPC meetings
	1 annual plenary meeting

Collection of operational incidents

SFIL has defined an operational incident and loss collection process governed by guidelines and procedures. This operational incident and loss collection process allows SFIL not only to comply with regulatory requirements but also to gather key data to improve the quality of its internal control system.

The mandatory reporting threshold for financial impacts has been set at EUR 2,500. The operational risk associates, with the ORPCD's support, are responsible for identifying and analyzing incidents using a dedicated tool. The results of the incident analysis determine whether preventive or corrective actions should be taken.

Operational risk identification and assessment

Operational risks are mapped and the resulting mapping is updated regularly for every SFIL process. The methodology used is in line with industry practices and the mapping relies in particular on an analysis of any operational incidents that have occurred. This methodology makes it possible to identify and assess the various process-associated risks, identify factors (systems or controls in place) to mitigate them and determine the residual impacts in order to decide whether or not to accept them. In the event of non-acceptance of the risks, corrective or improvement actions must be implemented (strengthening of systems and procedures, strengthening of the permanent control plan and implementation of systems for monitoring and controlling risks). This methodology is being rolled out as the processes are formalized and is gradually replacing the mapping of operational risks by division.

Monitoring of key operational risk indicators

In addition to the operational risk mapping, which provides a regular, instant snapshot of the risk profile, the SFIL Group has defined 64 key operational risk indicators accompanied by alert thresholds. These indicators are used to continuously and dynamically monitor changes in operational risks.

Definition and monitoring of action plans

The process managers define the actions to correct significant incidents or notable operational risks identified. The Operational Risks and Permanent Control division regularly monitors these action plans.

IT security management

The Operational Risks and Permanent Control division has introduced a range of measures governed by a policy and guidelines based on ISO 27000 requirements and applicable to all of SFIL's operating divisions. These measures aim to protect the Group's data from any threat to its confidentiality, integrity or availability. They are broken down into rules, procedures and operational processes determined in collaboration with the Technology and Organization division, and are subject to regular checks, in particular with regard to the management of access rights to SFIL's applications and systems and compliance with IT security principles.

In addition, a three-year (2017-2019) IT security reinforcement plan has been defined to improve the existing systems. It is monitored regularly. An SOC (Security Operation Center) system has been implemented to prevent and manage IT security alerts and threats.

Business continuity and crisis management

The SFIL Group has developed an Emergency and Business Continuity Plan (PUPA). It consists of a set of measures and procedures designed to temporarily ensure the provision of services and other critical operational tasks carried out by SFIL in degraded mode, if necessary.

This system is based on five key components and a specific governance structure:

* *The Technology and Organization division for the IT backup plan*

Operational risk insurance

SFIL has insurance policies covering standard damages, premises-related multi-risks, IT equipment and civil liability. It has also taken out insurance policies to cover the liability of members of the Company's management bodies, professional liability, fraud, and cybercrime-related risks. The insurance program covers SFIL and its subsidiary CAFFIL.

Security of means of payment

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

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

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

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

Various procedures and systems are in place to ensure the security of means of payment, including payment processes under the responsibility of the back offices, segregation of duties, clearly defined rules for validating individual payments, secure message management, the business continuity plan and specific compliance controls. SFIL and CAFFIL also responded to the SWIFT and TARGET 2 self-certification requests in accordance with the requirements issued by these organizations, reflecting the Group's unerring commitment to increasing the level of security associated with means of payment.

1.7.2.5 Non-compliance risk

1.7.2.5.1 Definition

French regulations define non-compliance risk as the risk of legal, administrative or disciplinary sanctions, significant financial loss or reputational harm, resulting from failure to comply with provisions specific to the banking and financial activities, be they directly applicable national or European laws or regulations, ethical or professional conduct standards, or instructions from accountable officers of the executive body issued pursuant to guidance from the supervisory body.

The SFIL Group's non-compliance risks are divided into two major categories, regulatory compliance risks and financial security risks.

Regulatory compliance risks					Financial security risks		
Professional conduct and prevention of conflicts of interest	Market integrity	Protection of customers' interests	Anti-corruption	Protection of personal data	Know your Customer (KYC)	AML/CFT	Sanctions, asset freezes and embargos

1.7.2.5.2 Organization and governance

The SFIL Group has defined and implemented an updated non-compliance risk prevention system that is adequate and appropriate to the Group's activities. It is based on shared responsibility among:

- all the operating divisions, which must incorporate compliance with laws and regulations, rules of professional conduct and the Group's internal procedures/rules into their daily actions and implement their activities' first-level controls;
- the Compliance division, which defines, implements, coordinates and monitors compliance with the compliance system.

Pursuant to article 29 of the *arrêté* of November 3, 2014, SFIL's Compliance division is autonomous, independent of all operating units and particularly of all commercial, financial and accounting activities. It reports to the General Secretary, who is a member of SFIL's Executive Committee and has been named compliance officer to the ACPR. Reporting directly to the Chief Executive Officer, the General Secretary has direct and independent access to the Risks and Internal Control Committee and the Board of Directors.

Reports on the compliance system are submitted to SFIL's and CAFFIL's governance bodies.

The General Secretary thus presents a half-year activity report and the results of the permanent compliance controls to the Executive Committee and the Risks Committee on which SFIL's accountable officers sit, as well as to the Risks and Internal Control Committee.

SFIL's Board of Directors and CAFFIL's Supervisory Board, via the Risks and Internal Control Committee, review the results of the Compliance division's activity, the results of the compliance controls and the monitoring of the action plans intended to remedy any shortcomings.

At the Executive Committee meeting, the persons effectively running the undertaking assess the relevance of the controls, decide on any improvements to be made and, more generally, give their opinion on the main issues related to the compliance system. The other members of the Executive Committee are tasked with overseeing management of non-compliance risk and first-level controls within their area of responsibility in keeping with the Risk Appetite Statement. They monitor implementation of the compliance action plans.

Lastly, a compliance activity report is also presented annually to the meeting of the Risks and Internal Control Committee dedicated to hearing the officers of the Risks, Compliance and Periodic Control divisions, not attended by General Management. For 2019, this presentation was made at the Risks and Internal Control Committee meeting of January 30, 2020.

Responsibilities of the Compliance division

The Compliance division's primary responsibility is to define and implement the normative framework, *i.e.* the policies and procedures that fall within its area of expertise, any updates to these policies and procedures, and operational implementation of the aspects falling within its functional responsibility, in order to manage the non-compliance risks specific to the SFIL Group.

Compliance is also responsible for:

- drawing up and implementing a compliance training plan in close collaboration with the Human Resources division;
- analyzing projects to create or modify products or services, issuing compliance opinions and, more generally, conducting analyses of SFIL Group cross-functional projects that have compliance implications;

- anticipating and helping to apply regulatory changes through regulatory watch;
- advising employees on all compliance-related matters;
- implementing the internal alert system;
- managing the Division's transformation and efficiency projects, in particular the transformation of compliance activity tools/applications that are instrumental to the compliance system, in cooperation with the Technology and Organization division;
- mapping non-compliance risks;
- defining and implementing an annual permanent compliance control plan;
- defining and monitoring action plans to remedy identified instances of non-compliance;
- informing General Management and the governance bodies;
- submitting specific compliance-related reports to the banking supervisors.

The entire compliance system (organization, procedures, awareness-raising, training, controls) helps strengthen the control system within the Group.

At December, 31, 2019, the Compliance division had five employees reporting to the General Secretary, who is the director of Compliance.

1.7.2.5.3 Implementation of the compliance system

The non-compliance risk management system is based first and foremost on creating a strong ethics and compliance culture among all employees, mainly through awareness-raising and training initiatives. In the very earliest stages, this involved rolling out an Ethic and Professional Conduct Code. In 2019, as part of the project to update the corruption prevention system, this code was reworked to guide the daily actions, decisions and behavior of employees regardless of their status. The code now contains a code of conduct for preventing corruption, including conflicts of interest. It will be distributed in the first quarter of 2020.

SFIL is fully committed to anti-corruption and has joined the UN Global Compact. As part of this voluntary initiative[(1)], work has been completed to supplement the existing normative framework. Corruption risks were mapped for the first time in January 2019. A framework procedure for preventing corruption and a procedure for assessing third-party purchases have been developed. The procedures for gifts and entertainment and for preventing and managing conflicts of interest have been updated. Operational implementation of these procedures is underway in the relevant divisions.

From now on, SFIL's anti-corruption program will be based on:

- the Ethic and Professional Conduct Code, including an Anti-Corruption Conduct Code;
- a corruption risk mapping (incorporated for 2020 in the overall non-compliance risk mapping);
- a framework procedure for preventing corruption;
- a gift and entertainment policy;
- a procedure for preventing and managing conflicts of interest;
- a system for providing corruption prevention training;
- an assessment of third parties;
- accounting procedures;
- an internal alert system;
- a control system.

The financial security risk management system: Ongoing action plans have been developed for the KYC and anti-money laundering and counter-terrorist financing systems in view of changes in the risk landscape as well as regulatory and supervisory requirements. At the same time, the Group has continued to roll out a financial security tool intended to improve the robustness of its system; the rollout will be completed in 2020.

Actions to comply with the GDPR continued in 2019. A data protection officer has been named. The DPO, who reports to the Compliance Division and is the designated contact person for the CNIL, ensures an appropriate level of compliance by the SFIL Group in terms of protection of personal data. The DPO has a network of 17 GDPR correspondents across SFIL's divisions. They are tasked with supporting the DPO's actions by helping to raise team awareness within their division, implementing the actions requested by the DPO within their scope, conducting first-level controls of the processing of personal data for their activities, taking responsibility for the integrity of the data entered into the register of personal data processing operations for processing performed by their division, and reporting any detected violations of the GDPR to the DPO.

The non-compliance risk management and reputation protection system also needs to be continuously adapted to changes in its internal and external environment. Efforts were therefore made in the second half of the year to comply with the EBA's guidelines on outsourcing.

Steps were also taken to protect customers by updating the conflict-of-interest prevention and management procedure and reviewing product governance.

Over the course of 2019, the Compliance division thus also continued to take action to improve its organization, processes and tools with a focus on digital. It consistently aims to increase its efficiency so it can respond to regulatory changes and meet the supervisors' expectations.

The Compliance division also continued its compliance system awareness-raising and training initiatives for all Bank employees, with the aim of strengthening its compliance culture.

Lastly, the division continued to support and advise General Management and the banking businesses, in particular with respect to the Group's first social and green issues in 2019 and more generally its CSR initiative.

1.7.2.6 Legal and tax risks

1.7.2.6.1 Legal risk

The *arrêté* of November 3, 2014 defines legal risk as the risk of any lawsuit with a counterparty, resulting from any inaccuracies, omissions or deficiencies that may be attributable to the subject company's operations.

(1) The Sapin II law does not apply to the SFIL Group's corruption prevention system.

It is managed within the General Secretariat by:

- the Legal division, which has two teams: a "financial markets" team and a "public-sector credit and export credit" team;
- the Corporate Affairs and General Secretariat division dedicated to the corporate affairs of SFIL and its CAFFIL subsidiary, and their governance.

These two divisions report to the General Secretary, who is a member of the Executive Committee which approves the legal strategies implemented.

Their primary responsibilities are to:

- advise and support General Management and the bank's operating divisions to prevent, detect, measure and manage the legal and tax risks inherent in their business. To that end, the Legal division responds to all legal questions related to managing outstanding loans to the local public sector. It also plays an active role in the overall process of preparing, negotiating and managing export credit refinancing transactions. Lastly, it is regularly consulted on matters related to the management of the foreign local government authority loan portfolio runoff;
- help organize governance and implement best practices in this area (policies, procedures and internal rules) to encourage risk management and oversight by the management bodies;
- monitor regulatory changes via legal watch initiated by both divisions;
- review and negotiate contracts, in particular contracts governing the partnership between SFIL/CAFFIL and La Banque Postale, framework agreements on financial instruments, bond issue documents, green financing, and supplier contracts, including contracts for the provision of critical outsourced services and, more generally, adjust all contracts for regulatory changes that have an impact on the business;
- manage insurance (excluding social protection insurance);
- protect trademarks;
- manage pre-litigation and litigation. As such, the legal division helps define the provisioning policy by providing analyses of the legal issues and risks associated with each dispute.

These divisions participate in the work of the various committees:

- within the framework of the Regulatory Watch Committee, they disseminate principle positions on legal and regulatory provisions that affect the Bank's operations and its governance;
- within the framework of the New Products Committee, the Legal division issues opinions, as necessary, on the subjects discussed;
- within the framework of the Credit Committee, the Legal division analyzes the legal risks associated with the subjects discussed; it is involved in processing credit applications that present a concern or are questionable;
- within the framework of the Weekly Financial Markets Committee, the Legal division presents its analyses of the legal and regulatory provisions that affect the bank's capital markets activities and communicates on the contract negotiations in progress;
- within the framework of the Loan Sensitivity Reduction Committee, it reviews cases in litigation and the progress of proceedings. It also gives its opinion whenever a loan sensitivity reduction operation involves a legal risk.

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

The persons effectively running the undertaking, SFIL's Board of Directors and Caisse Française de Financement Local's Supervisory Board are regularly notified of significant events in the above areas and in particular of developments in any lawsuits. As such, a sensitive loan litigation management report is presented at each Board meeting.

Concerning lawsuit developments, the number of borrowers in litigation for structured loans was 15 as of December 31, 2019, compared with 18 at end-2018, 25 at end-2017, 39 at end-2016 and 131 at end-2015. Since SFIL's creation, 208 borrowers have ended lawsuits they had brought.

With its ruling of June 26, 2019, the Court of Cassation once again confirmed the validity of the structured loans carried on CAFFIL's balance sheet.

Thus, since the law on the securitization of structured loan agreements entered into by legal entities governed by public law took effect on July 30, 2014, more than 50 legal decisions, including three rulings by the Court of Cassation and 16 rulings on appeal, have rejected the methods used by borrowers to challenge the validity of the structured loans carried on CAFFIL's balance sheet.

As of December 31, 2019, to the best of SFIL's knowledge, there were no other governmental, legal or arbitration proceedings against SFIL or CAFFIL that could have a material impact on the SFIL Group's financial position.

1.7.2.6.2 Tax risk

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

In the matter related to the tax treatment in Ireland of the results of the former branch of Dexia Municipal Agency (CAFFIL's former name) in Dublin, closed in 2013, resulted in an adjustment by the French tax administration. Caisse Française de Financement Local settled this adjustment at the end of 2018 and kept in its accounts the amount of the provision set aside in respect of sums not yet paid including those that will be called in 2020.

In 2019, the administration also initiated a control procedure covering SFIL's 2016 to 2018 fiscal years. At this stage, the Company has been notified of an adjustment relating to a shift in fiscal year for social security tax matching. This adjustment did not result in any deferred taxes. SFIL took this item into account when it closed its 2019 financial statements.

1.8 Social, environmental and societal information

1.8.1 Social information

1.8.1.1 Job-related information

1.8.1.1.1 Total headcount and breakdown of employees by gender, age and site

As of December 31, 2019, SFIL had a total of 393 employees, of which 340 were under permanent contracts. In 2019, SFIL hired a total of 70 people, including 27 under permanent contracts, (of which 3 promoted from fixed-term to permanent contracts), 18 under temporary contracts and 25 under work-study contracts. It also took on twelve interns on work placement schemes.

a) Employee breakdown by gender

Headcount	2017	2018	2019
Men	227	219	219
Women	178	169	174
TOTAL	**405**	**388**	**393**

b) Employee breakdown by age and grade

2019	< 25 years	25 to 29 years	30 to 34 years	35 to 39 years	40 to 44 years	45 to 49 years	50 to 54 years	55 to 59 years	60 years and over	Total
Managers	7	28	48	52	63	59	47	31	9	344
Non-managers	29	7	1	2	4	0	3	3	0	49
TOTAL	**36**	**35**	**49**	**54**	**67**	**59**	**50**	**34**	**9**	**393**

c) Employee breakdown by site

	2017	2018	2019
Issy-les-Moulineaux	384	370	375
Lyon	21	18	18
TOTAL	**405**	**388**	**393**

1.8.1.1.2 Changes in staff under permanent and temporary contracts

	2017	2018	2019
Hired under permanent contracts	13	20	24
Net switched to permanent contracts	4	9	7
Layoffs/terminations from permanent contracts	6	8	10
Resigned from permanent contracts	15	18	11
Switched from temporary to permanent contracts	5	9	3
Hired under temporary contracts (incl. workstudy)	50	39	43
Layoffs/resignations from temporary contracts	6	4	1
Retired from permanent contracts	1	2	2
End of permanent/temporary contract probationary period (incl. workstudy)	3	3	0
Expired temporary contracts	29	39	34

1.8.1.1.3 Compensation

a) Compensation policy

SFIL's Compensation Committee reviews all items related to the compensation policy. Its proposals are put to the SFIL's Board of Directors which decides on the concrete actions to take and approves the compensation policy.

SFIL defines its compensation policy around five key principles. The compensation policy must:

- be in line with market practices;
- be transparent;
- comply with regulations;
- ensure equal opportunities;
- ensure a balance between fixed and variable compensation and motivate employees.

This approach relates to both fixed compensation (not performance-related) and variable compensation (performance-related) and its general principles apply to all employees. One such principle is ensuring a balance between fixed and variable compensation, which is aimed at discouraging excessive risk-taking and encouraging a sufficiently flexible and coherent variable compensation policy at SFIL.

b) Cap on variable compensation

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

c) Compensation of the Chief Executive Officer

Pursuant to the provisions of decree 1953, amended by decree No. 2012-915 of July 26, 2012 relating to State control of executive pay in public companies, which apply to SFIL, a Chief Executive Officer's annual gross compensation may not exceed EUR 450,000.

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

d) Compensation paid to members of the Executive Committee, the General Auditor and people whose professional activities have a material incidence on the Company's risk profile.

SFIL's compensation policy includes specific provisions for an identified group of employees whose work could potentially impact SFIL's risk profile.

These people are the members of the Executive Committee, the General Auditor, financial market professionals, senior managers or staff with managerial responsibilities within a significant business unit, staff responsible for a function in charge of legal affairs, finance including tax and budget preparation, human resources, the compensation policy or information and economic analysis technologies, risk function staff and any staff involved in an activity related to internal control and compliance, as well as all employees whose variable compensation in a given year exceeds EUR 87,500 or who have benefited during a year from an amount of fixed and variable income of more than EUR 200,000.

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

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

In 2019, the gross compensation paid to the abovementioned group of people totaled EUR 7.65 million for 52 employees, compared with EUR 7.03 million for 50 employees in 2018.

e) Gross payroll

In 2019, the annual gross payroll was EUR 28.97 million (in 2018, this amount was EUR 28.41 million).

f) Average annual fixed compensation

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

EUR	2017	2018	2019
Permanent contract	64,244	65,273	**65,580**

g) Incentive and profit-sharing schemes

Incentive and profit-sharing schemes are in effect at SFIL (agreements of June 26, 2017).

h) Employee shareholding situation

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

1.8.1.2 Organization of work

1.8.1.2.1 Organization of work time

2019	Number of employees	% of employees
Part-time employees	34	9%
Teleworking employees	149	38%
Employees with flat daily rate	337	86%
Employees with hourly rate	56	14%

1.8.1.2.2 Absenteeism[1]

In 2019, the absence rate was 1.9% (in 2018, this rate was 1.8%).

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

1.8.1.3 Labor relations

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

In 2019, SFIL replaced the existing employee representative bodies - the CE, CHSCT and DP - by a single Social and Economic Committee (SEC), in accordance with new law and regulations.

The original employee relations agreement, made in 2016, was renegotiated in 2019 to create representative bodies better suited to the Company's needs and to reinvigorate staff relations by giving greater credibility to their representatives.

Under the new agreement, SFIL's SEC meets at least 8 times a year and is consulted annually on the Company's strategy, financial situation and labor relations policy. Besides its ordinary meetings, the SEC has four specialist committees which meet at least twice yearly:

- a health, safety and working conditions committee;
- an employee committee which leads on gender equality, training and disabilities;
- an economic and strategy committee;
- a social and cultural activities committee.

One of the elected SEC members is also designated as the correspondent for combating sexual harassment and sexist behavior.

SFIL's SEC was put in place in November 2019 following professional elections that attracted 74.28% participation.

In 2019, the employee representative bodies were convened according to the statutory, regulatory and contractual provisions in force and as required, including:

- 11 meetings for the Works Council;
- 5 meetings for the Health Safety and Working Conditions Committee; and
- 8 meetings for the staff representatives;
- 3 meetings for the new SEC.

1.8.1.3.2 Collective bargaining agreement review

Numerous negotiations took place in 2019, resulting in the signing of the following agreements:

- agreement further to the mandatory annual negotiations on compensation, working time and the sharing of added value (January 25, 2019);
- "GEPP" agreement on jobs, skills and careers management (May 21, 2019);
- agreement on employee relations and creation of the Social and Economic Committee (June 27, 2019);
- memorandum of understanding on the 2019 SFIL SEC elections (August 5, 2019);
- agreement on supporting people with disabilities into and in work (September 17, 2019).

1.8.1.4 Health and safety

1.8.1.4.1 Work health and safety conditions

In 2019, SFIL recorded 6 commuting accidents (none serious) and 2 workplace accidents (a fall and fainting), one affecting someone who was teleworking. Actions to manage difficult situations, particularly as regards family carers, were taken in consultation with the HR division, the CHSCT secretary and the human risks correspondent (several days granted to employees to support end-of-life relatives).

The use of telecommuting also reduced employees' travel times, improved their work-life balance and, indirectly, mitigated stress risk. The relevant bodies were regularly updated on the implementation of this new organizational method throughout the year.

During the strikes at the end of the year, SFIL supported its employees by proposing various alternative arrangements. Union elected representatives were involved in these arrangements and management remained attentive to employees facing particularly difficult situations.

Following its success in 2018, the Issy-les-Moulineaux site ran a vaccination campaign for a second year. Lyon employees could claim back the costs of getting themselves immunized. Over a hundred employees were vaccinated.

SFIL worked all year to improve working conditions, in particular installing a rest room (on the fifth floor).

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

As part of its well-being at work policy, SFIL has maintained the concierge service.

It has also instigated weekly yoga lessons, paid for by the Company and attended by around 20 employees. Other workshops (boxing, dance, photography, wine appreciation) have been suggested. Management also ran a dozen workshops for employees on issues such as sophrology, stress management, work-life balance and meditation.

SFIL organized a number of internal events relating to employee health and safety, such as workshops on diet, sleep, looking after your back at work, training in team support for staff in difficult situations and a disability awareness day.

Employees were informed about the measures in place to deal with human risks: allodiscrim, listening unit, mediator, etc. An external consultancy was brought in to give HR staff diversity awareness training, with particular emphasis on non-discrimination.

1.8.1.4.3 Work accident frequency and severity and occupational diseases

2019	Number of employees	Frequency rate	Severity rate
Work accidents	2	3.13	0.01
Commuting accidents[(1)]	5	9.40	0.09
Occupational diseases	0	–	–

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

1.8.1.5 Training

1.8.1.5.1 Skills development at SFIL

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

The main themes of the training policy reflect the Horizon 2021 strategic plan and training preferences expressed by employees in various one-to-one or group meetings (specifically career reviews, professional interviews and evaluation interviews) involving the human resources and business line teams. Members of the Executive Committee were involved in co-designing the training program with the elected representatives of the Works Committee, which became the Social and Economic Committee in November 2019.

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

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

- the "Support SFIL's change and transformation" policy led to the first rollout of the agile strategic goal (48 employees) and support for managers on the compensation training program;
- the "Quality of life at work & psycho-social risks" area emphasized safety and risk prevention as well as launching the first CSR awareness and training sessions;
- the "Professional & regulatory training" strand addressed the budget target for 2019. The priority was on professional training, which accounted for 61% of all programs delivered in this area.

1.8.1.5.2 Number of training days

In 2019, the Group dispensed 964 days of training (*i.e.* 6,751 hours on a basis of 7 hours a day), which represents 2.7 days per employee (357 employees with permanent and temporary contracts), an increase compared with 2018 (2.6 days in 2018).

1.8.1.6 Equality of treatment

1.8.1.6.1 Measures to promote gender equality

In 2019, SFIL continued to apply its professional equality agreement and meet its commitments to track the following indicators:

- number of beneficiaries of individual pay increases;
- average amount of individual pay increases in absolute value;
- average rate of award of variable compensation.

In accordance with the Avenir law of September 5, 2018 which seeks to eliminate the gender pay gap, SFIL published its gender equality index in 2019, scoring 87 out of a maximum 100 points for 2018.

1.8.1.6.2 Measures to promote the employment and integration of people with disabilities

SFIL signed a third three-year business agreement which will be submitted for governmental approval (DIRECCTE 92). As of the end of 2019, SFIL's rate of employment of people with disabilities was 2%. Since its creation, SFIL has had a disability correspondent, as provided for by the Pénicaud law.

The two previous agreements allowed SFIL to:

- achieve a 2% employment rate for people with disabilities in 2019;
- outsource contracts to various accessible companies (SOTRES 92 or HASC, *le Handicap au service des compétences*) for workers with disabilities to do digitization work in the company or provide awareness-raising and training through independent workers with disabilities;
- implement a range of awareness initiatives, onsite or online, in close collaboration with the Disability & diversity unit of La Banque Postale, and catering service provider ARPEGE;
- facilitate the disability statement of three SFIL employees and successfully support two employees with disability with their professional mobility. One person working in Lyon set up its own business with help from SFIL. The other joined the Caisse des Dépôts IT team;
- provide training for all employees with disabilities working for SFIL;
- finally, hire two new employees with disabilities, an intern from CABAT hired on a permanent contract and another person who is now on a work-study internship. Another intern with a disability also joined the Company.

1.8.1.6.3 Anti-discrimination policy

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

SFIL's objective is to prevent and resolve situations at work inducing a risk of non-compliance with the principles of equal treatment, non-discrimination and non-sexual or psychological harassment, and cases of racist or discriminatory abuse. It carried out related employee awareness-raising initiatives over the course of the year within the HR Division and in collaboration with the CHSCT (training and discussions to define discrimination). The new SEC appointed a correspondent for combatting sexist behavior and harassment in collaboration with the human risks correspondents and HR.

SFIL continued its drive to upskill its network of human risks and mediation correspondents, holding 4 workshops to discuss best practice on mediation in companies with other professionals: internal mediators from the Caisse des Dépôts group, ICADE and external mediators.

1.8.1.7 Promotion and compliance with the provisions of the International Labor Organization's fundamental convictions

SFIL fully applies the French labor law, which in turn fully incorporates the related ILO conventions on:

- respect for freedom of association and the right to collective bargaining;
- the elimination of discrimination in respect of employment and occupation;
- the elimination of forced or compulsory labor;
- the effective abolition of child labor.

1.8.2 Environmental information

1.8.2.1 General environment policy

SFIL continues to act on environmental issues and is always looking to improve practice, notably by managing consumables responsibly and raising awareness among its employees.

Recycling and supporting the circular economy

- In 2019, the scheme for collecting and recycling cans, coffee capsules, cups, plastic bottles and lids at Issy-les-Moulineaux, now in its third year, sent 842 kg of waste for re-use, a 48% increase on the previous year.
- A dead battery collection scheme at head office sent 60 kg of batteries for recycling.
- A total 8.9 tonnes of paper was collected and recycled at the Issy-les-Moulineaux site and 0.5 tonnes in Lyon, making a total of 9.4 tonnes.
- Electronic waste is directed toward approved anti-pollution operators to be properly treated by a company employing people with disabilities.

Awareness-raising among employees

SFIL lays great emphasis on awareness-raising and involving employees in its environmental initiatives. It held a number of events for this purpose in 2019:

- during European Sustainable Development Week, workshops were held on healthy and sustainable eating and eco-citizenship in the office;
- during European Waste Reduction Week, a range of activities were held, including a workshop on fixing broken electrical and electronic equipment (a dozen objects were repaired) and the "cut down on disposable cups" campaign;
- on the fourth anniversary of the UN Sustainable Development Goals, employees were invited to get to know the SDGs, particularly those prioritized by the Company, and could test their knowledge in a quiz;
- a management conference on CSR was held in September. Participants could contemplate a "climate fresco" which helped them understand the origins and factors contributing to climate disruption and learn about their complex actions and interactions;
- the adopt-a-beehive campaign run by an independent beekeeper taught employees about how to protect bees via intranet articles throughout the year on how their hives were getting on;
- the greening of the head office by the employee gardener community "Chloro'SFIL" continued. Plants, fruit trees and vegetables were planted and cultivated and the initiative expanded to include Lyon.

Amount of provisions and guarantees for environmental risks

The financial statements as of December 31, 2019, do not include any provision or guarantee regarding environmental risks.

1.8.2.2 Climate change

First carbon audit

Current regulations do not compel SFIL to analyze its greenhouse gas emissions[1]. Even so, as part of its drive to continuously improve its CSR processes, in 2019 SFIL carried out its first audit of its carbon footprint looking at the year 2018. The audit measured the Issy-les-Moulineaux and Lyon sites under all three greenhouse gas (GHG) emission scopes.

This initial audit measured SFIL's carbon footprint at 7,870 tCO_2:

- Scope 1 - direct emissions due to the Company's activity: 3%;
- Scope 2 - indirect emissions due to energy consumption: 1%;
- Scope 3 - other indirect emissions other than investment: 96%.

(1) *Extract from article L.229-25 (article 75 – section 4) of law No. 2010-788 of July 12, 2010 on the national commitment to the environment: all private legal entities employing more than five hundred persons are obliged to carry out an audit of their greenhouse gas emissions.*

Based on this first experience, SFIL committed in mid-2019 to cut its CO_2 emissions by 15% in 3 years. An action plan was launched in the 4th quarter which included analysis of its suppliers' CSR processes and changes to its travel policy.

Employee travel

The Company's travel policy was adapted at the end of 2019. New rules were introduced to prioritize rail travel: trains are now used systematically for all destinations in mainland France and neighboring European countries where journey times are less than three-and-a-half hours. In general, trains are preferred over planes wherever practical.

For daily commuting by employees, SFIL pays 65% of annual travel cards for employees working at its two sites.

To encourage soft mobility, from January 1, 2019, any employee buying an e-bike could claim a EUR 300 "green bonus" from the Company. SFIL also committed to paying a mileage compensation for employees who did part of their commute by bike (e- or otherwise). The subsidy is set at EUR 0.30 per kilometer and the first EUR 200 claimed each year are exempt from tax and social security contributions.

Finally, measures to encourage teleworking were strengthened in 2019. Workers could now work from home two days a week, assuming their manager agreed.

Sites awarded HQE (high environmental quality) Certification

The head office was re-awarded its HQE certification for "tertiary buildings in operation" in the buildings and sustainable management categories on March 14, 2019 with a "very good" rating.

The Lyon site also has BREEAM and HQE sustainable buildings certifications.

Energy consumption

Under its contract with EDF Entreprises for both its sites (Issy-les-Moulineaux and Lyon) SFIL has subscribed to the 100% renewable energy option under which EDF commits to injecting into the grid an equivalent amount of electricity from renewable sources to that consumed by SFIL. This helps to limit greenhouse gas emissions.

1.8.2.3 Protection of biodiversity

SFIL continues to sponsor three mobile beehives managed by an independent beekeeper in Cher. In 2019, honey production went organic earning Ecocert© certification.

As part of the *arrondi sur salaire* microdonation program offered to employees since September 2018, employees supported several projects to safeguard biodiversity run by Planète Urgence in 2019: restoration of the ecosystem in Indonesian mangrove swamps, reforestation of the La Bénoué national park in Cameroon and reforestation and relaunch of the wild silk project in Madagascar. Overall, 772 trees were planted thanks to support from SFIL employees.

1.8.3 Societal information

1.8.3.1 Territorial, economic and social impact of the Company's activities

Impact on employment and regional development

In 2019, SFIL employed an average of 392 people under permanent, temporary, work-study and internship contracts at its two office sites in Issy-les-Moulineaux (374 employees) and Lyon (18 employees).

1.8.3.2 Relationships with persons or organizations with an interest in the Company's business

1.8.3.2.1 The conditions for dialog with such persons or organizations

SFIL has provided:

- financing for the training of 61 work-study employees with 22 higher education institutions;
- financing via the 2019 "learning tax" of:
  - 4 higher education institutions: ENSAE, ISFA, ESSEC, "Ecole d'économie de la Sorbonne",
  - 3 associations promoting diversity: INSTITUT TELEMAQUE, Ecole de la seconde chance, LADAPT RHONE – ESAT Hors-les-murs.

1.8.3.2.2 Partnership and patronage activities

In 2019, SFIL continued to support upper secondary schools located in disadvantaged areas via the "High School Innovation Campus", renewing its corporate patronage agreement with the Collège de France to promote equal opportunities and social diversity. This program developed by the Collège de France first focuses on high-school students registered in institutions located in disadvantaged urban and rural areas. The goal is to enable students to demystify their relationship with academic knowledge, have confidence in themselves at a key moment in their education in which they must project themselves into the future and make career choices.

SFIL has also formed various other partnerships to encourage diversity and equal opportunity, in particular with the Télémaque association, which promotes access to culture for young people from underprivileged backgrounds through sponsorship by SFIL employees. Around a dozen employees play an active role as sponsors.

Since 2013, SFIL has participated in the Campus l'Envol project with its partner La Banque Postale. L'Envol was set up to support the schooling every year of 150 talented and deserving young people from modest backgrounds in both rural and urban areas, by coaching them individually from high school to entry into a high-level selective channel for further education or employment anywhere in France, including its overseas departments. Sponsorship by employee volunteers is one of the mainsprings of this program also.

SFIL employees can fund associations working in the social field or on sustainability through the *arrondi sur salaire* microdonation initiative in partnership with Microdon.

SFIL partnered with La Cravate Solidaire which collects second-hand work clothes for men and women. The suits and outfits are passed on to people who need formal clothes to help them get work, along with support from image coaches and recruiters who provide free advice.

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

SFIL signed a partnership with HASC (*le Handicap au service des compétences*), a company founded by the independent disabled workers association TIH. HASC helps SFIL in training its teams about disabilities and with the awareness sessions held at the Issy-les-Moulineaux and Lyon sites.

SFIL is a member of the HANDECO PAS-à-PAS network, which works to encourage the use by companies of sheltered employment service providers staffed by people with disabilities and encourages socially responsible procurement.

1.8.3.2.3 Subcontracting and suppliers

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

SFIL chooses its suppliers and subcontractors very carefully.

Its purchasing policy stipulates that the Company promotes sustainable and socially responsible purchasing whenever its various constraints allow. The listing of SFIL's suppliers and any subcontractors they use takes into account the CSR certifications obtained.

Therefore, in the context of calls for tender launched by SFIL, the final decision is based in particular on the service provider's compliance with ethical and socially responsible values, and its commitment to a low-carbon approach.

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

SFIL also regularly uses sheltered employment sector companies. In 2014, SOTRES 92, a disabled persons employer, provided SFIL with workers for paperless document production.

Lastly, SFIL's framework agreements remind suppliers of the tax and social legislation and statutory labor provisions in force as regards the performance of services. SFIL regularly carries out the required checks pursuant to these obligations. It also uses subcontracting clauses so that subcontractors are also bound by the same requirements.

1.8.3.2.4 Fair practices

Anti-corruption initiatives

While SFIL falls outside the scope of Sapin II, as it does not meet the criteria of Article 17 of the law (500 employees and EUR 100 million revenue), SFIL nevertheless operates in an ecosystem subject to these obligations. Moreover, the requirements in terms of anti-corruption are more stringent, and the regulators are paying increasing attention to the issue. SFIL is also fully committed to the fight against corruption and, as previously indicated, has joined the United Nations Global Compact, the 10th principle of which states: "Businesses should work against corruption in all its forms, including extortion and bribery", reinforcing the need for a robust system that all employees must respect.

Prevention of corruption is based first and foremost on creating a strong ethics and compliance culture among all group employees and managers, mainly through awareness-raising and training initiatives. In the very earliest stages means complying with the Ethics and Professional Conduct Code that was adopted when the Bank was first set up. The Code was revised in 2019 as part of the overhaul of anti-corruption procedures. Its purpose is to guide the day-to-day actions, decisions and behavior of employees at all levels in whatever circumstances they find themselves. It contains a code of conduct for preventing corruption, including the cross-group issue of conflicts of interest. It will be distributed in the first quarter of 2020.

As part of this voluntary initiative[1], work has been completed to supplement the existing framework of standards. Corruption risks were mapped for the first time in January 2019. A framework procedure for preventing corruption and a procedure for assessing third-party purchases have been adopted. The procedures for gifts and entertainment and for preventing and managing conflicts of interest have been updated. Operational implementation of these procedures is underway in the relevant divisions.

SFIL's anti-corruption procedures are explained in section 1.7.2.5.3 of the management report.

(1) The Sapin II law does not apply to the SFIL Group's corruption prevention system.

1.9 Additional information

Effective date of the amendments to the by-laws approved by the Shareholders' Meeting of May 29, 2019

The amendment to Article 15 of the by-laws relating to the representation of the employee representation body at Board meetings was approved by the General Shareholders' Meeting of May 29, 2019 and took effect on December 31, 2019.

The amendment to Article 3 of the by-laws on the extension of the corporate purpose was approved by the General Shareholders' Meeting of May 29, 2019 and took effect on January 9, 2020 once the general meetings of bondholders had given their approval.

Regulated agreements submitted to the approval of the Shareholders' Meeting of May 28, 2020

In accordance with the provisions of article L.225-40 of the French Code of Commerce, the following agreements authorized and entered into in 2019 shall be submitted to the approval of the Shareholders' Meeting:

- amendment to the service agreement of SFIL to LBP and LBP CL, authorized by the Board of Directors on September 5, 2019 and amendment No. 2 authorized by the Board of Directors on December 5, 2019;
- the framework agreement to assign receivables between LBP and CAFFIL in the presence of SFIL, authorized by the Board of Directors on September 5, 2019, as well as amendment No. 1 authorized by the Board of Directors on December 5, 2019 .

Amendments to the by-laws proposed at the Shareholders' Meeting of May 28, 2020

Within the framework of the options offered by Article 1835 of the French Civil Code (supplemented by Article 169 of Act No. 2019-486 of May 22, 2019 (Pacte Act), a proposal will be made to the Extraordinary Shareholders' Meeting of May 28, 2020 to insert a *raison d'être* into SFIL's by-laws.

The proposed *raison d'être* will be as follows: *"Financing a sustainable future through long-term responsible development support for regions and the international business ventures of large companies".*

***

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

Furthermore, no significant event that influences the Company's financial situation has occurred between the closing date and the management report date.

Concerning the Coronavirus (COVID-19) pandemic, the SFIL group is following the recommendations of the World Health Organization and the French government and has implemented the measures necessary to maintain operational continuity in all its business activities, in particular, almost all of its employees are working remotely and a crisis cell has been meeting daily to adapt the working methods used. The SFIL group's teams have been very closely monitoring the disruptions to the financial markets since the crisis began. The impact on current and planned future operations for SFIL and CAFFIL, and on their counterparties (customers, banks, partners) are being reassessed regularly. On the date this report was published, no impact was identified that may have significant consequences on the group's financial situation and its capacity to honor its commitments. Time lags in the collection of income from some of its assets (consisting entirely of exposures to public sector borrowers) may be considered, as well as the postponement of certain bond issues in the event of unfavorable market conditions. Nevertheless, the liquidity risk is limited by the good matching of the maturity profiles of assets and liabilities and the ability to benefit from the financing proposed by the European Central Bank through high-quality assets in the portfolio. Moreover, the quality of SFIL's shareholding structure, its status as a public development bank, the quality of CAFFIL's and SFIL's standings, the very rigorous risk management and the solid solvency ratio are all advantages within the current context.

2

Report on corporate governance

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

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

At December 31, 2019, SFIL, a *société anonyme* (public limited company) with a Board of Directors, was 75% owned by the French State, 20% by the Caisse des Dépôts, and 5% by La Banque Postale. It received its banking license on January 16, 2013. SFIL is subject to the French Code of Commerce as a commercial enterprise, to applicable French and European laws in its capacity as a credit institution as well as the provisions of the ordinance of August 20, 2014, ratified and amended by the law of August 6, 2015, because of its ownership structure. In addition, SFIL has structured its governance rules with reference to the Afep/Medef Code (see the conditions for its application, below) and by relying on the provisions or guidance of the European Central Bank and European Banking Authority.

All of the items presented are as at December 31, 2019. Consequently, they do not reflect any changes related to the proposed transfer of control of SFIL to the Caisse des Dépôts.

2.1 Governance Information

2.1.1 Overview of corporate governance structure and bodies

COMPOSITION OF THE BOARD OF DIRECTORS

KEY FIGURES

Independence*	Women*	Attendance rate	Average age	Average term of office
50%	**50%**	**93.3%**	**54**	**4 years**

* *excluding directors representing employees*

15 MEMBERS

	Financial Statements Committee ■	Risks and Internal Control Committee ▲	Governance and Appointments Committee ★	Compensation Committee ●
CHAIR				
Chantal Lory*	✓	✓		
CHIEF EXECUTIVE OFFICER				
Philippe Mills				
FRENCH STATE, DIRECTOR				
Élodie Boulch	✓	✓	✓	✓
MEMBER OF THE BOARD OF DIRECTORS PROPOSED BY THE FRENCH STATE				
Gabriel Cumenge				
INDEPENDENT MEMBERS OF THE BOARD OF DIRECTORS				
Jean-Pierre Balligand	✓	✓	✓	✓
Cathy Kopp			✓	✓
Françoise de Panafieu			✓	✓
Pierre Sorbets	✓	✓		
MEMBERS OF THE BOARD OF DIRECTORS REPRESENTING THE EMPLOYEES				
Pascal Cardineaud				✓
Marion Domalain			✓	
Frédéric Guillemin				
Thomas Morisse		✓		
Sandrine Peraud-Chemla	✓			
MEMBER OF THE BOARD OF DIRECTORS REPRESENTING THE CAISSE DES DÉPÔTS				
Virginie Fernandes	✓	✓		
MEMBER OF THE BOARD OF DIRECTORS REPRESENTING LA BANQUE POSTALE				
Serge Bayard	✓	✓		

* *Independent*

COMMITTEES OF THE BOARD OF DIRECTORS

	4 committees			
	Financial Statements Committee ■	Risks and Internal Control Committee ▲	Governance and Appointments Committee ★	Compensation Committee ●
Members	7	7	5	5
Meetings	4	5	4	3
Independent Directors*	50%*	50%*	75%*	75%*
Attendance rate	71.4%	68.6%	85%	80%

* *Not counting Members of the Board of Directors representing the employees.*

MANAGEMENT BODIES

** The General Auditor attends all meetings as a guest.

*** 27%, taking into account the participation of the General Auditor (permanent guest).

2.1.2 The Board of Directors

2.1.2.1 Overview of the Board of Directors

As of December 31, 2019

	Personal Information				Experience		Position on the Board			
	Age	Gender	Nationality	Number of shares	Number of directorships in listed companies	Indepen-dence	Initial appointment	Expiry of term	Seniority on the Board	Membership on Board committees
Chantal Lory Chair of the Board	66	♀	🇫🇷	None	None	✓	June 5, 2014	2020	5.5 years	■ ▲
Philippe Mills Chief Executive Officer	54	♂	🇫🇷	None	None		January 31, 2013	2020	7 years	
French State Represented by Élodie Boulch	33	♀	🇫🇷	None	None		September 3, 2019[(1)]	2020	4 months	■ ▲ ★ ●
Jean-Pierre Balligand Independent Member of the Board of Directors	69	♂	🇫🇷	None	None	✓	January 31, 2013	2020	7 years	■ ▲ ★ ●
Serge Bayard Member of the Board of Directors representing La Banque Postale	56	♂	🇫🇷	None	None		March 24, 2016	2021	4 years	■ ▲
Pascal Cardineaud Member of the Board of Directors representing the employees	58	♂	🇫🇷	None	None		April 24, 2013	2022	6.5 years	●
Gabriel Cumenge Member of the Board of Directors appointed at the proposal of the French State	39	♂	🇫🇷	None	None		March 29, 2018	2020	2 years	
Marion Domalain Member of the Board of Directors representing the employees	40	♀	🇫🇷	None	None		April 24, 2018	2022	1.5 year	★
Virginie Fernandes Member of the Board of Directors representing the Caisse des Dépôts	45	♀	🇫🇷	None	2		March 29, 2018	2021	2 years	■ ▲
Frédéric Guillemin Member of the Board of Directors representing the employees	56	♂	🇫🇷	None	None		December 12, 2014	2022	5 years	
Cathy Kopp Independent Director	70	♀	🇫🇷	None	None	✓	January 31, 2013	2020	7 years	★ ●
Thomas Morisse Member of the Board of Directors representing the employees	47	♂	🇫🇷	None	None		April 24, 2018	2022	1.5 year	▲
Françoise de Panafieu Independent Director	71	♀	🇫🇷	None	None	✓	January 31, 2013	2020	7 years	★ ●
Sandrine Peraud-Chemla Member of the Board of Directors representing the employees	44	♀	🇫🇷	None	None		April 24, 2018	2022	1,5 year	■
Pierre Sorbets Independant Director	69	♂	🇫🇷	None	None	✓	May 26, 2016	2021	3.5 years	■ ▲

(1) Representative of the French State on the Board of Directors since May 26, 2016.

Financial Statements Committee: ■
Risks and Internal Control Committee: ▲
Governance and Appointments Committee: ★
Compensation Committee: ●

Member having left the Board of Directors between January 1st and December 31, 2019

	Personal Information				Experience	Position on the Board				
	Age	Gender	Nationality	Number of shares	Number of directorships in listed companies	Indepen-dence	Initial appointment	Expiry of term	Seniority on the Board	Membership on Board committees
Schwan Badirou Gafari Representing the French State	36	♂		None	None		August 8, 2017	September 3, 2019	2 years	■ ▲ ★ ●

Changes made in the composition of the Board of Directors and the Committees during the fiscal year

As of December 31, 2019

	Exit	Appointment	Reappointment
Board of Directors	**Schwan Badirou Gafari**, in his capacity as representative of the French State on the Board of Directors Replacement by ministerial order 9/3/2019	**Élodie Boulch** Appointment by ministerial order as representative of the French State on the Board of Directors 9/3/2019	
Financial Statements Committee	**Schwan Badirou Gafari*** 9/3/2019	**Élodie Boulch*** 9/5/2019	
Risks and Internal Control Committee	**Schwan Badirou Gafari*** 9/3/2019	**Élodie Boulch*** 9/5/2019	
Governance and Appointments Committee	**Schwan Badirou Gafari*** 9/3/2019	**Élodie Boulch*** 9/5/2019	
Compensation Committee	**Schwan Badirou Gafari*** 9/3/2019	**Élodie Boulch*** 9/5/2019	

* *as representative of the French State to the Committee.*

2.1.2.2 Information on the Members of the Board of Directors

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

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

Chair of the Board of Directors

Ms. Chantal Lory
PRINCIPAL FUNCTION: Chair of the Board of Directors of SFIL, Independent Member of the Board of Directors

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

BIOGRAPHICAL DATA

- Graduate of Institut d'études politiques de Paris, Eco-Fi Section
- Graduate of Cesa Finance
- 1979-1984: Assistant Vice-President – Commercial Banking – American Express Bank
- 1984-1989: Vice-President Corporate Finance – Investment Banking – The Chase Manhattan Bank
- 1989-1992: Head of Mergers & Acquisitions – Trianon France – Marceau Investissements Group
- 1992-1997: Chief Executive Officer France HSBC Investment Bank – Paris Branch
- 1997-2008: Head of Financial Management at Cofinoga, then Chief Financial Officer of the holding company, then Head of Strategy and Outside Relations for the LaSer-Cofinoga Group
- 2009-2014: Member of the Management Committee, then of the Executive Committee of La Banque Postale (LBP); Chair of the Executive Board of La Banque Postale Financement, then of La Banque Postale Asset Management

MANDATES AND FUNCTIONS

- SFIL, Member of the Board of Directors, Chair of the Board of Directors, Member of the Financial Statements Committee and of the Risks and Internal Control Committee
- IN Groupe (formerly Imprimerie Nationale), Member of the Board of Directors, Chair of the Audit Committee, Member of the Strategy Committee and Member of the Appointments and Compensation Committee
- Milleis Banque (previously Barclays France SA), Member of the Board of Directors, Chair of the Audit Committee and Member of the Risks Committee

Chief Executive Officer

Mr. Philippe Mills
PRINCIPAL FUNCTION: Chief Executive Officer of SFIL, member of the Board of Directors

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

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

BIOGRAPHICAL DATA

- Graduate of Institut d'études politiques de Paris
- Alumnus of École nationale d'administration
- 1990-1994: Assigned to the Ministry of the Economy as deputy to the head of the public administrations bureau, then of general macro-economic forecasts, Forecasts division
- 1994-1996: European Bank for Reconstruction and Development
- 1996-1997: Bureau Chief, Economic Environment, Forecasts division, Ministry of the Economy
- 1997-2000: Bureau Chief, General Economic Forecasts, Forecasts division, Ministry of the Economy
- 2000-2003: Economic Adviser to the General Director, Economic and Financial Affairs, European Commission
- 2003: General Secretary, Forecasts division, Ministry of the Economy
- 2004-2006: Deputy Director, Public Finances, Forecasts division and then Treasury and Economic Policy division
- 2006-2008: Deputy Commissary for Planning, then Deputy Chief Executive Officer, Strategic Analysis Center in charge of economic, financial and European issues
- 2008-2013: Chief Executive Officer, Agence France Trésor
- 2013-2017: Chairman of the Board of Directors and Chief Executive Officer of SFIL
- Since 2017: Chief Executive Officer of SFIL

MANDATES AND FUNCTIONS

- SFIL, Member of the Board of Directors, Chief Executive Officer and Chairman of the Executive Committee
- Caisse Française de Financement Local, Chairman of the Supervisory Board
- European Association of Public Banks – EAPB, Member of the Board of Directors and Chairman

Representative of the State on the Board of Directors

M. Schwan Badirou Gafari (until September 3, 2019)
PRINCIPAL FUNCTION: General Secretary of the Club de Paris in the Directorate General of the Treasury

Born on May 1, 1983 – French
Dates of beginning and end of mandate:
August 8, 2017 - September 3, 2019
Date of initial mandate: August 8, 2017

Business address:
Agence des Participations de l'État
139, rue de Bercy
75572 Paris Cedex 12 (France)

BIOGRAPHICAL DATA

- Alumnus of École nationale d'administration
- Graduate of Institut d'études politiques de Paris
- Master's degree in Public Affairs
- 2010-2012: Deputy to the Environment and Agriculture bureau chief
- 2012-2014: Deputy to the Banking Affairs bureau chief
- 2014-2015: Advisor to the Office of the Administrator for France at the IMF and the World Bank
- 2015-2017: Alternate Director for France at the IMF
- 2017-2019: Deputy Director of "Services and Finance" investments, Agence des Participations de l'État, Ministry of the Economy and Finance
- Since July 2019: General Secretary of the Club de Paris in the Directorate General of the Treasury

MANDATES AND FUNCTIONS

- Directorate General of the Treasury, General Secretary of the Club de Paris (since July 2019)
- Agence des Participations de l'État, Deputy Director of "Services and Finance" investments (until July 2019)
- SFIL, Representative of the French State on the Board of Directors, Member of the Governance and Appointments Committee, Member of the Compensation Committee, Member of the Financial Statements Committee, and Member of the Risks and Internal Control Committee (until September 2019)
- Imprimerie Nationale, Representative of the French State on the Board of Directors (until September 2019)
- La Française des Jeux, Representative of the French State on the Board of Directors (until September 2019)
- Société anonyme d'économie mixte d'aménagement et de gestion du marché d'intérêt national de la région parisienne (SEMMARIS), Representative of the French State on the Board of Directors (until September 2019)
- Société pour le logement intermédiaire, Representative of the French State on the Board of Directors (until September 2019)

Ms. Élodie Boulch (since September 3, 2019)
PRINCIPAL FUNCTION: Deputy Director of "Services and Finance" Investments of Agence des Participations de l'État

Born on February 7, 1986 – French
Dates of beginning and end of mandate:
September 3, 2019-2020
Date of initial mandate: September 3, 2019

Business address:
Agence des Participations de l'État
139, rue de Bercy
75572 Paris Cedex 12 (France)

BIOGRAPHICAL DATA

- Graduate of Institut d'études politiques de Paris
- Master's degree in Public Affairs
- Fixed Income Certificate from ICMA
- 2011-2017: Banque de France
  - Market Economist in the Monetary Policy Implementation division (2011-2014)
  - Senior Bond Portfolio Manager in the Markets division (2014-2017)
- Since 2019: Agence des Participations de l'État - French Ministry for the Economy and Finance
  - Investment officer (2017-2019)
  - Deputy Director of "Services and Finance" Investments (since July 2019)

MANDATES AND FUNCTIONS

- Agence des Participations de l'État, Deputy Director of "Services and Finance" investments (since July 2019)
- SFIL, Representative of the French State on the Board of Directors, Member of the Governance and Appointments Committee, Member of the Compensation Committee, Member of the Financial Statements Committee, and Member of the Risks and Internal Control Committee (since September 2019)
- Imprimerie Nationale, Representative of the French State on the Board of Directors (since September 2019)
- Société anonyme d'économie mixte d'aménagement et de gestion du marché d'intérêt national de la région parisienne (SEMMARIS), Representative of the French State on the Board of Directors (since September 2019)
- Grand port maritime de La Rochelle, Representative of the Minister of the Economy on the Supervisory Board (until October 2019)
- Société de valorisation foncière et immobilière (SOVAFIM), Representative of the French State on the Board of Directors (until September 2019)
- Société nationale de programme Radio France, Representative of the French State on the Board of Directors (since October 2019)
- France Médias Monde, Representative of the French State on the Board of Directors

Members of the Board of Directors representing shareholders' interests

Mr. Serge Bayard
PRINCIPAL FUNCTION: Director of Companies and Regional Development at La Banque Postale

Born on October 24, 1963 - French
Dates of beginning and end of mandate: May 31, 2017-2021
Date of initial mandate: March 24, 2016

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

BIOGRAPHICAL DATA

- DUT in Corporate Management (Université Lyon I)
- Bachelor's degree in Administration (Université Paris XII)
- École nationale du Trésor
- Training cycle for chief inspectors of the Treasury
- 1984-1999: Public Accounting department
  - Category B Treasury Controller of the Administration (1984-1988)
  - In charge of the economic mission of the redevelopment center of Creusot/Montceau-les-Mines (1989-1994)
  - Director of the Treasury Department in charge of audit and control for the Rhône-Alpes region (1994-1999)
- 1999-2002: General Inspection of Finances, Inspector general of finance
- 2002-2004: Caisse des Dépôts, Director of Finances and C3D Strategy (Caisse des Dépôts Développement)
- 2004-2008: Groupe Caisse d'Épargne
  - Director of public-private partnerships (2004-2007)
  - Director of real estate markets (2007-2008)
- Since 2008: La Banque Postale
  - Director of Strategy (2008-2011)
  - Director of Companies and Regional Development (since 2011)

MANDATES AND FUNCTIONS

- La Banque Postale, Director of Companies and Regional Development
- SFIL, Member of the Board of Directors, member of the Financial Statements Committee and member of the Risks and Internal Control Committee
- La Banque Postale Collectivités Locales, Chairman of the Board of Directors
- La Banque Postale Leasing and Factoring, Chairman of the Executive Board
- La Banque Postale Home Loan SFH, Member of the Board of Directors
- La Banque Postale Assurance Santé, Member of the Board of Directors, member of the Development Committee (until February 2019)
- KissKissBankBank & Co, member of the Administration Committee

Mr. Gabriel Cumenge
PRINCIPAL FUNCTION: Deputy Director of International Corporate Financing at the Directorate General of the Treasury

Born on July 19, 1980 – French
Dates of beginning and end of mandate:
March 29, 2018 – 2020
Date of initial mandate: March 29, 2018

Business address:
Direction Générale du Trésor
139, rue de Bercy
75572 Paris Cedex 12 (France)

BIOGRAPHICAL DATA

- Economics degree
- Master's degree in Roman history
- History fellowship
- École normale supérieure (History, Economics)
- Government administration diploma from Institut d'études politiques de Paris
- Alumnus of École nationale d'administration
- 2008-2012: Ministry of the Economy and Finance
  - Deputy Head, European Coordination and Strategy Office (2008-2010)
  - Deputy Head, Banking Affairs Office (2010-2012)
- 2012-2014: International Monetary Fund (IMF)
  - Adviser to the Executive Director for France at the IMF and the World Bank (2012-2013)
  - Alternate Executive Director for France (2013-2014)
- 2014-2016: Office of the Minister of Finance and Public Accounts, adviser on European and international financial affairs
- 2016-2017: Office of the Minister of the Economy and Finance, Deputy Director
- Since 2017: Directorate General of the Treasury, Deputy Director, International Corporate Financing

MANDATES AND FUNCTIONS

- Directorate General of the Treasury, Deputy Director, International Corporate Financing
- SFIL, Member of the Board of Directors
- Caisse d'Amortissement de la Dette Sociale, representative of the Minister for the Economy and Finance on the Board of Directors
- Ministry for the Economy and Finance, representative of the Minister for the Economy and Finance on the body referred to in Article L.432-2 of the French Insurance Code
- ODAS, Member of the Board of Directors
- Naval Group SA, non-voting member on the Board of Directors

Ms. Virginie Fernandes

PRINCIPAL FUNCTION: Director of the Finance, Strategy and Holdings division Group Steering department of the Caisse des Dépôts group

Born on September 30, 1974 – French
Dates of beginning and end of mandate: March 29, 2018 – 2021
Date of initial mandate: March 29, 2018

Business address:
Caisse des Dépôts
56, rue de Lille 75007 Paris (France)

BIOGRAPHICAL DATA

- École Supérieure de Commerce de Rouen – banking and finance degree
- Graduate of Société Française des Analystes Financiers (French Association of Financial Analysts SFAF)
- 1998-2000: Audit manager at Ernst & Young
- 2000-2006: Senior financial analyst at Oddo Securities
- 2006-2009: Senior financial analyst at Crédit Agricole Cheuvreux
- Since 2010: Caisse des Dépôts Group
  - Responsible for monitoring financial holdings at the Strategic Investment Fund (2010-2012)
  - Head of the Real Estate, Housing and Tourism department of the Finance, Strategy and Holdings division (2012-2016)
  - Director of the Finance, Strategy and Holdings division of the Group Steering department (since 2017)

MANDATES AND FUNCTIONS

- Caisse des Dépôts, Director of the Finance, Strategy and Holdings Team – Group Steering department
- SFIL, Member of the Board of Directors, member of the Financial Statements Committee and member of the Risks and Internal Control Committee
- Bpifrance Investissement, Member of the Board of Directors and member of the Appointments and Compensation Committee
- Bpifrance Participations, Member of the Board of Directors, member of the Strategy Committee and member of the Investment Committee
- Compagnie des Alpes, Member of the Board of Directors representing the Caisse des Dépôts, member of the Strategy Committee and member of the Appointments and Compensation Committee
- Icade, Member of the Board of Directors representing the Caisse des Dépôts, member of the Strategy Committee and member of the Appointments and Compensation Committee
- CDC Habitat (formerly Société Nationale Immobilière – SNI), member of the Supervisory Board, member of the Strategy Committee and member of the Audit and Risks Committee (until june 2019)
- Transdev Group, Member of the Board of Directors and member of the Audit and Risks Committee

Independent members of the Board of Directors

Mr. Jean-Pierre Balligand
PRINCIPAL FUNCTION: independent member of the Board of Directors

Born on May 30, 1950 – French
Dates of beginning and end of mandate: May 26, 2016 – 2020
Date of initial mandate: January 31, 2013

BIOGRAPHICAL DATA

- Law degree and post-graduate degree in public law
- Experience as an elected official (1981-2013)
- Member of the Finance Commission of the National Assembly (1981-2012)
- Chairman (1997-2002) and member (1997-2012) of the Supervisory Board of the Caisse des Dépôts
- Delegated Chairman of the APVF (Association des Petites Villes de France)

MANDATES AND FUNCTIONS

- SFIL, Member of the Board of Directors, member of the Governance and Appointments Committee, member of the Compensation Committee, member of the Financial Statements Committee and member of the Risks and Internal Control Committee
- La Banque Postale, Chairman of the Steering Committee for Local Finances
- CDC Habitat (previously Société Nationale Immobilière SNI), Vice-Chairman of the Supervisory Board and member of the Strategic Orientation Committee
- ADOMA, member of the Board of Directors
- Institut de la Décentralisation, Chairman of the Board of Directors
- Maisons et Cités, non-voting director on the Board of Directors

Ms. Cathy Kopp
PRINCIPAL FUNCTION: independent member of the Board of Directors

Born on April 13, 1949 – French
Dates of beginning and end of mandate: May 26, 2016 – 2020
Date of initial mandate: January 31, 2013

BIOGRAPHICAL DATA

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

MANDATES AND FUNCTIONS

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

Ms. Françoise de Panafieu
PRINCIPAL FUNCTION: independent member of the Board of Directors

Born on December 12, 1948 – French
Dates of beginning and end of mandate: May 26, 2016 – 2020
Date of initial mandate: January 31, 2013

BIOGRAPHICAL DATA

- Institut Français des Administrateurs (IFA)
- Bachelor's degree in sociology
- Diploma from the Chamber of Commerce and Industry of Paris
- 1983-1995: Deputy Mayor of Paris, in charge of culture
- 1986-2012: elected official for Paris in the National Assembly
- 1995: Minister of Tourism
- 1996-1997: Ambassador delegate of France to UNESCO
- 1997-2002: Deputy Mayor of Paris, in charge of the environment
- 2001-2008: Mayor of the 17th arrondissement of Paris

MANDATES AND FUNCTIONS

- SFIL, Member of the Board of Directors, Member of the Governance and Appointments Committee and Member of the Compensation Committee
- Honorary member of the National Assembly – former minister
- Association La Société des Amis du musée du Quai Branly - Jacques Chirac, Chair of the Board of Directors
- Association Les Rencontres d'Arles Photographie, Vice-Chair of the Board of Directors
- Maison Européenne de la Photographie, member of the Board

Mr. Pierre Sorbets
PRINCIPAL FUNCTION: independent member of the Board of Directors

Born on August 30, 1950 – French
Dates of beginning and end of mandate: May 31, 2017-2021
Date of initial mandate: May 26, 2016

BIOGRAPHICAL DATA

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

MANDATES AND FUNCTIONS

- SFIL, Member of the Board of Directors, Chairman of the Financial Statements Committee and Chairman of the Risks and Internal Control Committee
- Les Sorbets du Clos Marie, Manager
- Magnard Finance Conseil, Chairman
- Société du Grand Paris, Chairman of the Financing Committee (since December 2019)

Members of the Board of Directors representing employees

Mr. Pascal Cardineaud
PRINCIPAL FUNCTION: Head of Mediation at SFIL

Born on August 12, 1961 – French
Dates of beginning and end of mandate: April 24, 2018 – 2022
Date of initial mandate: April 24, 2013

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

BIOGRAPHICAL DATA

- Economic sciences degree
- Master's degree in Sciences and Financial and Accounting Techniques (DECF and MSTCF)
- Certified Director of companies IFA-Sciences PO
- 1986-1990: clerk at currency desk and equities and derivatives trader
- 1990-1992: back office operator for various markets at La Compagnie Financière Edmond de Rothschild Banque
- 1992-1994: Head of back office markets and depositary at caisse centrale du Crédit Mutuel
- 1997-2001: Financial Engineer, asset manager at Dexia CLF Banque
- 2001-2012: Head of Client Relations at Dexia Crédit Local
- 2008-2012: Secretary of the CFDT Union for banks and financial institutions in the Paris region
- 2013-2016: Head of Financial Engineering at SFIL
- Since 2016: Head of Mediation at SFIL

MANDATES AND FUNCTIONS

- SFIL, Head of Mediation
- SFIL, Member of the Board of Directors, Member of the Compensation Committee

Ms. Marion Domalain
PRINCIPAL FUNCTION: Modeling Analyst in the Internal Models department of SFIL's Risks division

Born on June 13, 1979 – French
Dates of beginning and end of mandate: April 24, 2018 – 2022
Date of initial mandate: April 24, 2018

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

BIOGRAPHICAL DATA

- Economic sciences degree
- Industrial and international economics master's degree
- DESS/master's degree in public policy evaluation and financial analysis of local authorities
- 2004-2007: Finance Director at Poiré-sur-Vie municipality
- 2007-2013: Customer Manager at Dexia
- 2013-2018: Senior Credit Analyst in SFIL's Risks division
- Since July 2018: Modeling Analyst in the Internal Models department of SFIL's Risks division

MANDATES AND FUNCTIONS

- Principal function: Modeling Analyst in the Internal Models department of SFIL's Risks division
- SFIL, Member of the Board of Directors, Member of the Governance and Appointments Committee

Mr. Frédéric Guillemin
PRINCIPAL FUNCTION: Head of the Reporting Unit in the Risks division at SFIL

Born on April 1, 1963 – French
Dates of beginning and end of mandate: April 24, 2018 – 2022
Date of initial mandate: December 12, 2014

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

BIOGRAPHICAL DATA

- Ph.D. in Mathematics
- 1987-2000: Treasury Manager, Fund Manager and then Head of Debt Management Advisory at Crédit Coopératif
- 2000-2013: Head of New Product Development, then Head of Marketing, then Head of Client and Social Media Relations, then Head of Defaults unit at Dexia Crédit Local
- Since 2013: Head of the Reporting Unit in the Risks division at SFIL

MANDATES AND FUNCTIONS

- SFIL, Head of the Reporting Unit in the Risks division
- SFIL, Member of the Board of Directors

Mr. Thomas Morisse
PRINCIPAL FUNCTION: Head of Contract Management and Quality in SFIL's Technology and Organization division

Born on December 21, 1972 – French
Dates of beginning and end of mandate: April 24, 2018 – 2022
Date of initial mandate: April 24, 2018

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

BIOGRAPHICAL DATA

- Mechanical engineering degree
- Mechanical technology degree
- Organization and change management Master's degree
- 1994-1995: Quality & Methods assistant at Renault
- 1995-2001: Lean Management Coordinator at Renault
- 2001-2006: IS project management Consultant at Consort Group
- 2006-2011: IT Manager at AFPA
- 2011-2012: Business Unit Director at Amettis
- 2013-2014: IT Transition Manager at Dexia
- 2014-2018: IT Manager at SFIL
- Since 2018: Head of Contract Management and Quality in SFIL's Technology and Organization division

MANDATES AND FUNCTIONS

- SFIL, Head of Contract Management and Quality in the Technology and Organization division
- SFIL, Member of the Board of Directors, Member of the Risks and Internal Control Committee

Ms. Sandrine Peraud-Chemla
PRINCIPAL FUNCTION: ALM Manager at SFIL

Born on April 23, 1975 – French
Dates of beginning and end of mandate: April 24, 2018 – 2022
Date of initial mandate: April 24, 2018

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

BIOGRAPHICAL DATA

- Corporate and administrative management degree
- Financial engineering Master's degree
- 1999-2013: Dexia Crédit Local
  - Documentation Manager in credit back office and then market back office at Dexia Crédit Local (1999-2006)
  - Back office reconciliations Manager (2006-2008)
  - Back office documentation Manager (2008-2013)
- Since 2013: SFIL
  - Project Manager in the Market Back Office (2013-2018)
  - ALM Manager (since 2018)

MANDATES AND FUNCTIONS

- SFIL, ALM Manager
- SFIL, Member of the Board of Directors, Member of the Financial Statements Committee

Representative of the Social and Economic Committee: Ms. Sandrine Barbosa

Representative of the Social and Economic Committee

2.1.2.3 Attendance rate of Members of the Board of Directors

	Attendance at Board meetings	Attendance at Financial Statements Committee meetings	Attendance at Risks and Internal Control Committee meetings	Attendance at Governance and Appointments Committee meetings	Attendance at Compensation Committee meetings
Chantal Lory Chair of the Board	100%	50%	60%	N/A	N/A
Philippe Mills Chief Executive Officer	100%	N/A	N/A	N/A	N/A
French State*	100%*	50%*	60%*	50%*	66.7%*
Jean-Pierre Balligand	100%	75%	80%	75%	66.7%
Serge Bayard	80%	75%	60%	N/A	N/A
Pascal Cardineaud	100%	N/A	N/A	N/A	100%
Gabriel Cumenge	60%	N/A	N/A	N/A	N/A
Marion Domalain	100%	N/A	N/A	100%	N/A
Virginie Fernandes	100%	50%	40%	N/A	N/A
Frédéric Guillemin	100%	N/A	N/A	N/A	N/A
Cathy Kopp	80%	N/A	N/A	100%	100%
Thomas Morisse	100%	N/A	80%	N/A	N/A
Françoise de Panafieu	80%	N/A	N/A	100%	66.7%
Sandrine Peraud-Chemla	100%	100%	N/A	N/A	N/A
Pierre Sorbets	100%	100%	100%	N/A	N/A

* *represented by Schwan Badirou Gafari, then Élodie Boulch.*

2.1.2.4 Its role, organization and work

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

Chantal Lory is the Chair of the Company's Board of Directors; Philippe Mills is the Company's Chief Executive Officer. The Chair of the Board of Directors organizes and directs the work of the Board, ensures the smooth operation of the Company's governance bodies and participates in the Company's relations with control and supervisory authorities. The Chief Executive Officer has the broadest authority to act in the name of the Company in all circumstances. He exercises these powers within the limits of the Company's corporate purpose and subject to the powers expressly conferred by law and the Company's by-laws to Shareholders' Meetings and to the Board of Directors.

An internal rulebook, updated in September 2019, defines the operation of the Company's Board of Directors (its principal missions are included in the following table). More specifically, the aim of these rules is to present the manner in which the Board of Directors can best assume its role as guardian of the common interests of all the Company's stakeholders, including in particular its shareholders, employees and partners. It lists the rights and responsibilities of the members of the Board of Directors, including conflict of interest rules.

The Board of Directors meets at least once each quarter. In 2019, the Board of Directors therefore met five times. Average attendance of the Members was 93.33%, a slight decline (-2%) from the previous year.

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

Prior to the meeting, members of the Board of Directors receive an agenda and a file containing memoranda and documents related to the agenda. To improve access to information and discussions with Members of the Board of Directors, SFIL procured a new tool (digital platform).

During Board meetings, General Management presents the activity and accounts of the previous period (or the financial position if there is no accounts closure) and an update of the main projects under way within the Company or important issues it may face. The Board is also periodically asked to review the deliberations of the Company's specialized committees. Its principal work for the year 2019 is shown in the following table.

Principal missions of the Board of Directors	Specific work completed by the Board of Directors in 2019
Strategy:	
• Determine the guidelines for operations; • Ensure long-term value creation by the corporation in consideration of the social and environmental stakes of its operations; • Deliberate on the major strategic, economic, financial, and technological guidelines for operations; • Respond to the Works Council's opinion on strategic orientations.	• Quarterly review of the SFIL Group's operations, including bond issuance strategy of SFIL and its subsidiary CAFFIL; • Strategy review of the local public sector; • Strategy review of the export credit market; • Approval of the CSR Report; • Monitoring of the work being done on the transfer of control of SFIL to the CDC; • Monitoring of the Oxygène project (information systems) and achievement of the stabilized target; • Response to the Works Council's opinion on strategic orientations.
Governance-internal control and accounts	
• Propose the appointment of Board members and the Chief Executive Officer (appointed by decree), appoint the Chair; • Develop a competence policy that defines the evaluation of members of the management bodies and personnel in key positions; • Develop a succession plan, for the purpose of planning and organizing changes in directorships and positions of members of supervisory and management bodies; • Ensure the establishment of effective policies for preventing and managing conflicts of interest; • Approve the management report and prepare the Report on corporate governance, which includes information on officer compensation and Company governance; • Conduct a review of budgets and accounts, and the approval of these latter, ensuring their fair presentation.	• Took note of the change in representation of the French State; • Establishment of a policy to assess the competence of members of management bodies and personnel in key positions; • Review of the rules and regulations of the SFIL's Board of Directors, the CAFFIL's Supervisory Board, the Governance and Appointments Committee, the Financial Statements Committee, and the Risks and Internal Control Committee; • Approval of the update to the procedure for preventing and managing conflicts of interest; • Approval of the management report and preparation of the Report on corporate governance; • Budget review, approval of the annual financial statements, and review of interim statements of accounts; • Approval of the 2018 annual financial report and approval of the 2019 first-half financial report.
• Ensure that the obligations incumbent on it in matters of internal control met and, at least twice a year, conduct a review of operations and of internal control results; • Authorize agreements between the Company and any Member of the Board of Directors or shareholder.	• Validation of internal control report; • Review of the first-half reports on the internal audit and compliance, and monitoring of audit and compliance control plans; • Monitoring of supervisor interventions and the responses to their recommendations; • Approval of the amendment to the master agreement on export refinancing between CAFFIL and SFIL; • Authorization of two amendments to the service agreement of SFIL to LBP and LBP CL; • Authorization of the master agreement to assign receivables between LBP and CAFFIL in the presence of SFIL as well as its amendment.
Risk management	
• Define risk appetite; • Approve the overall risk limits set and reviewed at least once a year by the accountable officers; • Regularly examine the policies established in the Company; • Ensure that compliance policies are in place; • Approve emergency plans.	• Validation of risk appetite; • Approval of ICAAP, ILAAP, and resolution & recovery plan reports; • Review of the Pillar 3 Report; • Systematic review of quarterly reports on risk monitoring; • Approval of LCB-FT internal control report; • Review of the emergency and business continuity plan (PUPA).
Compensation	
• Subject to authorization by the Minister for the Economy, determine the distribution of the overall budget for compensation for Members of the Board of Directors set by the General Meeting; • Adopt and regularly review the general principles of the compensation policy and control its implementation.	• Update to the compensation policy; • Review of the 2019 overall budget for variable compensation; • Deliberation on the compensation of the Chair, the Chief Executive Officer, and the Members of the Board of Directors; • Review of the gender equality index.

Finally, the Board convened a Combined Shareholders' Meeting for May 29, 2019. The purpose of the Ordinary Shareholders' Meeting was to approve the Company and consolidated financial statements, appropriate earnings, approve regulated agreements, offer an opinion on the overall budget for compensation and compensation components of the Chief Executive Officer and the Chair of the Board, and reappoint a Statutory Auditor. The purpose of the Extraordinary Shareholders' Meeting was to amend the by-laws of SFIL relating to the representation of the employee representative body at Board meetings and to the expansion of operations. For this latter, in conjunction with the SFIL Group's plan to intervene in the system for refinancing loans hedged by the *Garantie des Projets Stratégiques* (strategic projects guarantee), the bondholders of some of SFIL's issuances were convened in a general meeting before proceeding, further to their positive opinion, with the adjustment of SFIL's corporate purpose.

2.1.2.5 Conditions for appointing Members of the Board of Directors, assessment of expertise, and qualification of independent members

While respecting the specific conditions for appointments linked to the status of SFIL as a State-backed company, the members of the Board of Directors are chosen on the basis of their skills and experience with regard to the Company's activities. The Governance and Appointments Committee performs an analysis for each appointment based on a matrix that lists the main areas of expertise sought by the Board for its candidates. This is an individual assessment, taking into account the Board's overall expertise. New appointments are approved by the European supervisor on the basis of a "fit and proper" analysis.

In the context of its analysis on the reputation and expertise of the Members of the Board of Directors conducted in 2019, the Governance and Appointments Committee confirmed that the Board collectively possessed the appropriate knowledge, expertise, and experience, but also noted the need to expand the Members' expertise in export credit. Training in this area has been scheduled. In 2019, training sessions were held on compliance, the ICAAP and the internal credit models.

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

Criteria (*)	Chantal Lory	Philippe Mills	Jean-Pierre Balligand	Serge Bayard	Gabriel Cumenge	French State represented by Élodie Boulch	Virginie Fernandes	Cathy Kopp	Françoise de Panafieu	Pierre Sorbets
Criterion 1: Corporate officer for the previous five years	✓	x	✓	✓	✓	✓	✓	✓	✓	✓
Criterion 2: Cross-directorships	✓	x	✓	✓	✓	✓	✓	✓	✓	✓
Criterion 3: Meaningful business relationships	✓	x	✓	x	✓	✓	x	✓	✓	✓
Criterion 4: Family tie	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Criterion 5: Statutory Auditor	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Criterion 6: Term of office longer than 12 years	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Criterion 7: Status of non-executive member of management and supervisory bodies	✓	x	✓	✓	✓	✓	✓	✓	✓	✓
Criterion 8: Major shareholder status	✓	✓	✓	✓	x	x	x	✓	✓	✓

* *"✓" for independence criterion met according to Afep/Medef Code criteria.*
"x" for independence criterion not met according to Afep/Medef Code criteria.

2.1.2.6 Assessment of the Board

In 2019, the Board conducted an assessment of its functioning and its Specialized Committees functioning using a questionnaire prepared on the basis of the previous survey performed by an outside consultant. The overall finding was that the Board's operation, which was already positive, has improved, with greater involvement in defining strategy, including in the realm of CSR. In terms of training, the results of the survey connect with a point previously raised with a question about knowledge of the specific features of export credit. In addition, managing conflicts of interest is a major issue that was revisited through the analysis. Lastly, in terms of the new application (digital platform) adopted for posting files and discussions with members of the Board of Directors, while the initial feedback was positive, Board members felt it was too soon to give an opinion on its overall effectiveness.

2.1.3 Specialized committees of the Board of Directors

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

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

2.1.3.1 Financial Statements Committee

Number of members	Members	Proportion of independent members	Number of meetings	Attendance rate
7	French State, represented by Élodie Boulch Jean-Pierre Balligand Serge Bayard Virginie Fernandes Chantal Lory Sandrine Peraud-Chemla **Pierre Sorbets**	50%	4	71.4%

Name *Committee Chair*

In 2019, the Financial Statements Committee met four times. It examined the financial statements of SFIL and Caisse Française de Financement Local as of December 31, 2018 and those as of June 30, 2019; their quarterly financial statements as of March 31, 2019, and September 30, 2019; the corresponding Statutory Auditors' reports; the loan sensitivity reduction activities; the changes in the SFIL group's cash management principles; the 2020 budget and 2021-2024 budget forecasts; the independence of the Statutory Auditors and their services rendered other than auditorship.

2.1.3.2 Risks and Internal Control Committee

Number of members	Members	Proportion of independent members	Number of meetings	Attendance rate
7	French State, represented by Élodie Boulch Jean-Pierre Balligand Serge Bayard Virginie Fernandes Chantal Lory Thomas Morisse **Pierre Sorbets**	50%	5	68.6%

Name *Committee Chair*

In 2019, the Risks and Internal Control Committee met five times. The primary purpose of the first meeting in 2019 was to study the procedures used (mapping, risk management procedures including non-compliance risk, annual control plan, and the results of controls) for internal control activities at SFIL and Caisse Française de Financement Local and the results of the intermediary review by the Company's Statutory Auditors. The participants of this first Committee's meeting included only Committee members, the Statutory Auditors and the heads of internal control at SFIL (the Operational Risks and Permanent Control division, the Compliance division and the Internal Audit and Inspection division). The other meetings held in 2019, in the presence of General Management and representatives of operating units concerned by the matters under review, for the most part discussed the quarterly reports on risk monitoring, the Pillar 3 report, the ICAAP and ILAAP reports, updates to the SFIL backup recovery plan, the risk appetite, internal credit models, (current matters, semi-annual reports, policy changes, roll-out plan, application for approval of a new model), the IT stabilization program, the 2018 internal control reports including one dedicated to anti-money laundering and terrorist financing, and the semi-annual reports on compliance and audit activities.

2.1.3.3 Governance and Appointments Committee

Number of members	Members	Proportion of independent members	Number of meetings	Attendance rate
5	French State, represented by Élodie Boulch Jean-Pierre Balligand Marion Domalain **Cathy Kopp** Françoise de Panafieu	75%	4	85%

Name *Committee Chair*

In 2019, the Governance and Appointments Committee met four times. The Committee also reassessed and reaffirmed the independence of the following directors of SFIL: Cathy Kopp, Chantal Lory, Françoise de Panafieu, Jean-Pierre Balligand, and Pierre Sorbets. Lastly, the Committee approved the governance and the strategy proposed by Management, and reviewed the first CSR Report for 2018.

2.1.3.4 Compensation Committee

Number of members	Members	Proportion of independent member	Number of meetings	Attendance rate
5	French State, represented by Élodie Boulch Jean-Pierre Balligand Pascal Cardineaud **Cathy Kopp** Françoise de Panafieu	75%	3	80%

Name *Committee Chair*

In 2019, the Compensation Committee met three times. Meetings were devoted in particular to the compensation of the Chair of the Board of Directors and the Chief Executive Officer, and the review of the compensation of members of SFIL's Executive Committee. In addition, the Committee issued a favorable opinion on the payment in April 2019 of the 2018 variable compensation package proposed by General Management. Moreover, the Committee reviewed the results of the equal opportunity policy, the measures proposed for 2020, and the results of the gender equality index for 2018 (87 points/100). Lastly, the Committee validated the 2019 cross-functional targets that serve as indicators for determining the variable compensation of General Management and the Executive Committee members not occupying control functions.

2.1.4 Application of the Corporate Governance Code

With respect to governance, the Company refers to the Afep/Medef Code[1], whose recommendations it applies with a few exceptions. These exceptions pertain to its shareholding structure, and more particularly the fact that the French State is its majority shareholder. The main differences between the Company's governance and provisions of the Code in its current version, updated in January 2020, are as follows:

Recommendation of the Code	Comments
Recommendation 5 - Participation by directors at Shareholders' Meetings	Since all shareholders are represented on the Board of Directors and all of the agenda items have already been presented at Board meetings, the participation of directors in Shareholders' Meetings aside from those who also represent shareholders does not have the same importance as for a company with a diverse group of shareholders.
Recommendations 7.1 and 7.2 - Gender diversity in the management bodies	The policy will be formalized in 2020. As of December 31, 2019, two of the 10 members of the Executive Committee, or 20%, are women. Including the participation of the General Auditor, a permanent guest of the Executive Committee, the percentage of women participating in this body is 27%.
Recommendation 11.3 - Meeting of a Board of Directors at least once a year, in the absence of the executive corporate officers	A meeting of the Risks and Internal Control Committee is held in the absence of general management in order to review the bank's overall internal control system. The external consultant who reviewed the Board's functioning in 2018 recommended extending the "executive session" principle to the Financial Statements Committee. The Governance and Appointments Committee and the Board of Directors decided that this principle would be applied to each of the other specialized committees that deemed it necessary, by providing for an annual executive session at the end of one of the scheduled meetings. The other committees did not make use of this option in 2019.
Recommendation 16.1 - Number of independent members of the Risks and Internal Control Committee and of the Financial Statements Committee	The representation of independent members was 50% (not including directors representing employees), but not two-thirds as recommended, notably due to the composition of the Board of Directors and the number of Independent Directors who can be members of specialized committees. It should be noted that the Board includes representatives from each shareholder (as shareholders oversee the Company's activities in accordance with the conditions set by the European Commission) as well as five directors representing employees.
Recommendation 23 - Number of shares held by the members of the Board of Directors	This provision is not applied by SFIL, whose shareholding is described above and whose shares are not listed.

(1) *Code updated in January 2020, available at www.afep.com.*

2.2 Compensation information

This section presents and describes the principles and criteria for determining, allocating and granting the fixed, variable and exceptional components of total compensation and benefits of all kind attributable to the Chair of the Board of Directors and Chief Executive Officer in connection with their terms of office in 2019 and constituting the compensation policy applicable to them.

2.2.1 Principles and rules for determining compensation for the Chair of the Board of Directors and the Chief Executive Officer

2.2.1.1 Compensation of the Chair of the Board of Directors

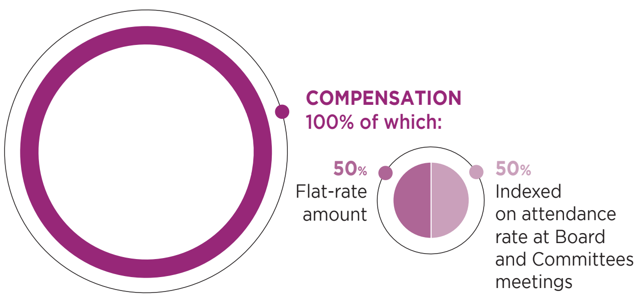
The Chair of the Board of Directors receives compensation consisting of a standard amount to which are added attendance fees for attendance at Board meetings and, where applicable, specialized committee meetings, subject to a cap proposed by the Compensation Committee and approved by the Board of Directors.

Pursuant to the provisions of decree no. 53-707 of August 9, 1953, amended by decree no. 2012-915 of July 26, 2012, relating to French State control of national public companies and certain organizations pursuing economic or social goals, which apply to SFIL, the Minister for the Economy approves the amount and allocation method for the overall budget for compensation of the members of the Board of Directors, as well as compensation items for the activity of the Chair of the Board of Directors.

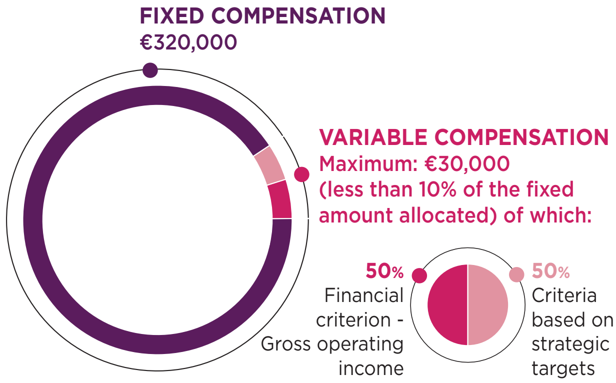
2.2.1.2 Compensation of the Chief Executive Officer

Pursuant to the above-mentioned 1953 decree, the annual gross compensation of the Chief Executive[1] Officer of SFIL may not exceed EUR 450,000. It includes a fixed portion as well as a variable portion, which is less than 10% of the fixed compensation paid out. For the 2019 fiscal year, payment of the variable portion is appraised by the Compensation Committee on the basis of criteria that take into account a financial indicator (gross operating income) and cross-functional objectives linked to the Company's activity. This amount is then proposed by the Compensation Committee to the Board of Directors for validation, subject to the approval of the Minister for the Economy. Based on the same criteria, the compensation (fixed salary + maximum variable portion) of SFIL's Chief Executive Officer for the 2020 fiscal year is also proposed by the Compensation Committee to the Board of Directors for approval, subject to the approval of the Minister for the Economy.

COMPENSATION STRUCTURE



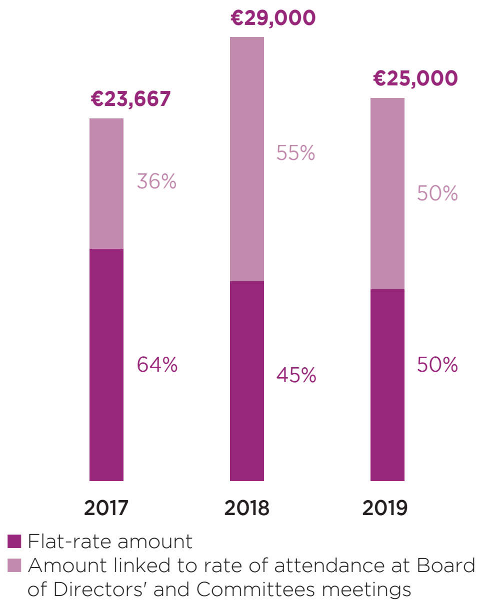
STRUCTURE OF THE CEO'S COMPENSATION



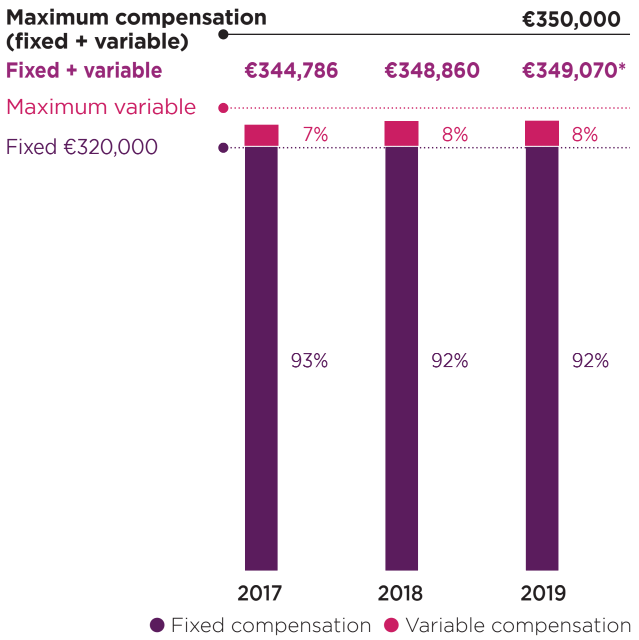
(1) *According to the aforementioned decree of 1953, this includes, in the case of SFIL, the Chief Executive Officer and the Chair of the Board of Directors.*

Change in compensation over the past three fiscal years

OF THE CHAIR OF THE BOARD OF DIRECTORS



OF THE CEO



** Of which €29,070 allocated, not yet paid*

LEVEL OF ACHIEVEMENT BY OBJECTIVE

		2017	2018	2019
Financial criterion (GOI)	Level of	55.0%	55.0%	50.0%
	achievement	55.0%	55.0%	50.0%
Criteria for strategic objectives	Weight	45.0%	45.0%	50.0%
	Level of achievement	27.6%	41.2%	46.9%
Overall level of achievement of objectives	**Weight**	**100.0%**	**100.0%**	**100.0%**
	Level of achievement	**82.6 %**	**96.2%**	**96.9%**

2.2.2 Compensation and benefits for the Chair of the Board of Directors and the Chief Executive Officer

Table 1 - Summary table of compensation, options, and shares for the Chair of the Board of Directors and the Chief Executive Officer

N/A

Table 2 - Summary compensation table for the Chair of the Board of Directors and the Chief Executive Officer *(in euros)*

	2018		2019	
Chantal Lory Chair of the Board of Directors	**Amounts allocated for the fiscal year**	**Amounts paid out for the fiscal year**	**Amounts allocated for the fiscal year***	**Amounts paid out for the fiscal year**
Gross fixed compensation				
Gross variable compensation				
Exceptional gross compensation				
Compensation for the office of Member of the Board of Directors and chair of the Board of Directors		29,000	25,000	
Benefits in-kind				
TOTAL		**29,000**	**25,000**	

(*) Subject to the approval of the Minister for the Economy and of the Shareholders' Meeting.

	2018		2019	
Philippe Mills Chief Executive Officer	**Amounts allocated for the fiscal year**	**Amounts paid out for the fiscal year**	**Amounts allocated for the fiscal year***	**Amounts paid out for the fiscal year**
Gross fixed compensation		320,000		320,000
Gross variable compensation		28,860	29,070	
Exceptional gross compensation				
Compensation allocated for term of office as Director				
Benefits in-kind				
TOTAL		**348,860**	**29,070**	**320,000**

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

Table 4 - Stock options allocated during the fiscal year to each executive corporate officer by the issuer and by any company in the Group

N/A

Table 5 - Stock purchase or subscription options exercised during the fiscal year by each executive corporate officer

N/A

Table 6 - Performance shares allocated during the fiscal year to each executive corporate officer by the issuer and by any company in the Group

N/A

Table 7 - Performance shares made available during the fiscal year by each executive corporate officer

N/A

Table 8 - History of stock options allocated

N/A

Table 9 - History of performance shares allocated

N/A

Table 10 - Summary table of variable compensation for each executive corporate officer

N/A

Table 11 - Contractual status of the Chair of the Board of Directors and the Chief Executive Officer

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

2.2.3 Compensation paid by SFIL to non-executive corporate officers (Table 3)

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

- EUR 7,500 per year and per director participating in all Board meetings. This amount is pro-rated according to the ratio of the number of meetings attended divided by the total number of meetings;
- EUR 1,000 for each specialized committee meeting attended, with a cap of EUR 10,000 per year for the cumulative attendance at the various committee meetings;
- an additional EUR 12,500 per year for the Chair of the Board of Directors;
- an additional EUR 2,000 per year for the Chair of each specialized committee.

	2018	2019	
Non-executive corporate officers	**Gross amounts paid for the fiscal year**	**Gross amounts awarded for the fiscal year**	**Gross amounts paid for the fiscal year**
Jean-Pierre Balligand	17,500[1]	17,500[1]	17,500[1]
Serge Bayard	9,000[2]	12,000[2]	12,000[2]
Pascal Cardineaud	/[3]	/[3]	/[3]
Delphine de Chaisemartin	1,000[4]	/	/
Gabriel Cumenge	4,500[5]	4,500[5]	4,500[5]
Marion Domalain	/[3]	/[3]	/[3]
French State	16,500[6]	16,500[6]	16,500[6]
Virginie Fernandes	11,500[7]	11,500[7]	11,500[7]
Frédéric Guillemin	/[3]	/[3]	/[3]
Cathy Kopp	18,500[8]	17,000[8]	17,000[8]
Chantal Lory	29,000[9]	25,000[9]	/
Thomas Morisse	/[3]	/[3]	/[3]
Françoise de Panafieu	14,500[8]	12,000[8]	12,000[8]
Sandrine Peraud-Chemla	/[3]	/[3]	/[3]
Jérôme Reboul	/[5]	/	/
Pierre Sorbets	18,500[10]	20,500[10]	20,500[10]
TOTAL	**142,000**	**136,500**	**111,500**

(1) Including the amount paid for participation in the Financial Statements Committee, the Risks and Internal Control Committee, the Governance and Appointments Committee and the Compensation Committee.
(2) Including the amount paid for participation in the Financial Statements Committee and the Risks and Internal Control Committee. Compensation paid to La Banque Postale.
(3) Pursuant to the provisions of the ordinance of August 20, 2014 and law no. 83-675 of July 26, 1983, on the democratization of the public sector, the terms of office of members of the Board of Directors representing employees are not paid.
(4) Including the amount paid for participation in the Financial Statements Committee, the Risks and Internal Control Committee, the Governance and Appointments Committee and the Compensation Committee. Compensation paid to the Caisse des Dépôts.
(5) Compensation paid into the French State budget.
(6) Including the amount paid for participation in the Financial Statements Committee, the Risks and Internal Control Committee, the Governance and Appointments Committee and the Compensation Committee. Compensation paid into the French State budget.
(7) Including the amount paid for participation in the Financial Statements Committee and the Risks and Internal Control Committee. Compensation paid to the Caisse des Dépôts.
(8) Including the amount paid for participation in the Governance and Appointments Committee and the Compensation Committee.
(9) Including the amount paid for chair of the Board of Directors and participation in the Financial Statements Committee and the Risks and Internal Control Committee.
(10) Including the amount paid for participation in the Financial Statements Committee and the Risks and Internal Control Committee.

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

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

Information about capital and shares

Amount of the capital, number and nature of the shares

The share capital of SFIL amounts to EUR 130,000,150; it is divided into 9,285,725 shares, each with a voting right and not subject to any pledge.

The shares are divided into two categories:

- 7,428,580 Common Shares; and
- 1,857,145 Preferred Shares issued in accordance with the provisions of Article L.228-11 of the French Code of Commerce and containing the rights and obligations defined in the by-laws.

There are no other securities giving access to the capital of SFIL.

Breakdown of capital

The share capital of SFIL is held at:

- 75% by the French State, via the Agence des Participations de l'État, *i.e.* 6,964,293 Common Shares;
- 20% by the Caisse des Dépôts, *i.e.* 1,857,145 Preferred Shares;
- 5% by La Banque Postale, *i.e.* 464,287 Common Shares.

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

The voting rights attached to the capital shares or jouissance shares shall be proportional to the fraction of capital they represent. Each share conveys one voting right.

Voting shall be realized by show of hands, by roll call, or by secret ballot, according to the decision of the Board of the meeting or the shareholders. Shareholders may also vote by mail.

2.4 Additional information

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

No transaction were reported (See Article 223-26 of the General Regulations of the Autorité des Marchés Financiers).

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

There were no agreements, as covered by Article L.225-37-4-2 of the French Code of Commerce, to mention.

Statutory Auditors

SFIL's Statutory Auditors are:

Deloitte & Associés

6, place de la Pyramide

92908 Paris-La Défense Cedex (France)

Company represented by Sylvie Bourguignon, partner

Reappointed at the combined Ordinary and Extraordinary Shareholders' Meeting of May 29, 2019, for six fiscal years, *i.e.* until the close of the Ordinary Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2024.

Ernst & Young et Autres

Tour First – TSA 14444

92037 Paris-La Défense Cedex (France)

Company represented by Vincent Roty, partner

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

In accordance with the option allowed by Article L.823-1 of the French Code of Commerce, an alternate Statutory Auditor was not appointed.

3

IFRS Financial Statements

3.1 Financial Statements

3.1.1 Assets

EUR millions	Note	12/31/2018	12/31/2019
Central banks	*2.1*	1,927	1,191
Financial Assets at fair value through profit or loss	*2.2*	5,586	4,906
Hedging derivatives	*4.1*	4,415	5,177
Financial Assets at fair value through equity	*2.3*	1,563	1,334
Financial Assets at amortized cost			
Loans and advances due from banks at amortized cost	*2.4*	239	323
Loans and advances to customers at amortized cost	*2.4*	44,706	47,332
Bonds at amortized cost	*2.4*	9,384	9,184
Fair value revaluation of portfolio hedge		2,552	2,774
Current tax assets	*2.5*	-	8
Deferred tax assets	*2.5*	80	70
Tangible assets	*2.6*	6	16
Intangible assets	*2.7*	33	31
Accruals and other assets	*2.8*	2,231	2,450
TOTAL ASSET		**72,722**	**74,796**

3.1.2 Liabilities

EUR millions	Note	12/31/2018	12/31/2019
Central banks		-	-
Financial liabilities at fair value through profit or loss	*3.1*	1,229	1,120
Hedging derivatives	*4.1*	6,134	7,062
Financial Liabilities at amortized cost			
Due to banks at amortized cost	*3.2*	1,928	379
Customer borrowings and deposits at amortized cost		-	-
Debt securities at amortized cost	*3.2*	60,068	62,466
Fair value revaluation of portfolio hedge		343	338
Current tax liabilities(1)	*3.3*	8	8
Deferred tax liabilities	*3.3*	-	-
Accruals and other liabilities	*3.4*	1,429	1,788
Provisions(1)	*3.5*	20	14
Subordinated debt		-	-
EQUITY		**1,563**	**1,621**
Capital		1,445	1,445
Reserves and retained earnings		93	155
Net result through equity		(38)	(29)
Net income		63	50
TOTAL LIABILITIES		**72,722**	**74,796**

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

3.1.3 Income Statement

EUR millions	Note	2018	2019
Interest income	*5.1*	2,723	2,675
Interest expense	*5.1*	(2,594)	(2,544)
Fee and commission income	*5.2*	4	7
Fee and commission expense	*5.2*	(3)	(5)
Net result of financial instruments at fair value though profit or loss	*5.3*	43	31
Net result of financial instruments at fair value though equity	*5.4*	0	-
Gains or losses resulting from derecognition of financial instruments at amortized cost	*5.5*	12	2
Gains or losses resulting from reclassification of financial assets at amortized coast 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
Other expense		(0)	(0)
NET BANKING INCOME		**186**	**166**
Operating expenses	*5.6*	(101)	(94)
Depreciation and amortization of property and equipment and intangible assets	*5.7*	(10)	(16)
GROSS OPERATING INCOME		**75**	**56**
Cost of risk	*5.8*	(5)	7
OPERATING INCOME		**69**	**63**
Net gains (losses) on other assets		-	-
INCOME BEFORE TAX		**69**	**63**
Income tax	*5.9*	(6)	(14)
NET INCOME		**63**	**50**
EARNINGS PER SHARE *(EUR)*			
• Basic		6.80	5.35
• Diluted		6.80	5.35

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

EUR millions	2018	2019
NET INCOME	**63**	**50**
Item that may be reclassified as profit or loss	**(18)**	**9**
Unrealized or deferred gains and losses of financial assets at fair value through equity	(2)	2
Unrealized or deferred gains and losses of cash flow hedges	(19)	10
Tax on items that may subsequently be reclassified as profit or loss	3	(3)
Item that may not be reclassified as profit or loss	**0**	**(0)**
Actuarial gains and losses on defined-benefit plans	0	(1)
Tax on items that may not subsequently be reclassified as profit or loss	(0)	0
TOTAL UNREALIZED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	**(18)**	**9**
NET INCOME AND GAINS OR LOSSES THROUGH EQUITY	**45**	**59**

3.1.5 Equity

EUR millions	Capital and reserves			Unrealized or deferred gains and losses				
	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	Net change in fair value of available-for sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax	Total	Total equity
EQUITY AS OF DECEMBER 31, 2018	**1,445**	**156**	**1,601**	**(1)**	**(1)**	**(36)**	**(38)**	**1,563**
IFRS 9 first time application (see note 8)	-	(2)	(2)	-	-	-	-	(2)
EQUITY AS OF JANUARY 1, 2019	**1,445**	**155**	**1,600**	**(1)**	**(1)**	**(36)**	**(38)**	**1,562**
Stocks issued	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Changes in fair value of financial assets through equity	-	-	-	-	1	-	1	1
Changes in fair value of derivatives through equity	-	-	-	(0)	8	8	8	8
Changes in fair value of financial assets through profit and loss	-	-	-	-	-	-	-	-
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-	-
Net income for the period	-	50	50	-	-	-	-	50
Other movements	-	-	-	-	-	-	-	-
EQUITY AS OF DECEMBER 31, 2019	**1,445**	**205**	**1,650**	**(1)**	**-**	**(28)**	**(29)**	**1,621**

3.1.6 Cash flow statement

EUR millions	2018	2019
NET INCOME BEFORE TAX	**69**	**63**
+/- Depreciation and write-downs	(104)	(25)
+/- Expense/income from investing activities	178	(110)
+/- Expense/income from financing activities	8	(12)
+/- Other non-cash items	182	(119)
= Non-monetary items included in net income before tax and other adjustments	**264**	**(266)**
+/- Cash from interbank operations	(2,243)	(1,637)
+/- Cash from customer operations	(155)	(1,239)
+/- Cash from financing assets and liabilities	(1,630)	654
+/- Cash from not financing assets and liabilities	(185)	238
- Income tax paid	(15)	(36)
= Decrease/(increase) in cash from operating activities	**(4,228)**	**(2,020)**
CASH FLOW FROM OPERATING ACTIVITIES (A)	**(3,895)**	**(2,223)**
CASH FLOW FROM INVESTING ACTIVITIES (B)	**(5)**	**(6)**
+/- Cash from or for shareholders	(50)	(41)
+/- Other cash from financing activities	3,310	1,540
CASH FLOW FROM FINANCING ACTIVITIES (C)	**3,260**	**1,449**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	**-**	**-**
INCREASE/(DECREASE) IN CASH EQUIVALENTS (A + B + C + D)	**(640)**	**(730)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**2,581**	**1,941**
Cash and balances with central banks (assets & liabilities)	2,560	1,927
Interbank accounts (assets & liabilities) and loans/sight deposits	21	14
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**1,941**	**1,212**
Cash and balances with central banks (assets & liabilities)	1,927	1,191
Interbank accounts (assets & liabilities) and loans/sight deposits	14	21
CHANGE IN NET CASH	**(640)**	**(730)**

3.2 Notes to the consolidated financial statements

Note 1 Accounting and valuation policies

1.1 Applicable accounting standards

1.1.1 Application of the accounting standards adopted by the European Union

The Group prepares its consolidated financial statements in compliance with International Financial Reporting Standards (IFRS), as endorsed by and applicable within the European Union.

The consolidated 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 financial statements as of December 31, 2019 were approved by the Board of Directors on March 19, 2020.

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

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

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

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

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

  Within the Group, the leases in the scope have been identified: it is limited to the property lease of the head office of the Group, in Issy-les-Moulineaux. For this lease, in compliance with the provisions of IFRS 16, a right-of-use asset and a lease liability have been recognized. Regarding the transition to IFRS 16, the Group has opted for a retrospective application under IAS 8.

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

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

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

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

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

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

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

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

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

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

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

  The amendment of IAS 12 has no material impact on the Group's consolidated financial statements. The amendments of IAS 23, IFRS 3 and IFRS 11 have no impact on the Group's consolidated financial statements given that its activities fall outside these standards' scope.
- Amendments to **IAS 39 Financial Instruments: Recognition and Measurement/IFRS 9 Financial Instruments/IFRS 7 Financial Instruments: Disclosures:** published by the IASB on September 26, 2019, endorsed by the European Union on January 15, 2020 (EU Regulation 2020/34) and effective for reporting periods beginning on or after January 1, 2020, with earlier application permitted, these amendments complete "phase 1" of the IASB's plans, and aim to ensure that any uncertainty arising from interest rate benchmark reform does not lead to early discontinuation of hedging relationships. The IASB is therefore aiming to limit the impact of this global reform on entities' financial statements. These amendments include exceptions regarding assessment of the highly probable nature of future hedged cash flows, complying with the separate identification requirement for the hedged risk, and conducting prospective and retrospective effectiveness measurements. These exceptions apply to hedging relationships affected by the reform, i.e. where there is uncertainty with respect to the benchmark interest rate designated as the hedged risk, and/or with respect to the timing and the amount of the interest rate benchmark-based cash flows of the hedged item or hedging derivative. They shall apply until the uncertainty is no longer present. The IASB is currently working on "phase 2" work to provide accounting support for the interest rate benchmark reform, which may give rise to additional amendments in 2020.

  The IFRS 9 amendment has no impact on the Group's consolidated financial statements, as it applies IAS 39 for its hedge accounting. However, the IAS 39 and IFRS 7 amendments do have an impact on the Group's consolidated financial statements, as the Group opted for an early application of these amendments from January 1, 2019.

  The benchmark interest rates to which the Group is most exposed are the Euribor, Eonia and Libor rates (USD, GBP, CHF and JPY). To manage the transition from the old to the new benchmark interest rates in all currencies and jurisdictions, the Group has set up a steering committee which involves all relevant departments of the Bank, including front office, the legal department, the finance division and the risks division. The committee aims to reduce the risks of the transition, ensure that it is properly implemented within the required time frames, and monitor the work of the marketplace in this area. In addition to the qualitative information, the quantitative information required by the IFRS 7 amendment is presented below under Note 4.1, which primarily covers the notional amounts of the hedging derivatives to which these amendments apply.

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

- Amendments to **IAS 1 Presentation of Financial Statements; IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors; IAS 10 Events After the Reporting Period; IAS 34 Interim Financial Reporting; IAS 37 Provisions, Contingent Liabilities and Contingent Assets:** issued by the IASB on October 31, 2018, endorsed by the European Union on November 29, 2019 (EU Regulation no. 2019/2104), and effective for reporting periods beginning on or after January 1, 2020, these amendments aim to clarify and align the definition of materiality across the various IFRS standards, to increase the consistency of its application in financial statements.

  The impact of these amendments on the Group's consolidated financial statements is being analyzed.
- 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 the IASB on March 29, 2018, endorsed by the European Union on November 29, 2019 (EU Regulation no. 2019/2075) and effective for reporting periods beginning on or after January 1, 2020, the aim of these amendments is to update the references made to the conceptual framework in the existing standards and interpretations. This is a result of the IASB's revision of this framework.

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

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

  Given this new standard's distant date of application and as the European Union has not endorsed it, its impact on the Group's consolidated financial statements will be analyzed at a later stage.
- Amendment to **IFRS 3 Business Combinations:** issued by the IASB in October 2018, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2020, this amendment narrows and clarifies the definition of a business, a key concept that makes it possible to distinguish a business combination from a mere acquisition of a group of assets.

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

1.2 Accounting principles applied to the financial statements

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

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

Judgments were mainly made in the following areas:

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

These judgments are detailed in the following sections.

Estimates were principally made in the following areas:

- determination of fair value for financial instruments measured at fair value;
- assessment of the amount of expected credit losses, notably in connection with defining the macroeconomic scenarios used; and
- estimation of future taxable profits for the recognition and measurement of deferred tax assets.

1.2.1 Consolidation

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

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

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

The analysis of the level of control is reviewed if a change occurs in one of these conditions. Subsidiaries are consolidated on the date that the Group gains control. All intragroup transactions and balances, as well as unrealized gains or losses resulting from intragroup transactions, are eliminated on consolidation.

The Group holds 100% of Caisse Française de Financement Local. The Group consists of these two entities. The activity of the Group is to refinance French public sector entities, public healthcare facilities and export credit loans.

Name	Method	Control (%)	Interest (%)
Parent company			
SFIL			
Consolidated entity			
Caisse Française de Financement Local	IG	100%	100%

1.2.2 Offsetting of financial assets and liabilities

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

1.2.3 Foreign currency transactions

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

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

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

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

1.2.4 Transaction recognition date and settlement date

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

1.2.5 Financial assets

When the Group becomes party to the contractual provisions of a financial asset, it classifies said asset in one of the three categories provided for by IFRS 9, depending on the business model it is held within on the one hand and the characteristics of its contractual cash flows on the other hand.

1.2.5.1 Business model

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

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

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

- qualitative indicators: how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model and the financial assets held within that business model and, in particular, the way in which those risks are managed and how managers of the business are compensated (for example, whether their compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- quantitative indicators: the frequency, value and timing of sales in prior reporting periods, the reasons for those sales and expectations about future sales activity.

  It can be inferred from this assessment that the Group only uses the Hold-To-Collect (HTC) model and the Holt-To-Collect-and-Sell (HTCS) model. The Group holds no financial assets for trading purposes, *i.e.* it does not issue, acquire, or hold financial assets for the purpose of realizing a net gain by selling or repurchasing them in the near term.

1.2.5.2 Characteristics of contractual cash flows (SPPI criterion)

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

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

1.2.5.3 Financial assets measured at amortized cost

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

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

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

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

The effective interest rate is the rate that exactly discounts the expected future cash flows over the financial instrument's expected life or, where more appropriate, a shorter period, so as to obtain the financial instrument's gross carrying amount or, if the financial asset was impaired on initial recognition or subsequently (see below), its *net* carrying amount less, in particular, any valuation adjustments for expected credit losses. This rate's calculation takes into account the commissions received or paid by the contract's parties that naturally form an integral part of the contract's effective rate, as well as any premiums and discounts, and transaction costs. Transaction costs are marginal costs that are directly attributable to a financial instrument's acquisition and used for the calculation of the effective interest rate. A marginal cost is one that would not have been incurred if the entity had not acquired the financial instrument.

1.2.5.4 Financial assets measured at fair value through the other comprehensive income item Unrealized or deferred gains and losses

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

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

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

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

1.2.5.5 Financial assets measured at fair value through profit or loss

A financial asset that does not belong to either of the two categories described above (amortized cost or fair value through the other comprehensive income item Unrealized or deferred gains and losses) falls under this category and is classified and subsequently measured at fair value through profit or loss: this category is mainly composed of financial assets that do not meet the SPPI criterion.

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

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

- fair value changes excluding accrued interest, under the net banking income item Net result of financial instruments at fair value through profit or loss; and
- due and accrued interest, under Net interest margin.

1.2.5.6 Designation options

The Group does not use the following options:

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

1.2.5.7 Impairment of financial assets

Defining the impairment base

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

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

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

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

No 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 increased significantly

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

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

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

- it is in "default" under the Basel definition. This applies when it is unlikely to pay, which is evidenced by a credit risk rating indicating actual credit impairment, it being probable that the counterparty will not repay all or part of its debt, not taking into account the triggering of any guarantees. It also applies when it has qualifying arrears of more than 90 days on the principal and/or interest, where the qualification of arrears is determined on the basis of materiality and expert judgment. Exposures to a counterparty in "default" are considered non-performing from a prudential perspective (Non-performing Exposures);
- it has arrears of more than 90 days on the principal and/or interest, but is nonetheless not in "default" under the Basel definition on the grounds that these arrears are not qualifying. Exposures to a counterparty in this situation are also considered non-performing from a prudential perspective (Non-Performing Exposures).

Across the scope included in segmentation into Stages, the tax base of Stage 3 is wider than that of the "default" under the Basel definition and is in line, overall, with that of the Non-performing Exposures, with one notable difference: counterparties already in forbearance and to whom a new forbearance has been granted and/or a payment incident of more than 30 days has been recorded. Contracts of counterparties in this situation are considered as non-performing from a prudential perspective (Non-performing Exposures), but remain classified as Stage 2 for accounting purposes (see below).

Contracts of a counterparty are considered as Stage 2 when, without being in either of the Stage 3 situations (see above), the counterparty is in one of the following situations, embodying a significant increase in the credit risk:

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

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

Transitions between Stages must comply with the following rules:

- contracts with a counterparty in "default" can be reclassified from Stage 3 to Stage 2 or Stage 1 only after a one-year probationary period during which the counterparty is still considered as in "default" and that counterparty's contracts remain in Stage 3. Exit is also subject to the Default Committee's approval and conditional on the full payment of any arrears;
- contracts in forbearance can be reclassified from Stage 2 or Stage 3, depending on the case, and to Stage 1 only after a two-year probationary period starting from the concession date, if the counterparty was not in default, or after the date when the contract exited default, if it was there.

Measuring the amount of the expected credit loss

The provision recognized on the contract is equal to the average expected credit losses of each of the scenarios weighted by their respective probabilities of occurrence. For all material portfolios, the definition of scenarios includes a forward-looking dimension, which consists in projecting macroeconomic and financial variables and assessing their impact on provisioning. These scenarios are built either on Credit Risk division projections or on quantitative research based on data produced by advanced models.

For French local authorities, the main assumptions, as well as the scenarios and their weighting, are presented below:

- a central scenario, consistent with the strategic plan in terms of the local authorities' borrowing need, and based on the French State's local public expenditure and tax revenue forecasts and targets presented in the finance bills and stability programs. This scenario is weighted at 60% (a compromise between France's European public deficit reduction commitments and election issues for the local authorities);
- a virtuous scenario, in which the local authorities make use of tax leverage and stabilize investment spending, which makes deleveraging possible and improves their financial position. This scenario is weighted at 25% (election timetable conducive to investment amid budget constraints);
- a worsening scenario in which local authorities increase investment spending with no new tax effort required of taxpayers: they resort to debt. This scenario is weighted at 15%.

For contracts classified in Stage 1 or Stage 2, expected credit losses equal the present value discounted at the contract's initial effective interest rate of the product of three parameters: probability of default (PD), exposure at default (EAD) and loss given default (LGD). These parameters vary depend on the scenario and the year under consideration. The group has capitalized on the mechanism for calculating these parameters per the Basel model and introduced adjustments to account for IFRS 9-specific provisions. This approach has resulted in the definition of IFRS 9-specific models for all material portfolios. More precisely, specific models for calculating PD and LGD have been developed for local authorities and groups with their own tax system, given that this portfolio is the most significant for the Group. These calculations are performed in the following steps:

- a through-the-cycle migration matrix is built on the basis of available historical data;
- it is then skewed to calculate point-in-time PD as well as the point-in-time migration matrix;
- this latter is applied to the scenarios, with forward-looking information factored in.

For contracts classified in Stage 3, expected credit losses equal the loss at maturity, *i.e.* the difference between the sequence of cash flows contractually due to the Group and the sequence of cash flows that the Group expects to recover, both discounted at the original effective interest rate. Depending on the contract's materiality, the cash flows that the Group expects to recover are calculated either through individual simulations carried out by the Credit Risk division or through standard recovery scenarios based on predefined management rules. These flows are, if applicable, net of any flows derived from selling collateral securities that form an integral part of the contractual terms and conditions.

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

Recognizing provisions

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

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

1.2.5.8 Derecognition of financial assets

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

- substantially all the risks and rewards of ownership of this asset have been transferred; or
- substantially all the risks and rewards of ownership of this asset have been neither transferred nor retained, but the asset's control has been relinquished. If the asset's control has been retained, the underlying asset continues to be recognized to the extent of Group's continuing involvement in it.

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

Disposals

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

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

Repos and reverse repos

Securities sold with a commitment to repurchase them at a predetermined price (*repos*) are not derecognized and remain on the balance sheet in their original category. The corresponding liabilities are recognized as financial liabilities at amortized cost. The assets are reported as pledged in the notes.

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

The difference between the sale price and the purchase price is recognized as interest income or expense, capitalized and spread over the contract's lifetime using the effective interest rate method.

Prepayments

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

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

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

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

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

If the post-restructuring terms are substantially different from the original terms, the original loan is derecognized and the restructured loan is recognized as a new financial asset. Its gross carrying amount is adjusted so as to reflect market conditions; it corresponds to the present value of the restructured cash flows discounted at the effective interest rate of a loan granted under normal market conditions at the loan's restructuring date. 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 net banking income item used to recognize net gains and losses of the derecognized financial asset's category.

1.2.6 Financial liabilities

1.2.6.1 Financial liabilities held for trading

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

1.2.6.2 Financial liabilities designated at fair value through profit or loss

The Group does not use this option.

1.2.6.3 Financial liabilities measured at amortized cost

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

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

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

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

1.2.6.4 Derecognition of financial liabilities

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

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

1.2.7 Derivatives

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

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

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

1.2.7.1 Derivatives not documented in a hedging relationship

The Group enters into derivative contracts solely to hedge its exposures to interest rate or foreign exchange positions. However, some derivatives must be measured at fair value through profit or loss at the closing date, namely:

- those that failed hedge effectiveness tests at the closing date;
- those that hedge financial assets that are measured at fair value through profit or loss. In this case, the revalued derivative automatically covers the revalued hedged item, eliminating the need to document a hedging relationship.
- those aimed at covering the foreign exchange risk for refinancing export credits denominated in a currency other than the euro. These derivatives are contracted before the end of the underlying credit drawdown phase, but the foreign exchange risk hedging relationship could only be documented starting with the full payment of these latter to the Group's balance sheet.

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

1.2.7.2 Hedging derivatives

Hedging derivatives can be classified as either:

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

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

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

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

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

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

- in the case of a fair value hedge, the portion attributable to the hedged risk of the adjustment to the fair value of the hedged interest-bearing financial instrument must be amortized in profit or loss over the hedged item's residual maturity by adjusting said item's yield;
- in the case of a cash flow hedge, the cumulative amounts recognized in other comprehensive income during previous reporting periods in respect of the effective portion of the derivatives' fair value changes continue to be recognized in other comprehensive income until the derecognition or extinguishment of the hedged item. They are reclassified to profit or loss as and when the item formerly hedged item impacts profit or loss.

1.2.7.3 Hedging of a portfolio's interest rate risk

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

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

The Group performs a comprehensive analysis of its interest rate risk exposure. 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 portfolio time buckets. When they are removed from the portfolio, therefore, they must be removed from all time buckets on which they have an impact.

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

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

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

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

1.2.8 Fair value of financial statements

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

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

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

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

1.2.8.1 Fair value of financial instruments measured at amortized cost

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

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

1.2.8.2 Financial instruments measured at fair value

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

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

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

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

In addition, a valuation adjustment is included in the fair value of derivatives to reflect the impact of the counterparty's credit risk (credit valuation adjustment – CVA) or the counterparty's net exposure to the Group's credit risk (debit valuation adjustment – DVA). These adjustments are used to move from a fair value based on the discounting of future cash flows at the risk-free rate, *i.e.* not considering the counterparty risk, at a fair value in view of this risk. It is determined according to risk exposure combined with loss rates, in view of 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 the closing date are used to determine deferred taxes.

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

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

Deferred taxes relating to remeasurements of financial assets measured at fair value through the other comprehensive income item Unrealized or deferred gains and losses, cash flow hedges and other transactions recognized directly in other comprehensive income are also recognized in other comprehensive income.

1.2.10 Fixed assets

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

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

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

When it meets the criteria for recognition, software developed internally is recognized at its development cost, which includes external expenditure on hardware and services and staff expenses that can be directly attributed to the asset's production and preparation for use.

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

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

Components	Depreciation/amortization period
Technical installations	10-20 years
Fixtures and fittings	10-20 years
IT Software equipment	3 years
developed or acquired*	3 or 5 years
Office layouts, furniture and equipment	2-12 years

** Purchased licenses and equipment are amortized or depreciated, respectively, over three years. The depreciation period of internally developed software depends on whether they are strategic. Those which are considered strategic are amortized over five years; those which are not are amortized over three years.*

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

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

1.2.11 Leases

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

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

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

The related consideration must be allocated among each of the contract's lease and non-lease components, each lease component within the contract being accounted for as a distinct lease and separately from its non-lease components. However, as a practical expedient, non-lease components may continue to be grouped with the lease component with which they are associated, the whole being then accounted for as a single lease.

Short-term leases and leases for which the underlying asset is of low value when new may be exempted, as may non-material leases, etc. The lease payments associated with these leases are recognized over the lease term on a straight-line basis, under Operating expenses.

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

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

- a right-of-use asset. This asset is initially measured at cost, which corresponds to the amount of the lease liability's initial valuation including if applicable any lease payments already made, any initial direct costs incurred by the Group and any final restoration costs; and a lease liability;
- lease liabilities. This liability is initially measured at the present value of the lease payments not yet made discounted using the interest rate implicit in the lease or, if no such rate exists, the Group's incremental borrowing rate.

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

- fixed payments, net of any lease incentives receivable;
- variable payments, which are determined by an index or a rate. They are measured using the index or the rate in force at the commencement date;
- if applicable, amounts due in respect of the residual value of guarantees given;
- if applicable, the exercise price of any purchase option that the Group is reasonably certain to exercise;
- if, on the other hand, the Group has assessed the lease term on the assumption that it would exercise its termination option, the penalties incurred in this event.

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

- less accumulated depreciation and, if applicable, impairment. The asset is depreciated on a straight-line basis from the commencement date over its expected useful life or, if shorter, the lease term. The expected useful life must however be used if the Group is reasonably certain to exercise its purchase option or if the asset's legal ownership is substantially transferred to the Group before the end of the lease term; and
- taking into account if applicable any re-measurement of the lease liability.

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

- plus accrued interest not yet due;
- less the part of the lease payments made during the reporting period which corresponds to the repaid principal; and
- taking into account if applicable any re-measurement of the lease liability or modification of the lease.

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

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

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

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

1.2.12 Provisions

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

Regarding mainly litigation and restructurings, pursuant to IAS 37 a provision is recognized when and only when:

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

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

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

- loan commitments measured at fair value through profit or loss, which are fully in the scope of IFRS 9. They are therefore not provisioned for expected credit losses but valued, their valuation being recognized as an asset; and
- other loan commitments, which are in the scope of IFRS 9 only as regards derecognition and impairment. Valuation adjustments for expected credit losses related to these commitments are therefore measured and recognized the same way as those related to financial assets measured at amortized cost or fair value through the other comprehensive income item Unrealized or deferred gains and losses. The assessment of whether credit risk has significantly increased is performed from the date on which the Group is irrevocably and legally committed, *i.e.* from when it issues a loan offer letter. At the same time, the related valuation adjustments are recognized as a liability with an offsetting entry to profit or loss under Cost of risk.

1.2.13 Employee benefits

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

1.2.13.1 Short-term benefits

Short-term benefits are those expected to be settled within 12 months of the end of the annual reporting period during which the service is rendered; they are not discounted and are recognized as an expense of the reporting period. Paid annual leave is recognized if granted to the employee. A provision is set aside to this end based on the rights vested to employees at the closing date.

1.2.13.2 Long-term benefits

These benefits, generally related to seniority, are paid to current employees. Their payment is deferred for more than 12 months after the end of the reporting period during which the employee renders the related service. They comprise in particular long-service awards. The actuarial gains and losses related to these benefits and all service costs are recognized immediately in profit or loss.

1.2.13.3 Termination benefits

Employee termination benefits result either from a decision by SFIL to terminate an employment contract before the employee's legal retirement age or from an employee's decision to take voluntary redundancy in exchange for termination benefits. A charge for termination benefits at the end of the employment contract is recognized only when SFIL is no longer able to withdraw its offer. Termination benefits payable at more than 12 months after the closing date are discounted to their present value.

1.2.13.4 Post-employment benefits

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

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

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

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

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

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

Under defined benefit plans, the charge recognized as staff expenses represents in particular the rights acquired by each employee during the reporting period corresponding to the cost of services rendered in that period, and the past service cost arising from any plan amendments, curtailments or settlements.

1.2.14 Interest income and expense

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

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

1.2.15 Commissions

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

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

1.2.16 Earnings per share

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

1.2.17 Cash and cash equivalents

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

1.2.18 Related-party transactions

Two parties are considered to be related if one party has the ability to control the other party or exercise significant influence over its financial policy or operational decisions. The Group is owned by the French State and by two companies registered in France, Caisse des Dépôts and La Banque Postale. Within this framework, related-party transactions are those with companies with which the Group has a direct or indirect shareholding relationship and with Directors.

1.2.19 Segment reporting

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

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

Note 2 Notes to the assets *(EUR millions)*

2.1 Central banks

	12/31/2018	12/31/2019
Mandatory reserve deposits with central banks	-	-
Other deposits	1,927	1,191
TOTAL	**1,927**	**1,191**

2.2 Financial assets at fair value through profit or loss

2.2.1 Analysis by nature

	12/31/2018	12/31/2019
Loans and advances to customers	5,573	4,894
Non Hedging derivatives	13	12
TOTAL	**5,586**	**4,906**

2.2.2 Loans and advances to customers analysis by counterparty

	12/31/2018	12/31/2019
Public sector	5,099	4,463
Other - guaranteed by a State or local government	474	431
TOTAL	**5,573**	**4,894**

2.3 Financial assets at fair value through equity

2.3.1 Analysis by nature

	12/31/2018	12/31/2019
Stocks	-	-
Bonds	1,563	1,334
TOTAL	**1,563**	**1,334**

2.3.2 Analysis by counterparty

	12/31/2018	12/31/2019
Public sector	218	124
Credit institutions	1,345	1,210
TOTAL	**1,563**	**1,334**

All financial assets at fair value through equity as of December 31, 2018, and December 31, 2019 were allocated to Stage 1 category.

2.4 Financial assets at amortized cost

	12/31/2018										
	Gross amount				Impairment						
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 1	Stage 2	Total	Net amount	Accu-mulated partial write-offs	Accu-mulated total write-offs
Sight accounts	7	-	-	7	-	-	-	-	7	-	-
Credit institutions	232	-	-	232	(0)	-	-	(0)	232	-	-
LOANS AND ADVANCES DUE FROM BANKS AT AMORTIZED COST	**239**	**-**	**-**	**239**	**(0)**	**-**	**-**	**(0)**	**239**	**-**	**-**
Public sector	38,473	3,153	1,090	42,716	(1)	(20)	(10)	(31)	42,685	-	-
Not financial institutions	1,732	289	-	2,021	(1)	(2)	-	(3)	2,018	-	-
Loans to SFIL's employees	3	-	-	3	-	-	-	-	3		
LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	**40,208**	**3,442**	**1,090**	**44,740**	**(2)**	**(22)**	**(10)**	**(34)**	**44,706**	**-**	**-**
Public sector	4,424	2,778	5	7,207	(3)	(24)	(0)	(27)	7,180	-	-
Credit institutions	2,011	-	-	2,011	(0)	-	-	(0)	2,011	-	-
Not financial institutions	118	75	-	193	(0)	-	-	(0)	193	-	-
BONDS AT AMORTIZED COST	**6,553**	**2,853**	**5**	**9,411**	**(3)**	**(24)**	**(0)**	**(27)**	**9,384**	**-**	**-**
TOTAL	**47,000**	**6,295**	**1,095**	**54,390**	**(5)**	**(46)**	**(10)**	**(61)**	**54,329**	**-**	**-**

	12/31/2019										
	Gross amount				Impairment						
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 1	Stage 2	Total	Net amount	Accu-mulated partial write-offs	Accu-mulated total write-offs
Sight accounts	8	-	-	8	-	-	-	-	8	-	-
Credit institutions	315	-	-	315	(0)	-	-	(0)	315	-	-
LOANS AND ADVANCES DUE FROM BANKS AT AMORTIZED COST	**323**	**-**	**-**	**323**	**(0)**	**-**	**-**	**(0)**	**323**	**-**	**-**
Public sector	41,345	2,870	1,029	45,244	(1)	(23)	(11)	(35)	45,209	-	-
Not financial institutions	1,972	135	18	2,125	-	(1)	-	(1)	2,124	-	-
Loans to SFIL's employees	-	-	-	-	-	-	-	-	-		
LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	**43,317**	**3,005**	**1,047**	**47,369**	**(1)**	**(24)**	**(11)**	**(36)**	**47,333**	**-**	**-**
Public sector	5,279	1,531	6	6,816	(4)	(11)	-	(15)	6,801	-	-
Credit institutions	2,269	-	-	2,269	(1)	-	-	(1)	2,268	-	-
Not financial institutions	42	73	-	115	(0)	(1)	-	(1)	114	-	-
BONDS AT AMORTIZED COST	**7,590**	**1,604**	**6**	**9,200**	**(5)**	**(12)**	**-**	**(17)**	**9,183**	**-**	**-**
TOTAL	**51,230**	**4,609**	**1,053**	**56,892**	**(6)**	**(36)**	**(11)**	**(53)**	**56,839**	**-**	**-**

2.5 Tax assets

	12/31/2018	12/31/2019
Current income tax		8
Other taxes	-	0
CURRENT TAX ASSETS	**-**	**8**
DEFERRED TAX ASSETS (SEE NOTE 4.2)	**80**	**70**
TOTAL TAX ASSETS	**80**	**78**

Deferred tax assets were submitted to a recoverability test taking into account the business plans presented to the Board of Directors according to realistic hypotheses. Deferred taxes as of December 31, 2019, are recoverable on the basis of this analysis within a reasonable horizon by taking into account the tax rules governing the treatment of past deficits. As of December 31, 2019, the SFIL tax grouping has no deferred tax assets related to carry forward tax losses.

In addition, the SFIL tax grouping takes into account the legislative measures designed to reduce the corporate income tax rate to 25.83% as of 2022.

2.6 Property and equipment

	Computer equipment	Other equipment	Fixtures	Construction work in progress	IFRS 16	Total
ACQUISITION COST AS OF 12/31/2018	**2**	**0**	**8**	**1**	**-**	**11**
Changes during the year:						
• increases	2	0	0	2	11	15
• decreases	-	-	-	(1)	-	(1)
• other	-	-	-	-	-	-
ACQUISITION COST AS OF 12/31/2019	**3**	**0**	**8**	**2**	**11**	**25**
DEPRECIATION AND IMPAIRMENTS AS OF 12/31/2018	**(1)**	**(0)**	**(4)**	**-**	**-**	**(5)**
Changes during the year:						
• amortization	(0)	(0)	(1)	-	(3)	(4)
• write-back	-	-	-	-	-	-
• cancellation	-	-	-	-	-	-
DEPRECIATION AND IMPAIRMENTS AS OF 12/31/2019	**(2)**	**(0)**	**(4)**	**-**	**(3)**	**(9)**
NET CARRYING AMOUNT AS OF 12/31/2019	**1**	**(0)**	**4**	**2**	**9**	**16**

2.7 Intangible assets

	Software	Internally developed assets	Construction work in progress	IFRS 16	Total
ACQUISITION COST AS OF 12/31/2018	**5**	**44**	**4**	**-**	**53**
Changes during the year:					
• increases	2	8	3	-	13
• decreases	-	-	(4)	-	(4)
• others	-	-	-	-	-
ACQUISITION COST AS OF 12/31/2019	**7**	**51**	**4**	**-**	**62**
DEPRECIATION AND IMPAIRMENTS AS OF 12/31/2018	**(2)**	**(17)**	**-**	**-**	**(19)**
Changes during the year:					-
• amortization	(1)	(10)	-	-	(12)
• write-back	-	-	-	-	-
• cancellation	-	-	-	-	-
DEPRECIATION AND IMPAIRMENTS AS OF 12/31/2019	**(4)**	**(27)**	**-**	**-**	**(31)**
NET CARRYING AMOUNT AS OF 12/31/2019	**3**	**24**	**4**	**-**	**31**

2.8 Accruals and other assets

	12/31/2018	12/31/2019
Cash collateral paid	2,137	2,299
Other accounts receivable	2	3
Prepaid charges	76	133
Miscellaneous debtors and other assets	16	15
TOTAL ACCRUALS AND OTHER ASSETS	**2,231**	**2,450**

Notes 3 to the liabilities *(EUR millions)*

3.1 Financial liabilities at fair value through profit or loss

	12/31/2018	12/31/2019
Non hedging derivatives[1]	1,229	1,120
TOTAL	**1,229**	**1,120**

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

3.2 Financial liabilities et amortized cost

	12/31/2018	12/31/2019
Current account	-	-
Term deposits	1,928	379
DUE TO BANKS AT AMORTIZED COST	**1,928**	**379**
Certificates of deposit[1]	647	611
Euro medium term notes[1]	4,979	7,251
Obligations foncières	46,794	46,812
Registered covered bonds	7,648	7,792
DEBT SECURITIES AT AMORTIZED COST	**60,068**	**62,466**
TOTAL	**61,996**	**62,845**

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

3.3 Tax liabilities

	12/31/2018	12/31/2019
Current income tax	7	8
Other taxes	1	0
CURRENT TAX LIABILITIES[1]	**8**	**8**
DEFERRED TAX LIABILITIES (SEE NOTE 4.2)	**-**	**-**
TOTAL TAX LIABILITIES	**8**	**8**

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

3.4 Accruals and other liabilities

	12/31/2018	12/31/2019
Cash collateral received	1,239	1,630
Other accrued charges	71	29
Deferred income	-	-
Contribution to support fund[1]	100	90
Other accounts payable and other liabilities	19	39
TOTAL	**1,429**	**1,788**

(1) The item corresponds the residual balance of the commitment SFIL made in 2013 to contribute to the multi-year support fund for local governments in the amount of EUR 10 million for 15 years, for a total of EUR 150 million.

3.5 Provisions

	12/31/2018	Additions, including increases in existing provisions	Amounts used	Unused amounts reversed during the period	Increase in the discounted amount (passage of time) and effect of any change in the discount rate	Other movements	12/31/2019
Pending legal issues and tax litigation[1]	7	-	(7)	-	-	-	-
Commitments and guarantees given	7	1		(1)	-	-	7
Provision on pensions	6	1	-	-			7
TOTAL	**20**	**2**	**(7)**	**(1)**	**-**	**-**	**14**

(1) In 2019, the Caisse Française de Financement Local, subsidiary of SFIL, received notice of tax adjustment effects for the 2014-2016 fiscal years. The amounts due matched the amounts previously set aside, which were therefore able to be used.

Note 4 Other notes on the balance sheet *(EUR millions)*

4.1 Derivatives

The hedging derivatives below are part of the SFIL group's risk policy detailed in the management report (see 1.7.2.3.3 and 1.7.2.3.4)

4.1.1 Analysis by nature

	12/31/2018		12/31/2019	
	Liabilities	Assets	Liabilities	Assets
Derivatives at fair value through profit or loss[1]	**13**	**1,229**	**12**	**1,120**
Derivatives designated as fair value hedges	3,305	3,741	4,208	4,358
Derivatives designated as cash flow hedges	1	74	(7)	74
Derivatives designated as portfolio hedges	1,114	2,335	978	2,634
Hedging derivatives	**4,420**	**6,150**	**5,179**	**7,066**
CVA/DVA Impact	**(5)**	**(16)**	**(2)**	**(4)**
TOTAL DERIVATIVES	**4,428**	**7,363**	**5,189**	**8,182**

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

4.1.2 Detail of derivatives designated as fair value through profit or loss

	12/31/2018			
	Notional amount			
	To receive	To deliver	Notional amount	Notional amount
Foreign exchange derivatives	1,552	1,532	8	25
Interest rate derivatives	4,679	4,679	5	1,204
TOTAL	**6,231**	**6,211**	**13**	**1,229**

	12/31/2019			
	Notional amount			
	To receive	To deliver	Assets	Liabilities
Foreign exchange derivatives	2,033	2,031	7	17
Interest rate derivatives	3,856	3,856	5	1,103
TOTAL	**5,889**	**5,887**	**12**	**1,120**

4.1.3 Detail of derivatives designated as fair value hedges

	12/31/2018			
	Notional amount			
	To receive	To deliver	Assets	Liabilities
Foreign exchange derivatives	3,991	4,170	155	344
Interest rate derivatives	63,010	63,000	3,150	3,397
TOTAL	**67,001**	**67,170**	**3,305**	**3,741**

	12/31/2019			
	Notional amount			
	To receive	To deliver	Assets	Liabilities
Foreign exchange derivatives	4,572	4,741	227	371
Interest rate derivatives	63,066	63,054	3,981	3,987
TOTAL	**67,638**	**67,795**	**4,208**	**4,358**

4.1.4 Detail of derivatives designated as cash flow hedges

	12/31/2018			
	Notional amount			
	To receive	To deliver	Assets	Liabilities
Foreign exchange derivatives	697	729	1	74
Interest rate derivatives	-	-	-	-
TOTAL	**697**	**729**	**1**	**74**

	12/31/2019			
	Notional amount			
	To receive	To deliver	Assets	Liabilities
Foreign exchange derivatives	535	605	(7)	74
Interest rate derivatives	-	-	-	-
TOTAL	**535**	**605**	**(7)**	**74**

	12/31/2018	12/31/2019
Amount removed from cash flow hedge reserve and included in the carrying amount of a non-financial instrument (hedging of cash flows of a highly probable transaction)	-	-

4.1.5 Detail of derivatives designated as portfolio hedges

	12/31/2018			
	Notional amount			
	To receive	To deliver	Assets	Liabilities
Interest rate derivatives	51,739	51,734	1,114	2,335
TOTAL	**51,739**	**51,734**	**1,114**	**2,335**

	12/31/2019			
	Notional amount			
	To receive	To deliver	Assets	Liabilities
Interest rate derivatives	47,582	47,577	978	2,634
TOTAL	**47,582**	**47,577**	**978**	**2,634**

4.2 Deferred taxes

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

4.2.1 Breakdown by nature

	12/31/2018	12/31/2019
Deferred tax assets before impairment	80	70
Impairment on deferred tax assets	-	-
Deferred tax assets	**80**	**70**
Deferred tax liabilities	**-**	**-**
TOTAL	**80**	**70**

4.2.2 Movements

	12/31/2018	12/31/2019
As of January 1, 2019	**64**	**80**
Charge/credit recognized in the income statement	(1)	(7)
Effect of change in tax rates - impact on the income statement(1)	-	-
Movements directly recognized in equity	(46)	(4)
Effect of change in tax rates - impact on equity	-	-
Translation adjustment	-	-
Tax audit effects	63	1
Other movements	-	-
AS OF DECEMBER 31, 2019	**80**	**70**

(1) Group SFIL took into account the legislative measures designed to reduce the corporate income tax rate to 25.83% as of 2022.

4.2.3 Deferred taxes from assets on the balance sheet

	12/31/2018	12/31/2019
Loans and loss provision on loans	1,199	1,073
Bonds	(192)	(243)
Derivatives	(591)	(568)
Accruals and other assets	14	13
TOTAL	**430**	**275**

4.2.4 Deferred taxes from liabilities on the balance sheet

	12/31/2018	12/31/2019
Borrowings, deposits and issues of debt securities	(352)	(207)
Derivatives	-	-
Provisions	2	2
Accruals and other liabilities	-	-
TOTAL	**(350)**	**(205)**

4.3 Transactions with related parties

Analysis by nature

	Related parties(1)	
	12/31/2018	12/31/2019
ASSET		
Financial assets at fair value through equity	88	237
Loans and advances due from banks at amortized cost	-	-
Bonds at amortized cost	145	-
LIABILITIES		
Due to banks at amortized cost	1,928	379
INCOME STATEMENT		
Financial assets at fair value through profit or loss	-	(0)
Financial assets at fair value through equity	(0)	(1)
Credit institutions interest income on Loans at amortized cost	(10)	(0)
Interest income on bonds at amortized cost	(0)	(3)
Credit Institutions interest expenses on borrowing at amortized cost	(5)	4
Fees and commissions	4	(2)
OFF BALANCE SHEET		
Foreign exchange derivatives	-	-
Interest rate derivatives	415	375
Commitments and guarantees received	9,969	11,121
Commitments and guarantees issued	4,943	5,210

(1) This item includes transactions with the Caisse des Dépôts et Consignations and La Banque Postale, shareholders of SFIL.

4.4 Unrealized or deferred gains and losses, breakdown

	12/31/2018	12/31/2019
Unrealized gains and losses on financial assets at fair value through equity	**(2)**	**1**
Unrealized gains and losses on derivatives designated as cash-flow hedges	**(48)**	**(38)**
Unrealized gains and losses on employee benefits plan	**(1)**	**(1)**
TOTAL	**(51)**	**(39)**
Deferred taxes on gains and losses, financial assets at fair value through equity	1	(0)
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	12	10
TOTAL AFTER TAXES	**(38)**	**(29)**

Note 5 Notes to the income statement *(EUR millions)*

5.1 Interest income - 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 5.3). Interest income and expense on hedging derivatives are included with the revenue generated by the associated hedged items. Meanwhile, certain derivatives not classified as hedging instruments for accounting purposes are held as economic hedges of financial instruments carried at fair value through profit or loss; the interest income and expense on these economic hedge derivatives are included in the headings recording the interest on these financial instruments.

	2018			2019		
Loans/loans with credit institutions	**Income**	**Expense**	**Net**	**Income**	**Expense**	**Net**
Derivatives outside the hedging relationship	-	10	10	-	-	-
Financial assets and liabilities at fair value through profit or loss	166	-	166	147	-	147
Hedging derivatives	9	(182)	(173)	32	(160)	(128)
Hedging derivatives	**175**	**(172)**	**3**	**178**	**(160)**	**18**
Securities	1,518	(1,188)	330	1,486	(1,215)	271
Financial assets at fair value through equity	**1,518**	**(1,188)**	**330**	**1,486**	**(1,215)**	**271**
Central bank accounts	4	-	4	(1)	-	(1)
Accounts and loans with credit institutions	**4**	**-**	**4**	**(1)**	**-**	**(1)**
Accounts and loans with customers	-	(11)	(11)	-	(10)	(10)
Securities	18	(11)	7	18	(19)	(1)
Other	857	(1)	856	840	-	840
Financial assets and liabilities at amortized cost	151	(1,211)	(1,060)	154	(1,141)	(988)
TOTAL	1	-	1		(0)	(0)
Loans/loans with credit institutions	**1,027**	**(1,234)**	**(207)**	**1,011**	**(1,170)**	**(159)**
LOANS/LOANS WITH CUSTOMERS	**2,724**	**(2,594)**	**130**	**2,675**	**(2,544)**	**131**

Interest income and expense measured using the effective interest rate method: EUR 1,010 million and EUR -1,170 million in 2019, and EUR 1,031 million and EUR -1,234 million in 2018, respectively.

5.2 Fees and commissions

	2018	2019
LPB servicing commission received	4	4
Other commissions	(3)	(2)
TOTAL	**1**	**2**

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

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

	2018	2019
Net Result on non hedging derivatives	20	(0)
Net result on financial assets or liabilities at fair value through profit or loss	12	31
Net result of hedge accounting	11	(2)
Net result of foreign exchange transactions	-	2
TOTAL	**43**	**31**

Analysis of net result of hedge accounting

	2018	2019
FAIR VALUE HEDGES	**(2)**	**9**
Fair value changes in the hedged item attributable to the hedged risk	(79)	(165)
Fair value changes in the hedging derivatives	77	174
CASH FLOW HEDGES	**-**	**-**
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
PORTFOLIO HEDGE	**-**	**(2)**
Fair value changes in the hedged item	50	410
Fair value changes in the hedging derivatives	(50)	(412)
CVA/DVA IMPACT(1)	**13**	**(9)**
TOTAL	**11**	**(2)**

(1) *The effect of the application of the IFRS Standard 13 brought to light an expense of EUR (9) million as of December 31, 2019. This amount was derived primarily based on a fall in DVA income.*

5.4 Net result of financial instruments at fair value through equity

	2018	2019
Net result of disposals of bonds at fair value through equity	-	-
Net result of disposals of securities at fair value through equity	0	-
TOTAL	**0**	**-**

5.5 Gains and losses resulting from derecognition of financial instruments at amortized cost

	2018	2019
Net result of disposals or prepayments of bonds at amortized cost	0	-
Net result of disposals or prepayments of loans and advances to banks at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to customers at amortized cost	16	10
Net result of disposals or prepayments of debt to banks at amortized cost	(4)	(8)
Net result of disposals or prepayments of debt securities at amortized cost	-	0
TOTAL	**12**	**2**

Detail of on derecognition of assets and liabilities at amortized cost

	2018		2019	
	Notional amount	Impact on result	Notional amount	Impact on result
Prepayments of securities	5	0	-	-
Net result of disposals or prepayments of securities at amortized cost	**5**	**0**	**-**	**-**
Prepayments of loans and advances to customers	47	7	279	6
Restructuring of loans and advances to customers	68	9	278	4
Net result of disposals or prepayments of loans and advances to customers at amortized cost	**115**	**16**	**557**	**10**
SUB-TOTAL ASSETS	**120**	**16**	**557**	**10**
Prepayments of debt to banks	2,767	(4)	1,011	(8)
Net result of prepayments of debt to banks at amortized cost	**2,767**	**(4)**	**1,011**	**(8)**
Prepayments of debt securities at amortized cost	-	-	100	0
Net result of prepayments of debt securities at amortized cost	**-**	**-**	**100**	**0**
SUB-TOTAL LIABILITIES	**2,767**	**(4)**	**1,111**	**(8)**
TOTAL		**12**		**2**

5.6 Operating expense

	2018	2019
Payroll costs	(48)	(49)
Other general and administrative expenses	(42)	(32)
Taxes	(11)	(12)
TOTAL	**(101)**	**(93)**

5.7 Depreciation and amortization of tangible and intangible assets

	2018	2019
Depreciation and amortization of property and equipment	(1)	(1)
Depreciation and amortization of intangible assets	(9)	(12)
Impact IFRS 16	-	(3)
TOTAL	**(10)**	**(16)**

5.8 Cost of risk

	2018				
Specific impairment	**January 1**	**Allocations**	**Reversals**	**Losses**	**December 31**
Stage 1	-	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	**-**	**(0)**	**0**	**-**	**(0)**
Stage 1	(0)	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
LOANS AND ADVANCES DUE FROM BANKS AT AMORTIZED COST	**(0)**	**(0)**	**0**	**-**	**(0)**
Stage 1	(2)	(1)	1	(0)	(2)
Stage 2	(21)	(6)	5	(0)	(22)
Stage 3	(11)	(7)	8	(0)	(10)
LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	**(34)**	**(14)**	**14**	**(0)**	**(34)**
Stage 1	(4)	(0)	1	-	(3)
Stage 2	(18)	(11)	5	-	(24)
Stage 3	(0)	(0)	-	-	(0)
BONDS AT AMORTIZED COST	**(22)**	**(11)**	**6**	**-**	**(27)**
Stage 1	(0)	(0)	0	-	(0)
Stage 2	(0)	(0)	0	-	(0)
Stage 3	-	-	-	-	-
OFF-BALANCE SHEET COMMITMENTS AT AMORTIZED COST	**(0)**	**(0)**	**0**	**-**	**(0)**
TOTAL	**(56)**	**(26)**	**20**	**(0)**	**(62)**

	2019				
Specific impairment	**January 1**	**Allocations**	**Reversals**	**Losses**	**December 31**
Stage 1	(0)	(0)	0	-	0
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	**(0)**	**(0)**	**0**	**-**	**(0)**
Stage 1	(0)	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
LOANS AND ADVANCES DUE FROM BANKS AT AMORTIZED COST	**(0)**	**(0)**	**0**	**-**	**0**
Stage 1	(2)	(4)	4	-	(2)
Stage 2	(22)	(10)	7	-	(24)
Stage 3	(10)	(5)	4	-	(11)
LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	**(34)**	**(18)**	**15**	**-**	**(37)**
Stage 1	(3)	(2)	1	-	(4)
Stage 2	(24)	(0)	12	-	(12)
Stage 3	(0)	(0)	-	-	(0)
BONDS AT AMORTIZED COST	**(27)**	**(2)**	**13**	**-**	**(16)**
Stage 1	(0)	(1)	1	-	(1)
Stage 2	(0)	-	0	-	-
Stage 3	-	(0)	-	-	(0)
OFF-BALANCE SHEET COMMITMENTS AT AMORTIZED COST	**(0)**	**(1)**	**1**	**-**	**(1)**
TOTAL	**(62)**	**(21)**	**29**	**-**	**(54)**

5.9 Corporate income tax

5.9.1 Breakdown of tax expense

	2018	2019
Current taxes	(12)	(12)
Deferred taxes	(8)	(6)
Tax adjustment effects	14	4
TOTAL	**(6)**	**(14)**

5.9.2 Effective tax expense

The difference between the actual corporate income tax rate and the French tax rate can be analyzed as follows:

	2018	2019
INCOME BEFORE INCOME TAXES	**69**	**63**
Net income from associates	-	-
TAX BASE	**69**	**63**
Applicable tax rate at end of the period	34.43%	34.43%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	**(24)**	**(22)**
Tax effect of non-deductible expenses	(2)	(2)
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Other additional taxes or tax savings	-	-
Tax audit effects[1]	14	4
Use of corporate income tax rate applicable to the future fiscal years[2]	6	6
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	**(6)**	**(14)**

(1) As of the end of 2018, the tax authority had levied adjustments relating to the 2012 and 2013 tax audit. It nevertheless reduced the amount of the adjustment relating to the add-back of the results of the former branch of Caisse Française de Financement Local in Ireland, but maintained the principle of taxation of these results in France. Caisse Française de Financement Local settled this adjustment and reversed the relevant provisions. It kept in its account the amount of the provision set aside in respect of sums not yet paid. After this file was closed, Caisse Française de Financement Local also took into account the effects of the adjustment on the income tax base for the 2014-2018 fiscal years.
(2) SFIL has took into account the legislative measures designed to reduce the corporate income tax rate to 25.83% as of 2022.

5.9.3 Tax consolidation

Since January 1, 2014, Caisse Française de Financement Local has been a member of the SFIL tax group.

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

6.1 Regular way trade

	12/31/2018	12/31/2019
Assets to be delivered	-	-
Liabilities to be received	-	-

6.2 Guarantees

	12/31/2018	12/31/2019
Guarantees received from credit institutions	8	-
Enhanced guarantees[1]	7,383	8,051
Loan guarantee commitments received	7,385	8,055
Guarantees received from customers[2]	2,232	2,568

(1) Irrevocable, unconditional guarantees issued by the French State and received by the SFIL Group for financing large export credits.
(2) Guarantees received from customers are generally granted by local governments.

6.3 Financing commitments

	12/31/2018	12/31/2019
Loan commitments granted to credit institutions	-	48
Loan commitments granted to customers[1]	6,312	5,416
Loan commitments received from credit institutions[2]	9,569	11,121
Loan commitments received from customers	-	-

(1) Financing commitments on loans and lines of credit related to contracts issued but not paid out as of December 31, 2019. The amount as of December 31, 2019 mainly relates to commitments on operations in the export credit business line.
(2) At December 31, 2019, this amount corresponded to funding commitments received from Caisse des Dépôts and La Banque Postale for respective amounts of EUR 10,000 million, and EUR 1,121 million.
For Caisse des Dépôts financing commitments, SFIL recorded the total of its commitments related to the only existing tranches, which is limited to EUR 10,000 million. This amount does not take into account the possibility stipulated in the financing agreement with Caisse des Dépôts to negotiate additional funding in good faith. The principal in a loan provided by the Caisse des Dépôts may not exceed EUR 12.5 billion.

6.4 Other commitments

	12/31/2018	12/31/2019
Commitments given[1]	4,949	5,217
Commitments received[2]	223	216

(1) It concerns the irrevocable payment commitment to Caisse des Dépôts.
(2) It mainly concerns a loan granted to a credit institution and guaranteed by a public sector entity.

6.5 Financing commitments and other commitments granted

	Financing commitments and financial guarantees under IFRS 9 as of 12/31/2018								Commitments and financial guarantees measured at fair value	
	Gross amount				Impairment					
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Net amount	Nominal amount	Accumulated negative changes in fair value due to credit risk on non-performing commitments
Granted to credit institutions	-	-	-	-	-	-	-	-	-	-
Granted to customers	6,289	23	-	6,312	(1)	(0)	-	6,311	-	-
TOTAL	**6,289**	**23**	**-**	**6,312**	**(1)**	**(0)**	**-**	**6,311**	**-**	**-**

	Financing commitments and financial guarantees under IFRS 9 as of 12/31/2019								Commitments and financial guarantees measured at fair value	
	Gross amount				Impairment					
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Net amount	Nominal amount	Accumulated negative changes in fair value due to credit risk on non-performing commitments
Granted to credit institutions	48	-	-	48	(0)	-	-	48	-	-
Granted to customers	5,366	-	50	5,416	(1)	-	(0)	5,415	-	-
TOTAL	**5,414**	**-**	**50**	**5,4646**	**(1)**	**-**	**(0)**	**5,463**	**-**	**-**

Note 7 Notes on risk exposure *(EUR millions)*

7.1 Fair value

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

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

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

7.1.1 Composition of the fair value of the assets

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

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

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

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

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

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.

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

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

Fair value of financial assets	12/31/2019 Level 1[1]	Level 2[2]	Level 3[3]	Total
Central banks	1,191	-	-	1,191
Financial assets at fair value through net income	-	-	4,902	4,902
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
Hedging derivatives	-	4,644	4,533	5,177
TOTAL	**4,710**	**8,597**	**54,571**	**67,878**

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

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

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

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

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

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

The following table gives a synthetic view of financial instruments in level 3 for which changes in hypotheses concerning one or more non observable parameter would cause a significant change in market value. These amounts illustrate the interval of uncertainty inherent in the recourse to judgment in estimating parameters of level 3 or in the choice of valuation techniques and models. They reflect the uncertainty of valuation which is effective at the date of valuation. Although this uncertainty essentially results from the sensitivity of the portfolio at the date of valuation, it does not make it possible to foresee or to deduct future variations in the market value any more than they represent the effect of extreme market conditions on the value of the portfolio. To estimate sensitivity, SFIL either values financial instruments using reasonably possible parameters or applies hypotheses based on its policy of additional valuation adjustments.

	12/31/2018	12/31/2019
Uncertainty inherent in level 3 market parameters	8	4
Uncertainty inherent in level 3 derivatives valuation models	37	34
SENSITIVITY OF THE MARKET VALUE OF LEVEL 3 FINANCIAL INSTRUMENTS	**45**	**38**

7.1.4 Transfer between level 1 and 2

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

7.1.5 Level 3: flow analysis

Fair value of financial assets	Financial assets at fair value through net income	Financial assets at fair value through equity	Income hedging derivatives	Total financial assets
12/31/2018	**5,584**	**10**	**962**	**6,556**
Total gains and losses through profit and loss	-	-	-	-
Total unrealized or deferred gains and losses	(465)	-	(267)	(732)
Total OCI unrealized or deferred gains and losses	-	-	-	-
Purchase	-	-	-	-
Sale	-	-	-	-
Direct origination	-	-	0	0
Settlement	(213)	(10)	(89)	(315)
Transfer in activities destined to be sold	-	-	-	-
Transfer to level 3	-	-	48	48
Transfer out of level 3	-	-	(121)	(121)
Other variations	-	-	-	-
12/31/2019	**4,902**	**-**	**533**	**5,435**

Fair value of financial liabilities	Financial liabilities at fair value through net income	Income hedging derivatives	Total financial liabilities
12/31/2018	**371**	**423**	**794**
Total gains and losses through profit and loss	-	-	-
Total unrealized or deferred gains and losses	9	136	145
Total OCI unrealized or deferred gains and losses	-	-	-
Purchase	-	-	-
Sale	-	-	-
Direct origination	-	5	5
Settlement	(186)	60	(126)
Transfer in activities destined to be sold	-	-	-
Transfer to level 3	-	119	119
Transfer out of level 3	-	(356)	(356)
Other variations	-	-	-
12/31/2019	**194**	**385**	**579**

7.2 Off-setting financial assets and liabilities

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

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

	12/31/2019					
				Other amounts in the application scope but not offset		
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net Amounts presented in the balance sheet	Effect of master netting arrangements	Financial Instruments received as collateral	Net Amounts according to IFRS 7 and 13
Derivatives (including hedging instruments)	5,189	-	5,189	(3,409)	(1,248)	532
Loans and advances at fair value through profit or loss	4,894	-	4,894	-	-	4,894
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
TOTAL	**57,726**	**-**	**57,726**	**(3,409)**	**(1,248)**	**53,069**

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

	12/31/2018					
				Other amounts in the application scope but not offset		
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net Amounts presented in the balance sheet	Effect of master netting arrangements	Financial Instruments received as collateral	Net Amounts according to IFRS 7 and 13
Derivatives (including hedging instruments)	7,363	-	7,363	(3,213)	(1,983)	2,167
Due to banks at amortized cost	1,928	-	1,928	-	-	1,928
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	**9,291**	**-**	**9,291**	**(3,213)**	**(1,983)**	**4,095**

	12/31/2019					
				Other amounts in the application scope but not offset		
	Gross amounts before offsetting	**Gross amounts offset according to IAS 32**	**Net Amounts presented in the balance sheet**	**Effect of master netting arrangements**	**Financial Instruments received as collateral**	**Net Amounts according to IFRS 7 and 13**
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 at amortized cost	-	-	-	-	-	-
TOTAL	**8,561**	**-**	**8,561**	**(3,409)**	**(2,214)**	**2,938**

7.3 Exposure to credit risk

In 2019, exposure to credit risks, as presented to management, includes the following:

- for assets other than derivatives: the amount on the balance sheet;
- for derivatives: the derivative's market value (marked-to-market), the amount of collateral exchanged and a flat-rate add-on, depending on the derivative's maturity and the nature of the underlying;
- for off-balance sheet commitments: the undrawn amount of financing commitments, which is stated in the notes to the financial statements.

The metric used is exposure at default (EAD).

Exposure to credit risk is broken down by region and by counterparty, taking into account the guarantees received. This means that when the credit risk is guaranteed by a third party whose weighted risk (within the meaning of Basel regulations) is less than that of the direct borrower, the exposure is included in the guarantor's region and business sector.

7.3.1 Breakdown of exposure to credit risks

Analysis of exposure by geographic region

	12/31/2018	12/31/2019
France	63,417	64,294
Belgium	337	257
Italy	6,099	5,989
Spain	356	236
Germany	644	642
United Kingdom	994	971
Switzerland	1,025	797
Norway	378	363
Other European Union countries	717	1,181
United States and Canada	673	845
Japan	38	41
TOTAL EXPOSURE	**74,678**	**75,616**

Analysis of exposure by category of counterparty

	12/31/2018	12/31/2019
Sovereigns	10,929	12,027
Local public sector	58,321	57,501
Other assets guaranteed by public sector entities	24	26
Financial institutions	5,404	6,035
Other exposures	-	26
TOTAL EXPOSURE	**74,678**	**75,616**

Analysis of exposure by category of instrument

	12/31/2018	12/31/2019
Central banks	N/A	1,352
Loans at fair value through profit or loss	5,839	4,937
Hedging derivatives	2,118	2,632
Bonds at fair value through equity	1,563	1,452
Loans to banks at amortized cost	7	8
Loans to customers at amortized cost	46,856	50,190
Bonds at amortized cost	9,816	9,293
Accruals and other assets	N/A	181
Financing commitments	6,311	5,571
TOTAL EXPOSURE	**74,678**	**75,616**

7.3.2 Evaluation of asset credit quality

The SFIL Group decided to use the advanced method in relation to the Basel III reforms on the capital adequacy ratio and capital requirements. These internal rating models were developed by the SFIL Group to cover the main customer segments, and were validated by the historical banking supervisors, enabling The, SFIL Group to present at December 31, 2019, an analysis of its exposures, broken down by risk weighting, as used to calculate credit risk equity requirements. Credit weighting is mainly calculated on the basis of the probability of default of the counterparty and of the loss incurred in the event of default.

This analysis confirms the excellent quality of the assets in SFIL's portfolio. More than 77% of the portfolio has a weighting of less than 5% and more than 96% of the portfolio has a weighting that is less than or equal to 20%.

	Risk weighting (Basel III)					
	from 0 to 2%	**from 2 to 5%**	**from 5% to 20%**	**from 20% to 50%**	**more than 50%**	**Total**
Central banks	1,352	-	-	-	-	1,352
Financial assets at fair value through net income	3,799	438	539		161	4,937
Hedging derivatives	1,981		50	530	72	2,632
Bonds at fair value through equity	190	16	1,091	154		1,452
Loans and advances due from banks at amortized cost	-	-	8	0	-	8
Loans and advances to customers at amortized cost	38,837	4,164	6,644	0	546	50,190
Bonds at amortized cost	1,186	648	5,203	77	2,179	9,293
Accruals and other assets	154	-	0	-	26	181
Financing commitments	5,570	1	-	-	(0)	5,571
TOTAL EXPOSURE	**53,068**	**5,267**	**13,535**	**762**	**2,984**	**75,616**
SHARE OF TOTAL EXPOSURE	**70.2%**	**7.0%**	**17.9%**	**1.0%**	**3.9%**	**100.0%**

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

7.4 Liquidity risk: analysis by term to maturity

7.4.1 Breakdown of assets

	12/31/2019						
	Sight	Less than 3 months	**3 months to 1 year**	1 to 5 years	**More than 5 years**	No fixed maturity	**Total broken down**
Central banks	1,191	-	-	-	-	-	1,191
Financial assets at fair value through net income	-	154	296	1,271	2,427	-	4,149
Hedging derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	-	-	-	-	-	-
Financial assets at fair value through equity	-	153	477	619	76	-	1,325
Loans and advances due from banks at amortized cost	8	2	26	114	171	-	320
Loans and advances to customers at amortized cost	13	1,098	3,184	15,357	25,628	-	45,282
Bonds at amortized cost	-	278	685	3,328	3,583	-	7,875
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tangible assets		-	-	-	37	-	37
Intangible assets	-	-	-	-	62	-	62
Tax assets	-	-	78	-	-	-	78
Accruals and other assets	-	2,433	5		12	-	2,450
TOTAL	**1,211**	**4,119**	**4,752**	**20,688**	**31,995**	**-**	**62,769**

	12/31/2019				
	Total broken down	Accrued interest	**Fair value adjustment**	Impairment	**Total**
Central banks	1,191		-		1,191
Financial assets at fair value through net income	4,149	70	687	-	4,906
Hedging derivatives	-	585	-	-	5,177
Financial assets available for sale	-	-	-	-	-
Financial assets at fair value through equity	1,325	2	7	-	1,334
Loans and advances due from banks at amortized cost	320	1	3	(0)	323
Loans and advances to customers at amortized cost	45,282	390	1,697	(37)	47,332
Bonds at amortized cost	7,875	83	1,243	(16)	9,184
Fair value revaluation of portfolio hedge	-	-	2,774	-	2,774
Tangible assets	37	-	-	(21)	16
Intangible assets	62	-	-	(31)	31
Tax assets	78	-	-	-	78
Accruals and other assets	2,450	(1)	-	-	2,449
TOTAL	**62,769**	**1,130**	**11,003**	**(106)**	**74,796**

7.4.2 Breakdown of liabilities, excluding equity

	12/31/2019						
	Sight	Less than 3 months	**3 months to 1 year**	1 to 5 years	**More than 5 years**	No fixed maturity	**Total broken down**
Central banks	-	-	-	-	-	-	-
Financial assets at fair value through net income							-
Hedging derivatives		-	-	-	-	-	-
Due to banks at amortized cost		-	47	168	164	-	379
Customer borrowing and deposits at amortized cost		-	-	-	-	-	-
Debt securities at amortized cost	-	1,150	5,191	21,911	29,391	-	57,644
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	8	-	-	-	8
Accruals and other liabilities	-	1,682	15	40	52	-	1,789
Provisions	-	-	-	14	-	-	14
Subordinated debt	-	-	-	-	-	-	-
TOTAL	**-**	**2,833**	**5,261**	**22,133**	**29,606**	**-**	**59,834**

	12/31/2019			
	Total broken down	Accrued interest	Fair value adjustment	**Total**
Central banks	-	-	-	-
Financial assets at fair value through net income	-	62	1,057	1,120
Hedging derivatives	-	223	6,839	7,062
Due to banks at amortized cost	379	0	-	379
Customer borrowing and deposits at amortized cost	-	-	-	-
Debt securities at amortized cost	57,644	774	4,048	62,466
Fair value revaluation of portfolio hedge	-	-	338	338
Tax liabilities	8	-	-	8
Accruals and other liabilities	1,789	(1)	-	1,788
Provisions	14	-	-	14
Subordinated debt	-	-	-	-
TOTAL	**59,834**	**1,059**	**12,284**	**73,176**

7.4.3 Net liquidity gap

	12/31/2019							
	Sight	Less than 3 months	**3 months to 1 year**	1 to 5 years	**More than 5 years**	No fixed maturity	Total not broken down	**Total**
AMOUNT	**1,211**	**1,286**	**(509)**	**(1,447)**	**2,389**	**-**	**(1,315)**	**1,616**

This table presents the balance sheet at the closing date; it does not take into account the management decisions that will make it possible to manage differences in maturity or the future production of assets and liabilities. SFIL Group's liquidity is provided by its refinancing agreement with its shareholders and by issue Euro medium term notes and certificates of deposit. In addition, the SFIL Group may obtain funding from the Banque de France, by giving it certain of its assets in guarantee.

7.5 Currency risk

	12/31/2018				
Classification by original currency	EUR	Other EU currencies	USD	Other currencies	Total
Total assets	69,198	989	1,991	544	72,722
Total liabilities	69,198	989	1,991	544	72,722
NET BALANCE SHEET POSITION	-	-	-	-	-

	12/31/2019				
Classification by original currency	EUR	Other EU currencies	USD	Other currencies	Total
Total assets	72,561	668	994	573	74,796
Total liabilities	72,561	668	994	573	74,796
NET BALANCE SHEET POSITION	-	-	-	-	-

7.6 Sensitivity to interest rate risk

As an entity, SFIL takes no interest rate risk. Any of SFIL's balance sheet transactions generating an interest rate exposure are systematically micro-hedged. Therefore, for SFIL, the limit is applied to the fixed rate gap. It is currently at zero, reflecting SFIL's strategy of perfect micro-hedge management.

With respect to the Caisse Française de Financement Local , it has implemented a two-staged hedging strategy to limit the impact of these risks:

- 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 (in which the unit amount is generally small) are usually macro-hedged. Loans granted individually or bond issues may be micro- or macro-hedged. Assets and liabilities are usually hedged by entering into interest rate swaps, but also, whenever possible, by canceling swaps of opposite direction;
- in the second stage, EURIBOR lending and borrowing flows (scheduled or posthedging) are swapped against Eonia 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 assets and liabilities. The residual risk is managed through macro-hedges with a management horizon of one week.

Caisse Française de Financement Local may either go directly to the market to set up hedging, or via SFIL (with the latter dealing with the market).

Debt not benefiting from the legal privilege is not covered by hedging transactions. Finally, regarding its debts for funding over-collaterization, the Caisse Française de Financement Local borrows this funding either directly from the Eonia index, with no swap requirement, or from the EURIBOR index, therefore funding assets also indexed on EURIBOR. Where applicable, short-term and fixed-rate debts owed to Banque de France are not hedged, but also fund fixed-rate assets.

These different types of interest rate risk are monitored, analyzed and managed through:

- the production of gaps (fixed rate, basis and fixing), calculated on a static basis:

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

- net present value (NPV) sensitivity indicators at an interest rate shock of 100 bp are produced monthly, to protect residual fixed rate positions set by CAFFIL (after hedging has been set up). These indicators are calculated based on four pre-defined time buckets (1 yr, ST, MT & LT), and supported by limits calibrated to restrict capital loss to 6% (EUR 80 million) with a 99% quantile calculated based on ten-year historical data:

Shift in the yield curve	limit of EUR 25 million
Sloping/rotation of the yield curve at distant points of the curve	EUR 10 million limit on each of the 4 time buckets
Sloping/rotation of the yield curve within a time bucket	EUR 40 million limit on sensitivity by time bucket in absolute value

Limiting directional risk

The measurement of sensitivity at the end of each quarter is presented below.

Directional risk

Total sensitivity *(In EUR million)*	Limit	03/31/2019	06/31/2019	09/31/2019	12/31/2019
Sensibility	25/(25)	(0.2)	(0.1)	3.2	(0.3)

Measurement of the risk of slope/rotation

The quarter-end sensitivity measurements are represented below.

Risk of slope between two distant points on the rate curve

Sum of sensitivities *(EUR millions)*	Limit	3/31/2019	6/30/2019	9/30/2019	12/31/2019
Short term	10/(10)	(5.5)	(5.7)	(0.1)	(5.5)
Medium term	10/(10)	(3.5)	(5.6)	(8.6)	(9.2)
Long term	10/(10)	5.3	6.7	5.7	8.4
Very long term	10/(10)	3.6	4.4	6.2	6.0

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value *(EUR millions)*	Limit(1)	3/31/2019	6/30/2019	9/30/2019	12/31/2019
Short term	40	15.0	9.3	5.9	10.8
Medium term	40	9.8	13.3	11.0	15.3
Long term	40	8.9	6.8	8.2	12.3
Very long term	40	12.8	8.0	10.5	9.0

(1)The limit applicable to points prior to December 31, 2019 was EUR 20 million. Since December 31, 2019, the limit is set at EUR 40 million.

Note 8 First time application impact of IFRS 16 standard on the balance sheet as of January 1, 2019

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

	IAS 17 12/31/2018	Lease liabilities and adjustment (b) + (c)	Impact of the first application (e)	IFRS 16 1/1/2019
LIABILITIES				
Central banks	-	-	-	-
Liabilities at fair value through net income	1,229	-	-	1,229
Hedging derivatives	6,134	-	-	6,134
Financial liabilities at amortized cost				
Due to banks at amortized cost	1,928	-	-	1,928
Customer borrowing and deposits at amortized cost	-	-	-	-
Debt securities at amortized cost	60,068	-	-	60,068
Fair value revaluation of portfolio hedge	343	-	-	343
Current tax liabilities	8	-	-	8
Deferred tax liabilities	-	-	-	-
Other liabilities	1,429	14	-	1,443
Provisions	20	-	-	20
Subordinated debt	-	-	-	-
EQUITY	**1,563**	**-**	**(2)**	**1,561**
Capital	1,445	-	-	1,445
Reserves and retained earnings	93	-	(2)	91
Gains and losses recognized in equity	(38)	-	-	(38)
Net income for the period	63	-	-	63
TOTAL	**72,722**	**14**	**(2)**	**72,734**

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

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

(a) recognition of a right-of-use asset for a net book value of EUR 11 million;

(b) recognition of a lease liability for EUR 17 million;

(c) an adjustment to accrued expenses for EUR -3 million;

(d) recognition of the tax impact of these adjustments in the form of a deferred tax asset of EUR 1 million;

(e) recognition of a net impact from all these adjustments of EUR -2 million in the equity item Reserves and retained earnings.

Note 9 Post-closing events

No significant event that influences the Company's financial situation has occurred between the closing date and the Management report date.

Concerning the Coronavirus (COVID-19) pandemic, the SFIL group is following the recommendations of the World Health Organization and the French government and has implemented the measures necessary to maintain operational continuity in all its business activities, in particular, almost all of its employees are working remotely and a crisis cell has been meeting daily to adapt the working methods used. The SFIL group's teams have been very closely monitoring the disruptions to the financial markets since the crisis began. The impact on current and planned future operations for SFIL and CAFFIL, and on their counterparties (customers, banks, partners) are being reassessed regularly. On the date this report was published, no impact was identified that may have significant consequences on the group's financial situation and its capacity to honor its commitments. Time lags in the collection of income from some of its assets (consisting entirely of exposures to public sector borrowers) may be considered, as well as the postponement of certain bond issues in the event of unfavorable market conditions. Nevertheless, the liquidity risk is limited by the good matching of the maturity profiles of assets and liabilities and the ability to benefit from the financing proposed by the European Central Bank through high-quality assets in the portfolio. Moreover, the quality of SFIL's shareholding structure, its status as a public development bank, the quality of CAFFIL's and SFIL's standings, the very rigorous risk management and the solid solvency ratio are all advantages within the current context.

Note 10 Statutory auditor's fees *(EUR thousand)*

	Deloitte & Associés				Ernst & Young et Autres			
	Amount including VAT		%		Amount including VAT		%	
	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**
AUDIT SERVICES RENDERED								
Audit, certification, examination of company financial statements	545	367	83%	74%	545	324	84%	76%
of which SFIL	*163*	*108*			*132*	*108*	-	-
Other audit tasks	110	127	17%	26%	104	101	16%	24%
of which SFIL	*42*	*53*			*41*	*38*		
TOTAL	**655**	**494**	**100%**	**100%**	**649**	**425**	**100%**	**100%**

In 2019, services other than the certification of the financial statements mainly included missions to review the social, environmental and societal data in the management report as well as the issue of letters of comfort for the update of programs for the issue of securities and in the case of new public issues of securities.

3.3 Statutory Auditors' report on the consolidated financial statements

For the year ended December 31, 2019

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

To the General Shareholders' Meeting of SFIL,

Opinion

In compliance with the engagement entrusted to us by your annual shareholder's meeting, we have audited the accompanying consolidated financial statements of SFIL for the year ended December 31, 2019, as they are attached to this report. The financial statements were approved by the Board of Directors on March 19, 2020, based on the information available at that time related to the evolving COVID-19 health crisis.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2019 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The above opinion is consistent with the content of our report to the Audit Committee.

Basis for opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2019 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in article 5 paragraph 1 of Regulation (EU) No. 537/2014 or in the French Code of ethics (*Code de déontologie*) for Statutory Auditors.

Observation

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

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Code of Commerce (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, approved under the conditions specified above, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

Estimated impairment risk of customer loan portfolios

Risk identified	Our response
In connection with its activities, the SFIL Group is mainly exposed to customer credit risk. As of December 31, 2019, loans and advances to customers at amortized cost amounted to €47.3 billion. In accordance with IFRS 9, the SFIL group has recorded value adjustments for Expected Credit Loss (ECL) on performing loans (Stage 1) in the amount of EUR 7 million, underperforming loans (Stage 2) in the amount of EUR 37 million and non-performing/credit impaired loans (Stage 3) in the amount of EUR 11 million. For contracts classified in Stage 1 or Stage 2, expected credit losses equals the present value discounted at the contract's initial effective interest rate of the sum of the probability of default (PD) and loss given default (LGD) parameters. For contracts classified in Stage 3, expected credit loss corresponds to the loss at maturity, the calculation of which requires an estimate of the cash flows that the group expects to recover. In view of the importance of judgment in determining these value adjustments, we considered the estimate of ECL as of December 31, 2019 to be a key point in our audit. The loans and advances to customers at amortized cost are presented in Note 2.4 to the SFIL consolidated financial statements.	Our audit approach consisted of learning about the ECL measurement process. We tested the key controls put in place by management to determine the assumptions and parameters that served as the basis for this assessment. We have examined, with the support of our Credit Risk experts, the main methodologies adopted for the calibration of parameters and transfer criteria. We reviewed, in conjunction with our Public Sector experts, the rating system for French local government entities / local authorities and public health establishments and its use in determining the probability of default in calculating ECLs. We have recalculated the ECL, using a sample, and with the support of our Credit Risk experts, and verified application of segment rules (Stages 1 and 2) as of December 31, 2019. We reviewed the provisioning methodology for outstanding loans classified in Stage 3 and the recovery scenarios. As of December 31, 2019, based on a sample of loan files, we have reviewed the main assumptions adopted to estimate the individual impairment of outstandings classified in Stage 3. Finally, we examined the information given in respect of credit risk hedging in the notes to the consolidated financial statements.

Measurement of financial instruments classified in Fair Value Level 2 and 3

Risk identified	Our response
In connection with its activities, the SFIL group holds derivatives recognized at fair value through profit or loss as well as loans recognized at fair value through profit or loss in accordance with the classification criteria of IFRS 9 "Financial Instruments". When no active market or directly observable market data exists, the SFIL Group uses, to calculate the fair value level 2 or 3 of these instruments, valuation techniques based on observable data for similar instruments or internal models based on non-observable market data, as indicated in "Methods used to determine the fair value of financial instruments," Note 7.1.3 to the consolidated financial statements. The models and parameters used to value these instruments are based on estimates. As of December 31, 2019, the financial instruments recognized at fair value through profit or loss (including hedging derivatives) represent respectively EUR 10,083 million in the assets (including EUR 4,894 million in loans recognized at fair value through profit or loss) and EUR 8,181 million in the liabilities, of SFIL's balance sheet. Note 7.1.3 to the consolidated financial statements provides detailed information on the measurement and classification in Stage 2 and 3 of fair value of such financial instruments. Due to the complexity related to determining valuation models, the sensitivity of these models to assumptions adopted by the Credit Risk Department, and the uncertainty inherent in the exercise of judgements used to estimate the level 3 parameters, we considered the valuation of financial instruments classified in fair value level 2 and 3 to be a key audit matter.	Our audit approach focused on certain key internal control processes related to the valuation of derivatives and in particular: • regular review and validation of the valuation models by the Credit Risk Department; • verification of market data and parameters used in the models; • review of the recognition process for non-SPPI loans at fair value through profit or loss. With the support of our risk modeling and valuation techniques experts, we have adopted an approach comprising the following main steps: • review of variations in the classification of financial instruments according to fair value levels; • review of the results of valuation verification processes based on valuations of external counterparties as part of collateral reconciliation and review of analyses performed by the entity in the event of material differences for a selection of contracts; • independent valuation performed on a selection of derivative contracts; • analysis of the formula used to value non-SPPI loans at fair value through profit or loss and using this formula on a selection of contracts; • review of the backtesting of the model used to value non-SPPI loans at fair value through profit or loss; • review of the consistency of accounting treatments with the support of our IFRS experts; • review of the methodology and approach for qualifying the valuation of derivatives as described of Note 7.1 "Fair value" in the notes to the consolidated financial statements and analysis of criteria adopted to determine the fair value hierarchy; • review of disclosures provided in the notes to the consolidated financial statements.

Verification of the Management Report

As required by law, we have also verified in accordance with professional standards applicable in France, and as set forth by the legal and regulatory texts, the information presented in the management report of the Board of Directors adopted on March 19, 2020. Management indicated to us that events occurring since the closing date of the financial statements and the effects of the COVID-19 crisis as known to date will be the subject of a communication to the Shareholders' Meeting called to approve the financial statements.

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

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of SFIL by the General Shareholders' Meeting held on January 29, 2013 for DELOITTE ET ASSOCIÉS and on May 31, 2017 for ERNST & YOUNG et Autres.

As of December 31, 2019 DELOITTE & ASSOCIES and ERNST & YOUNG et Autres were in the 7th year and the 3rd year of total uninterrupted engagement.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As specified in article L.823-10-1 of the French Code of Commerce (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;

- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters, that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by articles L.822-10 to L.822-14 of the French Code of Commerce and in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense, March 31, 2020

The Statutory Auditors

DELOITTE ET ASSOCIÉS

Sylvie Bourguignon

ERNST & YOUNG et Autres

Vincent Roty

4

Notes to the French GAAP financial statements

4.1 Financial statements

4.1.1 Assets as of December 31, 2019

(EUR millions)	Note	12/31/2018	12/31/2019
Central banks	*2.1*	656	718
Government and public securities	*2.2*	123	123
Loans and advances due from banks	*2.3*	4,945	5,306
Loans and advances to customers	*2.4*	1,037	2,374
Bonds and other fixed income securities	*2.5*	1,312	1,207
Equities and other variable income securities		-	-
Investments in non-consolidated companies and other long-term investments		-	-
Investments in consolidated companies	*2.6*	35	35
Intangible assets	*2.7*	33	31
Property and equipment	*2.8*	6	7
Other assets	*2.9*	2,157	2,321
Accruals and other assets	*2.10*	612	686
TOTAL ASSETS	***2.11***	**10,916**	**12,808**

4.1.2 Liabilities as of December 31, 2019

(EUR millions)	Note	12/31/2018	12/31/2019
Central banks		-	-
Due to banks	*3.1*	3,829	3,269
Customer borrowings and deposits		-	-
Debt securities	*3.2*	5,612	7,746
Other liabilities	*3.3*	745	1,072
Accruals and other liabilities	*3.4*	534	486
Provisions	*3.5*	8	7
EQUITY	**3.6**	**188**	**228**
Subscribed capital	*3.6*	130	130
Additional paid-in capital		-	-
Reserves and retained earnings		14	57
Net income	*3.6*	44	41
TOTAL LIABILITIES	***3.6***	**10,916**	**12,808**

4.1.3 Off-balance sheet items as of December 31, 2019

(EUR millions)	Note	12/31/2018	12/31/2019
COMMITMENTS GRANTED	***4.1***	**18,882**	**18,773**
Financing commitments		6,554	5,510
Guarantees granted		7,383	8,051
Other commitments granted		4,945	5,212
COMMITMENTS RECEIVED	***4.2***	**23,238**	**24,636**
Financing commitments		15,853	16,581
Guarantees received		7,385	8,055
Forward commitments		-	-
Other commitments received		-	-
OTHER COMMITMENTS	***4.3***	**42,240**	**45,557**
Foreign currency transactions		7,938	8,925
Interest rate derivatives		34,302	36,632
Commitments related to securities transactions		-	-

4.1.4 Income statement

EUR millions	Note	2018	2019
Interest income	*5.1*	3	35
Interest expense	*5.1*	(3)	(26)
Income from variable income securities		50	41
Commission income	*5.2*	9	7
Commission expense	*5.2*	(0)	(3)
Net gains (losses) on held for trading portfolio	*5.3*	0	(0)
Net gains (losses) on placement portfolio	*5.4*	(3)	2
Other income	*5.5*	93	91
Other expense	*5.5*	(0)	(0)
NET BANKING INCOME		**149**	**146**
General operating expense	*5.6*	(94)	(89)
Depreciation and amortization		(10)	(13)
GROSS OPERATING INCOME		**45**	**44**
Cost of risk		-	(1)
INCOME FROM OPERATIONS		**45**	**43**
Gains or losses on fixed assets		-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		**45**	**43**
Non-recurring items		-	-
Income tax	*5.7*	(1)	(2)
NET INCOME		**44**	**41**
Basic earnings per share		4.73	4.45
Diluted earnings per share		4.73	4.45

4.1.5 Equity

(EUR millions)	**Amount**
AS OF 12/31/2018	
Share capital	130
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	14
Net income for the year	44
Interim dividends	-
EQUITY AS OF 12/31/2018	**188**
MOVEMENTS FOR THE PERIOD	
Changes in share capital	-
Changes in additional paid-in capital	-
Changes in commitments to increase share capital and additional paid-in capital	-
Changes in reserves and retained earnings	43
Dividends paid (-)	-
Changes in Net income for the period	(3)
Other movements	-
AS OF 12/31/2019	
Share capital	130
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	57
Net income for the period	41
EQUITY AS OF 12/31/2019	**228**

4.2 Notes to the French GAAP financial statements

Note 1 Accounting and valuation policies

1.1 Applicable accounting standards: rules adopted by the French Accounting Standards Board (Autorité des Normes Comptables – ANC)

SFIL prepares its financial statements in compliance with ANC Regulation no. 2014-07 issued on November 26, 2014 and related to the accounts for the reporting entities of the banking sector, and in particular credit institutions. As stated in its article 3 and subject to the provisions of the latter regulation, these reporting entities prepare their financial statements in compliance with ANC Regulation no. 2014-03 issued on June 5, 2014 and related to general accounting plan. The financial statements are furthermore in accordance with the indications of directive 86/635/EEC of the Council of European Communities.

The financial statements as of December 31, 2019, were prepared using the same accounting policies as those used in the financial statements as of December 31, 2018. Between these two dates, the applicable regulation has in particular been amended as such:

- **ANC Regulation no. 2019-06 issued on November 8, 2019 (amending ANC Regulation no. 2014-03**): This regulation amends the general accounting plan, specifically Chapter VII on the recognition and evaluation of mergers and similar operations. This regulation introduces the concept of a "demerger with no securities exchanged" and expands the concept of a "simplified merger," renamed a "merger with no securities exchanged," in the event of a merger of two wholly-owned companies by a single parent company. Furthermore, it defined the accounting procedures for mergers and demergers with no securities exchanged in the accounts of the receiving entity or those of the holding entity.

This regulation has no impact on the financial statements of SFIL, given that this latter was not involved in any merger or demerger with no securities exchanged during the fiscal year.

Moreover, as a reminder, the regulation below, published in 2018, has been applicable since January 1, 2019:

- **ANC Regulation no. 2018-02 issued on July 6, 2018 (amending ANC Regulation no. 2014-03):** This regulation amends the general accounting plan so as to adapt it to the entry into force of the income tax at source on January 1, 2019. Applicable from this date, the regulation clarifies the principles of recognition of the income tax at source and introduces the new accounts created in that purpose.

Since January 1, 2019, SFIL has recognized the income tax at source in compliance with the principles laid down by this regulation.

1.2 Accounting principles applied to the Financial Statements

The financial statements have been prepared in accordance with French generally accepted accounting principles, respecting the principles of prudence, sincerity and true and faithful image, on the basis of the following assumptions:

- going concern principle;
- segregation of accounting periods;
- consistency of methods;
- historical costs;
- no netting principle;
- intangibility of the opening balance sheet.

1.2.1 Loans and advances to banks and to customers

Loans and advances to banks include all loans connected to banking transactions with credit institutions, except securities. They are broken down into sight accounts and term loans.

Loans and advances to customers comprise mainly loans granted in the form of export credits.

Loans and advances to customers are recognized in the balance sheet net of impairment for possible losses. The undrawn portion of signed loan contracts is recognized as an off-balance sheet item.

Interest on loans is recognized as Interest income, *prorata temporis* for accrued amounts due and not yet due, as is interest on past-dues.

Commissions received and marginal transaction costs related to the granting or the acquisition of a loan, if they are significant, are amortized over the maturity of the loan. Other commission income is immediately recognized in the income statement.

Prepayment indemnities are recognized in the income statement at the date they occur.

A loan is considered non-performing if it presents one of the following characteristics:

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

Compromised non-performing loans are loans to borrowers whose recovery outlook is so downgraded that they might be ultimately written off. Loans accounted for as non-performing for more than one year are transferred to this category.

Impairment charges are recognized for non-performing and compromised non-performing loans:

- the fraction of principal impaired is determined by the Risks division according to incurred losses. Underlying impairment charges and subsequent reversals are recognized as Cost of risk as well as the losses and subsequent recoveries on the principal of non-recoverable loans;
- interest is fully impaired. Underlying impairment charges and subsequent reversals are recognized in the net interest margin as well as the losses and subsequent recoveries on the interest of non-recoverable loans.

1.2.2 Securities

Securities held by SFIL are recognized on the asset side of the balance sheet under the item Government and public securities or Bonds and other fixed income securities.

The item Government and public securities includes securities issued by public sector entities that may be refinanced through the European System of central banks.

The item Bonds and other fixed income securities includes:

- securities issued by public sector entities that are not eligible for refinancing by central banks;
- securities guaranteed by public sector entities.

Securities held by SFIL are recognized as either investment securities or placement securities.

1.2.2.1 Investment securities

Fixed-income securities with a specified maturity are recognized as investment securities when there is the intention and the capacity to hold them to maturity. Securities in this category are subject to back-financing or interest-rate hedging over their residual maturity.

Investment securities are recognized on the date of purchase at acquisition clean price, excluding fees. Accrued interest at the date of acquisition and subsequently accrued interest at each closing date is recognized on the balance sheet in the same categories as the corresponding security. Interest on these securities is recognized as Interest income.

The difference between the redemption value and the acquisition clean cost (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

At closing date, unrealized gains are not recognized and unrealized losses are generally not impaired. By way of exception, unrealized losses are impaired in the following cases:

- a doubt about the issuer's ability to meet his obligations;
- the probability that the Company will not hold these securities until maturity due to new circumstances.

1.2.2.2 Placement securities

Securities that do not fit in investment securities are recognized as placement securities.

Placement securities are recognized on the date of purchase at acquisition clean price, excluding fees. Accrued interest at the date of acquisition and subsequently accrued interest at each closing date is recognized on the balance sheet in the same categories as the corresponding security. Interest on these securities is recognized as Interest income.

The difference between the redemption value and the acquisition clean cost (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

In application of the principle of prudence, placement securities are recognized on the balance sheet at their acquisition cost including if applicable the amortization of discount or premium or selling price at closing date, whichever is lower, after accounting, when relevant, for the value of the micro-hedge swap.

If the market for a financial instrument is not active, valuation techniques are used to calculate its selling price. The valuation model should take into account all the factors that market players would consider to valuate the asset. Within this framework, SFIL relies on its own valuation models, making every effort to take into account the market conditions at the date of the valuation as well as any changes in the credit quality of these financial instruments and market liquidity.

When the decrease in the value of the security exceeds the unrealized gain on the micro-hedge, the decrease in net value is recognized as asset impairment in Net gains (losses) on placement portfolio transactions, as well as subsequent impairment reversals and capital gains and losses on sales.

Placement securities transferred to investment securities are recognized at their acquisition cost and previously recognized impairment is reversed over the residual maturity of the securities concerned.

1.2.3 Debt due to banks

Debt due to banks is broken down according to the type of debt (sight accounts, current accounts, long-term loans or non-allocated receivables) and the initial maturity (sight or term debt).

Interest accrued on this debt is recognized in liabilities, offsetting income statement.

1.2.4 Debt securities

Debt securities are broken down between short term (Certificates of Deposit) and medium to long term (Euro Medium Term Notes) negotiable debt securities.

Debt securities are recognized at nominal value.

Redemption and issue premiums are amortized according to a quasi-actuarial method over the maturity of the securities concerned *prorata temporis*. They are recognized on the balance sheet in the same categories as the corresponding debt. Amortization of these premiums is recognized in the income statement as Interest expense. If securities are issued above par, amortization of issue premiums is deducted from Interest expense.

Interest is recognized in the net interest margin for accrued amounts calculated *prorata temporis*.

Issuance costs and commissions related to issued securities are amortized according to a quasi-actuarial method over the maturity of the related debts and 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 below).

1.2.5 Provisions for risks and charges

Provisions are recognized based on their discounted value when the three following conditions are met:

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

Collective provision covers the risk of loss in value among the population of loans, bonds and loan commitments not yet covered by any specific loss allowance at closing date. Among this population, counterparties that are reviewed in Watchlist Committee or might be reviewed in a foreseeable future are identified through the use of automatic criteria (based in particular on internal ratings and warning indicators for rating migration determined to be risky) and *ad hoc* analysis based on the use of professional judgment and expert opinion: outstanding on these counterparties forms the base of the collective provision. Losses on these counterparties are estimated on the basis of past events (use of historical patterns), current economic environment and expectations on future economic environment. For this purpose, SFIL uses a credit risk model based on an approach derived from Basel approach; this model is subject to regular back-testing.

1.2.6 Derivative transactions

SFIL concludes derivative transactions that can be broken down into two categories: Micro-hedge transactions and Isolated open positions. The valuation and accounting treatments of these financial instruments depends on the chosen category.

The notional amount of these transactions is recognized off-balance sheet over the maturity of the instruments, *i.e.* from the date the contract is signed (including forward contracts) up to maturity. The amount recognized is adjusted to reflect any changes in notional amounts so as to represent the current or future maximum commitment.

Payments made at the inception of financial instruments are amortized over their maturity for the time remaining according to a quasi-actuarial method.

1.2.6.1 Micro-hedge transactions

Derivatives are booked as micro-hedges when they are designed to hedge against the interest rate risk or the foreign exchange risk related to an item or a set of homogeneous items identified from the outset.

Expense and income on these transactions are recognized in the income statement the same way as income and expense on the hedged item or set of homogeneous items.

Termination fees received or paid because of the early interruption of the hedging instrument are recognized in the income statement at the termination date.

1.2.6.2 Isolated open positions

SFIL acts as an intermediary between Caisse Française de Financement Local, its subsidiary, and certain banking counterparties. These transactions with its subsidiary constitute isolated open positions.

Expense and income on these transactions are recognized in the income statement *prorata temporis*, respectively as interest expense and interest income. The counterpart is recognized in accruals until the payment date.

A provision is recognized in respect of any unrealized losses. Unrealized gains are not recognized.

1.2.7 Foreign currency transactions

SFIL recognizes foreign currency transactions in accounts opened and denominated in each of the currencies used.

Specific foreign exchange position accounts and foreign exchange position equivalent accounts are opened in each currency.

At each closing date, differences between, on the one hand, the amounts resulting from a market price valuation at closing date of the foreign exchange position accounts and, on the other hand, the amounts recognized in the foreign exchange position equivalent accounts are recognized in the income statement.

1.2.8 Foreign exchange derivatives

In the course of systematic hedging of its foreign exchange risk, SFIL enters into currency swaps. These currency swaps are initiated to eliminate the risk of foreign exchange rate fluctuations that might affect an asset or liability as soon as such a risk is identified. They are mainly used to hedge certain liabilities, debt securities and customer loans.

Results of foreign exchange hedging transactions are accounted for by recognizing the difference between the hedging rate and the spot rate – contango or backwardation – *prorata temporis* in the income statement.

1.2.9 Guarantees

As part of its activity to refinance large export credits, SFIL enters into credit insurance policies received from BPI France Assurance Export, acting on behalf of the French State. Expenses related to these guarantees are recognized *prorata temporis* in the net interest margin.

1.2.10 Other income

Charges which are not re-invoiced exactly up to the same amount are recognized as Other income.

1.2.11 Employee benefits

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

1.2.11.1 Short-term benefits

Short-term benefits are those expected to be settled within 12 months of the end of the annual reporting period during which the service is rendered; they are not discounted and are recognized as an expense of the reporting period. Paid annual leave is recognized if granted to the employee. A provision is set aside to this end based on the rights vested to employees at the closing date.

1.2.11.2 Long-term benefits

These benefits, generally related to seniority, are paid to current employees. Their payment is deferred for more than 12 months after the end of the reporting period during which the employee renders the related service. They comprise in particular long-service awards. The actuarial gains and losses related to these benefits and all service costs are recognized immediately in the income statement.

1.2.11.3 Termination benefits

Employee termination benefits result either from a decision by SFIL to terminate an employment contract before the employee's legal retirement age or from an employee's decision to take voluntary redundancy in exchange for termination benefits. A charge for termination benefits at the end of the employment contract is recognized only when SFIL is no longer able to withdraw its offer. Termination benefits payable at more than 12 months after the closing date are discounted to their present value.

1.2.11.4 Post-employment benefits

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

Under defined benefit plans, SFIL has a formal or constructive obligation to provide a specific amount or level of benefits and is therefore exposed to a related medium- or long-term risk. Actuarial and investment risks fall on SFIL; as a result, this obligation is measured and recognized as a liability under the item Provisions.

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

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

Measurement of the obligation arising from the scheme and the value of its covering assets is subject to adjustments due to changes in actuarial assumptions, which results in a revaluation of the liability (or asset) recognized in respect of defined benefits. Actuarial gains and losses resulting from these adjustments are recognized according the "corridor" method. Under this method, SFIL is allowed to recognize, over the average remaining service lives of employees, only the portion of actuarial gains and losses that exceeds the corridor. The corridor is the greatest of the following two amounts: 10% of the present value of the gross defined benefit plans or 10% of the fair value of plan assets at previous reporting period 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.

1.2.12 Tangible and intangible assets

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

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

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

When it meets the criteria for recognition, software developed internally is recognized at its development cost, which includes external expenditure on hardware and services and staff expenses that can be directly attributed to the asset's production and preparation for use.

After initial recognition, fixed assets are carried at cost less accumulated depreciation and impairment. When they are ready to be used, fixed assets are depreciated or amortized on a straight-line basis over their expected useful life. Depreciation is recognized in the income statement under the item Depreciation and amortization. Under defined benefit plans, SFIL has a formal or constructive obligation to provide the agreed benefits to current and

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

Components	Depreciation/ amortization period
Technical installations	10-20 years
Fixtures and fittings	10-20 years
IT equipment	3 years
Software developed or acquired*	3 or 5 years
Office layout, furniture and equipment	2-12 years

* *Purchased licenses and equipment are amortized or depreciated, respectively, over three years. The depreciation period of internally developed software depends on whether they are strategic. Those which are considered strategic are amortized over five years; those which are not are amortized over three years.*

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

Gains or losses on disposal of fixed assets are charged to Income (loss) on fixed assets.

1.2.13 Non-recurring income and expenses

Non-recurring income and expense results from events or transactions that do not relate to ordinary business operations or routine management of the Company's assets and liabilities.

Furthermore, the income or expense involved does not depend on decisions taken within the framework of usual management of the Company's activities or assets, but results from external events of a completely exceptional nature. Only items of this nature that have a significant impact on the period's income statement are recognized as non-recurring income and expense.

1.2.14 Tax consolidation

Since January 1, 2014, SFIL is the head of the tax group which consolidates Caisse Française de Financement Local.

1.2.15 Offices and activities in uncooperative States and territories

SFIL fights against tax evasion by scrupulously complying with the rules and preventive measures in force. SFIL has no operations in countries that have not concluded an administrative assistance agreement with France (subsidiaries, branches - including ad hoc entities - and holdings in other entities that are subject to exclusive or joint - or de facto - control). At most, SFIL receives interest flows from borrowers located in these countries in the context of its export refinancing activities, taking into account the specific nature of their activities. This income is taxed in France at the full corporate tax rate.

Note 2 Notes to the assets *(EUR millions)*

2.1 Central banks

	12/31/2018	12/31/2019
Mandatory reserve	-	-
Other deposits	656	718
TOTAL	**656**	**718**

2.2 Government and public securities

2.2.1 Accrued interest included in this item: 0

2.2.2 Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
-	-	123	-	123

2.2.3 Analysis by listed securities and other securities excluding accrued interest

	Net amount as of 12/31/2018	Gross amount as of 12/31/2019	Impairment as of 12/31/2019	Net amount as of 12/31/2019	Unrealized capital gain or loss as of 12/31/2019[2]
Listed securities[1]	123	123	-	123	1
Other securities	-	-	-	-	-
TOTAL	**123**	**123**	**-**	**123**	**1**

(1) Listed securities are registered for trading on a stock exchange.
(2) The unrealized capital gain or loss is after swapping and corresponds to the difference between accounting value and market value.

2.2.4 Analysis by type of portfolio excluding accrued interest and changes during the year

Portfolio	Net amount as of 12/31/2018	Gross amount as of 12/31/2018	Acquisitions	Amortization, redemption or disposals	Others	Conversion differences	Impairment as of 12/31/2019	Net amount as of 12/31/2019[1]	Unrealized capital gain or loss as of 12/31/2019[2]
Trading	-	-	-	-	-	-	-	-	-
Placement	123	123	-	-	(0)	-	-	123	1
Investment	-	-	-	-	-	-	-	-	-
TOTAL	**123**	**123**	**-**	**-**	**(0)**	**-**	**-**	**123**	**1**

(1) This amount includes a discount/surplus of EUR 1 million.
(2) The unrealized capital gain or loss is after swapping and corresponds to the difference between accounting value and market value.

2.3 Loans and advances to banks

2.3.1 Sight loans and advances to banks

	12/31/2018	12/31/2019
Sight accounts	4	4
Unallocated sums	-	-
TOTAL	**4**	**4**

2.3.2 Time loans and advances to banks

This item includes several loans granted to the Caisse Française de Financement Local for a total amount of EUR 5,210 million enabling the latter to refinance its overcollateralisation, as well as a loan made to a bank as part of the refinancing of large export credits activity for an amount of EUR 96 million (excluding accrued interest). As a reminder, this last loan benefits from a guarantee issued by BPI AE in the name, on behalf, and under the control of the French state.

2.3.2.1 Accrued interest included in this item: (4)

2.3.2.2 Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
100	739	3,462	1,006	**5,306**

2.3.2.3 Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2018	Gross amount as of 12/31/2019	Impairment as of 12/31/2019	Net amount as of 12/31/2019
Loans of less than 1 year	200	818	-	818
Loans of more than 1 year	4,743	4,488	-	4,488
TOTAL	**4,943**	**5,306**	**-**	**5,306**

2.3.2.4 Breakdown by counterparty

12/31/2018		12/31/2019
Export credits loans[(1)]	-	96
Loans to Caisse Française de Financement Local	4,943	5,210
TOTAL	**4,943**	**5,306**

(1) Loans benefitting from a guarantee issued by BPI AE in the name, on behalf and under the control of the French State.

2.4 Loans and advances to customer

2.4.1 Accrued interest included in this item: 3

2.4.2 Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
-	-	-	2,371	**2,371**

2.4.3 Analysis of commitments by the counterparty's economic sector excluding accrued interest

	12/31/2018	12/31/2019
Export credits loans[(1)]	1,032	2,371
Other sectors	3	-
TOTAL	**1,035**	**2,371**

(1) Loans benefiting from a guarantee issued by BPI AE in the name, on behalf and under the control of the French State.

2.4.4 Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2018	Gross amount as of 12/31/2019	Impairment as of 12/31/2019	Net amount as of 12/31/2019
Loans of less than 1 year	-	-	-	-
Loans of more than 1 year	1,035	2,372	(1)	2,371
TOTAL	**1,035**	**2,372**	**(1)**	**2,371**

2.4.5 Analysis of loans by category of outstanding commitments excluding accrued interest

	Net amount as of 12/31/2018	Gross amount as of 12/31/2019	Impairment as of 12/31/2019	Net amount as of 12/31/2019
Performing loans	1,035	2,267	-	2,267
Non-performing loans	-	104	-	104
Compromised non-performing loans	-	-	-	-
TOTAL	**1,035**	**2,371**	**-**	**2,371**

2.5 Bonds and other fixed income securities

2.5.1 Accrued interest included in this item: 1

2.5.2 Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
199	417	590	-	**1,206**

2.5.3 Analysis by the issuer's economic sector excluding accrued interest

	12/31/2018	12/31/2019	Unrealized capital gain or loss as of 12/31/2019(1)
Credit institutions	1,311	1,206	(1)
TOTAL	**1,311**	**1,206**	**(1)**

(1) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

2.5.4 Analysis by listed securities and other securities excluding accrued interest

	12/31/2018	12/31/2019	Unrealized capital gain or loss as of 12/31/2019(2)
Listed securities(1)	656	747	(1)
Other securities	655	459	(0)
TOTAL	**1,311**	**1,206**	**(1)**

(1) Listed securities are registered for trading on a stock exchange.
(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

2.5.5 Analysis by type of portfolio excluding accrued interest and changes during the year

Portfolio	Net amount as of 12/31/2018	Gross amount as of 12/31/2018	Increases	Decreases	Others	Conversion differences	Impairment as of 12/31/2019	Net amount as of 12/31/2019[1]	Unrealized capital gain or loss as of 12/31/2019[2]
Trading	-	-	-	-	-	-	-	-	-
Placement	1,311	1,311	-	(200)	-	-	-	1,111	9
Investment	-	-	95	-	-	-	-	95	-
TOTAL	**1,311**	**1,311**	**95**	**(200)**	**-**	**-**	**-**	**1,206**	**9**

(1) This amount includes a discount/surplus of EUR 3 million.
(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

2.6 Investments in consolidated companies

SFIL holds 100% of the shares of Caisse Française de Financement Local for EUR 35 million.

2.7 Intangible assets

	Software	Internally developed assets	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2018	**5**	**44**	**4**	**53**
Changes during the year:				
*increases	2	8	3	13
*decreases	-	-	(4)	(4)
*others	-	-	-	-
ACQUISITION COST AS OF 12/31/2019	**7**	**51**	**4**	**62**
DEPRECIATION AND IMPAIRMENTS AS OF 12/31/2018	**(2)**	**(17)**	**-**	**(20)**
Changes during the year:				
*amortization	(1)	(10)	-	(12)
*write-back	-	-	-	-
DEPRECIATION AND IMPAIRMENTS AS OF 12/31/2019	**(4)**	**(27)**	**-**	**(31)**
NET CARRYING AMOUNT AS OF 12/31/2019	**3**	**24**	**4**	**31**

2.8 Property and equipment

	Computer equipment	Other equipment	Fixtures	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2018	**2**	**0**	**8**	**1**	**11**
Changes during the year:					
*increases	1	0	0	2	3
*decreases	-	-	-	(1)	(1)
*other	-	-	-	-	-
ACQUISITION COST AS OF 12/31/2019	**3**	**0**	**8**	**2**	**14**
DEPRECIATION AND IMPAIRMENTS AS OF 12/31/2018	**(1)**	**(0)**	**(4)**	**-**	**(5)**
Changes during the year:					
*amortization	(0)	(0)	(1)	-	(1)
*write-back	-	-	-	-	-
DEPRECIATION AND IMPAIRMENTS AS OF 12/31/2019	**(1)**	**(0)**	**(5)**	**-**	**(6)**
NET CARRYING AMOUNT AS OF 12/31/2019	**2**	**0**	**3**	**2**	**7**

2.9 Other assets

	12/31/2018	12/31/2019
Cash collateral paid	2,137	2,299
Other receivables	20	22
TOTAL	**2,157**	**2,321**

2.10 Accruals and other assets

	12/31/2018	12/31/2019
Deferred charges on hedging transactions	240	274
Other prepaid charges	6	6
Accrued interest not yet due on hedging transactions	344	351
Other accounts receivable on hedging transactions	5	44
Other deferred income	17	11
TOTAL	**612**	**686**

2.11 Breakdown of assets by currency

Analysis by original currency	Amount in original currency as of 12/31/2018	Amount in euros as of 12/31/2018	Amount in original currency as of 12/31/2019	Amount in euros as of 12/31/2019
EUR	8,842	8,842	9,504	9,504
CAD	2	1	1	1
CHF	8	7	8	7
GBP	2	2	2	2
USD	2,356	2,060	3,694	3,290
NOK	39	4	39	4
TOTAL		**10,916**		**12,808**

Note 3 Notes to the liabilities *(EUR millions)*

3.1 Due to banks

3.1.1 Accrued interest included in this item: 1

3.1.2 Due to banks

	12/31/2018	12/31/2019
Sight accounts	-	-
Current account	-	-
Term borrowing	3,828	3,268
Unallocated sums	-	-
TOTAL	**3,829**	**3,268**

3.1.3 Analysis by residual maturity excluding accrued interest

	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	12/31/2019
Sight		-	-	-	-
Term	4	607	1,349	1,308	3,268
TOTAL	**4**	**607**	**1,349**	**1,308**	**3,268**

3.1.4 Analysis of term borrowing by counterparty excluding accrued interest

	12/31/2018	12/31/2019
Caisse des dépôts et consignations	1,111	-
Caisse Française de Financement Local	1,897	2,889
La Banque Postale	820	379
TOTAL	**3,828**	**3,268**

3.2 Debt securities

3.2.1 Accrued interest included in this item: 51

3.2.2 Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	12/31/2019
Certificates of deposit	516	95	-	-	611
EMTN	-	891	5,197	996	7,084
TOTAL	**516**	**986**	**5,197**	**996**	**7,695**
Of which net issue premiums	-	-	*(7)*	*(4)*	*(11)*

3.2.3 Changes during the year excluding accrued interest

	12/31/2018 adjustments	Increases	Decreases	Translation	12/31/2019
Certificates of deposit	647	611	(647)	-	611
EMTN	4,935	2,149	-	-	7,084
TOTAL	**5,582**	**2,760**	**(647)**	**-**	**7,695**

3.3 Other liabilities

	12/31/2018	12/31/2019
Cash collateral received	724	1,051
Taxes	8	8
Other payables	13	13
TOTAL	**745**	**1,072**

3.4 Accruals and other liabilities

	12/31/2018	12/31/2019
Deferred income on hedging transactions	193	164
Accrued interest not yet due on hedging transactions	310	293
Other accounts payable on hedging transactions	-	-
Other accrued charges	31	29
TOTAL	**534**	**486**

3.5 Provisions

	12/31/2018	Increases	Decreases	Conversion differences	12/31/2019
Provisions on pensions	5	1	-	-	6
Provisions on financial instruments	3	0	(2)	-	1
TOTAL	**8**	**1**	**(2)**	**-**	**7**

3.6 Equity

	12/31/2018	12/31/2019
Share capital	130	130
Legal reserve	-	3
Retained earnings (+/-)	14	54
Net income (+/-)	44	41
TOTAL	**188**	**228**

SFIL's share capital totaled EUR 130 million, comprising 9,285,725 shares with a face value of EUR 14.

3.7 Breakdown of liabilities by currency

Analysis by original currency	Amount in original currency as of 12/31/2018	Amount in euros as of 12/31/2018	Amount in original currency as of 12/31/2019	Amount in euros as of 12/31/2019
EUR	8,842	8,842	9,504	9,504
CAD	2	1	1	1
CHF	8	7	8	7
GBP	2	2	2	2
USD	2,356	2,060	3,694	3,290
NOK	39	4	39	4
TOTAL		**10,916**		**12,808**

3.8 Transactions with related parties

Analysis by nature	Consolidated entity CAFFIL[(1)]		Other related parties[(2)]	
	12/31/2018	**12/31/2019**	12/31/2018	**12/31/2019**
ASSETS				
Loans and advances due from banks - sight	-	-	-	-
Loans and advances due from banks - term	4,941	5,206	-	-
Bonds and other fixed income securities	-	-	88	236
LIABILITIES				
Due to banks - sight	-	-	-	-
Due to banks - term	1,897	2,890	1,932	379
INCOME STATEMENT				
Interest income on loans and advances	(4)	(4)	(0)	(0)
Interest income on debt securities	0	-	(0)	(0)
Interest expense on borrowings	0	(12)	(9)	(6)
Net commissions	5	(2)	4	4
OFF-BALANCE SHEET				
Interest rate derivatives	14,309	15,481	415	375
Foreign exchange derivatives	1,022	692	-	-
Commitments and guarantees received	6,284	5,460	9,530	11,121
Commitments and guarantees given	-	50	4,943	5,212

(1) Caisse Française de Financement Local
(2) Other related parties concern La Banque Postale and Caisse des Dépôts.

Note 4 Notes to the off-balance sheet items *(EUR millions)*

4.1 Commitments granted

	12/31/2018	12/31/2019
Financing commitments granted to credit institutions	270	98
Financing commitments granted to customers(1)	6,284	5,412
Other guarantees given to banks(2)	7,383	8,051
Other commitments given, assets assigned in guarantee	4,945	5,212
TOTAL	**18,882**	**18,773**

(1) This amount corresponds to commitments given by SFIL in connection with its export credit activity.
(2) This amount corresponds to the sell-back, to the benefit of Caisse Française de Financement Local, of guarantees received from export credit activity.

4.2 Commitments received

	12/31/2018	12/31/2019
Financing commitments received from credit institutions(1)	15,853	16,581
Guarantees received from banks(2)	7,385	8,055
Other commitments received	-	-
TOTAL	**23,238**	**24,636**

(1) In particular, this amount integrates funding commitments of EUR 5,460 million from CAFFIL in order to finance the parent company, SFIL, within the framework of its export credit activity. It also includes the residual amount corresponding to the financing commitments of SFIL's shareholders, Caisse des Dépôts and La Banque Postale for respective amounts of EUR 10,000 million and EUR 1,121 million. For Caisse des Dépôts financing commitments, SFIL recorded the total of its commitments related to the only tranches existing, which is limited to EUR 10,000 million. This amount does not take into account the possibility stipulated in the financing agreement with Caisse des dépôts et consignation to negociate additional funding in good faith. The principal in a loan may not exceed EUR 12,5 billion.
(2) Credit insurances issued by the French State in the framework of large export credit activity.

4.3 Foreign currency transactions and commitments on interest rate derivatives

4.3.1 Foreign currency transactions

Cash and forward foreign exchange transactions are recorded at their value in foreign currencies translated at the exchange rate at the end of the period.

The items Currencies to receive and Currencies to deliver are composed of long currency swaps with intermediate payment flows corresponding to hedging transactions.

	12/31/2018	12/31/2019	Fair value as of 12/31/2019
Currencies to receive	3,974	4,507	240
Currencies to deliver	3,964	4,418	(153)
TOTAL	**7,938**	**8,925**	**87**

4.3.2 Commitments on interest rate derivatives

Commitments on interest rate derivatives are recorded in accordance with CRB standards 88-02 and 90-15: amounts related to unconditional operations are recorded at the contractual notional value.

4.3.2.1 Analysis of over-the-counter interest rate transactions by residual maturity

Type of transaction	12/31/2018	Less than 1 year	1 year to 5 years	More than 5 years	Amount as of 12/31/2019
Unconditional transactions	34,302	2,264	9,450	24,918	**36,632**
of which deferred start	*82*	-	-	*82*	***82***

4.3.2.2 Analysis of interest rate transactions by product type

	12/31/2018	12/31/2019
Interest rate swaps	34,302	36,632
Term contracts	-	-
Interest rate options	-	-
TOTAL	**34,302**	**36,632**

4.3.2.3 Analysis of interest rate transactions by counterparty

	12/31/2018	12/31/2019
Caisse Française de Financement Local	14,310	15,481
Other related parties	415	375
Other counterparties	19,577	20,776
TOTAL	**34,302**	**36,632**

4.3.3 Analysis of interest rate and foreign currency transactions by type of transaction

Type of transaction	12/31/2018	Micro-hedge	Isolated open position	12/31/2019	Fair value as of 12/31/2019
Foreign currency transactions - to receive	3,974	920	3,587	4,507	240
Foreign currency transactions - to deliver	3,969	692	3,770	4,462	(153)
Interest rate swaps	34,302	15,481	21,151	36,632	60
TOTAL	**42,245**	**17,093**	**28,508**	**45,601**	**147**

Note 5 Notes to the income statement *(EUR millions)*

5.1 Interest and related income

	2018	2019
INTEREST AND RELATED INCOME	**3**	**35**
Loans and advances due from banks	(13)	(4)
Loans and advances to customers	16	39
Bonds and other fixed income securities	(0)	(0)
Macro-hedge transactions	-	-
Other commitments	-	-
INTEREST AND RELATED EXPENSE	**(3)**	**(26)**
Due to banks	(11)	(31)
Due to clients	(1)	(9)
Bonds and other fixed income securities	9	14
Macro-hedge transactions	-	-
Other commitments	-	-
INTEREST MARGIN	**(0)**	**9**

5.2 Analysis of commissions received and paid

	2018	2019
Billing commissions received from/paid to Caisse Française de Financement Local	5	(2)
Other commissions[1]	4	6
TOTAL	**9**	**4**

(1) This is mainly the servicing commission paid by La Banque Postale.

5.3 Net gains or losses on trading portfolio

	2018	2019
Provision on financial instruments	0	(0)
Foreign exchange income	0	0
TOTAL	**0**	**(0)**

5.4 Net gains or losses on placement portfolio

	2018	2019
Losses on placement portfolio	(27)	(0)
Gains on placement portfolio	24	2
TOTAL	**(3)**	**2**

5.5 Other income and expense

	2018	2019
Other income	0	0
Rebilled expense[1]	93	91
Other expense	(0)	(0)
TOTAL	**93**	**91**

(1) This item corresponds to expenses re-invoiced to the Caisse Française de Financement Local.

5.6 General expenses

	2018	2019
Payroll expense	(30)	(32)
Social security taxes	(17)	(17)
Taxes	(6)	(6)
Other general operating expense	(41)	(34)
TOTAL	**(94)**	**(89)**

5.7 Income tax

	2018	2019
Current Income tax[(1)]	(1)	(2)
TOTAL	**(1)**	**(2)**

(1) This Item includes the effects linked with the fiscal integration.

Note 6 Financial relations with members of the Executive Committee and the Board of Directors *(EUR millions)*

Gross compensation allocated to members of the Executive Committee and Board of Directors of the Company owing to their functions within them, in the subsidiaries and affiliated companies	2018	2019
Executive Committee	2	3
Board of Directors	0	0
TOTAL	**2**	**3**

Amount, at year end, of the debt liabilities in their favor and of other obligations undertaken on their behalf	2018	2019
Executive Committee	0	-
Board of Directors	-	0
TOTAL	**0**	**0**

Note 7 Information on subsidiaries and shareholdings *(EUR millions)*

Companies	Capital	Share premiums, reserves and retained earnings	Net Banking Income (NBI) of last year (2019)	Profit or loss of last year (2019)	Percentage of capital held	Carrying amount of shares held[1]	Dividends received by SFIL during the year	Loans and advances granted by SFIL	Total guarantees granted by SFIL	Business
Caisse Française de Financement Local	1,350	-	138	46	100%	35	41	5,206	-	*Société de crédit foncier*
1-3, rue du Passeur de Boulogne -92130 Issy-les-Moulineaux										

(1) SFIL acquired for EUR 1, 100% of the capital of CAFFIL on January 31, 2013. In 2017, SFIL subscribed for the entire capital increase of its subsidiary CAFFIL for EUR 35 million.

Note 8 Post-closing events

No significant event exerting in influence of the Company's financial situation occurred after the closing on December 31, 2019.

Concerning the Coronavirus (COVID-19) pandemic, the SFIL group is following the recommendations of the World Health Organization and the French government and has implemented the measures necessary to maintain operational continuity in all its business activities, in particular, almost all of its employees are working remotely and a crisis cell has been meeting daily to adapt the working methods used. The SFIL group's teams have been very closely monitoring the disruptions to the financial markets since the crisis began. The impact on current and planned future operations for SFIL and CAFFIL, and on their counterparties (customers, banks, partners) are being reassessed regularly. On the date this report was published, no impact was identified that may have significant consequences on the group's financial situation and its capacity to honor its commitments. Time lags in the collection of income from some of its assets (consisting entirely of exposures to public sector borrowers) may be considered, as well as the postponement of certain bond issues in the event of unfavorable market conditions. Nevertheless, the liquidity risk is limited by the good matching of the maturity profiles of assets and liabilities and the ability to benefit from the financing proposed by the European Central Bank through high-quality assets in the portfolio. Moreover, the quality of SFIL's shareholding structure, its status as a public development bank, the quality of CAFFIL's and SFIL's standings, the very rigorous risk management and the solid solvency ratio are all advantages within the current context.

4.3 Statutory Auditors' report on the financial statements

For the year ended December 31, 2019

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

To the General Shareholders' Meeting of SFIL,

Opinion

In compliance with the engagement entrusted to us by your annual shareholders meeting, we have audited the accompanying consolidated financial statements of SFIL for the year ended December 31, 2019, as they are attached to this report. The financial statements were approved by the Board of Directors on March 19, 2020, on the basis of the information available at that time related to the evolving COVID-19 health crisis.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as of December 31, 2019 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Audit Committee.

Basis for opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2019 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in article 5 of Regulation (EU) No. 537/2014 or in the French Code of ethics (*Code de déontologie*) for Statutory Auditors.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Code of Commerce (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the annual financial statements as a whole, approved under the conditions specified above, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

We determined that there were no key audit matters to report.

Verification of the Management Report and of the Other Documents Provided to Shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information provided in the Management Report and in the Other Documents Provided to the Shareholders with respect to the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the other documents provided to Shareholders with respect to the financial position and the financial statements, except for the above point. Management indicated to us that events occurring since the closing date of the financial statements and the effects of the COVID-19 crisis as known to date will be the subject of a communication to the Shareholders' Meeting called to approve the financial statements.

The sincerity and consistency with the financial statements of the information relating to payment perms mentioned in article D.441-4 of the French Code of Commerce (*Code de commerce*) call for the following observation:

- As indicated in the management report, this information does not include banking and related operations, as your company does not consider it to fall within the scope of the information to be produced.

Report on Corporate Governance

We attest that the Board of Directors' Report on Corporate Governance sets out the information required by articles L.225-37-4 of the French Code of Commerce (*Code de commerce*).

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of SFIL by the General Shareholders' Meeting held on January 29, 2013 for DELOITTE ET ASSOCIÉS and on May 31, 2017 for ERNST & YOUNG et Autres.

As of December 31, 2019 DELOITTE & ASSOCIES and ERNST & YOUNG et Autres were in the 7th year and the 3rd year of total uninterrupted engagement.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee and the Risks and Internal Control Committee are responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Financial Statements

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in article L. 823-10-1 of the French Code of Commerce (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;

- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by articles L.822-10 to L.822-14 of the French Code of Commerce (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense, March 31, 2020

The Statutory Auditors

DELOITTE ET ASSOCIÉS

Sylvie Bourguignon

ERNST & YOUNG et Autres

Vincent Roty

5

General information

5.1 Legal and administrative information

Company name

SFIL

Acronym

SFIL

Headquarters

The Company's registered office is located at:

1-3, rue du Passeur de Boulogne

92130 Issy-les-Moulineaux

Legal structure

Société anonyme with a Board of Directors.

Official approval

The Company was approved as a bank by the Collège de l'Autorité de contrôle prudentiel et de résolution on January 16, 2013.

Applicable legislation

SFIL is a *Société anonyme* governed by the provisions of the French Code of Commerce relating to commercial companies, the provisions of the French Monetary and Financial Code relating to credit institutions, the provisions of ordinance 2014-948 of August 20, 2014, as amended relating to corporate governance and capital transactions of public companies (hereinafter "the ordinance"), as well as the provisions of law 83-675 of July 26, 1983, on the democratization of the public sector (in its provisions applicable to representatives of the employees referred to in Section I of article 7 of ordinance 2014-948 of August 20, 2014).

Incorporation date and duration of the Company

The company was founded on December 28, 1999 for a period of 99 years.

Corporate purpose (article 3 of the by-laws)

The company is a credit institution, licensed by the Autorité de contrôle prudentiel et de résolution, whose purpose is to carry out on a regular basis:

(a) any banking transactions, within the meaning of article L.311-1 of the French Monetary and Financial Code;

(b) any transactions relating to those transactions referred to in (a) above, including the investment, subscription, purchase, management, custody and sale of financial securities and any financial products;

(c) any transactions involving the receipt of funds from its shareholders and the société de crédit foncier controlled by the company;

(d) pursuant to article L.513-15 of the French Monetary and Financial Code, any services relating to the management and recovery of exposures, debt securities and other securities, bonds, or other resources provided for in article L.513-2 of the French Monetary and Financial Code, of a duly authorized *société de crédit foncier* controlled by the company;

(e) the provision of services on behalf of third parties with a view to carrying out banking transactions;

in connection with lending transactions to the local public sector in France and, more generally, any transaction that may benefit from a public guarantee.

To this end, the company may, in compliance with applicable banking and financial regulations:

(a) obtain any suitable funding, and notably (i) issue any financial securities, any negotiable debt securities, or other financial instruments in France or abroad and (ii) more generally, have recourse to any means of managing receivables and assets, with or without transfer of ownership;

(b) acquire and hold shares in existing or newly created companies contributing to the performance of its activities and sell such shares; and

(c) in more general terms, carry out, directly or indirectly, for itself or on behalf of third parties or in concert any financial, commercial, industrial, personal property or real estate transactions with a view to conducting the aforementioned activities.

RCS number and APE business identification code

SFIL is registered at the Trade and Companies Register (RCS) under the number: NANTERRE 428 782 585.

Its APE code is: 6492Z.

Location for consulting the legal documents concerning the Company

Legal documents, including the internal rule book of the Board of Directors concerning SFIL may be consulted at the Company's registered office located at:

1-3, rue du Passeur de Boulogne

92130 Issy-les-Moulineaux

Fiscal year (article 33 of the by-laws)

The Company's fiscal year begins in January 1 and ends in December 31 of each year.

Exceptional events and legal proceedings

Please refer to the text pertaining to legal and tax risks in section 1.7.2.6 of this Annual Financial Report Management report.

Statutory distribution of profits (article 35 of the by-laws)

1 Each year, amounts to be transferred to reserves as provided by law shall be deducted from the profit for the year, less prior-year losses if applicable. Thus, 5% shall be deducted to constitute the legal reserve fund; this deduction ceases to be mandatory when this fund reaches one-tenth of the share capital; it resumes when, for any reason, the legal reserve has fallen below this fraction.

   Distributable profit consists of the profit for the year, less prior-year losses, and amounts transferred to reserves in accordance with law or the by-laws, plus any retained earnings carried forward from previous years.

2 Distributable profit is allocated as follows:

- the Preferred Dividend (as defined below) shall be paid first to the Preferred Shareholders under the conditions and limits set forth below;
- the balance of the distributable profit shall be distributed among the holders of Common Shares after deducting any amounts deemed by the general meeting to be transferred of any reserve funds or to the retained earnings account; no dividend may be paid to the holders of Common Stocks if the Preferred Dividend relating to the considered financial year, plus any Preferred Dividend relating to a prior but undistributed financial year has not been distributed and paid in full.

The Preferred Dividend due for each fiscal year to the Preferred Shares shall be equal to a total amount of 20 euro cents for all the Preferred Shares outstanding. The Preferred Dividend shall be allocated among the Preferred Shareholders *pro rata* to the Preferred Shares held by them.

In the event the distributable profit of a financial year (within the meaning of article L.232-11 of the French Code of Commerce) is not sufficient to allow the distribution of the total amount of the Preferred Dividend for the relevant financial year, this Preferred Dividend or, if applicable, the portion of this Preferred Dividend that has not been distributed, shall be carried over to future years without limitation of duration and shall be paid to Preferred Shareholders as soon as the distributable profit of the Company will be sufficient.

As an exception to the above provisions, the Preferred Dividend payable for the current fiscal year, in which a Preferred Share is issued, shall be equal to the proceeds of the Preferred Dividend as determined above and the number of days between the issue date of the relevant Preferred Share and December 31 of the relevant fiscal year in relation to a 365-day basis, or 366 days for leap years.

The Preferred Dividend shall be paid to the holders of Preferred Shares on the date of payment of the dividend to the Common Shareholders for the same financial year or, in the absence of a dividend allocated to the Common Shareholders, on the tenth (10th) business day following the date of the Annual General Meeting (the "Payment Date").

General Shareholders' Meetings

Calling of meetings (article 24 of the by-laws)

General Shareholders' Meetings shall be convened either by the Board of Directors or otherwise by the statutory auditor(s) or by a representative appointed by the President of the Commercial Court ruling in summary proceedings upon the request of one or more shareholders representing at least 5% of the share capital.

During the liquidation period, the meetings shall be convened by the liquidator(s). General meetings shall be held at the registered office or at any other location indicated in the notice of meeting.

The convening notice shall be given fifteen days before the date of the meeting, either by a simple or registered letter addressed to each shareholder, or by electronic mail sent to each shareholder, and in this case subject to the implementation of the provisions of the article R.225-63 of the French Code of Commerce[1], or by a notice published in a Journal of Legal Notices at the Registered Office. In the latter case, each shareholder must also be convened by simple letter or, at his or her request and at his or her own expense, by registered letter.

In the event of recourse to video-conferencing or telecommunication, the notice shall specify the means used.

If a meeting has not been able to meet and deliberate without due quorum, the second meeting and, if necessary, the second continuing meeting, shall be convened in the same form as the first one and the notice of meeting shall recall the date of the first one and reproduces its agenda.

(1) *The recourse to electronic telecommunication for the convening of shareholders assumes that the Company has submitted to them a proposal to this effect, and has obtained their agreement.*

Right to attend General Shareholders' Meetings (article 26 of the by-laws)

Each shareholder has the right to participate in general meetings and deliberations personally or by proxy, irrespective of the number of his shares, on simple proof of his or her identity, provided that these shares have been fully paid up and recorded in the financial statements on his or her name on the day of the general meeting.

Any shareholder may vote by correspondence by means of a form, which he or she may receive under the conditions specified in the notice of meeting.

A shareholder may only be represented by another shareholder who has a mandate, by his or her spouse or by the partner, with whom he or she has concluded a civil solidarity pact.

Voting rights (article 28 of the by-laws)

The voting rights attached to the capital shares or jouissance shares shall be proportional to the fraction of capital they represent. Each share conveys one voting right.

Voting shall be realized by show of hands, by roll call, or by secret ballot, according to the decision of the board of the meeting or the shareholders. Shareholders may also vote by mail.

Information about capital and shares

Amount of the capital, number and nature of the shares

The share capital of SFIL amounts to EUR 130,000,150; it is divided into 9,285,725 shares, each with a voting right and not subject to any pledge.

The shares are divided into two categories:

- 7,428,580 common shares and;
- 1,857,145 preferred shares issued in accordance with the provisions of article L.228-11 of the French Code of Commerce and containing the rights and obligations defined in the by-laws.

There are no other securities giving access to the capital of SFIL.

Breakdown of capital

The share capital of SFIL is held at:

- 75% by the French State, via the Agence des Participations de l'État, i.e. 6,964,293 common shares;
- 20% by the Caisse des Dépôts, i.e. 1,857,145 preferred shares;
- 5% by La Banque Postale, i.e. 464,287 common shares.

5.2 Statement by the person responsible

I, the undersigned, Philippe Mills, CEO of SFIL, hereby attest that to my knowledge, the financial statements have been prepared in accordance with the applicable accounting standards and give a true and fair view of the assets and liabilities, financial situation and profit or loss for SFIL and for all of the companies included in its consolidated scope, and that the management report faithfully reflects the changes in the business, profit/loss and financial situation for the company and for all of the companies included in its consolidated scope, as well as a description of the main risks and uncertainties facing them.

Signed in Issy-les-Moulineaux, on March 31, 2020

Philippe Mills
Chief Executive Officer

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on PEFC certified paper produced from sustainably managed forest.

Designed & published by LABRADOR INFORMATION DESIGN +33 (0)1 53 06 30 80

SFIL

Société anonyme
Capital of EUR 130,000,150
RCS Nanterre 428 782 585

Headquarters
1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux
Tel.: +33 (0)1 73 28 90 90