FINANCIAL REPORT

2015

(for approval by the annual general meeting
on May 26, 2016)

Financing major projects nationally and internationally

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A key priority for the French economy

Annual Financial Report 2015

Message from the Chairman and Chief Executive Officer

Three years and missions fully operational

Three years ago, when the Company was created, the challenges our young public development bank had to face were considerable in scope. Today, the Company is fully operational in all the missions the State has entrusted it to carry out. This achievement reflects the professionalism and determination of SFIL's teams, as well as the unfailing support of our shareholders and partners – the French State, Caisse des Dépôts et Consignations and La Banque Postale, all of which I thank.

Leadership in local public finance in France

In three years, we have become, together with our partner La Banque Postale (LPB), the leader in local public finance. With a market share of 25% in 2015, we achieved results at the high end of the spectrum of goals defined in the long-term plan at the end of 2012.

This clear-cut success is illustrated by the regular growth in the total amount of loans to the local public sector in France with EUR 3.3 billion in 2013, EUR 4.1 billion in 2014 and EUR 5.0 billion in 2015.

This performance is built on a solid foundation made up of an increasingly affirmed presence of the LBP network in all segments of the local public sector, of the complete and wide range of quality services we provide, and of the forcefulness and effectiveness of CAFFIL's role as a refinancing platform.

Issue of bonds: almost EUR 15 billion in three years

In three years, we have become Europe's largest issuer of secured bonds by refinancing public assets.
Our subsidiary CAFFIL is recognized and sought after as a bond issuer, a fact that was highlighted in the French Senate's report of October 14, 2015.

Since the bank was founded, we have issued almost EUR 15 billion. Our issuance capacity is considerable, especially for long maturities. CAFFIL is one of the market's rare issuers of covered bonds with maturities of 15 and 20 years.

These issues took place in an environment of rapid growth in financing since 2013, even if in the last six months, current market uncertainty has resulted in a widening of spreads versus swaps of covered bonds. In 2015, we also succeeded in launching SFIL's short-term refinancing in the markets with EUR 0.6 billion in outstanding assets at the end of the year.

Successful launch of the new export refinancing business

In three years, we have demonstrated our potent capacity in refinancing, and the French State entrusted us with a new mission in 2015: refinancing large export contracts.
In May 2015, a new market structure was authorized by the European Commission. It enables banks to deconsolidate and is neutral in terms of risk for the State. The goal is to enhance the competitiveness of French exporters.

The operational organization was set up during the year 2015, according to a calendar in line with the schedule defined with the French government in September 2014.

The first contracts are expected in the spring of 2016 with a targeted average volume of business of EUR 2 billion per year.

Sensitive loans: the bottom line

In three years, we have reduced the sensitivity of the major portion of sensitive loans.
Outstanding sensitive loans inherited from Dexia were down approximately 60% across the board for borrowers, and almost two-thirds for local governments alone.

We reduced loan sensitivity homogeneously in all loan categories, including the most difficult, especially for small local governments that subscribed in EUR/CHF, almost 90% of which have totally eliminated such commitments.

We also recorded a net increase in the withdrawal of litigation in 2015. One hundred nineteen borrowers have so far put a hold on legal proceedings.

2016: time for development

In 2016, SFIL begins a new chapter full of promise, as it targets development, the diversification of our revenues and the optimization of our organization.

Even as it changes in nature and size with the deployment of its second public policy mission, SFIL will become profitable. The difficult phase of dealing with sensitive loans and absorbing their economic impact will be behind us.

These results of three years of business witness to the relevance and solidity of a public structure that supports local investment and export.

I sincerely thank all the women and men who daily write the history of this innovative approach – that of SFIL, a young public development bank that serves the common good.

Philippe Mills
Chairman and Chief Executive Officer

SFIL

ANNUAL FINANCIAL REPORT 2015

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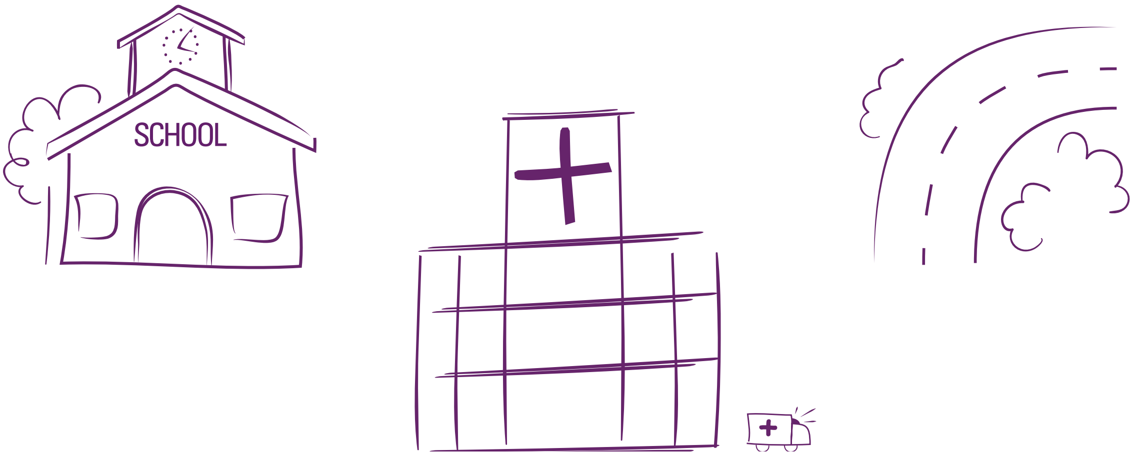
This free translation of the financial report published in French is provided solely for the convenience of English-speaking readers.

REFINANCING THE LOCAL SECTOR



17,000
borrowers

25%
market share

EUR **5 billion**
Loans to the local public sector in 2015

> SFIL, together with its partner La Banque Postale, is the leading source of financing for the local public sector in France.

> In three years, the total production of loans to the local public sector grew from EUR 3.3 billion in 2013 to EUR 4.1 billion in 2014, and to EUR 5 billion in 2015.

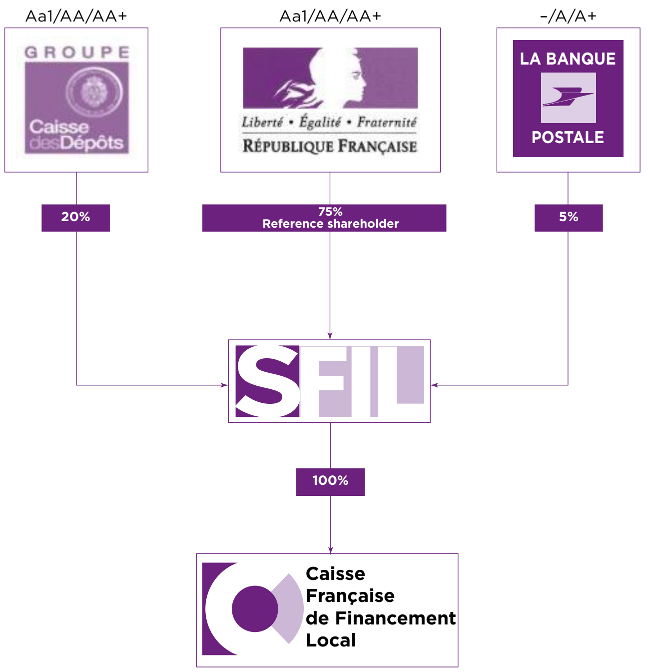
for more information, visit
SFIL.FR

Management Report

Context

SFIL (formerly Société de Financement Local) was approved by the Autorité de contrôle prudentiel et de résolution (ACPR) as a bank on January 16, 2013. Since SFIL was created, the French State plays a special role in this system by contributing 75% of SFIL's capital, and as the reference shareholder by supplying prudential authorities with a strong commitment to provide financial support, in keeping with current banking regulations. Caisse des Dépôts et Consignations and La Banque Postale respectively hold 20% and 5% of the Company's capital. SFIL's shareholders are thus strongly rooted in the public sphere, reflecting the mission entrusted to them by the State.

Capital structure of SFIL and its sole subsidiary



Since January 31, 2013, SFIL holds 100% of the capital of Caisse Française de Financement Local (CAFFIL), its sole subsidiary with the status of a *société de crédit foncier* (SCF) governed by articles L.513-2 and following of the Monetary and Financial Code.

SFIL is at the heart of a system that meets the State's determination to provide French local governments and public healthcare facilities with continuous and efficient access to long-term bank financing, in addition to the offers proposed by commercial banks and French or European public institutions operating in this segment. This system, which was launched within the framework of the approval of the European Commission on December 28, 2012, makes it possible to refinance La Banque Postale's loans to French local governments and to accompany these players actively in their efforts to reduce their outstanding sensitive loans.

In 2015, the State entrusted SFIL with a second public interest mission — to refinance buyer credits insured by Coface and thereby to help enhance the competitiveness of the large export contracts negotiated by French firms. The objective is to supply market financing with the volumes and maturities adapted to export credits of significant amounts and under conditions that match those of the best French covered bond issuers, relying on the capacities of SFIL and its subsidiary CAFFIL. This second mission is part of the approval granted by the European Commission on May 5, 2015, which was the last stage prior to the operational launch of the new set up encouraged and announced by the President of France at the beginning of February 2015. This refinancing is available for all banks that are partners with French exporters for their buyer credits insured by Coface in the name and under the guarantee of the French State.

In order to mark this expansion of the missions the State has assigned it, Société de Financement Local changed its name to SFIL in June 2015.

Highlights of 2015

During the year 2015, SFIL fully accomplished its fundamental missions, which involve i) refinancing, via its subsidiary Caisse Française de Financement Local, loans granted by La Banque Postale to eligible local governments and public healthcare facilities, ii) supplying specialized services to La Banque Postale and Caisse Française de Financement Local, and iii) implementing a policy to reduce the sensitivity of the portfolio of structured loans, which increased pace in 2015. SFIL also launched its new mission to refinance major export contracts that the State has entrusted it with, and it began production of the first phase of its IT simplification program.

1. Issues by CAFFIL

Caisse Française de Financement Local issued a total volume of EUR 6.2 billion in 2015, up more than 50% from the EUR 4.0 billion reported in 2014, and double the volume issued in 2013.

In particular, CAFFIL launched four public issues in 2015, including an issue in the amount of EUR 500 million with a maturity of 20 years, thereby making it possible to complete CAFFIL's public issue yield curve, after the 5, 7, 10 and 15 year *souches* launched since CAFFIL's first operations at the beginning of 2013.

2. SFIL certificates of deposit program

At mid-year, SFIL launched on the market a program of certificates of deposit. The outstanding total of securities issued by SFIL was close to EUR 600 million as of December 31, 2015.

3. Partnership with La Banque Postale

La Banque Postale (LBP) increased its annual production by more than 20%, compared with the previous year, for a total of EUR 4.0 billion in 2015. This third year of business also enabled Caisse Française de Financement Local to acquire almost EUR 3.4 billion in loans from La Banque Postale in four quarterly transfers.

4. Policy to reduce loan sensitivity

EUR 1.7 billion in sensitive structured loans were transformed into fixed rate loans in 2015, representing an increase of 38% compared with 2014, via 250 operations, up 56% from the previous year. Two hundred twenty-three borrowers reported the complete elimination of sensitive loans, a number that was more than twice that reported in the previous year. Operations to reduce loan sensitivity were accompanied by the setup of new loans for a total of EUR 1.1 billion in 2015. Looking forward to the end of 2016, and taking into account the sensitivity reduction operations already undertaken, the total of SFIL's sensitive structured loans will have decreased by at least 56% compared with the amount recorded when SFIL was created, and by more than 60% for outstanding sensitive structured loans on the balance sheet of local governments alone. The initial inventory of EUR 8.5 billion in sensitive loans will be pushed down to a maximum of EUR 3.7 billion at the end of 2016, and for local governments alone, to a maximum of EUR 2.7 billion, compared with EUR 6.7 billion initially. Half of the borrowers with loans indexed on EUR/CHF saw loan sensitivity disappear completely, and of this number, 80% were small local governments and hospitals holding such loans. Lastly, 92 borrowers, including 89 local governments, cancelled their litigation proceedings. At the end of 2015, there were still 131 suits before the courts, versus 210 in 2014.

5. Increase of support funds for local governments and public healthcare facilities

In order to find a permanent and comprehensive solution for the problem of the most sensitive structured loans contracted by local governments, and in compliance with its public announcements dated June 18, and July 16, 2013, the French government took the following measures in 2014 which were broadened at the beginning of 2015 subsequent to the considerable appreciation of the Swiss franc:

- the multi-year support fund initially endowed with EUR 1.5 billion was raised to EUR 3 billion by the government on February 24, 2015;
- a similar structure which had been set up for public healthcare facilities through the endowment of a fund with a total intervention capacity of EUR 100 million in 2014 was multiplied by four to EUR 400 million by the government on February 24, 2015.

This reinforcement of the support funds aims to cover the excessive cost linked to the appreciation of the Swiss franc so that the early reimbursement penalties for which the concerned borrowers were still responsible would not be greater, after assistance from the funds, than they would have been before the decision of the Swiss National Bank in January 2015 to put an end to the EUR/CHF floor exchange rate.

Through its subsidiary CAFFIL, SFIL recorded an expense of EUR 20 million for its additional contribution to the fund created to support public healthcare facilities.

6. Expansion of the export credit refinancing activity

At the beginning of 2015, the French State announced that it had decided to create a new public finance tool for export contracts and that it had chosen to entrust this activity to SFIL. The European commission approved this new arrangement in May 2015.

For this new mission, SFIL developed close ties during 2015 with all the players involved in export financing, primarily Coface, an insurance company specialized in the coverage, for the State, of financing granted by banks to foreign buyers of French exports. The second half of 2015 was given over to designing the structure and in particular to the negotiation of 12 partnership agreements with banks active in the export financing market.

This organization enables exporters and lending banks to benefit from the capacities of Caisse Française de Financement Local to raise funds in the market under conditions similar to those of the best French issuers of covered bonds and in volumes adapted to export credit financing with significant amounts. Importers may also benefit from competitive financial conditions for purchases up to several billion euros for maturities of 10 years, 20 years or more. SFIL will deal with contracts of more than EUR 70 million, and Bpifrance will handle smaller contracts.

SFIL's first interventions in this field are currently being negotiated. The first contracts are expected to be signed in the second quarter of 2016.

7. Advance in the IT simplification program

In 2014, SFIL launched a program to simplify its IT system over the next three years. The goal is to equip SFIL with an IT system adapted to its missions that would make it possible to respond efficiently to the risk control and management requirements of SFIL and Caisse Française de Financement Local as well as to the different requests made by regulators. The project is advancing as planned.

8. Entity ratings

SFIL

At the beginning of February 2013, the three rating agencies Moody's, Standard and Poor's and Fitch, which underlined the strong ties existing between SFIL and the State, first gave SFIL ratings that were equal to or a notch lower than those of the State: Aa2 for Moody's, AA+ for Standard & Poor's and AA+ for Fitch.

Since the State's rating was lowered in 2013, 2014 and 2015, SFIL's ratings were reviewed as well. As of December 31, 2015, SFIL's ratings stood at Aa3 for Moody's, AA for Standard & Poor's and AA- for Fitch, with the last two unchanged in comparison with 2014.

Caisse Française de Financement Local

The rating of the *obligations foncières* issued by Caisse Française de Financement Local remained stable throughout the year 2015, compared with 2014. It should be noted that Fitch and Standard & Poor's apply a ceiling to the rating of Caisse Française de Financement Local linked to the French sovereign rating, in light of the strong link between Caisse Française de Financement Local and the State, and the concentration of the cover pool in the French local public sector.

At the end of December 2015, the ratings were as follows, with no change when compared with 2014: AA+ for S&P, Aaa for Moody's and AA for Fitch.

9. ECB supervision

Within the framework of the Single Supervision Mechanism, the European Central Bank (ECB) directly oversees the 120 largest banks in the Eurozone, including SFIL, as of November 4, 2014. Within this framework, SFiL officers have made presentations to ECB officials, in particular on governance, risk management and internal control.

10. Change in corporate name

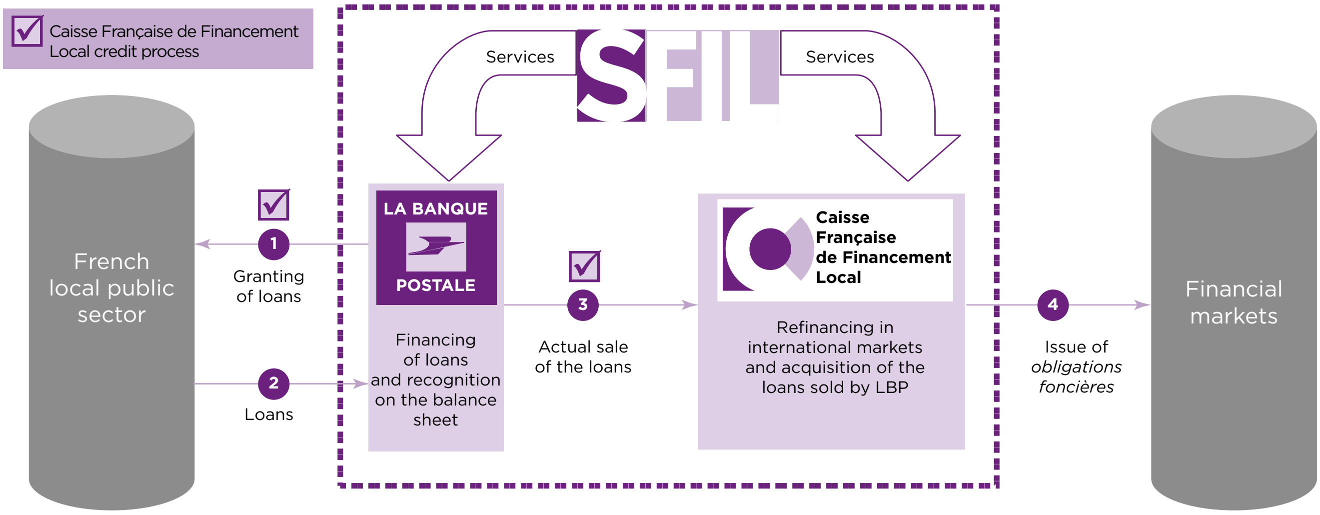
Upon approval of the Autorité de contrôle prudentiel et de résolution (ACPR), the change in the corporate and legal name of Société de Financement Local to SFIL became effective in June 2015. A new logo accompanies this change in name: "Supporting local investment and export".

General business environment

SFIL carries out four missions:
- refinancing, within a strictly defined framework, loans initially granted by La Banque Postale to eligible[1] local governments and public healthcare facilities via the issue of *obligations foncières* by Caisse Française de Financement Local;
- providing specialized services rendered by Société de Financement Local to La Banque Postale and Caisse Française de Financement Local allowing for the proper operation of the scheme;
- reducing the sensitivity of certain structured loans contained in the assets on the balance sheet of Caisse Française de Financement Local, in line with the objectives defined by the State in terms of the management of public finances and respecting SFIL's strategic interests;
- refinancing large export credit contracts.

The drawing below describes the process of SFIL's operations. More detail on the fourth mission concerning refinancing export credits is provided in section 4 below.

Operational flow diagram of the scheme



1. Refinancing by CAFFIL of local public sector loans initiated by La Banque Postale

The business of refinancing local public sector loans initiated by La Banque Postale has become the responsibility of SFIL's subsidy, CAFFIL.

CAFFIL is a specialized credit institution approved as a *société de crédit foncier (*SCF*)*. SFIL serves as a backer for CAFFIL's activities, as specified by regulations concerning its status as a *société de crédit foncier (*SCF), in particular in accordance with articles L.513-15 and L.513-2 of the 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.

In 2015, CAFFIL continued to benefit from a favorable environment. The market for public issues of euro-denominated covered bonds issues was active in 2015 with an offering in the primary market of EUR 146 billion (compared with EUR 117 million in 2014). The year 2015 was also marked by the forceful measures taken by the ECB in its covered bond buyback program within the framework of its unconventional monetary policy.

The asset class of covered bonds continues to benefit from a favorable regulatory treatment in a changing environment (Basel III or Solvency 2), which encourages investors to choose this investment category.

Within this framework, CAFFIL issued a volume of EUR 6.2 billion while adding four new points to its reference yield curve by playing an active role in complementary operations and developing its presence in the private placement segment. CAFFIL launched four issues in the public primary market for a total of EUR 3.5 billion with an issue maturing in 20 years in January for EUR 500 million, an eight-year issue in April for EUR 1.0 billion, a ten-year issue in September for EUR 1.0 billion, and a seven-year issue in October for EUR 1.0 billion. In a parallel manner, CAFFIL raised additional liquidity for several of its reference issues via four complementary operations in 2015 for a cumulated total of EUR 600 million.

In addition to these public transactions, CAFFIL remained very active in the private placement segment with EUR 2.1 billion raised in this market segment mainly in the format of registered covered bonds and by providing a response to investor demand for long and very long maturities.

(1) Eligibility in the sense defined by legislation on sociétés de crédit foncier *in its definition of assets in the cover pool that may be recognized on the balance sheet in guarantee of* obligations foncières *issued.*

2. Services for La Banque Postale

Since 2012, SFIL supplies services for the medium- and long-term financing activity in the local public sector (local governments and public healthcare facilities) engaged in by La Banque Postale and its joint venture La Banque Postale Collectivités Locales. Within this framework, it provides services at all stages along the chain of loan issue and management (loan offerings, back office management, ALM reporting, management control, accounting, third-party management, etc.).

SFIL also coordinates and directs projects needed by La Banque Postale for its business, in particular by adapting the applications it makes available.

Likewise, in June 2015, a service and marketing agreement was signed by SFIL and La Banque Postale in order to propose to certain customers of La Banque Postale the possibility to reschedule their loans recorded at CAFFIL.

3. Reduction in loan sensitivity

In 2015, SFIL undertook efforts to reduce loan sensitivity on outstanding assets on the balance sheet of its subsidiary, CAFFIL, as in 2014, in line with initiatives validated by SFIL's Board of Directors.

Sensitive outstanding assets include those classified as outside of the Gissler Charter (code of good conduct signed between banks and local governments in December 2009) and assets labeled 3E, 4E and 5E according to the breakdown of the Charter.

The method used consists in reducing definitively the sensitivity of the most sensitive structured loans. To this end, SFIL may, if so required, allocate new liquidity to borrowers in the form of additional funding or refinancing of the indemnity for early reimbursement.

In order to find a permanent and comprehensive solution for the problem of the most sensitive structured loans contracted by local governments and public healthcare facilities, the French government took the following measures:

- support funds for local governments and other public sector entities:
  - November 13, 2014: publication of the first statement of the employment of the support fund endowed with EUR 1.5 billion for 15 years maximum (EUR 100 million per year), a decision which was validated by a committee of orientation and follow-up which included representatives of the State, local government and qualified individuals;
  - February 24, 2015: the local government support fund was doubled and increased to EUR 3 billion following the abandon by the Swiss National Bank of the floor rate of exchange of CHF 1.20 for EUR 1. The addition of EUR 1.5 billion will bolster the resources available so that borrowers can compensate for the brutal impact on the EUR/CHF exchange rate;
  - April 2, 2015: the amended statement of employment of the support fund was approved by the committee of orientation and follow-up;
  - July 22, 2015: *arrêté* published in application of the decree 2014-444 of April 29, 2014, on the support fund for local governments and certain public entities that had subscribed loan agreements or structured finance agreements involving risk;
  - August 7, 2015: the law on the new organization of finance in France was promulgated, integrating an amendment setting the maximum amount of assistance at 75% of the early reimbursement penalty;
  - since September 2015, a nation-wide service has drafted the first notifications of assistance. The borrowers have three months to come to an agreement after they receive notification.

- support funds for public healthcare facilities:
  - December 22, 2014: a ministerial instruction DGOS/PF1/DGFIP/CL1C/CL2A/2014/363 was applied. This assistance is accompanied by an endowment of EUR 100 million, which will be paid to eligible entities in equal annual fractions for three years;
  - February 24, 2015: financial assistance for the reduction of the loan sensitivity of public healthcare facilities outside the Gissler charter is quadrupled – EUR 300 million in additional assistance over 10 years financed by banks in addition to the initial contribution of EUR 100 million.

CAFFIL, the subsidiary that carries the SFIL Group's assets, contributes EUR 150 million (EUR 10 million per year for 15 years), to the fund dedicated to local governments as well as EUR 38 million to the analogous arrangements planned for public healthcare facilities. All of these contributions have been recorded in the Company's accounts.

In line with the government announcement of February 24, 2015, concerning the decision to upgrade the support funds, SFIL proposed a delay in payment for borrowers who had applied to the fund and who were faced with the payment of a downgraded due date in a contract indexed on EUR/CHF.

The year 2015 was characterized by:
- the acceleration of the number of operations processed in comparison with 2014: 250 operations to reduce loan sensitivity in 2015, versus 158 in 2014;
- the volume of loans with reduced sensitivity stood at EUR 1.7 billion in 2015, compared with EUR 1.2 billion in 2014. At the end of the year, the initial inventory of sensitive structured loans was reduced by 46%, from EUR 8.5 billion to EUR 4.6 billion;
- a significant reduction in the number of suits. As of December 31, 2015, there remained 131 customers who had brought suit against one or more structured loan agreements from CAFFIL. Thus, since the creation of SFIL, a negotiated settlement has been found with 92 borrowers.

4. Refinancing export credits

In 2015, the State gave SFIL the mission to refinance large export credits in order to bolster the competitiveness of French export offers.

Export credits are a key factor in the financial aspect of exporters' commercial offers. Basically structured in the form of buyer credits, they may take advantage of a credit insurance against the political and commercial risks granted by Coface in the name and under the guarantee of the State.

The financing is based almost wholly on commercial banks and requires that they carry long-term or even very long-term commitments. As banks may be reluctant to assume in their name long-term commitments for large amounts in the absence of an adapted refinancing solution, exporters may find it difficult to structure their financial offers adequately, whereas their foreign competitors benefit, for the majority of them, from the participation of public lenders or public refinancing structures.

The objective of this new set-up designed to support French exports is to improve the financial offer that accompanies export contracts in terms of volume, maturity and cost. CAFFIL has demonstrated its capacity to raise a large volume of funds with long maturities and at competitive costs.

The feasibility studies undertaken in cooperation with Coface and together with French authorities have led to the organization of export credit refinancing, made possible with the authorization the European Commission granted on May 5, 2015, to expand the scope of SFIL's activities as a public development bank, in the refinancing of export credits in order to resolve market failure in this sector.

Following this decision, the operational launch of this business line was organized, resources were progressively allocated to this activity, and internal management processes and risk control systems were set up.

- Within the framework of this organization, SFIL offers to take the place of export banks as lender of all or a part of the portion insured through an export credit (generally 95%), with the uninsured portion to be kept by the export bank so that SFIL has an exposure 100% guaranteed by the State.
- The export bank keeps the risk on the uninsured portion and maintains the commercial relationship over the life of the transaction.
- The export loans acquired by SFIL are refinanced through CAFFIL, which benefits from the enhanced guarantee mechanism introduced in the 2012 law of finance.

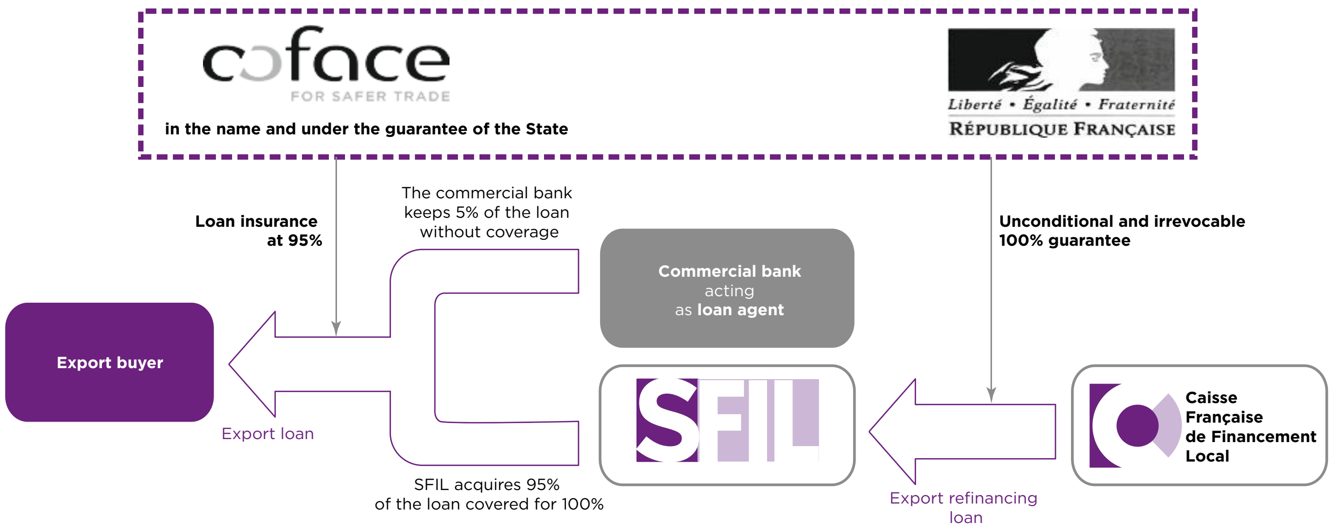
The structure that has been set up operates with significant interaction between SFIL and Coface, on the one hand, and export banks on the other. The protocol signed on July 7, 2015, by SFIL and Coface gives concrete expression to the commitment of the two institutions to ensure the success of this new public tool.

In addition, a standard protocol agreement has been drawn up, governing relations between SFIL and any export bank wishing to make use of this scheme. As of December 31, 2015, twelve institutions, including the most active banks in the French export credit market, had signed the agreement and were ready to involve SFIL in their operations. Since its launch, the structure has been consulted more than 60 times. The first transactions are expected to be finalized in the first half of 2016.

After a ramp-up period, the objective of the export credit activity will be to finance an annual volume of EUR 1.5 billion to EUR 2.5 billion in export credit per year.

Since export credit refinancing is not linked, from the point of view of an economic or a financial cycle, to the local public finance sector, this new business line will make it possible to sustain SFIL's results without modifying its strategic positioning as a development bank that refinances public assets, or its risk profile.

Operational diagram of export credit refinancing by SFIL-CAFFIL



Changes in the main balance sheet items

The main items on the SFIL Group's consolidated balance sheet (management data) as of December 31, 2015, are presented in the table below.

EUR billions, value after currency swaps

ASSETS	LIABILITIES
83.7	**83.7**
The main items of which	The main items of which
64.6	**64.6**
Cash assets 3.4	
Loans 48.2	Refinancing by shareholders 8.8
Securities 9.7	*Obligations foncières* 51.6
	Certificates of deposit 0.6
Cash collateral paid 3.3	Cash collateral received 1.9
	Equity and other items 1.7

The assets on the SFIL Group's balance sheet mainly consist of:
- the cash assets of SFIL and CAFFIL;
- the loans and securities on the balance sheet of CAFFIL and the assets held in the form of securitization on the balance sheet of SFIL;
- the cash collateral paid by SFIL on its derivative portfolio.

The liabilities on the SFIL Group's balance sheet mainly consist of:
- the *obligations foncières* in the liabilities of CAFFIL;
- the certificates of deposit issued by SFIL;
- the funds contributed by the shareholders (Caisse des Dépôts et Consignations and La Banque Postale) in the liabilities of SFIL;
- the cash collateral received by CAFFIL;
- equity and other resources.

1. Changes in assets

1.1 – MAIN CHANGES IN ASSETS DURING YEAR 2015

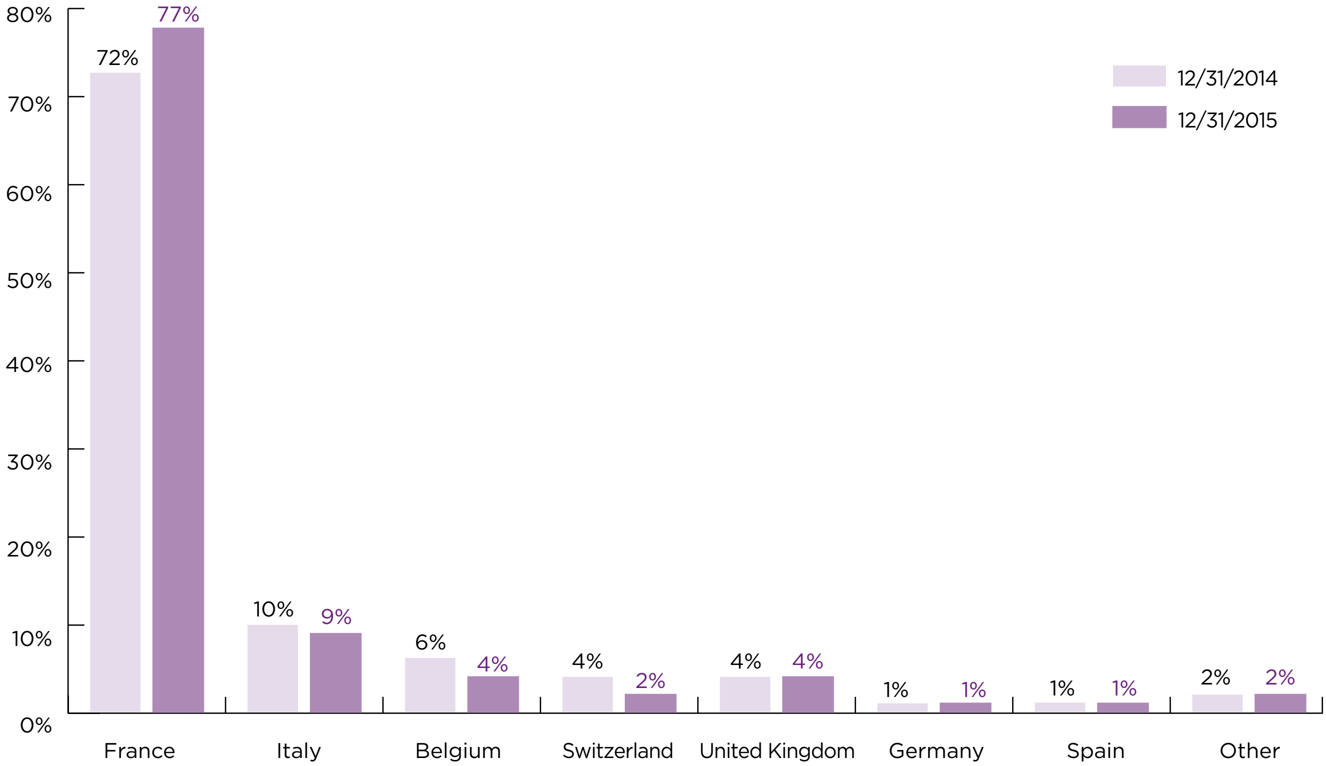
The net change in the main assets of the SFIL Group in 2015 was EUR -1.7 billion.
This change can be analyzed as follows.

EUR billions, value after currency swaps	12/31/2015
BEGINNING OF YEAR	**66.3**
Purchase of loans from La Banque Postale	**3.4**
New loans paid out after reduction in sensitivity	**1.7**
Cash collateral paid by SFIL	**(0.3)**
Amortization of loans and securities in the French public sector	**(4.8)**
Amortization of loans and securities outside the French public sector	**(2.3)**
Change in cash assets	**2.5**
Other	**(1.9)**
END OF YEAR	**64.6**

- Through its subsidiary CAFFIL, SFIL acquired EUR 3.4 billion in loans marketed by La Banque Postale to the French local public sector.
- The transactions to reduce sensitivity resulted in EUR 1.7 billion in new payments on the balance sheet, considered as refinancing of early reimbursement indemnities and new investment financing.
- As an intermediary in the derivative transactions between CAFFIL and certain of its counterparties, SFIL paid a total of EUR 3.3 billion in collateral in 2015, down EUR -0.3 billion from the end of 2014.
- The other changes in assets pertained mainly to the natural amortization of the loans and securities portfolio (EUR 6.6 billion), to sales or early reimbursements of international assets in the amount of EUR -1.9 billion partially compensated for the increase in the balance of the Banque de France back account of EUR +2.5 billion. It should be noted that SFIL held EUR 0.4 billion in French Treasury bonds as of December 31, 2015.

1.2 – BREAKDOWN OF OUTSTANDING LOANS AND SECURITIES

The outstanding loans and securities on SFIL's balance sheet represented a total of EUR 58 billion. The predominant recipient is the French local public sector (LPS), with 77% of total outstandings in 2015. New loans are granted exclusively to the French local public sector.
Loans and securities with counterparties outside France accounted for 23% of total outstandings and corresponded to granular and geographically diverse exposures to public sector entities. These exposures were originated in the past and are now in run-off.

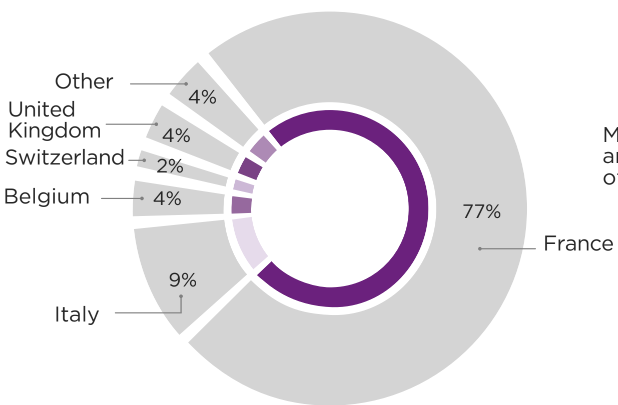


Excluding France, the three largest exposures concerned British, Belgian and Italian local governments. France's relative portion increased by 5% between 2014 and 2015. The other exposures remained stable or decreased slightly.
The French local public sector is the only area of activity that continued to develop for the following reasons:

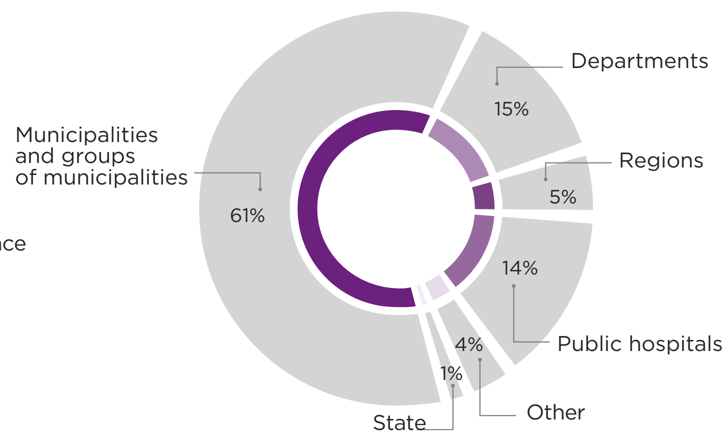
- the acquisition of the loans granted by La Banque Postale to local governments and public healthcare facilities; in this respect, CAFFIL acquired EUR 3.4 billion in loans in 2015, i.e. 554 loans for EUR 1,088 million in outstandings in March 2015, 341 loans for EUR 565 million in outstandings in June 2015, 442 loans for EUR 776 million in outstandings in September 2015, and 510 loans for EUR 938 million in outstandings in December 2015.
- the new loans paid within the framework of the reduction in the sensitivity of structured loans for a total of EUR 1.7 billion.

For France's relative portion of 77% in 2015, the following graph shows the breakdown of loans and securities granted to the French local public sector by type of counterparty.

Geographic breakdown



Breakdown of local public service loans and securities France



1.3 – EXPOSURES TO BANKS (CASH ASSETS AND CASH COLLATERAL)

The exposures to banks recognized in the assets on the SFIL Group's balance sheet are of two types:

- the balance of its cash assets or of assets CAFFIL holds at other institutions. Cash assets deposited with the Banque de France totaled EUR 3.4 billion as of December 31, 2015;
- collateral payments made to banking counterparties to hedge counterparty risk on the derivative portfolio (swaps). This derivative portfolio requires that SFIL constitute collateral, generating a need for SFIL to finance its operations. SFIL paid out EUR 3.3 billion in this regard as of December 31, 2015.

2. Changes in liabilities

2.1 – MAIN CHANGES IN LIABILITIES DURING YEAR 2015

The net change in the SFIL Group's main liabilities in 2015 was EUR -1.7 billion.

This change can be analyzed as follows:

EUR billions, value after currency swaps	12/31/2015
BEGINNING OF YEAR	**66.3**
Obligations foncières	**(0.6)**
Issues	*6.2*
Amortization	(6.8)
Buybacks	*(0.0)*
Change in cash collateral received	**(0.8)**
Senior unsecured refinancing	**(0.9)**
Certificates of deposit	**0.6**
Equity and other	**(0.0)**
END OF YEAR	**64.6**

- Outstanding *obligations foncières* decreased by EUR -0.6 billion as a result of the amortization of loans and the buybacks partly offset by the new 2015 program totaling EUR 6.2 billion.
- At the same time, the cash collateral paid by the derivatives counterparties of CAFFIL decreased by EUR 0.8 billion.
- The EUR -0.9 billion decrease in unsecured refinancing is linked to the progressive amortization of the balance sheet and to the reduction in the rate of CAFFIL's over-collateralization, which slid from 14% to 13% between 2014 and 2015.
- SFIL introduced a program to issue certificates of deposit in 2015 and posted the outstanding total of EUR 0.6 billion at the end of the year.

2.2 – CHANGES IN OUTSTANDING *OBLIGATIONS FONCIÈRES* AS OF DECEMBER 31, 2015

In 2015, CAFFIL raised a total of EUR 6.2 billion through the issue of bonds benefiting from the legal privilege. All the issues were carried out as public or private offerings in the euromarket, which is CAFFIL's domestic market.
CAFFIL launched four public primary issues for a total of EUR 4.1 billion. In particular, at the beginning of 2015, CAFFIL launched an issue for EUR 500 million with a maturity of 20 years, thereby completing its curve of public issues, after the 5, 7, 10 and 15-year *souches* initiated since CAFFIL's market entry at the beginning of 2013.
In addition to its public issues, CAFFIL decided to implement an active private placement policy in response to demand from investors who were not satisfied with the public issues offered in the primary market, especially with regard to long maturities. Through this activity, it raised EUR 2.1 billion with an average maturity of 10 years. Sixty-nine percent of this amount was documented under a Euro Medium Term Note (EMTN) program, with the balance (31%) issued in the form of registered covered bonds.
Outstanding *obligations foncières* totaled EUR 51.6 billion as of December 31, 2015.

EUR billions, value after currency swaps	12/31/2015
BEGINNING OF YEAR	**52.2**
Issues	**6.2**
Amortization	**(6.8)**
Buybacks	**(0.0)**
END OF YEAR	**51.6**

2.3 – SFIL'S SENIOR UNSECURED REFINANCING IN 2015

Unsecured debt is debt that does not benefit from the legal privilege that CAFFIL's commitments enjoy. It is mainly acquired by SFIL from Caisse des Dépôts et Consignations and La Banque Postale under credit agreements in the amount of EUR 12.5 billion and EUR 1.25 billion, respectively. As of December 31, 2015, the financing SFIL received from these two shareholders totaled EUR 8.8 billion, down EUR 0.9 billion from December 31, 2014.
During the year, SFIL also decided to launch a program to issue certificates of deposit, in order to diversify its sources of unsecured finance. Outstanding debt in this category at the end of 2015 stood at EUR 0.6 billion. SFIL fully plays its role as CAFFIL's parent company and sponsor by providing it with the unsecured liquidity it needs to finance its over-collateralization. This also enables it to meet its own financing needs, almost all of which are related to the cash collateral paid on its derivatives.

Risk management

SFIL's portfolio, which is principally made up of exposures on public borrowers, has a particularly low risk profile. Risks involving the markets, ALM and liquidity are limited and operational risks are under control.

After the Supervisory Review and Evaluation Process (SREP) conducted by the European Central Bank (ECB) in 2015, the Core Equity Tier One ratio[1] (CET1) required on a consolidated base for SFIL has been set at 8.75% as of January 1, 2016. This level is to include, like all institutions, a capital conservation buffer of 0.625% in 2016.

As of December 31, 2015, SFIL's phased CET1 ratio was 24.7% on a consolidated base (non-phased ratio of 22.5%), representing a level almost three times the minimal requirement.

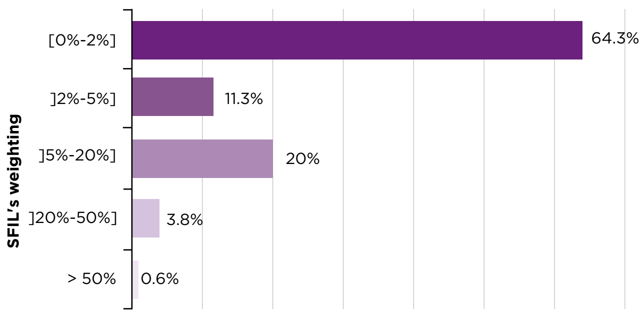
1. Credit risk

Credit risk represents the potential loss that SFIL may incur by reason of the deterioration of a counterparty's solvency.

1.1 – BREAKDOWN OF EXPOSURES ACCORDING TO BASEL III RISK WEIGHTING

The quality of the portfolio of SFIL and CAFFIL can also be seen in the weighting of risk-weighted assets (RWA) assigned to its assets to calculate the solvency ratio.
The Group mainly chose the advanced method to calculate its solvency ratio and capital adequacy for most of its exposures. It therefore uses its internal models approved by the regulator to calculate its equity requirements for credit risk.
As of December 31, 2015, the breakdown of exposures by risk weighting (calculated on the basis of the probability of default and loss given default (LGD) of the counterparty) was as follows.

Risk weighting (Basel III) of SFIL's portfolio as of December 31, 2015 (consolidated basis)



This analysis confirms the quality of the assets in SFIL's portfolio, for which the average weighting is 6.5% and of which only 4.4% has a weighting of more than 20%.
The amount of weighted exposure with respect to credit risk amounts to EUR 4,966 million. Including market risks, the risk of volatility in the Credit Valuation Adjustment (CVA) and operational risks, total weighted assets come to EUR 5,678 million. Given a CET1 level of EUR 1,405 million, SFIL had a CET1 ratio of 24.7% as of December 31, 2015.

(1) Calculated according to the CRD IV standard, including transitory provisions

1.2 – DOUBTFUL AND DISPUTED DEBT

Doubtful and disputed debt totaled EUR 673 million at the end of December 2015, compared with EUR 463 million at the end of December 2014. This amount represents 1.1% of CAFFIL's cover pool (EUR 60 billion).
It consists of:
- EUR 596 million in non-performing debt on local governments and public healthcare facilities;
- EUR 77 million in litigious debt which basically corresponds to unpaid interest on structured loans subject to litigation (cf. below).

Doubtful debt is carried by a limited number of counterparties. The increase in doubtful debt was mainly due to customers whose whole outstanding was downgraded to doubtful debt even though there were few overdue payments (EUR 56 million in unpaid loans resulting in a downgrade of EUR 540 million owing to the application of the principle of contagion). These customers are primarily local governments that subscribed to structured loans and may not be able to support the weight of the debt. They must progressively move out of the non-performing category once they have succeeded in reducing the sensitivity of their debt.
Disputed debt increased much more moderately as a result of the settlement of many lawsuits in the last quarter of 2015.

1.3 – PROVISIONS

At the end of December 2015, specific provisions totaled EUR 65.5 million. These provisions pertained to the capital of the doubtful debt for EUR 6.3 million (recorded as cost of risk provisions) and to Interest and other for EUR 59.3 million (recorded as a decrease in Net banking income).
In addition, collective statistical provisions are calculated on the various portfolios of Loans and advances. Collective provisions amounted to EUR 63.4 million and remained unchanged compared with December 31, 2014.

SFIL, through CAFFIL, integrated in the results of previous years respective contributions of EUR 150 million paid over 15 years for the support fund for local governments and EUR 18 million to support public healthcare facilities. An additional contribution of EUR 20 million to the second fund was recorded in 2015. The EUR 150 million and EUR 38 million represent the total contributions owned by SFIL to the two support funds after accounting for their respective extensions that were decided and approved in 2015.

EUR millions	12/31/2015
Collective provisions	63
Specific provisions	66
Contribution to support fund	162
TOTAL	**291**

As of December 31, 2015, the provisions covering the risks on the entire portfolio totaled EUR 291 million.
The amount of provisions remained low (less than 0.5% of CAFFIL's total cover pool), attesting to the quality of the portfolio and its low risk profile.

1.4 – AFS RESERVE

As of December 31, 2015, the total amount of the AFS reserve before tax went from EUR -182 million in 2014 to EUR -133 million as of December 31, 2015. Italian sovereign securities accounted for EUR -42 million of this reserve in 2015, compared with EUR -82 million at the end of 2014. The tightening of spreads on sovereign exposures during the year was the primary reason for this improvement.

2. Market and ALM risk

2.1 – MARKET RISK

a. Scope

The notion of regulatory market risk is limited to the market risk of the trading portfolio on a consolidated basis. However, the institution does not carry out trading operations, and is therefore not subject to market risk in the regulatory sense of the term. Moreover, on a consolidated basis, all swaps are carried out for hedging purposes.

As of December 31, 2015, four hedging derivatives were downgraded to outside of the scope of an IFRS hedging relationship, subsequent to a customer default on a loan that was micro-hedged by the derivative. These swaps are therefore deemed equivalent to a market position in the regulatory sense. French regulations use the IFRS accounting classification regardless of the management intention itself.

In addition, the positions or activities of the banking book of SFIL and CAFFIL that pose a risk resulting from exposure to the volatility of market parameters are monitored in terms of non-regulatory market risks. These are mainly market risks stemming from fluctuations in the AFS reserve or in the provision for investment securities in French GAAP. This risk can also materialize at the SFIL company level if the derivative transactions carried out externally by SFIL are not fully replicated with CAFFIL as part of its derivative intermediation activity on behalf of CAFFIL. Non-regulatory market risks also include adjustments in accounting valuations on derivatives like the CVA (Credit Valuation Adjustment), the DVA (Debit Valuation Adjustment) and the FVA (Funding Valuation Adjustment).

b. Risk monitoring

A certain number of indicators (sensitivity, Value at Risk, etc.) have been defined to control market risks.
- Greek exposures or sensitivities correspond to a change in fair value of instruments for a movement (or shock) in market parameters.
- Value at Risk (VaR) is a comprehensive measure of risk that favors an approach based on the notion of maximum potential loss. This maximum potential loss corresponds to the measurement of the least favorable impact on income of changes in market conditions over a given period and with a specific level of probability.

The Risks division applies market standards to calculate VaR based on a 10-day time horizon, which is the minimum time needed to close a position with a 99 % confidence interval. For the swaps that are no longer classified as having a hedging relationship with structured loans for customers currently in default, VaR was very low as of December 31, 2015, and stood at EUR 224,000.

For intermediation swaps between SFIL and CAFFIL, there are no limits in sensitivity and VaR.

Securities classified as AFS or investment securities in French GAAP are systematically hedged by swaps. Residual risk is limited to credit spread risk. The Risks division calculates sensitivity and VaR indicators on the basis of the issuers' credit spread.

Adjustments in accounting valuations on derivatives are monitored quarterly.

2.2 – ALM RISK

The ALM policy of SFIL and its subsidiary CAFFIL is designed to protect the value of equity and limit the volatility of income while maintaining the equilibrium of their balance sheet.

a. Foreign exchange risk

Foreign exchange risk is the verified or potential risk of volatility of income related to adverse movements in foreign exchange rates.

The reference currency of SFIL is the euro. The foreign exchange risk thus reflects any change in the value of assets and liabilities denominated in a currency other than the euro by reason of a fluctuation of this currency vis-à-vis the euro. The Company's policy is to avoid all foreign exchange risk. To this end, liabilities and assets denominated in foreign currencies give rise, once recognized on the balance sheet, to a cross-currency swap against the euro. The floating-rate exposures resulting from this management are incorporated into interest rate risk management (see next paragraph). SFIL and CAFFIL have almost no foreign exchange risk.

b. Interest rate risk

Interest rate risk is the risk incurred in the event of a change in interest rates resulting from all balance sheet and off-balance sheet transactions, with the exception of transactions subject to market risk, where applicable. SFIL distinguishes three types of interest rate risk:
- the fixed interest rate risk reflects the difference in volume and maturity between fixed-rate assets and liabilities for which the interest rate has been fixed;
- the fixing risk reflects, for each index, the gap between the revision dates applied to all the variable-rate balance sheet and off-balance sheet items linked to this index;
- the risk of alteration of the interest rate curve is linked to fluctuations in the differences between short-term and long-term rates. It concerns non-parallel variations in the interest rate curve – sloping, flattening, rotation.

To limit the impact of these risks, SFIL has implemented a finely honed hedging strategy.
- In the first step, balance sheet items that do not naturally have a euro floating rate are hedged as soon as they are recognized on the balance sheet to limit the impact of changes in euro long rates on the interest margin. For CAFFIL, these transactions mainly concern the issue of *obligations foncières* and the acquisition of assets from La Banque Postale. In order to limit the multiplication of swaps in opposite directions, CAFFIL has set up an optimization process to provide direct backing for fixed rate vanilla assets and liabilities with similar profiles when LBP loans are acquired.

- In the second step, macro-swaps are carried out against Eonia for a maximum period of two years, in order to limit the volatility of the result linked to the fixing risk (due to refixing dates which are different for assets and liabilities). Macro-hedging is then applied to the residual fixing risk over a week's management horizon.

Concerning the parent company SFIL, the strategy involves a perfect micro-hedge of the interest rate risk, either by swaps against Eonia, or by backing operations of assets and liabilities on the same index. There is thus no interest rate risk. To ensure the correct implementation of these interest rate management strategies and related monitoring operations, the following indicators are produced:
- the fixed rate gap that corresponds to the difference between uses and resources of the balance sheet and the off-balance sheet for fixed rate operations or those for which the rate has been fixed; this gap is calculated every month until balance sheet extinction;
- the fixing gap that corresponds for a given tenor index to the difference between uses and resources at a floating rate, of the balance sheet and the off-balance sheet by fixing date;
- index gaps that correspond to the difference between uses and resources of the balance sheet and the off-balance sheet for a given tenor index that has not yet been fixed; these gaps are calculated every month until balance sheet extinction.

With regard to interest rate risks and risks of deformation of the interest rate curve that may result from macro-hedges in balance sheet management, curbs aim to limit the impact on the value of items on the balance sheet in the event of a shift in the rate curve or when faced with sloping or rotation movements.
The limits have been calibrated so as not to lose more than EUR 80 million in equity with a quantile of 99%.
The indicators used to limit CAFFIL's interest rate risk are calculated on the basis of indicators of sensitivity of the net present value for an incident of 100 times the rate + 1 bp designed to limit the loss in value in the event of:
- a shift in the interest rate curve: measure of risk of fixed rate or risk of directional rate;
- sloping/rotation of the interest rate curve:
  - the calculation and sensitivity limit for net present value using time buckets, by distinguishing four buckets of distinct risks on the yield curve in order to limit risk between points far from one another on the curve within each bucket;
  - calculation and limit of the absolute value of the sensitivity of net present value per time bucket by distinguishing four distinct buckets of risks in the interest rate yield curve in order to limit the risk between points close to one another on the curve within each bucket.

CAFFIL's ALM is subject to the following limits.

	CAFFIL's limits
Directional interest rate risk	Total sensitivity < EUR 25 million
Sloping risk	Time bucket sensitivity < EUR 10 million Time bucket sensitivity in present value < EUR 20 million

- For the parent company SFIL, the limit is expressed on the fixed rate gap, and it is 0 reflecting its strategy of perfect micro-hedge management. Note should be taken that all of these indicators are currently calculated from a static view.
- As concerns the basis risk linked to a possible difference in the backing of uses and resources indexed on Euribor but on different periods, monitoring at this stage is limited to index gaps. A detailed study of the risk will continue in 2016 and limits will be defined if the risk is considered material.

c. Liquidity risk

Liquidity risk can be defined as the risk that the institution may not be able to find the necessary liquidity to cover the financing needs related to its activity.

In terms of liquidity, the SFIL Group's activity is centered almost entirely on the management of its subsidiary CAFFIL, a *société de crédit foncier*.

As a result, the Group's requirements are mainly of three types:
- financing of assets (EUR 50.4 billion in loans, EUR 7 billion in securities and 2.5 million in cash deposited with the Banque de France) on CAFFIL's balance sheet to cover the *obligations foncières* it issues;
- financing of liquidity needs linked to respect of regulatory ratios;
- financing of the cash collateral of hedging derivatives intermediated by SFIL between CAFFIL and the market (EUR 2.76 billion).

The sources of financing used, other than the entity's equity (EUR 1.5 billion), are as follows:
- privileged debt, i.e. the *obligations foncières* issued by CAFFIL (EUR 51.6 billion) and cash collateral received by CAFFIL (EUR 1.4 billion);
- the credit agreements signed in 2013 between SFIL and its shareholders. The financing provided by CDC and LBP totaled EUR 8.8 billion as of December 31, 2015;
- the short term debt securities issued by SFIL totaling EUR 0.6 billion as of December 31, 2015.

In addition, the SFIL Group has a large number of assets held by CAFFIL which are directly eligible for refinancing by the central bank and can be made available through European Central Bank refinancing operations, via the Banque de France. There were no operation of this type in 2015, except for operational tests required by regulations.

Since the financing of the over-collateralization of CAFFIL is ensured by the credit agreements it has signed with its shareholders, the main liquidity risk comes down to the risk that CAFFIL may not be able to settle its privileged debt commitments by the due date because the gap between the repayment of its assets and privileged liabilities is too great. This risk is controlled by monitoring the following indicators:

- Regulatory indicators specific to *sociétés de crédit foncier*
  - the cover ratio (over-collateralization) represents the ratio between the assets and liabilities benefiting from the privilege under the law on *sociétés de crédit foncier*. It currently stands at 113%, while the regulatory minimum is 105%;
  - the forecast of cash needs in 180 days: CAFFIL ensures that its 180-day cash requirements are covered at all times by replacement assets and by eligible ECB assets;

- a maximum gap of 1.5 years between the average life of the privileged liabilities and the assets considered as pledged for the minimal amount necessary to satisfy the regulatory coverage ratio;

- General regulatory indicators of liquidity
  - respect of the limit of 100% on the ratio of regulatory liquidity for 1 month calculated according to the modalities defined in the *arrêté* of May 5, 2009, until September 30, 2015;
  - then respect of the Liquidity Coverage Ratio (LCR) as of October 1, 2015, calculated at the end of every month in keeping with the procedure defined in the *Acte Délégué* published in October 2014;

- Internal indicators of liquidity
  - the duration gap between the assets and the privileged liabilities (limited to three years) is published quarterly. As of December 31, 2015, it stood at 1.64 years;
  - a maximum gap limited to EUR 2 billion per year between the assets and liabilities arriving at maturity. This limit is reviewed annually.

The financing of cash collateral paid by SFIL is ensured by the credit agreements it has signed with its shareholders. SFIL's main liquidity risk thus resides in a cash risk, which may, for example, be generated by unanticipated variations in cash collateral subsequent to market fluctuations. ALM management enables SFIL to deal with the situation by using financing lines provided for within the framework of the credit agreements. Moreover, within the framework of the management of its liquidity, SFIL naturally strives to respect its own regulatory liquidity ratios. Any potential cash surpluses at SFIL are subject to placement in the form of the purchase of liquid assets that are eligible for the LCR liquidity buffer (BTF, OAT, etc.).

Finally, the SFIL Group regularly produces liquidity stress forecasts in order to ensure:
- respect for the survival horizon validated by the Executive Committee (one year), and
- that the liquidity available after activation of certain leverage is sufficient to confront adverse scenarios.

3. Legal and tax risk

3.1 – LEGAL RISK

At the end of December 2015, the number of borrowers who had undertaken legal proceedings totaled 131 versus 210 at the end of 2014. A limited number of legal proceedings (eight lawsuits) has been decided with regard to the core issues since the beginning of 2013.

When the law on the securitization of structured loan agreements subscribed by public entities took effect on July 30, 2014, the legal risk was neutralized as a result of reasons linked to the annual rate of charge for structured loan agreements (in particular the formal absence of this rate in the fax preceding the agreement). These reasons had led to the legal decision handed down by the Tribunal de Grande Instance de Nanterre on February 8, 2013, concerning the loans to the General Council of Seine-Saint-Denis.

In 2015, three decisions were handed down by the Tribunal de Grande Instance de Nanterre after a first hearing. A single decision gave rise to a solidary condemnation of Dexia Credit Local and CAFFIL by reason of the failure of Dexia Credit Local to inform and warn customers when the loan was marketed in 2007, while condemning the borrower to repay CAFFIL the total sum due.

As of December 31, 2015, all these decisions were being appealed in the Cour d'appel de Versailles, except for disputed issues for which a financial transaction was found.

As of the same date, 88 borrowers in litigation had signed a financial agreement with SFIL/CAFFIL and Dexia Credit Local to settle the issue and put an end to legal proceedings, within the framework of the support funds set up by the State to find a solution to the problem of the most sensitive structured loans negotiated by local governments and public healthcare facilities (see General business environment).

3.2 – TAX RISK

In 2015, French tax authorities investigated the income declared and the tax paid by CAFFIL, subsidiary of SFIL, for 2012 and 2013. In the tax assessment, the tax authorities expressed their disagreement with the tax treatment of the following two points: the taxation in Ireland of the income from the Dublin branch (formerly Dexia Municipal Agency), which has now been closed, and the deductibility of provisions for non-performing loans.

CAFFIL recorded a provision for additional income tax in the amount of EUR 38 million. CAFFIL, nonetheless, does not agree with the position of the tax authorities and will appeal within the framework of legal recourse allowed by current tax regulations.

4. Operational risk and permanent control

4.1 – OPERATIONAL RISK

SFIL defines operational risk as the risk of loss resulting from the lack of adaptation or failure on the part of internal processes, staff, systems and also external events. It includes the risks linked to the security of IT systems, as well as legal and reputation risks, but it excludes strategic risks. This definition is in line with the formulation of the Basel Committee. Management procedures for operational risks apply to all of the operating divisions of SFIL.

SFIL's policy with regards to the measurement and management of operational risks involves identifying and evaluating any and all risks as well as existing efforts to attenuate and control them in order to verify whether the level of residual risk is acceptable or not. This policy is complemented by the management of the security of IT systems, by a contingency plan to ensure business continuity, and if required by insuring against certain risks.

The policy applied involves three main processes: the collection of operational incidents, the mapping of operational risks, and the monitoring of key operational risk indicators.

The collection and systematic analysis of operational incidents also provides the information necessary to evaluate SFIL's exposure to operational risk. The process of collecting incidents and operational losses not only allows SFIL to comply with regulatory requirements, but also to gather key data in order to improve the quality of its internal control system.

In addition to the information collected on the incidents and losses, the main operational risks are regularly identified and evaluated by taking into account existing systems and controls in order to define SFIL's risk profile. This mapping is carried out through an evaluation of the operating divisions with the support of the Operational Risks and Permanent Control division. In light of results, action plans may be set up to control the level of risk.

This organization is complemented by key operational risk indicators that make it possible to monitor in an ongoing and dynamic manner the development of operational risks at SFIL.

The management of operational risks is piloted by the Operational Risks and Permanent Control division in the Risks division. It relies on a network of correspondents in the operating divisions, who are in charge of the identification and monitoring of risks and operational incidents.

Executive officers, the members of the Executive Committee and of the Board of Directors are regularly informed of changes in the mapping of operational risks, major operational incidents and key indicators of operational risks.

4.2 – PERMANENT CONTROL

Permanent control must provide assurance of the efficiency and reliability of the risk control system, the quality of accounting and financial information, the quality of information systems, and the existence and quality of key controls in all activities to allow coverage of major risks, regardless of their nature.
Permanent Control, excluding compliance, is piloted by the Operational Risks and Permanent Control division, which is a part of the Risks division, in order to maintain synergies with operational risk management practices, the security of IT systems, and of business continuity. This organization is based on a network of correspondents in the operating divisions in charge of carrying out and monitoring controls.

5. Security of means of payment

The means of payment managed by SFIL for its own activity or as the managing institution of CAFFIL or the service provider of La Banque Postale include the following:

- the SWIFT and TARGET2 networks, for the execution of interbank payments related to trades negotiated by the front office operators of the Market Activities Operating division and of requests for the transfer of funds made by other divisions of SFIL (mainly payment of invoices in foreign currencies);
- the SCBCM network (Ministerial budget and accounting control unit), used for payment and collection of CAFFIL loans of CAFFIL to the public and for the services provided on behalf of La Banque Postale;
- the CORE system (Retail clearing house), used for most payments to customers of CAFFIL with bank accounts and for payment of invoices in euros;
- in addition, certain invoices can be paid by check.

SFIL does not make means of payment available to its customers or those of CAFFIL.
Various procedures and systems are in place to ensure the security of means of payment, including payment processes under the responsibility of the back offices, segregation of duties, clearly defined rules for validating individual payments, secure message management, business continuity plan, specific controls related to compliance, etc.

Operating results

1. Consolidated financial statements prepared in accordance with IFRS

At the end of 2015, the SFIL Group posted a net consolidated loss of EUR -59 million, with outstanding loans (on the balance sheet) of EUR 84 billion as of this date. The Group's CET1 solvency ratio stood at 24.7%, confirming its financial strength.

This loss in 2015 was mainly due to three non-recurring items:
- recognition of the Group's contribution to the increased support fund for public healthcare facilities in the amount of EUR -20 million before tax,
- accounting for volatility factors linked to the valuation of the derivative portfolio in the amount of EUR -5 million before tax, and
- a provision for tax risk of EUR 38 million.

Excluding non-recurring items[1], there was a net loss of EUR -4.6 million.

An item-by-item analysis of this change highlights the following elements.
- Net banking income for 2015 was EUR +86 million. It reflects an increase of EUR +11 million compared with the previous year, primarily linked to an improvement in margins related to assets on the balance sheet.
- The Group's operating expenses totaled EUR -102 million, up EUR -3 million from 2014. The Group posted an increase in spite of its first contribution to the support fund for a single solution in the amount of EUR 7 million.
- At EUR -14 million, the cost of risk, basically corresponded to the EUR 20 million contribution that SFIL will make to the support fund for public healthcare facilities, minus a reversal of specific provisions for EUR 6 million.

2. Annual financial statements prepared in accordance with French GAAP

SFIL posted a net loss of EUR 4.4 million at the end of 2015, compared with a loss of EUR 3.6 million in 2014.
Net banking income stood at EUR 1.0 million and its operating expenses net of re-billing totaled EUR -3.6 million.
The balance sheet of SFIL includes the refinancing granted to its subsidiary CAFFIL in the amount of EUR 5.5 billion for the portion of over-collateralization required as a result of its SCF status, as well as a portfolio of investment securities totaling EUR 2.3 billion and through its cash management activities, a portfolio of placement securities exclusively comprised of French Treasury bonds for EUR 415 million.

Shareholding

SFIL acquired all the shares of CAFFIL on January 31, 2013 for EUR 1. It thereby holds 100 % of the Company.
There was no trading of the Company's shares in 2015.

Participating interest in 2013 representing more than 66% of the capital
* CAFFIL SA with a share capital of EUR 1,315,000,000

Invoice payment periods

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

Trade payables amounted to EUR 1.1 million as of December 31, 2015, and they date to less than 30 days.

As of December 31, 2014, there were no trade payables on the balance sheet.

Proposed distribution of profit

Given the results of year 2015, the annual general meeting of May 26, 2016, will not be asked to distribute a dividend.
The loss recorded in 2015, namely EUR 4,369,388.78, will be debited to "Retained earnings". This allocation will result in a negative balance of EUR 10,003,800,24 for the "Retained earnings" account.

Non-deductible costs and expenses

Pursuant to the provisions of article 223 *quater* of the French General Tax Code, it is specified that during the past year the total sum of non-deductible costs and expenses covered by article 39-4 of the French General Tax Code amounted to EUR 38,605.63, a sum which did not result in additional corporate income tax given the net loss incurred by the Company.
The amount of general operating expenses reintegrated following a definitive tax adjustment (articles 223 *quinquies*, 39-5 and 54 *quater*) of the French General Tax Code) is nil given the absence of any adjustment.

Research and development

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

3. Monetary and Financial Code indicator of return on assets

Article R.511-16-1 of the Monetary and Financial Code, created by decree 2014-1315 of November 3, 2014, stipulates that credit institutions publish in their annual financial report their return on assets, defined as the ratio of net income to the balance sheet total. For 2015, this ratio stood at -0.07% for the consolidated IFRS accounts and at -0.03% for the French GAAP accounts.

(1) Restatements of non-recurring items represent:

• a net sum after tax of EUR -3.3 million for the review of the valuation of derivatives against Eonia, the assessment of hedged risks, and the change in the IFRS 13 result;

• EUR -13.1 million (net impact after tax) for the contribution to the multi-year support fund for public healthcare facilities;

• EUR -38.2 million as a provision for tax risk.

4. SFIL's income for the last five years

EUR thousands	2011	2012	2013	2014[2]	2015
FINANCIAL POSITION					
Share capital	37	74	130,000	130,000	130,000
Number of shares	5,315	5,315	9,285,725	9,285,725	9,285,725
RESULTS OF OPERATIONS (EUR MILLIONS)					
Revenues[1]	–	–	112	119	75
Income before income tax, amortization, depreciation and contingencies net of reversals	(0)	(0)	(2)	(4)	(3)
Income tax	-	-	-	(1)	(1)
Income after income tax, amortization, depreciation and contingencies net of reversals	(0)	(0)	(2)	(4)	(4)
Exceptional distribution	–	–	–	–	–
Dividend	–	–	–	–	–
PER SHARE DATA (EUR)					
Revenues	–	–	12.05	12.78	8.11
Income after income tax, before amortization, depreciation and contingencies net of reversals	(2.06)	(1.72)	(0.21)	(0.33)	(0.14)
Income tax	–	–	–	(0.11)	(0.13)
Income after income tax, amortization, depreciation and contingencies net of reversals	(2.06)	(1.72)	(0.21)	(0.39)	(0.47)
Exceptional distribution	–	–	–	–	–
Dividend per share	–	–	–	–	–

(1) Revenues consist of the following items:
- interest and similar income, net of macro-hedging costs,
- fee income,
- net income on foreign exchange transactions,
- other operating income.
(2) Data concerning 2014 have been adjusted in relation to the publication 2014.

Dexint Developpement, which subsequently became SFIL, did not operate before 2013.

5. Statutory Auditors' fees

EUR thousands	Mazars				Deloitte & Associés			
	Amount including VAT		%		Amount including VAT		%	
	2014	2015	2014	2015	2014	2015	2014	2015
Audit								
Audit, certification and review of the annual and consolidated financial statements	447	445	68%	100%	459	469	100%	100%
including SFIL	*150*	*139*	*23%*	*31%*	*150*	*137*	*33%*	*29%*
Other tasks	–	–	–	-	-		-	-
Subtotal	**447**	**445**	**68%**	**100%**	**459**	**469**	**100%**	**100%**
Other services								
Legal, tax, labor issues	–	–	–	–	–	–	–	–
Internal audit	–	–	–	–	–	–	–	–
Other (specify if > 10% of audit fees)[1]	210	–	32%	–	–	–	–	–
Subtotal	**210**	**–**	**32%**	**–**	**–**	**–**	**–**	**–**
TOTAL	**657**	**445**	**100%**	**100%**	**459**	**469**	**100%**	**100%**

(1) It concerns an audit on pricing models for interest rate products.

Outlook

The year 2015 was marked by the significant development of the structure set up by the State in 2013 to finance the French local public sector through SFIL and its subsidiary CAFFIL together with La Banque Postale and Caisse des Dépôts et Consignations. The partnership between SFIL and La Banque Postale led to the emergence of a major player in the local public sector in France.

It was also in this year that the State chose, with the approval of the European Commission on May 5, 2015, to entrust SFIL with a mission in export credit refinancing.

For SFIL and its subsidiary CAFFIL, 2016 will be a year in which to consolidate these missions and to report positive results.

It is in this perspective that CAFFIL plans to issue a volume of EUR 7 billion in *obligations foncières*. A first public issue of *obligations foncières* was launched at the beginning of the year with two benchmark *tranches* with maturities of 6 years and 15 years, for a total of EUR 1.5 billion.

The resources thus culled will bolster the partnership with La Banque Postale and finance SFIL's first operations in the new business line that is export credit refinancing. The contracts now being negotiated should soon be operative.

Finally, the efforts to reduce the sensitivity of structured loans will remain a priority in 2016 with the efficiency of the creation of the two support funds, since the increase of the fund for local governments was increased to EUR 3 billion and the fund for public healthcare facilities to EUR 400 million.

Information about the capital and shares

1. Share capital, number and types of shares

The share capital of SFIL is EUR 130,000,150. It is divided into 9,285,725 shares, each carrying one voting right and not subject to any pledge.
Shares are divided into two categories:
- 7,428,580 ordinary shares,
- 1,857,145 preferred shares issued in accordance with article L.228-11 of the French Commercial Code (Code de commerce) and having the rights and obligations defined in the bylaws.

There are no other securities that grant rights to the capital of SFIL.

2. Shareholding structure

The share capital of SFIL is held as follows:
- 75% by the French State via the Agence des Participations de l'État (French government shareholding agency), i.e. 6,964,293 ordinary shares;
- 20% by Caisse des Dépôts et Consignations, i.e. 1,857,145 preferred shares; and
- 5 % by La Banque Postale, i.e. 464,287 ordinary shares.

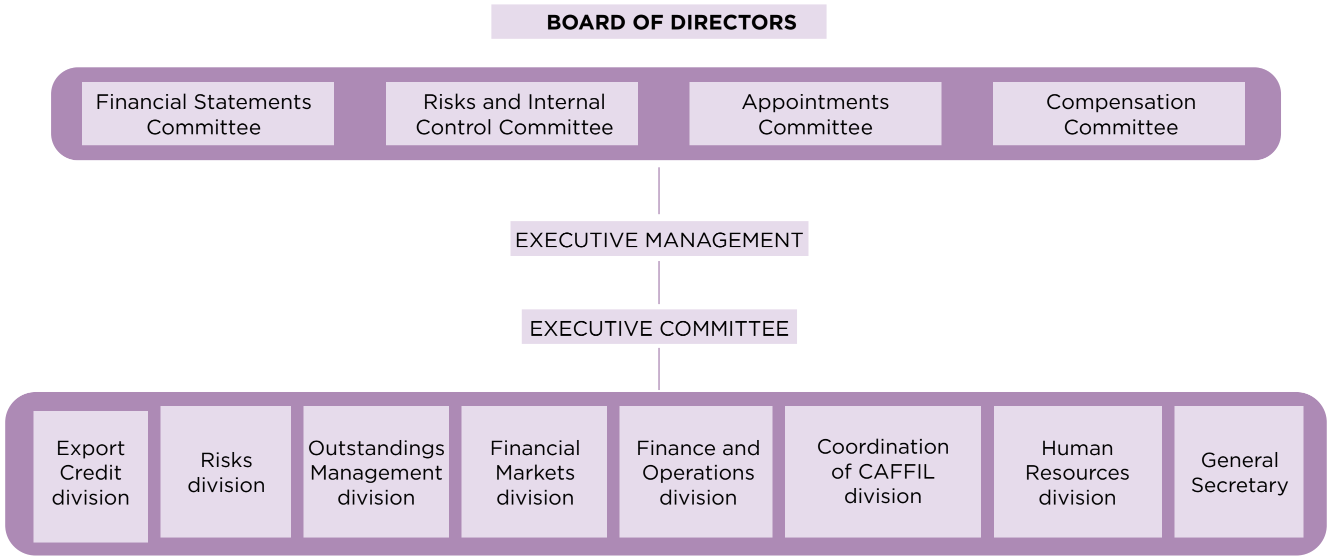
3. Dividends paid over the last three years

Pursuant to the provisions of article 243bis of the French General Tax Code, no dividends were paid out over the last three years.

4. Report on delegations of authority granted to the Board of Directors by the shareholders' meetings

Pursuant to the provisions of article L.225-100 of the French Commercial Code, it is specified that no delegations of authority were granted to the Board of Directors by the general shareholders' meeting in respect of capital increases by application of articles L.225-129-1 and L.225-129-2 of the French Commercial Code.

Organization chart



Composition of the Board of Directors (March 1, 2016)

Philippe Mills

Chairman and Chief Executive Officer

Jean-Pierre Balligand
Independent member of the Board of Directors

Catherine Boyaval
Employee representative

Pascal Cardineaud
Employee representative

Delphine de Chaisemartin
Member representing
Caisse des Dépôts et Consignations
as shareholder

Lorraine Coudel
Employee representative

Patrick Galland
Employee representative

Frédéric Guillemin
Employee representative

Cathy Kopp
Independent member of the Board of Directors

Françoise Lombard
Member representing the State as shareholder

Chantal Lory
Independent member of the Board of Directors

Emmanuel Massé
Member representing the State as shareholder

Serge Morvan
Member representing the State as shareholder

Françoise de Panafieu
Independent member of the Board of Directors

Rémy Weber
Member representing La Banque Postale
as shareholder

Concerning the organization of executive management, readers are reminded that the Board of Directors' meeting of January 31, 2013, chose to combine the roles of Chairman of the Board of Directors and Chief Executive Officer. This principle of non-separation of roles was approved by the French regulatory authority (ACPR).

Information on the members of the Board of Directors

Pursuant to article L.225-102-1 of the French Commercial Code, the following list presents the terms and functions of each corporate officer of SFIL.

Philippe Mills
Principal function: Chairman of the Board of Directors and Chief Executive Officer of SFIL

Born November 4, 1965 – French
Dates of beginning and end of mandate:
January 31, 2013-2018
Date of first mandate: January 31, 2013

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

Mandates and functions
- SFIL, Chairman of the Board of Directors, Chief Executive Officer, Chairman of the Executive Committee
- CAFFIL, Chairman of the Supervisory Board
- European Investment Bank, Alternate Expert, Board of Directors
- European Association of Public Banks - EAPB, Member of the Board of Directors

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

Members of the Board of Directors representing the shareholders

Corso Bavagnoli
Principal function: Head of Financing the Economy department, Ministry of the Economy, Industry and Digital Affairs

Born July 21, 1973 – French
Dates of beginning and end of mandate:
January 31, 2013-August 26, 2015
Date of first mandate: January 31, 2013

Professional address: Ministry of the Economy,
Industry and Digital Affairs
139, rue de Bercy
75572 Paris Cedex 12

Mandates and functions
- Ministry of the Economy, Industry and Digital Affairs, Financing the Economy department (since June 2015)
- Ministry of Finances and Public Accounting, Deputy Director for Banks and General Interest Financing (since June 2015)
- SFIL, Member of the Board of Directors, Member of the Financial Statements Committee, Member of the Risks and Internal Control Committee (until August 26, 2015)
- Dexia Credit Local, Member of the Board of Directors (since July 2015)

Biographical data
- Graduate of l'Ecole Nationale Supérieure des Mines de Paris (option: industrial economy)
- Graduate of l'Institut d'Etudes Politiques de Paris (option: public service)
- Graduate of l'Ecole Nationale d'Administration
- 2001-2005: Assistant Inspector, then Inspector of Finances, Ministry of Finances and Public Accounting
- 2005-2006: Deputy Bureau Chief, Aeronautics, Defense, Audiovisual, Agence des Participations de l'Etat
- 2006-2008: Bureau Chief, Preparation of Summits and of the International Financial System, Treasury and Economic Policy division
- 2008-2009: Bureau Chief, EDF and other holdings, Agence des Participations de l'Etat
- 2009-2012: Counselor for Economic and Financial Affairs, Office of the Prime Minister
- 2012-2015: Deputy Director BANCFIN (banks and general interest financing) Financing the Economy department, Treasury division
- Since 2015: Bureau Chief, Financing the Economy department, Treasury division

N.B.: A professional address is only indicated for staff still working. For the others, all correspondance should be sent by post to SFIL – 1-3 rue du Passeur de Boulogne – 92130 Issy-les-Moulineaux, France.

Delphine de Chaisemartin
Principal function: Head of the Financial Institutions and Capital Investment unit in the Group Management division of Caisse des Dépôts et Consignations

Born July 14, 1970 – French
Dates of beginning and end of mandate:
January 31, 2013-2018
Date of first mandate: January 31, 2013

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

Mandates and functions
- Caisse des Dépôts et Consignations, Group management division, Financial Institutions and Capital Investment unit
- SFIL, Member of the Board of Directors, Member of the Appointments Committee, Member of the Compensation Committee, Member of the Financial Statements Committee, Member of the Risks and Internal Control Committee
- Bpifrance Financement, Member of the Board of Directors, Member of the Appointments and Compensation Committee, Member of the Financing and Guarantees Committee, Member of the Audit Committee, Member of the Risks Committee, Member of the Innovation Committee
- La Banque Postale Collectivités Locales, Member of the Board of Directors
- Innovation Capital, Member of the Board of Directors
- Qualium Investissement, Member of the Board of Directors, Member of the Investment Consulting Committee

Biographical data
- Graduate of l'Ecole de Management de Lyon
- Degree in Accounting and Finance
- MBA Financial Markets, Toronto, Canada
- 1993-1997: Fixed Income Risks Management, Compagnie parisienne de réescompte (CPR)
- 1997-2002: Audit Manager, Financial Services, Pricewaterhousecoopers (PwC)
- 2002-2006: Deputy then Director, Financial Control, Société Générale Investment Banking (SGCIB).
- 2006-2012: Managing Director and COO, Fixed Income Activities for America, then COO, Special Situation Group, Société Générale New York (SCNY), United States
- Since 2012, Strategic Holdings and Subsidiaries in Financial Services, Group Management division, Caisse des Dépôts et Consignations

Françoise Lombard
Principal function: Deputy Director of Equity Holdings, Services and Finances, Agence des Participations de l'État

Born April 6, 1981 – French
Dates of beginning and end of mandate:
October 13, 2014-2018
Date of first mandate: October 13, 2014

Professional address: Agence des Participations
de l'État – 139, rue de Bercy
75572 Paris

Mandates and functions
- Agence des Participations de l'État, Deputy Director of Equity Holdings, Services and Finances
- SFIL, Member of the Board of Directors, Member of the Appointments Committee, Member of the Compensation Committee
- Imprimerie Nationale, Member of the Board of Directors, Member of the Audit Committee, Member of the Strategic Committee, Member of the Compensation Committee
- La Française des Jeux, Member of the Board of Directors, Member of the Audit Committee, Member of the Strategic Committee, Member of the Compensation Committee
- Radio France, Member of the Board of Directors, Member of the Audit Committee, Member of the Compensation Committee
- EPIC Bpifrance, Member of the Board of Directors (since April 2015)

Biographical data
- Graduate of l'Institut d'Etudes Politiques de Paris
- Graduate of l'Ecole Nationale d'Administration
- 2008-2010: Deputy then Bureau Chief, Budget, General Secretariat, Financial Affairs, Ministry of Defense
- 2010-2012: Deputy Bureau Chief, Sub-Saharan Africa and Agence Française de Développement, Treasury division
- 2012-2014: Chargée d'affaires, La Poste, Orange and Other Holdings, Agence des Participations de l'État
- Since 2014: Deputy to the Director, Services and Finances, Agence des Participations de l'État, Administratrice civile hors classe

Emmanuel Massé
Principal function: Head of Macroeconomic Policies and European Affairs, Treasury division

Born June 11, 1973 – French
Dates of beginning and end of mandate:
August 26, 2015-2018
Date of first mandate: August 26, 2015

Professional address: Direction Générale du Trésor
139, rue de Bercy – 75572 Paris

Mandates and functions
- Treasury division, Head of Macroeconomic Policies and European Affairs,
- SFIL, Member of the Board of Directors (since August 26, 2015), Member of the Financial Statements Committee, Member of the Risks and Internal Control Committee (since August 27, 2015),
- Banque de France, General Board, Alternate Censor (July to December 2015)
- Institut d'Emission d'Outre-Mer, Member of the Supervisory Board (July to December 2015)

Biographical data
- Master's degree Probabilities and Applications
- Institut des Actuaires
- Graduate of ENSAE, Statistics-Economics
- Graduate of l'Ecole Polytechnique
- 1999-2002; Chargé d'études, INSEE
- 2002-2005: Bureau Chief, Ministry of Ecology
- 2005-2006: Professor of Finance and Insurance, ENSAE
- 2006-2008: Bureau Chief, Industrial Policy, Research and Innovation, Treasury division
- 2008-2011: Head of Economic Analysis in the Financial Sector, Treasury division
- 2011-2015: Assistant Director, Sector-based Policies, Treasury division

Serge Morvan
Principal function: Prefect of Yvelines

Born September 20, 1959 – French
Dates of beginning and end of mandate:
January 31, 2013-2018
Date of first mandate: January 31, 2013

Professional address: Préfecture des Yvelines
1, rue Jean Houdon
78010 Versailles Cedex

Mandates and functions
- Département des Yvelines, Prefect (since August 2015)
- SFIL, Member of the Board of Directors
- Société de Grand Paris, Member of the Supervisory Board (until November 2015)
- Etablissement Public National d'Aménagement et de Restructuration des Espaces Commerciaux et Artisanaux (EPARECA), Member of the Board of Directors
- Agence Nationale pour la Rénovation Urbaine (ANRU), Member of the Board of Directors (until September 2015)
- Agence de Services et de Paiement (ASP), Member of the Board of Directors
- Ministry of Government Reform, Decentralization and the Civil Service, Director General of Local Governments (until August 2015)
- Other mandates devolving from his functions as Prefect of Yvelines (since August 2015)

Biographical data
- Graduate of l'Ecole Nationale d'Administration
- Master's degree in Mathematics
- 1994-1996: Administrateur civil 2ème classe, Ministry of the Interior and Local Development, Deputy Bureau Chief, Financial Contribution of the State
- 1996-1998: Bureau Chief, Financial Contribution of the State
- 1998-2000: Sous-Prefect of Saint Benoît
- 2000-2002: Technical Counselor to the Minister of the Interior, Administrateur civil hors classe
- 2002-2004: General Secretary for Regional Affairs, Préfecture d'Alsace
- 2004-2008: General Director of Departmental Services, Saône-et-Loire
- 2008-2010: General Secretary, Préfecture de Seine-Saint-Denis
- 2010-2012: General Director, Services for the General Council, Seine-Maritime
- 2012-2015: General Director of Local Governments, Ministry of Government Reform, Decentralization and the Civil Service
- Since August 2015, Prefect of Yvelines

Rémy Weber
Principal function: Deputy Chief Executive Officer, Director of Financial Services of La Poste

Born November 18, 1957 – French
Dates of beginning and end of mandate:
December 5, 2013-2018
Date of first mandate: December 5, 2013

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

Mandates and functions
- La Poste, Deputy CEO, Director of financial services
- SFIL, Member of the Board of Directors, Member of the Financial Statements Committee, Member of the Risks and Internal Control Committee
- La Banque Postale, Chairman of the Executive Board
- La Banque Postale Asset Management, Chairman of the Supervisory Board, Member of the Compensation Committee, Chairman of the Compensation Committee (until June 2015)
- CRSF Métropole, permanent representative of La Banque Postale, Manager

Biographical data
- Graduate of l'Institut d'Etudes Politiques d'Aix-en-Provence and of HEC
- As of 1983: projects with large corporate clients, Banque Française du Commerce Extérieur
- 1987-1989: International Affairs, Treasury division
- 1990: Investments, Mergers and Acquisitions, Financière BFCE
- 1993: Regional Director, Lyonnaise de Banque, then General Secretary and COO (1995-1996), Deputy CEO (1996-1999) and CEO (1999-2002)
- 2002-2013: Chairman and Chief Executive Officer, CIC Lyonnaise de Banque, Member of the Executive Board then of the Executive Committee of the CIC Group
- Since October 15, 2013: Chairman of the Executive Board, La Banque Postale, Deputy Chief Executive Officer, Director of Financial Services of La Poste

Rémy Weber (continued)

- CRSF DOM, permanent representative of La Banque Postale, Manager
- SCI Tertiaire Saint Romain, permanent representative of La Banque Postale, Manager
- Sopassure, Member of the Board of Directors, Chairman and Chief Executive Officer (until March 2015)
- CNP Assurances, Member of the Board of Directors, Member of the Audit Committee (until September 2015), Member of the Strategic Committee (since September 2015)
- Le Campus de La Banque Postale, Vice Chairman of the Board of Directors, Member of the Board of Directors
- La Banque Postale Assurance Santé, Member of the Board of Directors, Chairman of the Board of Directors (until January 2015)
- La Banque Postale Assurance IARD, Chairman of the Board of Directors, Chairman of the Compensation Committee
- SF2, Chairman of the Board of Directors
- La Banque Postale Prévoyance, Chairman of the Board of Directors, Chairman of the Appointments and Compensation Committee
- Association Française des Banques (AFB), Vice President
- Fédération Bancaire Française (FBF), representative of the Association Française des Banques, Member of the Executive Committee
- Poste Immo, Member of the Board of Directors
- Paris Europlace, Member of the Board
- Opéra de Lyon, Chairman of the Board of Directors (since June 2015)

Independent members of the Board of Directors

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

Born May 30, 1950 – French
Dates of beginning and end of mandate:
January 31, 2013-2018
Date of first mandate: January 31, 2013

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

Mandates and functions

- La Banque Postale, Chairman of the Committee on the Orientation of Local Finances
- SFIL, Member of the Board of Directors, Member of the Appointments Committee, Member of the Compensation Committee
- Société Nationale Immobilière (SNI), Member of the Supervisory Board and Chairman of the Strategic Orientation Committee
- ADOMA, Member of the Board of Directors and Chairman of the Strategic Committee
- Société d'équipement du department de l'Aisne (SEDA), Chairman and Chief Executive Officer (until April 2015)
- Conseil Général de l'Aisne, member (until April 2015)

Biographical data

- Law degree and a graduate degree in public law
- Elected official (1981-2013)
- Member of the Finance Commission (1981-2012)
- President (1997-2002) and member (1997-2012) of the Supervisory Commission of Caisse des Dépôts
- Delegated President, APVR (Association des petites villes de France)

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

Born April 13, 1949 – French
Dates of beginning and end of mandate:
January 31, 2013-2018
Date of first mandate: January 31, 2013

Mandates and functions

- SFIL, Member of the Board of Directors, Chair of the Appointments Committee, Chair of the Compensation Committee
- Schneider Electric SA, Member of the Board of Directors, Member of the Compensation, Human Resources and Social Responsibility Committee

Biographical data

- 1973: After studying mathematics, hired by IBM France
- 1992: Head of Human Relations, IBM France
- 1996: Vice President, Human Resources, Storage Systems division, IBM Corp.
- 2000: Chair and CEO, IBM France
- 2002-2009: Head of group Human resources, Accor
- 2003-2009: Chair of the social commission of Service Professions, MEDEF
  2006-2007: Leads MEDEF negotiations on diversity and modernization of the labor market

Chantal Lory **Principal function: Independent member of the Board of Directors**	
Born April 11, 1953 – French Dates of beginning and end of mandate: June 5, 2014-2018 Date of first mandate: June 5, 2014 **Mandates and functions** • SFIL, Member of the Board of Directors, Chair of the Financial Statements Committee, Chair of the Risks and Internal Control Committee • Imprimerie Nationale, Member of the Board of Directors, Member of the Audit Committee, Chair of the Appointments and Compensation Committee	**Biographical data** • Graduate of l'Institut d'Etudes Politiques de Paris (section Eco-Fi) • Graduate of Cesa Finance • 1979-1984: Assistant Vice President, Commercial Banking, American Express Bank • 1984-1989: Vice President, Corporate Finance, Investment Banking, The Chase Manhattan Bank • 1989-1992: Director, Mergers & Acquisitions, Trianon France, Groupe Marceau Investissements • 1992-1997: Chief Executive Officer France, HSBC Investment Bank, Paris Branch • 1997-2008: Director, Financial Management, Cofinoga, then CFO of the holding company, then Director for Strategy and External Relations in the LaSer-Cofinoga Group • 2009-2014: Member of the Executive Board, then of the Executive Committee, La Banque Postale, Chair of the Executive Board, La Banque Postale Financement, then of La Banque Postale Asset Management

Françoise de Panafieu **Principal function: Independent member of the Board of Directors**	
Born December 12, 1948 – French Dates of beginning and end of mandate: January 31, 2013-2018 Date of first mandate: January 31, 2013 **Mandates and functions** • SFIL, Member of the Board of Directors, Member of the Appointments Committee, Member of the Compensation Committee (since March 19, 2015) • Honorary Member of the National Assembly – former Minister • La Société des Amis du musée des Arts Premiers (musée Quai Branly), Member of the Board of Directors • Les Rencontres d'Arles Photographie, Member of the Board of Directors • Fondation des Parcs et Jardins de France, Member of the Board	**Biographical data** • Institut Français des Administrateurs (IFA) • License in Sociology • Diploma from the Chamber of Commerce and Industry of Paris • 1983-1995: Deputy Mayor of Paris, in charge of Culture • 1986-2012: Deputy of Paris to the National Assembly • 1995: Minister of Tourism • 1996-1997: Ambassador delegate of France to UNESCO • 1997-2002: Deputy Mayor of Paris, in charge of the Environment • 2001-2008: Mayor of the 17th Arrondissement of Paris

Members of the Board representing the employees

Catherine Boyaval **Principal function: Head of Regulatory and Finance Solutions, Steering of IT Strategic Projects, SFIL**	
Born July 12, 1958 – French Dates of beginning and end of mandate: April 24, 2013-2018 Date of first mandate: April 24, 2013 *Professional address:* SFIL 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux **Mandates and functions** • SFIL, Head of Regulatory and Finance Solutions, Steering of IT Strategic Projects • SFIL, Member of the Board of Directors	**Biographical data** • Degree in Accounting and Certification • Graduate of ESLSCA (option: tax law) • 1996-2012: Successively Head of Management Control in the commercial network, of banking production accounting, of Quality and IT Accounting, of coordination of IT, then Deputy Accounting Director, Dexia Credit Local • 2013: Head of Regulatory and Finance Solutions, Steering of IT Strategic Projects, SFIL

Pascal Cardineaud **Principal function: Financial Engineering Manager, SFIL**	
Born August 12, 1961 – French Dates of beginning and end of mandate: April 24, 2013-2018 Date of first mandate: April 24, 2013 *Professional address:* SFIL 1-3, rue du Passeur de Boulogne 92130 Issy-les-Moulineaux **Mandates and functions** • SFIL, Financial Engineering Manager • SFIL, Member of the Board of Directors, Member of the Appointments Committee, Member of the Compensation Committee	**Biographical data** • MS in Sciences and Financial and Accounting Techniques (DECF and MSTCF) • 1986-1990: Worked at a broker's and negotiated in stock and derivative markets • 1990-1992: Back office operator on polyvalent markets, La Compagnie Financière Edmond de Rothschild Banque • 1992-1994: Head of back office markets and depository, Caisse Central du Credit Mutuel • 1997-2001: Financial Engineer, Asset Management, Dexia CLF Banque • 2001-2002: Director, Marketing, Dexia Credit Local • Since 2013: Financial Engineering Manager, SFIL

Lorraine Coudel
Principal function: Procurement Officer, SFIL

Born December 1, 1959 – French
Dates of beginning and end of mandate:
April 24, 2013-2018
Date of first mandate: April 24, 2013

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

Mandates and functions
- SFIL, Procurement Officer
- SFIL, Member of the Board of Directors, Member of the Financial Statements Committee (since March 19, 2015)

Biographical data
- Graduate degree in Finance (DESS)
- Agronomic engineer (ENSAR), Master's degree, Agri-food business (INA Paris-Grignon)
- 1983-1987: Chargée d'affaires, INODEV, then ANVAR
- 1987-1991: General Secretary, ASSURECO
- 1991-1997: Management controller, Credit Local de France
- 1997-2002: General Secretary of a regional division, Dexia Credit Local
- 2002-2010: Various functions, Human Resources, Dexia Credit Local
- 2011-2013: Head of Resources, Dexia Credit Local
- Since 2013: Procurement Officer, SFIL

Patrick Galland
Principal function: Deputy Manager, Financial Planning, SFIL

Born February 27, 1966 – French
Dates of beginning and end of mandate:
November 13, 2015-2018
Date of first mandate: November 13, 2015

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

Mandates and functions
- SFIL, Deputy Manager, Financial Planning
- SFIL, Member of the Board of Directors (since November 13, 2015)

Biographical data
- Graduate of l'Ecole Nationale de la Statistique et de l'Administration Economique (specialization: Finance and Actuary)
- 1990-1992: Auditor, Guy Barbier et Associés, Arthur Andersen
- 1992-1996: Management Controller, Group Credit Lyonnais
- 1996-1999: Parisbas Group
  - 1996-1998: ALM, Groupe Compagnie Bancaire
  - 1998-1999: Product Development, Marketing, Cofica
- 1999-2013: Dexia Credit Local Group
  - 1999-2008: Financial Planning division
  - 2008-2013: Head of planning and management control
- Since 2013: Deputy Manager Financial Planning division

Frédéric Guillemin
Principal function: Head of Defaults division, Risks division, SFIL

Born April 1, 1963 – French
Dates of beginning and end of mandate:
December 12, 2014-2018
Date of first mandate: December 12, 2014

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

Mandates and functions
- SFIL, Head of Defaults division, Risks division
- SFIL, Member of the Board of Directors, Member of the Risks and Internal Control Committee (since March 19, 2015)

Biographical data
- Ph.D. in Mathematics
- 1987-2000: Cash Management, Mutual funds, Debt Management, Crédit Coopératif
- 2000-2013: New Product Development, Marketing Director, Clientele and Social Media, Head of Defaults division, Dexia Credit Local
- Since 2013: Head of Defaults division, SFIL

Sandrine Vion
Principal function: In charge of CAFFIL's cover pool, SFIL

Born April 22, 1983 – French
Dates of beginning and end of mandate:
April 24, 2013-November 13, 2015
Date of first mandate: April 24, 2015

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

Mandates and functions
- SFIL, In charge of CAFFIL's cover pool (until December 31, 2015)
- SFIL, Member of the Board of Directors (until November 13, 2015)

Biographical documents
- Master's degree in Management Control and Information Systems
- 2006-2013: in charge of financial operations, then methods and processes, Management of Outstandings, Dexia Credit Local
- 2013-2015: Management Controller, SFIL
- 2015: In charge of CAFFIL's cover pool

Representative of the Works Council

Sandrine Barbosa

Statutory Auditors

The Statutory Auditors of SFIL and their alternates are:

Mazars

Exaltis – 61, rue Henri Regnault – 92075 – La Défense Cedex

represented by Virginie Chauvin, Partner, and Anne Veaute, Partner

Appointed by the Ordinary and Extraordinary Shareholders' Meeting of January 29, 2013, to replace the firm Caderas Martin, until after the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2016.

Alternate : Franck Boyer
Appointed by the Ordinary Shareholders' Meeting of October 17, 2013, to replace Anne Veaute, until after the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2016.

Deloitte & Associés

185, avenue Charles de Gaulle – 92524 Neuilly-sur-Seine Cedex

represented by Charlotte Vandeputte, Partner, and José-Luis Garcia, Partner

Alternate: BEAS, represented by Mireille Berthelot, Partner

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

Compensation and benefits granted to the members of management bodies in 2015

EUR thousands	Fixed gross compensation	Variable gross compensation	Exceptional gross compensation	Benefits in kind	Total
Philippe Mills [1]	320 [2]	-	-	-	320

(1) Chairman of the Board of Directors and Chief Executive Officer
(2) Excluding reintegration of surplus pension contributions

Board members' fees paid by SFIL

Board members	Fees paid for 2014 (EUR)	Fees paid for 2015 (EUR)
Philippe Mills	/	/
Jean-Pierre Balligand	10,500.00 [1]	14,500.00 [1]
Corso Bavagnoli	/ [2]	/ [2]
Catherine Boyaval	/ [3]	/ [3]
Pascal Cardineaud	/ [3]	/ [3]
Delphine de Chaisemartin	13,500.00 [4]	14,500.00 [4]
Lorraine Coudel	/ [3]	/ [3]
Patrick Galland	/ [3]	/ [3]
Frédéric Guillemin	/ [3]	/ [3]
Cathy Kopp	13,500.00 [1]	18,500.00 [1]
Françoise Lombard	/ [2]	/ [2]
Chantal Lory	10,714.29 [5]	21,500.00 [5]
Emmanuel Massé	/ [2]	/ [2]
Serge Morvan	/ [2]	/ [2]
Françoise de Panafieu	6,250.00	12,500.00 [1]
Sandrine Vion	/ [3]	/ [3]
Rémy Weber	11,250.00 [6]	10,000.00 [6]

(1) Including the amount paid for participation in the Appointments Committee and the Compensation Committee.
(2) Pursuant to the bylaws in keeping with the provisions of law 83-675 of July 26, 1983, on the democratization of the public sector, the mandates of members of the Board of Directors representing the government are not paid.
(3) Pursuant to the provisions of law 83-675 of July 26, 1983, on the democratization of the public sector, the functions of members of the Board of Directors representing the employees are not paid.
(4) Including the amount paid for participation in the Financial Statements Committee, the Risks and Internal Control Committee, the Appointments Committee and the Compensation Committee. The fees are paid to Caisse des Dépôts et Consignations.
(5) Including the amount paid for participation in the Financial Statements Committee and the Risks and Internal Control Committee.
(6) Including the amount paid for participation in the Financial Statements Committee and the Risks and Internal Control Committee. The fees are paid to La Banque Postale.

Employment and environmental information

1. Employment information

1.1 – INFORMATION RELATED TO EMPLOYMENT

SFIL employed 401 people as of December 31, 2015. In 2015, SFIL hired a total of 69 people, including 27 under contracts for an unlimited period of time, 29 under fixed-term contracts and 13 under work-study contracts. Nine interns were also hired under their internship program.

Gender breakdown of employees

Staff presence	2013	2014	2015
Men	157	204	215
Women	168	179	186
TOTAL	**325**	**383**	**401**

1.2 – COMPENSATION AND BENEFITS

Compensation policy

SFIL's Compensation Committee prepares all items related to the compensation policy. Its proposals are submitted to the Board of Directors of SFIL which decides on the appropriate measures and approves the compensation policy.
SFIL defines its compensation policy in accordance with five key principles. The compensation policy must:
- be in line with market practices;
- be transparent;
- comply with regulations;
- ensure equal opportunity;
- guarantee a balance between fixed and variable compensation and motivate employees.

This approach relates to both fixed compensation (not performance-related) and variable compensation (performance-related) and the general principles apply to all employees. The principle of balance between fixed and variable compensation seeks to discourage excessive risk-taking and to encourage a sufficiently flexible and coherent variable compensation policy at SFIL.

Cap on variable compensation

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

Compensation of the Chairman and Chief Executive Officer

Pursuant to the provisions of the decree of 1953 amended by decree 2012-915 of July 26, 2012, related to government control of the compensation of executives of public companies, which apply to SFIL, the annual gross compensation of the Chairman and Chief Executive Officer may not exceed EUR 450,000.
On this basis, the compensation of the Chairman and Chief Executive Officer of SFIL is proposed by the Compensation Committee for the approval of the Board of Directors, subject to the authorization of the Ministry of the Economy and Finance.

Compensation paid to the members of the Management Committee, the general auditor and individuals whose professional activities have a material impact on the Company's risk profile

SFIL's compensation policy contains special provisions applicable to a clearly identified group of people whose duties may impact the risk profile of SFIL.
They include members of the Executive Committee, the general auditor, financial market professionals, risk managers, those engaged in internal control and compliance, and all employees whose variable compensation exceeds EUR 75,000 during a given year.
The compensation of members of the Executive Committee and the General Auditor, with the exception of the Chairman and Chief Executive Officer, is determined by the Board of Directors based on the recommendation made by the Chairman and Chief Executive Officer to the Compensation Committee.
If the variable compensation paid for year N exceeds EUR 75,000, a portion of the variable compensation will be paid on a non-deferred basis (60%) during year N+1, and a portion will be paid on a deferred basis (40%) over three years (starting in the year following that in which it was awarded). This deferred portion will be subject to the level of performance being maintained. This principle of spreading out variable compensation applies to all SFIL employees (including members of the Executive Committee and the General Auditor).
In 2015, the gross compensation paid to the aforementioned group of people totaled EUR 4.2 million and concerned 29 employees.

Gross payroll

In 2015, the annual gross payroll was EUR 26.83 million.

Incentive and profit-sharing schemes

Incentive and profit-sharing schemes exist at SFIL (agreements of June 27, 2014).

Status of employee shareholding

Pursuant to the provisions of article L.225-102 of the French Commercial Code, the employees of the Company and associated companies in the sense of article L.225-180 of the French Commercial Code had no shares in the capital of the Company at the close of the year.

1.3 – LABOR RELATIONS

In 2015, 65 labor-related meetings were organized, with 42 for employee representative issues (works council, health, safety and working conditions, employee delegates) and 23 for trade union discussions.
The professional elections on November 17 were marked by the use of a automated voting system and the average rate of participation was 77%.
As regards collective bargaining, the year 2015 saw the consolidation of commitments to balance intergenerational employment and promote further social dialogue.

The following agreements were signed:
- Agreement of April 20, 2015, on a generation contract;
- Agreement of April 21, 2015, on the creation of an economic and labor-related data base;
- Agreement of September 15, 2015, on electronic voting;
- Agreement of October 2, 2015, on the organization of professional elections.

1.4 – WORK ENVIRONMENT

Relocation of the employees to a new site in Issy-les-Moulineaux began at the end of 2014, and was completed at the beginning of 2015.

2. Environmental information

SFIL has implemented a policy to control its waste and responsibly manage consumables via a paper and internal waste sorting, collection and recycling system (toner, electronic waste, obsolete equipment, etc.) as well as a policy to reduce its paper consumption (printer settings, reduced paper weight, use of recycled paper, Ecolabel ISO14001, etc.). In terms of energy consumption, the head office has an automated LED lighting system with presence detection equipment.
To control CO_2 emissions, the Company has agreed to pay 60% of the cost of public transportation passes for its employees working at the head office.

Additional information

1 - Capital increase reserved for employees

In keeping with the provisions of article L.225-129-6 of the French Commercial Code, every company has the obligation, every three years, to call an extraordinary shareholders' meeting to propose for adoption a resolution for a capital increase reserved for employees of the Company and of companies linked to it if the latter hold less than 3% of its equity.
Consequently, to satisfy these legal obligations, several resolutions will be proposed to the general shareholders' meeting asking it to delegate to the Board of Directors, for a period of 26 months, the competence to increase the capital on one or several occasions for a maximum amount of EUR 100,000 via the issue of new ordinary shares of the Company issued at par and conferring on their holders the same rights as the existing ordinary shares, and reserved to employees of the Company and of the companies linked to it. All powers would have been given to the Board of Directors to carry out this delegation of competence here-above presented.

Since the employees of SFIL benefit from other salary-based savings plans, the shareholders are invited by the Board, after reading the report drawn up by the Statutory Auditors, to reject the resolution relating to this proposed capital increase.

2 - Review of the bylaws

By reason of the decision taken by the Board of Directors on March 24, 2016, on the application of the provisions of part II of the ordinance 2014-948 of August 20, 2014, ratified and modified by law 2015-990 of August 6, 2015, on the governance and operations on the capital of State-owned companies, the general assembly of shareholders will be asked to review the Company's bylaws, in particular in order to align the bylaws on the provisions of the abovementioned ordinance.

3 - Composition of the Board of Directors

As a result of the effective application of the ordinance 2014-948 of August 20, 2014, and in light of the withdrawal of the members of the Board who were named by decree by virtue of the provisions of law 83-675 of July 26, 1983, on the democratization of the public sector, the general assembly of shareholders will be asked to appoint as members of the Board of Directors of the Company Philippe Millls, Jean-Pierre Balligand, Cathy Kopp, Chantal Lory, Françoise de Panafieu, Antoine Saintoyant and Pierre Sorbets.

Likewise, the general assembly of shareholders will be asked to ratify the Board of Directors' decision of March 24, 2016, to name Serge Bayard as a member of the Board of Directors, to replace Rémy Weber.

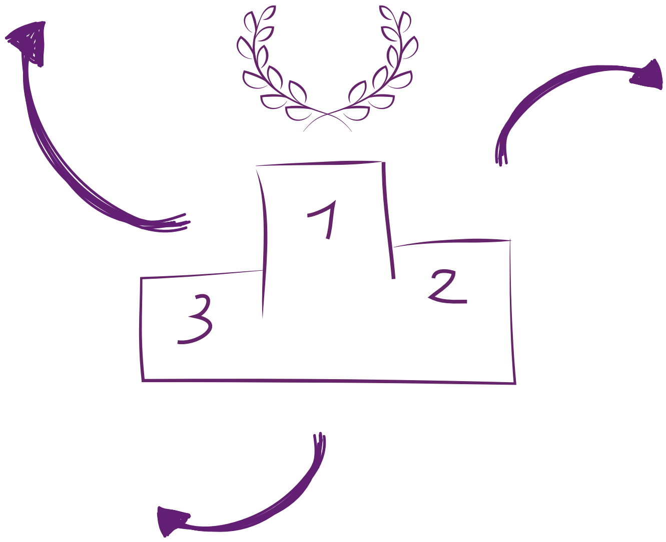
***

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

No convention as stipulated in the last paragraph of article L.225-102-1 of the French Commercial Code requires mention.

SFIL ACTIVITIES

ISSUING BONDS



EUR 15 billion
Issues in three years

EUR 6.2 billion
Issues in 2015

15 to 20 years
Long maturities issued but also 5, 7 and 10 years

> CAFFIL, Europe's leading issuer of public sector secured bonds

> Caisse Française de Financement Local (CAFFIL), a SFIL subsidiary, is recognized and sought after by investors as an issuer of *obligations foncières*. In three years, it has raised EUR 15 billion. The objective is to enable local governments and public healthcare facilities in France to negotiate optimum financing conditions as a result of its high rating and irreproachable risk management.

for more information, visit
SFIL.FR

Corporate governance and internal control

Report of the Chairman of the Board of Directors on internal control

The Chairman of the Board of Directors wished to present a report on the principles and procedures that governed activities at SFIL in 2015(1).

1. Conditions of preparation and organization of the deliberations of the Board of Directors

1.1 – BOARD OF DIRECTORS

The Board of Directors determines SFIL's business strategy and ensures its proper implementation. Subject to the powers expressly conferred to the shareholders' meetings and within the limits of the Company's corporate purpose, it addresses all issues affecting the Company's operations and, through its deliberations, settles all matters concerning it.
It should be noted that the governance of the Company, whose shareholders are the French State, Caisse des Dépôts et Consignations and La Banque Postale, apply the provisions of the *Loi de démocratisation du secteur public* (law on the democratization of the public sector). The date of application of the new provisions linked to ordinance 2014-948 of August 20, 2014, on the governance and operations involving the capital of publicly-owned companies, should be decided by the Board of Directors in 2016.
As of March 2016, the Company's Board of Directors was comprised of 15 members (seven women and eight men). The appointment of the members of the Board of Directors is carried out in keeping with current legislation and the Company's bylaws. Eight members are appointed by decree (three representatives of the French State and five "qualified individuals"), two members are chosen by the shareholders' meeting and five members are elected by the Company's employees. While respecting the specific conditions for appointments linked to the status of SFIL, the members of the Board of Directors are chosen on the basis of their skills and experience with regard to the Company's activities. Four members of the Board of Directors are considered to be independent according to the terms of the AFEP/MEDEF code. The Appointments Committee analyzed the independence of the members of the Board, which was confirmed by the Board of Directors.
Members of the Board of Directors are elected for a term of five years, in line with the *Loi de démocratisation du secteur public* and the Company's bylaws, but different from the recommendation of the AFEP/MEDEF code, which recommends four-year terms. This point will be added to the discussions on governance within the framework of the introduction of ordinance 2014-948.
In 2015, Emmanuel Massé was appointed to replace Corso Bavagnoli as a representative of the State, and Patrick Galland succeeded Sandrine Vion as an employee representative. Philippe Mills assumed the position of Chairman of the Board of Directors and Chief Executive Officer. This principle of non-separation of duties was submitted to the French regulatory authority (*Autorité de contrôle prudentiel et de résolution* – ACPR) for approval. As Chairman of the Board of Directors, Philippe Mills organizes and directs the Board's deliberations, ensures the efficiency of the Company's oversight bodies and participates in the Company's relations with regulatory and supervisory authorities. As Chief Executive Officer, he exercises the broadest powers to act under all circumstances on behalf of the Company. He exercises these powers within the limits of the Company's corporate purpose and subject to the powers expressly conferred by law and the Company's bylaws to the shareholders' meetings and Board of Directors.
An internal rulebook defines the operation of the Company's Board of Directors. More specifically, the aim of these rules is to present the manner in which the Board of Directors can best assume its role as guardian of the common interests of all the Company's stakeholders, including in particular its shareholders, employees and partners. It specifies, in particular, the rights and duties of the members of the Board of Directors.
The Board of Directors meets at least once every quarter. In 2015, the Board of Directors met five times. The members' attendance rate was 84%.
The Chairman and Chief Executive Officer provides the Board members with all information, particularly of a strategic nature, they may need to perform their duties properly.
Prior to Board meetings, members of the Board receive an agenda and a file containing memoranda and documents related to the agenda.
During Board meetings, the Chairman and Chief Executive Officer presents the activity and accounts of the previous period. The Board is also periodically asked to review the deliberations of the Company's specialized committees.
In 2015, the Company's Board of Directors demonstrated a particular interest in the following topics:
- the continuation of the strategy to reduce the sensitivity of structured loans in anticipation of the effective implementation of the support funds earmarked for local governments and public healthcare facilities, as well as the management of litigation related to these loans and the evaluation of residual risks;
- the strategy governing the issue of bonds by its subsidiary CAFFIL, and SFIL's first issue of short-term debt securities;
- the services rendered to its subsidiary CAFFIL, as well as to La Banque Postale;
- the application of the program designed to simplify the IT system;
- the risks, in particular with the review for approval of ICAAP and the recovery plan in keeping with the provisions of banking supervisors;
- the Company's compensation policy.

During the year, the Board of Directors showed particular interest in the launch of export credit refinancing from the

(1) The Company is not currently obliged to prepare a report such as the one required by article L.225-37 of the French Commercial Code.

point of view of strategy and risk management as well as concerns operations.
In accordance with current legislation, the Board was informed of the opinion of the works' council on the strategic orientations it had been presented with, providing responses to the observations made.
In addition, the Board of Directors was also informed of any measures taken by the regulators and of the responses conveyed in this regard by the Company's management.

In terms of governance, in 2014, the Board of Directors decided that the Company and its subsidiary would refer to the AFEP/MEDEF code while nonetheless stipulating that certain of its provisions would or would not be progressively introduced depending on whether their application proved not to be possible or feasible (specific nature of other shareholding structures, obligations linked to applicable legal provisions, etc.). In application of these provisions, an evaluation was organized in the form of a questionnaire on corporate organization and operation addressed to each of the Board members. The results were presented to the Appointments Committee then to the Board of Directors with some suggestions for improvement. Basically, the members of the Board stated that they were generally satisfied with the composition of the Board, the frequency of its meetings, the level of information (including information on corporate strategy), the quality of the work accomplished and of the reports submitted. The same is true as concerns the composition, focus and quality of the work accomplished by the specialized committees. Areas earmarked for improvement included recommendations to allow more time for the study of files, to clarify the presentation of certain files (better use of time to highlight the major themes), to develop alternatives in the choices to be made and, finally, to propose training programs, especially for employee representatives.
The Board of Directors convened a general shareholders' meeting on April 9, 2015. An ordinary shareholders' meeting was called to ratify the transfer of corporate headquarters to Issy-les-Moulineaux, and to set the amount paid to members of the Board for their presence (EUR 120,000). There was also an extraordinary shareholders' meeting to change the Company's name to SFIL, in order to expand the corporate purpose to include the new export credit refinancing business.
The Board of Directors also convened a general shareholders' meeting on May 28, 2015, to approve the financial statements, regulated agreements, total compensation and items with an impact on the compensation of the Chairman and Chief Executive Officer.

1.2 – SPECIALIZED COMMITTEES OF THE BOARD OF DIRECTORS

The Financial Statements Committee and the Risks and Internal Control Committee are made up of five members who are Board members but are not involved in the Company's executive management. Members are chosen on the basis of their skills and their potential contribution to the work of the committee in question. In 2015, Emanuel Massé replaced Corso Bavagnoli, who resigned following a transfer in the French Treasury's management ranks. These committees are chaired by an independent director who is a "qualified individual" with proven skills in finance and accounting. The proportion of independent members is less than the recommendation of the AFEP-MEDEF code given the attention shareholders pay to such matters within the framework decided by the European Commission and the provisions made by the French State for the financing of French local governments and public healthcare facilities, as well as the refinancing of exports. These committees meet at least four times per year.

In 2015, the Risks and Internal Control Committee met six times. The primary purpose of the first meeting in 2015 was to study the procedures employed (mapping, control procedures and the results of controls) in internal control activities at SFIL and CAFFIL, in light of the approaching audit and the results of the intermediary review by the Company's Statutory Auditors. This committee brought together a limited number of participants, i.e. the Committee members, the Statutory Auditors and the heads of internal control at SFIL (the Operational Risks and Permanent Control division, the Compliance division and the Internal Audit and Inspection division). The other meetings held in 2015, in the presence of the Chairman and Chief Executive Officer and of the heads of the operating functions concerned by these questions, basically discussed the quarterly reports on risk surveillance, the ICAAP process, SFIL's recovery plan, ALM risks and loans for the new business line of export credit refinancing, compliance provisions for the export credit business, and half-year reports on compliance and audit activities.

In 2015, the Financial Statements Committee met four times. It examined the financial statements of SFIL and CAFFIL as of December 31, 2014, and of June 30, 2015, as well as the first quarter financial statements as of March 31, 2015 and September 30, 2015, as well as the corresponding Statutory Auditors' reports, efforts to reduce loan sensitivity, the strategy and launch of the new business line of export credit refinancing, and the 2016 budget.

Since 2015, the Appointments Committee and the Compensation Committee each have six members, three of whom are independent members of the Board of Directors. The members are chosen according to the same criteria as those cited for the previous committees. The committees are chaired by an independent member of the Board, a "qualified individual" with recognized skill in human resources. These committees meet al least twice a year.

In 2015, the Appointments Committee met four times. The meetings mainly focused on the appointment of new members of the Board of Directors, the approval of the independent character of four members of the Board of Directors, and the evaluation of the organization and operation of the Boards of Directors of SFIL and CAFFIL.

In 2015, the Compensation Committee met three times. The meetings principally dealt with the update of the Company's compensation policy with special attention paid to the determination of the conditions whereby employees who take risks in the exercise of their control functions are compensated, and the introduction of independent control procedures for this policy. Likewise, reports were presented on compensation measures taken during the year and on the 2014 equal employment opportunity report.

2. Internal control

2.1 – ORGANIZATION OF INTERNAL CONTROL

a. Responsibilities of internal control and the general architecture of internal control

SFIL is one of the large banks under the direct supervision of the European Central Bank since November 2014 in the framework of the Single Supervisory Mechanism (SSM).

Since it manages CAFFIL, SFIL has been delegated to exercise the functions of internal control for CAFFIL pursuant to its management agreement. Consequently, internal control at SFIL also meets the regulatory obligations of CAFFIL in this regard. Likewise, the organization also takes into consideration the servicing activities exercised by SFIL for La Banque Postale (LBP) within the framework of the servicing agreement signed by SFIL and LBP.

The objectives and organization of SFIL's internal control are defined within the framework set by the Monetary and Financial Code, and by the *arrêté* of November 3, 2014, relating to internal control of financial institutions. According to these articles, the internal control system requires that different control procedures are applied to provide the following:
- a control system for operations and internal procedures;
- an organization of financial and accounting data;
- systems to measure risks and results;
- systems to monitor and control risks;
- a system for documentation and information;
- surveillance of flows of cash and securities.

This internal control system is a process put into practice by the Executive Committee and all the employees of SFIL, at the initiative of its Board of Directors. The organization is designed to provide reasonable but not absolute assurance with regard to the achievement of the objectives that SFIL set in terms of performance, profitability and protection of its financial assets. It addresses the four responsibilities which its shareholders entrusted to the Company:
- refinancing loans granted by La Banque Postale,
- supplying support services for La Banque Postale and the CDC-LBP joint venture,
- conducting a responsible and proactive policy to reduce the sensitivity of loans,
- refinancing large French export credits.

Specifically, the objectives assigned to internal control in effect at SFIL target the following goals:
- to verify the efficiency of the risk control system. The risk control system aims to guarantee the Executive Committee that the risks taken by the Company are in line with the policy defined by the Board of Directors and the Executive Committee and do not exceed an agreed-upon level of risk;
- to ensure that the financial and accounting data produced is reliable and relevant. The main objective of the financial information is to give a true and fair view of the position of SFIL in a regular, complete and transparent manner;
- to monitor compliance with regulations, internal and external rules and practices of business ethics at SFIL. The diligent operation of SFIL implies strict respect of legislative and regulatory obligations, in particular with regard to corporate governance and compliance;
- to monitor the effectiveness and operational efficiency of SFIL's processes, in order to ensure that operations are carried out properly while guaranteeing efficient management of available resources.

In order to allow the accomplishment of the objectives set, and in compliance with the *arrêté* of November 3, 2014, the general architecture of SFIL's internal control system is based on three levels of control.
- The first level of control takes place in the operating teams. It is exercised by each employee and the corresponding chain of command who ensure that the operations for which they are responsible are consistent with the internal procedures in effect.
- The second level of control involves permanent control activities. Specific controls are performed by a network of correspondents designated in the operating divisions, who for these responsibilities report to the Operational Risks and Permanent Control division, which depends on the Risks division. These controls are complemented by those conducted especially for risks of non-compliance (non-respect of legislation, regulations, regulatory instructions, professional and ethical standards and management directives) by the Compliance division, which reports to the General Secretary.
- The third level of control concerns periodic control conducted by an independent team, the Internal Audit and Inspection division, which reports to the Chairman and CEO of SFIL and which exercises periodic oversight of the efficient and effective application of the first two levels of control described above.

The different functions in charge of internal control (Operational Risks and Permanent Control division, Compliance division and Internal Audit and Inspection division) meet every two months in an Internal Control committee in order to share information about the risks each division has identified in its field of competence in order to coordinate internal control initiatives to remedy risk situations and analyze the conclusions in their respective control plan.
Within this framework, a common IT tool provides continuous automated management so that the teams can monitor risks, controls, recommendations and action plans for the full range of internal control functions at SFIL.

These different levels of control are deployed within the following framework.

b. Oversight and executive management

The Risks and Internal Control Committee is responsible, in keeping with the Code of Commerce and the *arrêté* of November 3, 2014, for ensuring the efficiency of internal control and risk management systems, for giving an appreciation of the quality of internal control, in particular the coherence of measurement, surveillance and risk control systems, and for suggesting, if need be, any additional action. This committee is also responsible for monitoring permanent control, compliance and periodic control at SFIL. It likewise examines, with the Company's auditors, any risks weighting on their independence.
By right of the powers invested in them as executive officers by current banking regulations, the Chairman and Chief Executive Officer and the Deputy Chief Executive Officer of SFIL guarantee the efficient operation of the bank's internal control system. They allocate the resources required to carry out the missions of the different divisions in charge of control, verify that the objectives are attained and that the internal control system is adapted to the needs of SFIL. To this end, they regularly receive activity reports and the results of the controls carried out in terms of permanent control, compliance and periodic control. These reports are also presented and discussed at meetings of SFIL's Executive Committee, and the issues raised engender proposal of actions and decisions in order to ensure continuous improvement in internal control.

c. Operating divisions

As the first level of the internal control system, employees and managers of SFIL's operating divisions are in charge of analyzing the risks involved in all the transactions they have initiated, organizing and conducting basic controls for such operations, verifying that internal control procedures in their division are adapted to such risks and contributing to their development. To this end, they apply basic principles, which are spelled out in all the activities of SFIL, i.e. policies, procedures, limits, indicators and a clear separation of functions between the launch of operations and their validation, control or settlement. These principles are defined by several specialized committees, composed of operating, support and control staff and chaired by a member of the Executive Committee of SFIL, such as the Risks Committee, the New Products Committee and the Operational Risks and Permanent Control Committee.

d. The Risks division

At their creation in February 2013, SFIL and CAFFIL set up a full-blown risk management system to identify, monitor, manage and measure risks using defined methods, decide the appropriate limits and amount of provisions and alert the competent committees of potential risks.
The level of risk that is acceptable for SFIL and CAFFIL is defined by the Executive Committee and the Risks Committee at SFIL. It is approved by the Risks and Internal Control Committee. Within this framework, policies are defined for all the activities performed as well as limits and rules that govern the delegation of decisions. The Risks division is in charge of monitoring these limits and if required proposing measures to the Executive Committee to ensure these limits are respected.
A quarterly risks review is presented to the Risks and Internal Control Committee by the head of risks. This document provides a synthetic view of the main risks at SFIL and CAFFIL and their evolution during the quarter (credit risks, market and ALM risks, operational risks) as well as changes in regulations over the period.

e. Committees

The Risks division relies on several committees, the missions and composition of which have been approved by the Risks and Internal Control Committee of SFIL. These committees may be cross-divisional, such as the Risks Committee, the Committee on the Validation of Methods and Models, the New Products Committee, or specialized on credit risks, market risks and operational risks as described below.

The Risks Committee defines the risk profile of SFIL, validates risk control disposition and ensures their respect. In particular, it is in charge of defining delegations in the granting of credit and approving the risk policies of SFIL concerning all types of risks and the limits defined by the Risks division.
The committees on the Validation of Methods and Models (Market Validation Committee, Credit Cross-divisional Models Validation Committee) are in charge of validating market risk and pricing models as well as implementing the internal rating systems that make it possible to calculate capital requirements.

The New Products Committee examines all new products and management processes or any transformation of a pre-existing product or process. This committee also studies new products intended for financing, refinancing or hedging risks, as well as the development of any existing product or service to the extent that it substantially modifies the risk profile or the internal processes of the Group.

f. Permanent control excluding compliance

1. Organization and governance

Permanent control excluding compliance at SFIL ensures the efficiency and reliability of the system of risk control, the efficiency of the control of operations and internal procedures, the quality of accounting and financial information and the quality of information systems. Permanent control measures apply to all divisions and all activities of the bank.

Permanent control excluding compliance is under the responsibility of the head of the Operational Risks and Permanent Control division, who reports to the head of the Risks division. The goal is to maintain synergies between permanent control and the monitoring of operational risks, IT security and the business continuity plan. Permanent control is supported by a network of correspondents in the operating divisions who are in charge of deployment and follow-up of controls.

2. Activities

The management principles governing permanent control are described in the management policy for operational risks and permanent control. Permanent control is based on a control plan that is prepared with the operating divisions and covers the main business processes. It is reviewed every year. The objective is to adapt the controls to the situation at SFIL by taking into account:
- the results of controls carried out during the year (their match with the risks to be covered, their efficiency, the appropriateness of their formalization and the pertinence of related measurement indicators);
- a review of incidents noted;
- internal audit recommendations;
- new products and processes at SFIL.

This approach also makes it possible to improve the control plan by modifying existing controls and even by adding and/ or eliminating controls.

The correspondents conduct or evaluate controls of their division or sector every quarter, and for some of them every six months or every year. The evaluation is documented by a commentary and written proof of the result of the control. All the results are reviewed by the Operational Risks and Permanent Control division, which may validate or refuse the evaluation of the control, particularly if the documentation is considered to be unsatisfactory. In this latter case, action plans are launched to obtain a satisfactory result for subsequent periods. These action plans are regularly monitored and a quarterly report is submitted to the Operational Risks and Permanent Control Committee.
In 2015, the permanent control plan was enriched as it went from 149 items controlled at the end of 2014 to 158 items controlled at the end of 2015.

3. Reporting

Executive officers, as defined by current banking regulations, the members of the Executive Committee and the members of the Board of Directors of SFIL are regularly informed of permanent control activities.

The Operational Risks and Permanent Control division publishes a quarterly report presented to the Operational Risks and Permanent Control Committee. This Committee is chaired by the Deputy CEO of SFIL and is made up of all the members of SFIL's Executive Committee, as well as the heads of the Strategic IT Projects and Information Systems divisions. The committee meets quarterly. It examines the results of permanent controls (results of evaluations of permanent controls, monitoring of action plans, monitoring of permanent control plans, additions, eliminations or modifications of controls). It also looks at the main issues linked to permanent control and at areas of anticipated improvements.

A detailed presentation of action plans, key items and corrective measures already available or in the process of being developed in the area of permanent control is organized annually before the same committee. Specific points concerning permanent control may also be discussed. In 2015, the presentation was held during the committee meeting on January 21, 2016.

In addition, the Risks and Internal Control Committee of January 21, 2016, was informed in detail of permanent control activities in 2015.

Specific points related to permanent control may also be presented, if required, within the framework of the Quarterly Risk Review.

g. Compliance

Compliance is an integral part of the internal control system of banks and investment firms.

Compliance is autonomous, independent of all operating units and particularly of any commercial activity. Compliance reports to the General Secretary, who is a member of the Executive Committee of SFIL and has been designated as the compliance contact for the *Autorité de contrôle prudentiel et de résolution* (ACPR). The General Secretary is assisted by two Compliance officers. She also acts as the TRACFIN correspondent within the framework of the obligations of banks in the fight against money laundering and the financing of terrorist activities.

Compliance contributes to the respect for all legal and regulatory requirements in effect. It monitors the consistency and efficiency of non-compliance risk control at SFIL and its subsidiary CAFFIL. It acts in accordance with the compliance rules defined at the level of the SFIL Group. Compliance thus ensures within the bank respect for all rules governing integrity and ethical principles, such as respect for legal and regulatory requirements, professionalism, loyalty and mutual respect. It aims to identify, evaluate and deal with risks of non-compliance and related risks of reputation.

The year 2015 was marked by the launch of a new business line: export credit refinancing, which required changes in the management of non-compliance risks. A set of procedures was also drawn up.

With regard to changes in organization following a review of the fight against money laundering and the financing of terrorist activities, internal control procedures were adapted, in particular with a review of mapping practices for non-compliance risks and the corresponding yearly control plan. Mapping the risks of non-compliance attempts to present an aggregate view of the risk of non-compliance and to provide steering. It serves as a basis for the development of the control plan and the validation of risk-taking by SFIL and CAFFIL in 2016.

Compliance covers all the activities of SFIL and CAFFIL. It addresses the main issues — the fight against money laundering and the financing of terrorist activities, business ethics (the prevention of market abuses, the prevention of conflict of interest, and the independence of the Statutory Auditors), the protection of personal data, confidentiality, internal warning process, training and awareness heightening.

In addition to the deployment of the compliance system, Compliance also monitors regulatory developments that may impact the SFIL Group in terms of compliance. Within this framework, in 2015, this team played an active role in the operational application of the European Market Infrastructure Regulation (EMIR) and the Foreign Account Tax Compliance Act (FATCA) in dedicated project structures.

The Compliance division trains, informs and heightens awareness of the bank's employees with regard to the compliance requirements at SFIL-CAFFIL. In this context, the Compliance division works with the Human Resources division to set up a training program for all employees over a two-year period. According to this plan, by the end of 2015, almost half of the staff has been instructed in compliance issues.

h. Periodic control

1. Organization and governance of periodic control

Periodic control, in the sense of the *arrêté* of November 3, 2014, is exercised by internal audit[1] and inspection[2]. The scope of this function covers all the activities, operating processes and systems of SFIL with no reserve or exception, including externalized essential activities and anti-fraud techniques.

The independence and efficiency of the internal audit and inspection function are guaranteed by the fact that the head is the General Auditor who reports to SFIL's Chairman and Chief Executive Officer. The other factors that also play a role are: the absence of involvement in the operating management of SFIL's activities, unconditional, immediate access to all information, documents, premises, systems or persons its activities require, the resources made available by management to carry out these missions and the respect of the principles of integrity, objectivity, confidentiality and competence (through a permanent training plan to inculcate audit techniques and regulatory developments) on the part of the staff of the internal audit division. These principles are reflected in the internal audit charter and the inspection charter, which were approved by SFIL's Audit and Risks Committee in 2013, and announced to all the employees of SFIL.

As of January 31, 2016, the Internal Audit and Inspection division counted nine people (plus two alternates), among whom there were six auditors and audit managers. The General Auditor supervises all the activities and all the reports issued by the division. She is assisted by a supervisor, who is also in charge of the team of auditors and oversees the audit missions carried out by the auditors under the responsibility of the audit managers. In addition, every auditor and audit manager is responsible for a specific field through permanent documentation, risk surveillance and the monitoring of recommendations for SFIL's operating divisions.

(1) Internal audit is an independent and objective activity which assures SFIL of the degree of control of its operations, contributes advice on how to improve, and creates value added. It helps the organization to reach its objectives by applying a systematic and methodical approach in the evaluation of its risk management, control and governance processes and by making proposals to reinforce their efficiency.

(2) In the SFIL Group, inspection activities work in an independent and objective manner to contribute to control of the risk of fraud.

2. Activities of Internal Audit and Inspection division

Activities in this area are described in an internal audit brochure that is regularly updated and based on the reference framework of the professional internal audit practices of IFACI[1]. The last update of this manual dates from October 2015. In order to monitor the efficiency and performance of these activities and to identify opportunities for improvement, quantitative and qualitative indicators were introduced and are regularly measured.

Internal Audit and Inspection have adopted a top-down approach for the annual evaluation of risks, in line with the recommendations of the Institute of Internal Auditors. They are based on the identification of SFIL's objectives, then on a study of risks critical to the success of such goals. In 2015, the annual assessment of risks was carried out in the second half and it gave rise to a map of the major risks of SFIL. This map was compared to the information culled in 2014. Based on this mapping, Internal Audit and Inspection prepared its 2016 and multi-year audit and inspection plan which was approved by the Risks and Internal Control Committee on January 21, 2016. The risk mapping is likewise presented to the Board of Directors once a year.

SFIL's multi-year audit plan, which is reviewed every year, is broken down into audit missions that are conducted throughout the year in function of a schedule and pre-established budget. These different missions include four main stages (phases of preparation, accomplishment, conclusion and finalization). Audit missions are carried out using the methods described in a Company brochure on internal audits that is regularly updated and based on the reference framework of the professional internal audit practices of IFACI. The latest update of this manual dates from October 2015. The audit missions are summed up in a report that is presented to the Executive Committee, which compares a general appreciation of the mission's theme with an evaluation of residual risks, so that the Executive Committee may validate the match with SFIL's risk profile, and make recommendations to improve the efficiency of the processes and internal controls.
In 2015, the internal audit missions addressed issues related to accounting and financial information (suspense accounts, balance sheet management), to certain key operating processes (procurement, monitoring of unpaid installments and default), to risk surveillance and internal models (monitoring of the international portfolio, valuation models for derivatives), to the information system (management of IT incidents), to internal control structures (business continuity plan) and to outsourced services. In 2015, the audit plan was 83% completed, exceeding the initial objective of 80%. In addition to the recommendations made, the conclusions of each of these missions were presented to the Executive Committee of SFIL for discussion and decision, as well as to the Risks and Internal Control Committee on January 21, 2016.

The follow-up on recommendations made after the missions organized by Internal Audit and Inspection, oversight bodies or the Company auditors, as is the case, is carried out in a continuous and automated process to monitor the deployment of action plans resulting from these recommendations. Responsibility for the appropriate implementation of the recommendations is incumbent on identified managers. The follow-up of this implementation is under the responsibility of the auditors and audit managers in function of their field of competence. The validation of the stage of progress or accomplishment of these action plans is the responsibility of the Supervisor and the General Auditor. All of these recommendations prompted continuous monitoring in 2015 and official reports based on the situations as of March 31 and September 30, 2015, as well as presentations to the Executive Committee (in May and December 2015) and the Risks and Internal Control Committee on May 26, 2015, and January 21, 2016.

Internal Audit and Inspection is also in charge of the preparation, organization and follow-up of the missions regulatory authorities carry out at SFIL. It also coordinates the preparation of responses to reports and the monitoring of action plans subsequent to the recommendations made. In 2015, Internal Audit and Inspection worked on a mission of the ACPR under the aegis of the ECB on IT risks and on a mission of the Cour des Comptes concerning management practices at SFIL-CAFFIL.

In addition, under the aegis of the Chairman of the Financial Statements Committee and the Risks and Internal Control Committee, Internal Audit and Inspection ensured the organization of all the meetings of these committees. It oversees the respect of deadlines in the transmission and communication of information and files required for decision-making. It monitors the annual program of works set out by the Chairman of these committees. It also provides the minutes that are drawn up at each of the meetings in close cooperation with the Chairman of the committee. Lastly, it has responsibility for the safe storage of the minutes. In 2015, Internal Audit and Inspection organized six meetings for the Risks and Internal Control Committee and four for the Financial Statements Committee.

Finally, Internal Audit and Inspection is also in charge of inspection at SFIL. The purpose of this function is to play a role in the prevention, detection and investigation of fraud and to propose corrective measures in the event of dysfunctions. This unit may also respond to particular requests from the Company's legal division to provide information that may serve corporate interests. SFIL's Management may also solicit the function of inspection to carry out missions and address certain specific issues. In 2015, inspection services focused on the rules governing the staff's use of SFIL's resources, access to sensitive computer applications and directories, and expense accounts.

3. Reporting on Internal Audit and Inspection activities

SFIL's Executive Committee is kept regularly informed of Internal Audit and Inspection activities. In particular, the audit plan is presented every year for information after discussion with SFIL's Chairman and Chief Executive Officer. Every audit mission is discussed (scope, objectives, planning, etc.) for information and commentary before it effectively takes place, and its conclusions are presented for discussion and decision. A report on the follow-up of the recommendations of internal audit, inspection, oversight bodies and Statutory Auditors as well as the implementation of related action plans is likewise presented every six months.

The internal audit charter and the charter of inspection activities are submitted for validation to the Risks and Internal Control Committee. The audit and inspection plan is also submitted annually to this committee for validation. This committee is informed every six months of the results of the follow-up recommendations of internal audit, inspection, oversight bodies and Statutory Auditors and of the progress made in related action plans. Regular reports of activity are also presented for study. In addition, the annual report on

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

internal control (articles 258 and following of the *arrêté* of November 3, 2014) is presented every year for review. A synthesis of these different reports is presented to SFIL's Board of Directors by the Chairman of the Risks and Internal Control Committee.

2.2 PREPARATION OF ACCOUNTING AND FINANCIAL INFORMATION

a. Financial statements

A company's annual financial statements, in addition to all the financial data produced by the accounting department, should give a true and fair view of its assets, financial position and results. For credit institutions, the *arrêté* of November 3, 2014, on internal control, highlights in its accounting chapter that the organization adopted should guarantee the existence of procedures called audit tracks. They make it possible to establish a link between accounting data and the original justification, and vice-versa. All these items should make it possible to reconstitute, justify and explain any and all financial items produced for accounting or regulatory purposes. This principle grounds the organization of accounting practices in the SFIL Group and also applies to both SFIL and CAFFIL.

In 2015, the main innovations introduced aimed to bolster cross-division cooperation in the organization of SFIL. This approach was designed to secure the financial information produced as well as to share what would facilitate the analysis of data in the teams participating in the preparation of the financial statements. In addition, within the framework of the analysis of its processes, SFIL identifies the improvements that could be taken into account when replacing or improving management tools in an effort to increase the use of automated processes. The approach serves to reduce operational risks associated with manual entries.

1. Role and organization of Accounting

SFIL's Accounting department reports to the Chief Financial Officer (CFO), who oversees financial steering functions, including the oversight of balance sheets, management control and procurement, as well as accounting. Accounting plays a central role in the piloting of SFIL and in financial management, thereby making it possible to benefit from this central viewpoint.

Accounting produces basic accounting data for the financial statements of SFIL and CAFFIL. It also provides accounting data for La Banque Postale within the framework of the business at hand. It is likewise responsible for producing the consolidated financial statements of the SFIL Group and ensuring all regulatory and prudential standards are respected.

Accounting has a role of analysis and verification of accounting data. It relies on the reconciliation of a set of figures with that of other teams in Finance. This approach is used to explain the formation of the results, but also to confirm the information on the Company's balance sheet, and in particular entries to risk bases used to calculate prudential indicators.

To carry out its mission, Accounting participates in committees that may impact its activity and has access to a broad spectrum of information either directly or through the CFO. It participates in the development of IT systems, and relies on a cross-division team within the Strategic IT Project division to improve, secure and ensure long life to its IT system. This division is in charge of accounting and regulatory tools as well as ALM, control and financial communication tools. It has the mission to participate actively in the development and the improvement of the tools used by SFIL's operating divisions. This system makes it possible to ensure continuous improvement in terms of quality, process efficiency and the reliability of financial information.

2. Preparation of the financial statements

In the preparation of the financial statements, SFIL's accounting system is in large measure automatically supplied by upstream management systems that manage transactions with customers and market counterparties as well as operating expenses. When data is entered into one of the management systems, it is automatically recorded in accounting according to a pre-defined plan, and complemented by manual entries for certain types of operations. SFIL can record operations in a single accounting system based on a double set of accounting standards (French GAAP and EU IFRS). The synthesis of this data is thus obtained automatically using parameterized publication tools.

The internal control system in the operating divisions guarantees the completeness and accuracy of accounting entries. The team in charge of accounting standards ensures compliance with standards, validates automated accounting procedures and examines complex or unusual operations. When certain operations can not be completely incorporated into the management tools available, they are processed using specific internal control procedures.

A first level of control is conducted by accounting teams that are specialized by business line, in particular by analyzing accounting/management data reconciliation, bank reconciliation and technical suspense accounts. Monthly comparisons with management data and reconciliations of micro-hedges make it possible to ensure the correct transcription of financial operations. In order to verify the coherence of interest expense and income from one period to another, this data is compared with average outstandings in order to produce average rates that are easier to compare from one period to the next. Finally, these teams also prepare a synthetic memorandum on the work done which points out areas that need attention and improvement for the processes to be used in future financial statements.

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

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

The preparation of the financial statements is carried out by the aggregation of the accounts thus produced according to an automated process. This function requires parameters administered by a dedicated and independent team.

Stability in reporting, which represents a key point in terms of communication, is thereby verified. Notes to the consolidated and financial statements are generally produced based on accounting data that may be enhanced by management information. Qualitative analyses are then carried out through cross-referenced controls of synthetic data in accounting as well as with the contribution of the teams in charge of monitoring the Group's balance sheet. Cross-referenced controls are also conducted between the financial statements and the notes to the financial statements. Throughout this process, reviews and controls are carried out according to the hierarchical delegations that exist.

3. Approval of the financial statements

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

Only the annual and half-year financial statements are reviewed by the Statutory Auditors.

4. Role of Statutory Auditors

The SFIL Group is audited by two auditing firms working together to audit the financial statements of SFIL. The same is true for CAFFIL. The Statutory Auditors are regularly consulted throughout the process of preparation of accounting data and the financial statements in order to ensure efficiency and transparency. In due diligence, they analyze accounting procedures and evaluate current internal control systems to determine the scope of their controls of the principal areas of risk. During these analyses, they may make recommendations on internal control procedures and systems that could improve the quality of financial and accounting information produced. They have access to all memoranda and notes produced by staff in charge of accounting principles and standards, and they also review the accounting manuals, as well as instructions issued by the Accounting teams. They consult internal audit and inspection reports. They verify the consistency of the data in the management report with the accounting information, as well as the conformity of the management report and the financial statements with all the items they have reviewed and audited. Their work includes a review of the agreements that can be considered as regulated agreements. In a specific report, they provide a full and complete accounting at the end of their legal mission. The exercise of this due care enables them to obtain reasonable assurance that the financial statements are free of any material misstatement.

b. Management reporting

The financial statements (balance sheet, off-balance sheet, income statement, cash flow statement and notes) that SFIL communicates to its shareholders and to the general public are completed by quarterly activity reports prepared by its subsidiary CAFFIL, in particular, when this subsidiary issues *obligations foncières*. This management information also includes items related to loans originated by La Banque Postale and purchased by CAFFIL, as well as updates on the reduction of the sensitivity of structured loans, and eventually data related to the business of export credit refinancing. This data, accompanied by forecasts and evaluations of risks, directly supplied by the operating or the Risks division, is incorporated into the annual financial report. Their accuracy is therefore guaranteed by the internal control system of the divisions concerned.
New financing business takes place solely in France, and outside of France, the Company is involved in export credit refinancing. A geographic breakdown of assets according to the counterparty's country of residence (France and other countries) is presented quarterly in the management report. This information is prepared by the accounting team on the basis of management data reconciled with accounting.
SFIL also manages CAFFIL and provides services for La Banque Postale. To this end, a specific analytical cost accounting method is used to ensure proper billing of the services rendered as a servicer or within the framework of grouped resources.

2.3 - IDENTIFICATION OF MAIN RISKS AND THEIR SPECIFIC INTERNAL CONTROL PROCEDURES

a. Credit risk

Credit risk represents the potential loss that may affect SFIL by reason of a counterparty's downgraded financial position. The Risks division defines the policies, guidelines and procedures relating to credit risk. It is responsible for developing the decision-making process (principally the granting of loans) and the framework of delegations and for supervising the analysis and rating process.

Within the framework of its surveillance of credit risk, and more particularly of the different teams in charge of credit risk, the Risks division is in charge of:

- the definition of credit risk policies in conformity with the risk appetite of SFIL and CAFFIL;
- the definition of limits by type of counterparty setting the maximum exposure considered to be acceptable for a given counterparty;
- the proactive monitoring of limits which the Risks division may change at any moment in function of trends in related risks;
- the definition of delegations by type of counterparty and monitoring the respect of the rules governing the granting of loans;
- the management of the lending process for both new commitments and rescheduled loans through credit analyses and ratings (by using either the internal rating systems or expert advice);
- the monitoring of credit risk in all the portfolios of SFIL and CAFFIL (local public sector in France, international, bank counterparty, export refinancing, etc.) by generating credit analyses and reviewing ratings annually;
- the identification of assets with downgraded risks susceptible to be put on the watchlist;
- the proposal of specific or segment-based impairment for the portfolio.

The Risks division is also in charge of maintaining and developing internal rating systems (including statistical models) for the French and Italian local public sector, for banks and sovereign, as well as for the development and maintenance of the Pillar II model (economic capital). It finally deals with different stress scenarios.

The Risks division relies on several specialized committees, described below.

- The Credit Committee approves new commitments[1] by CAFFIL and SFIL (loans and swaps) and the resched-

(1) *Not delegated to the Risks division, the Debt Portfolio Management division and the commercial network of La Banque Postale.*

uled loan agreements on the balance sheet of CAFFIL. It sets credit limits when certain pre-defined thresholds are exceeded. Each file presented to the Credit Committee contains an independent analysis conducted by the Risks division. The Credit Committee is also informed of commitments made within the framework of delegations granted to the Risks division, to the Debt Portfolio Management division or the commercial teams of La Banque Postale. This committee meets on a weekly basis.

- The Watchlist Committee is in charge of monitoring assets kept under particular scrutiny because of the downgrade of risk. It may propose specific impairment. The committee meets quarterly.
- The Default Committee decides whether a file should be given default status or be upgraded, and it qualifies default as real default, operating defaults or technical default. This committee meets quarterly.
- Every quarter, the Impairment Committee sets the amount of collective impairment and finalizes the calculation of specific impairment on the basis of the provision rate decided by the Watchlist Committee.
- The Rating Committee ensures the proper application of the internal rating systems and the appropriateness of the rating processes. This committee meets quarterly. Although it is an integral part of the credit risk management process, the committee is organized by the head of the Validation and Quality Control team, which reports directly to the head of Risks in order to guarantee the independence of the control process.
- The Non-Performing Exposures and Forbearance Committee quarterly approves the list of counterparties with non-performing exposures and a second list for counterparties that benefited from financial concessions due to their financial difficulties.

b. Market risk

By reason of its nature, the Company does not carry market risks in the regulatory sense of the term. Market risks are limited to risks engendered by a change in the valuation of a small number of swaps that no longer qualify for IFRS hedging relationships. As of December 31, 2015, it concerned four swaps for a Mark to Market of EUR 1.96 million. Market risks are subject to continuous supervision by SFIL's Market and ALM Risks division, which is responsible for:

- the definition of policies, guidelines and procedures related to the monitoring of market risks;
- the definition of limits;
- the definition of calculation and assessment methods for these risks;
- the control of the accounting valuation of derivatives and the monitoring of the amount of cash collateral called;
- the valuation of balance sheet items (assets, liabilities, AFS reserve);
- monitoring market risks.

The governance of market risks is built around the Market Risks Committee, which conducts a quarterly review of risk indicators for the different market and ALM activities (sensitivity, changes in Mark to Market for structured swaps hedging loans to customers in default, interest rate VaR 99% 10 days, monitoring of AFS reserves, provisions on placement securities in French GAAP, limits, cash collateral, etc.). This committee is in charge of the approval of policies, guidelines and procedures regarding market risks before they are submitted to the Risks Committee.

c. Structural risk: interest rate, foreign exchange and liquidity

In the Finance division, the ALM team is in charge of the implementation of ALM policies drawn up for SFIL and CAFFIL within the limits set by management and current regulations. The Market and ALM Risks division is in charge of defining the general policy concerning ALM risks, calibrating and monitoring the limits on ALM indicators and performing second level controls on these indicators.

1. Definition of ALM policy

In the hedging of interest rate risk, this policy is designed to protect the value of the Group's equity.

At the level of SFIL, ALM policy involves foreign exchange and interest rate micro-hedges for all balance sheet and off-balance sheet operations. In terms of liquidity, this policy aims to ensure that SFIL and CAFFIL will have enough liquidity to meet their needs given the sensitivity of liquidity needs to fluctuations in the financial markets through variations in cash collateral posted/received on its derivatives, business forecasts, regulatory constraints and the lending conditions of partner banks and the conditions of issuance of short-term debt securities.

At the level of CAFFIL, the policy consists in neutralizing exposure of the value of the Company to the interest rate risk to the extent possible. To this end, CAFFIL uses swaps to micro-hedge appropriate balance sheet items — debt securities, structured loans, bond issues, etc. Vanilla commercial loans or non-structured securities are macro-hedged against interest rates. The macro-hedge is framed by three indicators subject to a limit restricting the loss to 6% of stockholders' equity with 99% probability, i.e. EUR 80 million. These three indicators aim to limit losses in value in the event of a directional shock or a deformation in the interest rate curve, of sloping between points far from one another or of sloping/rotation of points close to one another. ALM policy is also designed to limit liquidity risk as much as possible in a static, dynamic and stressed environment by monitoring short-term liquidity gaps (one day to three months), medium gaps (up to three years) and even long-term gaps, while respecting regulatory restrictions (liquidity ratio one month, need for cash at 180 days, regulatory limit at 1.5 years of the gap between the average life of liabilities and that of the assets up to 105% of the liabilities) and over-collateralization requirements expressed by regulatory authorities and the rating agencies. Moreover, CAFFIL has a ceiling on its transformation capacity by limiting to three years the maximum duration gap between the assets and the resources benefiting from the privilege and limits the volume of debt arriving at maturity in a year by reference to assets maturing that very year. Finally, this policy avoids any foreign exchange risk.

2. Committees

ALM policy is organized around three committees. With the participation of the Market and ALM Risks division, the ALM Committee decides ALM strategy and oversees deployment through the use of management indicators. It works with the ALM Interest Rate and ALM Liquidity Committees to define procedures and operations.

3. Operational management

In its interest rate management, ALM manages the overall interest rate risk linked to fixed rate assets and liabilities with no micro-hedges and the basis risk linked to imbalances between assets and liabilities in each tenor index

(especially Eonia, Euribor three months, Euribor six months, for CAFFIL), as well as the residual fixing risk, after hedging of the basis risk, linked to the difference in dates between fixings of the same tenor index.
These different types of risks are monitored, analyzed and managed through the production of reports on fixed rate, basis and fixing gaps, which make it possible to determine the nature and the amount of hedges to be negotiated. Only fixed rate interest risk (contractual or after the fixing date) is bordered by an indicator of sensitivity in net present value subject to limit. In the case of CAFFIL, these hedges may be done either directly in the market or through SFIL acting as an intermediary, which then trades in the market for itself.
ALM manages the liquidity of SFIL and CAFFIL respecting ratios of regulatory and internal liquidity as well as specific restrictions in legislation on *sociétés de crédit foncier.* To this end, it uses a static analysis of balance sheet and off-balance sheet items likely to influence the liquidity trend – changes in available liquidity reserves, sensitivity of cash collateral on derivatives, off-balance sheet commitments, etc.
It is also based on a dynamic analysis of liquidity needs by completing the static scenario of hypotheses related to a commercial policy (asset acquisition, reduction in sensitivity) and to the strategy of refinancing. Stressed liquidity forecasts are also performed. This policy aims to define the amounts and maturity of the different sources of financing that may be raised by each entity. For CAFFIL, these sources are the issue of *obligations foncières* and refinancing by its parent company SFIL, and for SFIL, drawdowns from liquidity lines of its shareholders (Caisse des Dépôts et Consignations and La Banque Postale) or the issue of short-term debt securities. With regard to the management of foreign exchange risk, the issues and assets denominated in foreign currencies give rise once they enter the balance sheet to the signing of a cross currency swap against the euro. Outstanding and interest margins denominated in foreign currencies connected with these operations are thus fully transformed into euros, thereby ensuring perfect foreign exchange coverage for the nominal and the rate attached to these balance sheet items. ALM guarantees the absence of foreign exchange risks via the net foreign exchange position in each currency, calculated on the basis of total commitments, loans and accrued interest not yet due denominated in foreign currency on the balance sheet.

d. Operational risks

Operational risk represents the risk of loss resulting from the lack of adaptation or failure on the part of internal processes, staff, systems and also external events. It includes the risks linked to the security of IT systems, as well as legal and compliance risks. SFIL has chosen to incorporate the risk of reputation in this category. Management procedures for operational risks apply to all of the operating divisions of SFIL.

1. Organization and monitoring

Within the framework of the directives of the Basel Committee in the field of operational risk, SFIL opted for the standard approach and introduced an organization, procedures and a management tool to monitor and control its risks.

The Operational Risks and Permanent Control division defines the management policy to be used for operational risks, as well as the methods employed to identify and limit them. It pilots operational risk management and relies on a network of correspondents designated in each operating division. Their role is to collect operating incidents and losses, to assess risks and measure key risk indicators with the help of the staff of the Operational Risk and Permanent Control division. The involvement of business line managers strengthens the system's effectiveness.

The policy applied involves three main processes: the collection of operating incidents, the mapping of operational risks, and the monitoring of key operational risk indicators.

SFIL has defined a process of collection of operating incidents and losses with a directive and procedures. Various collection thresholds have been defined and communicated to SFIL's different operating divisions. The threshold of the mandatory declaration is EUR 2,500. The identification and the analysis of the incidents are the responsibility of the operating risks correspondents with the support of the Operational Risks and Permanent Control division. To this end, SFIL uses an operational risk management tool and in particular a module for incident collection. In function of the results of this analysis, corrective or preventive measures are taken in order to reduce SFIL's exposure to operational risk.

In addition to the information collected on the incidents and losses, the mapping of operational risks represents a yearly evaluation of risks, drawn up by SFIL's operating divisions together with the Operational Risks and Permanent Control division. It provides regular insights into the different risks run in the operating divisions, to identify the attenuation factors for existing risks (systems and controls) and to determine the residual impact, be it financial or not, in order to decide on their acceptance. If they are not accepted, improvement measures are launched (bolstering of organization and procedures, strengthening of permanent control plan, introduction of new surveillance and risk management systems). Operational risk mapping was updated in 2015, except for the IT systems (now in process).

The Operational Risks and Permanent Control division also set up, with SFIL's operating divisions, key risk indicators associated with warning levels. These indicators act as signals (i) of growth in the level of operational risk, (ii) of the decline in process performance, or (iii) of the dysfunction of the internal control system. They make it possible to survey in a continuous and dynamic manner the development of operational risk, together with operational risk mapping, which periodically gives a snapshot of SFIL's risk profile.

The operational risk profile in the different operating divisions is presented *a minima* every year in the Operational Risks and Permanent Control Committee. This committee is chaired by SFIL's Deputy CEO, and its members are the whole Executive Committee, including the heads of Strategic IT Projects and Information Systems. It meets quarterly. This committee studies the major operational risks so identified and key risk indicators that have exceeded their alert threshold. It decides as to whether they are acceptable or not and what corrective measures should be taken. It also validates management policies and methods with regard to the management of operational risks. It examines operating incidents that have occurred in the quarter and monitors risk prevention and improvement proposals (permanent control, operational risk management, information security, backup, etc.).

A synthesis of highlights in terms of operational risks is presented every quarter to the Risks and Internal Control Committee in the form of a quarterly risks review. A detailed presentation of action plans, areas for improvement and corrective measures proposed or already implemented to limit operational risk was also organized for the Risks and Internal Control Committee on January 21, 2016.

2. IT security

The IT security policy is an integral part of operational risk management. The Operational Risks and Permanent Control division set up a system with a policy and directives based on ISO standard 27000, which is applicable to all of SFIL's operating divisions. It is designed to protect information data from any attack on confidentiality, integrity or availability.

This policy and these directives define the principles applicable by category of security as well as the roles and responsibilities of the different security players. It comprises operational rules, procedures and processes determined with the Information System division, especially those involving the management of authorizations to access SFIL's IT applications and systems. In addition, a three-year information systems security plan has been defined in order to improve the existing system. A campaign to heighten awareness was also developed throughout 2015.

Developments in this field are piloted on a quarterly basis by the Information Systems Security and Business Continuity Plan Committee. They are validated by the Operational Risks and Permanent Control Committee.

A synthesis of highlights is presented every quarter to the Risks and Internal Control Committee in the form of a quarterly risks review. A detailed presentation of action plans, areas for improvement and corrective measures was also organized for the Operating Risks and Internal Control Committee on January 21, 2016.

3. Business continuity plan

Together with all the operating divisions, SFIL drew up a business continuity plan and an IT backup plan. The first is the responsibility of the Operational Risks and Permanent Control division, and the second of the Information Systems division. Contingency locations have been chosen to ensure backup for SFIL's activities. Operating procedures have been defined. They are regularly updated and tested.

New developments in security and business continuity are monitored quarterly by the Information Systems Security and Business Continuity Plan Committee and validated by the Operating Risks and Permanent Control Committee.
A synthesis of highlights is presented regularly to the Risks and Internal Control Committee in the form of a quarterly risks review. A detailed presentation of the general organization to ensure business continuity and IT recovery is also organized on a yearly basis. It last took place for the Risks and Internal Control Committee on January 21, 2016.

4. Insurance of operational risks

The reduction in operational risks to which SFIL is exposed is also taken into consideration when insurance policies are signed. SFIL insures against traditional risks for its offices, IT systems and business liability. SFIL has also subscribed insurance policies to cover the liability of the members of its management bodies, professional liability and fraud. Since 2013, these policies cover SFIL and its subsidiary CAFFIL.

e. Legal risk

SFIL's monitoring of legal risks focuses on the prevention of litigation, the anticipation of legal developments and the respect of governance principles. Legal risk control is under the responsibility of the General Secretary through six main activities, i.e. internal legal advice, drafting and control of legal documents, the management of litigation, legal, legislative and regulatory watch in its areas of reference, the legal secretariat of SFIL and CAFFIL and the monitoring of delegations of signatures.
A detailed presentation of legal risks and litigation is included in the management report of this annual financial report.
A review of files on litigation is presented weekly to a specialized committee (Sensitivity Reduction Committee). SFIL's Executive Committee and Board of Directors are informed regularly.

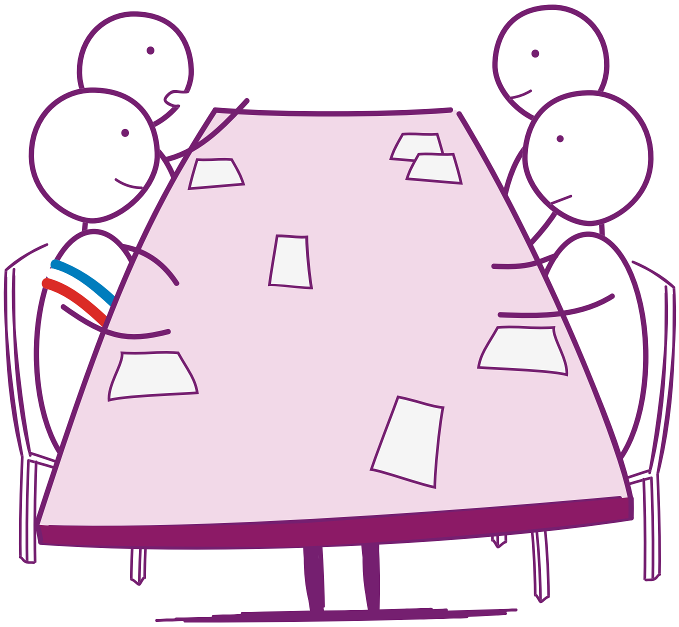
f. Risks of non-compliance

Article 10-p of the *arrêté* of November 3, 2014, defines the risk of non-compliance as the risk of a legal, administrative or disciplinary sanction, of a significant financial loss or of a denigration of reputation caused by the non-respect of procedures specific to banking and financial activities, whether they be of legislative or regulatory nature, or that it is a question of professional and ethical standards or executive instructions, in particular those taken in application of the orientations of the strategy-defining body.

Pursuant to the articles of this standard, the SFIL/CAFFIL Group monitors and controls the risk of non-compliance by mapping risks and developing a control plan. This risk is managed by the Compliance team under the responsibility of the General Secretary.

Philippe Mills
Chairman of the Board of Directors

REDUCING LOAN SENSITIVITY



250
operations to reduce loan sensitivity in 2015 (versus 158 in 2014)

EUR 1.7 billion
in loans with reduced sensitivity in 2015 (versus EUR 1.2 billion in 2014)

46%
reduction in the initial volume of sensitive structured loans by the end of 2015

> A responsible and proactive policy to reduce loan sensitivity that produces results

> In three years, SFIL processed the majority of sensitive loans. The outstanding volume of sensitive loans decreased by approximately 60% across the board for all borrowers and by almost two-thirds for local governments alone. SFIL succeeded in reducing loan sensitivity for all categories of borrowers, including the most difficult. Today, almost nine small local governments out of ten that subscribed in EUR/CHF have totally eliminated such commitments.

for more information, visit
SFIL.FR

Consolidated financial statements
in accordance with IFRS

Assets as of December 31, 2015

EUR millions	Note	12/31/2014	12/31/2015
Central banks	2.1	877	3,361
Financial assets at fair value through profit or loss		2	2
Derivatives	4.1	8,365	7,037
Financial assets available for sale	2.2	2,820	1,304
Loans and advances due from banks	2.3	2,847	2,530
Loans and advances to customers	2.4	66,175	63,209
Fair value revaluation of portfolio hedge		3,178	2,784
Financial assets held to maturity		-	-
Current tax assets	2.5	1	5
Deferred tax assets	2.5	116	116
Property and equipment	2.6	8	8
Intangible assets	2.7	4	13
Accruals and other assets	2.8	3,609	3,314
TOTAL ASSETS		**88,002**	**83,683**

Liabilities as of December 31, 2015

EUR millions	Note	12/31/2014	12/31/2015
Central banks		-	-
Financial liabilities at fair value through profit or loss		2	2
Derivatives	4.1	13,611	12,088
Due to banks	3.1	9,788	8,837
Customer borrowings and deposits		-	-
Debt securities	3.2	58,501	57,740
Fair value revaluation of portfolio hedge		1,786	1,447
Current tax liabilities	3.3	12	2
Deferred tax liabilities	3.3	-	-
Accruals and other liabilities	3.4	2,888	2,139
Provisions	3.5	5	43
Subordinated debt		-	-
EQUITY		**1,409**	**1,385**
Share capital		1,445	1,445
Reserves and retained earnings		146	113
Other comprehensive income		(148)	(114)
Net income		(34)	(59)
TOTAL LIABILITIES		**88,002**	**83,683**

Income statement

EUR millions	Note	2014	2015
Interest income	5.1	4,500	4,095
Interest expense	5.1	(4,423)	(4,006)
Fee and commission income	5.2	2	4
Fee and commission expense	5.2	(6)	(8)
Net result of financial instruments at fair value though profit or loss	5.3	(12)	2
Net result of financial assets available for sale	5.4	9	(1)
Other income		5	0
Other expense		(0)	(0)
NET BANKING INCOME		**75**	**86**
Operating expense	5.5	(98)	(99)
Depreciation and amortization, property and equipment and intangible assets	5.6	(1)	(3)
GROSS OPERATING INCOME		**(24)**	**(16)**
Cost of risk	5.7	(18)	(14)
OPERATING INCOME		**(42)**	**(30)**
Net gains (losses) on other assets		-	-
INCOME BEFORE TAX		**(42)**	**(30)**
Income tax	5.7	8	(29)
NET INCOME		**(34)**	**(59)**
NET INCOME PER SHARE (IN EUR)			
- Basic		(3.64)	(6.38)
- Diluted		(3.64)	(6.38)

Net income and unrealized or deferred gains and losses through equity

EUR millions	2014	2015
NET INCOME	**(34)**	**(59)**
ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS	**26**	**34**
Unrealized or deferred gains and losses of financial assets available for sale	38	49
Unrealized or deferred gains and losses of cash flow hedges	2	4
Tax on items that may subsequently be reclassified to profit or loss	(14)	(19)
ITEMS THAT MAY NOT BE RECLASSIFIED TO PROFIT OR LOSS	**0**	**0**
Actuarial gains and losses on defined-benefit plans	0	0
Tax	0	(0)
OTHER COMPREHENSIVE INCOME	**26**	**34**
NET INCOME AND GAINS AND LOSSES THROUGH EQUITY	**(8)**	**(25)**

Consolidated statement of changes in equity

EUR millions	Share capital and reserves		Consolidated retained earnings	Total of gains and losses through equity		Net income	Total consolidated equity
	Share capital	Capital reserves		Net change in fair value of available-for-sale financial assets, after tax	Net change in fair value of derivatives, after tax		
EQUITY AS OF 12/31/2013	**1,445**	**-**	**215**	**(143)**	**(30)**	**(69)**	**1,417**
Capital increase	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-
Allocation of 2013 net income	-	-	(69)	-	-	69	-
Dividends paid on 2013 income	-	-	-	-	-	-	-
Subtotal of transactions with shareholders	***1,445***	***-***	***146***	***(143)***	***(30)***	***0***	***1,417***
Net income for the period	-	-	-	-	-	(34)	(34)
Changes of gains and losses through equity	-	-	-	24	1	-	25
EQUITY AS OF 12/31/2014	**1,445**	**-**	**146**	**(119)**	**(29)**	**(34)**	**1,409**
Capital increase	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	-	-	-	-	-
Allocation of 2014 net income	-	-	(34)	-	-	34	-
Dividends paid on 2014 income	-	-	-	-	-	-	-
Subtotal of transactions with shareholders	***1,445***	***-***	***113***	***(119)***	***(29)***	***-***	***1,409***
Net income for the period	-	-	-	-	-	(59)	(59)
Changes of gains and losses through equity	-	-	-	31	3	-	34
EQUITY AS OF 12/31/2015	**1,445**	**-**	**113**	**(88)**	**(26)**	**(59)**	**1,385**

Cash flow statement

EUR millions	2014	2015
NET INCOME BEFORE TAXES	**(42)**	**(30)**
+/- Depreciation and write-downs	45	43
+/- Expense / income from investing activities	(156)	277
+/- Expense / income from financing activities	(93)	(194)
+/- Other non-cash items	(84)	116
= Non-monetary items included in net income before tax and other adjustments	***(288)***	***242***
+/- Cash from interbank operations	(551)	(657)
+/- Cash from customer operations	989	(769)
+/- Cash from financing assets and liabilities	(703)	4,435
+/- Cash from non-financing assets and liabilities	-	(758)
- Income tax paid	(4)	(39)
= Decrease / (increase) in cash from operating activities	***(269)***	***2,212***
CASH FLOW FROM OPERATING ACTIVITIES (A)	**(599)**	**2,424**
CASH FLOW FROM INVESTING ACTIVITIES (B)	**(13)**	**(12)**
+/- Cash from or for shareholders	*-*	*-*
+/- Other cash from financing activities	*(430)*	*58*
CASH FLOW FROM FINANCING ACTIVITIES (C)	**(430)**	**58**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	**-**	**-**
INCREASE/(DECREASE) IN CASH EQUIVALENT (A + B + C + D)	**(1,042)**	**2,470**
Cash flow from operating activities (A)	(599)	2,424
Cash flow from investing activities (B)	(13)	(12)
Cash flow from financing activities (C)	(430)	58
Effect of changes in exchange rates on cash and cash equivalents (D)	-	-
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,943**	**901**
Cash and balances with central banks (assets and liabilities)	1,924	877
Interbank accounts (assets and liabilities) and loans / deposits at sight	19	24
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**901**	**3,371**
Cash and balances with central banks (assets and liabilities)	877	3,361
Interbank accounts (assets and liabilities) and loans / deposits at sight	24	10
CHANGE IN NET CASH	**(1,042)**	**2,470**

Notes to the consolidated financial statements in accordance with IFRS

1. Accounting policies and valuation methods

1.1 – HIGHLIGHTS OF THE PERIOD AND POST-CLOSING EVENTS

During the year 2015, SFIL fully accomplished its fundamental missions, which involve 1) refinancing, via its subsidiary Caisse Française de Financement Local, loans granted by La Banque Postale to eligible local governments and public healthcare facilities, 2) supplying specialized services to La Banque Postale and Caisse Française de Financement Local, and 3) implementing a policy to reduce the sensitivity of the portfolio of structured loans, which increased pace in 2015. SFIL also launched its new mission to refinance major export contracts that the State has entrusted it with, and it began production of the first phase of its IT simplification program.

a. Issues by CAFFIL

CAFFIL issued a total volume of EUR 6.2 billion in 2015, up more than 50% from the EUR 4.0 billion reported in 2014, and double the volume issued in 2013.
In particular, CAFFIL launched four public issues in 2015, including an issue in the amount of EUR 500 million with a maturity of 20 years, thereby making it possible to complete CAFFIL's public issue yield curve, after the 5, 7, 10 and 15 year souches launched since CAFFIL's first operations at the beginning of 2013.

b. SFIL certificates of deposit program

At mid-year, SFIL launched on the market a program of certificates of deposit. The outstanding total of securities issued by SFIL was close to EUR 600 million as of December 31, 2015.

c. Partnership with La Banque Postale

La Banque Postale (LBP) increased its annual production by more than 20%, compared with the previous year, for a total of EUR 4.0 billion in 2015. This third year of business also enabled Caisse Française de Financement Local to acquire almost EUR 3.4 billion in loans from La Banque Postale in four quarterly transfers.

d. Policy to reduce loan sensitivity

EUR 1.7 billion in sensitive structured loans were transformed into fixed rate loans in 2015, representing an increase of 38% compared with 2014, via 250 operations, up 56% from the previous year. Two hundred twenty-three borrowers reported the complete elimination of sensitive loans, a number that was more than twice that reported in the previous year. Operations to reduce loan sensitivity were accompanied by the setup of new loans for a total of EUR 1.1 billion in 2015. Looking forward to the end of 2016, and taking into account the sensitivity reduction operations already undertaken, the total of SFIL's sensitive structured loans will have decreased by at least 56% compared with the amount recorded when SFIL was created, and by more than 60% for outstanding sensitive structured loans on the balance sheet of local governments alone. The initial inventory of EUR 8.5 billion in sensitive loans will be pushed down to a maximum of EUR 3.7 billion at the end of 2016, and for local governments alone, to a maximum of EUR 2.7 billion, compared with EUR 6.7 billion initially. Half of the borrowers with loans indexed on EUR/CHF saw loan sensitivity disappear completely, and of this number, 80% were small local governments and hospitals holding such loans. Lastly, 92 borrowers, including 89 local governments, cancelled their litigation proceedings. At the end of 2015, there were still 131 suits before the courts, versus 210 in 2014.

e. Increase of support funds for local governments and public healthcare facilities

In order to find a permanent and comprehensive solution for the problem of the most sensitive structured loans contracted by local governments, and in compliance with its public announcements dated June 18, and July 16, 2013, the French government took the following measures in 2014 which were broadened at the beginning of 2015 subsequent to the considerable appreciation of the Swiss franc:

- the multi-year support fund initially endowed with EUR 1.5 billion was raised to EUR 3 billion by the government on February 24, 2015;
- a similar structure which had been set up for public healthcare facilities through the endowment of a fund with a total intervention capacity of EUR 100 million in 2014 was multiplied by four to EUR 400 million by the government on February 24, 2015.

This reinforcement of the support funds aims to cover the excessive cost linked to the appreciation of the Swiss franc so that the early reimbursement penalties for which the concerned borrowers were still responsible would not be greater, after assistance from the funds, than they would have been before the decision of the Swiss National Bank in January 2015 to put an end to the EUR/CHF floor exchange rate.

Through its subsidiary CAFFIL, SFIL recognized in 2015 a charge to be paid of EUR 20 million for its additional contribution to the support fund for public healthcare facilities.

f. Expansion of the export credit refinancing business

At the beginning of 2015, the French State announced that it had decided to create a new public finance tool for export contracts and that it had chosen to entrust this activity to SFIL. The European Commission approved this new arrangement in May 2015.
For this new mission, SFIL developed close ties during 2015 with all the players involved in export financing, primarily Coface, an insurance company specialized in the coverage, for the State, of financing granted by banks to foreign buyers of French exports. The second half of 2015 was given over to designing the structure and in particular to the negotiation of 12 partnership agreements with banks active in the export financing market.
This organization enables exporters and lending banks to benefit from the capacities of CAFFIL to raise funds in the market under conditions similar to those of the best French issuers of covered bonds and in volumes adapted to export credit financing with significant amounts. Importers may also benefit from competitive financial conditions

for purchases up to several billion euros for maturities of 10 years, 20 years or more. SFIL will deal with contracts of more than EUR 70 million, and Bpifrance will handle smaller contracts.
SFIL's first interventions in this field are currently being negotiated. The first contracts are expected to be signed in the second quarter of 2016.

g. Advance in the IT simplification program
In 2014, SFIL launched a program to simplify its IT system over the next three years. The goal is to equip SFIL with an IT system adapted to its missions that would make it possible to respond efficiently to the risk control and management requirements of SFIL and CAFFIL as well as to the different requests made by regulators. The project is advancing as planned.

h. Entity ratings

SFIL
At the beginning of February 2013, the three rating agencies Moody's, Standard and Poor's and Fitch, which underlined the strong ties existing between SFIL and the State, first gave SFIL ratings that were equal to or a notch lower than those of the State: Aa2 for Moody's, AA+ for Standard & Poor's and AA+ for Fitch.
Since the State's rating was lowered in 2013, 2014 and 2015, SFIL's ratings were reviewed as well. As of December 31, 2015, SFIL's ratings stood at Aa3 for Moody's, AA for Standard & Poor's and AA- for Fitch, with the last two unchanged in comparison with 2014.

Caisse Française de Financement Local
The rating of the *obligations foncières* issued by CAFFIL remained stable throughout the year 2015, compared with 2014. It should be noted that Fitch and Standard & Poor's apply a ceiling to the rating of CAFFIL linked to the French sovereign rating, in light of the strong link between CAFFIL and the State, and the concentration of the cover pool in the French local public sector.
At the end of December 2015, the ratings were as follows, with no change when compared with 2014: AA+ for S&P, Aaa for Moody's and AA for Fitch.

i. ECB supervision
Within the framework of the Single Supervision Mechanism, the European Central Bank (ECB) directly oversees the 120 largest banks in the Eurozone, including SFIL, as of November 4, 2014. Within this framework, SFiL officers have made presentations to ECB officials, in particular on governance, risk management and internal control.

j. Change in corporate name
Upon approval of the Autorité de contrôle prudentiel et de résolution (ACPR), the change in the corporate and legal name of Société de Financement Local to SFIL became effective in June 2015. A new logo accompanies this change in name: "Supporting local investment and export".

k. Review of CAFFiL's tax situation
In 2015, French tax authorities investigated the income declared and the tax paid by CAFFIL for 2012 and 2013. Following the tax assessment, the tax authorities expressed their disagreement with the tax treatment of the following two points: the taxation in Ireland of the income from the Dublin branch (formerly Dexia Municipal Agency), which has now been closed, and the deductibility of provisions for non-performing loans. CAFFIL recorded a provision for additional income tax in the amount of EUR 38 million. CAFFIL, nonetheless, does not agree with the position of the tax authorities and will appeal within the framework of legal recourse allowed by current tax regulations.

l. Post-closing events
No significant event impacting the entity's financial situation occurred after closing on December 31, 2015.

1.2 – ACCOUNTING PRINCIPLES AND METHODS APPLIED

a. Scope of consolidation

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

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

b. Accounting policies and presentation rules

1. Applicable accounting standards
SFIL has prepared its consolidated financial statements as of December 31, 2015, in accordance with International Financial Reporting Standards as endorsed by the European Union on December 31, 2015. This includes the conditions for the application of interest-rate portfolio hedging.
Significant accounting policies applied by the Group are detailed in note 1.2.b.3

IASB and IFRIC texts endorsed by the European Commission and effective as of January 1, 2015
- IFRIC 21 Levies: this interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation.
  The Group anticipated the application of this interpretation in 2014. The taxes mainly concerned by this interpretation are the "C3S" (Solidarity Social Contribution) and the contributions to the Single Resolution Fund and the French banking authority control costs.
- Annual Improvements to the IFRS 2011-2013 Cycle.

IASB and IFRIC texts endorsed by the European Commission during the year but not applicable as of January 1, 2015
- Amendments to IAS 27 - Equity Method in Separate Financial Statements: entities now have the option to use the equity method to measure investments in subsidiaries, joint ventures and associates, when preparing their individual financial statements.
- Amendments to IAS 1 - Disclosure Initiative: these amendments clarify the application of the concepts of materiality (specifying this is also applicable to the notes to the financial statements and that including non-relevant information can be detrimental to their understanding) and professional judgment (by modifying certain formulations judged as prescriptive).

- Annual Improvements to the IFRS 2012-2014 Cycle: these are minor changes to existing standards.
- Amendments to IAS 16 Tangible assets and IAS 38 Intangible assets - Clarification of Acceptable Methods of Depreciation and Amortisation: the amendments clarify that a revenue-based method is not considered to be an appropriate manifestation of consumption.
  This is because revenue represents the generation of expected economic benefits rather than the consumption of economic benefits.
- Amendments to IFRS 11 - Joint Ventures: the amendments clarify that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3, is required to apply all of the principles on business combinations accounting in IFRS 3.
- Annual Improvements to the IFRS 2011-2013 Cycle: these are minor changes to existing standards.
- Amendments to IAS 19 R - Defined Benefit Plans: Employee Contributions. They permit a practical expedient if the amount of the contributions is independent of the number of years of service, in that contributions, can, but are not required to be recognised as a reduction in the service cost in the period in which the related service is rendered.

These amendments will be applicable as from January 1, 2016. Their impact is not expected to be significant.

2. Presentation of information and reporting date

The financial statements are prepared on a going concern basis. They are stated in millions of euros (EUR) unless otherwise noted. They are compliant with ANC (French accounting standards board) recommendation 2013-04 issued on November 7, 2013. The consolidated financial statements were approved by the Board of Directors on March 24, 2016.

The preparation of financial information requires management to use estimates and assumptions that affect the amounts reported. In order to make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements 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.

Readers are reminded that in order to prepare its 2013 and 2014 annual financial statements and its 2015 interim financial information, SFIL took into account the hypothesis that the solutions announced by the government would in fact rapidly be implemented (cf. Financial Highlights – 5. Increase of support funds for local governments and public healthcare facilities).

Judgments were principally made in the following areas:

- classification of financial instruments;
- determination of whether or not the market is active for financial instruments measured at fair value;
- hedge accounting;
- existence of a present obligation with probable outflows in the event of litigation;
- identification of impairment triggers.

These judgments are detailed in the corresponding sections of these applicable accounting standards.

Estimates were principally made in the following areas:

- Determination of fair value for financial instruments measured at fair value;
  - Determination of the recoverable amount of impaired financial assets;
  - Estimates of future taxable profit for the recognition and measurement of deferred tax assets.

3. Accounting principles applied to the financial statements

Consolidation

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

The Group controls a subsidiary when the following conditions are met.

- SFIL has the power over the relevant activities of the entity, through voting rights or other rights; and
- SFIL is exposed to or has rights to variable returns from its involvement with the entity; and
- SFIL 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 are eliminated on consolidation.

Offsetting financial assets and financial 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 on a net basis or realize the asset and settle the liability simultaneously.

Foreign currency transactions

Foreign currency transactions are accounted for using the exchange rate prevailing on the trade date. Monetary assets and liabilities denominated in foreign currencies are recognized at closing rates. Non-monetary assets and liabilities recognized at fair value and denominated in foreign currencies existing at the closing date are recorded at closing rates, whereas non-monetary assets and liabilities recognized at amortized cost are recorded at their historical rates.

Any resulting exchange differences from monetary assets and liabilities are recognized in the income statement, except for the foreign exchange impact of fair value adjustments on available-for-sale assets recognized in equity. Foreign exchange differences from non-monetary assets and liabilities recognized at fair value are recorded as fair value adjustments.

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 the Group. Hedging instruments are recognized at fair value on the trade date.

Financial assets

The Management determines the appropriate classification of investments at their purchase. However, under certain circumstances, financial assets may be subsequently reclassified.

Loans and advances to banks and customers

Loans are defined as non-derivative financial assets with fixed or determinable payments that are not listed on an active market, other than:

- those that the entity intends to sell immediately or in the near future, which should be classified as held for

trading, and those that the entity, upon initial recognition, designates as being at fair value through profit or loss;
- those that the entity, upon initial recognition, designates as available for sale; or
- those for which the holder may not recover substantially all of the initial investment for reasons other than the deterioration of credit, which should be classified as available for sale.

The Group recognizes loans and advances initially at fair value plus any directly attributable transaction costs. Later estimates are made at amortized cost, less any impairment losses. Interest is calculated by the effective interest rate method and recognized in net interest income. The effective interest rate is the rate that exactly discounts expected future cash flows through the life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset. The calculation includes all fees paid or received by the Group that are an integral part of the effective interest rate of a financial asset, transaction costs and premiums or discounts.

Financial assets held to maturity

Listed securities with fixed maturity are classified as Financial assets held to maturity when management has both the intent and the ability to hold the assets to maturity.
Assets held to maturity are initially recognized at fair value (including transaction costs) and subsequently measured at amortized cost, less any impairment losses. Interest is recognized in net interest income using the effective interest rate method.

Financial assets available-for-sale

Assets intended to be held for an indefinite period of time and which may be sold in response to a need for liquidity or changes in interest rates, exchange rates or equity prices are classified as Available-for-sale financial assets. Available-for-sale assets are, except for certain cases, intended to be held to maturity.
Available-for-sale investments are initially recognized at fair value (including transaction costs). Interest on fixed-income securities is recognized using the effective interest rate method in net interest income. Dividends received on variable income securities are recognized as Net gains (losses) on available-for-sale assets.
Unrealized gains and losses arising from fair value re-measurements are recognized in other comprehensive income. On disposal, the related accumulated fair value adjustments are reversed in the income statement in Net gains (losses) on available-for-sale assets.
When Available-for-sale assets are restated as Loans and advances at a later date on the basis of the October 2008 amendment to IAS 39, the reserve representative of changes in the fair value of available-for-sale financial assets as presented in the financial statements as of December 31, 2015, corresponds to the part of this reserve still to be amortized with regard to the securities restated as of October 1, 2008.

Financial assets held for trading

The Group does not hold any trading assets.

Financial assets designated at fair value through profit or loss

The Group does not use the option to designate its financial assets at fair value through profit or loss.

Realized gains and losses on sales of financial assets

For financial assets held at amortized cost, realized gains or losses on disposals are the differences between the proceeds received (net of transaction costs) and the costs or amortized costs of the assets. The cost is systematically determined based on the first in, first out approach (FIFO method) on a portfolio basis.
When available-for-sale assets are sold, cumulative gains and losses previously recognized in other comprehensive income are reversed in the income statement.

Accounting for prepayment penalties

The Group has determined the accounting principles applicable to the restructuring of loans in accordance with AG 62 of IAS 39 concerning financial liabilities.
Regarding the method of accounting for prepayment penalties, there are several possibilities depending on whether the prepayment is recognized as being a prepayment with refinancing or an extinguishment without refinancing.

Prepayment with refinancing

The method of accounting for prepayment penalties differs depending on whether the restructuring conditions are substantially different from those set initially.
In line with the principles of AG 62 of IAS 39, the Group considers that the conditions are substantially different when 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 discounted net present value of the cash flows remaining from the original loan.
If the eligibility test is passed (i.e. the difference in net present value is less than 10%), any prepayment penalties are amortized over the term of the new loan, as there is continuity between the two operations. If not (i.e. the difference exceeds 10%), prepayment penalties are recognized immediately in the income statement.

Prepayment without refinancing

When a loan has been extinguished, the Group recognizes prepayment penalties and any gains or losses of unamortized premium or discount, as income for the period.

Impairment of financial assets

The Group records impairment charges when there is objective evidence that a financial asset or group of financial assets is impaired, as a result of one or more events occurring since initial recognition and when that loss event has an impact on the estimated future cash flows that can be reliably estimated. Impairment represents management's best estimate of losses in the value of assets at each balance sheet date.

Financial assets measured at amortized cost

The Group first assesses whether objective evidence of impairment exists for a financial asset when taken individually. If no such evidence exists, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

– Determination of the impairment
- Individually assessed financial assets: if there is objective evidence that loans or other receivables, or held-to-maturity assets are impaired, the impairment charge is calculated as the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, net of any guarantees and collateral, discounted at the financial instrument's original effective interest rate (except for reclassified assets, see below). When an asset is individually impaired, it will be excluded from the portfolio on which a collective impairment is

calculated. SFIL records impairment for all interest due and not yet due on impaired assets.

- Collective impairment: this covers the risk of loss in value not covered by specific impairment where there is objective evidence that probable losses are present in certain segments of the portfolio or other lending commitments at the balance-sheet date. These losses are estimated on the basis of past performance and historical loss experience in each segment and the current economic environment in which borrowers operate. For this purpose, the Group uses a credit risk model based on an approach that combines default probabilities and losses in the event of default. These models are subject to regular back-testing and are based on Basel III data and risk models, consistent with the incurred loss model.

– Accounting treatment of the impairment

Impairment charges are recognized in the income statement in Cost of risk. If the amount of impairment subsequently decreases due to an event occurring after its recognition, the excess is written back by reducing the impairment allowance account accordingly. The write-back is credited to the Cost of risk.

When an asset is determined by management as being irrecoverable, the outstanding specific impairment is reversed via the income statement, in Cost of risk and the net loss is recorded under the same heading. Subsequent recoveries are also accounted for in this heading.

Reclassified financial assets

Regarding impairment, reclassified financial assets follow the same rules as financial assets initially valued at amortized cost for calculation of the impairment. If there is objective evidence that reclassified financial assets are impaired, the amount of the impairment on reclassified assets is calculated as the difference between the net carrying amount of the asset, excluding the amount of revaluations at fair value due to former classification in available-for-sale assets, and the net present value of the expected cash-flows discounted at the effective interest rate at the date of reclassification. Any existing unamortized available-for-sale reserve will be taken to profit or loss account in Cost of risk.

In the event of a positive update to expected cash flows, the impairment amount is reversed through net interest income over the new schedule of expected cash flows, not by a reversal of impairment.

Available-for-sale assets

Impairment of available-for-sale financial assets is recognized on an individual basis if there is objective evidence of impairment as a result of one or more events occurring since their initial recognition. Available-for-sale assets are only subject to specific impairment.

– Determination of the impairment

The Group only holds available-for-sale debt securities. Their impairment is triggered by the same criteria as those applied to financial assets valued at amortized cost (see above).

– Accounting treatment of the impairment

When available-for-sale assets are impaired, the total AFS reserve is recycled into profit or loss and the Group reports these impairment losses in the income statement in "Cost of risk" (for debt instruments) or "Net result of financial assets available for sale" (for equity instruments). Any subsequent decline in fair value constitutes an additional impairment loss, recognized in the income statement.

In the event of an increase in the fair value of an interest bearing financial instrument that relates objectively to an event occurring after the last impairment was recognized, the Group recognizes a reversal of the impairment loss in the income statement in "Cost of risk" (for debt instruments).

Off-balance sheet commitments

Off-balance sheet commitments such as credit substitutes (e.g. guarantees and standby letters of credit) and loan commitments are converted into on-balance sheet items when called. However, under specified circumstances such as uncertainty about the counterparty's creditworthiness, the off-balance sheet commitment should be classified as impaired if the creditworthiness has deteriorated to an extent that makes repayment of any loan and associated interest payments doubtful.

Sale and repurchase agreements (including securities lending)

Sold securities that are subject to a commitment to repurchase them at a predetermined price (repos) are not de-recognized and remain on the balance sheet in their original category. The corresponding liability is included in Customer borrowings and deposits or Due to banks as appropriate. The asset is reported as pledged in the notes.

Securities purchased under commitment to sell (reverse repos) are recorded as off-balance sheet items and the corresponding loans are recorded in Loans and advances to customers or Loans and advances to banks as appropriate.

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

Securities lent to third parties are retained in the financial statements. Securities borrowed are not recognized in the financial statements. If these borrowed securities are sold on to third parties, an obligation to return them is recorded at fair value in Financial liabilities at fair value through profit or loss, and any gains or losses are included in Net gains (losses) on financial instruments at fair value through profit or loss.

Financial liabilities

Liabilities designated at fair value through profit or loss

The Group does not use this option.

Borrowings

Borrowings are recognized initially at fair value, being their issue proceeds net of directly attributable transaction costs incurred. They are subsequently measured at amortized cost and any difference between their initial carrying amount and the redemption value is recognized in the income statement over the expected life of the instruments using the effective interest rate method.

Borrowings include *obligations foncières* and other resources that benefit from the privilege on assets defined in article L.513-11 of the Monetary and Financial Code.

Obligations foncières are recorded at nominal value. Reimbursement and issue premiums are amortized according to the straight line method over the expected life of the securities concerned, as of the first year, *prorata temporis*. They are recorded on the balance sheet in items corresponding to the type of debt concerned. The amortization of these premiums is recorded in the income statement as interest income and expense on debt securities. In the case of bonds issued above par, the amortization of issue premiums is deducted from related interest income on debt securities.

Interest paid on *obligations foncières* is accounted for as interest expense on debt securities for accrued amounts,

due and not yet due, calculated *prorata temporis* on the basis of contractual rates.
Fees paid on bond issues are amortized on a straight line basis over the life of the related financial liabilities.
Bonds denominated in other currencies are treated in the same way as foreign exchange transactions (see above, Foreign currency transactions).
Registered covered bonds are private placements recorded at nominal value. Issue premiums and interest expense are treated the same way as for *obligations foncières* (see above).
Pursuant to article L.513-12 of the Monetary and Financial Code and article 6 of CRBF standard 99-10 of July 27, 1999, total assets must at all times be greater than total liabilities benefiting from the privilege mentioned in article L.513-11 of the above-mentioned Monetary and Financial Code.

Derivatives

All derivatives are initially recognized on the balance sheet at fair value and then are revalued at their fair value. The fair value of derivatives is calculated either on the basis of prices observed in listed markets or by using internal valuation models.
The amount registered on the balance sheet includes the premium paid or received after amortization, the amount of changes in fair value and accrued interest, which altogether make up the fair value of the derivative. Derivative instruments are recorded as assets if their fair value is positive and as liabilities if it is negative.

Derivatives not used in a hedging relationship

Derivatives that do not qualify for hedge accounting are considered to be trading instruments. Gains and losses from changes in their fair value are reported in Net result of financial instruments at fair value though profit or loss.
Embedded derivatives in hybrid financial instruments are treated as trading instruments when:
- their risks and characteristics are not closely related to those of the host contract;
- the entire instrument is not designed at fair value through profit or loss.

As of December 31, 2015, trading derivatives resulted from operations in which hedge ineffectiveness arose after the hedged items were impaired. Gains and losses (realized and unrealized) were recognized as Net result of financial instruments at fair value through profit and loss.

Hedging derivatives

Hedging derivatives can be categorized as either:
- a hedge of the fair value of a recognized asset or liability or a firm commitment (fair value hedge);
- a hedge of a future cash flow attributable to a recognized asset or liability or forecast transaction (cash flow hedge).

Hedge accounting may be used for derivatives designated in this way, provided certain criteria are met.
- Formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied.
- The hedge is documented showing that it is expected to be effective both prospectively and retrospectively in offsetting changes in fair value or cash flows attributable to the hedged risk on the hedged item throughout the reporting period.
- The hedge shall be effective at inception and on a going concern basis.

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 recorded in the income statement, along with the corresponding change in fair value of the hedged assets or liabilities that are attributable to that specific hedged risk. If at any time the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortized to profit or loss over the residual maturity of the hedged item by adjusting the yield on the hedged item.
The efficient portion of the changes in the fair value of derivatives that are designated in a cash flow hedging relationship, that respect the criteria set out above, and that prove to be efficient in relation to the hedged risk, is recognized in equity as Unrealized or deferred gains and losses of cash flow hedges. The non-efficient portion of the changes in the fair value of the derivatives is recognized in the income statement.
Amounts deferred in equity are transferred to the income statement and classified as income or expense in the periods during which the hedged firm commitment or forecast transaction affect the income statement.

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 qualifying 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.
It 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.
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 adjustments recorded in the income statement.
Revaluation related to the hedged risk is recognized on the balance sheet (in asset or liability depending on positive or negative revaluation) as Fair value revaluation of portfolio hedge.

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, or in its absence, the most advantageous market to the Group has access to that date. The fair value of a liability reflects its non-performance risk, which includes 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 the financial instrument is not traded on an active market, valuation techniques are used. Valuation techniques include the use of data from recent arm's length market transactions

between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, 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 a transaction. 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 the balance sheet date.

Fair value of financial instruments measured at amortized cost
The following comments are applicable to the fair value of loans and advances presented in the notes.
- The fair value of fixed-rate loans is estimated by comparing market interest rates when the loans were granted with current market interest rates offered on similar loans.
- Caps, floors and early repayment options are included in determining the fair value of loans and advances.

Financial instruments measured at fair value
Available-for-sale financial assets and derivatives are measured at fair value by reference to listed market prices when available. When listed market prices are not available, fair values are estimated on the basis of pricing models or discounted cash flows, using observable or non-observable market data.
For available-for-sale investments, when listed prices are not available, the pricing models attempt 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 are discounted using an OIS-based curve. Uncollateralized transactions are discounted with a Euribor-based curve. As a reminder, the entity CAFFIL does not pay any collateral to its derivative counterparties, which benefit from the legal privilege on assets, as well as the legal holders of covered bonds. In addition, a value adjustment is included in the fair value of derivatives to reflect the impact of counterparty credit risk (CVA - Credit Value Adjustment) or the Group's own credit quality (DVA - Debit Value Adjustment). Value adjustment allows switching from a fair value based on cash flows discounted at risk-free rate, i.e. into a fair value including credit risk. Its calculation is based on the risk exposures combined with loss rates including market parameters.

Interest income and expense
For all interest-bearing instruments at amortized cost, interest income and expense are recognized in the income statement using the effective interest rate method (including transaction costs).
The effective interest rate is the rate that exactly discounts expected future cash flows through the life of the financial instrument, or when appropriate, a shorter period to determine the net carrying amount of the financial asset.
The calculation of this rate includes commissions received or paid that are an integral part of the effective interest rate due to their nature, transaction costs and any premiums and discounts.
Transaction costs are incremental costs that are directly attributable to the acquisition of a financial asset or liability and are used for the calculation of the effective interest rate.

Accrued interest is recognized on the balance sheet in the same item as the related financial asset or liability.
Once an interest-bearing financial asset has been written down to its estimated recoverable amount, interest income is thereafter recognized based on the interest rate used to discount the future cash flows in order to measure the impairment loss.

Fee income and expense
Most of fees arising from the Group's activities are recognized on an accrual basis over the life of the underlying transaction.
Loan commitment fees are recognized as an adjustment to the effective interest rate and recorded in Interest income if the loan is granted. They are recorded as fee income on the expiry date of the commitment if no loan has been granted.

Deferred taxes
Deferred taxes are recognized using the liability method to account for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The tax rates enacted or substantively enacted at the balance sheet date are used to determine deferred taxes.
Deferred tax assets are recognized to the extent that it is probable that 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 can be controlled and it is probable that the difference will not reverse in the foreseeable future.
Deferred taxes relating to fair value re-measurements of available for sale investments and cash flow hedging instruments, and other operations which are charged or credited directly to other comprehensive income, are also credited or charged to other comprehensive income.

Provisions
Provisions mainly include provisions for litigation, restructuring, and off-balance sheet loan commitments.
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.
Provisions are recognized 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.

Provisions on loan commitments are accounted for according to the same method used for financial assets valued at amortized cost.

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 recorded at acquisition cost plus any directly attributable expenses.
Software developed internally, when it meets the criteria for recognition, is recorded 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, assets are carried at cost less accumulated depreciation and impairment. When they are ready to be used, assets are depreciated linearly over their expected useful life. Depreciation is recognized in "Depreciation, amortization and impairment of tangible and intangible assets".
The Group applies the component approach to all of its assets. The depreciation periods are as follows:

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

** Purchased licenses and equipment are depreciated over three years. The depreciation period of internally developed software depends on whether it is strategic for the company. If considered strategic, it is depreciated over five years; if not, it is amortized over three years.*

Fixed assets are tested for impairment when impairment indicators are identified. When the carrying amount of an asset is greater than its estimated recoverable amount, an impairment charge is recognized and the carrying amount of the asset is written down to the estimated recoverable amount. Impairment charges are recognized in Depreciation, amortization and impairment of tangible and intangible assets. Gains or losses on disposal of assets are charged to Gains or losses on assets.

Leases

SFIL contracts leases as lessee. Agreements that transfer to counterparties substantially all the risks and rewards incidental to the ownership of assets, but not necessarily legal title, are classified as finance leases. All other leases are classified as operating leases.
Under finance leases, leased assets are reported in Property, plant and equipment at their fair value or, if lower, the present value of the minimum lease payments. Subsequently, they are recognized in accordance with accounting rules applicable to Property, plant and equipment. Corresponding liabilities are recorded as Accruals and other liabilities and finance charges payable are recognized in the income statement using the effective interest method.
Under operating leases, leased assets are not recognized on the balance sheet. Rentals payable under operating leases are accounted for on a straight-line basis over the periods of the leases. When leases are terminated early, all penalties payable to the lessor are reported as expenses in the period in which the termination has occurred.

Employee benefits

Employee benefits are classified in four categories, as follows.

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.
The undiscounted amount of the benefits expected to be paid in respect of service rendered by employees in an accounting period is recognized in that period.

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 the 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.
Post-employment benefit obligations under defined benefit plans are measured using an actuarial valuation technique that includes demographic and financial assumptions and the Projected Unit Credit Method, under which each period of service gives rise to an additional unit of benefit entitlement and each unit is measured separately to build up the final obligation.
The net defined benefit liability recognized in the balance sheet 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.
The net charge to the income statement comprises the current service cost, the past service arising from plan amendments or curtailments and the net interest costs. The measurement of the net defined benefit liability (or asset) and the fair value of assets is subject to adjustments as a result in changes in actuarial assumptions. Actuarial gains and losses resulting from these adjustments are recognized in other comprehensive income.

Other long-term benefits

These benefits are generally related to length of service, such as long-service awards. Their payment is deferred for more than twelve months after the end of the annual period during which the employees rendered the related service.
Employee entitlement to annual leave or long-service leave is recognized when it is granted to the employee. A provision is recorded to estimate the liability for annual leave and long service leave arising from services rendered by employees up to the balance-sheet date.
Actuarial gains and losses relating to these benefits are immediately recognized in the profit and loss account.

Termination benefits

Termination benefits are employee benefits payable as a result of either SFIL's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits. Termination benefits are recorded as expenses only when SFIL no longer has the option to withdraw its compensation offer. Termination benefits due more than twelve months after the balance sheet date are discounted.

Dividends on shares

Dividends on shares are recognized in liabilities in the period in which they are declared (they must be authorized). Dividends for the year that are declared after the balance sheet date are disclosed in the note on post-closing events.

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.

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. SFIL is owned by the French State and by two companies registered in France, Caisse des Dépôts et Consignations and La Banque Postale. Within this framework, related parties include shareholders and members of the Board of Directors.

Segment reporting

The Group's sole activity involves the financing or refinancing of loans to public sector entities and exporters.
The Group conducts its business solely from Paris. It has no direct activity in other countries and is unable to present a relevant geographic breakdown of its results.

Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include balances at central banks and interbank deposits at sight.

2. Notes to the assets

2.1 - CENTRAL BANKS

EUR millions	12/31/2014	12/31/2015
Mandatory reserve deposits with central banks	-	-
Other deposits	877	3,361
TOTAL	**877**	**3,361**

2.2 - FINANCIAL ASSETS AVAILABLE FOR SALE

a. Analysis by nature

EUR millions	12/31/2014	12/31/2015
Loans	-	-
Bonds	2,820	1,304
TOTAL	**2,820**	**1,304**

b. Analysis by counterparty

EUR millions	12/31/2014	12/31/2015
Public sector	2,477	1,304
Credit institutions guaranteed by the public sector	343	-
Total public sector	**2,820**	**1,304**
Replacement assets	-	-
TOTAL	**2,820**	**1,304**
of which eligible for central bank refinancing	*2,531*	*1,015*

c. Impairment

EUR millions	12/31/2014	12/31/2015
Public sector	2,820	1,304
Replacement assets	-	-
Total performing assets	**2,820**	**1,304**
Public sector	-	-
Replacement assets	-	-
Total impaired assets	**-**	**-**
Specific impairment	-	-
TOTAL ASSETS AFTER IMPAIRMENT	**2,820**	**1,304**

d. Analysis by residual maturity

See note 7.4

e. Unrealized or deferred gains and losses, breakdown by country

See note 4.4

2.3 - LOANS AND ADVANCES DUE FROM BANKS

a. Analysis by nature

EUR millions	12/31/2014	12/31/2015
Sight accounts	24	10
Other loans and advances due from banks	2,823	2,520
Performing assets	**2,847**	**2,530**
Impaired loans and advances	-	-
Impaired assets	**-**	**-**
Total assets before impairment	**2,847**	**2,530**
Specific impairment	-	-
Collective impairment	-	-
TOTAL	**2,847**	**2,530**

b. Breakdown by counterparty

EUR millions	12/31/2014	12/31/2015
Credit institutions	4	0
Swiss cantonal banks benefiting from their cantons' legal guarantee	629	373
Banks guaranteed by a local government, *crédits municipaux*	91	58
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	2,099	2,089
Replacement assets	24	10
TOTAL	**2,847**	**2,530**
of which eligible for central bank refinancing	-	-

c. Analysis by residual maturity

See note 7.4

d. Unrealized or deferred gains and losses, breakdown by country

See note 4.4

2.4 - LOANS AND ADVANCES TO CUSTOMERS

a. Analysis by counterparty

EUR millions	12/31/2014	12/31/2015
Public sector	57,914	56,585
Other - guaranteed by a State or local government	3,974	3,725
Other - ABS made up solely of public commitments	3,916	2,341
Other - loans to employees	18	14
Performing assets	**65,822**	**62,665**
Impaired loans and advances	463	673
Impaired assets	**463**	**673**
Total assets before impairment	**66,285**	**63,338**
Specific impairment	(47)	(66)
Collective impairment	(63)	(63)
TOTAL	**66,175**	**63,209**
of which eligible for central bank refinancing	*41,139*	*39,227*
Assets assigned in guarantee to the central bank	-	-

The loans depreciated concern customers that represent an identified credit risk (non-performing loans: EUR 596 million) and customers with unpaid loans corresponding to disagreement on the amount due (compromised non-performing loans: EUR 77 million).
In 2015, SFIL, via its subsidiary CAFFIL, maintained a high level of collective impairment which amounted to EUR 63 million.
Assets considered as "forborne" by SFIL concern exposures to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognized or to come) that would not have been granted in other circumstances. These concessions may either be a waiver of a part of the debt, a rescheduling of the loan repayment, restructuring measures through an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions aiming at reducing the sensitivity of the loan.
There were 69 forborne contracts as of December 31, 2015, with 46 borrowers, for a total of EUR 546 million.

b. Public sector ABS

EUR millions	Rating	12/31/2014	12/31/2015
DSFB - Dexia Secured Funding Belgium 2		1,152	-
DSFB - Dexia Secured Funding Belgium 4	A-S&P, Fitch AA-	2,764	2,341
TOTAL		**3,916**	**2,341**

These securities are recorded on SFIL's balance sheet and were acquired from CAFFIL in 2013.

c. Analysis by residual maturity

See note 7.4

d. Unrealised or deferred gains and losses breakdown by country

See note 4.4

2.5 - TAX ASSETS

EUR millions	12/31/2014	12/31/2015
Current income tax	1	5
Other taxes	0	0
Current tax assets	**1**	**5**
Deferred tax assets (see note 4.2)	**116**	**116**
TOTAL TAX ASSETS	**117**	**121**

Deferred tax assets were submitted to a recoverability test taking into account the business plans presented to the Board of Directors according to realistic hypotheses. Deferred taxes as of December 31, 2015, are recoverable on the basis of this analysis within seven years by taking tax rules governing the treatment of past deficits into account[1].

(1) In application of the 2013 law of Finances (article 24), the assignation of deficits has a ceiling of EUR 1 million plus 50% of the fraction of of taxable income in the year in which the ceiling was exceeded. The non-attributable fraction of the deficits can be carried forward to the following years with no time limit and under the same conditions.

2.6 - PROPERTY AND EQUIPMENT

EUR millions	Computer equipment	Other equipment	Fixtures	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2014	**0**	**0**	**8**	**0**	**8**
Changes during the year:					
*increases	1	0	0	0	1
*decreases	-	-	-	(0)	(0)
*other	-	-	-	(0)	(0)
ACQUISITION COST AS OF 12/31/2015	**1**	**0**	**8**	**0**	**9**
Depreciation and impairments as of 12/31/2014	(0)	(0)	(0)	-	(0)
Changes during the year:					
*amortization	(0)	(0)	(1)	-	(1)
*write-back	-	-	-	-	-
*other	-	-	-	-	-
Depreciation and impairments as of 12/31/2015	(0)	(0)	(1)	-	(1)
NET CARRYING AMOUNT AS OF 12/31/2015	**1**	**0**	**7**	**0**	**8**

2.7 - INTANGIBLE ASSETS

EUR millions	Software	Internally developed assets	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2014	**1**	**2**	**2**	**5**
Changes during the year:				
*increases	0	5	5	10
*decreases	-	-	-	-
*other	-	2	(2)	-
ACQUISITION COST AS OF 12/31/2015	**1**	**9**	**5**	**15**
Depreciation and impairments as of 12/31/2014	(0)	(0)	-	(0)
Changes during the year:				
*amortization	(0)	(2)	-	(2)
*write-back	-	-	-	-
*other	-	-	-	-
Depreciation and impairments as of 12/31/2015	(0)	(2)	-	(2)
NET CARRYING AMOUNT AS OF 12/31/2015	**1**	**7**	**5**	**13**

2.8 - ACCRUALS AND OTHER ASSETS

EUR millions	12/31/2014	12/31/2015
Cash collateral paid	3,592	3,303
Other accounts receivable	6	0
Prepaid charges	4	4
Other assets	7	7
TOTAL ACCRUALS AND OTHER ASSETS	**3,609**	**3,314**

2.9 - RESTATEMENT OF FINANCIAL ASSETS (IAS 39 AMENDED)

EUR millions	From "Financial assets held for trading" to "Loans and advances" (1)	From "Financial assets held for trading" to "Financial assets available for sale" (2)	From "Financial assets available for sale" to "Loans and advances" (3)
Carrying amount of assets reclassified, as of October 1, 2008	-	-	17,855
Carrying amount of reclassified assets, as of December 31, 2015	-	-	4,239
Fair value of reclassified assets as of December 31, 2015	-	-	3,776
AMOUNT NOT RECOGNIZED THROUGH PROFIT AND LOSS (1) AND (2) DUE TO RECLASSIFICATION	**-**	**-**	**-**
AMOUNT NOT RECOGNIZED THROUGH ASSETS AVAILABLE FOR SALE (3) DUE TO RECLASSIFICATION	**-**	**-**	**(463)**
Premium/discount amortization through profit and loss	-	-	-
Premium/discount amortization through AFS reserve	-	-	15

3. Notes to the liabilities

3.1 - DUE TO BANKS

a. Analysis by nature

EUR millions	12/31/2014	12/31/2015
Sight deposits	0	-
Term deposits	9,788	8,837
TOTAL	**9,788**	**8,837**

EUR millions	12/31/2014	12/31/2015
Current account	-	-
Interest accrued not yet due	-	-
Long-term borrowing	9,764	8,822
Interest accrued not yet due	24	15
Sight accounts	0	-
TOTAL	**9,788**	**8,837**

b. Analysis by residual maturity

See note 7.4

3.2 - DEBT SECURITIES

a. Analysis by nature

EUR millions	12/31/2014	12/31/2015
Certificates of deposit	-	599
Obligations foncières	51,444	49,643
Registered covered bonds	7,057	7,498
TOTAL	**58,501**	**57,740**

b. Analysis by residual maturity

See note 7.4

3.3 - TAX LIABILITIES

EUR millions	12/31/2014	12/31/2015
Current income tax	9	0
Other taxes	3	2
Current tax liabilities	**12**	**2**
Deferred tax liabilities (see note 4.2)	**-**	**-**
TOTAL TAX LIABILITIES	**12**	**2**

3.4 - ACCRUALS AND OTHER LIABILITIES

EUR millions	12/31/2014	12/31/2015
Cash collateral received	2,694	1,937
Other accrued charges	32	35
Deferred income	-	-
Contributions to the support funds (1)	158	162
Other accounts payable and other liabilities	4	5
TOTAL	**2,888**	**2,139**

(1) This item corresponds to the residual balance of the commitment CAFFIL made in 2013 to contribute to the multi-year support fund for local governments in the amount of EUR 10 million for 15 years, for a total of EUR 150 million, as well as a commitment to contribute to the support fund for public healthcare facilities in the amount of EUR 38 million (including EUR 20 million in 2015).

3.5 - PROVISIONS

EUR millions	12/31/2014	12/31/2015
Provisions on pensions	5	5
Tax provisions (1)	-	38
TOTAL	**5**	**43**

(1) In 2015, French tax authorities investigated the income declared and the tax paid by CAFFIL for 2012 and 2013. Following the tax assessment, the tax authorities expressed their disagreement with the tax treatment of the following two points: the taxation in Ireland of the income from the Dublin branch, which has now been closed, and the deductibility of provisions for non-performing loans. CAFFIL recorded a provision for additional income tax in the amount of EUR 38 million. CAFFIL, nonetheless, does not agree with the position of the tax authorities and will appeal within the framework of legal recourse allowed by current tax regulations.

4. Other notes on the balance sheet

4.1 - DERIVATIVES

a. Analysis by nature

EUR millions	12/31/2014		12/31/2015	
	Assets	Liabilities	Assets	Liabilities
Derivatives at fair value through profit or loss	**2**	**2**	**2**	**2**
Derivatives designated as fair value hedges	5,311	9,035	4,644	8,158
Derivatives designated as cash flow hedges	6	147	6	162
Derivatives designated as portfolio hedges	3,056	4,484	2,397	3,811
Hedging derivatives	**8,373**	**13,666**	**7,047**	**12,131**
CVA /DVA Impact	**(8)**	**(55)**	**(10)**	**(43)**
TOTAL DERIVATIVES	**8,367**	**13,613**	**7,039**	**12,090**

b. Detail of derivatives designated as fair value hedges

EUR millions	12/31/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	9,168	9,272	459	549
Interest rate derivatives	53,960	53,944	4,852	8,486
TOTAL	**63,128**	**63,216**	**5,311**	**9,035**

EUR millions	12/31/2015			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	7,051	6,952	482	372
Interest rate derivatives	62,274	62,255	4,162	7,786
TOTAL	**69,325**	**69,207**	**4,644**	**8,158**

c. Detail of derivatives designated as cash flow hedges

EUR millions	12/31/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,130	1,228	6	147
Interest rate derivatives	-	-	-	-
TOTAL	**1,130**	**1,228**	**6**	**147**

EUR millions	12/31/2015			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	954	1,071	6	162
Interest rate derivatives	-	-	-	-
TOTAL	**954**	**1,071**	**6**	**162**

EUR millions	12/31/2014	12/31/2015
Amount removed from equity and included in the carrying amount of a non-financial instrument (hedging of cash flows of a highly favorable transaction)	-	-

d. Detail of derivatives designated as portfolio hedges

EUR millions	12/31/2014			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	85,393	85,388	3,056	4,484
TOTAL	**85,393**	**85,388**	**3,056**	**4,484**

EUR millions	12/31/2015			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	90,293	90,288	2,397	3,811
TOTAL	**90,293**	**90,288**	**2,397**	**3,811**

4.2 - DEFERRED TAXES

Deferred tax and assets and liabilities are netted out when they concern the same tax entity.

a. Analysis by nature

EUR millions	12/31/2014	12/31/2015
Deferred tax assets before impairment	116	116
Impairment on deferred tax assets	-	-
Deferred tax assets	**116**	**116**
Deferred tax liabilities	**-**	**-**
TOTAL	**116**	**116**

b. Movements

EUR millions	12/31/2014	12/31/2015
As of January 1	**113**	**116**
Charge/credit recognized in the income statement	16	18
Effect of change in tax rates - impact on the income statement	-	-
Movements directly recognized in equity	(13)	(18)
Effect of change in tax rates - impact on equity	-	-
Translation adjustment	-	-
Other movements	-	-
As of December 31	**116**	**116**

c. Deferred taxes from assets on the balance sheet

EUR millions	12/31/2014	12/31/2015
Loans	(123)	71
Securities	54	47
Derivatives	97	183
Accruals and other assets	14	14
TOTAL	**42**	**315**

d. Deferred taxes from liabilities on the balance sheet

EUR millions	12/31/2014	12/31/2015
Borrowings, deposits and issues of debt securities	74	(199)
Derivatives	-	-
Provisions	-	-
Accruals and other liabilities	-	-
TOTAL	**74**	**(199)**

4.3 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature

EUR millions	Parent company and entities consolidated[1]		Other related parties[2]	
	12/31/2014	12/31/2015	12/31/2014	12/31/2015
ASSETS				
Loans and advances	-	-	-	-
Bonds	-	-	-	-
LIABILITIES				
Due to banks - sight accounts	-	-	-	-
Due to banks - term loans	-	-	9,793	8,837
INCOME STATEMENT				
Interest income on loans and advances	-	-	(5)	(10)
Interest income on bonds	-	-	-	-
Interest expense on borrowings	-	-	(89)	(57)
Fees and commissions	-	-	2	4
OFF-BALANCE SHEET				
Foreign exchange derivatives	-	-	-	-
Interest rate derivatives	-	-	1,540	1,261
Commitments and guarantees received	-	-	3,962	5,062
Commitments and guarantees issued	-	-	6,212	5,511

(1) This item exclusively includes CAFFIL, which is fully consolidated.
(2) It includes transactions with Caisse des Dépôts et Consignations and La Banque Postale, shareholders of SFIL.

4.4 - UNREALIZED OR DEFERRED GAINS AND LOSSES, BREAKDOWN BY COUNTRY

EUR millions	12/31/2014	12/31/2015
Unrealized gains and losses on available for sale securities	**(82)**	**(48)**
Canada	-	0
Germany	1	-
France	1	(2)
Italy	(82)	(42)
United States	(2)	(4)
Unrealized gains and losses on loans and receivable securities	**(100)**	**(85)**
Spain	(2)	(1)
France	4	3
Italy	(102)	(87)
Unrealized gains and losses on derivatives designated as cash-flow hedges	**(43)**	**(39)**
Unrealized gains and losses on employee benefits plan	**(1)**	**(1)**
TOTAL	**(226)**	**(173)**
Deferred taxes on gains and losses, available for sale securities	28	17
Deferred taxes on gains and losses, loans and receivable securities	34	29
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	16	13
Deferred taxes on employee benefits plan	(0)	0
TOTAL	**(148)**	**(114)**

4.5 - BREAKDOWN OF GOVERNMENT BONDS IN A SELECTION OF EUROPEAN COUNTRIES AND IMPAIRMENT OF SOVEREIGN BONDS OF COUNTRIES SUBJECT TO A EUROPEAN SUPPORT PLAN

Breakdown of government bonds in a selection of European countries

The credit risk exposure reported represents the accounting net carrying amount of exposure, being the notional amounts after deduction of specific impairment, and taking into account accrued interest.

	12/31/2014					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	599	-	-	**599**
TOTAL	**-**	**-**	**599**	**-**	**-**	**599**

	12/31/2015					
	Spain	Ireland	Italy	Portugal	Greece	Total
Government bonds	-	-	585	-	-	**585**
TOTAL	**-**	**-**	**585**	**-**	**-**	**585**

	12/31/2014					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	-	-	487	-	-	**487**
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	112	-	-	**112**
TOTAL	**-**	**-**	**599**	**-**	**-**	**599**
Unrealized gains and losses on available-for-sale securities		**-**	**(82)**	**-**	**-**	**(82)**
Unrealized gains and losses on loans and receivable securities		**-**	**-**	**-**	**-**	**-**

	12/31/2015					
	Spain	Ireland	Italy	Portugal	Greece	Total
Financial assets available for sale	-	-	472	-	-	**472**
Financial assets held for trading	-	-	-	-	-	-
Held to maturity investments	-	-	-	-	-	-
Loans and advances	-	-	113	-	-	**113**
TOTAL	**-**	**-**	**585**	**-**	**-**	**585**
Unrealized gains and losses on available-for-sale securities		**-**	**(42)**	**-**	**-**	**(42)**
Unrealized gains and losses on loans and receivable securities		**-**	**-**	**-**	**-**	**-**

5. Notes to the income statement

5.1 - INTEREST INCOME - INTEREST EXPENSE

EUR millions	2014	2015
INTEREST INCOME	**4,500**	**4,095**
Central banks	-	0
Loans and advances due from banks	60	36
Loans and advances to customers	1,721	1,660
Financial assets available for sale	41	39
Financial assets held to maturity	-	-
Derivatives used for hedging	2,678	2,360
Impaired assets	-	-
Other	-	-
INTEREST EXPENSE	**(4,423)**	**(4,006)**
Accounts with central banks	(0)	(5)
Due to banks	(93)	(52)
Customer borrowings and deposits	(2)	(2)
Debt securities	(2,045)	(1,846)
Subordinated debt	-	-
Derivatives used for hedging	(2,283)	(2,101)
Other	-	-
INTEREST MARGIN	**77**	**89**

5.2 - FEES AND COMMISSIONS

EUR millions	2014			2015		
	Income	Expense	Net	Income	Expense	Net
Lending activity	2	-	2	4	-	4
Purchase and sale of securities	0	(1)	(1)	-	(2)	(2)
Financial engineering	-	-	-	-	-	-
Services on securities other than custodian services	0	(5)	(5)	-	(5)	(5)
Issuance and underwriters of securities	-	(0)	(0)	-	(1)	(1)
TOTAL	**2**	**(6)**	**(4)**	**4**	**(8)**	**(4)**

5.3 - NET RESULT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

EUR millions	2014	2015
Net trading income	(1)	1
Net result of hedge accounting	(11)	1
Net result of foreign exchange transactions	0	(0)
TOTAL	**(12)**	**2**

All interest received and paid on assets, liabilities and derivatives is recorded in net interest income, as required by IFRS. Thus, net gains (losses) on trading transactions and net gains (losses) on hedging transactions include only the change in the clean value of derivatives, the revaluation of assets and liabilities qualified as hedges and the revaluation of the portfolio held for trading.

Analysis of net result of hedge accounting

EUR millions	2014	2015
Fair value hedges	**(6)**	**18**
Fair value changes in the hedged item attributable to the hedged risk	563	1,063
Fair value changes in the hedging derivatives	(569)	(1,045)
Cash flow hedges	**-**	
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
Portfolio hedge	**(3)**	**(4)**
Fair value changes in the hedged item	1,179	(41)
Fair value changes in the hedging derivatives	(1,182)	37
CVA / DVA Impact(1)	**(2)**	**(13)**
TOTAL	**(11)**	**1**

(1) As of December 31, 2015, the impact of the application of IFRS 13 was a net charge of EUR -13 million for the year, a sum that can be broke down into a decrease in DVA income for EUR -12 million and in that of CVA for EUR -1 million.

5.4 - NET RESULT OF FINANCIAL ASSETS AVAILABLE FOR SALE

EUR millions	2014	2015
Net result of disposals of loans and securities available for sale	(0)	0
Net result of disposals of debt securities	10	(5)
Net result of the sale or cancellation of loans and advances	(1)	4
TOTAL	**9**	**(1)**

5.5 - OPERATING EXPENSE

EUR millions	2014	2015
Payroll costs	(44)	(47)
Other general and administrative expense	(50)	(41)
Taxes	(4)	(11)
TOTAL	**(98)**	**(99)**

5.6 - DEPRECIATION AND AMORTIZATION, PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

EUR millions	2014	2015
Depreciation and amortization, property and equipment[(1)]	(1)	(1)
Depreciation and amortization, intangible assets[(1)]	(0)	(2)
TOTAL	**(1)**	**(3)**

(1) see notes 2.6 and 2.7

5.7 - COST OF RISK

EUR millions	2014				2015			
	Collective impairment	Specific impairment and losses	Contributions to support fund	Total	Collective impairment	Specific impairment and losses	Contributions to support fund	Total
Credit (loans, commitments and securities held to maturity)	7	(7)	(18)	(18)	(1)	7	(20)	**(14)**
Fixed income securities available for sale	-	-	-	-	-	-	-	-
TOTAL	**7**	**(7)**	**(18)**	**(18)**	**(1)**	**7**	**(20)**	**(14)**

Detail of collective and specific impairments

Collective impairment	2014			2015		
EUR millions	Charges	Recoveries and uses	Total	Charges	Recoveries and uses	Total
Loans and borrowings	(47)	54	7	(5)	4	**(1)**
Off-balance sheet commitments	-	-	-	-	-	-
TOTAL	**(47)**	**54**	**7**	**(5)**	**4**	**(1)**

Specific Impairment	2014				
EUR millions	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(10)	3	(0)	-	**(7)**
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	**(10)**	**3**	**(0)**	**-**	**(7)**
Fixed income securities	-	-	-	-	-
TOTAL	**(10)**	**3**	**(0)**	**-**	**(7)**

Specific Impairment	2015				
EUR millions	Allocations	Reversals	Losses	Recoveries	Total
Loans and advances due from banks	-	-	-	-	-
Loans and advances to customers	(4)	11	(0)	-	**7**
Financial assets held to maturity	-	-	-	-	-
Off-balance sheet commitments	-	-	-	-	-
Total credit	**(4)**	**11**	**(0)**	**-**	**7**
Fixed income securities	-	-	-	-	-
TOTAL	**(4)**	**11**	**(0)**	**-**	**7**

5.8 - CORPORATE INCOME TAX

a. Detail of tax expense

EUR millions	2014	2015
Current taxes	(8)	(9)
Deferred taxes	16	18
Tax on prior years' income	-	-
Deferred taxes on prior years	-	-
Provisions for tax litigation	-	(38)
TOTAL	**8**	**(29)**

b. Effective tax expense as of December 31, 2015

The difference with the French tax rate can be analysed as follows.

EUR millions	2014	2015
INCOME BEFORE INCOME TAXES	**(42)**	**(30)**
Net income from associates	-	-
TAX BASE	**(42)**	**(30)**
Applicable tax rate at end of the period	38.00%	38.00%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	**16**	**11**
Tax effect of non-deductible expense	-	(1)
Tax effect of non-taxable income	-	
Impact of items taxed at a reduced rate	-	
Other additional taxes or tax savings	(8)	(1)
Liability method	-	
Provisions for tax litigation	-	(38)
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	**8**	**(29)**

c. Tax consolidation

Caisse Française de Financement Local has been a member of the SFIL tax group since January 1, 2014.

6. Note on off-balance sheet items

6.1 - REGULAR WAY TRADE

EUR millions	12/31/2014	12/31/2015
Assets to be delivered	-	-
Liabilities to be received[1]	1,587	1,937

(1) As of December 31, 2014, the amount concerned financing by Caisse des Dépôts et Consignations in the amount of EUR 1,487 million and registered covered bonds for EUR 100 million. As of December 31, 2015, the amount concerned financing by Caisse des Dépôts et Consignations.

6.2 - GUARANTEES

EUR millions	12/31/2014	12/31/2015
Guarantees received from credit institutions[1]	1,339	184
Guarantees received from customers[2]	6,869	5,867

(1) As of December 31, 2015, the amount was essentially made up of securities pledged to CAFFIL in guarantee of the repayment of loans granted to SFIL.
(2) Guarantees received from customers are generally given by local governments.

6.3 - FINANCING COMMITMENTS

EUR millions	12/31/2014	12/31/2015
Loan commitments granted to credit institutions	0	0
Loan commitments granted to customers[1]	150	518
Loan commitments received from credit institutions[2]	3,829	4,922
Loan commitments received from customers	-	-

(1) The financing commitments on loans and lines of credit corresponded to contracts issued but not paid out as of December 31, 2015. The amount as of December 31, 2015, included a commitment of EUR 225 million on an operation in the new business line of export credit.
(2) This item concerned a firm and irrevocable commitment by Caisse de Dépôts et Consignations and La Banque Postale to make available to SFIL the funds required.

6.4 - OTHER COMMITMENTS

EUR millions	12/31/2014	12/31/2015
Commitments granted [1]	6,212	5,511
Commitments received	272	238

(1) This concerns the value of a group of loans pledged to Caisse des Dépôts et Consignations.

7. Notes on risk exposure

7.1 - FAIR VALUE

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

These fair value adjustments take into account the characteristics of the assets and liabilities concerned (maturity, interest rate risk hedging, amortization profile, and for assets, the rating); they are also influenced by current market conditions, in particular in terms of liquidity and margin, for these very operations or operations to which they can be assimilated. The breakdown of assets and liabilities in function of the method used to determine their fair value is presented in note c. below; in fact, the great majority of the assets are valued according to a technique that accounts for the fact that significant parameters are not observable for the assets, since exposure mainly concerns loans, a commitment format that is not listed in liquid markets. To value liabilities, certain observable parameters are taken into account.

The process used to produce this information and certain parameters has been modified since December 31, 2014. If these changes had been applied as of December 31, 2014, the unrecorded adjustment in the value of the assets on that date would have been EUR -1.8 billion, and the value of the liabilities EUR 0.3 billion.

For assets and liabilities with good congruence in interest rates and maturities that are meant to be held on the balance sheet to maturity (because of the specialized business the Company does), these fair values provide interesting information, but it would not be relevant to draw conclusions about the value of the Company or the results it will achieve in the future.

a. Composition of the fair value of the assets

EUR millions	12/31/2014		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	877	877	-
Loans and advances due from banks	2,847	2,884	37
Loans and advances to customers	66,175	63,734	(2,441)
Financial assets available for sale	2,820	2,820	-
Hedging derivatives	8,367	8,367	-
TOTAL	**81,086**	**78,682**	**(2,404)**

EUR millions	12/31/2015		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	3,361	3,361	-
Loans and advances due from banks	2,530	2,545	15
Loans and advances to customers	63,209	61,845	(1,364)
Financial assets available for sale	1,304	1,304	-
Hedging derivatives	7,039	7,039	-
TOTAL	**77,443**	**76,094**	**(1,349)**

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

EUR millions	12/31/2014		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	9,788	9,898	110
Hedging derivatives	13,613	13,613	-
Debt securities	58,501	57,191	(1,310)
TOTAL	**81,902**	**80,702**	**(1,200)**

EUR millions	12/31/2015		
	Book value	Fair value	Unrecognized fair value adjustment
Due to banks	8,837	8,865	28
Hedging derivatives	12,090	12,090	-
Debt securities	57,740	58,263	523
TOTAL	**78,667**	**79,218**	**551**

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

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

- Level 1 corresponds to the instruments considered to be liquid, i.e. that their valuation is based on the price observed in a liquid market. Level 1 financial instruments notably include certain government bonds.
- Level 2 uses another method to determine the value of instruments for which SFIL cannot 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.
- Level 3, when there is no active market or observable market data, the fair value of instruments is determined by using a valuation spread developed from an internal model. Derivatives are valued using these internal models.

Fair value of financial assets	12/31/2014			
EUR millions	Level 1[1]	Level 2[2]	Level 3[3]	Total
Central banks	877	-	-	**877**
Loans and advances due from banks	24	1,893	967	**2,884**
Loans and advances to customers	1,724	668	61,342	**63,734**
Subtotal of assets at amortized costs	**2,625**	**2,561**	**62,309**	**67,495**
Financial assets available for sale	2,296	181	343	**2,820**
Hedging derivatives	-	6,331	2,036	**8,367**
Subtotal of assets at fair value	**2,296**	**6,512**	**2,379**	**11,187**
TOTAL	**4,921**	**9,073**	**64,688**	**78,682**

Fair value of financial assets	12/31/2015			
EUR millions	Level 1[1]	Level 2[2]	Level 3[3]	Total
Central banks	3,361	-	-	**3,361**
Loans and advances due from banks	10	2,535	-	**2,545**
Loans and advances to customers	1,525	623	59,697	**61,845**
Subtotal of assets at amortized costs	**4,896**	**3,158**	**59,697**	**67,751**
Financial assets available for sale	1,107	197	-	**1,304**
Hedging derivatives	-	5,519	1,520	**7,039**
Subtotal of assets at fair value	**1,107**	**5,716**	**1,520**	**8,343**
TOTAL	**6,003**	**8,874**	**61,217**	**76,094**

Fair value of financial liabilities	12/31/2014			
EUR millions	Level 1[1]	Level 2[2]	Level 3[3]	Total
Due to banks	-	9,898	-	**9,898**
Debt securities		57,191	-	**57,191**
Subtotal of liabilities at amortized costs	**-**	**67,089**	**-**	**67,089**
Hedging derivatives		8,287	5,326	**13,613**
Subtotal of liabilities at fair value	**-**	**8,287**	**5,326**	**13,613**
TOTAL	**-**	**75,376**	**5,326**	**80,702**

Fair value of financial liabilities	12/31/2015			
EUR millions	Level 1[1]	Level 2[2]	Level 3[3]	Total
Due to banks	-	8,865	-	**8,865**
Debt securities	-	58,263	-	**58,263**
Subtotal of liabilities at amortized costs	**-**	**67,128**	**-**	**67,128**
Hedging derivatives	-	7,768	4,322	**12,090**
Subtotal of liabilities at fair value	**-**	**7,768**	**4,322**	**12,090**
TOTAL	**-**	**74,896**	**4,322**	**79,218**

(1) Price listed on an active market for the same type of instrument.
(2) Price listed on an active market for an instrument that is similar (but not exactly the same) or use of a valuation technique in which all significant inputs are observable.
(3) Use of a valuation technique in which all the significant parameters are not observable.

d. Transfer between levels 1 and 2

EUR millions	12/31/2014	12/31/2015
Level 1 to level 2	-	-
TOTAL	**-**	**-**

e. Level 3 : analyses of flow

EUR millions	12/31/2014	Total gains and losses through profit and loss	Total unrealized or deferred gains and losses	Unrealized or deferred gains and losses through OCI	Purchase	Sale	Direct Origination	Settlement	Transfer to assets held for sale	Transfer into level 3	Transfer out of level 3	Other variations	12/31/2015
Financial assets available for sale	343	-	-	-	-	-	-	(343)	-	-	-	-	-
Hedging derivatives	2,036	6	(113)	-	64	-	-	-	-	-	(515)	42	1,520
TOTAL FINANCIAL ASSETS	**2,379**	**6**	**(113)**	**-**	**64**	**-**	**-**	**(343)**		**-**	**(515)**	**42**	**1,520**
Hedging derivatives	5,326	(509)	105	-	192	-	-	-	-	45	(886)	49	4,322
TOTAL FINANCIAL LIABILITIES	**5,326**	**(509)**	**105**	**-**	**192**	**-**	**-**	**-**		**45**	**(886)**	**49**	**4,322**

7.2 - OFFSETTING FINANCIAL ASSETS AND LIABILITIES

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

EUR millions	12/31/2014					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	8,367		8,367	(5,651)	(2,597)	119
Loans and advances due from banks	2,847		2,847	-	(1,856)	991
Loans and advances to customers	66,175		66,175	-	-	66,175
TOTAL	**77,389**	**-**	**77,389**	**(5,651)**	**(4,453)**	**67,285**

EUR millions	12/31/2015					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	7,039	-	7,039	(5,130)	(1,792)	117
Loans and advances due from banks	2,530	-	2,530	-	(1,851)	679
Loans and advances to customers	63,209	-	63,209	-	-	63,209
TOTAL	**72,778**	**-**	**72,778**	**(5,130)**	**(3,643)**	**64,005**

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

EUR millions	12/31/2014					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial instruments pledged	
Derivatives (including hedging instruments)	13,613	-	13,613	(5,651)	(3,564)	4,398
Due to banks	9,788	-	9,788	-	-	9,788
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	**23,401**	**-**	**23,401**	**(5,651)**	**(3,564)**	**14,186**

EUR millions	12/31/2014					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 § 13
				Effect of master netting arrangements	Financial instruments pledged	
Derivatives (including hedging instruments)	12,090	-	12,090	(5,130)	(3,283)	3,677
Due to banks	8,837	-	8,837	-	-	8,837
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	**20,927**	**-**	**20,927**	**(5,130)**	**(3,283)**	**12,514**

7.3 - EXPOSURE TO CREDIT RISK

Exposure to credit risks, as presented to management, includes the following:
- for assets other than derivatives: the amount on the balance sheet (i.e. after deduction of specific provisions);
- for derivatives: the market value on the balance sheet plus an add-on representing a margin for future potential credit risks;
- for off-balance sheet commitments: the amount intact of financing commitment drawdowns, is stated in the notes to the financial statements.

Exposure to credit risk is broken down by region and by counterparty, taking into account the guarantees received. This signifies that when the credit risk is guaranteed by a third party whose weighted risk (in the sense of Basel regulations) is less than that of the direct borrower, exposure is included in the guarantor's region and business sector.

Breakdown of exposure to credit risks

Analysis of exposure by geographic region

EUR millions	12/31/2014	12/31/2015
France	48,248	58,380
Belgium	214	2,541
Italy	6,912	6,610
Spain	471	285
Germany	897	627
United Kingdom	2,318	2,263
Switzerland	2,930	2,123
Other European Union countries	259	247
United States and Canada	641	700
Japan	25	39
Other	4,033	67
TOTAL EXPOSURE	**66,948**	**73,882**

Analysis of exposure by category of counterparty

EUR millions	12/31/2014	12/31/2015
States	4,595	6,634
Local public sector	56,804	64,005
ABS	3,916	2,341
Other - guaranteed by local public sector	152	143
Financial institutions	1,481	759
TOTAL EXPOSURE	**66,948**	**73,882**

Analysis of exposure by category of instrument

EUR millions	12/31/2014	12/31/2015
Debt securities	2,820	1,304
Loans and advances	63,905	72,043
Financing commitments on loans	150	517
Hedging derivatives	73	18
TOTAL EXPOSURE	**66,948**	**73,882**

Evaluation of asset credit quality
This enables SFIL to present on December 31, 2015, an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements. Credit weighting is mainly calculated on the basis of the probability of default of the counterparty and of the loss incurred in the event of default.

This analysis confirms the excellent quality of the assets in SFIL's portfolio. More than 76.5% of the portfolio has a weighting of less than 5% and 96.4% of the portfolio has a weighting that is less than or equal to 20%.

EUR millions	Risk weighting (Basel III)				
	from 0 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	Total
Debt securities	441	188	675	-	**1,304**
Loans and advances	55,577	14,495	1,679	315	**72,066**
Financing commitments on loans	489	28	-	-	**517**
Hedging derivatives	-	-	15	3	**18**
TOTAL EXPOSURE	**56,507**	**14,711**	**2,369**	**318**	**73,905**
Share of total exposure	**76.5%**	**19.9%**	**3.2%**	**0.4%**	**100.0%**

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

7.4 - LIQUIDITY RISK: ANALYSIS BY TERM TO MATURITY

a. Analysis of assets

EUR millions	12/31/2015						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central bank	3,361	-	-	-	-	-	**3,361**
Derivatives	-	-	-	-	-	-	**-**
Financial assets available for sale	-	409	15	69	561	0	**1,054**
Loans and advances due from banks	10	51	2,079	164	204	-	**2,508**
Loans and advances to customers	6	2,180	3,168	16,923	34,964	-	**57,241**
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	**-**
Financial assets held to maturity	-	-	-	-	-	-	**-**
Tax assets	-	-	5	-	-	116	**121**
Tangible assets	-	-	-	-	-	9	**9**
Intangible assets	-	-	-	-	-	15	**15**
Accruals and other assets	-	3,313	-	-	-	2	**3,315**
TOTAL	**3,377**	**5,953**	**5,267**	**17,156**	**35,729**	**142**	**67,624**

EUR millions	12/31/2015				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central bank	3,361	-	-	-	**3,361**
Derivatives	-	971	6,068	-	**7,039**
Financial assets available for sale	1,054	14	236	-	**1,304**
Loans and advances due from banks	2,508	5	17	-	**2,530**
Loans and advances to customers	57,241	716	5,381	(129)	**63,209**
Fair value revaluation of portfolio hedge	-	-	2,784	-	**2,784**
Financial assets held to maturity	-	-	-	-	**-**
Tax assets	121	-	-	-	**121**
Tangible assets	9	-	-	(1)	**8**
Intangible assets	15	-	-	(2)	**13**
Accruals and other assets	3,315	(1)	-	-	**3,314**
TOTAL	**67,624**	**1,705**	**14,486**	**(132)**	**83,683**

b. Analysis of liabilities, excluding equity

EUR millions	12/31/2015						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central bank		-	-	-	-	-	-
Derivatives		-	-	-	-	-	-
Due to banks		1,937	1,373	2,866	2,649	-	**8,825**
Customer borrowings and deposits		-	-	-	-	-	-
Debt securities		2,480	5,054	20,832	24,598	-	**52,964**
Fair value revaluation of portfolio hedge		-	-	-	-	-	-
Tax liabilities		-	2	-	-	0	**2**
Accruals and other liabilities		2,003	-	56	80	-	**2,139**
Provisions		-	-	38	-	5	**43**
Subordinated debt		-	-	-	-	-	-
TOTAL	**-**	**6,420**	**6,429**	**23,792**	**27,327**	**5**	**63,973**

EUR millions	12/31/2015			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central bank	-	-	-	**-**
Derivatives	-	1,127	10,963	**12,090**
Due to banks	8,825	15	(3)	**8,837**
Customer borrowings and deposits	-	-	-	**-**
Debt securities	52,964	942	3,834	**57,740**
Fair value revaluation of portfolio hedge	-	-	1,447	**1,447**
Tax liabilities	2	-	-	**2**
Accruals and other liabilities	2,139	-	-	**2,139**
Provisions	43	-	-	**43**
Subordinated debt	-	-	-	**-**
TOTAL	**63,973**	**2,084**	**16,241**	**82,298**

c. Net liquidity gap

EUR millions	12/31/2015							
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total not broken down	Total
AMOUNT	**3,377**	**(467)**	**(1,162)**	**(6,636)**	**8,402**	**137**	**(2,266)**	**1,385**

This table presents the balance sheet at the closing date; it does not take into account the management decisions that will make it possible to manage differences in maturity or the future production of assets and liabilities. CAFFIL's liquidity is provided by its refinancing agreement with its parent company SFIL and by its issue of *obligations foncières*. In addition, SFIL may obtain funding from the Banque de France, by giving certain of these assets in guarantee. CAFFIL can thus obtain funding from the Banque de France enabling it to reimburse *obligations foncières* when they arrive at maturity; the assets given in guarantee are therefore excluded (as well as the matured bonds) from the calculation of the solvency ratio, which remains practically unchanged.

7.5 - RISK ON RESETTING OF INTEREST RATES: ANALYSIS BY TIME UNTIL NEXT INTEREST RATE RESET DATE

a. Analysis of assets

EUR millions	12/31/2015						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central bank	3,361	-	-	-	-	-	**3,361**
Derivatives	-	-	-	-	-	-	**-**
Financial assets available for sale	-	-	15	478	561	-	**1,054**
Loans and advances due from banks	10	1,974	284	150	90	-	**2,508**
Loans and advances to customers	6	10,522	8,290	11,823	26,600	-	**57,241**
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	**-**
Financial assets held to maturity	-	-	-	-	-	-	**-**
Tax assets	-	-	5	-	-	116	**121**
Tangible assets	-	-	-	-	-	9	**9**
Intangible assets		-	-	-	-	15	**15**
Accruals and other assets	-	3,315	-	-	-	-	**3,315**
TOTAL	**3,377**	**15,811**	**8,594**	**12,451**	**27,251**	**140**	**67,624**

EUR millions	12/31/2015				
	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central bank	3,361	-	-	-	**3,361**
Derivatives	-	971	6,068	-	**7,039**
Financial assets available for sale	1,054	14	236	-	**1,304**
Loans and advances due from banks	2,508	5	17	-	**2,530**
Loans and advances to customers	57,241	716	5,381	(129)	**63,209**
Fair value revaluation of portfolio hedge	-	-	2,784	-	**2,784**
Financial assets held to maturity	-	-	-	-	**-**
Tax assets	121	-	-	-	**121**
Tangible assets	9	-	-	(1)	**8**
Intangible assets	15	-	-	(2)	**13**
Accruals and other assets	3,315	(1)	-	-	**3,314**
TOTAL	**67,624**	**1,705**	**14,486**	**(132)**	**83,683**

b. Analysis of liabilities, excluding equity

EUR millions	12/31/2015						
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central bank	-	-	-	-	-	-	-
Derivatives	-	-	-	-	-	-	-
Due to banks	-	450	8,375	-	-	-	8,825
Customer borrowings and deposits	-	-	-	-	-	-	-
Debt securities	-	3,884	6,116	19,489	23,475	-	52,964
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	2	-	-	0	2
Accruals and other liabilities	-	2,139	-	-	-	-	2,139
Provisions	-	-	-	38	-	5	43
Subordinated debt	-	-	-	-	-	-	-
TOTAL	**-**	**6,473**	**14,493**	**19,527**	**23,475**	**5**	**63,973**

EUR millions	12/31/2015			
	Total broken down	Accrued interest	Fair value adjustment	Total
Central bank	-	-	-	-
Derivatives	-	1,127	10,963	12,090
Due to banks	8,825	15	(3)	8,837
Customer borrowings and deposits	-	-	-	-
Debt securities	52,964	942	3,834	57,740
Fair value revaluation of portfolio hedge	-	-	1,447	1,447
Tax liabilities	2	-	-	2
Accruals and other liabilities	2,139	-	-	2,139
Provisions	43	-	-	43
Subordinated debt	-	-	-	-
TOTAL	**63,973**	**2,084**	**16,241**	**82,298**

c. Net liquidity gap

EUR millions	12/31/2015							
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total not broken down	Total
AMOUNT	**3,377**	**9,338**	**(5,899)**	**(7,076)**	**3,776**	**135**	**(2,266)**	**1,385**

7.6 - CURRENCY RISK

Classification by original currency EUR millions	12/31/2014				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	80,219	3,828	1,996	1,959	88,002
Total liabilities	80,219	3,828	1,996	1,959	88,002
NET BALANCE SHEET POSITION	**-**	**-**	**-**	**-**	**-**

Classification by original currency EUR millions	12/31/2015				
	EUR	Other EU currencies	U.S. dollars	Other currencies	Total
Total assets	77,283	3,214	1,585	1,601	83,683
Total liabilities	77,283	3,214	1,585	1,601	83,683
NET BALANCE SHEET POSITION	**-**	**-**	**-**	**-**	**-**

7.7 - SENSITIVITY TO INTEREST RATE RISK

The policy applied by the SFIL Group makes it possible to be protected from interest rate risk.

For CAFFIL,
- In the first stage, all the assets and the liabilities benefiting from the privilege which do not naturally have a floating rate are macro-hedged as soon as they are recorded on the balance sheet so as to limit the impact of changes in long-term euro rates on the value of items on the balance sheet.
- In the second stage, macro-swaps are conducted against Eonia over a maximum period of two years in order to limit the volatility of income linked to the fixing risk (owing to refixing dates based on different reference indices in the assets and the liabilities). The residual risk is managed through macro-hedges with a management horizon of one week.

The sensitivity of residual positions that remain after the first stage and after the second level of hedges is monitored carefully and kept within strict limits.
The set of limits on interest rate risk guarantees, with 99% probability, a maximum one year loss of less than EUR 80 million in the event of a major change in interest rates (translation, sloping or rotation). This calibration is based on a directional shift in rates corresponding to the 1% at one-year decile observed over the period 2005-2013.
A set of three limits makes it possible to have a grasp of the slope risk, as well as the directional risk.
The measures of sensitivity at the ends of quarters for a change of 100 bp in interest rates are presented below.

Directional risk
Total sensitivity

EUR millions, end of quarter	Limit	1Q	2Q	3Q	4Q
Sensitivity	25.0	4.9	10.5	0.0	0.1

Risk of sloping between two points far from one another on CAFFIL rate curve
Total sensitivity

EUR millions, end of quarter	Limit	1Q	2Q	3Q	4Q
Short term	10.0	0.3	2.0	3.5	0.6
Medium term	10.0	5.1	5.6	(0.8)	(0.4)
Long term	10.0	6.8	6.3	(0.5)	1.9
Very long term	10.0	(7.3)	(3.4)	(2.2)	(2.0)

Risk of sloping between two close points on the rate curve
Total of sensitivities in absolute value

EUR millions, end of quarter	Limit	1Q	2Q	3Q	4Q
Short term	20.0	1.0	7.6	5.2	6.2
Medium term	20.0	7.8	13.4	8.4	4.5
Long term	20.0	4.1	8.9	4.9	3.7
Very long term	20.0	7.3	7.6	3.8	3.8

For SFIL
As regards the parent company SFIL, the strategy involves a perfect micro-hedge of the interest rate risk, either by swaps against Eonia or by backing operations of assets and liabilities with the same index. There is thus no interest rate risk.
For SFIL, the interest rate risk is measured through gaps of fixed rates and fixing rates; these gaps should be non-existent, and are so.

Statutory Auditors' report on the consolidated financial statements

for the year ended December 31, 2015

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended December 31, 2015, on:

- the audit of the accompanying consolidated financial statements of SFIL;
- the justification of our assessments;
- the specific verification required by law.

These consolidated financial statements have been approved by the Board of Directors. Our role is to express an opinion on these consolidated financial statements based on our audit.

OPINION ON THE CONSOLIDATED FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as of December 31, 2015 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Without qualifying our opinion, in respect with this matter, we draw your attention to the matters set out in the note "1.2.b.2 – Context of publication" to the consolidated financial statements established under IFRS, which mentions the assumptions used by SFIL for the preparation of the consolidated financial statements as at December 31, 2015, and note 1.2.b.1. that outlines the first-time application of new standards, amendments and interpretations as of January 1, 2015.

JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L. 823-9 of the French Code of Commerce (Code de commerce) relating to the justification of our assessments, we bring to your attention the following matters:

Provisions for credit and counterparty risks

As mentioned in note "1.2.b.3 - Accounting principles applied to the financial statements" to the consolidated financial statements, your company recognises impairment losses to cover the credit risks inherent to any banking activity.

As part of our assessment of the significant estimates adopted for the accounts closing, we analysed the control system relating to credit risk monitoring, impairment methodologies, non-recovery risk assessment and the level of impairment loss cover provided by individual or collective provisions.

Valuation of financial instruments

As mentioned in note "1.2.b.3– Accounting policies applied to the financial statements", to the consolidated financial statements, your company uses internal models and methodologies to value financial instruments that are not listed on active markets and to set aside provisions.

Our procedures consisted in reviewing the control system relating to the identification of financial instruments that can no longer be traded in an active market or whose valuation parameters are no longer observable, as well as the determination of the models used to value them, and in assessing the data and assumptions used, as well as the consideration of the risks and results relating to these instruments.

Tax Assets

As mentioned in note "2.5 – Tax Assets", to the consolidated financial statements, your company displays the recoverability assumptions of deferred tax assets taking into account the business plan as presented to the Board of Directors and based on realistic assumptions. Our procedures consisted in reviewing those assumptions.

Tax assessment provision

Your company has recorded a provision to cover risks due to the control of the fiscal situation of the Caisse Française de Financement Local, as described in the Notes "1.1.k Tax Assessment" and "3.5 – Provisions for risks and charges, deferred tax liabilities and regulated provisions" to the consolidated financial statements. Based on the elements available at this time, our appreciation has been based upon the analysis of the data and assumptions used by your company to identify and evaluate these risks.

These assessments were made as part of our audit of the consolidated financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

SPECIFIC VERIFICATION

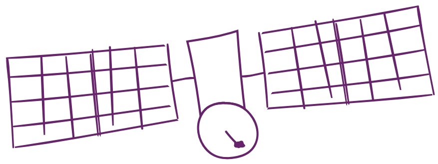
As required by law, we have also verified in accordance with professional standards applicable in France the information presented in the Group's management report.

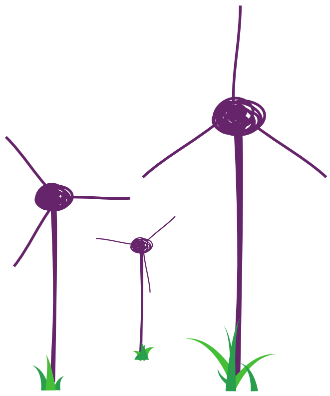
We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

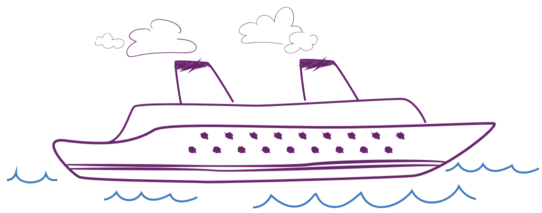
Courbevoie and Neuilly-sur-Seine, March 30, 2016
The Statutory Auditors
French original signed by

MAZARS		DELOITTE & ASSOCIÉS	
Virginie Chauvin	Anne Veaute	Charlotte Vandeputte	José-Luis Garcia

REFINANCING EXPORTS







EUR 2 billion
Average targeted volume per year

EUR 70 billion
Minimal amount of refinanced contracts

95%
of major Coface contracts covered by this arrangement

> **Refinancing export credits, a fully operational business**

> With its potent capacity in refinancing, SFIL was asked by the French State in 2015 to create a market structure to refinance large export credits. The objective is to enhance the competitiveness of French exporters.

Annual financial statements
in accordance with French GAAP

Assets as of December 31, 2015

EUR millions	Note	12/31/2014	12/31/2015
Central banks	2.1	358	865
Government and public securities	2.2	50	415
Loans and advances to banks	2.3	6,238	5,526
Loans and advances to customers	2.4	18	14
Bonds and other fixed income securities	2.5	3,916	2,341
Equities and other variable income securities		-	-
Investments in non-consolidated companies and other long-term investments		0	0
Investments in consolidated companies	2.6	0	0
Intangible assets	2.7	4	13
Property and equipment	2.8	8	8
Other assets	2.9	3,598	3,311
Accruals and other assets	2.10	925	1,030
TOTAL ASSETS	**2.11**	**15,115**	**13,523**

Liabilities as of December 31, 2015

EUR millions	Note	12/31/2014	12/31/2015
Central bank		-	
Due to banks	3.1	13,711	11,185
Customer borrowings and deposits		-	-
Debt securities	3.2	-	599
Other liabilities	3.3	347	551
Accruals and other liabilities	3.4	927	1,063
Provisions	3.5	6	5
EQUITY		**124**	**120**
Subscribed capital	3.6	130	130
Additional paid-in capital		-	-
Reserves (and retained earnings)		(2)	(6)
Net income	3.6	(4)	(4)
TOTAL LIABILITIES	**3.7**	**15,115**	**13,523**

Off-balance sheet items as of December 31, 2015

EUR millions	Note	12/31/2014	12/31/2015
COMMITMENTS GRANTED	**4.1**	**10,578**	**8,128**
Financing commitments		450	275
Guarantees granted		-	-
Other commitments granted		10,128	7,853
COMMITMENTS RECEIVED	**4.2**	**6,467**	**7,458**
Financing commitments		5,315	7,458
Guarantees received		1,152	-
Forward commitments		-	-
Other commitments received		-	-
OTHER COMMITMENTS	**4.3**	**56,761**	**56,781**
Foreign currency transactions		19,290	17,072
Interest rate derivatives		37,471	39,709
Commitments related to securities transactions		-	-

Income statement

EUR millions	Note	2014	2015
Interest income	5.1	89	52
Interest expense	5.1	(115)	(75)
Income from variable income securities		-	-
Commission income	5.2	24	23
Commission expense	5.2	(0)	(0)
Net gains (losses) on trading portfolio	5.3	(2)	1
Net gains (losses) on placement portfolio		0	0
Other income	5.4	6	0
Other expense	5.4	(0)	(0)
NET BANKING INCOME		**2**	**1**
General operating expense	5.5	(6)	(3)
Depreciation and amortization		(1)	(3)
OPERATING INCOME BEFORE COST OF RISK		**(5)**	**(5)**
Cost of risk		-	-
INCOME FROM OPERATIONS		**(5)**	**(5)**
Income (loss) on fixed assets		-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		**(5)**	**(5)**
Non-recurring items		-	-
Income tax	5.6	1	1
Net allocation to general banking risks reserve and regulated provisions		-	-
NET INCOME		**(4)**	**(4)**
Basic earnings per share		(0.39)	(0.47)
Diluted earnings per share		(0.39)	(0.47)

Statement of changes in equity

EUR millions	Amount
AS OF 12/31/2014	
Share capital	130
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	(2)
Net income for the year	(4)
Interim dividends	-
EQUITY AS OF 12/31/2014	**124**
MOVEMENTS FOR THE PERIOD	
Changes in share capital	-
Changes in APIC	-
Changes in commitments to increase share capital and APIC	-
Changes in reserves and retained earnings	-
Dividends paid (-)	-
Net income for the period	(4)
Other movements	-
AS OF 12/31/2015	
Share capital	130
Additional paid-in capital (APIC)	-
Commitments to increase share capital and APIC	-
Reserves and retained earnings	(6)
Net income for the period	(4)
EQUITY AS OF 12/31/2015	**120**

Notes to the annual financial statements In accordance with French GAAP

1. Significant accounting policies

1.1 – PUBLICATION CONTEXT

In preparing the financial statements, management is required to make estimates and assumptions that affect amounts reported. In order to make these assumptions and estimates, management uses the information available at the date of preparation of the financial statements and exercises its judgment.
Readers are reminded that in order to prepare its annual financial statements for 2013 and 2014, SFIL took into account the hypothesis that the solutions announced by the government would in fact rapidly be implemented (cf. 1.2.e Increase of support funds for local governments and public healthcare facilities).

1.2 – HIGHLIGHTS OF THE PERIOD AND POST-CLOSING EVENTS

a. Issues by CAFFIL

CAFFIL issued a total volume of EUR 6.2 billion in 2015, up more than 50% from the EUR 4.0 billion reported in 2014, and double the volume issued in 2013.
In particular, CAFFIL launched four public issues in 2015, including an issue in the amount of EUR 500 million with a maturity of 20 years, thereby making it possible to complete CAFFIL's public issue yield curve, after the 5, 7, 10 and 15 year *souches* launched since CAFFIL's first operations at the beginning of 2013.

b. SFIL certificates of deposit program

At mid-year, SFIL launched on the market a program of certificates of deposit. The outstanding total of securities issued by SFIL was close to EUR 600 million as of December 31, 2015.

c. Partnership with La Banque Postale

La Banque Postale (LBP) increased its annual production by more than 20%, compared with the previous year, for a total of EUR 4.0 billion in 2015. This third year of business also enabled Caisse Française de Financement Local to acquire almost EUR 3.4 billion in loans from La Banque Postale in four quarterly transfers.

d. Policy to reduce loan sensitivity

EUR 1.7 billion in sensitive structured loans were transformed into fixed rate loans in 2015, representing an increase of 38% compared with 2014, via 250 operations, up 56% from the previous year. Two hundred twenty-three borrowers reported the complete elimination of sensitive loans, a number that was more than twice that reported in the previous year. Operations to reduce loan sensitivity were accompanied by the setup of new loans for a total of EUR 1.1 billion in 2015. Looking forward to the end of 2016, and taking into account the sensitivity reduction operations already undertaken, the total of SFIL's sensitive structured loans will have decreased by at least 56% compared with the amount recorded when SFIL was created, and by more than 60% for outstanding sensitive structured loans on the balance sheet of local governments alone. The initial inventory of EUR 8.5 billion in sensitive loans will be pushed down to a maximum of EUR 3.7 billion at the end of 2016, and for local governments alone, to a maximum of EUR 2.7 billion, compared with EUR 6.7 billion initially. Half of the borrowers with loans indexed on EUR/CHF saw loan sensitivity disappear completely, and of this number, 80% were small local governments and hospitals holding such loans. Lastly, 92 borrowers, including 89 local governments, cancelled their litigation proceedings. At the end of 2015, there were still 131 suits before the courts, versus 210 in 2014.

e. Increase of support funds for local governments and public healthcare facilities

In order to find a permanent and comprehensive solution for the problem of the most sensitive structured loans contracted by local governments, and in compliance with its public announcements dated June 18, and July 16, 2013, the French government took the following measures in 2014 which were broadened at the beginning of 2015 subsequent to the considerable appreciation of the Swiss franc:

- the multi-year support fund initially endowed with EUR 1.5 billion was raised to EUR 3 billion by the government on February 24, 2015;
- a similar structure which had been set up for public healthcare facilities through the endowment of a fund with a total intervention capacity of EUR 100 million in 2014 was multiplied by four to EUR 400 million by the government on February 24, 2015.

This reinforcement of the support funds aims to cover the excessive cost linked to the appreciation of the Swiss franc so that the early reimbursement penalties for which the concerned borrowers were still responsible would not be greater, after assistance from the funds, than they would have been before the decision of the Swiss National Bank in January 2015 to put an end to the EUR/CHF floor exchange rate.
Through its subsidiary CAFFIL, SFIL recognized in 2015 a charge to be paid of EUR 20 million for its additional contribution to the support fund for public healthcare facilities.

f. Expansion of the export credit refinancing business

At the beginning of 2015, the French State announced that it had decided to create a new public finance tool for export contracts and that it had chosen to entrust this activity to SFIL. The European Commission approved this new arrangement in May 2015.
For this new mission, SFIL developed close ties during 2015 with all the players involved in export financing, primarily Coface, an insurance company specialized in the coverage, for the State, of financing granted by banks to foreign buyers of French exports. The second half of 2015 was given over to designing the structure and in particular to the negotiation of 12 partnership agreements with banks active in the export financing market.

This organization enables exporters and lending banks to benefit from the capacities of CAFFIL to raise funds in the market under conditions similar to those of the best French issuers of covered bonds and in volumes adapted to export credit financing with significant amounts. Importers may also benefit from competitive financial conditions for purchases up to several billion euros for maturities of 10 years, 20 years or more. SFIL will deal with contracts of more than EUR 70 million, and Bpifrance will handle smaller contracts.
SFIL's first interventions in this field are currently being negotiated. The first contracts are expected to be signed in the second quarter of 2016.

g. Advance in the IT simplification program

In 2014, SFIL launched a program to simplify its IT system over the next three years. The goal is to equip SFIL with an IT system adapted to its missions that would make it possible to respond efficiently to the risk control and management requirements of SFIL and CAFFIL as well as to the different requests made by regulators. The project is advancing as planned.

h. Entity ratings

SFIL
At the beginning of February 2013, the three rating agencies Moody's, Standard & Poor's and Fitch, which underlined the strong ties existing between SFIL and the State, first gave SFIL ratings that were equal to or a notch lower than those of the State: Aa2 for Moody's, AA+ for Standard & Poor's and AA+ for Fitch.
Since the State's rating was lowered in 2013, 2014 and 2015, SFIL's ratings were reviewed as well. As of December 31, 2015, SFIL's ratings stood at Aa3 for Moody's, AA for Standard & Poor's and AA- for Fitch, with the last two unchanged in comparison with 2014.

Caisse Française de Financement Local
The rating of the *obligations foncières* issued by CAFFIL remained stable throughout the year 2015, compared with 2014. It should be noted that Fitch and Standard & Poor's apply a ceiling to the rating of CAFFIL linked to the French sovereign rating, in light of the strong link between CAFFIL and the State, and the concentration of the cover pool in the French local public sector.
At the end of December 2015, the ratings were as follows, with no change when compared with 2014: AA+ for S&P, Aaa for Moody's and AA for Fitch.

i. ECB supervision

Within the framework of the Single Supervision Mechanism, the European Central Bank (ECB) directly oversees the 120 largest banks in the Eurozone, including SFIL, as of November 4, 2014. Within this framework, SFiL officers have made presentations to ECB officials, in particular on governance, risk management and internal control.

j. Change in corporate name

Upon approval of the Autorité de contrôle prudentiel et de résolution (ACPR), the change in the corporate and legal name of Société de Financement Local to SFIL became effective in June 2015. A new logo accompanies this change in name: "Supporting local investment and export".

k. Post-closing events

No significant event impacting the entity's financial situation occurred after closing on December 31, 2015.

1.3 – APPLICABLE ACCOUNTING STANDARDS: RULES ADOPTED BY THE FRENCH ACCOUNTING STANDARDS BOARD (AUTORITÉ DES NORMES COMPTABLES – ANC)

SFIL prepares its annual financial statements in compliance with regulation n° 2014-07 of November 26, 2014, related to the annual accounts in the banking sector.
The financial statements as of December 31, 2015, were prepared using the same accounting principles as those used in the financial statements as of December 31, 2014.
The financial statements have been prepared in accordance with French generally accepted accounting principles, respecting the principle of prudence, on the basis of the following assumptions:
- going concern principle,
- segregation of accounting periods,
- consistency of methods.

The accounts are in accordance with the indications of directive 86/635/EEC of the Council of European Communities.

1.4 – ACCOUNTING PRINCIPLES

a. Loans and advances to banks and to customers

Loans and advances to banks include all loans connected to banking transactions with credit institutions, except securities. They are broken down between sight loans and term loans.

Loans to customers represent loans granted to staff.

Loans to customers are recognized in the balance sheet net of impairment for possible losses. The undrawn portion of signed loan agreements is recorded as an off-balance sheet item.

Interest on loans is recorded as Interest income, *prorata temporis* for accrued amounts due, as is interest on past-dues.

If they are significant, fees received and transaction costs related to the granting or the acquisition of a loan are amortized over the maturity of the loan. Other commission income is immediately recorded in the income statement.

A loan is considered as non-performing when it presents one of the following characteristics:
- a probable or certain risk that it will not be repaid (unpaid for more than nine months for local government borrowers, and for more than three months for the other counterparties);
- the existence of a factual counterparty risk (worsening of the financial situation, alert procedures);
- the existence of litigation.

Compromised non-performing loans are loans to borrowers whose recovery outlook is so downgraded that they are written off. Loans unpaid for more than one year are recorded in this category. Interest on these loans no longer contributes to the interest margin once they have been transferred to the category of compromised non-performing loans.

Impairment charges are recorded for non-performing and compromised non-performing loans. Risk management determines the percentage of impaired capital in function of expected losses. Interest income is fully impaired.
Impairment charges and reversals for credit risk are recognized as Cost of risk as well as the losses on non-recoverable loans and recoveries on amortized loans.

b. Securities transactions

Securities held by SFIL are recorded in the assets as Government and public entity securities eligible for central bank refinancing or as Bonds and other fixed income securities.

The item Government and public entity securities eligible for central bank refinancing includes debt securities issued by public sector entities that may be refinanced through the European system of central banks.

The item Bonds and other fixed income securities includes the following categories of securities:
- debt securities issued by public sector entities that are not eligible for refinancing by central banks;
- debt securities guaranteed by public sector entities;
- debt securities issued by securitization structures.

Securities held by SFIL are recognized as either investment securities or placement securities.

Investment securities
Fixed-income securities with a specified maturity are recognized as Investment securities when SFIL intends to and has the financial capacity to hold them to maturity. Securities in this category are subject to back-financing or interest-rate hedging over their residual maturity.

Investment securities are recorded on the date of purchase at acquisition clean price excluding fees. Accrued interest at the date of acquisition is recorded as other assets. Interest on these securities is recorded in income as Interest income on bonds and fixed income securities.

The difference between the redemption value and the market clean price (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

At the end of the reporting period, unrealized gains are not recognized, and unrealized losses are not recorded except in the case of:
- a doubt about the issuer's ability to meet his obligations;
- the probability that the company will not hold these securities until maturity owing to new circumstances.

Placement investments
Placement investments are securities that are not classified in one of the other categories.

Securities are recorded on the date of purchase at acquisition clean cost excluding fees. Accrued interest at the date of acquisition is recorded as other assets. Interest on these securities is recorded as Interest and related income from bonds and other fixed income securities.

The difference between the redemption value and the acquisition clean cost (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

At the balance sheet date, in application of the principle of prudence, placement securities are recorded at their acquisition cost or selling price at closing, whichever is lower, after accounting, when relevant, for the value of the micro-hedge swap.

If the market for a financial instrument is not active, valuation techniques are used to calculate the selling price (or market value as defined in the notes to the financial statements). The valuation model should take into account all the factors that market players would consider to valuate the asset. Within this framework, SFIL relies on its own valuation models, making every effort to take into account the market conditions at the date of the valuation as well as any changes in the credit risk quality of these financial instruments and market liquidity.

When the decrease in the value of the security exceeds the unrealized gain on the micro-hedge, the decrease in net value is recorded as asset impairment in Net gains (losses) on placement portfolio transactions, as well as impairment reversals and gains and losses on sale.

Placement securities transferred to investment securities are recorded at their acquisition cost and previously recognized impairment is reversed over the residual maturity of those securities.

c. Due to banks

Amounts due to banks are classified according to their type (sight deposits, current accounts or long-term debt) and their maturity (sight debt or term debt).
Accrued interest is recorded as Interest accrued not yet due on the balance sheet and as expense in the income statement.

d. Provisions

Provisions are recognized based on their discounted value when the three following conditions are met:
- SFIL has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources representing economic benefits will be required to settle the obligation;
- a reliable estimate of the amount of the obligation can be made.

e. Derivative transactions

SFIL concludes derivative transactions to hedge specific items against interest rate risks or to manage its trading portfolio.

The notional amount of these transactions is recognized off-balance sheet over the maturity of the instruments. The amount recorded is adjusted to reflect any changes in notional amounts in order to represent the current or future maximum commitment.

The accounting treatment of these financial instruments depends on the chosen investment strategy.

Micro-hedge transactions
Swaps are booked as micro-hedging transactions when they are designed to hedge interest rate risks of an item or a set of homogenous items identified from the outset.

Expense and income on these transactions are recorded in the income statement the same way as income and expense on hedged items or set of homogenous items.

If a sale or an early repayment (including while renegotiating the terms) of hedged items occur, termination fees paid or received due to the early repayment of hedging instruments are directly recorded as income or expense. However, termination fees paid by SFIL are charged against income only for the portion that exceeds gains not yet recorded in income in the symmetric position. The part of be amortized is recognized as accruals in the assets or the liabilities.

Isolated open positions

SFIL acts as an intermediary between CAFFIL, its subsidiary and certain banking counterparties. These transactions with its subsidiary constitute isolated open positions.

Expense and income on these transactions are recorded in the income statement *prorata temporis*. The contra entry is recorded in accruals until the date of payment or settlement of the funds.

A provision is recorded in respect of any unrealized losses. Unrealized gains are not recognized.

f. Foreign currency transactions

SFIL recognizes foreign currency transactions in accounts opened and denominated in each of the currencies used.

Specific foreign exchange position accounts and foreign exchange position equivalent accounts are opened in each currency.

At the end of each reporting period, differences between the amounts resulting from a market price valuation of the foreign exchange position accounts and the amounts recorded in the foreign exchange position equivalent accounts are recorded in the income statement.

g. Foreign exchange transactions

In order to systematically hedge its foreign exchange risk, SFIL enters into currency swaps. These currency swaps are initiated to eliminate the risk of foreign exchange rate fluctuations that might affect an asset or liability as soon as such a risk is identified. They are mainly used to hedge certain liabilities, debt securities and loans to customers.

Results of foreign exchange hedging transactions are accounted for by recording the difference between the hedging rate and the spot rate *prorata temporis* in the income statement.

h. Employee benefits

Staff expenses include all costs related to employees, particularly profit-sharing and incentive plans.

Employee benefits are classified in four categories:

- Short-term benefits

Short-term benefits, payable within a maximum of twelve months after rendering the service, are not discounted and are recognized as an expense of the reporting period.

- Long-term benefits

These benefits, generally related to seniority, are paid to current employees. Their payment is deferred for more than twelve months after the end of the annual period during which the employees render the related service. They represent, specially, long service awards.

Annual leave is recognized when the benefits are granted to the employee. To this purpose, a provision is recorded based on rights vested by employees at the end of the reporting period.

The actuarial gains and losses related to these benefits and all service costs are recognized immediately in the income statement.

- Termination benefits

Employee termination benefits result 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 recorded only when SFIL is no longer able to withdraw its offer. Termination benefits payable at more than twelve months after the end of the reporting period are discounted to their present value.

- 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 the 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.

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

The net defined benefit liability recognized in the balance sheet represents the present value of defined benefit obligations reduced by the fair value of plan assets (if any). Re-measurements of net defined benefit liability (or asset) and the fair value of assets is subject to adjustments due to changes in actuarial assumptions. These re-measurements are recorded according the corridor method. Under this method, SFIL is allowed to recognize, over the average remaining service lives of employees, only the portion of actuarial gains and losses that exceeds the corridor. The corridor is the greater of 10% of the present value of the gross defined benefit plans or 10% of the fair value of plan assets.

The annual expense recognized as staff expenses comprises the current service cost, interest cost (the effect of discounting the obligation), the expected return on any plan assets, amortization of actuarial gains and losses and past service cost arising from plan amendments, and the effect of any plan curtailments or settlements.

i. 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 recorded at acquisition cost plus any directly attributable expenses.
Software developed internally, when it meets the criteria for recognition, is recorded 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, assets are carried at cost less accumulated depreciation and impairment. When they are ready to be used, assets are depreciated linearly over their expected useful life. Depreciation is recognized in "Depreciation, amortization and impairment of tangible and intangible assets".

SFIL applies the component approach to all of its assets. The depreciation periods are:

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

**Purchased licenses and materials are depreciated over 3 years. The depreciation period of internally developed software depends on whether they are strategic for the Company. Those which are considered strategic are depreciated 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 an asset is greater than its estimated recoverable amount, an impairment charge is recognized and the carrying amount of the asset is written down to the estimated recoverable amount. Impairment charges are recognized in Depreciation, amortization and impairment of tangible and intangible assets.

Gains or losses on disposal of assets are charged to Gains or losses on assets.

j. Non-recurring income and expense

Non-recurring income and expense result from events or transactions that do not relate to ordinary business operations or routine management of the Company's assets and liabilities.

Furthermore, the income or expense involved does not depend on decisions taken within the framework of usual management of the Company's activities or assets, but results from external events of a completely exceptional nature. Only items of this nature that have a significant impact on the period's net income are recorded as non-recurring income and expense.

k. Tax consolidation

Since January 1, 2014, SFIL is the head of the tax group which consolidates CAFFIL.

l. Offices and activities in uncooperative states and territories

In application of article L.511-45 of the Monetary and Financial Code, it should be noted that SFIL has no offices in countries that have not signed with France an administrative assistance agreement (subsidiaries, branches, including *ad hoc* entities, and equity interest in other entities over which the Company has exclusive or joint (or *de facto*) control).

2. Notes to the assets EUR millions

2.1 - CENTRAL BANKS

	12/31/2014	12/31/2015
Mandatory reserve deposits	-	-
Other deposits	358	865
TOTAL	**358**	**865**

2.2 - GOVERNMENT AND PUBLIC SECURITIES

a. Accrued interest included in this item: 6

b. Analysis by residual maturity excluding accrued interes

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
-	-	409	-	409

c. Analysis by listed securities and other securities excluding accrued interest

	Amount as of 12/31/2014	Amount as of 12/31/2015	Impairment as of 12/31/2015	Unrealized capital gain or loss as of 12/31/2015 (2)
Listed securities (1)	50	409	-	(9)
Other securities	-	-	-	-
TOTAL	**50**	**409**	**-**	**(9)**

(1) Listed securities are registered for trading on a stock exchange.
(2) The unrealized capital gain or loss is after swapping and corresponds to the difference between accounting value and market value.

d. Analysis by type of portfolio excluding accrued interest and changes during the year

Portfolio	Net amount as of 12/31/2014	Gross amount as of 12/31/2014	Increases(1)	Decreases	Transfers	Conversion differences	Impairment as of 12/31/2015	Net amount as of 12/31/2014	Unrealized capital gain or loss as of 12/31/2015(2)
Trading	-	-	-	-	-	-	-	-	-
Placement	50	50	409	(50)	-	-	-	409	(9)
Investment	-	-	-	-	-	-	-	-	-
TOTAL	**50**	**50**	**409**	**(50)**	**-**	**-**	**-**	**409**	**(9)**

(1) It is here a question of the acquisition of French Treasury bonds.
(2) The unrealized capital gain or loss is after swapping and corresponds to the difference between accounting value and market value.

2.3 - LOANS AND ADVANCES TO BANKS

a. Sight loans and advances to banks

	12/31/2014	12/31/2015
Sight accounts	10	6
Unallocated sums	-	-
TOTAL	**10**	**6**

b. Time loans and advances to banks

This item consists of loans to CAFFIL in the amount of EUR 5,511 million (excluding accrued interest).

b.1. Accrued interest included in this item: 9

b.2. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
150	687	2 449	2 225	**5,511**

b.3. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2014	Gross amount as of 12/31/2015	Decrease in value as of 12/31/2015	Net amount as of 12/31/2015
Loans of less than 1 year	-	150	-	150
Loans of more than 1 year	6,212	5,361	-	5,361
TOTAL	**6,212**	**5,511**	**-**	**5,511**

b.4. Breakdown by counterparty

	12/31/2014	12/31/2015
Loans to CAFFIL	6,212	5,511
TOTAL	**6,212**	**5,511**

2.4 - LOANS AND ADVANCES TO CUSTOMERS

a. Accrued interest included in this item: 0

b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
0	0	0	14	**14**

c. Analysis of commitments by the counterparty's economic sector excluding accrued interest

Economic sector	12/31/2014	12/31/2015
Other sectors (1)	18	14
TOTAL	**18**	**14**

(1) This concerns loans granted to employees of SFIL.

d. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2014	Gross amount as of 12/31/2015	Decrease in value as of 12/31/2015	Net amount as of 12/31/2015
Loans of less than 1 year	-	-	-	-
Loans of more than 1 year	18	14	-	14
TOTAL	**18**	**14**	**-**	**14**

e. Analysis of loans by category of outstanding commitments excluding accrued interest

	Net amount as of 12/31/2014	Gross amount as of 12/31/2015	Decrease in value as of 12/31/2015	Net amount as of 12/31/2015
Performing commitments	18	14	-	14
Non-performing loans	-	-	-	-
Compromised non-performing loans	-	-	-	-
TOTAL	**18**	**14**	**-**	**14**

2.5 - BONDS AND OTHER FIXED INCOME SECURITIES

a. Accrued interest included in this item: 2

b. Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
60	196	1,035	1,048	**2,339**

c. Analysis by the issuer's economic sector excluding accrued interest

	12/31/2014	12/31/2015	Unrealized capital gain or loss as of 12/31/2015 (1)
DSFB - Dexia Secured Funding Belgium	3,912	2,339	16
TOTAL	**3,912**	**2,339**	**16**
- of which eligible for central bank refinancing	-	-	-

(1) The unrealized capital gain or loss is the difference between accounting value and market value.

d. Analysis by listed securities and other securities excluding accrued interest

	Amount as of 12/31/2014	Amount as of 12/31/2015	Unrealized capital gain or loss as of 12/31/2015 (1)
Listed securities	-	-	-
Other securities	3,912	2,339	16
TOTAL	**3,912**	**2,339**	**16**

(1) The unrealized capital gain or loss is the difference between accounting value and market value.

e. Analysis by type of portfolio excluding accrued interest and changes during the year

Portfolio	Gross amount as of 12/31/2014	Increases	Decreases	Transfers	Conversion differences	Impairment as of 12/31/2015	Net amount as of 12/31/2015
Trading	-	-	-	-	-	-	-
Placement	-	-	-	-	-	-	-
Investment	3,912	-	(1,573)	-	-	-	2,339
TOTAL	**3,912**	**-**	**(1,573)**	-	**-**	**-**	**2,339**

2.6 - INVESTMENTS IN SUBSIDIARIES AND AFFILIATES

For EUR 1, SFIL acquired 100% of the shares of Caisse Française de Financement Local on January 31, 2013.

2.7 - INTANGIBLE ASSETS

	Software	Internally developed assets	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2014	**1**	**2**	**2**	**5**
Changes during the year:		-		
*increases	0	5	5	10
*decreases	-	-	-	-
*other	0	2	(2)	0
ACQUISITION COST AS OF 12/31/2015	**1**	**9**	**5**	**15**
Depreciation and impairments as of 12/31/2014	**(0)**	**(0)**	**-**	**(0)**
Changes during the year:		-		
*amortization	(0)	(2)	-	(2)
*write-back	-	-	-	-
Depreciation and impairments as of 12/31/2015	**(0)**	**(2)**	**-**	**(2)**
NET CARRYING AMOUNT AS OF 12/31/2015	**1**	**7**	**5**	**13**

2.8 - PROPERTY AND EQUIPMENT

	Computer equipment	Other equipment	Fixtures	Construction work in progress	Total
ACQUISITION COST AS OF 12/31/2014	**0**	**0**	**8**	**0**	**8**
Changes during the year:					
*increases	1	0	0	0	1
*decreases	-	-	-	(0)	(0)
*other	-	-	-	(0)	(0)
ACQUISITION COST AS OF 12/31/2015	**1**	**0**	**8**	**(0)**	**9**
Depreciation and impairments as of 12/31/2014	**(0)**	**(0)**	**(0)**	-	**(0)**
Changes during the year:					
*amortization	(0)	(0)	(1)	-	(1)
*write-back	-	-	-	-	-
Depreciation and impairments as of 12/31/2015	**(0)**	**(0)**	**(1)**	-	**(1)**
NET CARRYING AMOUNT AS OF 12/31/2015	**1**	**(0)**	**7**	**(0)**	**8**

2.9 - OTHER ASSETS

	Amount as of 12/31/2014	Amount as of 12/31/2015
Cash collateral granted	3,592	3,303
Other receivables	6	8
TOTAL	**3,598**	**3,311**

2.10 - ACCRUALS AND OTHER ASSETS

	Amount as of 12/31/2014	Amount as of 12/31/2015
Deferred charges on hedging transactions	479	567
Other prepaid charges	3	4
Accrued interest not yet due on hedging transactions	420	451
Other accounts receivable on hedging transactions	-	-
Other deferred income	23	8
TOTAL	**925**	**1,030**

2.11 - TOTAL ASSETS

Analysis by original currency	Amount in original currency as of 12/31/2014	Amount in euros as of 12/31/2014	Amount in original currency as of 12/31/2015	Amount in euros as of 12/31/2015
EUR	15,070	15,070	13,486	13,486
CAD	4	3	4	3
CHF	39	32	21	19
GBP	1	1	3	3
JPY	844	6	688	5
SEK	1	0	0	0
USD	4	3	4	4
NOK	-	-	31	3
TOTAL		**15,115**		**13,523**

3. Notes to the liabilities EUR millions

3.1 - DUE TO BANKS

	Amount as of 12/31/2014	Amount as of 12/31/2015
Sight accounts	-	-
Current account	-	-
Term borrowing	13,684	11,168
Interest accrued not yet due	27	17
Unallocated sums	-	-
TOTAL	**13,711**	**11,185**

Analysis by residual maturity excluding accrued interest

	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Amount as of 12/31/2015
Sight	-	-	-	-	-
Term	1,997	1,570	3,902	3,699	11,168
TOTAL	**1,997**	**1,570**	**3,902**	**3,699**	**11,168**

Analysis of term borrowing by counterparty excluding accrued interest

	Amount as of 12/31/2014	Amount as of 12/31/2015
Caisse des Dépôts et Consignations	9,546	8,117
CAFFIL	3,912	2,339
La Banque Postale	226	712
TOTAL	**13,684**	**11,168**

3.2 - DEBT SECURITIES

Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Total
Certificates of deposit	245	354	-	-	599

Changes during the year excluding accrued interest

	Amount as of 12/31/2014	Increases	Decreases	Translation adjustments	Amount as of 12/31/2015
Certificates of deposit	-	599	-	-	599

3.3 - OTHER LIABILITIES

	Amount as of 12/31/2014	Amount as of 12/31/2015
Cash collateral received	343	540
Taxes	2	7
Other payables	2	4
TOTAL	**347**	**551**

3.4 - ACCRUALS AND OTHER LIABILITIES

	Amount as of 12/31/2014	Amount as of 12/31/2015
Deferred income on hedging transactions	479	576
Accrued interest not yet due on hedging transactions	419	458
Other accounts payable on hedging transactions	-	-
Other accrued charges	29	29
TOTAL	**927**	**1,063**

3.5 - PROVISIONS

	Amount as of 12/31/2014	Increases	Decreases	Conversion differences	Amount as of 12/31/2015
Provisions on pensions	4	0	-	-	4
Provisions on financial instruments	2	-	(1)	-	1
TOTAL	**6**	**0**	**(1)**	**-**	**5**

3.6 - EQUITY

	Amount as of 12/31/2014	Amount as of 12/31/2015
Share capital	130	130
Legal reserve	-	-
Retained earnings (+/-)	(2)	(6)
Net income (+/-)	(4)	(4)
TOTAL	**124**	**120**

SFIL's share capital totaled EUR 130 million, comprising 9,285,725 shares with a face value of EUR 14.

3.7 - TOTAL LIABILITIES

Analysis by original currency	Amount in original currency as of 12/31/2014	Amount in euros as of 12/31/2014	Amount in original currency as of 12/31/2015	Amount in euros as of 12/31/2015
EUR	15,070	15,070	13,486	13,486
CAD	4	3	4	3
CHF	39	32	21	19
GBP	1	1	2	3
JPY	844	6	688	5
SEK	1	0	-	-
USD	4	3	4	4
NOK	-	-	31	3
TOTAL		**15,115**		**13,523**

3.8 - TRANSACTIONS WITH RELATED PARTIES

Analysis by nature	Consolidated entity CAFFIL [1]	Consolidated entity CAFFIL [1]	Other related parties [2]	Other related parties [2]
	12/31/2014	12/31/2015	12/31/2014	12/31/2015
ASSETS				
Loans and advances to banks - sight	-	-	-	-
Loans and advances to banks - term	6,228	5,520	-	-
Bonds and other fixed income securities	-	-	-	-
LIABILITIES				
Due to banks - sight	-	-	-	-
Due to banks - term	3,916	2,341	9,795	8,844
INCOME STATEMENT				
Interest income on loans and advances	60	37	0	0
Interest income on debt securities	-	-	-	-
Interest expense on borrowings	(24)	(11)	(90)	(57)
Net commissions	22	19	2	4
OFF-BALANCE SHEET				
Interest rate derivatives	16,490	17,497	1,540	1,261
Foreign exchange derivatives	4,606	4,137	-	-
Commitments and guarantees received	-	600	5,315	6,858
Commitments and guarantees granted	3,916	2,341	6,212	5,511

(1) Caisse Française de Financement Local
(2) Other related parties concern La Banque Postale and Caisse des Dépôts et Consignations.

4. Notes to the off-balance sheet items EUR millions

4.1 - COMMITMENTS GRANTED

	Amount as of 12/31/2014	Amount as of 12/31/2015
Financing commitments granted to credit institutions	450	50
Financing commitments granted to customers (1)	-	225
Other commitments given, assets assigned in guarantee	10,128	7,853
TOTAL	**10,578**	**8,128**

(1) Within the framework of the new business of export credit refinancing, this amount corresponded to a commitment made by SFIL to an exporter customer, as part of a projected contract.

4.2 - COMMITMENTS RECEIVED

	Amount as of 12/31/2014	Amount as of 12/31/2015
Financing commitments received from credit institutions(1)	5,315	7,458
Guarantees received from credit institutions	1,152	-
Other commitments received	-	-
TOTAL	**6,467**	**7,458**

(1) This amount included a financing commitment of EUR 600 million by CAFFIL to finance its parent company, SFIL, within the framework of the new export credit business. The residual amount corresponded to a financing commitment by the shareholders of SFIL – Caisse des Dépôts et Consignations and La Banque Postale – in the respective amounts of EUR 6,320 million and EUR 538 million.

4.3 - FOREIGN CURRENCY TRANSACTIONS AND COMMITMENTS ON INTEREST RATE DERIVATIVES

a. Foreign currency transactions

Cash and forward foreign exchange transactions are recorded at their value in foreign currencies translated at the exchange rate at the end of the period.
The items "Currencies to receive" and "Currencies to deliver" are composed of long currency swaps with intermediate payment flows corresponding to hedging transactions.

Currencies to receive	Amount as of 12/31/2014	Amount as of 12/31/2015	Fair value as of 12/31/2015
Currencies to receive	9,645	8,536	334
Currencies to deliver	9,645	8,536	(334)
TOTAL	**19,290**	**17,072**	**-**

b. Commitments on interest rate derivatives

Commitments on interest rate derivatives are recorded in accordance with CRB standards 88-02 and 90-15: amounts related to unconditional operations are recorded at the contractual notional value.

b.1 Analysis of over-the-counter interest rate transactions by residual maturity

Type of transaction	Less than 1 year	1 to 5 years	More than 5 years	Amount as of 12/31/2015
Unconditional transactions	4,937	6,087	28,685	39,709
of which deferred start	-	-	*82*	*82*

b.2 Analysis of interest rate transactions by product type

	Amount as of 12/31/2014	Amount as of 12/31/2015
Interest rate swaps	37,471	39,709
Term contracts	-	-
Interest rate options	-	-
TOTAL	**37,471**	**39,709**

b.3 Analysis of interest rate transactions by counterparty

	Amount as of 12/31/2014	Amount as of 12/31/2015
CAFFIL	16,490	17,497
Other related parties	1,540	1,261
Other counterparties	19,441	20,951
TOTAL	**37,471**	**39,709**

c. Foreign exchange transactions and commitments to derivative financial instruments by type of transaction

Type of transaction	Amount as of 12/31/2014	Micro-hedge	Isolated open position	Amount as of 12/31/2015	Fair value as of 12/31/2015
Foreign currency transactions - to receive	9,645	4,399	4,137	8,536	**334**
Foreign currency transactions - to deliver	9,645	4,137	4,399	8,536	**(334)**
Interest rate swaps	37,471	17,497	22,212	39,709	**(83)**
TOTAL	**56,761**	**26,033**	**30,748**	**56,781**	**(83)**

5. Notes to the income statement EUR millions

5.1 - INTEREST AND RELATED INCOME

	2014	2015
INTEREST AND RELATED INCOME	**89**	**52**
Loans and advances to banks	65	35
Loans and advances to customers	0	0
Bonds and other fixed income securities	24	17
Macro-hedge transactions	-	-
Other commitments	-	-
INTEREST AND RELATED EXPENSE	**(115)**	**(75)**
Due to banks	(115)	(69)
Due to customers	(0)	(0)
Bonds and other fixed income securities	(0)	(6)
Macro-hedge transactions	-	-
Other commitments	0	-
INTEREST MARGIN	**(26)**	**(23)**

5.2 - ANALYSIS OF COMMISSIONS RECEIVED AND PAID

	2014	2015
Billing commissions received from CAFFIL	22	19
Other commissions[(1)]	2	4
TOTAL	**24**	**23**

(1) This mainly concerned servicing commissions received from La Banque Postale.

5.3 - NET GAINS OR LOSSES ON TRADING PORTFOLIO

	2014	2015
Provision on financial instruments	(2)	1
Foreign exchange income	0	0
TOTAL	**(2)**	**1**

5.4 - OTHER INCOME AND EXPENSE

	2014	2015
Other income	6	0
Other expense	(0)	(0)
TOTAL	**6**	**0**

5.5 - GENERAL EXPENSES

	2014	2015
Payroll expense	(28)	(29)
Social security taxes	(16)	(17)
Taxes	(1)	(5)
Other general operating expense[(1)]	39	48
TOTAL	**(6)**	**(3)**

(1) This item mainly included expenses billed to CAFFIL.

5.6 - INCOME TAX

The implementation of tax consolidation, between CAFFIL and its parent company SFIL, resulted in a tax consolidation gain of EUR 1.2 million.

6. Financial relations with members of the Executive Committee and the Board of Directors EUR millions

Gross compensation allocated to members of the Executive Committee and Board of Directors of the Company owing to their functions in them, in subsidiaries and in affiliated companies	2014	2015
Executive Committee	2	3
Board of Directors	-	-
TOTAL	**2**	**3**

Amount, at year end, of the debt liabilities in their favor and of other obligations undertaken on their behalf	2014	2015
Executive Committee	0	0
Board of Directors	-	-
TOTAL	**0**	**0**

7. Information on subsidiaries and shareholdings EUR millions

Companies	Capital	Share premiums, reserves and retained earnings	Net banking income of previous year (2015)	Profit or loss of previous year (2015)	Percentage of capital held	Carrying amount of shares held (1)	Dividends received by SFIL during the year	Loans and advances granted by SFIL	Total guarantees granted by SFIL	Business
CAFFIL *1-3 Rue du Passeur de Boulogne - 92130 Issy les Moulineaux*	1,315	71	181	(30)	100%	0	-	5,520	2,341	*Société de crédit foncier*

(1) SFIL acquired 100% of the shares of CAFFIL for EUR 1 on January 31, 2013.

Management report

Governance and internal control

Consolidated financial statements In accordance with IFRS

Annual financial statements in accordance with French GAAP

Statutory Auditors' report on the financial statements

for the year ended December 31, 2015

To the Shareholders,

In compliance with the assignment entrusted to us by your annual general meeting, we hereby report to you, for the year ended December 31, 2015, on:
- the audit of the accompanying financial statements of SFIL;
- the justification of our assessments;
- the specific verifications and disclosures required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

OPINION ON THE FINANCIAL STATEMENTS

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at December 31, 2015 and of the results of its operations for the year then ended in accordance with French accounting principles.
Without qualifying our opinion, we draw your attention to the matter set out in Note "1.1 – Context of publication" to the financial statements which mentions the assumptions used by SFIL for the preparation of the financial statements as of December 31, 2015.

JUSTIFICATION OF OUR ASSESSMENTS

In accordance with the requirements of article L. 823-9 of the French Code of Commerce (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

Valuation of financial instruments

As described in Note "1.4 Securities transactions" to the annual financial statements, your company uses internal models and methods to value financial instruments that are not listed on liquid markets, as well as for the recording of certain provisions. Our procedures consisted in reviewing the control procedures related to the illiquidity assessment of the market, the verification of the models and the determination of the data and assumptions used.
These assessments were made as part of our audit of the financial statements taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

SPECIFIC VERIFICATIONS AND DISCLOSURES

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.
We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors and in the documents addressed to shareholders with respect to the financial position and the financial statements.

Courbevoie and Neuilly-sur-Seine, March 30, 2016
The Statutory Auditors
French original signed by

MAZARS		DELOITTE & ASSOCIÉS	
Virginie Chauvin	Anne Veaute	Charlotte Vandeputte	José-Luis Garcia

Supporting local investment and export

SFIL
Société anonyme

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