Sfil
Supporting local investment and export

Caisse des Dépôts
GROUPE

Half-year financial report

For the period from
January 1 to June 30, 2023

Data subject to a limited audit by the Statutory Auditors

External ratings

As of June 30, 2023

Moody's	Aa2
Morningstar DBRS	AA High
S&P Global Ratings	AA
Sustainalytics, a Morningstar company	7.3 Negligible ESG Risk

Key figures

As of June 30, 2023

Assets in consolidated statement of financial position

EUR **66.9** billion

Bonds issued in the first half of 2023

EUR **4.2** billion

Loans acquired from local public sector during the first half-year 2023

EUR **2.2** billion

Export credit loans transferred during the first half-year 2023

EUR **2.8** billion

Common Equity Tier 1 - Ratio

38.9%

Operating coefficient on recurring gross operating income

63%

Recurring net income

EUR **+27** millions

Contents

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

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

Half-year activity report

Background

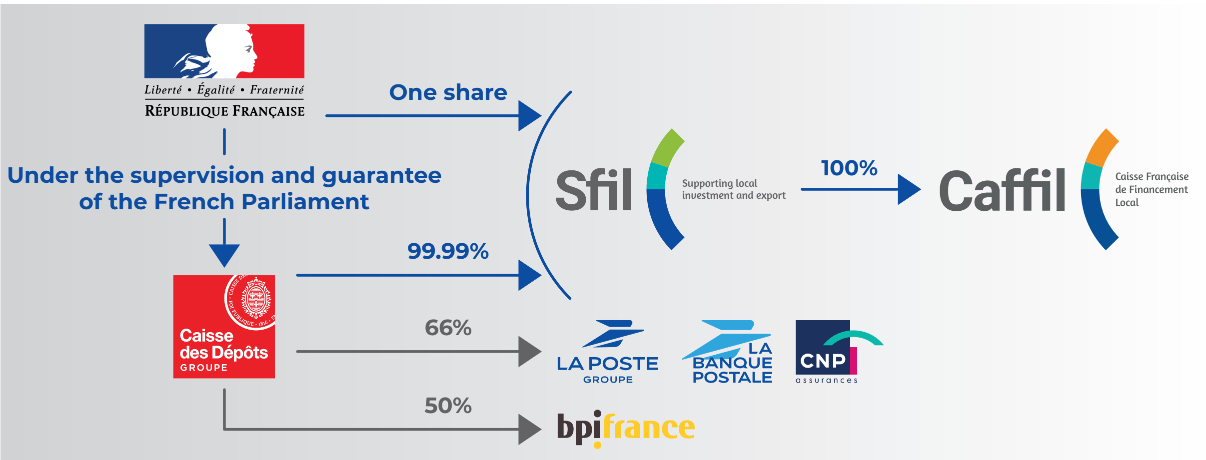
Sfil was authorized as a bank by the Autorité de Contrôle Prudentiel et de Résolution on January 16, 2013. Since September 30, 2020, the date of the disposal by the French State, with the exception of one share, and La Banque Postale of their stakes to Caisse des Dépôts, the latter has been Sfil's reference shareholder. The French State continues to be present on Sfil's Board of Directors through a non-voting board member, given the public interest missions entrusted to Sfil.

The fully public shareholding structure is one of the characteristics of the public development bank model in which Sfil operates. The objective of public development banks is not to maximize their profit or market share, but to carry out public policy missions entrusted to them by the public authorities (State, region or local authorities) in order to compensate for identified market failures while ensuring their own viability. Sfil is one of the key components of the financing system set up in early 2013, following the European Commission agreement of December 28, 2012. This system aims to provide a sustainable response to the scarcity of long-term financing for local authorities and French public hospitals.

Since 2015, Sfil has also been entrusted with another key mission for refinancing major export credit contracts as part of a market system aimed at strengthening the competitiveness of French companies in the export market. This system, initially authorized by the European Commission for a period of five years, was renewed in 2020 for a further seven years.

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

CAPITAL DIAGRAM OF Sfil AND ITS SOLE SUBSIDIARY Caffil

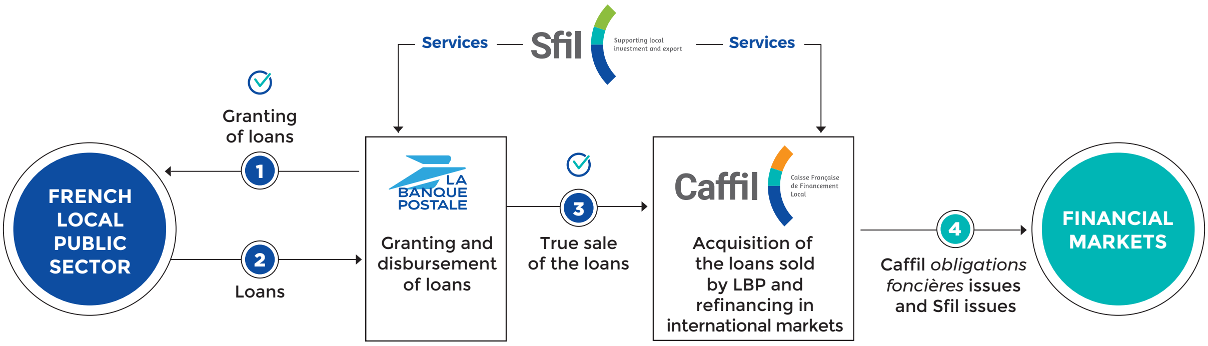


General business environment

1) Financing of local public sector investments

The Sfil - La Banque Postale system

The Sfil Group, part of the Caisse des Dépôts Group, is at the heart of a system whose objective is to provide French local authorities and public hospitals with continuous and efficient access to long-term bank financing, alongside the offers of commercial banks and French and European public institutions operating in this sector. This system makes it possible to refinance the loans granted by La Banque Postale to local authorities and French public hospitals.



Caisse Française de Financement Local's credit decision process.

This activity involves Sfil's subsidiary Caffil acquiring loans marketed by La Banque Postale.

The loans offered are intentionally simple, being exclusively at fixed rates or with a single indexation (EURIBOR plus margin) or a two-phase structure (fixed rate then variable rate). Certain loans involve a staggered-release phase or benefit from a deferred start-date mechanism. The range of amounts extends from EUR 40,000 to several tens of millions of euros. Maturities range mainly between 10 and 30 years. New loans are mostly repayment loans with an initial average life of around 10.5 years.

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

It also includes a range of green loans, launched in June 2019. The green loan is a tool dedicated to financing projects contributing to ecological transition and sustainable development, in the fields of renewable energies, sustainable management of water and sanitation, waste management and recovery, soft mobility and clean transport, and energy efficiency in construction and urban planning. The loans are refinanced by the green or sustainable issues issued by the Sfil Group.

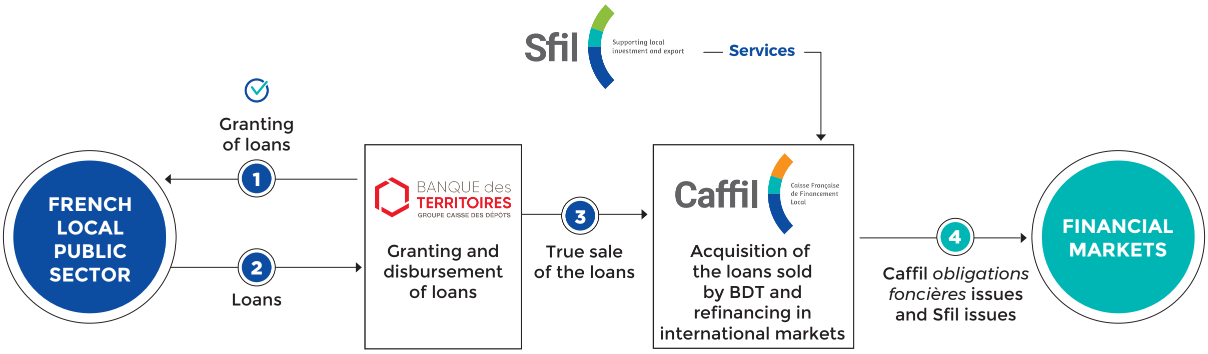
In addition, in order to support investments with a positive social impact, a range of social loans was launched in October 2022. This range is dedicated to the financing of projects of social value led by local authorities in the fields of education, medico-social work and regional cohesion. As for green loans to local authorities, social loans are refinanced by the Sfil Group's social or sustainable issues.

The public hospital financing activity is also carried out through the acquisition by Caffil of loans marketed by La Banque Postale. These loans are refinanced by the social issues of the Sfil Group as part of a program dedicated to the financing of French public hospitals. This thematic financing offer (green and social loans to local authorities and loans to hospitals) makes it possible to synergize the Sfil Group's commitment to sustainable finance and its role as a public development bank serving the regions.

The Sfil - Banque des Territoires system

In November 2022, the Sfil Group entered into a partnership with Banque des Territoires. This new loan offer aims to finance local authorities and public hospitals at fixed rates for a minimum amount of EUR 40,000 over maturities of between 25 and 40 years. These loans are mainly intended for the financing of sustainable investments and mainly form part of an environmental or social financing offer. They are refinanced by the green bonds issued by the Sfil Group.

This activity is carried out within a framework comparable to that in place with La Banque Postale: Caffil, the subsidiary of Sfil, acquires loans marketed by Banque des Territoires.



Caisse Française de Financement Local's credit decision process.

This partnership, complementary to the one signed with La Banque Postale, makes it possible on the one hand to supplement the loan offer of Banque des Territoires, through very long-term fixed-rate loans for local authorities and public hospitals, and on the other hand to promote the development of thematic loans.

2) Refinancing of export credits

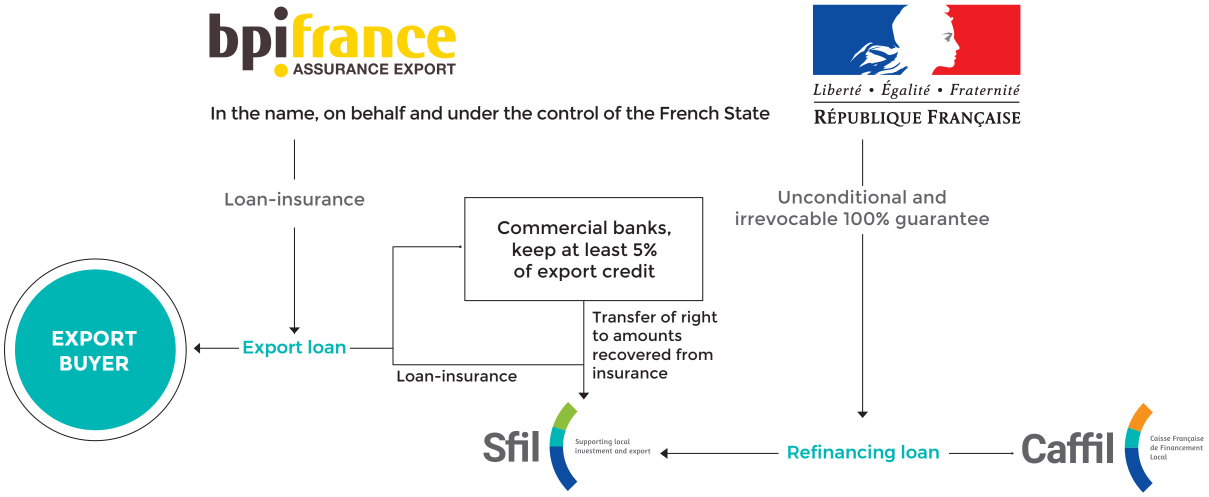
Since 2015, the French State has entrusted Sfil with a second public interest mission, according to a public refinancing scheme that already exists in several OECD countries, consisting of refinancing buyer credit contracts insured by Bpifrance Assurance Export in the name and on behalf of the French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

Within this framework, Sfil organized its relationship with almost all banks active in the French export credit market through bilateral agreements. Sfil may acquire up to 95% of the investment of each of these banks in an export credit. At the end of June 2023, the system had 27 partner banks.

Sfil'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 part (maximum 95%) of the insured portion of export credits, thus allowing them to improve their own offers in terms of volume, term, and price;
- the export bank retains the risk on the uninsured portion and maintains the entire commercial relationship over the life of the transaction;
- the export loans acquired by Sfil are refinanced through a loan from its subsidiary Caffil, which benefits from the enhanced guarantee mechanism of Bpifrance Assurance Export introduced by the 2012 finance law.

As part of a simplification approach, Sfil plans to change the terms of its intervention in the context of the refinancing of export credits during the second half of 2023: in line with the practices of other *sociétés de crédit foncier*, its subsidiary Caffil would no longer use the enhanced guarantee mechanism for transactions concluded after January 1, 2024. It is specified that the proposed change is not intended to call into question the principle of exposures to public entities or those guaranteed by them in line with the regulations applicable to *sociétés de crédit foncier*.



Scheme applicable to export credit refinancing operations excluding civil aviation that benefit from a Pure and Unconditional Guarantee in replacement of 95% credit insurance and the enhanced guarantee.

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. As of June 30, 2023, they numbered 32 for 15 exporters.

3) Financing of Sfil

In order to refinance its two activities, the Sfil Group, via its subsidiary, Caffil, issues *obligations foncières* in the financial markets both in the form of benchmark public issues but also in the form of private placements, particularly in the registered covered bonds format, adapted to its very large investor base. These instruments are the Group's main source of liquidity and are characterized by the legal privilege which assigns in priority the sums deriving from the Company's assets to the payment of their interest and their repayments. They carry the European Covered Bond (premium) label.

In addition to and in order to diversify the Group's sources of financing and investor base, Sfil is itself an issuer of medium-term debt securities by being regularly active in the form of public bonds in euros and US dollars and short-term debt securities via its specific issuance program for debt securities of less than one year (NeuCP).

Lastly, in line with its social and environmental policy, the Sfil Group implements a voluntary sustainable financing policy that takes the form of regular social- and green-themed issues.

4) Services for La Banque Postale

In addition to its lending activity, Sfil also provides services for the medium- and long-term financing activity in the local public sector (French local authorities and public hospitals) of La Banque Postale. Within this framework, it provides services at all stages of the medium and long-term loan issuance and management process (loan offerings, middle and back office management, ALM reporting, management control, accounting, third-party management, etc.).

The performance indicators in place to measure the quality of the services that Sfil provided for the first half of 2023 were satisfied at 97%.

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

Highlights in the first half of the year

1) 10 years serving the regions

Sfil was created on February 1, 2013, a 100% public, 100% French bank, 100% dedicated to the local public sector, in partnership with La Banque Postale, with the aim of providing sustainable financial support to the country, its infrastructure and its economy. Two years later, it opened up to the refinancing of large export projects.

In 2018, Sfil joined the United Nations Global Compact, marking its commitment to the themes of environmental transition and social cohesion. This commitment has resulted in the development of ranges of green and social loans in 2019 and 2022, respectively, which aim to support French local authorities in the financing of investments in favor of the environmental transition and social cohesion.

To this end, in 2019, in order to support local authorities and hospitals in their investments in connection with the environmental transition and social cohesion, Sfil adopted a reference framework compliant with international standards in this area for its green and social issues, by providing its customers with financing under the best possible conditions. This reference framework was changed at the end of 2022 to also refinance export credit transactions promoting the environmental transition and social cohesion.

Sfil joined the Caisse des Dépôts Group in 2020 and entered into a second partnership with Banque des Territoires in 2022, with a view to offering local authorities and public hospitals an environmental and social financing offer, over a very long period of time.

Over a period of ten years, Sfil and its subsidiary Caffil have become the leading local public sector financier and the leading provider of export liquidity. These achievements were celebrated in February 2023 with an event with partners and customers. Discussions during this event focused on both the role of finance in strategic and environmental transitions and the central role of local authorities in sustainable investment in the regions. They herald a new decade that will be devoted to financing new economic development projects and supporting the transition of the regions.

2) Activity of the Sfil Group

2.1. Macroeconomic context

The first half of 2023 remained marked by the war in Ukraine, a context of high interest rates and sustained inflation with, however, the appearance of signs of a slowdown in the latter but also in economic activity. Nevertheless, the labor market remained dynamic. Central banks continued their policy of tightening monetary conditions. After experiencing a peak in volatility in March 2023 with the fear of contamination of the rest of the US banking sector following the bankruptcy of SVB, or of the European sector following the acquisition of Crédit Suisse by UBS, the financial markets (equities and interest rates) gradually calmed down and returned to a level of volatility close to their long-term average.

In this context, Sfil has fully carried out all of missions in accordance with its strategic objectives by continuing to demonstrate the solidity and relevance of its public development bank model. Thus, the Sfil Group refinanced itself on the international financial markets under good conditions. In a lasting context of high interest rates and sustained inflation, the financing activity for the local public sector slowed down significantly compared to the first half of 2022. The export credit refinancing activity, on the other hand, was extremely strong, with the first half of 2023 setting a record in the numbers of consultations, contracts signed, amounts committed and exporters supported over half a year.

Furthermore, with regard to the impacts of the war situation in Ukraine, it is recalled that these remain very limited for the Sfil Group, which has no exposure in Russia or Belarus. Sfil has only one exposure in Ukraine, which at June 30, 2023 represented balance sheet outstandings of EUR 52 million. This exposure was granted as part of the export credit activity and is 100% guaranteed by the French State. Sfil is not, therefore, directly exposed to credit risk on this file.

Lastly, the effects of the increase in inflation weighed on the Group's general expenses but did not significantly affect its profitability.

2.2. Financing loans to the local public sector

In the first half of 2023, Caffil, the *société de crédit foncier* subsidiary of Sfil, acquired EUR 2.2 billion in loans [and loan commitments] from the partners of La Banque Postale and Banque des Territoires. The decline compared to the first half of 2022 (EUR 3.3 billion) is mainly due to a production in 2022 strongly constrained by the methods for setting the wear rate. As of June 30, 2023, the total volume acquired since Sfil's creation came to EUR 35.9 billion.

In the first half of 2023, Sfil, with its two partners, granted EUR 1.1 billion in loans to the local public sector, a decrease compared to the first half of 2022 (EUR 1.4 billion). This period was marked by a certain wait-and-see attitude on the part of the local public sector linked to interest rate levels that remained at a persistently high level and sustained inflation. The slowdown in production is also probably the result of higher energy prices and, more generally, the effects of inflation on local authorities' operating costs. This situation is more pronounced in the public hospitals sector, to which Sfil contributed EUR 147 million, a volume that was down sharply compared to the first half of 2022 (-47%), than in the local authorities sector to which Sfil granted EUR 954 million in financing (-13.5% compared to June 30, 2022).

In this context, the new Sfil / Banque des Territoires system got off to a gradual start during this period with a peak in activity in June reaching an amount of approximately EUR 130 million over the half-year. The partnership was particularly active with the municipal block and public hospitals over long periods.

Thematic loans represented nearly 60% of production in the first half of 2023 compared to 42% in the first half of 2022. In addition to loans to public hospitals, Sfil and its partners also granted EUR 328 million in green loans and EUR 182 million in social loans to local authorities.

The strong ramp-up of the thematic range, in particular green and social loans to local authorities, highlights the latter's strong appetite for these financing instruments for their projects and confirms the relevance of Sfil's model and its commitments in favor of the environmental transition and social cohesion. In order to take into account the environmental and social challenges of the local public sector, Sfil continued its work to adapt part of its range of green loans to the delegated act on climate (climate change adaptation and mitigation objectives).

As the borrowing by local authorities takes place mainly in the second half of the year or even in the last quarter, for each fiscal year, an acceleration in the financing needs to meet the investments of local authorities remains probable. In particular, the volume of investments for the energy and environmental transition are expected to increase significantly. The French Institute for Climate Economics (Institut de l'Économie pour le Climat - I4CE) believes that local authorities must double their "green" investments to comply with the objectives of the French National Low Carbon Strategy (*Stratégie Nationale Bas Carbone* - SNBC).

Concerning the health sector, which has experienced the same reasons for adopting a wait-and-see attitude as local authorities, there is also the uncertainty of the termination of the revenue financing guarantee granted by the French State to hospitals during the Covid years. However, the capital expenditure of public hospitals and their use of loans is expected to grow under the Ségur Plan.

2.3. Refinancing of large export credits

The first half of 2023 saw record figures since the start of the activity in terms of contracts signed, the amounts committed and the number of exporters supported. Four contracts were signed for EUR 2.8 billion involving nine exporters, five of which benefited from the Sfil scheme for the first time. Two transactions were concluded in Africa and two others in Asia.

The first half of 2023 also demonstrated Sfil's ongoing commitment to sustainable development. Three of the four funded projects are in the transport infrastructure and equipment sector and contribute to SDG 9 *Industry, innovation and infrastructure* and SDG 11 *Sustainable cities and communities*. In particular, the "Abidjan metro" operation, a project aimed at increasing the quantity and quality of public transport in the Ivorian capital, was crowned "Deal of the year Africa" at the TXF Global Export Forum in June 2023. The fourth operation is in the defense sector.

Thus, since the launch of the activity, Sfil has supported 16 exporters on 26 transactions for a total amount of EUR 13.9 billion, enabling the conclusion of EUR 24.9 billion in export contracts. The total outstandings drawn down at June 30, 2023 amounted to EUR 7.1 billion.

The outlook for the export credit activity is very positive. Indeed, the number of consultations and projects under review also set records with 120 consultations for indicative offers in the first half of the year, *i.e.* as many as for a full year in 2018 and 2019. In addition, 170 markets are currently active, at different stages of negotiation for a total amount of EUR 63.2 billion, which bodes well for the end of 2023 and the year 2024.

2.4. Issues made by the Sfil Group

The first half of 2023 was marked by very significant volumes of primary issues in the covered bonds segment and the gradual withdrawal of purchases made by the European Central Bank with no major impact on Caffil's primary market access conditions.

During the first six months of 2023, Caffil raised EUR 1.97 billion through the issuance of debt benefiting from the legal privilege. Caffil solicited the public primary market two times for a total amount of EUR 1.75 billion by enriching its benchmark curve on maturities of seven (EUR 1 billion) and nine years (EUR 750 million). In addition to these public transactions, Caffil strengthened its presence in the private placements segment in the EMTN and RCB formats, thus making it possible to meet the specific requests of investors by raising EUR 221 million compared to EUR 315 million in the first half of 2022. The outstanding obligations foncières amounted to EUR 52.0 billion at June 30, 2023.

In addition, the primary market of French agencies saw a stable supply with favorable primary market access conditions in both euros and dollars in the first half of 2023.

Sfil maintained its presence in the French agency market segment by issuing two new euro issues. Sfil thus solicited the public primary market twice for a total amount of EUR 2.25 billion with two euro issues, one at five years (EUR 1.5 billion) and one at seven and a half years (EUR 750 million), in January and May. These two transactions strengthened Sfil's reputation in the French agency category and extended its benchmark curve in euros. Sfil's total bond outstandings came to EUR 9.6 billion as of June 30, 2023.

Excluding a private placement for EUR 10 million carried out during the first half of 2023 under the framework dedicated to French public hospitals, the Sfil Group has not yet activated its thematic issuance programs. The Sfil Group's thematic issues programs have been rewarded 11 times since their launch. The Caffil "green" issue of November 2022 for an amount of EUR 750 million was distinguished in April 2023 by the publication "Environmental Finance" in the "asset-backed/asset-based/covered social bond of the year" category.

Sfil continued to use its debt securities issuance program of less than one year (NeuCP issuance program), which gives it additional flexibility in the management of its treasury. At June 30, 2023, Sfil's total discounted bonds outstanding amounted to EUR 0.8 billion.

During the second half of the year, the Sfil Group will remain active on the primary market in order to complete, via its two issuers Sfil and Caffil, its issuance program amounting to EUR 7 to 8 billion for 2023. More specifically, Sfil could return to the dollar issues market in the second half of the year if conditions are favorable.

In line with the strategic objective of 25% of green, social or sustainable issues per year by 2024, the second half of 2023 will be an opportunity for the Sfil Group to step up its sustainable refinancing by mobilizing its two thematic bond frameworks:

- its framework of social issues aimed at providing financing to French public hospitals;
- its recent green, social and sustainable issuance framework set up in October 2022 intended to refinance green and social loans to French local authorities as well as green or social export credits.

2.5. Financial and non-financial ratings

Sfil's financial strength is confirmed by its financial ratings fully aligned with the sovereign rating of France:

- In January 2023, Moody's aligned Sfil's rating with the sovereign rating of France by assigning Sfil an Aa2 rating with a stable outlook;
- In May 2023, DBRS confirmed the AA (high) credit rating and the stable outlook;
- In June 2023, Standard & Poor's confirmed the long-term credit rating of AA with a negative outlook.

	Moody's	DBRS	Standard & Poor's
Long-term rating	Aa2	AA (high)	AA
Outlook	Stable	Stable	Negative
Short-term rating	P-1	R-1 (high)	A-1+
Date of update	January 3, 2023	May 26, 2023	June 5, 2023

Sfil is rated by the non-financial rating agency Sustainalytics at 7.3 ("Negligible Risk") since February 2023, 0 being the best potential rating. This ESG rating places Sfil in the 1st percentile of the institutions rated and ranked 11th out of 986 banks rated by Sustainalytics.

2.6. Changes in the regulatory environment

In order to finalize the Basel III reforms, on October 27, 2021, the European Commission published a proposal for a regulation amending Regulation (EU) No. 575/2013 concerning the requirements on credit risks, credit value adjustment (CVA) risk, operational risk, market risk and output floor. An agreement between the European Commission, the European Parliament and the Council of the European Union was announced on June 27, 2023. The details of this agreement are not yet known; as soon as this is the case, Sfil will carry out a detailed analysis. However, the discussions held as part of the Trilogue offer a good idea of the final result, which includes certain favorable developments compared to the initial project of the European Commission on the treatment of credit risk related to local authorities. The implementation will be gradual from January 1, 2025 until 2030.

2.7. Sustainable development policy

In accordance with its commitments made in 2018 as part of the United Nations Global Compact, in early June 2023 Sfil published its 5th report on sustainable development. This report, published on a voluntary basis, illustrates its reaffirmed ambition to contribute to the achievement of the Sustainable Development Goals (SDGs) of the United Nations 2030 Agenda as part of its strategic plan, *#Objectif2026*, through both its two public policy missions and its internal policies.

This report was enriched with a more complete presentation of its business model, its governance, the management of its non-financial risks and its contribution to the SDGs.

During the first half of the year, Sfil adopted a new sustainable development policy, aligned with the bank's overall strategy and approved by its Board of Directors. Sfil has also set up a new organization to better integrate sustainable development issues into all aspects of its activity and to create a collective dynamic within each division, based on a network of contacts.

2.8. New premises

On June 2, 2023, Sfil moved to the Biome building at 112-114 avenue Émile Zola in Paris (75015), which is now the address of its registered office.

This move was an opportunity to implement the flex office workplace concept (no workstation assigned to each employee and no closed offices) justified in particular by the new work organization. The layout of the Biome building was designed to give new meaning to the workspace, thus promoting closeness between all employees.

In accordance with its commitments made on the occasion of the signing of the gender balance and living well at work agreement of June 2022, a support and training system on flex office best practices was implemented during the first half of 2023. This support system enabled employees to project themselves into the new premises and to understand the best practices associated with the deployment of the flex office. This approach was supplemented by specific workshops for certain individuals (Executive Committee members, executive assistants, division managers).

The move was also an opportunity for Sfil to strengthen its support system for the employees' transition to soft mobility, in particular by increasing the coverage of the cost of the regional transport subscription, the upward revision of the mileage allowance, and the implementation of assistance for the acquisition of a non-polluting modes of transport (bicycles for example).

Changes in the main balance sheet items

The main items on the Sfil Group's consolidated balance sheet (management data[1]) as of June 30, 2023 are presented in the table below:

(EUR billions, equivalent value after currency swaps)	
ASSETS	**LIABILITIES**
66.9	**66.9**
of which main balance sheet items in notional amount **64.1**	of which main balance sheet items in notional amount **64.1**
Cash assets 1,3 (of which 0.7 for Caffil and 0.6 for Sfil)	*Sfil bond issues 9.6*
Securities 6.5 (of which 5.7 for Caffil and 0.8 for Sfil)	*Obligations foncières 51.9*
Loans 53.8 (of which 46.7 for Caffil and 7.0 for Sfil)	*Certificates of deposit 0.8*
	Cash collateral received 0.2 (of which 0.1 for Caffil and 0.1 for Sfil)
Cash collateral paid 2.6	*Equity 1.7*
	Other (0.1)

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

1) Main changes in assets in the first half of 2023

The net change in the Sfil Group's main assets in the first half of 2023 amounted to EUR 0.4 billion. This change can be analyzed as follows:

(EUR billions, equivalent value after currency swaps)	First half of 2023
BEGINNING OF YEAR	**63.7**
Financing loans to the local public sector	2.0
New export credit loans granted	0.7
Change in cash collateral paid by Sfil	0.1
Amortization of loans and securities to the French public sector (excluding cash investment securities)	(2.6)
Change in cash investment securities	0.9
Change in cash at Banque de France	(0.7)
Other variations	(0.1)
END OF PERIOD	**64.1**

- Through its subsidiary Caffil, Sfil acquired EUR 2.0 billion in loans marketed by La Banque Postale to the French local public sector and hospitals.
- The export credit activity resulted in EUR 0.7 billion of drawdowns over the half-year.
- As an intermediary in the derivatives transactions between Caffil and some of its counterparties, Sfil paid a total of EUR 2.3 billion in collateral as of June 30, 2023, an increase of EUR 0.1 billion compared to end-2022.
- The other changes in assets correspond mainly to the natural amortization of the portfolio of loans and securities granted to public sector entities for EUR -2.6 billion, as well as the change in cash invested in securities for EUR 0.9 billion or deposited with Banque de France for EUR -0.7 billion.

At June 30, 2023, Sfil held EUR 2.8 billion in cash investment securities (securities from the banking sector and from the European public sector), a change of EUR 0.9 billion compared to the end of 2022.

2) Main changes in liabilities in the first half of 2023

The Sfil Group's main liabilities remained virtually stable in the first half of 2023. The change of EUR 0.4 billion is detailed below:

(EUR billions, equivalent value after currency swaps)	First half of 2023
BEGINNING OF YEAR	**63.7**
Caffil covered bonds	(0.9)
of which new issues	*2.0*
of which amortization	*(2.8)*
of which buybacks	*(0.1)*
Change in cash collateral received	0.1
EMTN Sfil program bonds	1.1
of which new issues	*2.3*
of which amortization	*(1.1)*
Change in outstanding Sfil certificates of deposit	(0.0)
Change in equity	0.0
Other variations	0.1
END OF PERIOD	**64.1**

- The outstanding covered bonds issued by Caffil decreased by EUR 0.9 billion in the first half of 2023. The new issues of EUR 2.0 billion were offset by the amortization of the stock of EUR 2.8 billion and the redemption of a private placement of EUR 0.1 billion.
- Sfil's outstanding bond issues increased by EUR 1.1 billion over the same period. The new issues of EUR 2.3 billion offset the amortization of the stock of EUR 1.1 billion.

Operating results

Sfil Group's consolidated net income prepared in accordance with IFRS as adopted by the European Union at June 30, 2023, amounted to EUR 16 million for an outstanding balance sheet of EUR 66.9 billion at the said date. The effects of the war in Ukraine have no significant impact on Sfil's consolidated net income.

The net income as of June 30, 2023 incorporated non-recurring items[1] linked to:

(i) the change in the valuation of the derivatives portfolio for EUR 5 million;

(ii) the volatility related to the application of IFRS 9 in the valuation of loans and advances at fair value through profit or loss for EUR -13 million, and;

(iii) the recognition as of January 1 of each year of certain charges related to the application of IFRIC 21 for EUR -6 million.

Restated for these non-recurring items, recurring net income[2] as of June 30, 2023 amounted to EUR 27 million, slightly down compared to June 30, 2022 when it amounted to EUR 34 million. This slight decrease is due to higher provision reversals for the cost of risk in the first half of 2022 as well as to a lesser extent to the increase in general expenses in the context of significant inflation.

EUR millions	6/30/2022					6/30/2023				
	Accounting income				Recurring income	Accounting income				Recurring income
		A	B	C			A	B	C	
Net banking income	126	*(4)*	*29*	-	100	91	*5*	*(13)*	-	99
General operating expenses	(67)	-	-	*(8)*	(59)	-68	-	-	*(6)*	(62)
Gross operating profit (loss)	**59**	***(4)***	***29***	***(8)***	**41**	**23**	***5***	***(13)***	***(6)***	**37**
Cost of risk	7	-	-	-	7	1	-	-	-	1
Profit (loss) before tax	**66**	***(4)***	***29***	***(8)***	**48**	**24**	***5***	***(13)***	***(6)***	**38**
Income tax	(20)	*1*	*(7)*	*1*	(14)	(8)	*(1)*	*3*	*1*	(11)
Net income	**46**	***(3)***	***22***	***(7)***	**34**	**16**	***4***	***(10)***	***(5)***	**27**

A: *Fair value adjustment on hedges*
B: *Loans and advances at fair value through profit of loss*
C: *Linear extrapolation over the year of charges due and recognized in the first quarter (IFRIC 21)*

(1) The restated non-recurring items are as follows:

- *Fair value adjustments concerning hedges: as a reminder, since 2013, carrying amount adjustments have affected the hedging implemented by the Sfil Group to cover its interest rate and foreign exchange risks. These adjustments mainly concern accounting for adjustments linked to the application of IFRS 13, which mainly introduced the recognition of Credit Valuation Adjustments (CVA) and Debit Valuation Adjustments (DVA). These accounting valuation adjustments are recorded in the income statement as net gains or losses on financial instruments at fair value through profit or loss.*
- *The changes in the valuation of a portfolio of non-SPPI loans (recognized at fair value through profit or loss under IFRS 9 although intended to be retained) due to the change in its credit spread.*
- *The linear extrapolation of charges taken into account as of January 1 of each year per IFRIC 21.*

(2) Alternative performance indicator.

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

- the net banking income amounted to EUR 99 million for the first half of 2023 and is stable compared to the first half of 2022 (EUR 100 million) despite the inflationary context and the delayed effect of the wear rate on the 2022 production of loans to the local public sector;
- the operating expenses and depreciation amounted to EUR -62 million, up by EUR 3 million compared to June 30, 2022. This increase is notably driven by the context of inflation, which weighs more heavily in 2023;
- the cost of risk displays a net recovery of EUR 1 million (compared to a reversal of EUR 7 million at the end of June 2022).

Risk management

Risk profile

Ratios	CET1 ratio	Total capital ratio	Leverage ratio
Minimum requirement	7.87% (SREP)	11.70% (SREP)	3%
Value at 6/30/2023	38.9%, *i.e.* almost 5x higher than the minimum requirement	38.9%, *i.e.* more than 3x higher than the minimum requirement	11.3%, *i.e.* more than 3x higher than the minimum requirement

Ratios at June 30, 2023	Sfil Consolidated
LCR	213%
NSFR	123%

The Sfil Group's risk profile is low:

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

SREP

Under the Single Supervisory Mechanism, Sfil is subject to the direct supervision of the European Central Bank (ECB). The results of the SREP (Supervisory Review and Evaluation Process) are notified annually by the ECB to Sfil's General management to define capital requirements.

Following the SREP assessment conducted by the ECB in 2022, the Total Capital requirement that the Sfil Group must meet on a consolidated basis is 11.70% of which:

- 8.00% under the Total callable capital in Pillar 1 including 4.50% under the Common Equity Tier 1 capital, level applicable to all institutions;
- 0.75% in respect of the Pillar 2 Requirement (P2R), unchanged since 2019, of which 56.25% in Common Equity Tier 1 (CET1) capital and 75% in Tier 1 capital;
- 2.50% for the capital conservation buffer, the level applicable to all entities;
- 0.45% in respect of the countercyclical buffer[1].

The CET1 Capital requirement stands at 7.87% and the T1 Capital requirement at 9.51%.

At June 30, 2023, Sfil's consolidated CET1 and Total capital ratios both stood at 38.9%, a level representing respectively almost five and more than three times the minimum requirement set by the European supervisor.

(1) It should be noted that the High Council for Financial Stability decided on April 7, 2022 (decision D-HCSF-2022-1) to increase the rate of this buffer to 0.5% as of April 7, 2023, and on December 27, 2022 (decision D-HCSF-2022-6) to raise it to 1% as of January 3, 2024. After taking into account the relevant exposures, the weighted countercyclical buffer rate specific to Sfil stands at 0.45%.

Leverage ratio

Regulation No. 876/2019 of May 20, 2019 provides, since the end of June 2021, for the introduction of a minimum requirement of 3% for the leverage ratio, as well as measures to exclude development loans and export credit activity from the calculation of the total exposure. Thus, Sfil Group benefits from specific and appropriate calculation rules for establishing its leverage ratio.

Based on these methodological principles, the Sfil Group's leverage ratio at June 30, 2023 was 11.3%, *i.e.* more than three times higher than this minimum requirement of 3%.

MREL

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

As Ordinary Insolvency Processing has now been selected as Sfil's preferential resolution strategy, the MREL requirement is therefore limited to Sfil's Loss Absorption Amount (LAA). This MREL requirement also applies solely to Sfil's consolidation scope.

1) Credit risk

1.1. Definition and management of credit risk

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

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

1.2. Breakdown of exposures based on Basel III risk weights

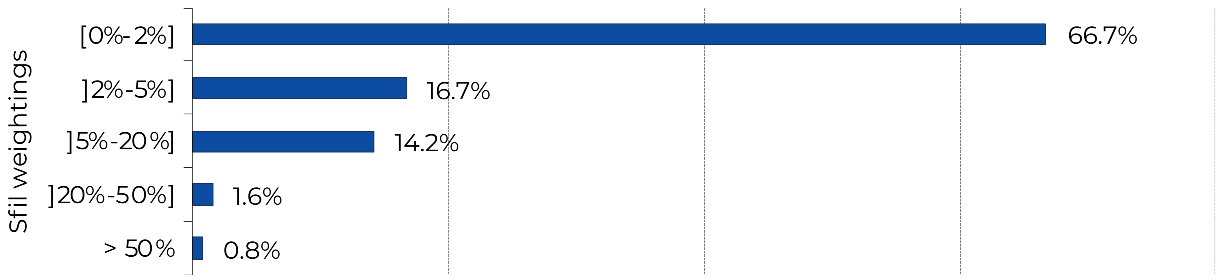
Credit risk exposures measured with the EAD (Exposure At Default) metric amounted to EUR 69.4 billion at June 30, 2023 (excluding non-current assets and accruals and other liabilities):

- nearly 57% of this exposure is concentrated in French local public authorities (regions, departments, municipalities and groups of municipalities, etc.);
- 24% of this exposure is included in "Sovereign" items including 81% as a result of the export credit activity;
- almost 10% of this exposure comes from public sector entities, including 85% from public stakeholders in the hospital sector.

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

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

The breakdown of the Sfil Group's exposures by risk weighting as of June 30, 2023 is as follows:



The average weighting on credit risk exposures stands at 4.7% with only 2.4% of the portfolio having a risk weighting exceeding 20%, this testifies to the very low level of credit risk of Sfil and Caffil's portfolio.

The expected impacts at this time related to the war in Ukraine are very limited for the Sfil Group: the Group has only one exposure in Ukraine, representing, as of June 30, 2023, an outstanding balance sheet amount of EUR 52 million. As this exposure is 100% guaranteed by the French State, Sfil is not directly exposed to credit risk on this issue.

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

1.3. Arrears, doubtful loans and provisions

Arrears (excluding technical arrears)	Receivables doubtful and litigious (French accounting standards) for the Caffil scope	Gross amount of financial assets and financing commitments classified under Stage 3	Non-performing exposures
EUR 2 million	EUR 89 million	EUR 176 million	EUR 210 million

Arrears (excluding technical arrears) reached a very low residual level and amounted to EUR 2 million at June 30, 2023. This is the lowest level of arrears recorded since the creation of Sfil in early 2013. They are down by EUR 2 million compared to December 31, 2022 and are concentrated on a few French counterparties.

At June 30, 2023, for the Caffil scope and in application of French accounting standards, doubtful and litigious loans amounted to EUR 89 million, or 0.15% of Caffil's cover pool, which attests to the portfolio's excellent quality. They were down by 21% compared to December 31, 2022 (or EUR -24 million).

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

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

Stage 3 outstandings correspond mainly to customers:

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

These outstandings are kept in Stage 3 for a minimum period of one year, referred to as a "probation period". Thus, the definition of default (Stage 3) under IFRS 9 accounting standards covers a larger perimeter than the notion of doubtful and litigious loans according to French accounting standards and is close to the regulatory concept of non-performing exposures. Indeed, the latter includes, in addition to Stage 3 assets, non-performing assets that are carried at fair value through profit or loss;

Provisions for expected credit losses are set aside for all of these outstandings, including Stage 1 and Stage 2 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 asset's life (Stages 2 and 3).

The table below shows Sfil's financial assets and financing commitments broken down by stages, the associated expected credit losses, as well as the non-performing exposures within the regulatory sense.

	IFRS book value (before impairment)		IFRS impairments	
EUR millions	**12/31/2022**	**6/30/2023**	**12/31/2022**	**6/30/2023**
Stage 1	52,221	55,432	(11)	(12)
Stage 2	8,134	7,849	(45)	(45)
Stage 3	200	176	(5)	(3)
TOTAL	**60,556**	**63,457**	**(61)**	**(60)**
Non-performing exposures	234	210		

As a reminder, in 2020 and in the context of the health crisis, it was decided to monitor on a watchlist and consequently to transfer from Stage 1 to Stage 2, part of the export credit portfolio corresponding to the refinancing of the cruise sector. On June 30, 2023, it was decided to maintain the cruise exposures impacted by the health crisis in Stage 2. It should be noted that some of these loans have not yet been drawn. At the same date, the impairments associated with this portfolio represented EUR 20 million.

The book values allocated to Stage 3 as well as the non-performing exposures are very limited and amounted to EUR 176 million and EUR 210 million, respectively, at June 30, 2023. These amounts are the lowest levels observed since the beginning of the implementation of IFRS 9.

2) Climate risks

Sfil is gradually adopting a holistic vision of taking into account environmental, social and governance (ESG) risks in their entirety. Climate risks, given their materiality and the expectations of the regulator and stakeholders, and because they are likely to directly or indirectly impact all existing risk categories (in particular credit risk, operational risk, market and liquidity risk), are dealt with in greater detail.

Climate change and the transition to carbon neutrality in 2050 are one of the European Union's political priorities. Climate issues are also one of the main focuses of Sfil's strategic plan, whose purpose, as a public development bank, is to "finance a sustainable future by sustainably and responsibly supporting regional development and the international activity of large companies", by being aligned with the United Nations Sustainable Development Goals (and the principles of the Global Compact, signed in 2018). Sfil contributes significantly to most of the SDGs (15 out of 17) and significantly to 11 SDGs broken down into indicators, whether through its financing activities, its internal policies or the application of the Caisse des Dépôts Group's policies.

Climate risk is composed of physical risk and transition risk. The physical risk can be acute or chronic.

- Acute physical risks are defined as the risk of loss resulting from extreme weather events (floods, storms, hurricanes, forest fires), the resulting damage of which may result in the destruction of the physical assets of local authorities or non-financial counterparties.
- Chronic physical risks represent the risk of loss resulting from longer-term changes in climate models (loss of snow cover, sea level rise, shrinkage and swelling of clays, for example).
- Transition risks refer to the financial loss resulting from the transition process towards a low-carbon and environmentally sustainable economy.

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

As part of its credit and investment risk policy, Sfil already applies the following principles:

- Exclusion of certain activities from its financing:
  - production of or trade in any illegal product, as well as any illegal activity under the laws of France or the country of destination;
  - voluntary exclusion of sectors due to their negative societal or environmental impact.
- Taking into account in a positive way of the social and environmental usefulness of the financed projects. The bank's risk appetite is greater for green loans and for social loans, with qualitative granting criteria allowing more flexibility in terms of the amortization profile for green and social loans, and quantitative criteria authorizing a higher level of exposure to this type of loan.

As part of its cash investment policy, Sfil has also defined ESG criteria:

- exclusions by country and sector;
- criteria specific to bank, sovereign and public sector issuers.

Sfil also monitors the share of investments made in ESG securities on a monthly basis (26% at June 30, 2023).

In this context, the activity on climate and environmental risks continued during the first half of 2023 with the following main actions:

- ongoing development of a tool for rating the climate and environmental risks of exposures to the local public sector. This tool will eventually be used systematically for granting loans and monitoring risks;
- finalization of the measurement of the carbon footprint of SPL borrowers. This work will strengthen the robustness of the climate risk management by mapping SPL borrowers. These estimates are already used in the development of the climate and environmental risk rating tool to scale the investment effort to be made for each local authority;
- conducting a study on the risk of loss of snowfall for local authorities with ski resorts in the Alps, Pyrenees, Jura and Vosges;
- production of a qualitative sectoral mapping of climate risks for the export credit portfolio;
- analysis of the natural risks likely to affect Sfil's sites as well as those of its providers of outsourced essential services;
- assessment of the impact of climate risks on market and liquidity risk.

Lastly, in order to better integrate sustainability issues into its overall governance, Sfil has set up a Sustainable Development Committee whose mission is to ensure the implementation of its sustainable development policy under the best possible conditions.

3) Market risk

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

Sfil's and Caffil's banking portfolio positions that may give rise to risks on the accounting income or equity are the result of exposure to market volatility and are monitored as non-regulatory market risks. It concerns mainly:

- risks arising from changes in the value of financial assets recognized at fair value through profit or loss or through equity;
- 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 in accordance with the French accounting standards;
- risks that may materialize at the level of Sfil's individual financial statements, in connection with its derivatives intermediation activity carried out on behalf of Caffil, if the derivatives that Sfil enters into with external counterparties are not perfectly mirrored with Caffil.

During the half-year, the fair value of non-SPPI loans, with a nominal outstanding amount of EUR 2.3 billion, varied by EUR -238 million, reflecting the decrease of the outstanding amount, the hedged interest rate risk, and, to a lesser degree, the credit component. The sensitivity of the portfolio value to a one basis point change in credit spreads is EUR 1.4 million, continuing its decrease compared to December 2022 (EUR 1.5 million), and reflecting the decline in this portfolio, which no longer records any new transactions.

The value of the securities portfolio recognized at fair value through equity is very low (the nominal outstanding amount of this portfolio was EUR 82 million at June 30, 2023): the impact recognized in equity amounted to EUR 0.1 million at June 30, 2023. The sensitivity of the portfolio to a one basis point change in credit spreads is less than EUR 0.1 million.

4) Balance sheet management risk

The quarter was marked by a gradual reduction in inflationary pressures, which remain significant, and a rise in uncertainties related in particular to the bankruptcies of certain American financial institutions. In this context, the European Central Bank continued to tighten its monetary policy, in markets still marked by high volatility, with a peak in March 2023. Sfil nevertheless managed to implement its issuance program under satisfactory conditions, achieving, during the first half of the year, 53% of the issuance program planned for the year 2023. However, the Group's financing costs are up compared to 2022, reflecting the tightening of credit and financing conditions over one year. On the other hand, the Group remains little exposed to interest rate and foreign exchange rate risks, given the prudent policy pursued in this area and the low level of unhedged positions.

4.1. Liquidity risk

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

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

With regard to Sfil, this risk lies in the possibility of no longer having sufficient resources to meet Caffil's financing needs, the margin calls of its counterparties, or the timely repayment of its own issues.

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

- the financing of balance sheet assets (EUR 66.9 billion), mainly carried by Caffil, which hedge the obligations foncières issued and the few assets held outside Caffil's cover pool;
- the financing of liquidity requirements in connection with compliance with regulatory ratios;
- the financing of the cash collateral paid on Sfil derivatives (EUR 2.5 billion).

As of June 30, 2023, the sources of financing used, other than the entity's equity, were:

- the privileged debt, namely EMTN-format obligations foncières and registered covered bonds issued by Caffil (EUR 51.9 billion), and the cash collateral received, and
- EMTN issues by Sfil (EUR 9.6 billion) and negotiable debt securities (EUR 0.8 billion).

In addition, the Sfil Group holds assets eligible for refinancing operations by the European Central Bank via Banque de France.

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

Dynamic liquidity forecasts take into account business assumptions (new assets and new financing), under normal and stressed conditions:

- under normal conditions, these projections are intended to define the amounts and maturities of the various sources of financing that can be raised by each entity (issuance of obligations foncières for Caffil, issuance of negotiable debt securities (TCN), EMTNs or drawdowns on available liquidity lines for Sfil);

- under stressed conditions, these forecasts aim to assess the Group's capacity to withstand a liquidity shock and to determine its survival horizon, which, in line with its risk appetite, must remain longer than one year.

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

Regulatory liquidity indicators

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

- the regulatory overcollateralization: this represents the ratio between assets and liabilities benefiting from the legal privilege under the law on SCFs, and must be at least 105%;
- the projection of the liquidity needs over 180 days: Caffil ensures that at all times its net cash requirements over a period of 180 days, calculated in a run-off situation, are covered by high-quality liquid assets (levels 1, 2A, or 2B) and by short-term exposures to credit institutions (including short-term deposits) in the cover pool;
- the maximum gap of 1.5 years between the average life of the privileged liabilities and the average life of the assets eligible for the regulatory coverage ratio.

Sfil and Caffil must also comply with the regulatory liquidity indicators applicable to credit institutions in application of Regulation (EU) No. 575/2013 of the European Parliament and of the Council of June 26, 2013, regarding:

- the LCR ratio (Liquidity Coverage Ratio): at June 30, 2023, the LCR amounted to 213% for Sfil on a consolidated basis;
- the stable funding ratio (NSFR), a transformation ratio that measures stable resources over a one-year horizon and relates them to stable financing requirements. The level of the NSFR stands at 123% for Sfil on a consolidated basis.

Internal liquidity indicators

The Group monitors the following main internal liquidity indicators:

- the Group's dynamic funding requirements over the next year, as well as the respective issuance conditions for Sfil and Caffil;
- the over-collateralization ratio, which targets an over-collateralization level consistent with Caffil's target rating;
- the one-year survival horizon in stressed conditions;
- the management of the Group's financing deadlines;
- the level of unencumbered assets available in the event of a liquidity crisis;
- the duration gap between privileged assets and liabilities: it is published quarterly. At June 30, 2023, it stood at 0.06 years;
- sensitivity of the net present value of the consolidated static liquidity gap to an increase in the Group's financing costs;
- consumption of spread and basis risk appetite for export credit transactions, which measures the loss of income on these transactions that may result from stress on the Group's cost of financing in euros or from an increase in the cost of financing in foreign currencies (USD or GBP).

4.2. Interest rate risk

Interest rate 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 the latter exception.

The Sfil Group distinguishes four types of interest rate risk:

Fixed interest rate risk	Results from the difference in volume and maturity between assets and liabilities with a fixed rate or an adjustable rate that has already been set. It can occur in the event of parallel (*i.e.* translation) or non-parallel (*i.e.* steepening, flattening, rotation) variations in the yield curve.
Basis risk	Results from the gap that may exist in the matching of assets and liabilities which are indexed on variable rates of different types or index tenors.
Fixing risk	Results, for each index, from the gap between the adjustment dates applied to all the variable rate balance sheet and off-balance sheet items linked to the same tenor.
Option risk	Arises from the triggering of implicit or explicit options due to a change in interest rates, or the possibility given to the institution or its customer to change the level and/or timing of cash flows of an operation.

Interest rate risk management

The Group has defined a fixed-rate risk appetite for Caffil, which is broken down into a system of limits governing the sensitivity of the net present value (NPV). In order to manage this sensitivity within the limits set, the hedging strategy implemented is as follows:

- micro-hedging of interest rate risk on balance sheet items denominated in a currency other than the euro or indexed to a complex rate structure. Certain euro-denominated vanilla transactions may also be micro-hedged if their notional value or duration could lead to a sensitivity limit being exceeded. Micro-hedging is carried out exclusively by swaps;
- macro-hedging of interest rate risk for all transactions that are not micro-hedged. The transactions concerned are mainly (i) loans to the local public sector and (ii) issues of *obligations foncières* denominated in euros. This macro-hedging is obtained as much as possible by matching fixed-rate assets and liabilities via the unwinding of swaps and, for the rest, by setting up new swaps against Euribor or €str.

This management of the fixed interest rate risk is complemented by monitoring of the fixings of transactions with revisable rates. Where appropriate, swaps against €str may be entered into to hedge the fixing risk.

The interest rate risk appetite within the Sfil scope is nil. The management therefore consists of a perfect micro-hedging of the interest rate risk, either through swaps against Euribor or €str (for export credit transactions, the hedging instrument is called “stabilization”), or by matching asset and liability transactions with the same index. There is therefore no interest rate risk at the level of the Sfil scope.

Interest rate risk indicators

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

- Sensitivity of the net present value (NPV) known as “management”: this indicator is produced monthly and is calculated for eight interest rate shock scenarios (the six regulatory scenarios defined by the EBA and two “internal” stress scenarios revised once a year after analysis of the economic and financial situation and determined on the basis of historical variations rates). The maximum loss observed among the eight scenarios may not exceed the limit defined as part of the risk appetite.

EUR millions	Limit	6/30/2022	12/31/2022	6/30/2023
Maximum NPV loss observed	**(80)**	**(31)**	**(21)**	**(25)**

In the first half of the year, the sensitivity of the NPV decreased from EUR -21 million at December 31, 2022 to EUR -25 million at June 30, 2023. This change takes into account the various macro-hedges made during the half-year:

- Hedging of the purchase from LBP of EUR 2.47 billion of SPL loans: this hedging was carried out by setting up swaps for EUR 580 million and, for the balance, by the netting of swaps, in line with the objective of limiting the use of hedging derivatives;

- Hedging of Caffil issues for an amount of EUR 1.96 billion: this hedging was carried out by setting up swaps for EUR 1.39 billion and, for the balance, by the netting of swaps (EUR 465 million), in line with the objective of limiting the use of hedging derivatives.

- Sensitivity of the so-called “regulatory” NPV: this indicator is produced monthly and is calculated for the six “regulatory” stress scenarios defined in the EBAGL-2018-02 guidelines. Unlike the management NPV sensitivity indicator, the regulatory indicator excludes the investment of equity from liabilities. The maximum loss observed among these six scenarios may not exceed 15% of CET1 capital.

At 6/30/2023	Interest rate shock applied	Net income *(in EUR millions)*
"Supervisory outlier test" according to the six differentiated shocks	+200 bps	(137)
	-200 bps floored	167
	Steepening	(16)
	Flattening	(5)
	Rise CT	(48)
	Drop CT	51

- Sensitivity of the net interest rate margin (NII): this indicator is produced monthly and is calculated for two interest rate shock scenarios (+/-200 bp). The particularity of this indicator is that it is dynamically calculated by assuming that the balance sheet remains constant over the indicator calculation horizon (one year for the regulatory indicator).

Sensitivity of the net interest margin over 12 months – Sfil consolidated *(in EUR millions)*	Limit	30/06/2023	31/12/2022
Parallel increase in rates of 200 bps	(40)	(20)	(7)
Parallel decrease in rates of 200 bps	(40)	16	4

As of June 30, 2023, it was EUR -20.3 million for a shock of +200 bp (EUR +16 million for a shock of -200 bp), down by EUR 12.9 million (respectively up by EUR 12 million) compared to the end of December. This change is largely due to the reduction in excess liquidity transferred to the Banque de France’s deposit facility.

- Interest rate gaps (fixed rate, Euribors and floored Euribors):

“Fixed rate” gap	Difference between balance sheet and off-balance sheet assets and liabilities for fixed-rate transactions or for which the rate has been fixed. It is calculated until balance sheet run-off.
Index gaps	Difference between balance sheet and off-balance sheet assets and liabilities for Euribor-indexed transactions. This gap is projected until the balance sheet is extinguished.
Floored Euribor gaps	Difference between balance sheet and off-balance sheet assets and liabilities for floored Euribor-indexed transactions. This gap is projected until the balance sheet is extinguished.

These indicators are calculated from a static viewpoint.

For the Sfil scope, the fixed rate risk exposure is tracked through the fixed rate gap. Given its perfect micro-coverage strategy, the gap must be zero. In the first half of the year, a minor exposure (average outstandings of EUR 32 million over 2023) appeared. The situation is expected to be resolved in September.

Index gaps are used to monitor exposure to Euribor basis risk against €str. These gaps are framed for each tenor index by a limit calculated on the average of the different gaps at 12 months. As of June 30, 2023, the limits were respected.

The floored Euribor gaps are used to monitor exposure to option risk. At Caffil, most of this risk is attributable to the floors of Euribor-indexed commercial loans. This optional risk is managed by means of swaps. The net position (after swaps) is governed by a limit on the gap of EUR 800 million. In order to comply with this limit, the amount of hedges carried out in the first half of the year amounted to EUR 545 million.

4.3. Foreign exchange risk

Foreign exchange risk is defined as the risk of recorded or unrealized net income volatility, linked to a change in the exchange rate of currencies against a reference currency. 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 currency hedging of these balance sheet items' nominal and interest rates.

As an exception to this policy, foreign exchange positions, limited in terms of time and volume, are accepted for operational reasons, particularly in the context of the refinancing of export credits. This corresponds to the following situations:

- Excessive operational cost of processing hedging swaps in relation to the risk to be hedged (low amount of drawdowns on the balance sheet, non-standard index to be hedged, etc.).
- Impossibility of perfectly micro-hedging off-balance sheet drawdowns, whose amounts and timing are by definition not known.
- Payment of a commission in a currency other than the euro.

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

At June 30, 2023, Sfil's foreign exchange position was EUR 3.42 million for a limit of EUR 5.5 million.

Certain export credit loans denominated in foreign currencies may generate a very limited foreign exchange risk for Caffil during their drawdown phase. This residual risk is controlled by a very low sensitivity limit on the euro/currency basis, calculated over the life of the loans.

5) Operational risk and permanent control (excluding compliance)

5.1. Operational risk

Sfil defines the operational risk as the risk of loss resulting from a lack of adaptation or a deficiency relating to internal processes, staff or systems or to external events, including legal risk. It includes model risks but excludes strategic risks. This definition is in line with the definition adopted by the Basel Committee and with applicable regulations. The operational risk management system applies to all Sfil and Caffil processes and activities. The capital requirement for operational risk is calculated using the standardized method.

During the first half of 2023, Sfil continued its integration into the operational risk function of the CDC Group and continued its actions to harmonize the procedural corpus and its taxonomy relating to operational risks, in preparation of the consolidation by the CDC Group of data from all its entities.

Furthermore, in the current international context of conflict between Russia and Ukraine, the cybercrime monitoring process has been particularly strengthened, with in particular the blocking by default of all incoming/outgoing traffic to/from Sfil's IT system and Russia, Ukraine, Belarus, Georgia and Moldova. No security incidents or impacts have been identified at this stage. The configuration of security equipment was strengthened by taking into account new sources of information on threats. Renewed focus was also placed on the risks related to phishing and the best practices to follow via general awareness-raising communications as well as more formal presentations. In order to map and preserve the Company's information systems assets, during the first half of 2023 a tool for classifying the sensitivity of office data was deployed on all workstations.

5.2. Permanent control

In the first half of 2023, Sfil continued to implement a plan to overhaul its internal control system. This approach requires a review of all of the bank's processes, a reassessment of gross and residual risks, and an update of the associated permanent controls in order to monitor the bank's operational reality as closely as possible.

6) Non-compliance risk

During the first half of 2023, the procedure relating to Sfil's patronage-sponsorship operations, as part of the AML/FT system, was updated in line with the adoption of a policy in this area, the operations being mainly in line with Sfil's sustainable development policy.

The anti-money laundering questionnaire and the AML/FT internal control report were also presented to the governance bodies before being communicated to the ACPR in compliance with the required deadlines.

Work on updating the corruption prevention system also continued with the updating of the rules for gifts and invitations, which constitute one of its pillars. Defined in 2014, this system complements the 2020 code of professional conduct and ethics and in particular the anti-corruption code of conduct. It is fully in line with Sfil's commitments in terms of sustainable development, including those of a responsible bank vis-à-vis its customers, investors and suppliers.

In terms of customer protection, the procedure for receiving, processing and monitoring complaints was updated in line with ACPR recommendation No. 2022-R01 of May 9, 2022. The Sfil system provides for:

- clear information on how to access the complaints processing and mediation system, which can be found on the Sfil and Caffil websites;
- efficient processing of complaints;
- implementation of corrective actions based on malfunctions identified through complaints.

In the first half of 2023, mandatory compliance training was provided in accordance with the 2023 training plan validated by the Risks and Internal Control Committee. The mandatory training offer on compliance topics has been expanded, in particular for:

- all Sfil Group employees who are required to follow a training course;
- the employees who are particularly exposed to certain non-compliance risks, who follow an additional training course including the fight against corruption, AML/FT and data protection;
- the corporate officers of Sfil and Caffil.

The permanent compliance control campaigns were also carried out in compliance with the 2023 control plan presented to the Risks and Internal Control Committee.

Lastly, the Compliance division supported the business lines in the context of the Sfil Group's activities, including the four export credit refinancing transactions signed during the first half of 2023.

7) Legal and tax risks

7.1. Legal risks

As of June 30, 2023, one borrower remains in litigation before the civil courts, out of the 223 borrowers who have initiated disputes relating to structured loans, as well as two borrowers who have initiated disputes in respect of unstructured loans.

7.2. Tax risks

There were no significant developments in the first half of 2023 concerning the treatment of taxation in Ireland of the results of the former branch of Dexia Municipal Agency (former name of Caffil) in Dublin, closed in 2013.

In addition, during the first quarter of 2023 the administration began a control procedure on Sfil's 2020 and 2021 financial years. The proceedings were still ongoing at June 30, 2023, and the Company had not identified any significant reason for reassessment at this stage.

Outlook

The export credit activity is expected to continue to grow throughout the year with very positive prospects for the coming years.

With regard to the local public sector, after a wait-and-see period, an acceleration in financing demand in the second half of the year is likely. Sfil will continue to develop its range of green and social loans and will begin updating work in connection with the delegated act on the other four environmental objectives of the European green taxonomy.

Sfil will also finalize the measurement of the footprint of its local public sector and export loan portfolios and will be able to communicate at the end of 2023 information on a decarbonization trajectory compatible with the objectives of the Paris Agreement.

To finance its activities, the Sfil Group forecasts a volume of issues on the primary market of between EUR 7 and 8 billion for 2023 with a continued ramp-up of its green and social thematic issues.

Sfil's business outlook for the second half of the year therefore remains solid, with a higher degree of uncertainty related in particular to changes in interest rates and in particular the impacts on financing conditions.

Lastly, as part of the "Group Vision" project and its purpose, Sfil, whose employees took part in the consultation launched throughout the CDC Group in order to identify new initiatives to continue the implementation of the Group's purpose, will actively cooperate in thematic communities and cross-functional business lines.

Condensed consolidated financial statements under IFRS

Balance sheet

Assets

EUR millions	Note	12/31/2023	6/30/2023
Central banks	2.1	1,969	1,265
Financial Assets at fair value throught profit or loss	2.2	2,743	2,432
Hedging derivatives		2,396	2,569
Financial Assets at fair value through equity	2.3	243	79
Financial Assets at amortized cost			
Loans and advances to banks at amortized cost	2.4	87	107
Loans and advances to customers at amortized cost	2.4	49,956	50,351
Securities at amortized cost	2.4	6,209	6,884
Fair value revaluation of portfolio hedge		170	137
Current tax assets		15	6
Deferred tax assets		64	67
Tangible assets		7	36
Intangible assets		21	21
Accruals and other assets		2,728	2,970
TOTAL ASSET		**66,608**	**66,924**

Liabilities

EUR millions	Note	12/31/2023	6/30/2023
Central banks		-	-
Financial liabilities at fair value through profit or loss	3.1	359	217
Hedging derivatives		5,134	5,250
Financial liabilities at amortized cost			
Due to banks at amortized cost	3.2	-	-
Customer borrowings and deposits at amortized cost		-	-
Debt securities at amortized cost	3.2	59,090	59,386
Fair value revaluation of portfolio hedge		66	37
Current tax liabilities		2	4
Deferred tax liabilities		-	-
Accruals and other liabilities		219	277
Provisions	3.3	19	16
Subordinated debt		-	-
EQUITY		**1,720**	**1,738**
Capital	2.1	1,445	1,445
Reserves and retained earnings	2.2	234	320
Net result through equity		(45)	(43)
Net income		86	16
TOTAL LIABILITIES		**66,608**	**66,924**

Income Statement

EUR millions	Note	H1 2022	2022	H1 2023
Interest income	*5.1*	1,135	2,321	1,973
Interest expense	*5.1*	(1,057)	(2,150)	(1,891)
Fee and commission income	*5.2*	3	5	5
Fee and commission expense	*5.2*	(2)	(4)	(2)
Net result of financial instruments at fair value though profit or loss	*5.3*	40	33	0
Net result of financial instruments at fair value though equity	*5.4*	0	1	1
Gains or losses resulting from derecognition of financial instruments at amortized cost	*5.5*	7	37	5
Gains or losses resulting from reclassification of financial assets at amortized cost to fair value through profit or loss		-	-	-
Gains or losses resulting from reclassification of financial assets at fair value through equity to fair value through profit or loss		-	-	-
Other income		0	0	0
Other expense		(0)	(0)	(0)
NET BANKING INCOME		**126**	**243**	**91**
Operating expenses	*5.6*	(58)	(107)	(59)
Depreciation and amortization of property and equipment and intangible assets		(8)	(18)	(9)
GROS OPERATING INCOME		**59**	**118**	**23**
Cost of risk	*5.7*	7	0	1
OPERATING INCOME		**66**	**119**	**24**
Net gains (losses) on other assets		-	-	-
INCOME BEFORE TAX		**66**	**119**	**24**
Income tax		(20)	(33)	(8)
NET INCOME		**46**	**86**	**16**
EARNINGS PER SHARE (in EUR)				
- Basic		4.99	9.21	1.69
- Diluted		4.99	9.21	1.69

Net income and unrealized or deferred gains and losses through equity

EUR millions	H1 2022	2022	H1 2023
NET INCOME	**46**	**86**	**16**
Items that may subsequently be reclassified through profit or loss	**5**	**4**	**2**
Unrealized or deferred gains and losses of financial assets at fair value through equity	(1)	(1)	(0)
Unrealized or deferred gains and losses of cash flow hedges derivatives	69	69	(2)
Unrealized or deferred gains and losses of cost of hedging derivatives	(62)	(62)	5
Tax on items that may subsequently be reclassified through profit or loss	(2)	(2)	(1)
Items that may not be reclassified through profit or loss	**-**	**1**	**-**
Actuarial gains and losses on defined-benefit plans	-	2	-
Tax on items that may not subsequently be reclassified through profit or loss	-	(1)	-
Total unrealized gains or losses through equity	**5**	**6**	**2**
NET INCOME AND GAINS OR LOSSES THROUGH EQUITY	**51**	**91**	**18**

Equity

EUR millions	Capital and reserves: Share capital, additional paid-in capital	Capital and reserves: Retained earnings and net income for the period	Capital and reserves: Total	Unrealized or deferred gains and losses: Remeasurement gains (losses) related to post-employment benefit plans, after tax	Unrealized or deferred gains and losses: Net change in fair value of financial assets at fair value through equity, after tax	Unrealized or deferred gains and losses: Net change in fair value of cash flow hedging derivatives, after tax	Unrealized or deferred gains and losses: Net change in fair value of cost of hedging derivatives, after tax	Unrealized or deferred gains and losses: Total	Total equity
EQUITY AS OF JANUARY 1, 2022	**1,445**	**292**	**1,737**	**(1)**	**0**	**(50)**	**-**	**(50)**	**1,686**
Stocks issued	-	-	-	-	-	-	-	-	-
Dividends	-	(57)	(57)	-	-	-	-	-	(57)
Changes in fair value of financial assets through equity	-	-	-	-	(0)	-	-	(0)	(0)
Changes in fair value of derivatives through equity	-	-	-	1	-	51	(46)	6	6
Net income for the period	-	86	86	-	-	-	-	-	86
Other movements	-	-	-		-	-	-	-	-
EQUITY AS OF DECEMBER 31, 2022	**1,445**	**320**	**1,765**	**0**	**0**	**1**	**(46)**	**(45)**	**1,720**
Stocks issued	-	-	-	-	-	-	-	-	-
Dividends	-	-	-	-	-	-	-	-	-
Changes in fair value of financial assets through equity	-	-	-	-	(0)	-	-	(0)	(0)
Changes in fair value of derivatives through equity	-	-	-	-	-	(1)	3	2	2
Net income for the period	-	16	16	-	-	-	-	-	16
Other movements	-	-	-		-	-	-	-	-
EQUITY AS OF JUNE 30, 2023	**1,445**	**336**	**1,781**	**0**	**0**	**(0)**	**(43)**	**(43)**	**1,738**

Cash flow statement

EUR millions	H1 2022	H1 2023
NET INCOME BEFORE TAX	**66**	**24**
+/- Net depreciation and amortization of tangible and intangible fixed assets	8	2
+/- Depreciation and write-downs	(19)	(1)
+/- Expense / income from investing activities	33	-
+/- Expense / income from financing activities	(86)	-
+/- Other non-cash items	488	(75)
NON-MONETARY ITEMS INCLUDED IN NET INCOME BEFORE TAX AND OTHER ADJUSTMENTS	**424**	**(73)**
+/- Cash from interbank operations	143	(19)
+/- Cash from customer operations	(1,877)	(106)
+/- Cash from financing assets and liabilities	768	(636)
+/- Cash from not financing assets and liabilities	(1,035)	(12)
- Income tax paid	(35)	(29)
DECREASE / (INCREASE) IN CASH FROM OPERATING ACTIVITIES	**(2,037)**	**(802)**
CASH FLOW FROM OPERATING ACTIVITIES (A)	**(1,547)**	**(851)**
CASH FLOW FROM INVESTING ACTIVITIES (B)	**(1)**	**(32)**
+/- Cash from or for shareholders	-	-
+/- Other cash from financing activities	141	203
CASH FLOW FROM FINANCING ACTIVITIES (C)	**141**	**203**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	**-**	**-**
INCREASE / (DECREASE) IN CASH EQUIVALENTS (A + B + C + D)	**(1,407)**	**(680)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**3,996**	**2,009**
Cash and balances with central banks (assets & liabilities)	3,961	1,969
Interbank accounts (assets & liabilities) and loans / sight deposits	35	39
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**2,589**	**1,328**
Cash and balances with central banks (assets & liabilities)	2,550	1,265
Interbank accounts (assets & liabilities) and loans / sight deposits	39	63
CHANGE IN NET CASH	**(1,407)**	**(680)**

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 condensed financial statements in compliance with IAS 34 Interim financial reporting; they have been reviewed by the statutory auditors. The accompanying notes relate to significant items of the half year and should be read in conjunction with the consolidated financial statements as of December 31, 2022. The latters have been prepared in compliance with International Financial Reporting Standards (IFRS), as endorsed by and applicable within the European Union; they have been audited by the statutory auditors. The Group's activities do not show any seasonal, cyclical or occasional aspects.

The consolidated condensed financial statements are furthermore in accordance with ANC Recommendation 2022-01 of April 8, 2022 regarding disclosure of consolidated financial statements for banking reporting entities under IFRS.

Group Sfil has furthermore voluntarily decided to use as from 2020 the new European Single Electronic Format (ESEF) format for the preparation of its yearly financial statements.

The consolidated condensed financial statements as of June 30, 2023, were reviewed by the Board of directors on September 8, 2023.

The quantitative impacts on the financial statements and qualitative information associated with the war in Ukraine are presented by the company in note 9 below. Additional information is also disclosed in the activity report of the Group.

1.1.2. IASB and IFRIC texts endorsed by the European Union and effective as of January 1, 2023

- **IFRS 17 Insurance contracts** : issued by IASB in May 2017, amended by IASB in June 2020, endorsed by the European Union on November 23, 2021 (UE Regulation No. 2021/2036) and effective for reporting periods beginning on or after January 1, 2023, this standard, which replaces IFRS 4 standard, clarifies in particular how all insurance contracts (life, non-life, insurance and reinsurance) shall be accounted for, contracts for which the entity is the policyholder being in particular out of the scope (excepted reinsurance contracts).

  This amendment has no impact on the Group's consolidated financial statements given that the latter does not have insurance activities.

- Amendment to **IAS 8 Accounting policies, changes in accounting estimates and errors**: issued by IASB in February 2021, endorsed by the European Union on March 2, 2022 (UE Regulation No. 2022/357) and effective for reporting periods beginning on or after January 1, 2023, this amendment modifies the definition of "accounting estimates" so as to being able to better distinguishing between a change in an accounting estimate and the correction of an error.

  The Group now takes consideration of this amendment when assessing events to be qualified as corrections of errors or changes in accounting estimates.

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

  The Group now takes consideration of this amendment when assessing the information to be disclosed in its consolidated financial statements.

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

This amendment has no impact on the Group's consolidated financial statements given that the latter does not operate transactions impacted by this amendment.

- **ANC Recommendation n° 2022-01 regarding the format of credit institutions' consolidated accounts according to international accounting standards**: this ANC recommendation disclosed on April 8, 2022 cancels and replaces that of June 2, 2017 (n° 2017-02) starting from the first application date of IFRS 17 Insurance contracts standard, *i.e.*, from January 1, 2023. This recommendation is mainly intended to take into account the future IFRS 17 standard as well as the application of IFRS 9 Financial instruments to insurance activities. Besides, it also takes into account IFRS 16 Leasing contracts standard (in application since 2019) as well as the IFRS IC10 recommendation disclosed in March 2018, which recalls that interest incomes computed through the effective interest rate are presented on a separate line of the income statement of profit and loss.

  This recommendation has no impact on the Group's consolidated financial statements, given that the latter does not have insurance activities, already applies the IFFS IC10 recommendation, and already uses the recommended format when accounting for leasing contracts under IFRS 16.

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

Amendments to I**FRS 16 Leases**: issued by the IASB in September 2022, not yet endorsed by the European Union, and initially effective for reporting periods beginning on or after January 1 2024, early application permitted. These amendments clarify the subsequent measurement of sale and leaseback transactions where the initial disposal of the asset meets the criteria in IFRS 15 for recognition as a sale. In particular, these amendments specify how to subsequently measure the lease liability arising from sale and leaseback transactions, consisting of variable lease payments that are not dependent on an index or a rate.

The Group will take these amendments into account for any future sale and leaseback transactions.

Amendment to **IAS 1 Presentation of Financial Statements**: issued by the IASB in January 2020 and October 2022, not yet endorsed by the European Union and initially effective for reporting periods beginning on or after January 1 2024, early application permitted, this amendment clarifies the distinguishing criteria between current and non-current liabilities.

This amendment will have no impact on the Group's consolidated financial statements, as the Group presents its assets and liabilities in order of liquidity, as do most credit institutions.

Amendments to **IAS 7 and IFRS 7 regarding supplier finance arrangements**: issued by the IASB in May 2023, not yet endorsed by the European Union and initially effective for reporting periods beginning on or after January 1 2024, early application permitted, this amendment improves the transparency of supplier financing arrangements and their effects on a company's liabilities, cash flows and exposure to liquidity risk.

This amendment will have no impact on the Group's consolidated financial statements.

Amendments to **IFRS 12 International Tax Reform — Pillar Two Model Rules**: issued by the IASB in May 2023, not yet endorsed by the European Union and application not yet determined. These amendments add a mandatory temporary exception to the recognition of deferred tax assets and liabilities relating to income taxes arising from Pillar 2 rules, and provide for disclosures about them as well as targeted disclosures for affected entities.

The implications of this amendment for the Group's consolidated financial statements are currently being assessed.

1.1.4. Treatment and impacts of effects induced by Regulation (EU) 2016/1011 of the European Parliament and of the Council on indices used as benchmarks in financial instruments and contracts.

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

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

When such changes relate to financial assets or financial liabilities involved in an hedge relationship, the latter shall be re-documented and the IAS 39 "phase 2" amendment specifies further reliefs so as to enable the continuation of hedged relationships beyond the end of application of "phase 1" reliefs.

These reliefs apply in particular to the way retrospective effectiveness tests shall be performed (option to set at zero the cumulative change in fair value of the hedged item and the hedging instrument), the retention of the CFH reserve that relates to forecast transactions (the cumulative gains and losses recognized in Other comprehensive income are deemed to have been determined on the basis of the same rate as the one of future hedged cash flows), the hedging of group of items (requirement to split the group into two sub-groups, one based on the former rate and another on the new one) and the "separately identifiable" requirement of a non-contractually specified portion of hedged risk (deemed fulfilled as regards an alternative benchmark rate provided that there is a reasonable expectation that it will fulfil the requirement within 24 months).

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

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

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

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

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

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

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

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

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

Since 2020, the Group has reinforced its access to derivatives markets of alternative reference rates. The Group has moreover pursued its negotiation efforts with its borrowers, its lenders and its derivatives counterparties in the objective of transitioning towards alternative reference rates or alternatively of inserting resilient fallback provisions. The Group has adhered to the ISDA Protocol covering those aspects. Regarding EONIA index rate, LCH clearing house transitioned from EONIA to €STER during the fourth quarter of 2021; this replacement resulted in cash collateral being paid, and hedging relationships have thus been maintained. Regarding LIBOR CHF and LIBOR GBP, the transition was operated though restructuring mechanisms. LIBOR USD migration is almost complete in June 2023. As the STIBOR index has been recognized as compliant by the European Benchmark Regulation, it will not be subject to a transition. Financial assets, financial liabilities and derivative contracts of the Group affected by the reform are presented in note 4.1.

1.2. Accounting principles applied to the financial statements

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

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

Judgments were principally made in the following areas:

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

These judgments are detailed in the following chapters.

Estimates were principally made in the following areas:

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

Estimates and judgement are also used to estimate climate and environmental risks. Governance and commitments on these risks are outlined in the activity report. Information on the effect and consideration of climate risks on credit risk management is presented in paragraph 1.2.5.7 “impairment of financial assets” and in note 7 “Note on risk exposure”. The accounting treatment of major financial instruments with margin clauses indexed to ESG (Sustainability-linked loans) criteria is presented in Note 1.2.5.3 “financial assets measured at amortized cost”.

1.2.1. Consolidation

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

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

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

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

The scope of consolidation as of June 30, 2023 is the same as that as of December 31, 2022.

1.2.2. Offsetting financial assets and liabilities

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

1.2.3. Foreign currency transactions

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

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

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

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

1.2.4. Trade date and settlement date accounting

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

1.2.5. Financial assets

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

1.2.5.1. Business model

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

- refinancing local government entities and public hospitals through the acquisition by Caisse Française de Financement Local of medium/long-run loans granted by La Banque Postale;
- refinancing export credit contracts covered by Bpifrance Assurance Export insurance policy on behalf of and under the control of the French Republic;
- more marginally, reducing the sensitivity of remaining sensitive structured loans held by Caisse Française de Financement Local.

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

- qualitative evidence: how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model and the financial assets held within that business model and, in particular, the way in which those risks are managed, how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);

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

It can be inferred from this assessment that the Group only uses the Hold-To-Collect (HTC) model and, to a lesser extent, the Hold-To-Collect-and-Sell (HTCS) model. The Group does not hold any financial assets for trading purposes, *i.e.* the Group does not acquire, incur or hold financial assets for the purpose of realizing a net gain through selling or repurchasing them it in the near term.

1.2.5.2. Characteristics of contractual cash flows (SPPI criterion)

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

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

1.2.5.3. Financial assets measured at amortized cost

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

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

First impact loans were granted by the Group to support companies in their sustainability efforts through an incentive mechanism to revise the margin based on ESG criteria specific to the borrower or to its achievement of sustainable objectives (Sustainability-linked loans). The analysis of these loans basic lending arrangements since they met this de minimis character as well as the other SPPI criteria.

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

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

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

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

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

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

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

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

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

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

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

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

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

1.2.5.6. Designation options

The Group does not use the following options:

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

1.2.5.7. Impairment of financial assets

Defining the impairment base

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

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

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

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

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

Assessing whether credit risk has significantly increased

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

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

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

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

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

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

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

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

Stages transitions must be compliant with the following rules:

- for the contracts of a counterparty in “default”, exiting from Stage 3 and “default” (and getting back to Stage 2 or Stage 1) can only occur after a cure period of at least one year during which the counterparty is still considered as being in “default” within the meaning of the CRR and the contracts of this counterparty remain classified in Stage 3. Exit must in addition be formally decided in Default Committee and is conditional to the full repayment of arrears if any. It shall be noted that this cure period is not applicable to the contracts of a counterparty that was in Stage 3 without simultaneously being in “default” in the meaning of the CRR;

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

Measuring the amount of the expected credit loss

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

In the case of French local authorities, the main hypothesis as well as the scenarios and their weighting are presented below. The hypothesis of these scenarios are regularly updated and have in particular been adapted so as to take into account the inflationary context. Three scenarios are thus constructed based on the 2021 and 2022 conjunctural estimates. The forward-looking forecasts 2023-2025 are based on the macroeconomic forecasts of the baseline scenario of the Caisse des Dépôts Group economists, updated in September 2022.

The most significant variables used in determining credit losses (inflation rate, GDP growth, 10-year OAT rates) for each scenario are detailed below:

	Baseline scenario			Favourable scenario			Adverse scenario		
	2023	2024	2025	2023	2024	2025	2023	2024	2025
Inflation	4.5	2.5	2.0	2.6	1.3	1.8	5.1	3.0	2.2
Growth in GDP	0.3	1.0	1.2	2.0	1.9	1.4	-0.5	0.0	0.6
OAT 10 years	2.5	2.4	2.2	1.1	1.3	1.4	4.0	4.0	4.0

Since 2022, these scenarios also integrate the climate challenges faced by local authorities in terms of transition to a decarbonized economy and physical risks, influencing increasingly significantly the capital and operating expenditure of the latter’s. Thus, the modelling of macro-budgetary variables now includes the expenses related to a progressive implementation over the period 2022-2025 of the additional investment efforts expected from local authorities to comply with the National Low Carbon Strategy, as I4CE has estimated in its study Communities: Investment and engineering needs for carbon neutrality. An initial estimate of the costs of adapting to climate change, based on the study Climate assessment of local government budgets – mitigation component published in September 2022 by I4CE was also taken into account in the construction of these scenarios.

Consideration of climate issues and weighting of scenarios:

- in the central scenario (weighted at 60%), the investment effort in favour of the climate is massive in a context of a slight contraction of the gross savings of local authorities would require a strong use of debt;
- in the favourable scenario (weighted at 15%) based on more favourable macroeconomic data, the State allocations are higher and include a lower effort by local authorities on climate spending due to a substitution/pooling effect with other non-climate-related spending,
- in the adverse scenario (25% weighted) which differs from the central scenario by less favourable macroeconomic assumptions (GDP, inflation and unemployment) and a recession in 2023, state endowments and investments are frozen in view of the contraction in savings, and climate investments are postponed due to the economic recession.

The impact of changing weights between the three scenarios on the amounts of expected credit losses is deemed very limited. as well as the inclusion of capital expenditure and adaptation to the climate transition. As an illustration, as of December 31, 2022, the following table presents the accounted ECL (EUR 59.7 million) and the unweighted ECL of the three scenarios. The respective weights of each scenario and the detail of macro-budgetary variables used are also specified.

Scenarios	Weight	French local communities Financial ratios	2022	2023	2024	2025	Unweighted ECL (in EUR millions)	Weighted ECL (in EUR millions)
Baseline	**60%**	Debt-reduction capacity (in years)	4.73	5.00	5.29	5.62	**59.3**	**59.7**
		Debt ratio (as a % of ROR)	79.4%	78.8%	80.5%	83.4%		
		Gross savings rate (as a % of ROR)	16.8%	15.7%	15.2%	14.9%		
Adverse	**25%**	Debt-reduction capacity (in years)	4.73	5.31	5.95	6.67	**61.1**	
		Debt ratio (as a % of ROR)	79.4%	78.3%	79.5%	81.7%		
		Gross savings rate (as a % of ROR)	16.8%	14.7%	13.4%	12.3%		
Favourable	**15%**	Debt-reduction capacity (in years)	4.73	4.80	4.86	4.92	**57.8**	
		Debt ratio (as a % of ROR)	79.4%	78.3%	78.9%	79.8%		
		Gross savings rate (as a % of ROR)	16.8%	16.3%	16.3%	16.2%		

**ROR: real operating revenue*

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

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

For the contracts classified in Stage 3, the expected credit losses are computed according to two different methodologies depending on the type of counterparty:

- as regards local authorities and inter-municipal grouping with own-source tax revenue, the methodology is the same as for Stages 1 and 2. PD is set at 100% (recognized default) and a “Default” LGD model has been developed;
- as regards other counterparties, the expected credit losses equal the loss at maturity, *i.e.* the difference between the sequence of cash flows contractually due to the Group and the sequence of cash flows that the Group expects to recover, both discounted at the original effective interest rate. Depending on the materiality of the contract, the cash flows that the Group expects to recover are calculated either through individual simulations performed by the credit risk division or through standard recovery scenarios using predefined management rules. These flows are, if applicable, net of any flows derived from realizing securities which form an integral part of contractual provisions.

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

Recognizing the impairment

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

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

1.2.5.8. Derecognition of financial assets

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

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

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

Case of disposals

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

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

Case of repos and reverse repos operations

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

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

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

Case of prepayments

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

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

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

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

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

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

1.2.6. Financial liabilities

1.2.6.1. Financial liabilities held for trading

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

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

The Group does not use this option.

1.2.6.3. Financial liabilities at amortized cost

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

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

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

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

1.2.6.4. Derecognition of financial liabilities

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

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

1.2.7. Derivatives

The Group has decided to apply the provisions of IFRS 9 for hedge accounting from January 1, 2022. In accordance with paragraph 6.1.3 of IFRS 9, IFRS 9 applies prospectively from that date to all of the Group's micro-hedging relationships (FVH and CFH). Macro-hedging relationships (PHE) continue to be recognized in accordance with the provisions of IAS 39, in compliance with the provisions of European Commission regulation 2086/2004 amending IAS 39 (IAS 39 "carve out"). Moreover, the Group discloses the financial information on hedge accounting that is required under IFRS 7 as amended by IFRS 9.

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

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

1.2.7.1. Derivatives not documented in a hedging relationship

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

- the ones which failed hedge effectiveness tests at closing date;
- the ones which hedge financial assets that are measured at fair value through profit or loss. It comprises mainly the financial assets that are not compliant with the SPPI criterion. In this case, the revaluation of the derivative hedges natively the revaluation of the hedged risk of the hedged item, making pointless the documentation of a hedging relationship;

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. Derivatives documented in a hedging relationship

Hedging derivatives can be classified as either:

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

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

- the hedging relationship only includes qualifying hedging instruments and qualifying hedged items;
- the hedging relationship is formally designated at inception and documented in a structured manner that describes: the hedging strategy, the entity's risk management objective, the hedging instrument, the item being hedged, the nature of the risk being hedged, and how the entity assesses the effectiveness of the hedge;
- the hedging relationship meets all of the following hedge effectiveness constraints that together constitute the prospective effectiveness test:
  - there is an economic relationship between the hedged item and the hedging instrument;
  - the effect of the credit risk does not be predominant over the changes in value that result from the economic link;
  - there is no lack of balance in the used hedge ratio that would create hedge ineffectiveness.

- pour les couvertures d'un flux de trésorerie, la transaction prévue qui constitue le cas échéant l'élément couvert doit être hautement probable et doit impliquer une exposition à une variation de flux de trésorerie qui pourrait in fine affecter le résultat net.

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

The effective portion of the changes in the fair value of derivatives that are designated and documented in a cash flow hedging relationship and that respect the criteria set out above, is recognized in equity. The non-efficient portion of the changes in the fair value of the derivatives is recognized in profit or loss. Considering that hedged items are financial instruments or futures transactions, amounts deferred in equity are recycled to profit or loss and classified as income or expense when the hedged items affects the profit or loss.

In addition, the component of the change in fair value for hedging derivatives corresponding to the basis spread (if any) is, in accordance with the option offered by IFRS 9, initially recognized in other comprehensive income. As the basis spread of the hedged items is linked to a series of future transactions, the amounts recorded in equity are reclassified in net income and classified as income or expense when the hedged items affect net income.

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

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

1.2.7.3. Hedging of the interest rate risk of a portfolio

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

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

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

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

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

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

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

1.2.8. Fair value of financial instruments

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

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

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

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

1.2.8.1. Fair value of financial instruments measured at amortized cost

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

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

1.2.8.2. Financial instruments measured at fair value

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

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

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

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

1.2.9. Deferred taxes

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

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

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

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

1.2.10. Tangible and intangible assets

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

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

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

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

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

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

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

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

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

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

1.2.11. Leases

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Regarding leases-related disclosures in the financial statements:

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

1.2.12. Provisions

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

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

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

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

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

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

1.2.13. Employee benefits

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

1.2.13.1. Short-term benefits

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

1.2.13.2. Long-term benefits

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

1.2.13.3. Termination benefits

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

1.2.13.4. Post-employment benefits

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

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

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

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

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

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

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

The impact of the pension reform (which will come into force in 2023 under the law enacted on 14 April 2023) on the Group's commitments will be taken into account in the financial statements for the year ended 31 December 2023, as it has not been assessed as material.

1.2.14. Interest income and expense

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

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

1.2.15. Commissions

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

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

1.2.16. Earnings per share

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

1.2.17. Cash and cash equivalents

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

1.2.18. Related-party transactions

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

1.2.19. Segment reporting

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

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

2) Notes to the assets (EUR millions)

2.1. Central banks

	12/31/2022	6/30/2023
Mandatory reserve deposits with central banks	-	-
Other deposits	1,969	1,265
TOTAL	**1,969**	**1,265**

2.2. Financial assets at fair value through profit or loss

2.2.1. Analysis by nature

	12/31/2022	6/30/2023
Loans and advances to customers	2,673	2,436
Non Hedging derivatives[1]	70	(3)
TOTAL	**2,743**	**2,432**

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

2.2.2. Analysis of loans and advances to customers analysis by counterparty

	12/31/2022	6/30/2023
Public sector	2,369	2,148
Other - guaranteed by a State or local government	304	288
TOTAL	**2,673**	**2,436**

2.3. Financial assets at fair value through equity

2.3.1. Analysis by nature

	12/31/2022	6/30/2023
Stocks	-	-
Bonds	243	79
TOTAL	**243**	**79**

2.3.2. Analysis by counterparty

	12/31/2022	6/30/2023
Public sector	-	-
Credit institutions	243	79
TOTAL	**243**	**79**

All financial assets measured at fair value through equity as of December 31, 2022, and June, 30, 2023, were allocated to the Stage 1 category.

2.4. Financial assets at amortized cost

	12/31/2022										
	Gross amount				Impairment				Net carrying amount	Accumulated partial write-offs	Accumulated total write-offs
	Stage 1	*Stage 2*	*Stage 3*	Total	*Stage 1*	*Stage 2*	*Stage 3*	Total			
Sight accounts	19	-	-	**19**	-	-	-	**-**	**19**	-	-
Credit institutions	68	-	-	**68**	(0)	-	-	**(0)**	**68**	-	-
Loans and advances to banks at amortized cost	**87**	**-**	**-**	**87**	**(0)**	**-**	**-**	**(0)**	**87**	**-**	**-**
Public sector	43,400	1,945	196	**45,541**	(4)	(10)	(4)	**(19)**	**45,522**	-	-
Non-financial institutions	1,348	3,102	1	**4,451**	(1)	(15)	(0)	**(16)**	**4,435**	-	-
Loans and advances to customers at amortized cost	**44,748**	**5,046**	**197**	**49,991**	**(5)**	**(26)**	**(4)**	**(35)**	**49,956**	**-**	**-**
Public sector	4,033	1 220	3	**5,257**	(4)	(12)	(0)	**(15)**	**5,241**	-	-
Credit institutions	967	-	-	**967**	(0)	-	-	**(0)**	**967**	-	-
Non-financial institutions	-	-	-	**-**	-	-	-	**-**	**-**	-	-
Bonds at amortized cost	**5,001**	**1,220**	**3**	**6,224**	**(4)**	**(12)**	**(0)**	**(16)**	**6, 209**	**-**	**-**
TOTAL	**49,836**	**6,267**	**200**	**56,302**	**(9)**	**(37)**	**(5)**	**(51)**	**56,252**	**-**	**-**

	6/30/2023										
	Gross amount				Impairment				Net carrying amount	Accumulated partial write-offs	Accumulated total write-offs
	Stage 1	*Stage 2*	*Stage 3*	Total	*Stage 1*	*Stage 2*	*Stage 3*	Total			
Sight accounts	53	-	-	**53**	-	-	-	**-**	**53**	-	-
Credit institutions	54	-	-	**54**	(0)	-	-	**(0)**	**54**	-	-
Loans and advances to banks at amortized cost	**107**	**-**	**-**	**107**	**(0)**	**-**	**-**	**(0)**	**107**	**-**	**-**
Public sector	43,256	1,982	172	**45,411**	(5)	(12)	(3)	**(20)**	**45,390**	-	-
Non-financial institutions	1,411	3,566	1	**4,978**	(1)	(17)	(0)	**(18)**	**4,960**	-	-
Loans and advances to customers at amortized cost	**44,667**	**5,549**	**173**	**50,389**	**(5)**	**(29)**	**(3)**	**(38)**	**50,351**	**-**	**-**
Public sector	3,771	1,162	3	**4,937**	(4)	(11)	(0)	**(15)**	**4,922**	-	-
Credit institutions	1,963	-	-	**1,963**	(0)	-	-	**(0)**	**1,963**	-	-
Non-financial institutions	-	-	-	**-**	-	-	-	**-**	**-**	-	-
Bonds at amortized cost	**5,734**	**1,162**	**3**	**6,899**	**(4)**	**(11)**	**(0)**	**(15)**	**6,884**	**-**	**-**
TOTAL	**50,508**	**6,711**	**176**	**57,395**	**(10)**	**(40)**	**(3)**	**(53)**	**57,342**	**-**	**-**

The gross amounts increased by around EUR 1.1 billion in the first half of 2023, due in particular to investments made in the form of securities on credit institutions and the increase in customer loans in connection with the export credit activity.

The gross amounts in Stage 2 increased by EUR 0.4 billion in connection with the gradual drawdown of export credit lines associated with the cruise sector. A symmetrical decrease can be observed on off-balance sheet financing commitments (see note 6.5). The same movements can also be observed in expected credit losses with an increase in the latter on Stage 1 and 2 exposures. As a reminder, it was decided during the year 2020 and in the context of the Covid-19 health crisis, to record all exposures concerning the cruise sector on the watchlist and consequently to transfer them from Stage 1 to Stage 2. This downgrading was accompanied by an increase in the impairments relating to these balance sheet exposures. This approach was maintained in 2021, 2022 and the first half of 2023.

The gross amounts and expected credit losses identified in Stage 3 were down slightly over the quarter.

The Sfil Group's forborne exposures correspond to exposure of contracts on which renegociation measures have been granted in the context of the debtor's financial difficulties (actual or future). Renegociation measures consist of concessions such as payment deferrals, interest rate reductions, maturity rescheduling, debt write-offs or changes of contractual terms.

It was decided during the first half of 2023, following discussions with the European Central Bank to record in forebearance all export credit exposures in the cruise sector that have benefited from restructuring in the context of the covid crisis. This led to a significant increase in the number of exposures and volumes concerned. The number of forborne contracts thus amounted to 109 as of June 30, 2023, carried by 69 borrowers, for a total risk exposure of EUR 4,905 million.

3 Notes to the liabilities (EUR millions)

3.1. Financial liabilities at fair value through profit or loss

	12/31/2022	6/30/2023
Non hedging derivatives[1]	359	217
TOTAL	**359**	**217**

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

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

3.2. Financial liabilities at amortized cost

	12/31/2022	6/30/2023
Current account	-	-
Term deposits	-	-
Sub-total due to credit institutions at amortized cost	**-**	**-**
Certificates of deposit[1]	846	814
Euro medium term notes[1]	7,807	8,932
Obligations foncières	44,122	43,499
Registered covered bonds	6,315	6,140
Sub-total debt securities at amortized cost	**59,090**	**59,386**
TOTAL	**59,090**	**59,386**

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

3.3. Provisions

	12/31/2022	Additions, including increases in existing provisions	Used amount	Unused amounts reversed during the period	Increase in the discounted amount (passage of time) and effect of any change in the discount rate	Other movements	6/30/2023
Commitments and guarantees given	11	0	-	(4)	-	-	8
Provision on pensions	7	0	-	(0)	0	-	7
Other provisions[1]	2	-	-	-	-	-	2
TOTAL	**19**	**0**	**-**	**(4)**	**0**	**-**	**16**

(1) As a reminder, in the context of the health crisis and the consequences for the cruise industry, the Sfil Group decided during 2020 to set up a provision for risks on the foreign exchange financial hedging instruments used to refinance the export credits in dollars in this sector. This provision was increased to EUR 3.9 million at the end of 2021. In 2022, Caisse Française de Financement Local decided to reduce the amount of this provision by EUR 2.2 million in view of the decrease in the underlying risk. As a result, this provision for risks and charges represented EUR 1.7 million at the end of December 2022. The amount of this provision remained stable in the first half of 2023.

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

The hedging derivatives below are part of the Sfil group's risk policy detailed in the half-year activity report (see Risk management 4.2 and 4.3).

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

The table below shows the breakdown by benchmark index of financial assets and liabilities as well as derivatives affected by the benchmark interest rate reform, wether or not they have been migrated to new indices. The amendments to IFRS 9, IAS 39 and IFRS 7, which allow exemption from certain requirements in terms of hedge accounting as part of this reform, were applied, when the conditions where met, to maintain the impacted hedging relationships. For the sake of completeness, this table also lists the financial instruments that are not affected by the reform.

Current benchmark interest rate	Exposures as of 12/31/2022			Exposures as of 6/30/2023		
	Outstanding amount		Net notional amount	Outstanding amount		Net notional amount
	Financial assets (excluding derivatives)	Financial liabilities (excluding derivatives)	Derivatives	Financial assets (excluding derivatives)	Financial liabilities (excluding derivatives)	Derivatives
INTEREST RATES BENCHMARK AFFECTED BY THE REFORM						
EONIA	-	-	-	-	-	-
LIBOR CHF	-	-	-	-	-	-
LIBOR GBP	-	-	-	-	-	-
LIBOR USD	433	-	(908)	385	-	(342)
INTEREST RATES BENCHMARK NOT AFFECTED BY THE REFORM						
SONIA	164	-	(556)	200	-	(630)
SARON	223	-	(223)	225	-	(225)
SOFR	95	-	(1,100)	157	-	(1,721)
STIBOR	15	-	(15)	14	-	(14)
EURIBOR	8,906	442	(3,593)	8,983	442	(5,438)
€STER	532	145	(3,131)	924	140	(2,120)
FIXED RATE	49,091	60,226	9,622	49,557	60,628	10,704
OTHERS	85	1,423	(330)	78	1 156	(404)
TOTAL	**59,544**	**62,236**	**(234)**	**60,523**	**62,366**	**(190)**

As a reminder, in 2021, the transactions against EONIA had all switched to €STR. During the first half of 2022, the financial assets and derivatives indexed to LIBOR CHF and LIBOR GBP were switched to SARON and SONIA, respectively. The assets, liabilities and derivatives indexed to LIBOR USD began to transition to the new benchmark indices in 2022. As of June 30, this transition is almost complete. In fact, only a marginal number of derivatives and financial assets remains to be transitioned before their next fixing date. As a reminder, all of these contracts are subject to fallback clauses. It should also be noted that the STIBOR index, having been recognized as compliant by the European Benchmark Regulation, will not ultimately be subject to a transition.

4.2. Transactions with related parties

Analysis by nature

	Parent company[1]		Other related parties[2]	
	12/31/2022	6/30/2023	12/31/2022	6/30/2023
ASSETS				
financial assets at fair value through profit or loss	-	-	-	-
Hedging derivatives	-	-	-	-
Financial assets at fair value through equity	63	64	65	-
Loans and advances to banks at amortized cost	-	-	-	-
Securities at amortized cost	-	-	-	-
Accruals and other assets	1	0	1	1
LIABILITIES				
Hedging derivarives	-	-	-	-
Due to banks	-	-	-	-
Debt securities at amortized cost	-	-	369	285
Accruals and other liabilities	-	-	0	0
INCOME STATEMENT				
Interest income	(0)	0	0	0
Interest expense	(2)	(1)	(12)	(5)
Fee and commission income	-	-	5	2
Fee and commission expense	-	-	(0)	(0)
Net result of financial assets ar fair value through profit or loss	(3)	1	21	2
Net result of financial assets ar fair value through equity	-	-	-	-
Gains or losses resulting from derecognition of financial instruments at amortized cost	-	-	-	-
Other income	-	-	0	0
Other expense	-	-	-	-
Operating expenses	-	-	0	0
Cost of risk	0	-	0	0
OFF BALANCE SHEET				
foreing exchange derivatives	-	-	-	-
Interest rate derivatives	-	-	-	-
Financing commitments received	4,000	4,000	1,000	1,000
Financing commitments given[3]	3	135	-	-

(1) This item includes transactions with Caisse des Dépôts, the parent company of Sfil.

(2) This item includes transactions with La Banque Postale and Bpifrance, subsidiaries of Caisse des Dépôts group.

(3) At the end of 2022, Sfil group signed a partenership with the Caisse des Dépôts to provide a new fixed-rate long to very long term offering local authorities and public hospitals in France. Within this framework, Sfil group provides cash advances to the CDC corresponding to the amounts of loans granted by the latter. In return, the Caisse des Dépôts undertakes to sell the loan to the Sfil group after the loan drawdown phase.

5) Notes to the income statement (EUR millions)

5.1. Interest income - interest expense

Sfil group presents interest calculated using the effective interest rate method on financial instruments measured at amortized cost or at market value through equity under the headings “Interest income” and “Interest expense”.

These headings also include interest income and expense on financial instruments recognized at fair value through profit or loss because they do not meet the SPPI criterion due to the fact that the cash flows received do not consist solely of principal and interest payments. However, the change in value calculated excluding accrued interest on these financial instruments at fair value through profit or loss is recorded under Net result of financial instruments at fair value through profit or loss (see note 5.3).

Interest income and expense on hedging derivatives are included with the revenue generated by the associated hedged items. Meanwhile, certain derivatives not classified as hedging instruments for accounting purposes are held as economic hedges of financial instruments carried at fair value through profit or loss; the interest income and expense on these hedging derivatives are included in the headings recording the interest on these financial instruments.

	H1 2022			H1 2023		
	Income	Expense	Net	Income	Expense	Net
Loans / loans with credit institutions	-	-	-	-	-	-
Loans / loans with customers	49	-	49	60	-	60
Derivatives outside the hedging relationship	16	(61)	(45)	43	(64)	(20)
Financial assets and liabilities at fair value through profit or loss	**65**	**(61)**	**4**	**103**	**(64)**	**40**
Hedging derivatives	605	(603)	2	1,174	(1,357)	(184)
Hedging derivatives	**605**	**(603)**	**2**	**1,174**	**(1,357)**	**(184)**
Securities	1		1	0	-	0
Financial assets at fair value through equity	**1**	**-**	**1**	**0**	**-**	**0**
Central bank accounts	-	(8)	(8)	46	(0)	46
Accounts and loans with credit institutions	15	(28)	(13)	41	(34)	7
Accounts and loans with customers	376	-	376	515	-	515
Securities	73	(357)	(284)	95	(436)	(341)
Other	-	-	-	-	-	-
Financial assets and liabilities at amortized cost	**464**	**(394)**	**71**	**697**	**(471)**	**226**
TOTAL	**1,135**	**(1,057)**	**78**	**1,973**	**(1,891)**	**82**

Interest income and expenses measured using the effective interest rate method represented respectively EUR 465 million and EUR -394 million at June 30, 2022, and EUR 697 million and EUR -471 million at June 30, 2023.

At June 30, 2022, the negative interest paid on financial instruments in assets and received on financial instruments in liabilities represented EUR -15 million and EUR +4 million, respectively.

At June 30, 2023, following the return to a positive interest rate environment, the negative interest paid on financial instruments in assets and received on financial instruments in liabilities was zero.

5.2. Fees and commissions

	H1 2022	H1 2023
LBP servicing commission received	3	2
Other commissions	(2)	1
TOTAL	**1**	**3**

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

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

	H1 2022	H1 2023
Net result on financial assets or liabilities at fair value through profit or loss	42	(6)
Net result of hedge accounting	(1)	6
Net result of foreign exchange transactions	(1)	0
TOTAL	**40**	**0**

Analysis of net result of hedge accounting

	H1 2022	H1 2023
Fair value hedges	**(8)**	**8**
Fair value changes in the hedged item attributable to the hedged risk	1,360	(64)
Fair value changes in the hedging derivatives	(1,368)	72
Cash flow hedges	**-**	**(1)**
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	(1)
Portfolio hedge	**4**	**(1)**
Fair value changes in the hedged item	(957)	31
Fair value changes in the hedging derivatives	961	(32)
CVA / DVA Impact	**3**	**(1)**
TOTAL	**(1)**	**6**

5.4. Net result of financial instruments at fair value through equity

	H1 2022	H1 2023
Net result of disposals of bonds at fair value though equity	-	-
Net results of disposals or prepayments of hedging derivatives instruments at fair value through equity	-	1
TOTAL	**-**	**1**

5.5. Gains and losses resulting from derecognition of financial instruments at amortized costs

	H1 2022	H1 2023
Net result of disposals or prepayments of bonds at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to banks at amortized cost	-	0
Net result of disposals or prepayments of loans and advances to customers at amortized cost	7	3
Net result of disposals or prepayments of due to banks at amortized cost	-	0
Net result of disposals or prepayments of debt securities at amortized cost	-	1
TOTAL	**7**	**5**

Detail of on derecognition of assets and liabilities at amortized cost

	H1 2022		H1 2023	
	Notional amount	Impact on result	Notional amount	Impact on result
Prepayments of securities at amortized cost	-	-	-	-
Net result of disposals or prepayments of bonds at amortized cost	**-**	**-**	**-**	**-**
Prepayments of loans and advances to credit institutions at amortized cost	-	-	-	-
Restructurings of loans and advances to credit institutions at amortized cost	-	-	-	-
Net result of disposals, prepayments or restructurings of loans and advance to credit institutions at amortized cost	**-**	**-**	**-**	**-**
Prepayments of loans and advances to customers	29	1	48	2
Restructuring of loans and advances to customers(1)	2,973	7	1,478	2
Net result of disposals, prepayments or restructurings of loans and advances to customers at amortized cost	**3,001**	**7**	**1,526**	**3**
Sub-total Assets	**3,001**	**7**	**1,526**	**3**
Prepayments of debt to banks	-	-	-	-
Net result of prepayments of debt to banks at amortized cost	**-**	**-**	**-**	**-**
Prepayments of debt securities	-	-	114	1
Net result of prepayments of debt securities at amortized cost	**-**	**-**	**114**	**1**
Sub-total Liabilities	**-**	**-**	**114**	**1**
TOTAL	**-**	**7**	**-**	**5**

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

Impacts on the result on this line are mostly associated with the activity of restructuring loans to local public sector customers, which lead to the upfront recognition of income in accordance with the principles of IFRS standards (see note 1.2.5.8).

5.6. Operating expenses

	H1 2022	H1 2023
Payroll costs	(27)	(30)
Other general and administrative expenses	(15)	(17)
Taxes	(16)	(13)
TOTAL	**(58)**	**(59)**

5.7. Coût du risque

	H1 2022				
	1st January	Allocations	Reversals	Losses / Transfers	June 30
Specific Impairment					
Stage 1	(0)	-	-	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Financial assets at fair value through equity	**(0)**	**-**	**-**	**-**	**(0)**
Stage 1	(0)	-	0	(0)	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Loans and advances to banks at amortized cost	**(0)**	**-**	**0**	**(0)**	**(0)**
Stage 1	(4)	(1)	7	(6)	(3)
Stage 2	(24)	(7)	5	4	(22)
Stage 3	(6)	(0)	1	2	(3)
Loans and advances to customers at amortized cost	**(33)**	**(8)**	**13**	**(0)**	**(29)**
Stage 1	(4)	0	0	0	(4)
Stage 2	(12)	(1)	0	(0)	(12)
Stage 3	(0)	(0)	-	0	(0)
Bonds at amortized cost	**(16)**	**(1)**	**1**	**(0)**	**(16)**
Stage 1	(2)	(0)	0	-	(2)
Stage 2	(8)	(0)	2	-	(6)
Stage 3	(0)	-	0	-	-
Off-balance sheet commitments at amortized cost	**(10)**	**(0)**	**2**	**-**	**(9)**
Other provisions	**(5)**	**-**	**1**	**-**	**(4)**
TOTAL	**(64)**	**(9)**	**15**	**(0)**	**(57)**

	H1 2023				
	1st January	Allocations	Reversals	Losses / Transfers	June 30
Specific Impairment					
Stage 1	(0)	-	-	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Financial assets at fair value through equity	**(0)**	**-**	**-**	**-**	**(0)**
Stage 1	(0)	(0)	0	(0)	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Loans and advances to banks at amortized cost	**(0)**	**(0)**	**0**	**(0)**	**(0)**
Stage 1	10	(1)	1	0	11
Stage 2	(35)	(7)	3	(0)	(40)
Stage 3	(10)	(0)	1	(0)	(9)
Loans and advances to customers at amortized cost	**(35)**	**(8)**	**5**	**0**	**(38)**
Stage 1	(3)	(0)	0	0	(3)
Stage 2	(12)	(0)	1	(0)	(12)
Stage 3	(0)	(0)	-	-	(0)
Bonds at amortized cost	**(16)**	**(0)**	**1**	**0**	**(15)**
Stage 1	(2)	(0)	0	-	(2)
Stage 2	(8)	(0)	3	-	(4)
Stage 3	(0)	-	-	-	(0)
Off-balance sheet commitments at amortized cost	**(10)**	**(0)**	**4**	**-**	**(6)**
Other provisions	**(3)**	**0**	**-**	**-**	**(3)**
TOTAL	**(63)**	**(9)**	**10**	**0**	**(63)**

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

6.1. Regular way trade

	12/31/2022	6/30/2023
Assets to be delivered	68	95
Liabilities to be received	67	95

6.2. Guarantees

	12/31/2022	6/30/2023
Guarantees received from credit institutions	-	-
Enhanced guarantees(1)	10,689	13,052
Loan guarantee commitments received	-	-
Guarantees received from customers(2)	1,386	1,270

(1) Irrevocable, unconditional guarantees issued by the French Republic and received by Sfil for funding major export credits.

(2) Guarantees received from customers are generally granted by local governments.

6.3. Financing commitments

	12/31/2022	6/30/2023
Loan commitments granted to credit institutions(1)	-	-
Loan commitments granted to customers(1)	4,010	5,984
Loan commitments received from credit institutions(2)	5,000	5,025
Loan commitments received from customers	-	-

(1) Financing commitments on loans and lines of credit related to contract issued but not paid out. These amounts mainly relates to commintments on operations in export credit business line.

(2) The commitments on this line correspond to funding commitments received from Caisse des Dépôts and La Banque Postale for EUR 4,000 million and EUR 1,000 million, respectively. Regarding Caisse des Dépôts commitments, Sfil recorded the total of its commitments related to the only tranches existing, which is limited to EUR 4,000 million. This latter amount does not take into account the possibility stipulated in the financing agreement with Caisse des Dépôts to negotiate additional funding in good faith. In the first half of 2023, it also includes a registered covered bond issue with a future value date, for EUR 25 million.

6.4. Other commitments

	12/31/2022	6/30/2023
Commitments given(1)	11	13
Commitments received from Caisse des Dépôts et Consignations(2)	3	135
Other Commitments received(3)	17	16

(1) It concerns the irrevocable payment commitment to the Deposit Guarantee and Resolution Fund.

(2) At the end of 2022, Caisse Française de Financement Local signed a partnership with Caisse des Dépôts to offer a new long-term and very long-term fixed-rate offer to local authorities and public hospitals in France. In this context, Caisse Française de Financement Local makes cash advances with CDC corresponding to the amounts of loans granted by the latter. In return, Caisse des Dépôts undertakes to sell the loan to Caisse Française de Financement Local at the end of the drawdown phase of the loan.

(3) These are mainly loans guaranteed by public authorities.

6.5. Impairments on financing commitments and other commitments granted

	Financing commitments and financial guarantees under IFRS 9 as of 12/31/2022									Commitments and financial guarantees measured at fair value	
	Gross amount				Impairment				Net amount	Notional amount	Accumulated negative changes in fair value due to credit risk on non-performing commitments
	Stage 1	*Stage 2*	*Stage 3*	TOTAL	*Stage 1*	*Stage 2*	*Stage 3*	TOTAL			
Granted to credit intitutions	0	-	-	**0**	(0)	-	-	**(0)**	**(0)**	-	-
Granted to customers	2,142	1,867	-	**4,010**	(2)	(8)	-	**(10)**	**4,000**	-	-
TOTAL	**2,142**	**1,867**	**-**	**4,010**	**(2)**	**(8)**	**-**	**(10)**	**4,000**	**-**	**-**

	Financing commitments and financial guarantees under IFRS 9 as of 6/30/2023									Commitments and financial guarantees measured at fair value	
	Gross amount				Impairment				Net amount	Notional amount	Accumulated negative changes in fair value due to credit risk on non-performing commitments
	Stage 1	*Stage 2*	*Stage 3*	TOTAL	*Stage 1*	*Stage 2*	*Stage 3*	TOTAL			
Granted to credit intitutions	(0)	-	-	**(0)**	-	-	-	**-**	**(0)**	-	-
Granted to customers	4,846	1,138	-	**5,984**	(2)	(4)	-	**(6)**	**5,977**	-	-
TOTAL	**4,846**	**1,138**	**-**	**5,984**	**(2)**	**(4)**	**-**	**(6)**	**5,977**	**-**	**-**

The financing commitments increased by EUR 2.0 billion in the first half of 2023. This change is mainly due to the strong export activity observed over the period and the financing commitments in Stage 1. The decrease in financing commitments given to customers allocated to Stage 2, and the associated impairments, is explained by the drawdowns on export credit files in the cruise sector classified in Stage 2. As a reminder, it was decided during the year 2020 and in the context of the Covid-19 health crisis to record all exposures concerning the cruise sector on the watchlist and consequently to transfer them from Stage 1 to Stage 2. This downgrading was accompanied by an increase in the impairments relating to these financing commitment exposures.

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

	12/31/2022		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1,969	1,969	-
Financial assets at fair value through profit or loss	2,743	2,743	-
Hedging derivatives	2,396	2,396	-
Financial assets at fair value through equity	243	243	-
Loans and advances to banks at amortized cost	87	88	1
Loans and advances to customers at amortized cost	49,956	46,537	(3,419)
Bonds at amortized cost	6,209	5,502	(707)
TOTAL	**63,604**	**59,478**	**(4,125)**

	6/30/2023		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1,265	1,265	-
Financial assets at fair value through profit or loss	2,432	2,432	-
Hedging derivatives	2,569	2,569	-
Financial assets at fair value through equity	79	79	-
Loans and advances to banks at amortized cost	107	107	0
Loans and advances to customers at amortized cost	50,351	47,190	(3,161)
Bonds at amortized cost	6,884	6,279	(605)
TOTAL	**63,687**	**59,921**	**(3,766)**

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

	12/31/2022		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	359	359	-
Hedging derivatives	5,134	5,134	-
Due to banks at amortized cost	-	-	-
Debt securities at amortized cost	59,090	55,005	(4,085)
TOTAL	**64,582**	**60,497**	**(4,085)**

	6/30/2023		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	217	217	-
Hedging derivatives	5,250	5,250	-
Due to banks at amortized cost	-	-	-
Debt securities at amortized cost	59,386	55,416	(3,969)
TOTAL	**64,852**	**60,883**	**(3,969)**

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

The fair value of a fnancial 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. Level 3 Hedging derivatives are valued using these internal models.

The measurement of derivatives is based on an analysis combining the observability of the market data used in the assessment and the robustness of the valuation models measured in terms of efciency to provide a valuation in market consensus. The result of this application is that the derivatives used by Sfil group in hedging its activities are primarily of level 2. For the derivatives in level 3, this classifcation mainly involves hybrid, structured products (interest rate – foreign exchange), spread (correlation) products and options on interest rates. This classifcation 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	12/31/2022			
	Level 1	Level 2	Level 3	Total
Central banks	1,969	-	-	1,969
Financial assets at fair value through profit or loss	-	69	2,674	2,743
Hedging derivatives	-	1,243	1,153	2,396
Financial assets at fair value through equity	243	-	-	243
Loans and advances to banks at amortized cost	19	68	0	88
Loans and advances to customers at amortized cost	-	-	46,537	46,537
Bonds at amortized cost	2,462	1,912	1,128	5,502
TOTAL	**4,694**	**3,292**	**51,493**	**59,478**

Fair value of financial assets	6/30/2023			
	Level 1	Level 2	Level 3	Total
Central banks	1,265	-	-	1,265
Financial assets at fair value through profit or loss	-	(6)	2,438	2,432
Hedging derivatives	-	2,434	135	2,569
Financial assets at fair value through equity	79	-	-	79
Loans and advances to banks at amortized cost	53	54	0	107
Loans and advances to customers at amortized cost	-	-	47,190	47,190
Bonds at amortized cost	2,900	2,307	1,072	6,279
TOTAL	**4,297**	**4,789**	**50,834**	**59,921**

Fair value of financial liabilities	12/31/2022			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	-	220	138	359
Hedging derivatives	-	4,808	326	5,134
Due to banks at amortized cost	-	-	-	-
Debt securities at amortized cost	43,433	5,902	5,670	55,005
TOTAL	**43,433**	**10,930**	**6,134**	**60,497**

Fair value of financial liabilities	6/30/2023			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	-	173	43	217
Hedging derivatives	-	4,928	322	5,250
Due to banks at amortized cost	-	-	-	-
Debt securities at amortized cost	44,237	5,661	5,519	55,416
TOTAL	**44,237**	**10,762**	**5,884**	**60,883**

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 e ective 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 e ect 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.

	12/31/2022	6/30/2023
Uncertainty inherent in level 3 market parameters	4	1
Uncertainty inherent in level 3 derivatives valuation models	35	15
Sensitivity of the market value of level 3 financial instruments	**39**	**16**

7.1.4. Transfer between level 1 and 2

	12/31/2022	6/30/2023
Level 1 to level 2	-	60
Level 2 to level 1	-	27

7.2. Off-setting of financial assets and liabilities

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

	12/31/2022					
	Gross amount before off-setting	Gross amount off-set according to IAS 32	Net amount presented in the balance sheet	Other amounts in the application scope but not offset		Net amount according to IFRS 7 and 13
				Effect of master netting arrangements	Financial instruments received as collateral	
Loans and advances at fair value through profit or loss	2,466	-	2,466	(1,240)	(67)	1,159
Derivatives (including hedging instruments)	2,673	-	2,673	-	-	2,673
Loans and advances to banks at amortized cost	87	-	87	-	-	87
Loans and advances to customers at amortized cost	49,956	-	49,956	-	-	49,956
TOTAL	**55,182**	**-**	**55,182**	**(1,240)**	**(67)**	**53,875**

	6/30/2023					
	Gross amount before off-setting	Gross amount off-set according to IAS 32	Net amount presented in the balance sheet	Other amounts in the application scope but not offset		Net amount according to IFRS 7 and 13
				Effect of master netting arrangements	Financial instruments received as collateral	
Loans and advances at fair value through profit or loss	2,565	-	2,565	(1,206)	(115)	1,244
Derivatives (including hedging instruments)	2,436	-	2,436	-	-	2,436
Loans and advances to banks at amortized cost	107	-	107	-	-	107
Loans and advances to customers at amortized cost	50,351	-	50,351	-	-	50,351
TOTAL	**55,458**	**-**	**55,458**	**(1,206)**	**(115)**	**54,137**

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

	12/31/2022					
	Gross amount before off-setting	Gross amount off-set according to IAS 32	Net amount presented in the balance sheet	Other amounts in the application scope but not offset: Effect of master netting arrangements	Other amounts in the application scope but not offset: Financial instruments received as collateral	Net amount according to IFRS 7 and 13
Derivatives (including hedging instruments)	5,492	-	5,492	(1,240)	(2,185)	2,068
Due to banks at amortized cost	-	-	-	-	-	-
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	**5,492**	**-**	**5,492**	**(1,240)**	**(2,185)**	**2,068**

	6/30/2023					
	Gross amount before off-setting	Gross amount off-set according to IAS 32	Net amount presented in the balance sheet	Other amounts in the application scope but not offset: Effect of master netting arrangements	Other amounts in the application scope but not offset: Financial instruments received as collateral	Net amount according to IFRS 7 and 13
Derivatives (including hedging instruments)	5,466	-	5,466	(1,206)	(2,266)	1,995
Due to banks at amortized cost	(0)	-	(0)	-	-	(0)
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	**5,466**	**-**	**5,466**	**(1,206)**	**(2,266)**	**1,995**

7.3. Exposure to credit risk

Exposure to credit risks, includes:

- for assets other than derivatives: the amount shown on the balance sheet;
- for derivatives: the standardized approach to measure the counterparty credit risk (SA-CCR methodology), the exposure ar Default (EAD) is thus calculated on the basis of the following formula (alpha x (Replacement cost + Potential future exposure)) in accordance with the recommandations of the Basel Committee.
- for off-balance sheet commitments: the undrawn amount of financing commitments, which is shown in the notes to the financial stratements.

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	12/31/2022	6/30/2023
France	60,936	63,047
Germany	26	29
Belgium	91	32
Italy	4,159	3,823
Spain	372	432
Other European Union countries	325	790
Switzerland	564	513
Norway	100	27
United Kingdom	46	33
United States and Canada	694	713
Japan	29	30
TOTAL EXPOSURE	**67,342**	**69,469**

Analysis of exposure by category of counterparty	12/31/2022	6/30/2023
Sovereigns	15,350	16,923
Local public sector	50,470	50,159
Other assets guaranteed by public sector entities	175	161
Financial institutions	1,315	2,162
Other exposures	31	63
TOTAL EXPOSURE	**67,342**	**69,469**

Analysis of exposure by category of instrument	12/31/2022	6/30/2023
Central banks	3,555	1,265
Loans and advances at fair value through profit of loss	2,670	2,441
Hedging derivatives	141	1,651
Bonds at fair value through equity	243	79
Loans to banks at amortized cost	40	63
Loans to customers at amortized cost	50,867	51,283
Bonds at amortized cost	6,215	6,890
Accruals and other assets	124	87
Financing commitments	3,487	5,709
TOTAL EXPOSURE	**67,342**	**69,469**

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 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 for the calculation and reporting of equity requirements for credit risk. This enables Sfil to present on June 30, 2023, an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements. Credit weighting is mainly calculated on the basis of the probability of default of the counterparty and of the loss incurred in the event of default.

This analysis confirms the excellent quality of the assets. More than 83% of the portfolio has a weighting of less than 5% and more than 97% of the portfolio has a weighting that is less than or equal to 20%.

	Risk weighting (Basel III)					
	From 0 to 2%	From 2 to 5%	From 5% to 20%	From 20% to 50%	More than 50%	Total
Central banks	1,265	-	-	-	-	1,265
Financial assets at fair value through profit or loss	1,610	526	222	10	73	2,441
Hedging derivatives	1,538	-	3	85	25	1,651
Bonds at fair value through equity	64	-	15	-	-	79
Loans and advances due from banks at amortized cost	10	-	5	48	-	63
Loans and advances to customers at amortized cost	33,828	11,050	6,128	6	272	51,283
Bonds at amortized cost	2,335	-	3,435	940	180	6,890
Accruals and other assets	19	-	-	1	66	87
Financing commitments	5,629	28	52	-	-	5,709
TOTAL EXPOSURE	**46,298**	**11,603**	**9,860**	**1,091**	**616**	**69,469**
SHARE OF TOTAL EXPOSURE	**66.6%**	**16.7%**	**14.2%**	**1.6%**	**0.9%**	**100.0%**

Certain exposures do not yet benefit from an internal evaluation system validated by banking supervisors; in this case, their weighting is the one in the standard method, which is, for example, 20% for local governments.

8) Impact of the war in Ukraine on the financial statements of the company (EUR millions)

«The foreseeable impacts to date related to the war situation in Ukraine are limited for Sfil. As a reminder, Sfil does not have any operations outside France. Moreover, the Group does not have any exposure in Russia or Belarus and has only one exposure in Ukraine, which as of June 30, 2023 represented balance sheet outstandings of EUR 52 million. This exposure was granted as part of the export credit activity and is 100% guaranteed by the French Republic. Sfil is not, therefore, directly exposed to credit risk on this file. Sfil nevertheless decided, as of February 24, 2022, to place this asset on the watchlist and consequently to classify it in Stage 2. The increase in Expected Credit Losses (ECL) associated with this downgrade is very limited and represents approximately EUR 0.3 million.

The consequences of the war in Ukraine on the forward-looking macroeconomic scenarios used to calculate the ECLs associated with local authorities in France were also adjusted without significant impact on the level of impairment.

9) Post-closing events

No significant event that influences the Company’s financial situation has occurred since the closing on June 30, 2023.

Statutory auditors’ review report on the interim financial statements

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Statutory auditors' review report on the interim financial statements

For the period from January 1 to June 30, 2023

To the Shareholders,

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

- the review of the accompanying condensed half-yearly consolidated financial statements of Sfil S.A., for the period from January 1 to June 30, 2023,
- the verification of the information presented in the half-yearly management report.

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

I. Conclusion on the financial statements

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

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

II. Specific verification

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

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

Paris La Défense, on September 11, 2023
KPMG S.A.
Jean-Francois Dandé
Associé

Neuilly-sur-Seine, on September 11, 2023
PricewaterhouseCoopers Audit
Ridha Ben Chamek
Associé

Statement by the person responsible

Statement by the person responsible

I, the undersigned, Philippe Mills, Chief Executive Officer of Sfil,

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

Signed in Paris, September 11, 2023

Philippe Mills
Chief Executive Officer

112-114, avenue Émile Zola
75015 Paris - France

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

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