SFIL

Supporting local investment and export

ANNUAL FINANCIAL REPORT 2018

2018 **is the year in which our public development bank model came of age.** Indeed, SFIL, the seventh-largest French bank by total assets, now fully and equally fulfills both public policy missions entrusted to it by the State, and, after six years of operation, its success is as indisputable as its prospects are solid. This continuing **collective achievement** comes thanks to our teams' involvement and our shareholders – the French State, Caisse des Dépôts and La Banque Postale – who I would like to thank for their commitment to our development.

> "*Indisputable collective achievement, a balanced model and solid prospects*

Very strong growth in local public sector refinancing

In 2018, SFIL further strengthened its position as the first lender to the local public sector. In partnership with La Banque Postale, **since its creation SFIL has provided nearly EUR 24 billion of financing** through loans of widely varying amounts and terms, drawing on La Banque Postale's dense distribution network. Our ambition is to remain the first lender to this sector by renewing our relationships with our 14,500 customers – notably through the rollout of **our new digital management platform.**

Export credit: an exceptional year highlighting the system's considerable effectiveness

Our refinancing of **large export credit contracts** also expanded at an exceptional pace.
For the second consecutive year, SFIL covered more than 45% of the liquidity needs of major French export credit contracts. Since 2015, our bank has refinanced a total of **EUR 7.1 billion of outstandings under ten export contracts for eight exporters** spanning five sectors, in partnership with 15 different banks.
Rounded out by the deployment of the refinancing of **major projects of strategic interest**, announced by France's Prime Minister in February 2018, our system will allow us to **offer the country's major exporters support on a par with that of the most highly performing platforms internationally**.

The largest public sector issuer after the French State

With an excellent rating in the financial markets, our bank enjoys a diversified financing capacity, exceptional in terms of volume, maturity and cost.
Our debt issues rank in the top tier and we **currently have 502 different investors** (compared with 115 at end-2013).
Since 2013, we have raised **EUR 38 billion in long-term financing**, half of which cover maturities of at least ten years (compared with a banking sector average of five years).
Since 2016, **SFIL has been France's largest public sector issuer after the State**.
The success in early 2019 of our first social issue, dedicated to the financing of public hospitals, perfectly illustrates our extraordinary capacity across the board – whether for amounts issued, financing conditions or total number of investors, including many new names.

A forecast-beating financial trajectory

As our 2018 financial results demonstrate, **our financial trajectory**, based on a low-risk business model, **is outperforming expectations** with excellent levels of solvency and liquidity. Since 2015, we have seen positive results and consistent profitability in both of our activities.

Becoming a major player in the responsible finance ecosystem

At the end of 2018, the SFIL Group adhered to the sustainable development goals defined by the United Nations as part of the Global Compact. Our CSR commitment, which is a natural part of our DNA, is reflected in our top-tier extra-financial ratings and will continue to play out through our regular social and green bond issues.

Strong ambitions as part of the major public hub serving France's regions

In November 2018, the French State and Caisse des Dépôts announced that they had entered into discussions with a view to transferring control of SFIL to Caisse des Dépôts. Scheduled for 2020, this will make SFIL part of a major public sector financial hub revolving around Caisse des Dépôts and La Poste. SFIL's shareholder base will remain fully public. Its shareholders will ensure that SFIL's financial solidity is preserved and its economic base protected, and will continue to provide it with the support it needs, in accordance with the applicable regulations.
Aware of the strategic importance of their missions, SFIL's teams will continue to fulfill them with the same stringency and commitment that enabled our bank to establish itself as **a key player in the development of France's economy at both national and regional level**.

Philippe Mills,
Chief Executive Officer

Key figures as of December 31, 2018

SFIL's consolidated total assets
EUR 72.7 billion

Bonds issued in 2018
EUR 6.9 billion
including EUR 4.9 billion of covered bonds issued by CAFFIL and EUR 2 billion of EMTN issued by SFIL

Loans acquired from LBP in 2018
EUR 3.4 billion

Export credit loans transferred in 2018
EUR 3.8 billion

Common equity tier 1 ratio (Basel III - fully loaded)
25.1%

Cost/income ratio on recurring gross operating income
60.3%

Net income
EUR 63 million

Permanent contract employees
343

External ratings as of January 1, 2019

Moody's
Aa3

Standard & Poor's
AA

DBRS
AA(high)

ANNUAL FINANCIAL REPORT 2018
SFIL

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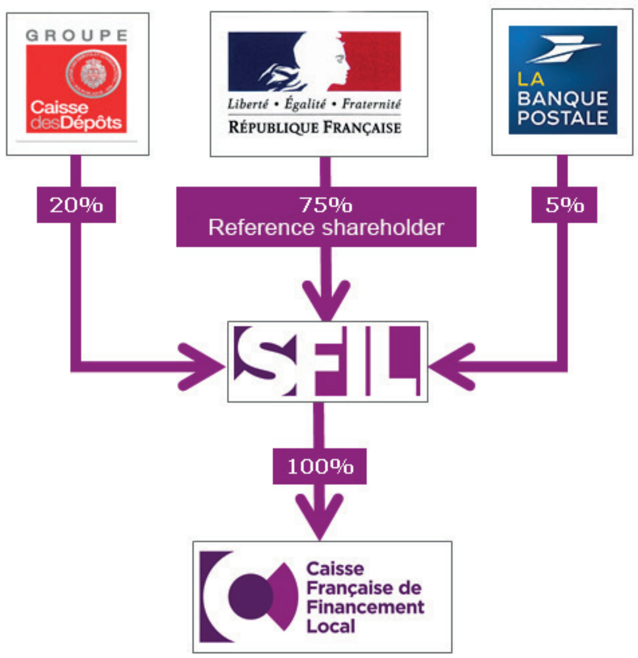
This free translation of the annual financial report published in French is provided solely for the convenience of English-speaking readers

Management report
Context

SFIL was authorized as a bank by the Collège de l'Autorité de contrôle prudentiel et de résolution on January 16, 2013. Since SFIL was created, the French State has played a special role in its operation by contributing 75% of its capital and, as the reference shareholder, assuring prudential authorities of its strong commitment to provide financial support, in keeping with current banking regulations. Caisse des dépôts et consignations and La Banque Postale respectively hold 20% and 5% of the Company's capital. This wholly public shareholder structure, which will remain so in the context of the project announced in 2018 involving entrusting control of SFIL to Caisse des dépôts et consignations, is a characteristic of the public development bank model that SFIL espouses. The objective of public development banks is not to maximize profitability or market share, but to carry out public policy missions entrusted by State, regional or local authorities to compensate for identified market failures, while ensuring the conditions for their own viability are in place. SFIL is a key component of the financing system for local government entities and public hospitals established in early 2013 to provide a sustainable response to the contraction in supply of long-term financing for the local public sector. From 2015, SFIL was also entrusted with responsibility for refinancing major export credit contracts as part of a market system designed to strengthen the French export industry's competitiveness.

Capital structure of SFIL and its sole subsidiary CAFFIL[1]



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

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

SFIL is at the heart of the system that embodies the State's determination to provide French local government entities and public hospitals with uninterrupted, efficient access to long-term bank financing, in addition to the offers provided by commercial banks and French or European public institutions operating in this segment. This system, which was launched following European Commission authorization on December 28, 2012, makes it possible to refinance La Banque Postale's loans to French local government entities and assist the relevant borrowers in their efforts to reduce their outstanding sensitive loans.

In 2015, the State entrusted SFIL with a second public interest mission: refinancing buyer credits insured by Bpifrance Assurance Export and thereby helping to increase the competitiveness of the large export contracts negotiated by French companies. The objective is to provide market financing with the volumes and maturities adapted to export credits of significant amounts and under conditions that match those of the most highly rated issuers of French covered bonds, relying on the issuance capacities of SFIL and its subsidiary CAFFIL. This refinancing is available for all partner banks of French exporters for their buyer credits insured by Bpifrance Assurance Export in the name and under the guarantee of the French State.

Highlights of 2018

In 2018, SFIL fully discharged its key missions, which involve using its subsidiary Caisse Française de Financement Local to finance loans granted by La Banque Postale to eligible French local government entities and public hospitals, supplying specialized services to La Banque Postale and Caisse Française de Financement Local and managing the final stages of its structured loan portfolio sensitivity reduction policy. Since 2017, SFIL has become the biggest provider of liquidity to the State-guaranteed export credit sector, and it continued to expand its activity in this second business line in 2018. It also implemented its IT streamlining program early in the year. Lastly, on November 15, 2018, the French government and Caisse des Dépôts (CDC) announced that they had entered into discussions with a view to entrusting control of SFIL to CDC.

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

1. Planned change in shareholder structure

On November 15, 2018, in line with the project to create a major public sector financial hub revolving around CDC and La Poste, the French government and Caisse des Dépôts announced that they had entered into discussions with a view to transferring control of SFIL to Caisse des Dépôts. This operation will contribute to the ongoing streamlining of the organization of public financial institutions in the service of France's regions, by merging them into the CDC Group.
SFIL's shareholder base will remain – as today – fully public. Its shareholders will ensure that SFIL's financial solidity is preserved and its economic base protected, and will continue to provide it with the support it needs, in accordance with the applicable regulations.
This change in shareholder structure is expected to take place at the same time as the changes to that of La Poste and CNP Assurances.

2. Partnership with La Banque Postale (LBP)

Within the framework of its partnership with SFIL, La Banque Postale granted EUR 3.6 billion in loans to the local public sector in 2018, a 12% increase compared with 2017. During this sixth year of activity, Caisse Française de Financement Local also acquired nearly EUR 3.4 billion in loans from La Banque Postale, through four transfers. Since 2015, the SFIL/LBP system has been recognized as the largest source of financing for the French local public sector.

3. Export credit refinancing

With four transactions completed in 2018 for EUR 3.8 billion, SFIL's export credit activity continued to grow – by 46% relative to 2017 (also four transactions, for EUR 2.6 billion). SFIL strengthened its position as the leading liquidity provider in the French export credit market.
The plan to extend the benefit of SFIL's export credit refinancing system to guaranteed loans for projects of strategic interest for the French overseas economy was announced in March 8, 2018. The decree governing credit insurance and the finance law relating to the enhanced guarantee came into force in December 2018. The aim is to complete the authorization process allowing SFIL to use this new procedure in 2019. The plan to extend SFIL's export credit activity to this new guarantee will enable France to offer a financing tool comparable to the best foreign equivalents, in line with the practices observed in major exporting countries, particularly in Asia.

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

CAFFIL issued a total volume of EUR 4.9 billion in 2018 through three public issues. The first, in January 2018, was in two tranches, with a first, 8-year tranche of EUR 1 billion and a second, 15-year tranche of EUR 500 million. The second issue was in April, for EUR 1.5 billion over 10 years, and the third, in June, was for EUR 500 million over 20 years.

5. SFIL issues and certificate of deposit program

SFIL launched two long-term issues in 2018 on the public agency market. The first, in February, was for EUR 1 billion with an 8-year maturity, and the second, in June, was for USD 1 billion with a 3-year maturity.
As of December 31, 2018, outstanding certificates of deposit issued by SFIL totaled nearly EUR 600 million, unchanged from December 31, 2017.

6. Completion of the IT streamlining program

SFIL passed a major milestone in its IT streamlining program in the last weekend of March 2018, when it migrated a large part of its IT system to a new, upgraded and simplified information system, catering in particular for its capital markets activities. It also inaugurated a single data warehouse. The successful completion of this plan, launched in 2014, means that the SFIL Group now has an IT system tailored to its roles that enables it to meet more effectively SFIL and CAFFIL's risk control and management needs as well as its regulators' various requirements.

7. Entity ratings

A new rating agency

SFIL and its subsidiary CAFFIL appointed the international rating agency DBRS in addition to their existing agencies, Moody's and Standard & Poor's. In September 2018, DBRS awarded SFIL a long-term rating of AA (high), i.e. only one notch below the AAA rating of France, SFIL's reference shareholder, and a short-term rating of R-1 (high), the highest in the agency's scale.
DBRS also rated the SFIL Group's issuance programs very highly: AAA for CAFFIL's covered bond issues, and AA (high) and R-1 (high), respectively, for SFIL's long and short-term issues. SFIL and CAFFIL also decided to no longer apply for ratings from Fitch as from end-2018.
As a result, as from January 1, 2019, the financial rating agencies that the SFIL Group uses for its issuance activity will be Moody's, Standard & Poor's and DBRS.

SFIL's ratings

SFIL's ratings underscore the strong ties binding it to the French State, its reference shareholder. As Moody's French sovereign rating has a "positive" outlook and SFIL's rating is correlated to this State rating, its own rating (Aa3) has improved from "stable" to "positive". Meanwhile, SFIL's long-term rating from Standard & Poor's remains aligned with that of France, unchanged at AA. Standard & Poor's raised its intrinsic rating for SFIL by two notches as a result of the completion of its loan sensitivity reduction program and the very positive trajectory of its results.
As of December 31, 2018, SFIL's ratings therefore stood at Aa3 with Moody's, AA with Standard & Poor's, AA- with Fitch and AA (high) with DBRS.

Caisse Française de Financement Local's ratings

There was no change in the rating of the *obligations foncières* issued by Caisse Française de Financement Local in 2018.
As of December 31, 2018, CAFFIL's ratings were as follows: Aaa with Moody's, AA+ with Standard & Poor's, AAA with DBRS and AA with Fitch. The outlook for each of these ratings was stable.
Lastly, based on CAFFIL's performance in terms of social and environmental responsibility, its *obligations foncières* are rated Prime and Positive (BBB), respectively, by the extra-financial rating agencies ISS-oekom and IMUG.

8. First application of the IFRS 9 accounting standard

The IFRS 9 accounting standard came into force on January 1, 2018. It contains three main components: the classification and measurement of financial instruments, the provisioning of loans, securities and financing commitments, and hedge accounting, for which the SFIL Group has chosen to continue to apply IAS 39 pending the entry into force of the future macro-hedging standard.
The first-time application of IFRS 9 led to a 119-basis-point increase in the fully loaded CET1 ratio and a EUR 50 million increase in equity (see section 2 of "Operating results": "First-time application of IFRS 9").
It will also impact results after its first-time application, due in particular to the change in the value of assets now recognized at fair value through profit or loss (non-SPPI assets). This standard therefore increases net banking income volatility in a way unrelated to the SFIL Group's activity, as its business model involves holding all loans until their contractual maturity. These impacts are isolated in order to restate them in the analyses of the Company's performance.

9. Continuation of the European legislative process for the adoption of the banking package

The European Council and the European Parliament confirmed and strengthened the measures aimed at recognizing the specific nature of public development banks that the European Commission had included in its proposed amendment of banking prudential regulations (the CRR, which notably introduces a minimum leverage ratio and a long-term structural liquidity ratio). SFIL will therefore benefit from specific, appropriate calculation rules for determining these ratios when these new requirements enter into force (two years after the text's definitive adoption and publication, which are expected in the first half of 2019).

10. Market volatility

2018 was marked by the following three major international events:
- continued Brexit negotiations between the European Union and the United Kingdom;
- general elections in Italy leading to the formation of an unprecedented coalition government;
- tensions relating to the increase in customs duties on certain goods between the United States and China initially, and then between the United States and the European Union.

These three events increased financial market volatility but did not materially affect the covered bond market or the SFIL Group's issuance capacity.

General business environment

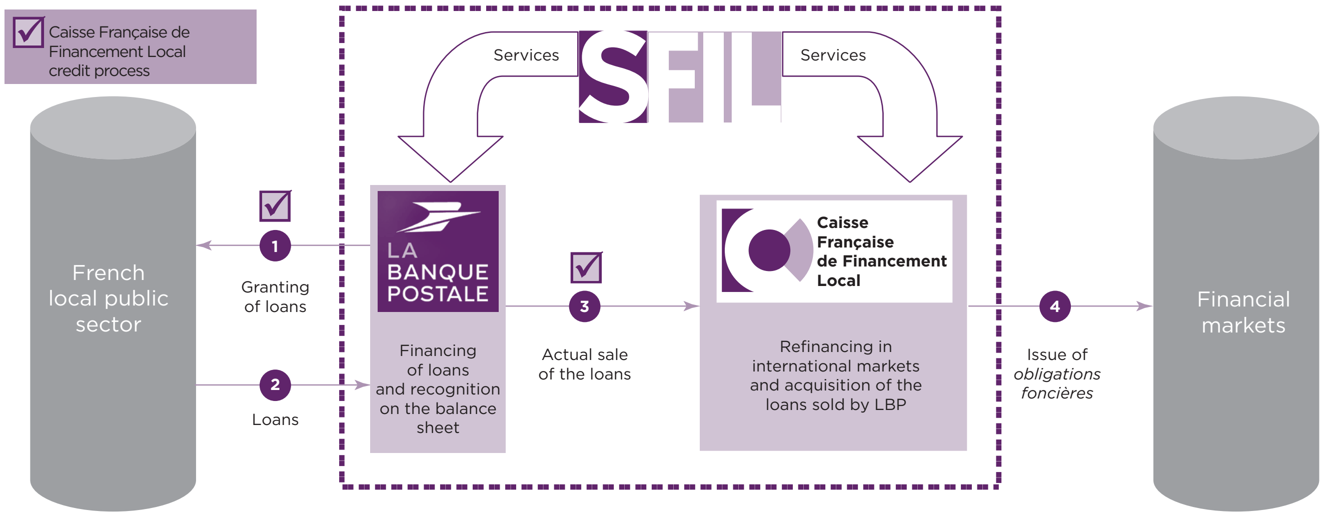
The SFIL Group successfully discharged its key responsibilities:

- financing, within a strictly defined framework, loans initially granted by La Banque Postale to eligible[1] local government entities and public hospitals via CAFFIL-issued *obligations foncières*;
- refinancing large export credit contracts;
- SFIL's provision of specialized services to La Banque Postale and CAFFIL to enable the system to function correctly;
- the continuation and near-completion, in line with the State's public finances management objectives and SFIL's strategic interests, of the program to reduce the sensitivity of certain structured loans held on CAFFIL's balance sheet when SFIL was created.

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

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

Operational flow diagram of the system



1. The SFIL Group's financing of public sector investments

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

The loans in question are simple, being exclusively at fixed rates or with a single indexation (Euribor + margin) or two-phase structure (fixed rate then variable rate). Certain loans involve a staggered-release phase or benefit from a deferred start-date mechanism. The amounts in question range from EUR 40,000 to tens of millions of euros, while the maturities are generally between 10 and 30 years. New loans are mostly repayment loans with an initial average life of around 9 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.

In 2018, CAFFIL acquired EUR 3.4 billion in loans granted by La Banque Postale to the French local public sector (EUR 3.3 billion in 2017). Since the partnership began in 2013, CAFFIL has refinanced a total of EUR 15.6 billion in loans.

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

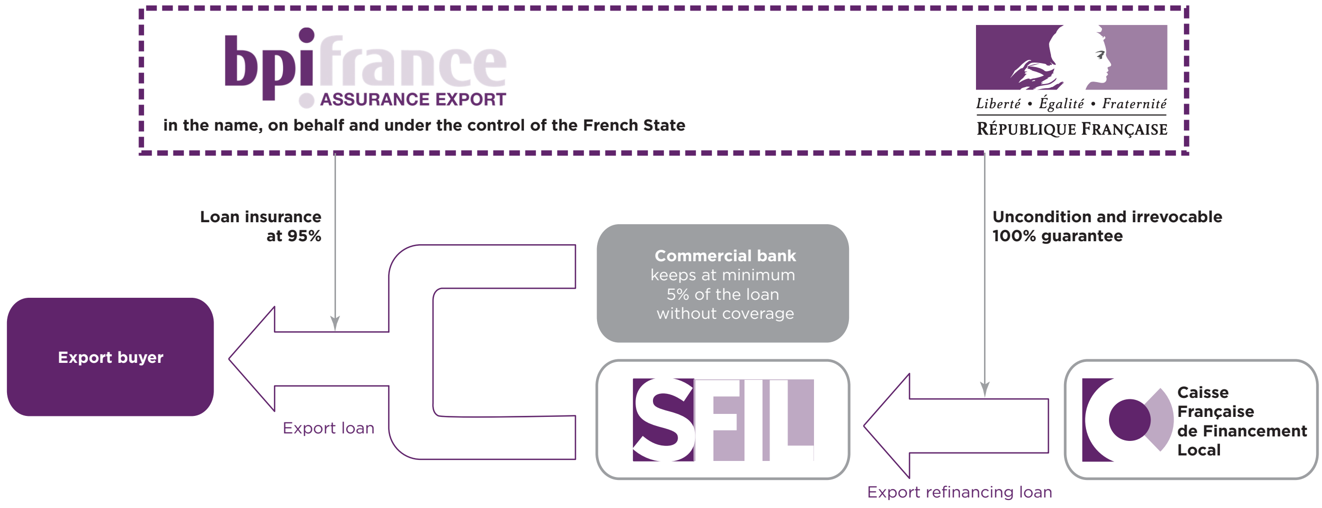
2. Refinancing export credits

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

The Company's operating procedure is as follows:

- In accordance with the principle of equal treatment, SFIL offers to take the place of commercial banks as lender of all or a part of the insured portion of export credits, thus allowing them to improve their own offers in terms of volume, term, and price.
- 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 Bpi France Assurance Export introduced by the 2012 finance law. This 100% guarantee by the French State is also irrevocable and unconditional. In this context, Bpifrance Assurance Export acts in the name, on behalf and under the control of the State.

Operational diagram of export credit refinancing by SFIL and CAFFIL



Five new banks signed the "SFIL Protocol" in 2018, bringing the number of partner banks to 25 and thereby ensuring an established relationship with almost all banks active in the French export credit market.

In 2018, SFIL carried out four refinancing transactions in the fields of energy, infrastructure, defense and cruise liners, for EUR 3.8 billion.

In total, since 2016 SFIL has refinanced more than EUR 7 billion in 10 transactions representing EUR 12.6 billion of export contracts with 15 banks, thereby supporting 8 exporters. For the second consecutive year, SFIL was the sector's leading provider of liquidity, with a market share of more than 40%.

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. SFIL issued six such letters of support in 2018, bringing the number of letters provided since the activity's launch to 23, for 13 major exporters.

3. Services provided to La Banque Postale

SFIL provides services for the medium and long-term financing activity in the local public sector (French local government entities and public hospitals) carried on by La Banque Postale and its joint venture with CDC, La Banque Postale Collectivités Locales. Within this framework, it provides services at all stages of medium and long-term loan issuance and management process (loan offerings, middle and back office management, ALM reporting, management control, accounting, third-party management, etc.). The performance indicators introduced to measure the quality of the services that SFIL provided in 2018 were satisfied at 96%.

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

Furthermore, after five years of activity, SFIL and La Banque Postale have reviewed and adapted the contractual framework of the services provided in compliance with the latest regulatory developments (IFRS 9, the General Data Protection Regulation and legislation on critical outsourced services).

4. SFIL Group financing

In 2018, the SFIL Group raised EUR 6.9 billion in the bond markets. The year was marked by further diversification of the Group's access to the market, with the wide recognition of SFIL as a euro and US dollar issuer to French agencies and CAFFIL's frequent activity as a leading covered bond market issuer. SFIL also continued to refinance itself through short-term issues in the money market. Lastly, as part of the implementation of the SFIL Group's social and environmental policy and in order to further diversify its sources of financing, CAFFIL announced a social covered bond public issue project, which was implemented in February 2019. This issue, which is intended to finance investments by public hospitals, is the first step in the SFIL Group's strategy of increasing its use of "social" and "green" bond issues.

SFIL BOND REFINANCING

In 2018, SFIL continued to develop its franchise in the French agency market by building its reference curves in both euros and US dollars. It accordingly tapped the public primary market twice in 2018 for a total of EUR 1.85 billion, with a first issue of EUR 1 billion over 8 years in January and a second of USD 1 billion over 3 years in June. These two successful transactions both raised the SFIL Group's profile as an issuer to the French agencies segment and broadened its investor base. At the same time, in February 2018 SFIL raised additional liquidity on one of its euro-denominated reference issues through a EUR 200 million tap transaction. SFIL's total bond outstandings came to EUR 4.9 billion as of December 31, 2018.

These issues are an alternative to the financing the Group receives from its shareholders, Caisse des dépôts et consignations and La Banque Postale.

SFIL plans to continue to expand its market refinancing and in 2019 will seek to launch at least two issues in euros and US dollars in the public primary market.

CAFFIL REFINANCING (COVERED BONDS OR *OBLIGATIONS FONCIÈRES*)

In 2018, CAFFIL raised a total of EUR 4.9 billion by issuing debt benefiting from the legal privilege, via *obligations foncières* offerings. It launched three issues in the public primary market for a total of EUR 3.5 billion, adding to its reference yield curve in the 8-year (EUR 1 billion), 10-year (EUR 1.5 billion), 15-year (EUR 500 million) and 20-year (EUR 500 million) maturities. At the same time, over the course of the year it raised additional liquidity on several of its reference issues via four tap transactions for a total of EUR 600 million.

In addition to these public issues, CAFFIL implemented an active private placement policy, focused on long and very long maturities, in response to specific demand from investors whose appetite was not satisfied by its public primary offerings. This activity enabled it to raise close to EUR 800 million with an average maturity of more than 16 years. It issued 86% of this amount under a euro medium-term note (EMTN) program and the other 14% in the form of registered covered bonds.

Obligations foncières outstandings totaled EUR 50.3 billion as of December 31, 2018.

SFIL GROUP OTHER RESOURCES

Short-term liquidity

In 2018, SFIL actively pursued its issuance of debt securities with a maximum one-year maturity under the certificate of deposit program it launched in 2015. SFIL's certificate of deposit outstandings totaled EUR 647 million as of December 31, 2018.

Liquidity provided by SFIL's shareholders

As of December 31, 2018, the financing that SFIL received under the loan agreements with its shareholders amounted to EUR 1.1 billion for Caisse des dépôts et consignations and EUR 0.8 billion for La Banque Postale, representing an overall decrease of EUR 2.3 billion compared with December 31, 2017.

Changes in the main balance sheet items

The main items on the SFIL Group's consolidated balance sheet (management data[1]) as of December 31, 2018, are presented in the table below:

(In EUR billions, equivalent value after currency swaps)	
ASSETS	**LIABILITIES**
72.7	**72.7**
of which main items of the notional balance sheet	of which main items of the notional balance sheet
60.3	**60.3**
Cash assets 2.0 (of which 1.3 for CAFFIL and 0.7 for SFIL)	SFIL bond issues 4.9
Securities 9.5 (of which 8.1 for CAFFIL and 1.4 for SFIL)	*Obligations foncières* 50.3
	Certificates of deposit 0.6
Loans 46.7	Refinancing by shareholders 1.9
Cash collateral paid 2.1	Cash collateral received 1.2 (of which 0.5 for CAFFIL and 0.7 for SFIL)
	Equity and other items 1.4

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

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

1. Changes in assets

1.1 – MAIN CHANGES IN ASSETS IN 2018

The net change in the SFIL Group's main assets in 2018 was an increase of EUR 0.8 billion.
This change can be analyzed as follows:

(In EUR billions, equivalent value after currency swaps)	2018
BEGINNING OF YEAR	**59.5**
Purchase of loans from La Banque Postale	**3.4**
New export credit loans granted	**0.9**
New post-sensitivity reduction loans granted	**0.2**
Change in cash collateral paid by SFIL	**(0.3)**
Amortization of loans and securities granted to the French public sector (excluding cash investment securities)	**(4.1)**
Amortization of loans and securities granted outside the French public sector (excluding cash investment securities)	**(0.7)**
Cash investment securities	**2.0**
Change in cash assets	**(0.6)**
Other	**(0.0)**
END OF YEAR	**60.3**

- Through its subsidiary CAFFIL, the SFIL Group acquired EUR 3.4 billion in loans marketed by La Banque Postale to the French local public sector.
- The export credit activity resulted in a EUR 0.9 billion drawdown.
- The sensitivity reduction operations resulted in EUR 0.2 billion of new assets on CAFFIL's balance sheet, recognized under the refinancing of early repayment indemnities and new investment financing. The risky structured loan sensitivity reduction program is nearing completion.

  By the end of 2019, taking into account the sensitivity reduction operations already completed and excluding outstanding loans for which customers have opted into the support fund's lower interest rate assisted payment scheme, the SFIL Group's total sensitive structured loan outstandings will have decreased by at least 86% compared with the amount recorded when SFIL was created, and by more than 91% for local government entities alone. The initial sensitive loan outstandings of EUR 8.5 billion will therefore be reduced to less than EUR 1.0 billion by the end of 2019 and, for local government entities alone, to a maximum of EUR 0.6 billion, compared with EUR 6.7 billion initially.
- In some cases SFIL acts as an intermediary for certain of CAFFIL's swaps; to that end it had paid a total of

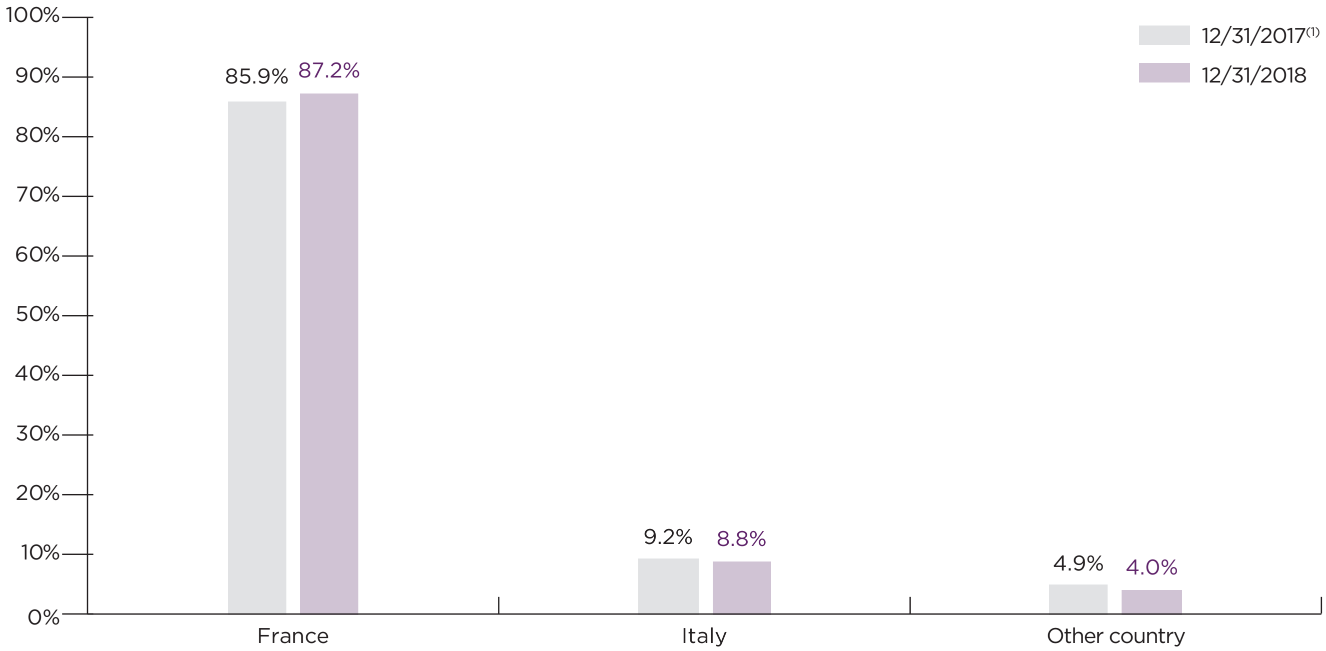
(1) As regards the loans shown in the tables below, the notional balance sheet item concept corresponds to outstanding principal for euro transactions and, for foreign currency transactions, the euro equivalent value after swap hedging. Notional balance sheet items notably exclude hedging relationships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

EUR 2.1 billion in collateral at end-2018, down EUR 0.3 billion compared with end-2017.
- Other changes in assets correspond mainly to scheduled repayments on the loan and securities portfolio for EUR 4.8 billion, the decrease in the balance of the Banque de France account for EUR -0.6 billion and the early repayment of assets for EUR 0.1 billion.

It should be noted that as of December 31, 2018, the SFIL Group held EUR 4.0 billion in cash surplus investment securities (banking sector and European public sector)

1.2 – BREAKDOWN OF OUTSTANDING PUBLIC SECTOR LOANS AND SECURITIES

The outstanding loans and securities on SFIL's balance sheet totaled EUR 56.2 billion, of which EUR 52.9 billion to public sector. The majority of outstandings in 2018 were with the French public sector, which accounted for 87% of the total. New loans are now exclusively originated with the French local public sector. Outstanding loans in respect of the export credit activity accounted for EUR 1.1 billion on the balance sheet as of December 31, 2018.



(1) *These are proforma 2017 figures including public sector securities but excluding banking securities as of December 31, 2017.*

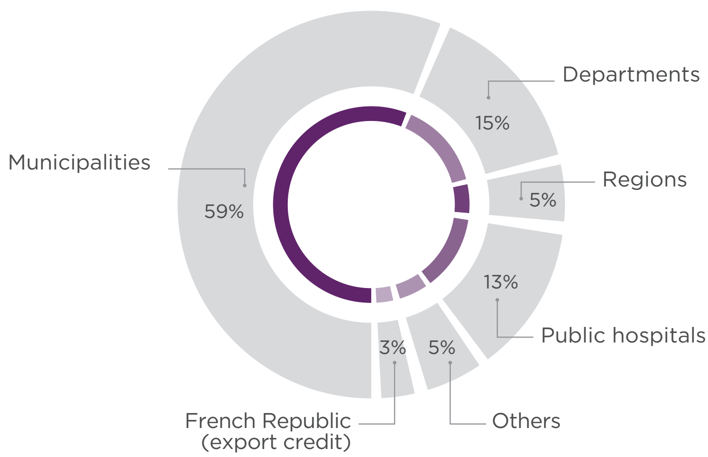
Excluding France, the two largest exposures concerned local government entities in Italy and central government entities in Italy (9%) and Switzerland (1%). Loans and securities with counterparties outside France corresponded to granular and geographically diverse exposures to public sector entities. These exposures, excluding cash investments, were originated in the past and are now in run-off.

France's relative share was up slightly from 2017.

The French local public sector is the only area of activity that continued to grow, for the following reasons:
- the acquisition of the loans granted by La Banque Postale to local government entities and public hospitals; CAFFIL acquired EUR 3.4 billion of loans in this area in 2018;
- the new loans granted within the framework of the reduction of the sensitivity of structured loans, for a total of EUR 0.2 billion;
- drawdowns on export loans for EUR 0.9 billion.

For France's relative share of 87% in 2018, the following graph shows the breakdown of loans and securities granted to the French local public sector by type of counterparty.

French public sector loans and bonds



1.3 – EXPOSURES TO BANKS (CASH ASSETS, BANK CASH INVESTMENT SECURITIES AND CASH COLLATERAL)

Exposures to banks recognized as assets on the SFIL Group's balance sheet are of three types:
- cash assets deposited chiefly with the Banque de France, which totaled EUR 1.9 billion as of December 31, 2018;
- bank cash investment securities for EUR 3.3 billion as of December 31, 2018, compared with EUR 1.2 billion as of December 31, 2017;
- cash collateral payments made to banking counterparties or clearing brokers to hedge counterparty risk on the derivatives portfolio (swaps). This derivatives portfolio requires that SFIL constitute collateral, generating a financing need for SFIL. SFIL had paid EUR 2.1 billion in this regard as of December 31, 2018.

2. Changes in liabilities

The net change in the SFIL Group's main liabilities in 2018 was an increase of EUR 0.8 billion.

This change can be analyzed as follows:

(In EUR billions, equivalent value after currency swaps)	2018
BEGINNING OF YEAR	**59.5**
Obligations foncières	**1.3**
Issues	*4.9*
Amortization	*(3.6)*
Redemptions	*0.0*
Change in cash collateral received	**(0.2)**
Shareholder refinancing	**(2.3)**
SFIL bond issues	**2.0**
Certificates of deposit	**0.0**
Equity and other items	**0.0**
END OF YEAR	**60.3**

Outstanding *obligations foncières* increased by EUR 1.3 billion as a result of associated amortization, partly offset by the new 2018 program for a total of EUR 4.9 billion.
At the same time, the cash collateral paid by the derivatives counterparties of CAFFIL and SFIL decreased by EUR 0.2 billion.
The EUR 2.3 billion decrease in shareholder refinancing relates to the amortization of the balance sheet and, for EUR 2.0 billion, to the increase in SFIL's bond issuance-based refinancing.
Outstandings on this bond issuance program, which SFIL launched in 2016, totaled EUR 4.9 billion at the end of 2018.

Internal control and preparation and processing of accounting and financial information

1. Overall internal control system

1.1 – RESPONSIBILITIES AND OVERALL ARCHITECTURE OF INTERNAL CONTROL

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

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

The objectives and organization of the SFIL Group's internal control system comply with the provisions of the French Monetary and Financial Code and the *arrêté* of November 3, 2014. These texts require that an internal control system be put in place to ensure the existence of the following control mechanisms:
- a control system for transactions and internal procedures;
- an accounting and data processing system;
- systems to measure risks and results;
- systems to monitor and control risks;
- a system for documentation and information;
- a mechanism for monitoring cash and securities flows.

This internal control system is a process applied by SFIL's General Management and all of its employees, at the initiative of its Board of Directors. The organization is designed to provide reasonable but not absolute assurance with regard to the achievement of the objectives that the SFIL Group has set in terms of performance, profitability and protection of its financial assets. This is notably the case as regards carrying out the four key responsibilities with which its shareholders have entrusted it.

The SFIL Group's internal control system has the following objectives:
- verifying the efficiency of the risk control system to ensure that risks are in line with the risk appetite defined by the Group's governing bodies;
- ensuring that the accounting and financial data produced is reliable and relevant in order to give a true and fair view of the SFIL Group's situation in a regular, comprehensive and transparent manner;
- overseeing the SFIL Group's compliance with the regulations and rules governing ethical and professional conduct, particularly with its legislative and regulatory obligations with regard to corporate governance and compliance;
- making sure that the SFIL Group's processes are effective and efficient, in order to ensure the correct execution of its transactions and the optimization of its resources.

Pursuant to the *arrêté* of November 3, 2014, the general architecture of the SFIL Group's internal control system consists of three levels that enable it to achieve its assigned objectives:
- the first level of control takes place in the operating teams;
- the second level corresponds to the permanent control activities carried out under the responsibility of the Operational Risks and Permanent Control division or, for compliance risks, the Compliance division;
- the third level of control is periodic control, carried out by an independent team, the Internal Audit and Inspection division. Reporting to SFIL's Chief Executive Officer, the objective of this team is to periodically check that the two control levels mentioned above are applied correctly.

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

A computer system enables the Operational Risk and Permanent Control and Internal Audit divisions to monitor risks, controls, recommendations and action plans. A project is currently underway to equip SFIL with a new tool in 2019.

The managers of the internal control functions report to General Management and to the appropriate Board committee (the Risks and Internal Control Committee). At their request, they can be heard by this committee and by the Board. They can directly approach the Board or the appropriate Board committee if they consider that an event having a significant impact must be submitted to them.

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

1.2 – SUPERVISORY BODY AND ACCOUNTABLE OFFICERS

The Risks and Internal Control Committee, composed of members of SFIL's Board of Directors, is responsible, pursuant to the French Commercial Code (*Code de commerce*) and the *arrêté* of November 3, 2014, for ensuring the effectiveness of internal control and risk management systems, for giving an assessment of the quality of internal control, in particular the consistency of risk measurement, monitoring and control systems, and for suggesting, if need be, any additional action. This committee is also responsible for monitoring SFIL's permanent control, compliance and periodic control system. It likewise examines, with the Company's Statutory Auditors, any risks weighing on their independence.
SFIL's Chief Executive Officer and Deputy Chief Executive Officer, as accountable officers under current banking regulations, guarantee the efficient operation of SFIL's internal control system. They allocate the resources required to carry out the missions of the different divisions in charge of control, verify that the objectives are attained and that the internal control system is adapted to the regulations and SFIL's

activities. To this end, they regularly receive activity reports and the results of the controls carried out in terms of permanent control, compliance and periodic control. Furthermore, these reports are presented and discussed at meetings of SFIL's Operational Risks and Permanent Control Committee and Executive Committee. The issues raised are the subject of proposed actions and decisions in order to ensure continuous improvement of the internal control system.

1.3 – FIRST LEVEL OF CONTROL: OPERATING UNIT CONTROLS

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

1.4 – SECOND LEVEL OF CONTROL: PERMANENT CONTROL EXCLUDING COMPLIANCE

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

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

They are managed by the Operational Risks and Permanent Control division in such a way as to maintain synergies with the operational risk management, IT systems security and business continuity systems. This system relies on a network of correspondents within the operating divisions, who are responsible for the execution and monitoring of certain controls, on process owners, who are responsible for ensuring the internal control system's effectiveness and robustness at all times for their scope, and on the Operational Risks and Permanent Control division, which steers the system and carries out a number of second-level controls.

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

Via the presentation of the quarterly risk review to the Risks and Internal Control Committee, the Board of Directors is also informed of the permanent control results and the follow-up of the action plans. In addition, a detailed presentation of the permanent control plan, areas to monitor closely and corrective actions implemented or to be implemented within the framework of the permanent control system is also given annually at a specific internal control committee meeting. This presentation was made to the Risks and Internal Control Committee on January 24, 2019.

1.4.2. Permanent control system excluding compliance

The management principles governing permanent control, excluding compliance, are described in the management policy for operational risks and permanent control. Permanent control is based on a control plan covering SFIL and CAFFIL's various business activities. These controls are determined in liaison with the operating divisions and are reviewed every year in order to adapt them to the SFIL Group's situation, by integrating:

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

Thus, this ongoing improvement effort makes it possible to develop the control plan by adapting it to the existing controls and if necessary adding new controls and/or removing redundant ones.

The Operational Risks and Permanent Control division and its correspondents carry out or evaluate controls within their scope as often as required based on the criticality of the underlying risks. This evaluation takes the form of a commentary and supporting documentation. The results of the controls conducted or evaluated by the correspondents are reviewed by the Operational Risks and Permanent Control division, which has the option of validating the control or not, on a case-by-case basis, particularly if the documentation is deemed insufficient. In the event the control results are unsatisfactory, action plans are systematically put in place to improve the result for subsequent periods.

As of December 31, 2018, 132 permanent controls were in place. The frequency of these permanent controls is determined with reference to the criticality of the underlying risks.

1.5 – SECOND LEVEL OF CONTROL: COMPLIANCE CONTROL

1.5.1. Organization and governance of the compliance control system

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

Pursuant to article 29 of the *arrêté*, SFIL's Compliance division is autonomous, independent of all operating units and particularly of any commercial activity. The Compliance division reports to the General Secretary, who is a member of SFIL's Executive Committee and has been designated as the compliance contact for the ACPR. Reporting directly to the Chief Executive Officer, the General Secretary has direct and independent access to SFIL's Risks and Internal Control Committee and the Board of Directors. The General Secretary also acts as the TRACFIN correspondent in connection with the Bank's anti-money laundering and financing of terrorism obligations.

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

Lastly, a detailed presentation and annual activity report are submitted annually to a meeting of the Risks and Internal Control Committee dedicated to hearing the officers of the Risks, Compliance, and Periodic Control divisions, not attended by General Management. For 2018, this presentation was made at the Risks and Internal Control Committee meeting of January 24, 2019.

1.5.2. Compliance control system

To ensure the effectiveness of SFIL's and CAFFIL's compliance risk management system, the Compliance division uses a compliance control plan to manage compliance risks.

The Compliance division implements and documents compliance controls in accordance with the control plan approved by the Executive Committee and the Risks and Internal Control Committee at the start of the year. Dysfunctions or non-compliance identified as part of the performance of the control plan are systematically the subject of specific action plans sent to the divisions in charge of implementing remediation actions. The Compliance division monitors overall progress on these action plans.

The Compliance division endeavors to make all changes necessary to the mapping of compliance risks and the resulting control plan in order to take into account changes in SFIL's activity and those arising from the entry into force of new regulations. The methodology for rating "gross" and "net" compliance risks is identical to the internal audit methodology. The updated compliance risk mapping and control plan are submitted every January for approval by the Risks and Internal Control Committee. The 2019 compliance risk mapping and control plan were presented to and approved by the Risks and Internal Control Committee on January 24, 2019.
As of December 31, 2018, 23 second-level compliance controls were in place. They are carried out at a frequency defined based on their criticality.
The compliance control scope does not extend to the control of compliance with rules outside the banking and financial sphere (labor and social security law, regulations regarding personal and property safety, etc.), which other divisions are responsible for monitoring.

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

1.6 – THIRD LEVEL OF CONTROL: PERIODIC CONTROL

1.6.1. Organization and governance of the periodic control system

Periodic control within the meaning of the *arrêté* of November 3, 2014 is carried out by the Internal Audit and Inspection division. This division's scope of intervention covers all SFIL Group activities, operational processes and systems with no reservations or exceptions, including outsourced essential activities and anti-fraud procedures.
The independence and effectiveness of the internal audit and inspection function are guaranteed by:
- the fact that its head is the General Auditor who reports to SFIL's Chief Executive Officer;
- the absence of involvement in the operating management of SFIL's activities;
- unconditional, immediate access to all information, documents, premises, systems and people, as its activities require;
- the resources made available by management to carry out these missions;
- compliance by the division's staff with the principles of integrity, objectivity, confidentiality and competence (through a permanent training plan on audit techniques and regulatory developments).

These principles are reflected in the internal audit charter and the inspection charter approved by the Risks and Internal Control Committee and distributed to all SFIL employees to remind them of the rights and duties of auditors and auditees.
As of January 1, 2019, the Internal Audit and Inspection division had nine staff (plus two alternates), including six auditors and audit managers. The General Auditor supervises all audit activities and reports issued by the division. She is assisted by a Supervisor, who is in charge of the team of auditors and oversees the audit missions carried out by the auditors under the responsibility of the audit managers. In addition, auditors and audit managers are each responsible for a specific field, with duties covering continuous documentation updating, risk monitoring and the following up of recommendations for implementation by SFIL's operating divisions.

1.6.2. Internal Audit and Inspection division activities

The Internal Audit and Inspection division's activities are described in a regularly updated internal audit manual that is based on the IFACI[1] reference framework of professional internal audit practices. Furthermore, internal audit activities have been mapped in the process dedicated to major risks management as part of the structuring and transversal mapping project of the SFIL Group's activities. As an extension of this mapping, indicators have been reviewed in order to regularly monitor the effectiveness and performance of Internal Audit and Inspection division activities. Optimization tracks have also been identified and will be implemented in 2019.

In line with the recommendations of the Institute of Internal Auditors, the Internal Audit and Inspection division has adopted a top down approach for the annual risk assessment based on the identification of SFIL's objectives followed by a study of risks critical to the success of those objectives.

An annual risk assessment was carried out in the second half of 2018, giving rise to an update of the mapping of SFIL's major risks. This mapping was compared to that of 2017. The results of this update and the aim of covering all the SFIL Group's activities on a three-year cycle form the basis for the 2019 and multi-year audit and inspection plan proposed by the Internal Audit and Inspection division. This plan was approved by the Risks and Internal Control Committee on January 24, 2019. The risk mapping is also presented to the Board of Directors every year.

SFIL's multi-year audit plan, which is reviewed every year, is broken down into audit missions that are conducted throughout the year on the basis of a pre-established schedule and budget, dependent on audit resources. These various missions include four main stages (preparation, accomplishment, conclusion and finalization). The audit methodology, which is based on IFACI methods, was reviewed in terms of operating efficiency and in particular to focus on the significant risks identified within the audited scope. Audit missions are carried out using this methodology, which is described in a regularly updated Company internal audit methodological manual. The audit missions are summarized in a report that is presented to the Executive Committee, which compares a general assessment of the mission's theme with an evaluation of residual risks, enabling the Executive Committee to validate their appropriateness to SFIL's risk profile and make recommendations to improve the effectiveness of the processes and internal controls.

In 2018, the internal audit missions focused on themes relating to:
- The SFIL Group's core business (management of export credit operations):
- Key operational processes (SFIL and CAFFIL bond issues and management of critical activities following the IT simplification program):
- Support processes (regulatory reporting, recruitments, external and internal communication, archiving practices and management of outsourced physical and digital archiving services):
- Risk monitoring and internal models (annual and global risk assessment of the internal credit models and management of local government entity credit risk – calculation of limits and level of consumption, internal process for assessing liquidity adequacy and internal "market" validation function).

The annual audit plan must be implemented from February 1 of the reference year to January 31 of the following year. For 2018, the implementation rate of the audit plan at the end of this period was 91%. This rate is higher than the 80% target initially set. All outstanding missions as of January 31 were completed by March 2019. The findings of each of these missions, as well as the recommendations made, have been submitted to the Executive Committee for discussion and decision, as well as to the Risks and Internal Control Committee.

Follow-up on recommendations made after the missions conducted by the Internal Audit and Inspection division, regulatory authorities or Statutory Auditors, as applicable, is carried out in a continuous and automated process to monitor the deployment of action plans resulting from these recommendations. Responsibility for the appropriate implementation of the recommendations lies with the identified managers. The follow-up of this implementation is the responsibility of the auditors and audit managers, based on their area of competence. The validation of the progress status or completion of these action plans is the responsibility of the Supervisor and the General Auditor. All of these recommendations prompted continuous monitoring in 2018 and official reports based on their status as of May 31 and October 31, 2018, as well as presentations to the Executive Committee (in July 2018 and January 2019) and the Risks and Internal Control Committee on September 4, 2018, and January 24, 2019.

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

In addition, under the supervision of the Chairman of the Financial Statements Committee and the Risks and Internal Control Committee, the Internal Audit and Inspection division handles the organization of all the meetings of these committees. It oversees compliance with the timely transmission and communication of information and files required for meetings and decision-making. It monitors the annual program of works set out by the chairmen of these committees. It also drafts the minutes of each of their meetings in close cooperation with the relevant chairman. Furthermore, it is responsible for the safe storage of discussion minutes. In 2018, it organized five meetings for the Risks and Internal Control Committee and four for the Financial Statements Committee.

Lastly, the Internal Audit and Inspection division is also in charge of inspection at the SFIL Group. The purpose of this function is to play a role in fraud prevention, detection and investigation, and to propose corrective measures in the event of dysfunctions. This unit may also respond, in support of SFIL's legal departments, to particular requests from its Legal division to provide information and facts that may serve the Company's interests. SFIL's General Management may also call upon the inspection function to carry out missions or address specific issues. In 2018, inspection function controls focused on compliance with the rules governing the staff's use of SFIL's resources, on access to sensitive computer directories and on compliance with the expenses spread sheet employees and travel expenses.

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

1.6.3. Internal Audit and Inspection division activity reporting

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

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

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

Moreover, the internal audit charter and the charter of inspection activities are submitted for validation to the Risks and Internal Control Committee. The audit and inspection plan is also submitted annually to this committee for validation. This committee is informed regularly of the results of the follow-up of recommendations by internal audit, inspection, regulatory bodies and the Statutory Auditors, and of the progress made in related action plans. Regular divisional activity reports and reports on the results of completed audit missions are also presented for review. In addition, the annual report on SFIL's and CAFFIL's internal control system (articles 258 *et seq* of the *arrêté* of November 3, 2014) is presented every year for review. A summary of these various reports is presented to SFIL's Board of Directors by the Chairman of the Risks and Internal Control Committee.

2. Preparation and processing of accounting and financial information

2.1 – FINANCIAL STATEMENTS

The main purpose of a company's annual financial statements and all the financial data produced by the accounting department is to give a true and fair view of its assets, liabilities, financial position and results. The accounting section of the *arrêté* of November 3, 2014, on internal control stresses that the organization adopted should guarantee the existence of audit trail procedures, making it possible to establish a link between any accounting data and the original supporting documentation, and vice versa. All these items should make it possible to reconstitute, justify and explain any and all financial items produced for accounting or regulatory purposes. This principle dictates the organization of accounting practices in the SFIL Group and applies equally to SFIL and Caisse Française de Financement Local.

2018 was marked by two major changes for SFIL:

- The overhaul of a large part of SFIL's information system with the implementation of a new market transaction management tool, as well as the provision of a single data warehouse for all of the institution's activities;
- The effective implementation of the new IFRS 9 accounting standard applied in connection with the preparation of SFIL's consolidated financial statements and, on a voluntary basis, to publish IFRS-compliant financial statements for its subsidiary CAFFIL.

2.1.1. Role and organization of the Accounting division

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

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

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

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

2.1.2. Preparation of the annual and consolidated financial statements

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

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

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

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

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

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

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

2.1.3. Financial statements approval process

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

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

2.1.4. Publication of financial statements

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

2.1.5. Statutory Auditors' role

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

2.2 – MANAGEMENT INFORMATION

The financial statements (balance sheet, off-balance sheet, income statement, cash flow statement and notes) that SFIL communicates to its shareholders and the general public are complemented by quarterly activity reports prepared by its subsidiary Caisse Française de Financement Local. This management information also includes information on loans originated by La Banque Postale and acquired by Caisse Française de Financement Local, as well as on the reduction of the sensitivity of structured loans and on the export credit refinancing activity. Forecasts and risk assessments are also included in the annual financial report. This information is provided directly by the operating divisions or the Risks division. Their accuracy is therefore ensured by the internal control system of the divisions concerned.

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

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

Risk management

1. Overall risk management system

The SFIL Group has implemented a comprehensive risk management system aimed at (i) identifying, monitoring, managing and measuring risks using specific methodologies, (ii) deciding on limits to be implemented, (iii) deciding on delegations to assign to the front office teams, (iv) deciding on the amount of provisions required, and (v) informing the competent committees regarding changes in these risks and actively warning them in the event that a limit or alert threshold is exceeded.

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

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

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

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

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

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

2. SFIL Group key risks

The SFIL Group's risk profile is low:

- on the one hand, CAFFIL's balance sheet contains mostly public sector borrower exposures(1), and on the other hand all export credit loans on SFIL's balance sheet have a Bpifrance Assurance Export guarantee covering 100% of the loan principal;
- interest rate risk is also low given the Group's hedging policy, pursuant to which its fixed rate balance sheet items are systematically hedged by taking out new or canceling existing hedging instrument positions (interest rate derivatives);
- liquidity risk is, on the one hand, strictly managed using various internal liquidity stress tests, and on the other hand limited, as the Group mainly finances itself over the long term by issuing covered bonds – liquid instruments that offer investors a protective legal framework. Furthermore, the Group continues to diversify its sources of financing, SFIL having begun to issue on the market by positioning itself as a State agency. Lastly, the majority of its assets are eligible for refinancing with the Banque de France;
- foreign exchange risk is marginal, as foreign currency outstandings are systematically hedged as soon as they enter the balance sheet;
- operational risk is governed by protective procedures;
- the Group has no trading portfolio.

Following the supervisory review and evaluation process (SREP) conducted by the European Central Bank in 2018, SFIL's common equity tier 1 (CET1) capital requirement on a consolidated basis was set at 7.75% as of January 1, 2019. It consists of:

- 4.50% in respect of Pillar 1 common equity tier 1 capital, the level applicable to all institutions;
- 0.75% in respect of the Pillar 2 requirement (P2R), unchanged compared with last year following the 2018 SREP;
- 2.50% in respect of the conservation buffer, the level applicable to all institutions.

The tier 1 capital requirement, meanwhile, is set at 9.25%, and the total capital requirement at 11.25%.

As of July 1, 2019 (see decision of France's High Council for Financial Stability), the rate that all institutions must apply to their relevant credit exposures located in France will be 0.25%.

As of December 31, 2018, the SFIL Group's consolidated phased-in CET1 and total capital ratios were 25.1% and 25.9%, respectively, representing more than double the minimum required level set by the European supervisor.

As regards the minimum requirement for own funds and eligible liabilities (MREL), while the Single Resolution Board has not yet formally informed SFIL of its final requirement, the Group already comfortably complies with the minimum indicative level provided to it, which is lower than its equity.

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

2.1 – CREDIT RISK

2.1.1. Definition and management of credit risk

Credit risk represents the potential loss that may affect the SFIL Group owing to deterioration of a counterparty's solvency.
The Risks division defines the policies, guidelines and procedures relating to credit risk. It is responsible for developing the decision-making process (mainly as regards the granting of loans) and the delegation framework, and for supervising the analysis and internal rating process. The Risks Committee ultimately approves the credit risk policies.

Within the framework of its credit risk monitoring function, the Credit Risks division:
- defines the credit risk policies in accordance with SFIL and CAFFIL's risk appetite;
- defines the limits by counterparty type, setting the maximum exposure considered to be acceptable for a given counterparty;
- proactively monitors limits, with the possibility of reducing them at any time depending on changes in the related risks;
- defines delegations by counterparty type and monitors compliance with lending rules;
- manages the lending process for both new commitments and restructured loans by carrying out credit analyses and assigning internal ratings (by using either the internal rating systems or expert advice);
- monitors the credit risk of all SFIL and CAFFIL portfolios (local public sector in France, international, bank counterparties, export refinancing, etc.) by generating credit analyses and reviewing portfolio ratings annually;
- identifies assets with downgraded risks for potential addition to the watchlist;
- proposes specific or sector-based provisions for the portfolio.

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

2.1.2. Governance

Credit risks are governed via a number of specialized committees:
- The Credit Committee approves new commitments[1] by CAFFIL and SFIL (loans and market transactions) and restructured loans on CAFFIL's balance sheet. It sets credit limits when certain predefined thresholds are exceeded. Each file presented to the Credit Committee contains an independent analysis conducted by the Risks division. At each meeting, the Credit Committee is also informed of commitments made within the framework of delegations granted to the Risks division, the Customer Debt Management division, the Financial Markets division or the sales and marketing teams of La Banque Postale. This committee meets every week.
- The Watchlist Committee is in charge of monitoring assets kept under particular scrutiny because of an associated risk downgrade, and proposing specific provisions if necessary. This committee meets quarterly;
- The Non-Performing Exposures and Forbearance Committee decides whether a loan should enter or exit default status, and classes defaults as either actual or technical. It also approves the list of counterparties with non-performing exposures and that of counterparties experiencing financial difficulties and subject to related concessions. This committee meets quarterly;
- Every quarter, the Impairment Committee sets the amount of expected credit losses (ECLs) for each of the three Stages, in the case of Stage 3 based on the collection scenarios that the Watchlist Committee determines;
- The Rating Committee ensures the proper application of the internal rating systems and the appropriateness of the rating processes. This committee meets quarterly. Although it is an integral part of the credit risk management process, this committee is organized by the head of the Credit Model Validation and Quality Assurance team, who reports directly to the Chief Risk Officer so as to ensure the independence of the control process.

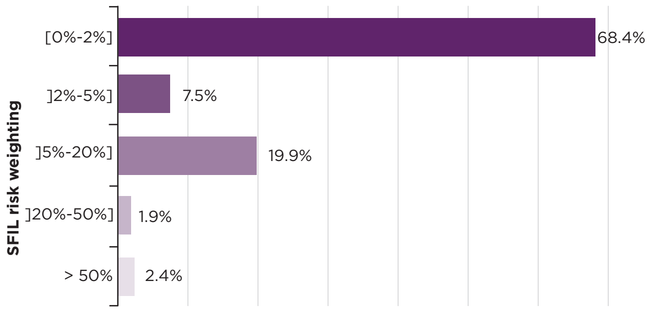
(1) *Not delegated to the Risk division, the Customer Debt Management division or the sales and marketing teams of La Banque Postale.*

2.1.3. Breakdown of exposures based on Basel III weightings

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

For most of its assets, the Group has opted for the advanced method of calculating regulatory capital requirements.
As of December 31, 2018, the breakdown of exposures by risk weighting (calculated on the basis of the counterparty's probability of default and the Group's loss given default) was as follows:

Basel III risk weightings of the SFIL Group's portfolio as of December 31, 2018 (consolidated basis)



The metric used is exposure at default (EAD)

This breakdown confirms the quality of the assets in SFIL's portfolio, for which the average weighting is 6.3% and of which only 4.3% has a weighting of more than 20%.
Weighted exposure with respect to credit risk amounts to EUR 4,713 million. Including weighted assets associated with the credit valuation adjustment (CVA) volatility risk and with operational risk (risk weighted assets associated with market risk are zero), total risk weighted assets came to EUR 5,471 million. Based on a non-phased-in CET1 level of EUR 1,358 million, SFIL had a fully loaded Basel III CET1 ratio of 24.8% as of December 31, 2018.

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

In November 2016, the European Commission published a proposal to amend Regulation 575/2013 of June 26, 2013 to provide for the introduction of a minimum leverage ratio requirement of 3%, as well as measures to recognize the specific nature of public development banks – including the possibility for these banks to exclude certain assets from their leveraged exposure.

These measures were confirmed and strengthened by the European Council and the European Parliament. SFIL will therefore benefit from specific, appropriate calculation rules for determining these ratios when these new requirements enter into force (two years after the text's definitive adoption and publication, which are expected in the first half of 2019).

Based on the methodological principles currently in force, as of December 31, 2018, SFIL's leverage ratio was 1.92% taking into account regulatory transitional provisions, and 1.90% using fully loaded Basel III criteria.

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

2.1.4. Arrears, non-performing loans and provisions

Total arrears amounted to EUR 66 million as of December 31, 2018. They fell by 2% compared with December 31, 2017 (EUR 67.5 million) and were concentrated on a few, exclusively French counterparties.

As a reminder, at the level of CAFFIL and pursuant to French accounting standards, non-performing and litigious loans amounted to EUR 384 million as of December 31, 2018, i.e. 0.7% of CAFFIL's cover pool, which attests to the portfolio's excellent quality. They fell by 31% compared with December 31, 2017 (EUR 558 million) and break down as follows:
- EUR 347 million of receivables classified as non-performing(1), corresponding to loans granted to customers whose total arrears came to EUR 28 million;
- EUR 37 million in receivables classified as litigious, corresponding to unpaid interest subject to ongoing legal proceedings.

Pursuant to IFRS accounting standards, and more specifically to the coming into force on January 1, 2018 of IFRS 9, all financial assets recognized at amortized cost and at fair value through other comprehensive income, as well as financing commitments, must be classified into three impairment stages and provisioned for expected credit losses:
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.

(1) A loan is considered as non-performing when it presents one of the following characteristics:
• a probable or certain risk that it will not be repaid (unpaid for more than nine months for local government borrowers, and for more than three months for other counterparties);
• the existence of a known counterparty risk (worsening of financial situation, alert procedure).
When a customer is classified in default in terms of credit risk the outstanding amount of all its loans is automatically classified as non-performing, in addition to its existing past dues.
A receivable is considered to be litigious when it is unpaid and is the subject of legal proceedings.

Stage 3 outstandings correspond mainly to customers:
- with an outstanding unpaid for more than 90 days;
- that were in a situation of real (i.e. non-technical) default and for which outstandings unpaid for more than 90 days were settled. After all unpaid outstandings have been settled, they are kept at Stage 3 for a minimum period of one year, known as the "probation period";
- whose financial situation is such that, even in the absence of an unpaid outstanding, it is possible to conclude that there is a known risk (unlikely to pay).

The definition of credit impairment (Stage 3) under IFRS accounting standards thus covers a wider scope than the concept of non-performing and litigious loans under French accounting standards and is very close to the regulatory concept of non-performing exposures (NPE), which, in addition to Stage 3 assets, includes non-performing assets that are recognized at fair value through profit or loss (i.e. non-performing assets not classified as solely payment of principal and interest (SPPI)).

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

The value of these assets and the related provisions are presented in the table below:

	IFRS net carrying amout		Impairments	
EUR millions	1/1/2018	12/31/2018	1/1/2018	12/31/2018
Stage 1	46,332	48,551	7	6
Stage 2	5,441	6,294	39	46
Stage 3	1,518	1,096	11	10
TOTAL SPPI ASSETS	**53,291**	**55,941**	**57**	**62**
Non-performing exposures	1,601	1,454		

As of December 31, 2018, IFRS provisions for expected credit losses amounted to EUR 62 million and were broadly unchanged from January 1, 2018, as calculated under the first-time application of IFRS 9.

In 2018, the positive impact of the structured loan sensitivity reduction policy was reflected in the significant and simultaneous decrease in arrears and in non-performing and litigious loan outstandings under French accounting standards, and in Stage 3 outstandings under IFRS accounting standards.

2.2 – MARKET RISK

2.2.1. Definition and scope of market risk

Market risk is defined as the risk of loss, whether recognized on the income statement or directly through equity, that may result from fluctuations in the price of the financial instruments that make up a specific portfolio. Regulatory market risk involves daily monitoring of the portfolio's risk and result indicators if the transactions that make up that portfolio are entered into for trading purposes. Changes in the value of trading portfolios directly impact the income statement.
As a public development bank, the SFIL Group is not intended to carry out transactions for trading purposes and is therefore not subject to market risk in the regulatory sense of the term.

On a consolidated basis, all swaps are carried out for hedging purposes. Furthermore, as a *société de crédit foncier*, CAFFIL cannot hold a trading or investment portfolio and is therefore not exposed to regulatory market risk.

SFIL's and CAFFIL's banking portfolio positions and activities that pose a risk to their accounting income or equity as a result of exposure to market volatility are monitored as non-regulatory market risks.
These risks are mainly:
- risks arising from fluctuations in the valuation of financial assets recognized at fair value through profit or loss or through other comprehensive income;
- risks associated with a very limited portfolio of swaps, covering loans to customers for which actual defaults have been observed that interrupted the hedging relationship as defined under IFRS accounting standards;
- risks arising from the export credit activity (monitoring of the value changes of the indicator specific to export credit and, for USD-denominated loans, the change in the valuation of currency swaps hedging this activity);
- changes in accounting valuation adjustments on derivatives, such as credit valuation adjustments (CVA) and debit valuation adjustments (DVA), recognized in profit or loss in accordance with IFRS;
- the provision for investment securities within the meaning of French accounting standards;
- risks that may materialize at the level of SFIL's individual financial statements, in connection with its derivatives intermediation activity carried out on behalf of CAFFIL, if the derivatives that SFIL enters into with external counterparties are not fully matched at the level of CAFFIL.

2.2.2. Governance and monitoring of market risk

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

The continuous monitoring of non-regulatory market risks is carried out by SFIL's Market and Balance Sheet Risks division, which is mainly responsible for:
- defining policies, guidelines and procedures related to the monitoring of market risks;
- defining limits;
- defining calculation and measurement methods for these risks;
- certifying the valuation of derivatives for recognition in the accounts;
- carrying out daily controls of margin calls on derivatives (cash collateral);
- valuing balance sheet items (assets and liabilities);
- monitoring the valuation of currency swaps entered into to hedge USD-denominated export credit loans not yet recognized under hedge accounting;
- monitoring the valuation of swaps that can no longer be classified under hedge accounting following the default of certain customers.

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

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

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

2.3 – BALANCE SHEET RISK

2.3.1. Governance

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

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

2.3.2. Liquidity risk

Liquidity risk is defined as the risk that the institution may not be able to find the necessary liquidity on a timely basis and at a reasonable cost to cover the financing needs related to its activity.
The SFIL group's activity is mainly focused on the management of its subsidiary *société de crédit foncier*, CAFFIL.
CAFFIL's liquidity risk mainly reflects how able it is to reimburse certain debts benefiting from the legal privilege on a timely basis in the event of an excessive lag between the repayment of its assets and that of its debt benefiting from the legal privilege. It relates to the fact that SFIL is responsible for most of the funding requirement associated with CAFFIL's over-collateralization.
Regarding SFIL, liquidity risk lies in its ability to deploy sufficient resources to meet all the Group's cash requirements, either by renewing expiring market and/or shareholder refinancing or by obtaining new market and/or shareholder refinancing.

The Group's liquidity requirements are mainly of three types:
- the financing of balance sheet assets (EUR 46.7 billion in loans and EUR 9.5 billion in securities);

- the financing of liquidity requirements in connection with compliance with regulatory ratios;
- the financing of cash collateral paid on SFIL's derivatives (EUR 2.2 billion).

As of 31 December 2018, the sources of financing used other than the entity's equity were as follows:
- debt benefiting from the legal privilege, i.e. the *obligations foncières* that CAFFIL issues (EUR 50.3 billion) and the cash collateral that it receives (EUR 0.5 billion);
- the financing provided by shareholders CDC and LBP the under the credit agreements implemented between them and SFIL in 2013 (EUR 1.9 billion);
- the negotiable debt securities issued by SFIL (EUR 5.5 billion).

Furthermore, the SFIL Group has a number of assets held by CAFFIL or SFIL and eligible for the European Central Bank's refinancing operations. These securities can be made available for ECB refinancing operations via the Banque de France. In addition to accessing central bank financing in its own name, CAFFIL can refinance certain of its assets by using interbank financing in the form of repurchase agreements. There were no transactions of this type in 2018. Since the first half of 2017, SFIL has had the additional role of refinancing export credit transactions, for which CAFFIL provides it with liquidity by issuing *obligations foncières*.

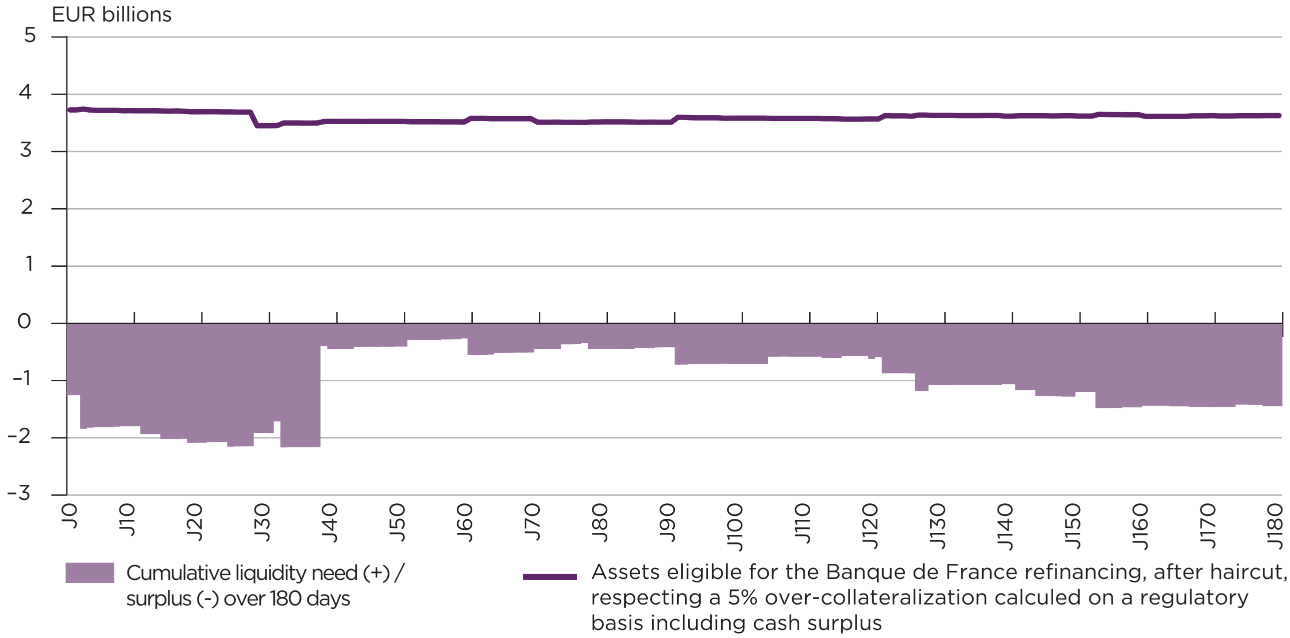
To control their liquidity risk, SFIL and CAFFIL mainly rely on static, dynamic and stressed liquidity projections to ensure that the liquidity reserves they have in the short and long term will enable them to meet their commitments.
The Group's liquidity risk is also subject to compliance with regulatory liquidity ratios and internal liquidity indicators.
It should be noted that as a *société de crédit foncier* (SCF), CAFFIL must comply with specific regulatory indicators.

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

- Regulatory indicators specific to SCFs:
  - the regulatory coverage ratio (or over-collateralization ratio): this represents the ratio between assets and liabilities benefiting from the legal privilege under the law on SCFs, and must be at least 105%;
  - forecast cash needs at 180 days: CAFFIL ensures that, at all times, its cash needs over a period of 180 days are covered by replacement assets and ECB-eligible assets;
  - the maximum gap of 1.5 years between the average maturity of debt benefiting from the legal privilege and that of assets eligible to make up the minimum amount necessary to meet the regulatory coverage ratio.

- Regulatory liquidity indicators applicable to credit institutions:
  - in particular the liquidity coverage ratio (LCR): as of December 31, 2018, CAFFIL's LCR was 603% and SFIL's 422%.

Coverage of liquidity needs over 180 days:



Gap between the average maturity of assets and liabilities: 0.31 years.

- Internal liquidity indicators:
  - the management coverage ratio (or over-collateralization ratio), which targets an over-collateralization level consistent with CAFFIL's target rating;
  - the duration gap between assets and debt benefiting from the legal privilege (limited to three years): this is published quarterly. As of December 31, 2018, it stood at 0.26 years;
  - an indicator that tracks the SFIL Group's unsecured funding maturities falling within a given year. Each year, the SFIL Group's unsecured resources must be greater than its unsecured requirements (over-collateralization of CAFFIL and financing of the collateral paid, mainly on derivatives);
  - the one-year survival horizon in stressed conditions;
  - the sensitivity of the net present value of the consolidated static liquidity gap adjusted for regulatory constraints (compliance with the LCR and the over-collateralization ratio);
  - the consumption of the EUR/USD spread and basis risk appetite by the various maturities of export credit loans.

Lastly, the SFIL Group regularly carries out dynamic liquidity forecasts (taking into account new asset and refinancing assumptions) under normal and stressed conditions. Under normal conditions, these forecasts aim to define the amounts and maturities of the various sources of financing that may be raised by each entity (issuance of *obligations foncières* for CAFFIL and, for SFIL, of negotiable debt securities or EMTN, or drawing down of shareholder liquidity lines). Under stressed conditions, these forecasts aim to assess the Group's capacity to withstand a liquidity shock.

2.3.3. Interest rate risk

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

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

These risks are generally hedged using derivatives.

To limit the impact of these risks, CAFFIL has implemented a two-staged hedging strategy:
- in the first stage, all the assets and liabilities benefiting from the legal privilege which did not have a variable rate are hedged against Euribor until maturity as soon as they are recorded on the balance sheet. In practice, acquisitions of loan portfolios (of which the unit value is generally small) are usually macro-hedged. Loans granted individually or bond issues may be micro- or macro-hedged. Assets and liabilities are usually hedged by entering into interest rate swaps, but the same effect can also be obtained, whenever possible, by canceling swaps of opposite direction.
- in the second stage, Euribor lending and borrowing flows (scheduled or post- hedging) are swapped against Eonia over a maximum two-year period to protect income from the basis risk generated by differences in tenor (Euribor 1, 3, 6, or 12 months) and the fixing risk arising from reference index refixing dates that differ for assets and liabilities. The residual risk is managed using macro-hedges, with a one-week management horizon.

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

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

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

The sensitivity of the residual fixed rate and subsequently fixed variable rate positions remaining after hedging by CAFFIL is monitored every month. It is subject to limits designed to reduce the impact on the value of balance sheet items in the event of yield curve parallel shifts, steepening or rotation. These limits have been calibrated to restrict capital loss to 6% (EUR 80 million) with a 99% quantile calculated based on ten-year historical data.

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

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

These indicators are calculated from a static viewpoint.

The main risks identified and associated with a low interest rate environment are:
- exposure to a rapid normalization of rates;
- an increase in early repayments not offset by early repayment penalties;
- margin reduction.

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

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

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

2.3.4. Foreign exchange risk

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

Issues and assets denominated in foreign currencies give rise, at the latest when they are recognized on the balance sheet and until their final maturity, to a cross-currency swap against the euro, thereby ensuring perfect currency hedging of these balance sheet items' nominal and interest rates. The adjustable rate exposures resulting from this management are covered by interest rate risk management. For operational reasons, SFIL continues to incur marginal foreign exchange risk affecting the share of margin of USD-denominated export credit transactions not paid on to CAFFIL. Certain loans to refinance large export credits denominated in USD may also result in very limited foreign exchange risk during their drawing phase. This residual risk is managed by setting a very low sensitivity limit.

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

2.4 – OPERATIONAL RISK

2.4.1. Definition

In accordance with section 1 of article 4 of the above-mentioned Regulation (EU) No. 575/2013, the *arrêté* of November 3, 2014 defines operational risk as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and including legal risk". Operational risk includes, in particular, risks related to events with a low probability of occurrence but a high impact, the internal and external fraud risks defined in article 324 of the above-mentioned Regulation (EU) No. 575/2013, and model risks.
Management procedures for operational risks apply to all SFIL's divisions, activities and processes.

2.4.2. Organization and governance

SFIL has implemented an organization, procedures and a management system for monitoring and controlling its operational risks.
The Operational Risks and Permanent Control division, within the Risks division, draws up the management policy to be used for operational risks, excluding compliance risk, as well as the methods employed to identify and control them. It implements the operational risk management system and relies on a network of designated correspondents in each operating division. The correspondents' role is to collect operating incident data, assess risks and measure key risk indicators with the help of the staff of the Operational Risks and Permanent Control division.
The involvement of operating division managers strengthens the system's effectiveness, of which they are the primary guarantors.
The Operational Risks and Permanent Control Committee, chaired by the Deputy Chief Executive Officer, brings together all members of the Executive Committee every quarter. It validates the operational risk management policy and methods (excluding compliance), examines operating incidents that have occurred in the quarter and monitors risk prevention and system improvement proposals (permanent control, operational risk management, IT security, business continuity, etc.). It also examines the operational risks identified and key risk indicators that have exceeded their alert threshold. It decides whether or not they are acceptable and, where appropriate, what corrective measures should be taken.
A summary of significant operational risk developments is presented quarterly to SFIL's Risks and Internal Control Committee and to the Supervisory Board of the Caisse Française de Financement Local, through the quarterly risk review. Moreover, a detailed presentation of action points, areas for improvement and corrective measures proposed or already implemented to limit operational risk is also given annually at a specific Internal Control Committee meeting. The presentation for 2018 was made to the Risks and Internal Control Committee on January 24, 2019.
The Compliance division is responsible for the policy and supervision of the compliance and reputation risk management system (see overall internal control system).

2.4.3. SFIL operational risk policy (excluding compliance risk)

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

SFIL's policy for measuring and managing operational risks consists of regularly identifying and assessing its risk exposure and the existing mitigation and control systems to check whether the level of residual risk is acceptable.
The policy applied involves three main processes: the collection and reporting of operational incidents, the mapping of operational risks and the monitoring of key operational risk indicators. This system is rounded out by an IT security pol-

icy, an emergency and business continuity plan (PUPA) and, where necessary, insurance policies to cover specific risks.

2.4.4. Risk measurement and management (excluding compliance risk)

Collection of operational incidents

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

Various collection thresholds have been defined and communicated to SFIL's operating divisions. The mandatory reporting threshold for financial impacts has been set at EUR 2,500. Responsibility for identifying and analyzing incidents lies with the operational risk correspondents, supported by the Operational Risks and Permanent Control division. To this end, the SFIL Group uses a dedicated operational risk management tool and, in particular, an incident collection module. Depending on the results of the incident analysis, preventive or corrective actions are taken in order to reduce SFIL's exposure to operational risk.

Operational risk identification and assessment

Based on the incidents and losses collected, operational risks are mapped and the resulting mapping is regularly updated. This mapping consists of assessing the risks that each SFIL operating division incurs. In addition, SFIL is currently mapping its operational risks by process under a three-year plan to formalize the Group's processes and activities, launched in the second half of 2016. It has defined four main types of activity (steering, asset acquisition, asset and liability management until maturity, and resource provision) and 39 major bank processes within these broad categories, 36 of which are subject to formalization. As part of this plan, the Operational Risks and Permanent Control division has introduced a new methodology for identifying and assessing operational risks by process. This is deployed as and when the SFIL Group's processes are formalized, in collaboration with the process manager and the operational risk correspondents of the divisions involved.
As of end-2018, operational risk mapping had been completed for 19 processes. This methodology makes it possible to identify and assess the various process-associated risks, identify factors (systems or controls in place) to mitigate them and determine the residual impacts in order to decide whether or not to accept them.
In the event of non-acceptance of the risks, corrective or improvement actions must be implemented (strengthening of systems and procedures, strengthening of the permanent control plan and implementation of systems for monitoring and controlling risks).
This new mapping of operational risks is being rolled out as SFIL's processes are formalized, and is gradually replacing the mapping of operational risks by division.

Monitoring of key operational risk indicators

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

Definition and monitoring of action plans

The process managers define the actions to correct significant incidents, deficient controls or notable operational risks identified. The Operational Risks and Permanent Control division regularly monitors these action plans. This process makes it possible to continuously improve the internal control system and reduce risks over time.

IT security management

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

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

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

Business continuity and crisis management

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

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

- the operational business continuity plan, which is managed by the Operational Risks and Permanent Control division and documented in guidelines and operational procedures. These plans and procedures are regularly updated and tested. Disaster recovery sites have been selected for the Issy-les-Moulineaux and Lyon offices to enable the resumption and operational continuation of SFIL's activities. A number of tests on the functioning of these sites were carried out in April, May and June 2018.

- the IT disaster recovery plan (PSI), which is managed by the Technology and Organization division and documented in guidelines and operational procedures. This plan is also regularly tested, with tests carried out in 2018 on the new market transactions management tool, the new data warehouse and the Oracle technology.

- the crisis management system, which is managed by the Operational Risks and Permanent Control division. This system is governed by a crisis management operational procedure. A crisis unit has been identified and regularly tested crisis scenarios have been defined. In particular, a transportation unavailability scenario associated with potential terrorist risk is tested three times a year. A crisis unit exercise, based on a specific scenario, was carried out in November 2018.

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

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

Security of means of payment
The means of payment managed by SFIL for its own activity, as Caisse Française de Financement Local's managing institution or as La Banque Postale's service provider are as follows:
- the SWIFT and TARGET 2 networks, to execute interbank payments related to transactions entered into by the front office operators of the Market Activities operating division or the Export Credit division, as well as any transfers requested by other SFIL divisions (mainly payment of invoices in foreign currencies);
- the SCBCM (ministerial budget and accounting control unit) network, used for disbursements and repayments on CAFFIL's loans to its public sector customers and for the services provided on behalf of La Banque Postale;
- the CORE (Compensation Retail) system, used for most payments to Caisse Française de Financement Local's customers with bank accounts and for payment of invoices in euros;
- lastly, certain supplier invoices may be settled by check.

SFIL does not provide its customers or those of CAFFIL with any means of payment.
Various procedures and systems are in place to ensure the security of means of payment, including payment processes under the responsibility of the back offices, segregation of duties, clearly defined rules for validating individual payments, secure message management, the business continuity plan and specific compliance controls. SFIL and Caisse Française de Financement Local also responded to the SWIFT and TARGET 2 self-certification requests in accordance with the requirements issued by these organizations, reflecting the Group's unerring commitment to increasing the level of security associated with means of payment.

2.5 – COMPLIANCE RISKS

2.5.1. Definition

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

2.5.2. Organization and governance

The compliance system deployed at SFIL aims to reduce the risk of non-compliance with laws, regulations and internal procedures relating to employee ethics and the prevention of conflicts of interest, the compensation policy, the maintenance of data confidentiality and protection of personal data, the protection of the integrity and transparency of financial markets, the protection of customers' interests, financial security including compliance with financial sanctions and asset freezing measures, and the fight against money laundering, financing of terrorism and corruption.

The system is based on a shared responsibility between the operating divisions and the Compliance division: the operating divisions must integrate into their day-to-day actions compliance with laws and regulations, rules of good professional conduct and the SFIL Group's internal rules. The Compliance division is tasked with two main roles: (i) advising and assisting the business lines so that they can perform their tasks in accordance with their professional and regulatory obligations and the SFIL Group's commitments; and (ii) monitoring and assessing the adequacy and effectiveness of the compliance risk control and management system.

The Compliance division is placed under the authority of the General Secretary who, in her capacity as Head of Compliance and member of the Executive Committee, is in turn placed under the direct authority of SFIL's Chief Executive Officer. The Legal division, the Administration division and the Communications division also report to the General Secretariat, and provide active support to the Compliance division within the scope of their respective responsibilities. The General Secretary is responsible for relations with the supervisory authorities regarding compliance issues. SFIL's Compliance division is independent of all of its operational units and, in particular, any commercial activity.

More specifically, the Compliance division's work involves the following main tasks:
- Defining and implementing the standards framework, i.e. policies and procedures falling within its area of expertise, and adapting and operationally implementing these policies and procedures for areas under its functional responsibility;
- Drawing up procedures aimed at ensuring compliance with the laws and regulations applicable to banking activities, for compliance issues;
- Drawing up and implementing a compliance training plan;
- Analyzing projects to create or modify products or services and issuing compliance opinions, and, more generally, working on cross-functional projects with compliance implications and advising the other divisions;

- Anticipating and helping to apply regulatory changes;
- Carrying out divisional transformation and efficiency projects, particularly upgrading systems in cooperation with the Technology and Organization division;
- Monitoring compliance risks by producing half-yearly reports presenting highlights, points for attention and control results;
- Mapping compliance risks and drawing up and implementing a compliance control plan;
- Proposing action plans and/or remediating identified non-conformities;
- Reporting to General Management, in collaboration with the Risks division and the General Secretariat's Administration division, and monitoring relations with banking supervisors for compliance issues.

The compliance system's effectiveness is controlled at the highest level of the SFIL Group:
- SFIL's Board of Directors carries out a half-yearly review of the mechanisms for preventing and controlling compliance risks and the General Secretary reports twice a year to the Risks and Internal Control Committee.
- In her capacity as member of the Executive Committee, the General Secretary is informed of projects that are subject to an Executive Committee decision and, on such occasions, may express the compliance function's opinion and report any dysfunctions observed.

2.5.3. Implementation of the compliance system

In 2018, the Compliance division continued its actions to improve its organization, digital systems and processes, with the aim of increasing its efficiency in order to comply with regulatory changes and the supervisory authorities' expectations and, in general, to establish a compliance culture in all the Bank's business processes. It accordingly contributed to the project to formalize the Bank's activities and processes. It also carried out certain tasks and initiatives aimed at strengthening the system's governance and compliance risk control to take into account regulatory changes. The projects it pursued in this area were:
- Adapting the general AML/CTF procedure to the latest regulatory developments, particularly those arising from the implementing decree of April 18, 2018 on the fourth directive's transposition ordinance designed to strengthen the French anti-money laundering and financing of terrorism system;
- Compliance with the GDPR with regard to personal data protection.

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

Lastly, it continued to provide support and advice to the Bank's General Management and business lines in order to manage as early as possible any compliance issues or obligations.

2.6 – LEGAL AND TAX RISKS

2.6.1. Legal risk

SFIL's monitoring of legal risks focuses on preventing lawsuits, preparing for legal changes and complying with governance principles. The Legal division, which is part of the General Secretariat, has specific responsibility for managing these risks. It accordingly plays a dual role: (i) providing the Bank's various divisions with advice enabling them to measure the risks inherent in their activities, and (ii) defending the interests of SFIL and Caisse Française de Financement Local.

Furthermore, the Legal division contributes to the work of the Bank's various committees:
- Within the framework of the Regulatory Watch Committee, it disseminates principle positions on legal and regulatory provisions that affect the Bank's operations;
- Within the framework of the New Products Committee, it issues an opinion, as necessary, on the subjects discussed;
- Within the framework of the Credit Committee, it analyzes the legal risks associated with the subjects discussed;
- Within the framework of the Loan Sensitivity Reduction Committee, it reviews the cases in litigation and the progress of proceedings.

It also gives its opinion whenever a loan sensitivity reduction operation involves a legal risk.

The Legal division may also participate in discussions within the framework of audit and internal control operations.
SFIL's General Management, Executive Committee, Board of Directors and the Supervisory Board of Caisse Française de Financement Local receive regular updates on the progress of litigation. A sensitive loan litigation management report is presented at each Board meeting.

As regards lawsuit developments, the number of borrowers in litigation for structured loans was 18 as of December 31, 2018, compared with 25 as of December 31, 2017, 39 as of December 31, 2016 and 131 as of December 31, 2015. Since SFIL's creation 205 borrowers have dropped their claims against the Group.

A highlight in 2018 was a Court of Cassation ruling in March 28, 2018 confirming the validity of the structured loans carried on CAFFIL's balance sheet.

Since the entry into force in July 30, 2014 of the law on the securing of structured loan contracts taken out by common law legal entities, 39 court decisions on the merits (27 first instance judgments, 10 appeal judgments and 2 cassation judgments) have confirmed the validity of these loan agreements.

By contrast, CAFFIL has been convicted under two procedures that are still ongoing.

As of December 31, 2018, to the best of SFIL's knowledge, there were no other governmental, legal or arbitration proceedings against SFIL or CAFFIL that could have a material impact on the SFIL Group's financial position.

2.6.2. Tax risk

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

For the record, in 2015, French tax authorities undertook a tax audit on the corporate income tax paid by CAFFIL, SFIL's subsidiary, in respect of fiscal years 2012 and 2013. Following the tax assessment, the tax authorities expressed their disagreement with the tax treatment in Ireland of the results of

the former Dublin branch of Dexia Municipal Agency (CAFFIL's former name), which closed in 2013, and, on an ancillary note, with the deductibility of provisions for non-performing loans.
In order to safeguard its rights to the disputed adjustment, in 2017 the tax authority initiated a review procedure relating to the consequences on the taxable income for the 2014 to 2016 fiscal years of its previous audit, as a result of which it had canceled the loss for fiscal year 2013. This review upheld the two points of disagreement resulting from the 2015 tax audit. Caisse Française de Financement Local had set aside a tax provision to cover the eventuality of an unfavorable outcome. However, since 2016 it has contested the tax authority's position on the results of the former branch in Ireland, presenting its case within the legal recourse framework provided for under current laws and regulations.

As of the end of 2018, the tax authority had levied adjustments relating to the 2012 and 2013 tax audit. It nevertheless reduced the amount of the adjustment relating to the add-back of the results of the former branch in Ireland, but maintained the principle of taxation of these results in France. Caisse Française de Financement Local settled this adjustment and reversed the relevant provisions. It kept in its accounts the amount of the provision set aside in respect of sums not yet paid. The 2018 accounting result consequently shows income corresponding to the provision's adjustment.

Operating results

1. Consolidated financial statements in accordance with IFRS

The SFIL Group reported consolidated net income as of December 31, 2018, of EUR 63 million for total balance sheet assets of EUR 72.7 billion at that date. The Group's fully loaded CET1 ratio stood at 25.1%, confirming its financial stability.
Income as of December 31, 2018, also incorporated non-recurring item[(1)] linked to (i) the volatility of the valuation of the derivatives portfolio for EUR 7 million, (ii) the impact of the application of IFRS 9 as concerns the volatility in the valuation of non-SPPI loans on the balance sheet for EUR -5 million, and (iii) the recognition of a provision reversal and the readjustment of deferred taxes related to the collection of amounts arising from the tax audit of the 2012 and 2013 fiscal years, for EUR 14 million.
Restated to account for these non-recurring items, recurring net income as of December 31, 2018, stood at EUR 49 million compared with net income restated for the same items as of December 31, 2017 of EUR 64 million.

SFIL – CONSOLIDATED IFRS FINANCIAL STATEMENTS

EUR millions	12/31/2017 Accounting income	12/31/2017 Restated non-recurring items: Fair value adjustment on hedging	12/31/2017 Restated non-recurring items: Adjustment of deferred tax assets	12/31/2017 Recurring income	12/31/2018 Accounting income	12/31/2018 Restated non-recurring items: Fair value adjustment on hedging	12/31/2018 Restated non-recurring items: Fair value adjustment of non-SPPI financial assets	12/31/2018 Restated non-recurring items: Tax adjustment effects	12/31/2018 Recurring income
Net banking income	184	*(12)*		196	186	*7*	(5)		184
Operating expenses	(113)			(113)	(111)				(111)
Gross operating income	**71**	***(12)***		83	74	*7*	*(5)*		**73**
Cost of risk	22			22	(5)				(5)
Net income before taxes	**93**	***(12)***		105	69	*7*	*(5)*		**68**
Income tax	(39)	*4*	*(2)*	(41)	(6)	*(2)*	*1*	*14*	(20)
NET INCOME	**54**	***(8)***	***(2)***	**64**	**63**	***5***	***(4)***	***14***	**49**

An item-by-item analysis of this change shows the following:
- Net banking income stood at EUR 184 million for 2018, as compared with EUR 196 million in 2017, down EUR 12 million from the previous year. Nevertheless, since a reversal of EUR 31 million in specific provisions subsequent to the refinement of the method of valuation of recoverable flows of doubtful loans[(2)] were recorded as of December 31, 2017, restated for this reversal of provision, net banking income was up by EUR 19 million mainly as a result of the improvement in SFIL's conditions of financing;
- Group operating expenses and amortization totaled EUR 111 million, and were down by EUR 2 million from 2017. This decrease was mainly attributable to a reduction in taxes and duties, since the rise in IT charges was amortized by the decrease in other operating expenses;
- A significant provision reversal related to the success of the loan sensitivity reduction policy was also recognized in the cost of risk as of December 31, 2017.

(1) Restated non-recurring items are as follows :
• Fair value adjustments concerning hedges : as a reminder, since 2013, book value adjustments affect hedging operation set up by SFIL Group to cover its interest rate and foreign exchange risks. These adjustments basically concern accounting for adjustments linked to the application of IFRS 13, which mainly introduced the recognition of valuation adjustments with reference to CVA (Credit Value Adjustment) and DVA (Debit Value Adjustment). These accounting valuation adjustments are recorded in the income statement as net gains or losses on financial instruments at fair value through profit and loss.
• The variations in the valuation of a non-SPPI loan portfolio (valued on the basis of JVR in IFRS 9 although destinated to be kept) linked to the variation of its credit spread.
• In 2017, SFIL took into account legislative measures and its effect of changes in the income tax rate with the reduction in corporate income tax to 25% as of 2022. To this end in 2017, it reduced its deferred tax assets and recorded a non-recurring expense of EUR -2 million in its accounts.
• As of the end of 2018, tax authority had levied adjustments relating to the 2012 and 2013 tax audit. It nevertheless reduced the amount of the adjustment relating to the add-back of the results of the former branch in Ireland, but maintained the principle of taxation of these results in France. Caisse Française de Financement Local settled this adjustment and reversed the relevant provisions. It kept in its account the amount of the provision set aside in respect of sums not yet paid. These factors had a positive impact of EUR 14 million in 2018.
(2) Not should be taken that the SFIL Group was able as of the first half of 2017 to refine in a reasonable and prudent manner its provisioning method according to the model of likely losses anticipated by IAS 39. The refinement led to the accounting recognition in 2017 of a reversal of provision of EUR 31 million, which resulted in an improvement in the interest margin.

2. First-time application of IFRS 9

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

Classification and measurement

The new standard now provides for only three categories of financial assets: those recognized at amortized cost, those recognized at fair value through profit or loss and those recognized at fair value through other comprehensive income. This classification depends on both the business model in which the financial asset is used and the characteristics of its contractual cash flows.
A financial asset is at amortized cost if:
- the sole purpose of holding it is to collect the associated contractual cash flows;
- these contractual cash flows represent solely payments of principal and interest (SPPI[(3)]).

(3) SPPI : Solely Payments of Principal and Interest

Most of the loans and securities listed as assets of the SFIL Group meet these criteria (hold to collect model and SPPI characteristics) and continue to be recognized at amortized cost. However, some portfolios are now recognized at fair value: these are mainly securities held as cash surplus investments under a hold to collect and sell model (fair value recognized directly through other comprehensive income) and structured loans, which were previously recognized at amortized cost under IAS 39 and whose financial flows are not SPPI, resulting in recognition at fair value through profit or loss under IFRS 9. Furthermore, the sensitivity reduction transactions consisted in transforming non-SPPI loans into SPPI loans; these transactions are now systematically considered to be capable of derecognition, which leads to:

- for transactions of this type occurring prior to January 1, 2018: recognition of the early repayment penalty in the 2018 opening equity to reflect the first-time application of IFRS 9;
- for transactions of this type occurring after January 1, 2018: immediate recognition of the early repayment penalty in profit or loss.

Impairment

In accordance with the new IFRS 9, loans and securities measured at amortized cost or at fair value through other comprehensive income, as well as financing commitments, are classified into one of three portfolios, referred to as "Stages":

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

Provisions are set aside for all of these assets and financing commitments, including Stage 1 and Stage 2 performing outstandings. 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).

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

Lastly, the SFIL Group decided not to apply the option of spreading over time the impact on prudential capital associated with the standard's first-time application and relating to the provisioning component.

Hedge accounting

Until the future macro-hedging standard takes effect, the SFIL Group has chosen to continue applying IAS 39 in this area.

Impacts associated with the first-time application of IFRS 9 and expected impacts on future results

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

The following table shows the breakdown of financial assets by recognition method.

EUR millions	1/1/2018
Non-SPPI financial assets recognized at fair value through profit or loss	6,951
SPPI financial assets recognized at fair value through other comprehensive income	942
SPPI financial assets recognized at amortized cost	52,293
TOTAL	**60,186**

The following table shows the impact on equity and the CET1 ratio of the first-time application of IFRS 9, all other things being equal.

Impact on equity of the first-time application of IFRS 9 EUR millions	**1/1/2018**
Classification and measurement	86
Impairment	(10)
Hedge accounting	-
TOTAL BEFORE TAX	**76**
TOTAL AFTER TAX	**50**

Impact on the fully loaded CET 1 ratio of the first-time application of IFRS 9, after prudential restatements (basis points)	**1/1/2018**
TOTAL	**119**

Lastly, IFRS 9 has an impact on future results due mainly to changes in the fair value of non-SPPI financial assets, a situation which leads to increased income volatility. This standard therefore increases net banking income volatility in a way unrelated to the SFIL Group's activity, as its business model involves holding all loans until maturity. The SFIL Group therefore decided to isolate this impact within so-called non-recurring items in order to restate it in the analysis of the Group's performance.

3. Annual financial statements prepared in accordance with French GAAP

SFIL posted a net profit of EUR 43.9 million at the end of 2018, compared with a net profit of EUR 29.8 million at the end of 2017. This result includes the payment of a dividend from its subsidiary CAFFIL for EUR 50 million; adjusted for this item, SFIL's result for the year was a loss of EUR 6.1 million.

Net banking income amounted to EUR 149 million. It includes EUR 93 million in re-invoicing of costs to CAFFIL. The operating expenses, including depreciation, were of EUR 104 million.

SFIL's total assets came to EUR 10.9 billion and included mainly:

- the refinancing granted to its subsidiary Caisse Française de Financement Local in the amount of EUR 4.9 billion for the portion of over-collateralization required as a result of its SCF status;
- cash collateral paid in the amount of EUR 2.1 billion;
- outstanding loans of EUR 1.1 billion under its export refinancing activity;
- SFIL's portfolio of sovereign and banking securities held for cash management purposes, in the amount of EUR 1.4 billion;
- cash assets in the amount of EUR 0.7 billion.

Shareholdings

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

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

Supplier payment periods

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

Trade payables amounted to EUR 1.3 million as of December 31, 2018 and were mostly dated within the last 30 days. Readers are reminded that as of December 31, 2017, trade payables dated within the last 30 days amounted to EUR 1.7 million.

The breakdown of unpaid trade payables due as of the end of 2018 is as follows:

	Arrears on invoices received by the closing date					
(A) Length of arrears	**0 (for information)**	**1 to 30 days**	**31 to 60 days**	**61 to 90 days**	**91 days and more**	**TOTAL**
Number of invoices concerned	1	11	3	1	3	**19**
Total amount of invoices concerned excluding VAT (EUR thousands)	17	440	25	7	16	**506**
% of total purchases in the year excluding VAT	0.0	1.1	0.1	0.0	0.0	**1.2**
(B) Invoices excluded from (A) relating to litigious or unaccounted for debt and invoices						
Number of invoices concerned	–					
Total amount of invoices concerned	–					
Reference payment period	Contractual period – generally 45 days					

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

Proposed allocation of net income

The Annual Shareholders' Meeting of May 29, 2019, will not be asked to approve a dividend distribution.
It will be asked to approve a resolution to allocate net income as follows:

EUR	
ALLOCATION OF NET INCOME	
Net income for the year	**43,894,360.64**
Legal reserve (5%)	(2,194,718.03)
Retained earnings	**12,814,036.42**
Income available	54,513,679.03
Retained earnings after allocation to legal reserve	**54,513,679.03**

Non-tax-deductible charges and expenses

Pursuant to article 223 *quater* of the French General Tax Code (*Code général des impôts*), it is specified that in the past fiscal year non-tax-deductible charges and expenses covered by article 39-4 of the French General Tax Code totaled EUR 37,665.83.
The amount of operating expenses added back following a definitive tax adjustment (articles 223 *quinquies*, 39-5 and 54 *quater* of the French General Tax Code) is nil given the absence of any adjustment.

Research and development

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

4. Indicators of return on assets

Article R.511-16-1 of the French Monetary and Financial Code, introduced pursuant to *arrêté* 2014-1315 of November 3, 2014, requires credit institutions to publish in their annual report their return on assets, defined as the ratio of net income to total assets. For 2018, this ratio stood at 0.09% in the consolidated financial statements under IFRS and at 0.40% in SFIL's company financial statements under French GAAP.

5. SFIL's income for the last five years

	2014[2]	2015	2016	2017	2018
FINANCIAL POSITION					
Share capital (EUR thousands)	130,000	130,000	130,000	130,000	130,000
Number of shares	9,285,725	9,285,725	9,285,725	9,285,725	9,285,725
RESULT OF OPERATIONS (EUR MILLIONS)					
Revenue[1]	119	75	36	127	105
Income before income tax, amortization, depreciation and contingencies net of reversals	(4)	(3)	(3)	35	58
Income tax	(1)	(1)	(2)	(1)	(1)
Income after income tax, amortization, depreciation and contingencies net of reversals	(4)	(4)	(6)	30	44
Exceptional distribution	-	-	-	-	-
Dividend	-	-	-	-	-
PER SHARE DATA (EUR)					
Revenue	12.78	8.11	3.88	13.66	11.35
Income after income tax, before amortization, depreciation and contingencies net of reversals	(0.33)	(0.14)	(0.16)	3.89	6.05
Income tax	(0.11)	(0.13)	(0.20)	(0.12)	(0.16)
Income after income tax, amortization, depreciation and contingencies net of reversals	(0.39)	(0.47)	(0.68)	3.21	4.73
Exceptional distribution	-	-	-	-	-
Dividend per share	-	-	-	-	-

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

(2) The amount published in 2014 has been corrected.

Outlook

The year 2018 confirmed the effectiveness of the structure set up by the State in 2013 to finance the French local public sector through SFIL and its subsidiary CAFFIL together with La Banque Postale and Caisse des dépôts et consignations. The SFIL/La Banque Postale partnership is recognized today as a leading player in local public sector financing in France. Accordingly, in 2019 SFIL will continue strengthening this partnership and implementing the projects necessary for LBP to continue its business.

In 2019, SFIL will continue to develop its export credit activity in support of major French export contracts. In January, for example, it signed two agreements on which negotiations had begun in 2018.
With regard to future projects, SFIL has been approached in connection with transactions corresponding to around 100 potential agreements for a total of EUR 25 billion. These projects are at different stages ranging from industrial tender to funding search.
Meanwhile, following the publication of the decree establishing the conditions for the guarantee of strategic projects and the finance law aimed at enabling SFIL to take part in financing strategic projects[1], as it does for export credits. The process of approving this activity by the European Commission will be initiated at the beginning of 2019 for possible operational implementation at some time during the year. This new type of project will enable the SFIL Group to broaden its scope of activity by financing international projects in which a French company operates not as an exporter but as a supplier, investor, operator, service provider or subcontractor.

As regards issuance, SFIL plans to continue to develop its refinancing in the markets and in 2019 will seek to launch at least two issues in euros and US dollars in the primary public market. Meanwhile, as part of the strengthening of the SFIL Group's social and environmental policy and in order to further diversify its sources of financing, CAFFIL has announced a "social covered bond" public issue project, which was implemented in February 2019. This proposed issue is the first step in the SFIL Group's strategy of increasing its use of "social" and "green" bond issues. Lastly, it will launch a green issue in 2019, in partnership with La Banque Postale.
Generally speaking, the SFIL Group expects to use market refinancing in 2019 at least as much as in 2018, while continuing to reduce its use of shareholder financing.

In 2018, SFIL launched a project to build an internet platform for its borrowers, the main goal of which is to help local government entities and public healthcare facilities introduce paperless transactions. The first tests were conducted in October 2018 with a sample of borrowers, and actual implementation could take place at the end of 2019.

Furthermore, the Group will continue its digital initiatives launched in 2018, including an automated borrower relationship platform and the modernization of its employees' working environment.

From a macroeconomic viewpoint and as in 2018, two important background elements will be closely monitored in 2019:
- the degree of market volatility in a context influenced by the ECB's expected exit from quantitative easing, Brexit-related measures and the geopolitical environment,
- changes in the regulatory environment, including as they relate specifically to public development banks, and regarding Caisse Française de Financement Local, the project to harmonize national covered bond regimes at European level.

Lastly, implementation of the transfer to CDC of the control of SFIL, announced by the State and CDC on November 15, 2018, will continue in 2019 and is expected to be completed at the same time as the changes to the shareholder structure of La Poste and CNP Assurances.
This operation will contribute to the ongoing streamlining of the organization of public financial institutions in the service of France's regions, by merging them into the CDC Group.
SFIL's shareholder base will remain – as today – fully public. Its shareholders will ensure that SFIL's financial solidity is preserved and its economic base protected, and will continue to provide it with the support it needs, in accordance with the applicable regulations.

(1) The enhanced guarantee is one of the elements necessary for SFIL to refinance export credits and strategic projects.

Social, environmental and societal information

In the second half of 2018, SFIL strengthened its commitment to social and environmental responsibility by joining the United Nations Global Compact. As part of this pledge, SFIL has undertaken to integrate into its corporate strategy and daily activities the Compact's ten universal principles, which revolve around four main themes: human rights, international labor standards, the environment and the fight against corruption.

1. Social information

1.1 – JOB-RELATED INFORMATION

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

SFIL had a total of 388 employees as of December 31, 2018. In 2018, SFIL hired a total of 72 people, including 29 under permanent contracts, 14 under temporary contracts and 25 under work-study contracts. It also took on four interns on work placement schemes.

1.1.1.1. Employee breakdown by gender

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

1.1.1.2. Employee breakdown by age and grade

Year 2018	<25 years	25 to 29 years	From 30 to 34 years	From 35 to 39 years	From 40 to 44 years	From 45 to 49 years	From 50 to 54 years	From 55 to 59 years	60 years and older	Total
Managers	3	21	54	53	68	57	44	29	8	337
Non-managers	31	5	1	5	3	0	3	3	0	51
TOTAL	**34**	**26**	**55**	**58**	**71**	**57**	**47**	**32**	**8**	**388**

1.1.1.3. Employee breakdown by site

	2017	2018
Issy les Moulineaux	384	370
Lyon	21	18
TOTAL	**405**	**388**

1.1.2. Changes in staff under permanent and temporary contracts

	2017	2018
Hired under permanent contracts	13	20
Net switched to permanent contracts	4	9
Layoffs/terminations from permanent contracts	6	8
Resigned from permanent contracts	15	18
Switched from temporary to permanent contracts	5	9
Hired under temporary contracts (incl. work-study)	50	39
Layoffs/resignations from temporary contracts	6	4
Retired from permanent contracts	1	2
End of permanent/temporary contract probationary period (incl. work-study)	3	3
Expired temporary contracts	29	29

1.1.3. Compensation

1.1.3.1. Compensation policy

SFIL's Compensation Committee reviews all items related to the compensation policy. Its proposals are submitted to SFIL's Board of Directors, which decides on the appropriate measures and approves the compensation policy.

SFIL defines its compensation policy in accordance with five key principles. The compensation policy must:

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

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

1.1.3.2. Cap on variable compensation

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

1.1.3.3. Compensation of the Chief Executive Officer

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

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

1.1.3.4. Compensation paid to members of the Executive Committee, the General Auditor and individuals whose professional activities have a material impact on the Company's risk profile

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

These people are the members of the Executive Committee, the General Auditor, financial market professionals, senior managers or staff with managerial responsibilities within

a significant business unit, staff responsible for a function in charge of legal affairs, finance including tax and budget preparation, human resources, the compensation policy or information and economic analysis technologies, risk function staff and any staff involved in an activity related to internal control and compliance, as well as all employees whose variable compensation in a given year exceeds EUR 87,500 or who have benefited during a year from an amount of fixed and variable income of more than EUR 200,000.
The compensation of members of the Executive Committee (excluding the Chief Executive Officer) and the General Auditor is submitted, on the proposal of the Chief Executive Officer, to the Compensation Committee.
If the variable compensation awarded for year N exceeds EUR 87,500, one portion of the variable compensation (60%) will be paid on a non-deferred basis in year N+1 and the other (40%) on a deferred basis over three years (starting in the year following that in which it was awarded). This deferred portion will be subject notably to the level of performance being maintained. This principle of spreading variable compensation applies to all SFIL employees (including members of the Executive Committee and the General Auditor).
In 2018, the gross compensation paid to the abovementioned group of people totaled EUR 7.03 million for 50 employees, compared with EUR 7.42 million for 53 employees in 2017.

1.1.3.5. Gross payroll

In 2018, the annual gross payroll was EUR 28.41 million (in 2017, this amount was EUR 28.78 million).

1.1.3.6. Average annual fixed compensation

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

EUR	2017	2018
Permanent contract	64,244	65,273

1.1.3.7. Incentive and profit-sharing schemes

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

1.1.3.8. Employee shareholding situation

Pursuant to the provisions of article L.225-102 of the French Commercial Code, it is hereby stated that the employees of the Company and associated companies within the meaning of article L.225-180 of the French Commercial Code had no shares in the capital of the Company at the close of the 2018 fiscal year.

1.2 – ORGANIZATION OF WORK

1.2.1. Organization of work time

Year 2018	Number of employees	% of employees
Part-time employees	34	9%
Teleworking employees	142	37%
Employees with flat daily rate	304	78%
Employees with hourly rate	84	22%

1.2.2. Absenteeism (*)

In 2017, the absence rate was 1.8% (in 2017, this rate was 2.0%).

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

1.3 – LABOR RELATIONS

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

In 2018, the employee representative bodies were convened according to the statutory, regulatory and contractual provisions in force and as required, including:
- 12 meetings for the Works Council,
- 7 meetings for the CHSCT (health, safety and working conditions committee), and
- 10 meetings for the staff representatives.

1.3.2. Collective bargaining agreement review

Numerous negotiations took place in 2018, resulting in the signing of the following agreements:
- SFIL Agreement on Diversity and Well-Being at Work (March 6, 2018),
- Agreement further to the mandatory annual negotiations on compensation, working time and the sharing of added value (January 23, 2018),
- Agreement on the implementation of the company savings plan (PEE) (November 6, 2018),
- Agreement on the implementation of the group retirement savings plan (PERCO) (November 6, 2018).

A record of agreement was drawn up regarding the mandatory annual negotiations on compensation, working time and sharing of added value (January 23, 2018).

1.4 – HEALTH AND SAFETY

1.4.1. Work health and safety conditions

In 2018, SFIL recorded five commuting accidents (none serious) and two workplace accidents (door trapping and fainting incident). It introduced certain measures to reduce accident risks, including a new sign and the laying of non-slip strips for motorcyclists, both in the car park.
The HR and Facilities Management divisions also reviewed the procedure for managing high-risk situations: crisis unit, management of the person concerned, call to family, and transfer of information to Management and the relevant representative bodies (CHSCT secretary).
Actions to manage difficult situations, particularly as regards family carers, were put in place in consultation with the HR division, the CHSCT secretary and the human risks correspondent (several days granted to employees to support end-of-life relatives). A conference was organized on this theme to raise employee awareness.
The use of telecommuting also reduced employees' travel times, improved their work-life balance and, indirectly, mitigated stress risk. The relevant bodies were regularly updated on the implementation of this new organizational method throughout the year.
For the first time, a vaccination campaign was held at the Issy-les-Moulineaux site, and employees in Lyon were able to obtain reimbursement for vaccination costs on request. Over a hundred employees were vaccinated.
SFIL worked all year to improve working conditions, in particular installing a rest room.

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

As part of its policy on well-being at work, SFIL maintained its concierge service and set up YUCO, a new service enabling employees to organize one-off or recurring sports or cultural events and activities in the workplace, at very attractive rates (around EUR 7 per session). Some staff have used the service to organize regular yoga classes, attended by around 15 employees, while others have proposed workshops in boxing, dance, photography and oenology. Management also organized almost a dozen free workshops in sophrology, stress management, work-life balance and meditation to help employees prepare for their return to work at the start of the new academic year.
SFIL organized a number of internal events relating to employee health and safety, such as diet workshops, training in team support for staff in difficult situations and a disability awareness day.
The employees were informed about the existing tools for limiting human risks: «Allodiscrim» discrimination information and support service, employee support unit, mediator, etc. The Just Different consultancy firm trained HR staff in diversity issues, specifically non-discrimination.

1.4.3. Work accident frequency and severity and occupational diseases

Year 2018	Number of employees	Frequency	Severity
Work accidents	2	3.34	0.01
Commuting accidents(1)	5	8.36	0.10
Occupational diseases	0	-	-

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

1.5 – TRAINING

1.5.1. Skills development at SFIL

SFIL attaches particular importance to developing the skills of the Company's employees and executives, whether managers, coordinators or experts.
The main themes of the training policy reflect the Horizon 2021 strategic plan and training preferences expressed by employees in various one-to-one or group meetings (specifically career reviews, professional interviews and evaluation interviews) involving the human resources and business line teams. The members of the Executive Committee are involved in the co-construction of the training policy, in conjunction with the works council's representatives.
The actions deployed aim to optimize employees' employability and promote professional mobility and career development within a managed framework.
This year, the focus was on three areas of skills development:
- Change and transformation management;
- Support for mobility and career development;
- Living well at work and mitigating human risks.

The various initiatives rolled out included:
- The continued development of skills and sharing of good practices at executive level, among managers, coordinators and experts;
- Training initiatives for SFIL's digital community; (learning expedition VIVATECH, data visualization);
- The deployment of initiatives aimed at developing an agility culture («agile methods») and creativity («design thinking» workshops, collaborative tools, etc.);
- The development of behavioral skills such as "Process Communication Management";
- Updating employees' business skills (regulations, compliance, credit and market risks, local budgets, financial analysis, export credit, ALM, capital markets, etc.);
- Training initiatives to combat discrimination, promote equality and prevent psychological and sexual harassment in the workplace;
- Targeted actions to promote equality between women and men (training program: Becoming an actress of her ambition)

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

1.5.2. Number of training days

In 2018, the Group dispensed 1,327 days of training (i.e. 9,289 hours on a basis of 7 hours a day), which represents 3.8 days per employee (351 employees with permanent and temporary contracts), an increase compared with 2017 (3.5 days).

1.6 – EQUALITY OF TREATMENT

1.6.1. Measures to promote gender equality

In 2018, SFIL introduced its new professional equality agreement and fulfilled its equality commitments on the following three indicators:
- the number of beneficiaries of individual pay increases; 40 women compared with 35 men benefited from increases during the individual measures campaign that closed in April 2018,
- the average amount of individual increases in absolute value was EUR 1,790 for women, compared with EUR 1,741 for men,
- the average rate of award of variable compensation was 80.6% for women, compared with 80.0% for men.

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

SFIL signed its second three-year company agreement approved by State agencies (DIRECCTE 92). As of the end of 2018, SFIL's rate of employment of people with disabilities was 2.2%. Since its creation, SFIL has had a disability correspondent, as provided for by the recently enacted Pénicaud law.
The most significant related initiatives include:
- the continuation of awareness-raising initiatives within the Company, in particular during the Week for the Employment of People with Disabilities, with conferences on the Lyon and Issy sites including a talk by Dorine Bourneton, a disabled aerobatics champion, for example;
- the employment on various service provision projects of workers with disabilities made available by SOTRES 92, a disabled persons employer;

- the pursuit of initiatives set up with HASC ("Le Handicap Au Service des Compétences", 'Disabilities serving skills'), a third-sector company set up in 2017 by three self-employed women with disabilities;
- the formal implementation, via the hiring of a disabled person on a permanent contract, of the partnership agreement signed with the French army and CABAT, its casualty assistance unit, to employ military personnel with combat-related disabilities.

1.6.3. Anti-discrimination policy

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

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

SFIL strengthened its system in 2018 by creating a "human risks correspondent" network made up of three professionals trained in the detection and prevention of psychosocial risks as well as in workplace mediation.

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

SFIL fully applies the French labor law, which in turn fully incorporates the related ILO conventions on:
- Respect for freedom of association and the right to collective bargaining,
- The elimination of discrimination in respect of employment and occupation,
- The elimination of forced or compulsory labor,
- The effective abolition of child labor.

2. Environmental information

2.1 – GENERAL ENVIRONMENTAL POLICY

In 2018, SFIL continued to implement its sustainable development policy, with the launch of new initiatives including:
- employee awareness raising about on-site waste sorting,
- waste reduction-related events as part of Sustainable Development Week, and the Waste Reduction European Week,
- growing initiatives at the Company's premises, including the creation of "Chloro'SFIL", an employee gardening community, and the planting and tending of plants, flowers and fruits and vegetables on the terrace.

SFIL also kept up all the measures already in place in terms of responsible management of consumables and waste recycling, including:
- the program to recycle cans, coffee capsules, plastic cups and bottles, resulting in the collection and recycling of 568 kg of containers in 2018,
- a collection and recycling system for paper and internal waste such as toner cartridges, electronic items, obsolete equipment, bottle tops and batteries, and a policy to reduce its paper consumption (default printer settings, thinner paper, use of ISO 14001 Ecolabel paper, etc.). The Group has put in place a monthly indicator tracking print usage by individual multi-function printer to encourage employees to only print when necessary.

The Group's headquarters' commercial operating property HEQ certification, focused on sustainable buildings, management and use, was renewed on February 9, 2018, with a good score.

Amount of provisions and guarantees for environmental risks

The financial statements as of December 31, 2018, do not include any provision or guarantee regarding environmental risks.

2.2 – CLIMATE CHANGE

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

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

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

2.2.2. Adapting to the consequences of climate change

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

2.3 – PROTECTION OF BIODIVERSITY

SFIL has introduced a scheme to sponsor three mobile beehives managed by a local beekeeper, thus promoting biodiversity.

3. Societal information

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

Impact on employment and regional development

In 2018, SFIL employed an average of 388 people under permanent, temporary, work-study and internship contracts at its two office sites in Issy-les-Moulineaux (370 employees) and Lyon (18 employees).

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

3.2.1. The conditions for dialog with such persons or organizations

SFIL has provided:

- Financing for the training of 36 work-study employees with 16 higher education institutions.
- Financing via the 2018 «learning tax» of:
  - 4 schools: Montluçon – Lycée général Albert Einstein; Marly – Lycée professionnel François Mansart; Hirson – Lycée Frédéric et Irène Joliot-Curie – Les Abymes – Lycée Chevalier de Saint Georges.
  - 4 higher education institutions: ENSAE, ENSIMAG, ESSEC, « Ecole d'économie de la Sorbonne ».
  - 4 associations promoting diversity: PASSEPORT AVENIR, INSTITUT TELEMAQUE, « Ecole de la seconde chance », LADAPT RHONE – ESAT Hors-les-mur.

3.2.2. Partnership and patronage activities

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

SFIL has also formed various other partnerships to encourage diversity and equal opportunity, in particular with the Télémaque association, which promotes access to culture for young people from underprivileged backgrounds through sponsorship by SFIL employees.
Since 2013, SFIL has participated in the Campus l'Envol project with its partner La Banque Postale. L'Envol was set up to support the schooling every year of 150 talented and deserving young people from modest backgrounds in both rural and urban areas, by coaching them individually from high school to entry into a high-level selective channel for further education or employment anywhere in France, including its overseas departments.

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

SFIL renewed its partnership with TIH Business, whose founder also set up «Restaurants dans le noir» to promote business services provided by disabled freelancers.
SFIL is a member of the Handeco Pas-à-Pas network, which works to encourage the use by companies of sheltered employment service providers staffed by people with disabilities.

Lastly, the system implemented at the Bank provides for an internal alert procedure, a training plan for all employees (in particular the Executive Committee, executives and exposed personnel), risk mapping and a tailored internal control system.

3.3 – SUBCONTRACTING AND SUPPLIERS

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

SFIL chooses its suppliers and subcontractors very carefully. Its purchasing policy stipulates that the Company promotes sustainable and socially responsible purchasing whenever its various constraints allow. SFIL notably uses sheltered employment sector companies. In 2016, SOTRES 92, a disabled persons employer, provided SFIL with workers for paperless document production.
The listing of SFIL's suppliers and any subcontractors they use takes into account the CSR certifications obtained.

Meanwhile, the ratings that SFIL's internal supplier evaluation campaigns produce reflect its perception of these suppliers' socio-ethical practices, as evidenced through their service provision.
Lastly, SFIL's framework agreements remind its suppliers of the tax and social legislation and statutory labor provisions in force as regards the performance of services. SFIL regularly carries out the required checks pursuant to these obligations.

3.4 – FAIR PRACTICES

Anti-corruption initiatives

The SFIL Group operates today in an ecosystem where the requirements for preventing and combating corruption have intensified and are coupled with growing demands from foreign regulators.
The SFIL Group's activities fall within the scope notably of US and UK extraterritorial laws. SFIL's shareholders on the one hand and its banking partner banks on the other fall within the direct scope of the Sapin II law applicable under French law.
For these reasons, as a public development bank with domestic and now international operations, SFIL has chosen to factor corruption risk into its organization, alongside reputation risk, operational risk and financial risk. As such, SFIL attaches particular importance to fighting this threat, both within the Company itself and in the context of the projects in which it takes part. The effectiveness of the corruption prevention system is central to the Bank's concerns.

Indeed, SFIL, which itself does not fall within the scope of the Sapin II law, nevertheless opted to implement additional compliance measures in line with those required by the Sapin II law, with the aim of strengthening the Group's anti-corruption system. The Group is committed to implementing the necessary measures to prevent the risk of exposure to corruption and to publicly demonstrating its determination to actively fight corruption. The objective is to identify and define for each process the specific responsibilities of SFIL, CAFFIL and their employees in preventing corruption, as well as those of all third parties with whom the Bank has current or future dealings, i.e. its customers, its financial counterparties, its suppliers and its service providers.

The system implemented at the Bank thus provides for an internal alert procedure, a training plan for all employees, and in particular for the Executive Committee, executives and exposed personnel, risk mapping and a tailored internal control system.

Additional information

1. Statutory Auditors' terms of office

As the terms of office as principal and alternate Statutory Auditors of Deloitte & Associés and BEAS, respectively, expire at the Shareholders' Meeting of May 29, 2019, the Shareholders' Meeting is asked to:
- renew the term of office of Deloitte & Associés as principal Statutory Auditor for a period of six fiscal years, i.e. until the Ordinary Shareholders' Meeting called to approve the financial statements for the fiscal year ending December 31, 2024;
- release itself from the alternate Statutory Auditor obligation, in accordance with the option offered by article L.823-1 of the French Commercial Code, by not reappointing BEAS as alternate Statutory Auditor.

2. Capital increase reserved for employees

In accordance with the provisions of article L.225-129-6 of the French Commercial Code, every three years all companies are required to call an extraordinary general meeting to propose that shareholders adopt a resolution to carry out a capital increase reserved for the employees of the company and any related company if the staff hold less than 3% of the respective company's share capital.
Consequently, to satisfy these legal obligations it will be proposed, through draft resolutions submitted to the Shareholders' Meeting, to delegate to the Board of Directors, for a period of 26 months, the authority to increase the share capital in one or more tranches of a maximum amount of EUR 100,000, by issuing new ordinary shares of the Company, at par, conferring on their holders the same rights as the existing ordinary shares, and reserved for employees of the Company and any related company. All powers would be granted to the Board of Directors to implement the delegation of authority presented above.

Since SFIL's employees benefit from other employee savings schemes, the shareholders will be invited by the Board, after reading the report presented by the Statutory Auditors, to reject the resolutions relating to this proposed capital increase.

3. Amendments to the by-laws

Amendment to article 3 of the by-laws relating to the expansion of the corporate purpose
In connection with the plan to extend the benefit of SFIL's export credit refinancing system to loans covered by guarantees for projects of strategic interest for the French economy, it will be proposed to the Extraordinary Shareholders' Meeting to amend article 3 "Corporate purpose" of the by-laws to take account of this broadening of the Company's scope of activity.

Amendment to article 15 of the by-laws relating to the representation of the employee representative body at Board meetings
In connection with the French labor law reform, order no. 2017-1386 of September 22, 2017 requires the establishment of a social and economic committee, or CSE. The CSE is a new employee representative body created to replace the works council (CE), employee representatives (DP) and the health, safety and working conditions committee (CHSCT), which must be done by January 1, 2020.

SFIL will put in place its CSE at the same time as the election of employee representatives (scheduled for November 2019). This will require an amendment to SFIL's by-laws to provide for the Social and Economic Committee's representation on the Board of Directors, which will come into force after the said election, i.e. on Tuesday, December 31, 2019. Pursuant to the provisions of article L.2312-74 of the French Labor Code (*Code du travail*) applicable to SFIL, the Social and Economic Committee will be represented on the Board of Directors by the Committee's secretary or any body to which that function is delegated.
Accordingly, the Extraordinary Shareholders' Meeting will be asked to amend article 15 of the by-laws with effect from December 31, 2019, in order to allow the representation of the Social and Economic Committee on the Board of Directors.

* * *

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

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

Report on corporate governance

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

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

SFIL, a limited liability corporation with a Board of Directors (*société anonyme à conseil d'administration*) is 75%-owned by the French State, 20% by Caisse des dépôts et consignations and 5% by La Banque Postale. It received its banking license on January 16, 2013. SFIL is subject to the Code of Commerce as a commercial enterprise, to applicable French and European laws in its capacity as a credit institution as well as the provisions of the ordinance of August 20, 2014, ratified and amended by the Law of August 6, 2015, because of its ownership structure. In addition, SFIL structured its governance rules with reference to the Afep/Medef Code (see the conditions for its application below) and by relying on the provisions or guidance of the European Central Bank and European Banking Authority.

1. Information on governance

1.1 – CORPORATE GOVERNANCE STRUCTURE AND BODIES

1.2 – THE BOARD OF DIRECTORS

1.2.1. Its role, organization and work

The Board of Directors determines SFIL's business strategy and ensures its proper implementation. Subject to the powers expressly conferred to Shareholders' Meetings and within the limits of the Company's corporate purpose, it addresses all issues affecting the Company's operations and, through its deliberations, settles all matters concerning such.
The Board of Directors comprises 15 members, including five independent members and five members representing employees. As of December 31, 2018, the Board of Directors had six women and nine men (a 40% ratio of female members, even excluding members representing employees). A Works Council representative participates in Board meetings as a non-voting member. The term of office for Board members is four years. The average age of directors is 54.

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

An internal rulebook, updated in March 2018, defines the operation of the Company's Board of Directors. More specifically, the aim of these rules is to present the manner in which the Board of Directors can best assume its role as guardian of the common interests of all the Company's stakeholders, including in particular its shareholders, employees and partners. It lists the rights and responsibilities of the members of the Board of Directors, including conflict of interest rules.

The Board of Directors meets at least once each quarter. In 2018, the Board of Directors therefore met six times. The attendance rate by members was 95.56%.

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

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

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

In 2018, the Board of Directors focused on the following matters in particular:

- the bond issuance strategy of SFIL, as well as of its subsidiary Caisse Française de Financement Local (CAFFIL);
- the local public sector strategy;
- the strategy relating to the export credit market and the potential extension of this activity's scope in connection with the decision announced by the French prime minister on February 23, 2018 that the public credit insurance system should supports projects representing a strategic interest for French industry;
- completion of the structured loan sensitivity reduction program;
- services provided to its subsidiary CAFFIL as well as those performed on behalf of La Banque Postale;
- implementation of the information system simplification program, notably by switching a large part of the IT system to a new information system;
- the medium-term IT strategy and the deployment of the new Technology and Organization division;
- risks, in particular the review for approval of the ICAAP-ILAAP reports and the updating of the backup recovery plan in accordance with the banking supervision requirements;
- financial statements, the new IFRS 9 standard and its impact on the 2019 budget;
- the plan to change the Company's shareholder structure;
- governance, in particular the corporate governance report, the review of the Board's functioning based on an analysis carried out by external consultants, the replacement of certain members of the Board of Directors, including those resulting from the election of members of the Board of Directors representing employees, and the change in composition of the specialized committees;
- the opinion of the works council on strategic orientations;
- compensation for managers and salary measures at the Company as well as Board attendance fees;
- the formalization of the SFIL Group's internal governance policy and the procedure for appointing or reappointing corporate officers;
- the review of regulated agreements.

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

In addition, the Board of Directors was informed of the interventions by supervisors as well as the responses made to the recommendations of the latter by the Company's management.

Finally, the Board convened an Ordinary Shareholders' Meeting for May 29, 2018. The purpose of the Ordinary Shareholders' Meeting was to approve the Company and consolidated financial statements, appropriation of earnings, approve regulated agreements, set the amount of Board attendance fees, offer an opinion on the overall budget for compensation and compensation components of the Chair of the Board and Chief Executive Officer, the ratification of appointment of three members of the Board of Directors.

1.2.2. Composition of the Board of Directors as of December 31, 2018

Chantal Lory **Chair of the Board of Directors** Independent Director	**Philippe Mills** **Chief Executive Officer** Director
French State represented by **Schwan Badirou Gafari**	**Frédéric Guillemin** Director representing employees
Jean-Pierre Balligand Independent Director	**Cathy Kopp** Independent Director
Serge Bayard Director representing La Banque Postale, shareholder	**Thomas Morisse** Director representing employees
Pascal Cardineaud Director representing employees	**Françoise de Panafieu** Independent Director
Gabriel Cumenge Director proposed by the French State	**Sandrine Peraud-Chemla** Director representing employees
Marion Domalain Director representing employees	**Pierre Sorbets** Independent Director
Virginie Fernandes Director representing Caisse des dépôts et consignations, shareholder	

The following changes were made to the composition of the Board of Directors in 2018:

2018		Comments
Exit	Delphine de Chaisemartin	Resignation of term of office as Director
Arrival	Virginie Fernandes	Appointment as Director to fill a vacancy left by Delphine de Chaisemartin
Exit	Jérôme Reboul	Resignation of term of office as Director
Arrival	Gabriel Cumenge	Appointment as Director to fill a vacancy left by Jérôme Reboul
Exit	Catherine Boyaval	Term of office as Director representing employees
Exit	Lorraine Coudel	Term of office as Director representing employees
Exit	Patrick Galland	Term of office as Director representing employees
Arrival	Marion Domalain	Election as Director representing employees
Arrival	Thomas Morisse	Election as Director representing employees
Arrival	Sandrine Peraud-Chemla	Election as Director representing employees

1.2.3. Conditions for appointing directors and qualification of independent members

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

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

	Criterion 1	Criterion 2	Criterion 3	Criterion 4	Criterion 5	Criterion 6	Criterion 7	Criterion 8
Chantal Lory	ok	ok	ok	ok	ok	ok	ok	ok
Philippe Mills	x	x	x	ok	ok	ok	x	ok
Jean-Pierre Balligand	ok	ok	ok	ok	ok	ok	ok	ok
Serge Bayard	ok	ok	x	ok	ok	ok	ok	ok
Gabriel Cumenge	ok	ok	ok	ok	ok	ok	ok	x
French State, represented by Schwan Badirou Gafari	ok	ok	ok	ok	ok	ok	ok	x
Virginie Fernandes	ok	ok	x	ok	ok	ok	ok	x
Cathy Kopp	ok	ok	ok	ok	ok	ok	ok	ok
Françoise de Panafieu	ok	ok	ok	ok	ok	ok	ok	ok
Pierre Sorbets	ok	ok	ok	ok	ok	ok	ok	ok

Legend:

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

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

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

Criterion 2: Not having cross-directorships

Criterion 3: Not having material business relationships

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

Criterion 5: Not having served as Statutory Auditor of the Company during the past five years

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

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

Criterion 8: Not being a representative of a major shareholder

1.3 – THE SPECIALIZED COMMITTEES OF THE BOARD OF DIRECTORS

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

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

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

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

In 2018, Virginie Fernandes replaced Delphine de Chaisemartin in these two committees. Furthermore, Sandrine Peraud-Chemla took over from Frédéric Guillemin on the Financial Statements Committee and Thomas Morisse took over from Patrick Galland on the Risks and Internal Control Committee.

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

In 2018, the Financial Statements Committee met four times. It examined the financial statements of SFIL and Caisse Française de Financement Local as of December 31, 2017 and those as of June 30, 2018, as well as the quarterly financial statements as of March 31, 2018, and September 30, 2018, and the corresponding Statutory Auditors' reports, the loan sensitivity reduction activities, the 2019 budget and the 2020-2023 budget forecasts, as well as the implementation of the IFRS 9 accounting standard.

1.3.2. The Governance and Appointments Committee and Compensation Committee

These committees are composed of five members (including three independent members). These committees meet at least twice a year. In 2018, Delphine de Chaisemartin ceased her functions and was not replaced in the Governance and Appointments Committee and the Compensation Committee. Marion Domalain replaced Pascal Cardineaud on the Governance and Appointments Committee.

In 2018, the Governance and Appointments Committee met four times. Meetings were devoted in particular to assessing the functioning of the Board of Directors, appointing new directors, including five employee representative directors elected on April 4, 2018, and validating SFIL's draft governance policy. The committee also reassessed and reaffirmed the independence of the following directors of SFIL: Cathy Kopp, Chantal Lory, Françoise de Panafieu, Pierre Sorbets and Jean-Pierre Balligand. Lastly, the committee approved the procedure relating to CAFFIL's succession plan and unanimously voted to extend its responsibilities to covering CSR.

In 2018, the Compensation Committee met three times. Meetings were devoted in particular to updating the compensation policy to address the areas for improvement identified by the Risks and Internal Control Committee, the compensation of the Chair of the Board of Directors and the Chief Executive Officer, and the review of the compensation of members of SFIL's Executive Committee. In addition, the committee issued a favorable opinion on the payment in April 2018 of the 2017 variable compensation package proposed by General Management. The Committee also approved the increase in the amount of attendance fees allocated to the Chair of the Board of Directors (new amount set at EUR 12,500 per fiscal year). Lastly, it reviewed the prevention and retention action plan implemented for sensitive Risks division staff.

Composition of the committees

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

Composition of the specialized committees (as of December 31, 2018)	Financial Statements Committee	Risks and Internal Control Committee	Governance and Appointments Committee	Compensation Committee
Schwan Badirou-Gafari	✓	✓	✓	✓
Jean-Pierre Balligand	✓	✓	✓	✓
Serge Bayard	✓	✓		
Pascal Cardineaud				✓
Marion Domalain			✓	
Virginie Fernandes	✓	✓		
Cathy Kopp			✓✓	✓✓
Chantal Lory	✓	✓		
Thomas Morisse		✓		
Françoise de Panafieu			✓	✓
Sandrine Peraud-Chemla	✓			
Pierre Sorbets	✓✓	✓✓		

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

1.4 – APPLICATION OF THE CORPORATE GOVERNANCE CODE

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

- The number of shares held by the members of the Board of Directors: this provision is not applied by SFIL, whose shareholding structure is described above and whose shares are not publicly traded.
- The number of independent members on the Risks and Internal Control Committee and on the Financial Statements Committee: even though the ratio of independent members reaches to 50% (not including directors representing employees), but not two-thirds as recommanded, notably due to the composition of the Board of Directors and the number of independent directors who can be members of specialized committees. It should be noted that the Board includes representatives from each shareholder (as shareholders oversee the Company's activities in accordance with the conditions set by the European Commission) as well as five directors representing employees.
- The meeting of the Board of Directors at least once a year without the presence of executive members of management and supervisory bodies: a Risks and Internal Control Committee takes place without members of management and supervisory bodies in order to review the bank's entire internal control system. The external consultant who reviewed the Board's functioning in 2018 recommended extending the "executive session" principle to the Financial Statements Committee. The Governance and Appointments Committee and the Board of Directors decided that this principle would be applied to each of the other specialized committees that deemed it necessary, by providing for an annual executive session at the end of one of the scheduled meetings.
- Training for directors: the Board of Directors asked the Human Resources department to study the possibility of offering additional training to independent directors, possibly spread out over time if these training courses are long and costly. Meanwhile, compliance and ICAAP information and training sessions for all directors were initiated in early 2019.
- Participation by directors at Shareholders' Meetings: since all shareholders are represented on the Board of Directors and all of the agenda items have already been presented in Board meetings, the participation of directors in Shareholders' Meetings aside from those who also represent shareholders does not have the same importance as for a company with a diverse group of shareholders.

(1) *Code updated in June 2018, available at www.afep.com.*

As previously stated, an independent firm of consultants was appointed to carry out an assessment of the functioning of the Board of Directors and its committees. While emphasizing SFIL's specific context, the firm noted that its governance practices were among the best in the banking sector and that its directors recognized the quality of its governance, considering it professional and effective. The assessment recommendations focused on 17 topics that were analyzed by the Governance and Appointments Committee, which then made proposals to the Board of Directors. The initiatives decided on, some of which were implemented in 2018, include strategic review updates, training proposals, securing document access and formalized monitoring of Board decisions.

1.5 – INFORMATION ON MEMBERS OF THE BOARD OF DIRECTORS

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

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

Chair of the Board of Directors

Chantal Lory
Principal function: Chair of the Board of Directors of SFIL, independent member of the Board of Directors

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

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

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

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

Chief Executive Officer

Philippe Mills
Principal function: Chief Executive Officer of SFIL, member of the Board of Directors

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

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

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

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

Attendance at Board of Directors' meetings	100%

Representative of the State on the Board of Directors

Schwan Badirou Gafari
Principal function: Deputy Director of "Services and Finance" Investments of Agence des Participations de l'État

Born on May 1, 1983 – French
Dates of beginning and end of mandate: August 8, 2017 - 2021
Date of initial mandate: August 8, 2017

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

Mandates and functions
- Agence des Participations de l'État, Deputy Director of "Services and Finance" investments
- SFIL, representative of the State on the Board of Directors, member of the Governance and Appointments Committee, member of the Compensation Committee, member of the Financial Statements Committee and member of the Risks and Internal Control Committee
- Imprimerie Nationale, representative of the State on the Board of Directors
- La Française des Jeux, representative of the State on the Board of Directors
- Société anonyme d'économie mixte d'aménagement et de gestion du marché d'intérêt national de la région parisienne (SEMMARIS), representative of the State on the Board of Directors
- Société pour le logement intermédiaire, representative of the State on the Board of Directors

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

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

Members of the Board of Directors representing shareholders' interests

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

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

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

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

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

Attendance at Board of Directors' meetings	66.67%
Attendance at Financial Statements Committee meetings	50%
Attendance at Risks and Internal Control Committee meetings	40%

Delphine de Chaisemartin (until March 29, 2018)
Principal function: Director of Institutional Relations and Internal Communication at La Banque Postale

Born on July 14, 1970 – French
Dates of beginning and end of mandate: May 31, 2017 – March 29, 2018
Date of initial mandate: January 31, 2013

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

Mandates and functions
- La Banque Postale, director of Institutional Relations and Internal Communication
- SFIL, member of the Board of Directors, member of the Governance and Appointments Committee, member of the Compensation Committee, member of the Financial Statements Committee and member of the Risks and Internal Control Committee (until March 29, 2018)
- Bpifrance Financement, member of the Board of Directors, member of the Appointments and Compensation Committee, member of the Financing and Guarantees Committee, member of the Audit Committee, member of the Risks Committee and member of the Innovation Committee (until September 2018)
- La Banque Postale Collectivités Locales, member of the Board of Directors (until May 2018)
- Qualium Investissement, member of the Board of Directors and member of the Investment Advisory Committee (until June 2018)
- CDC Entreprises Elan PME, member of the Board of Directors (until May 2018)
- CNP Assurances, member of the Board of Directors (until May 2018)
- LBP Asset Management, member of the Board of Directors (since June 2018)
- LBP Crédit Entreprises, member of the Board of Directors and Chair of the Audit Committee (since October 2018)
- Tocqueville Finance, member of the Board of Directors (since October 2018) and Chair of the Audit Committee
- Tocqueville Finance Holding, member of the Board of Directors (since October 2018)
- Commission Nationale des Sanctions prévue à l'article L.561-38 du Code monétaire et financier, alternate member (since July 2018)
- Observatoire de l'Épargne Réglementaire, member (since April 2018)

Biographical data
- Graduate of École de Management de Lyon
- Degree in Accounting and Finance
- MBA, Financial Markets, Toronto, Canada
- 1993-1997: Risk and results control for the fixed income activities of Compagnie parisienne de réescompte (CPR)
- 1997-2002: "Financial Services" audit manager at PricewaterhouseCoopers (PwC)
- 2002-2006: Deputy, then Director, Financial Control, Société Générale Investment Banking (SGCIB)
- 2006-2012: Managing Director – COO, Fixed Income, Americas, then COO "Special Situations Group," Société Générale New York (SGNY), United States
- 2012-2018: Strategic Holdings and Subsidiaries in Financial Services (banks, insurance companies and other financial institutions) Manager, Group Steering Department, Caisse des Dépôts
- Since 2018: Director of Institutional Relations and Internal Communication at La Banque Postale

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

** Resignation during the first quarter 2018*

Gabriel Cumenge (since March 29, 2018)
Principal function: Deputy Director of International Corporate Financing at the Directorate General of the Treasury

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

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

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

Biographical data
- Economics degree
- Roman history master's degree
- Public sector master's level history teacher
- École Normale Supérieure (history and economics)
- Government administration diploma from Institut d'Etudes Politiques de Paris
- Alumnus of École Nationale d'Administration
- 2008-2012: Ministry for the Economy and Finance
  - Deputy Head, European Coordination and Strategy Office (2008-2010)
  - Deputy Head, Banking Affairs Office (2010-2012)
- 2012-2014: International Monetary Fund (IMF)
  - Advisor to the French Executive Director at the IMF and the World Bank (2012-2013)
  - Alternate Executive Director for France (2013-2014)
- 2014-2016: Office of the Minister for Finance and Public Accounts, advisor on European and international financial affairs
- 2016-2017: Office of the Minister for the Economy and Finance, Deputy Director
- Since 2017: Directorate General of the Treasury, Deputy Director, International Corporate Financing

Attendance at Board of Directors' meetings*	100%

** Appointment during the first quarter 2018*

Virginie Fernandes (since March 29, 2018)
Principal function: Director of the Finance, Strategy and Holdings Division - Group Steering Department of the Caisse des Dépôts group

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

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

Mandates and functions
- Caisse des Dépôts, Director of the Finance, Strategy and Holdings Division – Group Steering Department
- SFIL, member of the Board of Directors (since March 29, 2018), member of the Financial Statements Committee and member of the Risks and Internal Control Committee (since March 29, 2018)
- Bpifrance Investissement, member of the Board of Directors and member of the Appointments and Compensation Committee
- Bpifrance Participations, member of the Board of Directors, member of the Strategy Committee and member of the Investment Committee
- Compagnie des Alpes, member of the Board of Directors representing Caisse des dépôts et consignations, member of the Strategy Committee and member of the Appointments and Compensation Committee
- Icade, member of the Board of Directors representing Caisse des dépôts et consignations, member of the Strategy Committee and member of the Appointments and Compensation Committee
- CDC Habitat (formerly Société Nationale Immobilière – SNI), member of the Supervisory Board, member of the Strategy Committee and member of the Audit and Risks Committee
- Transdev Group, member of the Board of Directors and member of the Audit and Risks Committee
- CDC International Capital, member of the Board of Directors representing Caisse des dépôts et consignations and member of the Investment Committee

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

Attendance at Board of Directors' meetings*	100%
Attendance at Financial Statements Committee meetings*	66.67%
Attendance at Risks and Internal Control Committee meetings*	66.67%

* *Appointment during the first quarter 2018*

Jérôme Reboul (until March 29, 2018)
Principal function: Deputy Director Public-Interest Banking and Finance, Directorate General of the Treasury

Born on April 27, 1977 – French
Dates of beginning and end of mandate: September 7, 2017 – March 29, 2018
Date of initial mandate: May 26, 2016

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

Mandates and functions
- Directorate General of the Treasury, Deputy Director, Public-Interest Banking and Finance
- SFIL, member of the Board of Directors (until March 29, 2018)
- Banque de France, Alternate non-voting member, General Council
- Caisse des Dépôts, Alternate member of the Supervisory Board

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

Attendance at Board of Directors' meetings*	50%

* *Resignation during the first quarter 2018*

Independent members of the Board of Directors

Jean-Pierre Balligand
Principal function: independent member of the Board of Directors

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

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

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

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

Cathy Kopp
Principal function: independent member of the Board of Directors

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

Mandates and functions
- SFIL, member of the Board of Directors, Chair of the Governance and Appointments Committee and Chair of the Compensation Committee
- Schneider Electric SA, member of the Board of Directors (until May 2018) and member of the Compensation, Human Resources and Social Responsibility Committee (until May 2018)

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

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

Françoise de Panafieu
Principal function: independent member of the Board of Directors

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

Mandates and functions
- SFIL, member of the Board of Directors, member of the Governance and Appointments Committee and member of the Compensation Committee
- Honorary member of the National Assembly – former minister
- Association La société des Amis du musée du Quai Branly – Jacques Chirac (Quai Branly museum), Chair of the Board of Directors
- Association Les Rencontres d'Arles Photographie, Vice Chair of the Board of Directors
- Fondation des Parcs et Jardins de France, member of the Board
- Maison Européenne de la Photographie, member of the Board

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

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

Pierre Sorbets
Principal function: independent member of the Board of Directors

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

Mandates and functions
- SFIL, member of the Board of Directors, Chairman of the Financial Statements Committee and Chairman of the Risks and Internal Control Committee
- Les Sorbets du Clos Marie, Manager
- Magnard Finance Conseil, Chairman

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

Attendance at Board of Directors' meetings	100%
Attendance at Financial Statements Committee meetings	75%
Attendance at Risks and Internal Control Committee meetings	80%

Members of the Board of Directors representing employees

Catherine Boyaval (until April 23, 2018)
Principal function: Director of Business Services at the Technology and Organization division at SFIL

Born on July 12, 1958 – French
Dates of beginning and end of mandate: April 24, 2013 – April 23, 2018
Date of initial mandate: April 24, 2013

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

Mandates and functions
- SFIL, Deputy Head of Strategic IT Projects, in charge of regulatory and financial reporting solutions unit (until September 30, 2018), Director of Business Services at the Technology and Organization division (since September 1st, 2018)
- SFIL, member of the Board of Directors (until April 23, 2018)

Biographical data
- Degree in accounting and audit
- Graduate of ESLSCA (major: tax law)
- 1996-2012: Successively, Head of Management Control in the branch network, Head of Banking Production Accounting, Head of Quality and IT Accounting and IT Systems Coordinator, then Deputy Accounting Manager responsible for the organization at Dexia Crédit Local
- Since 2013: SFIL
  - Director of Organization, Systems and Quality in the Finance division (2013-2015)
  - Deputy Director of Strategic IT Projects department, responsible for the regulatory and financial reporting solutions unit (2015-2018)
  - Director of Business Services at the Technology and Organization division (since 2018)

Attendance at Board of Directors' meetings*	100%

** Term of office ended in fiscal year 2018*

Pascal Cardineaud
Principal function: Head of Mediation at SFIL

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

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

Mandates and functions
- SFIL, Head of Mediation
- SFIL, member of the Board of Directors, member of the Governance and Appointments Committee and member of the Compensation Committee (until April 23, 2018)

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

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

** Re-elected or appointed in fiscal year 2018*
*** Term of office ended in fiscal year 2018*

Lorraine Coudel (until April 23, 2018)
Principal function: Head of Purchasing at SFIL

Born on December 1, 1959 – French
Dates of beginning and end of mandate: April 24, 2013 – April 23, 2018
Date of initial mandate: April 24, 2013

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

Mandates and functions
- SFIL, Head of Purchasing
- SFIL, member of the Board of Directors (until April 23, 2018)

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

Attendance at Board of Directors' meetings*	100%

** Term of office ended in fiscal year 2018*

Marion Domalain (since April 24, 2018)
Principal function: Modeling Analyst in the Internal Models department of SFIL's Risks division

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

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

Mandates and functions
- SFIL, Senior Credit Analyst in the Risks division (until June 2018), Modeling Analyst in the Internal Models department of the Risks division (since July 2018)
- SFIL, member of the Board of Directors (since April 24, 2018), member of the Governance and Appointments Committee (since June 14, 2018)

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

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

** Elected or appointed in fiscal year 2018*

Patrick Galland (until April 23, 2018)
Principal function: Coordination Director, Financial Performance Management division at SFIL

Born on February 27, 1966 – French
Dates of beginning and end of mandate: November 13, 2015 – April 23, 2018
Date of initial mandate: November 13, 2015

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

Mandates and functions
- SFIL, Coordination Director, Financial Performance Management division
- SFIL, member of the Board of Directors (until April 23, 2018) and member of Risks and Internal Control Committee (until April 23, 2018)
- Caisse Française de Financement Local, member of the Executive Board

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

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

* *Term of office ended in fiscal year 2018*

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

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

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

Mandates and functions
- SFIL, Head of Reporting department in the Risks division
- SFIL, member of the Board of Directors, member of the Financial Statements Committee (until April 23, 2018)

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

Attendance at Board of Directors' meetings*	100%
Attendance at Financial Statements Committee meetings**	100%

* *Re-elected or appointed in fiscal year 2018*
** *Term of office ended in fiscal year 2018*

Thomas Morisse (since April 24, 2018)
Principal function: Head of Contract Management and Quality in SFIL's Technology and Organization division

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

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

Mandates and functions
- SFIL, Head of Contract Management and Quality in the Technology and Organization division
- SFIL, member of the Board of Directors (since April 24, 2018), member of Risks and Internal Control Committee (since June 14, 2018)

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

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

* *Elected or appointed in fiscal year 2018*

Sandrine Peraud-Chemla (since April 24, 2018) Principal function: ALM Manager at SFIL	
Born on April 23, 1975 – French Dates of beginning and end of mandate : April 24, 2018 – 2022 Date of initial mandate: April 24, 2018 *Business address:* SFIL 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux **Mandates and functions** • SFIL, ALM Manager • SFIL, member of the Board of Directors (since April 24, 2018), member of the Financial Statements Committee (since June 14, 2018)	**Biographical data** • Corporate and administrative management degree • Financial engineering master's degree • 1999-2013: Dexia Crédit Local – Documentation Manager in credit back office and then market back office at Dexia Crédit Local (1999-2006) – Back office reconciliations Manager (2006-2008) – Back office documentation Manager (2008-2013) • Since 2013: SFIL – Project Manager in the Market Back Office (2013-2018) – ALM Manager (since 2018)
Attendance at Board of Directors' meetings*	100%
Attendance at Financial Statements Committee meetings*	100%

** Elected or appointed in fiscal year 2018*

Works council representative

Sandrine Barbosa

2. Compensation information

This section presents and describes the principles and criteria for determining, allocating and granting the fixed, variable and exceptional components of total compensation and benefits of all kind attributable to the Chair of the Board of Directors and Chief Executive Officer in connection with their terms of office in 2018 and constituting the compensation policy applicable to them.

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

2.1.1. Compensation of the Chair of the Board of Directors

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

Pursuant to the provisions of the decree 53-707 of August 9, 1953, amended by decree 2012-915 of July 26, 2012, relating to government control of national public companies and certain organizations pursuing economic or social goals, which apply to SFIL, the Minister responsible for the economy approves the amount and allocation method for attendance fees as well as compensation items for the activity of the Chair of the Board of Directors.

2.1.2. Compensation of the Chief Executive Officer

Pursuant to the above-mentioned 1953 decree, the annual gross compensation of the Chief Executive Officer(1) of SFIL may not exceed EUR 450,000. It includes a fixed portion as well as a variable portion, which is less than 10% of the fixed compensation paid out. The payment of the variable portion is determined on the basis of criteria that take into account a financial indicator (gross operating income) and strategic objectives linked to the Company's activity. The achievement of these objectives is assessed by the Compensation Committee, followed by the Board of Directors. The determination of this variable compensation is approved by the Minister responsible for the economy. On this basis, the compensation of SFIL's Chief Executive Officer, is proposed by the Compensation Committee to the Board of Directors for approval, subject to the approval of the Minister responsible for the economy.

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

2.2 – PRESENTATION OF PROPOSED RESOLUTIONS SUBMITTED TO SHAREHOLDERS' VOTE

Pursuant to the provisions of article L.225-37-2 of the Code of Commerce, a resolution on the compensation components of the Chief Executive Officer for 2018 as well as a resolution on compensation components for the Chair of the Board of Directors is submitted to the Shareholders' Meeting of May 29, 2019, for a vote (see tenth and eleventh resolutions below).
Pursuant to the above-mentioned article, the payment of variable and exceptional compensation amounts for the previous year is subject to the approval of the Annual Ordinary Shareholders' Meeting that will be held on May 29, 2019.
In addition, the principles and criteria applied to determine, allocate and award the components of compensation of the Chief Executive Officer and the Chair of the Board of Directors are submitted to the Shareholders' Meeting of May 29, 2019 for approval (see twelfth and thirteenth resolutions set out below).

Tenth resolution: approval of compensation items due or granted for the year ended December 31, 2018, to Philippe Mills, Chief Executive Officer

The Shareholders' Meeting, consulted pursuant to the provisions of articles L.225-37-2 and L.225-100 of the Code of Commerce, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, issues a favorable opinion on the compensation items due or granted for the year ended December 31, 2018, to Philippe Mills, Chief Executive

Officer, as presented in the Board of Directors' report on corporate governance to the Shareholders' Meeting, and approves the payment of the variable or exceptional compensation items.

Eleventh resolution: approval of compensation items due or granted for the year ended December 31, 2018, to Chantal Lory, Chair of the Board of Directors

The Shareholders' Meeting, consulted pursuant to the provisions of articles L.225-37-2 and L.225-100 of the Code of Commerce, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, issues a favorable opinion on the compensation items due or granted for the year ended December 31, 2018, to Chantal Lory, Chair of the Board of Directors, as presented in the Board of Directors' report on corporate governance to the Shareholders' Meeting.

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

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

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

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

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

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

Chantal Lory Chair of Board of Directors	2017		2018	
	Amount due for the fiscal year	Amount paid for the fiscal year	Amount due for the fiscal year *	Amount paid for the fiscal year
Gross fixed compensation				
Gross variable compensation				
Exceptional gross compensation				
Attendance fees		23,667	29,000	
Benefits in-kind				
TOTAL		**23,667**	**29,000**	

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

Philippe Mills Chief Executive Officer	2017		2018	
	Amount due for the fiscal year	Amount paid for the fiscal year	Amount due for the fiscal year *	Amount paid for the fiscal year
Gross fixed compensation		320,000		320,000
Gross variable compensation		24,786	28,860	
Exceptional gross compensation				
Attendance fees				
Benefits in kind				
TOTAL		**344,786**	**28,860**	**320,000**

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

Contractual status of members of management and supervisory bodies

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

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

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

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

Board members	Gross amounts paid in respect of 2017	Gross amounts paid in respect of 2018
Jean-Pierre Balligand	14,625(1)	17,500(1)
Serge Bayard	12,500(2)	9,000(2)
Catherine Boyaval	/(3)	/(3)
Pascal Cardineaud	/(3)	/(3)
Delphine de Chaisemartin	17,500(4)	1,000(4)
Lorraine Coudel	/(3)	/(3)
Gabriel Cumenge	/	5,000(8)
Marion Domalain	/	/(3)
État, represented by Jérôme Reboul	7,750(5)	/
État, represented by Schwan Badirou Gafari	6,750(5)	17,500(5)
Virginie Fernandes	/	10,250(10)
Patrick Galland	/(3)	/(3)
Frédéric Guillemin	/(3)	/(3)
Cathy Kopp	14,625(6)	18,500(6)
Chantal Lory	23,667(7)	29,000(7)
Philippe Mills	/	/
Thomas Morisse	/	/(3)
Françoise de Panafieu	8,750(6)	14,500(6)
Sandrine Peraud-Chemla	/	/(3)
Jérôme Reboul	3,750(8)	1,250(8)
Antoine Saintoyant	1,875(8)	/
Pierre Sorbets	12,958(9)	18,500(9)
TOTAL	**124,750**	**142,000**

(1) Including the amount paid for participation in the Financial Statements Committee, the Risks and Internal Control Committee, the Governance and Appointments Committee and the Compensation Committee.
(2) Including the amount paid for participation in the Financial Statements Committee and the Risks and Internal Control Committee. The fees are paid to La Banque Postale.
(3) Pursuant to the provisions of the ordinance of August 20, 2014 and law 83-675 of July 26, 1983, on the democratization of the public sector, the terms of office of members of the Board of Directors representing employees are not paid.
(4) Including the amount paid for participation in the Financial Statements Committee, the Risks and Internal Control Committee, the Governance and Appointments Committee and the Compensation Committee. The fees are paid to Caisse des dépôts et consignations.
(5) Including the amount paid for participation in the Financial Statements Committee, the Risks and Internal Control Committee, the Governance and Appointments Committee and the Compensation Committee. Fees paid in the State budget.
(6) Including the amount paid for participation in the Governance and Appointments Committee and the Compensation Committee.
(7) Including the amount paid for chair of the Board of Directors and participation in the Financial Statements Committee and the Risks and Internal Control Committee.
(8) Fees paid to the State budget.
(9) Including the amount paid for participation in the Financial Statements Committee and the Risks and Internal Control Committee.
(10) Including the amount paid for participation in the Financial Statements Committee and the Risks and Internal Control Committee. The fees are paid to Caisse des dépôts et consignations.

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

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

Information on the share capital and shares

Total share capital, number of shares and types of shares

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

The shares are divided into two categories:

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

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

Allocation of share capital

SFIL's share capital is held as follows:

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

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

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

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

4. Additional information

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

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

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

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

Statutory Auditors

SFIL's Statutory Auditors are:

Deloitte & Associés

6, place de la Pyramide – 92908 Paris-La Défense Cedex

Company represented by Sylvie Bourguignon, partner

Alternate: BEAS represented by Mireille Berthelot, partner

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

As the terms of office as Statutory Auditors of Deloitte & Associés and BEAS are due to expire, the Shareholders' Meeting of May 29, 2019 is asked to reappoint Deloitte & Associés as principal Statutory Auditor and to exempt itself from appointing an alternate Statutory Auditor (per article L.823-1 of the *Code of Commerce*).

Ernst & Young et Autres

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

Company represented by Vincent Roty, partner

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

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

IFRS Financial Statements

As a reminder, the financial statements for the 2017 fiscal year were prepared in accordance with IAS 39 (the accounting principles applied for this fiscal year were described in the 2017 annual financial report). Since January 1, 2018, the financial statements are prepared in accordance with IFRS 9.

The impact of this change is reflected in the column headed 1/1/2018 of the balance sheet below and is detailed in Note 8.

Assets as of December 31, 2018

EUR millions	Note	12/31/2017	1/1/2018(1)	12/31/2018
Central banks	2.1	2,560	2,560	1,927
Financial assets at fair value through profit or loss	2.2	-	6,951	5,586
Hedging derivatives	4.1	4,715	4,709	4,415
Financial assets available for sale	2.3	2,790	-	-
Financial assets at fair value through OCI	2.4	-	942	1,563
Loans and advances due from banks at amortized cost	2.5	295	295	239
Loans and advances to customers at amortized cost	2.6	57,014	43,607	44,706
Bonds at amortized cost	2.7	-	8,391	9,384
Fair value revaluation of portfolio hedge		2,518	2,518	2,552
Financial assets held to maturity		-	-	-
Current tax assets	2.8	14	14	0
Deferred tax assets	2.8	64	38	80
Tangible assets	2.9	6	6	6
Intangible assets	2.10	29	29	33
Accruals and other assets	2.11	2,427	2,427	2,231
TOTAL ASSETS		**72,432**	**72,487**	**72,722**

(1) Balance sheet presentation taking into account IFRS 9, applicable from 1st January 2018 (see Note 8).

Liabilities as of December 31, 2018

EUR millions	Note	12/31/2017	1/1/2018(1)	12/31/2018
Central banks		-	-	-
Financial liabilities at fair value through profit or loss	3.1	4	1,480	1,229
Hedging derivatives	4.1	8,063	6,587	6,134
Due to banks at amortized cost	3.2	4,215	4,215	1,928
Customer borrowings and deposits at amortized cost		-	(1)	-
Debt securities at amortized cost	3.3	56,315	56,315	60,068
Fair value revaluation of portfolio hedge		883	883	343
Current tax liabilities	3.4	1	1	8
Deferred tax liabilities	3.4	-	-	-
Accruals and other liabilities	3.5	1,434	1,434	1,429
Provisions	3.6	48	54	20
Subordinated debt		-	-	-
EQUITY		**1,469**	**1,519**	**1,563**
Share capital		1,445	1,445	1,445
Reserves and retained earnings		72	39	93
Other comprehensive income		(102)	(19)	(38)
Net income		54	54	63
TOTAL LIABILITIES		**72,432**	**72,487**	**72,722**

(1) Balance sheet presentation taking into account IFRS 9, applicable from 1st January 2018 (see Note 8).

Income statement

EUR millions	Note	2017	2018
Interest income	5.1	2,657	2,723
Interest expense	5.1	(2,483)	(2,594)
Fee and commission income	5.2	7	4
Fee and commission expense	5.2	(4)	(3)
Net result of financial instruments at fair value through profit or loss	5.3	(7)	43
Net result of financial instruments at fair value through OCI	5.4	-	0
Net result of financial instruments at amortized cost	5.5	-	12
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 OCI to fair value through profit or loss		-	-
Net result of financial assets	5.6	14	-
Other income		0	0
Other expense		(0)	(0)
NET BANKING INCOME		**184**	**186**
Operating expenses	5.7	(107)	(101)
Depreciation and amortization of property and equipment and intangible assets	5.8	(6)	(10)
GROSS OPERATING INCOME		**71**	**75**
Cost of risk	5.9	22	(5)
OPERATING INCOME		**93**	**69**
Net gains (losses) on other assets		-	-
INCOME BEFORE TAX		**93**	**69**
Income tax	5.10	(39)	(6)
NET INCOME		**54**	**63**
EARNINGS PER SHARE (IN EUR)			
- Basic		5.80	6.80
- Diluted		5.80	6.80

Net income and unrealized or deferred gains and losses through equity

EUR millions	2017	2018
NET INCOME	**54**	**63**
ITEM THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS	**27**	**(18)**
Unrealized or deferred gains and losses of financial assets available for sale	34	-
Unrealized or deferred gains and losses of financial assets at fair value through OCI	-	(2)
Unrealized or deferred gains and losses of cash flow hedges	7	(19)
Tax	(14)	3
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 subsequently be reclassified as profit or loss	(0)	(0)
TOTAL UNREALIZED GAINS OR LOSSES THROUGH EQUITY	**27**	**(18)**
NET INCOME AND GAINS OR LOSSES THROUGH EQUITY	**81**	**45**

Equity

EUR millions	Capital and reserves			Unrealized or deferred gains and losses				Total equity
	Share capital, additional paid-in capital	Retained earnings and net income for the period	Total	Net change in fair value of avalaible-for-sale financial assets, after tax	Net change in fair value of avalaible-for sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax	Total	
EQUITY AS OF DECEMBER 31, 2017	**1,445**	**126**	**1,571**	**(83)**	**-**	**(19)**	**(102)**	**1,469**
IFRS 9 first time application (see Note 8)	-	(33)	(33)	82	-	-	82	49
EQUITY AS OF 1ST JANUARY 2018	**1,445**	**93**	**1,538**	**(1)**	**-**	**(19)**	**(20)**	**1,518**
Stocks issued	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-
Changes in fair value of available for sale financial assets through equity	-	-	-	-	(1)	-	(1)	(1)
Changes in fair value of derivatives through equity	-	-	-	0	-	(17)	(17)	(17)
Changes in fair value of available-for-sale financial assets through profit and loss	-	-	-	-	-	-	-	-
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-	-
Net income for the period	-	63	63	-	-	-	-	63
Other movements	-	-	-	-	-	-	-	-
EQUITY AS OF DECEMBER 31, 2018	**1,445**	**156**	**1,601**	**(1)**	**(1)**	**(36)**	**(38)**	**1,563**

Cash flow statement

EUR millions	12/31/2017	12/31/2018
NET INCOME BEFORE TAX	**93**	**69**
+/- Depreciation and write-downs	(56)	(104)
+/- Expense / income from investing activities	118	178
+/- Expense / income from financing activities	(95)	8
+/- Other items	42	182
Non-monetary items included in net income before tax and other adjustments	***9***	***264***
+/- Cash from interbank operations	(2,403)	(2,243)
+/- Cash from customer operations	452	(155)
+/- Cash from financing assets and liabilities	(127)	(1,630)
+/- Cash from non-financing assets and liabilities	(712)	(185)
- Income tax paid	(36)	(15)
Decrease / (increase) in cash from operating activities	***(2,826)***	***(4,228)***
CASH FLOW FROM OPERATING ACTIVITIES (A)	**(2,724)**	**(3,895)**
CASH FLOW FROM INVESTING ACTIVITIES (B)	**-**	**(5)**
+/- Cash from or for shareholders	(0)	(50)
+/- Other cash from financing activities	410	3,310
CASH FLOW FROM FINANCING ACTIVITIES (C)	**410**	**3,260**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH AND CASH EQUIVALENTS (D)	**-**	**-**
INCREASE / (DECREASE) IN CASH AND IN CASH EQUIVALENTS (A + B + C + D)	**(2,314)**	**(640)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**4,895**	**2,581**
Cash and balances with central banks (assets & liabilities)	4,878	2,560
Interbank accounts (assets & liabilities) and loans / sight deposits	17	21
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**2,581**	**1,941**
Cash and balances with central banks (assets & liabilities)	2,560	1,927
Interbank accounts (assets & liabilities) and loans / sight deposits	21	14
CHANGE IN NET CASH	**(2,314)**	**(640)**

Notes to the IFRS financial statements

1. Accounting and valuation policies

1.1 – APPLICABLE ACCOUNTING STANDARDS

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

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

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

The consolidated financial statements as of December 31, 2018 were approved by the Board of Directors on March 28, 2019.

Due to the entry into force of IFRS 9 for reporting periods beginning on or after January 1, 2018, the Group has disclosed in its financial statements presented below the information required under IFRS 7.42I and followings on the transition from IAS 39 to IFRS 9: IFRS 9 first time application impacts are detailed in note 8.

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, 2018

- **IFRS 9 Financial Instruments:** this standard, which replaces IAS 39, was adopted by the European Union on November 22, 2016 (EU Regulation n°2016/2067) and has come into effect for fiscal years beginning on or after January 1, 2018. It sets out new principles for:
  - classification and valuation of financial assets: accounting is defined on the basis of the management model implemented, on the one hand, and the nature of the flows received, i.e. consisting exclusively of payments of principal and interest (SPPI[1]), or including other elements (non-SPPI), on the other hand;
  - impairment for credit risk: the standard introduces a single loss impairment model that requires to account for 12-month expected credit losses for all assets that enter into the balance sheet, and lifetime expected credit losses if the credit risk has increased significantly since the initial recognition of the asset;
  - hedge accounting, with the exception of macro-hedging transactions, which are to be the subject of a separate draft standard currently being studied by the IASB.

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

Classification and measurement

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

- the management model implemented for all loans portfolios and most of securities portfolios is the Hold-To-Collect model: such assets are accounted for and measured at amortized cost except the ones which do not meet the cash flow criterion representing solely principal and interests;
- only securities held for cash investment purposes are classified within an Hold-To-Collect-and-Sale management model: this comes from the higher sales frequency and volume for these assets, objective of which is specifically to address day-to-day liquidity management needs of the Group. These assets are accounted for and measured at fair value through the item Unrealized or deferred gains and losses of equity.

Some loans, which do not meet the cash flow criterion representing solely principal and interests, are, from January 1, 2018, accounted for and measured at fair value through profit or loss. Such measurement is performed according to a mark-to-model-based methodology due to the absence of observable prices in an active market. They are composed of loans, contractual flows of which are not in line with those of a basic lending agreement as the latter is defined under the standard; this may be due in particular to the inclusion in the interest rate formula of a leverage effect or an indexation on foreign exchange rates.

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

Moreover, in October 12, 2017, IASB issued an amendment to IFRS 9 entitled Prepayment Features with Negative Compensation which deals with instruments whose contractual terms may eventually result in a prepayment inferior to the sum of the outstanding principal and accrued interest. Under this amendment, such instruments do meet the SPPI criterion, provided that the prepayment essentially represents the outstanding principal and the related interest plus a reasonable compensation irrespective of its sign (payment by the borrower to the lender or by the lender to the borrower). Effective for reporting periods beginning on or after

(1) *SPPI : Solely Payments of Principal and Interest*

January 1, 2019, an earlier application of this amendment is permitted. The Group opted for an earlier application of this amendment from January 1, 2018, given the endorsement by the European Union in March 22, 2018 (UE Regulation n° 2018/498).

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

Impairment of financial assets

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

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

The Group has leveraged on its existing framework of calculation of the capital requirements involved by credit risk pursuant to Prudential Regulation (advanced models and prudential calculation rules) and, in the prospect of integrating a prospective dimension, forward-looking scenarios (projections of financial information impacting the portfolios) have been taken into consideration.

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

Finally, as regards the prudential requirements, the Group does not apply the phase-in provisions embedded within UE Regulation n° 2017/2395 that enable a progressive recognition of the first time application impact of the standard.

Hedge accounting

In the case of hedge accounting, the standard leaves the choice, when first applying IFRS 9, to apply the new provisions or to maintain the provisions in force under IAS 39 until the entry into force in Europe of the future macro-hedging standard. 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 as a result of the amendments to IFRS 7 Financial Instruments: Disclosures.

Implementation of IFRS 9

The implementation of the new standard has been based on a steering committee involving Group executive management, the finance division, the risks division, the head of information systems, as well as the president of the executive board of Caisse Française de Financement Local.

Work on changes to the information systems related to this new standard has been integrated into the work plan and planning of the business teams and IT teams for 2017 and 2018. All the components of the information system affected by the implementation of IFRS 9 have been subject to tests which have been partly integrated into the IT simplification and reinforcement program (Oxygen project).

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

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

Similarly, methodologies (models and parameters used), forward-looking scenarios and likelihood of occurrence related to impairment under IFRS 9 have been validated by the department credit validation and quality control. These scenarios have been embedded within the formal reporting sent to credit validation committee, risk committee, internal control and risk committee, the latter being a specialized committee of the Board of the Group, and Caisse Française de Financement Local's executive board.

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

At each closing date, the split in Stages as well as the impairment amounts are submitted for assessment and approbation to the impairment committee prior to their integration in the information systems. Impairment amounts are disclosed both internally – through a trimestral presentation to the internal control and risk committee and the risk trimestral review – and externally – through financial reports.

Finally, the accounts committee of the Group, which is an emanation of the executive board of the Group, the executive board and the supervisory board of Caisse Française de Financement Local have been regularly informed on IFRS 9 project progress and on the financial impacts of the entry into force of this new standard.

Amendments of IFRS framework induced by IFRS 9

IFRS 9 amends some other IFRS, in particular:

- IAS1 Presentation of financial statements: the accounting items belonging to net banking income and other comprehensive income are modified and adapted to IFRS 9;
- IFRS 7 Financial Instruments: Disclosures: additional pieces of information in Annex are required, especially relating to hedge accounting and credit risk.

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

From January 1, 2018 consolidated financial statements of the Group are compliant with this Recommendation.

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

This standard has no material impact on consolidated financial statements of the Group.

- Amendment to **IFRS 4 Insurance contracts:** issued by IASB in September 12, 2016, endorsed by the European Union in November 9, 2017 (UE Regulation n° 2017/1988) and effective for reporting periods beginning on or after January 1, 2018, this amendment aims at addressing the temporary accounting consequences of the different effective dates of IFRS 9 and the new IFRS 17 standard dealing with insurance contracts and replacing IFRS 4 standard. Under certain conditions, it allows in particular entities whose activity is predominantly connected with insurance, and by extension under the European version the insurance sector within a financial conglomerate, to defer until January 1, 2021 (if not until January 1, 2022 given the tentative decision of IASB's Board taken in November 14, 2018) the date of application of IFRS 9 standard.

This amendment has no impact on consolidated financial statements of the Group given that the latter has no insurance-related activity.

- Amendments to **IAS 28 Investments in Associates and Joint Ventures / IFRS 1 First-time Adoption of International Financial Reporting Standards / IFRS 12 Disclosure of Interests in Other Entities:** issued by IASB in December 8, 2016 in the framework of its regular IFRS improvement process, endorsed by the European Union in February 7, 2018 (UE Regulation n° 2018/182) and effective for reporting periods beginning on or after January 1, 2018 for the amendments to IAS 28 and IFRS 1 and January 1, 2017 for the amendment to IFRS 12, these amendments deal with interests classified as held for sale or discontinued operations under IFRS 5 and consolidation rules applying to an associate or a joint venture being held by or through a mutual fund or a venture capital organization.

These amendments have no impact on consolidated financial statements of the Group given that the latter holds no interest in the scope of IFRS 5 and holds no associate or joint venture.

- Amendment to **IFRS 2 Share-based payments:** issued by IASB in June 20, 2016, endorsed by the European Union in February 26, 2018 (UE Regulation n° 2018/289) and effective for reporting periods beginning on or after January 1, 2018, this amendment aims at clarifying the way IFRS 2 shall be applied by entities in some particular cases.

This amendment has no impact on consolidated financial statements of the Group given that the latter is not involved in share-based payment transactions.

- Amendment to **IAS 40 Investment property:** issued by IASB in December 8, 2016, endorsed by the European Union in March 14, 2018 (UE Regulation n° 2018/400) and effective for reporting periods beginning on or after January 1, 2018, this amendment clarifies when an entity is allowed to reclassify a property to, or from, the investment-property category.

This amendment has no impact on consolidated financial statements of the Group given that the latter holds no investment property.

- **IFRIC 22 Foreign Currency Transactions and Advance Consideration:** issued by IASB in December 8, 2016, endorsed by the European Union in March 28, 2018 (UE Regulation n° 2018/519) and effective for reporting periods beginning on or after January 1, 2018, this interpretation clarifies that, when an entity recognizes a non monetary asset or liability arising from the receipt or payment of advance consideration in a foreign currency, the transaction date for the purpose of determining the exchange rate to use for the related asset, expense or income that are subsequently recognize is the initial recognition date of the non monetary asset or liability denominated in a foreign currency.

This interpretation has no material impact on consolidated financial statements of the Group given that the latter holds no non monetary asset or liability denominated in a foreign currency.

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

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

The impacts of this standard on the consolidated financial statements of the Group are being analyzed and the calculation of IFRS 16 first time application impact is being performed. The Group has not opted for an earlier application of this new standard.

- **IFRIC 23 Uncertainty over Income Tax Treatments:** issued by IASB in June 7, 2017, endorsed by the European Union in October 23, 2018 (UE Regulation n° 2018/1595) and effective for reporting periods beginning on or after January 1, 2019, this interpretation specifies how to reflect uncertainty over tax treatments applied when determining taxable profit, tax bases, unused tax losses, unused tax credits and tax rates. The entity shall assume that the taxation authority will perform exhaustive examinations and that, during these examinations, it will have full knowledge of all related information.

The impacts of this interpretation on consolidated financial statements of the Group are being analyzed. The Group has not opted for an earlier application of this new interpretation.

- Amendment to **IAS 28 Investments in associates:** issued by IASB in October 12, 2017 in the framework of its regular IFRS improvement process, endorsed by the European Union in February 8, 2019 (UE Regulation n° 2019/237) and effective for reporting periods beginning on or after January 1, 2019, this amendment confirms that IFRS 9 applies to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in an associate or joint venture.

This amendment will have no impact on consolidated financial statements of the Group given that the latter holds no associate or joint venture. The Group has not opted for an earlier application of this amendment.

- Amendment to **IAS 19 Employee benefits:** issued by IASB in February 7, 2018, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2019, this amendment elaborates on how the net liability (or asset) accounted for shall be subsequently re-measured in case of an amendment, curtailment or settlement of a defined contribution plan within a reporting period.

The impacts of this amendment on consolidated financial statements of the Group are being analyzed.

- Amendments to **IAS 12 Income taxes / IAS 23 Borrowing costs / IFRS 3 Business combinations / IFRS 11 Joint Arrangements:** issued by IASB in December 2017 in the framework of its regular IFRS improvement process, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2019, these amendments elaborate on:
- as regards IAS 12, how income tax consequences of dividend payments shall be recognized;
- as regards IAS 23, how the residual borrowing costs shall ceased to be incorporated in the cost of an asset when the latter is ready for its intended use or sale: these residual borrowing costs shall become part of the general borrowings used for computing the capitalization rate;
- as regards IFRS 3, how the acquisition of control of a joint operation shall be accounted for;
- as regards IFRS 11, how the joint acquisition of control in the framework of a joint operation shall be accounted for.

The impacts of these amendments on consolidated financial statements of the Group are being analyzed. The amendments of IAS 23, IFRS 3 and IFRS 11 will at a first sight have no impact on consolidated financial statements of the Group given that the operations of the latter are out of the scope of these standards.

- **IFRS 17 Insurance contracts:** issued by IASB in May 2017, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2021 (if not January 1, 2022 given the tentative decision of IASB's Board taken in November 14, 2018), this standard, which will replace IFRS4, 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).
- Amendments to **IAS 1 Presentation of financial statements / IAS 8 Accounting policies, changes in accounting estimates and errors:** issued by IASB in October, 2018, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2020, these amendments aim at clarifying and aligning the definition of materiality across the IFRS standards in the purpose of enhancing the consistency of its application in the financial statements.
- Amendment to **IFRS 3 Business combinations:** issued by IASB in October, 2018, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2020, this amendment narrows and clarifies the definition of a business, a key concept that enables to distinguish a business combination from a mere acquisition of a group of assets.

Given the distant dates of applications of these new standard and amendments and as the European Union has not endorsed them so far, the impacts of these new standard and amendments on consolidated financial statements of the Group 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 resort to estimates and assumptions that affect the amounts reported. In order to make these assumptions and estimates, management uses the information available at the date of financial statement preparation and exercises its judgment. While management believes it has considered all available information when making these assumptions, actual results may differ from such estimates and the differences may have a material impact on the financial statements.

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

These judgments are detailed in the following chapters.

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

1.2.1. Consolidation

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

The Group controls a subsidiary when the following conditions are all met:
- the Group has the power over the relevant activities of the entity, through voting rights or other rights;
- the Group is exposed to or has rights to variable returns from its involvement with the entity;
- the Group has the ability to use its power over the entity to affect the amount of those returns.

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

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

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

1.2.2. Offsetting financial assets and liabilities

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

1.2.3. Foreign currency transactions

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

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

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

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

1.2.4. Trade date and settlement date accounting

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

1.2.5. Financial assets

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

1.2.5.1. Business model

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

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

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

- qualitative evidences: 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 evidences: the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity.

It can be inferred from this assessment that the Group only uses the Hold-To-Collect (HTC) model and the Holt-To-Collect-and-Sell (HTCS) model. The Group holds no financial assets for trading purposes, i.e. 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 form of its rate (fixed or variable), this is the case when the contractual cash flows embed only a compensation for the time value of money, a compensation for the credit risk derived from the outstanding principal for a given time period, if applicable a compensation for other basic lending risks (e.g. liquidity risk) and costs (e.g. administrative costs) associated with holding the asset for a particular period of time, plus if applicable a margin.

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

1.2.5.3. Financial assets measured at amortized cost

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.2.5.6. Designation options

The Group does not use the following options:

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

1.2.5.7. Impairment of financial assets

Defining the impairment base

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

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

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

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

No loss allowance is recognized at initial recognition for purchased or originated credit-impaired financial assets. Interest incomes generated by these assets are determined using an effective interest rate that embeds expected credit losses. Subsequently, the loss allowance recognized on these assets corresponds to the accumulated variations of lifetime expected credit losses from initial recognition. The

Group does not primarily intend to purchase or originate purchased or originated credit-impaired financial assets.

Assessing whether credit risk has significantly increased

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

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

The contract is classified in Stage 3 when the exposures to that counterparty are regarded as Non performing under Basel framework (NPE – Non performing exposures), i.e.:

- when the counterparty is unlikely to pay, which is evidenced by a credit risk rating characterizing a real default situation: it is probable that the counterparty will not repay all or part of its debt, without recourse to realizing securities if applicable; and / or
- when it presents material arrears in payment on the principal and / or on interest past due of more than 90 days.

The contract is classified in Stage 2 when the exposures to that counterparty are regarded as Performing under Basel framework but it is in one or the other of the following situations:

- it is followed by the Watchlist Committee, due to an increase in its credit risk, or it is in Forbearance, which means that the Group has refrained the enforcement of its rights toward counterparty facing financial difficulties;
- it presents arrears in payment on the principal and / or on interest past due of more than 30 days (and less than 90 days) for Public Sector and Corporate / projects entities or more than 1 day for Sovereigns and Credit institutions;
- its rating presents one of the following characteristics: it is non Investment grade (internal rating inferior or equal to BB+), it has no rating, it has experimented or is to experiment a rating migration regarded as risky in the forward looking scenarios. The rating migrations regarded as risky have been assessed to be as such based on a quantitative modeling realized on the basis of a statistical analysis using historical data and completed by the use of expert judgment.

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

The principle of contagion used in Basel framework to define NPE, has been transposed to accountings: the assessment of credit risk significant increase is performed at counterparty level.

Stages transitions must be compliant with the following rules:

- the contracts that present an internal credit rating characterizing a real default situation can get out of Stage 3 and go back to Stage 2 or Stage 1 only after a cure period of one year during which they are considered as Non performing and stay classified in Stage 3. Exit from Stage 3 must in addition be formally decided in Default Committee and is conditional to the full repayment of arrears if any;
- the contracts in Forebearance can get out of Stage 2 or as appropriate Stage 3 and go back to Stage 1 only after a cure period of 2 years after the date when the forbearance has been granted if the contract is in Stage 2, or after the date when the contract exited Stage 3.

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 integrate a forward looking dimension, which consists in projecting macroeconomic and financial variables and assessing their impacts on loss allowances. These scenarios are built upon either projections realized by the credit risk direction, or quantitative research developed from data issue from advanced models. In the case of French local communities, the main pieces of information taken into account are the expectations and objectives in term of local public expenditures and tax revenues developed, in particular, in the draft budget bills and the programs for stability of the State, as well as the hypothesis regarding recourse to taxation.

For the contracts of counterparties classified in Stage 1 or Stage 2, the expected credit losses equals the present value of the product of three parameters discounted at the original effective interest rate of the contract: the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). These parameters depend on the scenario and the year considered. The Group has capitalized on the framework of calculation of these parameters under Basel regulation and has introduced adjustments so as to comply with specific provisions of IFRS 9: point in time analysis with the integration of a forward looking perspective under IFRS 9 (vs. through the cycle analysis for the probability of default and downturn analysis for the loss given default under Prudential regulation). This approach has resulted in the definition of IFRS 9 specific models for each material portfolio.

For the contracts of counterparties classified in Stage 3, the expected credit losses equals the loss at maturity, i.e. the difference between the sequence of cash flows contractually due to the Group and the sequence of cash flows that the Group expects to recover, both discounted at the original effective interest rate. Depending on the materiality of the contract, the cash flows that the Group expects to recover are calculated either through individual simulations performed by the credit risk direction, or through standard recovery scenarios using predefined management rules. These flows are if applicable net of any flows derived from realizing securities which form an integral part of contractual provisions. The expected credit losses accounted for are floored to the amount of expected credit losses calculated by applying the methodology used for a Stage 2 contract and integrating a stress factor through the use of the probability of default corresponding to the worst rating of the scale that the underlying asset belongs to.

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 period considered as net banking income.

Case of disposals

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

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

Case of repos and reverse repos operations

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

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

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

Case of prepayments

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

- In the case of a prepayment without refinancing, the loan does not exist any longer and is derecognized.
- In the case of a prepayment with refinancing, the accounting treatment differs depending on whether the restructured terms are substantially different from the original terms; it is the in particular the case in one of the following situations:
  - the restructured loan is not classified in the same accounting category as the original loan, either because its contractual cash flows are from now compliant with the SPPI criterion (while they were not originally) or because they are not any longer (while they were originally);
  - the net present value of the cash flows under the new conditions, including any fees paid net of any fees received, is more than 10% different from the net present value of the cash flows remaining from the original loan, both of these present values being discounted at the original effective interest rate.

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

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

1.2.6. Financial liabilities

1.2.6.1. Financial liabilities held for trading
The Group does not hold financial liabilities belonging to this category.

1.2.6.2. Financial liabilities designated at fair value through profit or loss
The Group does not use this option.

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

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

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

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

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

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

1.2.7. Derivatives

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

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

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

1.2.7.1. Derivatives not documented in a hedging relationship
The Group enters into derivative contracts for the unique purpose of hedging its exposures to interest rate or foreign exchange positions. However, some derivatives must be measured at fair value through profit or loss at closing date; they are:
- the ones which failed hedge effectiveness tests at closing date;
- the ones which hedge financial assets that are measured at fair value through profit or loss. In this case, the revaluation of the derivative hedges natively the revaluation of the hedged risk of the hedged item, making pointless the documentation of a hedging relationship.

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

1.2.7.2. Hedging derivatives
Hedging derivatives can be classified as either:
- hedges of the fair value of a recognized asset or liability or a firm commitment (fair value hedge); or
- hedges of a future cash flow that might eventually impact the future profit or loss and that is attributable to a recognized asset or liability or a forecast and highly probable future transaction (cash flow hedge).

Hedge accounting may be used for such derivatives, provided certain criteria are met:
- precise and formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be effective both prospectively and retrospectively in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the reporting periods;
- the hedge, effectiveness of which has been reliably measured, shall be effective at inception and on an ongoing basis;
- for hedges of a future cash flow, the future transaction that constitutes if applicable the hedged item must be highly probable and must 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 re-evaluating the hedged risk of the financial instrument, in parallel with the revaluation of the hedging derivative.

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

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

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

1.2.7.3. Hedging of the interest rate risk of a portfolio

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

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

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

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

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

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

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

1.2.8. Fair value of financial instruments

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

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

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

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

1.2.8.1. Fair value of financial instruments measured at amortized cost

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

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

1.2.8.2. Financial instruments measured at fair value

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

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

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

As a reminder, Caisse Française de Financement Local does not pay any collateral to its derivative counterparties, which benefit from the legal privilege on assets, as well as the legal holders of covered bonds.
In addition, a value adjustment is included in the fair value of derivatives to reflect the impact of counterparty's credit risk (CVA – credit valuation adjustment) or the Group's own credit quality (DVA – debit valuation adjustment). Value adjustment allows switching from a fair value based on cash flows discounted at risk-free rate, i.e. without considering credit risk, into a fair value including this risk. Its calculation is based on the risk exposures combined with loss rates including market parameters.

1.2.9. Deferred taxes

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

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

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

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

1.2.10. Tangible and intangible assets

Fixed assets consist exclusively of operating tangible and intangible assets. These assets are held for production or administrative purposes. Fixed assets are recognized as assets if:
- it is probable that the associated future economic benefits will flow to the entity, and
- their cost can be measured reliably.

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

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

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

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

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

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

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

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

1.2.11. Leases

SFIL contracts leases as lessee. Under IAS 17 given that they are operating leases, leased assets are not recognized on the balance sheet. Rentals payable under operating leases are recognized in profit or loss on a straight-line basis over the periods of the leases. When leases are terminated early, all penalties payable to the lessor are reported as expenses in the period in which the termination has occurred.

1.2.12. Provisions

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

Regarding mainly litigations and restructuring, under IAS 37, a provision is recognized when and only when:
- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

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

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

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

1.2.13. Employee benefits

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

1.2.13.1. Short-term benefits

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

1.2.13.2. Long-term benefits

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

1.2.13.3. Termination benefits

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

1.2.13.4. Post-employment benefits

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

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

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

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

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

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

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

1.2.14. Interest income and expense

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

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

1.2.15. Commissions

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

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

1.2.16. Earnings per share

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

1.2.17. Cash and cash equivalents

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

1.2.18. Related-party transactions

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

1.2.19. Segment reporting

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

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

2. Notes to the assets (EUR millions)

2.1 - CENTRAL BANKS

	12/31/2017	12/31/2018
Mandatory reserve	-	-
Other deposits	2,560	1,927
TOTAL	**2,560**	**1,927**

2.2 - FINANCIAL ASSETS AT FAIR VALUE THROUGH NET INCOME

2.2.1. Analysis by nature

	12/31/2017	12/31/2018
Loans and advances to customers	-	5,573
Non hedging derivatives	-	13
TOTAL	**-**	**5,586**

2.2.2. Loans and advances to customers analysis by counterparty

	12/31/2017	12/31/2018
Public sector	-	5,099
Other - guaranteed by a State or local government	-	474
TOTAL	**-**	**5,573**
of which eligible for central bank refinancing	-	*4,737*
of which assets assigned in guarantee to the central bank	-	-

2.3 - FINANCIAL ASSETS AVAILABLE FOR SALE

2.3.1. Analysis by nature

	12/31/2017	12/31/2018
Loans	-	N/A
Bonds	2,790	N/A
TOTAL	**2,790**	**N/A**

2.3.2. Analysis by counterparty

	12/31/2017	12/31/2018
Public sector	1,647	N/A
Credit institutions guaranteed by the public sector	-	N/A
Total public sector	**1,647**	**N/A**
Credit institutions	1,143	N/A
Total credit institutions	**1,143**	**N/A**
TOTAL	**2,790**	**N/A**
of which eligible for central bank refinancing	*2,572*	*N/A*

2.3.3. Impairment

	12/31/2017	12/31/2018
Public sector	1,647	N/A
Credit institutions	1,143	N/A
Total performing assets	**2,790**	**N/A**
Public sector	-	N/A
Credit institutions	-	N/A
Total impaired assets	**-**	**N/A**
Specific impairment	-	N/A
TOTAL ASSETS AFTER IMPAIRMENT	**2,790**	**N/A**

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

See note 4.4

2.4 - FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

2.4.1. Analysis by nature

	12/31/2017	12/31/2018
Stocks	N/A	-
Debt securities	N/A	1 563
TOTAL	**N/A**	**1 563**

2.4.2. Analysis by counterparty

	12/31/2017	12/31/2018
Public sector	N/A	218
Credit institutions	N/A	1,345
TOTAL	**N/A**	**1,563**
of which eligible for central bank refinancing	-	*1,329*

2.5 - LOANS AND ADVANCES DUE FROM BANKS AT AMORTIZED COST

2.5.1. Analysis by counterparty

	12/31/2017	12/31/2018
Credit institutions	17	7
Swiss cantonal banks benefiting from their cantons' legal guarantee	30	-
Banks guaranteed by a local government, *crédits municipaux*	22	9
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	226	223
TOTAL	**295**	**239**
of which eligible for central bank refinancing	-	-

2.5.2. Analysis by nature

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

	12/31/2018								
	Gross amount			Impairment			Net amount	Accumulated partial write-offs	Accumulated total write-offs
	Stage 1	*Stage 2*	*Stage 3*	*Stage 1*	*Stage 2*	*Stage 3*			
Sight accounts	7	-	-	-	-	-	7	-	-
Other loans and advances due from banks	232	-	-	(0)	-	-	232	-	-
TOTAL	**239**	**-**	**-**	**(0)**	**-**	**-**	**239**	**-**	**-**

2.5.3. Analysis by residual maturity

See note 7.4

2.6 - LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

2.6.1. Analysis by counterparty

	12/31/2017
Public sector	54,284
Other - guaranteed by a State or local government	2,219
Other - loans to SFIL's employees	6
Performing assets	**56,509**
Impaired loans and advances	558
Impaired assets	**558**
Total assets before impairment	**57,067**
Specific impairment	(23)
Collective impairment	(30)
TOTAL	**57,014**
of which eligible for central bank refinancing	*39,575*

	12/31/2018								
	Gross amount			Impairment			Net amount	Accumulated partial write-offs	Accumulated total write-offs
	Stage 1	*Stage 2*	*Stage 3*	*Stage 1*	*Stage 2*	*Stage 3*			
Public sector	38,473	3,153	1,090	(1)	(20)	(10)	42,685	-	-
Non financial institutions	1,732	289	-	(1)	(2)	-	2,018	-	-
Loans to SFIL's employees	3	-	-	-	-	-	3		
TOTAL	**40,208**	**3,442**	**1,090**	**(2)**	**(22)**	**(10)**	**44,706**	**-**	**-**

Assets considered as "forborne" by SFIL concern exposures to loan contracts for whitch concessions have been granted in light of the borrower's financial difficulties (recognised or forthcoming) that would not have been granted under other circumstances.These concessions may be either a waiver of a part of the debt, a rescheduling of the loan repayment, restructuring measures throught an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions aimed at reducing the sensitivity of the loan.
There were 173 forborne contracts as of December 31th, 2018, with 88 borrowers, for a total of EUR 1,039 million.

2.6.2. Analysis by residual maturity

See note 7.4

2.7 - BONDS AT AMORTIZED COST

2.7.1. Analysis by counterparty

	12/31/2017	12/31/2018
Public sector bonds	N/A	7,181
Replacement assets	N/A	2,011
Other bonds guaranteed by a State or local government	N/A	192
TOTAL	**N/A**	**9,384**
of which eligible for central bank refinancing	*N/A*	*5,421*

	12/31/2018								
	Gross amount			Impairment			Net amount	Accumulated partial write-offs	Accumulated total write-offs
	Stage 1	*Stage 2*	*Stage 3*	*Stage 1*	*Stage 2*	*Stage 3*			
Public sector	4,424	2,778	5	(3)	(24)	(0)	7,180	-	-
Credit institutions	2,011	-	-	(0)	-	-	2,011	-	-
Non financial institutions	118	75	-	(0)	-	-	193	-	-
TOTAL	**6,553**	**2,853**	**5**	**(3)**	**(24)**	**(0)**	**9,384**	**-**	**-**

2.7.2. Analysis by residual maturity

See note 7.4

2.8 - TAX ASSETS

	12/31/2017	12/31/2018
Current income tax	14	-
Other taxes	0	-
Current tax assets	**14**	**-**
Deferred tax assets (see note 4.2)	**64**	**80**
TOTAL TAX ASSETS	**78**	**80**

Deferred tax assets were submitted to a recoverability test taking into account the business plans presented to the Board of Directors according to realistic hypotheses. Deferred taxes as of December 31, 2018, are recoverable on the basis of this analysis within a reasonable horizon by taking into account the tax rules governing the treatment of past deficits. In 2018, SFIL Group has no deferred tax assets related to carry forward tax losses.
In addition, SFIL Group takes into account the legislative measures designed to reduce the corporate income tax rate to 25.83% as of 2022.

2.9 - PROPERTY AND EQUIPMENT

	Computer equipment	Other equipment	Fixtures	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2017	**2**	**0**	**8**	**0**	**10**
Changes during the year:					
*increases	0	0	0	1	1
*decreases	-	-	-	(0)	(0)
*other	-	-	-	-	-
ACQUISITION COST AS OF 12/31/2018	**2**	**0**	**8**	**1**	**11**
Depreciation and impairments as of 12/31/2017	(1)	(0)	(3)	-	(4)
Changes during the year:					
*amortization	(0)	(0)	(1)	-	(1)
*write-back	-	-	-	-	-
*cancellation	-	-	-	-	-
Depreciation and impairments as of 12/31/2018	(1)	(0)	(4)	-	(5)
NET CARRYING AMOUNT AS OF 31/12/2018	**1**	**0**	**4**	**1**	**6**

2.10 - INTANGIBLE ASSETS

	Software	Internally developed assets	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2017	**4**	**16**	**20**	**40**
Changes during the year:				
*increases	11	18	3	32
*decreases	-	-	(19)	(19)
*others	-	-	-	-
ACQUISITION COST AS OF 12/31/2018	**15**	**34**	**4**	**53**
Depreciation and impairments as of 12/31/2017	(3)	(8)	-	(11)
Changes during the year:				-
*amortization	(3)	(6)	-	(9)
*write-back	-	-	-	-
*cancellation	-	-	-	-
Depreciation and impairments as of 12/31/2018	(6)	(14)	-	(20)
NET CARRYING AMOUNT AS OF 31/12/2018	**9**	**20**	**4**	**33**

2.11 - ACCRUALS AND OTHER ASSETS

	12/31/2017	12/31/2018
Cash collateral paid	2,359	2,137
Other accounts receivable	3	2
Prepaid charges	29	76
Other assets	36	16
TOTAL ACCRUALS AND OTHER ASSETS	**2,427**	**2,231**

3. Notes to the liabilities (EUR millions)

3.1 - FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

3.1.1. Analysis by nature

	12/31/2017	12/31/2018
Non hedging derivatives(1)	4	1,229
TOTAL	**4**	**1,229**

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

3.2 - DUE TO BANKS AT AMORTIZED COST

3.2.1. Analysis by nature

	12/31/2017	12/31/2018
Current account	-	-
Term deposits	4,213	1,927
Accrued interest	2	1
TOTAL	**4,215**	**1,928**

3.2.2. Analysis by residual maturity

See note 7.4

3.3 - DEBT SECURITIES AT AMORTIZED COST

3.3.1. Analysis by nature

	12/31/2017	12/31/2018
Certificates of deposit	625	647
Euro medium term notes(1)	2,793	4,979
Obligations foncières	45,156	46,794
Registered covered bonds	7,741	7,648
TOTAL	**56,315**	**60,068**

(1) Contrary to obligations foncières, *these bonds do not benefit from the legal privilege.*

3.3.2. Analysis by residual maturity

See note 7.4

3.4 - TAX LIABILITIES

	12/31/2017	12/31/2018
Current income tax	1	7
Other taxes	0	1
Current tax liabilities	**1**	**8**
Deferred tax liabilities (see note 4.2)	**-**	**-**
TOTAL TAX LIABILITIES	**1**	**8**

3.5 - ACCRUALS AND OTHER LIABILITIES

	12/31/2017	12/31/2018
Cash collateral received	1,276	1,239
Other accrued charges	40	71
Deferred income	-	-
Contribution to support fund(1)	110	100
Other accounts payable and other liabilities	8	19
TOTAL	**1,434**	**1,429**

(1) The item includes the residual balance of the commitment that Caisse Française de Financement Local made in 2013 to contribute EUR 10 million a year for 15 years, i.e. EUR 150 million to the multi-year support funds for local governments entities.

3.6 - PROVISIONS

	12/31/2017	Additions, including increases in existing provisions	Amounts used	Unused amounts reversed during the period	Increase in the discounted amount (passage of time) and effect of any change in the discount rate	Other movements	12/31/2018
Legal issues and tax litigation(1)	41	-	-	(34)	-	-	7
Commitments and guarantees given(2)	-	1	-	-	-	6	7
Provision on pensions	7	0	-	(1)	-	-	6
TOTAL	**48**	**1**	**-**	**(35)**	**-**	**6**	**20**

(1) As of the end of 2018, the tax authority had levied adjustments relating to the 2012 and 2013 tax audit of Caisse Française de Financement Local. It nevertheless reduced the amount of the adjustment relating to the add-back of the results of the former branch in Ireland, but maintained the principle of taxation of these results in France. Caisse Française de Financement Local settled this adjustment and reversed the relevant provisions. It kept in its accounts the amount of the provision set aside in respect of sums not yet paid.
(2) In connection with the implementation of IFRS 9, Group SFIL reclassifed provisions for commitments as liabilities.

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

4.1 - DERIVATIVES

4.1.1. Analysis by nature

Hedging derivatives, presented below, are made following Group SFIL risk policy detailed in the Managment report (see 2.3.3. and 2.3.4.).

	12/31/2017		12/31/2018	
	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through net income(1)	**-**	**4**	**13**	**1,229**
Derivatives designated as fair value hedges	3,356	5,422	3,305	3,741
Derivatives designated as cash flow hedges	3	56	1	74
Derivatives designated as portfolio hedges	1,360	2,587	1,114	2,335
Hedging derivatives	**4,719**	**8,065**	**4,420**	**6,150**
CVA / DVA Impact	**(4)**	**(2)**	**(5)**	**(16)**
TOTAL DERIVATIVES	**4,715**	**8,067**	**4,428**	**7,363**

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

4.1.2. Detail of derivatives designated as fair value through net income

	12/31/2017			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,725	1,611	-	-
Interest rate derivatives	20	20	-	4
TOTAL	**1,745**	**1,631**	**-**	**4**

	12/31/2018			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,552	1,532	8	25
Interest rate derivatives	4,679	4,679	5	1,204
TOTAL	**6,231**	**6,211**	**13**	**1,229**

4.1.3. Detail of derivatives designated as fair value hedges

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

	12/31/2018			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	3,991	4,170	155	344
Interest rate derivatives	63,010	63,000	3,150	3,397
TOTAL	**67,001**	**67,170**	**3,305**	**3,741**

4.1.4. Detail of derivatives designated as cash flow hedges

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

	12/31/2018			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	697	729	1	74
Interest rate derivatives	-	-	-	-
TOTAL	**697**	**729**	**1**	**74**

	12/31/2017	12/31/2018
Amount removed from cash flow hedge reserve and included in the carrying amount of a non-financial instrument (hedging of cash flows of a highly probable transaction)	-	-

4.1.5. Detail of derivatives designated as portfolio hedges

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

	12/31/2018			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	51,739	51,734	1,114	2,335
TOTAL	**51,739**	**51,734**	**1,114**	**2,335**

4.2 - DEFERRED TAXES

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

4.2.1. Analysis by nature

	12/31/2017	12/31/2018
Deferred tax assets before impairment	64	80
Impairment on deferred tax assets	-	-
Deferred tax assets	**64**	**80**
Deferred tax liabilities	-	-
TOTAL	**64**	**80**

4.2.2. Movements

	12/31/2017	12/31/2018
As of January 1	**113**	**64**
Charge/credit recognized in the income statement	(33)	(1)
Effect of change in tax rates - impact on the income statement(1)	(2)	-
Movements directly recognized in equity	(14)	(46)
Effect of change in tax rates - impact on equity	-	-
Translation adjustment	-	-
Tax audit effects	-	63
Other movements	-	-
As of end of period	**64**	**80**

(1) Group SFIL took into account the legislative measures designed to reduce the corporate income tax rate to 25,83% as of 2022.

4.2.3. Deferred taxes from assets on the balance sheet

	12/31/2017	12/31/2018
Borrowings, deposits and issues of debt securities	705	1,199
Derivatives	60	(192)
Provisions	(183)	(591)
Accruals and other liabilities	14	14
TOTAL	**596**	**430**

4.2.4. Deferred tax assets from liabilities on the balance sheet

	12/31/2017	12/31/2018
Borrowings, deposits and issues of debt securities	(532)	(352)
Derivatives	-	-
Provisions	-	2
Accruals and other liabilities	-	-
TOTAL	**(532)**	**(350)**

4.3 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature

	Parent company[1]		Other related parties[2]	
	12/31/2017	12/31/2018	12/31/2017	12/31/2018
ASSETS				
Financial assets at fair value through OCI	-	-	-	88
Loans and advances due from banks at amortized cost	-	-	-	-
Bonds at amortized cost	-	-	57	145
LIABILITIES				
Due to banks at amortized cost	-	-	4,215	1,928
INCOME STATEMENT				
Financial assets at fair value through profit or loss	-	-	-	-
Financial assets at fair value through OCI	-	-	N/A	(0)
Credit institutions interest income on loans at amortized cost	-	-	(12)	(10)
Interest income on bonds at amortized cost	-	-	(0)	(0)
Credit Institutions interest expenses on borrowing at amortized cost	-	-	(20)	(5)
Fees ans commissions	-	-	4	4
OFF BALANCE SHEET				
Foreign exchange derivatives	-	-	-	-
Interest rate derivatives	-	-	554	415
Commitments and guarantees received	-	-	7,031	9,969
Commitments and guarantees issued	-	-	4,821	4,943

(1) This item exclusively includes the Caisse Française de Financement Local, which is globally integrated.
(2) This item includes transactions with Caisse des dépôts et consignations and La Banque Postale, shareholders of SFIL.

4.4 - UNREALIZED OR DEFERRED GAINS AND LOSSES, BREAKDOWN BY COUNTRY

	12/31/2017	12/31/2018
Unrealized gains and losses on available for sale securities	**(47)**	**N/A**
Germany	0	N/A
Belgium	0	N/A
Canada	-	N/A
Spain	1	N/A
United States	0	N/A
France	0	N/A
United Kingdom	0	N/A
Italy	(48)	N/A
Norway	(0)	N/A
Netherlands	(0)	N/A
Sweden	(0)	N/A
Unrealized gains and losses on loans and receivable securities	**(78)**	**N/A**
Spain	(1)	N/A
France	2	N/A
Italy	(79)	N/A
Unrealized gains and losses on financial assets at fair value through equity	**-**	**(2)**
Unrealized gains and losses on derivatives designated as cash-flow hedges	**(29)**	**(48)**
Unrealized gains and losses on employee benefits plan	**(1)**	**(1)**
TOTAL	**(155)**	**(51)**
Deferred taxes on gains and losses, available for sale securities	16	N/A
Deferred taxes on gains ans losses, loans and receivable securities	27	N/A
Deferred taxes on gains ans losses, financial assets at fair value through equity	-	1
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	10	12
Deferred taxes on employee benefits plan	-	0
TOTAL AFTER TAXES	**(102)**	**(38)**

5. Notes to the income statement (EUR millions)

5.1 - INTEREST INCOME - INTEREST EXPENSE

Group SFIL presents interest calculated using the effective interest rate method on financial instruments measured at amortized cost or at market value through equity under the headings “Interest income” and “Interest expense”.
These headings also include interest income and expense on financial instruments recognized at fair value through proft 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 fnancial instruments at fair value through proft or loss is recorded under Net result of financial instruments at fair value through proft or loss (see section 5.3).
Interest income and expense on hedging items. Meanwhile, certain derivatives not classifed as hedging instruments for accounting purposes are held as economic derivatives are included with the revenue generated by the associated hedged hedges of financial instruments carried at fair value through profit or loss; the interest income and expense on these economic hedge derivatives are included in the headings recording the interest on these financial instruments.

	2017	2018(1)
INTEREST INCOME	**2,657**	**2,724**
Central banks	-	-
Financial assets at fair value through net income	-	175
Financial assets at fair value through equity	-	4
Loans ans advances due from banks at amortized cost	2	18
Loans and advances to customers at amortized cost	1,335	857
Bonds at amortized cost	-	151
Financial assets available for sale	35	-
Financial assets held to maturity	-	-
Derivatives used for hedging	1,280	1,518
Impaired assets	-	-
Other	5	1
INTEREST EXPENSE	**(2,483)**	**(2,594)**
Central banks	(16)	(11)
Financial Liabilities at fair value through net income	-	(172)
Due to banks at amortized cost	(15)	(11)
Due to cutomers at amortized cost	-	(1)
Debt securities at amortized cost	(1,308)	(1,211)
Subordinated debt	-	-
Derivatives used for hedging	(1,140)	(1,188)
Other	(4)	-
INTEREST MARGIN	**174**	**130**

(1) Of which interest income and expense, measured using the effective interest rate method for assets and liabilities measured at amortized cost, of EUR 1,026 million and EUR -1,223 million, respectively.

5.2 - FEES AND COMMISSIONS

	2017			2018		
	Incomes	**Expenses**	**Net**	**Incomes**	**Expenses**	**Net**
Lending activity	4	-	4	3	0	3
Purchase and sale of securities	-	(1)	(1)	-	(0)	(0)
Services on securities other than custodian services	-	(3)	(3)	-	(3)	(3)
Commissions on financial instruments	3	-	3	1	-	1
TOTAL	**7**	**(4)**	**3**	**4**	**(3)**	**1**

5.3 - NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2018
Net Result on non hedging derivatives	2	20
Net result on financial Assets or liabilities at fair value through profit or loss	-	12
Net result of hedge accounting	(9)	11
Net result of foreign exchange transactions	0	-
TOTAL	**(7)**	**43**

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

	2017	2018
Fair value hedges	**11**	**(2)**
Fair value changes in the hedged item attributable to the hedged risk	(46)	(79)
Fair value changes in the hedging derivatives	57	77
Couvertures de flux de trésorerie	-	-
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
Portfolio hedge	**-**	**-**
Fair value changes in the hedged item	(223)	50
Fair value changes in the hedging derivatives	223	(50)
CVA / DVA Impact(1)	**(20)**	**13**
TOTAL	**(9)**	**11**

(1) The effect of the application of IFRS Standard 13 brought to light a net income as of December 31, 2018 of EUR 13 million; this amount was derived using the DVA income for EUR 14 million and the CVA for EUR -1 million.

5.4 - NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH EQUITY

	2017	2018
Net result of disposals of bonds at fair value through equity	N/A	-
Net result of disposals of loans at fair value through equity	N/A	0
TOTAL	**N/A**	**0**

5.5 - GAINS AND LOSSES RESULTING FROM DERECOGNITION OF FINANCIAL INSTRUMENTS AT AMORTIZED COSTS

	2017	2018
Net result of disposals or prepayments of bonds at amortized cost	N/A	0
Net result of disposals or prepayments of loans and advances to banks at amortized cost	N/A	-
Net result of disposals or prepayments of loans and advances to customers at amortized cost	N/A	16
Net result of disposals or prepayments of due to banks at amortized cost	N/A	(4)
Net result of disposals or prepayments of debt securities at amortized cost	N/A	-
TOTAL	**N/A**	**12**

Detail of on derecognition of assets and liabilities at amortized cost

	2018	
	Notional amount	Impact on net result
Prepayments of securities	5	0
Net result of disposals or prepayments of securities at amortized cost	**5**	**0**
Prepayments of loans and advances to customers	47	7
Restructuring of loans and advances to customers	68	9
Net result of disposals or prepayments of loans and advances to customers at amortized cost	**115**	**16**
Sub-total assets	**120**	**16**
Prepayments of debt to banks	-	-
Net result of disposals or prepayments of debt to banks at amortized cost	**2,767**	**(4)**
Prepayments of debt securities	-	-
Net result of disposals or prepayments of debt securities at amortized cost	**-**	**-**
Sub-total liabilities	**2,767**	**(4)**
TOTAL		**12**

5.6 - NET RESULT OF FINANCIAL ASSETS AND LIABILITIES

	2017	2018
Net result of disposals of loans and securities available for sale	0	N/A
Net result of disposals of debt securities	(4)	N/A
Net result of the sale or cancellation of loans and advances	18	N/A
Net result of the sale or cancellation of property and equipment or intangible assets	-	N/A
TOTAL	**14**	**N/A**

5.7 - OPERATING EXPENSE

	2017	2018
Payroll costs	(51)	(48)
Other general and administrative expenses	(44)	(42)
Taxes	(12)	(11)
TOTAL	**(107)**	**(101)**

5.8 - DEPRECIATION AND AMORTIZATION, PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

	2017	2018
Depreciation and amortization, property and equipment	(1)	(1)
Depreciation and amortization, intangible assets	(5)	(9)
TOTAL	**(6)**	**(10)**

5.9 - COST OF RISK

	2017		
	Collective impairment	Specific impairment and losses	Total
Credit (loans, advances and commitments)	16	6	22
Fixed income securities available for sale	-	-	-
TOTAL	**16**	**6**	**22**

Detail of collective and specific impairments

Collective impairment	2017		
	Allocations	Reversals	Total
Loans and borrowings	(1)	17	16
Off-balance sheet commitments	-	-	-
TOTAL	**(1)**	**17**	**16**

Specific Impairment	2017				
	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(0)	6	-	-	6
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	**(0)**	**6**	**-**	**-**	**6**
Fixed income securities	-	-	-	-	-
TOTAL	**(0)**	**6**	**-**	**-**	**6**

Specific Impairment	2018				
	1st January	Allocations	Reversals	Losses	December 31
Stage 1	-	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Financial assets at fair value through equity	**-**	**(0)**	**0**	**-**	**(0)**
Stage 1	(0)	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Loans and advances due from banks at amortized cost	**(0)**	**(0)**	**0**	**-**	**(0)**
Stage 1	(2)	(1)	1	(0)	(2)
Stage 2	(21)	(6)	5	(0)	(22)
Stage 3	(11)	(7)	8	(0)	(10)
Loans and advances to customers at amortized cost	**(34)**	**(14)**	**14**	**(0)**	**(34)**
Stage 1	(4)	(0)	1	-	(3)
Stage 2	(18)	(11)	5	-	(24)
Stage 3	(0)	(0)	-	-	(0)
Bonds at amortized cost	**(22)**	**(11)**	**6**	**-**	**(27)**
Stage 1	(0)	(0)	0	-	(0)
Stage 2	(0)	(0)	0	-	(0)
Stage 3	-	-	-	-	-
Off-balance sheet commitments at amortized cost	**(0)**	**(0)**	**0**	**-**	**(0)**
TOTAL	**(56)**	**(26)**	**20**	**(0)**	**(62)**

5.10 - CORPORATE INCOME TAX

5.10.1. Breakdown of tax expense

	2017	2018
Current taxes	(1)	(12)
Deferred taxes	(35)	(8)
Tax adjustment effects	(3)	14
TOTAL	**(39)**	**(6)**

5.10.2. Effective tax expense

The difference between the actual corporate income tax rate and the French tax rate can be analysed as follow:

	2017	2018
INCOME BEFORE INCOME TAXES	**93**	**69**
Net income from associates	-	-
TAX BASE	**93**	**69**
Applicable tax rate at end of the period	34.43%	34.43%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	**(32)**	**(24)**
Tax effect of non-deductible expenses	(2)	(2)
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Other additionnal taxes or tax savings	(0)	-
Tax audit effects(1)	(3)	14
Use of corporate income tax rate applicable to the future fiscal years(2)	(2)	6
CORPORTATE INCOME TAX RECORDED IN THE INCOME STATEMENT	**(39)**	**(6)**

(1) As of the end of 2018, the tax authority had levied adjustments relating to the 2012 and 2013 tax audit. It nevertheless reduced the amount of the adjustment relating to the add-back of the results of the former branch in Ireland, but maintained the principle of taxation of these results in France. Caisse Française de Financement Local settled this adjustment, assessed related deferred taxes and reversed the relevant provisions. It kept in its accounts the amount of the provision set aside in respect of sums not yet paid. The 2018 accounting result consequently shows income corresponding to the provision's and deferred taxes' adjustment.
(2) Group SFIL has took into account the legislative measures designed to reduce the corporate income tax rate to 25,83% as of 2022.

5.10.3. Tax consolidation

Since January 1, 2014, Caisse Française de Financement Local has been a member of the SFIL tax group.

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

6.1 - REGULAR WAY TRADE

	12/31/2017	12/31/2018
Assets to be delivered	-	-
Liabilities to be received	-	-

6.2 - GUARANTEES

	12/31/2017	12/31/2018
Guarantees received from credit institutions	22	8
Enhanced guarantees(1)	3,247	7,383
Loan guarantee commitments received	3,248	7,385
Guarantees received from customers(2)	2,549	2,232

(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

	12/31/2017	12/31/2018
Loan commitments granted to credit institutions	-	-
Loan commitments granted to customers(1)	3,318	6,312
Loan commitments received from credit institutions(2)	7,031	9,569
Loan commitments received from customers	-	-

(1) The financing commitments on loans and lines of credit corresponded to contracts issued but not paid out as of December 31, 2018. The amount mainly corresponded to commitments of EUR 2,684 millions on operations in the new business line of export credit.
(2) At the end of 2018, this amount corresponded to funding commitments received from Caisse des dépôts et consignations and La Banque Postale for respective amounts of EUR 8,889 million, and 681 million.
SFIL recorded the total of its commitments related to the only tranches existing, which is limited to 8,889 million. This amount does not take into account the possibility stipulated in the financing agreement with Caisse des dépôts et consignations to negociate additional funding in good faith. The principal in a loan received from Caisse des dépôts et consignations may not exceed EUR 12.5 billion.

6.4 - OTHER COMMITMENTS

	12/31/2017	12/31/2018
Commitments given[(1)]	4,826	4,949
Commitments received[(2)]	226	223

(1) It concerns the value of a group of loans pledged to Caisse des dépôts et consignations.
(2) It mainly concerns a loan granted to a credit institution and guaranteed by a public sector entity.

6.5 - FINANCING COMMITMENTS AND OTHER COMMITMENTS GRANTED

	Financing as of December 31, 2018 commitments and financial guarantees under IFRS 9								Commitments and financial guarantees measured at fair value as of December 31, 2018	
	Gross amount				Impairment			Net amount	Nominal amount	Accumulated negative changes in fair value due to credit risk on non-performing commitments
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3			
Granted to credit intitutions	-	-	-	**-**	-	-	-	-	-	-
Granted to customers	6,289	23	-	**6,312**	(1)	(0)	-	6,311	-	-
TOTAL	**6,289**	**23**	**-**	**6,312**	**(1)**	**(0)**	**-**	**6,311**	**-**	**-**

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

	12/31/2017		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	2,560	2,560	-
Loans and advances due from banks	295	307	12
Loans and advances to customers	57,014	54,000	(3,014)
Financial assets available for sale	2,790	2,790	-
Derivatives	4,715	4,715	-
TOTAL	**67,374**	**64,372**	**(3,002)**

	12/31/2018		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1,927	1,927	-
Financial assets at fair value through net income	5,586	5,586	-
Financial assets at fair value through equity	1,563	1,563	-
Loans and advances due from banks at amortized cost	239	254	15
Loans and advances to customers at amortized cost	44,706	44,201	(505)
Bonds at amortized cost	9,384	8,165	(1,219)
Hedging derivatives	4,415	4,415	-
TOTAL	**67,820**	**66,111**	**(1,709)**

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

	12/31/2017		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	4,215	4,259	44
Hedging derivatives	8,067	8,067	-
Debt securities	56,315	57,603	1,288
TOTAL	**68,597**	**69,929**	**1,332**

	12/31/2018		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through net income	1,229	1,229	-
Due to banks at amortized cost	1,928	1,934	6
Debt securities at amortized cost	60,068	59,968	(100)
Hedging derivatives	6,134	6,134	-
TOTAL	**69,359**	**69,265**	**(94)**

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

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

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

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

For the derivatives in level 3, this classification mainly involves hybrid, structured products (interest rate – foreign exchange), spread (correlation) products and options on interest rates.

This classification is mainly due to the fact that these products present complex payoffs which require an advanced statistical model with variable parameters which are sometimes unable to be seen in the market.

Fair value of financial assets	12/31/2017			
	Level 1(1)	Level 2(2)	Level 3(3)	Total
Central banks	2,560	-	-	**2,560**
Loans and advances due from banks	16	-	291	**307**
Loans and advances to customers	488	2,868	50,644	**54,000**
Sub-total assets at amortized cost	**3,064**	**2,868**	**50,935**	**56,867**
Financial assets available for sale	1,863	927	-	**2,790**
Derivatives	-	4,155	560	**4,715**
Sub-total fair value assets	**1,863**	**5,082**	**560**	**7,505**
TOTAL	**4,927**	**7,950**	**51,495**	**64,372**

Fair value of financial assets	12/31/2018			
	Level 1(1)	Level 2(2)	Level 3(3)	Total
Central banks	1,927	-	-	**1,927**
Financial assets at fair value through net income	-	2	5,584	**5,586**
Financial assets at fair value through OCI	590	963	10	**1,563**
Loans and advances due from banks at amortized cost	7	-	247	**254**
Loans and advances to customers at amortized cost	-	-	44,201	**44,201**
Bonds at amortized cost	2,488	3,782	1,895	**8,165**
Hedging derivatives	-	3,453	962	**4,415**
TOTAL	**5,012**	**8,200**	**52,899**	**66,111**

Fair value of financial liabilities	12/31/2017			
	Level 1(1)	Level 2(2)	Level 3(3)	Total
Due to the banks	-	4,259	-	**4,259**
Debt securities	-	57,603	-	**57,603**
Sub-total liabilities at amortized cost	**-**	**61,862**	**-**	**61,862**
Derivatives	-	7,166	901	**8,067**
Sub-total liabilities at fair value	**-**	**7,166**	**901**	**8,067**
TOTAL	**-**	**69,028**	**901**	**69,929**

Fair value of financial liabilities	12/31/2018			
	Level 1(1)	Level 2(2)	Level 3(3)	Total
Financial liabilities at fair value through net income	-	858	371	**1,229**
Due to banks at amortized cost	-	1,934	-	**1,934**
Debt securties at amortized cost	-	59,968	-	**59,968**
Hedging derivatives	-	5,711	423	**6,134**
TOTAL	**-**	**68,471**	**794**	**69,265**

(1) Price quoted on active market for the same type of instrument.
(2) Price listed on an active market for an instrument that is similar (but not exactly the same) or use of a valuation technique in which all significant inputs are observable.
(3) Use of a valuation technique in which all the significant parameters are not observable.

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

The following table gives a synthetic view of financial instruments in level 3 for which changes in hypotheses concerning one or more non observable parameter would cause a significant change in market value. These amounts illustrate the interval of uncertainty inherent in the recourse to judgment in estimating parameters of level 3 or in the choice of valuation techniques and models. They reflect the uncertainty of valuation which is effective at the date of valuation. Although this uncertainty essentially results from the sensitivity of the portfolio at the date of valuation, it does not make it possible to foresee or to deduct future variations in the market value any more than they represent the effect of extreme market conditions on the value of the portfolio. To estimate sensitivity, SFIL either values fnancial instruments using reasonably possible parameters or applies hypotheses based on its policy of additional valuation adjustments.

	12/31/2017	12/31/2018
Uncertainty inherent in level 3 market parameters	5	8
Uncertainty inherent in level 3 derivatives valuation models	36	37
Sensitivity of the market value of level 3 financial instruments	**41**	**45**

7.1.4. Transfer between level 1 and 2

	12/31/2017	12/31/2018
Level 1 to level 2	-	-
TOTAL	**-**	**-**

7.1.5. Level 3: flow analysis

	IAS 39		IFRS 9			
Fair value of financial assets	**Financial assets available for sale**	**Derivatives**	**Financial assets at fair value through net income**	**Financial assets at fair value through OCI**	**Derivatives**	**TOTAL FINANCIAL ASSETS**
12/31/2017	**-**	**560**	**-**	**-**	**-**	**560**
IFRS 9 first time application on loans	-	-	6,945	-	-	6,945
IFRS 9 first time application on derivatives	-	(560)	2	-	558	-
1/1/2018	**-**	**-**	**6,947**	**-**	**558**	**7,505**
Total gains and losses through profit and loss	-	-	-	-	1	1
Total unrealized or deferred gains and losses	-	-	(274)	-	457	183
Total OCI unrealized or deferred gains and losses	-	-	-	-	-	-
Purchase	-	-	-	10	7	17
Sale	-	-	-	-	-	-
Direct origination	-	-	-	-	-	-
Settlement	-	-	(1,089)	-	-	(1,089)
Transfer in activities destined to be sold	-	-	-	-	-	-
Transfer to level 3	-	-	-	-	2	2
Transfer out of level 3	-	-	-	-	(62)	(62)
Other variations	-	-	-	-	(1)	(1)
12/31/2018	**-**	**-**	**5,584**	**10**	**962**	**6,556**

	IAS 39	IFRS 9		
Fair value of financial liabilities	**Derivatives**	**Financial liabilities at fair value through net income**	**Hedging derivatives**	**TOTAL FINANCIAL LIABILITIES**
12/31/2017	**901**	**-**	**-**	**901**
IFRS 9 first time application	(901)	295	606	-
1/1/2018	**-**	**295**	**606**	**901**
Total gains and losses through profit and loss	-	-	(100)	(100)
Total unrealized or deferred gains and losses	-	76	(139)	(63)
Total OCI unrealized or deferred gains and losses	-	-	-	-
Purchase	-	-	16	16
Sale	-	-	(126)	(126)
Direct origination	-	-	-	-
Settlement	-	-	-	-
Transfer in activities destined to be sold	-	-	-	-
Transfer to level 3	-	-	256	256
Transfer out of level 3	-	-	(94)	(94)
Other variations	-	-	4	4
12/31/2018	**-**	**371**	**423**	**794**

7.2 - OFF-SETTING FINANCIAL ASSETS AND LIABILITIES

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

	12/31/2017					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	4,715	-	4,715	(3,493)	(1,039)	183
Loans and advances due from banks	295	-	295	-	-	295
Loans and advances to customers	57,014	-	57,014	-	-	57,014
TOTAL	**62,024**	**-**	**62,024**	**(3,493)**	**(1,039)**	**57,492**

	12/31/2018					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	4,429	-	4,429	(3,213)	(818)	398
Loans and advances at fair value through net income	5,572	-	5,572	-	-	5,572
Loans and advances due from banks at amortized cost	239	-	239	-	-	239
Loans and advances to customers at amortized cost	44,706	-	44,706	-	-	44,706
TOTAL	**54,946**	**-**	**54,946**	**(3,213)**	**(818)**	**50,915**

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

	12/31/2017					
	Gross amounts before off-setting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	8,067	-	8,067	(3,493)	(2,189)	2,385
Due to banks	4,215	-	4,215	-	-	4,215
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	**12,282**	**-**	**12,282**	**(3,493)**	**(2,189)**	**6,600**

	12/31/2018					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial Instruments received as collateral	
Derivatives (including hedging instruments)	7,363	-	7,363	(3,213)	(1,983)	2,167
Due to banks at amortized cost	1,928	-	1,928	-	-	1,928
Customer borrowings and deposits at amortized cost	-	-	-	-	-	-
TOTAL	**9,291**	**-**	**9,291**	**(3,213)**	**(1,983)**	**4,095**

7.3 - EXPOSURE TO CREDIT RISK

In 2018, exposure to credit risks, as presented to management, includes the following:
- for assets other than derivatives: the amount on the balance sheet;
- for derivatives: the derivative's market value (marked-to-market), the amount of collateral exchanged and a flat-rate add-on, depending on the derivative's maturity and the nature of the underlying;
- or off-balance sheet commitments: the undrawn amount of financing commitments, which is stated in the notes to the financial statements.

The metric used is exposure at default (EAD).
Exposure to credit risk is broken down by region and by counterparty, taking into account the guarantees received. This means that when the credit risk is guaranteed by a third party whose weighted risk (within the meaning of Basel regulations) is less than that of the direct borrower, the exposure is included in the guarantor's region and business sector.

7.3.1. Breakdown of exposure to credit risks

Analysis of exposure by geographic region

	12/31/2017	12/31/2018
France	58,710	63,417
Belgium	219	337
Italy	6,161	6,099
Spain	487	356
Germany	371	644
United Kingdom	229	994
Switzerland	1,339	1,025
Norway	102	378
Other European Union countries	424	717
United States and Canada	513	673
Japan	39	38
TOTAL EXPOSURE	**68,594**	**74,678**

Analysis of exposure by category of counterparty

	12/31/2017	12/31/2018
States	8,350	10,929
Local public sector	58,878	58,321
Other assets guaranteed by public sector entities	22	24
Financial institutions	1,344	5,404
TOTAL EXPOSURE	**68,594**	**74,678**

Analysis of exposure by category of instrument

	12/31/2017	12/31/2018
Debt securities	2,808	N/A
Loans and advances	62,588	N/A
Loans at fair value through net income	N/A	5,839
Bonds at fair value through equity	N/A	1,563
Hedging derivatives	71	2,118
Loans and advances at amortized cost	N/A	49,030
Bonds at amortized cost	N/A	9,816
Guarantees	10	0
Financing commitments on loans	3,117	6,311
TOTAL EXPOSURE	**68,594**	**74,678**

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 who authorized the Group to use these advanced internal models.
This enables SFIL Group to present on December 31, 2018, an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements. Credit weighting is mainly calculated on the basis of the probability of default of the counterparty and of the loss incurred in the event of default.
This analysis confirms the excellent quality of the assets in SFIL's portfolio. More than 76% of the portfolio has a weighting of less than 5% and more than 96% of the portfolio has a weighting that is less than or equal to 20%.

	Risk weighting (Basel III)				
	from 0 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	Total
Loans at fair value through net income	5,071	576	-	192	**5,839**
Bonds at fair value through equity	233	948	382	-	**1,563**
Hedging derivatives	1,535	51	485	46	**2,117**
Loans and advances at amortized cost	41,767	6,424	101	739	**49,031**
Bonds at amortized cost	1,731	6,808	426	851	**9,816**
Financing commitments on loans	6,312	-	-	-	**6,312**
TOTAL EXPOSURE	**56,649**	**14,807**	**1,394**	**1,828**	**74,678**
SHARE OF TOTAL EXPOSURE	**75.90%**	**19.80%**	**1.90%**	**2.40%**	**100.00%**

Certain exposures do not yet benefit from an internal evaluation system validated by banking supervisors; in this case, their weighting is the one in the standard method, which is, for example, 20% for local governments.

7.4 - LIQUIDITY RISK: ANALYSIS BY TERM TO MATURITY

7.4.1. Breakdown of assets

	12/31/2018						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	1,927	-	-	-	-	-	1,927
Financial assets at fair value through net income	-	162	341	1,433	2,884	-	4,820
Hedging derivatives	-	-	-	-	-	-	-
Financial assets available for sale	-	-	-	-	-	-	-
Financial assets at fair value through equity	-	140	705	614	100	-	1,560
Loans and advances due from banks at amortized cost	7	12	5	31	184	-	239
Loans and advances to customers at amortized cost	7	1,143	2,875	13,886	24,356	-	42,267
Bonds at amortized cost	-	496	991	2,971	3,784	-	8,242
Tangible assets	-	-	-	-	11	-	11
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	52	-	52
Tax assets	-	-	80	-	-	-	80
Accruals and other assets	-	2,137	15	-	80	-	2,232
TOTAL	**1,941**	**4,090**	**5,012**	**18,935**	**31,451**	**-**	**61,430**

	12/31/2018				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	1,927		-	-	**1,927**
Financial assets at fair value through net income	4,820	79	687		**5,586**
Hedging derivatives	-	530	3,885	-	**4,415**
Financial assets available for sale	-	-	-	-	**-**
Financial assets at fair value through equity	1,560	-	4	-	**1,563**
Loans and advances due from banks at amortized cost	239	-	-	-	**239**
Loans and advances to customers at amortized cost	42,267	494	2,006	(60)	**44,706**
Bonds at amortized cost	8,242	81	1,062	-	**9,384**
Fair value revaluation of portfolio hedge	-	-	2,552	-	**2,552**
Tangible assets	11	-	-	(5)	**6**
Intangible assets	52	-	-	(19)	**33**
Tax assets	80	-	-	-	**80**
Accruals and other assets	2,232	(1)	-	-	**2,231**
TOTAL	**61,430**	**1,183**	**10,196**	**(84)**	**72,722**

7.4.2. Breakdown of liabilities, excluding equity

	12/31/2018						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	-	-	-	-	-	-	-
Financial assets at fair value through net income							-
Hedging derivatives		-	-	-	-	-	-
Due to banks at amortized cost		453	123	942	413	-	1,931
Customer borrowing and deposits at amortized cost		-	-	-	-	-	-
Debt securities at amortized cost	-	1,974	2,745	19,362	32,092	-	56,173
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	8	-	-	-	8
Accruals and other liabilities	-	1,239	67	15	110	-	1,430
Provisions	-	-	-	20	-	-	20
Subordinated debt	-	-	-	-	-	-	-
TOTAL	**-**	**3,666**	**2,943**	**20,339**	**32,615**	**-**	**59,562**

	12/31/2018			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	**-**
Financial assets at fair value through net income	-	74	1,155	**1,229**
Hedging derivatives	-	205	5,929	**6,134**
Due to banks at amortized cost	1,931	1	(4)	**1,928**
Customer borrowing and deposits at amortized cost	-	-	-	**-**
Debt securities at amortized cost	56,173	820	3,076	**60,068**
Fair value revaluation of portfolio hedge	-	-	343	**343**
Tax liabilities	8	-	-	**8**
Accruals and other liabilities	1,430	(1)	-	**1,429**
Provisions	20	-	-	**20**
Subordinated debt	-	-	-	**-**
TOTAL	**59,562**	**1,099**	**10,499**	**71,159**

7.4.3. Net liquidity gap

	12/31/2018							
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total not broken down	Total
MONTANT	**1,941**	**424**	**2,069**	**(1,405)**	**(1,164)**	**-**	**(303)**	**1,563**

This table presents the balance sheet at the closing date; it does not take into account the management decisions that will make it possible to manage differences in maturity or the future production of assets and liabilities. SFIL Group's liquidity is provided by its refinancing agreement with its shareholders and by issue Euro medium term notes and certificates of deposit. In addition, the Company may obtain funding from the Banque de France, by giving certain of these assets in guarantee. Caisse Française de Financement Local can thus obtain funding from the Banque de France enabling it to reimburse obligations foncières when they arrive at maturity; the assets given in guarantee are therefore excluded (as well as the matured bonds) from the calculation of the solvency ratio, which remains practically unchanged.

7.5 - CURRENCY RISK

Classification by original currency	12/31/2017				
	EUR	Other EU currencies	USD	Other currencies	Total
Total assets	69,202	1,380	1,263	587	**72,432**
Total liabilities	69,202	1,380	1,263	587	**72,432**
NET BALANCE SHEET POSITION	**-**	**-**	**-**	**-**	**-**

Classification by original currency	12/31/2018				
	EUR	Other EU currencies	USD	Other currencies	Total
Total assets	69,198	989	1,991	544	**72,722**
Total liabilities	69,198	989	1,991	544	**72,722**
NET BALANCE SHEET POSITION	**-**	**-**	**-**	**-**	**-**

7.6 - SENSITIVITY TO INTEREST RATE RISK

The policy applied by the SFIL Group makes it possible to be protected from interest rate risk.

For CAFFIL:
- In the first step, all the assets and the liabilities benefiting from the priviliege which do not naturally have a floating rate are hedged against Euribor until maturity as soon as they are recorded on the balance sheet. In practice, acquisitions of loan portfolios (in which the unit amount is generally small) are usually macro-hedged. Loans granted individually or bond issues can be micro- or macro-hedged. Hedging of assets and liabilities is more often obtained in using new interest rate swaps, but the same effect can also be obtained whenever possible by the cancelation of swaps of opposite direction;
- In the second step, macro-swaps are conducted against Eonia over a maximum period of two years in order to limit the volatility of income linked to the fixing risk (owing to refixing dates based on different reference indices in the assets and the liabilities). The residual risk is managed through macro-hedges with a management horizon of one week.

For SFIL, parent company, the strategy is a perfect micro hedge of interest rate risk, using swaps conducted against Eonia, or by a natural hedge using assets and liabilities using the same index, or in the credit export activity using the mechanism of the stabilization process. At the end, there is no rate risk at SFIL level.
The sensitivity of residual positions that remain after the first stage and after the second level of hedges is monitored carefully and kept within strict limits.
The set of limits on interest rate risk guarantees, with 99% probability, a maximum one year loss of less than EUR 80 million in the event of a major change in interest rates (translations, sloping or rotation). This calibration is based on a directional shift in rates corresponding to the 1% at one-year decile observed over the period 2005-2015.
A set of three limits makes it possible to have a grasp of the slope risk, as well as the directional risk.
The measures of sensitivity at the end of quarters for a change of 100 bp in interest rates are presented below:

Directional risk

Total sensitivity

EUR millions	Limit	3/31/2018	6/30/2018	9/30/2018	12/31/2018
Sensitivity	**25/(25)**	**(1.5)**	**1.7**	**(2.0)**	**0.9**

Risk of slope between two distant points on the rate curve

EUR millions	Limit	3/31/2018	6/30/2018	9/30/2018	12/31/2018
Short term	**10/(10)**	**(7.1)**	**(4.3)**	**(5.5)**	**(5.8)**
Medium term	**10/(10)**	**(2.1)**	**(1.0)**	**(4.9)**	**0**
Long term	**10/(10)**	**5.6**	**4.6**	**4.6**	**2.5**
Very long term	**10/(10)**	**2.0**	**2.4**	**3.8**	**4.3**

Risk of slope between two close points on the rate curve
Sum of sensitivities in absolute value

EUR millions	Limit	3/31/2018	6/30/2018	9/30/2018	12/31/2018
Short term	20	11.5	8.8	10.3	9.2
Medium term	20	4.6	14.4	9.9	10.0
Long term	20	7.9	8.7	13.0	12.9
Very long term	20	10.5	10.8	14.1	13.3

8 - First time application impact of IFRS 9 standard on the balance sheet as of January 1, 2018

RECLASSIFICATIONS

		Reclassifications				
	IAS 39 12/31/2017	Financial assets available for sale (a)	Debt securities assimilated to loans and advances in IAS 39 (b)	Loans and advances non SPPI (c)	Hedging derivatives of loans and advances non SPPI (d)	Net amount after restatment phase 1
ASSETS						
Central banks	2,560	-	-	-	-	2,560
Loans and advances due from banks at fair value through net income	-	-	-	-	-	-
Loans and advances to customers at fair value through net income	-	-	-	7,168	-	7,168
Derivatives at fair value through net income	-	-	-	-	6	6
Hedging derivatives	4,715	-	-	-	(6)	4,709
Financial assets available for sale	2,790	(2,790)	-	-	-	-
Financial assets at fair value through equity	-	942	-	-	-	942
Loans and advances due from banks at amortized cost	295	-	-	-	-	295
Loans and advances to customers at amortized cost	57,014	-	(6,422)	(7,168)	-	43,425
Bonds at amortized cost	-	1,848	6,422	-	-	8,270
Fair value revaluation of portfolio hedge	2,518	-	-	-	-	2,518
Financial assets held to maturity	-	-	-	-	-	-
Current tax assets	14	-	-	-	-	14
Deferred tax assets	64	-	-	-	-	64
Tangible assets	6	-	-	-	-	6
Intangible assets	29	-	-	-	-	29
Other assets	2,427	-	-	-	-	2,427
TOTAL	**72,432**	**-**	**-**	**-**	**-**	**72,432**

	Reclassifications					
	IAS 39 12/31/2017	**Financial assets available for sale (a)**	**Debt securities assimilated to loans and advances in IAS 39 (b)**	**Loans and advances non SPPI (c)**	**Hedging derivatives of loans and advances non SPPI (d)**	**Net amount after restatment phase 1**
LIABILITIES						
Central banks	-	-	-	-	-	-
Liabilities at fair value through net income	4	-	-	-	1,476	1,480
Hedging derivatives	8,063	-	-	-	(1,476)	6,587
Due to banks at amortized cost	4,215	-	-	-	-	4,215
Customer borrowing and deposits at amortized cost	-	-	-	-	-	-
Debt securities at amortized cost	56,315	-	-	-	-	56,315
Fair value revaluation of portfolio hedge	883	-	-	-	-	883
Current tax liabilities	1	-	-	-	-	1
Deferred tax liabilities	-	-	-	-	-	-
Other liabilities	1,434	-	-	-	-	1,434
Provisions	48	-	-	-	-	48
Subordinated debt	-	-	-	-	-	-
EQUITY	**1,469**	**-**	**-**	**-**	**-**	**1,469**
Capital	1,445	-	-	-	-	1,445
Reserves and retained earnings	72	-	-	-	-	72
Gains and losses recognised in equity	(102)	-	-	-	-	(102)
Net income for the period	54	-	-	-	-	54
TOTAL	**72,432**	**-**	**-**	**-**	**-**	**72,432**

(a) Instruments classified as Available for sale financial asset under IAS 39 standard are debt securities, cash-flows of which are composed only by the repayment of principal and interest. They have been reclassified depending on the business model they are held within: debt securities acquired for cash investment purposes and held within an hold-to-collect-and-sell model have been reclassified as Financial assets at fair value through the other comprehensive income section of equity, while those held within an hold-to-collect model have been reclassified as Bonds at amortized cost.

(b) Debt securities classified as Loans and advances to customers at amortized cost under IAS 39 standard have been reclassified as Debt securities at amortized cost.

(c) Loans and advances, contractual cash-flows of which are not compliant with the SPPI criterion defined under IFRS 9 standard, have been reclassified from the Loans and advances to customers at amortized cost category to the Loans and advances to customers at fair value through net income category: they are composed of loans, contractual flows of which are not in line with those of a basic lending agreement as the latter is defined under the standard; this may be due in particular to the inclusion in the interest rate formula of a leverage effect or an indexation on foreign exchange rates.

(d) Hedging derivative instruments for which the hedged financial asset has been reclassified as Financial assets at fair value through net income have been disqualified and reclassified, on the asset side or the liability side of the balance sheet, as Derivatives at fair value through net income.

VALUE ADJUSTMENTS

	Amount after restatement phase 1	Adjustment value Phase 1				Adjustment phase 2	IFRS 9 1/1/2018
		Restatment of financial assets available for sale (a)	restatment of Bonds assimilated to loans and advances in IAS 39 (b)	restatment of loans and advances non SPPI (c)	other restatment (d)	Provisions for credit risk (e)	
ASSETS							
Central banks	2,560	-	-	-	-	-	**2,560**
Loans and advances due from banks at fair value through net income	-	-	-	-	-	-	**-**
Loans and advances to customers at fair value through net income	7,168	-	-	(241)	-	18	**6,945**
Liabilities at fair value through net income	6	-	-	-	-	-	**6**
Hedging derivatives	4,709	-	-	-	-	-	**4,709**
Financial assets available for sale	-	-	-	-	-	-	**-**
Financial assets at fair value through equity	942	-	-	-	-	-	**942**
Loans and advances due from banks at amortized cost	295	-	-	-	-	0	**295**
Loans and advances to customers at amortized cost	43,425	-	-	-	199	(16)	**43,607**
Bonds at amortized cost	8,270	49	78	-	-	(5)	**8,391**
Fair value revaluation of portfolio hedge	2,518	-	-	-	-	-	**2,518**
Financial assets held to maturity	-	-	-	-	-	-	**-**
Current tax assets	14	-	-	-	-	-	**14**
Deferred tax assets	64	(17)	(27)	83	(68)	3	**38**
Tangible assets	6	-	-	-	-	-	**6**
Intangible assets	29	-	-	-	-	-	**29**
Other assets	2,427	-	-	-	-	-	**2,427**
TOTAL	**72,432**	**32**	**51**	**(158)**	**130**	**(0)**	**72,487**

	Amount after restatment phase 1	Adjustment value phase 1				Ajustement phase 2	IFRS 9 1/1/2018
		Restatment of financial assets available for sale (a)	Restatment of Bonds assimilated to loans and advances in IAS 39 (b)	Restatement of loans and advances non SPPI (c)	Other restatement (d)	Provisions for credit risk (e)	
LIABILITIES							
Central banks	-	-	-	-	-	-	-
Derivatives at fair value through net income	1,480	-	-	-	-	-	1,480
Hedging derivatives	6,587	-	-	-	-	-	6,587
Due to banks at amortized cost	4,215	-	-	-	-	-	4,215
Customer borrowing and deposits at amortized cost	-	-	-	-	(1)	-	(1)
Debt securities at amortized cost	56,315	-	-	-	-	-	56,315
Fair value revaluation of portfolio hedge	883	-	-	-	-	-	883
Current tax liabilities	1	-	-	-	-	-	1
Deferred tax liabilities	-	-	-	-	-	-	-
Other liabilities	1,434	-	-	-	-	-	1,434
Provisions	48	-	-	-	-	6	54
Subordinated debt	-	-	-	-	-	-	-
EQUITY	**1,469**	**32**	**51**	**(158)**	**131**	**(6)**	**1,519**
Capital	1,445	-	-	-	-	-	1,445
Reserves and retained earnings	72	-	-	(158)	131	(6)	39
Gains and losses recognised in equity	(102)	32	51	-	-	-	(19)
Net income for the period	54	-	-	-	-	-	54
TOTAL	**72,432**	**32**	**51**	**(158)**	**130**	**(0)**	**72,487**

(a) The reserve composed of the fair value adjustments accumulated in equity until December 31, 2017 on the debt securities reclassified from the Available for sale financial assets category under IAS 39 standard to Bonds at amortized cost under IFRS 9 standard has been reversed.

(b) Most od the debt securities which were classified as Loans and advances to customers at amortized cost under IAS 39 standard had been classified as Available for sale financial assets at initial recognition and had been subsequently reclassified in this category in October 1, 2008 in accordance with the limited amendment to IAS 39 endorsed by the European Union in October 15, 2008. This reclassification has resulted into the freezing of the reserve composed of the fair value adjustments accumulated in equity on these assets; this reserve has subsequently been amortized until December 31, 2017. In January 1, 2018, the retrospective application of IFRS 9 standard results in the reversal of the fraction yet not amortized of this reserve.

(c) The measurement at fair value through net income under IFRS 9 of loans previously measured at amortized cost under IAS 39 has impacted the value of the underlying loans.

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

In addition, on the Liability side of the balance sheet, the value of the debt securities issued has been adjusted as a counterpart to equity: this adjustment concerns issued securities which have been transformed prior to December 31, 2017 and for which the application of IFRS 9 standard would have resulted in their derecognition and the recognition of a result. Time-related amortization of this result is taken into account.

(e) The entry into force of the new impairment model for credit risk has resulted in January 1, 2018 in a EUR 10 million increase of impairments (without considering tax effects), which can be broken down into the following effects:

- Recognition of loss allowances on Bucket 1 contracts: EUR -7 million;

- Recognition of loss allowances on Bucket 2 contracts: EUR -39 million;

- Complete reversal of the stock of collective impairments previously recognized: EUR +24 million;

- Variations of specific impairment on Bucket 3 contracts (base changing): EUR +12 million, the main effect of this impact is the reversal of the impairment on assets measured at amortized cost until December 31, 2017 under IAS 39 and that are measured at fair value through net income from January 1, 2018 under IFRS 9.

BREAKDOWN OF FINANCIAL ASSETS BY STAGE OF CREDIT RISK

	1/1/2018							
	Gross amount				Impairment			Net amount
	Stage 1	Stage 2	Stage 3	TOTAL	Stage 1	Stage 2	Stage 3	
Financial assets at fair value through equity	942	-	-	**942**	-	-	-	942
Loans and advances due from banks at amortized cost	295	-	-	**295**	(0)	-	-	295
Loans and advances to customers at amortized cost	38,620	3,610	1,432	**43,662**	(5)	(39)	(11)	43,607
Bonds at amortized cost	6,475	1,831	86	**8,392**	(1)	(0)	-	8,391
TOTAL FINANCIAL ASSETS	**46,332**	**5,441**	**1,518**	**53,291**	**(6)**	**(39)**	**(11)**	**53,235**

GAP ANALYSIS BETWEEN PROVISIONS UNDER IAS 39 AND EXPECTED LOSSES UNDER IFRS 9

	IAS 39	Restatments	Adjustment value	IFRS 9
	12/31/2017	Asset impacts of restatments	Impact of evaluation method changes	1/1/2018
Asset provisions				
Financial assets at fair value through net income	-	-	-	-
Financial assets available for sale	-	-	-	-
Financial assets at fair value through equity	-	-	-	-
Financial assets at amortized cost	-	-	-	-
Loans and advances due from banks at amortized cost	-	-	-	-
Loans and advances to customers at amortized cost - specific provisions	23	(35)	47	35
Loans and advances to customers at amortized cost - collective provisions	30	(6)	(24)	-
Bonds at amortized cost - collective provisions	-	-	-	-
Bonds at amortized cost - specific provisions	-	17	4	21
TOTAL	**53**	**(24)**	**27**	**56**

9. Post-closing events

No significant event that influences the Company's financial situation has occurred since the closing in December 31, 2018.

10. Statutory Auditor's fees in 2018

EUR thousands	Deloitte & Associés				Ernst & Young et Autres			
	Amount including VAT		%		Amount including VAT		%	
	2017	2018	2017	2018	2017	2018	2017	2018
Audit services rendered								
Audit, certification, examination of company financial statements	379	545	78%	83%	348	545	86%	84%
of which SFIL	*139*	*163*	-		*108*	*132*	-	-
Other audit tasks	106	110	22%	17%	59	104	14%	16%
of which SFIL	*55*	*42*	-		*36*	*41*		
TOTAL	**484**	**655**	**100%**	**100%**	**407**	**649**	**100%**	**100%**

Services other than the certification of the financial statements included missions relating to the issue of letters of comfort for the update of programs for the issue of securities.

Statutory Auditors' report on the consolidated financial statements

For the year ended December 31, 2018

This is a translation into English of the statutory auditors' report on the financial statements of the Company, issued in French and it is provided solely for the convenience of English speaking users.

This statutory auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verifcation of the management report and other documents provided to shareholders.

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

To the Annual General Meeting of SFIL,

OPINION

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying consolidated financial statements of SFIL for the year ended December 31, 2018.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at December 31, 2018 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Audit Committee

BASIS FOR OPINION

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January, 1 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics (*Code de déontologie*) for Statutory Auditors.

Observation

Without qualifying the above conclusion, we draw your attention to the changes in accounting method regarding the application of new standards IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from contracts with customers" set out in Note 1 "Accounting policies and valuation methods" and in the other notes presenting figures relating to the first-time adoption of IFRS 9.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the consolidated financial statements.

First-time application of Stage 1 IFRS 9

Risk identified	Our response
As of January 1, 2018, the SFIL Group applies IFRS 9 "Financial instruments" to financial assets and liabilities. This standard introduces new classification and measurement rules for financial assets and liabilities (Stage 1). In respect of classification and measurement rules, the impacts of the first-time application of IFRS 9 "Financial instruments" (Stage 1) on the equity of the SFIL group as of January 1, 2018 are, in particular, comprised of: • Value adjustments related to the reclassification of non-SPPI loans at fair value through profit or loss (-EUR 241 million), • Value adjustments related to restructured loans which are derecognized and then recognized retrospectively in SPPI (EUR 199 million), • Cancellation of reserves representing the cumulative fair value changes in equity related to the reclassification of securities at amortized cost (EUR 127 million). The "Impact of the first-time application of IFRS 9 on the balance sheet as of January 1, 2018," Note 8 to the consolidated financial statements of SFIL provides detailed disclosures on the transition of the balance sheet as of December 31, 2017 in IAS 39 to the opening balance sheet in IFRS 9 as of January 1, 2018. The qualitative disclosures are mainly described in Note 1 "Valuation methods and accounts presentation". The determination of these impacts required the exercise of numerous assumptions and judgments. Considering the complexity for implementing Stage 1 of IFRS 9 and the disclosures provided in this respect by the SFIL Group in its consolidated financial statements, we considered the first-time application of IFRS 9 to be a key audit matter.	We have, with the support of our experts who are part of our audit teams, familiarized ourselves with the measures deployed and the analyses conducted by the SFIL Group to implement IFRS 9. Regarding classification and measurement, our audit procedures notably consisted in: • reviewing generic (business model, early redemption option, etc.) and specific ("SPPI" criterion) analyses carried out by the SFIL Group; • reviewing the methodology applied to determine the accounting treatment of restructured loans as well as the methods for calculating the impact of the first-time application of IFRS 9 on these assets; • reviewing the types of contracts associated with each category of financial asset; • reviewing, from a selection of contracts for each category of financial asset, the analysis performed by the SFIL Group in respect of classification of these financial assets; • reviewing the valuation methodology for non- SPPI loans; • analyzing the formula used to value non-SPPI loans at fair value through profit or loss • reviewing the impacts of the reclassification of financial assets and liabilities on the SFIL Group consolidated financial statements as of January 1, 2018. We have also examined the qualitative and quantitative disclosures on the first-time application of the standard published in the notes to the consolidated financial statements.

Estimated impairment risk of customer loan portfolios

Risk identified	Our response
In connection with its activities, the SFIL Group is mainly exposed to customer credit risk. The implementation of IFRS 9 as of January 1, 2018, resulted in a new approach for recording credit risk provisions based on expected losses on outstanding loans (versus an incurred losses approach under IAS 39). In accordance with this standard, SFIL records value adjustments in respect to expected credit losses ("Expected Credit Loss" or "ECL") on performing ("Stage 1"), underperforming ("Stage 2") or non-performing /credit-impaired ("Stage 3") outstanding loans. Considering the importance of judgement in determining these value adjustments and the changes brought about by the implementation of the new standard (adapting the ECL calculation methods, defining the parameters integrating a prospective aspect, new control framework, etc.), we considered the estimate of ECL and the disclosures published in the notes to the consolidated financial statements, both as of the date of the first-time application of the new standard and as of December 31, 2018, to be a key audit matter. The loans and advances to customers at amortized cost are presented in Note 2.6 to the SFIL consolidated financial statements.	We have examined the measures implemented by the Credit Risk Department to categorize the loans (Stage 1, 2 or 3) and measure the amount of ECL recorded to assess whether the estimates adopted are based on principles consistent with IFRS 9, and correctly documented and described in the notes to the consolidated financial statements. We have tested the key controls set up for updating the credit ratings, identifying underperforming or non-performing loans and valuing impairment. We have also familiarized ourselves with the main conclusions of the specialized committees in charge of monitoring underperforming or non-performing/credit-impaired loans. We have reviewed, with the support of our Public-Sector experts, the rating system for French local governments and public healthcare facilities. We have examined, with the support of our Credit Risk experts, the main methodologies adopted for the calibration of parameters and transfer criteria. We have recalculated the ECL, using a sample, and with the support of our Credit Risk experts, and verified application of segment rules (stage) as of January 1, 2018 and as of December 31, 2018. We have tested the quality of data comprising the calculation basis for ECL, by reconciling accounting records and by performing tests on the transfer criteria. We have analyzed the changes by stages and by type of portfolio as well as the changes in the related provisioning rate. As of December 31, 2018, based on a sample of loan files, we have reviewed the main assumptions adopted to estimate the individual impairment of loans classified in Stage 3. Finally, we have examined the disclosures provided in respect of credit risk hedging in the notes to the consolidated financial statements, including the effects of the first-time application of IFRS 9.

Measurement of financial instruments classified in Fair Value Level 2 and 3

Risk identified	Our response
In connection with its activities, the SFIL Group holds derivatives recognized at fair value through profit or loss as well as loans recognized at fair value through profit or loss in accordance with the classification criteria of IFRS 9 "Financial Instruments". When no active market or directly observable market data exists, the SFIL Group uses, to calculate the fair value level 2 or 3 of these instruments, valuation techniques based on observable data for similar instruments or internal models based on non-observable market data, as indicated in "Methods used to determine the fair value of financial instruments," Note 7.1.3 to the consolidated financial statements. The models and parameters used to value these instruments are based on estimates. As of December 31, 2018, financial instruments recognized at fair value through profit or loss amounted to EUR 10,001 million under assets (of which EUR 5,573 million of loans recognized at fair value through profit or loss) and EUR 7,363 million under liabilities on the SFIL balance sheet. Note 7.1.3 to the consolidated financial statements provides detailed disclosures on the valuation and classification of these financial instruments in fair value level 2 and 3. Due to the complexity related to determining valuation models, the sensitivity of these models to assumptions adopted by the Credit Risk Department, and the uncertainty inherent in the exercise of judgements used to estimate the level 3 parameters, we considered the valuation of financial instruments classified in fair value level 2 and 3 to be a key audit matter.	Our audit approach focused on certain key internal control processes related to the valuation of derivatives and in particular: • regular review and validation of the valuation models by the Credit Risk Department; • verification of market data and parameters used in the models; • review of the recognition process for non-SPPI loans at fair value through profit or loss; With the support of our risk modeling and valuation techniques experts, we have adopted an approach comprising the following main steps: • review of variations in the classification of financial instruments according to fair value levels; • review of the results of valuation verification processes based on valuations of external counterparties as part of collateral reconciliation and review of analyses performed by the entity in the event of material differences for a selection of contracts; • independent valuation performed on a selection of derivative contracts; • analysis of the formula used to value non-SPPI loans at fair value through profit or loss and using this formula on a selection of contracts; • review of the backtesting of the model used to value non-SPPI loans at fair value through profit or loss; • review of the consistency of accounting treatments with the support of our IFRS experts; • review of the methodology and approach for qualifying the valuation of derivatives as described in chapter C of Note 7.1 "Fair value" in the notes to the consolidated financial statements and analysis of criteria adopted to determine the fair value hierarchy; • review of disclosures provided in the notes to the consolidated financial statements.

IT migration

Risk identified	Our response
The SFIL group rolled out a program to overhaul its IT system. In April 1, 2018, this project resulted in the migration of, notably, the management of all market transactions (derivatives and securities) towards a new IT system integrating a new management application and the creation of an data warehouse. Considering the risks inherent in such a project, notably the correct recovery of data and carryforward of historical balances in the new IT system, as well as the changes related to a new IT system in the processes of the activities, we considered this project to be a key audit matter.	Our procedures, with the support of our experts who are part of the audit team, consisted in: • Examining the documentation related to the different phases of the project and its governance framework; • Examining the controls set up by the permanent control and internal audit reports; • Analyzing coverage of acceptance testing; • Examining the control mechanism framing the recovery of post-migration transactions; • Examining the application authorizations for the new IT tools and applications having been impacted by the simplification of the IT system; • Examining the developments of new application program interfaces; • Analyzing internal developments enabling non-assured functionalities to be repaired by the new IT system as of the production starting date.

Verification of the Management Report

As required by law, we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the management report of the group.

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

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of SFIL by the annual general meeting held in January, 29 2013 for DELOITTE ET ASSOCIES and in May, 31 2017 for ERNST & YOUNG et Autres.

As of December 31, 2018 DELOITTE & ASSOCIES and ERNST & YOUNG et Autres were in the 6th year and the 2nd year of total uninterrupted engagement.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As specified in Article L.823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters, that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense, the 1st of April 2019
The Statutory Auditors
French original signed by

DELOITTE & ASSOCIÉS	**ERNST & YOUNG et Autres**
Sylvie BOURGUIGNON	Vincent ROTY

Annual financial statements
in accordance with French GAAP

Assets as of December 31, 2018

EUR millions	Note	12/31/2017	12/31/2018
Central banks	*2.1*	853	656
Government and public securities	*2.2*	124	123
Loans and advances to banks	*2.3*	4,827	4,945
Loans and advances to customers	*2.4*	204	1,037
Bonds and other fixed income securities	*2.5*	616	1,312
Equities and other variable income securities		-	-
Investments in non-consolidated companies and other long-term investments		0	-
Investments in consolidated companies	*2.6*	35	35
Intangible assets	*2.7*	29	33
Property and equipment	*2.8*	6	6
Other assets	*2.9*	2,380	2,157
Accruals and other assets	*2.10*	574	612
TOTAL ASSETS	***2.11***	**9,648**	**10,916**

Liabilities as of December 31, 2018

EUR millions	Note	12/31/2017	12/31/2018
Central banks		-	-
Due to banks	*3.1*	4,799	3,829
Customer borrowings and deposits		-	-
Debt securities	*3.2*	3,460	5,612
Other liabilities	*3.3*	613	745
Accruals and other liabilities	*3.4*	627	534
Provisions	*3.5*	5	8
EQUITY	*3.6*	**144**	**188**
Subscribed capital		130	130
Additional paid-in capital		-	-
Reserves and retained earnings		(16)	14
Net income		30	44
TOTAL LIABILITIES	***3.7***	**9,648**	**10,916**

Off-balance sheet items as of December 31, 2018

EUR millions	Note	12/31/2017	12/31/2018
COMMITMENTS GRANTED	*4.1*	**11,148**	**18,882**
Financing commitments		3,078	6,554
Guarantees granted		3,247	7,383
Other commitments granted		4,823	4,945
COMMITMENTS RECEIVED	*4.2*	**13,306**	**23,238**
Financing commitments		10,058	15,853
Guarantees received		3,248	7,385
Forward commitments		-	-
Other commitments received		-	-
OTHER COMMITMENTS	*4.3*	**39,935**	**42,240**
Foreign currency transactions		7,319	7,938
Interest rate derivatives		32,616	34,302
Commitments related to securities transactions		-	-

Income statement

EUR millions	Note	2017	2018
Interest income	*5.1*	16	3
Interest expense	*5.1*	(29)	(3)
Income from variable income securities		35	50
Commission income	*5.2*	15	9
Commission expense	*5.2*	(0)	(0)
Net gains (losses) on trading portfolio	*5.3*	(0)	0
Net gains (losses) on placement portfolio	*5.4*	(0)	(3)
Other income	*5.5*	95	93
Other expense	*5.5*	(0)	(0)
NET BANKING INCOME		**132**	**149**
General operating expense	*5.6*	(97)	(94)
Depreciation and amortization		(6)	(10)
OPERATING INCOME BEFORE COST OF RISK		**29**	**45**
Cost of risk		-	-
INCOME FROM OPERATIONS		**29**	**45**
Gains or losses on fixed assets		-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		**29**	**45**
Non-recurring items		-	-
Income tax	*5.7*	1	(1)
NET INCOME		**30**	**44**
Basic earnings per share		3.23	4.73
Diluted earnings per share		3.23	4.73

Equity

EUR millions	Amount
AS OF 12/31/2017	
Share capital	130
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	(16)
Net income for the year	30
Interim dividends	-
EQUITY AS OF 12/31/2017	**144**
MOVEMENTS FOR THE PERIOD	
Changes in share capital	-
Changes in APIC	-
Changes in commitments to increase share capital and APIC	-
Changes in reserves and retained earnings	-
Dividends paid (-)	-
Net income for the period	44
Other movements	-
AS OF 12/31/2018	
Share capital	130
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	14
Net income for the period	44
EQUITY AS OF 12/31/2018	**188**

Notes to the French GAAP financial statements

1. Accounting and valuation policies

1.1 - APPLICABLE ACCOUNTING STANDARDS: RULES ADOPTED BY THE FRENCH ACCOUNTING STANDARDS BOARD (AUTORITÉ DES NORMES COMPTABLES – ANC)

SFIL prepares its financial statements in compliance with ANC Regulation n°2014-07 issued on November 26, 2014 and related to the accounts for the reporting entities of the banking sector, and in particular credit institutions. As stated in it article 3 and subject to the provisions of the latter regulation, these reporting entities prepare their financial statements in compliance with ANC Regulation n°2014-03 issued on June 5, 2014 and related to general accounting plan. The financial statements are furthermore in accordance with the indications of Directive 86/635/EEC of the Council of European Communities.

The financial statements as of December 31, 2018, were prepared using the same accounting policies as those used in the financial statements as of December 31, 2017. Between these two dates, the applicable regulation has in particular been amended as such:

- **ANC Regulation n°2018-01 issued on April 20, 2018 (amending ANC Regulation n°2014-03)**: this regulation redefines the changes in "accounting policies", the changes in "accounting estimates" and "errors corrections" under French GAAP, more closely into line with the definitions under international accounting standards (IAS 8). Applicable to the reporting periods opened at the date when it was published (i.e. 2018 annual period for SFIL), this regulation reaffirms the accounting principle of consistency in applying accounting policies and further elaborates that only one or the other of the following exemptions shall be retained: either the change is required by an amendment of the accounting regulation, or, when the accounting regulation has not been amended, a choice between several accounting policies is provided and the change ultimately enhances the quality of financial information. The accounting treatments to recognize these changes and corrections are further detailed but these treatments are not significantly amended, a change in accounting policies remaining in practice the only case to result in a retrospective retreatment. Moreover, ANC reviews the listing of the "reference methods", formerly referred as "preferential methods".

  This regulation has no material impact on SFIL financial statements presented below, mainly due to the fact that during the 2018 annual reporting period SFIL has enforced no change in accounting policies within the meaning of this regulation.

- **ANC Regulation n°2018-02 issued on July 6, 2018 (amending ANC Regulation n°2014-03)**: this regulation amends the general accounting plan so as to adapt it to the entry into force of the income tax at source on January 1, 2019. Applicable from this date, the regulation clarifies the principles of recognition of the income tax at source and introduces the new accounts created in that purpose.

  This regulation has no impact on SFIL financial statements presented below, given that it is applicable only from January 1, 2019. From 2019 however, SFIL will recognize the income tax at source in compliance with the principles laid down by this regulation.

- **ANC Regulation n°2018-07 issued on December 10, 2018 (amending ANC Regulation n°2014-03)**: this regulation amends the general accounting plan so as to clarify the way crypto-assets, referred as "jetons" in the regulation, issued in particular in the event of ICOs (Initial Coin Offerings) or subsequently purchased in the secondary market shall be recognized in the accounts of both the issuer and the holder. In addition to the clarification of the accounting principles governing these instruments, this regulation introduces the new items of the individual financial statements created to recognize these "jetons" and the underlying accounts.

  This regulation has no impact on SFIL financial statements presented below, given that it has issued and holds no crypto-assets ("jetons").

1.2 – ACCOUNTING PRINCIPLES APPLIED TO THE FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with French generally accepted accounting principles, respecting the principles of prudence, sincerity and true and faithful image, on the basis of the following assumptions:
- going concern principle,
- segregation of accounting periods,
- consistency of methods,
- historical costs,
- no netting principle,
- intangibility of the opening balance sheet.

1.2.1. Loans and advances to banks and to customers

Loans and advances to banks include all loans connected to banking transactions with credit institutions, except securities. They are broken down into sight accounts and term loans.

Loans and advances to customers comprise mainly loans granted in the form of export credits.

Loans and advances to customers are recognized in the balance sheet net of impairment for possible losses. The undrawn portion of signed loan contracts is recognized as an off-balance sheet item.

Interest on loans is recognized as *Interest income*, *prorata temporis* for accrued amounts due and not yet due, as is interest on past-dues.

Commissions received and marginal transaction costs related to the granting or the acquisition of a loan, if they are significant, are amortized over the maturity of the loan. Other commission income is immediately recognized in the income statement.

Prepayment indemnities are recognized in the income statement at the date they occur.

A loan is considered as non-performing when it presents one of the following characteristics:
- a probable or certain risk that it will not be repaid (past-due for more than nine months for local government borrowers, and for more than three months for the other counterparties);
- the existence of a factual counterparty risk (worsening of the financial situation, alert procedures).

Compromised non-performing loans are loans to borrowers whose recovery outlook is so downgraded that they might be ultimately written off. Loans accounted for as non-performing for more than one year are transferred to this category.

Impairment charges are recognized for non-performing and compromised non-performing loans:
- the fraction of principal impaired is determined by Risk Management in function of incurred losses. Underlying impairment charges and subsequent reversals are recognized as *Cost of risk* as well as the losses and subsequent recoveries on the principal of non-recoverable loans;
- interest is fully impaired. Underlying impairment charges and subsequent reversals are recognized in the net interest margin as well as the losses and subsequent recoveries on the interest of non-recoverable loans.

1.2.2. Securities

Securities held by SFIL are recognized on the asset side of the balance sheet under the item Government and public securities or Bonds and other fixed income securities.

The item Government and public securities includes securities issued by public sector entities that may be refinanced through the European system of central banks.

The item Bonds and other fixed income securities includes:
- securities issued by public sector entities that are not eligible for refinancing by central banks;
- securities guaranteed by public sector entities.

Securities held by SFIL are recognized as either *investment securities* or *placement securities*.

1.2.2.1. Investment securities

Fixed-income securities with a specified maturity are recognized as *investment securities* when there is the intention and the capacity to hold them to maturity. Securities in this category are subject to back-financing or interest-rate hedging over their residual maturity.

Investment securities are recognized on the date of purchase at acquisition clean price, excluding fees. Accrued interest at the date of acquisition and subsequently accrued interest at each closing date is recognized on the balance sheet in the same categories as the corresponding security. Interest on these securities is recognized as Interest income.

The difference between the redemption value and the acquisition clean cost (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

At closing date, unrealized gains are not recognized and unrealized losses are generally not impaired. By way of exception, unrealized losses are impaired in the following cases:
- a doubt about the issuer's ability to meet his obligations;
- the probability that the Company will not hold these securities until maturity due to new circumstances.

1.2.2.2. Placement securities

Securities that do no fit in investment securities are recognized as *placement securities*.

Placement securities are recognized on the date of purchase at acquisition clean price, excluding fees. Accrued interest at the date of acquisition and subsequently accrued interest at each closing date is recognized on the balance sheet in the same categories as the corresponding security. Interest on these securities is recognized as *Interest income*.

The difference between the redemption value and the acquisition clean cost (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

In application of the principle of prudence, placement securities are recognized on the balance sheet at their acquisition cost including if applicable the amortization of discount or premium or selling price at closing date, whichever is lower, after accounting, when relevant, for the value of the micro-hedge swap.

If the market for a financial instrument is not active, valuation techniques are used to calculate its selling price. The valuation model should take into account all the factors that market players would consider to valuate the asset. Within this framework, SFIL relies on its own valuation models, making every effort to take into account the market conditions at the date of the valuation as well as any changes in the credit quality of these financial instruments and market liquidity.

When the decrease in the value of the security exceeds the unrealized gain on the micro-hedge, the decrease in net value is recognized as asset impairment in *Net gains (losses) on placement portfolio transactions*, as well as subsequent impairment reversals and capital gains and losses on sales.

Placement securities transferred to investment securities are recognized at their acquisition cost and previously recognized impairment is reversed over the residual maturity of the securities concerned.

1.2.3. Debt due to banks

Debt due to banks is broken down according to the type of debt (sight accounts, current accounts, long-term loans or non-allocated receivables) and the initial maturity (sight or term debt).

Interest accrued on this debt is recognized in liabilities, offsetting income statement.

1.2.4. Debt securities

Debt securities are broken down between short term (Certificates of Deposit) and medium to long term (Euro Medium Term Notes) negotiable debt securities.

Debt securities are recognized at nominal value.

Redemption and issue premiums are amortized according to a quasi-actuarial method over the maturity of the securities concerned *prorata temporis*. They are recognized on the balance sheet in the same categories as the corresponding debt. Amortization of these premiums is recognized in the income statement as Interest expense. If securities are issued above par, amortization of issue premiums is deducted from Interest expense.

Interest is recognized in the net interest margin for accrued amounts calculated *prorata temporis*.

Issuance costs and commissions related to issued securities are amortized according to a quasi-actuarial method over the maturity of the related debts and are recognized in the net interest margin.

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

1.2.5. Provisions

Provisions are recognized based on their discounted value when the three following conditions are met:

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

Collective provision covers the risk of loss in value among the population of loans, bonds and loan commitments not yet covered by any specific loss allowance at closing date. Among this population, counterparties that are reviewed in watchlist committee or might be reviewed in a foreseeable future are identified through the use of automatic criteria (based in particular on internal ratings and warning indicators for rating migration determined to be risky) and ad-hoc analysis based on the use of professional judgment and expert opinion: outstanding on these counterparties forms the base of the collective provision. Losses on these counterparties are estimated on the basis of past events (use of historical patterns), current economic environment and expectations on future economic environment. For this purpose, SFIL uses a credit risk model based on an approach derived from Basel approach; this model is subject to regular back-testing.

On January 1, 2018, SFIL expanded the scope of calculation of collective provision so as to include some of the exposures which have experimented a significant increase in credit risk since initial recognition. For these exposures, the characterization of such an increase in risk is realized for the IFRS accounts in compliance with IFRS 9, and their provisioning in the annual accounts is compliant with the principle of prudence under which is based the recognition under French GAAP of collective provision, base of which is portfolios of homogeneous and performing exposures. This expansion of the scope of collective provision corresponds to a development of judgment and hypothesis when applying impairment accounting method, which constitutes a change in accounting estimates under ANC Regulation, n°2018-01 issued on April 20, 2018; as such it resulted in the recognition of an incremental loss allowance in cost of risk during the 2018 reporting period.

1.2.6. Derivative transactions

SFIL concludes derivative transactions that can be broken down into two categories: Micro-hedge transactions and Isolated open positions. The valuation and accounting treatments of these financial instruments depends on the chosen category.

The notional amount of these transactions is recognized off-balance sheet over the maturity of the instruments, i.e. from the date the contract is signed (including *forward contracts*) up to maturity. The amount recognized is adjusted to reflect any changes in notional amounts so as to represent the current or future maximum commitment.

Payments made at the inception of financial instruments are amortized over their maturity for the time remaining according to a quasi-actuarial method.

1.2.6.1. Micro-hedge transactions

Derivatives are booked as micro-hedges when they are designed to hedge against the interest rate risk or the foreign exchange risk related to an item or a set of homogeneous items identified from the outset.

Expense and income on these transactions are recognized in the income statement the same way as income and expense on the hedged item or set of homogeneous items.

Termination fees received or paid because of the early interruption of the hedging instrument are recognized in the income statement at the termination date.

1.2.6.2. Isolated open positions

SFIL acts as an intermediary between Caisse Française de Financement Local, its subsidiary, and certain banking counterparties. These transactions with its subsidiary constitute isolated open positions.

Expense and income on these transactions are recognized in the income statement *prorata temporis,* respectively as *Interest expense* and *Interest income*. The counterpart is recognized in accruals until the payment date.

A provision is recognized in respect of any unrealized losses. Unrealized gains are not recognized.

1.2.7. Foreign currency transactions

SFIL recognizes foreign currency transactions in accounts opened and denominated in each of the currencies used.

Specific foreign exchange position accounts and foreign exchange position equivalent accounts are opened in each currency.

At each closing date, differences between on the one hand the amounts resulting from a market price valuation at closing date of the foreign exchange position accounts and on the other hand the amounts recognized in the foreign exchange position equivalent accounts are recognized in the income statement.

1.2.8. Foreign exchange transactions

In the course of systematic hedging of its foreign exchange risk, SFIL enters into currency swaps. These currency swaps are initiated to eliminate the risk of foreign exchange rate fluctuations that might affect an asset or liability as soon as such a risk is identified. They are mainly used to hedge certain liabilities, debt securities and customer loans.

Results of foreign exchange hedging transactions are accounted for by recognizing the difference between the hedging rate and the spot rate – contango or backwardation – *prorata temporis* in the income statement.

1.2.9. Guarantees

As part of its activity to refinance large export credits, SFIL enters into credit insurance policies received from BPI France Assurance Export, acting on behalf of the French State. Expenses related to these guarantees are recognized *prorata temporis* in the net interest margin.

1.2.10. Other income

Charges which are not re-invoiced exactly up to the same amount are recognized as Other income.

1.2.11. Employee benefits

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

1.2.11.1. Short-term benefits

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

1.2.11.2. 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 annual 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 the income statement.

1.2.11.3. Termination benefits

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

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

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

Re-measurements of defined benefit net liability (or asset) and the fair value of its covering assets is subject to adjustments due to changes in actuarial assumptions, which results in revaluating the liability (or asset) recognized under defined contribution plans. Actuarial gains and losses resulting from these adjustments are recognized according the “corridor” method. Under this method, SFIL is allowed to recognize, over the average remaining service lives of employees, only the portion of actuarial gains and losses that exceeds the corridor. The corridor is the greatest of the following two amounts: 10% of the present value of the gross defined benefit plans or 10% of the fair value of plan assets at previous reporting period closing date.

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

1.2.12. Tangible and intangible assets

Fixed assets consist exclusively of operating 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 the income statement under the item *Depreciation and amortization*.

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 the income statement under the item *Depreciation and amortization*.

Gains or losses on disposal of fixed assets are charged to *Income (loss) on fixed assets*.

1.2.13. Non-recurring income and expense

Non-recurring income and expense results from events or transactions that do not relate to ordinary business operations or routine management of the Company's assets and liabilities.

Furthermore, the income or expense involved does not depend on decisions taken within the framework of usual management of the Company's activities or assets, but results from external events of a completely exceptional nature. Only items of this nature that have a significant impact on the period's income statement are recognized as non-recurring income and expense.

1.2.14. Tax consolidation

Since January 1, 2014, SFIL is the head of the tax group which consolidates Caisse Française de Financement Local.

1.2.15. Offices and activities in uncooperative States and territories

In application of article L.511-45 of the Monetary and Financial Code, it should be noted that SFIL has no offices in States that have not signed an administrative assistance agreement with France (subsidiaries, branches, including *ad hoc* entities, and equity interest in other entities over which the Company has exclusive or joint (or *de facto*) control).

2. Notes to the assets (EUR millions)

2.1 - CENTRAL BANKS

	Amount as of 12/31/2017	Amount as of 12/31/2018
Mandatory reserve	-	-
Other deposits	853	656
TOTAL	**853**	**656**

2.2 - GOVERNMENT AND PUBLIC SECURITIES

2.2.1. Accrued interest included in this item : 0

2.2.2. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
-	-	123	-	123

2.2.3. Analysis by listed securities and other securities excluding accrued interest

	Net amount as of 12/31/2017	Gross amount as of 12/31/2018	Impairment as of 12/31/2018	Net amount as of 12/31/2018	Unrealized capital gain or loss as of 12/31/2018(2)
Listed securities(1)	124	123	-	123	0
Other securities	-	-	-	-	-
TOTAL	**124**	**123**	**-**	**123**	**0**

(1) Listed securities are registered for trading on a stock exchange.
(2) The unrealized capital gain or loss calculated as the difference between the book value and the market value, taking derivatives into account.

2.2.4. Analysis by type of portfolio excluding accrued interest and changes during the year

Portfolio	Net amount as of 12/31/2017	Gross amount as of 12/31/2017	Increases	Decreases	Others	Conversion differences	Impairment as of 12/31/2018	Net amount as of 12/31/2018(1)	Unrealized capital gain or loss as of 12/31/2018(2)
Trading	-	-	-	-	-	-	-	-	-
Placement	124	124	-	-	(1)	-	-	123	0
Investment	-	-	-	-	-	-	-	-	-
TOTAL	**124**	**124**	**-**	**-**	**(1)**	**-**	**-**	**123**	**0**

(1) This amount includes a discount / surplus of EUR 2 million.
(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

2.3 - LOANS AND ADVANCES DUE FROM BANKS

2.3.1. Sight loans and advances due from banks

	Amount as of 12/31/2017	Amount as of 12/31/2018
Sight accounts	6	4
Unallocated sums	-	-
TOTAL	**6**	**4**

2.3.2. Time loans and advances due from banks

This item consists of loans to Caisse Française de Financement Local in the amount of EUR 4,943 million (excluding accrued interest).

2.3.2.1. Accrued interest included in this item: (2)

2.3.2.2. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
253	123	2,804	1,763	**4,943**

2.3.2.3. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2017	Gross amount as of 12/31/2018	Impairment as of 12/31/2018	Net amount as of 12/31/2018
Loans of less than 1 year	200	200	-	200
Loans of more than 1 year	4,621	4,743	-	4,743
TOTAL	**4,821**	**4,943**	**-**	**4,943**

2.3.2.4. Breakdown by counterparty

	Amount as of 12/31/2017	Amount as of 12/31/2018
Loans to Caisse Française de Financement Local	4,821	4,943
TOTAL	**4,821**	**4,943**

2.4 - CUSTOMER LOANS AND ADVANCES

2.4.1. Accrued interest included in this item: 2

2.4.2. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
-	-	-	1,035	**1,035**

2.4.3. Analysis of commitments by the counterparty's economic sector excluding accrued interest

Economic sector	Amount as of 12/31/2017	Amount as of 12/31/2018
Export credit	197	1,032
Other sectors(1)	7	3
TOTAL	**204**	**1,035**

(1) This concerns loans granted to employees of SFIL

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2.4.4. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2017	Gross amount as of 12/31/2018	Impairment as of 12/31/2018	Net amount as of 12/31/2018
Loans of less than 1 year	-	-	-	-
Loans of more than 1 year	204	1,035		1,035
TOTAL	**204**	**1,035**	**-**	**1,035**

2.4.5. Analysis of loans by category of outstanding commitments excluding accrued interest

	Net amount as of 12/31/2017	Gross amount as of 12/31/2018	Impairment as of 12/31/2018	Net amount as of 12/31/2018
Performing commitments	204	1,035	-	1,035
Non-performing loans	-	-	-	-
Compromised non-performing loans	-	-	-	-
TOTAL	**204**	**1,035**	**-**	**1,035**

2.5 - BONDS AND OTHER FIXED INCOME SECURITIES

2.5.1. Accrued interest included in this item: 1

2.5.2. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
140	664	491	16	**1,311**

2.5.3. Analysis by the issuer's economic sector excluding accrued interest

	Amount as of 12/31/2017	Amount as of 12/31/2018	Unrealized capital gain or loss as of 12/31/2018(1)
Banks	616	1,311	(2)
TOTAL	**616**	**1,311**	**(2)**
of which eligible for Central bank refinancing	*493*	*1,075*	-

(1) The unrealized capital gain or loss is calculated as the difference between the book value and the market value.

2.5.4. Analysis by listed securities and other securities excluding accrued interest

	Amount as of 12/31/2017	Amount as of 12/31/2018	Unrealized capital gain or loss as of 12/31/2018(1)
Listed securities	266	656	(1)
Other securities	350	655	(1)
TOTAL	**616**	**1,311**	**(2)**

(1) The unrealized capital gain or loss is calculated as the difference between the book value and the market value.

2.5.5. Analysis by type of portfolio excluding accrued interest and changes during the year

Portfolio	Net amount as of 12/31/2017	Gross amount as of 12/31/2017	Acquisitions	Redemption or disposals	Conversion differences	Impairment as of 12/31/2018	Net amount as of 12/31/2018(2)	Unrealized capital gain or loss as of 12/31/2018(1)
Trading	-	-	-	-	-	-	-	-
Placement	616	616	696	-	-	(1)	1,311	(2)
Investment	-	-	-	-	-	-	-	-
TOTAL	**616**	**616**	**696**	**-**	**-**	**(1)**	**1,311**	**(2)**

(1) The unrealized capital gain or loss is calculated as the difference between the book value and the market value.
(2) This amount includes a discount / surplus of EUR 4 million.

2.6 - INVESTMENTS IN CONSOLIDATED COMPANIES

SFIL acquired for EUR 1, 100% of the capital of Caisse Française de Financement Local in January 31, 2013.
In 2017, SFIL subscribed for the entire capital increase of its subsidiary CAFFIL for EUR 35 million, bringing its participation to EUR 35 million.

2.7 - INTANGIBLE ASSETS

	Software	Internally developed assets	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2017	**4**	**16**	**20**	**40**
Changes during the year:				
*increases	11	18	3	**32**
*decreases	-	-	(19)	(19)
*other	-	-	-	**-**
ACQUISITION COST AS OF 12/31/2018	**15**	**34**	**4**	**53**
Depreciation and impairments as of 12/31/2017	**(3)**	**(8)**	**-**	**(11)**
Changes during the year:				
*amortization	(3)	(6)	-	**(9)**
*write-back	-	-	-	**-**
Depreciation and impairments as of 12/31/2018	**(6)**	**(14)**	**-**	**(20)**
NET CARRYING AMOUNT AS OF 12/31/2018	**9**	**20**	**4**	**33**

2.8 - PROPERTY AND EQUIPMENT

	Computer equipment	Other equipment	Fixtures	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2017	**2**	**0**	**8**	**0**	**10**
Changes during the year:					
*increases	0	0	0	1	**1**
*decreases	-	-	-	(0)	**(0)**
*other	-	-	-	-	**-**
ACQUISITION COST AS OF 12/31/2018	**2**	**0**	**8**	**1**	**11**
Depreciation and impairments as of 12/31/2017	**(1)**	**(0)**	**(3)**	**-**	**(4)**
Changes during the year:					
*amortization	(0)	(0)	(1)	-	**(1)**
*write-back	-	-	-	-	**-**
Depreciation and impairments as of 12/31/2018	**(1)**	**(0)**	**(4)**	**-**	**(5)**
NET CARRYING AMOUNT AS OF 12/31/2018	**1**	**0**	**4**	**1**	**6**

2.9 - OTHER ASSETS

	Amount as of 12/31/2017	Amount as of 12/31/2018
Cash collateral granted	2,359	2,137
Other receivables	21	20
TOTAL	**2,380**	**2,157**

2.10 - ACCRUALS AND OTHER ASSETS

	Amount as of 12/31/2017	Amount as of 12/31/2018
Deferred charges on hedging transactions	217	240
Other prepaid charges	5	6
Accrued interest not yet due on hedging transactions	331	344
Other accounts receivable on hedging transactions	-	5
Other deferred income	21	17
TOTAL	**574**	**612**

2.11 - BREAKDOWN OF ASSETS BY CURRENCY

Analysis by original currency	Amount in original currency as of 12/31/2017	Amount in euros as of 12/31/2017	Amount in original currency as of 12/31/2018	Amount in euros as of 12/31/2018
EUR	8,784	8,784	8,842	8,842
CAD	2	1	2	1
CHF	14	12	8	7
GBP	2	2	2	2
JPY	-	-	-	-
SEK	-	-	-	-
USD	1,013	845	2,356	2,060
NOK	39	4	39	4
TOTAL		**9,648**		**10,916**

3. Notes to the liabilities (EUR millions)

3.1 - DUE TO BANKS

	Amount as of 12/31/2017	Amount as of 12/31/2018
Sight accounts	-	-
Current account	-	-
Term borrowing	4,798	3,828
Interest accrued not yet due	1	1
Unallocated sums	-	-
TOTAL	**4,799**	**3,829**

Analysis by residual maturity excluding accrued interest

	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Amount as of 12/31/2018
Sight	-	-	-	-	-
Term	192	820	1,595	1,221	3,828
TOTAL	**192**	**820**	**1,595**	**1,221**	**3,828**

Analysis of term borrowing by counterparty excluding accrued interest

	Amount as of 12/31/2017	Amount as of 12/31/2018
Caisse des dépôts et consignations	3,158	1,111
Caisse Française de Financement Local	578	1,897
La Banque Postale	1,062	820
TOTAL	**4,798**	**3,828**

3.2 - DEBT SECURITIES

Accrued interest included in this item: 30

Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Amount as of 12/31/2018
Certificates of deposit	400	247	-	-	647
EMTN	-	-	2,945	1,990	4,935
TOTAL	**400**	**247**	**2,945**	**1,990**	**5,582**
Of which net issue premiums	-	-	*(4)*	*(10)*	*(14)*

Changes during the year excluding accrued interest

	Amount as of 12/31/2017	Increases	Decreases	Translation adjustments	Amount as of 12/31/2018
Certificates of deposit	624	647	(624)	-	647
EMTN	2,827	2,108	-	-	4,935
TOTAL	**3,451**	**2,755**	**(624)**	-	**5,582**

3.3 - OTHER LIABILITIES

	Amount as of 12/31/2017	Amount as of 12/31/2018
Cash collateral received	590	724
Taxes	0	8
Other payables	23	13
TOTAL	**613**	**745**

3.4 - ACCRUALS AND OTHER LIABILITIES

	Amount as of 12/31/2017	Amount as of 12/31/2018
Deferred charges on hedging transactions	207	193
Accrued interest not yet due on hedging transactions	321	310
Other accounts payable on hedging transactions	64	-
Other accrued charges	35	31
TOTAL	**627**	**534**

3.5 - PROVISIONS

	Amount as of 12/31/2017	Increases	Decreases	Conversion differences	Amount as of 12/31/2018
Provisions on pensions	5	-	-	-	5
Provisions on financial instruments	-	3	-	-	3
TOTAL	**5**	**3**	**-**	**-**	**8**

3.6 - EQUITY

	Amount as of 12/31/2017	Amount as of 12/31/2018
Share capital	130	130
Legal reserve	-	-
Retained earnings (+/-)	(16)	14
Net income (+/-)	30	44
TOTAL	**144**	**188**

SFIL's share capital totaled EUR 130 million, comprising 9,285,725 shares with a face value of EUR 14.

3.7 - BREAKDOWN OF LIABILITIES BY CURRENCY

Analysis by original currency	Amount in original currency as of 12/31/2017	Amount in euros as of 12/31/2017	Amount in original currency as of 12/31/2018	Amount in euros as of 12/31/2018
EUR	8,784	8,784	8,842	8,842
CAD	2	1	2	1
CHF	14	12	8	7
GBP	2	2	2	2
SEK	-	-	-	-
USD	1,013	845	2,356	2,060
NOK	39	4	39	4
TOTAL		**9,648**		**10,916**

3.8 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Consolidated entity CAFFIL[1]		Other related parties[2]	
	12/31/2017	12/31/2018	12/31/2017	12/31/2018
ASSETS				
Loans and advances to banks - sight	-	-	-	-
Loans and advances to banks - term	4,821	4,941	-	-
Bonds and other fixed income securities	-	-	48	88
LIABILITIES				
Due to banks - sight	-	-	-	-
Due to banks - term	578	1,897	4,221	1,932
INCOME STATEMENT				
Interest income on loans and advances	10	(4)	(0)	(0)
Interest income on debt securities	0	0	(0)	(0)
Interest expense on borrowings	(0)	0	(23)	(9)
Net commissions	11	5	4	4
OFF-BALANCE SHEET				
Interest rate derivatives	28,004	14,309	554	415
Foreign exchange derivatives	1,271	1,022	-	-
Commitments and guarantees received	3,028	6,284	7,031	9,530
Commitments and guarantees granted	-	-	4,821	4,943

(1) Caisse Française de Financement Local
(2) Other related parties concern La Banque Postale and Caisse des dépôts et consignations.

4. Notes to the off-balance sheet items (EUR millions)

4.1 - COMMITMENTS GRANTED

	12/31/2017	12/31/2018
Financing commitments granted to credit institutions	50	270
Financing commitments granted to customers[1]	3,028	6,284
Other guarantees given to banks[2]	3,247	7,383
Other commitments given, assets assigned in guarantee	4,823	4,945
TOTAL	**11,148**	**18,882**

(1) Within the framework of the business of export credit refinancing, this amount corresponded to a commitment made by SFIL to an exporter customer, as part of a project contract.
(2) This amount corresponds to the sell-back, to the benefit of Caisse Française de Financement Local, of guarantees received from its export credit activity.

4.2 - COMMITMENTS RECEIVED

	12/31/2017	12/31/2018
Financing commitments received from credit institutions[1]	10,497	15,853
Guarantees received from banks[2]	3,248	7,385
Other commitments received	-	-
TOTAL	**13,745**	**23,238**

(1) In particular, this amount integrates funding commitments of EUR 6,284 million from Caisse Française de Financement Local in order to finance the parent company SFIL within the framework of its export credit activity. It also includes the residual amount corresponding to the financing commitments of SFIL's shareholders, Caisse des dépôts et consignations and La Banque Postale for respective amounts of EUR 8,889 million, and 681 million.
SFIL recorded the total of its commitments related to the only tranches existing, which is limited to 8,889 million. This amount does not take into account the possibility stipulated in the financing agreement with Caisse des dépôts et consignations to negociate additional funding in good faith. Since the principal in a loan may not exceed EUR 12.5 billion, this financing would be at most EUR 2,500 million as of December 2018.
(2) Irrevocable and inconditionnal guarantees issued by the French State received by SFIL to finance major export credits.

4.3 - FOREIGN CURRENCY TRANSACTIONS AND COMMITMENTS ON INTEREST RATE DERIVATIVES

4.3.1. Foreign currency transactions

Cash and forward foreign exchange transactions are recorded at their value in foreign currencies translated at the exchange rate at the end of the period.
The items "Currencies to receive" and "Currencies to deliver" are composed of long currency swaps with intermediate payment flows corresponding to hedging transactions.

	12/31/2017	12/31/2018	Fair value as of 12/31/2018
Currencies to receive	3,596	3,974	(160)
Currencies to deliver	3,723	3,964	180
TOTAL	**7,319**	**7,938**	**20**

4.3.2. Commitments on interest rate derivatives

Commitments on interest rate derivatives are recorded in accordance with CRB standards 88-02 and 90-15: amounts related to unconditional operations are recorded at the contractual notional value.

4.3.2.1. Analysis of over-the-counter interest rate transactions by residual maturity

Type of transaction	Less than 1 year	1 year to 5 years	More than 5 years	Amount as of 12/31/2018
Unconditional transactions	2,902	7,421	23,979	34,302
of which deferred start	-	-	*82*	*82*

4.3.2.2. Analysis of interest rate transactions by product type

	12/31/2017	12/31/2018
Interest rate swaps	32,616	34,302
Term contracts	-	-
Interest rate options	-	-
TOTAL	**32,616**	**34,302**

4.3.2.3. Analysis of interest rate transactions by counterparty

	12/31/2017	12/31/2018
Caisse Française de Financement Local	14,026	14,310
Other related parties	554	415
Other counterparties	18,036	19,577
TOTAL	**32,616**	**34,302**

4.3.3. Foreign exchange transactions and commitments to derivative financial instruments by type of transaction

Type of transaction	Amount as of 12/31/2017	Micro-hedge	Isolated open position	Amount as of 12/31/2018	Fair value as of 12/31/2018
Foreign currency transactions - to receive	3,596	1,203	2,771	3,974	**180**
Foreign currency transactions - to deliver	3,660	1,022	2,947	3,969	**(160)**
Interest rate swaps	32,616	14,310	19,992	34,302	**(28)**
TOTAL	**39,872**	**16,535**	**25,710**	**42,245**	**(8)**

5. Notes to the income statement (EUR millions)

5.1 - INTEREST AND RELATED INCOME

	2017	2018
INTEREST AND RELATED INCOME	**16**	**3**
Loans and advances to banks	5	(13)
Loans and advances to customers	6	16
Bonds and other fixed income securities	5	(0)
Macro-hedge transactions	-	-
Other commitments	-	-
INTEREST AND RELATED EXPENSE	**(29)**	**(3)**
Due to banks	(26)	(11)
Due to clients	(2)	(1)
Bonds and other fixed income securities	(1)	9
Macro-hedge transactions	-	-
Other commitments	-	-
INTEREST MARGIN	**(13)**	**(0)**

5.2 - ANALYSIS OF COMMISSIONS RECEIVED AND PAID

	2017	2018
Billing commissions received from Caisse Française de Financement Local	11	5
Other commissions[1]	4	4
TOTAL	**15**	**9**

(1) This concerns mainly servicing commission received from La Banque Postale.

5.3 - NET GAINS OR LOSSES ON TRADING PORTFOLIO

	2017	2018
Provision on financial instruments	(0)	0
Foreign exchange income	(0)	0
TOTAL	**(0)**	**0**

5.4 - NET GAINS OR LOSSES ON PLACEMENT PORTFOLIO

	2017	2018
Losses on placement portfolio	(0)	(27)
Gains on placement portfolio	0	24
TOTAL	**(0)**	**(3)**

5.5 - OTHER INCOME AND EXPENSE

	2017	2018
Other income	0	0
Rebilled expense[1]	95	93
Other expense	(0)	(0)
TOTAL	**95**	**93**

(1) This item mainly includes expenses billed to Caisse Française de Financement Local.

5.6 - GENERAL EXPENSES

	2017	2018
Payroll expense	(31)	(30)
Social security taxes	(18)	(17)
Taxes	(6)	(6)
Other general operating expense	(42)	(41)
TOTAL	**(97)**	**(94)**

5.7 - INCOME TAX

	2017	2018
Current income tax(1)	1	(1)
TOTAL	**1**	**(1)**

(1) This Item includes the effects linked with the fiscal integration.

6. Financial relations with members of the Executive Committee and the Board of Directors (EUR millions)

Gross compensation allocated to members of the Executive Committee and Board of Directors of the company owing to their functions within them, in the subsidiaries and affiliated companies	2017	2018
Executive Committe	3	2
Board of Directors	-	0
TOTAL	**3**	**2**

Amount, at year end, of the debt liabilities in their favor and of other obligations undertaken on their behalf	2017	2018
Executive Committe	0	0
Board of Directors	-	-
TOTAL	**0**	**0**

7. Information on subsidiaries and shareholdings (EUR millions)

Companies	Capital	Share premiums, reserves and retained earnings	Net Banking Income (NBI) of last year (2018)	Profit or loss of last year (2018)	Percentage of capital held	Carrying amount of shares held(1)	Dividends received by SFIL during the year	Loans and advances granted by SFIL	Total guarantees granted by SFIL	Business
Caisse Française de Financement Local *1-3 Rue du Passeur de Boulogne - 92130 Issy les Moulineaux*	1,350	-	134	44	100%	35	50	4,941	-	Société de crédit foncier

(1) SFIL acquired for EUR 1, 100% of the capital of CAFFIL on january 31, 2013.

In 2017, SFIL subscribed for the entire capital increase of its subsidiary CAFFIL for EUR 35 million, bringing its participation to EUR 35 million.

8. Post-closing events

No significant event exerting in influence of the Company's financial situation occured after the closing on December 31, 2018.

Statutory Auditors' report on the financial statements For the year ended December 31, 2018

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments with third parties that is issued in the French language and is provided solely for the convenience of English-speaking readers.

This report on regulated agreements and commitments should be read in conjunction, and construed in accordance with, French law and professional auditing standards applicable in France.

It should be understood that the agreements reported on are only those provided by the French Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

To the Annual General Meeting of SFIL,

OPINION

In compliance with the engagement entrusted to us by your annual general meeting, we have audited the accompanying financial statements of SFIL for the year ended December 31, 2018.
In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as of December 31, 2018 and of the results of its operations for the year then ended in accordance with French accounting principles.
The audit opinion expressed above is consistent with our report to the Audit Committee.

BASIS FOR OPINION

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2018 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in article 5(1) of Regulation (EU) No 537/2014 or in the French Code of ethics (*Code de déontologie*) for statutory auditors.

JUSTIFICATION OF ASSESSMENTS - KEY AUDIT MATTERS

In accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.
These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

IT migration

Risk identified	Our response
The SFIL group rolled out a program to overhaul its IT system. In April 1, 2018, this project resulted in the migration of, notably, the management of all market transactions (derivatives and securities) towards a new IT system integrating a new management application and the creation of an data warehouse. Considering the risks inherent in such a project, notably the correct recovery of data and carryforward of historical balances in the new IT system, as well as the changes related to a new IT system in the processes of the activities, we considered this project to be a key audit matter.	Our procedures, with the support of our experts who are part of the audit team, consisted in: • Examining the documentation related to the different phases of the project and its governance framework; • Examining the controls set up by the permanent control and internal audit reports; • Analyzing coverage of acceptance testing; • Examining the control mechanism framing the recovery of post-migration transactions; • Examining the application authorizations for the new IT tools and applications having been impacted by the simplification of the IT system; • Examining the developments of new application program interfaces; • Analyzing internal developments enabling non-assured functionalities to be repaired by the new IT system as of the production starting date.

VERIFICATION OF THE MANAGEMENT REPORT AND OF THE OTHER DOCUMENTS PROVIDED TO SHAREHOLDERS

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information provided in the Management Report and in the Other Documents Provided to the Shareholders with respect to the financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of Board of Directors and in the other documents provided to Shareholders with respect to the financial position and the financial statements.
Based on this work, the fair presentation and the consistency with the financial statements of the information relating to payment deadlines mentioned in article D.441-4 of the French Commercial Code (*Code de commerce*) lead us to make the following remark: as stated in the management report, the information does not include bank transactions and related transactions, as your company considers that they do not fall within the scope of the information to be provided.

Report on Corporate Governance

We attest that the Board of Directors' Report on Corporate Governance sets out the information required by articles L.225-37-3 and L.225-37-4 of the French Commercial Code (*Code de commerce*).
Concerning the information given in accordance with the requirements of article L.225-37-3 of the French Commercial Code (*Code de commerce*) relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your company from controlling and controlled companies. Based on this work, we attest the accuracy and fair presentation of this information.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of SFIL by the annual general meeting held in January 29, 2013 for DELOITTE ET ASSOCIES and in May 31, 2017 for ERNST & YOUNG et Autres.
As of December 31, 2018 DELOITTE & ASSOCIES and ERNST & YOUNG et Autres were in the 6th year and the 2nd year of total uninterrupted.

RESPONSIBILITIES OF MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE FOR THE FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.
The Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.
The financial statements were approved by the Board of Directors.

STATUTORY AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
As specified in article L.823-10-1 of the French Commercial Code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.
As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company

to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Audit Committee

We submit a report to the Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Audit Committee with the declaration provided for in article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by articles L.822-10 to L.822-14 of the French Commercial Code (*Code de commerce*) and in the French Code of Ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense, the 1st of April 2019
The Statutory Auditors
French original signed by

DELOITTE & ASSOCIÉS	**ERNST & YOUNG et Autres**
Sylvie BOURGUIGNON	Vincent ROTY

Ordinary and Extraordinary Shareholders' Meeting

of May 29, 2019

Statutory Auditors' special report on regulated agreements and commitments

Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2018

This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments with third parties that is issued in the French language and is provided solely for the convenience of English-speaking readers. This report on regulated agreements and commitments should be read in conjunction, and construed in accordance with, French law and professional auditing standards applicable in France. It should be understood that the agreements reported on are only those provided by the French Commercial Code and that the report does not apply to those related party transactions described in IAS 24 or other equivalent accounting standards.

To the Shareholders' Meeting of SFIL,

In our capacity as Statutory Auditors of your Company, we hereby report to you on regulated agreements and commitments. The terms of our engagement require us to communicate to you, based on information provided to us, the principal terms and conditions of those agreements and commitments brought to our attention or which we may have discovered during the course of our audit, as well as the reasons justifying that such commitments and agreements are in the Company's interest, without expressing an opinion on their usefulness and appropriateness or identifying such other agreements, if any. It is your responsibility, pursuant to article R.225-31 of the French Commercial Code (*Code de Commerce*), to assess the interest involved in respect of the conclusion of these agreements and commitments for the purpose of approving them.
Our role is also to provide you with the information stipulated in article R.225-31 of the French Commercial Code relating to the implementation during the past year of agreements and commitments previously approved by the Shareholders' Meeting, if any.
We performed the procedures that we considered necessary with regard to the professional guidelines of the French National Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) applicable to this engagement. These procedures consisted in agreeing the information provided to us with the relevant source documents.

I. Agreements and commitments submitted to the approval of the shareholders' meeting

Pursuant to article L.225-40 of the French Commercial Code, we have been informed that the following agreements and commitments were previously authorized by your Board of Directors.

A. Service agreement for the management of SFIL/LBP - LBP/CL medium and long-term loans

Persons concerned:
Mr. Serge Bayard, representing the interests of LBP, shareholder, Chairman of the Board of Directors of the Joint-Venture (JV) LBP Collectivités Locales and director of SFIL.
Mr. Schwan Badirou Gafari, representing the French State, director of SFIL and the State, being a member of the LBP Supervisory Board.

Nature, purpose and reasons justifying that the agreement is in the Company's interest:
This new agreement takes into account the changes in practices and contractual relations between the parties.
This agreement replaces the one signed on January 31, 2013, as well as the amendments signed on August 8, 2013, July 12, 2017 and October 31, 2017.
The term of this agreement is December 21, 2021.

Terms and conditions:
This agreement was signed on April 10, 2018, following the Board of Directors' meeting on March 29, 2018. For fiscal year 2018, the financial impact of the agreement is income of EUR 3.5 billion.

B. Memorandum of understanding relating to the SFIL/CDC loan agreement (amendment n°3)

Persons concerned:
Mrs. Virginie Fernandes, director of SFIL and representing CDC.

Nature, purpose and reasons justifying that the agreement is in the Company's interest:
As a reminder, SFIL (borrower) and CDC (lender) signed a loan agreement in January 31, 2013, amended in May 28, 2014 and July 16, 2015.
The objectives of this agreement are:
- Determining by mutual agreement the margin calculation method used for the calculation of interest provided for in article 8.1(b) of the loan agreement for advances B, C, D, E, A2 and A3;
- Settling the amounts owed by SFIL to CDC for the relevant advances B, C, D, E from January 31, 2013 (included) to January 31, 2018 (included) on the basis of the aforementioned method;
- Applying this methodology from February 1, 2018, for the interest calculation of the current or future advances B, C, D, E, A2, and A3.

Terms and conditions:
This agreement was signed in April 6, 2018, following the Board of Directors' meeting in March 29, 2018.
For fiscal year 2018, SFIL's debt under the agreement and its amendments amounted to EUR 1.1 billion and it paid interest of EUR 2.7 million.

C. Amendment n°4 to the agreement on the assignment of receivables from LBP to CAFFIL, with SFIL as a party

Persons concerned:
Mr. Philippe Mills, CEO of SFIL and Chairman of the Supervisory Board of CAFFIL.
Mr. Serge Bayard, representing the interests of LBP, shareholder, Chairman of the Board of Directors of the Joint-Venture (JV) LBP Collectivités Locales and director of SFIL.
Mr. Schwan Badirou Gafari, representing the French State, director of SFIL and the State, being a member of the LBP Supervisory Board.
Mr. Gabriel Cumenge, director of SFIL appointed on a proposal by the French State.

Nature, purpose and reasons justifying that the agreement is in the Company's interest:
The assignment of receivables agreement was signed in January 31, 2013. Given the market changes and the experience acquired since 2013, the following modifications were made to the agreement by a new amendment signed in December 10, 2018:
- Modification of the method for sharing the margin and payment of the margin owed to LBP and clarification on the information to be communicated by LBP to CAFFIL upon assignment of eligible receivables to comply with the new AML/CTF regulatory requirements.

Terms and conditions:
This amendment was authorized by the Board of Directors in December 6, 2018 and signed in December 10, 2018. The nominal amount of loans acquired in 2018 amounts to EUR 3.38 billion, commissions represent an expense of EUR 9.9 million and debt recorded is EUR 36 million due to the acceleration of the settlement of the expected margin between CAFFIL and LBP.

II. Agreements and commitments previously approved by the Shareholders' Meeting

AGREEMENTS AND COMMITMENTS APPROVED IN PRIOR YEARS

Pursuant to article R.225-30 of the French Commercial Code, we have been informed that the following agreements and commitments, previously approved by Shareholders' Meetings of prior years, have remained in force during the year.

D. Agreement to assign receivables from LBP to CAFFIL, with SFIL as party

Persons concerned:
Mr. Philippe Mills, Chairman and CEO of SFIL and Chairman of the Supervisory Board of CAFFIL.
Mr. Philippe Wahl, Chairman of the Management Board of LBP and director of SFIL until December 5, 2013.

Nature and purpose and reasons justifying that the agreement is in the Company's interest:
This agreement was signed in January 31, 2013 for a period of 5 years with a renewal option.
LBP undertakes to propose that CAFFIL acquire all of the eligible receivables, as such are defined in the agreement, granted by LBP or the joint-venture created between LBP and la Caisse des dépôts et consignations (hereinafter "CDC"), in accordance with the provisions described in the agreement.

Terms and conditions:
This agreement was authorized by the Board of Directors in January 31, 2013. The financial impacts of this agreement and its amendments in respect of fiscal year 2018 are described in C.

1. Amendment of August 8, 2013

Persons concerned:
Mrs. Delphine de Chaisemartin, director of SFIL (until March 29, 2018) and of the JV LBP Collectivités Locales.
Mr. Philippe Mills, Chairman and CEO of SFIL and Chairman of the Supervisory Board of CAFFIL.
Mr. Philippe Wahl, Chairman of the Management Board of LBP and director of SFIL, until December 5, 2013.

Nature and purpose:
The assignment of receivables agreement was signed in January 31, 2013. Pursuant to the agreement, several points still needed to be clarified which was the purpose of the amendment signed in August 8, 2013.
The points covered by the amendment are:
- making the JV LBP, CDC a party to this agreement;
- adding a new exception to the principle of exclusivity of the assignment of eligible loans concerning the loans proposed as part of the marketing of the programs of the BEI;
- appointing a calculation agent (SFIL);
- adding to the appendices the following documents: "assignment of receivables form", "selection criteria for new loans by CAFFIL", "CAFFIL loan granting decision-making process" and "terms and conditions for calculating the assignment price."

Terms and conditions:
This amendment was authorized by the Board of Directors in June 6, 2013. The financial impacts of this agreement and its amendments in respect of fiscal year 2018 are described in C.

2. Amendment of December 20, 2013

Persons concerned:
Mr. Philippe Mills, Chairman and CEO of SFIL and Chairman of the Supervisory Board of CAFFIL.
Mr. Rémy Weber, Chairman of the Management Board of LBP and director of SFIL until March 24, 2016.
Mrs. Delphine de Chaisemartin, director of SFIL (until March 29, 2018) and of the JV LBP Collectivités Locales.

Nature and purpose:
This amendment was signed in December 20, 2013.
The agreement governs the terms and conditions in which CAFFIL buys loans originated/marketed by La Banque Postale. The amendment, which contains technical adjustments, does not impact the form or the type of agreement but includes the new loans made available to its clients by LBP and adjusts the terms and conditions for calculating the assignment price.

Terms and conditions:
This amendment was authorized by the Board of Directors in December 5, 2013. The financial impacts of this agreement and its amendments in respect of fiscal year 2018 are described in C.

3. Amendment of November 23, 2016

Persons concerned:
Mr. Serge Bayard, representing the interests of LBP, shareholder, Chairman of the Board of Directors of the Joint-Venture (JV) LBP Collectivités Locales and director of SFIL.
Mrs. Delphine de Chaisemartin, director of SFIL (until March 29, 2018) and of the JV LBP Collectivités Locales.

Nature and purpose:
The assignment of receivables agreement was signed in January 31, 2013. Given the market changes and the experience acquired since 2013, the following modifications have been made to the agreement by a new amendment signed in November 23, 2016:
- Modification of the terms and conditions for sharing the margin between SFIL/CAFFIL and LBP (67%/33%)
- Continuation of the agreement until 2021
- Removal of the clause binding LBP not to transfer a certain number of low-margin loans
- Agreement in principle to accelerate asset acquisitions.

Terms and conditions:
This amendment was authorized by the Board of Directors in September 8, 2016. The financial impacts of this agreement and its amendments in respect of fiscal year 2018 are described in C.

E. LBP-SFIL services agreement

Persons concerned:
Mr. Philippe Wahl, Chairman of the Management Board of LBP and director of SFIL, until December 5, 2013.

Nature and purpose:
This agreement was signed in January 31, 2013.
SFIL must provide support functions to LBP which it needs for itself or the joint-venture to develop its marketing activities. SFIL will provide services related to the accounting matters for operations, back-office loan management and monitoring of risks.

Terms and conditions:
This agreement, authorized by the Board of Directors in January 31, 2013, has no longer been in force since April 10, 2018 and was replaced by the agreement mentioned in A. The financial impacts of this agreement and its amendments in respect of fiscal year 2018 are described in A.

1. Amendment of August 8, 2013

Persons concerned:
Mrs. Delphine de Chaisemartin, director of SFIL (until March 29 2018) and of the JV LBP Collectivités Locales.
Mr. Philippe Wahl, Chairman of the Management Board of LBP and director of SFIL, until December 5, 2013.

Nature and purpose:
This amendment was signed in August 8, 2013.
The provision of services agreement signed on January 31, 2013 between SFIL and LBP sets forth all of the services that SFIL provides to LBP as part of the marketing of loans to local territories and public hospitals.
The purpose of the amendment is to add the following clauses to this agreement:
- Introduction of a civil liability ceiling
- Several services have been specified
- Monthly meeting of the partnership committee to monitor the smooth running of this service
- Introduction of an invoicing limit insofar as SFIL must equip itself to provide the services requested by LBP.

The SLA describes the operational aspects of all the services listed in the agreement and those provisions which take precedence over those in the agreement. It defines the quality indicators and their acceptable thresholds as well as the mechanism for imposing penalties in the event of non-compliance of these indicators.

Terms and conditions:
This agreement, authorized by the Board of Directors in January 31, 2013, has no longer been in force since April 10, 2018 and was replaced by the agreement mentioned in A. The financial impacts of this agreement and its amendments in respect of fiscal year 2018 are described in A.

2. Amendment of July 12, 2017

Persons concerned:
M. Serge Bayard, representing LBP and director of SFIL.
Mrs. Delphine de Chaisemartin, director of SFIL (until March 29, 2018) and of the JV LBP Collectivités Locales.
Mr. Schwan Badirou Gafari, representing the French State, director of SFIL and the State, being a member of the LBP Supervisory Board.

Nature, purpose and reasons justifying that the agreement is in the Company's interest:
This amendment aims to extend the agreement by 3 months to renegotiate the terms and conditions, before either of the parties can give notice of termination should they fail to agree.

Terms and conditions:
This amendment, signed in July 12, 2017 was not previously authorized by the Board of Directors due to omission. The Board of Directors decided to authorize it *a posteriori* in September 7, 2017.
This amendment has no longer been in force since April 10, 2018 and was replaced by the agreement mentioned in A. The financial impacts of this agreement and its amendments in respect of fiscal year 2018 are described in A.

3. Amendment of October 31, 2017

Persons concerned:
Mr. Serge Bayard, representing LBP and director of SFIL.
Mrs. Delphine de Chaisemartin, director of SFIL (until March 29, 2018) and of the JV LBP Collectivités Locales.
Mr. Schwan Badirou Gafari, representing the French State, director of SFIL and the State, being a member of the LBP Supervisory Board.

Nature, purpose and reasons justifying that the agreement is in the Company's interest:
The amendment to the services agreement covers the pricing which provides for 15bp of management fees paid by LBP to SFIL for the outstandings held by the latter. This amendment modifies, for the most recent and for future outstandings, the cost of the service from 15bp to 8bp to align it with market conditions. These new conditions are applicable as of January 1, 2018.

Terms and conditions:
This amendment was authorized by the Board of Directors in December 7, 2017. The financial impact of the agreement and its amendments in respect of fiscal year 2018 is described in A.

F. Agreement of liquidity support between LBP and SFIL

Persons concerned:
Mr. Philippe Wahl, Chairman of the Management Board of LBP and director of SFIL, until December 5, 2013

Nature and purpose:
This agreement was signed in August 8, 2013.
A financing agreement was set up between CDC and SFIL. Furthermore, in January 31, 2013, LBP and SFIL agreed to enter into a liquidity support agreement from LBP to SFIL. As part of the overall agreements, LBP must contribute to the non-preferred financing which CAFFIL needs to finance the acquisition of the production of LBP. CAFFIL will contribute to 65% of these needs and CDC 35%. The agreement of liquidity support between LBP and SFIL specifies the terms and conditions for setting up this financial support, which are based on the financing terms and conditions in the financing agreement between CDC and SFIL.
It is a renewable credit line for a maximum amount of EUR 1.1 billion.

Terms and conditions:
This agreement was authorized by the Board of Directors in June 6, 2013. For fiscal year 2018, SFIL's debt under the agreement and its amendments amounted to EUR 820 million and it paid interest of EUR 2.7 million.

1. Amendment of July 16, 2015

Persons concerned:
Mr. Rémy Weber: Chairman of the Management Board of LBP and director of SFIL until March 24, 2016.

Nature and purpose:
This amendment was signed in July 16, 2015. It provides, as a result of the launch of the new credit export activity, a modification of the contribution of LBP to the preferred funding of CAFFIL.
LBP accepts to fully finance (100%), and not only 65%, the needs related to the activity in the public sector and the hospitals and also to assume the financing already paid by the CDC, i.e., 35%.

Terms and conditions:
This agreement was authorized by the Board of Directors in March 19, 2015.
The financial impacts of the agreement and its amendments in respect of fiscal year 2018 are described in F.

2. Amendment of July 10, 2017

Persons concerned:
Mr. Serge Bayard, representing LBP and director of SFIL

Nature, purpose and reasons justifying that the agreement is in the Company's interest:
The amendment modifies the agreement allowing LBP outstanding drawdowns to be smoothed out.

Terms and conditions:
This amendment was signed in December 15, 2017 and authorized by the Board of Directors in May 31, 2017. The financial impacts of the agreement and its amendments in respect of fiscal year 2018 are described in F.

3. Amendment of December 15, 2017

Persons concerned:
Mr. Serge Bayard, representing LBP and director of SFIL.
Mr. Schwan Badirou Gafari, representing the French State, director of SFIL and the State, being a member of the LBP Supervisory Board.

Nature, purpose and reasons justifying that the agreement is in the Company's interest:
The amendment to the financing agreement includes an increase in the ceiling (from EUR 1,250 million to EUR 1,500 million) and an easing of the use terms and conditions. The term of the agreement was extended and the spread applicable to new drawdowns was reduced.

Terms and conditions:
This amendment was authorized by the Board of Directors in December 7, 2017. The financial impact in respect of fiscal year 2018 is described in F.

G. Amendment to the liquity agreement between CDC and SFIL

Persons concerned:
Mrs. Delphine de Chaisemartin, director of SFIL (until March 29, 2018) and representing the interest of the Caisse des dépôts et consignations, shareholder.

Nature and purpose:
This agreement, signed in May 28, 2014, focuses on a loan agreement between SFIL and CDC. It complies with the requests of ACPR, reduces the overall financing costs of SFIL and reduces the amount of the ceiling for the commitment of CDC and its exposure on SFIL.

Terms and conditions:
This amendment was authorized by the Board of Directors in May 23, 2014. The financial impacts of this agreement and its amendments in respect of fiscal year 2018 are described in B.

1. Amendment of July 16, 2015

Persons concerned:
Mrs. Delphine de Chaisemartin, director of SFIL (until March 29, 2018) and representing the interest of the Caisse des dépôts et consignations, shareholder.

Nature and purpose:
This amendment was signed in July 16, 2015. It provides, as a result of the launch of the new credit export activity, the following modifications to the loan agreement between SFIL and CDC:
- halt in funding related to the LBP activity;
- unsecured requirements financed by CDC with an amount premium (increase by 5bp for amounts exceeding EUR 750 million);
- SFIL undertakes to continue to reduce the over-collateralization rate up to 11.5% in 2018.

Terms and conditions:
The financial impacts of this agreement and its amendments in respect of fiscal year 2018 are described in B.

Paris-la-Défense, April 1, 2019
The Statutory Auditors
French original signed by

DELOITTE & ASSOCIÉS
Sylvie BOURGUIGNON

ERNST & YOUNG et Autres
Vincent ROTY

Proposed resolutions to the Ordinary and Extraordinary Shareholders' Meeting of May 29, 2019

To the Ordinary Shareholders' meeting

First resolution: approval of the annual financial statements

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings and having heard the reports of the Board of Directors and the Statutory Auditors, approves the annual financial statements as of December 31, 2018, as presented to it, with all transactions reflected in these financial statements or mentioned in these reports, and showing an income of EUR 43,894,360.64.

The Ordinary Shareholders' Meeting approves the total amount of costs and expenses not deductible for corporate income tax purposes (article 39.4 of the General Tax Code), an amount of EUR 37,665.83.

Second resolution: allocation of net loss / income

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, decides to allocate the net income for the year totaling as follows:

In EUR	
ALLOCATION OF NET INCOME	
Net income for the year	**43,894,360.64**
Legal reserve (5%)	(2,194,718.03)
Retained earnings	**12,814,036.42**
Income available	54,513,679.03
Retained earnings after allocation to legal reserve	**54,513,679.03**

In accordance with article 243 bis of the General Tax Code, the Shareholders' Meeting notes that no dividends were paid out during the past three years.

Third resolution: approval of the consolidated financial statements

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings and having heard the reports of the Board of Directors and the Statutory Auditors, approves the consolidated financial statements as of December 31, 2018, as presented to it, with all transactions reflected in these financial statements or mentioned in these reports, and showing an income attributable to owners of the parent company of EUR 63,176,529.28.

Fourth resolution: approval of regulated agreement entered into with La Banque Postale

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings and having heard the Statutory Auditors' special report on regulated agreements subject to article L.225-38 of the Code of Commerce, approves, in accordance with the conditions of article L.225-40 of this same code, the relevant regulated agreement entered into with La Banque Postale.

Fifth resolution: approval of the regulated agreement entered into with La Banque Postale and the Collectivités Locales joint venture

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings and having heard the Statutory Auditors' special report on regulated agreements subject to article L.225-38 of the Code of Commerce, approves, in accordance with the conditions of article L.225-40 of this same code, the relevant regulated agreement entered into with La Banque Postale and the Collectivités Locales joint venture.

Sixth resolution: approval of the regulated agreement entered into with Caisse des dépôts et consignations

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings and having heard the Statutory Auditors' special report on regulated agreements subject to article L.225-38 of the Code of Commerce, approves, in accordance with the conditions of article L.225-40 of this same code, the relevant regulated agreement entered into with Caisse des dépôts et consignations.

Seventh resolution: discharge for members of management and supervisory bodies

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, and in light of the approval of the previous resolutions, gives full and unqualified discharge to the members of management and supervisory bodies for the fulfilment of their duties for the year ending December 31, 2018.

Eighth resolution: certification of financial statements by the Statutory Auditors

Pursuant to article L.822-14 of the Code of Commerce, the Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, duly notes that the financial statements for the year ended December 31, 2018, have been certified by the Statutory Auditors:
- Vincent Roty, partner, representing Ernst & Young et Autres, on the one hand; and
- Sylvie Bourguignon, partner, representing Deloitte & Associés, on the other.

Ninth resolution: opinion on the overall budget for compensation paid in 2018

Pursuant to article L.511-73 of the Monetary and Financial Code, the Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, issues a favorable opinion on the overall budget for all forms of compensation paid during the year ended December 31, 2018, to members of the Executive Committee, the Auditor General, financial market professionals, senior managers or employees exercising managerial duties at a major operational unit, personnel managing a function responsible for legal affairs, finance (including tax and budget preparations), human resources, compensation policy, information technologies or economic analysis, risk management professionals and employees performing functions related to internal control and compliance as well as all employees whose variable compensation during the year exceeds EUR 87,500 or who have benefited during a year from an amount of fixed and variable income of more than EUR 200,000, the total of which amounts to EUR 7.03 million.

Tenth resolution: approval of compensation items due or granted for the year ended December 31, 2018, to Philippe Mills, Chief Executive Officer

The Shareholders' Meeting, consulted pursuant to the provisions of articles L.225-37-2 and L.225-100 of the Code of Commerce, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, issues a favorable opinion on the compensation items due or granted for the year ended December 31, 2018, to Philippe Mills, Chief Executive Officer, as presented in the Board of Directors' report on corporate governance to the Shareholders' Meeting, and approves the payment of the variable or exceptional compensation items.

Eleventh resolution: approval of compensation items due or granted for the year ended December 31, 2018, to Chantal Lory, Chair of the Board of Directors

The Shareholders' Meeting, consulted pursuant to the provisions of articles L.225-37-2 and L.225-100 of the Code of Commerce, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings, issues a favorable opinion on the compensation items due or granted for the year ended December 31, 2018, to Chantal Lory, Chair of the Board of Directors, as presented in the Board of Directors' report on corporate governance to the Shareholders' Meeting.

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

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

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

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

Fourteenth resolution: renewal of a Statutory Auditor

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings and having been informed of the Board of Directors' report,

notes that the term of office of Deloitte & Associés as a Statutory Auditor comes to an end, and

resolves to renew Deloitte & Associés as a Statutory Auditor for a period of six years, which will end after the Ordinary Shareholders' Meeting called to approved the financial statements for the year ending December 31, 2024.

Fifteenth resolution: non-renewal of mandate of an Alternate Auditor

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for ordinary shareholders' meetings and having been informed of the Board of Directors' report,

notes that the term of office of BEAS as an Alternate Auditor comes to an end, and

resolves, as consequence of the provisions of article L.823-1 of the Code of Commerce which no longer requires that an Alternate Auditor be named, not to renew the mandate of BEAS as an Alternate Auditor.

To the Extraordinary Shareholders' meeting

Sixteenth resolution: change to article 3 of the by-laws relating to the expansion of the corporate purpose

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for extraordinary shareholders' meetings, after hearing the report of the Board of Directors,

resolves to change article 3 of the by-laws by replacing the following paragraph:
- "in connection with lending transactions to the local public sector in France and export credit refinancing transactions."

with the paragraph below:
- "in connection with lending transactions to the local public sector in France and, more generally, any transaction that may benefit from a public guarantee."

Seventeenth resolution: change to article 15 of the by-laws relating to the representation of the employee representative body at Board meetings

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for extraordinary shareholders' meetings, after hearing the report of the Board of Directors,

resolves to change article 15 of the by-laws by replacing the following paragraph:
- "The representation of the Company's Works Council at meetings of the Board of Directors shall take place in accordance with the provisions of article L.2323-64 of the French Labor Code (*Code du travail*)."

with the paragraph below:
- "In accordance with the applicable legal provisions, the secretary of the Company's Social and Economic Committee attends meetings of the Board of Directors in an advisory capacity."

This change to article 15 will enter into force in December 31, 2019.

Eighteenth resolution: proposed delegation of authority for a capital increase reserved for employees

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for extraordinary shareholders' meetings,

after hearing the report of the Board of Directors and the statutory auditors' report,

resolves, in order to comply with the legal obligations arising from paragraph 2 of article L.225-129-6 of the French Commercial Code (*Code de commerce*), to delegate its authority to the Board of Directors, for a period of 26 months, to:
- increase the capital, in cash, in favor of the Company's employees, by a maximum nominal amount of one hundred thousand (100,000) euros through the issue at par of new ordinary shares in the Company, under the conditions referred to in article L.225-138-1 of the French Commercial Code and articles L.3332-18 to L.3332-24 of the French Labor Code (*Code du travail*);
- and consequently to grant all powers to the Board of Directors, in particular to set the terms and conditions of the transactions that will be carried out pursuant to this authorization, to determine the subscription price of the new ordinary shares, in accordance with the provisions of article L.3332-20 of the French Labor Code, to record the final completion of the capital increase, to make the corresponding amendment(s) to the by-laws, to take all necessary measures and to carry out all necessary acts and formalities.

In accordance with the applicable legal provisions in force, the other terms of the transaction will be the subject of an additional report by the Board of Directors and the statutory auditors.

Nineteenth resolution: proposal to waive the pre-emptive subscription rights of shareholders in connection with the capital increase reserved for employees

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for extraordinary shareholders' meetings, having reviewed the Board of Directors' report and the statutory auditors' report, and as a result of the preceding resolution, resolves to waive, pursuant to the provisions of article L.225-138 of the French Commercial Code (*Code de commerce*), the shareholders' pre-emptive right to subscribe for the ordinary shares that will be issued within the framework of the proposed capital increase and to reserve said shares' subscription to the Company's employees.

Twentieth resolution: authority to carry out formalities

The Shareholders' Meeting, voting in accordance with the conditions governing the quorum and majority required for extraordinary shareholders' meetings, gives full authority to the bearer of an original, copy or excerpt of these minutes to carry out all filing and publication formalities required by law.

General information

Legal and administrative information

Company name
SFIL

Acronym
SFIL

Registered office
The Company's registered office is located at:
1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux

Legal structure
Société anonyme with a Board of Directors

Official approval
The Company was approved as a bank by the Collège de l'Autorité de contrôle prudentiel et de résolution on January 16, 2013.

Applicable legislation
SFIL is a *Société anonyme* governed by the provisions of the Code of Commerce relating to commercial companies, the provisions of the French Monetary and Financial Code relating to credit institutions, the provisions of ordinance 2014-948 of August 20, 2014, as amended relating to corporate governance and capital transactions of public companies (hereinafter « the ordinance »), as well as the provisions of law 83-675 of July 26, 1983, on the democratization of the public sector (in its provisions applicable to representatives of the employees referred to in Section I of article 7 of ordinance 2014-948 of August 20, 2014).

Incorporation date and duration of the Company
The company was founded on December 28, 1999 for a period of 99 years.

Corporate purpose (article 3 of the by-laws)
The company is a credit institution, licensed by the Autorité de contrôle prudentiel et de résolution, whose purpose is to carry out on a regular basis:
(a) any banking transactions, within the meaning of article L.311-1 of the French Monetary and Financial Code;
(b) any transactions relating to those transactions referred to in (a) above, including the investment, subscription, purchase, management, custody and sale of financial securities and any financial products;
(c) any transactions involving the receipt of funds from its shareholders and the *société de crédit foncier* controlled by the company;
(d) pursuant to article L.513-15 of the French monetary and financial code, any services relating to the management and recovery of exposures, debt securities and other securities, bonds, or other resources provided for in article L.513-2 of the French Monetary and Financial Code, of a duly authorized *société de crédit foncier* controlled by the company;
(e) the provision of services on behalf of third parties with a view to carrying out banking transactions;
each in connection with credit transactions for the local public sector in France and export credit refinancing operations.

To this end, the company may, in compliance with applicable banking and financial regulations:
(a) obtain any suitable funding, and notably (i) issue any financial securities, any negotiable debt securities, or other financial instruments in France or abroad and (ii) more generally, have recourse to any means of managing receivables and assets, with or without transfer of ownership;
(b) acquire and hold shares in existing or newly created companies contributing to the performance of its activities and sell such shares; and
(c) in more general terms, carry out, directly or indirectly, for itself or on behalf of third parties or in concert any financial, commercial, industrial, personal property or real estate transactions with a view to conducting the aforementioned activities."

RCS number and APE business identification code
SFIL is registered at the Trade and Companies Register (RCS) under the number: NANTERRE 428 782 585.
Its APE code is: 6492Z.

Location for consulting the legal documents concerning the Company
Legal documents, including the internal rule book of the board of directors, concerning SFIL may be consulted at the Company's registered office located at:
1-3, rue du Passeur de Boulogne
92130 Issy-les-Moulineaux

Fiscal year (article 33 of the by-laws)
The Company's fiscal year begins in January 1 and ends in December 31 of each year.

Exceptional events and legal proceedings
Please refer to the text pertaining to legal and tax risks on pages 30 and 31 of this Annual Financial Report.

Statutory distribution of profits (article 35 of the by-laws)
1 – Each year, amounts to be transferred to reserves as provided by law shall be deducted from the profit for the year, less prior-year losses if applicable. Thus, 5% shall be deducted to constitute the legal reserve fund; this deduction ceases to be mandatory when this fund reaches one-tenth of the share capital; it resumes when, for any reason, the legal reserve has fallen below this fraction.

Distributable profit consists of the profit for the year, less prior-year losses, and amounts transferred to reserves in accordance with law or the by-laws, plus any retained earnings carried forward from previous years.

2 – Distributable profit is allocated as follows:
- The Preferred Dividend (as defined below) shall be paid first to the Preferred Shareholders under the conditions and limits set forth below;
- The balance of the distributable profit shall be distributed among the holders of Common Shares after deducting any amounts deemed by the general meeting to be transferred of any reserve funds or to the retained earnings account; no dividend may be paid to the holders of Common Shares if the Preferred Dividend relating to the considered financial year, plus any Preferred Dividend relating to a prior but undistributed financial year has not been distributed and paid in full.

The Preferred Dividend due for each fiscal year to the Preferred Shares shall be equal to a total amount of 20 euro cents for all the Preferred Shares outstanding. The Preferred Dividend shall be allocated among the Preferred Shareholders pro rata to the Preferred Shares held by them.

In the event the distributable profit of a financial year (within the meaning of article L.232-11 of the Code of Commerce) is not sufficient to allow the distribution of the total amount of the Preferred Dividend for the relevant financial year, this Preferred Dividend or, if applicable, the portion of this Preferred Dividend that has not been distributed, shall be carried over to future years without limitation of duration and shall be paid to Preferred Shareholders as soon as the distributable profit of the Company will be sufficient.

As an exception to the above provisions, the Preferred Dividend payable for the current fiscal year, in which a Preferred Share is issued, shall be equal to the proceeds of the Preferred Dividend as determined above and the number of days between the issue date of the relevant Preferred Share and December 31 of the relevant fiscal year in relation to a 365-day basis, or 366 days for leap years.

The Preferred Dividend shall be paid to the holders of Preferred Shares on the date of payment of the dividend to the Common Shareholders for the same financial year or, in the absence of a dividend allocated to the Common Shareholders, on the tenth (10th) business day following the date of the Annual General Meeting (the « **Payment Date** »).

General Shareholders' Meetings
Calling of meetings (article 24 of the by-laws)
General Shareholders' Meetings shall be convened either by the Board of Directors or otherwise by the statutory auditor(s) or by a representative appointed by the President of the Commercial Court ruling in summary proceedings upon the request of one or more shareholders representing at least 5% of the share capital.
During the liquidation period, the meetings shall be convened by the liquidator(s). General meetings shall be held at the registered office or at any other location indicated in the notice of meeting.
The convening notice shall be given fifteen days before the date of the meeting, either by a simple or registered letter addressed to each shareholder, or by electronic mail sent to each shareholder, and in this case subject to the implementation of the provisions of the article R.225-63 of the Code of Commerce(1), or by a notice published in a Journal of Legal Notices at the headquarters. In the latter case, each shareholder must also be convened by simple letter or, at his or her request and at his or her own expense, by registered letter.
In the event of recourse to video-conferencing or telecommunication, the notice shall specify the means used.
If a meeting has not been able to meet and deliberate without due quorum, the second meeting and, if necessary, the second continuing meeting, shall be convened in the same form as the first one and the notice of meeting shall recall the date of the first one and reproduces its agenda.

Right to attend General Shareholders' Meetings (article 26 of the by-laws)
Each shareholder has the right to participate in general meetings and deliberations personally or by proxy, irrespective of the number of his shares, on simple proof of his or her identity, provided that these shares have been fully paid up and recorded in the financial statements on his or her name on the day of the general meeting.
Any shareholder may vote by correspondence by means of a form, which he or she may receive under the conditions specified in the notice of meeting.

(1) The recourse to electronic telecommunication for the convening of shareholders assumes that the Company has submitted to them a proposal to this effect, and has obtained their agreement.

A shareholder may only be represented by another shareholder who has a mandate, by his or her spouse or by the partner, with whom he or she has concluded a civil solidarity pact.

Voting rights (article 28 of the by-laws)

The voting rights attached to the capital shares or *jouissance* shares shall be proportional to the fraction of capital they represent. Each share conveys one voting right.
Voting shall be realized by show of hands, by roll call, or by secret ballot, according to the decision of the board of the meeting or the shareholders. Shareholders may also vote by mail.

Information about capital and shares

Amount of the capital, number and nature of the shares

The share capital of SFIL amounts to EUR 130,000,150; it is divided into 9,285,725 shares, each with a voting right and not subject to any pledge.
The shares are divided into two categories:
- 7,428,580 common shares and;
- 1,857,145 preferred shares issued in accordance with the provisions of article L.228-11 of the Code of Commerce and containing the rights and obligations defined in the by-laws.

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

Breakdown of capital

The share capital of SFIL is held at:
- 75% by the French State, via the Agence des Participations de l'État, i.e. 6,964,293 common shares;
- 20% by Caisse des dépôts et consignations, i.e. 1,857,145 preferred shares;
- 5% by La Banque Postale, i.e. 464,287 common shares.

Statement by the person responsible

I, Philippe Mills, Chief Executive Officer of SFIL, here by affirm that, to the best of my knowledge, the financial statements have been prepared in conformity with applicable accounting standards and present fairly, in all material aspects, the assets and liabilities, financial position, and results of SFIL, and that the management report presents a fair image of trends in the Company's business, results and financial position, as well as a description of the main risks and uncertainties it faces.

Signed in Issy-les-Moulineaux, on April 4, 2019

Philippe Mills
Chief Executive Officer

SFIL
Société anonyme

Capital of EUR 130 000 150
RCS de Nanterre 428 782 585

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Graphics: Baï-Bao, Paris /
Nord Compo, Villeneuve d'Ascq
Production: Nord Compo, Villeneuve d'Ascq