# Half-year financial report

For the period from
January 1 to June 30, 2021

Data subject to a limited audit by the Statutory Auditors

SFIL

**Supporting local investment and export**

# Key figures as of June 30, 2021

Consolidated total assets

EUR 74.5 billion

Bonds issued in the first half of 2021

EUR 6.1 billion

including EUR 4.3 billion of covered bonds issued by CAFFIL and EUR 1.8 billion of EMTN issued by SFIL

Loans acquired from LBP during the 1st half-year 2021

EUR 3.1 billion

Export credit loans transferred during the 1st half 2021

EUR 0.2 billion

Common Equity Tier 1 Ratio

33.2%

Operating coefficient on recurring gross operating income

54%

Recurring net income

EUR +33 million

# External ratings as of June 30, 2021

Moody's: Aa3

S&P Global Ratings: AA

Morningstar DBRS: AA (high)

Sustainalytics, a Morningstar company: 7.7/100

Negligible ESG Risk

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

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

# 1. HALF-YEAR MANAGEMENT REPORT

# BACKGROUND

The general context of the first half of the year was marked by the extension of the COVID-19 pandemic from 2020, the effects of which on SFIL's activities are discussed in the body of the report, particularly in the sections devoted to highlights, risk management, business results and in the notes to the condensed consolidated financial statements. The following summarizes information relating to SFIL.

SFIL was authorized as a bank by the Autorité de contrôle prudentiel et de résolution (ACPR) on January 16, 2013. Since September 30, 2020, the date on which the State, with the exception of one share, and La Banque Postale sold their stakes to Caisse des Dépôts, the latter has become SFIL's reference shareholder. The French Republic continues to be present on SFIL's Board of Directors through a non-voting member, given SFIL's public interest missions.

The shareholding structure, which is entirely public, is one of the characteristics of the public development bank model in which SFIL operates. The objective of public development banks is not to maximize their profit or market share, but to carry out public policy missions entrusted to them by the public authorities (the French Republic, regional or local authorities) in order to compensate for identified market failures while ensuring their own viability. 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 another key mission for refinancing major export credit contracts as part of a market system aimed at strengthening the competitiveness of French companies in the export market. This scheme, authorized by the European Commission for a period of five years, was renewed in 2020 for a further seven years.

As a reminder, since January 31, 2013, SFIL has held 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 support institution 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.

# GENERAL BUSINESS ENVIRONMENT

In the first half of 2021, SFIL continued its missions, in very good conditions, which involve refinancing, through its subsidiary Caisse Française de Financement Local, loans granted by La Banque Postale to local authorities and public hospitals, providing specialized services to La Banque Postale and Caisse Française de Financement Local, and refinancing export credits.

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

SFIL lies at the heart of a system that serves the State's commitment to provide French regional authorities 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.


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

The loans in question are intentionally 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.

The SFIL-LBP scheme also offers a range of green loans, launched in June 2019 in partnership with La Banque Postale. The green loan is a tool dedicated to financing projects contributing to ecological transition and sustainable development, in the fields of renewable energies, sustainable management of water and sanitation, waste management and recovery, etc., soft mobility and clean transport, and energy efficiency in construction and urban planning. The loans are refinanced by green issues issued by the SFIL group. This financing offer brings together the SFIL Group's commitment to sustainable finance and its role as a public development bank serving the regions.

The public hospital financing activity is also carried out through the acquisition by CAFFIL of loans marketed by La Banque Postale. These loans are refinanced by SFIL Group's social issues as part of an issuance program dedicated to financing French public hospitals in accordance with the best market standards ("framework").

## 2. Refinancing export credits

Since 2015, the French State has entrusted SFIL with a second public interest mission, according to a public refinancing scheme that already exists in several OECD countries, consisting of refinancing buyer credit contracts insured by Bpifrance Assurance Export in the name and on behalf of the French State, thus contributing to the improvement of the competitiveness of the major export contracts of French companies. The objective is to provide market financing in volumes and maturities tailored to large export credits, using the excellent issuing capacities of SFIL and its subsidiary CAFFIL. This refinancing system is a market-based system, open to all banks that partner French exporters for their loans insured by Bpifrance Assurance Export, in the name and on behalf of the French government.

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. At the end of June 2021, the system thus had 27 partner banks.

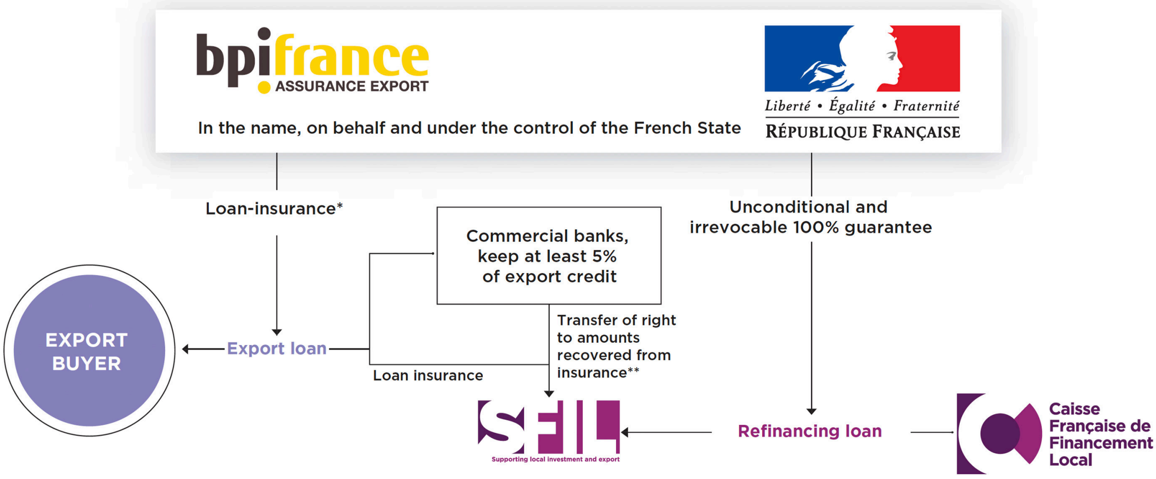
The SFIL export market refinancing system was authorized on May 5, 2015 and renewed on May 7, 2020 for a period of seven years.

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 guarantee at 100% by the French Republic is irrevocable, unconditional and on first demand. In this context, Bpifrance Assurance Export acts in the name, on behalf and under the control of the State.

It should be noted that the civil aeronautics sector benefits from a Pure and Unconditional Guarantee, whose guaranteed percentage is 100% issued by Bpifrance Assurance Export. For transactions that benefit from this irrevocable and unconditional guarantee at 100%, the enhanced guarantee in favor of CAFFIL is not required.

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




** Or, pure and unconditional guarantee for the aviation sector.*

*** In the case of 95% loan insurance.*

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 30 for 14 exporters.

## 3. Services for La Banque Postale

SFIL provides services for the medium- and long-term financing activity in the local public sector (French local authorities and public hospitals) of La Banque Postale. 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 in place to measure the quality of the services that SFIL provided for the first half of 2021 were satisfied, as in 2020, at 99%.

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

In the first half of 2021, in accordance with their periodic review commitment, SFIL and LBP adapted the contractual framework for the provision of services in order to bring it into line with the new guidelines of the European Banking Authority (EBA) relating to critical or significant services (PCI).

## 4. Financing of the SFIL Group

In order to refinance its two activities, the SFIL Group, via its subsidiary, Caisse Française de Financement Local, issues *obligations foncières* (covered bonds) in the financial markets both in the form of benchmark public issues but also in the form of private placements, particularly in the registered covered bonds format, adapted to its large investor base. These instruments are characterized by the legal privilege which assigns in priority the sums deriving from the company's assets to the payment of their interest and their repayments.

This source of financing is the main source of liquidity for the SFIL Group and represented an outstanding amount of EUR 50.9 billion at June 30, 2021.

In addition to and in order to diversify the Group's sources of financing and investor base, SFIL itself issues debt securities:

- in the medium term by being regularly issuing euro-denominated and US dollar-denominated public bond issues. At June 30, 2021, SFIL's total discounted bonds outstanding amounted to EUR 8.8 billion ;
- in the short term, via its specific program for issuing debt securities of less than one year (NeuCP issuance program), whose total outstanding amount at June 30, 2021 stood at EUR 0.8 billion.

Finally, consistent with its social and environmental policy, SFIL Group implements a voluntary ESG financing policy that takes the form of regular "Social" and "Green"-themed issues. In total, the SFIL Group's "Social" and "Green"-themed issues amounted to EUR 4 billion at June 30, 2021.

# HIGHLIGHTS IN THE FIRST HALF OF THE YEAR

## 1. The COVID-19 pandemic

SFIL's strategy, which is based on its public development bank model, has continued to demonstrate its strength and resilience during this crisis, particularly in terms of solvency and liquidity. From an operational standpoint, during the first half of the year, the bank operated in a hybrid mode, *i.e.* working remotely while organizing a gradual return to work on a voluntary basis, one day a week from February onwards, and then two days starting in June, for its employees at its Issy-les-Moulineaux and Lyon sites. All measures (social distancing, supply of masks, hand sanitizing gel, etc.) to ensure the safety of its employees have been maintained.

Discussions and projects were launched in 2020 on the organization of work. Based on the experience gained and the lessons learned over the last few months, the Demain@SFIL project has made progress, one of the key elements of which is the signing of a new remote working agreement. Remote working will be more widespread and with more days than before the crisis. Reflection workshops are underway to define the terms and conditions that will apply as of September 20, 2021. This is complemented by the promotion of new working methods and team leadership in a hybrid environment. The organization of the office premises and the technical resources must also be rethought or adapted to best meet new needs.

During the first half of the year, SFIL confirmed its excellent access to financial markets and continued very low risk profile and very solid financial results.

Financing activity in the French local public sector was less buoyant in the first half of the year than in the first half of 2020, particularly in the health sector, which should, however, change positively from the second half of the year onwards with the deployment of the Ségur healthcare plan.

In the area of export credit, SFIL has maintained and extended the liquidity support on export credits for cruise lines, introduced in the spring of 2020 as part of the approach developed jointly by the European credit insurance agencies and the lending banks.

Since the beginning of March 2020, with regard to risk management, attention has been paid to the credit risks and the impacts of sector-specific shocks, particularly on the cruise sector, on the liquidity risks, on the operational risks for the Group, on cyber risk and the risk of fraud during such a period. All of these risks were subject to specific monitoring and regular reporting to the supervisor. The crisis unit set up in March 2020 continued its work to ensure operational continuity and risk monitoring.

As a reminder, in 2020, the health crisis had a very limited impact and was mainly limited to an increase in provisions relating to the export credit portfolio dedicated to refinancing the cruise sector. As of June 30, 2021, the same trend was observed and SFIL's financial statements were not impacted by the health crisis. As a result, as of June 30, 2021 SFIL's consolidated net income stood at EUR +28 million, while recurring net income was EUR +33 million.

Overall, the management of the health crisis during the first half of 2021 confirmed the triple success for SFIL in terms of protecting the health of its employees, maintaining its operational continuity ability and demonstrating the resilience of its business model . As a public development bank, SFIL will be able to provide all its support to the public policies required for economic recovery, whether for financing the local public sector and French hospitals or for financing exports.

## 2. Financing loans to the local public sector

The refinancing activity of the loans to the local public sector originated by La Banque Postale is devolved to SFIL's subsidiary, CAFFIL. In the first half of 2021, the latter acquired EUR 3.1 billion of loans from La Banque Postale in two acquisitions, *i.e.* more than the volume acquired from La Banque Postale in the first half of 2020 (EUR 2.9 billion). As of June 30, 2021, the total volume acquired since SFIL's creation came to EUR 27.6 billion.

In early 2021, SFIL, via a specialized firm, conducted a satisfaction survey among its borrowers, local authorities and public health institutions, the results of which were used to identify areas for improvement, particularly in terms of reputation development.

In the first half of the year, the SFIL Group continued to support the digitization of its relations with the local public sector with the continued roll-out of DigiSFIL, which enables borrowers to securely update their information, make transaction requests or consult their due date notices online. The number of accreditations was partly boosted by remote working in the context of the health crisis.

In May, the last two borrowers in dispute with populations of less than 10,000 inhabitants holding loans indexed to the EUR/CHF exchange rate reached an agreement with SFIL to secure their outstandings by converting them to fixed rates, which ended their litigation with SFIL. Of the 66 municipalities with fewer than 10,000 inhabitants that held this type of loan at the time of SFIL's creation, only one remains, and this one has been dismissed by the court of cassation.

In the first half of 2021, EUR 185 million of green loans were produced by SFIL-LBP, *i.e.* 20% of the local authorities loans production transferable to CAFFIL, it being understood that most of the departments and regions have not yet issued their calls for tender due to the recent elections.

In addition, SFIL is carrying out work to take into account Regulation EU 2020/852, published on June 18, 2020, and the first two delegated acts aimed at establishing a harmonized system for classifying sustainable economic activities (the "European Taxonomy of Sustainable Activities").

## 3. Refinancing of large export credits

After the slowdown in international trade in 2020, the beginning of 2021 seems to confirm a marked upturn in activity, which is reflected in a very strong increase in the number and volume of requests. After an increase of 40% in 2020 compared to the average of the two previous years, the number of requests for projects under negotiation doubled in the first half of 2021 compared to the same period last year.

Two export refinancing contracts were signed during the first half of 2021, bringing the number of contracts refinanced by SFIL to 17, for EUR 8.5 billion, contributing to the EUR 15.8 billion of export credit completed.

In particular, during the first half of the year, the first transaction in the field of civil aeronautics for the refinancing of two A380 aircraft, sold by Airbus to Emirates, should be noted. In agreement with the Directorate General of the Treasury, SFIL had extended its Pure and Unconditional Guarantee to this sector at the end of 2020.

For the export credit activity, the total amount drawn down at June 30, 2021 was EUR 4 billion.

## 4. Issues of covered bonds via CAFFIL

During the first half of 2021, CAFFIL was very active in the public issuance market by adding three new issues along its benchmark curve and by completing its third "Social"-themed issue:

- In January, taking advantage of the favorable market environment at the beginning of the year for EUR 1.5 billion with a ten-year maturity, it raised a significant amount of its financing program at the beginning of the year at good spread conditions ;
- In February, taking advantage of very good market conditions to issue EUR 750 million with a 15-year maturity;
- In April, making the most of its "Social"-themed issuance capacity by launching a third issue dedicated to refinancing French public hospitals for EUR 750 million with an eight-year maturity. This transaction found significant demand from ESG investors representing 51% of the placement;
- Lastly, in June, by launching a new ten-year issue, for EUR 1 billion.

In parallel with these public transactions, EUR 38 million of private placements were completed.

Over the first half of the year, the average maturity of the financing raised by CAFFIL was 11.2 years.

The high quality of the SFIL Group's issuance activity was once again recognized by four new awards in 2021:

- CMD Portal Awards recognized CAFFIL with the Best Covered Bond Issuer award;
- IFR - International Financing Review - awarded CAFFIL the Best Covered Bond 2020 award for its "Covid 19" issue of April 28, 2020. This transaction was the first "Covid 19" Covered Bond aimed at providing new financing directly or indirectly to the sectors affected by the pandemic;
- Environmental Finance recognized CAFFIL with the Best Social Bond - Asset Based & Covered Bonds award for the same "Covid 19" issue;
- Lastly, The Covered Bond Report awarded CAFFIL the 'Best Euro Issuer' award at the Covered Bond Report Awards of Excellence. This award is the fourth award for the Group's issuance programs this year. This is also the fourth time since 2016 that the SFIL Group has received a 'Best Euro Issuer' award for CAFFIL's covered bond issuance program.

## 5. SFIL's bond issues

In the first half of 2021, SFIL continued to develop its franchise as a bond issuer in the French agency segment by being active in the public issue market in both euros and dollars. Over the period, SFIL raised the equivalent of EUR 1.831 billion via an issue in:

- five-year dollars launched in February for an amount of USD 1 billion;
- eight-year euros launched in May for an amount of EUR 1 billion;

With these transactions at June 30, 2021, SFIL posted a benchmark curve in euros (six maturities) and another in dollars (three maturities) for a total bond outstandings of EUR 8.8 billion.

## 6. ESG financing

SFIL's ESG financing policy was marked by the continued development of the SFIL Group's social and environmental policy and its implementation in its financing policy to further diversify its sources of financing and its investor base through regular "Social" and "Green"-themed issues. This strategy resulted in the successful launch in April of the SFIL Group's third "Social"-themed bond issue, issued as a covered bond by CAFFIL and intended to provide new funding to the French public hospital sector. This transaction brings the total outstanding of the SFIL Group's "Social" and "Green"-themed issues to EUR 4 billion (5 transactions).

As previously mentioned, the EUR 1 billion social bond issued by CAFFIL in April 2020 received two awards: in February 2021, the "Best Covered Bond 2020" award from the IFR publication and in March 2021, the award for the best transaction in the category "asset-backed/asset-based/covered social bond of the year" by the publication Environmental Finance.

## 7. Financial and non-financial ratings

The ratings of SFIL and CAFFIL remained very high and were unchanged as of June 30, 2021 from December 31, 2020.

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

Since 2020, SFIL has also been rated by the non-financial rating agency Sustainalytics. Sustainalytics gave SFIL a score of 7.7/100 on a scale of 0 to 100, with 0 being the best score. This ESG rating places SFIL in the first percentile of institutions rated and ranked seventh out of 93 development banks rated by Sustainalytics. SFIL's ESG risk is considered negligible by Sustainalytics, which also praised its performance in the areas of governance, human capital management and business ethics.

## 8. Integration into the Caisse des Dépôts group

Since the beginning of 2021, SFIL has been participating in the process initiated by the CDC Group to develop cooperation between the Group's various entities and to coordinate the operations of its business lines. This approach aims in particular to:

- enable employees to participate in shared values and objectives with the expression of a Group purpose;
- generalize a networked way of operating within each segment;
- develop new intragroup business partnerships;
- develop HR appeal and employment pools within the Group.

# CHANGES IN THE MAIN BALANCE SHEET ITEMS

The main items on the SFIL Group's consolidated balance sheet (management data[1]) as of June 30, 2021, are broken down in the table below:

| (In EUR billions, equivalent value after currency swaps) | |
|---|---|
| **ASSETS** | **LIABILITIES** |
| 74.5 | 74.5 |
| of which main balance sheet items in notional amount **62.6** | of which main balance sheet items in notional amount **62.6** |
| *Cash assets* *1.7* *(of which 0.4 for CAFFIL and 1.3 for SFIL)* | *SFIL bond issues* *8.8* |
| *Securities* *7.3* *(of which 6.3 for CAFFIL and 1.0 for SFIL)* | Obligations foncières *50.9* |
| *Loans* *51.3* *(of which 47.2 for CAFFIL and 4.0 for SFIL)* | *Certificates of deposit* *0.8* |
| | *Cash collateral received* *1.1* *(of which 0.4 for CAFFIL and 0.8 for SFIL)* |
| Cash collateral paid *by SFIL* *2.3* | *Equity* *1.7* |
| | *Others* *(0.7)* |

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

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

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

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

*[1] The notional balance sheet item, considered as an alternative performance indicator, means that the outstanding amounts reported in the tables below correspond to the outstanding principal of euro-denominated transactions and the euro equivalent after hedging swaps for foreign currency transactions. Notional balance sheet items exclude in particular hedging relationships and accrued interest not yet due.*

## 1. Main changes in assets in the first half of 2021

The net change in the SFIL Group's main assets in the first half of 2021 was an increase of EUR 0.3 billion.

This change can be analyzed as follows:

| (In EUR billions, equivalent value after currency swaps) | First half 2021 |
|---|---|
| **BEGINNING OF YEAR** | **62.3** |
| Purchase of loans from La Banque Postale | 3.1 |
| New export credit loans granted | 0.5 |
| New post-sensitivity reduction loans granted | 0.1 |
| Change in cash collateral paid by SFIL | (0.3) |
| Amortization of loans and securities to the French public sector (excluding cash investment securities) | (2.4) |
| Change in cash investment securities | (0.6) |
| Change in cash at Banque de France | (0.2) |
| Other variations | - |
| **END OF PERIOD** | **62.6** |

- Through its subsidiary CAFFIL, SFIL acquired EUR 3.1 billion in loans marketed by La Banque Postale to the French local public sector;
- The export credit activity resulted in EUR 0.5 billion in additional drawdowns;
- The sensitivity reduction operations resulted in EUR 0.1 billion of new assets on CAFFIL's balance sheet, recognized under the refinancing of early repayment indemnities and new investment financing;
- As an intermediary in the derivatives transactions between CAFFIL and some of its counterparties, SFIL paid a total of EUR 2.3 billion in collateral as of June 30, 2021, a decrease of EUR 0.3 billion compared to end-2020;
- The other changes in assets correspond mainly to the natural amortization of the portfolio of loans and securities granted to public sector entities for EUR -2.4 billion, as well as the change in cash invested in securities (EUR -0.6 billion) or deposited with the Banque de France (EUR -0.2 billion).

It should be noted that SFIL held EUR 2.5 billion in cash management securities (banking and European public sector securities) as of June 30, 2021, down EUR 0.6 billion compared to end 2020.

## 2. Main changes in liabilities in the first half of 2021

The net change in the SFIL Group's main liabilities in the first half of 2021 was an increase of EUR 0.3 billion.

This change can be analyzed as follows:

| (In EUR billions, equivalent value after currency swaps) | First half 2021 |
|---|---|
| **BEGINNING OF YEAR** | **62.3** |
| CAFFIL covered bonds | *0.4* |
| *Of which new issues* | *4.3* |
| *Of which amortization* | *(3.9)* |
| Change in cash collateral received | (0.3) |
| Shareholder refinancing | - |
| EMTN SFIL program bonds | 1.0 |
| *Of which new issues* | *1.8* |
| *Of which amortization* | *(0.8)* |
| Change in outstanding SFIL certificates of deposit | (0.8) |
| Change in equity | 0.0 |
| Other variations | 0.0 |
| **END OF PERIOD** | **62.6** |

- Outstanding covered bonds issued by CAFFIL remained almost stable over the period (EUR +0.4 billion), with new issues of EUR 4.3 billion offset by the amortization of existing bonds of EUR 3.9 billion;
- SFIL's outstanding bond issues increased by EUR 1.0 billion due to the implementation of the new 2021 program for EUR 1.8 billion and the amortization of existing bonds for EUR -0.8 billion.

# OPERATING RESULTS

Consolidated net income for SFIL Group, according to IFRS, as at June 30, 2021 amounted to EUR +28 million for a balance sheet outstanding of EUR 74,5 billion at that date. The Group's CET1 ratio stood at 33.2%, confirming its significant financial strength.

The results at June 30, 2021 incorporated non recurring items[1] linked to (i) change in the valuation of the derivatives portfolio for EUR 1 million, (ii) the volatility related to application of IFRS 9 in the valuation of so-called non-SPPI loans on the balance sheet for EUR 0.4 million, and (iii) the recognition as of January 1 of each year of certain charges related to the application of IFRIC 21 for EUR -7 million.

Restated to account for these non-recurring items, recurring net income[2] as of June 30, 2021, stood at EUR +33 million, compared with net income restated for the same items as of June 30, 2020, of EUR +24 million, an increase of 37%.

| In EUR millions | 6/30/2020 | | | | | 6/30/2021 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Accounting income | | | | Recurring income | Accounting income | | | | Recurring income |
| | | A | B | C | | | A | B | C | |
| Net banking income | 69 | *(4)* | - | *(26)* | 98 | 104 | *1* | - | *0* | 103 |
| Operating expenses | (60) | - | *(6)* | - | (55) | (62) | - | *(6)* | - | (55) |
| **Gross operating income** | **8** | ***(7)*** | ***(6)*** | ***(26)*** | **43** | **42** | ***1*** | ***(6)*** | ***0*** | **48** |
| Cost of risk | (9) | - | - | - | (9) | (1) | - | - | - | (1) |
| **Income before tax** | **0** | ***(7)*** | ***(6)*** | ***(26)*** | **35** | **41** | ***1*** | ***(6)*** | ***0*** | **47** |
| Income tax | (2) | *1* | *1* | *7* | (10) | (13) | *0* | *1* | *0* | (14) |
| **Net income** | **(2)** | ***(3)*** | ***(5)*** | ***(19)*** | **24** | **28** | ***1*** | ***(6)*** | ***0*** | **33** |

***A*** *: Adjustment to fair value of hedges*
***B*** *: Linear extrapolation over the year of charges due and recognized in the first quarter (IFRIC 21)*
***C*** *: Adjustment to fair value of non-SPPI assets*

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

- Net banking income stood at EUR 103 million for the first half of 2021, compared with EUR 98 million for the first half of 2020, a year-on-year increase of EUR 5 million. This change is mainly due to improved financing conditions;
- the Group's operating expenses and depreciation and amortization amounted to EUR -55 million and remained stable compared to 2020;
- the cost of risk stood at EUR -1 million, an improvement compared to 2020 of EUR 8 million. As a reminder, it was decided at June 30, 2020, in the context of the Covid-19 pandemic, to monitor all exposures concerning the cruise sector on the watchlist and consequently to transfer them from Stage 1 to Stage 2.

As shown in the table below, the health crisis had almost no impact on SFIL's net income at the end of June 2021. This confirms the Group's robust resilience to macro-economic shocks.

[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 mainly concern accounting for adjustments linked to the application of IFRS 13, which mainly introduced the recognition of Credit Value Adjustments (CVA) and (Debit Value Adjustments (DVA). 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 fair value in IFRS 9 although intended to be held) linked to the change of its credit spread;*
- *The linear extrapolation of charges taken into account as of January 1 of each year per IFRIC 21.*

[2] *Alternative performance indicator*

| In EUR millions | 6/30/2021 | | | |
|---|---|---|---|---|
| | **Reported accounting income** | ***Impact of the Covid-19 health crisis*** | | **Accounting income restated for the COVID-19 impacts** |
| | | ***A*** | ***B*** | |
| Net banking income | 103 | - | - | 103 |
| Operating income | (62) | - | - | (62) |
| **Gross operating income** | **42** | **-** | **-** | **42** |
| Cost of risk | (1) | *0* | *(1)* | 0 |
| **Income before tax** | **41** | ***0*** | ***(1)*** | **42** |
| Income tax | (13) | *(0)* | *0* | (14) |
| **Net income** | **28** | ***0*** | ***(1)*** | **29** |

***A*** *: Change in provisions for the public sector*
***B*** *: Change in provisions for the export credit sector - cruise*

The only impact of the health crisis on SFIL's consolidated financial statements in accordance with IFRS is a very slight increase in the provisions associated with the cruise sector as part of the export credit activity. Restated for this item, net income would amount to EUR +29 million.

# RISK MANAGEMENT

## Risk profile

| Ratios | CET1 ratio | Total capital ratio | Leverage ratio |
|---|---|---|---|
| Minimum requirement | 7.75% (SREP) | 11.25% (SREP) | 3% |
| Value as of 6/30/2021 | 33.2%, *i.e.* more than 4x higher than the minimum requirement | 33.8%, *i.e.* 3x higher than the minimum requirement | 9.9%, *i.e.* more than 3x higher than the minimum requirement |

The SFIL Group's risk profile is low:

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

### SREP

In the context of the health crisis, the European Central Bank has adapted its SREP (Supervisory Review and Evaluation Process) for 2020, by focusing on the capacity of institutions to manage the Covid-19 crisis and by maintaining capital requirements and Common Equity Tier 1 (CET1) at 2019 levels. The Common Equity Tier 1 (CET1) capital requirement that the SFIL Group must meet on a consolidated basis is therefore 7.75% of which:

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

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

At June 30, 2021, the SFIL Group's consolidated CET1 and total capital ratios came to 33.2% and 33.8%, respectively, a level representing three times the minimum requirement set by the European supervisory authority.

The CET1 ratio improved by 3.0% compared to its level of 30.2% at December 31, 2020. This improvement is mainly due to the decrease in Risk Weighted Assets (RWA).

### Leverage ratio

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

*[1] To a lesser extent, CAFFIL may also hold replacement value exposures to credit institutions on its balance sheet. These exposures must be ranked in one of the top two tiers for credit quality and replacement security exposures may not exceed 15% of covered bonds outstandings. CAFFIL may also use derivatives with credit institutions for the sole purpose of hedging its interest rate and exchange risks.*

This regulation was 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. Thus, at June 30, 2021, the SFIL Group benefits from specific and appropriate calculation rules for establishing its leverage ratio.

Based on the methodological principles of the amended regulations, SFIL Group's leverage ratio is 9.9%, more than three times higher than the minimum requirement of 3%.

**MREL**

On February 22, 2021, the ACPR Resolution College notified SFIL of its decision to implement the Single Resolution Board's September 23, 2020 decision setting the Minimum Requirement for Own Funds and Eligible Liabilities (MREL) for SFIL.

As the Ordinary Insolvency Processing is now the preferred resolution strategy for SFIL, the MREL requirement will therefore be limited to SFIL's Loss Absorption Amount (LAA). This MREL requirement will apply only to SFIL's corporate scope, which will largely comply with it.

**NSFR**

Regulation (EU) 2019/876 introduced a one-year structural liquidity ratio (Net Stable Funding Ratio) applicable since June 28, 2021 with a minimum requirement of 100%. This transformation ratio measures stable resources over a one-year horizon and relates them to stable financing requirements.

Stable resources or available stable financing consist of the institution's liabilities and equity, weighted by coefficients reflecting their degree of stability over a one-year horizon and beyond.

Stable funding requirements consist of the institution's off-balance sheet assets and exposures weighted by coefficients reflecting their degree of liquidity and their residual maturity at one year and beyond.

At June 30, 2021, SFIL's consolidated NSFR ratio stood at 122%.

## 1. Credit risk

### 1.1 DEFINITION AND MANAGEMENT OF CREDIT RISK

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

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

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

Credit risk exposures measured with the EAD (Exposure At Default) metric amounted to EUR 72.7 billion as of June 30, 2021 (excluding fixed assets and accruals and other liabilities):

- nearly 62% of this exposure is concentrated in French local public authorities (regions, departments and communities and groups of communities, etc);
- 17.6% of this exposure is included in "Sovereign" items including 68% as a result of the export credit activity;
- 11% of this exposure comes from public sector entities, including 85% from public stakeholders in the hospital sector.

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

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

*[1]A-IRB : Weightings calculated based on the probability of counterparty default and the loss incurred in the event of default.*

Since June 30, 2021, the amount of EAD for derivative transactions has been significantly decreased by the entry into force of the CRR2 regulation, which requires a new standard method for their valuation. While previously the amount of collateral received was not deducted from this exposure, but allocated a zero LGD for the calculation of RWA, this collateral is now included in the EAD calculation. It is therefore significantly reduced compared to closing dates. Exposure to banks (derivatives and investments) now accounts for 2.8% of total exposure, compared with 6.6% a year ago.

The breakdown of the SFL Group's exposures by risk weighting as of June 30, 2021 is as follows:


The average weighting on credit risk exposures stands at 5.1%, compared to 5.3% at December 31 2020, with only 2.1% of the portfolio having a risk weighting exceeding 20%, this testifies to the very low level of credit risk of SFIL and CAFFIL's portfolio.

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

As of June 30, 2021, Covid-19-related impacts are very limited for local public administrations and French public sector entities.

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

Requests for payment extensions related to Covid-19 have also been received since 2020 from certain local authorities or French public sector entities.

The table below shows the breakdown by residual maturity of the payment extensions granted to these entities since the start of the pandemic and which constituted a Forbearance (in EUR):

| | Gross carrying amount | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Performing loans | | | Non-performing loans | | |
| | | | of which exposures with forbearance measures | of which instruments with significant increase in credit risk since initial recognition, but no doubtful (Stage 2) | | of which exposures with forbearance measures | of which unlikely to pay that are not past due or past due <= 90 days |
| **Loans subjects to payment delay outstanding as of 6/30/2021** | 3 439 341.51 | 17 146.77 | 17 146.77 | 17 146.77 | 3 422 194.74 | 3 422 194.74 | - |

| | Accumulated impairment, accumulated negative changes in fair value due to credit risk | | | | | | | Gross carrying amount |
|---|---|---|---|---|---|---|---|---|
| | | Performing loans | | | Non-performing loans | | | |
| | | | of which exposures with forbearance measures | of which instruments with significant increase in credit risk since initial recognition, but no doubtful (Stage 2) | | of which exposures with forbearance measures | of which unlikely to pay that are not past due or past due <= 90 days | Inflows to non-performing exposures |
| **Loans subjects to payment delay outstanding as of 6/30/2021** | -119 394.72 | -10.85 | -10.85 | -10.85 | -119 383.87 | -119 383.87 | - | - |

| | Number of obligors | Gross carrying amount | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Of which legislative moratoria | Of which expired | Maturité résiduelle des délais de paiement | | | | | |
| | | | | | <= 3 months | > 3 months <= 6 months | > 6 months <= 9 months | > 9 months <= 12 months | > 12 months <= 18 months | > 18 months |
| **Loans for which payment delays have been offered** | 35 | 88 667 835.42 | | | | | | | | |
| **Loans for which payment delays have been granted** | 34 | 87 561 858.03 | | 84 122 516.52 | 1 534 048.17 | 1 905 293.34 | - | - | - | - |

As of June 30, 2021, the residual exposure was EUR 3.4 million compared to a total granted of EUR 87.6 million.

The COVID-19 epidemic had a more significant impact on the export credit portfolio, and specifically on the financing of cruise ships built by the Chantiers de l'Atlantique, due to the interruption of cruise operations. The entire portfolio was placed on the watchlist. It is worth noting that the entire export credit portfolio is 100% guaranteed by the French Republic via BPI AE credit insurance policies. In the area of export credit, SFIL has maintained and extended the liquidity support on export credits for cruise lines, introduced in the spring of 2020 as part of the approach developed jointly by the European credit insurance agencies and the lending banks.

### 1.4 ARREARS, DOUBTFUL LOANS AND PROVISIONS

| Arrears (excluding technical arrears) | Doubtful loans and litigious loans (French accounting standards) at the level of CAFFIL | Gross amount of financial assets and financing commitments classified under Stage 3 | Non-performing exposures |
|---|---|---|---|
| **EUR 33 million** | **EUR 253 million** | **EUR 445 million** | **EUR 553 million** |
| (CAFFIL arrear amounts represent 0.06% of the cover pool) | (of which loans with no arrear amounts of EUR 134 million) | (of which loans with no arrear amounts of EUR 393 million) | (of which loans with no arrear amounts of EUR 424 million) |

Total arrears (excluding technical arrears) totalled EUR 33 million as of June 30, 2021. They are down EUR 4 million compared to December 31, 2020 (EUR 37 million) and are concentrated on a few only French counterparties.

No arrear amounts related to the COVID-19 epidemic have been recognized in the export credit and international local authorities' portfolios. SFIL has granted payment extensions to French public hospitals and local authorities. At the end of June 2020, these payment extensions represented EUR 17 million. As of June 30, 2021, residual arrears of EUR 0.5 million concerns only local authorities, as the hospitals have all repaid their payment extensions.

At June 30, 2021, for the CAFFIL scope and in application of French accounting standards, doubtful and litigious loans amounted to EUR 253 million, or less than 0,4% of CAFFIL's cover pool, which attests to the portfolio's excellent quality. They are slightly higher than at December 31, 2020 (EUR 212 million). This change is mainly due to the entry/exit in this category of counterparties for which the loan outstandings, downgraded by the spillover effect[1] (EUR 134 million) are material, even though the counterparties that became doubtful during the first half of the year have no or very limited arrears.

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

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

Stage 3 outstandings correspond mainly to customers:

- with an outstanding unpaid for more than 90 days;
- whose financial situation is such that, even in the absence of an unpaid outstanding, it is possible to conclude that the debtor is unlikely to pay,
- that were in a situation of real default and for which arrears of more than 90 days were settled.

These outstandings are kept in Stage 3 for a minimum period of one year, referred to as a "probation period".

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

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

*[1] When a customer is classified as a default in terms of credit risk, all outstanding loans are classified as doubtful, by spillover, in addition to unpaid installments and accrued interest.*

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

| | **IFRS net carrying amount** (before impairment) | | **IFRS impairments** | |
|---|---|---|---|---|
| **EUR millions** | **12/31/2020** | **6/30/2021** | **12/31/2020** | **6/30/2021** |
| Stage 1 | 54 586 | 54 617 | (9) | (10) |
| Stage 2 | 9 590 | 9 298 | (46) | (45) |
| Stage 3 | 584 | 445 | (7) | (8) |
| **TOTAL** | **64 760** | **64 460** | **(62)** | **(62)** |
| Non-performing exposures | 721 | 553 | | |

As a reminder, in the context of the health crisis, part of the export credit portfolio corresponding to the refinancing of the cruise sector was transferred from Stage 1 to Stage 2. It should be noted that a significant portion of these loans has not yet been drawn down as at June 30, 2021. The impairments associated with this portfolio amounted to EUR 16 million at the end of June 2021.

The book values allocated to Stage 3 as well as the non-performing exposures decreased and amounted to EUR 0.4 billion and EUR 0.6 billion, respectively, at June 30, 2021 compared to EUR 0.6 billion and EUR 0.7 billion at the end of 2020.

## 2. Climate risks

Sustainable financing a sustainable future is the fundamental role of the SFIL Group, adopted as a "raison d'être" by its Shareholders' Meeting of May 28, 2020, given its status as a public development bank. The bank has defined a "Social and environmental strategy for SFIL: financing a sustainable future," aligned with the United Nations Sustainable Development Goals (and the principles of the Global Compact, signed in 2018), and is prioritizing nine sustainable development objectives, broken down into indicators.

This is reflected in the setting of annual production volume targets for green loans for French local authorities.

In line with Caisse des Dépôts' commitment to the success of the ecological and energy transition, SFIL is conducting a long-term review of the financial impact of environmental and climate change risks on the solvency of its borrowers.

As part of its credit risk policy, SFIL already applies the following principles:

- Exclusion of certain activities for its financing:
  - Coal exploration and / or extraction;
  - Fur industry;
  - Tobacco industry;
  - Pornographic industry;
  - Controversial and unconventional weapons industry.
- The positive consideration of green loan production objectives in the delegated scheme and in the credit granting criteria.

In 2020, the risk management division has launched a global approach to assessing climate-related risks with the adoption of a first roadmap for climate risks. This roadmap is part of a risk management approach as recommended by the regulators and as part of the Caisse des Dépôts Group climate policy: the ultimate objective is to assess the impact of climate-related risks on the portfolio and the actions to be taken to limit these risks.

In 2020/2021, SFIL implemented the following actions:

- Establishment of an initial mapping of physical and transition risks across its entire portfolio;
- Initial analysis of the acute physical risks of French local authorities in the past;
- Completion of a study on transition risks for French local authorities and conducting an internal stress test;
- Participation in the ACPR climate pilot exercise.

In terms of governance, a Climate Risk Committee has been set up. It is chaired by the Chief Risk Officer and is composed of representatives of the various divisions concerned. A report on climate risks is presented each quarter to the Board of Directors as part of the Quarterly Risk Review.

On April 14, 2021, SFIL's Board of Directors adopted a second climate risk roadmap, which covers the following topics:

- As part of a partnership with I4CE (Institute for Climate Economics), in-depth assessment of the first transition risks for local authorities;
- Finalizing the study on acute physical risks in the local public sector;
- Individual rating of climate risks for local authorities;
- Portfolio mapping and monitoring based on climate ratings;
- Definition of ESG criteria for cash investments that will complement the commitment made since 2020 to make a best effort to hold at least 5% of assets invested in ESG assets;
- Integration of climate risks into the Risk Appetite and the various risk policies.

## 3. Market risk

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

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

- risks arising from changes in the value of financial assets recognized at fair value through profit or loss or through equity;
- certain risks arising from the export credit activity (monitoring of the value changes of the indicator specific to export credit and, for loans denominated in foreign currencies, the change in the valuation of currency swaps hedging this activity);
- changes in accounting valuation adjustments on derivatives, such as credit valuation adjustments (CVA) and debt valuation adjustments (DVA), recognized in profit or loss in accordance with IFRS;
- the provision for investment securities in accordance with the French accounting standards;
- risks that may materialize at the level of SFIL's individual financial statements, in connection with its derivatives intermediation activity carried out on behalf of CAFFIL, if the derivatives that SFIL enters into with external counterparties are not perfectly mirrored with CAFFIL.

During the half-year, the market parameters used in the valuation of the credit risk of loans recognized at fair value through profit or loss, in application of IFRS standards, remained broadly stable: the fair value of these assets, with nominal outstanding amounts of EUR 3.1 billion, changed by EUR -422 million over the half-year, reflecting the decrease in outstandings as well as the decrease in hedged interest rate risk, while the change in value due to changes in credit spreads was negligible over the quarter, the reference index being unchanged over the period. The sensitivity of the portfolio value to a one basis point change in credit spreads was EUR 2.4 million, down 10% over the half-year, reflecting the decline in this portfolio, which no longer records any new transactions.

The value of the securities portfolio recognized at fair value through equity was also little changed: the impact recognized in equity amounted to EUR +1 million at June 30, 2021, stable compared to the end of 2020. The sensitivity of the portfolio to a one basis point change in credit spreads is EUR 0.1 million.

## 4. Balance sheet management risk

Despite the persistence of the health crisis, and thanks in particular to the support provided by the European Central Bank, the first half of 2021 enabled SFIL and CAFFIL to be very active on the public issuance market: at the end of June 2021, the Group had completed 85% of the issuance program initially planned for the year, and issuance spreads were once again at favorable levels, opposite to the situation which existed in the first half of 2020.

On the other hand, the Group remains little exposed to interest rate and foreign exchange rate risks, given the prudent policy pursued in this area and the low level of unhedged positions.

### 4.1. LIQUIDITY RISK

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

For CAFFIL, the main liquidity risk lies in its ability to not be able to repay its debt benefitting from the privileged debts on time due to a too great delay in the repayment rate of its assets and that of its privileged liabilities or a market closure.

With regard to SFIL, this risk lies in its inability to have sufficient resources to meet its CAFFIL's unsecured financing needs and the margin calls of its swap counterparties.

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

- the financing of balance sheet assets (EUR 59 billion in notional amount), mainly carried by CAFFIL (EUR 58 billion) to hedge the *obligations foncières* issued;
- the financing of liquidity requirements in connection with compliance with regulatory ratios;
- the financing of cash collateral paid on SFIL derivatives (EUR 1.6 billion).

As of June 30, 2021, the sources of financing used, other than the entity's equity, were:

- privileged debt, *i.e. obligations foncières* issued by CAFFIL (EUR 50.9 billion) and the cash collateral it receives and;
- negotiable debt securities as well as EMTN issues by SFIL (EUR 8.8 billion).

In addition, the SFIL Group has a large number of securities and loans held by CAFFIL or SFIL that are eligible for central bank refinancing. These assets can be assigned through European Central Bank refinancing transactions through the Banque de France.

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 projections are intended to define the amounts and maturities of the various sources of financing that can be raised by each entity (issuance of "*obligations foncières*" for CAFFIL, issuance of negotiable debt securities (TCN), EMTNs or drawdowns on available liquidity lines for SFIL)
- under stressed conditions, these forecasts aim to assess the Group's capacity to withstand a liquidity shock and to determine its survival horizon, which, in line with its risk appetite, 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.

In addition, CAFFIL, as a *société de crédit foncier* (SCF), must also 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%;
- the 180-day cash needs forecast: CAFFIL ensures that, at all times, its cash needs over 180 days are covered by replacement assets and ECB-eligible assets;
- the maximum gap of 1.5 years between the average maturity of liabilities benefiting from the legal privilege and that of assets eligible to make up the minimum amount necessary to meet the regulatory over-collateralization.

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 of the Council of 26 June 2013, regarding:

- the LCR ratio (Liquidity Coverage Ratio): at June 30, 2021, the LCR amounted to 1,119% for SFIL on a consolidated basis;
- the stable funding ratio (NSFR), a transformation ratio that measures stable resources over a one-year horizon and relates them to stable financing requirements. The level of the NSFR stands at 122% for SFIL on a consolidated basis.

### 4.2. INTEREST RATE RISK

SFIL Group distinguishes three types of interest rate risks that 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. |

The Group has defined a fixed-rate risk appetite for CAFFIL, which is reflected in a system of limits on directional and time bucket sensitivities of the Net Present Value. In order to manage this sensitivity within the limits set, the hedging strategy implemented is as follows:

- Micro-hedging of interest rate risk on balance sheet items denominated in a currency other than the euro or indexed to a complex rate structure. Certain euro-denominated vanilla transactions may also be micro-hedged if their notional value or duration could lead to a sensitivity limit being exceeded. Micro-hedging is carried out exclusively by swaps;
- Macro-hedging of interest rate risk on all transactions that are not micro-hedged. The transactions concerned are mainly (i) loans to the local public sector and (ii) issues of *obligations foncières* denominated in euros. This macro-hedging is obtained as much as possible by matching fixed-rate assets and liabilities via the unwinding of swaps and, for the rest, by new swaps against Euribor or €STR;
- this fixed-rate risk management is supplemented by monitoring of the fixings of transactions at adjustable rates in order to ensure that they do not lead to the short-term sensitivity limit being exceeded. Where appropriate, swaps against €STR may be entered into to hedge the fixing risk.

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

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

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

| EUR millions | Level as of June 30, 2021 | Limit |
|---|---|---|
| **Directional interest rate risk** | (5.3) | < EUR 25 million |
| **Steepening risk** | | |
| Sensitivity by time bucket | | |
| Short bucket | (5.8) | < EUR 15 million |
| Medium bucket | 1,0 | < EUR 10 million |
| Long bucket | (1.4) | < EUR 10 million |
| Very long bucket | 0.9 | < EUR 9 million |
| Sensitivity by time bucket in absolute value | | |
| Short bucket | 7.7 | < EUR 30 million |
| Medium bucket | 24.5 | < EUR 30 million |
| Long bucket | 26.0 | < EUR 30 million |
| Very long bucket | 5.7 | < EUR 30 million |

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

These indicators are calculated from a static viewpoint.

### 4.3. CURRENCY RISK

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

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

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

## 5. Operational risk and permanent control (excluding compliance)

### 5.1. OPERATIONAL RISK

SFIL defines the operational risk as the risk of loss resulting from a lack of adaptation or a deficiency relating to internal processes, staff or systems or to external events, including legal risk. It includes model risk but not strategic risk. This definition is in line with the definition adopted by the Basel Committee and with applicable regulations. The operational risk management system applies to all processes and activities of SFIL and CAFFIL. The capital requirement for operational risk is calculated using the standardized method.

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

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

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

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

This crisis unit, steered by the Deputy Chief Executive Officer and the Chief Risk Officer and made up of representatives from most of SFIL's divisions (Risks, Information Systems, Finance, Financial Markets, Human Resources, Legal, Communication, Purchasing, etc.), continued its activity in the first half of 2021. It has met 49 times since the start of the pandemic.

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

- continued remote working for all internal and external employees;
- the completion of feedback on crisis management at SFIL;
- the reinforcement of cyber risk monitoring and awareness raising of employees with regard to this risk during the period;
- specific monitoring of key activities, essential externalized services, IT projects and business lines.

The crisis unit then created a task force steered by the Deputy General Manager with the role of organizing a prudent and gradual return onsite while protecting the health of the employees.

Overall, few incidents were reported concerning the COVID-19 crisis. They generated low impacts, which were lower than regulatory collection thresholds.

### 5.2. PERMANENT CONTROL

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

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

## 6. Non-compliance risk

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

The Compliance Division is responsible for managing the risk of non-compliance as defined by Article 10 of the order of February 25, 2021 amending the order of November 3, 2014 on internal control for all activities of SFIL and Caisse Française de Financement Local.

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

The first half of 2021 was marked by:

- the operational roll-out of the general AML/CFT procedure incorporating the latest regulatory changes, in particular the 5th European Directive on the prevention of the use of the financial system for the purpose of money laundering or the financing of terrorism;
- active contribution to AML/CFT steering work by the CDC Group;
- the periodic updating of the body of compliance procedures in the light of regulatory and organizational changes.

The change in control of SFIL also led to changes in the systems in place and changes to the Compliance tools, which will continue in the second half of 2021.

## 7. Legal and tax risks

### 7.1. LEGAL RISKS

As of June 30, 2021, the number of borrowers in lawsuits for sensitive structured loans was 7, compared with 10 as of December 31, 2020, this number having fallen continuously since 2014 (210 as of December 31, 2014). Since SFIL's creation, 216 borrowers have ended lawsuits they had brought.

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

At June 30, 2021, there are no other lawsuits considered significant between SFIL or Caisse Française de Financement Local and their borrowers, and the treatment of the most sensitive structured loans can be considered complete.

### 7.2. TAX RISKS

There was no change during the first half of 2021 concerning the case related to the treatment of the taxation in Ireland of the results of the former branch of Dexia Municipal Agency (former name of CAFFIL) in Dublin, which was closed down in 2013. As a reminder, the duties assessed following the reassessment by the French tax authorities were paid by Caisse Française de Financement Local.

# SOCIAL AND ENVIRONMENTAL INFORMATION

In the first half of 2021, SFIL continued to develop its commitment in terms of CSR (Corporate Social Responsibility), declared in three areas: the conduct of public policy missions, the deployment of internal policies and the commitment of employees. On April 29, 2021, SFIL published its CSR report for the year 2020, its third on this topic.

The context of remote working caused by the Covid-19 pandemic has naturally led to a sharp decrease in the use of resources, particularly paper, and the production of waste, such as plastic.

The introduction of a "hybrid" approach, notably with the Demain@SFIL project, perpetuates these new paperless working habits.

## 1. Carrying out public policy missions

In the first half of 2021, EUR 185 million of green loans were produced by SFIL-LBP, *i.e.* 20% of the local authorities loans production transferable to CAFFIL, it being understood that most of the departments and regions have not yet issued their calls for tender due to the recent elections.

This change is due in particular to the National Recovery Plan, and more specifically the section on the Ecological and Energy Transition, in which SFIL's green loan offer, broken down into five categories for local authorities, is fully integrated.

In the public health sector, where SFIL-LBP is the leading financier, production as of June 30, 2021 was down at EUR 252 million, mainly due to the wait-and-see attitude of hospitals as part of the deployment of the Ségur de la Santé program, whose contractual arrangements will only be finalized in October 2021.

Finally, consistent with its social and environmental policy, SFIL Group implements a voluntary ESG financing policy that takes the form of regular "Social" and "Green"-themed issues. In total, the SFIL Group's "Social" and "Green"-themed issues amounted to EUR 4 billion at June 30, 2021.

## 2. Implementing internal policies

As part of a high-quality social dialogue, a new remote working agreement was signed in April 2021. It allows SFIL employees to work remotely on average two days/week with some flexibility. Thus, this new agreement provides the required positive environment to sustain the hybrid working method.

With regard to greenhouse gas emissions, in accordance with its commitments, at the beginning of 2021, and for the third consecutive year, SFIL measured its emissions on its 2020 scope, with a result of 5,340 $TCO_2$ compared with 5,790 $TCO_2$ for 2019. The decrease in emissions observed is mainly related to the health context, with the significant reduction in business and home-work travel.

Despite these good results, SFIL will maintain its efforts to control its $CO_2$ emissions and is studying new avenues of reduction, notably through a more responsible purchasing approach and actions aimed at reducing its digital footprint.

Furthermore, the Group is committed to the principle of contributing to the trajectory towards carbon neutrality through the "measure, reduce, offset" triptych. In addition to the actions already undertaken to reduce its own emissions, SFIL is working on a project to offset part of its greenhouse gas emissions via a forest rehabilitation project, in collaboration with Société Forestière de la Caisse des Dépôts.

In addition, as part of its responsible digital approach, SFIL joined the Green IT collective and took part in the sixth edition of the Green IT benchmark, whose objective is to quantify the environmental footprint of its information system, assess the maturity of the teams, and have a starting point for developing an action plan. The first part of the year was devoted to collecting all the indicators and the calculation, analysis and production of the result by the Green IT collective.

Finally, several actions are being implemented in relations with suppliers:

- the development of a SFIL Charter for strategic suppliers;
- the planned signing of the Responsible Supplier Relations Charter of the National Purchasing Council and the French Ministry of Finance's Ombudsman, in which SFIL affirms its commitment to practice responsible relations with its suppliers;
- the forthcoming implementation of an information gathering platform to monitor CSR actions by SFIL's main suppliers.

### 3. Employee engagement

Since the beginning of 2021, SFIL has implemented two significant measures to continue its efforts to preserve resources within the Company:

- In order to improve the results of waste recycling in the company and raise employees' awareness of how to improve their practices, in January 2021 SFIL introduced sorting signage on office bins, with the aim of providing better guidance to employees to the sorting bins to be used and thus maximize the use of the systems in place for ordinary waste (paper, plastic, aluminum).
- In line with the measures taken in 2020 to reduce the use of plastic, in January 2021 SFIL installed new water fountains produced by a French start-up in the Social and Solidarity Economy.

  Coupled with the distribution of sustainable water bottles at the end of 2020, the introduction of this new, more modern and efficient equipment aims to revitalize the use of water fountains by employees, and to further reduce the use of plastic in the company.

# OUTLOOK

In the first half of 2021, the financing platform provided by SFIL to the Caisse des Dépôts Group, continued to benefit from excellent access to the financial markets, despite a still unstable environment due to the health and economic crisis. More than 85% of the SFIL Group's issuance program initially planned for 2021 was completed during the first half. In fiscal year 2021, the SFIL Group expects to access the financial markets for slightly higher volumes than in 2020, in a low-rate environment that is favorable to it given its financing structure.

As regards the local public sector market, while the first half of 2021 was marked by a certain wait-and-see attitude on the part of borrowers for both the municipalities, groups of municipalities and public hospitals, this trend will undoubtedly be mitigated in the second half of the year due to the effects of the French Stimulus Plan and the finalized contracts with the Regional Health Agencies, which should be completed in October 2021 as part of the «*Ségur de la Santé*» plan.

Work is being carried out with the Banque des Territoires to use CAFFIL's financing capacities for structuring projects in the Local Public Sector.

Following the satisfaction survey conducted among borrowers in the first half of the year, SFIL will implement an action plan, based on the lessons learned, to improve borrowers' knowledge of the SFIL-LBP system.

With regard to export credit, the increase in activity observed in the first half of 2021 compared to the same half of the previous year should continue through the end of 2021. Activity should therefore be sustained given the number of projects under review and their level of progress. This can be explained by the fact that the use of export credit has a tendency to increase in the exit from a crisis where access to financing is made more difficult for some borrowers.

The opportunities provided by the recovery plans, particularly in the context of the ecological transition, will probably fuel growth in the volume of projects to be financed in the medium term for both the local public sector and export credits.

SFIL will provide the expected support for the economic recovery in line with the credit guarantee policy for the major contracts steered by the French Republic. The financing may be intended either for export contracts in the traditional sense or for projects covered by the Strategic Projects Guarantee, provided that the discussions concerning authorization by the European Commission are completed rapidly.

In the context of the new European taxonomy, SFIL will continue and intensify its work with the launch of a project, including all the company's divisions concerned, aimed at integrating the impacts of the new regulation into its activities.

SFIL plans to implement, by the end of 2021, an e-learning module dedicated to CSR and sustainable development issues for all its employees.

In terms of climate risk, analyses will be continued in order to be finalized as regards the physical risks in the local public sector.

From the point of view of its internal operations, SFIL will implement the new remote working agreement and adapt the organization of the premises and material resources made available.

Lastly, the #Objective 2026 strategic plan, taking into account the entire context in which SFIL operates, is being prepared for presentation to the Board of Directors in the autumn. This is the second strategic plan for SFIL, following the "Horizon 2021" plan, which saw the affirmation of the public development bank model and enabled commercial and economic results to be achieved that were largely above forecasts.

# 2. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS UNDER IFRS

# IFRS FINANCIAL STATEMENTS

## Assets

| EUR millions | Note | 12/31/2020 | 6/30/2021 |
|---|---|---|---|
| Central banks | *2.1* | 1 932 | 1 722 |
| Financial assets at fair value through profit or loss | *2.2* | 4 266 | 3 837 |
| Hedging derivatives | | 5 154 | 3 941 |
| Financial assets at fair value through equity | *2.3* | 625 | 603 |
| Financial assets at amortized cost | | | |
| Loans and advances to banks at amortized cost | *2.4* | 328 | 323 |
| Loans and advances to customers at amortized cost | *2.4* | 49 867 | 51 018 |
| Securities at amortized cost | *2.4* | 9 124 | 8 128 |
| Fair value revaluation of portfolio hedge | | 2 842 | 2 264 |
| Current tax assets | | 3 | 7 |
| Deferred tax assets | | 79 | 84 |
| Tangible assets | | 13 | 10 |
| Intangible assets | | 26 | 25 |
| Accruals and other assets | | 2 777 | 2 542 |
| **TOTAL ASSET** | | **77 036** | **74 503** |

## Liabilities

| EUR millions | Note | 12/31/2020 | 6/30/2021 |
|---|---|---|---|
| Central banks | | - | - |
| Financial liabilities at fair value through profit or loss | *3.1* | 1 037 | 838 |
| Hedging derivatives | | 7 595 | 6 237 |
| Financial liabilities at amortized cost | | | |
| Due to banks at amortized cost | *3.2* | - | (0) |
| Customer borrowings and deposits at amortized cost | | - | - |
| Debt securities at amortized cost | *3.2* | 64 398 | 63 947 |
| Fair value reevaluation of portfolio hedge | | 739 | 526 |
| Current tax liabilities | | 5 | 2 |
| Deferred tax liabilities | | - | - |
| Accruals and other liabilities | | 1 572 | 1 262 |
| Provisions | *3.3* | 23 | 23 |
| Subordinated debt | | - | - |
| **EQUITY** | | **1 667** | **1 668** |
| Capital | | 1 445 | 1 445 |
| Reserves and retained earnings | | 204 | 238 |
| Net result through equity | | (26) | (43) |
| Net income | | 44 | 28 |
| **TOTAL LIABILITIES** | | **77 036** | **74 503** |

# INCOME STATEMENT

| EUR millions | Note | H1 2020 | 2020 | H1 2021 |
|---|---|---|---|---|
| Interest income | *5.1* | 1 316 | 2 472 | 1 165 |
| Interest expense | *5.1* | (1 249) | (2 337) | (1 090) |
| Fee and commission income | *5.2* | 16 | 19 | 3 |
| Fee and commission expense | *5.2* | (0) | (2) | (2) |
| Net result of financial instruments at fair value though profit or loss | *5.3* | (19) | 20 | 18 |
| Net result of financial instruments at fair value though equity | | - | - | - |
| Gains or losses resulting from derecognition of financial instruments at amortized cost | *5.4* | 5 | 7 | 9 |
| Gains or losses resulting from reclassification of financial assets at amortized cost to fair value through profit or loss | | - | - | - |
| Gains or losses resulting from reclassification of financial assets at fair value through equity to fair value through profit or loss | | - | - | - |
| Other income | | 0 | 1 | 0 |
| Other expense | | (0) | (0) | (0) |
| **NET BANKING INCOME** | | **69** | **180** | **103** |
| Operating expenses | *5.5* | (52) | (94) | (53) |
| Depreciation and amortization of property and equipment and intangible assets | | (9) | (18) | (9) |
| **GROS OPERATING INCOME** | | **8** | **68** | **42** |
| Cost of risk | *5.6* | (9) | (6) | (1) |
| **OPERATING INCOME** | | **(0)** | **62** | **41** |
| Net gains (losses) on other assets | | - | - | 0 |
| **INCOME BEFORE TAX** | | **(0)** | **62** | **41** |
| Income tax | | (2) | (18) | (13) |
| **NET INCOME** | | **(2)** | **44** | **28** |
| EARNINGS PER SHARE (in EUR) | | | | |
| - Basic | | (0,26) | 4,75 | 2,99 |
| - Diluted | | (0,26) | 4,75 | 2,99 |

# NET INCOME AND UNREALIZED OR DEFFERRED GAINS AND LOSSES THROUGH EQUITY

| EUR millions | H1 2020 | 2020 | H1 2021 |
|---|---|---|---|
| **NET INCOME** | **(2)** | **44** | **28** |
| **Item that may not subsequently be reclassified to profit or loss** | **2** | **3** | **(18)** |
| Unrealized or deferred gains and losses of financial assets at fair value through equity | (2) | (0) | (0) |
| Unrealized or deferred gains and losses of cash flow hedges | 5 | 4 | (23) |
| Tax on items that may subsequently be reclassified as profit or loss | (1) | (1) | 6 |
| **Item that may not be reclassified as profit or loss** | **-** | **(0)** | **(0)** |
| Actuarial gains and losses on defined-benefit plans | - | (0) | (0) |
| Tax on items that may not subsequently be reclassified as profit or loss | - | 0 | 0 |
| **TOTAL UNREALIZED GAINS OR LOSSES THROUGH EQUITY** | **2** | **3** | **(18)** |
| **NET INCOME AND GAINS OR LOSSES THROUGH EQUITY** | **(0)** | **47** | **10** |

# EQUITY

| | Capital and reserves | | | Unrealized or deferred gains and losses | | | | |
|---|---|---|---|---|---|---|---|---|
| EUR millions | Share capital, additional paid-in capital | Retained earnings and net income for the period | Total | Remeasurement gains (losses) related to post-employment benefit plans, after tax | Net change in fair value of financial assets at fair value through equity, after tax | Net change in fair value of cash flow hedging derivatives, after tax | Total | Total equity |
| **EQUITY AS OF DECEMBER 31, 2019** | **1 445** | **205** | **1 650** | **(1)** | **0** | **(28)** | **(29)** | **1 621** |
| Stocks issued | - | - | - | - | - | - | - | - |
| Dividends | - | - | - | - | - | - | - | - |
| Changes in fair value of financial assets through equity | - | - | - | - | 0 | - | 0 | 0 |
| Changes in fair value of derivatives through equity | - | - | - | 0 | - | 3 | 3 | 3 |
| Changes in fair value of derivatives through profit and loss | - | - | - | - | - | - | - | - |
| Net income for the period | - | 44 | 44 | - | - | - | - | 44 |
| Other movements | - | - | - | - | - | - | - | - |
| **EQUITY AS OF DECEMBER 31, 2020** | **1 445** | **248** | **1 693** | **(1)** | **0** | **(25)** | **(26)** | **1 667** |
| Stocks issued | - | - | - | - | - | - | - | - |
| Dividends | - | (10) | (10) | - | - | - | - | (10) |
| Changes in fair value of financial assets through equity | - | - | - | - | (0) | - | (0) | (0) |
| Changes in fair value of derivatives through equity | - | - | - | (0) | - | (17) | (17) | (17) |
| Changes in fair value of derivatives through profit and loss | - | - | - | - | - | - | - | - |
| Net income for the period | - | 28 | 28 | - | - | - | - | 28 |
| Other movements | - | - | - | - | - | - | - | - |
| **EQUITY AS OF JUNE 30, 2021** | **1 445** | **266** | **1 711** | **(1)** | **0** | **(42)** | **(43)** | **1 668** |

# CASH FLOW STATEMENT

| EUR millions | 2020 | 1st semester 2021 |
|---|---|---|
| **NET INCOME BEFORE TAX** | **62** | **41** |
| +/- intangible and tangible assets amortizations | - | 8 |
| +/- Depreciation and write-downs | 13 | (1) |
| +/- Expense/income from investing activities | (245) | 461 |
| +/- Expense/income from financing activities | (108) | (188) |
| +/- Other non-cash items | 124 | 124 |
| **Non-monetary items included in net income before tax and other adjustments** | **(216)** | **404** |
| +/- Cash from interbank operations | (331) | (16) |
| +/- Cash from customer operations | (1 485) | (1 580) |
| +/- Cash from financing assets and liabilities | 836 | 768 |
| +/- Cash from not financing assets and liabilities | (499) | (512) |
| - Income tax paid | (56) | (29) |
| **Decrease / (increase) in cash from operating activities** | **(1 535)** | **(1 369)** |
| **CASH FLOW FROM OPERATING ACTIVITIES (A)** | **(1 689)** | **(924)** |
| **CASH FLOW FROM INVESTING ACTIVITIES (B)** | **(3)** | **(1)** |
| +/- Cash from or for shareholders | - | - |
| +/- Other cash from financing activities | 2 440 | 717 |
| **CASH FLOW FROM FINANCING ACTIVITIES (C)** | **2 440** | **717** |
| **EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)** | **-** | **-** |
| **INCREASE / (DECREASE) IN CASH EQUIVALENTS (A + B + C + D)** | **748** | **(208)** |
| **CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD** | **1 212** | **1 960** |
| Cash and balances with central banks (assets & liabilities) | 1 191 | 1 932 |
| Interbank accounts (assets & liabilities) and loans / sight deposits | 21 | 28 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | **1 960** | **1 752** |
| Cash and balances with central banks (assets & liabilities) | 1 932 | 1 722 |
| Interbank accounts (assets & liabilities) and loans / sight deposits | 28 | 30 |
| **CHANGE IN NET CASH** | **748** | **(208)** |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (ACCOUNTING PRINCIPLES)

## 1. ACCOUNTING AND VALUATION POLICIES

### 1.1. Applicable accounting standards

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

The Group prepares its consolidated condensed financial statements in compliance with IAS 34 Interim financial reporting; they have been reviewed by the statutory auditors. The accompanying notes relate to significant items of the half year and should be read in conjunction with the consolidated financial statements as of December 31, 2020. The latters have been prepared in compliance with International Financial Reporting Standards (IFRS), as endorsed by and applicable within the European Union; they have been audited by the statutory auditors. The Group's activities do not show any seasonal, cyclical or occasional aspects.

The consolidated condensed financial statements are furthermore in accordance with ANC (French accounting standards Board) Recommendation No. 2017-02 issued on June 2, 2017 regarding disclosure of consolidated financial statements for banking reporting entities under IFRS.

Group SFIL has furthermore voluntarily decided to use as from 2020 the new European Single Electronic Format (ESEF) format for the annual financial statements.

The consolidated condensed financial statements as of June 30, 2021 were approved by the Board of Directors on September 10, 2021.

Due to Covid-19 outbreak in 2020 and the widespread of health crisis in 2020 and 2021, the Group has disclosed in note 8 below qualitative and quantitative information so as to enable the users to measure the impact of this crisis on its consolidated condensed financial statements. Further information is disclosed in the management report of the Group.

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

#### 1.1.2 IASB and IFRIC texts endorsed by the European Union and effective as of January 1, 2021

- Amendments to **IAS 39 Financial instruments: recognition and measurement / IFRS 9 Financial instruments / IFRS 7 Financial instruments: disclosures**: issued by IASB on September 26, 2019, endorsed by the European Union on January 15, 2020 (UE Regulation n° 2020/34) and effective for reporting periods beginning on or after January 1, 2020 with early application permitted, these amendments complete "phase 1" of IASB's project and are intended to avoid that the uncertainty arising from interest rate benchmark reform results in an early discontinuation of hedging relationships. IASB aimed thus at mitigating the impacts of this global reform on the financial statements of entities. These amendments bring in exemptions as regards especially the assessment of whether hedged future flows may be deemed highly probable (CFH), the requirement that hedged risk must be separately identifiable as well as the realization of prospective and retrospective effectiveness tests. These exemptions apply to hedging relationships affected by the reform, namely the ones where uncertainties arise about the interest rate benchmark designated as a hedged risk and / or the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. They cease to apply only when the uncertainty mentioned is no longer present. As part of "phase 2", IASB has finalized during the second semester of 2020 its works on how to account for the consequences of interest rate benchmark reform; such works have resulted in additional amendments (see below).
- Amendments to **IAS 39 Financial instruments: recognition and measurement/IFRS 9 Financial instruments/IFRS 7 Financial instruments: disclosures/IFRS 4 Insurance contracts/IFRS 16 Leases**: issued by the IASB on August 27, 2020, endorsed by the European Union on January 13, 2021 (UE Regulation No. 2021/25) and effective for reporting periods beginning on or after January 1, 2021 with early application permitted, these amendments, which complement those from "phase 1" of IASB's project (see above), finalize "phase 2" of the project and are intended to address the financial reporting consequences of the actual replacement of existing interest rate benchmarks with alternative reference rates specified under the interest rate benchmark reform. These amendments thus apply to every change in the basis for determining the contractual cash flows provided that this change is a direct consequence of the reform and there is an economic equivalence between the former and the new basis for determining those flows.

The “phase 2” amendments (the one to IFRS 9 in particular) provide a practical expedient that enables to account for the impact of such changes to be accounted for prospectively through an adjustment of the EIR.

When such changes relate to financial assets or financial liabilities involved in an hedge relationship, the latter shall be re-documented and the IAS 39 “phase 2” amendment specifies further reliefs so as to enable the continuation of hedged relationships beyond the end of application of “phase 1” reliefs. These reliefs apply in particular to the way retrospective effectiveness tests shall be performed (option to set at zero the cumulative change in fair value of the hedged item and the hedging instrument), the retention of the CFH reserve that relates to forecast transactions (the cumulative gains and losses recognized in Other comprehensive income are deemed to have been determined on the basis of the same rate as the one of future hedged cash flows), the hedging of group of items (requirement to split the group into two sub-groups, one based on the former rate and another on the new one) and the “separately identifiable” requirement of a non-contractually specified portion of hedged risk (deemed fulfilled as regards an alternative benchmark rate provided that there is a reasonable expectation that it will fulfil the requirement within 24 months).

The “phase 2” amendment to IFRS 7 specifies the qualitative and quantitative information that shall be disclosed as regards financial instruments during the application of “phase 2”.

The amendment to IFRS 4 is mainly intended to extend the practical expedient specified under IFRS 9 “phase 2” amendment to insurers that have opted for the temporary exemption to apply IFRS 9.

The amendment to IFRS 16 provides a practical expedient that enables any modification of a lease resulting from the reform to be accounted for as if it were a reevaluation and using an unchanged discount rate. In practice, this amendment concerns the leases whose variable payments are indexed to a rate affected by the reform.

As a reminder, the Group has opted for an early application of the “phase 1” amendments from January 1, 2019, while it has not chosen early application of the “phase 2” amendments”: the “phase 2” amendments have therefore been applied since January 1, 2021. In compliance with the provisions of the “phase 2” amendments, the first time application of these amendments has been made retrospectively; however, in compliance with the exceptions provided, the Group has opted for not restating the comparative period (2020). No first time application impact on opening equity (2021) has been recognized with regard to the “phase 2” amendments.

Broadly speaking, the impacts of the “phase 2” amendments on the Group’s consolidated financial statements are for now relatively limited in the absence of transitions to alternative benchmark rates to date. More specifically, the impacts of these amendments are the following:

- “Phase 2” amendment to IFRS 9 is applied by the Group, notably the practical expedient provided by this amendment;
- Regarding hedge accounting, “phase 1” amendment to IAS 39 is applied by the Group to hedging relationships that have yet to transition to alternative benchmark rates, while “phase 2” amendment to IAS 39 is applied to hedging relationships that are in the transition period;
- The Group discloses the qualitative and quantitative information required by “phase 1” and “phase 2” amendments to IFRS 7. Qualitative information is presented below, in the next paragraph. As for quantitative information, the required pieces of information are disclosed below in note 4.1: notably notional amounts of derivatives to which “phase 1” amendments are applied and, regarding “phase 2”, outstanding principal amounts of non-derivative financial instruments, and notional amounts of derivatives that have yet to transition or that are not in the scope of the transition to alternative benchmark rates;
- The amendment to IFRS 4 has no impact on the Group’s consolidated financial statements given that the latter does not have any insurance businesses;
- The amendment to IFRS 16 has no impact on the Group’s consolidated financial statements given that the future variable payments of leases where the Group is the lessee are not indexed on rates affected by the reform.

The benchmark interest rates to which the Group is mainly exposed are EURIBOR, EONIA, LIBOR (USD, GBP, CHF) and less materially STIBOR rates. So as to transition from the former to the new interest rates benchmark in all the currencies and jurisdictions involved, the Group has set up a steering committee gathering all the departments involved within the bank, in particular the Finance and financial markets division, the Local Public Sector and Operations division, the Legal department and also the Risk division. This committee aims at reducing the risks arising from the transition, monitoring its effective implementation within the times and to follow-up on the industry's work on this matter. This committee oversees transition operations to contracts indexed on benchmark interest rate affected by the reform and is generally speaking responsible for ensuring a smooth transition towards alternative reference rates.

Without changing its risk management strategy, the Group has identified, in the context of the above mentioned committee, the risks to which it is exposed arising from financial instruments because of the transition to the new benchmark rates:

- Litigation risk, arising from the renegotiation of legacy contracts (related, for instance, to the introduction of fallback provisions);
- Market risk, arising from the outbreak of a basis risk between the various interest rate curves, from potential market disruption due to the various transitions, or from a potential liquidity stress during the transition on some market segments;
- Operational risk, arising from the changes to information systems and processes;
- Accounting risk, this risk might from a theoretical perspective result in some P&L volatility through ineffectiveness in the event that for example the hedged item and the hedging instrument of the same hedging relationship do not simultaneously transition towards alternative reference rates. Similarly, the outbreak of a basis risk between the various interest rate curves previously mentioned might also result in some P&L volatility. Such a volatility seems however to be immaterial.

In 2021, the Group has reinforced its access to derivatives markets of alternative reference rates. The Group has moreover pursued its negotiation efforts with its borrowers, its lenders and its derivatives counterparties in the objective of transitioning towards alternative reference rates or alternatively of inserting resilient fallback provisions. The Group has adhered to the ISDA Protocol covering those aspects. Another point of attention: in 2020, in the context of the implementation of the IBOR reform, LCH clearing house changed the benchmark rate used both for discounting derivative instruments (discount rate) and for related cash collateral compensation: it was using EONIA and now uses €STER. Value changes arising from switching discount rates led to cash compensation, in accordance with the market's practices. As regards derivatives entered into by the Group that are not eligible to clearing houses, the same modification of the rate used for discounting derivative instruments (discount rate) and for related cash collateral compensation has been made with several counterparties during the first semester of 2021. Regarding index rate, LCH clearing house would contemplate to replace EONIA by €STER during the third quarter of 2021; this replacement would result in cash collateral being paid or received. Similarly, the Group would perform similar modifications of the projection index referenced in its derivative contracts that are not eligible to clearing houses. As of June 30, 2021, the projection index of no derivative contract entered into by the Group has been modified.

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

- Amendment to **IFRS 16 Leases**: issued by the IASB in March 2021, not yet endorsed by the European Union and effective for reporting periods beginning on or after April 1, 2021 with early application permitted, this amendment provides for a one-year extension (until June 2022 instead of initially planned June 2021) for the provisions of the amendment issued par IASB in May 2020 and endorsed by the European Union on October 9, 2020 (EU regulation No. 2020/1434). As a reminder, this amendment is intended to specify how rent concessions to lessees arising as a direct consequence of the Covid-19 pandemic shall be accounted for. It provides a practical expedient to lessees, that enables them to elect not to assess whether such concessions constitute a lease modification and, as a result, to account for them as if it were not a modification.

The impact of this amendment on the Group's consolidated financial statements is being analyzed. It is expected to have no impact, given that so far the Group, as a lessee, has not benefited from any rent concession from its lessors due to the Covid-19 pandemic.

- Amendment to **IFRS 3 Business combinations**: issued by the IASB in May 2020, endorsed by the European Union on June 28, 2021 (UE Regulation No. 2021/1080) and effective for reporting periods beginning on or after January 1, 2022 (for combinations in those periods) with early application permitted, this amendment updates a reference made to the conceptual framework and furthermore requires the acquirer to determine on the one hand whether for obligations within the scope of IAS 37 a present obligation exists at the acquisition date as a result of past events, and on the other hand whether for levies within the scope of IFRIC 21 the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendment further confirms the prohibition for the acquirer to recognize contingent assets acquired in a business combination..

The impact of this amendment on the Group's consolidated financial statements is being analyzed. It shall be noted that Group's operations are generally out of the scope of IFRS 3.

- Amendment to **IAS 16 Property, plant and equipment**: issued by the IASB in May 2020, endorsed by the European Union on June 28, 2021 (UE Regulation No. 2021/1080) and effective for reporting periods beginning on or after January 1, 2022 with early application permitted, this amendment prohibits henceforth deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Those proceeds as well as related costs shall be recognized in net result.

The impact of this amendment on the Group's consolidated financial statements is being analyzed. It is expected to have no impact, given that the Group does not account for any proceeds that relate to items produced by assets under construction.

- Amendment to **IAS 37 Provisions, contingent liabilities and contingent assets**: issued by the IASB in May 2020, endorsed by the European Union on June 28, 2021 (UE Regulation No. 2021/1080) and effective for reporting periods beginning on or after January 1, 2022 with early application permitted, this amendment further specifies how the unavoidable cost of a contract shall be calculated and, as a result, how the assessment of whether the contract is onerous shall be made. More precisely, the amendment specifies that the cost of fulfilling a contract comprises not only the incremental costs that relate to this contract in particular, but also an allocation of other costs that relate directly to fulfilling contracts in general.

The impact of this amendment on the Group's consolidated financial statements is being analyzed. It is expected to have no impact, given that the Group is not a party of an onerous contract.

- Amendments to **IFRS 1 First-time adoption of International Financial Reporting Standards/ IFRS 9 Financial instruments/IFRS 16 Leases/IAS 41 Agriculture**: issued by the IASB in May 2020 within the framework of its regular IFRS improvement process, endorsed by the European Union on June 28, 2021 (UE Regulation No. 2021/1080) and effective for reporting periods beginning on or after January 1, 2022 (except for the amendment to IFRS 16) with early application permitted:
- IFRS 1 amendment extends to the cumulative translation differences from foreign operations the relief available for subsidiaries to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements. It is available for subsidiaries that adopt IFRS later than their parent;
- IFRS 9 amendment clarifies which fees an entity includes when it applies the "10 per cent" test, with the objective of deciding whether or not the terms of modified financial liability may be deemed substantially different from initial terms. Only fees paid or received between the borrower and its lender may be taken into account, including those paid or received by one of them on the other's behalf;
- IFRS 16 amendment removes the illustration of the reimbursement of leasehold improvements in the purpose of avoiding any confusion regarding the treatment of lease incentives. As the amendment only regards the removal of an illustrative example, no effective date is stated;
- IAS 41 amendment concerns agricultural activity.

The amendment to IFRS 1 is not applicable to the Group's consolidated financial statements. The amendments to IAS 41 and IFRS 16 will have no impact on the Group's consolidated financial statements. The impact of the amendment to IFRS 9 on the Group's consolidated financial statements is being analyzed.

- Amendment to **IAS 1 Presentation of financial statements**: issued by IASB in January 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2023 with early application permitted, this amendment clarifies the distinguishing criteria between current liabilities on the one hand and non-current liabilities on the other hand.

This amendment will have no impact on the Group's consolidated financial statements given that it classifies its assets and liabilities based on a liquidity criterion, as most credit institutions do.

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

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

- Amendment to **IAS 8 Accounting policies, changes in accounting estimates and errors**: issued by IASB in February 2021, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2023 with early application permitted, this amendment modifies the definition of "accounting estimates" so as to being able to better distinguishing between a change in an accounting estimate and the correction of an error.

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

- Amendment to **IAS 1 Presentation of financial statements**: issued by IASB in February 2021, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2023 with early application permitted, this amendment specifies that entities must from now on provide information on "material accounting policy information" rather than on "significant accounting policies". Additional information has also been provided in order to help entities to assess the materiality of the information to be disclosed as regards accounting policies.

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

- Amendment to **IAS 12 Income taxes**: issued by IASB in May 2021, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2023 with early application permitted, this amendment requires to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. This narrows the scope of application of the initial recognition exception specified under IAS 12. In-scope transactions mainly comprise leases for the lessee and decommissioning obligations.

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

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

Judgments were principally made in the following areas:

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

These judgments are detailed in the following chapters.

Estimates were principally made in the following areas:

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

### 1.2.1 Consolidation

The consolidated financial statements of the Group include all entities under its control. Controlled entities are fully consolidated.

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

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

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

The scope of consolidation as of June 30, 2021 is the same as that as of December 31, 2020.

### 1.2.2 Offsetting financial assets and liabilities

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

### 1.2.3 Foreign currency transactions

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

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

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

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

### 1.2.4 Trade date and settlement date accounting

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

### 1.2.5 Financial assets

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

#### 1.2.5.1 Business model

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

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

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

- qualitative evidence: 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, how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- quantitative evidence: 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, to a lesser extent, the Hold-To-Collect-and-Sell (HTCS) model. The Group does not hold any financial assets for trading purposes, *i.e.* the Group does not acquire, incur or hold financial assets for the purpose of realizing a net gain through selling or repurchasing them it in the near term.

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

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

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

#### 1.2.5.3 Financial assets measured at amortized cost

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

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

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

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

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

#### 1.2.5.4 Financial assets measured at fair value through the item Other comprehensive income

A financial asset is classified and subsequently measured at fair value through the item Other comprehensive income if it is compliant with both of the two following conditions:

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

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

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

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

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

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

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

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

#### 1.2.5.6 Designation options

The Group does not use the following options:

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

#### 1.2.5.7 Impairment of financial assets

##### Defining the impairment base

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

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

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

- the amount corresponding to the expected credit losses during the next 12 months for Stage 1 assets;

- the amount corresponding to the expected credit losses to maturity for Stage 2 and Stage 3 assets.

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

### Assessing whether credit risk has significantly increased

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

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

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

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

The contracts of a counterparty in one or the other of the situations previously described are also considered as Non-Performing Exposures from a prudential perspective. On the perimeter being broken down into Stages, the accounting base of Stage 3 is therefore larger than the one of the “default” within the meaning of the CRR and is broadly in line with the one of Non-Performing Exposures, with just one significant difference: counterparties already in Forbearance and to which a new Forbearance has been granted and/or an incident of payment past due of between 31 and 90 days has occurred. The contracts of a counterparty in this situation are considered as Non-Performing Exposures from a prudential perspective but remain classified in Stage 2 from an accounting perspective (see below).

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

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

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

Stages transitions must be compliant with the following rules:

- for the contracts of a counterparty in “default”, exiting from Stage 3 and “default” (and getting back to Stage 2 or Stage 1) can only occur after a cure period of at least one year during which the counterparty is still considered as being in “default” within the meaning of the CRR and the contracts of this counterparty remain classified in Stage 3. Exit must in addition be formally decided in Default

Committee and is conditional to the full repayment of arrears if any. It shall be noted that this cure period is not applicable to the contracts of a counterparty that was in Stage 3 without simultaneously being in "default" in the meaning of the CRR;

- for the contracts in Forbearance, exiting from Stage 2 or as appropriate Stage 3 (and getting back to Stage 1) can only occur after a cure period of at least two years which starts from the date when the forbearance had been granted if the counterparty was not in "default" within the meaning of the CRR or from the date of exit from "default" if it was.

### Measuring the amount of the expected credit loss

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

In the case of French local authorities, the main hypothesis as well as the scenarios and their weighting are presented below. The hypothesis of these scenarios are regularly updated and have in particular been adapted so as to take into account the impacts of Covid-19 pandemic. Apart from the change in the method to build the three scenarios (see below), it has notably been taken into account the effects of Covid-19 pandemic through a recalibration of probabilities of default of counterparties:

- a base scenario (weighted at 60%) based on an evolution of local authorities accounts is established following a two-steps approach:
  - the "base scenario without Covid-19". The evolution of the accounts deemed as "natural", *i.e.* the one that would have been expected had the pandemic crisis not occurred. It is based on the increase of tax bases, financial endowments from budget bills, investment trends before the crisis for the period 2020, etc.
  - the "base scenario with Covid-19". To these "natural" evolutions, we add-back the so-called "Covid-19" evolutions, *i.e.* the ones resulting from the pandemic crisis. The estimate of this crisis is at the moment the subject of several studies. We distinguish a "short-term" impact, *i.e.* due to the lockdown and/or for which a quick catch-up effect is expected, from a "long-term" impact, where the economic crisis results in losses of revenues that the local authorities cannot compensate in our scenario.
- an upside scenario (weighted at 25%) based on the same hypothesis as the base scenario, with the following deviations:
  - Covid-19 negative impact on tax revenues and service revenues as well as other revenues is decreased by 30%,
  - financial endowments granted by French State are more dynamic in 2021 and 2022;
- a downside scenario (weighted at 15%) based on the same hypothesis as the base scenario, with the following deviations:
  1. Covid-19 negative impact on tax revenues and service revenues as well as other revenues is increased by 30%,
  2. financial endowments granted by French State do not increase in 2021 and 2022, and remain at their level of 2020,
  3. the increase in investment public expenditures is very sharp in 2021 and 2022.

The impact of changing weights between the three scenarios on the amounts of expected credit losses is deemed very limited. As an illustration, as of December 31, 2020, an increase in 10% for the downside scenario combined with a decrease in 5% for both upside and base scenarios would have lead to a surplus of EUR 0.2 million of expected credit losses.

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

These calculations have been performed by taking the following steps:

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

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

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

#### Recognizing the impairment

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

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

### 1.2.5.8 Derecognition of financial assets

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

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

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

#### Case of disposals

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

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

#### Case of repos and reverse repos operations

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

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

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

Case of prepayments

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

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

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

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

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

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

### 1.2.6 Financial liabilities

#### 1.2.6.1 Financial liabilities held for trading

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

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

The Group does not use this option.

#### 1.2.6.3 Financial liabilities at amortized cost

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

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

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

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

#### 1.2.6.4 Derecognition of financial liabilities

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

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

### 1.2.7 Derivatives

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

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

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

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

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

- the ones which failed hedge effectiveness tests at closing date;
- the ones which hedge financial assets that are measured at fair value through profit or loss. It comprises mainly the financial assets that are not compliant with the SPPI criterion. In this case, the revaluation of the derivative hedges natively the revaluation of the hedged risk of the hedged item, making pointless the documentation of a hedging relationship;
- the ones which hedge the foreign exchange risk related to export credit financing loans denominated in a currency other than the euro. These derivatives are concluded before the end of the drawing phase of the hedged loans and foreign exchange hedging relationship is documented only from the complete payment in the Group's balance sheet.

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

#### 1.2.7.2 Hedging derivatives

Hedging derivatives can be classified as either:

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

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

- precise and formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be effective both prospectively and

retrospectively in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the reporting periods;

- the hedge, effectiveness of which has been reliably measured, shall be effective at inception and on an ongoing basis;
- for hedges of a future cash flow, the future transaction that constitutes if applicable, the hedged item must be highly probable and must involved an exposure to variations in cash flows that could ultimately affect the profit or loss.

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

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

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

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

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

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

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

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

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

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

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

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

### 1.2.8 Fair value of financial instruments

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

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

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

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

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

The following additional comments are applicable to the fair value of financial instruments measured at amortized cost presented in  note 7 of the financial statements:

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

#### 1.2.8.2 Financial instruments measured at fair value

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

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

To determine the fair value of its derivatives, the Group uses different discount curves depending on whether collateral was actually exchanged. Collateralized derivatives related future cash-flows are discounted using an OIS-based curve or an €STER curve for centrally cleared derivatives for which the discounting index has transitioned in the year 2020. In contrast, uncollateralized derivatives related future cash-flows are discounted using an Euribor-based curve. This differential treatment reflects the different financing costs associated with the derivatives used (FVA - funding valuation adjustment). As a reminder, Caisse Française de Financement Local does not pay any collateral to its derivative counterparties, which benefit from the legal privilege on assets, as well as the legal holders of covered bonds.

In addition, a value adjustment is included in the fair value of derivatives to reflect the impact of counterparty's credit risk (CVA - credit valuation adjustment) or the Group's own credit risk (DVA - debit valuation adjustment). Value adjustment allows switching from a fair value based on cash flows discounted at risk-free rate, *i.e.* without considering credit risk, into a fair value including this risk. Its calculation is based on the risk exposures combined with loss rates including market parameters.

### 1.2.9 Deferred taxes

Deferred taxes are recognized using the liability method to account for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The tax rates enacted or substantively enacted at closing date are used to determine deferred taxes.

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

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

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

### 1.2.10 Tangible and intangible assets

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

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

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

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

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

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

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

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

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

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

### 1.2.11 Leases

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

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

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

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

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

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

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

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

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

- fixed payments, net of any lease incentives receivable;
- variable payments, which depend on an index or a rate. The measurement is performed using the index or the rate in force at the commencement date;
- if applicable, amounts due under residual value guarantees;
- if applicable, the exercise price of any purchase option that the Group is reasonably certain to exercise;
- if however the Group has assessed the lease term assuming it exercises a termination option, the penalties incurred in this event.

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

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

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

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

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

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

Regarding leases-related disclosures in the financial statements:

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

### 1.2.12 Provisions

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

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

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

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

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

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

### 1.2.13 Employee benefits

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

#### 1.2.13.1 Short-term benefits

Short-term benefits are those expected to be settled wholly in twelve months after the end of the annual reporting period during which employee services are rendered; they are not discounted and are recognized as an expense of the reporting period. Annual leave is recognized when the benefits are granted to the employee. To this purpose, a provision is recognized based on rights vested by employees at 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 twelve months after the end of the reporting period during which the employees rendered the related service. They represent, specially, long service awards. The actuarial gains and losses related to these benefits and all service costs are recognized immediately in profit or loss.

#### 1.2.13.3 Termination benefits

Employee termination benefits result either from the decision by SFIL to terminate an employment contract before the legal retirement age or by a decision of voluntary redundancy in exchange for termination benefits. A charge for termination benefits at the end of the employment contract is recognized only when SFIL is no longer able to withdraw its offer.

#### 1.2.13.4 Post-employment benefits

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

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

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

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

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

Re-measurements of defined benefit net liability (or asset) and the fair value of its covering assets is subject to adjustments due to changes in actuarial assumptions, which results in revaluating the liability (or asset) recognized under defined contribution plans. Actuarial gains and losses resulting from these adjustments are recognized as other comprehensive income at the closing date.

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

### 1.2.14 Interest income and expense

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

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

### 1.2.15 Commissions

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

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

### 1.2.16 Earnings per share

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

### 1.2.17 Cash and cash equivalents

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

### 1.2.18 Related-party transactions

Two parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party when making financial or operational decisions. The Group is owned by the Caisse des Dépôts Group, a company registered in France, and by French State. Within this framework, related-party transactions are those with companies owned directly or indirectly by the same final shareholders, in particular the subsidiaries of Caisse des Dépôts Group, and with directors.

#### 1.2.19 Segment reporting

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

The Group conducts its business solely from France. It has no direct activity in other countries and is unable to present a relevant geographic breakdown of its results.

# 2. NOTES TO THE ASSETS (EUR MILLIONS)

## 2.1. Central banks

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Mandatory reserve deposits | - | - |
| Other deposits | 1 932 | 1 722 |
| **TOTAL** | **1 932** | **1 722** |

## 2.2. Financial assets at fair value through profit or loss

### 2.2.1. Analysis by nature

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Loans and advances to customers | 4 243 | 3 821 |
| Non Hedging derivatives (1) | 22 | 15 |
| **TOTAL** | **4 266** | **3 837** |

*(1) 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.*

### 2.2.2. Analysis by counterparty

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Public sector | 3 839 | 3 446 |
| Other - guaranteed by a State or local government | 404 | 375 |
| **TOTAL** | **4 244** | **3 821** |

## 2.3. Financial assets at fair value through equity

### 2.3.1. Analysis by nature

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Stocks | - | - |
| Bonds | 625 | 603 |
| **TOTAL** | **625** | **603** |

### 2.3.2. Analysis by counterparty

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Public sector | 123 | 122 |
| Credit institutions | 502 | 480 |
| **TOTAL** | **625** | **603** |

All financial assets measured at fair value through equity as of June 30, 2021, and December 31, 2020, were allocated to the Stage 1 category.

## 2.4. Financial assets at amortized cost

| | 12/31/2020 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross amount | | | | Impairment | | | | Net carrying amount | Accu-mulated partial write-offs | Accu-mulated total write-offs |
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | | | |
| Sight accounts | 8 | - | - | **8** | - | - | - | **-** | **8** | - | - |
| Credit institutions | 319 | - | - | **319** | (0) | - | - | **(0)** | **319** | - | - |
| **Loans and advances to banks at amortized cost** | **328** | **-** | **-** | **328** | **(0)** | **-** | **-** | **(0)** | **328** | **-** | **-** |
| Public sector | 43 606 | 2 186 | 548 | **46 340** | (4) | (16) | (6) | **(26)** | **46 314** | - | - |
| Non-financial institutions | 1 297 | 2 248 | 17 | **3 562** | (0) | (7) | (1) | **(8)** | **3 554** | - | - |
| **Loans and advances to customers at amortized cost** | **44 904** | **4 433** | **565** | **49 902** | **(4)** | **(23)** | **(7)** | **(34)** | **49 867** | **-** | **-** |
| Public sector | 5 655 | 1 420 | 4 | **7 079** | (4) | (12) | (0) | **(16)** | **7 063** | - | - |
| Credit institutions | 1 979 | - | - | **1 979** | (0) | - | - | **(0)** | **1 979** | - | - |
| Non-financial institutions | 9 | 72 | - | **81** | (0) | (1) | - | **(1)** | **80** | - | - |
| **Bonds at amortized cost** | **7 644** | **1 493** | **4** | **9 141** | **(4)** | **(13)** | **(0)** | **(17)** | **9 124** | **-** | **-** |
| **TOTAL** | **52 876** | **5 927** | **569** | **59 371** | **(8)** | **(36)** | **(7)** | **(52)** | **59 319** | **-** | **-** |

| | 6/30/2021 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Gross amount | | | | Impairment | | | | Net carrying amount | Accumulated partial write-offs | Accumulated total write-offs |
| | Stage 1 | Stage 2 | Stage 3 | Total | Stage 1 | Stage 2 | Stage 3 | Total | | | |
| Sight accounts | 10 | - | - | **10** | - | - | - | **-** | **10** | - | - |
| Credit institutions | 313 | - | - | **313** | (0) | - | - | **(0)** | **313** | - | - |
| **Loans and advances to banks at amortized cost** | **323** | **-** | **-** | **323** | **(0)** | **-** | **-** | **(0)** | **323** | **-** | **-** |
| Public sector | 44 756 | 2 076 | 409 | **47 241** | (5) | (14) | (7) | **(26)** | **47 215** | - | - |
| Non-financial institutions | 1 225 | 2 570 | 17 | **3 812** | (0) | (9) | (1) | **(10)** | **3 802** | - | - |
| **Loans and advances to customers at amortized cost** | **45 981** | **4 646** | **426** | **51 053** | **(5)** | **(23)** | **(8)** | **(36)** | **51 018** | **-** | **-** |
| Public sector | 5 396 | 1 341 | 4 | **6 742** | (4) | (13) | (0) | **(17)** | **6 725** | - | - |
| Credit institutions | 1 403 | | | **1 403** | (0) | | | **(0)** | **1 403** | - | - |
| Non-financial institutions | - | - | - | **-** | - | - | - | **-** | **-** | - | - |
| **Bonds at amortized cost** | **6 800** | **1 341** | **4** | **8 145** | **(4)** | **(13)** | **(0)** | **(17)** | **8 128** | **-** | **-** |
| **TOTAL** | **53 103** | **5 987** | **430** | **59 521** | **(10)** | **(35)** | **(8)** | **(53)** | **59 468** | **-** | **-** |

The breakdown of financial assets at amortized cost by Stage at June 30, 2021 has not changed significantly compared to December 31, 2020. The associated impairments also changed very marginally compared to December 31, 2020.

As a reminder, it was decided during the year 2020 and in the context of the Covid-19 health crisis, to record all exposures concerning the cruise sector onto the watchlist and consequently to transfer them from Stage 1 to Stage 2. This downgrading was accompanied by an increase in the impairments relating to these balance sheet exposures (see Note 8.).

Assets considered as forbone by Caisse Française de Financement Local concern exposure to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognized or to come) that would not have been granted in other circumstances. These concessions may either be a waiver of a part of the debt, a rescheduling of the loan repayment, restructuring measures through an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions aiming to reduce the sensitivity of the loan.

There were 122 forborne contracts as of June 30, 2021, with 76 borrowers, for a total exposure of EUR 449 million.

# 3. NOTES TO THE LIABILITIES (EUR MILLIONS)

## 3.1. Financial liabilities at fair value through profit or loss

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Non hedging derivatives(1) | 1 037 | 838 |
| **TOTAL** | **1 037** | **838** |

*(1) 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 at amortized costs

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Current account | - | - |
| Term deposits | - | - |
| **Sub-total due to credit institutions at amortized cost** | **-** | **-** |
| Certificates of deposit(1) | 1 571 | 803 |
| Euro medium term notes(1) | 7 735 | 8 714 |
| *Obligations foncières* | 47 270 | 46 877 |
| Registered covered bonds | 7 822 | 7 553 |
| **Sub-total debt securities at amortized cost** | **64 398** | **63 947** |
| **TOTAL** | **64 398** | **63 947** |

*(1) By contrast with obligations foncières and registered covered bonds, these bonds do not benefit from the legal privilege.*

## 3.3. Provisions

| | 12/31/2020 | Additions, including increases in existing provisions | Used amount | Unused amounts reversed during the period | Increase in the discounted amount (passage of time) and effect of any change in the discount rate | Other movements | 6/30/2021 |
|---|---|---|---|---|---|---|---|
| Commitments and guarantees given | 12 | 1 | - | (1) | - | - | 12 |
| Provisions on pensions | 8 | 0 | - | - | - | - | 8 |
| Other provisions(1) | 3 | 0 | - | - | - | - | 3 |
| **TOTAL** | **23** | **1** | **-** | **(1)** | **-** | **-** | **23** |

*(1) As a reminder, in the context of the health crisis and its consequences for the cruise industry, SFIL decided, during 2020, to set up a provision of EUR 2.6 million for risks on the foreign exchange hedging instruments used to refinance dollar-denominated export credits in this sector. This provision was revalued at June 30, 2021 and increased to EUR 2.7 million (See Note 8.).*

# 4. OTHER NOTES ON THE BALANCE SHEET (EUR MILLIONS)

## 4.1. Financial instruments broken down by type of index rate including those impacted by the benchmark interest rate reform

The following table shows the breakdown by benchmark index of financial assets and liabilities as well as derivatives affected by the amendment to IFRS 9, IAS 39 and IFRS 7, which allows exemption from certain hedge accounting requirements under the benchmark interest rate reform:

| | Exposure as of 6/30/2021 | | |
|---|---|---|---|
| | **Oustanding amounts** | | **Notional amount net** |
| **Current benchmark index rate** | **Financial assets (excl. derivatives) concerned by Benchmark index rate reform** | **Financial liabilities (excl. derivatives) concerned by Benchmark index rate reform** | **Derivatives concerned by Benchmark index rate reform** |
| EONIA | 580 | - | (5 048) |
| EURIBOR | 10 081 | 972 | 1 472 |
| €STER[1] | - | 45 | 640 |
| LIBOR USD | 331 | - | (2 199) |
| LIBOR GBP | 46 | - | (355) |
| LIBOR CHF | 218 | - | (209) |
| STIBOR | 17 | - | (17) |
| Fixed rate | 47 337 | 57 108 | 5 914 |
| Others | 106 | 2 185 | (377) |
| **TOTAL** | **58 716** | **60 309** | **(179)** |

*(1) This amount relates solely to contracts initially entered into against €STR.*

## 4.2. Transactions with related-parties

### 4.2.1 Analysis by nature

| | Parent company [1] | | Others related parties[2] | |
|---|---|---|---|---|
| | 12/31/2020 | 6/30/2021 | 12/31/2020 | 6/30/2021 |
| **ASSET** | | | | |
| Financial assets at fair value through profit or loss | - | - | 0 | - |
| Hedging derivatives | - | - | 17 | - |
| Financial assets at fair value through equity | 116 | 115 | 95 | 95 |
| Loans and advances to banks at amortized cost | - | - | - | - |
| Securities at amortized cost | - | - | 148 | 12 |
| Accruals and other assets | 1 | 0 | 2 | 1 |
| **LIABILITIES** | | | | |
| Hedging derivatives | - | - | 14 | - |
| Due to banks | - | - | - | - |
| Debt securities at amortized cost | - | - | 880 | 58 |
| Accruals and other liabilities | - | - | 3 | 0 |
| **INCOME STATEMENT** | | | | |
| Interest income | - | (0) | 5 | 0 |
| Interest expense | (2) | (1) | (38) | (2) |
| Fee and commission income | - | - | 4 | 2 |
| Fee and commission expense | - | - | - | (0) |
| Net result of financial instruments at fair value through profit or loss | 0 | (0) | 27 | 2 |
| Net result of financial instruments at fair value through equity | - | - | - | - |
| Gains or losses resulting from derecognition of financial instruments at amortized cost | - | - | (4) | - |
| Other income | - | - | 1 | 0 |
| Other expense | - | - | - | - |
| Operating expense | - | - | 1 | 0 |
| Cost of risk | - | 0 | 0 | 0 |
| **OFF BALANCE SHEET** | | | | |
| Foreign exchange derivatives | - | - | - | - |
| Interest rate derivatives | - | - | 245 | - |
| Financing commitments received | 4 000 | 4 000 | 1 500 | 1 500 |
| Financing commitments given | - | - | - | - |

*(1) This item includes transactions with Caisse des Dépôts, the parent company of SFIL.*
*(2) This item includes transactions with La Banque Postale and Bpifrance, subsidiaries of Caisse des Dépôts group.*

# 5. NOTES TO THE INCOME STATEMENT (EUR MILLIONS)

## 5.1. Interest income - interest expense

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 note 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 hedging derivatives are included in the headings recording the interest on these financial instruments.

| | H1 2020 | | | H1 2021 | | |
|---|---|---|---|---|---|---|
| | **Income** | **Expense** | **Net** | **Income** | **Expense** | **Net** |
| Loans / borrowings with credit institutions | - | - | - | - | - | - |
| Loans / borrowings with customers | 70 | - | 70 | 56 | - | 56 |
| Derivatives outside the hedging relationship | 15 | (78) | (63) | 15 | (67) | (52) |
| **Financial assets and liabilities at fair value through profit or loss** | **85** | **(78)** | **7** | **71** | **(67)** | **4** |
| Hedging derivatives | 735 | (626) | 109 | 637 | (564) | 73 |
| **Hedging derivatives** | **735** | **(626)** | **109** | **637** | **(564)** | **73** |
| Securities | 0 | - | 0 | 0 | - | 0 |
| **Financial assets at fair value through equity** | **0** | **-** | **0** | **-** | **-** | **-** |
| Central bank accounts | - | (3) | (3) | - | (4) | (4) |
| Accounts and loans / borrowings with credit institutions | 18 | (20) | (2) | 16 | (24) | (8) |
| Accounts and loans / borrowings with customers | 403 | - | 403 | 365 | | 365 |
| Securities | 76 | (522) | (446) | 75 | (431) | (356) |
| Other | - | (0) | (0) | - | - | - |
| **Financial assets and liabilities at amortized cost** | **497** | **(545)** | **(48)** | **456** | **(459)** | **(3)** |
| **TOTAL** | **1 316** | **(1 249)** | **67** | **1 164** | **(1 090)** | **74** |

Interest income and expenses, measured using the effective interest rate method were EUR 456 million and EUR -459 million respectively for the first half of 2021 and EUR 497 million and EUR -545 million for the first half of 2020.

The negative interest paid by SFIL on the financial instrument assets represents EUR 12 million and the negative interest received by SFIL on the financial instrument liabilities represents EUR 5 million.

## 5.2. Fees and commissions

| | H1 2020 | H1 2021 |
|---|---|---|
| LBP servicing commission received | 2 | 2 |
| Other commissions [1] | 14 | (1) |
| **TOTAL** | **16** | **1** |

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

## 5.3. Net result of financial instruments at fair value through profit or loss

| | H1 2020 | H1 2021 |
|---|---|---|
| Net result on financial assets or liabilities at fair value through profit or loss | (17) | 23 |
| Net result of hedge accounting | (2) | (3) |
| Net result of foreign exchange transactions | (0) | (1) |
| **TOTAL** | **(19)** | **18** |

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 re-valuation of the assets and liabilities registered in relation to the hedge.

### Analysis of net result of hedge accounting

| | H1 2020 | H1 2021 |
|---|---|---|
| **Fair value hedges** | **0** | **(5)** |
| Fair value changes in the hedged item attributable to the hedged risk | 130 | 284 |
| Fair value changes in the hedging derivatives | (130) | (288) |
| **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** | **(1)** | **2** |
| Fair value changes in the hedged item | 329 | (323) |
| Fair value changes in the hedging derivatives | (330) | 324 |
| **CVA / DVA Impact** | **(0)** | **0** |
| **TOTAL** | **(1)** | **(3)** |

## 5.4. Gains or losses resulting from derecognition of financial instruments at amortized cost

| | H1 2020 | H1 2021 |
|---|---|---|
| Net result of disposals or prepayments of bonds at amortized cost | - | - |
| Net result of disposals or prepayments of loans and advances to banks at amortized cost | - | - |
| Net result of disposals or prepayments of loans and advances to customers at amortized cost | 5 | 9 |
| Net result of disposals or prepayments of due to banks at amortized cost | - | - |
| Net result of disposals or prepayments of debt securities at amortized cost | - | - |
| **TOTAL** | **5** | **9** |

### Detail of on derecognition of assets and liabilities at amortized cost

| | H1 2021 | |
|---|---|---|
| | Notional amount | Impact on result |
| Prepayments of securities | - | - |
| **Net result of disposals or prepayments of securities at amortized cost** | **-** | **-** |
| Prepayments of loans and advances to customers | 39 | 2 |
| Restructuring of loans and advances to customers(1) | 2 767 | 7 |
| **Net result of disposals or prepayments of loans and advances to customers at amortized cost** | **2 806** | **9** |
| **Sub-total assets** | **2 806** | **9** |
| Prepayments of debt to banks | - | - |
| **Net result of prepayments of debt to banks at amortized cost** | **-** | **-** |
| Prepayments of debt securities | - | - |
| **Net result of prepayments of debt securities at amortized cost** | **-** | **-** |
| **Sub-total liabilities** | **-** | **-** |
| **TOTAL** | | **9** |

*(1) The notional amount of restructuring of customer loans includes loans affected by the liquidity support measures granted to cruise sector customers as part of the export credit activity. SFIL is part of the approach developed jointly by the European export credit insurance agencies to provide liquidity support to these customers who have been particularly affected by the pandemic. This liquidity support consists of deferring the repayment of the principal amount of the credits. As a reminder, these loans benefit from credit insurance issued by BPI AE in the name, on behalf and under the control of the French State.*

## 5.5. Operating expenses

| | H1 2020 | H1 2021 |
|---|---|---|
| Payroll costs | (25) | (25) |
| Other general and administrative expenses | (15) | (14) |
| Taxes | (12) | (14) |
| **TOTAL** | **(52)** | **(53)** |

## 5.6. Cost of risk

| Specific impairment | H1 2020 | | | | |
|---|---|---|---|---|---|
| | 1st January | Allocations | Reversals | Losses | June 30 |
| 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 to banks at amortized cost** | **0** | **(0)** | **0** | **-** | **(0)** |
| Stage 1 | (2) | (9) | 6 | - | (5) |
| Stage 2 | (24) | (7) | 10 | - | (22) |
| Stage 3 | (11) | (2) | 2 | - | (11) |
| **Loans and advances to customers at amortized cost** | **(37)** | **(18)** | **18** | **-** | **(38)** |
| Stage 1 | (4) | (0) | 0 | - | (4) |
| Stage 2 | (12) | (2) | 0 | - | (13) |
| Stage 3 | (0) | (0) | - | - | (0) |
| **Bonds at amortized cost** | **(16)** | **(2)** | **0** | **-** | **(17)** |
| Stage 1 | (1) | (0) | 1 | - | (0) |
| Stage 2 | - | (8) | - | - | (8) |
| Stage 3 | (0) | - | 0 | - | (0) |
| **Off-balance sheet commitments at amortized cost** | **(1)** | **(8)** | **1** | **-** | **(8)** |
| **TOTAL** | **(54)** | **(28)** | **19** | **-** | **(63)** |

| Specific impairment | H1 2021 | | | | |
|---|---|---|---|---|---|
| | 1st January | Allocations | Reversals | Losses | June 30 |
| 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 | (0) |
| Stage 2 | - | - | - | - | - |
| Stage 3 | - | - | - | - | - |
| **Loans and advances to banks at amortized cost** | **(0)** | **(0)** | **0** | **0** | **(0)** |
| Stage 1 | (5) | (1) | 3 | (2) | (5) |
| Stage 2 | (23) | (4) | 2 | 2 | (23) |
| Stage 3 | (7) | (2) | 1 | 0 | (8) |
| **Loans and advances to customers at amortized cost** | **(34)** | **(7)** | **6** | **0** | **(36)** |
| Stage 1 | (4) | (0) | 0 | (0) | (4) |
| Stage 2 | (13) | (1) | 2 | 0 | (13) |
| Stage 3 | (0) | - | - | - | (0) |
| **Bonds at amortized cost** | **(17)** | **(1)** | **2** | **(0)** | **(17)** |
| Stage 1 | (0) | (0) | 0 | - | (0) |
| Stage 2 | (10) | (1) | 1 | - | (9) |
| Stage 3 | (0) | - | 0 | - | (0) |
| **Off-balance sheet commitments at amortized cost** | **(10)** | **(1)** | **1** | **-** | **(10)** |
| **TOTAL** | **(62)** | **(10)** | **9** | **0** | **(62)** |

# 6. NOTE ON THE OFF-BALANCE SHEET ITEMS (EUR MILLIONS)

## 6.1. Regular way trade

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Assets to be delivered | - | - |
| Liabilities to be received | - | - |

## 6.2. Guarantees

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Guarantees received from credit institutions | - | - |
| Enhanced guarantees(1) | 8 250 | 8 321 |
| Loan guarantee commitments received | - | - |
| Guarantees received from customers(2) | 1 746 | 1 646 |

*(1) Irrevocable, unconditional guarantees issued by the French State and received by SFIL for funding major export credits.*
*(2) Guarantees received from customers are generally granted by local governments.*

## 6.3. Financing commitments

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Loan commitments granted to credit institutions(1) | 213 | 24 |
| Loan commitments granted to customers(1) | 4 552 | 4 312 |
| Loan commitments received from credit institutions(2) | 5 500 | 5 525 |
| Loan commitments received from customers | - | - |

*(1) Financing commitments on loans and lines of credit related to contract issued but not paid out. These amounts mainly relates to commitments on operations in export credit business line.*
*(2) As of June 30, 2021, this amount corresponded to fundng commitments received from Caisse des Dépôts and La Banque Postale for respective amounts of EUR 4,000 million, and EUR 1,500 million. Regarding Caisse des Dépôts commitments, SFIL recorded the total of its commitments related to the only tranches existing, which is limited to EUR 4,000 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.*

## 6.4. Other commitments

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Commitments given(1) | 158 | 9 |
| Commitments received(2) | 233 | 228 |

*(1) In 2020, this amount mainly corresponds to a portfolio of securities pledged with the Banque de France. It also takes into account SFIL Group's irrevocable payment commitments to the single resolution fund. In 2021, this amount only includes SFIL Group's irrevocable payment commitments to the single resolution fund.*

*(2) It mainly concerns a loan granted to a credit institution and guaranteed by a public sector entity.*

## 6.5. Impairments on financing commitments and other commitments granted

| | Financing commitments and financial guarantees under IFRS 9 as of 12/31/2020 | | | | | | | | Commitments and financial guarantees measured at fair value | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross amount | | | | Impairment | | | Net carrying amount | Notional amount | Accumulated negative changes in fair value due to credit risk on non-performing commitments |
| | Stage 1 | Stage 2 | Stage 3 | TOTAL | Stage 1 | Stage 2 | Stage 3 | | | |
| Granted to credit institutions | 213 | - | - | **213** | (0) | - | - | 213 | - | - |
| Granted to customers | 873 | 3 664 | 15 | **4 552** | (0) | (10) | (0) | 4 542 | - | - |
| **TOTAL** | **1 086** | **3 664** | **15** | **4 765** | **(0)** | **(10)** | **(0)** | **4 755** | **-** | **-** |

| | Financing commitments and financial guarantees under IFRS 9 as of 6/30/2021 | | | | | | | | Commitments and financial guarantees measured at fair value | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Gross amount | | | | Impairment | | | Net carrying amount | Notional amount | Accumulated negative changes in fair value due to credit risk on non-performing commitments |
| | Stage 1 | Stage 2 | Stage 3 | TOTAL | Stage 1 | Stage 2 | Stage 3 | | | |
| Granted to credit institutions | 24 | - | - | 24 | (0) | - | - | 24 | - | - |
| Granted to customers | 887 | 3 411 | 15 | 4 312 | (0) | (9) | (0) | 4 303 | - | - |
| **TOTAL** | **911** | **3 411** | **15** | **4 336** | **(0)** | **(9)** | **(0)** | **4 326** | **-** | **-** |

The breakdown of funding commitments given by Stages at June 30, 2021 has not changed significantly compared to December 31, 2020. The associated impairments also changed marginally compared to December 31, 2020.

As a reminder, it was decided during the year 2020 and in the context of the Covid-19 health crisis, to record all exposures concerning the cruise sector onto the watchlist and consequently to transfer them from Stage 1 to Stage 2. This downgrading was accompanied by an increase in the impairments relating to these balance sheet exposures (see Note 8.).

# 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

| | 12/31/2020 | | |
|---|---|---|---|
| | **Book value** | **Fair value** | **Unrecognized fair value adjustment** |
| Central banks | 1 932 | 1 932 | - |
| Financial assets at fair value through profit or loss | 4 266 | 4 266 | - |
| Hedging derivatives | 5 154 | 5 154 | - |
| Financial assets at fair value through equity | 625 | 625 | - |
| Loans and advances to banks at amortized cost | 328 | 385 | 57 |
| Loans and advances to customers at amortized cost | 49 867 | 49 679 | (188) |
| Bonds at amortized cost | 9 124 | 8 318 | (806) |
| **TOTAL** | **71 296** | **70 359** | **(937)** |

| | 6/30/2021 | | |
|---|---|---|---|
| | **Book value** | **Fair value** | **Unrecognized fair value adjustment** |
| Central banks | 1 722 | 1 722 | - |
| Financial assets at fair value through profit or loss | 3 837 | 3 837 | - |
| Hedging derivatives | 3 941 | 3 941 | - |
| Financial assets at fair value through equity | 603 | 603 | - |
| Loans and advances to banks at amortized cost | 323 | 367 | 44 |
| Loans and advances to customers at amortized cost | 51 018 | 50 504 | (514) |
| Bonds at amortized cost | 8 128 | 7 436 | (692) |
| **TOTAL** | **69 572** | **68 410** | **(1 162)** |

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

| | 12/31/2020 | | |
|---|---|---|---|
| | Book value | Fair value | Unrecognized fair value adjustment |
| Financial liabilities at fair value through profit or loss | 1 037 | 1 037 | - |
| Hedging derivatives | 7 595 | 7 595 | - |
| Due to banks at amortized cost | - | - | - |
| Debt securities at amortized cost | 64 398 | 64 990 | 592 |
| **TOTAL** | **73 030** | **73 622** | **592** |

| | 6/30/2021 | | |
|---|---|---|---|
| | Book value | Fair value | Unrecognized fair value adjustment |
| Financial liabilities at fair value through profit or loss | 838 | 838 | - |
| Hedging derivatives | 6 237 | 6 237 | - |
| Due to banks at amortized cost | - | - | - |
| Debt securities at amortized cost | 63 947 | 64 254 | 307 |
| **TOTAL** | **71 022** | **71 329** | **307** |

### 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. Hedging 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 group 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.

| | 12/31/2020 | | | |
|---|---|---|---|---|
| **Fair value of financial assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Central banks | 1 932 | - | - | 1 932 |
| Financial assets at fair value through profit or loss | - | 3 | 4 263 | 4 266 |
| Hedging derivatives | - | 4 829 | 325 | 5 154 |
| Financial assets at fair value through equity | 625 | - | - | 625 |
| Loans and advances to banks at amortized cost | 8 | - | 377 | 385 |
| Loans and advances to customers at amortized cost | - | - | 49 679 | 49 679 |
| Bonds at amortized cost | 4 296 | 2 285 | 1 737 | 8 318 |
| **TOTAL** | **6 861** | **7 117** | **56 381** | **70 359** |

| | 6/30/2021 | | | |
|---|---|---|---|---|
| **Fair value of financial assets** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Central banks | 1 722 | - | - | 1 722 |
| Financial assets at fair value through profit or loss | - | 3 | 3 833 | 3 837 |
| Hedging derivatives | - | 3 739 | 201 | 3 941 |
| Financial assets at fair value through equity | 603 | - | - | 603 |
| Loans and advances to banks at amortized cost | 10 | - | 357 | 367 |
| Loans and advances to customers at amortized cost | - | - | 50 504 | 50 504 |
| Bonds at amortized cost | 3 798 | 2 215 | 1 423 | 7 436 |
| **TOTAL** | **6 132** | **5 957** | **56 319** | **68 409** |

| | 12/31/2020 | | | |
|---|---|---|---|---|
| **Fair value of financial liabilities** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Financial liabilities at fair value through profit or loss | - | 891 | 146 | 1 037 |
| Hedging derivatives | - | 7 008 | 587 | 7 595 |
| Due to banks at amortized cost | - | - | - | - |
| Debt securities at amortized cost | 48 699 | 8 380 | 7 911 | 64 990 |
| **TOTAL** | **48 699** | **16 279** | **8 644** | **73 622** |

| | 6/30/2021 | | | |
|---|---|---|---|---|
| **Fair value of financial liabilities** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Financial liabilities at fair value through profit or loss | - | 730 | 108 | 838 |
| Hedging derivatives | - | 5 845 | 391 | 6 237 |
| Due to banks at amortized cost | - | - | - | - |
| Debt securities at amortized cost | 49 115 | 7 479 | 7 660 | 64 254 |
| **TOTAL** | **49 115** | **14 055** | **8 159** | **71 329** |

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

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 fnancial instruments using reasonably possible parameters or applies hypotheses based on its policy of additional valuation adjustments.

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Uncertainty inherent in level 3 market parameters | 5 | 4 |
| Uncertainty inherent in level 3 derivatives valuation models | 17 | 17 |
| **Sensitivity of the market value of level 3 financial instruments** | **22** | **21** |

### 7.1.4. Transfer between level 1 and 2

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Level 1 to level 2 | - | - |
| **TOTAL** | **-** | **-** |

## 7.2. Off-setting financial assets and liabilities

### 7.2.1. Financial assets subject to off-setting, enforceable master netting arrangements and similar agreements

| | 12/31/2020 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amount before off-setting | Gross amount off-set according to IAS 32 | Net amount presented in the balance sheet | Other amounts in the application scope but not offset | | Net amount according to IFRS 7 and 13 |
| | | | | Effect of master netting arrange-ments | Financial Instruments received as collateral | |
| Loans and advances at fair value through profit or loss | 4 243 | - | 4 243 | - | - | 4 243 |
| Derivatives (including hedging instruments) | 5 176 | - | 5 176 | (3 461) | (1 135) | 580 |
| Loans and advances to banks at amortized cost | 328 | - | 328 | - | - | 328 |
| Loans and advances to customers at amortized cost | 49 867 | - | 49 867 | - | - | 49 867 |
| **TOTAL** | **59 614** | **-** | **59 614** | **(3 461)** | **(1 135)** | **55 018** |

| | 6/30/2021 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amount before off-setting | Gross amount off-set according to IAS 32 | Net amount presented in the balance sheet | Other amounts in the application scope but not offset | | Net amount according to IFRS 7 and 13 |
| | | | | Effect of master netting arrange-ments | Financial Instruments received as collateral | |
| Loans and advances at fair value through profit or loss | 3 821 | - | 3 821 | - | - | 3 821 |
| Derivatives (including hedging instruments) | 3 956 | - | 3 956 | (2 646) | (1 128) | 181 |
| Loans and advances to banks at amortized cost | 323 | - | 323 | - | - | 323 |
| Loans and advances to customers at amortized cost | 51 018 | - | 51 018 | - | - | 51 018 |
| **TOTAL** | **59 117** | **-** | **59 117** | **(2 646)** | **(1 128)** | **55 343** |

### 7.2.2. Financial liabilities subject to off-setting, enforceable master netting arrangements and similar agreements

| | 12/31/2020 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amount before offsetting | Gross amount offset according to IAS 32 | Net amount presented in the balance sheet | Other amounts in the application scope but not offset | | Net amount according to IFRS 7 and 13 |
| | | | | Effect of master netting arrange-ments | Financial Instruments received as collateral | |
| Derivatives (including hedging instruments) | 8 632 | - | 8 632 | (3 461) | (2 396) | 2 775 |
| Due to banks at amortized cost | - | - | - | - | - | - |
| Customer borrowings and deposits | - | - | - | - | - | - |
| **TOTAL** | **8 632** | **-** | **8 632** | **(3 461)** | **(2 396)** | **2 775** |

| | 6/30/2021 | | | | | |
|---|---|---|---|---|---|---|
| | Gross amount before offsetting | Gross amount offset according to IAS 32 | Net amount presented in the balance sheet | Other amounts in the application scope but not offset | | Net amount according to IFRS 7 and 13 |
| | | | | Effect of master netting arrange-ments | Financial Instruments received as collateral | |
| Derivatives (including hedging instruments) | 7 075 | - | 7 075 | (2 646) | (2 122) | 2 306 |
| Due to banks at amortized cost | - | - | - | - | - | - |
| Customer borrowings and deposits at amortized cost | - | - | - | - | - | - |
| **TOTAL** | **7 075** | **-** | **7 075** | **(2 646)** | **(2 122)** | **2 306** |

## 7.3. Exposure to credit risk

In 2021, exposure to credit risks, includes:

- for assets other than derivatives: the amount shown on the balance sheet;
- for derivatives: the standardized approach to measure the couterparty credit risk (SA-CCR methodology) was applied from June 30, 2021; the Exposure at Defauft (EAD) is thus calculated on the basis of the following formula (alpha x (Replacement cost + Potential future exposure)) in accordance with the recommendations of the Basel Committee.
- for off-balance sheet commitments: the undrawn amount of financing commitments, which is shown 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**

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| France | 66 060 | 64 159 |
| Belgium | 236 | 158 |
| Italy | 5 821 | 5 397 |
| Spain | 377 | 381 |
| Germany | 623 | 457 |
| Other European Union countries | 973 | 460 |
| United Kingdom | 476 | 102 |
| Switzerland | 611 | 578 |
| Norway | 325 | 263 |
| United States and Canada | 794 | 753 |
| Japan | 42 | 41 |
| **TOTAL EXPOSURE** | **76 339** | **72 748** |

**Analysis of exposure by category of counterparty**

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Sovereigns | 13 544 | 12 814 |
| Local public sector | 58 268 | 57 847 |
| Other assets guaranteed by public sector entities | 25 | 23 |
| Financial institutions | 4 471 | 2 034 |
| Other exposures | 32 | 29 |
| **TOTAL EXPOSURE** | **76 339** | **72 748** |

**Analysis of exposure by category of instrument**

| | 12/31/2020 | 6/30/2021 |
|---|---|---|
| Central banks | 1 986 | 1 754 |
| Loans and advances at fair value through profit of loss | 4 239 | 3 818 |
| Hedging derivatives | 2 022 | 239 |
| Bonds at fair value through equity | 625 | 603 |
| Loans to banks at amortized cost | 29 | 30 |
| Loans to customers at amortized cost | 52 592 | 53 388 |
| Bonds at amortized cost | 9 337 | 8 276 |
| Accruals and other assets | 383 | 77 |
| Financing commitments | 5 125 | 4 563 |
| **TOTAL EXPOSURE** | **76 339** | **72 748** |

### 7.3.2. Evaluation of asset credit quality

SFIL Group decided to use the advanced method recommended by the regulators in relation to the Basel III reforms on the capital adequacy ratio and capital requirements. SFIL Group has developed internal rating models covering the main client segments. These models were validated by the banking supervisors. This enables SFIL Group to present on June 30, 2021, an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements. Credit weighting is mainly calculated on the basis of the probability of default of the counterparty and of the loss incurred in the event of default.

This analysis confirms the excellent quality of the assets. More than 81% of the portfolio has a weighting of less than 5% and close to 98% 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 | 1 754 | - | - | - | - | 1 754 |
| Financial assets at fair value through profit or loss | 2 387 | 873 | 436 | 0 | 122 | 3 818 |
| Hedging derivatives | 1 | - | 3 | 179 | 56 | 239 |
| Bonds at fair value through equity | 237 | - | 140 | 226 | - | 603 |
| Loans and advances due from banks at amortized cost | 20 | - | - | 10 | - | 30 |
| Loans and advances to customers at amortized cost | 34 773 | 11 359 | 6 925 | 11 | 320 | 53 388 |
| Bonds at amortized cost | 3 187 | 12 | 4 417 | 621 | 38 | 8 276 |
| Accruals and other assets | 42 | - | - | 6 | 29 | 77 |
| Financing commitments | 4 513 | 0 | 50 | - | (0) | 4 563 |
| **TOTAL EXPOSURE** | **46 915** | **12 244** | **11 970** | **1 053** | **566** | **72 748** |
| **SHARE OF TOTAL EXPOSURE** | **64.5%** | **16.8%** | **16.5%** | **1.4%** | **0.8%** | **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.

# 8. IMPACTS OF THE COVID-19 HEALTH CRISIS ON THE COMPANY'S FINANCIAL STATEMENTS (EUR MILLIONS)

The health crisis had a relatively limited impact on the Company's financial statements prepared in accordance with IFRS at end of June 2021. This confirms SFIL's group resilience to macro-economic shocks.

## 8.1. Impacts on the adjustments to the value of financial assets and liabilities recognized at fair value

In a health context that remained unfavorable throughout the first quarter and then gradually improved in the second quarter, the financial markets showed great resilience, with credit spreads remaining stable overall, equity markets reaching historic highs and long-term interest rates remaining at historically low levels, even though they increased. The possible effects on inflation of the new stimulus plan in the USA have been countered for the moment by the Fed and ECB announcements. In this context, the effects of the Covid-19 crisis on the value adjustments of financial instruments recognized at fair value were extremely limited and may be considered as neutral as at June 30, 2021 for SFIL.

## 8.2. Impacts on arrears, breakdown of net book values by Stages and IFRS provisions

In the spring of 2020, SFIL decided to deploy two approaches to support borrowers faced with difficulties following the health crisis:

- the first was proactive, by proposing extensions to payment terms to all health institutions in recognition of their exceptional role in the Covid-19 pandemic. SFIL proposed payment terms of 180 days to these borrowers for all of their loan contract maturities between March 12 and June 30, 2020, without any late interest or penalties being invoiced. These payment extensions could be renewed at the request of customers. As of June 30, 2020, these payment extensions represented EUR 9 million. One year later by June 30, 2021, all payment extensions granted have been paid;
- the other approach was to respond to requests from local and equivalent authorities faced with temporary cash flow difficulties. SFIL mobilized to respond to all requests from borrowers and to support them in their difficulties due to the health crisis caused by the decline in revenue from specific activities, related to economic, cultural and touristic activities (cinemas, swimming pools, parking lots, thermal baths, etc.). As of June 30, 2020, these payment extensions maturities represented EUR 8 million. One year later on June 30, 2021, it represented a residual amount of EUR 0.5 million remains.

| | On-going payment terms as at June 30, 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Financial assets at amortized cost | | | | Financial assets at fair value through profit or loss | TOTAL |
| | Stage 1 | Stage 2 | Stage 3 | TOTAL | | |
| Health sector customers | - | - | - | - | - | - |
| Other local public sector customers | - | - | 1 | 1 | - | 1 |
| **TOTAL** | **-** | **-** | **1** | **1** | **-** | **1** |

The payment terms granted to CAFFIL's customers did not result in a significant change in the breakdown of outstandings by Stage. At the same time, Caisse Française de Financement Local decided to revalue its provisions for public sector customers, which led it to reduce its impairments by EUR 0.2 million.

| | Financial assets at amortized cost | | | | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | | | Provisions | | |
| | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 |
| Health sector customers benefiting from payment terms granted | 192 | 23 | 23 | (3) | (0) | (0) |
| Other local public sector customers benefiting from payment terms granted | 244 | 2 | 33 | (0) | (0) | (0) |
| **SITUATION AS OF DECEMBER 31, 2020** | **436** | **24** | **56** | **(3)** | **(0)** | **(1)** |
| Health sector customers benefiting from payment terms granted | 166 | 36 | 29 | (2) | (1) | (0) |
| Other local public sector customers benefiting from payment terms granted | 250 | 1 | 25 | (0) | (0) | (0) |
| **SITUATION AS OF JUNE 30, 2021** | **415** | **37** | **54** | **(2)** | **(1)** | **(1)** |
| Health sector customers benefiting from payment terms granted | (26) | 13 | 6 | 0 | (0) | 0 |
| Other local public sector customers benefiting from payment terms granted | 6 | (1) | (8) | (0) | 0 | 0 |
| **CHANGE DURING THE YEAR MAINLY DUE TO THE IMPACT OF THE COVID-19 HEALTH CRISIS** | **(21)** | **13** | **(2)** | **0** | **(0)** | **0** |
| *FOR THE RECORD CHANGE DURING THE YEAR 2020 MAINLY DUE TO THE IMPACT OF THE COVID-19 HEALTH CRISIS* | *(37)* | *(14)* | *31* | *(3)* | *0* | *(0)* |

SFIL is present in all cruise ship financing transactions through French export credits signed since 2016. In this environment and since the spring of 2020, SFIL has used the approach developed jointly by the European export credit guarantee agencies to provide liquidity support for export credits for cruise companies, which were particularly affected by the pandemic. This liquidity support consists of deferring the repayment of the principal amount of the credits.

At the same time, since June 2020, SFIL decided to include all exposures to the cruise sector on the watchlist, which resulted in the recognition of a collective provision on this business sector of EUR 15 million at December 31, 2021. This provision was revalued as part of the half-year closing date on June 30, 2021 to EUR 16 million. In addition to these items, it was also decided in 2020 to set up a provision for risks and charges associated with the currency hedging instruments used to refinance dollar-denominated export credits for the cruise sector. The amount of this provision was estimated at EUR 2.6 million at December 31, 2020. This provision was revalued at June 30, 2021 to EUR 2.7 million.

As a reminder, these loans benefit from credit insurance issued by BPI AE in the name, on behalf and under the control of the French State.

| | Financial assets at amortized cost | | | | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | | | Provisions | | |
| | Stage 1 | Stage 2 | Stage 3 | Stage 1 | Stage 2 | Stage 3 |
| Financial assets on the balance sheet - export credit cruise sector | - | 2 136 | - | - | (5) | - |
| Off balance sheet financing commitments - export credit cruise sector | - | 3 664 | - | - | (10) | - |
| **SITUATION AS OF DECEMBER 31, 2020** | **-** | **5 800** | **-** | **-** | **(15)** | **-** |
| Financial assets on the balance sheet - export credit cruise sector | - | 2 369 | - | - | (7) | - |
| Off balance sheet financing commitments - export credit cruise sector | - | 3 379 | - | - | (9) | - |
| **SITUATION AS OF JUNE 30, 2021** | **-** | **5 748** | **-** | **-** | **(16)** | **-** |
| Financial assets on the balance sheet - export credit cruise sector | - | 233 | - | - | (2) | - |
| Off balance sheet financing commitments - export credit cruise sector | - | (285) | - | - | 1 | - |
| **CHANGE DURING THE YEAR MAINLY DUE TO THE IMPACT OF THE COVID-19 HEALTH CRISIS** | **-** | **(52)** | **-** | **-** | **(1)** | **-** |
| *FOR THE RECORD CHANGE DURING THE YEAR 2020 MAINLY DUE TO THE IMPACT OF THE COVID-19 HEALTH CRISIS* | *(5 519)* | *5 800* | - | *1* | *(15)* | - |

## 8.3. Summary of the impacts of the Covid-19 health crisis on the Company's results as at June 30, 2021

| | (1) | (2) | | =(1)-(2) |
|---|---|---|---|---|
| | **Published accounting income** | ***of which impacts of the Covid-19 health crisis*** | | **Accounting income restated for the impacts of Covid-19** |
| | | ***Reinforcement of provisions on public sector*** | ***Reinforcement of provisions on export credit - cruise sector*** | |
| Net banking income | 103 | - | - | 103 |
| General operating expenses | (62) | - | - | (62) |
| **Gross operating income** | **42** | **-** | **-** | **42** |
| Cost of risk | (1) | 0 | (1) | 0 |
| **Income before non-recurring items and taxes** | **41** | **0** | **(1)** | **42** |
| Income tax | (13) | (0) | 0 | (14) |
| **Net income** | **28** | **0** | **(1)** | **29** |

# 9. POST-CLOSING EVENTS

No significant event that influences the Company's financial situation has occurred since the closing on June 30, 2021.

# 3. STATUTORY AUDITORS' REVIEW REPORT ON INTERIM FINANCIAL STATEMENTS ESTABLISHED UNDER IFRS STANDARDS

# STATUTORY AUDITORS' REVIEW REPORT ON INTERIM FINANCIAL STATEMENTS ESTABLISHED UNDER IFRS STANDARDS

## For the period from January 1 to June 30, 2021

This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the Group's half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

To the Shareholders,

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

- the review of the accompanying condensed half-yearly consolidated financial statements of SFIL, for the period from January 1, 2021 to June 30, 2021,
- the verification of the information presented in the half-yearly management report.

Due to the global crisis related to the Covid-19 pandemic, the condensed half-yearly consolidated financial statements have been prepared and reviewed under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organization and the performance of our review procedures.

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

### I. Conclusion on the financial statements

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

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

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed half-yearly consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34 - standard of the IFRSs as adopted by the European Union applicable to interim financial information.

### II. Specific verification

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

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

Paris La Défense, on the 13 September 2021
KPMG S.A.
Jean-Francois Dandé
Associé

Neuilly-sur-Seine, on the 13 September 2021
PricewaterhouseCoopers Audit
Ridha Ben Chamek
Associé

# 4. STATEMENT BY THE PERSON RESPONSIBLE

# STATEMENT BY THE PERSON RESPONSIBLE

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

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

Signed in Issy-les-Moulineaux, September 13, 2021

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

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

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