



UPDATE OF THE 2017 REGISTRATION DOCUMENT (N° D. 18-0143) AND HALF YEAR FINANCIAL REPORT REGISTERED BY THE AMF ON 8 AUGUST 2018

Registration Document N° D.18-0143 filed with the French Financial Markets Authority (AMF) on 16 March 2018



The English language version of this report is a free translation from the original, which was prepared in French. All possible care has been taken to ensure that the translation is an accurate presentation of the original. However, in all matters of interpretation, views or opinion expressed in the original language version of the document in French take precedence over the translation.

Only the French version of the Registration Document has been submitted to the AMF. It is therefore the only version that is binding in law.

This updated Registration Document was filed with the AMF on 8 August 2018, in accordance with article 212-13 of its General Regulations. It may be used in support of a financial transaction only if supplemented by a Transaction Note that has received approval from the MAF. This document was prepared by the issuer and its signatories are liable for its content.

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PRESENTATION OF LA BANQUE POSTALE GROUP



BANQUE ET CITOYENNE

1. PRESENTATION OF LA BANQUE POSTALE GROUP

La Banque Postale, a limited company with Executive and Supervisory Boards, is the parent company of La Banque Postale Group.

A bank whose mission is to work in the best interest of the community, it was built on La Poste's values of trust, accessibility and local presence, bestowing it from the start with an unusual and unique positioning on the French market. This policy is driven by an offer based on low service rates, access for all customers and a simple product range that focuses on customer needs.

The Group's organisational structure is based primarily on 23 financial centres (19 in Metropolitan France and 4 in the French overseas departments) including 4 national Financial Centres that have specific expertise, and a dedicated IT Department. It also includes 44 subsidiaries and strategic investments and is supported by the distribution capacity of the La Poste Retail Brand network.

La Banque Postale Group directly employs more than 4,950 staff throughout France. Moreover, the 13,833 employees working in La Poste Financial Services have been placed under the responsibility of the Chairman of La Banque Postale's Executive Board, in his capacity as Executive Vice-President of La Poste responsible for Financial Services.¹

As at 30 June 2018, La Banque Postale represented:

- 10.4 million active customers.

La Banque Postale Group's business is focused on retail banking activities in France. It is organised around three business segments:

- Retail Banking, its core business, mainly focused on individual customers, and extended to corporate customers in 2011 and local authorities in 2012;
- Insurance (with life, personal protection, property & casualty and health insurance subsidiaries);
- Asset Management (the asset management subsidiaries).

Key consolidated figures (published data)

(€ million)	2014	2015.	2016.	H1 2017	2017	H1 2018
Net Banking Income	5,673	5,745	5,602	2,808	5,687	2,926
Operating expenses ⁽¹⁾	4,672	4,693	4,587	2,331	4,619	2,369
Gross operating income	1,001	1,052	1,015	477	1,068	558
Cost of risk	163	181	181	71	192	49
Net income, Group share	579	677	694	367	764	422
Balance sheet total (in billions of euros) ⁽²⁾	200	213	230	233	231	237
Cost-to-income ratio ⁽³⁾	82.7 %	82.1 %	82.4 %	83.6 %	81.8 %	81.4%

(1) Operating expenses = general operating expenses + net depreciation, amortisation and impairments of tangible and intangible assets.

(2) IFRS 9 applied from 1 January 2018

(3) Cost-to-income ratio = management fees / (net banking income - doubtful interest).

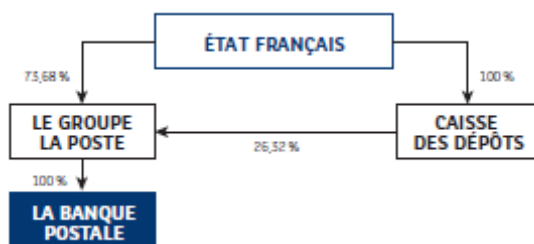
¹ Number of permanent employees at the end of the period (including fixed-term contracts)

1.1 Shareholding structure

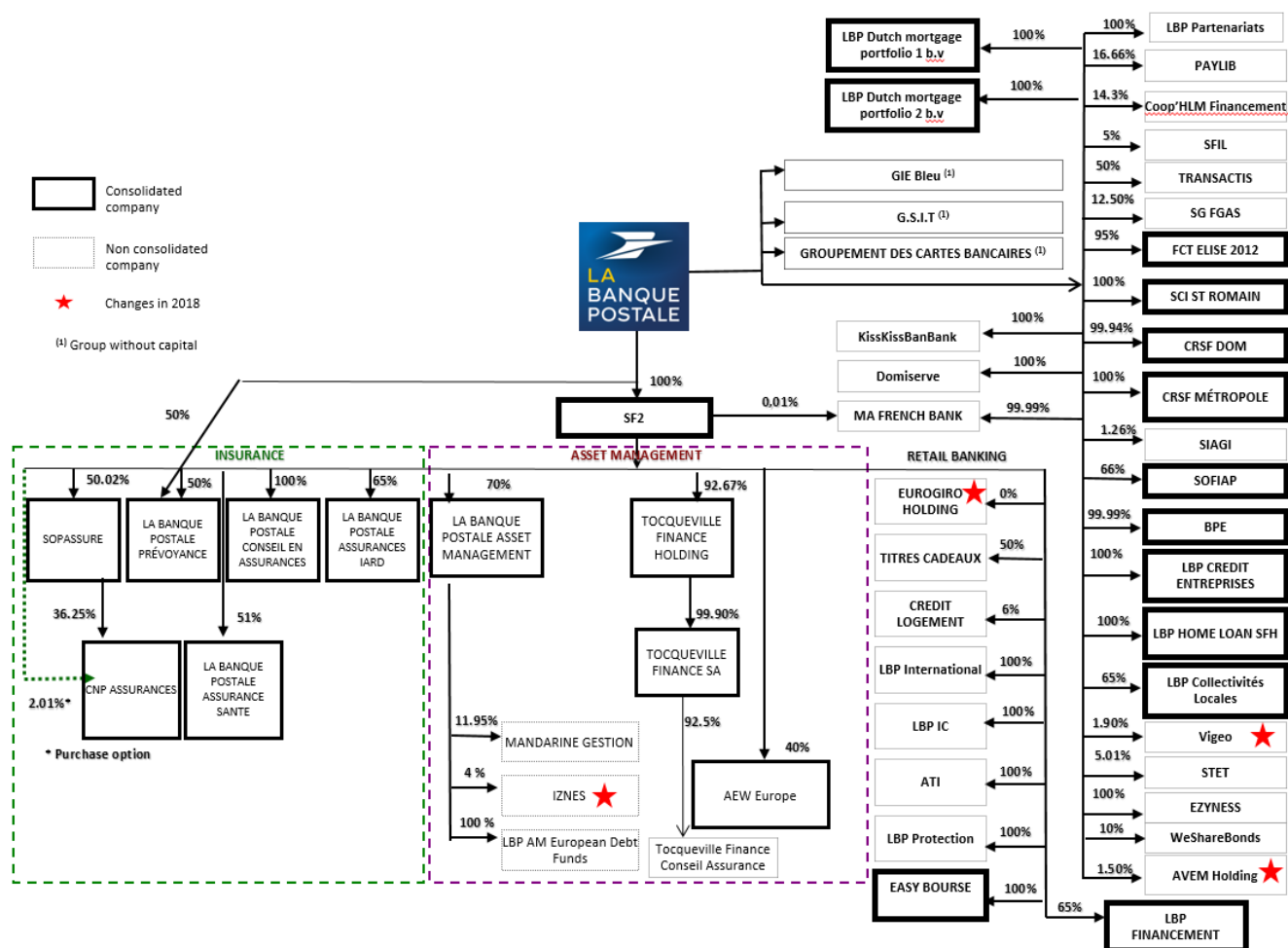
The La Poste group owns all of La Banque Postale's equity capital and voting rights, except for one share held by the Chairman of the Supervisory Board. There are no employee shareholders.

Article 1 of Law No. 2010-123 of 9 February 2010 stipulates that La Poste's share capital shall be held by the French State and by other government bodies, except for any capital that may be held under employee ownership schemes.

La Poste is controlled by the French State, 73.68% directly and 26.32% through the Caisse des Dépôts et Consignations.



Organisational chart as at 30 June 2018



The organisational chart shown does not include entities to be sold or non-consolidated entities in which the holding is below a 1% threshold.

CORPORATE GOVERNANCE



BANQUE ET CITOYENNE

2. CORPORATE GOVERNANCE

(au jour de la présente actualisation)

(on the day of this update)

Composition of the Executive Board:

- Rémy Weber, Chairman of the Executive Board
- Marc Batave, Chief Executive Officer of Commercial Banking and Insurance
- Anne-Laure Bourn
- Gregorio Antonio Blanco, General Secretary

Composition of the Supervisory Board:

- Philippe Wahl, Chairman of the Supervisory Board
- Yves Brassart, Vice-Chairman of the Supervisory Board
- La Poste, represented by Philippe Bajou
- Nathalie Collin
- The State, represented by Nathalie Dieryckxvisschers
- Thierry Freslon
- Jean-Pierre Hakizimana
- Sophie Lombard
- Michel Madelain
- Steeve Maigne
- Emmanuel Rondeau
- Sophie Renaudie
- Sabrina Rostaing-Paris
- Nicolas Routier
- Thierry Viarouge.

2.1 Remuneration

2.1.1 Principles and rules for setting the remuneration of corporate officers

La Banque Postale, based on the work of the Compensation Committee, has applied principles and rules to set the remuneration of corporate officers in accordance with the main recommendations of the Afep/Medef Code and the provisions of the decree of 3 November 2014 on the internal control of companies in the banking, payment services and investment services sectors, subject to the control of the French Prudential Supervision and Resolution Authority (ACPR).

Remuneration has been reviewed following the order of 15 October 2012 subjecting La Banque Postale to the provisions of Article 3 of the decree of 9 August 1953, as amended by the decree of 26 July 2012 on State control over the remuneration of the managers of public companies. In accordance with the provisions of the French Monetary and Financial Code and the Afep/Medef Code, the individual remuneration for corporate executive officers and the total sum allocated to employee managers and market professionals during the financial year were subject to an advisory vote of the shareholders during the Annual General Meeting of 16 April 2018.

○ Rules for determining the remuneration of Executive Board members

Fixed and variable remuneration

On the proposal of the Compensation Committee, the Supervisory Board determines the remuneration of the Executive Board.

Since 15 October 2012, in accordance with Article 3, as amended, of the decree of 9 August 1953, the Minister of the Economy must be consulted before any decisions are made relating to the remuneration components for the activities of Executive Board members and its Chairman and must approve them. This remuneration must not exceed a gross amount set by decree; this amount is currently €450,000.

Consequently, the Chairman of the Executive Board now only receives a fixed remuneration, equal to the limit, part of which is paid by La Poste pursuant to an employment contract made necessary by the postal model of La Banque Postale that appointed him Head of the La Poste Financial Services Department (Financial Centres).

Mrs Anne-Laure Bourn is paid in respect of her employment contract with the La Poste group.

Members of the Executive Committee do not receive any remuneration from La Banque Postale other than that paid in respect of their appointment as Company officers, nor any remuneration for their terms exercised in the subsidiaries of the La Banque Postale group.

The variable annual remuneration of Marc Batave and Tony Blanco for 2017 was determined on the basis of three elements:

1. The commercial and financial performance, weighted at 60%, is analysed based on nine indicators, six of which are related to financial performance;
2. The financial contribution of the subsidiaries;
3. The trend in net banking income from corporations;
4. Consolidated net banking income;
5. The cost/income ratio;
6. Pre-tax income excluding exceptionals;
7. Return on equity;

Sales performance is analysed using confidential indicators.

- Qualitative targets, weighted at 30%, are focused on adherence to La Banque Postale's values, the social performance measured through training programmes, support for employees transferring between business lines, the quality of working life, the successful execution of the Bank's major programmes and the quality of customer service.
- Lastly, 10% of variable remuneration depends on the achievement of the quantitative targets of the Chairman of the La Poste Group.

For 2018, the Supervisory Board meeting of 27 February 2018 made changes to the criteria and weightings of the objectives determining the variable remuneration of Marc Batave and Tony Blanco. Thus, for the financial year 2018, their variable remuneration is capped at 10% of their fixed remuneration and will be determined according to achievements in three categories of objectives:

- La Banque Postale's 2018 quantitative objectives weighted at 10%
- Qualitative objectives, weighted at 40%, notably measuring the increase in customer satisfaction, compliance with the values of La Banque Postale and social performance, increased efficiency of risk control and compliance, implementation of the major programmes of La Banque Postale.
- Quantitative objectives weighted at 50% including sales performance criteria (confidential indicators) and financial performance criteria, namely:
 - o The economic contribution of the subsidiaries
 - o The trend in NBI from corporations
 - o Consolidated NBI
 - o The cost/income ratio
 - o Pre-tax income excluding exceptionals
 - o Return on equity

Other benefits or compensation

Remy Weber, Marc Batave and Tony Blanco receive the health and personal risk insurance taken out by La Banque Postale for all La Banque Postale employees. They also receive additional personal risk insurance coverage for all executive managers and a company car.

Anne-Laure Bourn receives the health and personal risk insurance taken out by La Poste for all La Poste employees, as well as the supplementary health and personal risk insurance for all La Poste executive managers. She also receives a company car.

The members of the Executive Board do not receive non-competition compensation and are not awarded equity or debt options on the Company's capital or performance-based shares.

Lastly, executive corporate officers do not benefit from a complementary retirement scheme.

Severance compensation

In accordance with article 3 of the decree of 9 August 1953, as amended on 26 July 2012, remuneration, compensation or benefit payments due or likely to fall due to members of the Executive Board or its Chairman, as a result of the termination of activity or a change in position or subsequent thereto, must also be approved by the Minister of the Economy.

Following decisions of the Supervisory Board on 27 February, 31 July and 15 October 2013, the termination of the term of office of the members of the Executive Board, in the case of revocation during a term or at the time of a merger, a change of control or strategy leading to the departure of a member of the Executive Board, and when there is no gross misconduct or serious misconduct and no deficiency seriously affecting the financial position of the Company, can give entitlement to compensation.

For the Chairman of the Executive Board, this compensation would be equal to twice the amount of fixed annual remuneration set on the day of termination of office. The severance compensation due to Marc Batave would be the aggregate amount of his last annualised fixed remuneration on the date of termination of his duties, plus the average of the annualised variable component of his remuneration over the last three years.

The payment of this compensation is subject to compliance with a performance condition, i.e. the Executive Board must have a success rate of 80% or higher in meeting the annual targets for two out of the last three financial years ended. These objectives are identical to those determining the variable portion of the members of the Executive Board.

Following exchanges between the French State Investment Agency (Agence des Participations de l'État) and La Poste, the members of the Executive Board cannot receive compensation in cases where their terms are not renewed.

Marc Batave and Tony Blanco opted for an unemployment insurance policy taken out with La Banque Postale for senior executives (GSC) and providing compensation in all cases limited to one year's remuneration over the chosen compensation period. This insurance policy will replace the severance compensation listed above on completion of the waiting period.

As the unemployment insurance (GSC) policy stops payments, in any case, on the date that the policyholder liquidates their basic compulsory pension scheme, it is agreed that from this date Marc Batave and Tony Blanco could benefit from severance pay according to the terms described above.

Rules for determining the remuneration of Supervisory Board members

Members of the Supervisory Board receive attendance fees which, in compliance with the order of 15 October 2012 making La Banque Postale subject to Article 3 of the decree of 9 August 1953 as amended, must be approved by the French Minister of the Economy.

The attendance fees policy is proposed to the Supervisory Board by the Compensation Committee. This policy, which is set using benchmark analysis performed by a panel of banks, insurance companies and a sample of companies in which the Government has a stake, is detailed below.

Attendance fees are allocated to all members of the Supervisory Board with the exception of members representing the employees.

A yearly lump sum of attendance fees is allocated to the Chairman of the Supervisory Board.

The amount of attendance fees paid to the other Board members is calculated on the basis of their actual attendance at meetings of the Supervisory Board and the committees, with the Chairman of each committee receiving an additional annual fixed amount.

Since financial year 2013, attendance fees are paid twice yearly:

- a first payment, in the form of an advance calculated using the above-mentioned method, according to the number of Board and Committee meetings held during the first half of the current year;
- a second payment made following the approval of the total annual amount of the individual attendance fees by the Minister of the Economy.

Pursuant to the internal regulations of the La Poste Group, the attendance fees allocated to the members of the Supervisory Board from the La Poste Group are paid to La Poste. In addition, these members do not receive any attendance fees in respect of their positions in companies in the La Banque Postale Group.

The maximum total sum authorised, set by the General Meeting, is €450,000 (amount unchanged since 2006).

Attendance fees due for the 2017 financial year

The Chairman of the Supervisory Board received an annual lump sum in attendance fees for the 2017 financial year of €90,000. The amount allocated to each member of the Supervisory Board was calculated on a pro rata basis of their actual attendance up to €15,000 per year.

In addition, the Chairmen of the Audit and Risk Committees received €12,000 in recognition of their position, while the Chairmen of the Appointments, Compensation and Strategy Committees each received €8,000. Finally, the members of the committees received €1,500 per meeting attended.

Members of the Supervisory Board and the Board's committees from the La Poste Group did not receive their attendance fees, which were directly paid to La Poste. In the same way, the attendance fees for the French Government were paid to the Treasury.

2.1.2 Remuneration paid

The data on remuneration provided below complies with the principles and rules of determination adopted by La Banque Postale and described in detail in the report of the Chairman of the Supervisory Board.

*Remuneration of members of the Supervisory Board for the 2016 and 2017 financial years***Amount of the attendance fees and other remuneration paid to the members of the Supervisory Board in connection with their appointments within the La Banque Postale Group**

Name of the corporate officer	Gross amounts due for 2016 (€)		Gross amounts due for 2017 (€)	
		Recipient		Recipient
Philippe Wahl (1)				
Attendance fees	90,000	La Poste	90,000	La Poste
Other exceptional remuneration	-		-	
Philippe Bajou				
Attendance fees	12,857	La Poste	15,000	La Poste
Other exceptional remuneration	-		-	
Yves Brassart				
Attendance fees	34,357	La Poste	44,000	La Poste
Other exceptional remuneration	-		-	
Virgile Bertola				
Attendance fees	25,500	La Poste	34,500	La Poste
Other exceptional remuneration	-		-	
Sylvie François				
Attendance fees	14,357	La Poste	13,000	La Poste
Other exceptional remuneration	-		-	
Jean-Paul Forceville (2)				
Attendance fees	2,143	La Poste	-	-
Other exceptional remuneration	-		-	
Georges Lefebvre (3)				
Attendance fees	2,143	La Poste	-	-
Other exceptional remuneration	-		-	
Nicolas Routier				
Attendance fees	15,000	La Poste	12,500	La Poste
Other exceptional remuneration	-		-	
Nathalie Dieryckxvisschers				
Attendance fees	16,071	The French State	-	The French State
Other exceptional remuneration	-		-	
Elisabeth Ayrault				
Attendance fees	10,071	The person concerned	24,500	The person concerned
Other exceptional remuneration				
Sophie Lombard				
Attendance fees	26,357	The person concerned	51,500	The person concerned
Other exceptional remuneration	-		-	
Christiane Marcellier (4)				
Attendance fees	48,786	The person concerned	-	-
Other exceptional remuneration	-	-	-	-

Name of the corporate officer	Gross amounts due for 2016 (€)	Recipient	Gross amounts due for 2017 (€)	Recipient
Didier Ribadeau Dumas (5)				
Attendance fees	74,857	The person concerned	77,500	The person concerned
Other exceptional remuneration	-	-	-	-
Jean-Robert Larangé				
Attendance fees	-	-	-	-
Other exceptional remuneration	-	-	-	-
Steeve Maigne				
Attendance fees	-	-	-	-
Other exceptional remuneration	-	-	-	-
Françoise Paget Bitsch				
Attendance fees	-	-	-	-
Other exceptional remuneration	-	-	-	-
Thierry Freslon				
Attendance fees	-	-	-	-
Other exceptional remuneration	-	-	-	-
Hélène Wolff				
Attendance fees	-	-	-	-
Other exceptional remuneration	-	-	-	-
TOTAL	372,499		362,500	

In addition,

- (1) Philippe Wahl received remuneration from La Poste in 2017 that included benefits in kind of €453,542.
- (2) Jean-Paul Forceville resigned from La Banque Postale's Supervisory Board following the meeting of 15 April 2016.
- (3) Georges Lefebvre resigned from the Supervisory Board following the meeting of 15 April 2016.
- (4) Christiane Marcellier resigned from the Supervisory Board following the meeting of 15 April 2016. She received €23,500 in attendance fees for her term of office at La Banque Postale Asset Management for 2017.
- (5) Didier Ribadeau-Dumas received €9,000 euros in attendance fees for his term of office at BPE. In addition, he received €27,500 in attendance fees for his term of office at Poste Immo in respect of 2017.

Corporate officers do not benefit from equity or debt options on the Company's share capital or performance based shares, and for this reason, the Company does not complete the tables 4 to 10 requested by the AMF's recommendations relating to corporate officers' remuneration.

Remuneration of employee representative members on the Supervisory Board

Employee representative members on the Supervisory Board do not receive any remuneration in respect of their Supervisory Board appointment.

All gross remuneration (including the variable component) paid to employee representatives on the Supervisory Board under their employment contracts totalled €315,515 in 2017.

Remuneration of the members of the Executive Board for 2016 and 2017

Standardised tables that comply with the Afep/Medef recommendation and the AMF recommendation of 22 December 2008

Table 1. Summary of the gross remuneration, share options and shares awarded to Executive Board members

(in euros)	2016 financial year	2017 financial year
Rémy Weber		
Gross remuneration payable for the financial year (details in Table 2)	453,456	453,456
Value of multi-year variable remuneration during the financial year	-	-
Value of share options awarded during the financial year	N/A	N/A
Value of performance-based shares awarded during the financial year	N/A	N/A
TOTAL	453,456	453,456
Marc Batave		
Gross remuneration payable for the financial year (details in Table 2)	420,036	415,778
Value of multi-year variable remuneration during the financial year	-	-
Value of share options awarded during the financial year	N/A	N/A
Value of performance-based shares awarded during the financial year	N/A	N/A
TOTAL	420,036	415,778
Tony Blanco		
Gross remuneration payable for the financial year (details in Table 2)	-	145,257
Total		
	-	145,257
Anne-Laure Bourn		
Gross remuneration payable for the financial year (details in Table 2)	393,674	427,221
Value of multi-year variable remuneration during the financial year	-	-
Value of share options awarded during the financial year	N/A	N/A
Value of performance-based shares awarded during the financial year	N/A	N/A
TOTAL	393,674	427,221
EXECUTIVE BOARD TOTAL	1,267,166	1,441,712

Table 2. Summary of the gross remuneration, share options and shares awarded to Executive Board members

(in euros)	2016 financial year		2017 financial year	
	Amounts payable for the financial year	Amounts paid during the financial year	Amounts payable for the financial year	Amounts paid during the financial year
Philippe Wahl ⁽¹⁾				
Fixed remuneration	-	-	-	-
Variable annual remuneration	-	-	-	-
Multi-year variable remuneration*	-	25,139	-	-
Severance compensation	-	-	-	-
Attendance fees ⁽²⁾	-	-	-	-
Benefits in kind	-	-	-	-
TOTAL	-	25,139	0	
Rémy Weber				
Fixed remuneration	450,000	450,000	450,000	450,000
Of which paid by La Banque Postale	360,000	360,000	360,000	360,000
Of which paid by La Poste	90,000	90,000	90,000	90,000
Variable annual remuneration	-	-	-	-
Multi-year variable remuneration	-	-	-	-
Severance compensation	-	-	-	-
Attendance fees ⁽²⁾	-	-	-	-
Benefits in kind ⁽³⁾	3,456	3,456	3,456	3,456
Total	453,456	453,456	453,456	453,456
Marc Batave				
Fixed remuneration	315,000	315,000	315,000	315,000
Variable annual remuneration	83,690	79,050	79,097	83,690
Multi-year variable remuneration	-	-	-	-
Severance compensation	-	-	-	-
Attendance fees ⁽²⁾	-	-	-	-
Benefits in kind ⁽³⁾	21,346	21,346	21,681	21,681
Total	420,036	415,396	415,778	420,371
Tony Blanco				
Fixed remuneration	-	-	133,333	133,333
Variable annual remuneration	-	-	11,924	-
Multi-year variable remuneration	-	-	-	-
Severance compensation	-	-	-	-
Attendance fees ⁽²⁾	-	-	-	-
Benefits in kind	-	-	-	-
TOTAL	-		145,257	133,333
Anne-Laure Bourn ⁽⁴⁾				
Fixed remuneration	270,360	270,360	285,360	285,360
Variable annual remuneration	119,178	47,992	137,750	117,585

	2016 financial year		2017 financial year	
	Amounts payable for the year	Amounts paid during the financial year	Amounts payable for the year	Amounts paid during the financial year
(in euros)				
Multi-year variable remuneration	-	-	-	-
Severance compensation	-	-	-	-
Attendance fees ⁽²⁾	-	-	-	-
Benefits in kind ⁽³⁾	4,136	4,136	4,111	4,111
Total	393,674	322,488	427,221	407,056
EXECUTIVE BOARD TOTAL	1,267,166	1,216,479	1,441,712	1,414,216

(1) The multi-year compensation paid to Philippe Wahl corresponds to deferred variable compensation for 2011 and 2012. The variable remuneration amounts exceeding the threshold of €150 thousand spread over three years.

(2) Members of the Executive Board do not receive attendance fees for terms of office held in La Banque Postale Group companies.

(3) For Rémy Weber, the benefits in kind correspond to a company car. For Marc Batave, they are a company car and senior executive unemployment insurance (GSC). For Anne-Laure Bourn, they correspond to a company car and a debit card benefit.

(4) Anne-Laure Bourn is a member of the Executive Board since 25 May 2016. She is paid by La Poste.

Table 3. Employment contracts, supplementary pension plans and compensation for executive corporate officers

	Employment contract with Banque Postale		La Supplementary pension plan		Other benefits or compensation payable or likely to be payable on termination or a change in position or a competition clause			
	Yes	No	Yes	No	Yes	No	Yes	No
Executive corporate officers								
Rémy Weber Chairman of the Executive Board since 15 October 2013		✓		✓	✓			✓
Marc Batave Member of the Executive Board since 9 January 2013		✓*		✓	✓			✓
Anne-Laure Bourn Member of the Executive Board Since 25 May 2016		✓		✓		✓		✓
Tony Blanco Member of the Executive Board Since September 2017		✓		✓	✓			✓
* Marc Batave's employment contract has been suspended since 9 January 2013.								

Benefits allocated to managers for termination or change of position

No benefits were allocated to managers for termination or change of position during the 2016 and 2017 financial years.

Supplementary pension arrangements made for the benefit of Executive Board members

As of 31 December 2017, La Banque Postale had made no supplementary pension arrangements for Executive Board members.

Remuneration of members of the General Management Committee

In 2017, the total gross remuneration (including the variable portion) paid under employment contracts to members of the General Management Committee, excluding members of the Executive Board and excluding Robert Villani who is paid by La Poste, amounted to €6,963,639.

No other remuneration was paid to members of the General Management Committee. Moreover, they do not receive attendance fees for appointments that they hold in Group companies.

Members of the Executive Committee receive termination pay established in accordance with the collective bargaining agreements, valued at a total of €940,000.

Remuneration of regulated employees

The Compensation Committee, pursuant to the decree of 3 November 2014 on the internal control of companies in the banking, payment services and investment services sectors, subject to the French Prudential Supervision and Resolution Authority (ACPR), has prepared the work for the Supervisory Board, which then decided on the remuneration policy for regulated employees proposed by the Executive Board.

The Board therefore issued a positive opinion on La Banque Postale's remuneration policy, which has established a global framework for the variable remuneration of the Bank's regulated employees, so as not to jeopardise its ability to generate equity and have a negative impact on its liquidity.

That framework is based on the joint fulfilment of the following two criteria:

- the total amount of variable remuneration cannot exceed 30% of the fixed remuneration;
- the total amount of variable remuneration must not exceed 5% of La Banque Postale's consolidated gross operating income.

Professionals affected at La Banque Postale

Pursuant to Article L. 511-71 of the French Monetary and Financial Code, the rules relating to remuneration policy are applied to managers of the institution concerned and to those personnel categories, including risk takers, individuals exercising a control function and any employee who, in light of their total income, is in the same pay band, and whose professional activities have a significant impact on the risk profile of the company or the group.

EU Delegated Regulation no. 604/2014 enacted by the European Commission on 4 March 2014 adopted technical regulatory standards regarding appropriate qualitative and quantitative criteria to identify the categories of employees whose professional activities have a significant impact on an institution's risk profile. Within La Banque Postale, employees concerned by the rules relating to the remuneration policy and practices of credit institutions in 2017 are:

- management: EXCOM members
- persons in supervisory positions: the three directors with supervisory roles, i.e., the Head of Risk, the Head of Compliance and the Head of Internal Audit;
- risk takers: the Head of the Corporate and Investment Bank (CIB) and market traders.

The remuneration principles of La Banque Postale*Principle of proportionality for variable remuneration*

In view of its internal organisation, the nature, extent and low complexity of its activities, and the very low exposure to risk of the activities of La Banque Postale, which come under the scope of the decree of 3 November 2014, the La Banque Postale Group has established a remuneration policy that guarantees an annual cap and a principle of deferred payment in accordance with the requirements provided by articles L. 511-75 to L. 511-88 of the French Monetary and Financial Code. However, it was not judged necessary to set up a clawback scheme covering variable remuneration, given the low risk exposure.

In effect, La Banque Postale:

- primarily operates retail banking activities for natural persons;
- at this point in time, the financing of legal entities is a minor activity compared to La Banque Postale's overall NBI;

- Corporate and Investment Banking has a business that is almost exclusively devoted to interest rate markets for hedging its mortgage lending operations and replacing its cash surplus on the bond market in bonds issued by investment grade issuers.

Annual cap on variable remuneration

The variable remuneration paid to the employees in question during a financial year may not exceed 100% of the fixed remuneration.

Variable remuneration will be subject to deferred payment, in accordance with the procedures laid down below, for any employee concerned within La Banque Postale who enjoys variable remuneration in excess of:

- €150,000 for members of La Banque Postale's Executive Committee;
- €150,000 for the directors exercising a control function (the Head of Risk, the Head of Compliance and the Internal Auditor);
- €150,000 for the Head of the Corporate and Investment Banking (CIB); and
- €100,000 for the traders.

Moreover, under decree no. 2012-915 of 26 July 2012 relating to State control of the remuneration of corporate executive officers of public companies, which institutes a mechanism for capping the remuneration of corporate executive officers of public institutions and companies at an annual gross amount of €450,000, the Chairman of the La Banque Postale Executive Board receives no variable remuneration.

Principle of deferred, conditional payment of variable remuneration

In accordance with the rules relating to the remuneration policy and practices for credit institutions, La Banque Postale has implemented a deferred payment mechanism, over a period of three years, for the variable part of the remuneration of the employees involved.

All variable remuneration is spread out in accordance with the following procedures:

- above the variable remuneration thresholds set above, according to the professional categories in question, a part of the variable portion is paid in the year following the one in which the variable portion is recognised (the "Paid Component") and the remainder of the variable remuneration is deferred (the "Deferred Component") over the three years following the year in which payment of the Paid Component is made
- The Paid Component accounts for 60 % of total variable remuneration and the Deferred Component for 40 % of the variable remuneration;
- The Deferred Components are paid in equal amounts over three years, each year in March;
- The Deferred Component is reassessed based on growth in La Banque Postale's equity between the financial period with which the variable remuneration is associated and the liquidation date of the remuneration subject to deduction of the capital increases subscribed by third parties and setting aside any changes in the dividend distribution rate.

Payment of any Deferred Component likely to be made to the employees in question is subject to achieving positive net income on a consolidated basis at the end of the year preceding that in which the payment is made

Guaranteed variable remuneration

Regulated employees cannot be granted guaranteed variable remuneration beyond the first year of engagement of the regulated employee concerned which is subject to La Banque Postale Group still being in a healthy and solid financial position.

The Supervisory Board meeting of 27 February 2018 approved these principles.

2.1.3 Presentation of the resolutions of the General Meeting relating to remuneration

2.1.3.1 Opinion on the remuneration of Executive Board members and regulated employees

Opinion on the remuneration of Executive Board members

In application of article L.225-100 of the French Commercial Code, the amount of variable or exceptional remuneration for which payment is subject to approval by an ordinary general meeting, under the conditions stipulated in article L.225-82-2 of the French Commercial Code, for the year just ended, of the Chairman of the Executive Board and the other Executive Board members may not be paid until a General Meeting has approved the components of remuneration of the person in question.

The compensation elements concerned have been detailed in the tables above: summary of the gross compensation, share options and shares awarded to Executive Board members and detailed summary of the gross compensation received by Executive Board members. Four resolutions were presented to the general meeting pursuant to this recommendation; one for the Chairman of the Executive Board and one for the other three members of the Executive Board.

Opinion on the remuneration components of regulated employees

In accordance with article L.511-73 of the French Monetary and Financial Code, the General Meeting is consulted yearly with regard to the overall remuneration budget for all types of remuneration paid during the year just ended to the persons mentioned in article L.511-71 of said code. The amount of this budget totalled €8,383,599 for 2017.

2.1.3.2 Remuneration policy for corporate officers – Approval of the principles and criteria for determining, allocating and attributing fixed, variable and exceptional remuneration components making up the overall remuneration and benefits awarded to corporate officers

In application of article L.225-82-2 of the French Commercial Code, the Supervisory Board also submits for approval by the General Meeting the principles and criteria applicable when setting, allocating and attributing the fixed, variable and exceptional components making up the overall remuneration and benefits of all type that may be paid to corporate officers, i.e. the Chairman and members of the Supervisory Board, for their terms of office carried out in 2018 and that constitute the remuneration policy relating to them.

These principles and criteria approved by the Supervisory Board based on the recommendations of the Compensation Committee are presented in point [2.1.1] and submitted for approval to the Annual General Meeting. Pursuant to Article L.225-100 of the French Commercial Code, the amounts resulting from the implementation of these principles and criteria will be subject to the approval of the shareholders during the general meeting approving the company's financial statements for 2018.

Approval of the commitments relating to severance compensation due in certain cases of termination of duties of an Executive Board member

In accordance with article L.255-90-1 of the French Commercial Code, for companies whose shares are admitted for trading on a regulated market, the commitments taken by the company in favour of a member of the Executive Board and corresponding to components of remuneration, compensation, or benefits due or likely to be due as a result of the termination of their duties or a change in their duties are subject to the procedure for related-party agreements governed by articles L.255-86 and following of said Code.

In application of article L.255-88, the approval of the General Meeting is required at the beginning, as well as at each renewal, of the term of office carried out by the beneficiary.

In this respect, the General Meeting decided on the severance pay of Rémy Weber and Marc Batave, whose terms were renewed on 27 February 2018 and are described in the special report of the statutory auditors. This compensation was the subject of a specific resolution for each of the corporate officers concerned, in accordance with Article L255-90-1 of the French Commercial Code.

LA BANQUE POSTALE GROUP BUSINESS ACTIVITY AND HALF YEAR FINANCIAL RESULTS

30 JUNE 2018



BANQUE ET CITOYENNE

3. LA BANQUE POSTALE GROUP BUSINESS ACTIVITY AND RESULTS

3.1. BUSINESS ENVIRONMENT AND HIGHLIGHTS

3.1.1. Economic and financial environment

World growth is still strong, but slowing

World growth undoubtedly hit a peak in 2017. While it remains strong, world GDP growth decelerated in H1 2018. This slowdown was quite clear in Japan, the UK and the eurozone, whereas the US economy saw a marked rebound in Q2, correcting the downturn in its growth at the start of the year. In the US, activity was stimulated by the tax cuts linked to the tax reform adopted at the end of 2017 and the increase in budget expenditure voted at the beginning of 2018. In China, according to the official estimate, GDP growth showed virtually no slowdown, driven by the development of services and household consumption as well as the move upmarket in industry. Russia continued to benefit from the rise in oil prices. As for India, it maintained a strong pace of growth. Brazil continued its somewhat weak recovery begun in 2016, still under the threat of an unstable political and social context.

Weaker growth in the eurozone, with a marked slowdown in France

Growth in the eurozone weakened at the start of 2018, with GDP up 1.5% y-o-y in Q1, following five quarters of growth of between 2.5% and 3%. The main reason was the sharp rise in oil prices, which weighed on household purchasing power. Moreover, although the euro depreciated with the Italian political crisis at end-May, it remained firm during 2017 and the first months of 2018. The deferred effects of this prior appreciation weighed on the competitiveness of European products. These factors also came into play in France, where the increase in tobacco prices and taxation hampered household purchasing power as well. The slowdown of the real estate market also had a negative impact on growth in France. After a very good year in 2017 (GDP growth of 2.3%), growth thus slowed sharply in France in Q1. The unemployment rate increased in Q1 (to 8.9%) but the magnitude of its decline at end-2017 had surprised. Despite a still high level of unemployment, the improvement in the labour market rapidly led to recruitment difficulties, which has started to generate a gradual increase in wages.

The rise in oil prices has driven up inflation

Oil prices continued to rise in H1. World oil consumption continued to grow while supply remained contained despite the rebound in US oil production. OPEC and other major producers such as Russia continued to apply the production quotas they had adopted at end-2016. Moreover, production in Venezuela plummeted. The decision by the US to withdraw from the Iran nuclear agreement signed in 2015 and reinstate economic sanctions against the country led to anticipations of a drop in Iranian oil exports. However, in June, OPEC and the other signatories of the agreement on production quotas announced their intention to offset the drop in the supply from Venezuela and the expected future decrease in Iranian exports.

The oil price trend led to a re-acceleration from April-May in y-o-y growth in consumer prices in the euro zone. Inflation thus reached 2% in June (2% in France as well). However, core inflation (i.e. excluding energy and food) remained low, at 1% (1.1% in France). The gradual acceleration in wages should nevertheless gradually be passed on to retail prices.

Interest rates are still very low in Europe

In the US the gradual normalisation of the monetary policy of the Federal Reserve (Fed) and gradual rise in inflation led to an increase in interest rates in H1. The US 10-year Treasury note thus gained close to 50 basis points over the half year, to 2.9% in June. Conversely, the equivalent rates in the eurozone remained very low, due to the persisting weakness in core inflation and slowdown in economic growth. In particular, the ECB has not begun to raise its key rates and its assets purchases continued to weigh on interest rate levels despite their amounts having been decreased. Furthermore, with eurosceptic parties gaining power in Italy, and

concerns that their programme will lead to a rise in the budget deficit of the country, which is already highly indebted, some investors have shied away from Italian securities. The reallocation of investment portfolios favoured the sovereign bonds deemed to be the safest, above all the German Bund, but also the French OAT, which saw its rates drop in May-June. Overall, the yield of the Bund increased by just 5 basis points in H1, to 0.39%. The 10-year OAT did not increase by much more (+7 basis points to 0.75%).

Eurozone interbank rates hardly varied over the first half of the year, and remained negative due to the ECB's monetary policy. The latter maintained the rate on its deposit facility for commercial banks at -0.4%, currently the true key rate for the eurozone. As a result, the Eonia stagnated at about -0.36 %. For its part, the Euribor 3-months hovered around -0.33 %.

The interest rates on the French regulated savings accounts (*Livret A*, *Livret de développement durable*, *Livret d'épargne populaire* (LEP), *compte épargne logement* (CEL)) remained stable in H1. The rate of the *Livret A* has been maintained at 0.75% since August 2015. Likewise, the rate on the PEL (*Plan d'épargne logement*) home ownership saving scheme did not change in H1, after it was lowered to 1% in August 2016.

Turbulent markets

Markets have been turbulent in both the US and the eurozone since end-January. Although the earnings growth of listed companies was still strong in Q1 in a still favourable world economic context, many factors continued to spark investor concerns, notably the trade conflicts instigated by the US, signs of a slowdown in industrial growth, and the formation of a eurosceptic government in Italy. In the US, the S&P 500 and the Nasdaq managed to post gains over H1. Conversely, all of the main markets of the eurozone were either virtually flat or lost ground. The CAC 40 was up just 0.2% at 5,324 points at end-June.

3.1.2. Highlights of the first half of 2018

La Banque Postale accelerates the digitalisation of its products and services...

Confirming its digital transformation strategy, La Banque Postale launched several 100% digital products over H1:

- *E-micro-crédit*, an educational, financing and management solution for 100%-digital microcredit, in January 2018, in partnership with Créa-sol;
- the *Prêt Express*, a loan available online or through a bank advisor, provides an immediate and definitive response to the financing needs of its customers with proven solvency for projects of up to €30,000;
- *EasyVie*, a fully digital life insurance solution marketed by EasyBourse and developed in partnership with CNP Assurances, and which offers modular contracts with two choices of management (free or discretionary mandates);
- *E-credit pro*, an offer addressed to very small enterprises and professionals for their medium- to long-term credit financing or Equipment Leasing needs for amounts from €3,000 to €20,000.

In addition, La Banque Postale has rounded out its mobile application with three new functions: the reception of notifications, *Certicode +* (making it possible to carry out more transactions) and scanning bank account details².

Multiplying its initiatives in favour of the energy transition, in April La Banque Postale also launched a digital platform to provide advice and support to individual customers for all the aspects with respect to energy-efficiency renovation in their homes. This service has been recently broadened to local authorities.

² Free service awarded Profideo's *Trophée de l'innovation* in April 2018

Moreover, La Banque Postale and the French association of notaries (*Conseil Supérieur du Notariat*) signed a partnership in June to secure exchanges and accelerate inheritance and mortgage transactions, thanks to paperless documents.

Lastly, eight months after the integration of KissKissBankBank & Co, La Banque Postale reinforced its growth strategy in innovative and civic-minded digital services with the acquisition of Goodeed, a digital platform for individual donations to NGOs and solidarity associations. In order to seize new opportunities to develop its business and reinforce its commitment in favour of crowdfunding, La Banque Postale will promote, as of this summer, KissKissBankBank's offer to its customers in the post offices: 200 meetings will thus be organised throughout the Network across the entire territory.

... and its commitment to develop the territories

In a context of strong development, La Banque Postale has reinforced its teams dedicated to Corporate, Business and Professional customers, specialised credit and means of payment. It also launched the Business Platinum and Realys Pro cards (cards requiring systematic authorisation), rounding out the range of standard and gold cards offered to business, professional and very small enterprise customers.

The regional network is continuing to grow with the opening of two business centres dedicated to Companies bringing the total number to 33. They are in addition to nine existing centres dedicated to the local public sectors.

Furthermore, La Banque Postale has launched an ambitious recruitment plan to reinforce the Network (1,150 salespeople in 2018).

La Banque Postale takes action to support local communities, in particular those affected by the recent floods at the start of 2018, offering them emergency financing at zero interest.

La Banque Postale continues to innovate for all its customers... ..

In Insurance, La Banque Postale has made innovation a significant growth driver by launching several important products in H1, notably:

- a property resale guarantee included in home insurance, making it the first bank insurer to include this type of guarantee in a house insurance contract for home-owners;
- a new Accident insurance, marketed since January, that has already convinced more than 80,000 clients³ by its excellent value for money.
- and for the under-25 age bracket, single-rate home and health insurance adapted to the budget of these customers.

For its customers' children, La Banque Postale has enriched its *Famille Comprise* family offer, with 12 months free tutoring by its partner Maxicours.com.

For its wealth management customers, La Banque Postale continues to open BPE private banking corners inside post offices. There are now 39 BPE corners throughout the post office network, 17 of which were opened in H1 alone, and which round out the 30 agencies dedicated exclusively to private banking.

In Asset Management, La Banque Postale announced at the start of the year a new proactive measure, by committing LPBAM, its main asset management subsidiary, to transferring all of its assets under management to SRI by 2020. The launch of the new "Conviction ISR" SRI range on 4 June is the first concrete action of this commitment. To better serve its institutional customers, La Banque Postale also decided to merge LBPAM and

³Figure at end-July 2018

Tocqueville Finance, its asset management subsidiary specialised in management based on a stock-picking approach.

New programmes to improve the operating efficiency and quality of service of La Banque Postale also demonstrate innovation, with the deployment in H1 of the Cap Client 3.0 portal, which adds investment consulting tools to customer relationship management and business monitoring. 100% of the banking line of the Bank and the Network is equipped at present.

... with civic values as the foundation of its development.

As a bank whose mission is to work in the best interest of the community, La Banque Postale announced in 2017 the creation of a digital banking inclusion plan. During its second conference focused on civic banking, *"2ème Assises de la Banque Citoyenne"* in 2018, it announced its deployment in around a thousand post offices, in collaboration with the partner associations (WeTechCare, l'Union des PIMMS and FACE).

Lastly, La Banque Postale's commitment to environmental and social issues was recognised by the extra-financial rating agency ISS-Oekom, which has given La Banque Postale a rating of B-. This makes La Banque Postale the second bank in the world to be so highly rated, highlighting the constant efforts of its teams with respect to these themes.

3.2. BUSINESS ACTIVITY AND RESULTS FOR THE FIRST HALF OF 2018

Income statement Notes*

Main items on the income statement (in €M)	30.06.2018	30.06.2017	%
Net banking income	2,926	2,808	4.2%
Operating expenses	(2,369)	(2,331)	1.6%
Gross operating income	558	477	16.8%
Cost of risk	(49)	(71)	-31.0%
Operating income	508	406	25.2%
Equity method CNP Assurances and AEW Europe**	131	133	-1.5%
Pre-tax income	639	538	18.7%
Tax and non-controlling interests	(198)	(155)	27.3%
Net income, Group share	422	367	15.0%
Cost-income ratio	81.4%	83.6%	-2.2 points

*2018 and 2017 figures are not strictly comparable due to the application of IFRS9. From 01/01/2018. However, the effects are limited on the NBI and other accounting aggregates, except for the cost of risk, which includes anticipated risk and not only proven risk.

**Essentially CNP Assurances, and AEW for €1.9 million

Consolidated Net Banking Income was €2,926 million, i.e. a 4.2% increase over 30 June 2017. Excluding the effect of the home savings provision, it increased 5.6%. Restated for the delay in the payment of the compensation for the general interest mission⁴ in 2017 by €65 million, growth in underlying NBI works out at 3.2% in H1 2018 compared to H1 2017.

In a context of strong development, growth in the Group's operating expenses was contained (+1.6% at €2,369 million).

The group's gross operating income totalled €558 million (+16.8%) and the cost-to-income ratio in H1 came in at 81.4% (-2.2 points).

The cost of risk was maintained at a low level at €49 million, under the effect of a controlled lending policy and two provision reversals. Compared to the retail bank's outstanding loans, it is low at 11bp⁵.

The share of profits of equity associates did not change significantly at, €131 million (-1.5%).

Pre-tax income reached €639 million, up 18.7% over the period.

Net income, Group share was up significantly by 15% to €422 million.

⁴ Remuneration of €130 million received in November 2017 for the full year

⁵ Annualised cost of risk after application of IFRS 9 as from 1 January 2018

3.2.1. La Banque Postale Group balance sheet and financial structure

The consolidated balance sheet at 30 June 2018 stood at €237 billion, versus €231 billion at 1 January 2018⁶, i.e. an increase of €6 billion.

La Banque Postale has a sound financial structure. Regulatory capital was €11.6 billion:

- the Common Equity Tier 1 ratio of La Banque Postale stood at 12.4%⁷, down 1 point compared to end-December 2017. This figure includes a negative impact on equity of 140 million euros, resulting from the first-time application of IFRS 9 on 1 January 2018;
- the overall solvency ratio of La Banque Postale was 17.1%, down 1.1 points compared to December 2017;
- the Bank's estimated leverage ratio, taking account of the transitional measures relating to savings funds centralised within the CDC, pursuant to the European Central Bank decision of 24 August 2016, works out to 4.1%. Excluding savings outstandings centralised at the CDC in accordance with the Delegated Act of 10 October 2014, it was stable at 5%.

La Banque Postale confirmed its comfortable liquidity position:

- the LCR was 152.6% compared to 157.4% at 31 December 2017, down 4.8 points;
- the loan-to-deposit ratio increased by 1.7 points from December 2017 to 79.6%.

At 30 June 2018, La Banque Postale's short- and long-term credit ratings were:

	Standard & Poor's	Fitch
Long-term rating	A	A-
Short-term rating	A-1	F1
Outlook	Stable	Stable
Ratings updated on:	05 October 2017	12 April 2018

Lastly, La Banque Postale carried out a second issue of Non-Preferred Senior Debt, a new debt class eligible for the MREL, for €750 million euros maturing in 2028. The success of the issue resulted in an order book of over €1 billion, reflecting the high level of investor confidence in La Banque Postale and its strong ability to access capital markets.

⁶ Balances at 1 January 2018 after application of IFRS 9

⁷ Figure now reported on a fully-loaded basis

3.3. ACTIVITIES AND RESULTS BY BUSINESS LINE

3.3.1. Retail banking

(€ million)	30.06.2018	30.06.2017	%
Net banking income	2,707	2,617	3.5%
Operating expenses	(2,257)	(2,236)	0.9%
Gross operating income	450	381	18.2%
Cost of risk	(49)	(71)	-31%
Operating income*	401	309	29.6%

Restated by €65 million for the deferral of payment of the compensation for the general interest mission from 2016 to 2017 and the impact of two provision reversals, underlying operating income is stable

Commercial results of retail banking customers

Growth in savings outstandings of 1%

In an environment in which interest rates remain very low, the *Livret A* regulated savings account, which since August 2015 pays a fixed rate of 0.75%, is still attractive despite the low returns. Its outstandings thus increased by €0.9 billion (+1.4%) to a total €61 billion over the period. Overall, ordinary savings outstandings (the *Livret A*, *Livret d'Épargne Populaire* and *Livret Développement Durable et Solidaire* accounts) rose 1.5% to €82.4 billion at 30 June.

Demand deposits increased significantly over the half year, by 5.5% to total €64.6 billion. This increase concerned both deposits by individuals (€57.7 billion, up 5.2%) and legal entities, which have reached €6.9 billion (up 7.8%).

Growth in life insurance outstandings was limited at 0.4%, to €125.4 million, with a continual increase in the share of unit-linked accounts to 11.3% (up +0.9 point). UCITS outstandings were down a slight 17.2% at €10.5 billion and continued to be impacted by lower returns.

At BPE, total private banking savings outstandings grew by 19.8%, totalling €3.4 billion.

In all, customer savings outstandings added €3.1 billion to reach €315.8 billion at 30 June 2018, i.e. a 1% increase over the period.

An increase in personal loan outstandings, up 2.5%

Home loan production totalled €4.5 billion in a context of a normalisation of the market in terms of repurchases and renegotiations.

Consumer credit production, at €1.25 billion, continued to grow (+ 5.1% on H1 2017). For personal loans, sales via the Internet and the remote platform continued to grow, now representing 39% of total production (vs. 35% in 2017).

Outstanding loans to individuals rose by 2.5% overall to €65 billion, including €59.2 billion in home loans (up 2.6% over the period) and €5.1 billion in consumer loans (+2.5%).

Regarding BPE Private Banking, total loan outstandings continued on a positive trend, up +7.8% at €3 billion.

Positive momentum in the financing of Legal Entities

Loan production posted a strong increase, reaching €11.3 billion over the period, i.e. a 55% increase compared to 30 June 2017.

The amount of loans outstanding reached €21.4 billion, i.e. up 33.8% from 30 June 2017, and break down as follows: €10.4 billion in loans to businesses, very small enterprises and professionals (i.e. a +32.8% increase) and €10.9 billion in loans to local public sectors and social landlords (up 34.8%).

Outstandings transferred to CAFFIL, which refinances medium- and long-term loans granted by La Banque Postale to local authorities and public health institutions, reached €1,9 billion, thus underpinning La Banque Postale's position as the No. 1 lender to the local public sector.

Financial results of Retail Banking

Net Banking Income for Retail Banking was up 3.5% in reported data and reached €2,707 million. Restated for the home savings provision, growth was 4.9%. NBI excluding the home savings provision and excluding the delayed payment from 2016 to 2017 of the compensation for the general interest mission works out at €2,690 million, up 2.3%. The Net Interest Margin (NIM, restated for the home savings provision) increased by €149 million over the period, while commissions were virtually stable at €1,172 million.

The increase in the operating expenses of the Retail Banking activity was contained, up 0.9% at €2,257 million. The cost of risk decreased by €22 million to €49 million. This figure notably includes €24 million for two provision reversals. The cost of risk compared to loan outstandings was very low at 11bp.

The operating income of the Retail Banking activity totalled €401 million. Restated by €65 million for the delay in the payment from 2016 to 2017 of the compensation for the general interest mission⁸ and for the impact of the above-mentioned reversals, underlying operating income was stable.

3.3.2. Asset management

(€ million)	30.06.2018	30.06.2017	%
Net banking income	74	71	4.9%
Operating expenses	(46)	(42)	8.3%
Gross operating income	29	29	0%
Cost of risk	0	0	N/S
Operating income	29	29	0%

The assets under management of the Asset Management unit consist of the assets of La Banque Postale Asset Management (LBPAM) and of Tocqueville Finance. They totalled €224.3 billion (figure including the distributed Kames funds), up 15% over the period.

La Banque Postale Asset Management assets under management increased by 15.1% over the period to €222.5 billion, driven by the CNP mandates (which grew 18.4% to total €139.8 billion at 30 June). Tocqueville Finance AUM (excluding the LBPAM management delegation) increased by 8.6% over the period to reach €1.8 billion.

The NBI of the Asset Management unit rose 4.9% to €74 million.

⁸ Remuneration of €130 million received in November 2017 for the full year

Operating expenses increased by 8.3% to €46 million. This change was due notably to a reinforcement of the LBPAM teams.

Operating income was stable at €29 million.

3.3.3. Insurance

(€ million)	30.06.2018	30.06.2017	%
Net banking income	145	120	20.2%
Operating expenses	(66)	(53)	25.5%
Gross operating income	79	68	16.1%
Cost of risk	0	0	N/S
Operating income	79	68	16.1%

The non-life insurance business continued to grow with the portfolio now at nearly 4.611 million contracts (+2.1%). In particular:

- La Banque Postale Prévoyance's provident savings portfolio (59.1% of the total portfolio) was stable at about 2,723,000 contracts, with the success of the Accident insurance (up 9%) offsetting the decline observed in the sales of other products,
- the portfolio of Property & Casualty insurance contracts (36.8% of the total portfolio) increased by 5.4% over the period to reach 1,695,000 contracts, driven notably by the rise in sales of Legal Protection products (up +7.9%);
- the Health insurance portfolio (4.2% of the portfolio in volume terms) increased by 8.2% to reach 192,000 contracts.

The NBI of the Insurance activity grew by 20.2% to €145 million over the period, driven by the strong contribution of LBP Prévoyance (56.8% of Insurance NBI, up +27.4%) and P&C (20.9% of Insurance NBI, up +18.6%).

The operating expenses of the Insurance unit increased 25.5% to €66 million, which is explained by the opening of a second customer relations centre in Poitiers.

Lastly, the Insurance unit's operating income came in at €79 million for the period, up significantly by +16.1%.

3.4. ANALYSIS OF THE CONSOLIDATED BALANCE SHEET

The following analysis is made in relation to the balance sheet as at 1 January 2018, taking into account the application of IFRS 9 from that date.

The total consolidated balance sheet at 30 June 2018 stood at €237.4 billion, versus €231.4 billion at 1 January 2018, an increase of €6 billion.

The main asset items in the balance sheet comprised:

- Financial assets at fair value through profit and loss (€11.9 billion as at 30 June 2018 versus €10 billion as at 1 January 2018). The bulk of this item includes debt instruments for €10.7 billion;
- Financial assets at fair value through equity (€11.3 billion as at 30 June 2018 versus €14.6 billion as at 1 January 2018). This item essentially consists of bonds and other fixed-income securities for €9.2 billion and government paper and similar securities with for €1.8 billion;
- Loans and receivables – credit institutions at amortised cost (€89.9 billion as at 30 June 2018 compared with €83.6 billion as at 1 January 2018). This item mainly comprises accounts and loans - time account credit institutions and similar for €71.4 billion, which includes funds of Livret A accounts, Sustainable Development accounts, and National Savings accounts (LEP) centralised at the Caisse des dépôts et Consignations (CDC) for €69.6 billion;
- Loans and receivables – customers at amortised cost (€88.3 billion as at 30 June 2018 compared with €84.4 billion as at 1 January 2018). This item essentially includes outstandings for home loans, consumer loans for Retail and Corporate customers.
- Securities valued at amortised cost (€20.7 billion as at 30 June 2018 versus €23.1 billion as at 1 January 2018). This item essentially includes government paper and similar securities.

The main liability items in the balance sheet, apart from the equity, Group share of €9.5 billion:

- Liabilities due to credit institutions and similar for €15.2 billion (versus €14.2 billion as at 1 January 2018). This item essentially includes securities assigned under repo agreements for €11.9 billion versus €11 billion as at 1 January 2018;
- Liabilities to customers for €186.7 billion (versus €182 billion as at 1 January 2018). This item comprises demand deposits for €64.6 billion and special savings accounts for €115.2 billion, including €31.9 billion in home savings plans and accounts, €61 billion in Livret A accounts and €22.2 billion in other special accounts (LEP, LDDS and other accounts);
- Debt securities for €12.5 billion (versus €11.3 billion as at 1 January 2018);
- Subordinated debt for €3.9 billion (versus €3.8 billion as at 1 January 2018).

The Bank's ROA ⁽⁹⁾ was at 0.18 % at 30 June 2018.

(9) Asset profitability (net income, Group share/balance sheet total).

3.5. POST-BALANCE SHEET EVENTS

Lastly, on 4 July 2018, La Banque Postale carried out a second issue of Non-Preferred Senior Debt, a new debt class eligible for the MREL, for €750 million euros maturing in 2028.

3.6. 2018 OUTLOOK

In Insurance, La Banque Postale will continue its digital transformation strategy in the second half of 2018, with the launch of several digital applications addressed to all of its customers:

- the launch of a new range of personal insurance products (group health insurance and key person coverage), with a fully paperless application process. It is developed in partnership with a specialist in digital insurance for very small enterprises and professionals;
- in the area of e-health, La Banque Postale will launch a medical teleconsultation service (via video-conferencing or telephone) and a second medical opinion service, notably for critical illnesses;
- a mobile application for customers with auto and multi-risk home insurance contracts.

Always innovative, La Banque Postale will round out its payment solutions to facilitate the daily life of its customers while guaranteeing them an optimal level of security. They will thus benefit from a *PayLib* package (including the *PayLib en ligne* (on-line), *PayLib sans contact* (contactless) and *PayLib entre amis* (among friends) services) and from the *Instant Payment* service, which will be launched in autumn 2018.

In Asset Management, the new digital strategy of La Banque Postale Asset Management will notably take the form of an Internet site aimed at professional investors and that will be put on line on 15 December 2018.

LBPAM will continue its action in favour of SRI by participating in two renowned think tanks: Finance for Tomorrow and CISL-ILG (Cambridge University).

In addition, LBPAM is preparing the future application of Blockchain technology to the asset management businesses, thereby improving the security and rapidity of its services for its customers.

Lastly, Ma French Bank, La Banque Postale's future 100% digital bank, will be launched for an initial circle of employees of the Group at the end of 2018, before being offered to the general public in spring 2019.

There has been no significant change to the risk factors and uncertainties described in Chapter 4 of the 2017 Registration Document.

3.7. RELATED-PARTY DISCLOSURES

The parties related to the La Banque Postale Group include the main managers and the companies consolidated by the La Poste Group, wholly or jointly controlled subsidiaries and companies on which the Group has a significant influence. There has been no significant change to this information as described in Chapter 5 of the 2017 Registration Document, note 10.

3.8. ALTERNATIVE PERFORMANCE INDICATORS – ARTICLE 223-1 OF THE AMF GENERAL REGULATION

Alternative performance indicators	Definition and method of calculation
NBI excluding the effect of the home savings provision	NBI restated for provisions or reversals of provisions for commitments related to home loan savings accounts and plans (PEL and CEL)
Operating expenses	Sum of general operating expenses, net depreciation and amortisation, and impairment of tangible and intangible fixed assets
Cost-income ratio	Operating expenses divided by NBI corrected for doubtful interest
Cost of risk (in basis points)	Average commercial banking credit risk costs for the quarter divided by outstandings at the beginning of each quarter

RISK MANAGEMENT – PILLAR III INFORMATION



BANQUE ET CITOYENNE

4. RISK MANAGEMENT

4.1. Summary of risks

The objective of this chapter is to present the main risks to which La Banque Postale is exposed in the context of its business activities and to provide information on its risk management and capital.

The purpose of this information is to comply with the reporting obligations pursuant to EU Regulation No. 575/2013 relating to the prudential requirements applicable to credit institutions and investment firms (CRR), EU Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms and their implementing provisions.

4.1.1 Principal structural risk factors

La Banque Postale is exposed to a range of external and internal risk factors as a result of its status as a credit institution, its history, its growth strategy, changes in the macroeconomic environment in which it operates, of changes in legislation and regulations applicable to it as well as to the competitive environment.

4.1.1.1 External risk factors

The regulatory environment

Although European regulations setting the prudential requirements applicable to credit institutions, including solvency and liquidity rules, have not yet been finalised (the body of application laws is still incomplete and transition periods run until 2022), the European Commission published a package of proposed revisions to the rules in November 2016.

The draft laws take into account the creation of the Banking Union and the adoption of a number of new standards by the international banking regulation bodies (Financial Stability Board, Basel Committee for Banking Supervision). They are starting or restarting European-level discussions on leveraged ratio and large exposure requirements, changes in methods for market risks, the introduction of the methodology for the net stable funding requirement (NSFR) and for the minimum requirement in terms of the total loss absorbing capacity (TLAC) for global systemically important banks (GSIBs).

At the international level, the Basel Committee completed its Basel III reform in early December by obtaining the approval of its members for new calculation methods for risk-weighted assets (RWA) for credit risk and operational risk as well as for the introduction of a new output floor for RWAs calculated using internal approaches. These new standards should be transposed into European law to come into effect on 1 January 2022.

The Bank follows these changes because of their impact on regulatory ratio levels. It is important to remain aware of the potential for complementary prudential changes which could impact La Banque Postale's capital requirements within the framework of the specific application measures of the Basel III rules in European law (CRR and CRDIV).

Impact of European regulation on consumer protection and of privacy on information systems security and the Bank's competitive environment

The European Union adopted regulations in April 2016 regarding the protection of natural persons with regard to the processing of personal data and the free movement of data (RGPD) applicable starting in May 2018. France transposed the European directive on payment services of November 2015 into national law in August 2017. It is applicable as of 13 January 2018. These laws further strengthen the obligations of the Bank to ensure the security of its customers' data while also requiring it to provide access to payment and information service providers with which customers may have entered into a contract, for example, account consolidation services.

The Bank is highly aware of its cybersecurity in this context and given the rapid evolution of technology and of digital financial services offerings.

The macroeconomic context

La Banque Postale is impacted by macro-economic and market conditions and could be affected by unfavourable developments in these areas as a result of adverse shocks.

Very low interest rates over a long period of time

A future relapse by European economies in a period of low growth and inflation could bring about the continuation of exceptionally low interest rates. The relapse could itself arise from a combination of adverse shocks such as a banking and financial crisis in China, a rapid cyclical slowdown in the United States or the creation of a vicious circle of political instability and a deteriorating economic situation in some euro zone Member States (see political risks below). Although it currently seems highly unlikely, a possible domino effect from Brexit, with other States requesting to leave the European Union, could also constitute shocks likely to weaken economic growth and prevent the European Central Bank from normalising its monetary policy. In addition, in this type of economic environment, expectations for medium-term inflation would remain very low for the long term. The interest rate curve would both stay low and flat for a long period of time, reducing interest income from the Bank's business activities.

A sharp increase in interest rates

On the other hand, a sharp increase in interest rates could arise from an inflationary shock which would produce a rebound in inflation expectations and prevent the major central banks from normalising their monetary policy more rapidly. This situation could result from geopolitical events generating a strong and sustained increase in the price of oil and lead to an increase in interest rates. This could result in a deterioration in countries' solvency which would reinforce the increase in bond rates; losses on bond portfolios held by institutional investors and the banks; demands for buybacks from the holders of life insurance contracts, which might be outperformed by more short-term investments that are more reactive to changes in market rates. This situation could affect the capital gains of bond portfolios managed for the Bank by the Bank, the cost of its inflation-indexed balance sheet resources or investments in the capital of insurance companies. The impact could, however, be tempered by the gradual improvement in interest income arising from the upward trajectory and steepening of the interest rate curve.

Political risks from adverse economic impacts

The general socio-economic environment is such that it influences French economic conditions and impacts La Banque Postale's business activities.

In France President's Macron's stated intent to implement reforms could cause a backlash and lead to political and social unrest. In addition, to the extent that the so-called "peripheral" euro zone countries remain convalescent and their public debt remains high, any political instability in these countries could rekindle investor fears and lead to the potential re-emergence of a debt crisis and stress on interest rates. Italy could be in this situation because its political stability is still not assured and elections are due within a few months. In addition the public debt and unemployment are still very high in Italy. Lastly, the banking industry is dealing with a high level of doubtful debt there and has not completed its reorganisation. The central government in Spain is dealing with the separatist demands of a majority of Catalans. Therefore, although the economic situation in Spain has improved significantly, political turbulence could damage the country's stability. Germany is struggling to put a coalition government in place several months after the federal election.

At the global level, there is ongoing geopolitical risk in Asia with the North Korean missile crisis which has involved several major powers (the United States, China, Russia and Japan). South Korea is a major player in the electronics component industry and any interruption in its production would have a significant economic impact beyond its borders.

These events could, firstly, impact the income from the Bank's self-managed bond portfolios and, secondly, affect its income and that of its asset management subsidiaries.

4.1.1.2 Internal risk factors

Risks relative to strategy and changes

La Banque Postale set itself the following commercial goals in its strategy:

- to strengthen its positioning with private customers, including high-wealth individuals, while continuing to fulfil its missions of accessibility and support for its most vulnerable customers,
- to become a bank for professionals, companies and institutional customers.

These goals require many changes which the Bank must manage to achieve its objectives. They include changes to its organisation, responsibilities (making banking La Poste Network's priority) and by expanding its services offering and its customer base.

Risks relative to banking activities

La Banque Postale's structural risk factors are also related to its retail banking activity: liquidity risk and rate risk related to the transformation of customer resources into long-term employment, credit risk on loans granted to customers and operational risk related to banking activities. Market risk is also a structural risk factor which is closely monitored by La Banque Postale. The Bank is also exposed to risks related to its subsidiaries and its interests in insurance companies.

Credit risk is defined as the risk incurred in the event of default by a counterparty or counterparties, considered as a same group of related clients, within the meaning of EU Regulation No. 575/2013.

Liquidity risk is, as defined by the decision of 3 November 2014, the risk that a business cannot meet its commitment or cannot unwind or cover a position either because of the market situation (systemic risk) or idiosyncratic factors (own risks), within a specific period or at a reasonable cost.

Counterparty risk corresponds to the likelihood of default of a borrower or a given organisation within the framework of market (derivatives) or securities transactions (loans/borrowing, repos/reverse repos, placements and investments). It arises when the amounts exchanged or invested are not repaid and therefore become a dead loss for the lender or investor or, at the least, a loss of income as long as the counterparty has not repaid.

Replacement risk is also a counterparty risk. It occurs when the counterparty of a transaction misses a payment date. In this case, the solvent counterparty will have open positions which can result in losses or a loss of income. The market price replacement cost of the original transaction is a risk for the counterparty which suffers the payment default.

Market risk represents the potential loss of value, in terms of income or the bank's balance sheet, which would be caused by unfavourable fluctuations in market parameters such as interest rates, exchange rates or volatility.

The interest rate risk of a banking portfolio is the likelihood of seeing the bank's future margins or financial value affected by interest rate fluctuations.

All of the significant interest rate risks in the banking book (bank portfolio) must be identified and measured. Interest rate risk is measured by maturity, by type of index for products dependent on variable rates or rates subject to review (Euribor, Inflation, Eonia, etc.).

The definition of operational risk used by the Group is as follows: "the risk of losses resulting from a mismatch or failure of processes, personnel, internal systems or external events. Operational risk notably includes risks linked to events having a low probability of occurrence but a high impact, risks of internal and external fraud, legal risks, risks of non-compliance (including damage to reputation), and risks linked to the model, but excludes strategic risks". It complies with Regulation (EU) No. 575/2013 of 26 June 2013 and the decree of 3 November 2014 on internal control approved by the Group Risk Management Committee on 26 February 2015. It is also compliant with AMF and Solvency II regulations.

The Bank has created a map of all of the risks to which it could be exposed. The map is monitored on a regular basis to identify the risks that could have a significant negative effect on its business activities, its financial position or its results (or on its ability to meet its targets), and believes that there are no material risks other than those presented above.

The Bank ensures that it is compliant with regulatory solvency (taking into account the additional requirements related to buffers for systemic risk) and liquidity (LCR) limits at all times. It also tracks changes in its leverage and NSFR ratios.

4.2 Capital management and capital adequacy

4.2.1 Fields of application

Defined by CRR Regulation 575/2013, the field of application of the prudential scope pertaining to equity requirements is different from the field of application of the accounting consolidation scope whose composition is subject to the application of IFRS standards.

In accordance with regulations, the scope defined for the exercise of supervision on a consolidated basis of the capital ratios consists of consolidation using the equity method, within the prudential scope, of the insurance entities consolidated using the full-consolidation method within the accounting scope.

Asset disposal and risk transactions must be assessed in light of the type of resulting risk transfer. Therefore, securitisation vehicles are excluded from the prudential scope, in line with the regulations, to the extent that the securitisation transaction in question is deemed effective, i.e. it provided a significant transfer of risk. This situation does not impact La Banque Postale as it has never securitised its exposure as is meant in prudential regulations.

Description of the differences between the different scopes of consolidation (entity by entity)

Entity name	Accounting consolidation method	Regulatory consolidation method				Entity description
		Full consolidation	Proportional consolidation	Equity consolidation	Deducted	
LBP SA	Full consolidation	LBPSA	-	-	-	Retail Banking
SCI CRSF DOM	Full consolidation	SCI CRSF DOM	-	-	-	Retail Banking
SCI CRSF METROPOLE	Full consolidation	SCI CRSF METROPOLE	-	-	-	Retail Banking
SCI TERTIAIRE SAINT ROMAIN	Full consolidation	SCI TERTIAIRE SAINT ROMAIN	-	-	-	Retail Banking
SF2	Full consolidation	SF2	-	-	-	Retail Banking
LA BANQUE POSTALE FINANCEMENT	Full consolidation	LA BANQUE POSTALE FINANCEMENT	-	-	-	Retail Banking
LA BANQUE POSTALE CREDIT ENTREPRISES	Full consolidation	LA BANQUE POSTALE CREDIT ENTREPRISES	-	-	-	Retail Banking
EASYBOURSE	Full consolidation	EASYBOURSE	-	-	-	Retail Banking
FCT ELISE 2012	Full consolidation	FCT ELISE 2012	-	-	-	Retail Banking
BPE	Full consolidation	BPE	-	-	-	Retail Banking
LA BANQUE POSTALE COLLECTIVITES LOCALES	Full consolidation	LA BANQUE POSTALE COLLECTIVITES LOCALES	-	-	-	Retail Banking
LA BANQUE POSTALE HOME LOAN SFH	Full consolidation	LA BANQUE POSTALE HOME LOAN SFH	-	-	-	Retail Banking
SOFIAP	Full consolidation	SOFIAP	-	-	-	Retail Banking
LBP DUTCH MORTGAGE PORTFOLIO 1 B.V	Full consolidation	LBP DUTCH MORTGAGE PORTFOLIO 1 B.V	-	-	-	Retail Banking
LBP DUTCH MORTGAGE PORTFOLIO 2 B.V	Full consolidation	LBP DUTCH MORTGAGE PORTFOLIO 2 B.V	-	-	-	Retail Banking
GROUPE CNP ASSURANCES	Equity consolidation	-	-	GROUPE CNP ASSURANCES	-	Insurance
LA BANQUE POSTALE PREVOYANCE	Full consolidation	-	-	LA BANQUE POSTALE PREVOYANCE	-	Insurance
LA BANQUE POSTALE CONSEIL EN ASSURANCES	Full consolidation	LA BANQUE POSTALE CONSEIL EN ASSURANCES	-	-	-	Insurance
SOPASSURE	Proportional consolidation	-	SOPASSURE	-	-	Insurance
LA BANQUE POSTALE ASSURANCES IARD	Full consolidation	-	-	LA BANQUE POSTALE ASSURANCES IARD	-	Insurance
LA BANQUE POSTALE ASSURANCE SANTE	Full consolidation	-	-	LA BANQUE POSTALE ASSURANCE SANTE	-	Insurance
AEW Europe	Equity consolidation	-	-	AEW Europe	-	Asset management
LA BANQUE POSTALE ASSET MANAGEMENT	Full consolidation	LA BANQUE POSTALE ASSET MANAGEMENT	-	-	-	Asset management
TOCQUEVILLE FINANCE HOLDING	Full consolidation	TOCQUEVILLE FINANCE HOLDING	-	-	-	Asset management
TOCQUEVILLE FINANCE SA	Full consolidation	TOCQUEVILLE FINANCE SA	-	-	-	Asset management

4.2.2 Composition of prudential equity capital

La Banque Postale's Common Equity Tier 1 (CET1) capital includes:

Group share book equity (capital, issue premiums, reserves and annual profits) less the proposed dividend (45% of Group share of net income) and regulatory adjustments that apply:

- deductions of goodwill and intangible assets (net of related tax liabilities);
- regulatory adjustments (fair value reserves related to gains or losses on cash flow hedges, *Additional Valuation Adjustment...*).

La Banque Postale's Additional Tier 1 capital includes:

The €800 million perpetual security, convertible into Common Equity Tier 1 capital, issued in December 2013 and wholly subscribed by the single shareholder, La Poste.

Tier 2 capital includes:

The subordinated securities issued in November 2010, April 2014, November 2015, June and October 2016 and in January 2017, less the effects of amortisation on the debt issued in 2010, prior to the effective date of Regulation (EU) no. 575/2013.

Reconciliation of accounting equity and regulatory capital

	30.06.2018	31.12.2017
(in € thousands)	Basel III	Phased-in Basel III
Group shareholders' share capital and retained earnings	9,513,964	9,984,488
Dividend plan	(189,736)	(343,769)
Deduction of goodwill and other intangible fixed assets	(721,497)	(677,215)
Transitory and other adjustments applicable to CET1 equity capital	(160,035)	(441,858)
Common Equity Tier 1 (CET1)	8,442,696	8,521,647
Eligible AT1 capital instruments	800,000	800,000
Additional T1 equity	800,000	800,000
T1 equity	9,242,696	9,321,647
Capital instruments and subordinated loans	2,394,986	2,468,425
Other reintegrations	-	72,512
T2 equity	2,394,986	2,540,937
Overall equity capital	11,637,682	11,862,584

4.2.3 Summary of risk-weighted assets

Current methodology used to calculate capital requirements

The standardised approach is used to quantify the capital requirements under Pillar I for:

- credit risk;
- market risk;
- operational risks.

The general approach is employed, with use of the regulatory settings to apply risk reduction techniques.

For operational risk, the equity requirements are independent of the level of loss under this risk. The amount is calculated based on the NBI generated by each banking activity (including the bank's main activity of Retail Banking). Each business activity is weighted (from 12% to 18% for the most risky), in compliance with the provisions of the third part of the CRR.

Risk-weighted assets (RWA) increased by 4.2% over the first half of 2018, or by €2,766 million for a growth of gross exposure of €5,670 million.

Credit risk-weighted assets (including exposures in respect of counterparty risk) increased by €2,887 million.

Risk-weighted assets for market risk were in slight decline (-€121 million).

Overview of risk-weighted assets (RWA)

(€ millions)	RWA		Minimum capital requirements
	Jun 2018	Dec 2017	Jun 2018
Credit risk (excluding RCC)	54,618	51,996	4,369
of which the standardised approach	54,618	51,996	4,369
of which internal ratings-based approach (RBA)	-	-	-
of which advanced internal rating-based approach (AIRB)	-	-	-
of which equities using the NI approach as part of the simple weighting method or the internal models approach (IMA)	-	-	-
RCC	2,129	1,864	170
of which using the market price method	1,828	1,549	146
of which the initial exposure method	-	-	-
of which the standardised approach	-	-	-
of which the internal models method (IMM)	-	-	-
of which amount of exposure to the risk for contributions to the default fund of a central counterparty	2	4	0
of which CVA (credit valuation adjustment)	299	311	24
Settlement risk	-	-	-
Bank portfolio securitisation exposures (after cap)	3	3	0
of which the NI approach	-	-	-
of which the NI Supervisory Formula Method (SFM)	-	-	-
Of which the internal ratings-based approach (IRB)	-	-	-
of which the standardised approach	3	3	0
Market risk	1,884	2,005	151
of which the standardised approach	1,884	2,005	151
of which IMA	-	-	-
Large exposures	-	-	-
Operational risk	9,318	9,318	745
Of which the basic indicator approach	-	-	-
of which the standardised approach	9,318	9,318	745
Of which the advanced measurement approach	-	-	-
Amounts below the deduction thresholds (subject to a risk weighting of 250%)	224	221	18
Floor adjustment	-	-	-
TOTAL	67,952	65,186	5,436

Overview of risk-weighted assets by asset classes

(€ millions)	2018		2017.
	Risk-weighted assets	Capital requirements	Risk-weighted assets
Credit risk (excluding counterparty risk)	54,621	4,370	51,999
Of which the standardised approach	54,621	4,370	51,999
- Central governments and central banks	2	0	65
- Regional governments and local authorities	1,371	110	1,282
- Public sector entities	103	8	117
- Multilateral development banks	-	-	-
- International organisations	-	-	-
- Institutions	9,942	795	9,038
- Corporate	13,869	1,110	11,797
- Retail	11,165	893	11,180
- Secured by mortgages on immovable property	7,709	617	7,306
- Exposures in default	737	59	754
- Items associated with particularly high risk	1,337	107	1,207
- Covered bonds	294	24	342
- Receivables with institutions and corporates with a short-term credit assessment	-	-	-
- Undertakings for collective investment	501	40	340
- Equities	4,828	386	5,581
- Other items	2,758	221	2,986
- Securitisations	3	0	3
- Of which the internal model-based approach	-	-	-
Counterparty risk	2,129	170	1,864
- Of which the standardised approach	1,828	146	1,549
- Of which at market price	-	-	-
- Of which initial risk	-	-	-
- Of which internal models approach	-	-	-
- Of which amount for contribution to the failure of a central counterparty	2	0	4
- Including CVA	299	24	311
Market risk	1,884	151	2,005
Operational risk	9,318	745	9,318
TOTAL	67,952	5,436	65,186

4.2.4 Regulatory framework for capital requirements

The regulatory framework defining prudential requirements has been developed and strengthened since the last financial crisis in 2008, by gradually introducing new solvency, leverage and liquidity constraints, and by defining a European framework for managing bank crises including a plan for the recovery and restitution of banking establishments.

As a result, from 1 January 2014, La Banque Postale is subject to the prudential regulations defined by the Basel III agreements: directive 2013/36/EU and regulation (EU) No. 575/2013 of the European Parliament and of the Council. A phased application, required by law, was carried out until 1 January 2018 to enable institutions to gradually manage the transitions.

In terms of solvency, three levels of equity are defined:

- Common Equity Tier 1 capital (CET1);
- Tier 1 capital comprising Common Equity Tier 1 capital and Additional Tier 1 capital (AT1);
- total capital comprising Tier 1 capital and Tier 2 capital.

In total, three levels of solvency ratio are calculated:

- common Tier 1 capital ratio or CET1 ratio;
- the Tier 1 equity ratio or T1 ratio;
- the total capital ratio.

These ratios are calculated by comparing each category of Group capital to the total assets weighted by Group risks.

4.2.4.1 Prudential equity capital

Following the Supervisory Review and Evaluation Process (SREP) carried out by the ECB, the latter notified La Banque Postale of its consolidated phased-in CET1 capital requirement applicable as of 1 January 2018. It was 8.3125% and included:

- 4.5% of CET1
- a 1.75% requirement in additional own funds for Pillar 2 (Pillar 2 Requirements)
- 1.875% for a capital conservation buffer (CCB)
- and 0.1875% for a buffer for Other Systemically Important Institutions (O-SIIs).

This requirement does not include the recommendation for additional own funds under Pillar 2 (P2G) which is not provided.

Based on this notification, the overall capital requirement (OCR) is 11.8125% (8.3125 plus 1.5% for AT1 and 2% for Tier 2).

The CET1 and total capital requirements are, respectively, 9% and 12.5% taking in account the end of the CCB (2.5% vs 1.875%) and O-SII (0.25% vs 0.1875%) buffer transition period.

A countercyclical buffer can also be added. This is determined on a country basis and aims to combat excessive credit growth. It applied to countries that have an exposure to these countries. In France, the HCSF (High Council for Financial Stability) is responsible for setting it each year. In France, on 29 June 2018, the HCSF decided to increase the countercyclical bank capital buffer rate hitherto from 0.00% to 0.25%. Banks must comply with this new requirement as at 1 July 2019.

Composition of CET1 capital requirements for Pillar II at 1 January 2018

	2018	Vision 01/01/2019 with "fully loaded" buffers
CET1	4.5 %	4.5 %
Pillar II "requirement"	1.75 %	1.75 %
Total CET1 (including P2R -2017 SREP)	6.25 %	6.25 %
Capital conservation buffer	1.875 %	2.5 %
Countercyclical buffer (%)	0.00 %	0.00 %
O-SIB buffer	0.1875 %	0.25 %
TOTAL CET1 (INCLUDING 2017 SREP AND BUFFERS)	8.3125 %	9.25 %

The total capital requirement amounts to 11.8125 %, including 1.5% in respect of AT1 and 2% in respect of T2.

4.2.4.2 Solvency ratios

La Banque Postale's Common Equity Tier 1 (CET1) solvency ratio was 12.4%, down 1 points compared with the end of December 2017. This figure includes a negative impact of €140 million on capital, resulting from the first application of IFRS 9 as of 1 January 2018.

(€ millions)	2018	2017.	2017. Phased-in
Common Equity Tier 1 capital ratio	12.4%	13.4%	13.1%
Tier 1 capital ratio	13.6%	14.6%	14.3%
Total capital ratio	17.1%	18.4%	18.2%

4.2.4.3 Leverage ratio

The excessive leverage effect is defined in Regulation CRR No. 575/2013 as "the risk of vulnerability of an establishment resulting from leverage or potential leverage which may require corrective measures which were not planned by the company, including the emergency sale of assets which can result in losses or a re-valuation of remaining assets".

The leverage ratio compares Tier 1 capital (the numerator) to an exposure (the denominator) composed of balance sheet items and off-balance sheet items without a risk approach.

By a decision of the European Central Bank of 24 August 2016, La Banque Postale has been authorised to gradually and linearly reduce its CDC exposure on the 10% surplus of the base through the end of 2022. From 1 January 2023, La Banque Postale must incorporate the total amount of its CDC exposure in the measurement of its total exposure. At 30 June 2018, this resulted in a 45% reduction of the centralisation of the calculation base of exposure to the leverage ratio (56% in 2017).

The leverage ratio was 4.1% at 30 June, down compared to December 2017 as a result of an decrease in Capital (-€79 million including the impact of FTA IFRS 9) and to an increase in exposure related, primarily, to the gradual reintegration of the CDC exposure in application of the ECB decision.

The exclusion of 100% of the CDC centralisation would result in a leverage ratio of 5.0%. La Banque Postale carefully follows the potential changes in the leverage ratio calculation method which could result from the revisions in Regulation CRR no. 575/2013 currently under discussion in the Parliament and the application of the decision of the EU court on the exemption-related recourse.

Summary comparison of accounting assets and the measurement of exposure for leverage ratio

(€ million)

	30.06.2018 (with delegated act and application of temporary provisions)	31.12.2017 (with delegated act and application of temporary provisions)
Total of the IFRS balance sheet according to published financial statements	237,382	231,477.
<i>Adjustments for investments in banks, insurance companies or financial and commercial entities which are consolidated for accounting purposes but which are outside the regulatory consolidation scope</i>	(2,980)	(2,643)
<i>Adjustments for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure</i>	-	-
<i>Adjustments for financial derivatives</i>	796	695
<i>Adjustments for temporary sales of shares (repurchase transactions and other types of guaranteed loans)</i>	3,278	2,882
<i>Adjustments for off-balance sheet items</i>	12,354	10,336
<i>Other adjustments</i>	(27,580)	(36,980)
Exposure to the leverage ratio	223,250	205,766

4.2.5 Capital steering and internal capital adequacy

Objectives

La Banque Postale has implemented a planning system for its capital at the level of the Group, in order to ensure that the following objectives are met:

- assess the Group's current solvency position with regard to its risk profile and risk appetite;
- anticipate future needs through medium-term forecasts incorporating internal and external constraints, investment opportunities and any regulatory changes that may impact the Bank's capital structure;
- assess capital adequacy and ensure adequate equity allocation between business lines and subsidiaries as regards risk/return management;
- define the measures required in order to attain the capital objectives set by management in connection with major shareholders.

Governance

This planning approach is fully integrated into the strategic piloting of the Bank; it is implemented by the Finance Department and relies on the following two processes:

The **Capital Management Committee**, which was set up in 2014 and meets three to four times a year under the chairmanship of the Chairman of the Executive Board. The committee is responsible for:

- defining capital management objectives (target ratios, etc.);
- examining the trajectory of capital and defining the measures required to achieve the capital objectives set by management (securities issuances, capital increase requests, arbitrages/business line orientation, etc.);
- validating the preventive actions linked to the Bank's financial strength suggested by the Stress Test Operational Committee, based on the results of internal stress tests and those carried out at the request of regulators;

- examining the recommendations of regulatory and supervisory authorities and their impact on La Banque Postale's capital position and the methods used.

The **RWA Committee** was set up in 2014 and is chaired by the Finance Department and the Group Risk Department. This committee has as its mission, on the one hand, to validate the assumptions of projected weightings and prudential outstandings; and, on the other, to monitor the developments of the RWA of the businesses in comparison with the RWA estimated in the budget framework.

With regards to Pillar II, La Banque Postale also has a process to assess the adequacy of its internal capital (Internal Capital Adequacy Assessment Process (ICAAP)), which is built upon the following elements:

- medium-term planning of regulatory capital requirements, with a focus on the Group's growth objective and future regulatory changes. This planning exercise performed once a year tends to evaluate the Group's financial strength in both a central economic (capital planning) and stressed scenario (annual financial strength stress test).
- assessing capital requirements induced by the principal risks of the Group based on the Bank's internal methods.

Description of the processes used to manage the risk of excessive leverage

The risk of excessive leverage may lead to corrective measures being taken that were not planned in the financial and capital business plan, in particular the sale of assets.

The leverage ratio forms part of the risk management system with the introduction of an internal threshold in the Risk Management Policy (PMR). It is monitored by the Group Risk Management Committee and the Capital Management Committee.

With regards to the credit business activity financed by its retail customer resources, the risk of excessive leverage is controlled and monitored as part of the ICAAP (Internal Capital Adequacy Assessment Process) in accordance with the objectives and governance described above which includes projections for the leverage ratio as part of La Banque Postale's strategic planning for its activities and balance sheet.

4.3 Governance and risk management system

La Banque Postale's internal control procedures cover all risks and involve the Group Risk Department, to which the Permanent Control is attached since 1 January 2018, the Compliance and Internal Audit Department.

Further information about this system, which includes its stakeholders and their missions together with its governance, is set out in chapter 3 "Internal Control" of the Registration Document.

4.3.1 Regulatory framework

La Banque Postale is subject to European and French "prudential" regulations applicable to credit institutions and financial conglomerates. The Bank is supervised directly by the ECB as an important institution as meant by Regulation (EU) No. 1024/2013 "SSM" and the framework "SSM" Regulation and applies its instructions and recommendations. It also applies the instructions, notices and recommendations of the ACPR applicable to it.

The internal control system implemented by the Bank is governed by:

- the decree of 3 November 2014 on the internal control of firms in the banking sector, payment services and investment services subject to the supervision of the ACPR,
- the decree of 3 November 2014 on prudential supervision on a consolidated basis,
- the decree of 3 November 2014 on the additional monitoring of financial conglomerates.

The prudential regulations have incorporated the concept of the "systemic importance" of institutions for the economy in order to regulate the level of obligations to be met in relation to governance, the risk management and control system and capital requirements. As a result, the Group is also identified as an "other" systemically important establishment.

As a parent company, credit institution, financing company, electronic money company, management company, investment company and insurance company, La Banque Postale ensures that each of its subsidiaries and regulated equity interests comply with the industry regulations applicable to them.

It is the responsibility of the supervisory body to review the Bank's governance system and evaluate its efficiency, and to approve and regularly review the strategies governing the taking, management, monitoring and reduction of identified and potential risks. The decree on internal control specifies this role in the definition of the supervision guidelines and policy, approval of the overall limits (in particular liquidity), in establishing a strategy for business continuity and remuneration policy.

This role implies that members of the Supervisory Board shall have the necessary knowledge, skills and expertise to understand and monitor the Group's strategy and appetite for risk. The powers of the supervisor have been strengthened with respect to the appointment and assessment of the competences of the directors and executives.

Application of the CRD IV directive and CRR regulation

La Banque Postale applies the prudential requirements defined in the CRR regulation:

- Capital instrument eligibility rules,
- Capital requirement levels (including systemic risk buffers),
- Capital requirement calculation rules for credit risk, counterparty risk, operational risk and market risk,
- Large exposure thresholds and calculation rules,
- Short-term liquidity ratio (LCR) thresholds and calculation rules,
- The production of information on the NSFR and leverage ratios for regulators for the calibration of future indicators and associated thresholds.
- Reports to the competent authorities and the publication of information for the markets

4.3.2 Operational implementation of the regulatory framework

The regulatory framework consists of internal rules, approved by the Bank's Executive Board:

- the Risk Management Policy with respect to risk management presented to the Supervisory Board's Risk Committee in June 2018, which contains, among other items, the formal Risk Appetite Framework (RAF), see below;
- the Risk charter (approved in October 2015)
- the Permanent Control Charter of La Banque Postale Group (update presented to the Supervisory Board's Risk Committee in January 2017);
- the Periodic Control Charter of La Banque Postale Group (update presented to the Supervisory Board's Risk Committee in January 2017);

The Bank completes its risk management systems by product type and client as approvals are received (financing of companies and of local public sector entities, etc.) or on internal approval for the launch of

new business activities and products. The risk management systems are validated by the Group Risk Management Committee and define the rules for risk taking and management as well as the operational thresholds.

The Bank bases its actions on documented methodologies (standards and methodology guidelines) which are approved by the Standards Validation Committee. It also monitors on a consistent basis to ensure updating based on changes in the Bank's activities and the regulatory framework.

4.3.3 Internal control organisation, governance and actors

The Executive Board sets the fundamental principles (strategic guidelines, values, appetite for risk, governance), which are approved by the Supervisory Board, and on the basis of which each business activities sets its priorities and the associated risk management system under the supervision of the Group Risk Department. These fundamental principles are reflected in the Risk Management Policy (RMP).

The risk management system has three lines of defence that constitute the general internal control framework:

- a first line within the operational business lines responsible for applying the risk management procedures which they will have defined in advance in concert with the Group Risk Department (GRD);
- a second line consisting of the GRD, which ensures the existence of an appropriate, uniform framework to define and improve the risk management procedures;
- a third line via internal controls designed to give an independent idea of the effectiveness of the risk management system in place.

The internal control system of La Banque Postale includes permanent and periodic controls.

This is based on:

- the risk management policy and the Risk Charter established by the Group Risk Department;
- La Banque Postale Group's Permanent Control Charter created by the Permanent Control Department and the Group Risk Department;
- The Periodic Control Charter of the La Banque Postale Group drawn up by Internal Audit Department.

It establishes a series of principles for risk management and control that must be implemented by each management entity in charge of processes. Each department defines, formalises and maintains up to date its procedures and the control points required to ensure the quality of their operations;

- the responsibility of all the players, which constitutes the basis of effective management and control procedures. All employees must ensure that the work that they perform and the transactions that they handle are executed in accordance with the expected procedures and the level of quality required. They must be in a position to account for the effective management of the work that they perform and the inherent risks of that work at any time. This principle relies on close involvement of managers;
- proportionality of controls to the level of risk. Each manager shall analyse their own risk and implement an appropriate control framework in order to achieve a reasonable level of confidence that their business activities are properly managed, and that they comply with the Company's internal and external standards and regulations;
- thoroughness of the scope of the control procedures. It covers all the activities of La Banque Postale. These procedures apply to all kinds of risk, to all those employed directly by the Bank and all those acting in its name and on its behalf, and to all the entities of La Banque Postale Group. The internal control procedures also extend to essential services that have been outsourced.

The Risk Appetite Framework

The Risk Appetite Framework, and the different levels of target requirements related to it, were developed by La Banque Postale in order to bring together all of its legal and regulatory requirements, as well as international and European best practice.

The purpose of the Risk Appetite Framework defined by La Banque Postale is to ensure that at all times, the Bank has the level of capital necessary to cover all of its risks and to ensure the development of its business activities. The framework also aims to ensure compliance with the Bank's different regulatory requirements.

In this way, the Bank's risk appetite policy is based on a number of key indicators (solvency, liquidity, risk concentration, global rate risks, excessive leverage risks, trading portfolio risk) for which overall internal limits are set in addition to regulatory requirements.

These limits are then set on a more operational basis at a business level.

The limits are also prepared in accordance with the recovery and resolution plan and they are reviewed and approved on at least an annual basis and with each major change in the Group's current regulatory framework.

Risk Management Policy

The Group Risk Management Policy defines La Banque Postale Group's risk management policy. It is part of an approach that is broader than the narrower field of monitoring risks, and plays a full part in the strategic and financial oversight of La Banque Postale.

It aims to determine the degree of risk tolerance that is compatible with the Bank's strategy, level of capital and financial business plan.

As part of this, its role is to define:

- the level of acceptable risk for the La Banque Postale Group;
- the general rules for measuring and framing risk-taking;
- the general arrangements for supervising and monitoring risks.

Furthermore, the risk measurement carried out in La Banque Postale Group feeds a significant number of internal processes which allow the organisation's performance to be monitored and, where applicable, adjustments to be made.

This inclusion of a risk-based approach at a more "strategic" oversight level, is notably demonstrated by the annual budget process which is overseen operationally by the Group Finance Department, since it reviews the equity allocations to each business activity and the income projected from each one feeds into the Bank's Capital Planning system. The performance reviews for each business activity also include a "risk" dimension; for example, indicators like cost of risk or complying with limits are key components for assessing this performance.

4.3.4 Risk monitoring, measurement and control systems

Risk management is defined as the identification and management of risks.

The identification of risks involves determining risk factors, i.e. explanations of sources of potential or known loss that the Group might incur (insolvency of borrowers, fraudulent behaviour, volatility of market prices, macroeconomic deterioration, changes to the legal and regulatory framework, etc.). This identification is based on the creation of risk maps according to different types of risk (credit and counterparty risk, residual risk, market risk including basis risks, operational risk including model-related risks, excessive leverage risks, systematic risks, etc.) for each Group business and entity. This mapping also provides a consolidated vision of internal and external risk factors that the Group is facing or might face.

Risk measurement involves the preparation of methods to measure the different types of risk that the Group faces.

Risk management allows risks to be hedged, in particular by using appropriate provision and insurance policies or by using credit derivatives or securitisations. It also involves putting in place risk management procedures, processes and tools within the Risk Department.

In addition to management by type of risk, activity and entity, analysis, measurement and monitoring are also performed in a cross-entity and forward looking manner:

- cross-entity: providing an overview of the Group's risk exposure including a consolidated vision;
- forward-looking: incorporating events which, if they occurred, could have consequences for business activities and the risks faced.

4.3.4.1 Cross-entity risk management systems

Cross-entity concepts and rules

In order to ensure consistency in decision-making, measurement, management and monitoring, the concept and rules that apply to all Group entities and business activities, particularly those in relation to so-called prudential regulation, are defined by the Group Risk Department and approved by the Standards Validation Committee. The GRD is responsible for their dissemination and ensures their correct operational implementation.

Models

For its management needs and appropriate risk control, La Banque Postale Group employs a number of models based, in particular, internal data. As these tools are used for or assist with management decision-making, a dedicated system is in place to ensure that risk related to errors during their design, implementation or use is controlled.

The monitoring performed is the subject of a report to the Head of Group Risk, the Group Risk Management Committee and the ad hoc committees of the Supervisory Board.

Consolidated risk management

In order to provide information to the different bodies responsible for managing and monitoring the Group and to enable them to track its risk profile, compliance with risk appetite and with prudential "risks" reporting obligations to the competent authorities (COREP, Large Exposures, International Liabilities, LCR, NSFR, ALMM, STE), the Group Risk Department brings together the resources and tools for creating, analysing, preparing and disseminating risk monitoring reports, particularly in the area of global limits. In addition to the limits which ensure that it complies with regulatory ratios, the Bank has set itself a number of thresholds to manage changes in its risk profile.

The monitoring of limits, expressed as a solvency ratio, within the "risk appetite framework" is performed by monitoring the RWA level and its distribution by risk type (market, credit and operational) and by business activity. This monitoring is carried out in the context of the RWA Committee by the Group Risk Department and the Finance Department as well as the various Group departments/business activities.

Internal reports to the Risk function are also mainly produced in a centralised manner and use the same source systems as those used for regulatory declarations.

4.3.4.2 Forward-looking systems

Regulatory monitoring

Generally speaking, the Group has a monitoring system responsible for following the drafting of laws and regulations that could affect its business activity and/or its strategy when they enter into force. The objective is that, whatever the field of application (consumer protection, AML-FT, financial sector stability, accounting, etc.), the Bank anticipates impacts, takes appropriate measures and is able to fulfil its obligations in a timely manner.

In terms of the stability of the financial sector, the Group monitors consultations conducted by international authorities, which are primarily the Financial Stability Board (FSB) or the Basel Committee ahead of their future transposition into EU law.

Impact analyses, in the area of capital requirements, risk concentration or liquidity are built into the Internal Capital Adequacy Assessment Process (ICAAP) including, in particular, the Bank's capital planning) and Internal Liquidity Adequacy Assessment Process (ILAAP) procedures, and those for risk management and information systems are taken into account in planning projects.

Stress tests

Within the Bank, stress tests are defined as a recurring process that makes it possible to analyse the Group's ability to resist a severe but plausible deterioration in the economic environment in which it operates.

Stress testing activities play a role in creating a joint Risk-Finance management system and are designed to be consistent with the Bank's risk appetite and strategy.

The objectives of the stress test approach contribute to defining and evaluating the following over time:

- the risk-taking strategy and policy through stress tests, the capital adequacy in the event of a deterioration in the macro-economic context (severe but plausible);
- the limits and alert levels to provide a framework for risk-taking according to different areas of focus (type of risks, sectoral, individual, etc.);
- the ability to meet regulators' demands but also internal demands or those of La Poste Group.

The purpose of the stress test system is to cover two major categories of work:

- macro/global stresses (loss stress testing and financial strength stress testing). At this stage, the tests principally address the issue of the Bank's solvency. They are also designed to be enhanced by other kinds of Group stress tests (liquidity stress testing, reverse stress testing, etc.). The types of tests, methods and performance terms and conditions used in these internal and regulatory tests are similar to recent work, notably conducted in 2014 (ECB Comprehensive Assessment test) and 2016 (EBA stress test);
- specific and additional stress tests appropriate to each business activity/subsidiary (primarily, insurance/asset management/consumer loans) or by type of risk (credit/market/operational).

This system benefits from a governance arrangement which enables its results to play an active role in the Bank's monitoring and risk management system. Thus, ultimately:

- the purpose of stress test activities is to provide information to the Supervisory Board's Risk Committee, which approves the framework for activities and, where appropriate, monitors that they are carried out correctly. It is informed of and verifies results, assumptions, methods and scenarios. It also makes decisions about implementing preventative and corrective actions that are required;
- the Executive Board's Group Risk Management Committee bears ultimate responsibility for implementing the system. It approves the assumptions, scenarios, methods and results, approves preventative and corrective actions to be implemented according to the results and, in particular, the limits and alert levels by type of risk/business activity;
- the Stress Test Operational Committee, developed to respond to this type of activity, manages the operational implementation of the stress test programme; it verifies that it is performed correctly at each stage. It also ensures, as far as possible, that assumptions are consistent and coordinated across specific and global stress tests. Finally, it assesses the effectiveness of the programme and the system implemented and suggests preventative actions to the Group Risk Management Committee.

The incorporation of stress tests in the Bank's Capital Planning is also performed primarily by the Capital Management Committee where the results of financial strength stress tests may be presented before being sent to La Poste Group.

4.3.4.3 Credit risk systems

The retail credit risk management and corporate credit risk management departments are responsible for defining the credit risk management systems for financing and investment transactions based on the risk appetite. The main components of the system are:

- the rules for granting loans,
- scores, ratings, investigation and decision-making tools,
- delegation schemes,
- risk management rules,
- risk control, notably for delegations,
- risk monitoring,
- handling rules for inherent risk,
- declassification and provisioning rules.

These two departments have regional teams.

4.3.4.4 Financial risk system

The Financial Risk Department within the Group Risk Department is responsible for managing financial risks which, for La Banque Postale, consist of:

- market risk, which reflect the potential impact of changes in the financial markets on the Bank's results or balance sheet. They include price risk, exchange risk and commodities risk,
 - balance sheet risk, which reflects the impact of financial risks on the scope of the bank portfolio.
- They cover:
- liquidity risk
 - overall interest rate risk.

Financial risks cover the risks resulting from changes in the financial markets. La Banque Postale is notably sensitive to changes in the rate and debt markets. Changes in these two can impact the NBI of current and previous years, or the Group's balance sheet and, therefore, its solvency, immediately or at a future time.

Financial risk taking must be authorised by an Executive Board delegation or by an authority with this delegation. The delegation must be controlled and reported on. The amount of risk must be commensurate with the Group's capital.

La Banque Postale pays a great deal of attention to the operational security of financial transactions. The process for authorising new instruments and products is standardised.

Management of market risk

- Strategies and process.

La Banque Postale manages market positions as part of the management of its balance sheet and, notably, of its liquidity surplus.

La Banque Postale manages its positions cautiously based on limits. The positions are taken, then managed by a special BFI entity: the Trading Room. It optimises revenue creation and manages the Bank's short-term liquidity. The limits framing its activities are based on methodologies developed by the DRG, and are described in paragraph 4.5.2.4 ("Measurement and control of market risk") of the Registration Document.

In order to comply with the limits, operators implement hedging transactions whose effectiveness is verified in several ways.

1. An independent dedicated team, the Valuation and Performance Analysis Unit is responsible for implementing the valuation and risk calculation architecture. Its work is validated by the Risk Department. It carries out daily assessments of risks and results.
2. A primary mission of this department is to ensure that market conditions enable the correct valuation of transactions.
3. Daily risk calculations are carried out. The risk factors defined (within the main asset classes: rates, credit spreads, currency and equity indexes) hedge and assess the risk of a spread between transactions and their hedges.
4. The VaR and control of the number of backtesting exceptions, provide an assurance that the risk indicators are, in fact, capturing all of the significant risk factors. This point ensures control of the quality and effectiveness of hedges¹⁰ at all times.
5. The consistent tracking of significant day ones is another indicator of the quality of the

¹⁰ La Banque Postale's VaR takes into account a simplified version of rate-specific risk and uses a "sector/rating" method for credit risk spreads.

results and risks processes.

These processes enable measurement of the effectiveness of financial hedges.

The governance of limits is organised around two main levels: The Group Risk Management Committee is responsible for granting them within the risk appetite framework approved by the Supervisory Board.

The Group Risk Department reports to the Group Risk Management Committee on changes in market risk and compliance with exposure limits on a monthly basis. An alert system has also been defined to manage and resolve any exceeded thresholds.

- **Organisation of the risk management function**

These parts are explained in paragraphs:

- 4.5.2.1 Organisation and governance of market risk
- 4.5.2.3 Financial Risk Department missions

- **Negotiability**

In order to ensure the negotiability of assets managed under market risk, La Banque Postale relies on a list of authorised products which favours liquid instruments. Operators can only trade authorised instruments. The authorisation process for instrument types requires that La Banque Postale be in a position to value it. The transactions carried out within the scope of market risks are based on very traditional instruments, which are among the most current ones in the financial markets.

- Bonds
- Rate derivatives (all vanilla)
- UCITS
- Marginally, CDS (on index) as hedges.
- Transactions on listed markets (essentially rate/sovereign bond futures)

The characteristics of these positions are as follows.

- La Banque Postale does not have any exposure to "exotic" products. Its exposures to derivative instruments are vanilla and the valuation risk is low.
- With respect to credit assets, the vast majority of securities handled are investment grade, with a preponderance of securities from major groups.

La Banque Postale holds a very small number of illiquid UCITS in its market books. The maximum allocation is approved by the Group Risk Management Committee.

The Group Risk Department is responsible for supervising the application of the rules and for identifying and reporting any breaches.

Liquidity risk management

➤ **Strategies and processes implemented to manage liquidity risk**

Liquidity is managed by the ALM Committee. Its missions are as follows:

The Asset and Liability Management Committee (ALM Committee), the main decision-making body for matters concerning the bank's financial management, is an Executive Board committee chaired by the Chief Financial Officer.

The ALM Committee is responsible for:

- approving outflow agreements pertaining to retail banking balance sheet components;

- ensuring consistency across the Group's financial and commercial policies;
- planning and developing a framework for the progression of future net interest margins;
- managing financial risk arising from the balance sheet of La Banque Postale and its subsidiaries, in particular, liquidity risk, interest rate risk and exchange rate risk;
- carrying out a periodic review of the thresholds underpinning tactical and structural liquidity management;
- ensuring the diversification of the bank's financing sources and defining the issue schedule;
- periodically examining customer deposit models and formally validating the associated outflow assumptions;
- deciding on financial asset placement and hedging policies to be implemented;
- carrying out a review of all powers delegated to the operational teams;
- organising the terms and conditions for financing strategic acquisitions;
- organising the refinancing of Group subsidiaries;

➤ **Organisation of the risk management function**

The unit responsible for supervising and managing overall interest rate risk is the Balance Sheet Risk Department (DRF-RB) of the Financial Risk Department, which reports to the La Banque Postale Group Risk Department.

The department has several goals:

- to provide periodic monitoring of the indicators used to manage La Banque Postale's overall consolidated interest rate risk and that of its banking subsidiaries
- to carry out audits of the calculation processes for the various indicators (static and dynamic) and control the integrity of exposure calculations
- To audit the methodologies used.

With respect to the latter topic, the Financial Risk Department is part of the global governance for model validation implemented in the La Banque Postale group and managed by the Group Risk Department: The Model Validation Committee.

➤ **Liquidity risk declaration and assessment systems**

The liquidity risk declaration systems cover the entire prudential group. Some of the thresholds and indicators used in management refer to corporate units of the Group, notably La Banque Postale, the most important Group entity.

➤ **Adequacy of the systems in terms of liquidity risk management**

Liquidity risk management is based on:

- a guidelines and limits system;
- a financing plan which assures the ex ante equilibrium of the Bank's funding position;
- a buffer of high-quality unencumbered liquid securities (and its equivalent in central bank deposits).

The bodies of the Bank (Supervisory Board Risk Committee) approved the entire liquidity assessment system and its adequacy (ILAAP) in 2018.

➤ **La Banque Postale's overall liquidity risk profile**

La Banque Postale has a strong liquidity position based on:

- client deposits greater than client loans. La Banque Postale has a significant and diversified deposit

- base (in excess of €160 billion) consisting primarily of deposits from a French retail clientèle;
- a significant HQLA portfolio (High-Quality Liquid Assets). La Banque Postale has traditionally invested a significant portion of its balance sheet in sovereign securities due to its historical activity as a deposit taker. The customer credit business only began to develop starting in 2006. This portfolio contains high-quality liquid assets exclusively, in accordance with the Delegated Regulation, which allows the short-term liquidity ratio to rise above 135%, to an average of about 150%;
- a forward-looking financing plan updated on a regular basis;
- proven access to capital market financing.

In addition to its normal short-term market financing policy based on a certificate of deposit programme, repo activities and an EMTN programme, La Banque Postale has used two secured financing vehicles since 2013, which are:

- La Banque Postale Home Loan SFH, a subsidiary of LBP SA, used to finance residential loans, and
- CAFFIL, used to finance loans to the Local Public Sector. These "secured financing" vehicles provide a reliable source of financing, as demonstrated by the fact that the secure financing market continued to operate during the recent 2011 banking crisis.

4.4 Credit and counterparty risk

4.4.1 Organisation of credit and counterparty risk management

The Group Risk Department reports to the Group Risk Management Committee on the drafting and implementation of measures for monitoring and managing credit risks relating to retail and legal entities in accordance with the decree of 3 November 2014.

In terms of risk monitoring procedures, the Group Risk Department defines the monthly credit risk monitoring indicators approved by the Group Risk Management Committee.

The Group Risk Department hedges credit risk, i.e., the risk incurred in the event that a counterparty defaults or counterparties considered as a single beneficiary within the meaning of (EU) Regulation no. 575/2013 of the European Parliament and Council relating to the prudential requirements applicable to credit institutions and investment firms (CRR of 26 June 2013), in particular Articles 387 to 403 and 493.

Organisation and management of credit risk

The Risk Management Policy and the Risk Charter are implemented via the management of risks by product type and client which takes into account the changes at La Banque Postale as it grows. The provisions, approved by the Group Risk Management Committee, set the rules and operational thresholds for the granting, management and supervision of risks.

The development of the customer base and of products goes hand in hand with the transformation of the sales network. The Bank continues to expand credit granting delegations to the sales teams. The principle entails that commitment decisions be taken by the bank's commercial line with a review by the risk function when the risk level or financing amount involved requires. The risk unit was completely deployed regionally, and has regionalised dashboards to monitor and pilot its risk by staying close to the ground.

These dashboards are also used at the centralised level and contribute to the fluidity of exchanges between the centralised functions and the regional functions of the risk unit.

Revision of internal rating models to comply with the new Basel III requirements

La Banque Postale launched an "Internal Models" programme in 2013 to support its growth via more sophisticated credit risk management. Since 2015, the Group Risk Department has incorporated in its credit risks framework and monitoring system the Basel ratings and parameters (PD, LGD, ELBE) arising from the internal models for the LBP SAM Individuals scope. Taking account of these models in approval and delegation chain processes, and every day management has brought about a significant improvement in risk management for private customers. The Group Risk Department relied on this model development and management expertise for the implementation of IFRS 9 on 1 January 2018.

4.4.2 Quantitative credit risk information

4.4.2.1 Retail customer credit risk

In terms of financing to individuals, the activities conducted by La Banque Postale Group that give rise to a credit risk include:

- home loans to individuals and to high-net-worth Limited Property Investment Partnerships (SCIs) (La Banque Postale and its subsidiaries BPE and SOFIAP);
- overdrafts and means of payment granted to individuals (La Banque Postale and its subsidiary BPE);
- consumer credit (La Banque Postale Financement, BPE);
- personal micro-loans (La Banque Postale, in partnership with Créa-Sol);
- the acquisition of loan portfolios in France and other euro zone countries ("whole loan transactions")

The retail customer credit business activity is highly concentrated on France (approximately 97% of outstandings).

Risk management

For retail credit, the Group Risk Department is responsible on behalf of La Banque Postale Group for:

- defining the rules and tools governing risk-taking and the management of inherent risks;
- monitoring the effective application of these rules and the proper functioning of the tools at the group level, i.e. La Banque Postale SA, La Banque Postale Financement, BPE and SOFIAP.

It develops the rules for granting and committing to loans.

The Retail Credit Risk Department directs La Banque Postale's Group Retail Credit Committee which is the highest delegating body within La Banque Postale Group with respect to granting loans to individuals.

For management of inherent risk, the Group Risk Department is responsible for the rules on covering risk, working with the Legal Department, the Operations Department and the departments governing provisions for accounts receivable in relation to the Accounts Department.

Beyond the scope of its own authority, it has these "rules of the game" approved by the Group Risk Management Committee (chaired by a member of the Executive Board) or by the Executive Board, if requested by the Chairman of the Group Risk Management Committee.

After validation, the Retail Credit Risk Department ensures implementation and monitors the proper application of these rules throughout the loan process.

As part of the development of the risk function, the LBPF, BPE and SOFIAP Heads of Risk now report to the Head of Group Risk.

In compliance with applicable regulations, the Retail Credit Risk Department guarantees implementation of audit and risk monitoring procedures and coordinates all necessary related steps.

Monitoring is provided by the Group Risk Management Committee over the consolidated scope with specific monitoring of each of the subsidiaries.

4.4.2.2 Legal entity credit risk

La Banque Postale's business activities generate credit risk on two levels:

- within the scope of its commercial economy-financing activities, in September 2011, La Banque Postale obtained authorisation from the French Prudential Control and Resolution Authority to offer financing to legal entities ("PMOs"). The primary customer segments are currently the following, based on the product lines proposed: companies, local authorities, public health institutions, social housing associations and non-profit associations;
- within the scope of its financial market transactions, La Banque Postale must also manage credit risk stemming from interbank cash transactions such as deposits, loans and buybacks (with respect to financial institutions) and issuer risk on debt securities (from Companies, Financial Institutions, Sovereign States, Local Authorities) in the trading room.

These risks come in the form of balance sheet and off-balance sheet commitments (guarantees, collateral, investments of La Banque Postale's insurance subsidiaries, un-drawn proportion of loans granted, etc.).

La Banque Postale has retained a prudent approach and a gradual ramp-up of the business.

The range of finance products offered by La Banque Postale to companies currently includes: overdraft and credit facilities, advances on subsidies, equipment leasing, medium-term credit, bilateral and syndicated loans for Major Clients, private placements, property leasing, factoring and financing of assets and projects. For professional customers, La Banque Postale has been offering a range of financing comprising overdraft facilities, equipment leasing, factoring and medium-term credit since January 2016. This business activity is being developed in the context of investigation processes within the framework of decision-aiding tools in order to ensure that risk is appropriately managed.

La Banque Postale has been providing a financing offering to customers from the Local Social Economy (social housing associations, mutual insurance companies, local and regional authorities, public health institutions, management associations, local non-profit associations) since 2012, including credit lines, medium- and long-term financing.

In the context of the proposed development of the specialised credit business activity which aims to develop the range of financing and increase the volume of activity, La Banque Postale Group is strengthening the risk teams of La Banque Postale Crédit Entreprises (LBPCE) by creating a dedicated Risk Department which plays a role in equipment leasing approvals and factoring. It is also responsible, for all the commitments entered into by LBPCE, of the supervision, monitoring and management (including partner relationships) of credit risks, operational risks and financial risks, in collaboration with the Group Risk Department. La Banque Postale Crédit Entreprises remains entirely integrated within La Banque Postale's system both in terms of La Banque Postale's investigation and approval process and in terms of the management and monitoring of risks.

La Banque Postale has been deploying an offer of simple derivatives without margin call, intended for Large Corporates, Institutions, Financial Institutions of the housing-financing type (Housing Financing Company) or mortgage-credit type (Mortgage Credit Company), Large Local Authorities, Public Health Institutions, Social Housing Associations.

Approval process

La Banque Postale's granting and commitment rules are drawn up in accordance with Articles 111 and 112 of the decree of 3 November 2014 on the internal control of companies in the banking, payment and investment services sector subject to the French Prudential Control and Resolution Authority.

The investigation and decision-making process is based on eligibility conditions, analysis and determination of a financial score specific to each segment, and in some cases, on the collection of guarantees.

The aim of the risk management system selected for legal entities financing is to detect risks at every level in each of the business processes (granting, management, recovery and provisioning). It is based on the following elements:

- delegation schemes suited to each segment;
- individual and overall risk monitoring.

For micro-businesses, SMEs, and non-profit associations, the general research and decision-making process is supplemented by a specific banking behaviour score.

According to the market, transactions of a unit amount greater than or equal to €10 million or €20 million must be approved by a member of the Executive Board.

Investment limits

In investment matters, third parties are systematically rated and allocated an individual limit which is intended to limit the total commitment. Where applicable, these individual limits are supplemented by so-called group limits, which govern exposure to a group of third parties that are considered as a single beneficiary within the meaning of article 4-39 of (EU) Regulation No. 575/2013 of the European Parliament and of the Council.

La Banque Postale's scope of activities is generally limited to investment-grade counterparties and issuers, i.e. those whose internal rating is at least BBB-.

The minimum rating threshold is lowered to BB- ⁽¹¹⁾ in certain specific cases:

- as part of the development of the financing activity for Major Corporate Customers on condition that the Bank maintain a consistent commercial relationship;
- high-yield trading room Corporate investments within a restrictive intervention system both in terms of the amounts and the concentration thresholds.

Before it can carry out repurchases or forward financial instruments with financial institutions other than the Housing Financing Companies (SFH) or Mortgage Credit Companies (SCF) exposing it to a counterparty risk, La Banque Postale must first ensure that there is an ISDA or FBF framework agreement with clauses concerning collateral. The quantitative aspects entered into such agreements (instruments concerned,

(11) According to the EBA correlation tables of the ACPR notice, BB- corresponds to quality level 4 (BB- to BB+ at Fitch and S&P; Ba1 to Ba3 at Moody's; 4 to 5 at Coface; 4 to 5+ at FIBEN);

threshold and frequency of margin calls, exemptions, etc.) are subject to approval by the Group Risk Department.

The individual limits are supplemented with a set of limits aimed at limiting the risk of concentration on groups of counterparties classified according to their geographic area, business segment, type of activity and internal rating. These diversification limits can be reviewed monthly by the Group Risk Management Committee. This committee also validates a list of authorised countries and a list of authorised currencies. In the event of significant deterioration of the risk, the issuers and counterparties concerned are subject to strict monitoring by the Watch List Committee which reports to the Group Risk Management Committee.

4.4.3 Credit risk-weighted assets

Standardised approach

Exposure categories (€ millions)	Weighting																TOTAL	Of which not rated
	0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Other	Deducted		
Central governments and central banks	119,340	-	-	-	-	-	-	-	-	2	-	-	-	-	-	-	119,342	-
Regional governments and local authorities	-	-	-	-	6,912	-	-	-	-	-	-	-	-	-	-	-	6,912	-
Public sector entities	-	-	-	-	343	-	45	-	-	12	-	-	-	-	-	-	400	-
Multilateral development banks	178	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	178	-
International organisations	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	0	-
Institutions	162	-	-	-	34,455	-	6,149	-	-	1	-	-	-	-	-	-	40,767	-
Corporate	-	-	-	-	1,991	-	6,115	-	-	9,749	508	-	-	-	-	-	18,362	-
Retail	-	-	-	-	-	-	-	-	15,096	-	-	-	-	-	-	-	15,096	-
Exposures secured by mortgages on real estate	-	-	-	-	-	15,505	2,137	-	-	1,276	-	-	-	-	-	-	18,918	-
Exposures in default	-	-	-	-	-	-	-	-	-	478	173	-	-	-	-	-	651	-
Exposures with particularly high risk	-	-	-	-	-	-	-	-	-	-	892	-	-	-	-	-	892	-
Covered bonds	-	-	-	2,943	-	-	-	-	-	-	-	-	-	-	-	-	2,943	-
Institutions and companies being evaluated for short-term credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities of undertakings for collective investment	-	-	-	-	-	-	-	-	-	501	-	-	-	-	-	-	501	-
Equities	-	-	-	-	-	-	-	-	-	4,107	-	288	-	-	-	-	4,396	-
Other items	681	-	-	-	-	-	-	-	-	2,758	-	-	-	-	-	-	3,439	-
TOTAL	120,360	-	-	2,943	43,701	15,505	14,447	-	15,096	18,885	1,572	288	-	-	-	-	232,797	-

4.4.4 Exposures in default, renegotiated exposures and adjustments for credit risk

Age of exposures outstanding

(€ millions)

	Gross book values					
	<=30 Days	> 30 days <= 60 days	> 60 days <= 90 days	> 90 days <= 180 days	> 180 days <= 1 year	> 1 year
Loans	1,654	72	73	158	143	227
Debt securities outstanding	-	-	-	-	-	-
Total exposure	1,654	72	73	158	143	227

Non-performing and renegotiated exposures

(€ millions)	Gross book value of performing and non-performing exposures							Cumulative amount of depreciation, amortisation, provisions and negative adjustments to fair value tied to credit risk				Sureties and financial guarantees received	
		Including performing, but outstanding > 30 days and <= 90 days	Renegotiated performing	Non-performing				On performing exposures		On non-performing exposures		On non-performing exposures	Of which renegotiated exposures
					Of which defaulted	Of which impaired	Of which renegotiated		Of which renegotiated		Of which renegotiated		
Debt securities outstanding	20,738	0	0	0	0	0	0	0	0	0	0	0	0
Loans and advances	178,764	93	79	1,363	1,363	1,363	335	-178	-3	-562	-164	633	108
Off-balance sheet exposures	35,504	18	0	71	71	71	0	-37	0	-19	0	0	0

4.4.5 Credit risk mitigation techniques

4.4.5.1 Credit risk mitigation system

La Banque Postale minimises its credit risk as soon as possible. To do so, in addition to the quality of the file and of the counterparty which are essential to decision-making, the Bank seeks guarantees to limit its losses in the event the counterparty defaults.

For this purpose, the Bank has a database of guarantee types, standards and rules governing the selection of the guarantors it will accept.

The Bank relies on two dedicated committees: a guarantor committee for retail credit risk and the TARC Committee for the other segments. The two committees decide on the eligibility of the guarantees taken by the Bank and monitor them.

To mitigate home loan risk:

The general principle is that any financing must be fully covered by a guarantee, which provides an adequate level of cover that complies with the Group Risk Management Policy, namely:

- a first (or equivalent) mortgage security: moneylender's privilege, conventional mortgage, mortgage pledge granted by a third party as guarantee of a borrower's debt;
- pledge of financial products (life insurance policies, securities accounts, REIT units) in compliance with the loan amount covered by the pledged savings, as specified in the general terms and conditions for granting loans, depending on the type of investments pledged (equity, bonds, monetary, etc.);
- guarantee provided by a body authorised and pre-approved by La Banque Postale's Guarantor Referencing Committee.

By way of exception to the preceding principles, some small home improvement loans are granted with no guarantee.

Bridging loans can be granted without or with lesser guarantees, if the sale agreement or the promise of sale for the asset that is the subject of the loan has been signed, and the conditions precedent favouring the buyer of the asset have been lifted. In such a case, the bank can take a simple pledge of mortgaged assets (PAH) on the asset to be sold.

If the quality of the file so justifies, the bank may grant a non-guaranteed loan, provided that all the non-guaranteed loans granted to the same customer together do not exceed the limit fixed by the terms and conditions for granting loans.

If the quality of the file so justifies, La Banque Postale may accept a guarantee from an individual as the principal guarantee, within the limits fixed by the terms and conditions for granting loans.

The realisation value of home loan security rights is subject to a quarterly review based on updated notarised indices.

The institutions/collateral that La Banque Postale uses are:

	Agency Code	Long Term Rating	Short Term Rating	Credit quality level
Crédit logement	Moody's	Aa3		1
Fonds de Garantie à l'Accession Sociale (FGAS)		NR	NR	NR
CNP Assurances	Standard and Poor's	A		2
Régie Autonome des Transports Parisiens	Moody's	Aa1		1
	Standard and Poor's	AA+		1
SNCF Mobilités	Moody's	Aa3	P-1	1
	Standard and Poor's	AA-	A-1+	1

To mitigate consumer credit risk:

Consumer loans are granted without guarantees or collateral.

Risk mitigation technique for commercial banking activities in the commercial banking market for legal entities

In the area of guarantees and credit risk mitigation techniques for legal entities, La Banque Postale relies on the following principles:

- guarantees are "credit risk mitigators"; their role is to limit the bank's loss in the event of a borrower default (LGD);
- any commitment must be covered by a guarantee except where risk management systems provide otherwise;
- the guarantees taken must comply with the risk management systems: be legally approved and managed by operational entities;
- insofar as possible, security rights must be qualify in prudential terms. However, this is not compulsory. Some guarantees do not lead to a reduction in equity requirements but secure the transaction for the lender.

Risk mitigation technique for market activities

With respect to the Credit Risk mitigation technique for market activities, the La Banque Postale Group standard calls for the inclusion of collateral from repo transactions as securities when the following eligibility criteria are met:

- Sufficiently liquid asset included in the list of CRR assets (Article 194.3)
- Right to liquidate (Article 194.4)
- Match between the credit quality grade (CQS) and the assessments of the external organisation (Article 197.1)

While waiting for the EBA's publication on "sufficient liquidity criteria" and "price stability", the La Banque Postale Group has implemented internal eligibility criteria as a guarantee for repo transactions.

The TARC Committee meets every quarter to approve the eligibility of collateral with respect to regulations and its implementation in the La Banque Postale Group standard. The committee verifies that the eligibility criteria have been taken into account, notably, the minimum quality requirement for the collateral received as well as the liquidity and price stability criteria. The committee is chaired by the La Banque Postale Head of Group Risk.

4.4.5.2 Quantitative information on credit risk mitigation techniques

ARC techniques - Overview

(€ millions)	Non-guaranteed exposures - Book value	Guaranteed exposures - Book value	Exposures guaranteed with sureties	Exposures guaranteed with financial guarantees	Exposures guaranteed with credit derivatives
Total loans	131,486	38,396	17,412	226	-
Total debt securities	51,677	2,530	181	749	-
Total exposure	183,163	40,926	17,593	975	-
Of which defaulted	387	341	226	-	-

Standardised approach - Credit risk exposure and effect of ARC measures

(€ millions)	Pre-FCEC and ARC exposures		Post-FCEC and ARC exposures		RWA and RWA density	
	Balance sheet amount	Off-balance sheet amount	Balance sheet amount	Off-balance sheet amount	RWA	Density of RWA
Exposure categories						
Central governments and central banks	113,013	833	118,673	669	2	0.0%
Regional governments and local authorities	3,489	4,163	4,856	2,057	1,371	19.8%
Public sector entities	335	99	335	65	103	25.8%
Multilateral development banks	178	-	178	-	-	-
International organisations	-	0	-	0	-	-
Institutions	8,605	2,576	38,613	2,154	9,942	24.4%
Corporate	13,991	6,199	14,476	3,886	13,869	75.5%
Retail	47,493	8,905	13,406	1,690	11,165	74.0%
Exposures secured by mortgages on real estate	18,518	181	18,736	183	7,709	40.7%
Exposures in default	958	50	616	35	737	113.3%
Exposures with particularly high risk	622	307	586	306	1,337	150.0%
Covered bonds	2,945	-	2,943	-	294	10.0%
Institutions and companies being evaluated for short-term credit	-	-	-	-	-	-
Securities of undertakings for collective investment	506	27	475	27	501	100.0%
Equities	4,663	43	4,352	43	4,828	109.8%
Other items	3,958	-	3,439	-	2,758	80.2%
TOTAL	219,273	23,384	221,684	11,113	54,618	24%

At 30 June 2018, the average weighting of the La Banque Postale credit portfolio was 24% using the standardised method. This reflects the very moderate level of risk of its portfolio which consists primarily of sovereign exposures with a preferential weighting of 0% (CRR Article 114-4), bank exposures with good ratings and home loans backed by organisations such as Crédit Logement, which are also of high credit quality.

However, the increasing level of Corporate exposures should be noted given the Bank's significant growth in this market. These exposures receive less favourable weightings using the standardised approach, at equal rating.

4.4.6 Use of external credit rating agencies

La Banque Postale calls on external ratings agencies in the context of its legal entity customer credit activities. Five external organisations were used by La Banque Postale to determine the external ratings used for counterparties: Standard & Poor's, Moody's, Fitch, DBRS and FIBEN.

These five ratings agencies are consulted in order to determine the credit quality level that applies to each counterparty. In accordance with current regulations, the level used to assess credit risk is the second most unfavourable rating in the event that there is no consensus between the five agencies.

The EBA's prudential correspondence tables are applied in order to determine the credit risk weightings using the standardised method of valuing risk-weighted assets.

4.4.7 Countersparty risk

4.4.7.1 Definition and management framework

Counterparty credit risk is primarily the result of transactions on forward financial instruments. Exposure is assessed via the present value method.

Counterparty risk is generated by all derivative products held in La Banque Postale banking or trading portfolios. This risk is always calculated when the Investment and Commercial Banking enters into an International Swaps and Derivatives Association (ISDA) or French Banking Federation (FBF) derivatives contract with a third party. The scope of types of options, as currently defined, that generate a counterparty risk is as follows:

- Credit derivatives,
- Forwards,
- FX forwards,
- Options,
- Swaps.

This risk is limited by the fact that the transactions mainly take place with top-tier financial institutions and that they are systematically performed as part of agreements that make provision for clearing agreements with regular margin calls. Furthermore, most of the instruments involved are "plain vanilla" swaps.

Counterparty risk is also generated by all security loans/borrowings (or equivalent) held in LBP portfolios, namely:

- Repurchase and reverse repurchase agreements (repo and reverse repo transactions), which generally have underlying bonds, and may be covered by GMRA (Global Master Repurchase Agreement) or FBF (Fédération Bancaire Française) contracts. The principal leg (i.e. negotiated at the start of the transaction) of these agreements is the cash leg. The securities leg(s) therefore forms the collateral in these transactions;

The residual risks are subject to limits and are periodically monitored by the Corporate, Public Sector and Institutional Credit Risk Department.

4.4.7.2 Exposure to counterparty risk

Analysis of exposure to counterparty credit risk by approach

(€ millions)	Notional amounts	Cost of replacement/C current market value	Potential and future credit exposure	Effective anticipated positive exposure	Multiplier	Value exposed to risk post-ARC	RWA
Of which method using market prices	-	5,473	730	-	-	3,978	1,828
Initial exposure	-	-	-	-	-	-	-
Standardised approach	-	-	-	-	-	-	-
IMM (for derivatives and SFT)	-	-	-	-	-	-	-
Of which securities financing transactions	-	-	-	-	-	3,387	1,606
Of which derivatives and deferred settlement transactions	-	-	-	-	-	591	222
Of which resulting from a multiproduct clearing agreement	-	-	-	-	-	578	1,828
Simple method based on financial security rights (for SFTs)	-	-	-	-	-	-	-
General method based on financial security rights (for SFTs)	-	-	-	-	-	3,978	1,828
VaR for SFTs	-	-	-	-	-	-	-
TOTAL	-	-	-	-	-	-	1,828

Exposure to central counterparties

(€ millions)	Exposure categories	Weighting											TOTAL	Of which not rated
		0%	2%	4%	10%	20%	50%	70%	75%	100%	150%	Other		
Central governments and central banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Regional governments and local authorities	-	-	-	-	-	4	-	-	-	-	-	-	4	-
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	369	-	-	175	3,293	-	-	2	-	-	3,839	-
Corporate	-	-	-	-	-	-	13	-	-	106	7.	-	126	-
Retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and companies being evaluated for short-term credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-	-	9	-	9	-
TOTAL	-	-	369	-	-	178	3,306	-	-	108	16	-	3,978	-

Central counterparties are grouped with institutions from a prudential standpoint.

Exposure to central counterparties

(€ millions)	Value exposed to post-ARC risk	RWA
Exposures to QCCP (total)	-	10
Exposure to transactions with qualifying central counterparties (to the exclusion of initial margins and contributions for default funds); of which	369	7
(I) OTC derivatives	126	3
(ii) listed derivatives	-	-
(iii) SFT	243	5
(iv) All clearing for which multiproduct clearing has been approved	126	3
Segregated initial margin	243	-
Non-segregated initial margin	-	-
Contributions to pre-funded default funds	18	2
Alternative calculation method of the capital requirement for exposure	-	-
Exposures to non-QCCP (total)	-	8
Exposure to transactions with non-qualifying central counterparties (to the exclusion of initial margins and contributions for default funds); of which	-	-
(i) OTC derivatives	-	-
(ii) Listed derivatives	8	8
(iii) SFT	-	-
(iv) All clearing in which multiproduct clearing has been approved	-	-
Segregated initial margin	-	-
Non-segregated initial margin	-	-
Contributions to pre-funded default funds	-	-
Contributions to non-funded default funds	-	-

Incidence of netting and guarantees held on exposed assets

(€ millions)	Positive gross fair value or net book value	Netting gain	Current credit exposure after netting	Guarantees held	Net credit exposures
Derivatives	1,793	377	1,545	919	625
SFT	2,375	1,574	4,165	760	3,405
Multiproduct netting	-	-	-	-	-
TOTAL	4,169	1,951	5,710	1,680	4,030

(€ millions)	Guarantees used in derivative contracts				Guarantees used in SFTs	
	Fair value of the guarantees received		Fair value of the guarantees given		Fair value of the guarantees received	Fair value of the guarantees given
	Segregated	Non-segregated	Segregated	Non-segregated		
...	801	-	379	-	23,059	21,284
Total	801	-	379	-	23,059	21,284

Exposures to credit derivatives

(€ millions)	Hedges based on credit derivatives		Other credit derivatives
	Protection purchased	Protection sold	
Notional amounts			
Single-signature CDS	-	2316	-
Indexed CDS	-	-	-
Exchange contracts on global returns	-	-	-
Credit options	-	-	-
Other credit derivatives	-	-	-
Total notional amounts	-	2316	-
Fair values	-	24	-
Positive fair value (assets)	-	24	-
Negative fair value (liabilities)	-	-	-

4.5 Financial risks

Financial risks are presented in two parts in this section:

- on one hand, overall financial risks covering rate risk related to banking intermediation activities (banking portfolio), completed by liquidity risk and exchange risk for all of the business activities within the La Banque Postale's consolidated scope;
- and, on the other, the market risk related to trading positions, consisting of negotiable securities and derivative contracts with the intent to trade as well as exposure value risk measured at fair value through profit or loss or equity;

Market risk as meant by prudential regulations corresponds exclusively to transactions carried out with an intent to trade, i.e. to only a part of the market risk as defined in the second paragraph above. It notably contains a charge to capital relative to the exchange risk, although the methods for managing it are covered in general as part of the consolidated scope in 4.5.1.

4.5.1 Structural banking portfolio rate risk, liquidity and exchange risk

4.5.1.1 Governance

The Asset and Liability Management Committee (ALM Committee), the main decision-making body for matters concerning the bank's financial management, is an Executive Board committee chaired by the Chief Financial Officer.

The primary missions of the ALM Committee are:

- presentation of the statement of ALM thresholds and limits to management;
- periodic review of client product modelling and the formal validation of the related assumptions after prior review by the Group Risk Department;
- annual review by the committee of the overall cash envelope allocated to BFI1;
- setting of the rate and liquidity strategy subject to compliance with the consistency of financial and commercial policies of the Group in terms of financing capacity and compliance with indicators;
- monitoring and management of the rate, liquidity and exchange risk indicators and anticipation of future changes given the directions of the commercial policy and observation of customer behaviour;
- validation of the internal disposal rate system;

- monitoring and management of the sensitivity of future margins;
- the setting of alert thresholds for rates, liquidity and exchange within the limits imposed by the risk appetite system proposed by the Group Risk Management Committee and validated by the management body;
- monitoring of the upgrading of the Bank's processes to conform to ILAAP and IRRBB requirements;
- decisions regarding financial asset investment and issue policies;
- decisions regarding rate risk hedging policies to be implemented.

These missions apply to the Banque Postale corporate entity as well as to its subsidiaries via their impact on the consolidated financial statements and the definition of their ALM policy.

The indicators of the main Group subsidiaries are presented to the Group ALM Committee in detail at least once a year.

Whenever necessary, the Group ALM Committee can request that the heads of financial management of the subsidiaries present their positions and ALM risk management policies.

Otherwise, the Group ALM Committee may examine the rate and liquidity indicator dashboards of the subsidiaries every quarter at least and, if necessary, the investment policies of the entities.

The insurance subsidiaries are required to provide rate and liquidity reports which are consistent with those of the banking subsidiaries as well as occasional insight into their governance metrics.

Capital Operational Management Committee

This is a sub-committee of the ALM Committee, responsible for the operational application of ALM Committee decisions on the ALM banking book and on cash management.

It provides an interface between the ALM Committee, the Cash Management unit and other authorised divisions, to proceed with interest rate hedging transactions and liquidity transactions.

Group Risk Management Committee

This committee validates risk management principles and thresholds. It validates the ALM risk management system, in particular the thresholds applicable to asset and liability management. It authorises and approves instruments used for financial management (ALM, trading room), through the New Instrument Committee (a subcommittee of the Group Risk Steering Committee, see market risk).

Financial risks committees (CORALM and CORM)

These are sub-committees of the Group Risk Management Committee. The Group Risk Management Committee delegates the management of the technical aspects of the financial risk management system to them.

They are responsible for:

- reviewing banking book thresholds and exposures, specifically as part of the periodic reviews carried out by the Group Risk Management Committee;
- developing and implementing the methodologies for calculating exposures;
- approving action plans arising from reported anomalies.

Model Approval Committee

This committee is in charge of the approval of La Banque Postale Group models, and includes ALM models in its mapping and in its roadmap.

Capital Management Committee

The Capital Management Committee supervises matters related to equity management, the risk-weighting of assets and related indicators. In this respect, it defines capital management objectives (ratio, targets, etc.):

- it examines the progression of equity;
- it defines action plans for shareholders' equity (securities issues, capital increase requests, arbitrage/business line direction, etc.) which can impact La Banque Postale's rate, liquidity and exchange risks.

4.5.1.2 Banking portfolio rate risk

Interest rate risk represents the likelihood of seeing the bank's future margins or economic value affected by interest rate fluctuations. Interest rate risk management includes managing the sensitivity of the net interest margin.

This risk is monitored using interest rate sensitivity indicators for future margins and for economic value and by modelling scenarios which allow the bank's capacity to withstand exogenous shocks to be assessed.

The interest rate movements foreseen affect both uncertain flows from financial products and the performance of Retail Banking operations, via the behavioural models, particularly implicit options available to customers.

The supervision of interest rate risk is the responsibility of the ALM Committee which monitors indicators and forecasts their evolution based on commercial policy guidelines and observed customer behaviour. The rate risk indicators are also reviewed by the Group Risk Management Committee. Rate and liquidity risk reviews take place monthly.

Objectives

Interest rate risk is managed so as to hedge the sensitivity of the bank's future net interest margin under the constraint of compliance with economic value sensitivity indicators. This management is performed with dynamic procedures, based on the business plan, using interest rate derivatives (hedging) or modulating commercial policy.

The balance sheet includes implicit and explicit options, giving non-linear results for economic value based on interest rates. In this context, ALM proposes a regular re-balancing of structural positions using market instruments.

Scope

Significant interest rate risks in the banking book are identified and measured. Some of these risks may give rise to a specific follow-up procedure.

Interest rate risk is measured by maturity and by type of index for products dependent on variable rates or rates subject to review (Euribor, Inflation, Eonia, etc.) whilst taking into account likely outflow agreements, which are themselves dependent on market conditions. It encompasses several risk factors:

- fixing risk related to differences between new interest rates applied to assets and to liabilities (according to baseline rates and maturities);
- yield curve risk related to the setting risk: generated by yield curve changes (translation, rotation, etc.);
- base risks: related to the use of multiple baseline interest rates and causing risks due to the imperfect correlation of different reference rates;
- option-related risks (contractual or behavioural);
- risks caused by positions exposed to the real interest rate/inflation.

In this respect, the net interest margin variation is measured on the basis of several interest rate scenarios.

The interest rate risk on the balance sheet is simulated with dynamic modelling, taking into account future variations of outstanding amounts (early repayments, new income, etc.) in accordance with behavioural models and the business plan.

Transactions involving bond portfolios under delegated management do not fall under overall interest rate risk as their risk is monitored and managed according to the individual threshold for each portfolio. These portfolios, specific to the trading room, are subject to market risk-related thresholds.

Assessing overall interest rate risk

Agreements and Models

The interest rate gap and interest rate sensitivity valuation methodologies are determined according to the type of assets (or liabilities) comprising the balance sheet:

- scheduled outstandings (contractual outflow, whether corrected with a model or not);
- non-scheduled outstandings (conventional outflow);
- off-balance sheet (liquidity commitments and guarantees).

Transactions with no contractual maturity date (including customer deposits and livret accounts) are included in accordance with the outflow agreements approved by the ALM Committee and by the Group Risk Department.

Off-balance sheet transactions are included whilst taking into account drawdown assumptions.

The interest rate gap

For a given currency, the nominal interest rate gap is calculated for fixed rate transactions and for variable rate and reviewable rate transactions, up to the next rate review or rate fixing date. The nominal interest rate gap does not take into account interest rate drops.

The interest rate gap is the difference between the average amount of assets at fixed rate interest and the average amount of liabilities at fixed rate interest, including the effect of off-balance sheet items (swaps and amortised balances) by maturity.

Table: Interest Rate Gap by maturity (€ million) at 30.06.2018

(Negative amount = Surplus positions at fixed rate)

Average spot gaps (in € millions)	0 to 1 year	1 to 5 years	5 to 10 years	>10 years
Uses	(93,803)	(63,963)	(30,549)	(3,989)
Resources	106,444	79,198	32,097	1,110
Off-balance sheet	(13,649)	(12,807)	(2,405)	(196)
Rate gap 30/06/2018	(1,007)	2,428	(856)	(3,076)
Rate gap 31/12/2017	(6,557)	486	(1,790)	(3,259)
Adjustments	5,550	1,942	934	183

The decrease in the transformation position is due to the return of centralised outstandings (LA, LDDS and LEP) in the amount of approximately €2.3 bn as of April 2018 and a change to the indexed Livret A models to take into account the two-year freeze on the Livret A rate.

EVE (Economic Value of Equity) sensitivity

This corresponds to a negative change in value following an instantaneous shock of $\pm 2\%$, applied to the bank's regulatory capital. Regulatory capital is calculated using static modelling, based on the contractual maturities of balance sheet items.

Since January 2016, this calculation has been carried out in accordance with the EBA guidelines published in May 2015.

EVE sensitivity by level of parallel interest rate shock (€ millions) at 30.06.2018

	(200)	200
EVE sensitivity (in € millions) at 30.06.2018	(1,228)	(773)
EVE/Equity sensitivity at 30/06/2018	-10.62%	-6.69%
EVE sensitivity (in € millions) at 31.12.2017	(1,448)	(1,554)
EVE/Equity sensitivity at 31/12/2016	- 12.22 %	- 13.12 %

The revision of the early redemption model resulted in a decrease in the sensitivity of fixed-rate positions. The decrease was partially offset by the return of centralised outstandings and the change in the indexed Livret A models.

Exposure to a shock of +/- 200 basis points is now -10.6 % of equity. It should be stressed that the regulatory limit is -20% for a shock of +/-200 basis points.

Net Interest Margin sensitivity (NIM)

Net interest margin sensitivity is defined as being the difference between NIM in a modified interest rate scenario and NIM in a baseline interest rate scenario.

NIM sensitivity is calculated for each interest rate scenario by taking into account the interest rate-dependent behavioural models, and by maintaining levels of new income and deposits from commercial business, and retaining the assumptions related to financial transactions applicable in the baseline scenario.

Only the behavioural models show a reaction to the shock scenario. Their impacts on amounts outstanding modify the level of short-term financing.

List of different interest rate scenarios featuring instantaneous shock, in relation to the baseline curve:

- parallel +1% (translation +1);
- parallel -1% (translation -1);
- shock of +0.5% on all curves and on rates less than or equal to 1 year and of -0.5% on all curves and on rates greater than 1 year. ("flattening" scenario);
- shock of -0.5% on all curves and on rates less than or equal to 1 year and of +0.5% on all curves and on rates greater than 1 year (steepening scenario).

It should be noted that a floor rate of -1% is applied to NIM calculations.

Net Interest Margin (NIM) sensitivity at 1 year/Scenario (€ million) at 30.06.2018

	30.06.2018	31.12.2017
Translation +1	126	85
Translation – 1	-127	-87
Steepening	24	31
Flattening	-24	-38

The least favourable scenario at 1 year for La Banque Postale is a shock of -100 basis points with a fall in NIM of €127 million amounting to forecast NIM of €2.3 billion, or 5.5%. This increase in exposure to the drop in rates is due to the fixing of the Livret A rate for two years.

Other scenarios (a rise in short-term rates, virtual deflation or static rates) were also carried out.

4.5.1.3 Liquidity risk

Liquidity risk is defined, by the decree of 3 November 2014, as the risk that an enterprise cannot meet its commitments or cannot unwind or cover a position either because of the market situation (systemic risk) or idiosyncratic factors (own risks), within a specific period or at a reasonable cost.

Two types of management are concerned: on the one hand, management of the bank's short-term liquidity enabling it to keep the cost of management minimal and within reasonable risk limits, and on the other hand, management of the bank's liquidity in the event of significant stress.

La Banque Postale has a strong liquidity position based on:

- an amount of client deposits greater than that of client loans. La Banque Postale has a significant and diversified deposit base (in excess of €160 billion) consisting primarily of deposits from a French retail clientèle;
- a significant HQLA portfolio (High-Quality Liquid Assets). La Banque Postale has traditionally invested a significant portion of its balance sheet in sovereign securities due to its historical activity as a deposit taker. The customer credit business only began to develop starting in 2006. This portfolio contains high-quality liquid assets exclusively, in accordance with the provisions of Delegated Regulation (EU) no. 2015/61, which enables it to raise its short-term liquidity ratio above 135% and to an average of about 150%;
- proven access to capital market financing.

Since customer resources are, for the most part, non-maturing and payable at any time (deposits, livret accounts), their outflow is modelled to determine their profile over time. La Banque Postale has taken a conservative approach to its liquidity assessments and has adopted very conservative assumptions in relation to these outflows. Consequently, for the calculation of resources there are upper bounds for the volatility of outstanding amounts and lower bounds for their liquidity duration.

Liquidity risk management

The ALM Committee is responsible for liquidity risk management, in compliance with the principals and limits approved by the Group Risk Management Committee. This responsibility is partially delegated to the Balance Sheet Operational Management Committee and to the trading room's cash management and long-term financing units for tactical liquidity risk related to the bank's cash management.

Operationally, La Banque Postale has implemented an internal liquidity assessment system (Internal Liquidity Adequacy Assessment Process), which combines all of its liquidity limit, assessment, monitoring, reporting and management systems. The systems include:

- a guidelines and limits system,
- a financing plan which assures the ex ante equilibrium of the Bank's funding position in La Banque Postale's budget planning universe;
- the maintenance and monitoring of a buffer of high-quality, unencumbered liquid securities and amounts entrusted to the central bank's deposit facility;
- the Emergency Funding Plan (EFP) which is primarily intended to (see below):
 - define the alert thresholds to enable early detection of liquidity stress, regardless if is idiosyncratic (specific to the Bank) or systemic;
 - identify all of the capacities available to generate liquidity (liquidity reserves and financing capacity);
 - mobilise governance to manage potential crises with the speed required;

- to measure La Banque Postale's room for manoeuvre via a stress test system in the context of historically high stress on the Bank's liquidity.

The bodies of the Bank (Supervisory Board Risk Committee) approved the entire ILAAP system in 2018.

The liquidity risk prudential declaration systems cover the entire prudential consolidation scope. However, some of the thresholds and indicators used in management refer to corporate units of the Group, notably La Banque Postale, the most important Group entity.

Liquidity risk measurement

Short-term monitoring of liquidity

This system is based on:

- Regulatory liquidity ratios and reporting;
- The short-term liquidity ratio (LCR - Liquidity Coverage Ratio)
- The Net Stable Funding Ratio (NSFR).

The LCR is a monthly short-term liquidity ratio which measures the bank's capacity to withstand a severe worsening of its financial situation, for up to 30 days, in a systemic shock environment.

The target LCR must be in excess of the 100% limit complied with by La Banque Postale whose LCR reached 153% at the end of June 2018.

This ratio is calculated by dividing the sum of unencumbered, high quality liquid assets by the liquidity need in a stress environment over a 30-day horizon.

EBA LCR summary at 30.06.2018

Item	Jun-18	Dec-17
Buffer of liquid assets	24,287	25,138
Cash outflows	-22,846	-23,646
Cash inflows	6,934	7,677
Net cash outflows	-15,912	-15,969
Shortfall	8,375	9,169
LCR	153%	157%
Ratio inflows/outflows	30%	32%

The LCR is also one of the constraints to be observed when forecasting dynamic liquidity.

Moreover, several LCR ratio stress scenarios were created as part of the ILAAP procedure.

The LCR is calculated daily.

The concentration, cost and structure of refinancing, and the concentration of the asset buffer are reassessed on a regular basis and regulatory reports (ALMM) are prepared for LCR publication.

The NSFR corresponds to the amount of available stable funding in relation to required stable funding. This ratio should, at all times, be at least 100%. "Available Stable Funding" refers to the portion of resources that are not payable within the relevant time horizon, in this case, within 1 year. The amount of "Required Stable

Funding" of a business depends on its liquidity features and the residual maturity of assets (and off-balance sheet positions) held.

To date, and as part of the regulatory liquidity exercises carried out for the ECB, the NSFR liquidity ratio is above 100%.

The system also depends on:

- tools which enable cash to track intraday positions in real time;
- a daily calculation of the Cash liquidity gap;
- advance liquidity crisis indicators tracked each week and defined in the Bank's emergency funding plan;
- biannual market access tests, enabling verification of market access in different currencies.

Long-term liquidity monitoring

The Bank assesses its long-term liquidity level according to a liquidity gap. The liquidity gap includes forecast static gaps by maturity and limits defined at 1-, 3- and 5-year horizons. The assumptions applied correspond to a stressed scenario, giving a conservative view of the Group's liquidity position.

The liquidity gap assessment methodologies are determined according to the type of asset (or liability) on the balance sheet:

- scheduled outstandings (contractual outflow, whether corrected with a model or not);
- non-scheduled outstandings (conventional outflow);
- liquidity profile of transferable assets;
- off-balance sheet (liquidity commitments and guarantees).

Transactions with no contractual maturity date (including customer deposits and livret accounts) are included in accordance with the outflow agreements approved by the ALM Committee and by the Group Risk Department.

Off-balance sheet transactions are included whilst taking into account drawdown assumptions.

The transferability of certain transactions may be taken into account, if required.

Long-term liquidity gap (€ million) at 30.06.2018

Average spot gaps (in € millions)	1 year	3 years	5 years
Uses	-91,126	-68,206	-51,844
Resources	109,778	87,907	64,775
Off-balance sheet	-6,979	-5,120	-3,286
Liquidity gap 30.06.2018	11,673	14,581	9,646
Liquidity gap 31.12.2017	7,628	13,479	6,749
Adjustments	4,045	1,102	2,897

The increase in the gap (excess resources) over the first half of 2018 is due to the increase in client liabilities. "Dynamic" liquidity assessments involve the application of assumptions on the bank's income and on refinancing its budget and its medium/long-term business plan. These assumptions enable the calculation of a "balance sheet forecast", a financing plan, a future estimated LCR and a static gap forecast.

Emergency Funding Plan (EFP)

The Emergency Funding Plan is to be monitored by the governance bodies in charge of financial management (the ALM Committee, the Capital Operational Management Committee and the Group Risk Management Committee) and put into operation by the Financial Operations Department.

The Emergency Funding Plan forms part of the Bank's annual internal liquidity assessment procedures. The Emergency Funding Plan sets out the leading indicators selected to judge the robustness of the markets (financial or banking) to which the liquidity of La Banque Postale is exposed. These indicators can be broken down into two major groups:

- systemic indicators;
- idiosyncratic indicators.

Each indicator is allocated a threshold level (comfort, vigilance or warning).

The Emergency Funding Plan also makes provision for a mechanism to be implemented in the event of a proven crisis, be it systemic or idiosyncratic. This mechanism appears mainly in the form of an inventory of the various funding (or liquidity) sources accessible by La Banque Postale, depending on the amounts involved and the speed of implementation. The Emergency Funding Plan also makes provision for specific governance through committees which will monitor the leading indicators. The purpose of this governance is to assure management of the heightened surveillance of the bank's liquidity risk. The presentation of indicators (during normal periods) is carried out at meetings of the Capital Operational Management Committee. The indicators selected, and the proposed action measures, are tested on the markets so that their suitability and the market liquidity can be fully appreciated.

The funding test consists of testing the market by issuing short- term debt. The aim of this type of test is to regularly check on the bank's ability to quickly obtain funds in the markets to ensure that its estimated borrowing capacity remains valid. It is envisaged that this type of test will be carried out at least twice a year. At the end of June, La Banque Postale successfully tested its ability to finance itself on the euro portion.

Liquidity Reserve

Definition

The purpose of the Liquidity Reserve is to quantify the amount of cash and liquidity readily available through the sale or repurchase of securities in order to cope with a liquidity crisis.

The Liquidity Reserve is composed of:

- Cash invested with the Central Bank (excluding mandatory reserves);

The securities in the HQLA (High Quality Liquid Assets) cushion consisting primarily of government securities, covered bonds and corporate securities meeting the prudential liquidity criteria defined by the regulations for the LCR calculation (Liquidity Coverage Ratio) for which the valuation of securities includes a discount in line with prudential regulations;

Other securities available from the ECB (primarily bank securities) including the ECB discount.

Premium quality home loans that can be mobilised by the Group's home loans company through the issue of a covered bond. This also represents a significant source of liquidity (potentially around €12.3 billion of collateral at 30/06/2018, in addition to the other sources of funding usually used by the bank).

Composition of the liquidity reserve in securities at 30.06.2018 (in € millions)

Liquidity reserve (in € millions)	Jun-18
Cash and Central Bank	19,496
Unencumbered HQLA securities	4,791
Other ECB eligible securities	9,964
TOTAL LIQUIDITY RESERVE	34,251

Capacity to access external financing

In addition to the prudent liquidity management system implemented by the ALM Committee and Risk Committee, La Banque Postale has diverse sources of financing:

- a €20 billion Neu-CP programme (Negotiable EUropean Commercial Paper), the aim being to refinance a portion of La Banque Postale's short-term financing requirements and to satisfy demand from institutional customers;
- a €2 billion Neu-EMTN programme, the aim being to refinance a portion of La Banque Postale's short-term financing requirements and to satisfy demand from institutional customers;
- a €10 billion retail EMTN programme enabling the issue of senior (vanilla and structured), non-preferred senior and Tier 2 debt.
- A programme of €10 billion in EMTN for the issue of Obligations de Financement de l'Habitat (OFH) via LBP Home Loan SFH, the secure financing vehicle subsidiary of LBP SA, created in 2013;
- a portfolio of securities held to maturity, consisting mainly of rapidly accessible, high-quality government bonds, which constitutes a stable source of eligible assets enabling access to ECB refinancing operations or to the securities repo market;
- access to the interbank market.

La Banque Postale also has access to a secured financing vehicle via the Caisse de Financement Local (CAFFIL), with which it regularly carries out disposals of originated loans for the Local Public Sector.

These "secured financing" vehicles provide a reliable source of financing, as demonstrated by the fact that the secure financing market continued to operate during the recent 2011 banking crisis.

4.5.1.5 Global exchange rate risk

Exchange rate risk, particularly that related to international mandates and financial activities, remains very moderate despite the start of dollar-denominated business by the Corporate and Regional Development Department.

In fact, La Banque Postale's balance sheet is primarily managed in euros. The foreign currency market activities of the cash management unit and those related to portfolios are systematically hedged and converted into euros beyond a given exchange rate position threshold.

The residual exchange rate risk related to income earned from those activities is managed by converting that income at least once every six months or, alternatively, when it reaches the established threshold.

The foreign currency activity of the retail bank, which mainly concerns international mandates, is relatively small in volume.

At 30 June 2018, the exchange rate position of La Banque Postale amounted to €203 million, largely dollar-denominated.

4.5.2 Market risks

4.5.2.1 Organisation and governance

Financial Risk Department

Market risk encompasses the risk of losses, generated by adverse changes to variables (interest rates, exchange rates, spreads, volatility, etc.), on the value of financial instruments on the balance sheet or commitments held by the bank.

Within the Group Risk Department, it is the responsibility of the Financial Risk Department and, in particular, the Market Risk unit, to manage market risk.

To ensure comprehensive monitoring of market risks, the monitoring scope of the Market Risk unit extends to encompass all fair value transactions. The Financial Risk Department defines a framework for market risk management, observing the principles governing organisation and tasks set out in the "Group Risk Management Charter" and in the "Risk Management Policy". It reports to the Head of Group Risk and to various committees, specifically, the Group Risk Management Committee and the Risk Committee.

The Financial Risk Department reports to the Group Risk Management Committee, on a monthly basis, on market risk monitoring. It informs the Group Risk Management Committee of the main developments and significant events. The Group Risk Management Committee is the body responsible for approving the main market and drawdown thresholds. The Head of Group Risk is delegated to manage thresholds set at portfolio level. The Group Risk Management Committee delegates the management of technical aspects of the financial risk management system to the Financial Market Risk Committee (CORMF) (see Section 4.5.1 Structural interest rate, liquidity and exchange rate risk).

Valuation and Performance Analysis Unit (VAR)

This unit of La Banque Postale is responsible for independent valuation of market transactions, aggregate risk assessment and Level 1 control of market activities.

The Valuation and Performance Analysis Unit is responsible for implementing the valuation and risk calculation architecture. Its work is validated by the Risk Department. It carries out daily assessments of risks and results. A primary mission of this department is to ensure that market conditions enable the correct valuation of transactions.

Daily risk calculations are carried out. The risk factors defined (within the main asset classes: rates, credit spreads, currency and equity indexes) hedge and assess the risk of a spread between transactions and their hedges.

The consistent tracking of important day-one profits (results of the day's transactions) is another indicator of the quality of the results and risks processes.

4.5.2.2 Market risk within the Group

Market risk concerns all balance sheet and off-balance sheet items measured at fair value. These items are present within La Banque Postale and within several Group subsidiaries, namely:

- in the insurance subsidiaries:
 - La Banque Postale Prévoyance
 - La Banque Postale Assurances IARD
 - La Banque Postale Assurance Santé
- in the asset management subsidiaries:
 - La Banque Postale Asset Management
 - La Banque Postale Structured Asset Management (merged with La Banque Postale Asset Management in 2016)
- in the banking subsidiaries:
 - BPE
 - SOFIAP.

The Market Risk unit of the Financial Risk Department is responsible for monitoring the bank's market risk and for consolidated supervision at Group level.

4.5.2.3 Missions of the Financial Risk Department

Within the Financial Risk Department, the work concerning the Market Risk unit is organised along four main lines:

Thresholds and authorisations

Loss risks are delimited by commitment or exposure thresholds and by the establishment of a list of authorised financial products. Therefore, the Financial Risk Department is responsible for:

- advising on requests for overall and operational thresholds;
- advising on requests for new financial products or investments;
- monitoring compliance with thresholds;
- reporting and managing any overruns, specifically through the systematic dispatch of an overrun notification sheet.

Valuation

The official valuation of market transactions is managed by the Valuation and Performance Analysis unit, reporting to the Banque de Financement et d'Investissement (BFI). One potential source of losses is the possibility of incorrect valuation of the price of portfolio assets. The Financial Risk Department therefore strives to ensure that the value of these assets represents fair market value with the least possible degree of uncertainty. To that end, the Financial Risk Department:

- checks and approves the valuation methods in conjunction with the Model Validation Department;
- approves the valuation parameters;
- verifies the quality of market data and compliance with valuation procedures;
- defines valuation adjustments as part of prudent valuation, in accordance with the Capital Requirements Regulation (CRR).

Risk measurement and control

In order to manage risk-taking, the Financial Risk Department must be in a position to provide an accurate account of the risks to which the bank is exposed. Consequently, the Financial Risk Department is responsible for:

- identifying risk factors according to the products and strategies implemented;

- establishing risk measurement methodologies and retrospectively verifying their effectiveness (Backtesting);
- controlling the positions taken by the Group in order to ensure that they fall within the established thresholds.

Process controls

The Market Risk unit of the Financial Risk Department draws up a control plan to ensure the successful execution of its work and the quality of data produced.

4.5.2.4 Market risk measurement and control

Background

Market risk represents the risk that financial instruments held in portfolio may lose value as a result of an adverse change in market conditions. Essentially, it concerns assets restated at fair value, since valuation variations have a direct impact on the bank's profits or equity. Exceptionally, certain portfolios valued at acquisition cost also fall within the scope of the Financial Risk Department.

The Financial Risk Department defines a measurement framework that is suited to the bank's market exposure.

The main market risk factors are:

- interest rate risk;
- the credit risk premium;
- the risk of changes in the prices of financial instruments;
- exchange risk;
- core product risk;
- volatility risk.
- And, by extension, delivery settlement risk.

Other parameters are taken into account in market risk management, specifically asset liquidity.

4.5.2.5 Market risk indicators

Sensitivities

Sensitivities enable measurement of the exposure of the bank's portfolio to changing risk factors.

The Financial Risk Department approves the sensitivity calculation methodology and ensures that all risk factors identified as relevant and substantial are taken into account.

Value at Risk (VaR)

VaR is an indicator of the risk of loss to which the bank is exposed. It gives an estimate of maximum potential losses over a given horizon within a given probability. However, this indicator does not provide any signals with regard to the level of potential losses that may arise from infrequent events.

The VaR indicator is calculated on trading portfolios and also on certain banking portfolios. An overall VaR encompassing all positions is also calculated.

VaR is broken down by each of the activities included in the market portfolio.

As a precautionary measure, La Banque Postale decided to apply a VaR indicator (one-day, 99%) to all of its mark-to-market positions. The VaR indicator used by La Banque Postale is a parametric VaR, calculated using a variance-covariance matrix that includes risk factors such as interest rate, spread, exchange rate and volatility risk, and the risk of movements in the stock market indices to which the bank is exposed. In terms of risk factors, the main approximation concerns "specific interest rate risk": the credit spread risk (to which bonds

are sensitive) is taken into account by a sector-rating approach which only captures a portion of this type of risk.

This matrix is calculated using a scaling factor designed to give a higher weighting to recent movements than to older ones.

La Banque Postale's implementation therefore does not cover second-degree (convex) risks, which are actually rare in its accounts.

The resulting VaR partly covers option-related risks, although second-degree risks are not taken into account. Although they are not currently significant, building option positions could lead Risk Department to adopt a more appropriate methodology.

The Risk Department back-tests the results of the model used to calculate the VaR indicator, in order to assess its quality.

Stress scenarios

The VaR estimate, calculated on the assumption that it follows a normal distribution, is carried out under normal market conditions and does not provide any information on the amount of the potential loss when the VaR is overrun. The ability to estimate potential losses under unusual market conditions (terror attack, collapse of a major group, etc.), is therefore a necessity and this is when stress scenarios are implemented.

A stress scenario involves simulating an extreme situation in order to evaluate the financial impact on La Banque Postale's profits or equity. The use of these scenarios is an analytical and management tool providing a better grasp of market risk.

La Banque Postale seeks to deal in all markets (UCITS, currencies, rates, loans and derivatives). However, at the present time, the bank deals mainly in interest rate products, loans and UCITS. This is why the crisis scenarios foreseen mainly concern exchange rates, interest rates, credit spreads and UCITS, according to their asset class.

There are two major stress groups under consideration, pursuant to the relevant regulations. We distinguish between "objective" and "subjective" methods:

- Objective methods are based on historical facts (events which have actually occurred). To build the scenarios, changes which took place in the past during major financial crises are applied to current market conditions. These are historical scenarios.
- The second category of scenarios applies plausible variations which, although they have never occurred, would jeopardise the bank if they did. These shocks are calibrated with assumptions based on historic statistics drawn from market data.

A historic stress scenario is set off by a violent event affecting a combination of factors. With the aim of planning for the worst, the horizons selected are those corresponding to the first stage of the crisis' spread up to the first indication of price stabilisation, given that several trading days are needed to close out the most risky positions.

Historical scenarios reconstruct the following 128 financial crises:

- stock exchange crash, 19 October 1987;
- withdrawal of sterling from the ERM, 20 September 1992;
- bond market crash 1994-1995;
- Russia, 17 August 1998;
- LTCM, 23 September 1998;
- WTC terror attacks, 11 September 2001;
- Enron, 31 October 2001;
- collapse of Lehman Brothers, 15 September 2008 (a global stress scenario and a credit stress scenario);
- Greek crisis, 2010;
- US debt crisis, 2011;

- European sovereign debt crisis, 2011;
- Brexit, 2016.

The second category of scenarios applies plausible variations which, although they have never occurred, would jeopardise the bank if they did. These shocks are calibrated with assumptions based on historic statistics drawn from market data.

A stress test is applied to a given category of market risk. La Banque Postale carries out stress testing on the following risks:

- general rate risk: various changes, such as steepening or flattening or widening of rate spreads, are applied to the Euribor/Libor interbank rate curves;
- specific rate risk: stress testing is based on the application of different shocks to the credit spread curves of corporate, financial and sovereign debt issuers;
- equities risk (UCITS): various shocks are also applied to UCITS according to their asset class.

4.5.2.6 Market risk thresholds

Organisation

Market portfolio risk is delimited by VaR thresholds. These thresholds are set by the Group Risk Management Committee at the proposal of the ALM Committee and, in accordance with Risk Management Policy.

These VaR thresholds are applied operationally through a more detailed set of limits, while the Risk Department ensures, when they are determined, that they are consistent with the VaR thresholds approved by the Group Risk Management Committee. The implementation of these thresholds and monitoring of compliance with them by market operators, are the subject of regular reports given at meetings of the Group Risk Management Committee and the Risk Committee.

The application of thresholds addresses the organisation of La Banque Postale's financial activities. Thus, thresholds are defined by trading room activity, and take into account the aim of transaction management and the impact of transactions on the bank's profits and equity.

Risk metrics

The thresholds are applied to the relevant risk measures to delimit the potential impact of adverse changes in the markets on the bank's profits and on its equity. The objective is also to ensure that each activity remains within the specified management framework and only concerns market instruments that the bank's internal systems are operationally capable of managing.

Review of thresholds

The market risk thresholds must be capable of changing according to the needs and development of the environment. Each update is presented at a Group Risk Management Committee meeting for approval or advice in the event of its delegation.

The thresholds are subject to annual review in conjunction with the Front Office. It is important to ensure that the allocated thresholds remain consistent with changes in the financial markets and the bank's activities.

The thresholds may also be reviewed at other times, at the request of the Front Office or at the discretion of the Risk Department.

Exceeding the threshold

Threshold overruns are notified to market operators and to the Head of Group Risk. The manager of the desk concerned must inform the Financial Risk Department of the reasons for the overrun and the actions envisaged to get back within the authorised thresholds.

Taking the background of the case into consideration, the Financial Risk Department evaluates the suitability of the corrective actions envisaged and may, if necessary and with the agreement with the Head of Group Risk, authorise a threshold overrun for a limited period if it cannot be quickly corrected due to operational reasons or the market environment.

Threshold overruns and temporary overrun authorisations are reported each month to the Group Risk Management Committee and must be logged in an overrun notification sheet approved by the Head of Group Risk.

4.5.2.7 Financial instruments and currencies authorised for trading

The Financial Risk Department draws up a list of authorised products, approved by the Group Risk Management Committee. All new instruments appearing on that list must first be approved by the New Market Instruments Committee.

The Executive Board draws up a list of currencies authorised for trading. The Financial Risk Department ensures that this list is complied with and that there is sufficient operational capacity to manage these currencies, particularly in terms of risk calculation.

The transactions carried out in the market risk scope are based on very traditional instruments, which are among the most current ones in the financial markets.

- Bonds
- Rate derivatives (all vanilla)
- UCITS
- Marginally, CDS (on index) as hedges.
- Transactions on listed markets (essentially rate/sovereign bond futures)

The main change in the first half of 2018 involves the launch of structured issue activities for customers.

4.5.2.8 Exposure to risk

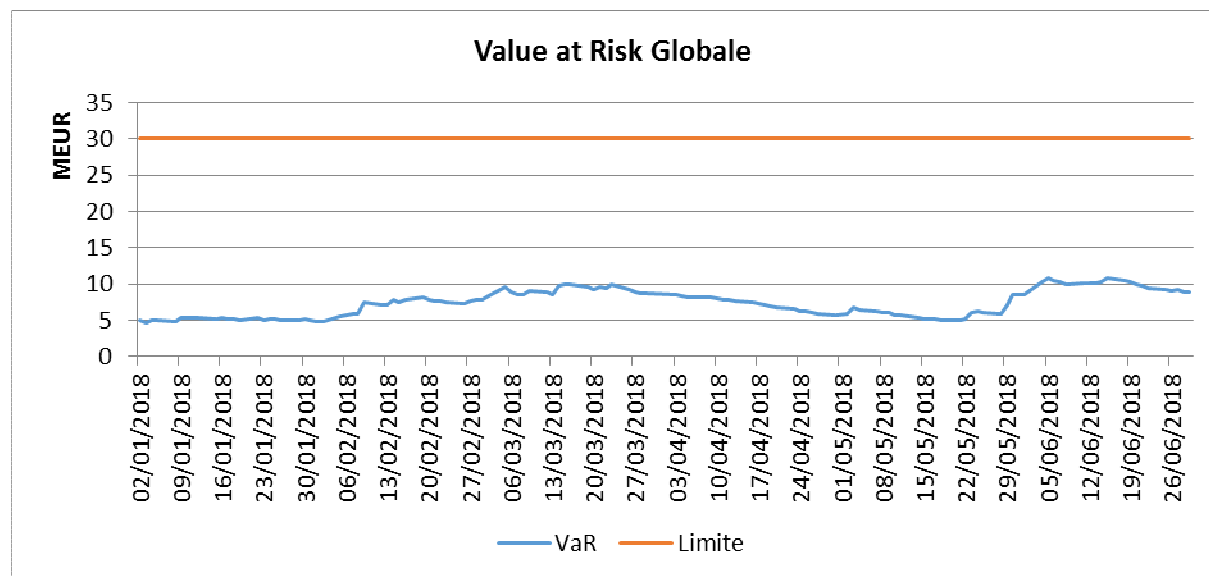
La Banque Postale is exposed to market risks due to its cash management and balance sheet management activities (portfolio of assets available for sale and hedging transactions).

The market portfolio, which combines all transactions exposed to market risks, includes not only the trading portfolio, defined in Articles 102 to 104 of EU Regulation No. 575/2013 of the European Parliament and Council dated 26 June 2013 pertaining to capital requirements for credit establishments and investment firms, but also banking portfolio transactions, including available-for-sale securities and certain lending and borrowing transactions.

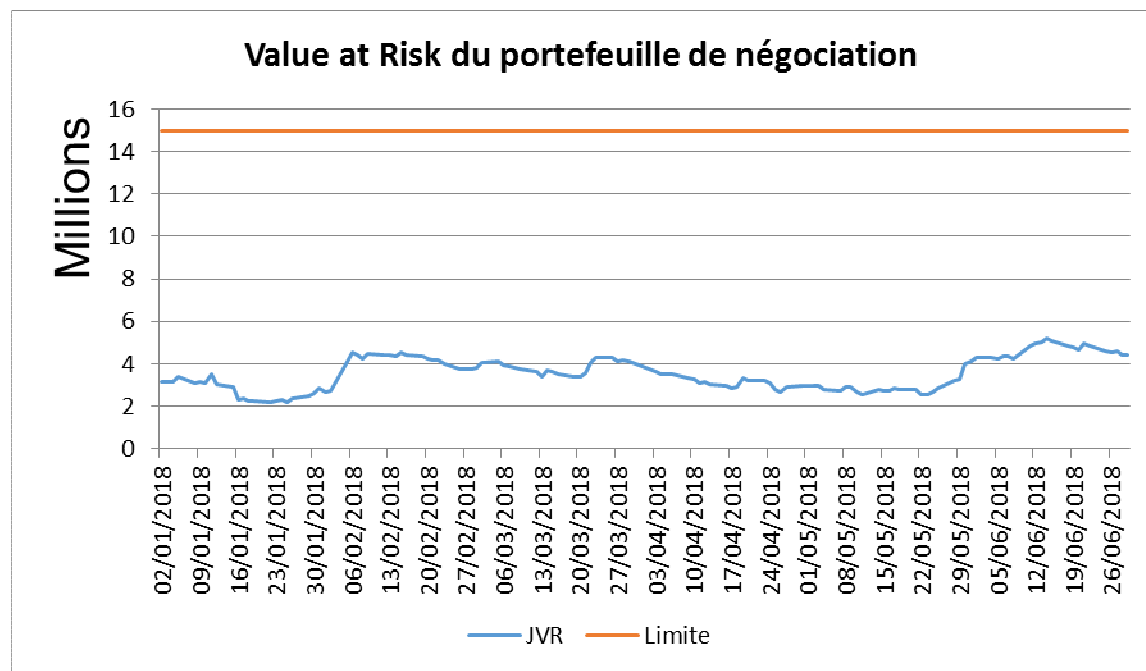
In terms of market risk management, La Banque Postale is first and foremost exposed to interest rate risk, credit spreads and the equity markets. Exchange-rate risk, particularly connected with international mandates and financial activities, risk of volatility or commodities risk is moderate.

4.5.2.9 Change in the main risk indicators for the trading room and threshold monitoring in 2018

Global Value at Risk (€ million)

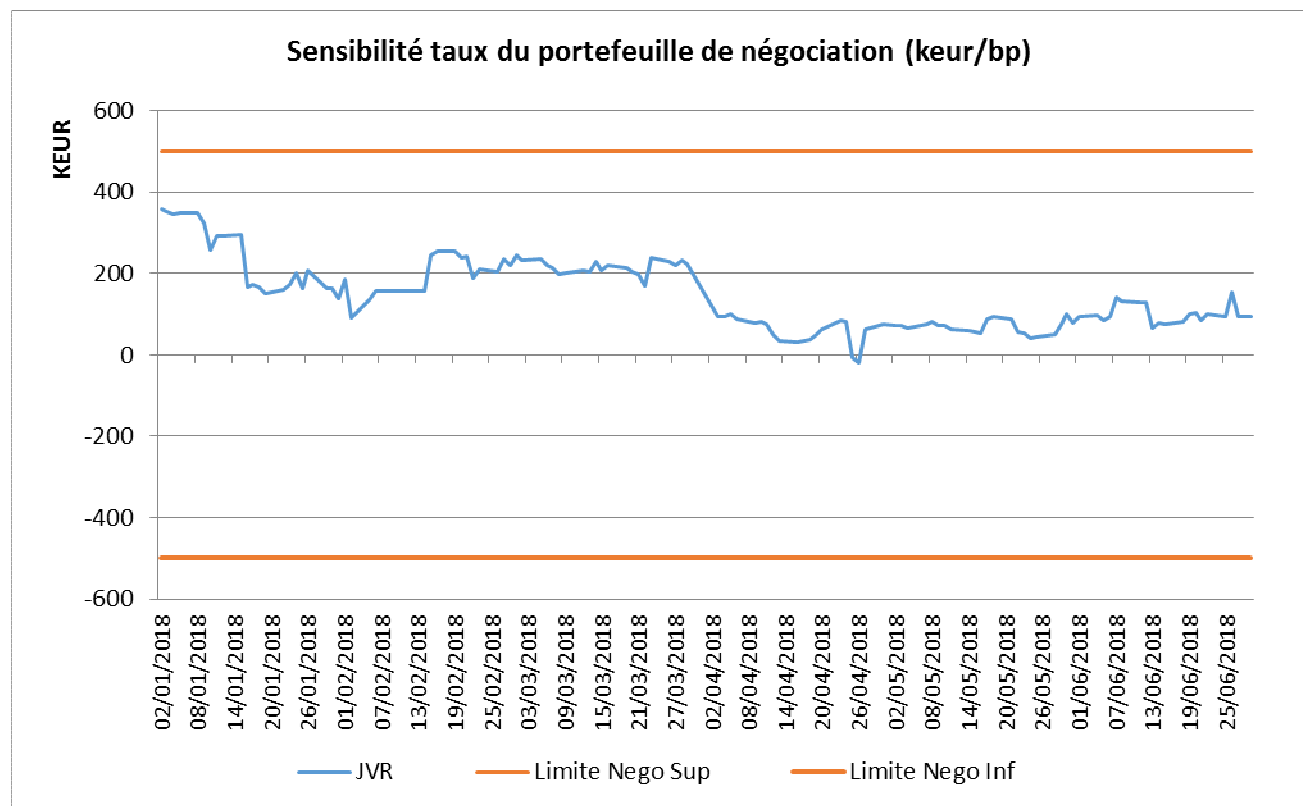


Value at Risk of the trading portfolio (€ million)

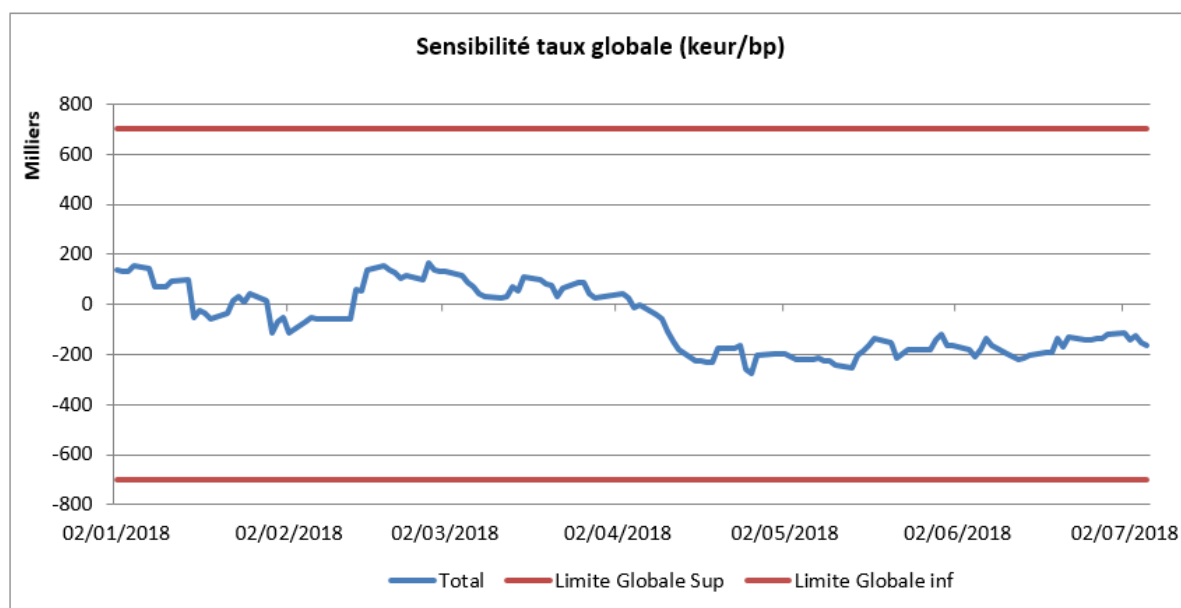


The VaRs of the trading scope and of the global scope remained well below their respective thresholds during the first half of 2018.

Rate sensitivity of the trading portfolio (€ thousand/bp)

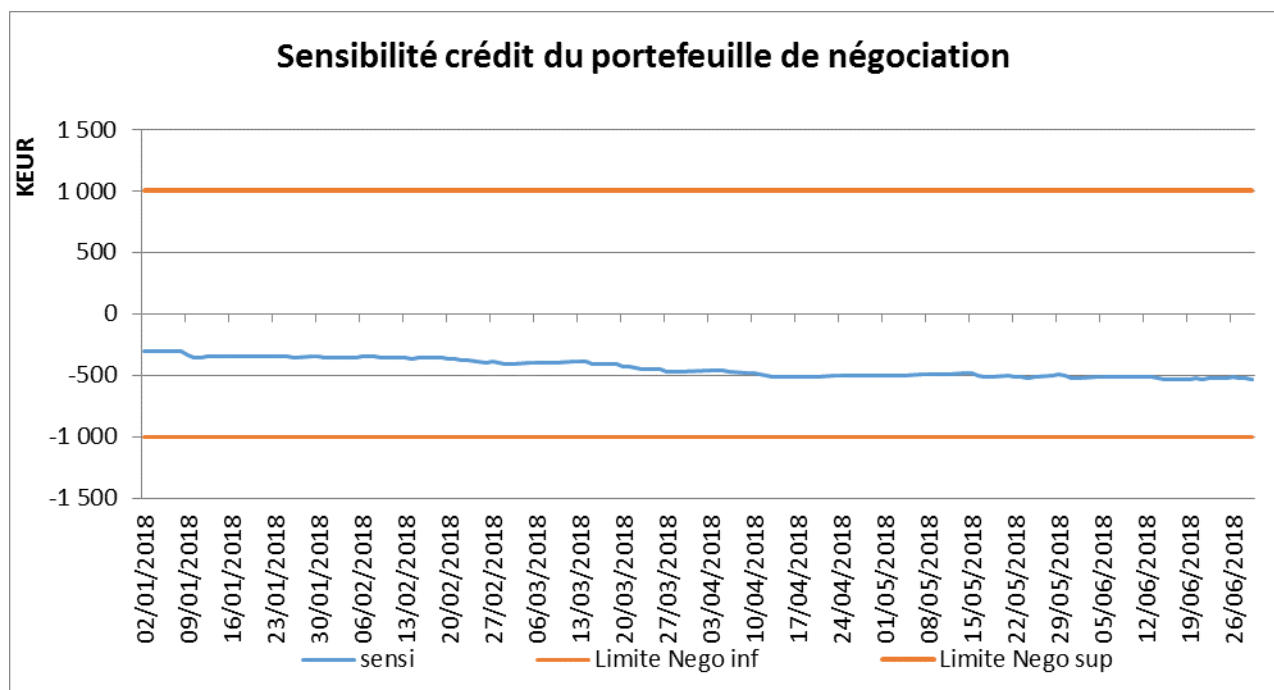


Overall rate sensitivity (€ thousand/bp)



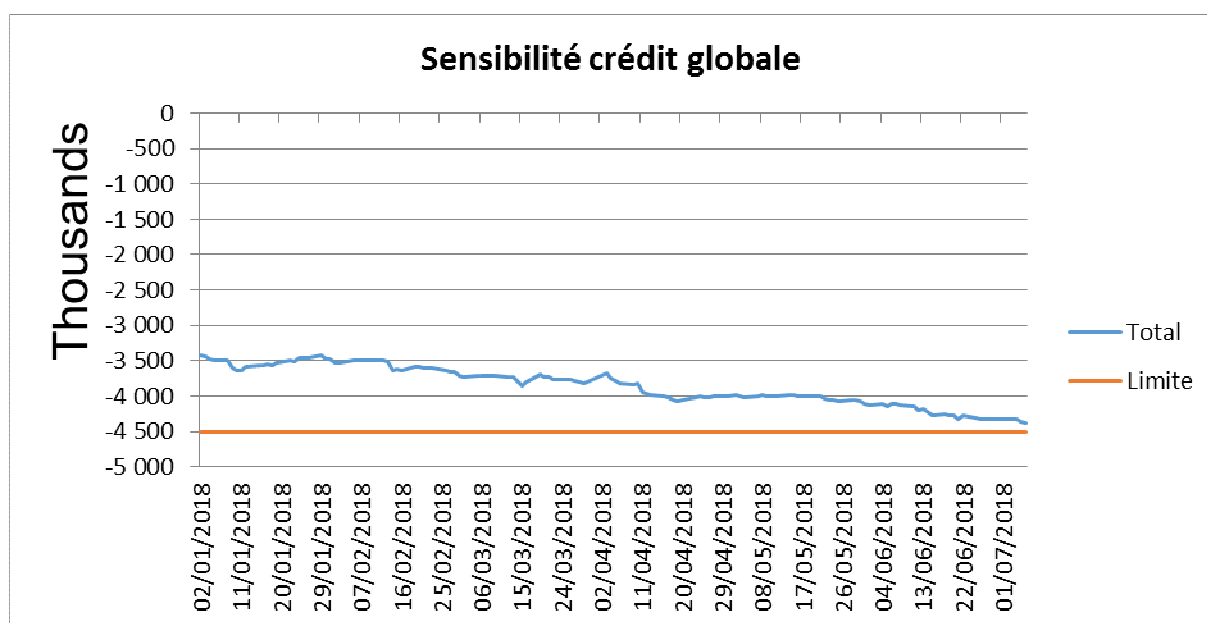
Overall rate sensitivity remained contained throughout the first half of 2018. Interest rates are hedged overall in the portfolio.

Credit sensitivity of the trading portfolio (€ thousand/bp)



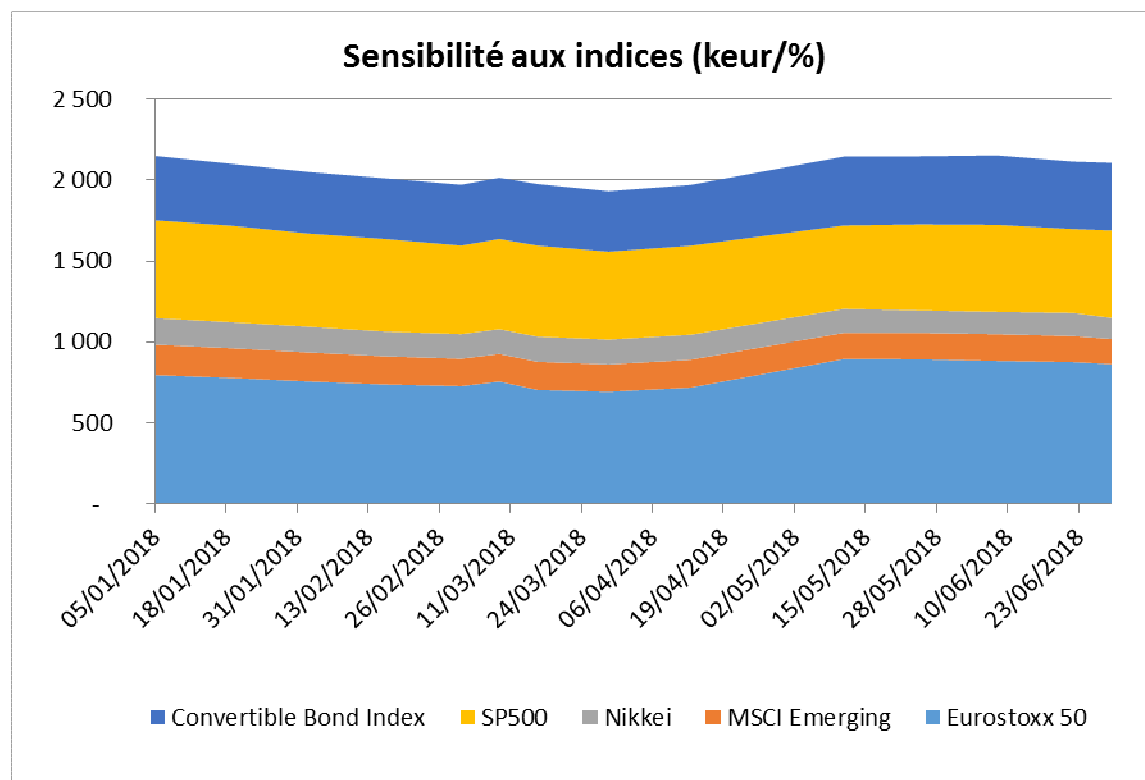
The credit sensitivity of the trading portfolio is up on the first half as a result of securities purchases.

Overall credit sensitivity (€ thousand/bp)



The overall credit sensitivity limit was up over the first half as a result of bond investments.

Sensitivity to indices



The overall distribution of exposures remained fairly stable as did sensitivities.

Exceeding the threshold

Thresholds were exceeded five times within the scope monitored by the Market Risk Department during the first half of 2018 and the drawdown threshold was exceeded 10 times. All of the breaches were notified and corrective action was taken to quickly return under the threshold.

4.5.2.10 Capital requirements for market risk and for CVA

Market risk within the standardised approach

(€ millions)	RWA	Capital requirements
Confirmed revenue		
Interest rate risk (general and specific)	1,670	134.
Equities risk (general and specific)	-	-
Exchange rate risk	214	17.
Raw materials risk	-	-
Options	-	-
Simplified approach	-	-
Delta Plus approach	-	-
Scenario-based approach	-	-
Securitisation (specific risk)	-	-
TOTAL	1,884	151

EU CCR2 Model - CVA equity requirements

(€ millions)	Exposure value	RWA
Total of portfolios under the advanced method	-	-
VaR component (including the 3 times VaR multiplier)	-	-
SVaR component (including the 3 times VaR multiplier)	-	-
All portfolios under to the standardised method	566	299
Based on the initial exposure method	-	-
Total subject to capital requirements with regard to the credit valuation adjustment (CVA)	566	299

4.5.3 Exposure to portfolio equities not included in the trading book

(€ million)	Risk-weighted exposures
Equity investments	3,813
Subordinated securities	212
Other	371
TOTAL EQUITY RISK	4,396

Consolidated equity investments mainly consist of La Banque Postale's interest in CNP Assurances.

Unrealised gains and losses and gains and losses on disposals are presented in consolidated financial statements "3.2 financial assets recognised at fair value through equity at 30 June 2018 " and "4.4 net gains and losses on financial assets recognised at fair value through equity".

4.6 Operational risks

4.6.1 Key figures

There were no significant events in the first half of 2018, within the meaning of Article 98 of the decree of 3 November 2014.

Breakdown by business line, by average value (from 2013 to 2017)

Business financing	0.0%
Trading and sales	0.3%
Retail brokering	0.1%
Commercial banking	5.0%
Retail Banking	80.3%
Payment and settlement	7.6%
Agency services	0.0%
Asset management	0.5%
Corporate items	6.4%

4.6.2 Regulatory framework and definition

In accordance with EU regulation No. 575/2013 of 26 June 2013 and the decree of 3 November 2014, the definition of operational risk adopted by La Banque Postale, as approved by the Group Risk Management Committee on 26 February 2015, encompasses the "risk of losses resulting from the unsuitability or failure of internal procedures, personnel or systems, or from external events. Operational risk notably includes risks linked to events having a low probability of occurrence but a high impact, risks of internal and external fraud, legal risks, risks of non-compliance (including damage to reputation), and risks linked to the model, but excludes strategic risks".

4.6.3 Scope of application

This definition applies to all of the activities of:

- La Banque Postale and its subsidiaries;
- La Poste in all sectors performing transactions in the name of and on behalf of La Banque Postale;
- companies in which La Banque Postale, through investment, plays a direct and effective management role.

The operational risk management procedures rely upon the principal of the empowerment of the businesses in the identification, measurement, hedging and monitoring of their risks.

4.6.4 Governance

4.6.4.1 Positioning of the Operational Risk Department

The Group Risk Department is responsible, with respect to the Executive Board, for the procedures for managing and monitoring La Banque Postale Group's operating risks.

As such, the Operational Risk Department, under the responsibility of the Group Risk Department, reports to the Group Risk Management Committee for the creation and implementation of procedures for managing and monitoring operational risks.

Missions of the Operational Risk Department

As part of monitoring any type of risks associated with operations (volume V of the decree of 3 November 2014), the main missions of the Operational Risk Department are:

- to establish the framework: establish operational risk policy and governance for La Banque Postale Group, define operational risk management standards, methods and tools and ensure their operational application (supervision of the OR function).
- monitoring: identify the major risks of La Banque Postale Group, monitor and report on the effectiveness of the systems in place to manage those risks.
- anticipating future threats: identify and model stress test scenarios, identify weak signals.
- to provide support: help players in the OR function with the implementation and supervision of the system in place in their unit, contribute to building their professionalism.

4.6.4.2 Operational risk management players

The respective roles and responsibilities of players of La Banque Postale Group with regard to operational risk management are set out formally in the "Group Risk Management System - Operational Risks", approved by the Risk Management Committee and distributed to the various Group entities and bodies working in the name of and on behalf of La Banque Postale (La Poste Network).

The application of the "Group Risk Management System - Operational Risks" is carried out through procedures and operating methods set forth in the documentation database for operational risk management.

The key principle is the accountability of business units. Managers of entities are the risk managers; to carry out their duties, they rely on specifically designated employees known as "Delegated Risk Managers".

The Operational Risk Department depends on these officers, who are dedicated or who perform operational activities. They comprise the Operational Risk function. The Delegated Risk Managers are placed in the business units, the support departments and the subsidiaries. Within their respective spheres of responsibility, the Delegated Risk Managers:

- ensure the implementation and application of the operational risk management system;
- monitor its effectiveness;
- report to the Operational Risk Department.

The Operational Risk Department mobilises all players involved in the OR function with the help of an OR functional road map which establishes the action priorities, deliverables and the respective delivery schedule for each year.

4.6.4.3 Bodies

The Operational Risk Department participates, on a monthly basis, in meetings of the Group Risk Management Committee, chaired by the General Secretary. The main responsibilities of the committee in terms of operational risks are to validate the Risk Management Department operational risks, approve the rules for taking operational risk and the alert thresholds proposed by the Group Risk Department and to track operational risks. Once a year, the Group Risk Management Committee approves the consolidated Group Operational Risk Map and the list of Outsourced Essential Services.

In addition, each entity must hold a Risk and Control Committee meeting twice a year to provide a consolidated view of the effectiveness of the operational risk management system and of the related controls. The Operational Risk Department organises quarterly meetings of Delegated Risk Managers as part of the work of the Coordination Committee for the Operational Risk Function. These committee meetings notably make it possible to coordinate the actions initiated by the OR function, to exchange good practices and to reflect on changes to be made to the Operational Risk Management System.

4.6.5 Current systems

Operational risks are classified according to the risk category and sub-category framework proposed by the Basel Committee and set forth in Article 324 of EU Regulation No. 575/2013 of 26 June 2013 concerning prudential requirements applicable to credit institutions and investment firms.

The Operational Risk Department manages the implementation of an operational risk analysis and measurement system compliant with the decree of 20 February 2007 on capital requirements applicable to credit institutions and investment firms and with Regulation No. 575/2012.

The system notably depends on:

- Operational risk mapping;
- the implementation of a system for communicating events and losses sustained by the various entities of La Banque Postale and the subsidiaries concerned to the Group Risk Department;
- the implementation of modelling and quantification of operational risk stress tests;
- reports, consisting of an assessment of operational risk levels by Basel group, based on events identified and monitoring indicators.

The system implemented aims to ensure that La Banque Postale Group, as well as all entities acting in its name and on its behalf, is organised in such a way that it is able to continually identify, evaluate and monitor its operational risks, so that it can take appropriate preventive or corrective measures.

Thus, operational risk management contributes to strengthening the bank's internal control system.

4.6.5.1 IS security

A risk-based approach to Information Systems Security

Information Systems Security is defined as an overall risk management system guaranteeing an adequate level of protection of information and related assets in order to ensure:

- its availability by guaranteeing that authorised users have access to the information and related resources as needed;
- its integrity by guaranteeing the accuracy and reliability of the information and data processing methods;
- its confidentiality by guaranteeing that only authorised persons have access to the information;
- its traceability by knowing which persons have access to the information and when they access it.

The process of securing Information Systems is the responsibility of the business lines under the leadership of the Group RSSI (Manager of Information Systems Security). It deals with information security in an interdepartmental manner in all of the La Banque Postale Group's activities.

The process is fourfold:

- defining La Banque Postale's ISS strategy under the Risk Management Policy. It is made up of the Information Systems Security General Policy, Thematic Policies, Technical Security Directives, operational procedures and IT charters;
- overseeing the operational application of the ISS Strategy and alerting to any discrepancies;
- assisting the business lines in complying with the ISS Strategy and offsetting their risks relating to information systems, in particular by:
 - scrutinising their information systems risk analyses;
 - making employees aware of changes in ISS risks;
 - compiling a list of the ISS risks to which La Banque Postale Group is exposed so as to provide the Group Risk Department with the necessary data to inform Executive Management bodies of exposure to risk.

Organisation

In operational terms, ISS consists of identified Correspondents who report to Operational Risks.

4.6.5.2 EBCP and SPB

The Emergency and Business Continuity Plan (EBCP)

The General Policy and Governance of the Business Continuity Plan (BCP) seeks to provide a reference framework by defining the organisation, tasks and responsibilities that it involves and the principles and rules to be observed by the La Banque Postale Group; it forms part of the Risk Management Policy of the Bank. The objectives of the policy are to:

- control the impact of major events:
 - by implementing and managing developed solutions,
 - by mobilising each stakeholder in La Banque Postale Group;
 - implement governance and a uniform business continuity management system in which the actions are formalised, traced and shared with management, the Group Risk Department and the Executive Board.

Scenarios selected

The Business Continuity Plan of La Banque Postale is based on several technical emergency Information System solutions and a complete organisational procedure notably including an organisational plan, response modes and communication actions.

It aims to cover situations of extreme shocks and is designed to minimally confront the crisis scenarios used by La Banque Postale.

The scenarios used by La Banque Postale have been segmented into four categories:

- unavailability of a site (building accident, inaccessibility, energy/HVAC failure);
- failure of information systems and/or technical systems;
- employee absence (transport difficulties, health crisis);
- unavailability of essential service providers.

Organisation

The organisational system managed by the Group EBCP Manager of the Group Risk Department, and adopted by La Banque Postale Group to ensure the implementation and maintenance in operational condition of its BCP, relies on a network of correspondents reporting to the risk managers of the Group and Bank business lines:

The BCP Correspondents (BCP-C) ensure the operational implementation of the General Policy and Governance of the Business Continuity Plan, managed by the La Banque Postale's Group BCP Manager, in the business lines and subsidiaries.

They are responsible, within their scope of action, for defining and implementing the organisation and the resources necessary for the management of business continuity with respect to the major and vital processes under their responsibility which must be covered by a BCP, organising exercises, promoting the Bank's business continuity culture and disseminating it in their business lines;

The EBCP entity, under the responsibility of the Group EBCP Manager, is on call 24/7 to handle any major incidents that need to be managed by the bank's managing bodies.

Activities covered by the BCP

To maintain consistency with the other banks operating in Paris, La Banque Postale has grouped its critical business activities by "Banque de France" and "non-Banque de France" macro-processes, prioritising processes according to their criticality, and the Maximum Admissible Period of Interruption.

Safety of Persons and Property (SPP)

The process of ensuring the physical safety of persons and property is the responsibility of the business lines, units, departments and subsidiaries in question and is managed by the Group Risk Department. In order to do so, a frame of reference defining the governance and general principles to be complied with is provided to all operational and functional players and updated on a regular basis. The organisational system is managed by the Group SPP Manager of the Group Risk Department.

The function deals with the safety issues related to threats, malfunctions and malicious intent. It describes the preventive and protective systems and measures for the Group's human and property assets.

The deployment of this framework and compliance relies on a network of correspondents reporting to the risk managers of the Group and the Bank's business lines.

4.7 Insurance and conglomerate risks

4.7.1 Insurance risks

The Insurance Division comprises four subsidiaries constituted as limited companies and a qualifying shareholding in CNP Assurances, itself a limited company.

Through its insurance subsidiaries - La Banque Postale Assurances IARD (LBPAI), La Banque Postale Prévoyance (LBPP), La Banque Postale Assurance Santé (LBPAS) and La Banque Postale Conseil en Assurances (LBPCA) - and its relationship with CNP Assurances (through both its commercial partnership and its equity interest in CNP Assurances), La Banque Postale Group is exposed to risks inherent to the insurance sector.

The development of La Banque Postale's activities with its customers has relied, since its creation, on the reinforcement of its insurance offers. In this respect, the insurance business is an important element of the Group's strategy.

For more information on the insurance activities, refer to the 2017 DDR chapter 1 "Overview of La Banque Postale Group", Section 1.6.2 Insurance.

4.7.1.1 Classification of insurance risks

All of the subsidiaries and investments of the Group belonging to the insurance sector must meet, at all times, the regulatory requirements of this sector. Indeed, La Banque Postale, while it is not an insurance group within the meaning of Article L.331-1-2 of the French Insurance Code, as the parent company and head of the financial conglomerate, is responsible for ensuring that each of its subsidiaries meets all the requirements and, more generally, as regards the Insurance Division as a whole, that the mechanisms for risk control implemented are in line with, in particular, the Risk Management Policy and the charter of the risk unit of the Group.

The Insurance Risk Management Policy is carried out on the basis of the legal and regulatory framework implemented by the "Solvency II" and "FICOD" directives, transposed into French law. This Policy sets out the strategies, principles and processes making it possible to identify, measure, manage and monitor risks to which the insurance activities of La Banque Postale Group are exposed, including those entrusted to its partners from the insurance sector.

Within the framework of the Group's Risk Management Policy and the Group Risk Management Charter, and by delegation of La Banque Postale Group's Risk Management Department, the definition and implementation of the risk management system for the management, control and monitoring of the insurance activities of La Banque Postale and its subsidiaries are entrusted to the Finance, Risk and Compliance Department of the Insurance Division which:

- develops and validates an Insurance Risk Management Policy which is integrated into the Group Risk Management Policy;
- implements the mechanisms for the control of the La Banque Postale Group's risks, by deploying and adapting them, as applicable, for the Insurance Division, taking into account the applicable sectoral regulations;
- oversees compliance, by the Insurance Division entities, with the Group systems and with the requirements specific to the Business and the applicable regulations;

- implements a risk department for the Insurance Division for which it ensures coordination and liaison with the Bank's Risk Department. It is led by the La Banque Postale's Group Risk Department with, notably, the Risk and Actuarial Department and, within this framework, the employees responsible for risk functions within the Insurance Division are, at least, functionally attached to it

These mechanisms for controlling insurance risk must make it possible for the Group to have a sub-consolidated vision, at the level of the Insurance Division, of the risks taken and the potential risks, and to ensure at all times that they are compatible with the appetite for risk. Equally, this mechanism must make such monitoring possible on a consolidated basis at the level of the Group.

To ensure that the insurance activities are aligned with La Banque Postale Group in terms of risk management, the Insurance Risk Committee coordinates and supervises the risk management system for the entire Insurance Division, including outsourced activities. In particular, it is in charge of providing a consolidated perspective of Insurance Division risk and of the corresponding level of control.

The committee is chaired by the Head of the Insurance Division and is coordinated by the Divisional Head of Finance, Risk and Compliance. It brings together the Effective Managers and the managers responsible for the Key Functions of the Subsidiaries as well as the managers of the various functions contributing to La Banque Postale's risk control and management system: subsidiaries, the Group Risk Department, the Compliance and Permanent Control Department, the Finance Department and the Legal Department.

With regard to the Insurance Division, the **governance of risk** is based on:

- the executive bodies of each subsidiary: the Board of Directors and its Audit and Risk Committee, in addition to other committees deriving from it: the Financial Committee and the Development Committee, for example;
- the operational governance bodies: the General Management of the Subsidiary which relies on two managers, each of which has the authority to commit the company and whose respective scope of duties and the systems allow for a double view on the operations and continuity in decisional processes defined by the Board of Directors.

General Management undertakes various responsibilities with regard to the establishment, management and monitoring of the internal control and risk management system (implementation of the Insurance Risk Management Policy, allocation of capital to the various business activities, defining operational thresholds with regular reviews according to the development of the risk profile; defines in detail the organisation and, notably, the associated decision-making processes; defines and develops an internal control environment; ensures the implementation of an appropriate structured reporting system; examining the indicator dashboard and updating the risk map; recommending measures aimed at adapting and improving the internal control and risk management system to the Board of Directors and applying the Board's guidelines on measures to be taken to mitigate identified risks and/or introduce improvements based on reports received; alerts the Board of Directors of any malfunctions or significant risks);

- the Insurance General Management Committee, which brings together the Insurance Division Director, the Effective Managers of the subsidiaries, the Human Resources Director, and the Director of Corporate Affairs (responsible for implementing the strategic directions of the Insurance Division, ensuring monitoring of the progress plan and implementing any required corrective actions, defining and coordinating the Insurance Division's activities, managing the results and resources of the Insurance Division, proposing structural operational solutions for the Insurance Division, guaranteeing coordination with the Group and providing it with their expertise, proposing new growth projects, developing the Insurance Division's medium-term plan and monitoring its implementation);
- the Risk Management Committee under the responsibility of the Risk Management Function (definition and monitoring of risk strategy, measurement of the capital levels required and definition of any corrective actions, oversight of the risk management system and of the control plans, regular production of the risk indicator dashboard);

- the Model and Assumptions Committee of each subsidiary reporting to the Actuarial Unit (reports on the status of the models, the environment and security in place, approval and reporting to the Risk Management Committee on changes to models and their impact as well as on model thresholds, ensures that there is an adequate level of documentation, obtains approval for the management strategies proposed to business heads, debates the assumptions, legal framework and models used for the decisions);
- the Product Review Committee, reporting directly to General Management (analyses new products and guarantees and their risks in order to verify their match with the business plan and the risk profile of the subsidiary, approves or rejects projects to launch new products or guarantees prior to presentation to the La Banque Postale's Products Review Committee);
- Partnership Management Committees reporting to General Management to verify implementation by service providers of their contractual commitments in terms of risk management and quality of service.
- the four key functions of each subsidiary: Risk Management, Compliance Checking, Actuarial Verification and Internal Audit (which is delegated to the Internal Audit Department of La Banque Postale). The key functions have direct access to the Board of Directors.

The operational thresholds are set by type of insurance risk, in line with the risk appetite of each subsidiary, and are approved by each subsidiary's Board of Directors. They provide a strict framework for risk management and the selection of risks.

The main risks linked to insurance activities are monitored by La Banque Postale Group's Risk Management Committee, for subsidiaries and shares in the Bank in insurance companies, as well as the CNP Assurances' Audit and Risk Committee for its own area.

4.7.1.2 Classification of insurance risks

La Banque Postale's Insurance Division risks are grouped into four main risk categories in line with the risk classification of the Solvency II regulations and the conglomerated risk map:

- financial risks;
- insurance liability risks (or technical risks);
- operational risks and risks of non-compliance;
- other risks.

Market risk

The insurance subsidiaries of La Banque Postale carry out market transactions as part of their balance sheet asset and liability management: shareholder equity and commitments towards policyholders are covered by various categories of assets exposed to the risk of securities' price changes resulting from movements in the financial markets and factors inherent to each issuer.

Market risk is the risk of losses or an negative change in financial situation resulting directly or indirectly from fluctuations impacting the level and volatility of the market value of assets, liabilities and financial instruments.

The insurance subsidiaries are exposed to the following market risks:

- interest rate risk;
- equity risk;
- property risk;
- spread risk;

- exchange risk;
- concentration risk;
- liquidity risk;
- counterparty risk.

Interest rate risk

Interest rate risk arises from the sensitivity of the value of financial assets and instruments to changes affecting the yield curve or interest rate volatility.

Given that most of the portfolio consists of interest rate products, the asset portfolio is mainly exposed to interest rate risk: an interest rate rise would have an immediate repercussion on the level of unrealised capital gains or losses on fixed-income assets; a fall in interest rates would entail a dilution of the asset's overall rate of return caused by lower actuarial rates upon the purchase of bonds.

Equity risk and property risk

Equity risk and property risk result from the sensitivity of the value of these assets to changes affecting the market value or volatility of equities and/or property.

As with direct investments in equities and through equity investment funds, equity portfolios are sensitive to fluctuations that may be sustained in the equity markets and the risk of loss of value caused by a fall in prices of property and infrastructure assets.

Spread risk

Spread risk arises from the sensitivity of the value of assets, liabilities and financial instruments to changes affecting the level or volatility of credit spreads compared to the risk-free interest rate yield curve.

Exchange rate risk

Exchange rate risk is associated with exposure through investments denominated in a currency other than the euro. There is a risk that the investment currency will fall in relation to the euro. There may be some indirect exchange rate risk exposure arising from placements in investment funds able to invest in securities denominated in a foreign currency.

Exchange rate risk is related to fluctuations in the level or volatility of exchange rates between the currency of assets and of liabilities.

Concentration risk

Concentration risk arises either from insufficient asset portfolio diversification or from significant exposure to default by a single securities issuer or by a group of related issuers.

Liquidity risk

Liquidity risk, for the insurance subsidiaries, is the risk of being unable to realise their investments and retain assets in order to meet their financial obligations when they fall due.

Counterparty risk

Counterparty risk is the risk of possible losses which could lead to an unexpected default, or the deterioration of the credit quality of the insurance subsidiaries' counterparties and debtors.

The scope of counterparty risk includes contracts with provision for risk mitigation, such as reinsurance contracts, securitisations and derivatives, and receivables due from intermediaries and insured parties.

In order to manage market risk, strategic and tactical investment allocation guidelines are defined annually by the insurance subsidiaries of La Banque Postale Group. These guidelines specify targets for portfolio distribution by asset class, the maturities and preferred interest rates for fixed-income investments, as well as the bank's objectives in terms of hedging financial risks.

Oversight of the implementation of these guidelines involves assessing compliance with the thresholds applicable to each asset class, monitoring portfolio sensitivity and ensuring a satisfactory liquidity level.

Technical risks, or insurance liability risks

As with their activities in Property & Casualty insurance and in Health & Personal Risk insurance, the insurance subsidiaries of La Banque Postale are exposed to underwriting risk and to catastrophe risk, associated with changes to the features of portfolios of insured parties.

Underwriting risk is defined as the risk which the insurer takes in distributing insurance contracts to physical persons or to legal entities, stemming from:

- market segments or risk categories which are not consistent with the risk profile and commercial strategies of the insurance company;
- complex risk categories which are difficult to assess;
- insufficient technical competencies within the internal personnel and the sales networks;
- failure to comply with limits.

Underwriting risk encompasses the following risks:

- **mortality risk** is the risk of loss, or of an unfavourable change in the value of insurance commitments, resulting from fluctuations affecting the level, trend or volatility of mortality rates, when a rise in these rates brings on a rise in the value of insurance commitments;
- **longevity risk** is the risk of loss, or of an unfavourable change in the value of insurance commitments, resulting from fluctuations affecting the level, trend or volatility of mortality rates, when a fall in these rates brings on a rise in the value of the insurance commitments;
- **disability risk** is the risk of loss, or of an unfavourable change in the value of insurance commitments, resulting from fluctuations affecting the level, trend or volatility of disability, sickness and morbidity rates;
- **surrender risk** is the risk of loss, or of an unfavourable change in the value of insurance commitments, resulting from fluctuations affecting the level, trend or volatility of early termination, expiry, renewal and surrender of policies;
- **expense risk** is the risk of loss, or of an unfavourable change in the value of insurance commitments, resulting from fluctuations affecting the level, trend or volatility of expenses incurred for the management of insurance or reinsurance contracts;
- **revision risk** is the risk of loss, or of an unfavourable change in the value of insurance commitments, resulting from fluctuations affecting the level, trend or volatility of revision rates applicable to annuities, as a result of a change in the legal environment or state of health of the insured party;
- **premium and reserve risk** is the risk of loss, or of an unfavourable change in the value of insurance commitments, resulting from fluctuations affecting the occurrence, frequency and gravity of insured events, as well as the date and amount of claim settlements;
- **catastrophe risk** is the risk of loss, or of an unfavourable change in the value of insurance commitments, resulting from significant uncertainty of pricing and provisioning assumptions in the light of extreme or irregular events.

Through their underwriting policies, the Property & Casualty and Health & Personal Risk insurance subsidiaries define their requirements in terms of controls, management and monitoring of underwriting risk, in line with the features of the portfolios insured. The applicable rules aim to hedge the anticipated level of technical risk. Underwriting thresholds have been defined for each risk.

Operational risks and risks of non-compliance

Operational risks and risks of non-compliance correspond to unforeseen losses resulting from inadequate or faulty internal processes, personnel, internal systems or external events. Operational risk includes legal risks, but does not include risks stemming from strategic decisions, or from reputational risks.

Operational risks include:

- risk of internal fraud: risk of losses resulting from actions which are not compliant with the legislation in effect or with employment, health or safety conventions, claims for compensation for personal prejudice or breaches of equality/acts of discrimination;
- risk of external fraud: risk of losses resulting from actions by a third party intended to defraud, misappropriate property or bypass legislation;
- **risks related to employment and workplace safety:** risk of losses resulting from actions which are not compliant with the legislation in effect or with employment, health or safety conventions, claims for compensation for personal prejudice or breaches of equality/acts of discrimination;
- risk related to customers, products and business practices: risk of losses resulting from a non-intentional breach, negligence, failure to meet a professional obligation toward specific customers (including fiduciary and compliance requirements) or shortcomings in the nature or design of a product;
- risk of damage to tangible assets: risk of destruction or damage resulting from a natural catastrophe or other events;
- risk of business interruption or system malfunctions: risk of losses resulting from interruptions of the business activity or system malfunctions;
- risks related to the execution, delivery and management of processes: risk of losses resulting from a problem in the processing of a transaction or in the management of processes or suffered within the context of relations with commercial counterparties or suppliers.

Other risks

Other risks concern those tied to internal and external factors which may have a significant impact on the strategy and the achievement of the objectives of the insurance subsidiaries or of another entity.

They include the following risks:

- **risk related to regulatory changes:** risk related to regulatory changes which have not yet been mastered which can unfavourably impact the strategy, volume or quality of new business, the profitability of the portfolio or which could result in sanctions. This also includes tax changes;
- **retail risk:** risk of losses due to a retail strategy which does not enable achievement of the goals initially set in the business plan;
- **reputational risk:** risk of losses due to the deterioration of the image of a subsidiary or one of its partners;
- **emerging risks:** risks related to technology and/or environmental changes which have not yet been mastered;
- **partnership risk:** risk of losses due to a partner strategy which does not enable achievement of the goals initially set.

4.7.2 Conglomerate risks

(Addition to point 4.7.2 “Conglomerate risk” on pages 148 and 149 of the 2017 Registration Document)

La Banque Postale was identified as Conglomerate Head by the competent authority upon its creation in 2006 and, in that respect, is subject to Additional Oversight.

The obligations related to Additional Oversight are described in the decree of 3 November 2014 concerning Additional Oversight, transposing EC Directive 2002/87, also known as the FICOD directive.

As Conglomerate Head, La Banque Postale must ensure the stand-alone capital adequacy of each entity subject to prudential requirements and of the bank at conglomerate level.

The level of capital, at Conglomerate level, must be sufficient to meet the capital requirements (ratio above 100%).

As at 31 December 2017, the equity of the financial conglomerate meets the solvency requirements for banking and insurance activities.

(€ millions)	31.12.2017	31.12.2016
Total equity of the financial conglomerate	13,175	12,925
Regulatory requirement for the regulated entities	8,035	7,458
Equity excess or shortage	5,140	5,378

4.8 Other risks

4.8.1 Legal and tax risk

The Legal Department has two roles in terms of controlling legal risk. It advises the bank's Departments, enabling them to measure the legal risk inherent to their activity, and it also defends the bank's interests.

Control of legal risk extends throughout La Banque Postale Group with the formation of the La Banque Postale Group legal unit. While the legal officers of the subsidiaries report functionally to the La Banque Postale Group Head of Legal Department, the legal unit ensures there is consolidated information on and management of significant legal risks that could impact the subsidiaries.

The Legal Department also contributes to the work performed by the Bank's various committees:

- within the Regulatory Oversight Committee, the Legal Department defines, disseminates and implements the policy positions concerning the laws and regulations which affect the Bank's business activities;
- within the New Products Review Committee, the Legal Department analyses the cases presented and issues opinions;
- within the Disputes & Provisions Committee, the Legal Department discusses the litigation under way and the provisions to be booked for them;
- within the Internal Control Coordination Committee, the Legal Department takes part in reviews concerning audits and internal control activities;
- within the national Watch-list Committees and Special Matters & Disputes Committees concerning business markets and regional authorities, the Legal Department acts as an advisor. It presents the matters being litigated and their provisioning connected to such markets.

On 18 May 2017, La Banque Postale was sanctioned by the Prudential Supervision and Resolution Authority (ACPR) for its failure to observe the internal warning procedure applicable to the redemption of unit-linked products backed by the Progressio mutual fund. The consequences of this sanction were taken in the accounts of 2017.

On 31 July 2017, the ACPR issued its final report following an inspection of La Banque Postale's AML/CFT system. A provision has been set aside in La Banque Postale's accounts for the estimated risk.

On 21 December 2017, the Paris Court of Appeal, referred to after appeal, confirmed the decision of 20 September 2010 by the Competition Authority which sentenced 11 French retail banks and the Banque de France to a fine for entering into an agreement on cheque image exchange (EIC) commissions. The fine was paid and the provision included in the accounts for the 2017 financial year.

There are no other governmental, legal or arbitration proceedings, including any proceedings of which the Company is aware, whether pending or threatened, that are likely to have or have had during the last 12 months, any significant effect on the financial position or profitability of the Company and/or the Group.

Fiscal risks are the responsibility of the Tax Department attached to the bank's Finance Department. This Department centralises fiscal management and consultancy for all the bank's different business lines and the subsidiaries of La Banque Postale. It helps the different contacts to prevent and control fiscal risks.

The Tax Department takes part in and issues its opinion within the different internal committees, namely the Product Review Committee, the Regulatory Monitoring, Prudential Accounting and Governance Monitoring Committee, Cross-Entity Securities Committee and the Cross-Entity Savings Committee.

4.8.2 Risk of non-compliance and permanent control

4.8.2.1 Supervision of the non-compliance risk management procedures

Definition

Non-compliance risk is defined in banking regulations as "the risk of legal, regulatory or disciplinary sanctions, or significant financial loss or damage to reputation, due to failure to comply with provisions relating to banking and financial activities, regardless of whether these provisions are legal or regulatory, directly applicable national or European provisions, professional or ethical standards or instructions from company managers given in accordance with the guidelines of the supervisory body".

Risk associated with customer protection was introduced into the banking regulations in 2011. When the Prudential Supervision and Resolution Authority (ACPR) was set up, the legislator granted the regulator, through Article L.612-1 of the French Monetary and Financial Code, the role of "ensuring that persons subject to the control of the regulator comply with the rules designed to safeguard the protection of their customers [...] and that the resources and procedures that they implement to that end are fit for purpose."

In addition, as a provider of Investment Services, La Banque Postale is obliged to comply with the General Regulations of the French Financial Markets Authority (AMF) with regard to risk management and to manage the associated risks.

Non-compliance risk includes risks associated with combating money laundering and the financing of terrorism activities.

The Compliance Department

The Compliance Department is attached to the Executive Board and is responsible for:

- the management of non-compliance risk by:
 - managing the mapping of risks associated with customer protection across all La Banque Postale Group entities,
 - the review of new files and products: a Product Review Committee determines and assesses the risks associated with the creation of new products,
 - supporting commercial communications to develop marketing aids, while implementation of the subsidiarity principle means that this responsibility is shared with the subsidiaries,
 - the coordination of measures to combat money laundering and the financing of terrorism, defining procedures, managing TRACFIN (intelligence and action aimed at combating illicit financial circuits) tools and declarations, and the DGTPE (General Directorate of the Treasury and Economic Policy) declarations,
 - compliance with the general regulations of the AMF (Autorité des Marchés Financiers, or French Financial Markets Authority) for investment services,
 - the development and publication of good conduct rules and the provision of leadership to the ethics correspondents,
 - the investigation of reported ethics breaches;
 - central expertise in the field of fraud prevention (identification and control of the risks of fraud, securing and publishing fraud management processes, awareness raising amongst the players and adapted tools). Group-wide fraud monitoring is part of the work of the Operational Risk Department (see Section 4.6 on Operational Risk);
 - Monitoring of regulatory approvals
 - Monitoring of the implementation of the corruption prevention system with the Legal Affairs Department (law No. 2016-1691 of 9 December 2016, known as the Sapin II Law);

- The conduct risk monitoring system;
- participation in various initiatives and projects:
 - work on changes to the remuneration processes for salespeople: ensuring that the remuneration processes do not generate conflicts of interest between the Bank, its advisors and customers,
 - work relating to cross-cutting projects which have an impact on compliance;

To do this, the Compliance Department is divided into two departments:

- the Department for the Protection of Customers and Business Ethics (DPCD);
- the Financial Transactions Security Department (FTSD).

The Compliance Department:

- has its own budget;
- is entitled to examine the budgets of other "compliance" functions within the system.

In the event that the Head of Compliance disagrees with those budgets, the Department can request a final decision from the Executive Board on the matter.

All these systems work in a coordinated way and fulfil a dual advisory and control role, in order to ensure that the Company's best practices, culture, and values are reflected in its day-to-day activities, so as to protect:

- customers, by ensuring compliance with the customer protection regulations;
- the Bank and its employees, by ensuring compliance with all regulations;
- all stakeholders, by combating money laundering and the financing of terrorism.

4.8.2.2 Customer protection and investment services compliance

The system for management of customer protection risk is based on the key principle of accountability among all players involved. This principle is the foundation of an efficient customer protection system. All employees must ensure that the work that they perform and the transactions that they handle are executed in accordance with the expected procedures and the level of quality required, while taking into account the customer's interests. This principle relies on close involvement of managers.

Similarly, all employees must ensure that each project that they work on is managed in compliance with the systems and internal rules of La Banque Postale Group with regard to customer protection.

The job of protecting customers has always been a matter handled with great vigilance by La Banque Postale. It has a system which aims to control, as effectively as possible, the risks to which it is exposed and it ensures that the system is adapted according to needs.

La Banque Postale is equipped to identify potential or proven risks, whether upstream through regulatory monitoring, or with feedback through the analysis of complaints and control results.

The bank has organised a system for managing this risk.

System

Regulatory monitoring allows the bank to follow the texts applicable to transactions and information related to the personnel concerned. It is based on the regulations set out in the decree of 3 November 2014 and is implemented by the Legal Department.

Within La Banque Postale, regulatory monitoring is organised around a regulatory monitoring Committee, which meets on a monthly basis and which is attended mainly by the legal specialists of the La Banque Postale Group legal unit, and by four Monitoring Committees which meet twice per month and are attended by the business units and subsidiaries, the Compliance and Permanent Control Department and the Risk Department.

As part of its work on compliance with customer protection regulations, the Compliance and Permanent Control Department establishes the compliance framework adopted by La Banque Postale Group in its application of regulatory texts.

To that end, it issues "Compliance Standards". These standards specify how certain regulatory texts should be incorporated by the business units and subsidiaries.

The Customer Protection and Business Ethics Department ensures, through a validation procedure, that the marketing documentation and all marketing aids produced by the business units and subsidiaries are compliant with the regulations and address the interests of customers.

As part of the implementation of the decree of 3 November 2014 in relation to internal control applicable to the creation of new products and to the significant modification of existing products, La Banque Postale set up a Product Review Committee chaired by the Head of the Compliance and Permanent Control Department.

The Compliance and Permanent Control Department is also where all claims are forwarded by the Supervisory Authorities: the ACPR and the AMF. It is in charge of dealing with these claims by addressing them with a clear and comprehensive response. In addition to the responses given, these complaints are analysed and fed into the customer protection risk map.

With the same objective, all complaints handled by La Banque Postale are examined as part of an annual report prepared by the Quality Department. The Compliance and Permanent Control Department relies on the content of this report to provide information for the customer protection risk map.

The Customer Protection Risk Map is a key management tool. It enables the various entities to identify, manage and monitor the successful handling of customer protection risks. The customer protection risk map enables the Compliance Department to monitor, group-wide, the management of risks associated with customer protection by the business units responsible for them.

This map constitutes a key element for preparation of the control plan.

The entire Compliance and Permanent Control Department function participates in the implementation of this system in the Group.

Compliance of investment services

The compliance control system for investment services is managed by the Head of Compliance for Investment Services, assisted by the Investment Services Compliance Department. The latter department assists with the functional application of the control of the delivery of investment services by physical persons working under the authority of La Banque Postale, or on its behalf, as well as controlling relationships with customers and with the markets.

The RCSI chairs La Banque Postale Group's RCCI/CCSN Committee, which is a quarterly forum for Compliance and Internal control managers of subsidiaries providing investment services to discuss experiences and dialogue on expertise.

The Investment Services Compliance Department manages the mapping of risks associated with investment services (and ancillary risks). The purpose of this risk mapping exercise is to assess the suitability and effectiveness of the compliance systems in terms of detecting any risk of non-compliance with the professional obligations referred to in Section II of article L.621-15 of the French Monetary and Financial Code. The risk map identifies the professional obligations applicable to the entity in respect of investment services and the compliance systems in place that enable compliance therewith, including the permanent controls. The essential points are the items referred to in the annual survey, addressed to the AMF, which require Level 2 controls. It is based on the results of permanent and periodic controls and on events.

The non-compliance risk assessment enables the frequency of Level 2 controls for investment services to be adjusted, depending on the level of risk.

This risk map feeds into the customer protection risk map for matters concerning customer protection, and also feeds directly into the bank's operational risk map for risks related to market integrity and information barriers.

Finally, the Investment Services Compliance Department prepares a map of the various potential conflict of interest situations in its business activities which could compromise customer interests (and/or those of unit holders). This risk map ensures that organisational or procedural measures are implemented to prevent or

manage potential conflicts of interest and ensures that the related controls are carried out and produce satisfactory results.

4.8.2.3 Combating money laundering and illegal activities

The fight against money laundering and the financing of terrorism is managed within the Financial Transactions Security Department which reports to the Compliance and Permanent Control Department.

La Banque Postale's system for combating money laundering and the financing of terrorism is articulated on three levels (national, regional, local), enabling it to assume its responsibilities both on the transactions that it performs independently and on those made in its name and on its behalf by La Poste Network, which is responsible for implementing the resources necessary for the proper completion of transactions that it performs in the name of, and on behalf of the Bank.

The Financial Transactions Security Department

The Fight Against Money Laundering and the Financing of Terrorism (AML-CFT) is managed by the Financial Transactions Security Department (DSOF), reporting to the Compliance and Permanent Control Department, whose Head is responsible for the system.

In addition to a very operational activity, namely managing the alerts, the DSOF is the contracting authority for the tools dedicated to the unit. A project unit supports all bank projects, from their inception, that may have an impact on its activity. This unit also establishes or updates the regulatory documentation and training related to the AML-CFT function.

It also plays a role in supervision, the provision of expertise and the definition of training for the bank's AML-CFT Division, extended to the managers of these systems in subsidiaries and in the Monaco branch. In particular, it ensures that the system is consistent throughout the La Banque Postale group with regard to the classification of money laundering and terrorism financing risks and ensures consolidated reporting.

Finally, the Financial Transactions Security Department is responsible for managing the bank's relationships with TRACFIN (AML-CFT) and with the Treasury (financial penalties and embargoes) at national level.

To carry out its work successfully, the Financial Transactions Security Department has dedicated resources, including 14 regional TRACFIN informant officers, reporting directly to management. These TRACFIN informant officers are the only persons within the function (excluding the subsidiaries, branches and management) authorised to convey suspicious transaction reports to TRACFIN and to respond to the rights of communication exercised by that body. They are also responsible for implementing actions on leadership and raising awareness in the La Poste network, the Financial Centres and the business centres of the Business unit.

A dedicated AML-CFT function on two levels

The first level consists of the AML units in the Financial Centres (involving around sixty employees), reporting, operationally, to the Financial Transactions Security Department and responsible for analysing all alerts from Post Office branches, Corporate business centres and Financial Centres, in addition to the warnings generated by the dedicated AML-CFT software.

In addition, one of the seven AML units is also in charge of the entire procedure for handling first level alerts stemming from filters of financial penalty lists with the aid of a filtering tool, and is responsible for monitoring at-risk countries, particularly fiscally non-cooperative countries and those listed for monitoring by the Financial Action Task Force (FATF).

Having analysed warnings and alerts, the AML unit analysts either proceed to a justified filing with no action, or prepare an investigation file for referral to the Level 2 AML-CFT function.

The fourteen informant officers constitute Level 2 of the function for the AML segment. They receive the investigation files, perform a further examination, complete the assembly of any information gathered and transmit a suspicious transaction report to TRACFIN if the suspicion is confirmed.

With regard to the filtering of financial penalty lists, alerts not raised by Level 1 are transmitted to the dedicated operational unit of the Financial Transactions Security Department which manages the entire system.

The local system

The local system is based on the Sector Heads for the Post Office branches, the Operational Risk Managers in the Financial Centres and the Business Centre Heads for the Corporate function.

- The Sector Heads are the AML-CFT managers in the Post Office branches.

They are in charge of establishing alerts related to anomalies, reported as part of Post Office activities, that are likely to constitute a money laundering or terrorism financing risk. These alert systems feed into the AML-CFT Division's tools for combating money laundering.

They are also in charge of Level 1 control of Post Office branch procedures related to the fight against money laundering. These controls are documented in the Sector Head's control guidance sheet. They must ensure that training delivered to staff on money laundering prevention is properly approved. Level 2 controls are carried out by the banking controllers;

- The Operational Risk Managers in the Financial Centres are responsible for risk management, including money laundering and terrorism financing risks. They are responsible for:
 - monitoring specific risks related to sensitive customers and the termination of business relationships,
 - monitoring alerts issued by various Centre services,
 - raising the awareness of and training the Financial Centre staff with the support of the AML-CTF units;
- The Business Centre Heads of the Corporate function have the same responsibilities as the Sector Heads with regard to the activities of specialist business centre advisors and the professional customer managers.

4.8.2.4 Ethics

Business ethics

La Banque Postale has chosen to have a Business Ethics function in place since it was first created. By doing so, the bank gives more meaning and visibility to ethics and thus creates a kind of "benchmark" in matters of "rules of good conduct", which is fully consistent with the "whistle-blowing" procedures in the regulations. The position was expanded to Ethics at the end of 2016. It integrated the corruption prevention system and conduct risk.

To this end, the **banking business ethics function** is structured on three levels:

- the Head of Business Ethics, reporting to the Compliance and Permanent Control Department;
- ethics correspondents in the operational units: the La Poste Network, the Financial Centres, the Financial Services and Retail Brand IT Department (DISFE), the other Head Office Departments, subsidiaries, the Asset Management and Insurance units;
- local contacts who serve as close-at-hand points of contact.

The position of "Business Ethics Officer" defined by La Banque Postale, is held by employees reporting to the Head of Operations, the Head of La Poste Network, the Head of the DISFE, the Head Office Departments, and to the subsidiaries and units.

The role of "Business Ethics Officer" can be assigned to an employee with other responsibilities, to the extent that those responsibilities are independent from his or her business ethics.

These employees are in charge of disseminating business ethics standards within their unit. They guarantee and promote La Banque Postale's rules of conduct.

Local contact points are managed by the Business Ethics Officers.

Because they work at grass-roots level, local contacts are well-positioned to pick up any potential breaches or problems that come to their attention, which they then escalate. They also have an educational role to play by providing information to and raising awareness among their colleagues. Around 100 local contact points have been set up throughout the network. A local point of contact also exists within each Financial Centre in the form of the Head of Permanent Control and Business Ethics.

Risk of non-compliance and permanent control rules of good conduct are incorporated in the internal rules of procedure of La Banque Postale and La Poste. The professional ethics handbook is appended to the internal rules of procedure.

Ongoing training on business ethics issues is provided in all the entities of the Bank, La Poste Network and the Financial Centres and subsidiaries. Specific training is given to new hires.

The ethical conduct code was revised in 2017 and was completed by La Poste Group's anti-corruption code of conduct. All staff were invited to an e-learning course on the topic.

In addition, audits are performed to ensure that business ethics standards are applied by the Permanent Control Department by incorporating topics relating to business ethics in the control plans.

La Banque Postale has implemented procedures for withdrawing the right to act in its name and on its behalf from La Poste Network and Financial Centre employees who have breached its business ethics guidelines. This process is managed by the Head of Business Ethics and the Head of Permanent Control and Compliance.

The Business Ethics Division has implemented procedures for escalating and handling breach of business ethics and misuse committed by employees, who have the right to act in the name and on behalf of La Banque Postale. The warnings are recorded by the Permanent Control of the Bank and are forwarded to the supervisors working closely with the concerned persons, with a view to measures being taken.

In terms of governance, a "Business Ethics Committee", chaired by the Head of Business Ethics of La Banque Postale, holds regular meetings. It brings together contacts from La Poste Network, the DISFE, the Operations Department, the Human Resources Department and the Risks Department. The committee meetings are periodically extended to all officers of La Banque Postale Group.

4.8.2.5 Permanent control

The aim of the **permanent control system** is to provide independent measurement of the effectiveness of risk management. It is based on the bank's three lines of defence. It is responsible for coordinating all the controls, and helps to improve the link between risk and control. The entire system is described in the Permanent Control Charter.

Pursuant to Article 13 of the decree of 3 November 2014, La Banque Postale has set up two types of permanent control:

- the first type, **Level 1 controls**, concerns the permanent controls conducted by agents carrying out operational activities:
 - by the line managers of agents carrying out controlled transactions,
 - by operational staff, as part of cross-checks,
 - by the operational teams themselves, as part of their day-to-day activities;
- the second type of control, **Level 2 controls**, combines permanent controls carried out by dedicated control agents who do not have an operational role. These controls are carried out retrospectively by personnel dedicated to the permanent control function. The teams concerned may be centralised or may be located according to the activity, business line or entity concerned.

The coordination of all the second level controls is provided by the Permanent Control Department, via:

- audits carried out by the banking controllers in the post office network and local public sector and business centres;
- level 2 audits carried out in the AML-CFT unit;
- functional management of Level 2 audits in Financial Centres and in the IS Department with the participation of the dedicated departments;
- the implementation of Level 2 audits in entities providing investment services (DOF, SVM, CNVM);
- supporting and monitoring departments at Head Office and in the subsidiaries in the implementation of their internal control systems.

The Permanent Control Department is attached since 1 January 2018 to the Group Risk Department.

The Permanent Control Department is responsible for the hierarchical management of banking controllers working in the Post Office network and Business Centres of La Banque Postale. It supplies banking controllers and their managers with the tools to enable them to carry out their control duties: control plan, control questionnaires and tools for the consolidation of combined results, according to the corresponding level of responsibility of managers.

This responsibility extends to the Directors of Banking Risks and Controls and internal Auditors in the Financial Centres, via the operational department responsible for control within the Operations Department and to the Department of Information Systems (DSI) under similar terms.

The DCP is responsible for the functional management of the permanent control procedures put in place by La Banque Postale Head Office Departments and its subsidiaries and controls the Outsourced Essential Services.

Thus, it ensures the standardisation of systems across all Group activities which enables it to produce a control plan document which incorporates all the control programmes for: Network, Financial Centres, IT, Investment Services, Head Office, Subsidiaries and Outsourced Essential Service Providers. Within La Banque Postale, Permanent Control is managed by the Group Risk Department through:

- the Permanent Control Department (PCD);
- its teams tasked with credit risk (CRD), financial risks (FRD) and operational risks (ORD).

according to each one's respective remit. These departments ensure the successful functioning of the Level 1 and Level 2 control chain.

The general principle for the distribution of tasks among these two teams is as follows:

- the Permanent Control Department is in charge of the operational management of Level 2 controls. It also contributes to Level 1 controls, particularly through the transfer of risk and control indicators, in addition to Level 1 reporting tools defined in close collaboration with the Group Risk Department. The Permanent Control Department manages non-compliance risk control. The Permanent Control Department is also in charge of Level 2 control for the AML-CFT function;
- the Group risk control and management function is managed by the Group Risk Department. The Group Risk Department is responsible for managing and fixing the permanent control framework on the credit risk segment (including counterparty risk in market transactions) and financial risk (ALM, liquidity and market risk). Within this framework, the Group Risk Departments in charge of Credit Risk (the Retail Credit Risk Department and the Enterprise and Institutional Credit Risk Department) and Financial Risk (the Financial Risk Department) carry out Level 2 controls directly, coordinating with and complementing those carried out by the teams monitored by the Permanent Control Department (see above). With regard to operational risks, Level 1 permanent control is the responsibility of the business units. They may be supported by the operational risk function monitored by the Operational Risk Department (risk approach) and by the permanent control function supervised by the Permanent Control Department (business line expertise). The Operational Risk Department, supported by players from the Information Systems Security (ISS) and Safety of Persons and Property (SPP) functions, ensures that the ISS and SPP risk control system is operationally sound and efficient. The Operational Risk Department is responsible for Level 2 permanent control of the Emergency and Business Continuity Plan. The coordination of Level 2 permanent control of operational risk, is carried out in close collaboration with the Permanent Control Department, notably as part of the work of the Risks and Control Coordination Committee.

The Group Risk Department is in charge of essential work related to the risk function, required for the consistency, uniformity, effectiveness and comprehensiveness of risk measurement and for the oversight and management of risks. Further details concerning the organisation, work and remit of each segment of the Group Risk Department are set out in the Group Risk Charter.

The Permanent Control Department is in charge of the coordination of all Level 2 audits of all entities.

The Head of Permanent Control has full and complete competence with regard to the functional and hierarchical supervision of the unit. These responsibilities specifically involve managing careers in a manner consistent with the requirements of each organisation.

- Deputy Heads of Permanent Control are responsible for managing the two main units:
- since 2016, one Deputy Head is in charge of the hierarchical management of the Banking Controllers function, through the heads of Territorial Control. As such, he is the point of contact for banking controllers within La Poste Network and supervises the Banking Controller function across the Network;
- another Deputy Head of Permanent Control is in charge of the functional management of permanent control of Head Office units and departments. In this respect, since end-2015, he heads the Management Department of the Permanent Control function, with responsibility for setting up a standardised and efficient control system within the Head Office departments, subsidiaries and Outsourced Essential Services.

His sphere of responsibility extends to:

- the Permanent Control Department, within the Operations Department, notably through the hierarchical link with the Managers of Internal Banking Controllers and the internal banking controllers attached to the Financial Centres;
- the Risk Management Department within the Information Systems Department-DISFE;
- the other head office Departments which have permanent second level controllers:
 - Corporate and Regional Development Department
 - Financial Department
 - Retail Banking Department
 - Human Resources Department

Through this permanent control system, the Bank ensures that controls are standardised across all Group activities, which allows it to develop a control plan incorporating all control programmes in a single document: Network, Financial Centres, IT, Investment Services, Head Office, Subsidiaries and Outsourced Essential Service Providers.

4.9 Remuneration policy

Items related to the remuneration policy are set out in chapter 2 of this update of the Registration Document, under section 2.1.1 Remuneration.

4.10 Pillar III correlation table

CRR Article	Subject	Chapter 4 - Risk Management	Page of the update of the Registration Document	Or page of the annual Registration Document
90 (CRDIV)	Return on assets			Chapter 3, page 69
435	Risk management policy and objectives	Operational implementation of the reference framework	Pages 104	
436	Scope of application	Capital management and capital adequacy	Page 89	
437	Capital	Capital management and capital adequacy	Pages 92+	
438	Capital requirements	Current methodology used to calculate capital requirements Capital management and capital adequacy	Page 99 Pages 99+	
439	Exposure to credit and counterparty risk	Credit risks	Pages 110+	
440	Capital buffers	Capital management and capital adequacy	Page 101	
441	Indicators of global systemic importance	Publication of indicators of global systemic importance	Page 104	
442	Credit risk adjustments	Credit risks	Pages 110+	
443	Unencumbered assets	Encumbered/unencumbered assets	Pages 132+	
444	Use of external ratings agencies	Use of external ratings agencies	Page 121	
445	Market risk exposure	Market risk	Pages 133+	
446	Operational risk	Operational risks	Pages 142+	
447	Exposures in equities not included in the trading book	Exposures in equities not included in the trading book	Page 141	
448	Exposures to interest rate risk on positions not included in the trading book	Interest rate risk	Pages 127+	
449	Exposures to securitisation positions	Securitisation	Page 124	
450	Remuneration policy			Chapter 2, pages 52+ Additional information to be provided in the half-yearly update of the Registration Document
451	Leverage	Prudential ratios	Pages 102+	
452	Use of the IRB approach for credit risk	N/A	N/A	
453	Use of credit risk mitigation techniques	Credit risks	Pages 119+	
454	Use of the advanced measurement approach for operational risk	N/A	N/A	
455	Use of internal models for market risk	N/A	N/A	

4.11 Declaration on items with respect to Pillar III

La Banque Postale publishes information related to Pillar III in its annual and update Registration Document.

La Banque Postale considers that the risk management systems currently in place within the Bank, through the various risk identification, measurement and management systems (by type, activity and entity) combined with the cross-functional and forward-looking systems, ensure that the Bank has a comprehensive vision of its risk profile and enables it to put in place the appropriate preventive or corrective actions, as necessary.

The preparation of this chapter was coordinated by the financial communication unit and the information set out therein was produced and documented by the Accounting Department, the Department of Capital Management and Supervisor Relations, and the Tax Department, all three reporting to the Finance Department, the Group Risk Department, the Compliance Department, the Permanent Control Department, the Legal Department and the Insurance Division. The information with regard to the remuneration policy was produced jointly by the Company Secretary and the Human Resources Department.

This chapter was also read by the Statutory Auditors as part of their work to review the update of the Registration Document.

CONSOLIDATED FINANCIAL STATEMENTS LA BANQUE POSTALE GROUP

**HALF-YEAR CLOSE
30 JUNE 2018**



BANQUE ET CITOYENNE

5. Financial statements - Consolidated financial statements

5.1 CONSOLIDATED FINANCIAL STATEMENTS

Consolidated income statement as at 30 June 2018

(in € thousands)	Notes	30.06.2018
Interest and similar income	4.1	2,029,585
Interest and similar expenses	4.1	(908,338)
Commissions (income)	4.2	1,316,976
Commissions (expenses)	4.2	(109,696)
Net gains and losses on financial instruments at fair value through profit or loss	4.3	30,526
Net gains and losses on financial instruments at fair value through other comprehensive income	4.4	321,704
Net gains or losses resulting from the derecognition of financial assets at amortised cost	4.5	-
Net gains or losses resulting from the reclassification of financial assets from amortised cost to fair value through profit or loss		-
Gains or losses resulting from the reclassification of financial assets from fair value through other comprehensive income to fair value through profit or loss		-
Net income from insurance activities	4.6	218,967
Impacts of the overlay approach (gross impact)	4.6	5,418
Income from other activities	4.7	131,792
Expenses from other activities	4.7	(110,726)
Net banking income		2,926,208
General operating expenses	4.8	(2,271,445)
Net depreciation and amortisation and impairment of tangible and intangible fixed assets		(97,125)
Gross operating income		557,638
Cost of risk	4.9	(49,183)
Operating income		508,455
Share of profits of equity associates		130,551
Net gains and losses on other assets		(315)
Changes in the value of goodwill		-
Pre-tax income		638,691
Income tax	4.10	(197,619)
Net income		441,073
Non-controlling interests		19,565
NET INCOME, GROUP SHARE		421,508
<i>Undiluted earnings per ordinary share (in euros)</i>		11.98
<i>Diluted earnings per ordinary share (in euros)</i>		10.50

Consolidated income statement as at 30 June 2017

(in € thousands)	Notes	30.06.2017
Interest and similar income	4.1	2,181,951
Interest and similar expenses	4.1	(880,216)
Commissions (income)	4.2	1,392,904
Commissions (expenses)	4.2	(138,253)
Net gains and losses on financial instruments at fair value through profit or loss	4.3	7,542
Net gains and losses on assets available for sale	4.4	124,714
Income from other activities	4.7	542,526
Expenses from other activities	4.7	(423,070)
Net banking income		2,808,098
General operating expenses	4.8	(2,241,596)
Net depreciation and amortisation and impairment of tangible and intangible fixed assets		(89,214)
Gross operating income		477,288
Cost of risk	4.9	(71,271)
Operating income		406,017
Share of profits of equity associates		132,503
Net gains and losses on other assets		(594)
Changes in the value of goodwill		-
Pre-tax income		537,927
Income tax	4.10	(155,253)
Net income		382,673
Non-controlling interests		16,124
NET INCOME, GROUP SHARE		366,549
<i>Undiluted earnings per ordinary share (in euros)</i>		10.42
<i>Diluted earnings per ordinary share (in euros)</i>		9.20

Consolidated balance sheet as at 30 June 2018

(in € thousands)	Notes	30.06.2018	01.01.2018 (*)
ASSETS			
Cash, central banks		2,832,523	3,324,831
Financial assets at fair value through profit or loss	3.1	11,985,531	10,088,503
Hedging derivatives		1,159,203	1,135,974
Financial assets at fair value through equity	3.2	11,276,731	14,619,940
Securities at amortised cost	3.3	20,735,391	23,079,999
Loans and receivables due from credit institutions and similar at amortised cost	3.4	89,899,586	83,611,312
Loans and receivables due from customers at amortised cost	3.5	88,276,229	84,359,455
Revaluation differences on rate hedged portfolios		78,430	75,517
Investments of the insurance activities and reinsurers' share of technical provisions	3.6	2,817,174	2,768,064
Current tax assets		267,189	204,121
Deferred tax assets		198,749	176,095
Accruals and other assets	3.12	3,138,471	3,149,216
Equity associates	3.13	3,268,657	3,383,358
Property, plant and equipment		628,497	644,776
Intangible fixed assets		659,807	618,398
Goodwill	3.14	160,227	160,227
TOTAL		237,382,394	231,399,786
LIABILITIES			
Central banks		-	-
Financial liabilities at fair value through profit or loss	3.1	588,319	534,132
Hedging derivatives		201,943	236,419
Liabilities due to credit institutions and similar	3.15	15,235,577	14,154,290
Liabilities to customers	3.16	186,704,703	182,563,774
Debt securities		12,539,464	11,373,236
Revaluation differences on rate hedged portfolios		746,047	720,758
Current tax liabilities		16,972	6,870
Deferred tax liabilities		108,617	111,395
Accruals and other liabilities	3.17	4,747,406	4,938,507
Insurance company underwriting provisions and shadow accounting	3.18	2,465,632	2,375,657
Provisions	3.19	512,544	541,158
Subordinated debt	3.20	3,893,797	3,888,976
EQUITY		9,621,373	9,954,615
Non-controlling interests		107,410	109,843.
Equity, Group share		9,513,963	9,844,772
Share capital		4,046,408	4,046,408
Consolidated and other reserves		4,356,987	4,695,631
Gains and losses recognised directly in equity		689,060	1,102,733
Profit (loss) for the period		421,508	-
TOTAL		237,382,394	231,399,786

(*) balances at 1 January 2018 after application of IFRS 9

Consolidated balance sheet as at 31 December 2017

(in € thousands)	Notes	31.12.2017
ASSETS		
Cash, central banks		3,324,831
Financial assets at fair value through profit or loss	3.7	7,596,135
Hedging derivatives		1,145,753
Available-for-sale financial assets	3.8	17,850,087
Loans and receivables due from credit institutions	3.9	84,087,559
Loans and receivables due from customers	3.10	88,135,172
Revaluation differences on rate hedged portfolios		68,751
Financial assets held to maturity	3.11	20,734,014
Current tax assets		204,121
Deferred tax assets		112,413
Accruals and other assets		3,411,175
Non-current assets held for sale		-
Deferred profit-sharing		-
Equity associates	3.13	3,383,358
Investment properties		-
Tangible fixed assets		644,776
Intangible fixed assets		618,398
Goodwill	3.14	160,227
TOTAL		231,476,770
LIABILITIES		
Central banks		-
Financial liabilities at fair value through profit or loss	3.7	532,352
Hedging derivatives		238,202
Liabilities due to credit institutions	3.15	14,154,289
Liabilities to customers	3.16	182,563,774
Debt securities		11,373,237
Revaluation differences on rate hedged portfolios		720,758
Current tax liabilities		6,870
Deferred tax liabilities		112,308
Accruals and other liabilities	3.17	4,938,504
Insurance company underwriting provisions and shadow accounting	3.18	2,375,566
Provisions		478,383
Subordinated debt	3.20	3,888,976
EQUITY, GROUP SHARE		9,984,488
Share capital		4,046,408
Consolidated and other reserves		4,045,437
Gains and losses recognised directly in equity		1,128,944
Profit (loss) for the period		763,699
NON-CONTROLLING INTERESTS		109,064
TOTAL		231,476,770

Statement of net income and gains and losses recognised directly in equity at 30 June 2018

(in € thousands)	30.06.2018
NET INCOME	441,073
ITEMS RECYCLED TO PROFIT OR LOSS	(416,559)
Translation adjustments	-
Revaluation of financial assets at fair value through other comprehensive income with recycling	(278,377)
<i>Changes in the revaluation reserve</i>	<i>(150,089)</i>
<i>Reclassification in profit and loss</i>	<i>(128,288)</i>
Revaluation of derivatives hedging items of items recycled to profit or loss	(165,140)
<i>Changes in the reserve</i>	<i>9,230</i>
<i>Recycling to profit or loss</i>	<i>(174,370)</i>
Impacts of the overlay approach	(5,418)
Deferred tax	153,949
Items from the share in gains and losses recognised directly in equity from associates*	(121,574)
ITEMS NOT RECYCLED TO PROFIT AND LOSS	2,558
Actuarial adjustments for defined-benefit schemes	-
Revaluation of the credit risk of financial liabilities classified as fair value through profit or loss on option	-
Revaluation of equity instruments classified as fair value through other comprehensive income (excluding securities sold during the year)	288
Portion of the revaluation of equity classified as fair value through other comprehensive income, sold during the year	-
Items from the share in gains and losses recognised directly in equity from associates*	2,315
Other changes	-
Deferred tax assets	(44)
TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY NET OF TAXES	(414,001)
NET INCOME AND GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY NET OF TAXES	27,072
Of which net income and gains and losses recognised directly in equity, Group share	7,906
Of which net income and gains and losses recognised directly in equity, non-controlling interests	19,166

* Amounts presented net of deferred taxes

Statement of net income and gains and losses recognised directly in equity at 30 June 2017

(in € thousands)	30.06.2017
NET INCOME	382,673
ITEMS RECYCLED TO PROFIT OR LOSS	(91,829)
Translation adjustments	-
Revaluation of available-for-sale financial assets	(58,546)
<i>Changes in the revaluation reserve</i>	(50,492)
<i>Reclassification in profit and loss</i>	(8,054)
Revaluation of hedging derivatives	(42,252)
<i>Changes in the reserve</i>	(6,642)
<i>Recycling to profit or loss</i>	(35,610)
Deferred tax	34,493
Items from the share in gains and losses recognised directly in equity from associates*	(25,524)
ITEMS NOT RECYCLED TO PROFIT AND LOSS	(48)
Actuarial adjustments for defined-benefit schemes	-
Other changes	-
Deferred tax	-
Items from the share in gains and losses recognised directly in equity from associates*	(48)
TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY NET OF TAXES	(91,877)
NET INCOME AND GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY NET OF TAXES	290,796
Of which net income and gains and losses recognised directly in equity, Group share	274,983
Of which net income and gains and losses recognised directly in equity, non-controlling interests	15,813

* Amounts presented net of deferred taxes

Statement of changes in equity

	Share capital (1)	Issue premium	Legal reserves, retained earnings and other reserves	Consolidated reserves	Gains and losses net of taxes recognised directly in equity		Profit (loss), Group share	Equity, Group share	Equity, non- controlling interests	Total consolidated equity
					Actuarial adjustments	Conversion reserves, Changes in the fair value of financial instruments (2)				
Equity restated for IFRS (IAS 39) at 31 December 2016	4,046,408	16,719	1,510,725	2,294,374	(26,705)	1,209,233	693,825	9,744,578	79,187	9,823,765
Appropriation of 2016 net income	-	-	621,050	72,775	-	-	(693,825)	-	-	-
Distribution in 2017 of 2016 income	-	-	(312,101)	-	-	-	-	(312,101)	(12,338)	(324,439)
Sub-total of movements related to shareholder relations	-	-	308,949	72,775	-	-	(693,825)	(312,101)	(12,338)	(324,439)
Changes in gains and losses recognised directly in equity	-	-	-	-	-	(66,090)	-	(66,090)	-	(66,090)
Net income at 30 June 2017	-	-	-	-	-	-	366,549	366,549	16,124	382,673
Sub-total	-	-	-	-	-	(66,090)	366,549	300,459	16,124	316,583
Share in the changes in equity of equity associates	-	-	-	413	(48)	(25,524)	-	(25,159)	-	(25,159)
Other changes (3)	-	-	6	10,415	-	-	-	10,421	(10,960)	(539)
Equity under IFRS (IAS 39) at 30 June 2017	4,046,408	16,719	1,819,680	2,377,976	(26,752)	1,117,618	366,549	9,718,198	72,013	9,790,211
Remuneration of super subordinated securities (4)	-	-	-	(41,966)	-	-	-	(41,966)	-	(41,966)
Sub-total of movements related to shareholder relations	-	-	-	(41,966)	-	-	-	(41,966)	-	(41,966)
Changes in gains and losses recognised directly in equity	-	-	-	-	-	2,788	-	2,788	3,252	6,040
Net income for H2 2017	-	-	-	-	-	-	397,150	397,150	18,131	415,281
Sub-total	-	-	-	-	-	2,788	397,150	399,938	21,383	421,321
Effect of acquisitions and disposals on non-controlling interests	-	-	-	(21)	-	-	-	(21)	-	(21)
Share in the changes in equity of equity associates	-	-	-	(1,800)	(1,374)	35,882	-	32,708	-	32,708
Other changes (3)	-	-	-	(125,150)	781	-	-	(124,369)	15,668	(108,701)
Equity under IFRS (IAS 39) at 31 December 2017	4,046,408	16,719	1,819,680	2,209,039	(27,346)	1,156,289	763,699	9,984,488	109,064	10,093,552
Effect of the entry into force of IFRS 9 (5)	-	-	-	(113,506)	-	(26,210)	-	(139,716)	780	(138,937)
Appropriation of 2017 net income	-	-	526,673	237,026	-	-	(763,699)	-	-	-
Equity under IFRS (IFRS 9) at 1 January 2018	4,046,408	16,719	2,346,353	2,332,559	(27,346)	1,130,079	-	9,844,772	109,843	9,954,614
Distribution in 2018 of 2017 income	-	-	(343,769)	-	-	-	-	(343,769)	(1,093)	(344,862)
Sub-total of movements related to shareholder relations	-	-	(343,769)	-	-	-	-	(343,769)	(1,093)	(344,862)
Changes in gains and losses recognised directly in equity	-	-	-	-	-	(294,406)	-	(294,406)	(287)	(294,693)
Net income at 30 June 2018	-	-	-	-	-	-	421,508	421,508	19,565	441,073
Sub-total	-	-	-	-	-	(294,406)	421,508	127,102	19,278	146,380
Share in the changes in equity of equity associates	-	-	-	(3,161)	2,287	(121,511)	-	(122,385)	-	(122,385)
Other changes	-	-	2	8,285	83	(126)	-	8,244	(20,618)	(12,374)
Equity under IFRS (IFRS 9) at 30 June 2018	4,046,408	16,719	2,002,586	2,337,682	(24,976)	714,036	421,508	9,513,963	107,410	9,621,373

(1) At 30 June 2018, La Banque Postale's capital consisted of 35,186,153 shares with a nominal value of €115.

(2) The gains and losses recorded directly in equity include translation reserves from foreign subsidiaries consolidated by the CNP Assurances and AEW Europe groups.

(3) Other changes in 2017 relate mainly to changes in puts on non-controlling interests. In 2017, the improved economic outlook and the refinement of the methodology led to changes of -€114.6m in Equity, Group share and -€24.7m in Equity, non-controlling interests.

(4) Of which €42m for the remuneration of super subordinated securities corresponding to the payment of the coupon, net of deferred tax asset, on the bond issued.

(5) The impact of the IFRS 9 is detailed in section 1, "Impact on equity of the first-time application of IFRS 9".

Net cash flow statement

The cash flow statement is presented using the indirect method model.

Investment activities represent cash flows for the acquisition and disposal of interests in consolidated companies as well as of tangible and intangible fixed assets.

Financing activities represent changes linked to structural financial transactions involving equity, subordinated debt and acquisition of non-controlling interests.

Operating activities include those cash flows that fall outside the two previous categories. In particular, securities relating to strategic investments recognised as “Financial assets at fair value through other comprehensive income” or “at amortised cost” are classified as operating activities.

(In € thousands)	30.06.2018	30.06.2017
Pre-tax income	638,691	537,927
+/- Net depreciation and amortisation of tangible and intangible fixed assets	96,552	89,126
- Changes in goodwill and impairment of other non-current assets	572	76
+/- Net provisions and impairment charges	65,820	33,749
+/- Share of profits of equity associates	(130,551)	(132,503)
+/- Net losses/gains on investment activities	315	594
+/- Other movements	754,239	208,040
= Total of non-monetary items included in net income before taxes and other adjustments	786,946	199,082
+/- Flows from credit institution transactions	4,058,978	(1,555,138)
+/- Flows from customer transactions	804,023	2,628,296
+/- Flows from other transactions impacting financial assets or liabilities	2,183,650	202,665
+/- Flows from other transactions impacting non-financial assets or liabilities	(394,644)	(46,462)
- Taxes paid	(92,219)	99,051
Net increase (decrease) in assets and liabilities from operating activities	6,559,788	1,328,412
Total net cash generated from operations (A)	7,985,425	2,065,421
+/- Flow from financial assets and interests	121,315	112,828
+/- Flow from tangible and intangible fixed assets	(129,226)	(95,748)
Total net cash from investment activities (B)	(7,911)	17,080
+/- Cash flow from or to shareholders	(344,862)	(324,429)
+/- Other net cash flows from financing activities	(2,567)	152,638
Total net cash from financial transactions (C)	(347,429)	(171,791)
Net increase (decrease) in cash and cash equivalents (A+B+C)	7,630,085	1,910,710
Net cash generated by operations (A)	7,985,425	2,065,421
Net cash generated by investment activities (B)	(7,911)	17,080
Net cash generated by financing activities (C)	(347,429)	(171,791)
Cash and cash equivalents at opening	12,921,400	12,232,749
Cash, central banks (assets and liabilities)	3,324,831	2,732,044
Accounts (assets and liabilities) and overnight borrowing and lending with credit institutions	9,596,569	9,500,705
Cash and cash equivalents at closing	20,551,486	14,143,459
Cash, central banks (assets and liabilities)	2,832,523	2,532,280
Accounts (assets and liabilities) and overnight borrowing and lending with credit institutions	17,718,963	11,611,179
CHANGE IN NET CASH	7,630,086	1,910,710

5.2 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Legal and financial framework

- **Highlights of the year**

No events significantly impacting the consolidated financial statements of La Banque Postale occurred during the first half of 2018.

- **Post balance sheet events**

La Banque Postale Group has not identified any events after the closing of accounts.

NOTE 1 IMPACT OF THE APPLICATION OF IFRS 9 AS FROM 1 JANUARY 2018

IFRS 9 was adopted by the European Union on 22 November 2016, with mandatory application from 1 January 2018.

IFRS 9 “Financial instruments” replaces IAS 39 “Financial instruments: recognition and measurement”. It defines new classification and measurement rules for financial instruments, a new method for impairment of financial assets, as well as hedge accounting criteria.

1.1 First-time application of IFRS 9 at LBP

1.1.1 Retrospective application of IFRS 9

The application of IFRS 9 is retrospective according to IAS 8, which implies the application of IFRS 9 principles as if the standard had always been applied. The impacts of the transition are accounted for in equity.

Thus, the “basic lending arrangement”, or SPPI (solely payments of principal and interest), test was carried out retrospectively at the date of initial recognition of each financial asset. The business model assessment was carried out at 1 January 2018 based on the facts and circumstances at that date.

Likewise, the retrospective application of IFRS 9 concerning impairment involves measuring the significant increase in the credit risk of each financial asset entering the scope of application since its initial recognition. This analysis enabled the financial assets to be classified under “Bucket 1” or “Bucket 2” at the date of the first-time application.

1.1.2 Restatement of comparative information

Furthermore, IFRS 9 does not require the publication of a 2017 pro forma. Consequently, LBP does not restate the comparative information in its financial statements.

1.1.3 IAS 39 principles maintained for hedge accounting

The IFRS 9 standard only covers micro-hedging transactions. It extends the potential of hedging strategies with, notably, more items becoming eligible for hedge accounting and fewer requirements regarding the demonstration of the effectiveness of hedging relationships.

With respect to macro-hedging, European Union provisions relating to the fair value hedging of a portfolio of interest rate items will continue to apply.

IFRS 9 provides the option of deferring application of the new hedge accounting provisions pending the effective date of the standard on macro-hedging. As such, the Group has chosen to maintain IAS 39 principles for hedge accounting.

1.1.4 Application of IFRS 9 to the “Insurance” activity and to CNP Assurances Group

In November 2017, the European Union adopted the amendment published by the IASB “Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts”, which proposes two options to offset the effects

arising from the implementation of IFRS 9 before the new insurance contracts standard, IFRS 17, comes into effect on 1 January 2021.

- The first option (the "deferral approach"), which consists of deferring application of IFRS 9 until 1 January 2021, applies to insurers for which their primary activity is insurance and to financial conglomerates under certain conditions. The amendment also provides for an optional temporary exemption from applying certain provisions of IAS 28, thus enabling groups that apply IFRS 9 and accounting for subsidiaries using the equity method to use the accounts drawn up by these subsidiaries for their consolidated accounts without having to apply IFRS 9 if the standard is not required for the subsidiary.

As the CNP Assurances Group meets this eligibility criteria to opt for deferred application of IFRS 9, it will thus continue to apply IAS 39 to account for its financial instruments until the financial year 2021. As authorised by the amendment, LBP will make no IFRS 9 adjustments to the accounts drawn up by the entity when accounting for it under the equity method.

- The second option, the "overlay approach", applies to insurance entities having chosen to apply IFRS 9 as of 1 January 2018. This approach allows the reclassification to other comprehensive income (OCI) and recycling of some of the volatility generated in the income statement by financial assets that were previously accounted for according to IAS 39 as assets available for sale or at amortised cost and that under IFRS 9 would be required to be accounted for at fair value through profit or loss. LBP Group chose this latter option for the financial assets held by its fully consolidated insurance subsidiaries. Thus, the volatility resulting from the adoption of IFRS 9 would be offset until application of IFRS 17 as at 1 January 2021. The subsidiaries concerned by the overlay approach are mainly La Banque Postale Prévoyance, La Banque Postale Assurances IARD and La Banque Postale Assurance Santé.

1.2 The main impacts of the adoption of IFRS 9 on 1 January 2018

1.2.1 Impacts of the adoption of IFRS 9 in terms of classification

According to IFRS 9, financial assets are classified either at amortised cost, at fair value through other comprehensive income (with or without recycling), or at fair value through profit or loss. The classification of a financial asset in each category must be carried out based on the business models defined by the entity and the characteristics of its contractual cash flows (SPPI test).

The main reclassifications resulting from the adoption of IFRS 9 concerning financial assets at LBP are the following:

- Loan origination transactions for local authorities eligible for transfer to Caffil, classified as loans and receivables according to IAS 39, including the impact of their fair value hedging, are now classified as "Financial assets held for trading", and measured and recognised as "Financial assets at fair value through profit or loss".
- With respect to securities portfolios, units of UCITS that were classified as Assets available for sale under IAS 39 and designated as debt instruments that do not meet the SPPI criteria under IFRS 9 are no longer recognised as Financial assets at fair value through profit or loss.
- Investments in equity instruments classified as Assets available for sale under IAS 39 and corresponding to non-consolidated interests held by the Group are now classified at fair value through comprehensive

income and cannot be recycled, in accordance with the irrevocable option provided for by IFRS 9, with the exception of Visa shares, which are recognised at fair value through profit or loss.

- Regarding securities classified as fair value on option under IAS 39, they correspond to compound financial instruments with embedded derivatives that are not closely related. Under IFRS 9, as debt instruments that do not meet SPPI criteria, these financial assets must be recognised at fair value through profit or loss.

The impacts on equity of the switch to IFRS 9 at 1 January 2018 relating to classification total +€8m (+€11m before calculation of deferred taxes) and correspond primarily to the reclassification to fair value through profit or loss of the loans to local authorities eligible for transfer to Caffil.

In addition, the application of Recommendation ANC no. 2017-02 on the format of the consolidated financial statements of banks according to IFRS standards results in the reclassification of investments and the liabilities of insurance activities in a specific balance sheet item and in isolating the net income from insurance activities in the income statement.

1.2.2 Impact of the switch to IFRS 9 in terms of impairment

As a reminder, the new impairment method is now based on an expected credit loss model and no longer incurred losses only.

This new provisioning model applies to all financial assets with a counterparty risk (excluding equity instruments) not revalued at fair value through profit or loss, as well as to financing commitments and financial guarantee contracts.

Thus, new impairments, representing the 12-month expected credit losses, will be recorded in the amounts outstanding at initial recognition on the balance sheet, and off-balance sheet for financing commitments, when there is no significant increase in credit risk. The outstanding amounts correspond to "Bucket 1".

The outstanding amounts for which a significant increase in credit quality has been identified since initial recognition must be impaired up to the amount of credit losses expected over the residual life of the instrument. These amounts correspond to "Bucket 2".

The identification criteria for default assets ("Bucket 3") will be the same as those provided for in IAS 39.

The impact on equity of the introduction of IFRS 9 at 1 January 2018 linked to the new depreciation model totalled -€148 million and corresponds, for:

- -€106m to the impairment of financial assets (-€153m before calculation of the deferred tax);
- -€42m to the impairment of off-balance sheet transactions (-€63m before calculation of deferred taxes).

Balance sheet transition from 31 December 2017 to 1 January 2018

1 Financial assets

		31.12.2017	01.01.2018														
		IAS 39	Reclassifications under IFRS 9														
		Gross value on the balance sheet under IAS 39	Central banks	Financial assets at fair value through profit or loss					Investments of the insurance activities	Financial assets at fair value through equity		Debt instruments recognised at amortised cost		Securities at amortised cost	Revaluation differences on rate hedged portfolios	Accruals	
Financial assets held for trading	Equity instruments			Debt instruments that do not meet SPPI criteria	Financial assets at fair value through profit or loss on option	Hedging derivatives	Debt instruments recognised at fair value through OCI with recycling	Equity instruments recognised at fair value through OCI without recycling		Loans and receivables due from credit institutions	Loans and receivables due from customers	Debt securities					
(in € thousands)																	
IAS 39	Central banks	3,324,831	3,324,831	-	-	-	-	-	-	-	-	-	-	-	-	-	
	Financial assets at fair value through profit or loss	8,741,888	-	7,509,613	-	35,307	-	1,135,974	60,993	-	-	-	-	-	-	-	
	Financial assets held for trading	7,560,828	-	7,499,834	-	-	-	-	60,993	-	-	-	-	-	-	-	
	Financial assets at fair value through profit or loss on option	35,307	-	-	-	35,307	-	-	-	-	-	-	-	-	-	-	
	Hedging derivatives	1,145,753	-	9,779	-	-	-	1,135,974	-	-	-	-	-	-	-	-	
	Available-for-sale financial assets	17,860,982	-	-	20,027	866,637	-	-	2,417,655	14,304,282	252,381	-	-	-	-	-	
	Loans and receivables due from credit institutions	84,087,559	-	-	-	-	-	-	-	-	-	83,612,817	-	474,742	-	-	
	Loans and receivables due from customers	88,739,401	-	1,658,877	-	-	-	-	-	63,347	-	-	85,106,970	1,910,207	-	-	
	Revaluation differences on rate hedged portfolios	68,751	-	-	-	-	-	-	-	-	-	-	-	-	68,751	-	
	Securities held to maturity	20,734,014	-	-	-	-	-	-	32,510	-	-	-	-	20,701,504	-	-	
	Accruals	3,411,175	-	-	-	-	-	-	261,959	-	-	-	-	-	-	3,149,216	
	Accounting balances according to IAS 39 valuation criteria	226,968,601															
	Restatement of the carrying amount under IFRS 9			-	388	-	(500)	-	-	2,689	3,032	-	2	-	-	6,766	-
	Restatement for IFRS 9 with no impact on equity			-	-	-	(1,846)	-	-	(7,532)	-	(1,516)	-	-	-	-	-
01.01.2018	Gross accounting balances under IFRS 9 valuation criteria		3,324,831	9,168,878	20,027	899,598	-	1,135,974	2,768,274	14,370,661	250,865	83,612,819	85,106,970	23,086,453	75,517	3,149,216	

	Reclassifications under IFRS 9	
	Of which reclassified financial assets outside the category of fair value through profit or loss on option under IFRS 9	
	Reclassification required by the provisions of IFRS 9	Reclassification by choice
(in € thousands)		
Financial assets at fair value through profit or loss on option	35,307	-
Debt instruments	35,307	-
Equity instruments	-	-

- Financial liabilities

		31.12.2017	01.01.2018					
		IAS 39	Reclassifications under IFRS 9					
		Value on the balance sheet according to IAS 39	Financial liabilities at fair value through profit or loss			Financial liabilities recognised at amortised cost		
			Financial liabilities at fair value held for trading	Financial liabilities at fair value through profit or loss on option	Hedging derivatives	Liabilities due to credit institutions	Liabilities to customers	Debt securities
(in € thousands)								
IAS 39	Financial liabilities at fair value through profit or loss	770,554	529,609	4,526	236,419	-	-	-
	Financial liabilities at fair value held for trading	527,826	527,826		-			
	Financial liabilities at fair value through profit or loss on option	4,526		4,526		-	-	-
	Hedging derivatives	238,202	1,779		236,419			
	Liabilities due to credit institutions	14,154,289		-		14,154,290		
	Liabilities to customers	182,563,774		-			182,563,774	
	Debt securities	11,373,237		-				11,373,236
	Accounting balances according to IAS 39 valuation criteria	208,861,854						
	Restatement of the carrying amount under IFRS 9							
01.01.2018								
	Accounting balances according to IFRS 9 valuation criteria		529,605	4,527	236,419	14,154,290	182,563,774	11,373,236

The La Banque Postale Group did not make any reclassifications of financial liabilities to fair value through profit or loss on option.

Transition between impairments or provisions made according to IAS 39 and the loss allowance calculated according to IFRS 9

With the application of IFRS 9 at 1 January 2018, the provisioning methods have changed significantly. The following table presents the change in liability impairments or provisions at 31 December 2017 according to IAS 39 to the loss allowance recorded at 1 January under IFRS 9:

Impairment of financial assets		31.12.2017	01.01.2018												
		IAS 39 - Impairment amount	IFRS 9 - Reclassification of impairment amounts												
			Central banks	Financial assets at fair value through profit or loss				Investments of the insurance activities	Financial assets at fair value through equity		Debt instruments recognised at amortised cost				Reclassification with no impact on equity
				Financial assets held for trading	Equity instruments	Debt instruments that do not meet SPPI criteria	Financial assets at fair value through profit or loss on option		Debt instruments recognised at fair value through OCI with recycling	Equity instruments recognised at fair value through OCI without recycling	Loans and receivables due from credit institutions	Loans and receivables due from customers	Debt securities	Finance lease transactions	
(in € thousands)															
Impairment according to IAS 39	Central banks	-	-												
	Assets available for sale	(10,895)	-	-	-	-	-	-	-	-	-	-	-	-	(10,895)
	Loans and receivables due from credit institutions	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Loans and receivables due from customers	(604,229)	-	-	-	-	-	-	-	-	(604,229)	-	-	-	-
	Securities held to maturity	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	Accounting balances of impairment losses according to IAS 39	(615,124)											-		-
	Restatement of impairment losses under IFRS 9		-	-	-		(210)	(1,586)	-	(1,507)	(143,286)	(6,454)	-		10,895
	<i>o/w Bucket B1</i>		-	-	-		(210)	(1,493)	-	(1,507)	(44,091)	(5,991)	-		-
	<i>o/w Bucket B2</i>		-	-	-		-	(93)	-	-	(82,438)	(463)	-		-
	<i>o/w Bucket B3</i>		-	-	-		-	-	-	-	(16,757)	-	-		10,895
01.01.2018	Accounting balances of impairment losses under IFRS 9		-		-		(210)	(1,586)	-	(1,507)	(747,515)	(6,454)	-		-

Provisions for off-balance sheet commitments	31.12.2017	Restatements of provisions under IFRS 9	01.01.2018
	IAS 39 - Provisions amount		IFRS 9 - Provisions amount
(in € thousands)			
Financing commitments	-	62,400	62,400
Financial guarantee contracts	-	238	238
ACCOUNTING BALANCES FOR PROVISIONS	-	62,638	62,638

The breakdown between impairments of groups of assets and individual assets under IAS 39 is the following:

Breakdown of impairments of financial assets under IAS 39	31.12.2017	
	Impairment of groups of assets	Impairment of individual assets
(in € thousands)		
Assets available for sale	-	(10,895)
Loans and receivables due from customers	(44,198)	(560,031)
ACCOUNTING BALANCES OF IMPAIRMENTS ACCORDING TO IAS 39	(44,198)	(570,926)

The breakdown of impairments by bucket under IFRS 9 is the following:

Breakdown of impairments of financial assets (including the investments of the insurance activities)	01.01.2018		
	Bucket 1	Bucket 2	Bucket 3
(in € thousands)			
Debt instruments at fair value through profit or loss	(1,703)	(93)	-
<i>Loans and receivables due from credit institutions</i>	-	-	-
<i>Loans and receivables due from customers</i>	-	-	-
<i>Debt securities</i>	(1,703)	(93)	-
Debt instruments recognised at amortised cost	(51,878)	(159,916)	(543,682)
<i>Loans and receivables due from credit institutions</i>	(1,507)	-	-
<i>Loans and receivables due from customers</i>	(44,380)	(159,453)	(543,682)
<i>Debt securities</i>	(5,991)	(463)	-
TOTAL	(53,581)	(160,009)	(543,682)

Provisions for off-balance sheet commitments	01.01.2018		
	Bucket 1	Bucket 2	Bucket 3
(in € thousands)			
Financing commitments	26,207	21,350	14,843
Financial guarantee contracts	193	25	20
TOTAL	26,400	21,375	14,863

Impact on equity of the first-time application of IFRS 9

	IFRS 9 impact on total consolidated equity	IFRS 9 impact on equity, Group share	IFRS 9 impact on equity, non-controlling interests
Equity at 31 December 2017 - IAS 39	10,093,552	9,984,488.	109,064.
Impact on consolidated reserves	(112,703)	(113,506)	803
Reclassification from assets available for sale to assets at fair value through other comprehensive income	1,517	1,517	-
Reclassification from assets available for sale to assets at fair value through profit or loss	80,873	79,304	1,569
Impact of the overlay approach	(36,751)	(36,552)	(200)
Reclassification from amortised cost to fair value through profit or loss (incl. acquisition costs still to be amortised)	7,160	7,160	-
Recognition of expected credit losses (on financial assets, assets that enter the scope of IAS 17 and IFRS 15, off-balance sheet commitments)	(215,593)	(215,470)	(123)
Tax	40,866	41,309	(443)
Tax (impact of the overlay approach)	9,226	9,22.	-
Impact on gains and losses recognised directly in equity	(26,235)	(26,210)	(23)
Reclassification from assets available for sale to assets at fair value through other comprehensive income	(1,517)	(1,517)	-
Reclassification from assets available for sale to assets at fair value through profit or loss	(81,145)	(79,579)	(1,567)
Impact of the overlay approach	36,751	36,552	200
Reclassification from amortised cost to fair value through profit or loss	3,925	3,057	868
Recognition of expected credit losses on assets at fair value through profit or loss	1,506	1,499	7
Tax	23,472	23,004	468
Tax (impact of the overlay approach)	(9,226)	(9,226)	-
Total - Impact on equity of the application of IFRS 9	(138,937)	(139,716)	780
EQUITY AT 1 JANUARY 2018 - IFRS 9	9,954,615	9,844,772	109,843

NOTE 2 PRINCIPAL VALUATION AND PRESENTATION RULES APPLYING TO THE CONSOLIDATED FINANCIAL STATEMENTS

2.1 Regulatory framework

Regulation (EC) No. 1606/2002 of 19 July 2002 requires companies whose debt securities are listed on a regulated market to apply the accounting basis established by the International Accounting Standard Board (IASB). Accordingly, La Banque Postale Group has since 1 January 2007 prepared its consolidated financial statements under International Financial Reporting Standards (IFRS) as approved by the European Union. More specifically, the Group has chosen to apply the provisions of European Commission Regulation No. 2086/2004 by adopting IAS 39, with the exception of certain provisions. This European regulation therefore allows certain macro-hedging transactions carried out as part of asset and liability management (including notably customer demand deposits) to be treated as fair value hedges.

The full set of standards adopted in the European Union can be consulted on the European Commission's website at the following address:

http://ec.europa.eu/internal_market/accounting/ias/index_fr.htm.

Statement of compliance

The summary interim financial statements have been drawn up in compliance with IAS 34 – Interim Financial Information. The statements include a selection of notes explaining material events and transactions with a view to understanding the changes that have occurred in the Group's financial position and performance since the last annual consolidated financial statements for the period to 31 December 2017. The summary interim financial statements do not include all the information required for the full annual financial statements, which are prepared under IFRS. They must be read together with the Group's financial statements for the year ended 31 December 2017.

These summary consolidated financial statements were prepared under the responsibility of the Executive Board meeting on 23 July 2018.

The consolidated financial statements are presented in thousands of euros.

2.2 Standards and interpretations applied by the Group from 1 January 2018

Compared with the consolidated financial statements as at 31 December 2017, the Group implemented the following standards and interpretations, with mandatory application within the European Union from 1 January 2018:

Standards and interpretations	Date adopted by the EU
IFRS 15 "Revenue from contracts with customers" and amendments	22 September 2016
Clarifications made to IFRS 15	31 October 2017
IFRS 9 "Financial instruments"	22 November 2016
Amendments to IFRS 4 "Applying IFRS 9, Financial Instruments with IFRS 4"	03 November 2017
IFRS annual improvements 2014-2016 cycle	07 February 2018
Amendment to IFRS 2: "Classification and Measurement of Share-based Payment transactions"	26 February 2018
Amendment to IAS 40: "Transfers of Investment Property"	14 March 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	28 March 2018

1. The impacts of the first-time application of IFRS 9 at 1 January 2018 are presented in Note 1. Moreover, the La Banque Postale group has updated its impacted valuation and presentation rules.
2. The application of IFRS 15 had no significant impact on the Group's accounts. The income concerned is mainly commissions received that do not come under the scope of IFRS 9, i.e. those that are not included at the effective interest rate and their recognition method did not change with IFRS 15.
3. The other applicable standards and interpretations at 1 January 2018 did not have a significant impact on the La Banque Postale group's accounts either at 30 June 2018.

2.3 Standards and interpretations not yet applied

The IASB and IFRIC have issued standards and interpretations that were not compulsory as at 30 June 2018. Standards or interpretations published by the IASB but not yet adopted by the European Union will be mandatory only once they have been adopted.

Standards and interpretations	Date adopted by the EU	Effective date (1)
IFRS 17 "Insurance contracts"	Not adopted	1 January 2021
IFRIC 23 "Uncertainty over income tax treatments"	Not adopted	1 January 2019
Amendment to IAS 28 "Long-term Interests in Associates and Joint Ventures"	Not adopted	1 January 2019
IFRS annual improvements 2015-2017 cycle	Not adopted	1 January 2019
Amendments to IAS 19 "Remeasurement at a plan amendment, curtailment or settlement"	Not adopted	1 January 2019
Amendments to the conceptual framework in IFRS	Not adopted	1 January 2020
IFRS 16 "Leases"	31 October 2017	1 January 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	22 March 2018	1 January 2019

- *Subject to adoption by the European Union. Applicable as of the financial years opened on:*

As at 30 June 2018, the Group has not applied these standards.

IFRS 16 was published in January 2016, with first application on 1 January 2019. The standard will replace IAS 17 "Leases", as well as the interpretations associated with the recording of these contracts.

According to standard IFRS 16, a contract is considered a lease contract when an asset can be identified and the lessee has exclusive rights to use the asset. All lease contracts require the lessee to record a right to use the asset in their balance sheet and a debt in liabilities corresponding to the discounted value of the rent payments made over the contract period. The right to use the asset is amortised on a linear basis and the financial debt using the amortised cost method over the duration of the contract. The new standard continues to use most of the existing model for lessors.

The impact of IFRS 16 on the Group financial statements is currently being analysed. La Poste Group opted for implementing a shared tool for policy inflows and data processing.

2.4 Principles used in preparing the consolidated financial statements

2.4.1 Determining the scope of consolidation

The consolidated financial statements include the financial statements of La Banque Postale, the consolidated financial statements of the sub-groups and the financial statements as at 30 June 2018 of subsidiary companies and holdings controlled or significantly influenced by La Banque Postale, when such consolidation has a significant impact on the overall consolidated financial statements. Entities that are excluded despite meeting the control criteria are left out when they are considered not significant with respect to three non-cumulative criteria, corresponding to a percentage expressed on the balance sheet, of net banking income or of net income, as well as in view of their multi-year financial histories.

2.4.2 Consolidation methods

The scope of voting rights taken into consideration when assessing the nature of the control exerted by the Group includes the existence and effect of potential substantive voting rights, such as potential voting rights that could be exercised to make a decision pertaining to relevant activities at the next General Meeting.

The consolidation methods are applied according to the nature of the control exercised by La Banque Postale on the entities.

Structured entities and subsidiaries controlled by the Group are fully consolidated.

A structured entity is created specifically to manage a transaction or group of similar transactions and designed to ensure that voting rights or similar voting rights are not decisive in establishing the control of the entity. They are consolidated when they are substantially controlled by the Group, even if there is no equity link.

In accordance with IFRS 10, analysis of the control is identical to that conducted for a subsidiary.

The control exercised over a subsidiary or a structured entity is assessed based on the following three criteria:

- the power to direct the key activities of the subsidiary, for example through voting rights or other rights;
- the exposure or rights to variable returns generated by the subsidiary and
- the capacity to allocate these returns via the power exercised over the subsidiary.

Joint arrangements in which the Group exercises joint control with other partners are accounted for using the equity method in the case of a joint venture, or consolidated proportionally to the share of interests held in the case of a joint operation.

The Group exercises joint control over a joint arrangement when decisions concerning the entity's relevant activities contractually require the unanimous consent of all partners.

A joint venture is a joint arrangement in which each partner has an entitlement to a share of the entity's net assets.

A joint operation is a joint arrangement in which the partners have direct rights to the entity's assets and obligations for its liabilities. A joint operation is consolidated according to the share of assets, liabilities, income and expenses controlled by the Group.

Companies over which the Group has a significant influence are accounted for using the equity method.

Significant influence is defined as the power to participate in the financial and operating policies of a subsidiary without having control of it. This influence may notably stem from representation on the subsidiary's management or supervisory bodies, involvement in strategic decisions, the existence of significant inter-company operations, the exchange of management staff, or from technical dependency. Control is assumed to exist from the moment that the Group holds at least 20% of the voting rights, either directly or indirectly.

2.4.3 Consolidation rules

Restatements and eliminations

The restatements and reclassifications required for the financial statements of all consolidated subsidiary companies to comply with the Group's accounting principles are made.

Reciprocal accounts are eliminated, as are income and expenses arising from internal group transactions and which have a material impact on the consolidated financial statements.

Conversion of the financial statements of foreign subsidiaries

For entities for which the functional currency is not the euro, the balance sheet statements of foreign subsidiaries are converted at the applicable year-end exchange rate.

Income and expenses in the income statement are converted at the average exchange rate for the period.

Translation differences arising from changes in the exchange rates applied to equity capital, reserves and net income are entered under "Unrealised or deferred gains and losses – Translation adjustments".

When the Group prepared its first consolidated financial statements according to IFRS, it made use of the option provided by IFRS 1 to transfer the cumulative translation adjustments as at that date to the consolidated reserves. This option only applied to the foreign entities of the CNP Assurances Group, which became the first to adopt IFRS in financial year 2005. In the event that these entities are subsequently sold, the sale proceeds will only include the reversal of translation adjustments generated from 1 January 2006 onwards.

Business combinations

Business combinations prior to 1 January 2010 were treated by the Group using the acquisition method, according to the provisions of the initial version of IFRS 3.

Business combinations since 1 January 2010 are handled by the Group based on the acquisition method, in accordance with revised IFRS 3. Business combinations prior to 1 January 2010 were not restated to reflect the implementation of revised IFRS 3, which is prospectively applied.

The cost of acquisition is defined as the total fair value cost on the date of acquisition of the assets acquired, the liabilities transferred, and the equity instruments issued in exchange for control over the acquired company. Any price adjustments are included in the acquisition cost at their estimated fair value on the acquisition date, and revalued on each reporting date, with subsequent adjustments recognised in the income statement.

The identifiable assets, liabilities and contingent liabilities of the purchased entities are recorded at their fair value on the acquisition date. The contingent liabilities of the acquired entities are only recognised on the consolidated balance sheet if they represent an actual obligation at the time of the combination, and if their fair value can be estimated on a reliable basis.

Non-controlling interests may, at their acquisition date, be valued either at fair value or at their proportional share of the fair value of the identifiable assets and liabilities of the acquired entity. The choice between these two methods is made for each business combination.

Costs that are directly attributable to the business combination transaction represent a separate transaction and are recorded under profit and loss.

The positive difference between the sum of the entity's acquisition cost, non-controlling interests and the fair value of any previously held share, and the revalued net assets is recorded as an asset in the consolidated balance sheet under "Goodwill"; any negative difference is immediately allocated to profit and loss.

Analyses required for the initial valuation of these items and any potential adjustments may be carried out within a period of 12 months from the acquisition date.

Goodwill is retained on the balance sheet at historical cost in the reference currency of the subsidiary acquired, and is converted at the official exchange rate at the reporting date.

Goodwill is regularly reviewed by the Group, and impairment tests are performed at least once a year, and as soon as any loss of value occurs.

When the recoverable value of the underlying asset, defined as the higher of the market value or value in use of the underlying asset concerned, is lower than its carrying amount, an irreversible impairment is charged to the income statement.

The carrying amount of goodwill for associates is included in their valuation using the equity method.

In cases where non-controlling interests are acquired in a subsidiary that is already controlled, additional goodwill corresponding to the difference between the total acquisition cost of the additional stake and the Group's share in the net assets acquired is deducted from equity if positive, and recognised as an increase in equity if negative. Likewise, a transaction resulting in a decrease in the percentage of the Group's interest in an entity over which it retains exclusive control is recognised within equity.

At the time an entity is taken over, any share previously held in it is revalued at its market value and booked to the income statement.

Repurchase commitments granted to minority shareholders of fully consolidated subsidiaries

Non-controlling interests are stakes that do not give the group control and include instruments that represent a share of ownership interests that grant the right to a share of net assets in the event of liquidation, and other equity instruments issued by the subsidiary and not held by the Group.

In their current wording, IFRS 10 “Consolidated Financial Statements” and IAS 32 “Financial Instruments: Presentation” lead the Group to recognise a debt with respect to commitments to purchase non-controlling interests, offset by a reduction in non-controlling interests. The Group has chosen to deduct from equity the difference between the amount of the commitment and the non-controlling interests offsetting the debt.

Subsequent movements are recognised under reserves, Group share.

The share of net income attributable to minority shareholders who hold purchase options is shown under “Non-controlling interests” in the consolidated income statement.

Consolidation of the insurance activities

The financial assets and liabilities of insurance activities that are fully consolidated are measured and recognised according to IFRS 9 and presented using the overlay method.

Pending the future IFRS 17 insurance standard, the subsidiaries continue to apply IFRS 4 to the following contracts:

- insurance policies that include a contingency clause for the policy holder. This category covers personal risk contracts, pensions, property damage and unit-linked savings policies with a guaranteed floor;
- financial contracts issued by the insurer that include a discretionary profit-sharing clause.

In accordance with IFRS 4, local guidelines for valuing underwriting provisions are retained for both types of contract.

The financial contracts covered by IFRS 9 are investment contracts with no discretionary profit sharing: unit-linked savings policies with no euro-denominated underlying or minimum guarantee.

Pursuant to the “shadow accounting” principles set out in IFRS 4, a provision for deferred profit-sharing is recorded for insurance policies that included a discretionary profit-sharing clause. This provision is determined in a way that reflects the potential rights of policyholders to share in unrealised gains on financial instruments valued at fair value or in potential losses in the event of unrealised losses on those instruments.

On each reporting date, the Group’s fully-consolidated insurance companies implement a liability adequacy test which checks that the recognised insurance liabilities, net of deferred acquisition costs and associated intangible assets, are adequate, using current estimates of future cash flows arising from insurance policies and financial policies with discretionary profit-sharing.

Technical and mathematical provisions

Technical provisions represent commitments to policyholders.

- Mathematical provisions for euro-denominated policies correspond to the difference between the present value of the insurer and the policyholder’s commitments.

Life insurance reserves are recorded based on discount rates that are at most equal to prudently estimated rates of return on the underlying assets.

The net present value of commitments is calculated by choosing a discount rate that is at most equal to the pricing rate of the policy involved and by using statutory mortality tables or tables based on experience if these are more cautious. Lower interest rates are factored into investment income discount rate calculations when the rate is deemed to be too high relative to the expected reinvestment prospects.

Mathematical provisions for unit-linked policies are valued on the basis of the underlying assets. Gains or losses resulting from the revaluation of these policies are recognised in profit and loss in order to cancel out the impact of movements in underwriting provisions.

- Contractual equalisation reserves are established to meet the exceptional costs relating to transactions covering natural hazard risks, atomic risks, civil liability risks due to pollution, space risks, risks related to air transport, and risks related to terrorism and terrorist attacks.
- Other reserves include reserves for outstanding claims. These reserves are valued on the basis on the estimated value of foreseeable expenses net of any recoveries.

Deferred participating assets

Most financial contracts issued to policyholders by the Group's life insurance subsidiaries include a discretionary profit-sharing clause.

The discretionary participating clause entitles life insurance policyholders to receive a share in any financial gains, as well as the guaranteed income. Pursuant to the "shadow accounting" principles set out in IFRS 4, the provision for deferred profit-sharing for these policies is adjusted to reflect the policyholders' entitlement to any unrealised gains or to their share of unrealised losses on financial instruments valued at fair value. The share of gains to which policyholders are entitled is determined according to the specific features of the policies likely to benefit from such gains.

The amount of the net deferred share in profits established by shadow accounting is recognised either in balance sheet liabilities (net deferred participating liabilities) or assets (net deferred participating assets) depending on the situation of the entity concerned.

A recoverability test is conducted on any asset-based deferred profit-sharing. The aim of this test is to show that the profit-sharing amount is recoverable through sharing in future or unrealised gains, against the background of the Group's business continuity, and will not result in any inadequacy of the commitments recognised in the Group's accounts in respect of these economic commitments. The recoverability test is performed by using current estimates of future policy cash flows. The test is based on tools for modelling the asset/liability management of the subsidiaries involved, and enables a value to be assigned to commitments under a high number of economic scenarios using a stochastic approach.

In accordance with the recommendation of the French National Accounting Council (CNC) of 19 December 2008 on methods for recognising deferred participating assets issued, recoverability of the participating asset is based on a prudent assessment of the capacity for holding the assets, particularly in terms of their future collection in forecast cash flows.

Likewise, the capacity of future returns to absorb unrealised losses was tested, based on an unfavourable repurchase scenario that has never been experienced up until now.

2.4.4 Sector information

The Group is divided into three separate divisions:

- the Retail Banking Unit, which includes the banking or credit institution businesses, as well as the limited property investment partnerships (SCIs) holding the operating premises, and the Group holding company;
- the Asset Management unit, which groups together the Group's UCITS management companies as well as discretionary management for wealth management clients;
- the Insurance Unit, which includes the individual and collective property and casualty, personal risk, life and health insurance companies.

The sector information in the Notes to the financial statements is shown without any reallocation of shareholders' equity or return on this equity. The sector results are presented by breakdown of the internal and external income and expenditure of each sector. The tax shown is the real tax charge for each sector. Potential goodwill impairment charges are shown in the sector of the entity. Asset and liability items are shown after elimination of reciprocal transactions.

No presentation by geographical segment is provided, since the Group's business activities outside the domestic French market are not material.

2.5 Presentation and valuation rules

2.5.1 Financial assets and liabilities

2.5.1.1 General principles for the recognition of financial assets and liabilities

Initial recognition

At initial recognition, financial assets and liabilities are measured at their fair value plus or minus transaction costs directly attributable to their acquisition (with the exception of financial assets and liabilities recognised at fair value through other comprehensive income, as income or a charge at the time of initial recognition).

In practice, the fair value will more often be the disposal or transaction price of the financial instrument.

Date of initial recognition

Securities are recorded on the balance sheet at their settlement/delivery date, while derivatives are entered at their trading date. Changes in fair value between the trading date and the settlement/delivery date are recorded in profit and loss.

Loans and receivables are recorded on the balance sheet at their disbursement date.

Distinction between debt instruments and equity instruments

A debt instrument constitutes a contractual obligation to remit cash or other financial assets or to exchange instruments.

An equity instrument is a contract that shows a residual interest in the net assets of an entity, with no contractual obligation to remit cash or to exchange instruments.

2.5.1.2 Recognition of financial assets

According to IFRS 9, the classification of a financial asset is done based on the business models defined by the entity and the characteristics of its contractual cash flows (SPPI criteria).

Business models

A business model corresponds to the way a group of financial assets is collectively managed to generate income. Its objective is to best reflect how the assets in question are managed. It is identified within the Group based on objective facts that can be observed such as the analysis of the organisation of the business, its IT systems, internal reports, risk-monitoring method, or its past management decisions (past disposals, for example).

Three types of business models can be distinguished:

- “Hold to collect” model: financial assets are held in order to collect contractual cash flows.
- “Hold to collect and sell” model: financial assets are held in order to collect contractual cash flows and are intended for sale.
- A model specific to other financial assets, notably those held for trading.

The business model assessment requires support documentation within each of the Group’s business lines.

A change of business model is by nature very rare. Changes in business model must be decided by the management of the business lines with the approval of General Management in light of internal or external changes, which are significant with respect to the activity and can be observed by external parties. Thus, a change in business model can only correspond to the end or launch of a significant activity. This can be, for example, the disposal of a business line previously managed according to the “hold to collect” model: in this case the entity no longer markets this type of financial instrument and reclassifies all the assets concerned to a “Trading” business model.

The reclassification of debt instruments that pass the SPPI test is mandatory in the event of a change in business model and not allowed in all other cases.

This reclassification must be done prospectively, without restating the balance sheet or the income statement of previous periods.

Moreover, the reclassification must be done at the opening date of the first financial year starting after the effective date of change in the business model.

Basic lending arrangement criteria, or the “SPPI” test

The objective of the SPPI criteria is to make sure that contractual cash flow generated by the instrument consist “solely of payments of principal and interest” on the principal amount outstanding. In other words, the instrument must have the features of a “basic lending arrangement”.

The principal is defined as the fair value of the financial instrument at its initial recognition on the balance sheet.

Interest can include several components, of which:

- Compensation for the time value of money
- Compensation for lending risks
- Compensation for liquidity or administrative costs and
- A profit margin

Financial assets that meet the SPPI test are debt instruments, notably traditional loans, fixed and variable-rate bonds and commercial credit.

Financial assets that do not meet the SPPI criteria notably include debt instruments such as UCITS or structured securities.

Derivatives and equity instruments such as stocks or non-consolidated holdings by nature do not meet SPPI criteria.

Under IFRS 9, financial assets are classified in one of the four following categories:

2.5.1.2.1 Financial assets at amortised cost

Debt instruments with cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test, or basic lending arrangement criteria) are classified at amortised cost if the objective of the business model is to hold the instrument to collect the contractual cash flows.

The objective of the “Hold to collect” business model is to hold the assets over a long period or until maturity to collect the contractual cash flows. With this business model, there should be no or very few disposals. Some disposals are nevertheless authorised (disposals made due to an increase in the credit risk, disposals close to maturity, frequent but not very significant disposals, as well as isolated disposals even if significant).

Subsequent measurement of financial assets at amortised cost is done using the effective interest method and they enter into the scope of application of impairment under IFRS 9.

The effective interest rate is the rate that exactly discounts estimated future cash flows over the expected life of a financial instrument to the initial fair value of the financial asset. It includes transaction costs and ancillary income (arrangement fees, commitment fees when drawdown is deemed more likely than not, or participation fees) as well as all other premiums or discounts. It is an actuarial rate.

Within the Group, this category of financial assets includes most loans and receivables due from customers, as well as most of the securities that make up the investments of the banking activities.

2.5.1.2.2 Financial assets at fair value through other comprehensive income with recycling

Debt instruments with cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI test, or basic lending arrangement criteria) are classified at fair value through other comprehensive income (OCI) with recycling if the objective of the business model is to hold the instrument to collect the contractual cash flows and to sell the assets.

At initial recognition, these assets are recorded on the balance sheet at their fair value and enter into the scope of application of impairment under IFRS 9.

This category of financial instruments has the particular feature of being recognised on the balance sheet at fair value, but to record the impacts of a valuation at amortised cost on the income statement. The changes in fair value are recorded in recyclable reserves, which ensures the two accounting methods are balanced on the balance sheet and the income statement.

This is notably the case for the recognition of impairment. The value of the asset on the balance sheet remains at fair value and is not impacted by the amount of impairment calculated. The income statement is impacted by increases (charge) or decreases (income) in the impairment amount. These movements are offset by entries in the recyclable reserves.

At the time of disposal of these securities, the underlying gains or losses previously recorded in equity are recycled to profit or loss under “Net gains or losses on financial assets through other comprehensive income with recycling”.

2.5.1.2.3 Financial assets and liabilities at fair value through non-recyclable reserves

Regarding investments in equity instruments that are not held for trading, IFRS 9 offers the irrevocable option, at the date of initial recognition of each instrument, to classify them at fair value through other comprehensive income (OCI) with no recycling.

In this case, the unrealised gains or losses recognised in other comprehensive income are not recycled to profit or loss in the event of disposal. Only any dividends associated with these securities impact the income statements. The Group chose to classify its non-consolidated holdings in this category, with the exception of the Visa securities.

Moreover, in the event of a disposal, the Group chose to reclassify in reserves at 1 January of the following year the share of reserves that cannot be recycled, corresponding to any future capital gains or losses on disposal.

2.5.1.2.4 Financial assets at fair value through profit or loss

The category “Financial assets at fair value through profit or loss” is the default category under IFRS 9.

It includes debt securities that do not meet the SPPI criteria (UCITS, for example) as well as equity instruments that are not classified as Financial assets at fair value through other comprehensive income without recycling.

Moreover, this category includes financial assets, including derivatives, that are held for trading, i.e. acquired or issued with the intention to sell them in the short term. Within the Group it notably includes loans to local authorities eligible for transfer to Caffil.

The changes in fair value of assets classified in this category are recorded in the income statement.

2.5.1.2.5 Impairment of financial assets

The new provisioning method defined by IFRS 9 is now based on an expected credit loss model and no longer incurred losses only.

IFRS 9 defines a provisioning model, applicable to all financial assets with a counterparty risk (excluding equity instruments) not revalued at fair value through profit or loss, notably all financial assets at amortised cost and at fair value through other comprehensive income with recycling. This model also applies to lease receivables, financing commitments and financial guarantee contracts.

Thus, impairments corresponding to “12-month expected credit losses” are applied to assets measured at amortised cost and at fair value through OCI with recycling at initial recognition, as long as they do not present a significant increase in credit risk. “12-month expected credit losses” correspond to total losses incurred in the event of default, weighted by the probability of default in 12 months. The assets concerned are in “Bucket 1”.

The outstanding amounts for which a significant deterioration in credit quality has been identified since their date of initial recognition must be impaired up to the amount of “lifetime expected losses”, i.e. over the residual life of the financial asset. Lifetime expected losses correspond to the total losses incurred in the event of default, weighted by the probability of default over the expected lifetime of the instrument. These assets belong to “Bucket 2”.

Financial assets in default are downgraded to “Bucket 3” and are impaired by the amount of lifetime expected losses.

Significant increase in credit risk

The notion of increase in credit risk is relative, not absolute. This relative approach thus implies being able to follow the change in credit quality over time.

The Group uses a certain number of indicators in order to detect possible deterioration in credit quality of a counterparty, based as a general rule on internal or external ratings, or on events that generate a risk (for example a drop in sales, increase in the use of credit facilities, etc.).

Moreover, under IFRS 9, there is a (rebuttable) presumption that credit risk has increased significantly when contractual payments are more than 30 days past due. As such, the Group uses 30-day past due payments indicating a financial difficulty (thus excluding payments overdue for technical reasons) as the “backstop” for the measure of a significant increase in the credit risk and downgrade to Bucket 2.

Likewise, designation to a “watch list” can be an indicator (that can be rebutted by the Watch List committee) of a significant increase in credit risk.

An asset having undergone a significant increase in credit risk can be taken out of Bucket 2 when:

- The asset no longer presents indications of a significant deterioration since the reporting date. In this case, the asset returns to Bucket 1
- Outstanding payments are settled. In this case, the asset is transferred to Bucket 1 (depending on the case, there may be a monitoring period to avoid recurrence)
- The asset is downgraded to Bucket 3

Provisioning methods for Bucket 1 and Bucket 2

The expected credit losses correspond to the difference between the contractual cash flows that the entity has the right to receive and the cash flows that the entity expects to recover, discounted at the effective interest rate of the financial asset.

The cash flows that the entity has the right to receive take account of all the contractual modalities of the financial instrument over its expected lifetime (for example early repayment options, extension, etc.), and include cash flows from exercising contractual guarantees.

The expected credit losses are estimated based on the probability of default of the counterparty. The probability of default corresponds to the probability of the debtor defaulting over a given time period.

For Bucket 1, the time period is 12 months. For Bucket 2, the time period is the lifetime of the instrument. Within the Group, impairment of credit is statistical (by homogeneous categories presenting similar risk characteristics), with the possibility of adjustment based on an expert's opinion in certain particular cases.

Furthermore, under IFRS 9, expected credit losses are determined according to a methodology that includes reasonable and justifiable information on past events, current circumstances and economic forecasts (the notion of "forward looking").

The forward-looking component is obtained via an approach consisting of three modelled scenarios. Final impairment corresponds to the average weighted by the probability of occurrence of each scenario.

Defaulted loans in Bucket 3

IFRS 9 does not impose a definition of default. On the contrary, it encourages the use of a definition that is consistent with the one used by the entity as part of its risk management policy. Within the Group, an individually identified financial asset is considered defaulted when it presents a credit event that reveals financial difficulties.

The Group considers an objective indication of default to be:

- One or more missed payments overdue by more than three months;
 - When an over-indebtedness plan has been requested from the Banque de France;
 - Legal proceedings are underway;
 - Receivables are considered "high-risk" with respect to its risk management policy.
- Scope of home loans

The defaulted outstandings are weighted by the “best estimate of expected loss on the exposure at default” adjusted for the accounting of certain elements (notably the elimination of overweighting taken into account in risk monitoring analyses such as the impact of an economic slowdown, for example). This factor is determined according to the length of default and the type of guarantee.

In the event of reassessment of impaired home loans, provisions may be reversed fully or in part and loans removed from Bucket 3 when all arrears have been paid and regular payments of the amounts corresponding to the contractual instalments have been met for a period of at least two months.

- Scope of lease finance and loans to corporate customers

Within this scope, specific provisioning of the outstanding loans is tracked monthly and adjusted as necessary based on an expert opinion. An impairment is then recorded on the difference between the carrying amount and the net present value of the expected cash flows, discounted at the original effective interest rate, and determined taking account of the financial position of the borrower and the present value of guarantees received. Removal from Bucket 3 can be effective following a probationary period corresponding to a period with no credit event.

The amount of the impairment is recognised in “Cost of risk” on the income statement, and the value of the financial asset is reduced through recording an impairment charge¹².

Applying the contagion principle, all loans outstanding to the same beneficiary are provisioned as soon as one loan to that beneficiary is provisioned within the Group.

Debt restructuring

Restructured loans are loans for which the entity has modified the original financial conditions due to the borrower’s financial difficulties.

Restructuring operations are defined according to two main criteria:

- Concessions by the bank
- The borrower’s financial difficulties

The rate discount arising from a restructured loan is recorded under cost of risk and on the balance sheet as a deduction from the corresponding amount outstanding. It corresponds to the difference between the nominal value of the debt before the restructuring and the discounted value at the original effective rate of the new expected future flows. The discount is recognised through profit or loss in the interest margin, according to an actuarial method over the term of the loan.

Any relinquishment of the capital is directly recorded in the income statement.

2.5.1.2.6 Derecognition of financial assets

Financial assets are derecognised when the contractual rights to the cash flows attached to the financial asset expire or when such rights and virtually all the risks and benefits associated with ownership have been transferred to a third party.

¹² Regarding financial guarantees and financing commitments that enter into the scope of application of impairment according to IFRS 9, please refer to the sections concerned for the specific accounting treatment (provisions recorded under liabilities)

When certain risks and advantages have been transferred but control of the financial asset is retained, that asset remains on the balance sheet so as to reflect the ongoing involvement in the asset concerned.

Within the Group, most loan renegotiations lead to derecognition, as contractual rights are substantially modified.

Repurchase agreements

The seller does not derecognise the securities. The Group records a liability that represents its commitment to give back the cash received. This debt represents a financial liability, which is recorded at amortised cost and not at fair value.

The acquirer does not recognise the assets received, but recognises a receivable on the cash loaned by the seller. At subsequent year-ends, the seller continues to value the securities according to the rules applicable to their original category. The nominal value of the receivable is recorded in loans and receivables.

Securities lending

The lending and borrowing of securities cannot be treated as a transfer of a financial asset according to IFRS. Therefore, these transactions cannot result in derecognition of the loaned securities. They remain recognised in their original accounting category and valued according to the rules of that category.

2.5.1.3 Financial debt

2.5.1.3.1 General principle for the classification of financial debt

All financial liabilities are by default classified at amortised cost.

At the closing date, the debt is valued according to the effective interest rate and recorded in the balance sheet under “Liabilities due to credit institutions”, “Liabilities due to customers”, “Debt securities” or “Subordinated debt”, except in cases where it has been hedged at fair value.

Liabilities due to credit institutions and to customers

Liabilities due to credit institutions and liabilities to customers are broken down according to their initial maturity or the nature of the debt: demand (overnight deposits, ordinary accounts) or long-term debt (special scheme savings accounts). This debt includes securities and shares delivered under repurchase or lending agreements.

Debt securities

Debt securities consist of negotiable debt securities issued by La Banque Postale.

Subordinated debt

Subordinated debt includes debt where repayment is only possible once other senior or secured creditors have been repaid in the event that the debtor's assets are liquidated. This debt is valued according to the amortised cost method, except where it has been hedged at fair value.

2.5.1.3.2 Financial assets and liabilities at fair value through profit or loss

Securities classified in this category correspond to financial assets and liabilities held for trading, including derivatives that are liabilities, together with assets and liabilities that the Group designated from the outset to be valued at fair value through profit or loss, in accordance with the option provided by IFRS 9, subject to meeting the following conditions:

- Elimination or significant reduction in an accounting mismatch. The Group thus measures certain structured issues at fair value through profit or loss;
- Group of financial liabilities for which management and performance are assessed at fair value;
- Compound financial instruments containing one or more embedded derivatives not closely related.

The accounting treatment of financial liabilities for which this option is taken is the following:

- The changes in the fair value of these liabilities are recognised in profit or loss except for the part relating to the Group's own credit risk.
- The changes in fair value relating to the component that is the Group's own credit risk component is recognised in OCI with no recycling. This part thus may not be recycled to profit or loss in the event of early repayment of the debt.

2.5.1.3.3 Distinction between debt and equity: Perpetual super subordinated notes

Subordinated securities are classified as debt or equity instruments according to the analysis of their features, and more specifically according to whether or not their payout method is discretionary.

In light of the conditions specified by IAS 32 for the analysis of the contractual substance of these instruments, and given their contractual characteristics, the perpetual super-subordinated notes issued by the CNP Assurances Group are classified as "debt instruments".

Subordinated bonds convertible into issued ordinary shares also meet the criteria for classification as "debt instruments", even though the coupons are treated as dividends that are deducted from equity. The deferred tax asset associated with the payment of coupons, representing tax savings, is ancillary to the coupons paid and as such is recognised in equity, in line with the accounting treatment of coupons.

Subordinated bonds convertible into ordinary shares were analysed, in accordance with IAS 32, as hybrid instruments comprising a debt component and an equity component.

2.5.1.3.4 Financial liabilities with embedded derivatives

An embedded derivative is a component of a hybrid instrument. It is separated from the host contract and recorded separately when, from the beginning of the contract, its economic characteristics and the related

risks are not closely linked to those of the host contract, except where the hybrid liability is valued at fair value through profit or loss. Within the Group, this category of liability notably includes structured issues (Euro Stoxx indexation).

2.5.1.3.5 Reclassification of financial liabilities

The classification of a financial liability determined at initial recognition is definitive and no subsequent reclassification is permitted.

2.5.1.3.6 Derecognition of financial liabilities

Financial liabilities are derecognised when the contractual obligation is extinguished, cancelled, or expires.

2.5.1.4 Financial derivatives and hedge accounting

A derivative is a financial instrument or other contract that has the following three characteristics:

- Its value fluctuates according to an interest rate, the price of a financial instrument, the price of a commodity, an exchange rate, a price or securities index, a credit rating or credit index, or another variable known as the underlying asset;
- It requires a low or nil initial net investment, or a net investment that is lower than the investment required by a non-derivative financial instrument in order to achieve the same sensitivity as the underlying asset;
- It is unwound at a future date.

Financial derivatives break down into two categories:

Derivatives held for trading

Derivatives belong to the category of financial instruments held for trading, except for derivatives that are used for hedging purposes. They are recognised in the balance sheet at their fair value in “Financial instruments at fair value through profit or loss”. Changes in fair value and interest accrued or due are recognised in “Net gains and losses on financial instruments at fair value through profit or loss”.

Hedging derivatives

IFRS 9 provides the option of deferring application of the hedge accounting provisions pending the effective date of the standard on macro-hedging. The Group chose the option to continue to apply the principles of IAS 39 to hedge accounting. With respect to macro-hedging, European Union provisions on the fair value hedging of a portfolio of interest rate items continue to apply.

Derivatives that meet the criteria defined in IAS 39 to qualify as hedging instruments are classified in the “Fair value hedges” or “Cash flow hedges” categories, depending on the circumstances. They are recognised as “Hedging derivatives” on the balance sheet. Other derivative instruments are classified as “Assets or liabilities at fair value through profit or loss” by default, even if, from an economic perspective, they have been acquired with a view to hedge one or several transactions.

In order to classify a financial instrument as a hedging derivative, the Group must establish the hedge relationship from the outset (hedging strategy, description of the risk hedged, the item hedged, the

hedging instrument and the method used to assess its effectiveness). Effectiveness is assessed when the hedge is set up and at each year-end while it remains in place.

Depending on the nature of the risk covered, the derivative financial instrument is designated as a fair value hedge, a cash flow hedge, or as an exchange rate hedge linked to a net foreign investment.

Fair value hedge

Fair value hedges enable exposure to fluctuations in the fair value of financial assets or liabilities to be hedged; they are primarily used to hedge the interest rate risk on fixed-rate assets and liabilities as well as overnight deposits, according to the options approved by the European Union.

Any revaluation of the derivative is recognised in profit or loss symmetrically to the revaluation of the hedged item. Gains or losses attributable to the hedged risk are recognised in “Net gains or losses on financial instruments at fair value through profit or loss” in the income statement. As soon as the hedge relationship becomes effective, changes in the fair value of the hedged item are symmetrical to the changes in the fair value of the hedging instrument. Any ineffectiveness of the hedge is directly recorded in the income statement. The portion relating to the accrued income or expenses on the derivative instrument is recognised in “Income and interest expense” in the income statement at the same time as the interest income and expense relating to the hedged item.

As soon as the derivative instrument no longer meets the effectiveness criteria specified by the standard, or especially if it is sold, the hedge accounting ceases prospectively: the derivative is transferred to “Financial assets at fair value through profit or loss” or “Financial liabilities at fair value through profit or loss” while the remeasurement adjustment of the hedged item is amortised over the remaining period based on the initial life of the hedge.

In the event that there is no longer a hedged item, the hedging instrument, which is no longer qualified as a hedging instrument but still exists, remains on the balance sheet at fair value through profit or loss. A gain or loss on the sale of the hedged item is eventually recognised in profit and loss.

Macro-hedging

The Group applies the provisions of IAS 39, as adopted by the European Union, to macro-hedging transactions that are carried out as part of the asset and liability management of fixed-rate positions.

Macro-hedging instruments are mainly interest rate swaps designated as fair value hedges for the Group’s fixed-rate resources.

Macro-hedging derivatives are accounted for according to the same principles as those described above. The revaluation of the hedging component is recognised in “Revaluation differences on portfolios hedged against interest rate risk”.

Cash flow hedges

Cash flow hedges are used to hedge exposure to changes in cash flows from financial assets or liabilities, firm commitments or future transactions. More specifically, they are used to cover the interest rate risk on variable-rate assets and liabilities.

The effective portion of the changes in the fair value of a derivative instrument is entered on a specific line in equity capital, while the ineffective portion is recognised in the income statement in “Net gains or losses on financial instruments at fair value through profit or loss”.

The portion relating to the re-discounting of the derivative instrument is recognised in “Interest income and expense on hedging transactions” in the income statement at the same time as the interest income and expense relating to the hedged item.

Hedged instruments continue to be recognised according to the rules that apply to their accounting category.

In the event of an interruption of the hedging relationship, or if the derivative instrument no longer meets the effectiveness criteria specified by the standard, or especially if it is sold, the hedge accounting ceases. The aggregate amounts entered in equity in respect of the revaluation of the hedging derivative are gradually transferred to profit or loss as interest income and expense, or immediately recognised in profit or loss. In the event the hedged item no longer exists, the derivative is reclassified in “Financial assets at fair value through profit or loss”, while the remeasurement of the hedged item recognised in equity is immediately recorded in profit and loss.

Foreign currency hedge of a net investment

The Group does not use this type of hedging.

2.5.1.5 Offsetting of financial assets and liabilities

A financial asset and liability are offset and a net balance is shown on the balance sheet if and only if the Group has a legally enforceable right to offset the amounts recognised, and if it has the intention either to settle the net amount or to realise the asset and settle the liability simultaneously. The legally enforceable right must be irrevocable and must be enforceable under all circumstances.

Repo transactions for which functioning principles meet both criteria required by the standard are offset on the balance sheet when:

- They relate to the same counterparty;
- They have the same maturity dates set from the outset;
- They are realised in the same currency;
- They are settled via a settlement/delivery system that guarantees the delivery of the securities against receipt of the associated cash;
- The securities are deposited with the same depository.

Offsetting primarily concerns securities lending transactions carried out with the LCH Clearnet clearing house.

2.5.1.6 Determining fair value or market value

IFRS 13 defines fair value as the price received for the sale of an asset or paid for the transfer of a liability in a standard transaction between market participants on the valuation date.

When an instrument is initially recognised, its fair value is generally the transaction price.

IFRS 13 recommends first using a price quoted on an active market to determine the fair value of a financial asset or liability. A market is considered to be active if prices are easily and regularly available from a stock exchange, a broker (multiple inputs), an intermediary or a regulatory agency, and if those prices represent real transactions (volume and price range) under normal competitive conditions. In the absence of an active market, the fair value must be determined using valuation techniques. These techniques include the

use of recent transactions carried out under normal competitive conditions. They are based on market data, the fair value of substantially identical instruments, or on data generated from cash flow discounting or option valuation models, using recognised valuation methods. The aim of a valuation process is to establish what the price of an instrument would be under normal market conditions. For example, the fair value of bonds or variable-income securities and futures is determined using quoted prices. The use of valuation techniques that are based on market data usually concerns over-the-counter derivatives, securities where income is taxed at the source (treasury bills, certificates of deposit, etc.) and repo deposits.

Three levels of financial instruments are shown in Note 6.2, based on the decreasing level of observability of the prices and parameters used for their measurement:

- level 1: Instruments valued according to the (non-adjusted) prices quoted for identical assets or liabilities on an active market.
- This level primarily includes listed shares and derivatives on organised markets (futures, options, etc.);
- level 2: Instruments valued according to data other than the prices listed under level 1 and that can be observed for the asset and liability in question, either directly (prices) or indirectly (derivative price data).

These instruments are measured employing valuation techniques that use observable parameters and standard models or instruments that are valued based on similar instruments listed on an active market. This category includes interest rate swaps, caps, floors, etc.;

- level 3: Instruments valued using data that are not observable market data.

This category mainly includes unlisted equity investments, such as venture capital funds (FCPR) or innovation funds (FCPI).

The market value of unlisted equity investments is determined by reference to criteria such as net assets, profitability outlook and discounting of future cash flows.

The price quoted for an asset held or a liability to be issued is usually the bid price, and it is the ask price for a liability held or an asset to be acquired.

The fair value of financial instruments recognised in the balance sheet at amortised cost is presented in Note 6.1 to the financial statements.

2.5.1.7 Guarantee commitments

Financial guarantee contracts

According to IFRS 9, a contract meets the definition of a financial guarantee if it includes an indemnity clause, according to which the issuer shall compensate the beneficiary for losses that the latter has suffered due to the default of a debtor who was specifically designated to make a payment on a debt instrument.

The financial guarantees provided are valued at their initial fair value at the date they were set up. They are subsequently valued at the higher of the amount of the commitment and the amount initially recorded, less the guarantee commission, where applicable.

Moreover, financial guarantees given (that are not recognised at fair value through profit or loss) enter the scope of application of impairment under IFRS 9 and will be subject to a provision booked to liabilities on the balance sheet. The same bucket and provisioning methods as those described for financial assets at amortised cost or fair value through other comprehensive income with recycling are applied. The provision is offset against the cost of risk.

2.5.1.8 Financing commitments

Financing commitments that are not accounted for as derivatives are not shown on the balance sheet. However, like for the financial guarantees given, financing commitments (that are not considered to be derivatives) enter into the scope of application of impairment under IFRS 9 and are subject to a provision booked under balance sheet liabilities.

2.5.2 Foreign currency transactions

As a reminder, according to IAS 21, monetary assets and liabilities correspond to assets and liabilities to be received or paid for a determined or determinable amount, for example a loan or basic bond. By nature, an equity instrument is a non-monetary asset.

At the closing date, monetary assets and liabilities denominated in foreign currencies at amortised cost or as other comprehensive income with recycling are converted into euros, the Group's functional currency, at the closing rate. Unrealised or realised gains and losses are recognised in the profit and loss statement.

Assets and liabilities denominated in foreign currencies at fair value through profit or loss are converted at the exchange rate at the closing date. The exchange differences related to these assets are recorded globally in the income statement with the other changes in the value of the security.

Non-monetary items denominated in foreign currencies recorded as OCI without recycling are converted at the exchange rate on the closing date. Foreign exchange gains or losses relating to these securities are recorded as OCI without recycling. In this case, in the event of disposal, the foreign exchange gains or losses cannot be recycled to profit or loss.

2.5.3 Finance lease transactions

Lease transactions are classified as finance lease transactions when they substantially result in the transfer of the risk and benefits relating to the leased asset to the lessee. They are analysed as financing granted to the lessee for the purchase of an asset.

The present value of the payments due in respect of the agreement, plus the residual value, where applicable, is recorded as a receivable and is shown under customer loans and receivables on the balance sheet.

The interest included in the lease payments is recorded under Interest and similar income in the income statement.

The lease payments received are spread over the term of the lease agreement, by dividing them into amortisation of the principal and interest, so as to generate a regular and constant rate of return on the net investment. The interest rate used is the interest rate implicit in the lease contract.

Lease receivables from lease contracts are subject to impairment for credit risk as defined by IFRS 9.

The same bucket and provisioning methods as those described for financial assets at amortised cost or fair value through other comprehensive income with recycling are applied. The impairment is offset against the cost of risk.

2.5.4 Tangible and intangible fixed assets

Fixed assets shown on the balance sheet include tangible and intangible operating assets, i.e. assets used for administrative purposes. The Group has no investment property.

Fixed assets are recognised at their acquisition cost plus acquisition expenses that are directly related and required to put them in working order so that they can be used.

Following their initial recognition, fixed assets are valued at cost less accumulated depreciation and any potential loss of value.

The portion of a fixed asset that can be depreciated is determined after deducting its residual value net of disposal costs, if that value can be measured and is significant.

Fixed assets are depreciated in accordance with the estimated consumption rate of the expected economic benefits, which usually corresponds to the life of the asset.

When a fixed asset includes several components that may need to be replaced at regular intervals, have different uses, or provide economic benefits at different rates, each component is recognised separately from the outset and is depreciated according to a specific depreciation schedule.

Depending on their components, buildings are therefore depreciated over periods ranging between 10 and 80 years:

0. structural work: 80 years;
1. roofing: 60 years;
2. joinery and external works: 40 years;
3. major equipment items: 20 years;
4. small equipment items, and fixtures and fitting: 10 years.

When they meet the criteria for fixed assets, proprietary software packages are recognised at their development cost, including third-party expenses and personnel costs for employees directly assigned to the project. They are usually amortised over a period of between three and seven years, depending on their useful life.

Fixed assets that are depreciated are subject to impairment tests in cases where evidence of a loss of value is identified at the reporting date. Fixed assets that are not depreciated are subject to impairment tests in cases where potential evidence of a loss of value is identified at the reporting date, and at least once a year.

If there is evidence of a loss of value, the recoverable value of the asset is compared with its net book value. In the event of loss of value, an impairment charge is recorded in profit or loss; it changes the depreciable base of the asset prospectively. The impairment is reversed in the event of a change in the estimated recoverable value or if there are no longer any indications of impairment.

Depreciation, amortisation and impairment charges are recognised in “Depreciation, amortisation and provisions for impairment of tangible and intangible fixed assets” in the income statement.

Gains and losses on the disposal of operating fixed assets are recorded in the income statement on the “Net gains on other assets” line.

2.5.5 Special savings scheme accounts

The home loan savings accounts (CEL) and home loan savings plans (PEL) offered to individual customers under the provisions of the law of 10 July 1965 include two stages: a stage where funds are gathered in the form of remunerated savings and a stage where they are used to grant home loans.

They generate two kinds of commitments for the distributing institution:

5. an obligation to remunerate future savings at a rate set at the opening of the account for an indefinite period for PEL accounts opened before 28 February 2011, and at a rate that is reviewed annually for new generation accounts;
6. an obligation to grant customers who request it, a loan at a rate set on signature of the agreement.

These commitments have potentially unfavourable consequences for the Group, and are the subject of provisions recorded in balance sheet liabilities (in the “Provisions” line). Changes in these provisions are recorded in the net banking income interest margin.

The provisions are estimated on the basis of customer behaviour statistics and market data for each generation of plans, in order to cover any future expenses arising from the potentially unfavourable interest rate conditions attached to these products relative to the rates offered to retail customers on similar products for which the remuneration is not regulated. The provisions only relate to the commitments for home loan savings accounts and plans that exist at the date the provision is calculated.

Provisions are calculated for each generation of home loan savings plans, with no offsetting of commitments among the different generations, and for all the home loan savings accounts representing one generation.

At the savings stage, the commitments to be provisioned are evaluated according to the difference between average forecast savings deposits and minimum forecast savings deposits, both of which are determined on a statistical basis by factoring in historical observations on actual customer behaviour.

At the lending stage, the commitments to be provisioned include loans that have already been granted but not yet released at the year-end date, as well as future loans that are viewed as statistically likely based on balance sheet deposits as at the calculation date, and on historical observations on actual customer behaviour.

A provision is recorded when the net present value of future income is negative for a given generation of loans.

These results are assessed relative to the rates offered to retail customers on equivalent savings and lending products and that are consistent with respect to the estimated lifespan of the deposits and date they were set up.

2.5.6 Provisions

Provisions recorded in balance sheet liabilities, other than those relating to credit risk or employee benefits, are liabilities for which the duration or amount is uncertain. A provision is recorded when the Group has an obligation towards a third party and that obligation is likely or certain to cause an outflow of funds in favour of the third party with no expectation of a counter-payment that is at least equivalent.

The net present value of the expected outflow is calculated as soon as the impact of that net present value becomes material.

Provisions and provision reversals are recorded in profit and loss on the lines that correspond to the nature of the future expenditure involved.

2.5.7 Investments of the insurance companies

The Group records the investments of its insurance activities in specific items under assets and liabilities on the balance sheet and has a separate line on the income statement for net income from the insurance companies.

Insurance assets

The item "Investments of the insurance activities and reinsurers' share of technical provisions" includes the assets of insurance activities including:

- Financial investments (i.e. financial instruments), broken down by category (financial assets through profit or loss, at amortised cost, etc.);
- Reinsurance companies' share of technical provisions.

Insurance liabilities

The item "Insurance company underwriting provisions and shadow accounting" includes:

- The technical provisions relating to insurance contracts (life, non-life);
- Deferred participating reserves.

2.5.8 Interest income and expense

Interest income and expense are recognised in the income statement for all financial instruments valued at amortised cost using the effective interest rate method. This item also includes the interest accrued and due from fair value hedging instruments for fixed-income assets that fall under the category of debt instruments recognised at fair value through other comprehensive income.

The effective interest rate is the rate that exactly discounts future cash outflows or inflows over the expected life of the financial instrument so as to obtain the net carrying amount of the financial asset or liability. The calculation of this rate factors in commissions received or paid, which are by nature an integral part of the effective contract rate.

2.5.9 Commission income and expenses

In accordance with IFRS 15, the Group recognises commissions in profit and loss depending on the services provided and the way in which the financial instruments to which that service relates are recognised:

Commissions paid for ongoing services are recognised in profit and loss over the length of the service (commissions on means of payment).

Commissions paid for one-off services or for a major transaction are recognised in full in profit and loss when the service is provided or the transaction carried out (account management commissions, commissions on payment incidents).

Commissions treated as additional interest are an integral part of the effective interest rate. These commissions are therefore recognised under interest income and expenses and not under commissions.

2.5.10 Cost of risk

The cost of credit risk includes:

- Impairment provisions and reversals on financial assets at amortised cost and at fair value through other comprehensive income with recycling, broken down by Bucket;
- Impairment provisions and reversals on finance lease receivables;
- Impairment provisions and reversals relating to financial guarantee contracts and financing commitments;
- Discounts on restructured loans, as well as the recovery of amortised receivables.

2.5.11 Income tax

Tax payable

La Banque Postale and some of its French subsidiaries are part of the tax consolidation group of the La Poste Group.

Deferred tax assets

Deferred tax assets are recognised on all temporary differences between the carrying amount of an asset or liability and its tax base, except in exceptional cases.

The tax rates used for valuation purposes are the rates that are expected to be applied when the asset is realised or when the liability is extinguished, to the extent that those rates have been adopted or virtually adopted at the reporting date.

Net deferred tax assets are only taken into account if it is likely that the entity involved has a chance of recovering the tax within a determined time frame.

The Group uses the losses carried forward by its subsidiaries only inasmuch as these entities demonstrate via a multi-year business plan their ability to use them over a set and reasonable time frame.

Deferred tax is recognised as tax income or expense in the income statement, except for tax relating to unrealised gains and losses on assets available for sale, and to changes in the value of derivatives classified as cash flow hedges, for which deferred tax is charged directly to equity capital.

2.5.12 Employee benefits

La Banque Postale Group provides different types of benefits to its employees, civil servants and contract staff. These benefits fall into four categories:

Short-term benefits

Short-term benefits primarily include salaries, annual paid leave, incentives, profit-sharing and bonuses that are paid within 12 months of the end of the financial year and relate to that year.

They are recorded as expenses for the financial year, including amounts still owing at year-end.

Long-term benefits

Long-term benefits are benefits that usually relate to length of service, and are paid to working employees more than 12 months after the end of the financial year, such as the “working hours savings accounts”, for example.

A provision equivalent to the value of these commitments is recorded at year end.

Termination compensation

This relates to compensation paid to employees when their work contract is terminated before retirement, whether as a result of termination or as part of a voluntary redundancy plan. A provision is recorded for termination compensation. The commitment is valued on the basis of the entitlements earned by all working employees, mainly based on employee turnover, the estimated future salary of beneficiaries at the time they leave the Company, including social security contributions where applicable, and mortality tables (INSEE TH/TF00-02). A net present value is calculated for compensation payable more than 12 months after the reporting date.

Post-employment benefits

Post-employment benefits for employees include retirement compensation, pensions and benefits for pensioners.

The pension plan for contract staff is a scheme known as a “defined contribution scheme”. Such schemes are based on payments to independent bodies that are responsible for paying the amounts due to employees, thus releasing the employer from any subsequent obligation. Therefore, once the contributions have been paid, no liability or commitment is shown in the Group’s financial statements. Contributions paid to independent bodies are expensed in the period concerned.

A provision is recorded in balance sheet liabilities for Group employee commitments that are not covered by contributions recorded as expenses and paid to retirement or insurance funds, primarily for retirement compensation.

These commitments are valued according to the projected unit credit method, in accordance with IAS 19R. Actuarial assessments are performed every year.

The appraisal calculations involve taking third-party actuarial economic assumptions into account (discount rates, inflation rates, pension increases, etc.), together with assumptions that are specific to the Group (employee turnover rates, salary increases, etc.).

The provision recorded on the balance sheet for defined benefit post-employment schemes corresponds to the present value of the commitment at the reporting date, adjusted for actuarial gains and losses and the cost of past services that have not been recognised. Actuarial adjustments are now recognised in comprehensive income and the cost of services recorded in the income statement. The present value of the commitment is calculated on an annual basis using the projected credit unit method. It is determined by calculating the net present value of expected future outflows based on the market rate for top-tier corporate bonds, denominated in the currency in which the benefit will be paid and with a maturity that is close to the average estimated length of the underlying commitment.

The actuarial assumptions used to value employee commitments are reviewed and updated once a year at year-end.

The calculations factor in the following assumptions:

- the likelihood of working employees staying within the Group, life expectancy trends and estimated salary trends;
- retirement assumptions;
- discount rates that enable the present value of commitments to be determined. The discount rates used for the actuarial assessment, with reference to high-grade corporate bonds, are updated yearly in December.

2.5.13 Non-current assets held for sale and discontinued activities

When the Group decides to sell non-current assets or a group of non-current assets, and when it is highly probable that the sale will occur within 12 months, these assets or group of assets are shown separately on the balance sheet under “Non-current assets held for sale”. Any liabilities associated with them are also reported under a specific item, “Debts linked to non-current assets held for sale”.

In this context, the assets are no longer depreciated and are valued at the lower of their carrying amount or fair value minus disposal costs. Impairment losses on an asset or a group of assets held for sale are recognised in the income statement as an impairment that is reversible until the disposal date.

Financial instruments continue to be valued based on IFRS 9 accounting principles.

2.5.14 Use of estimates in the preparation of the financial statements

The preparation of the financial statements requires making assumptions and estimates that involve uncertainties with regard to their future accuracy. These estimates, which are based on the information available at the reporting date, call upon the judgement of managers and the parties involved in preparing the financial statements, particularly when assessing the fair value of financial instruments.

Future achievements depend on many factors: fluctuations in interest and foreign exchange rates, the economic environment, changes in regulations or legislation, etc., which means that the final outcome of the transactions concerned may differ from these estimates and have an impact on the financial statements.

The main valuation processes that require the use of assumptions and estimates:

- the valuation of financial instruments not listed on organised markets involves the use of models based on observable market data for most OTC instruments. determining the value of certain complex instruments that are not traded on an active market is done based on valuation techniques that in certain cases rely on parameters that are deemed to be non-observable;
- determining the market value of unlisted equity investments;
- the valuation of financial assets and liabilities recognised at cost and for which fair value information must be provided in the notes to the financial statements;
- credit risk valuations: provisions calculated make use of estimates of the probability of default, and general use of expert judgements;
- calculations relating to expenses linked to future employee benefits are based on discount rate assumptions and employee turnover and salary trend assumptions;
- the valuation of provisions other than those linked to credit risk is also, by its nature, subject to estimates, as it involves liabilities for which the maturity or amount are not precisely determined, and where it is likely or certain that there will be an outflow of funds in favour of a third party, with no compensation in an amount that is at least equivalent expected from that beneficiary. Notably, the valuation of the home savings provision uses assumptions of changes in customer behaviour based on historical observations which are not necessarily an accurate guide to the future;
- the value of goodwill recognised when there are business combinations;
- goodwill impairment tests involve a certain number of assumptions;
- assessing the effectiveness of hedges in place requires the use of assumptions and estimates of changes in the hedged risks and their impact on the hedge relationship;
- valuing commitments to buy out minority shareholders;
- determining the technical provisions of the insurance companies.

NOTE 3 NOTES TO THE BALANCE SHEET

Preamble: the notes relating to financial instruments subject to a change between 31 December 2017 and 30 June 2018 due to the application of IFRS 9 and the tables at 31 December 2017 relating to financial instruments are presented in note 3.7 and following.

3.1 Financial assets and liabilities at fair value through profit or loss at 30 June 2018

Assets and liabilities at fair value through profit or loss

	30.06.2018			
	Financial assets held for trading	Fair value on option	Fair value not SPPI	TOTAL
(in € thousands)				
Derivative instruments	467,161			467,161
- interest rate	373,035			373,035
- foreign exchange	84,544			84,544
- credit	9,582			9,582
- other	-			-
Debt instruments	9,727,477	-	965,272	10,692,749
Government paper and similar securities	1,862,829	-	-	1,862,829
Bonds and other fixed-income securities	7,864,648	-	43,017	7,907,665
UCITS	-	-	922,255	922,255
Equity instruments	8	-	24,135	24,143
Equities and other variable-income securities	8		24,135	24,143
Non-consolidated equity stakes	-		-	-
Loans and advances	801,478	-	-	801,478
Credit institutions	-	-	-	-
Customers	801,478	-	-	801,478
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	10,996,124	-	989,407	11,985,531
Derivative instruments	510,946	-	-	510,946
- interest rate	387,297			387,297
- foreign exchange	100,893			100,893
- credit	22,756			22,756
- other	-	-	-	-
Debt securities	-	77,373	-	77,373
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	510,946	77,373	-	588,319

- Derivatives held for trading

(in € thousands)	30.06.2018	
	Assets	Liabilities
Interest rate instruments	373,035	387,297
Interest rate - Over the counter	373,035	387,297
Interest rate - Organised market	-	-
Foreign exchange instruments	84,544	100,893
Foreign exchange - Over the counter	84,544	100,893
Foreign exchange - Organised market	-	-
Credit instruments	9,582	22,756
Credit - Over the counter	9,582	22,756
Foreign exchange - Organised market	-	-
Other derivatives	-	-
TOTAL DERIVATIVES HELD FOR TRADING AT FAIR VALUE THROUGH PROFIT OR LOSS	467,161	510,946

(in € thousands)	30.06.2018	
	Assets	Liabilities
Interest rate instruments	373,035	387,297
Futures	-	-
FRA	-	2
Interest rate swaps	359,340	372,862
Interest rate options	-	-
Caps-floors-collars	13,695	14,433
Other interest rate instruments	-	-
Foreign exchange instruments	84,544	100,893
Currency futures	84,544	100,893
Currency options	-	-
Other derivatives	9,582	22,756
TOTAL DERIVATIVES HELD FOR TRADING AT FAIR VALUE THROUGH PROFIT OR LOSS	467,161	510,946

3.2 Financial assets recognised at fair value through other comprehensive income at 30 June 2018

	30.06.2018							
	Fair value				Impairments			
	B1	B2	B3	Total	B1	B2	B3	Total
(in € thousands)								
Financial assets at fair value through OCI - Without recycling				252,495				
Equity instruments:				252,495				
- Equities and other variable-income securities				49,455				
- Other securities held over the long term				975				
- Consolidated equity stakes								
- Non-consolidated equity stakes				202,065				
Financial assets at fair value through OCI - With recycling	11,024,052	184	-	11,024,236	(2,131)	(66)	-	(2,197)
Debt instruments:	11,024,052	184	-	11,024,236	(2,131)	(66)	-	(2,197)
- Government paper and similar securities	1,803,022	-	-	1,803,022	(74)	-	-	(74)
- Bonds	9,221,030	184	-	9,221,214	(2,057)	(66)	-	(2,123)
Loans and receivables due from credit institutions	-	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-	-
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME				11,276,731				(2,197)

- Equity instruments recognised at fair value through OCI without recycling

	30.06.2018			
	Fair value	Unrealised gains	Unrealised losses	Gains/losses over the period
(in € thousands)				
Equities, other variable-income securities held over the long term	50,430	842	(2,855)	160
Non-consolidated equity stakes	202,065	31,986	(1,517)	128
VALUE ON THE BALANCE SHEET	252,495	32,828	(4,372)	288
Tax		(279)	0	(44)
Gains and losses recorded directly in equity on equity instruments recognised at fair value through other comprehensive income without recycling		32,549	(4,372)	244

- Details of non-consolidated equity investments

	30.06.2018	
	Fair value of securities	Share of capital in %
(in € thousands)		
Crédit Logement	97,609	6.0 %
KissKissBankBank	39,600	100.0 %
Domiserve	15,000	100.0 %
Mandarine Gestion	14,304	12.0 %
STET	6,917	5.0 %
Ezyness	5,200	100.0 %
MA FRENCH BANK	5,000	100.0 %
BPIfrance Financement	4,469	0.1 %
Transactis	2,474	50.0 %
Titres Cadeaux SAS	2,200	50.0 %
LBP Protection	2,183	100.0 %
Other	7,109	
TOTAL STAKES	202,065	

- Debt instruments recognised at fair value through OCI with recycling

(in € thousands)	30.06.2018		
	Fair value	Unrealised gains	Unrealised losses
Government paper and similar securities	1,803,022		
Bonds	9,221,214		
Total debt instruments	11,024,236	47,758	(86,651)
Total loans and receivables	-	-	-
VALUE ON THE BALANCE SHEET OF FINANCIAL ASSETS RECOGNISED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME WITH RECYCLING	11,024,236	47,758	(86,651)
Tax		(15,898)	28,794.
Gains and losses recorded directly in equity on debt instruments recognised at fair value through other comprehensive income with recycling (net of tax)		31,860	(57,857)

Investments in equity instruments that were derecognised over the period

(in € thousands)	30.06.2018		
	Fair value at the date of derecognition	Cumulated realised gains (1)	Cumulated realised losses (1)
Equities and other variable-income securities	-	-	-
Non-consolidated equity stakes	119	128	-
Value on the balance sheet	119	128	-
Tax	-	-	-
Gains and losses recorded directly in equity on equity instruments recognised at fair value through other comprehensive income without recycling		128	-

(1) Realised gains and losses are transferred to consolidated reserves at the time of derecognition of the instrument in question

3.3 Securities at amortised cost at 30 June 2018

(in € thousands)	30.06.2018						
	Gross value			Impairment			Net book value
	B1	B2	B3	B1	B2	B3	
- Government paper and similar securities	17,167,027	-	-	(27)	-	-	17,167,000
- Bonds	3,559,595	11,714	-	(2,780)	(138)	-	3,568,391
- Subordinated securities	-	-	-	-	-	-	-
LIABILITIES AT AMORTISED COST	20,726,622	11,714	-	(2,807)	(138)	-	20,735,391

3.4 Loans and receivables due from credit institutions and similar at 30 June 2018

(in € thousands)	30.06.2018						
	Gross value			Impairment			Net book value
	B1	B2	B3	B1	B2	B3	
Demand deposit accounts and loans with credit institutions	18,308,921	-	-	(39)	-	-	18,308,882
Current accounts in debit	296,172	-	-	(39)	-	-	296,133
Overnight accounts and loans	17,999,800	-	-	-	-	-	17,999,800
Amounts not classified	12,949	-	-	-	-	-	12,949
Securities and other assets received under	-	-	-	-	-	-	-
Time accounts and loans with credit institutions	71,418,821	-	-	(365)	-	-	71,418,456
Accounts and loans	1,670,510	-	-	(100)	-	-	1,670,410
Centralisation CDC	69,632,227	-	-	(6)	-	-	69,632,221
Securities and other assets received under	116,084	-	-	(259)	-	-	115,825
Subordinated loans	172,258	-	-	(10)	-	-	172,248
Loans and receivables due from credit institutions and similar	89,900,000	-	-	(414)	-	-	89,899,586

3.5 Loans and receivables due from customers at 30 June 2018

(in € thousands)	30.06.2018						
	Gross value			Impairments			Net book value
	B1	B2	B3	B1	B2	B3	
Demand deposit accounts and loans to	2,849,791	125,152	132,188	(3,407)	(8,058)	(113,420)	2,982,246
Retail current accounts in debit*	223,990	122,446	83,770	(2,049)	(7,790)	(72,971)	347,396
Corporate current accounts in debit*	217,179	1,572	5,968	(263)	(268)	(2,000)	222,188
Factoring	2,354,064	-	221	(1,095)	-	(120)	2,353,070
Overnight accounts and loans	-	-	-	-	-	-	-
Amounts not classified	14,542	-	40,453	-	-	(38,235)	16,760
Other demand deposit accounts and loans to customers	40,016	1,134	1,776	-	-	(94)	42,832
Time accounts and loans to customers	77,972,807	4,305,417	1,261,851	(47,212)	(116,176)	(420,661)	82,956,026
Corporate	16,810,466	192,582	56,930	(14,264)	(9,322)	(9,237)	17,027,155
Short-term credit facilities	3,100,589	23,635	12,839	(543)	(76)	(67)	3,136,377
Home loans	5,782,643	27,112	18,934	(922)	(411)	(5,118)	5,822,238
Equipment loans	3,220,328	44,386	6,753	(1,196)	(1,065)	(340)	3,268,866
Loans to financial customers	280,587	169	13,805	(3,933)	(13)	(2,423)	288,192
Other loans	4,426,319	97,280	4,599	(7,670)	(7,757)	(1,289)	4,511,482
Retail	61,160,218	4,112,835	1,204,921	(32,948)	(106,854)	(411,424)	65,926,748
Short-term credit facilities	4,159,152	591,656	382,258	(19,233)	(41,172)	(196,997)	4,875,664
Home loans	57,001,066	3,521,179	822,663	(13,715)	(65,682)	(214,427)	61,051,084
Securities and other assets received under	2,123	-	-	-	-	-	2,123
Finance lease transactions	2,271,676	20,026	77,368	(1,446)	(1,379)	(28,288)	2,337,957
Equipment leasing	751,347	11,672	29,392	(777)	(349)	(11,634)	779,651
Real estate leasing	1,520,329	8,354	47,976	(669)	(1,030)	(16,654)	1,558,306
LOANS AND RECEIVABLES DUE FROM CUSTOMERS AT AMORTISED COST	83,094,274	4,450,595	1,471,407	(52,065)	(125,613)	(562,369)	88,276,229
Loans and receivables due from customers at amortised cost - 01.01.2018	78,779,146	4,950,489	1,377,335	(44,380)	(159,453)	(543,682)	84,359,455

3.6 Investments of the insurance companies and reinsurers' share of technical provisions at 30 June 2018

Investments of the insurance activities and reinsurers' share of technical provisions

(in € thousands)	Carrying value
Financial assets at fair value through profit or loss	420,211
Debt instruments at fair value through OCI - With recycling	2,100,699
Sub-total	2,520,910
Reinsurers' share of technical provisions	296,264
INVESTMENTS OF THE INSURANCE ACTIVITIES AND REINSURERS' SHARE OF TECHNICAL PROVISIONS	2,817,174

Financial assets at fair value through profit or loss

	Fair value
Fair value through profit or loss held for trading	179,848
Fair value through profit or loss not meeting SPPI criteria	240,363
Fair value through profit or loss on option	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	420,211

Debt instruments at fair value through OCI - With recycling

	Fair value	Impairments
Government paper and similar securities	894,319	(10)
Bonds and other fixed-income securities	1,206,380	(193)
DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - WITH RECYCLING	2,100,699	(203)

Debt instruments at fair value through recyclable equity of insurance companies are classified in bucket 1

Insurance companies do not hold any financial assets recognised at fair value through other comprehensive income that cannot be recycled.

- Financial assets at fair value through OCI with recycling that are insurance investments

(in € thousands)	30.06.2018		
	Carrying amount	Unrealised gains	Unrealised losses
Government paper and similar securities	894,319	40,347	(218)
Bonds	1,206,380	86,794	(2,455)
Total debt instruments	2,100,699	127,141	(2,673)
VALUE ON THE BALANCE SHEET OF FINANCIAL ASSETS RECOGNISED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME WITH RECYCLING	2,100,699	127,141	(2,673)
Tax		(47,304)	454
Gains and losses recognised directly in equity on debt instruments at fair value through other income with recycling (net of tax) - for insurance investments		79,837	(2,219)

3.7 Financial assets and liabilities at fair value through profit or loss at 31 December 2017

Assets and liabilities at fair value through profit or loss

	31.12.2017		
	Trading	Fair value option	TOTAL
(in € thousands)			
Government paper and similar securities	950,201	-	950,201
Bonds and other fixed-income securities	6,058,346	-	6,058,346
Equities and other variable-income securities	61,000	35,307	96,307
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	7,069,547	35,307	7,104,854
Debt securities	-	4,526	4,526
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	4,526	4,526

Derivatives held for trading

	31.12.2017	
	Assets	Liabilities
(in € thousands)		
Interest rate derivatives	384,379	391,595
Credit derivatives	2,775	12,796
Exchange rate derivatives	94,194	93,277
Other derivatives	9,933	30,158
TRADING DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS	491,281	527,826

	31.12.2017	
	Assets	Liabilities
(in € thousands)		
TOTAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	7,596,135	532,352

	31.12.2017	
	Positive fair value	Negative fair value
(in € thousands)		
Options	9,933	30,158
Interest rate options	9,933	30,158
Other derivatives	481,348	497,668
Foreign exchange contracts	94,194	93,277
Interest rate swaps	384,379	391,595
Credit derivatives	2,775	12,796
TOTAL	491,281	527,826

3.8 Available-for-sale financial assets at 31 December 2017

(in € thousands)	31.12.2017
Government paper and similar securities	6,781,298
Bonds and other fixed-income securities	9,542,084
Equities and other variable-income securities	1,326,334
Non-consolidated equity stakes	200,371
AVAILABLE-FOR-SALE FINANCIAL ASSETS	17,850,087
<i>Including net unrealised gains and losses on fixed-income securities (in reserves)</i>	<i>228,511</i>
<i>Including net unrealised gains and losses on variable-income securities (in reserves)</i>	<i>85,129</i>

Details of non-consolidated equity investments

	31.12.2017				
(in € thousands)	Carrying amount of securities	Advances and receivables from related entities	Impairments	Net book value	Share of capital in %
Crédit Logement	97,609	-	-	97,609	6.0%
KissKissBankBank	39,600	-	-	39,600	100.0%
Domiserve	15,000	-	-	15,000	100.0%
Mandarine Gestion	14,304	-	-	14,304	12.0%
STET	6,917	-	-	6,917	5.0%
Ezyness	5,200	-	-	5,200	100.0%
BPIfrance Financement	4,469	-	-	4,469	0.1%
Transactis	2,474	-	-	2,474	50.0%
Titres Cadeaux SAS	2,493	-	(293)	2,200	50.0%
LBP Protection	2,183	-	-	2,183	100.0%
Other	10,639	1,000	(1,224)	10,415	
TOTAL INTERESTS AND ADVANCES	200,888	1,000	(1,517)	200,371	

3.9 Loans and receivables due from financial institutions and similar at 31 December 2017

(in € thousands)	31.12.2017
Current accounts in debit	311,145
Accounts and loans	82,904,578
Securities received under repurchase agreements	225,333
Subordinated and participatory loans	171,761
Impairments	-
Accounts and loans – credit institutions and similar	83,612,817
Securities treated as loans and receivables	474,742
LOANS AND RECEIVABLES – CREDIT INSTITUTIONS AND SIMILAR	84,087,559

3.10 Loans and receivables due from customers at 31 December 2017

(in € thousands)	31.12.2017
Customer current accounts in debit*	800,456
Factoring	2,334,642
Term loans with financial clients	220,496
Short-term credit facilities	5,063,379
Home loans	59,813,224
Loans to legal entities	10,444,650
Loans to the local public sector	5,776,311
Other customer loans	56,643
Securities received under repurchase agreements	1,150
Impairments	(583,186)
Loans and receivables due from customers	83,927,765
Finance lease transactions	2,254,896
Impairments	(21,043)
Finance lease transactions	2,233,853
Securities treated as loans and receivables	1,973,554
Impairments	-
Securities treated as loans and receivables	1,973,554
LOANS AND RECEIVABLES – CUSTOMERS	88,135,172

* Card payment deferrals are presented with current accounts in debit.

3.11 Financial assets held to maturity at 31 December 2017

(in € thousands)	31.12.2017
Government paper and similar securities	18,407,398
Bonds and other fixed-income securities	2,326,616
FINANCIAL ASSETS HELD TO MATURITY	20,734,014

3.12 Accruals and other assets

(in € thousands)	30.06.2018	01.01.2018
Prepaid expenses and accrued income	370,605	283,386
Collection accounts	46,480	47,109
Other accruals	1,053,774	1,133,171
Accruals	1,470,859	1,463,666
Other debtors and guarantee deposits paid	1,378,265	1,421,644
Settlement accounts for securities transactions	1,911	1,764
Impairments	(5,163)	(5,241)
Other assets	1,375,013	1,418,167
Other insurance assets	292,599	267,383
Other insurance assets	292,599	267,383
ACCRUALS AND OTHER ASSETS	3,138,471	3,149,216

3.13 Equity associates

(in € thousands)	30.06.2018		01.01.2018	
	Equity-accounted value	Of which profit (loss)	Equity-accounted value	Of which profit (loss)
CNP Assurances Group	3,219,432	128,693	3,329,257	256,824
AEW	49,225	1,859	54,101	6,575
EQUITY ASSOCIATES	3,268,657	130,551	3,383,358	263,399

The data published by the CNP Assurances Group show a balance sheet total of €423,367 million and revenue of €16,955.4 million. Capitalisation stood at €13,382.2 million at 30 June 2018, based on: 686,618,477 shares in circulation and a closing price of €19.49 per share.

Goodwill on entities accounted for using the equity method is included in the Group's share of the equity associates, in accordance with the accounting rules in effect.

3.14 Goodwill

- **Movements during the period**

(in € thousands)	30.06.2018	31.12.2017
Net book value at 1 January	160,227	160,227
Goodwill arising on equity investments	-	-
Disposals	-	-
Impairment for the period	-	-
Other movements	-	-
NET BOOK VALUE AT THE END OF THE PERIOD	160,227	160,227

- **Breakdown of goodwill**

(in € thousands)	30.06.2018	01.01.2018
Tocqueville Finance Group	27,498	27,498
La Banque Postale Asset Management	38,429	38,429
La Banque Postale Prévoyance	94,300	94,300
Easybourse	4,722	4,722
Total gross goodwill	164,949	164,949
Goodwill amortisation	(4,722)	(4,722)
TOTAL NET GOODWILL	160,227	160,227

3.15 Liabilities due to credit institutions and similar

(in € thousands)	30.06.2018	01.01.2018
Current accounts in credit	584,528	697,838
Overnight accounts and borrowings	-	-
Other amounts owed	5,154	25,691
Demand liabilities due to credit institutions	589,682	723,529
Accounts and borrowings	2,695,089	2,381,785
Securities and other assets delivered under repurchase agreements	11,950,806	11,048,976
Time liabilities due to credit institutions	14,645,895	13,430,761
LIABILITIES DUE TO CREDIT INSTITUTIONS AND SIMILAR	15,235,577	14,154,290

3.16 Liabilities to customers

(in € thousands)	30.06.2018	01.01.2018
Livret A	61,048,040	59,933,751
Home savings schemes and accounts	31,926,892	32,117,678
Other special accounts	22,234,507	22,008,300
Special scheme savings accounts	115,209,439	114,059,729
Demand deposit accounts in credit	64,639,342	62,721,031
Overnight accounts and borrowings	1,508,389	1,741,755
Securities and other assets delivered under demand repurchase agreements	-	-
Other amounts owed	664,518	711,161
Demand liabilities to customers	66,812,249	65,173,947
Time deposit accounts and borrowings	-	-
Time deposit accounts in credit	688,532	164,989
Securities delivered under time repurchase agreements	3,994,483	3,165,109
Time liabilities to customers	4,683,015	3,330,098
LIABILITIES TO CUSTOMERS	186,704,703	182,563,774

3.17 Accruals and other payables

(in € thousands)	30.06.2018	01.01.2018
Accrued expenses and deferred income	546,480	557,902
Other accruals	1,292,024	1,370,195
Accruals	1,838,504	1,928,097
Securities-related liabilities	457,579	441,424
Guarantee deposits received	1,354,781	1,357,621
Other payables	942,165	1,068,552
Settlement accounts for securities transactions	3,512	8,347
Other liabilities	2,758,037	2,875,944
Other insurance liabilities	150,865	134,463
Other insurance liabilities	150,865	134,463
ACCRUALS AND OTHER LIABILITIES	4,747,406	4,938,504

3.18 Technical provisions of insurance companies

(in € thousands)	30.06.2018	01.01.2018
Life technical provisions	978,384	967,262
Non-life technical provisions	1,380,761	1,290,234
TECHNICAL PROVISIONS	2,359,145	2,257,496

(in € thousands)	30.06.2018	01.01.2018
Deferred participating liabilities	106,487	118,161
SHADOW ACCOUNTING	106,487	118,161

The provision for deferred profit-sharing arises from the application of “shadow accounting”: it represents the share of policy-holders, life insurance subsidiaries, in unrealised gains and losses and impairment charged on assets, when the remuneration of contracts is tied to their returns.

These are provisions built up primarily by La Banque Postale Prévoyance and La Banque Postale Assurances IARD.

3.19 Provisions

	01.01.2018	Provisions	Reversals	Reversals of unused provisions	Other	30.06.2018
(in € thousands)						
Provisions for employee benefits	30,717	1,970	(213)	-	-	32,474
Provisions for risk on home savings plans and accounts	293,826	39	(16,600)	-	-	277,265
Provisions for labour disputes and benefits expenses	10,455	2,219	(4,684)	(875)	-	7,115
Provisions for guarantee commitments	238	362	(110)	-	-	490
Provisions for financing commitments	62,400	22,211	(29,119)	-	-	55,492
Other provisions	143,522	6,710	(3,777)	(6,747)	-	139,708
PROVISIONS	541,158	33,511	(54,503)	(7,622)	-	512,544

3.20 Subordinated debt

(in € thousands)	30.06.2018	01.01.2018
Subordinated debt (1)	3,893,797	3,888,976
TOTAL	3,893,797	3,888,976

Subordinated debt breaks down as follows:

	Date of issue	Maturity date	Original currency	30.06.2018
(in € thousands)				
Fixed-term subordinated debt (2)	30.11.2010	30.11.2020	EUR	750,000
Fixed-term subordinated debt (2)	23.04.2014	23.04.2026	EUR	750,000
Fixed-term subordinated debt (3)	19.11.2015	19.11.2027	EUR	750,000
Fixed-term subordinated debt (4)	09.06.2016	09.06.2028	EUR	500,000
Fixed-term subordinated debt (4)	05.10.2016	05.10.2028	EUR	100,000
Fixed-term subordinated debt (5)	16.01.2017	09.06.2028	EUR	150,000
Perpetual subordinated debt (6)	13.12.2013		EUR	800,000
TOTAL				3,800,000

(1) Balance sheet value including hedging effect and accrued interest.

(2) The issue includes a mechanism to convert to senior debt in the event of regulatory disqualification of the instrument with a reduction in the coupon of 30 basis points.

(3) La Banque Postale carried out a Tier II securities bond issue in the amount of €750 million in 2015

(4) La Banque Postale carried out two bond issues in 2016 in the amounts of €500 million and €100 million with maturity of 12 years

(5) La Banque Postale issued a €150m bond in 2017

(6) Perpetual bond issue convertible to shares and redeemable in the event of tax, accounting or regulatory changes or a change in the first call date. This debt is allowed in Tier 1 equity from a regulatory standpoint. Coupons are payable annually.

3.21 Additional information about sovereign and non-sovereign exposures in certain European Union countries

At 30 June 2018, La Banque Postale's direct and indirect exposure to PIIGS (Portugal, Italy, Ireland, Greece, Spain) stood at €2.74 billion.

The breakdown of direct and indirect sovereign exposure is as follows:

Sovereign exposure as at 30 June 2018

	Total Banking Portfolio	Assets at fair value through profit and loss (excluding derivatives)	Insurance investments excluding insurers' share of technical provisions	Total Direct exposure(1)	Borrowed securities	Off-balance sheet	Total direct and indirect exposure (2)	Exposure in %
(in € thousands)								
Greece	0	0	0	0	0	0	0	0.0%
Ireland	0	0	0	0	0	0	0	0.0%
Italy	101,836	880,056	61,036	1,042,928	195,813	0	1,238,740	5.3%
Portugal	283,432	381,372	0	664,804	0	0	664,804	2.8%
Spain	172	325,368	9,078	334,618	501,006	0	835,624	3.5%
Total PIIGS	385,440	1,586,796	70,113	2,042,349	696,819	0	2,739,168	11.6%
Germany	1,794,284	50,043	12,043	1,856,370	0	0	1,856,370	7.9%
Austria	0	0	15,340	15,340	0	0	15,340	0.1%
Belgium	1,087,393	0	50,031	1,137,424	0	0	1,137,424	4.8%
France	15,075,226	120,631	889,298	16,085,155	2,125	0	16,087,280	68.2%
Great Britain	0	0	0	0	0	0	0	0.0%
Luxembourg	155,485	0	26,886	182,371	4,093	0	186,464	0.8%
Netherlands	151,859	0	0	151,859	0	0	151,859	0.6%
Poland	0	0	16,572	16,572	25,409	0	41,981	0.2%
Romania	14,761	0	0	14,761	0	0	14,761	0.1%
Slovakia	0	0	0	0	0	0	0	0.0%
Slovenia	0	0	5,362	5,362	0	0	5,362	0.0%
Switzerland	22,776	0	5,804	28,579	0	0	28,579	0.1%
Supranational	0	0	0	0	0	0	0	0.0%
Total Europe	18,301,783	170,674	1,021,335	19,493,792	31,627	0	19,525,419	82.8%
Rest of the world	902,378	250,195	13,135	1,165,708	149,958	0	1,315,666	5.6%
TOTAL	19,589,601	2,007,666	1,104,583	22,701,850	878,404	0	23,580,254	100.0%

Identification based on the scope defined by the EBA, including local and regional authorities or bodies benefiting from a government guarantee.

These exposures do not include deposits centralised with the CDC.

(1) Direct exposure: fair value of gross book value of exposure on the Bank's own account.

(2) Direct and indirect exposures: direct exposures to which are added the indirect exposures via the Group's reverse repurchase agreements and other Group off-balance sheet items

The unrealised gains and losses recorded in reserves are €3,250 thousand. Securities are classified in N1. No significant impairment on inventory was recorded as at 30 June 2018.

The main change in nominal value of the sovereign securities of the PIIGS corresponds to new acquisitions in the amount of €871 million on the category of financial assets at fair value through profit or loss (excluding derivatives).

The maturity of PIIGS sovereigns is generally less than 1 year.

Sovereign exposure as at 31 December 2017

(in € thousands)	Total Banking Portfolio	Assets at fair value through profit and loss	Derivative	Total direct exposure ¹	Borrowed securities	Off-balance sheet	Total direct and indirect exposure ²	Exposure in %
Greece	-	24	-	24	-	-	24	0.0%
Ireland	-	-	-	-	-	-	-	-
Italy	386,445	471,597	-	858,042	185,383	-	1,043,425	3.7%
Portugal	81,626	243,911	-	325,537	-	-	325,537	1.2%
Spain	6,758	-	-	6,758	485,005	-	491,763	1.7%
Total PIIGS	474,829	715,532	-	1,190,361	670,388	-	1,860,749	6.6%
Germany	3,792,156	90,262	-	3,882,418	-	-	3,882,418	13.7%
Austria	14,600	-	-	14,600	-	-	14,600	0.1%
Belgium	2,192,988	-	-	2,192,988	-	-	2,192,988	7.8%
Finland	-	-	-	-	-	-	-	-
France	17,400,304	7	-	17,400,311	1,150	-	17,401,461	61.6%
Luxembourg	158,841	-	-	158,841	12,199	-	171,040	0.6%
Netherlands	1,196,729	-	-	1,196,729	-	-	1,196,729	4.2%
Poland	22,321	-	-	22,321	25,409	-	47,730	0.2%
Slovakia	-	-	-	-	-	-	-	-
Slovenia	6,478	-	-	6,478	-	-	6,478	0.0%
Switzerland	22,969	-	-	22,969	-	-	22,969	0.1%
Supranational	-	-	-	-	-	-	-	-
Total Europe	24,807,386	90,269	-	24,897,655	38,758	-	24,936,413	88.3%
Rest of the world	1,042,714	229,675	-	1,272,389	170,000	-	1,442,389	5.1%
TOTAL	26,324,929	1,035,476	-	27,360,405	879,146	-	28,239,551	100.0%

Identification based on the scope defined by the EBA, including local and regional authorities or bodies benefiting from a Government guarantee. These exposures do not include deposits centralised with the CDC.

(1) Direct exposure: net book value (including impairment) of exposure on the Bank's own account.

(2) Direct and indirect exposures: direct exposures to which are added the indirect exposures via the Group's securities borrowing.

Non-sovereign exposure of several European Union countries as at 30 June 2018

The Group's principal non-sovereign exposures to Greece, Ireland, Italy, Portugal and Spain represent a total amount of €2,682 million (compared to €4,420 million at 31 December 2017). They are mainly shared between Banking, with €2,210 million, and Corporate, with €458 million (compared to €2,389 million and €1,481 million at 31 December 2017, respectively).

NOTE 4 NOTES TO THE INCOME STATEMENT

4.1 Interest income and expense and similar items

(in € thousands)	30.06.2018	Including negative interest
On financial assets valued at amortised cost	1,821,302	55,917
Transactions with credit institutions	595,030	45,170
Customer transactions	887,911	10,387
Finance lease transactions	17,451	-
Securities transactions at amortised cost	320,910	360
On financial assets at fair value through OCI with recycling	49,304	-
Transactions with credit institutions	-	-
Customer transactions	-	-
Debt securities	49,304	-
Interest accrued and due on hedging instruments	158,979	-
Interest and similar income	-	-
Interest income	2,029,585	55,917
On financial liabilities at amortised cost	(849,614)	(35,722)
Transactions with credit institutions	(50,574)	(35,721)
Customer transactions	(687,209)	(1)
Debt securities	(111,831)	-
Interest accrued and due on hedging instruments	(58,724)	-
Other interest and similar expense	-	-
Interest expense	(908,338)	(35,722)
INTEREST AND SIMILAR INCOME AND EXPENSE	1,121,247	

	30.06.2017	
(in € thousands)	Income	Expenses
Interest and similar income on cash and interbank transactions	582,701	(34,380)
<i>including negative interest</i>	68,065	(28,703)
Interest and similar income on customer transactions	977,667	(691,164)
<i>including negative interest</i>	8,636	(143)
Interest on hedging transactions	179,466	(72,870)
Interest on assets available for sale and held to maturity	441,908	-
Interest on debt securities	209	(81,802)
Interest income and expense	2,181,951	(880,216)
NET INTEREST INCOME AND EXPENSE	1,301,735	

The amount of interest and compensation received in respect of the centralisation of deposits of the Livret A, the Sustainable Development Accounts (LDD) and the National Savings Accounts (LEP) amounted to €538 million as at 30 June 2018, compared with €484 million as at 30 June 2017.

4.2 Net commissions

(in € thousands)	30.06.2018	
	Income	Expenses
Commissions on cash and interbank transactions	27,294	(1,590)
Commissions on customer transactions	646,040	(443)
Commissions on financial services provided	447,340	(97,270)
Commissions on securities transactions	162,909	(10,184)
Commissions on financial instruments	-	(209)
Other commissions	33,393	-
Commission income and expenses	1,316,976	(109,696)
NET COMMISSIONS	1,207,280	

(in € thousands)	30.06.2017	
	Income	Expenses
Commissions on cash and interbank transactions	37,338	(1,532)
Commissions on customer transactions	693,855	(70,663)
Commissions on financial services provided	389,532	(26,891)
Commissions on securities transactions	190,480	(9,287)
Commissions on insurance services provided	50,702	(29,730)
Commissions on financial instruments	-	(142)
Other commissions	30,997	(8)
Commission income and expenses	1,392,904	(138,253)
NET COMMISSIONS	1,254,651	

4.3 Net gains and losses on financial instruments at fair value through profit or loss

(in € thousands)	30.06.2018
Dividends received	1
Changes in the fair value of financial assets and liabilities through profit or loss	18,142
Changes in fair value and interest on financial assets and liabilities held for trading	6,030
Changes in fair value and interest on financial assets and liabilities not meeting SPPI criteria	7,119
Changes in fair value and interest on financial assets and liabilities on option	4,993
Gains or losses on financial assets and liabilities through profit or loss	13,455
Gains or losses on financial assets and liabilities held for trading	3,122
Gains or losses on financial assets and liabilities not meeting SPPI criteria	10,333
Gains or losses on financial assets and liabilities on option	-
Result of the hedge accounting	(1,072)
NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	30,526

(in € thousands)	30.06.2017
Net income from trading financial assets (excluding derivatives)	(7,864)
Net income from trading derivatives	20,782
Net income from the revaluation of hedged items and hedging derivatives	(3,302)
Profit (loss) from financial assets at fair value on option	-
Profit (loss) from financial liabilities at fair value on option	(2,074)
NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	7,542

The result of the hedge accounting breaks down as follows:

(in € thousands)	30.06.2018		
	Profits	Losses	Net
Fair value hedges	313,587	(314,659)	(1,072)
Changes in fair value of hedged items attributable to the hedged risks	144,938	(45,926)	99,012
Changes in fair value of hedging derivatives (including hedge termination)	168,649	(268,733)	(100,084)
Cash flow hedges	-	-	-
Changes in fair value of hedging derivatives - ineffective part	-	-	-
Interest rate fair value hedges of a portfolio of financial instruments	-	-	-
Changes in fair value of hedged items	-	-	-
Changes in fair value of hedging derivatives	-	-	-
Interest rate cash flow hedges of a portfolio of financial instruments	-	-	-
Changes in fair value of the hedging instrument - ineffective part	-	-	-
RESULT OF THE HEDGE ACCOUNTING	313,587	(314,659)	(1,072)

4.4 Net gains and losses on financial instruments at fair value through other comprehensive income

(in € thousands)	30.06.2018
Dividends received on equity instruments recognised at fair value through OCI without recycling	8,709
Gains or losses on disposals recorded at fair value through OCI with recycling	312,995
- On debt securities	312,995
- On loans and receivables	-
Gains or losses on the sale or termination of the fair value hedging instruments of debt instruments	-
Gains or losses on the disposal of debt instruments related to securitisation transactions	-
NET GAINS OR LOSSES ON FINANCIAL ASSETS RECOGNISED IN OTHER COMPREHENSIVE INCOME	321,704

(in € thousands)	30.06.2017
Gains on disposals of fixed-income securities	270,792
Losses on disposals of fixed-income securities	(188,473)
Dividends and similar income	23,876
Gains on disposals of variable-income securities	21,617
Losses on disposals of variable-income securities and impairment	(3,098)
Gains and losses on disposals of loans and receivables	-
NET GAINS AND LOSSES ON ASSETS AVAILABLE FOR SALE	124,714

4.5 Gains and losses on the derecognition of debt instruments recognised at amortised cost

No gain or loss on the derecognition of debt instruments recognised at amortised cost was recorded at 30 June 2018.

4.6 Net income from insurance companies

(in € thousands)	30.06.2018
Sales	485,088
Premiums written	502,500
Change in unearned premiums	(17,412)
Sub-Total - Retained premiums	485,088
Income from activities accounted for under IFRS 15	-
Income from investments net of expenses	30,299
Income from investments incl. investment properties	37,727
Expenses on investments and other financial charges	(2,905)
Gains and losses on disposals of investments	(271)
Change in fair value of investments recognised at fair value through profit or loss	(4,252)
Results of the fair value hedges	-
Amortisation of deferred acquisition costs	-
Expenses on contract services	(295,870)
Commissions on the insurance activities	(6,224)
Result of reinsurance assets	5,674
NET INCOME OF THE INSURANCE COMPANIES	218,967

- Impact of the application of the overlay approach for the insurance entities of the La Banque Postale Group

Value of the financial assets to which the overlay approach is applied:

Category	30.06.2018	
	Carrying amount	Change in fair value (1)
UCITS	213,633	(3,159)
Equities and other variable-income securities	138,805	3,334
Bonds	10,227	(105)
Other financial assets	-	-
(1) Excluding securities sold during the half year		

Effect of the application of the overlay approach to net income items:

	IAS 39	IFRS 9	Overlay impact
Net income of the insurance companies	29,378	23,960	
Overlay impact			5,418
Net banking income	29,378	23,960	5,418
Deferred tax	94	1,141	(1,047)
Net income	29,472	25,101	4,371

4.7 Total income and expenses from other activities

(in € thousands)	30.06.2018	
	Income	Expenses
Income retrocessions, re-invoiced expenses, expense transfers	14,880	-
Other operating income and expenses	106,904	(104,260)
Provisions for other operating expenses	10,008	(6,466)
Income and expenses from other activities	131,792	(110,726)
NET INCOME AND EXPENSES FROM OTHER ACTIVITIES	21,066	

(in € thousands)	30.06.2017	
	Income	Expenses
Income retrocessions, re-invoiced expenses, expense transfers	22,969	-
Other operating income and expenses	90,892	(140,054)
Insurance income and expenses	412,904	(265,567)
Provisions for other operating expenses	15,761	(17,449)
Income and expenses from other activities	542,526	(423,070)
NET INCOME AND EXPENSES FROM OTHER ACTIVITIES	119,456	

4.8 General operating expenses

(in € thousands)	30.06.2018	30.06.2017
Personnel costs	(276,821)	(237,870)
Taxes, duties and miscellaneous contributions (1)	(98,055)	(76,081)
External services	(1,775,986)	(1,826,449)
Other expenses	(120,583)	(101,196)
Other general operating expenses	(1,994,624)	(2,003,726)
GENERAL OPERATING EXPENSES	(2,271,445)	(2,241,596)

(1) including contributions to the supervisory bodies

Average number of employees (FTE) during the year

	30.06.2018	30.06.2017
Executive positions	3,612	3,293
Non-executive positions	1,250	1,102
TOTAL	4,862	4,395

4.9 Cost of risk

(in € thousands)	30.06.2018
Bucket 1 - Good quality assets - 12-month expected losses	(2,283)
Bucket 2 - Sensitive assets - Lifetime expected losses	38,653
Bucket 3 - Impaired assets	(22,894)
Impairment provisions net of reversals	13,476
Amounts recovered on amortised receivables	3,131
Credit losses	(66,107)
Other losses or income	317
COST OF RISK	(49,183)

(in € thousands)	30.06.2017
Provisions for impairments on customer accounts	(126,948)
Reversals of impairments on customer accounts	102,652
Credit losses covered by provisions for impairment	(39,146)
Non-provisioned credit losses	(9,580)
Amounts recovered on amortised receivables	2,997
Reversals of impairment on doubtful financial assets	-
Provisions for/reversals of other impairments	(1,246)
COST OF RISK	(71,271)

4.10 Income tax and deferred taxes

(in € thousands)	30.06.2018	30.06.2017
Current tax	(70,954)	(104,147)
Deferred tax	(126,665)	(51,106)
TAXES	(197,619)	(155,253)

Tax expense analysis:

(in € thousands)	30.06.2018		30.06.2017	
Net income, Group share	421,508		366,549	
Share of non-controlling interests	19,565		16,124	
Share of profits of equity associates	(130,551)		(132,503)	
Income tax expense	197,619		155,253	
Pre-tax net income	508,140		405,423	
Theoretical income tax expense	(174,953)	-34.43%	(139,587)	-34.43%
Permanent difference effects	(19,950)	3.93%	(11,475)	2.83%
Tax rate effects	2,475	-0.49%	1,822	-0.45%
Dividend taxation effect	(6,122)	1.20%	(5,394)	1.33%
Other effects	931	-0.18%	(620)	0.15%
RECOGNISED INCOME TAX EXPENSE	(197,619)	38.89%	(155,253)	38.29%

NOTE 5 COMMITMENTS GIVEN AND RECEIVED

Contractual value of commitments given and received:

(in € thousands)	30.06.2018	01.01.2018
FINANCING COMMITMENTS		
To credit institutions and similar	702,811	1,181,921
To customers	21,881,507	19,366,812
Total financial commitments given	22,584,318	20,548,733
Received from credit institutions and similar	1,401,032	870,369
Received from customers	1,320,502	1,136,011
Total financial commitments received	2,721,534	2,006,380
GUARANTEE COMMITMENTS		
To credit institutions and similar	397,802	397,802
To customers*	1,920,027	1,881,446
Total guarantee commitments given	2,317,829	2,279,248
Received from credit institutions and similar	32,224,685	31,473,106
Received from customers	9,280,396	9,166,847
Total guarantee commitments received	41,505,081	40,639,953
SECURITIES COMMITMENTS		
Securities to be delivered	2,429,811	1,382,049
Total securities commitments	2,429,811	1,382,049
Securities to be received	839,250	246,044
Total commitments received for securities	839,250	246,044
OTHER COMMITMENTS		
Total of other commitments given	10,036,254	9,627,906
Total of other commitments received	2,439,744	1,410,505

* Including capital and performance guarantees granted to the holders of collective investment scheme units generated by Group entities.

Crédit Logement commitments

La Banque Postale has committed to maintain Crédit Logement's basic equity capital at a level equivalent to their holding in the company, i.e. 6%, so that the company can maintain its solvency ratio. La Banque Postale has agreed to replenish Crédit Logement's mutual guarantee fund if required, which underwrites borrower defaults on loans secured by the company. This commitment, which is equivalent to the portion of amounts outstanding granted by La Banque Postale, was €258 million at 30 June 2018.

In addition, the guarantee commitments received from credit institutions are primarily comprised of deposits received from Crédit Logement.

Other commitments given

Mainly the amount of shares pledged for the benefit of the European Central Bank as part of the financing commitment received from the latter (3G funding). This guarantee commitment given is recorded at the market value of pledged securities before taking into account different haircuts for securities and receivables into account. The commitment given (€665 million) is in return for a financing commitment received (€609 million) from the Banque de France (3G funding).

Other commitments also include €9,180 million in home loans pledged to hedge the bond issues launched by the Group's home loans company (La Banque Postale Home Loan SFH).

NOTE 6 FAIR VALUE OF BALANCE SHEET ITEMS

6.1 Fair value of balance sheet items recognised at amortised cost

	30.06.2018				
	Balance sheet amount	Fair value	Fair value hierarchy		
			Valuation determined using prices listed on an active market (Level 1)	Valuation process using observable data (Level 2)	Valuation process using non-observable data (Level 3)
(in € thousands)					
ASSETS					
Securities at amortised cost	20,735,391	22,526,491	20,323,492	2,008,813	194,186
Demand loans and receivables due from credit institutions	18,308,882	18,308,922	-	18,173,558	135,364
Time loans and receivables due from credit institutions	71,590,704	71,612,462	-	71,495,671	116,791
Loans and receivables due from credit institutions	89,899,586	89,921,384	-	89,669,229	252,155
Demand loans and receivables due from customers	2,982,246	2,982,246	-	2,898,246	84,000
Time loans and receivables due from customers	82,956,026	85,617,502	-	75,459,417	10,158,085
Finance lease transactions	2,337,957	2,568,900	-	2,568,900	-
Loans and receivables due from customers	88,276,229	91,168,648	-	80,926,563	10,242,085
Investments of the insurance activities excluding reinsurers' share of technical provisions	-	-	-	-	-
LIABILITIES					
Demand liabilities due to credit institutions	589,682	589,682	(0)	584,244	5,438
Time liabilities due to credit institutions	14,645,895	14,636,938	-	14,384,387	252,551
Liabilities due to credit institutions	15,235,577	15,226,620	(0)	14,968,631	257,989
Demand liabilities to customers	182,021,688	182,021,687	(0)	180,872,291	1,149,396
Time liabilities to customers	4,683,015	4,692,489	-	4,690,998	1,491
Liabilities to customers	186,704,703	186,714,176	(0)	185,563,289	1,150,887
Debt securities	12,539,464	12,565,813	-	12,565,813	-
Subordinated debt	3,893,797	4,128,628	-	4,128,628	-

Fair value of loans

The scope selected includes all loans drawn on La Banque Postale and shown on its balance sheet. Loans granted but not yet drawn are not taken into account: the assumption is that since their rates were recently set, their value should not diverge from the nominal amount loaned.

The main assumptions underlying the determination of fair value are as follows for the loans marketed by the Bank:

- the fair value of current account overdrafts is presumed to correspond to the book value due to their short duration (the customer is required to return the account to credit within one month);
- the fair value of loans is determined on the basis of internal models, which consist in discounting future recoverable capital and interest flows over the residual term that are discounted based on the rate of internal disposals.

Fair value of deposits

The main underlying assumptions for the calculation are as follows:

- for deposits on which the interest rate is regulated, Livret B accounts, saving accounts for young people, National Savings accounts and term deposit accounts, fair value is assumed to be the carrying amount of the amount outstanding;
- the fair value of overnight deposits is assumed to correspond to the carrying amount of the amount outstanding, net of the fair cost value of the swaps used to hedge overnight deposits (via the carve-out option).

Held or issued debt instruments

The fair value of listed financial instruments corresponds to the closing price. The fair value of unlisted financial instruments is determined by discounting future cash flows at current reporting date market rates.

6.2 Fair value hierarchy of the financial assets and liabilities recognised on the balance sheet

Three levels of financial instruments are shown based on the decreasing level of observability of the prices and parameters used for their measurement:

- level 1: Instruments valued according to the (non-adjusted) prices quoted for identical assets or liabilities on an active market;

This level primarily includes listed shares and derivatives on organised markets (futures, options, etc.).

- level 2: Instruments valued according to data other than the prices listed under level 1 and that can be observed for the asset and liability in question, either directly (prices) or indirectly (derivative price data);

These instruments are measured employing valuation techniques that use observable parameters and standard models or instruments that are valued based on similar instruments listed on an active market. This category includes interest rate swaps, caps, floors, etc.

- level 3: Instruments valued using data that are not based on observable market data (non observable data).

This category mainly includes unlisted equity investments.

The market value of unlisted equity investments classified as financial assets at fair value through OCI is determined by reference to criteria such as net assets, profitability outlook and discounting of future cash flows.

The price quoted for an asset held or a liability to be issued is usually the bid price, and it is the ask price for a liability held or an asset to be acquired.

Financial assets and liabilities

	30.06.2018			
	Fair value hierarchy			
	Fair value	Valuation determined using prices listed on an active market (Level 1)	Valuation process using observable data (Level 2)	Valuation process using non-observable data (Level 3)
(in € thousands)				
FINANCIAL ASSETS				
Financial assets held for trading	10,996,124	2,561,454	8,434,670	-
Financial assets at fair value through profit or loss on option	-	-	-	-
Financial assets at fair value not meeting the SPPI criteria	989,407	512,648	199,177	277,582
Financial assets at fair value through profit or loss	11,985,531	3,074,102	8,633,847	277,582
Fair value hedging derivatives	1,149,176	-	1,149,176	-
Cash flow hedging derivatives	10,027	-	10,027	-
Hedging derivatives	1,159,203	-	1,159,203	-
Financial assets at fair value through OCI - without recycling	252,495	0.	-	252,495
Financial assets at fair value through OCI - with recycling	11,024,236	10,701,319	322,917	-
Financial assets at fair value through OCI	11,276,731	10,701,319	322,917	252,495
Investments of the insurance activities	2,520,910	2,472,943	47,967	-
FINANCIAL LIABILITIES				
Financial liabilities held for trading	510,946	-	510,946	-
Financial liabilities at fair value on option	77,373	-	77,373	-
Financial liabilities at fair value through profit or loss	588,319	-	588,319	-
Fair value hedging derivatives	201,943	-	201,943	-
Cash flow hedging derivatives	-	-	-	-
Hedging derivatives	201,943	-	201,943	-

Transfer from Level 2 to Level 1: €31.1 million (four fixed-income securities, whose transactions now meet the volume and frequency conditions).

Transfer from Level 1 to Level 2: €106.6 million (five fixed-income securities whose prices are no longer representative of a price quoted on the active market and no longer meet volume and frequency conditions).

Financial assets and liabilities

(in € thousands)	31.12.2017		
	Valuation determined using prices listed on an active market (Level 1)	Valuation process using observable data (Level 2)	Valuation process using non-observable data (Level 3)
Government paper and similar securities	945,183	5,018	-
Bonds and other fixed-income securities	1,126,884	4,931,462	-
Equities and other variable-income securities	61,000	-	-
Financial assets at fair value through profit or loss	2,133,067	4,936,480	-
Equities and other variable-income securities	35,307	-	-
Financial assets at fair value through profit and loss on option	35,307	-	-
Interest rate derivatives	-	384,379	-
Exchange rate derivatives	-	94,194	-
Credit derivatives	-	2,775	-
Options	-	9,933	-
Trading derivatives	-	491,281	-
Interest rate derivatives	-	1,138,348	-
Exchange rate derivatives	-	5,042	-
Fair value hedging derivatives	-	1,143,390	-
Interest rate derivatives	-	2,363	-
Cash flow hedging derivatives	-	2,363	-
Government paper and similar securities	6,760,946	20,352	-
Bonds and other fixed-income securities	9,327,335	214,749	-
Equities and other variable-income securities	803,751	222,388	300,195
Non-consolidated equity stakes	-	-	200,371
Available-for-sale financial assets	16,892,032	457,489	500,566

(in € thousands)	31.12.2017		
	Valuation determined using prices listed on an active market (Level 1)	Valuation process using observable data (Level 2)	Valuation process using non-observable data (Level 3)
Debt securities	-	4,526	-
Financial liabilities at fair value through profit or loss on option	-	4,526	-
Interest rate derivatives	-	391,595	-
Exchange rate derivatives	-	93,277	-
Other derivatives	-	19,784	-
Credit derivatives	-	12,796	-
Options	-	10,374	-
Trading derivatives	-	527,826	-
Financial liabilities at fair value through profit or loss	-	532,352	-
Interest rate derivatives	-	237,901	-
Exchange rate derivatives	-	301	-
Hedging derivatives	-	238,202	-

- Change in fair value related to Level 3: reconciliation of opening and closing balances

	30.06.2018				
	Financial assets at fair value through profit or loss	Hedging derivatives	Financial assets at fair value through equity	Investments of the insurance activities and reinsurers' share of technical provisions	Total
(in € thousands)					
OPENING	249,925	-	250,640	-	500,566
Total gains and losses recorded in profit or loss	9,291	-	-	-	9,291
Total gains and losses recorded in equity	-	-	160	-	160
Purchases	32,860	-	1,814	-	34,674
Disposals	-	-	(119)	-	(119)
Issues	-	-	-	-	-
Redemptions	(14,856)	-	-	-	(14,856)
Transfer to or from Level 3	-	-	-	-	-
Other movements	362	-	-	-	362
CLOSING	277,582	-	252,495	-	530,077

	31.12.2017					
	Financial assets at fair value through profit or loss	Financial assets at fair value through profit and loss on option	Trading derivatives	Hedging derivatives	Available-for-sale financial assets	TOTAL
(in € thousands)						
OPENING	-	-	-	-	370,571	370,571
Total gains and losses recorded in profit or loss	-	-	-	-	(9,561)	(9,561)
Total gains and losses recorded in equity	-	-	-	-	39,905	39,905
Purchases	-	-	-	-	127,615	127,615
Disposals	-	-	-	-	(94)	(94)
Issues	-	-	-	-	-	-
Redemptions	-	-	-	-	(26,132)	(26,132)
Transfer to or from Level 3	-	-	-	-	-	-
Transfer within Level 3	-	-	-	-	-	-
Other movements	-	-	-	-	(1,738)	(1,738)
CLOSING	-	-	-	-	500,566	500,566

NOTE 7 SEGMENT INFORMATION

La Banque Postale Group is structured around the following divisions:

- **Retail banking**, which includes the activities of La Banque Postale, the CRSF Métropole, CRSF Dom and Tertiaire Saint Romain Limited Property Investment Partnerships that own the business premises of La Banque, La Banque Postale Financement, Easybourse, La Banque Postale Crédit aux Entreprises, La Banque Postale Collectivités Locales, La Banque Postale Home Loan SFH, BPE and SOFIAP, the SF2 holding company and the Elise 2012 securitised mutual fund, as well as the Dutch debt securitisation funds LBP Dutch Mortgage Portfolio 1 B.V and 2 B.V.
- The **Insurance Division** consists of the CNP Assurances Group, La Banque Postale Prévoyance, La Banque Postale Assurance Santé, La Banque Postale Assurances IARD, La Banque Postale Conseil en Assurances and Sopassure.
- **Asset management** consists of La Banque Postale Asset Management Group, Tocqueville Finance Holding, Tocqueville Finance SA and AEW Europe.

Except for the foreign subsidiaries of CNP Assurances and AEW Europe and the Dutch debt securitisation funds LBP Dutch Mortgage Portfolio 1 B.V and 2 B.V, the Group conducts its business activities in France.

Inter-segment and intra-segment transactions are performed under commercial market conditions.

7.1 Breakdown of results by business segment

Net income by business segment as at 30 June 2018 (excluding the cost of equity for each segment)

(in € thousands)	Retail banking	Insurance	Asset management	Total
Net banking income	2,707,084	144,770.	74,354.	2,926,208.
General operating expenses	(2,163,397)	(64,109)	(43,939)	(2,271,445)
Net depreciation and amortisation and impairment of tangible and intangible fixed assets	(93,625)	(1,770)	(1,730)	(97,125)
Gross operating income	450,062	78,891	28,685	557,638
Cost of credit risk	(49,189)	6	-	(49,183)
Operating income	400,873	78,897	28,685	508,455
Share of profits of equity associates	-	128,693	1,859.	130,551
Net gains and losses on other assets	(315)	-	-	(315)
Changes in the value of goodwill	-	-	-	-
Pre-tax income	400,558	207,590	30,544	638,691
Income tax	(165,330)	(22,049)	(10,240)	(197,619)
Consolidated net income	235,228	185,541	20,304	441,073
Non-controlling interests	13,717	666	5,181	19,565
NET INCOME, GROUP SHARE	221,511	184,875	15,123	421,508

Net income by business segment as at 30 June 2017 (excluding the cost of equity for each segment)

(in € thousands)	Retail banking	Insurance	Asset management	Total
Net banking income	2,616,755	120,491	70,852	2,808,098
General operating expenses	(2,149,725)	(50,263)	(41,608)	(2,241,596)
Net depreciation and amortisation and impairment of tangible and intangible fixed assets	(86,417)	(2,248)	(549)	(89,214)
Gross operating income	380,613	67,980	28,695	477,288
Cost of risk	(71,271)	-	-	(71,271)
Operating income	309,342	67,980	28,695	406,017
Share of profits of equity associates	-	130,994	1,509	132,503
Gains and losses on other assets	(594)	-	-	(594)
Goodwill	-	-	-	-
Pre-tax income	308,748	198,975	30,204	537,927
Income tax	(116,764)	(28,124)	(10,365)	(155,253)
Consolidated net income	191,984	170,850	19,839	382,673
Non-controlling interests	11,529	(502)	5,098	16,124
NET INCOME, GROUP SHARE	180,455	171,352	14,741	366,549

NOTE 8 SCOPE OF CONSOLIDATION

				% Control	% Interest	Method	% Control	% Interest
Companies	Registered office: City/Country	Method (1)	Movements	30.06.2018	30.06.2018	31.12.2017	31.12.2017	31.12.2017
RETAIL BANKING								
La Banque Postale	Paris - France	PARENT	-	100.00	100.00	PARENT	100.00	100.00
SCI CRSF DOM (2)	Paris - France	FULL	-	99.94	99.94	FULL	99.94	99.94
SCI CRSF Métropole (2)	Paris - France	FULL	-	99.99	99.99	FULL	99.99	99.99
SCI Tertiaire Saint Romain (2)	Paris - France	FULL	-	100.00	100.00	FULL	100.00	100.00
SF2	Paris - France	FULL	-	100.00	100.00	FULL	100.00	100.00
La Banque Postale Financement	Saint-Denis - France	FULL	-	65.00	65.00	FULL	65.00	65.00
La Banque Postale Crédit Entreprises	Paris - France	FULL	-	100.00	100.00	FULL	100.00	100.00
Easybourse	Paris - France	FULL	-	100.00	100.00	FULL	100.00	100.00
FCT Elise 2012	Pantin - France	FULL	-	95.00	95.00	FULL	95.00	95.00
BPE	Paris - France	FULL	-	99.99	99.99	FULL	99.99	99.99
La Banque Postale Collectivités Locales	Paris - France	FULL	-	65.00	65.00	FULL	65.00	65.00
La Banque Postale Home Loan SFH	Paris - France	FULL	-	100.00	100.00	FULL	100.00	100.00
SOFIAP	Paris - France	FULL	-	66.00	66.00	FULL	66.00	66.00
LBP Dutch Mortgage Portfolio 1 B.V.	Amsterdam - Netherlands	FULL	-	100.00	100.00	FULL	100.00	100.00
LBP Dutch Mortgage Portfolio 2 B.V.	Amsterdam - Netherlands	FULL	-	100.00	100.00	FULL	100.00	100.00
INSURANCE								
CNP Assurances Group	Paris - France	EQUITY	-	36.25	20.15	EQUITY	36.25	20.15
La Banque Postale Prévoyance	Paris - France	FULL	-	100.00	100.00	FULL	100.00	100.00
La Banque Postale Conseil en Assurances	Paris - France	FULL	-	100.00	100.00	FULL	100.00	100.00
Sopassure	Paris - France	JOINT	-	50.02	50.02	JOINT	50.02	50.02
La Banque Postale Assurances IARD	Paris - France	FULL	-	65.00	65.00	FULL	65.00	65.00
La Banque Postale Assurance Santé	Paris - France	FULL	-	51.00	51.00	FULL	51.00	51.00
ASSET MANAGEMENT								
AEW Europe	Paris - France	EQUITY	-	40.00	40.00	EQUITY	40.00	40.00
La Banque Postale Asset Management	Paris - France	FULL	-	70.00	70.00	FULL	70.00	70.00
Tocqueville Finance Holding	Paris - France	FULL	-	92.67	92.67	FULL	92.67	92.67
Tocqueville Finance SA	Paris - France	FULL	-	99.86	92.54	FULL	99.86	92.54

(1) Consolidation method

FULL: Fully consolidated

EQUITY: Accounted for using the equity method

JOINT: Joint control recorded for the share of assets, liabilities and income received

NI: Not included

(2) Property investment company holding the bank's operating buildings

5.3 REPORT OF THE STATUTORY AUDITORS ON THE 2018 INTERIM FINANCIAL INFORMATION

Period from 1 January 2018 to 30 June 2018

To the Shareholders
LA BANQUE POSTALE SA
 115, rue de Sèvres
 75275 PARIS Cedex 06

Under the terms of the assignment entrusted to us by your General Meeting, and in accordance with Article L. 451-1-2 III of the French Monetary and Financial Code, we have:

- performed a limited review of the consolidated interim financial statements of La Banque Postale SA for the period from 1 January 2018 to 30 June 2018, as appended to this report;
- checked the information provided in the interim business report.

These summary consolidated interim financial statements have been prepared under the responsibility of the Executive Board. It is our responsibility, based on our limited review, to express an opinion on these financial statements.

I Conclusion on the financial statements

We have carried out our limited review in accordance with the professional standards applicable in France. A limited review mainly consists in meeting the members of the management team responsible for accounting and financial issues and implementing analytical procedures. This work is less extensive than that required for an audit performed in accordance with the professional standards applicable in France. As a result the assurance that the financial statements, taken as a whole, do not include any significant misstatements that is obtained as part of a limited review is a moderate assurance, which is not as certain as the assurance obtained as part of an audit.

Based on our limited review, we did not observe any material misstatements of a nature that would call into question the compliance of the summary consolidated financial statements with IAS 34 – the IFRS standard for interim financial information as adopted by the European Union.

Without calling into question the conclusion expressed above, we draw your attention to Note 1 of the annex to the consolidated financial statements "Effect of application of IFRS 9 as of 1 January 2018", which explains the impact on the financial statements of the entry into force of IFRS 9.

II - Specific checks

We also verified the information provided in the interim business report on the summary consolidated interim financial statements that were the subject of our limited review. We have no comments to make on the fair presentation of that information or on its consistency with the summary consolidated interim financial statements.

Done in Neuilly-sur-Seine and Paris la Défense, 1 August 2018

The statutory auditors

PricewaterhouseCoopers Audit

KPMG S.A.

Jacques Lévi
Partner

Marie Christine Jolys
Partner

OTHER INFORMATION



BANQUE ET CITOYENNE

6. OTHER INFORMATION

6.1. PUBLIC ACCESS TO THE REGISTRATION DOCUMENT

All documents made available to the public under legal conditions may be consulted at La Banque Postale's registered office at 115, rue de Sèvres, 75275 PARIS Cedex 06. La Banque Postale's Registration Documents are also available on the website www.labanquepostale.com

6.2. PERSONS RESPONSIBLE FOR AUDITING THE FINANCIAL STATEMENTS

Statutory auditors of La Banque Postal	Start date of first assignment	End date of the assignment
PricewaterhouseCoopers Audit (member of the Versailles Regional Chamber of Statutory Auditors) 63, rue de Villiers 92200 Neuilly-sur-Seine Represented by Jacques Lévi as from the 2016 financial year Alternate auditor: Jean-Baptiste Deschryver	28 April 2004	General Shareholders' Meeting called in 2022 to approve the financial statements for the financial year closed on 31 December 2021
KPMG S.A. (member of the Versailles Regional Chamber of Statutory Auditors) Tour Egho 2, avenue Gambetta CS60055 92066 Paris La Défense Represented by Marie-Christine Jolys as from the 2015 financial year Alternate auditor: KPMG Audit FS1	27 May 2010	General Shareholders' Meeting called in 2022 to approve the financial statements for the financial year closed on 31 December 2021

6.3. PERSON RESPONSIBLE FOR UPDATING THE REGISTRATION DOCUMENT

I hereby certify that I have taken all reasonable steps to ensure that the information contained in this updated Registration Document is, to my knowledge, consistent with reality and does not contain any omission likely to affect its import.

I certify that, to my knowledge, the summary consolidated financial statements for the last half-year have been drawn up in accordance with applicable accounting standards, and give a true and fair view of the assets, financial position and results of the Company and of all companies included in the scope of consolidation, and that the interim business report (set out in the table of this update) provides an accurate picture of the business, results and financial position of the Company and of all companies included in the scope of consolidation, together with a description of the main risks and uncertainties that they face.

I have received a letter from the statutory auditors stating that they have completed their assignment, and in which they mention that they have verified the information on the financial position and financial statements provided in this update and have read the Registration Document and this update from beginning to end.

Paris, 7 August 2018,

Rémy Weber

Chairman of the Executive Board.

6.4. CORRELATION TABLE FOR THE REGISTRATION DOCUMENT UPDATE

Correlation table (Appendix 1 of European Regulation 8009/2004)		Sections of Appendix 1 of European Regulation 8009/2004
Registration Document update	Page	
Persons responsible	211	1.
Statutory auditors	211	2.
Selected financial information		3
Historical financial information		3.1
Interim financial information	128-207	3.2
Risk factors	38-126	4
Information about the issuer		5
Company background and development	4-6	5.1.
Investments	136	5.2.
Business overview		6
Main activities	4	6.1.
Main markets	-	6.2
Exceptional events	-	6.3
Potential dependency	-	6.4
Key elements of any statement made by the issuer regarding its competitive position	-	6.5
Organisational chart		7
Summary description	6	7.1.
List of major subsidiaries	6 ; 207	7.2
Property, plant and equipment		8
Major existing or planned property, plant and equipment	130	8.1.
Environmental issues that may affect the use of property, plant and equipment	-	8.2
Review of the financial position and results		9
Financial position	4 ; 24-36	9.1
Operating income	28-33 ; 128	9.2
Cash and equity capital		10
Issuer's equity capital	130	10.1.
Origin and amount of cash flows	135	10.2.
Borrowing conditions and financial structure	128-207	10.3
	NA	
Information regarding restrictions on the use of capital that has had or may have a material impact on the issuer's operations	<i>La Banque Postale has no exposure to covenants.</i>	10.4
Expected source of financing	-	10.5
Research and development, patents and licences	-	11
Information about trends	34-35	12
Profit forecasts or estimates	None	13
Administrative, supervisory management, and executive management bodies		14
Administrative and management bodies	-	14.1
Conflicts of interest at the level of the administrative and management bodies	-	14.2
Remuneration and benefits		
Remuneration amount paid and benefits in kind	-	15.1
Total amounts provisioned or recorded for the purpose of paying pensions, retirement, or other benefits	-	15.2
Operation of the management bodies		16
Current mandate end-date	-	16.1
Service agreements binding the members of the administrative bodies	-	16.2
Information on the Audit Committee and on the Compensation Committee	-	16.3

Current corporate governance rules in the issuer's country of origin	-	16.4
Employees		17
Number of employees	4	17.1.
Profit-sharing and stock options	-	17.2
Agreement providing for employee participation in the issuer's capital	-	17.3
Major shareholders		18
Shareholders with over 5% of the share capital	-	18.1
Existence of voting rights	-	18.2
Control of the issuer	-	18.3
Agreement known to the issuer, the implementation of which could subsequently result in its control changing hands	-	18.4
Transaction with related parties	-	19
Financial information on the issuer's assets, financial position, and results		20
Historical financial information	128-207	20.1
Pro forma financial information	NA	20.2
Financial statements	128-207	20.3
Verification of the annual financial information	-	20.4
Date of the latest information available	30-Jun-18	20.5
Interim and other financial information	128-207	20.6
Dividend policy	-	20.7
Legal and arbitration proceedings	114-115	20.8
Significant change in the financial or trading position	35	20.9
Additional information		21
Share capital	-	21.1
Deeds of incorporation and Articles of Association	-	21.2
Material contracts	-	22
Information from third parties, expert statements, and declarations of interest		23
Procedures for drawing up employee-related and environmental information	-	23.1
Documents on display	211	24
Information on investments	6 ; 207	25
Significant events that have occurred between the year-end and the date on which the management report was drawn up (Paragraph 2 of Article L. 232-1 of the French Commercial Code)	35	
Tables featuring key financial data for the past five years	-	
Information on non-financial employee-related and environmental data	-	
Management report		
Review of the results, financial position, risks, and list of delegations of authority relating to increasing the capital of the parent company and of the consolidated entity	28-36	
Required information likely to have an impact in the event of a public offering (Article L. 225-100-3 of the French Commercial Code)	-	
Expenses not deductible for tax purposes	-	
CAC fees	-	
Information regarding share buybacks (Paragraph 2 of Article L. 225-211 of the French Commercial Code)	-	
Chairman's report on the work performed by the Supervisory Board and on internal control procedures	-	
Equity investments made over the year (Article L. 233-6)	-	
Significant events that have occurred between the year-end and the date on which the management report was drawn up (Paragraph 2 of Article L. 232-1 of the French Commercial Code)	35	
Tables featuring key financial data for the past five years	-	
Information on non-financial employee-related and environmental data	-	

6.5. INTERIM FINANCIAL REPORT CORRELATION TABLE

Pursuant to Article 212-13 of the General Regulation of the French Financial Markets Authority, this update includes information from the interim financial report referred to in Article L. 451-1-2 of the French Monetary and Financial Code and Article 222-4 of the General Regulation of the French Financial Markets Authority.

HALF-YEAR FINANCIAL REPORT	Page No.
STATEMENT BY THE PERSON RESPONSIBLE FOR THE DOCUMENT	211
ACTIVITY REPORT	4-126
Main events occurring during the first six months of the financial year	24-27
Main risks and uncertainties	38-126
Main transactions between related parties	-
CONSOLIDATED FINANCIAL STATEMENTS	128-207
REPORT BY THE STATUTORY AUDITORS ON THE 2017 INTERIM FINANCIAL INFORMATION	208-209



Limited Company with Executive and Supervisory Boards, with a capital of € 4,046,407,595.00
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