



UNIVERSAL REGISTRATION DOCUMENT AT 30 JUNE 2019 AND HALF-YEAR FINANCIAL REPORT FILED WITH THE AMF ON 9 AUGUST 2019



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.

This Universal Registration Document was filed on 9 August 2019 with the French Financial Markets Authority (AMF), as the competent authority under Regulation (EU) 2017/1129, without prior approval in accordance with Article 9 of the regulation.

The Universal Registration Document can be used when securities are offered to the public or for their admission to trading on a regulated market if it is completed by a note on the securities and, if applicable, a summary and all of the amendments made to the Universal Registration Document. The complete document has been approved by the AMF in accordance with Regulation (EU) 2017/1129.

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PRESENTATION OF LA BANQUE POSTALE GROUP



BANQUE "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. Its approach 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 with 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 5,330 staff throughout France. Moreover, the 12,998 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

At 30 June 2019, the retail market, La Banque Postale's core clientèle, consisted of 10.6 million customers, of which 8 million "committed" customers.

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

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

Key consolidated figures (published data)

(€ million)	2015	2016	2017	H1 2018	2018	H1 2019
Net Banking Income	5,745	5,602	5,687	2,926	5,570	2,850
Operating expenses ⁽¹⁾	4,693	4,587	4,619	2,369	4,615	2,353
Gross operating income	1,052	1,015	1,068	558	955	497
Cost of risk	181	181	192	49	133	41
Net income, Group share	707	694	764	422	726	422
Balance sheet total (in billions of euros) ⁽²⁾	219	230	231	237	245	263
Cost-to-income ratio ⁽³⁾	82.1%	82.4%	81.8%	81.4%	83.4%	83.2%

(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 = operating expenses/(net banking income - doubtful interest)

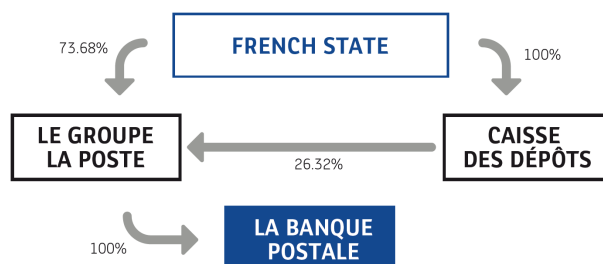
¹ Number of permanent employees at the end of the period (including fixed-term contracts)

1.1 Shareholding

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 (CDC).



1.2 Changes in the share capital

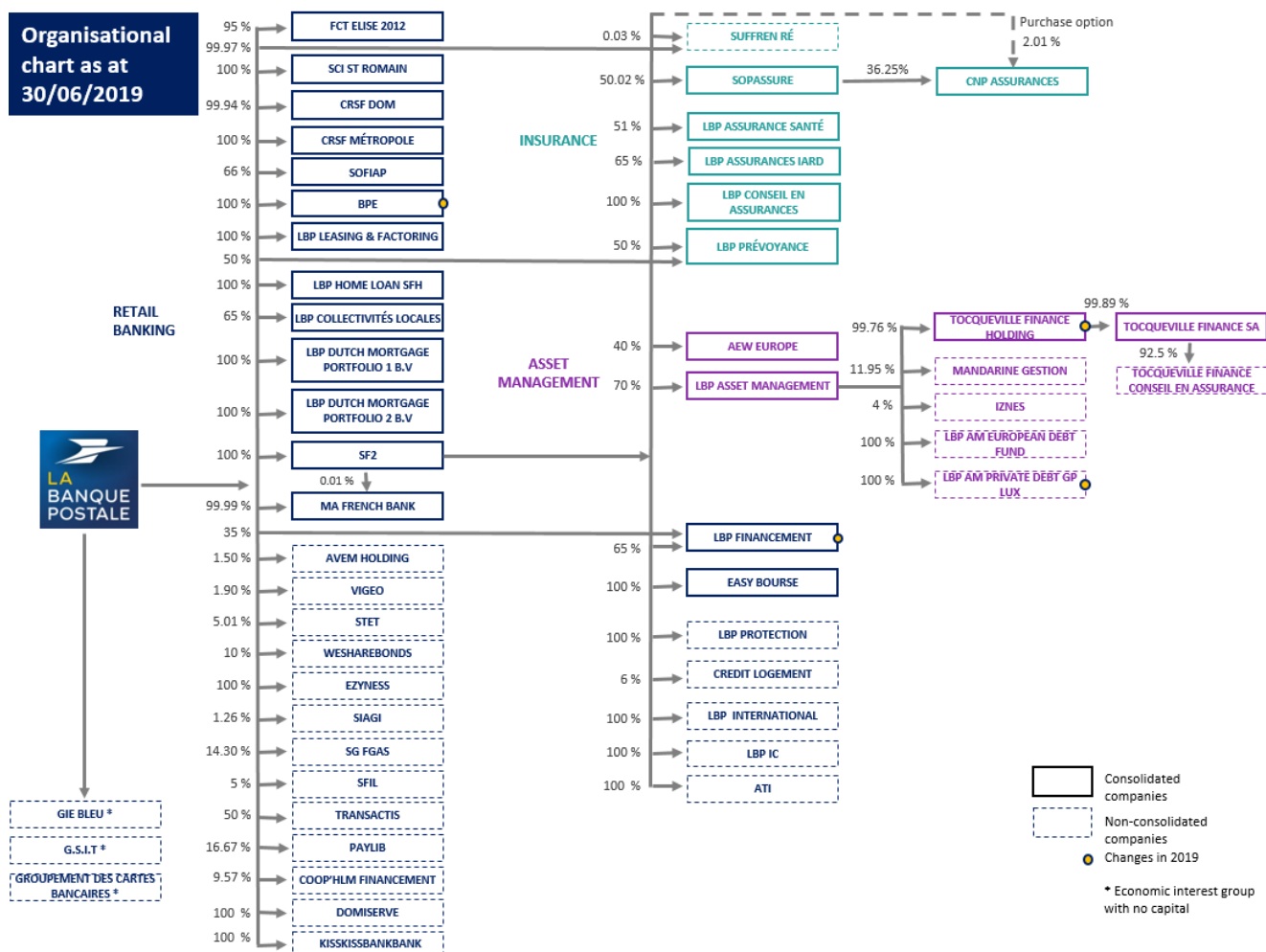
In May 2019, La Banque Postale's share capital was increased to €4,631,654,325 following the conversion to shares of AT1 bonds issued in 2013 and entirely held by La Poste.

	2015	2016	2017	2018	H1 2019
Number of shares	35,186,153	35,186,153	35,186,153	35,186,153	40,275,255
Share capital (€)	4,046,407,595	4,046,407,595	4,046,407,595	4,046,407,595	4,631,654,325
La Poste holding	100% (1)	100% (1)	100% (1)	100% (1)	100% (1)

(1) With the exception of a one-share loan to the Chairman of the Supervisory Board

The shares that make up the share capital have not been pledged.

1.3. Group organisation



The 6 organizational chart shown does not include entities to be sold or non-consolidated entities in which the holding is below a 1% threshold.

1.4 Project for the creation of a large public financial group

THE PROJECT OF A LARGE GENERAL-INTEREST PUBLIC FINANCIAL GROUP HAS MADE SIGNIFICANT STEPS FORWARD

This project has a strong industrial ambition at the service of the country and the territories. Reinforced, La Banque Postale, in charge of the public mission of banking accessibility, will continue to guarantee access to banking services for all and will continue to provide support to financially fragile clients and to combat exclusion from banking.

Several key milestones were achieved in the first half of 2019:

- on 4 June 2019, the BPCE Group and La Banque Postale began discussions to deepen and extend their industrial partnership, in particular in asset management by bringing together the euro fixed-income management activities of Ostrum AM and LBPAM within a shared platform;
- on 11 June 2019, the State, Caisse des Dépôts, La Poste and La Banque Postale signed a non-binding memorandum of understanding;

- on 25 June 2019, the AMF granted an derogation from the mandatory takeover bid on CNP Assurances shares and La Banque Postale denounced the shareholders' agreement relating to CNP Assurances and concluded with the State, Caisse des Dépôts and La Poste;
- on 17 July 2019, the Commission de Surveillance de la Caisse des Dépôts approved the operation between the French State, Caisse des Dépôts and La Poste;
- on 26 July 2019, BPCE Group and La Banque Postale confirmed that they had made progress in their discussions to extend their industrial partnership, with a target of completion first half of 2020.
- on 31 July 2019, signing of the binding agreement between the French State, Caisse des Dépôts, La Poste and La Banque Postale which paves the way for a full consolidation at the beginning of 2020.

CORPORATE GOVERNANCE



BANQUE « CITOYENNE »

2. CORPORATE GOVERNANCE

(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
- Sandrine Fagot-Revurat
- 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 Commercial Code, the principles and criteria applicable to the determination, distribution and allocation of the fixed, variable and exceptional elements of total remuneration and to benefits in kind payable to the corporate officers as a result of the exercise of their mandate and constituting the remuneration policy for them agreed by the Supervisory Board at the recommendation of the Compensation Committee, are subject to the approval of the Annual General Meeting.

As a result of the implementation of these principles, the elements of individual remuneration of the executive corporate officers, allocated and paid for the period closed, are submitted for the approval of the Annual General Meeting.

In addition, in accordance with the provisions of the French Monetary and Financial Code, the total sum allocated to employee managers and market professionals during the financial year is subject to an advisory vote of the shareholders during the Annual General Meeting.

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.

Mr Marc Batave's fixed remuneration was revised at the time of the renewal of the terms of the members of the Executive Board.

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 annual variable remuneration of Marc Batave and Tony Blanco for 2018 was determined on the basis of the following elements:

- ▶ La Banque Postale Group's 2018 quantitative objectives weighted at 10%;
- ▶ qualitative objectives weighted at 40% assessing the progress of customer satisfaction, respect for the values of La Banque Postale (notably actions to assist vulnerable customers) and corporate performance (notably support for employees changing fields and the quality of life in the workplace), improvements in the

effectiveness of risk management and compliance, the implementation of La Banque Postale's major programmes and the identification and management of external growth projects.

- quantitative objectives weighted at 50% including sales performance criteria (confidential indicators) and financial performance criteria related to the economic contribution of the subsidiaries, the change in NBI from corporations, the level of consolidated NBI, the operating ratio, the net profit before tax and the return on equity.

The Supervisory Board also set three categories of objectives for the Executive Board for 2019 at its meeting on 20 February 2019. Variable remuneration for 2019 for Marc Batave and Tony Blanco, capped at 10% maximum of their fixed remuneration, will be determined based on the achievement of these objectives including:

- La Poste Group's 2019 quantitative objectives weighted at 10%;
- qualitative objectives weighted at 40% including improvements in customer satisfaction and changes in the quality of service, the Bank's positioning with respect to responsible financing and, notably, compliance with its values and social performance, the management of risks and compliance, the management of transformation and of the major La Banque Postale programmes and the management of the Group's public bank and insurance project;
- quantitative objectives weighted at 50% including sales performance criteria (confidential indicators) and financial performance criteria i.e. the economic contribution of the subsidiaries, the change in NBI from corporations, the level of consolidated NBI, the operating ratio, the net profit before tax and the 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.

On 27 February 2018, the Board, following the renewal of the terms of the members of the Supervisory Board, renewed its commitments in the event of the departure of Messrs Rémy Weber and Marc Batave. It stated that, in the event of the termination of their term of office, 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, they would be entitled 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.

Marc Batave 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 owns or liquidates their basic compulsory pension scheme, it is agreed that from this date Marc Batave could benefit from severance pay according to the terms described above.

The Supervisory Board also confirmed the authorisation given to La Banque Postale to take out an unemployment insurance policy for senior executives (GSC) for Tony Blanco covering the termination of mandate (including in the event of non-renewal) and the payment by the Company of the premiums for the insurance coverage.

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 a 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.

Total attendance fees are in the amount of €450,000, unchanged since 2006.

The rules on allocating attendance fees were changed by the Supervisory Board on 11 April 2018 to re-assess the fees allocated to the members of the Board and of the Committees, subject to the approval of the Minister of the Economy and Finance. The new rules are presented below.

Attendance fees due for the 2018 financial year

The Chairman of the Supervisory Board received an annual lump sum in attendance fees for the 2018 financial year of €20,000 (this amount was previously €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 €18,000 per year. This amount was previously €15,000.

In addition, the Chairmen of the Financial Statements Committee and the Risk Committee received €16,000 in recognition of their position (this amount was €12,000 before), while the Chairmen of the Appointments, Compensation and Strategy Committees each received €10,000 (previously €8,000). Last, the members of the Financial Statements Committee and Risk Committee each received €2,100 (previously €1,500) and the members of the Appointments, Compensation and Strategy Committees each received €1,700 (previously €1,500) for each 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 2017 and 2018 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		Gross amounts due for	
	2017 (€)	Recipient	2018 (€)	Recipient
Philippe Wahl ⁽¹⁾				
Attendance fees	90,000	La Poste	20,000	La Poste
Other exceptional remuneration	-		-	
Philippe Bajou				
Attendance fees	15,000	La Poste	18,000	La Poste
Other exceptional remuneration	-		-	
Virgile Bertola ⁽²⁾				
Attendance fees	34,500	La Poste	11,000	La Poste
Other exceptional remuneration	-		-	
Yves Brassart				
Attendance fees	44,000	La Poste	53,700	La Poste
Other exceptional remuneration	-		-	
Nathalie Collin ⁽³⁾	-			
Attendance fees		La Poste	12,000	La Poste
Other exceptional remuneration	-		-	
Sylvie François ⁽²⁾				
Attendance fees	13,000	La Poste	-	La Poste
Other exceptional remuneration	-		-	
Sophie Renaudie ⁽³⁾	-			
Attendance fees		La Poste	34,800	La Poste
Other exceptional remuneration	-		-	
Nicolas Routier				
Attendance fees	12,500	La Poste	18,000	La Poste
Other exceptional remuneration	-		-	
Nathalie Dieryckxvisschers				
Attendance fees	-	The French State	46,700	The French State
Other exceptional remuneration	-		-	
Élisabeth Ayrault ⁽²⁾				
Attendance fees	24,500	The person concerned	11,500	The person concerned
Other exceptional remuneration				
Michel Madelain ⁽³⁾				
Attendance fees	-	The person concerned	47,800	The person concerned
Other exceptional remuneration	-	-	-	-
Sophie Lombard				
Attendance fees	51,500	The person concerned	66,600	The person concerned
Other exceptional remuneration	-		-	
Didier Ribadeau Dumas ^{(2) (4)}				
Attendance fees	77,500	The person concerned	-	The person concerned
Other exceptional remuneration	-	-	-	-
Emmanuel Rondeau ⁽³⁾				
Attendance fees	-	The person concerned	57,600	The person concerned
Other exceptional remuneration	-	-	-	-
Françoise Paget Bitch ⁽²⁾				
Attendance fees	-	-	-	-
Other exceptional remuneration	-	-	-	-
Sandrine Fagot-Revurat ⁽³⁾				
Attendance fees	-	-	-	-
Other exceptional remuneration	-	-	-	-
Thierry Freslon				
Attendance fees	-	-	-	-
Other exceptional remuneration	-	-	-	-
Jean-Pierre Hakizimana				

Name of the corporate officer	Gross amounts due for	Recipient	Gross amounts due for	Recipient
	2017 (€)		2018 (€)	
Attendance fees	-	-	-	-
Other exceptional remuneration	-	-	-	-
Jean-Robert Larangé ⁽²⁾				
Attendance fees	-	-	-	-
Other exceptional remuneration	-	-	-	-
Steeve Maigne				
Attendance fees	-	-	-	-
Other exceptional remuneration	-	-	-	-
Sabrina Rostaing-Paris ^{(2) (3)}				
Attendance fees	-	-	-	-
Other exceptional remuneration	-	-	-	-
Thierry Viarouge ⁽³⁾				
Attendance fees	-	-	-	-
Other exceptional remuneration	-	-	-	-
Hélène Wolff ⁽²⁾				
Attendance fees	-	-	-	-
Other exceptional remuneration	-	-	-	-
TOTAL	362,500		397,700	

In addition,

(1) Philippe Wahl received remuneration from La Poste that included benefits in kind of €454,212 and €453,542 in 2018 and 2017, respectively.

(2) Member who left the Supervisory Board during 2018.

(3) Member who joined the Supervisory Board during 2018.

(4) Didier Ribadeau-Dumas received €9,000 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 officer 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 €384,602 in 2018.

Remuneration of the members of the Executive Board for 2017 and 2018

Standardised tables that comply with Afep/Medef and AMF recommendations

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

(in euros)	2017 financial year	2018 financial year
Rémy Weber		
Gross remuneration payable for the financial year (details in Table 2)	453,816	453,816
Value of multi-year variable remuneration during the financial year	-	
Value of share options awarded during the financial year	N/A	
Value of performance-based shares awarded during the financial year	N/A	
Total	453,816	453,816
Marc Batave		
Gross remuneration payable for the financial year (details in Table 2)	415,778	451,327
Value of multi-year variable remuneration during the financial year	-	
Value of share options awarded during the financial year	N/A	
Value of performance-based shares awarded during the financial year	N/A	
Total	415,778	451,327
Tony Blanco		
Gross remuneration payable for the financial year (details in Table 2)	145,257	450,417
Total	145,257	450,417
Anne-Laure Bourn		
Gross remuneration payable for the financial year (details in Table 2)	429,239	473,588
Value of multi-year variable remuneration during the financial year	-	
Value of share options awarded during the financial year	N/A	
Value of performance-based shares awarded during the financial year	N/A	
Total	429,239	473,588
EXECUTIVE BOARD TOTAL	1,191,620	1,829,148

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

(in euros)	2017 financial year		2018 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
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 ⁽¹⁾	-	-	-	-
Benefits in kind ⁽²⁾	3,816	3,816	3,816	3,816
Total	453,816	453,816	453,816	453,816
Marc Batave				
Fixed remuneration	315,000	315,000	393,333	393,333
Variable annual remuneration	79,097	83,690	35,992	79,097
Multi-year variable remuneration	-	-	-	-
Severance compensation	-	-	-	-
Attendance fees ⁽¹⁾	-	-	-	-
Benefits in kind ⁽²⁾	21,681	21,681	22,002	22,002
Total	415,778	420,371	451,327	494,433
Tony Blanco				
Fixed remuneration	133,333	133,333	400,000	400,000
Variable annual remuneration	11,924	-	35,200	11,924
Multi-year variable remuneration	-	-	-	-
Severance compensation	-	-	-	-
Attendance fees ⁽¹⁾	-	-	-	-
Benefits in kind ⁽²⁾	-	-	15,217	15,217
Total	145,257	133,333	450,417	427,141
Anne-Laure Bourn ⁽³⁾				
Fixed remuneration	285,000	285,000	320,617	320,617
Variable annual remuneration	139,768	119,178	148,500	139,768
Multi-year variable remuneration	-	-	-	-
Severance compensation	-	-	-	-
Attendance fees ⁽¹⁾	-	-	-	-
Benefits in kind ⁽²⁾	4,471	4,471	4,471	4,471
Total	429,239	408,649	473,588	464,856
EXECUTIVE BOARD TOTAL	1,444,090	1,416,169	1,829,148	1,820,246

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

(2) For Rémy Weber, the benefits in kind correspond to a company car and the communication bonus. For Marc Batave and Tony Blanco, they are a company car and senior executive unemployment insurance (GSC). For Anne-Laure Bourn, they correspond to a company car and the communication bonus.

(3) Anne-Laure Bourn has been 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 La Banque Postale		Supplementary pension plan		Other benefits or compensation payable or likely to be payable on account of a termination or a change in position		Compensation related to a non-competition clause	
	Yes	No	Yes	No	Yes	No	Yes	No
Executive corporate officers								
Rémy Weber Chairman of the Executive Board since 15 October 2013		x		x	x			x
Marc Batave Member of the Executive Board since 9 January 2013		x*		x	x			x
Anne-Laure Bourn Member of the Executive Board since 25 May 2016		x		x		x		x
Tony Blanco Member of the Executive Board since September 2017		x		x	x			x

* 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 2017 and 2018 financial years.

Supplementary pension arrangements made for the benefit of Executive Board members

As of 31 December 2018, La Banque Postale had made no supplementary pension arrangements for Executive Board members.

Remuneration of the members of the General Management Committee

In 2018, the total gross remuneration (including the variable portion) paid under their 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 €7,305,398.

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 General Management Committee receive termination pay established in accordance with the collective bargaining agreements, valued at a total of €1 million.

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.

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, those professionals covered by rules relating to the remuneration policy and practices of credit institutions in 2018 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 implemented within La Banque Postale

The fixed component of remuneration constitutes most of the remuneration of all La Banque Postale employees. The variable portion of remuneration with relation to the fixed portion is limited and strictly defined in the validation processes: for each employee, the variable remuneration is determined on a managerial basis taking into consideration a set of criteria pertaining to the level of performance observed with respect to yearly objectives set at the beginning of the year. To ensure that there is no impact on the Bank's liquidity and in order not to compromise its ability to generate equity, the total amount of variable remuneration of La Banque Postale's managers and employees must meet both of the following criteria:

- ▶ Be less than 30% of La Banque Postale's fixed remuneration;
- ▶ Be less than 5% of La Banque Postale's consolidated gross operating income.

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;
- ▶ the Financial Transactions Department's activities are nearly exclusively focused on the rate markets to hedge its operations and it invests its excess cash in the interbank market.

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 Bank (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 20 February 2019 approved these principles.

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

The resolutions relating to the remuneration of the members of the Executive Board and of the regulated population, to the remuneration policy for corporate officers and to the approval of the principles and criteria for setting, allocating and awarding the elements of remuneration and benefits of all kind payable to the corporate officers were approved unanimously by the Annual General Meeting of 12 April 2019.

LA BANQUE POSTALE GROUP

HALF-YEAR FINANCIAL REPORT AT 30 JUNE 2019



BANQUE « CITOYENNE »

3. LA BANQUE POSTALE GROUP BUSINESS ACTIVITY AND RESULTS

3.1. BUSINESS ENVIRONMENT AND HIGHLIGHTS

3.1.1. Economic and financial environment

An unsettled international environment

Global growth was sustained in 2018 (+3.7%) but worldwide GDP growth faltered in the first half of 2019 due notably to a slowdown in Chinese activity. The factors which generated uncertainty in 2018 extended into the first half of 2019: trade tensions between China and the United States, a stand-off between the Italian government and the European Commission over public finances and the still-pending outcome of Brexit. Activity in the United States was sustained by strong consumer spending while private investment paused in a context of slowing manufacturing activity. Chinese GDP growth barely slowed in the first quarter. Business activity was driven by government stimulus and by household consumption. However, the results of economic surveys are not very positive and growth is fragile.

Business activity remains strong in the eurozone. It is moderating in France

While it remained very moderate in Q4 2018 (+0.9% on an annual basis), GDP growth in the eurozone strengthened in Q1 2019 to 1.6% annually. This change was unexpected given the poor results of economic outlook surveys. Growth was sustained by higher consumption. Capital expenditure remained solid despite a very uncertain economic and political environment. Economic outlook surveys were lukewarm in Q2. With respect to the employment market, job creation remained dynamic in Q1 2019 and the unemployment rate continued to fall. Activity in France slowed in 2018 with GDP growing by 1.5%. GDP growth stabilised slightly above 1% annually in Q1 2019, sustained by consumption. It had been stagnant at the end of 2018, notably penalised by demonstrations in retail areas. Household purchasing power grew faster than spending, consolidating savings. The unemployment rate continued to fall, reaching 8.4% in Q1.

Oil price volatility and lethargic inflation

The price of North Sea Brent, which was less than \$54 at the end of December 2018, increased by \$20 to reach nearly \$75 in April. Despite an increase in American production, the world supply remained limited. At the end of 2018, OPEC and ten other countries, including Russia, decided to reduce their production quotas. Iran, for its part, is under an American embargo which restricts its crude exports. In addition, in April, the United States ended the exemptions granted to eight countries (China, India, Turkey, Japan, South Korea, Taiwan, Italy and Greece) to import Iranian oil. These stress factors on prices were in part offset by the increase in oil production in the United States. Oil prices were very volatile in May and June due to geopolitical tensions and to growing concern about world growth. The barrel price fluctuated around \$62 in June. Eurozone inflation remained weak in early 2019, at around 1.2% annually. Core inflation (excluding energy and food products) was also low (1.1% annually in June). Unit wage costs (which compare changes in wages to productivity gains) accelerated somewhat in 2018 with slowing growth, but were not transferred to retail prices. The situation in France was similar to that of the eurozone. Inflation fluctuated around 1.5% while core inflation remained very moderate (less than 1%).

A significant decline in interest rates

Faced with the growing risk of a marked slowdown in business activity, the tone of central bank announcements has changed considerably since the start of 2019. While a significant majority of them were either committed to normalising their monetary policy or waiting for an opportunity to initiate it, tightening is no longer their first course of action at this point. The economic environment has drawn down government loan rates. In addition, the persistence of risk aversion tied to the Chinese-American trade war continues to encourage the search for safer assets. This is also weighing on the returns of government loans. In the United States, the 10-year benchmark government loan (T-note) rate lost about 120 basis points in June compared to its level in October 2018 and the 10-year OAT rate fell more than 80 basis points as did the German Bund. The latter has remained in negative territory since the start of May while the 10-year OAT rate joined it at the end of June.

For their part, eurozone interbank rates hardly changed over the beginning of the year, and remained negative due to the ECB's monetary policy. The Eonia stagnated around -0.35%. The Euribor 3-month (the rate at which major banks lend to each other for three months) remained around -0.32%.

The interest rates on the French regulated savings accounts (*Livret A*, *Livret de développement durable et solidaire*, *Livret d'épargne populaire* (LEP), *compte épargne logement* (CEL)) remained stable in H1. The rate of the Livret A has been 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.

Net increase in stock market prices at the start of the year

Due notably to the progress made by the Chinese-American trade talks, world stock markets have rebounded sharply since the beginning of 2019, with a high point at the end of April. This boost has enabled the stock markets to recover part or all of their 2018 losses. In May, Chinese-American relations suddenly bogged down and even deteriorated. This first made investors cautious, then distrustful, leading to a consolidation phase. The stock markets recovered in June thanks to the highly accommodative tone of central banks and the renewal of the dialogue between the United States and China.

3.1.2. Highlights of the first half of 2019**THE PROJECT OF A LARGE GENERAL-INTEREST PUBLIC FINANCIAL ENTITY HAS MADE SIGNIFICANT STEPS FORWARD**

This project has a strong industrial ambition at the service of the country and the territories. Reinforced, La Banque Postale, in charge of the public mission of banking accessibility, will continue to guarantee access to banking services for all and will continue to provide support to financially fragile clients and to combat exclusion from banking.

Several key milestones were achieved in the first half of 2019:

- on 4 June 2019, the BPCE Group and La Banque Postale began discussions to deepen and extend their industrial partnership, in particular in asset management by bringing together the euro fixed-income management activities of Ostrum AM and LBPAM within a shared platform;
- on 11 June 2019, the State, Caisse des Dépôts, La Poste and La Banque Postale signed a non-binding memorandum of understanding;
- on 25 June 2019, the AMF granted a derogation from a mandatory takeover bid on CNP Assurances shares and La Banque Postale denounced the shareholders' agreement relating to CNP Assurances and concluded with the State, Caisse des Dépôts and La Poste;

- on 17 July 2019, the Commission de Surveillance de la Caisse des Dépôts approved the operation between the French State, Caisse des Dépôts and La Poste;
- on 26 July 2019, BPCE Group and La Banque Postale confirmed that they had made progress in their discussions to extend their industrial partnership, with a target of completion first half of 2020.
- on 31 July 2019, signing of the binding agreement between the French State, Caisse des Dépôts, La Poste and La Banque Postale which paves the way for a full consolidation at the beginning of 2020.

INNOVATION AND DIGITALISATION AT THE SERVICE OF EACH AND ALL

At the heart of the French fintech and assurtech ecosystem, La Banque Postale launched its platform58 incubator in the first half of 2019, whose objective is to promote innovation within the group and to design the banking insurance offers and services of tomorrow for all our customers, integrating the latest technologies.

La Banque Postale organizes a hundred Kisskissdating events in 2019 all over France, in order to make known the crowdfunding and the offer of its subsidiary Kisskissbankbank, but also to meet customers, prospects and potential project initiators.

To accelerate the digitalization of its offer, La Banque Postale has multiplied innovations in offers and banking services, in partnership with fintechs and insurance companies. La Banque Postale has launched Pass Patrimoine, a new online personalized offer dedicated to its wealthy clients, which provides them with a range of services adapted to wealth management issues (real estate, financial or tax engineering). As part of this offer, clients can benefit from assistance in preparing for retirement, thanks to the tool deployed by fintech Sapiendo-Retraite.

In the field of insurance, La Banque Postale, associated with assurtech +Simple, has created a new complementary group health insurance offer for professionals with a digitalized customer experience.

The digitalisation process of our products and services has accelerated, with more than one billion visits p.a. to the Website and the Mobile App; new app features for individuals); creation of the app and redesign of the online bank for corporates, enhanced operational security for all clients with Certicode +. As a result of these developments, more and more customers are connecting to online banking and mobile: over the past 12 months, 9.8 million separate customers have logged on at least once in their space.

Finally, La Banque Postale has launched Ma French Bank, its 100% mobile bank, which has been available to customers throughout the country since 22 July.

Innovation is also being implemented at the operational level with the deployment of the "Excellence 2020" programme and the new banking IT base of La Banque Postale. This programme has already made it possible to achieve major efficiency gains through the automation of management operations and the robotization of certain processes.

LA BANQUE POSTALE CONFIRMS ITS CIVIC COMMITMENT

In the first half of 2019, the extra-financial rating agency Vigeo-Eiris placed La Banque Postale at the forefront of the Retail & Specialised Banks group, thereby recognizing its environmental and societal commitments.

La Banque Postale relies on a strong mobilization of employees. They are trained through the *Ecole de la Banque et du Réseau*, which delivered 150,924 training days in the first half of 2019. In addition, to accelerate the digital transformation of business lines, a digital training program has been set up for 40,000 employees.

Invested with a public mission of banking accessibility, La Banque Postale continues its efforts in favour of inclusion and social cohesion by offering essential banking services to more than 1.5 million people in a situation of banking exclusion all over the country. La Banque Postale is also continuing its efforts to promote digital and

banking inclusion, by deploying a plan in several hundred post offices to detect and support people who are having difficulty with digital usage. **In addition, La Banque Postale has delivered on its commitments to the Government and introduced measures in 2019 in favour of purchasing power. There were no rate increases in 2019 for individual customers⁵, and 1.6 million customers in financial fragility have been capped in payment incident charges since January 1.**

Wishing to accompany freelance workers as well, La Banque Postale has launched an account plan for less than 10 euros, covering operating costs and a remote Internet banking service.

Firmly committed to the environment, La Banque Postale is the first bank to show carbon neutrality and not to finance fossil energy extraction projects.

Becoming a regular issuer in the green, social and sustainable bond market, supporting customers in their energy renovation process and developing green financing solutions is a strong demand of La Banque Postale. This requirement was reflected in particular by the **success of its first green bond**, a senior non-preferred issue of 750 million euros and 10-year maturity, for which the order book was oversubscribed more than 3.3 times.

The Banque Postale has also signed a framework agreement with the European Investment Bank for the development of renewable energies (photovoltaic and wind power plants) in France. With this agreement, La Banque Postale strengthens its role as a key player in financing the energy transition all over the country. Its Corporate and Investment Bank **financed nearly 1.4 billion euros in the renewable energy sector in the first half of 2019**, up 26.6% compared to the first half of 2018. In addition, as part of its partnership with SFIL, La Banque Postale has launched a green loan program for local public sector to finance projects to clean up or recycle waste.

Finally, its crowdfunding subsidiary Lendopolis financed renewable energy projects for 11.2 million euros in the first half of 2019.

In asset management, La Banque Postale Asset Management (LBPAM) is continuing the transition of all its outstanding assets into SRI management, or 150 funds by the end of 2020, based on a clear and demanding public framework. 51% of assets already meet the target. Several open funds were launched in the first half of the year, including LBPAM Green Bond Flexible. Finally, LBPAM formalized its policy of exclusion from coal by choosing an innovative stance and aligned with the objective of the Paris Agreement to limit global warming to +1.5°.

⁵ 1.6 million Financially fragile people in 2019 are customers of La Banque Postale out of 3.4 million identified by OIB in 2018.

3.2. BUSINESS ACTIVITY AND RESULTS FOR THE FIRST HALF OF 2019

Consolidated income statement (in € millions)

Main items on the income statement	30.06.2019	30.06.2018	%
Net banking income	2,850	2,926	-2.6%
Net banking income excluding the EL provision	2,822	2,910	-3.0%
Operating expenses	(2,353)	(2,369)	-0.7%
Gross operating income	497	558	-10.9%
Cost of risk	(41)	(49)	-15.7%
Operating income	455	508	-10.5%
Equity method CNP Assurances and AEW Europe*	136	131	4.1%
Pre-tax income	591	639	-7.5%
Income tax	(162)	(198)	-18.0%
Net income, Group share	422	422	0.1%
Cost-income ratio	83.2%	81.4%	1.8 point

* CNP Assurances for €134.1 million and AEW for €1.8 million

Despite very low real rates, consolidated Net Banking Income amounted to 2,850 million euros, a limited decrease of 2.6% compared to 30 June 2018. Excluding PEL/CEL effect, the decrease was 3%. Excluding a cap on bank incident fees, NBI reached 2,889 million euros (-1.3%).

While continuing its ambitious transformation program and the development of its subsidiaries, La Banque Postale has kept **its management costs under control, which are down from 0.7% to 2,353 million euros.**

The Group's gross operating income was 497 million euros (-10.9%) and the cost-to-income ratio for the first half of the year was 83.2% (+1.8 points).

The cost of risk is down 15.7% to a very low level of EUR 41 million. Compared to Retail Banking's credit outstandings, its level is low at 7 bps⁶.

The share of income of equity-accounted companies rose by 4.1% to 136 million euros over the six-month period.

Current income before taxes was 591 million euros, down 7.5% over the period.

Net income, Group share remained stable over the six-month period and reached 422 million euros.

⁶ Annualised cost of risk

3.2.1. La Banque Postale Group balance sheet and financial structure

The consolidated balance sheet at 30 June 2019 amounted to 263 billion euros, compared with 245 billion euros at 1 January 2018, an increase of 18 billion euros

La Banque Postale has a solid financial structure. Total regulatory capital was €11.8 billion:

- La Banque Postale's CET 1 ratio stands at 12.7%, up 1 point from end-December 2018 due to the conversion into shares of the €800 million of AT1 bonds issued in 2013 and wholly owned by La Poste;
- La Banque Postale's total capital ratio reaches 15.8%, down 0.4 percentage points from December 2018;
- the estimated leverage ratio of La Banque Postale, in accordance with the May 2019 decision of the European Central Bank, amounts to 3.8%. Excluding centralized deposits at CDC, it stands at 4.3%.

La Banque Postale confirms a comfortable liquidity position:

- the LCR ratio reached 161% against 145% at 31 December 2018, up 16 points;
- the loan-to-deposit ratio is down 1.2 percentage points to 85.2% from December 2018.

In addition to issuing a green bond in a non-preferred senior format, La Banque Postale also issued a debt in senior preferred format for 750 million euros at 2026 maturity. The success of this issuance resulted in a 2.2x oversubscription rate, reflecting investors' confidence in La Banque Postale's signature and confirming the strength of its access to capital markets.

3.3. ACTIVITIES AND RESULTS BY BUSINESS LINE

3.3.1. Retail banking

(€ million)	30.06.2019	30.06.2018	%
Net banking income	2,596	2,707	-4.1%
Operating expenses	(2,242)	(2,257)	-0.6%
Gross operating income	354	450	-21.4%
Cost of risk	(41)	(49)	-15.7%
Operating income*	312	401	-22.1%

Commercial results of retail banking customers

A 1.9% increase in outstanding savings

In a context of historically low interest rates, the *Livret A* regulated savings account, whose rate of pay has been set at 0.75% since August 2015, remains very attractive. As a result, *Livret A*'s outstandings increased by 1 billion euros (+1.6%) to 62 billion euros. Overall, regulated savings outstandings (*Livret A*, *Livret d'Epargne Populaire* and *Livret Développement Durable et Solidaire*) increased by 1.5% to 83.6 billion euros at 30 June 2019.

Demand deposits showed a clear increase over the six-month period (+7.5%) to reach 69.5 billion euros. Both retail deposits (up 5.5%) and corporate deposits (+24.2%) rose to respectively €60.9 billion and €8.6 billion.

The increase in life insurance outstandings was 0.9%, reaching €126.5 billion. The commercial dynamic is good with gross inflows up 11% to 4.6 billion euros.

BPE's managed savings outstandings increased by 9.6% to reach the €9 billion mark. Overall, customer savings outstandings increased by 6 billion euros to 322.5 billion euros at 30 June 2019, an increase of 1.9% over the period.

A 7% increase in outstanding loans to individuals

Outstanding loans to individuals rose by a total of 7% to EUR 68.8 billion, including EUR 61.8 billion for real estate loans (+ 4.7% over the period) and EUR 5 billion for consumer loans (+ 3.2%).

The production of real estate loans reached 5.6 billion euros over the six-month period in a context of market stabilization.

The production of consumer loans, at 1.3 billion euros, continued its growth (+ 3.8%). Personal loans via the internet or remote platform remain high and now account for 38% of total production.

With regard to BPE, the trend in total outstanding loans remained well oriented to reach 3.2 billion euros (+9.3%).

Credit production continued to rise over the period, reaching 16 billion euros (+73.9%), with a very good increase in factoring (€6.3 billion in sales purchased versus €0.9 billion in the first half of 2018).

Outstanding loans continued to increase to 29.9 billion euros, an increase of 36.3% compared to 30 June 2018. They are broken down as follows: €20.2 billion in loans to businesses, very small businesses and professionals (an increase of +49%) and €9.7 billion in loans to the local public sector and social lessors (up +15.8%).

Retail Banking financial results

Retail Banking's Net Banking Income was 2,596 million euros, down 4.1%. Restated for PEL/CEL effect, the decrease was 4.6%. Excluding a cap on bank incident fees, Net Banking Income reached 2,635 million euros (down 2.7%). The net interest margin (NIM), restated for PEL/CEL effect, decreased by 6% over the period, and commissions by 2.1% to 1,148 million euros.

Retail Banking's operating expenses decreased slightly from 0.6% to 2,242 million euros.

The cost of risk was at a very low level of 41 million euros (7 bps compared to the credit outstandings of Retail Banking), and down 8 million euros compared to the first half of 2018.

Retail Banking's operating income amounted to 312 million euros.

3.3.2. Asset management

(€ million)	30.06.2019	30.06.2018	%
Net banking income	74	74	-0.7%
Operating expenses	(46)	(46)	1.2%
Gross operating income	28	29	-3.8%
Cost of risk	0	0	N/S
Operating income	28	29	-3.8%

The assets under management of La Banque Postale Asset Management amounted to 228 billion euros (including Kames distributed funds), up 2.7% over the period.

This growth in outstandings was driven jointly by the new money effect (+0.4 billion euros) and the market effect (+5.4 billion euros) over the period. New money inflows came mainly from CNP Assurances and the strong return of monetary funds.

The Asset Management division's NBI reached 74 million euros, down slightly by 0.7% due to the impact of the negative market effect at the end of 2018 and a drop in inflow in the second half of 2018 compared to the objectives.

LBPAM is continuing its investments to finance its development and operating costs rose by 1.2% to 46 million euros.

Operating profit was €28 million, down 3.8%.

3.3.3. Insurance

(€ million)	30.06.2019	30.06.2018	%
Net banking income	180	145	24.2%
Operating expenses	(64)	(66)	-2.2%
Gross operating income	115	79	46.2%
Cost of risk	0	0	N/S
Operating income	115	79	46.2%

Non-life insurance activity showed good momentum in the first half of 2019. In particular:

- the portfolio of P&C insurance contracts (38% of the portfolio) increased by 3.8% over the period to more than 1,760,000 contracts;
- the portfolio of health insurance contracts (4.3% of the portfolio in volumes) increased by 3.4% to over 198,000 contracts;
- the personal protection insurance contracts (57.7% of the total portfolio) of La Banque Postale Prévoyance decreased slightly from 2% to 2,669 million contracts.

The Insurance division's NBI increased from 24.2% to 180 million euros over the period.

Insurance subsidiaries' operating expenses were down 2.2% at €64 million.

Finally, the operating income of the Insurance division amounted to 115 million euros for the period, a strong increase (+ 46.2%).

3.4. ANALYSIS OF THE CONSOLIDATED BALANCE SHEET

The total consolidated balance sheet stood at €263.2 billion as at 30 June 2019, up €18 billion compared with 31 December 2018, with the opening balance sheet adjusted to take account of the effects of the first-time application of IFRS 9, i.e. 7.3%.

The main asset items in the balance sheet comprised:

1. financial assets at fair value through profit and loss (€11 billion as at 30 June 2019 versus €10.6 billion as at 31 December 2018). They consist primarily of government securities, bonds and other fixed-income securities in the amount of €8.1 billion;
2. financial assets at fair value through equity (€15.7 billion as at 30 June 2019 versus €16.0 billion as at 31 December 2018). This consists essentially of bonds and other fixed-income securities for €11.2 billion and government paper and similar securities for €4.2 billion;
3. Loans and receivables at amortised cost – credit institutions (€88.9 billion as at 30 June 2019 compared with €87.4 billion as at 31 December 2018). This item mainly comprises accounts and loans - credit institutions and similar for €71.7 billion, accounts and term loans which include funds of Livret A accounts, Sustainable Development and Solidarity accounts, and National Savings accounts (LEP) centralised at the Caisse des Dépôts for €67.9 billion;
4. loans and receivables at amortised cost – customers (€101.9 billion as at 30 June 2019 compared with €95.7 billion as at 31 December 2018). This item essentially includes outstandings for home loans, consumer loans and corporate (businesses, professionals and local public sector) loans;
5. securities valued at amortised cost (€30.8 billion as at 30 June 2019 versus €23.6 billion as at 31 December 2018), consisting primarily of government paper and similar securities and bonds;

The main liability items in the balance sheet, apart from the equity, Group share of €10.8 billion, are:

6. liabilities due to credit and similar institutions for €24.4 billion (versus €18.9 billion as at 31 December 2018). This item essentially includes securities assigned under repo agreements for €19.3 billion versus €14.6 billion as at 31 December 2018;
7. liabilities to customers for €191.4 billion (versus €185.8 billion as at 31 December 2018). This item comprises sight deposits for €69.5 billion and special savings accounts for €116.1 billion, including €31.6 billion in home savings, €62 billion in Livret A accounts and €22.5 billion in other special accounts (LEP, LDD and other accounts);
8. debt securities for €22.1 billion (versus €16.9 billion as at 31 December 2018);
9. subordinated debt for €3.1 billion (versus €3.9 billion as at 31 December 2018).

The Bank's ROA² was 0.16% at 30 June 2019.

² Asset profitability (net income, Group share/balance sheet total).

3.5. POST-BALANCE SHEET EVENTS

La Banque Postale Group has not identified any events after the closing of accounts which could have a significant impact on the financial statements closed on 30 June 2019.

3.6. 2019 OUTLOOK

In the short and medium term, the optimisation of management processes under the Excellence 2020 programme continues with the objective of controlling costs and improving the quality of service.

Increasingly innovative and digital, La Banque Postale will accompany the growth of Ma French Bank in the second half of 2019 with distribution in more than 2,000 post offices.

Always anchored in its civic bank values, La Banque Postale will aim to continue developing socially responsible finance for its employees, customers and partners.

Preparations for the operational implementation of the major project to create a large public financial entity continue in the second half of the year, with the obtention of regulatory authorizations. In addition, work will be undertaken to clarify the contours of the new project for a common platform for euro rates management, between LBPAM and Ostrum AM. In order to support its employees during this period of transformation, La Banque Postale will increase its training efforts.

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 2018 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 FACTORS – PILLAR III INFORMATION



BANQUE « CITOYENNE »

4. RISK FACTORS

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. Its purpose is to meet:

- ▶ the reporting obligations of Regulation (EU) no. 575/2013 on prudential requirements for credit institutions and investment firms (CRR);
- ▶ EBA guidelines on disclosure requirements under Part Eight of the CRR (EBA/GL/2016/11) to improve the comparability of credit institution disclosures under the third pillar of the Basel Committee agreement on market discipline;
- ▶ Commission Delegated Regulation (EU) 2017/2295 of 4 September 2017 with regard to the disclosure of encumbered and unencumbered assets applicable since January 2018;
- ▶ Directive 2013/36/EU on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms (CRD 4).
- ▶ Regulation (EU) n°2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or for their admission to trading on a regulated market (Prospectus 3);
- ▶ ESMA guidelines on the new format for risk factors which issuers must disclose in Prospectus 3 (ESMA31-62-800).

4.1.1 Principal structural risk factors

La Banque Postale is exposed to a range of risk factors as a result of its status as a credit institution and parent company of a group operating in the banking, insurance and investment services sectors, its history, its growth strategy, changes in the macroeconomic environment in which it operates, changes in legislation and regulations applicable to it as well as to the competitive environment. La Banque Postale has implemented a control and monitoring system for the risks that could have a significant negative effect on its business activities, on its financial position, on its results (or on its ability to meet its targets), and believes that there are no material risks other than those presented below.

4.1.1.1 Risks related to the macro-economic environment

- ▶ **Negative change in the economic and financial environment**

La Banque Postale is impacted by macro-economic and market conditions which could affect it negatively in the event of adverse shocks. As a result, a deterioration in the economic and financial environment could have an impact on its customers (increased debt, increased risk of default, etc.).

- ▶ **A low interest rate environment until the first half of 2020 at least**

Due to the risk of a durable slowdown in economic growth and a slower adjustment of inflation in the euro zone, the ECB has given up on its normalisation plans and will keep its interest rates at their currently very low level until mid-2020 at least and, in any event, as long as required to ensure the continued sustainable convergence of inflation to a level of about 2% in the medium term.

The current macro-economic environment is characterised by low and even negative interest rates which are weighing on La Banque Postale's overall profitability. A prolonged low interest rate environment could result in a decline in interest income on loans, an increase in early repayments and the renegotiation of home loans and

other fixed-rate loans. La Banque Postale has a liquidity position partially based on its customer deposits, some of which are at a higher rate than those of its customer loans.

► **Continuing political and geopolitical uncertainty**

- **The negotiations between the British government and the European Union on a Brexit agreement** have been delayed to 31 October 2019. Given the potential for an exit from the European Union without an agreement (rejected by the British members of parliament), the European Commission has put transitional measures in place, notably for financial services (recognition of equivalence for prudential regulation, the functioning of clearing houses, contract law for financial instruments financiers, etc.).

The appointment of the new British prime minister has intensified fears in financial circles, which were already very concerned. Boris Johnson, a fervent proponent of Brexit, has promised that the United Kingdom will leave the EU on 31 October, even in the absence of an agreement, at a time when some Brexit supporters worry that the deadline will be pushed back.

- **After a first stressful episode involving Italian sovereign and bank rates in May 2018 following the Italian elections, the dispute between the Italian government and the European Commission rose a notch in early 2019.** This was due to the publication of a report which deemed that the opening of an excessive deficit procedure was “justified”. It could lead to the sanctioning of Italy for non-compliance with the Stability and Growth Pact which ties it to other Member States. Euro zone countries, including Italy, have high levels of public debt. Any political instability in these countries could rekindle investor fears, lead to the potential re-emergence of a debt crisis and put pressure on interest rates.

These political and geopolitical stresses could have an impact on European economies and financial markets in 2019 and, particularly, on La Banque Postale’s market and investment positions (debt, securities, currency and other markets).

- **Trade tensions and economic slowdown**

The United States launched an international trade offensive in 2018 by threatening and reintroducing trade tariffs on imports from its various trading partners in Europe, Asia and the Americas. The uncertainty caused by the trade war is having an impact on investment. The threat has come on top of an economic slowdown in most countries (including China), which will likely intensify in 2020 according to the IMF, and to weakness in the manufacturing sector, particularly in Germany. These protectionist measures could have a long-term negative impact on the economic environment in which La Banque Postale operates.

- **The European elections of May 2019**

The European elections of May 2019 resulted in the decline of traditional parties (the conservatives of the EPP and the social democrats of the S&D) and the rise of the Eurosceptics. The main European Union institutions elected new leaders: the European Commission (Ursula von der Leyen), the European Parliament (David-Maria Sassoli – S&D), the European Council (Charles Michel), and the European Central Bank (Christine Lagarde). The future president of the Commission will have to select her team and have it approved by the Council and the Parliament by 31 October.

- **Political and social crisis in France since November**

In France, an increase in the fuel tax led to vehement protest which took the shape of the “yellow vest” movement. The movement impacted several business sectors. The Banque de France revised its growth forecast for 2019 downwards with gross domestic product (GDP) of 1.3% in 2019, a rate which is, nevertheless, higher than that of the euro zone (1.2%) and of Germany (0.5%). In addition, the number of company defaults in France was up again in 2019.

Given this environment, La Banque Postale could see more repayment difficulties on the part of companies and artisans.

4.1.1.2 Changes in legislative and regulatory measures

The first half of 2019 saw a number of changes in regulations which had a very significant effect on the financial sector both at the European level, with the adoption of the banking package in April 2019 which marked a significant step towards achieving post-financial crisis reforms, and at the national level, with the adoption of the Pacte Law (Action Plan for Business Growth and Transformation).

- **The law on the Action Plan for Business Growth and Transformation (Pacte)**, which was passed by the National Assembly on 11 April 2019 and published in the Official Journal of 23 May 2019 is intended to give companies the means needed to innovate, transform themselves, grow, and create more employment. The law also includes provisions which structure the transfer by the State of its control of La Poste to Caisse des Dépôts (CDC) in order to create **a major public financial unit in the public interest via the merger of CNP Assurances and La Banque Postale**.
- **The ECB's March 2018 addendum to its guide on non-performing loans** is applicable to exposures reclassified as non-performing (i.e.: in default to La Banque Postale) as of 1 April 2019.

The goal is to introduce **minimum “regulatory” provisioning**, with a rate of provisioning that depends on the length of time the loan has been non-performing and the existence or not of collateral and not to compare the level of provisioning with the level of accounting provisioning under IFRS 9. Provisioning below the regulatory level will entail deduction of the amount of the difference in common equity Tier 1 (CET1), for the difference found. In addition to these “Pillar II” measures, there are new “Pillar I” measures, stemming from the application of the European regulation introducing a prudential provisioning backstop for non-performing loans (NPLs).

This text came into force in April 2019 and is applicable to exposures entering the balance sheet and off-balance sheet since 26 April 2019. The principles are similar to those of the ECB.

The SREP letter of February 2019 includes a request for application of the addendum rules to the inventory of non-performing exposures. The impact on capital for La Banque Postale is fairly limited due to the choices made for prudential accounting provisioning (IFRS 9) compared to the minimum level of prudential provisioning (in the event of the application to the inventory of outstanding NPLs on 31 December 2018, considered as such on 1 April 2019). The instruction is intended to avoid any risks resulting from La Banque Postale's exposure to non-performing loans. La Banque Postale had a low number of NPLs in the first half of 2019 (<1%). The management of non-performing loans and associated risks in accordance with ECB guidelines requires that an adjustment be made to credit management processes and tools.

- **The risks related to outsourcing, IT systems and cybersecurity are a high priority for the Bank** due to the rapid change in these technologies, the digitalisation of products, as well as the focus of the regulators and supervisors on these issues.

The new EBA guidelines of February 2019 on outsourcing will be applicable as of (missing source). 30 septembre 2019 intègrent les recommandations de l'EBA sur les fournisseurs de cloud de décembre 2017 et rentrent dans le cadre de la **gouvernance interne et du SREP**. The new guidelines set up a unique outsourcing framework for all of the banking, investment and payments activities and services of financial institutions and introduce the need to monitor concentration. They require:

- the implementation of a **position dedicated to outsourcing** starting with the Executive Board and covering the entire group;
- the implementation of an **outsourcing policy approved by the Executive Board**;
- **enhancement of the contract base and of appendixes**;
- the creation of an **updated contract registry** available to the competent authorities.

La Banque Postale has implemented an outsourcing programme which will enable it to comply with the new guidelines.

- **The European Parliament passed legislative measures called the “banking package” on 16 April 2019**. It consists of four directives and regulations (CRR2, CRD5, BRRD2, SRMR2) which are intended to ensure the

conformity of prudential banking requirements with the prudential standards of the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB).

With respect to CRR2, the main measures address the leverage ratio (including the exemption by type of exposures related to centralised savings and no longer by authorisation), major risks, the Net Stable Funding Ratio (NSFR) requirement and the minimum Total Loss-absorbing Capacity (TLAC) requirement.

Most of the measures will be applicable on 28 June 2021.

These laws are part of the European Commission's project to implement the Banking Union and the Capital Markets Union and of its goal of reducing risk in the banking sector.

- ▶ **the application of the leverage ratio as a Pillar I requirement:** this ratio is part of the current CRR. It is intended to limit any excessive bank indebtedness during economic recovery periods. It therefore becomes compulsory, like the solvency ratio, with a minimum requirement of 3% of Tier 1 capital.

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 any weighting for risk.

La Banque Postale is classified in the Other Systemically Important Institutions (O-SIIs) category and isn't subject to this ratio's buffer requirement.

In September 2018, La Banque Postale sent a request to the ECB for authorisation to exclude centralised savings deposits from the calculation of leverage exposure as provided for by Regulation (EU) No. 575/2013 ("CRR").

In May 2019, the ECB authorised La Banque Postale to exclude from its leverage ratio calculation 50% of its exposure to the Caisse des Dépôts tied to regulated savings which La Banque Postale is legally required to transfer to the CDC.

- ▶ **the application of the stable funding ratio as a requirement of Pillar I:** the NSFR (Net Stable Funding Ratio) is a long-term liquidity ratio which La Banque Postale must calculate and produce. It must meet a minimum level of 100%.

The NSFR corresponds to the amount of stable financing available (commitments and reliable capital at one year) compared to the stable funding requirement (off-balance sheet assets and exposures-liquidity and residual maturity at one year). In order to monitor long-term liquidity, La Banque Postale has implemented a management system which enables it to offset its exposures with stable sources of financing (see section 4.5.1.3).

- ▶ **Introduction of new risk measurement methodologies in CRR II for market risk:** the market risk management and measurement framework will be amended in depth by the FRTB. This complete reworking of the capital requirement calculation methods for market risk will have a very significant impact on capital.
- ▶ **The inclusion of new risk measurement methods in CRR II for credit and counterparty risk:** the replacement of the current credit and counterparty risk measurement method for CEM (Current Exposure Method: valuation method at market price) with a new standardised calculation method for the value exposed to derivative instrument risk (SA-CCR: standardised approach to counterparty credit risk).
- ▶ La Banque Postale will apply the SA-CCR method with the related impacts.
- ▶ **The review of the major risks calculation:** the requirements for major risks for systemically important financial institutions (SIFI) have been strengthened. As a domestic systemically important institution (SII), La Banque Postale will use Tier 1 instead of eligible capital as the basis for its limit calculations.

- **The raising by the High Council for Financial Stability of the countercyclical buffer requirement for banks:** In March 2019, the High Council for Financial Stability decided to raise the level of the countercyclical capital buffer requirement for banks on their credit exposures in France to 0.5% as of April 2020. As a result, banks must have a 0.25% capital buffer as of 1 July 2019, by virtue of the decision of June 2018 and of 0.5% as of 2 April 2020.

In practice, this measure means that banks will have to retain a larger minimum portion of their capital to deal with a potential reversal of the financial situation over the coming months.

For La Banque Postale, the CET1 and Tier 1 requirements were raised to 9.25% and 10.75% (excluding P2G), respectively, on 1 July 2019.

- **Replacement of benchmark indexes (Eonia and Euribor) before 1 January 2022:** The Benchmarks Regulation, applicable since 1 January 2018, requires the replacement of current and non-compliant benchmarks before 1 January 2020. The ECB announced that its “ESTER/€STR” index proposal had been selected to replace the Eonia index.
- Work is under way to ensure compliance with these obligations and to implement the regulation at La Banque Postale (modification of contracts).
- A legislative proposal for **enhanced AML/CFT powers for the European authorities** was submitted at the European level. The transformation of the AML/CFT framework from a directive into a European regulation with uniform application is also being studied.
- In 2019, La Banque Postale continues to take part in the EBA’s quantitative and qualitative impact **studies in preparation for the transposition into European law of the Basel IV agreements** of December 2017. The agreement introduces:
 - new calculation methods for risk weighted assets (RWA) for credit risk (change in the standardised approach by increasing the use of indicators like loan-to-value (LTV) instead of external ratings for certain asset classes), counterparty risk and operational risk;
 - the extension of the supporting factor for SMEs and for certain specialised financing under specific conditions (respect for the environment).

These new provisions should be transposed into European law to come into effect on 1 January 2022. Due to the time required for institutional debate, application will probably be in 2023.

4.1.1.3 Risks relative to La Banque Postale’s strategy and changes

La Banque Postale has launched major programmes supported by an investment and major transformation plan. They fit perfectly within the framework of “La Poste 2020, Conquering the Future” strategic plan which defines the directions for commercial development and cooperation between Group branches.

Creation of Ma French Bank

La Banque Postale deployed its digital strategy with the launch in July 2019 of its 100% digital bank “Ma French Bank” to meet the new expectations of its customers. This area is already highly competitive but still has high growth potential.

As part of its strategy, La Banque Postale has set itself commercial and digital transformation goals intended to:

- to strengthen its positioning with private customers, including high-wealth individuals, while continuing to fulfil its missions of accessibility for the most marginal customers and support for those experiencing financial problems;
- to become a bank for professionals, companies and institutional customers.

These goals require many changes which the Bank Postale must manage to achieve its objectives. They include changes to its organisation, responsibilities and its range of services.

4.1.1.4 La Banque Postale's business risks

Risks impacting La Banque Postale's capital

- **The interest rate risk to the banking portfolio**

The rate risk is the potential risk resulting from changes in interest rates for all balance sheet and off-balance sheet transactions with the exception, if applicable, of the transactions subject to market risk.

For La Banque Postale, this results from the transformation of sight customer resources to long-term employment.

An unfavourable change in rates carries a potential risk for La Banque Postale's future margins or the value of its equity. Movements in rates also impact both certain and uncertain flows for which behavioural models have been created.

- **Credit and counterparty risks**

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 line (39) of paragraph 1 of Article 4 of Regulation (EU) no. 575/2013 (decree of 3 November 2014).

Counterparty risk corresponds to the risk that the counterparty to a transaction will default before the final settlement of cash flows (CRR). It is generated by all of the derivative products held in La Banque Postale's banking and trading portfolios and by securities loan and borrowing transactions.

The occurrence of this risk exposes La Banque Postale to a replacement cost within the framework of market (derivatives) or securities transactions (lending/borrowing, repos/reverse repos, placements and investments).

As a credit institution, La Banque Postale is exposed to the risk of insolvency of its customers and of its counterparties. The risk of default impacts La Banque Postale's profitability because the greater the rate of default, the more La Banque Postale will be required to enter significant provisions for these non-performing loans.

La Banque Postale actively reduces its exposure to credit and counterparty risk by using risk mitigation techniques which are the most admissible/effective for the calculation of capital requirements.

La Banque Postale uses the services of external credit rating organisations for certain guarantees.

The steady growth in the level of indebtedness of French companies and households could also increase the risk of default.

Despite the growth of La Banque Postale's credit portfolio both in terms of volume and risk level, its overall credit risk remains low in terms of its NPL ratio (<1%).

La Banque Postale's cost of risk is also particularly low for all of its business lines (€41 million in the first half of 2019).

However, the increase in the credit portfolio (notably legal entities and housing assistance loans) could result in a deterioration of the overall quality of La Banque Postale's loan portfolios over the long term.

- **Operational risk**

In accordance the CRR regulation and the decree of 3 November 2014, the definition of operational risk adopted by La Banque Postale 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 models, but excludes strategic risks".

The risk management rules implemented by La Banque Postale via risk appetite, the risk management policy, management rules, standards, procedures and methodologies is intended to limit insofar as possible these risks which may be unidentified or unexpected and which can result in significant losses.

In a context of increasing numbers of electronic transactions, growing interconnection between massively digitised systems which provide new areas for attack, the risk of cybercrime has also been identified and is an important point of focus for the bank.

Any interruption or failure of La Banque Postale's information systems could result in significant losses of customer information and, therefore, create a reputational risk for La Banque Postale leading to financial losses.

Poor management of outsourcing could result in a concentration risk and the loss of control over business activities.

The use of unsuitable methods to market and sell products and services could damage La Banque Postale's reputation and its competitiveness.

Potential claims against customers, staff, business activities or infrastructure could also damage the Group's image. La Banque Postale has implemented an Emergency and Business Continuity Plan to minimise these highly damaging incidents.

The level of operational risk remains a topic of concern for La Banque Postale which must pay particular attention to operational risk appetite.

- **Insurance risk**

As both a parent company and the head of a conglomerate, La Banque Postale is exposed to insurance business risks.

- Life insurance: A deterioration in the market situation and, notably, a significant change in interest rates could have a big impact on La Banque Postale's life insurance business and on its results.
- Non-life insurance: the main risk to which the Group's non-life insurance subsidiaries are exposed is underwriting risk defined as the risk the insurer takes by providing insurance policies to natural persons and legal entities.

An increase in claims and/or a mismatch between the claims expected by the insurance subsidiary and the amounts actually paid out to the insured could have a significant negative impact on the Group's results and its financial position.

- **Risks related to the internal assessment of capital requirements**

The goal of the ICAAP (Internal Capital Adequacy Assessment Process) is to ensure the match between La Banque Postale's internal capital given the risks run and future risks related to its growth and changes to which La Banque Postale is exposed.

Incorrect assessment of the capital adequacy requirement and its evolution could result in insufficient capital.

As the head of the conglomerate, La Banque Postale must ensure the individual capital adequacy of each entity subject to prudential requirements and on a consolidated basis at the conglomerate level.

In order to support La Banque Postale's growth, La Poste has converted €800 million in bonds (Additional Tier 1) into capital (CET1 capital).

- **Market risk**

Market risk represents the risk that financial instruments held in portfolio may lose value as a result of an adverse change in market conditions. It essentially concerns assets restated at fair value, since valuation variations have a direct impact on the La Banque Postale's profits and equity.

La Banque Postale's market risk is low given its trading portfolio.

- **Global exchange rate risk**

The exchange-rate risk, particularly connected with international mandates and financial activities, is moderate. This is due to the fact that the foreign currency activity of the retail bank, which mainly concerns international mandates, is relatively small in volume. In addition, 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.

La Banque Postale's balance sheet is managed almost exclusively in euros.

Liquidity risk

- **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.

This risk could be related to a severe deterioration in La Banque Postale's situation due to a systemic shock (inability to access short- and long-term funding, the secured and unsecured debt markets, a steep decline in customers deposits, an unexpected cash outflow, etc.)

Liquidity constraints could have a negative impact on La Banque Postale's ability to honour its commitments vis-à-vis its counterparties and, in the end, on its financial position and its results.

- **Risks related the internal assessment of capital requirements (ILAAP)**

The ILAAP (Internal Liquidity Adequacy Assessment Process) is the liquidity assessment process implemented by La Banque Postale and analysed by the supervisory authority as part of the SREP (Supervisory Review and Evaluation Process).

It is based on liquidity monitoring indicators (liquidity gaps, LCR, etc.) and the assessment of the liquidity risk level, the implementation of an Emergency Funding Plan (EFP), the relevance of stress scenarios, etc.

Any failure of the strategies, policies, processes and systems in place to detect, measure, manage and track liquidity risk could prevent La Banque Postale from having a cautious ILAAP approach (in accordance with applicable regulations) enabling it to make the connection between the financing plan and the liquidity risk strategy and from taking informed financing decisions.

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

4.1.1.5 Other risks

Risks related to internal governance and risk management

La Banque Postale has a governance framework which enables it to ensure compliance with its external obligations and its internal framework.

Therefore, insufficient quality in La Banque Postale's ICAAP and ILAAP processes could have a negative impact on strategic decisions.

La Banque Postale submits a recovery and resolution plan to the ECB every year, in accordance with regulations. It describes the recovery measures to restore the solvency of the bank to the minimum level required, if necessary. Potential governance failures could slow down the implementation of the recovery measures.

A risk management system based on three lines of defence (operational business lines, Group Risk Department and Compliance Department, and Internal Audit Department) provide the general framework for La Banque Postale's internal control. As a result, insufficient resources, particularly in control functions could weaken the ability of La Banque Postale to adequately identify, monitor and manage risks and impact its performance.

La Banque Postale must ensure that its internal control system also covers outsourced activities in accordance with the applicable regulations (decree of 3 November, EBA guidelines on outsourcing from February 2019).

La Banque Postale has implemented several projects and programmes to improve the quality of its data.

Non-compliance risk

Non-compliance risk is defined by the decree of 3 November 2014 as "the risk of legal, regulatory or reputational sanctions 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 bodies".

La Banque Postale must ensure compliance with the rules intended to protect its customers and procedures it implements for this purpose, the compliance of investment services, the implementation of the system in terms of the fight against money laundering and the financing of terrorism and compliance with ethics.

Non-compliance with these rules could increase the legal risk and also damage its reputation, thereby resulting in a negative impact on the profitability and the business outlook of the Group.

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 of insurance entities using the equity method, consolidated within the prudential scope and using the full-consolidation method within the accounting scope.

Asset and risk disposal 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 scopes of consolidation (entity by entity) (EU LI3)

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 LEASING & FACTORING	Full consolidation	LA BANQUE POSTALE LEASING & FACTORING	-	-	-	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

Differences between the accounting and regulatory scopes of consolidation and allocation of financial statement items to regulatory risk categories (EU LI1)

	(€ millions)	Book values as declared in the published financial statements	Book values within the scope of regulatory consolidation	Book value of the items				
				Subject to credit risk	Subject to the RCC	Subject to securitisation	Subject to market risk	Not subject to capital requirements or subject to capital deductions
Assets								
Cash, central banks		3,342	3,342	3,342	-	-	-	-
Financial assets held for trading		11,019	10,621	1,825	754	-	8,050	-
Hedging derivatives		1,693	1,693	0	1,693	-	-	-
Available-for-sale financial assets		15,683	13,450	13,456	-	-	-	-
Loans and receivables due from credit institutions		88,946	88,943	86,606	1,464	-	-	-
Loans and receivables due from customers		101,911	101,922	100,511	2,441	-	-	-
Revaluation differences on rate hedged portfolios		280	280	280	-	-	-	-
Financial assets held to maturity		30,848	30,848	30,793	-	9	-	-
Current tax assets		178	176	176	-	-	-	-
Deferred tax assets		237	237	233	-	-	-	-
Accruals and other assets		3,804	2,939	2,939	-	-	-	-
Other insurance assets and reinsurer share of underwriting provisions		-	-	-	-	-	-	-
Investment property		-	-	-	-	-	-	-
Investments in associated companies		-	-	-	-	-	-	-
Investments in associated companies		3,504	4,129	4,098	-	-	-	30
Property, plant and equipment		795	783	630	-	-	-	-
Intangible fixed assets		792	667	-	-	-	-	667
Goodwill		160	160	-	-	-	-	160
Total assets		263,192	260,190	244,888	6,353	9	8,050	858
Liabilities								
Central banks		-	-	-	-	-	-	-
Financial liabilities at fair value through profit or loss		1,439	1,439	-	-	-	-	-
Hedging derivatives		754	754	-	-	-	-	-
Liabilities due to credit institutions		24,404	24,404	-	-	-	-	-
Liabilities to customers		191,379	191,402	-	-	-	-	-
Debt securities		22,088	22,088	-	-	-	-	-
Revaluation differences on rate hedged portfolios		997	997	-	-	-	-	-
Current tax liabilities		37	21	-	-	-	-	-
Deferred tax liabilities		127	57	-	-	-	-	-
Accruals and other liabilities		4,997	4,662	-	-	-	-	-
Non-current liabilities held for sale		-	-	-	-	-	-	-
Underwriting provisions of insurance companies		2,549	-	-	-	-	-	-
Shadow		-	-	-	-	-	-	-
Provisions		372	370	-	-	-	-	-
Subordinated debt		3,126	3,126	-	-	-	-	-
Minority interests in equity		121	69	-	-	-	-	-
Equity, Group share		10,801	10,801	-	-	-	-	-
Total liabilities		263,192	260,190	-	-	-	-	-

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);
- prudential filters (fair value reserves related to gains or losses on cash flow hedges, *Additional Valuation Adjustment...*).

La Banque Postale no longer has any additional T1 capital following the conversion in May 2019 of its AT1 bonds issued in 2013.

Tier 2 capital includes:

The subordinated securities issued in November 2010 (prudentially recognised in part only), April 2014, November 2015, June and October 2016 and January 2017.

Reconciliation of accounting equity and regulatory capital

	30.06.2019	31.12.2018
(in € thousands)	CRR	CRR
Shareholders' equity and retained earnings, group share (accounting equity)	10,801,165	9,548,746
Dividend plan	(189,805)	(326,528)
Prudential deductions (goodwill, intangible assets, etc.)	(861,816)	(810,942)
Prudential filters applicable to CET1 capital	(286,889)	(256,505)
Common Equity Tier 1 (CET1)	9,462,655	8,154,771
Eligible AT1 capital instruments		800,000
Additional T1 equity		800,000
T1 equity	9,462,655	8,954,771
Capital instruments and subordinated loans (amount recognised in the balance sheet)	3,000,000	3,000,000
Temporary provisions (Article 486 CRR)	(686,260)	(635,260)
T2 equity	2,313,740	2,364,740
Overall equity capital	11,776,395	11,319,511

The increase in Common Equity Tier 1 (CET1) during the first half of 2019 was due primarily to the conversion of all additional Tier 1 capital instruments into Common Equity Tier 1 (CET1), the inclusion of the first-half results - net of the planned dividend distribution - and the increase in unrealised gains generated by the financial markets.

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.

RWA increased by 6.5% over the first half of 2019, i.e. €4.6 billion with growth in exposure of €16.6 billion (+6.2%). This sustained increase in RWA can be explained by the rise in credit RWA linked to La Banque Postale's growth in the Corporate segment.

- Credit risk-weighted assets (including exposures in respect of counterparty risk) increased by €4.3 billion (+7.2%).
- Market risk-weighted assets were up €0.3 billion.

Overview of risk-weighted assets (RWA) (EU OV1)

(€ millions)	RWA		Minimum capital requirements
	Jun-19	Dec-18	Jun-19
Credit risk (excluding RCC)	61,343	57,555	4,907
of which the standardised approach	61,343	57,555	4,907
of which internal ratings-based approach (RBA)	-	-	-
of which advanced internal ratings-based approach (AIRB)	-	-	-
of which equities using the NI approach as part of the simple weighting method or the internal models approach (IMA)	-	-	-
RCC	2,386	1,849	191
of which using the market price method	2,145	1,662	172
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	12	3	1
of which CVA (credit valuation adjustment)	228	185	18
Settlement risk	-	-	-
Bank portfolio securitisation exposures (after cap)	2	2	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	2	2	0
Market risk	1,398	1,131	112
of which the standardised approach	1,398	1,131	112
of which IMA	-	-	-
Large exposures	-	-	-
Operational risk	9,351	9,351	748
of which the basic indicator approach	-	-	-
of which the standardised approach	9,351	9,351	748
of which the advanced measurement approach	-	-	-
Amounts below the deduction thresholds (subject to a risk weighting of 250%)	255	522	20
Floor adjustment	-	-	-
Total	74,479	69,889	5,958

Overview of risk-weighted assets by asset class

(€ millions)	2019		2018
	Risk-weighted assets	Capital requirements	Risk-weighted assets
Credit risk (excluding counterparty risk)	61,345	4,908	57,558
Of which the standardised approach	61,345	4,908	57,558
- Central governments and central banks	17	1	2
- Regional governments and local authorities	1,704	136	1,617
- Public sector entities	149	12	150
- Multilateral development banks	-	-	-
- International organisations	-	-	-
- Institutions	10,639	851	10,514
- Corporate	18,244	1,460	16,162
- Retail	10,056	804	10,157
- Secured by mortgages on immovable property	9,271	742	8,738
- Exposures in default	653	52	637
- Items associated with particularly high risk	1,782	143	1,280
- Covered bonds	303	24	320
- Receivables with institutions and corporates with a short-term credit assessment	-	-	-
- Undertakings for collective investment	319	26	438
- Equities	5,041	403	4,990
- Other items	3,165	253	2,550
- Securitisations	2	0	2
Of which the internal model-based approach	-	-	-
Counterparty risk	2,386	191	1,849
- Of which the standardised approach	2,145	172	1,662
- 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	12	1	3
- Including CVA	228	18	185
Market risk	1,398	112	1,131
Operational risk	9,351	748	9,351
TOTAL	74,479	5,958	69,889

The data presented in the table above include the effects of the Basel substitution in the categorisation of exposures. As a result, the assets guaranteed by banking and corporate sector bodies are included in the latter categories.

Non-deducted investments in insurance companies

	Value
Holdings of equity instruments of a financial sector entity in which the institution holds a significant investment not deducted from capital (prior to risk weighting)	4,077
Total RWA	4,077

La Banque Postale doesn't deduct its significant investments in insurance sector entities in accordance with Article 49 of Regulation (EU) no. 575/2013 and weights them in compliance with Article 133.

4.2.4 Regulatory framework for capital requirements

The regulatory framework defining prudential requirements for banks 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 inspired by the Basel III agreements defined in directive 2013/36/EU (CRD IV) and regulation (EU) no. 575/2013 of the European Parliament and of the Council (CRR). The legislation provided for transitional application in order to enable institutions to manage the changes in a gradual way.

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:

- the 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. They are subject to a "phased" evaluation, that is to say, they incorporate the transition measures provided by the legal texts in terms of applying the prudential filters and deductions or of recognising capital instruments issued prior to the effective date of the CRR regulation.

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 CET1 capital requirement applicable since 1 March 2019. The capital requirement is 9.01 %, of which:

- 4.5 % of CET1;
- a 1.75 % requirement in additional capital for Pillar 2 (Pillar 2 Requirements);
- 2.5 % for a capital conservation buffer (CCB);
- 0.25 % for a buffer for Other Systemically Important Institutions (O-SIIs);
- and 0.01% for the special countercyclical capital buffer (CCyB).

Based on this notification, the overall capital requirement (OCR) is 12.51 % (which can consist of all types of capital): CET1, AT1 and Tier 2, with a minimum 10.51 % of Tier 1, and minimum 9.01 % CET1.

The countercyclical buffer specific to La Banque Postale is calculated using the weighted average of countercyclical buffers applicable in the jurisdictions in which the relevant La Banque Postale credit exposures are located. It is intended to fight against excessive growth in the credits granted. In France, the High Council for Financial Stability (HCSF) is responsible for setting it each quarter. Outside of France, the application of countercyclical buffers above 0% has already entered into effect in several jurisdictions, based on which La Banque Postale sets a specific countercyclical buffer.

French exposures must be weighted at 0.25% since 1 July 2019. The rate will increase to 0.5% on 2 April 2020, following the decision of the HCSF of 3 April 2019.

Composition of CET1 capital requirements for Pillar II at 30 June 2019

	30.06.2019	31.12.2018
Pillar I requirement	4.50 %	4.50 %
Pillar II Requirement – P2R	1.75 %	1.75 %
Capital conservation buffer requirement (CCB)	2.50 %	1.875 %
Symmetrical O-SII buffer requirement	0.25 %	0.1875%
Countercyclical buffer requirement (CCyB)	0.01 %	0.00 %
MINIMUM CET1 RATIO REQUIREMENT	9.01 %	8.3125 %

The overall capital requirement amounts to 12.51%, including 1.5% for AT1 and 2% for T2.

4.2.4.2 Solvency ratios

La Banque Postale's Common Equity Tier 1 (CET1) solvency ratio was 12.7%, up 1 point compared with the end of December 2018. This figure includes a positive impact of €1.3 billion on capital with, notably, the inclusion of AT1 and of the half-year result.

	30.06.2019	31.12.2018
Common Equity Tier 1 capital ratio	12.7%	11.7%
Tier 1 capital ratio	12.7%	12.8%
Solvency ratio	15.8%	16.2%

4.2.4.3 Leverage ratio

The excessive leverage risk 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.

In its decision of 3 May 2019, the ECB authorised La Banque Postale to exclude from its leverage exposure calculation "exposures resulting from deposits which the institution is legally required to transfer to a public sector entity to finance investments in the general interest" in accordance with Article 429, point 14 of the CRR. The amount to be excluded from the calculation corresponds to 50% of the exposures linked to funds deposited by savers on regulated savings accounts (Livret A, LDDS and LEP) which La Banque Postale is also required to transfer to the CDC.

The leverage ratio at 30 June was 3.8%, up compared to December 2018. The rise resulted from the ECB decision of 3 May 2019 (+0.5%).

The exclusion of 100% of the CDC centralisation would result in a leverage ratio of 4.3%.

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

(€ million)	30.06.2019	31.12.2018 (with delegated act and application of temporary provisions)
Total of the IFRS balance sheet according to published financial statements	263,192	231,619
<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>	(3,003)	(2,786)
<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>	981	911
<i>Adjustments for temporary sales of shares (repurchase transactions and other types of guaranteed loans)</i>	4,675	3,156
<i>Adjustments for off-balance sheet items</i>	14,849	12,658
<i>Other adjustments</i>	(28,713)	17,442
Exposure to the leverage ratio	251,982	263,001

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 Group'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 to attain the capital objectives set by management in connection with major shareholders.

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 La Banque Postale's internal methods.

The Financial Department is in charge of the ICAAP process, but it is also a cross-process between the Risk and Financial functions. It is updated half-yearly and reported to the Capital Management Committee for approval, then to the Audit and Risk Committee and to the Supervisory Board.

La Banque Postale responded with an action plan to the criticisms made by the ECB in the SREP letter of December 2017 on this process, notably with respect to taking into account the quantitative elements and insertion at the operational level in La Banque Postale's management. This action plan was implemented in 2018 and is being monitored closely.

Governance

This planning process is implemented by the Financial Department with the support of the Capital Management Committee (CCM) created in 2014, which meets four to five times per year, chaired by the Chairman of the Executive Board. The committee is responsible for:

- defining capital management objectives (target ratios, etc.);
- examining the trajectory of equity and defining the measures required to achieve the capital objectives set by management (security issuance, capital increase requests, arbitrages/business line orientation, etc.);
- validating the preventive actions linked to La Banque Postale'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.

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 by La Banque Postale 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 governance enables it to ensure compliance with its external obligations and its internal framework.

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 line sets its priorities and the associated risk management system under the supervision of the Group Risk Department and Compliance Department.

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 and Compliance Department;
- ▶ a second line consisting of the Group Risk Department and Compliance Department, which ensure the existence of an appropriate, uniform framework to define and improve the risk management procedures;
- ▶ a third line via the Internal Audit Department in charge of giving an independent idea of the effectiveness of the risk management system in place.

The Governance documents

The Risk Division Charter was presented to the Supervisory Board's Risk Committee. It defines the responsibilities, tasks, powers, duties and principles of the hierarchical structure of the Risk Division.

La Banque Postale's risk appetite

In the last quarter of 2018, La Banque Postale drew up its Risk Appetite Statement for the 2019 financial year applicable at the Group consolidated level. After validation by the Executive Board, the Risk Committee of the Supervisory Board approved the Risk Appetite Statement (RAS) and the table of associated limits (the Risk Appetite Dashboard – RAD) in January 2018.

In June 2019, the statement was amended following the conversion of €800 million AT1 into CET1.

The goal of this Risk Appetite Statement is to formalise at the Group level its appetite for the risks it is, and may be, confronted with in its daily activities over the coming year. It also expresses the Group's risk tolerance, i.e., the maximum risk level it is willing to take on.

The RAF (Risk Appetite Framework) is drawn up by the Group Risk Department. It is shared by the business lines in charge of development, the Financial Department (balance sheet management, management control) and the Compliance Department. This proposal is submitted to the Executive Board and the Supervisory Board in charge of defining the Group's risk appetite and associated limits. This framework and rules of operation, the indicators and associated limits are reviewed and validated at least once a year. In the event of significant changes, such as acquisitions or the launch of new activities, the risk appetite may be revised to take into account changes arising outside the annual review cycle.

The risk appetite framework consists of all policies, standards, methodologies, procedures, controls and systems that enable the risk appetite to be defined, communicated and monitored.

- ▶ the definition and implementation of a system of limits monitored by the Group Risk Department, which reports monthly to the Executive Board in a Group Risk Management Committee and quarterly to the Risk Committee of the Supervisory Board.

- ▶ the implementation of an alert process for exceeded thresholds and limits,
- ▶ the organisation of risk management roles and responsibilities (the three lines of defence),
- ▶ consistent documentation and processes to ensure the operational implementation of risk appetite and the associated organisational principles.

La Banque Postale's intended risk profile is defined by a system of limits (qualitative and quantitative), organised in three levels of setting and monitoring. The overall limits expressed by the RAS and the RAD make up the first level of limits for the group.

These limits are broken down and rounded out at the operational level by limits set and monitored by the Executive Board and described in the Risk Control Policy (second level) and the Risk Management Rules (third level) under the responsibility of the Group Risk Department.

The Risk Committee of the Supervisory Board must be informed of the first and second level limits and their monitoring.

No exemption to the Risk Control Policy is possible except in the case of prior validation by the Group Risk Management Committee.

4.3.1 Regulatory framework

La Banque Postale is subject to European and French "prudential" regulations applicable to credit institutions and financial conglomerates. La Banque Postale is supervised directly by the ECB as a significant 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 La Banque Postale is governed by the decree of 3 November 2014 on:

- ▶ the internal control of firms in the banking, payment services and investment services sectors subject to the supervision of the ACPR;
- ▶ prudential supervision on a consolidated basis;
- ▶ 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, as provided by the governance guidelines of the European Banking Authority (EBA), to review La Banque Postale'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

In a demanding environment from both a regulatory and economic point of view, La Banque Postale's governance and risk control framework has thus undergone significant changes since the start of the year in order to strengthen the risk management tool with:

- the review of the risk appetite framework and monitoring at the highest decision-making level, communicated within the organisation;
- the implementation and formalisation of the risk appetite at the level of the subsidiaries and communication of the risk appetite within the organisation;
- an increase in the number of highest-level risk committee meetings (Network Risk and Control Committee/Regional Directors every three months on average) as well as a framework imposed for the committee meetings (Region, Territorial Management, Sectors);
- the formalising of the roles and responsibilities of the different entities with respect to risk management;
- a project to reorganise the corpus of documents of the division (governance, structure, storage space), in line with the new Risk Appetite Framework (RAF) tool, set up within the Group.

La Banque Postale Group aims to pursue its efforts in terms of risk culture on all levels (i.e.: Supervisory Board). La Banque Postale also continues to raise the awareness of the risks of non-compliance by deploying training sessions giving all staff who provide investment advice on banking and insurance products and services to customers the knowledge and skills required to perform their function and provide service in accordance with professional requirements and regulations.

This training concerns the areas of: Insurance Approval, AMF regulations, MiFID 2, Insurance Distribution Directive, Consumer Credit (Lagarde), the European Mortgage Credit Directive. Staff are also trained on anti-money laundering and combating the financing of terrorism regulations as well as on rules of conduct (individual and collective) intended to be applied as part of the banking, financial and insurance ethics framework. Lastly, training is provided to staff in charge of receiving and advising the most vulnerable customers.

The Group introduced "risk and compliance" indicators in the calculation of the variable remuneration of its advisors.

4.3.3 Internal control organisation, governance and actors

The information about the organisation, governance and internal control system of La Banque Postale are specifically described in Chapter 3, Section 3.5.7 of the 2018 Registration Document.

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, macro-economic 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, securitisation risk, concentration risk, market risk including basis risks, operational risk including model-related risks, liquidity risk, excessive leverage risk, systematic risk, 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 collateral and insurance policies or by using credit derivatives or securitisations. It also involves putting in place risk management procedures, processes and tools, such as the rules for accepting risks.

Monitoring consists of ensuring the implementation of the risk control framework and assessing its effectiveness, as well as measuring the change in the risk profile compared to the level of risk appetite expressed. It consists of informing or warning the proper bodies to enable them to make the necessary decisions (acceptance, correction, etc.).

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 policies and standards

In order to ensure consistency in decision-making, measurement, management and monitoring, the concepts and standards 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 (GRD) and validated by the Risk Management Rules Committee. The GRD is responsible for their dissemination and ensures the correct operational implementation by the Group entities.

Beyond its own scope, the GRD also ensures the updating of the documentation for risk management, the risk division and the Group's business line departments and its compliance:

- ▶ with regulatory requirements (decree of 3 November 2014 relative to the control of credit institutions) and;
- ▶ La Banque Postale's strategic guidelines (Risk Appetite Statement for the Supervisory Board and Risk Control Policy of the Executive Board).

Models

For its management needs and an appropriate risk control, La Banque Postale Group employs a number of models using, 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 the bodies with a consolidated view of the risk profile, the GRD produces “Risk Appetite Dashboard” and “Group Risk Management Committee Dashboard” summary reports that enable the compliance with the quantitative risk management framework defined in the reference risk governance documents, i.e. the Risk Appetite Statement and the Group Risk Management Policy, to be monitored. This framework, created by the Group Risk Department, is shared with the business lines in charge of development, the Financial Department and the Compliance Department.

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, La Banque Postale has set itself a number of operational 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

Monitoring of changes in the legal and regulatory framework

To contribute to this forward-looking risk management view, 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.), La Banque Postale anticipates impacts, takes appropriate measures and is able to fulfil its obligations in a timely manner.

With respect to the stability of the financial sector, to identify changes as early as possible, the Group:

- ▶ follows the consultations and responds to the impact studies carried out by the European institutions and international bodies, notably the Basel Committee;
- ▶ follows the work of the European and French legislators;
- ▶ as well as those carried out by the regulators and supervisors.

Impact analyses, in the areas of capital requirements, risk concentration or liquidity, are built into the ICAAP and ILAAP processes, and those for risk management and information systems are taken into account in project planning.

Stress tests

Within La Banque Postale, stress tests are defined as a process that makes it possible to analyse the Group's ability to resist a severe but plausible deterioration in its economic environment. The objective is to identify, at the level of the risk taken, the situations that could lead to exceeding overall limits. The stress testing system put in place is an internal process that enables both internal exercises to be performed (own assumptions) and exercises organised by the competent authorities.

The internal stress test exercises are designed to be consistent with the risk appetite and La Banque Postale's strategy with the aim of measuring the effect of the different scenarios selected on the level of risk taken and/or anticipated (dynamic assessment exercises).

The results of these exercises must enable La Banque Postale to take decisions as to maintaining, reducing or increasing the level of risk and/or the relevance of its planned internal capital and liquidity.

The work is carried out by the Risk Department in close collaboration with the teams in charge of the economic analyses and those in charge of the balance sheet management of the Financial Department.

The stress tests are integrated into La Banque Postale's Capital Planning system notably via the presentation of the results to the Capital Management Committee.

This stress testing system also aims to provide information to the Supervisory Board Risk Committee, which validates the framework of the works and controls, where necessary, its proper execution. It is informed of and verifies results, assumptions, methods and scenarios. It also makes decisions about implementing preventative and corrective actions.

Risk anticipation

Beyond the monitoring of the change in the risks already taken, the work of the GRD must enable La Banque Postale to anticipate those that it will or could be confronted with due to its strategy and the occurrence of internal or external events.

Analysis of the scenarios

For risks with low occurrence but high impact, an analysis of the scenarios is carried out to identify the potential effects (financial, on operations, customers, etc.) and the internal or external risk factors. This analysis enables La Banque Postale to set up adequate risk controls in advance, either by reducing the risk factors or drawing up action plans to be implemented where necessary.

The business continuity and crisis management systems incorporate this approach based on the scenarios.

Internal capital and liquidity adequacy assessment process

To comply with the prudential requirements (reflected in overall limits) applicable to it, the Group implements tools that enable it to assess, at any moment, its internal capital and liquidity adequacy in the face of the risks taken and to be taken as part of its strategy, according to different scenarios of changes in its economic and legal environment.

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 policies,
- 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 La Banque Postale's results or balance sheet. They include:
 - pricing risk,
 - interest rate risk,
 - credit spread risk,
 - equity risk,
 - currency exchange risk,
 - volatility risk,
 - inflation risk,
 - basis 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 risk amount 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 processes

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 La Banque Postale's short-term liquidity. The limits framing its activities are based on methodologies developed by the GRD which 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.

- 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.
- 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 spread, exchange and equity indexes) hedge and assess the risk of a spread between transactions and their hedges.
- 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 hedges³ at all times.

- The consistent tracking of significant day ones is another indicator of the quality of the 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 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);
- Collective investment schemes;
- 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.

³ 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.

Liquidity risk management

➤ Strategies and processes implemented to manage liquidity risk

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

The ALM Committee (Asset and Liability Management Committee), the main decision-making body for matters concerning La Banque Postale'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 La Banque Postale's 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 La Banque Postale (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:

- an amount of client deposits greater than that of client loans. La Banque Postale has a significant and diversified deposit base consisting primarily of deposits from a French retail clientèle;
- a significant HQLA (High Quality Liquid Assets) portfolio. 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- and medium-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:

- LBP 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.

4.3.4.5 Operational risk system

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.

The management framework for operational risk is set by the Operational Risk Department which guarantees its implementation and compliance throughout La Banque Postale Group's business lines and the entities working in the name of and on behalf of La Banque Postale, via the Operational Risk unit.

With respect to the risk of non-compliance, the definition and implementation of risk management systems are the responsibility of the Compliance Department.

The Operational Risk Department is responsible for ensuring that the risks are included in a map which is updated annually at least and are classified based on a dual probability/impact axis in order to determine their criticality (low, moderate, major or critical). The Risk Committee of the Supervisory Board approves the impact measurement thresholds and the frequency of critical and major risks for La Banque Postale Group.

4.3.4.6 Non-compliance risk system

The procedure for managing the risk of non-compliance, like that for operational risks, relies upon the principal of giving the businesses the responsibility for the identification, measurement, hedging and monitoring of their risks.

The supervision of this procedure is carried out by the Compliance Department, which is also in charge of anti-corruption measures, ethics and the control of investment services.

The Compliance Department centralises the review process for new products and significant transformations, in accordance with the decree of 3 November 2014.

It also steers all of the anti-money laundering/combating the financing of terrorism measures.

4.3.4.7 Risk control system

La Banque Postale has made changes to the organisation of its permanent control system and since January 2018 the Permanent Control Department reports to the General Risk Department (GRD).

The aim of the **permanent control system** is to provide independent measurement of the effectiveness of risk management. It is part of La Banque Postale'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 performed ex post 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.

Permanent control at La Banque Postale is managed and coordinated by the Permanent Control Department (PCD). It is in charge of carrying out the second level controls of operational risks including the risk of non-compliance across the entire scope of the Group.

It is also in charge of the second level controls of the centralised functions of the GRD, and to this end:

- ▶ it ensures that the controls are performed periodically by the entities in accordance with their defined control plan and provides a summary to the Head of Risk;
- ▶ identifies and validates with the GRD the sensitive processes subject to a second-level control, independently of the operational teams;
- ▶ follows the action plans implemented to hedge risks identified by the internal and external control bodies.

It also contributes to first level controls, particularly through the transfer of risk and control indicators, in addition to level 1 reporting tools defined in close collaboration with the other divisions of the Group Risk Department.

To fulfil its mission of steering the second level control and ensure its contribution to the first level controls, the Permanent Control Department:

- ▶ for the control of the Post Office Network and Business Centres of La Banque Postale, provides, to the bank transaction controllers and their supervisors, the tools enabling them to carry out their control assignments: the control plan, control questionnaires, tools for consolidating the aggregate results according to the levels corresponding to the managers' responsibilities;

- ▶ is in charge of the administration and maintenance of La Banque Postale's control tool (COPIN) for the first and second level controls;
- ▶ performs the targeting and remote controls via indicators and provides the business lines with first level control indicators in collaboration with the GRD;
- ▶ communicates to the subsidiaries and head office divisions the recitals with respect to the organisation and methods to be implemented in order to harmonise the permanent control tools.

The control functions of the business line risk divisions of the GRD report to the Permanent Control Department since 2019.

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.

It 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 of the default of a counterparty or of counterparties considered as a single beneficiary within the meaning of Regulation (EU) 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

Risk appetite and the Group Risk Management Policy (GRMP) and the Risk Division Charter are implemented via operational rules for product risk management by activity/clientèle or business line counterparty. The risk management rules by type of product and client take changes at La Banque Postale into consideration. They are approved by the Risk Management Rules Committee.

The development of the customer base and of products goes hand in hand with the transformation of the sales network. La Banque Postale continues to expand credit granting delegations to the sales teams in accordance with Article 112 of the decree of 3 November. 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

Taking account of these models in approval and delegation chain processes, and everyday 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);
- 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 which generate credit risk from legal entities are in the following two areas:

- within the scope of its commercial economy-financing activities, in September 2011, La Banque Postale and its corporate loans subsidiary (La Banque Postale Leasing et Factoring – LBP L&F) obtained authorisation from the French Prudential Control and Resolution Authority to offer financing to legal entities. The primary customer segments are currently the following: companies, the self-employed, local authorities, public health institutions, social housing associations and non-profit associations;
- 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 activities come in the form of balance sheet and off-balance sheet commitments (guarantees, collateral, investments of La Banque Postale's insurance subsidiaries, un-drawn portion of loans granted, etc.).

La Banque Postale also deploys a simple derivative offer with no margin call destined for its large clients.

Approval process

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.

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.

La Banque Postale's investment policy for Sovereigns, Institutions, Financial Institutions and Insurance Companies is limited to issuers and counterparties in the investment grade category, unless authorised by the Group Risk Department and validated by the Executive Board (via its Commitment Committee).

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 in such agreements (instruments concerned, 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.

The Group Risk Management 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 on the Monitoring List which is reported to the Group Risk Management Committee.

4.4.3 Exposure to credit risk

4.4.3.1 Breakdown of exposures in default

Credit quality of exposures by exposure categories and instrument (EU CR1-A)

	Gross book values		Specific credit risk adjustments	General credit risk adjustments	Total balance sheet withdrawals	Allowances for credit risk adjustments over the period	Net value a+b+c-d
	Exposures in default	Exposures not in default					
Central governments and central banks	-	-	-	-	-	-	-
Institutions	-	-	-	-	-	-	-
Corporate	-	-	-	-	-	-	-
<i>Of which: Specialised financing</i>	-	-	-	-	-	-	-
<i>Of which: SME</i>	-	-	-	-	-	-	-
Retail	-	-	-	-	-	-	-
<i>Exposures secured by real estate</i>	-	-	-	-	-	-	-
<i>SME</i>	-	-	-	-	-	-	-
<i>Non-SME</i>	-	-	-	-	-	-	-
<i>Eligible renewable exposures</i>	-	-	-	-	-	-	-
<i>Other - retail customers</i>	-	-	-	-	-	-	-
SME	-	-	-	-	-	-	-
Non-SME	-	-	-	-	-	-	-
Equities	-	-	-	-	-	-	-
Total NI approach	-	-	-	-	-	-	-
Central governments and central banks	-	124,559	2	-	-	1	124,557
Regional governments and local authorities	-	8,937	-	-	-	-	8,937
Public sector entities	-	616	0	-	0	(1)	615
Multilateral development banks	-	-	-	-	-	-	-
International organisations	-	2	-	-	-	-	2
Institutions	-	11,205	3	-	-	0	11,202
Corporate	-	26,932	49	-	0	8	26,883
<i>Of which: SME</i>	-	-	-	-	-	-	-

Retail	-	63,454	184	-	0	(12)	63,270
<i>Of which: SME</i>	-	-	-	-	-	-	-
Exposures secured by mortgages on real estate	-	22,899	-	-	-	-	22,899
<i>Of which: SME</i>	-	-	-	-	-	-	-
Exposures in default	1,396	-	485	-	31	14	911
Items with particularly high risk	-	1,260	-	-	-	-	1,260
Covered bonds	-	3,034	-	-	-	-	3,034
Receivables from institutions and companies being evaluated for short-term credit	-	-	-	-	-	-	-
Securities of undertakings for collective investment	-	357	-	-	-	-	357
Equities exposure	-	5,071	1	-	-	0	5,070
Other exposures	-	4,012	0	-	-	(0)	4,012
Total standardised approach	1,396	272,337	723	-	31	10	273,010
Total	1,396	272,337	723	-	31	10	273,010
Of which: Loans	-	-	-	-	-	-	-
Of which: Debt securities outstanding	-	-	-	-	-	-	-
Of which: Off-balance sheet exposures	-	-	-	-	-	-	-

Unlike the previous tables presented, the data shown in the table above does not include the Basel substitution effects in the classification of exposures and thus allows for the exposures in default post-provisioning to be visualised.

Quality of credit exposure by business sector or type of counterparty (EU CR1-B)

	Gross book values		Specific credit risk adjustments	General credit risk adjustments	Total balance sheet withdrawals	Allowances for credit risk adjustments over the period	Net value a+b+c-d
	Exposures in default	Exposures not in default					
Holding activities	12	2,203	23	-	-	11	2,192
Public and related authorities	5	134,394	2	-	-	1	134,397
Aeronautics and defence	-	38	-	-	-	-	37
Agriculture	-	89	-	-	-	-	90
Food and beverages	-	221	1	-	-	-	221
Insurance	-	4,128	-	-	-	-	4,128
Automotive	1	356	1	-	-	-	356
Other industries	1	273	1	-	-	-	274
Other services	36	9,165	26	-	-	16	9,175
Other financial services	5	17,730	13	-	0	6	17,723
Current consumer goods (non-food)	-	102	-	-	-	-	102
Construction and public works/Construction materials	6	620	2	-	-	-	623
Chemistry	-	90	-	-	-	-	90
Cosmetics, personal care and other household products	1	32	-	-	-	-	32
Distribution	10	1,780	8	-	-	2	1,781
Energy	-	19	-	-	-	-	19
Real estate	55	15,457	25	-	-	(6)	15,487
Infrastructure	-	723	-	-	-	-	723
IT & Technology	1	233	-	-	-	-	233
Luxury	-	2	-	-	-	-	2
Media and communication	2	102	-	-	-	-	103
Retail	1,234	78,836	600	-	31	(23)	79,470
Pharmacy	-	63	-	-	-	-	63
Commodities	1	338	-	-	-	-	338
Health care, social and education	3	976	3	-	-	1	977
Telecommunications	-	533	2	-	-	-	531
Tourism, hotels, restaurants, leisure	4	467	2	-	-	(2)	469
Transport and Logistics	16	2,084	8	-	-	2	2,091
Utilities	1	1,285	4	-	-	1	1,282
Total	1,396	272,337	723	-	31	10	273,010

Unlike the previous tables presented, the data shown in the table above does not include the Basel substitution effects in the classification of exposures and thus allows for the exposures in default post-provisioning to be visualised.

Quality of credit exposure by region (EU CR1-C)

	Gross book values		Specific credit risk adjustments	General credit risk adjustments	Total balance sheet withdrawals	Allowances for credit risk adjustments over the period	Net value a+b+c-d
	Exposures in default	Exposures not in default					
Euro zone	1,381	267,029	709	-	31	10	267,701
Country France	1,373	248,290	709	-	31	10	248,954
Country Germany	-	3,747	-	-	-	-	3,747
Country Other	8	14,991	-	-	-	-	15,000
Americas	-	3,924	-	-	-	-	3,925
Country United States	-	2,703	-	-	-	-	2,703
Country Canada	-	1,222	-	-	-	-	1,222
Country Other	-	-	-	-	-	-	-
Asia	-	453	-	-	-	-	453
Japan	-	388	-	-	-	-	388
Country Other	-	65	-	-	-	-	65
Other regions	15	931	15	-	-	-	931
Total	1,396	272,337	723	-	31	10	273,010

Unlike the previous tables presented, the data shown in the table above does not include the Basel substitution effects in the classification of exposures and thus allows for the exposures in default post-provisioning to be visualised.

4.4.3.2 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	131,429	-	-	-	3	-	28	-	-	2	-	-	-	-	-	-	131,463	-
Regional governments and local authorities	4	-	-	-	10,852	-	-	-	-	0	-	-	-	-	-	-	10,856	-
Public sector entities	2	-	-	-	614	-	40	-	-	11	-	-	-	-	-	-	666	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2	-
Institutions	1,015	-	-	-	37,767	-	6,901	-	-	13	-	-	-	-	-	-	45,696	-
Corporate	160	-	-	-	2,408	-	9,777	-	-	13,723	762	-	-	-	-	-	26,830	-
Retail	0	-	-	-	-	-	-	-	20,767	-	-	-	-	-	-	-	20,768	-
Exposures secured by mortgages on real estate	56	-	-	-	-	18,396	3,007	-	-	1,440	-	-	-	-	-	-	22,899	-
Exposures in default	5	-	-	-	-	-	-	-	-	482	144	-	-	-	-	-	631	-
Exposures with particularly high risk	-	-	-	-	-	-	-	-	-	0	1,260	-	-	-	-	-	1,260	-
Covered bonds	-	-	-	3,034	-	-	-	-	-	-	-	-	-	-	-	-	3,034	-
Institutions and companies being evaluated for short-term credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Securities of undertakings for collective investment	-	-	-	-	-	-	-	-	-	357	-	-	-	-	-	-	357	-
Equities	-	-	-	-	-	-	-	-	-	4,202	-	335	-	-	-	-	4,538	-
Other items	844	-	-	-	-	-	-	-	-	3,165	-	-	-	-	-	-	4,010	-
Total	133,519	-	-	3,034	51,645	18,396	19,752	-	20,767	23,395	2,167	335	-	-	-	-	273,010	-

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	797	372	68	96	130	272
Debt securities outstanding	-	-	-	-	-	-
Total exposure	797	372	68	96	130	272

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	30,852	0	0	0	0	0	0	-4	0	0	0	0	0
Loans and advances	191,219	389	78	1,475	1,475	1,475	359	-199	-2	-547	-162	465	126
Off-balance sheet exposures	42,153	64	0	30	30	30	0	35	0	1	0	0	0

Change in the balance of adjustments for general and specific credit risks

	Cumulative amount of adjustments for specific credit risk	Cumulative amount of adjustments for general credit risk
Initial balance	728	-
Increases due to amounts provisioned for probable losses on loans during the financial year	236	-
Decreases due to amounts reversed for probable losses on loans during the financial year	(241)	-
Decreases in the inventory of adjustments for credit risks	-	-
Transfers between adjustments for credit risks	-	-
Business combinations including acquisitions and disposals of subsidiaries	-	-
Other adjustments	-	-
Closing balance	723	0

The data presented in the table above corresponds to a prudential vision of the Expected Credit Losses (ECL) calculated by the Group Risk Department, in accordance with the new IFRS 9 standards that entered into force on 1 January 2018.

4.4.5 Credit risk mitigation techniques

4.4.5.1 Credit risk mitigation system

La Banque Postale minimises its credit risk. 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, La Banque Postale has a database of guarantee types, standards and rules governing the selection of the guarantors it will accept.

The Bank relies on a Guarantor Referencing Committee for retail credit risk. A TARC committee will be set up in 2019 for the other segments. The two committees manage the eligibility of the guarantees taken by La Banque Postale and monitor them.

To mitigate home loan risk:

The general principle is that any financing must be 100% 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;
- ▶ a 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.);
- ▶ a 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, La Banque Postale can take a simple pledge of mortgaged assets (PAH) on the asset to be sold.

If the quality of the file so justifies, La Banque Postale 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.

However, the quality of the guarantee doesn't justify the granting of a loan.

La Banque Postale uses three main organisations/collaterals:

1. Crédit Logement
2. Fonds de cohésion sociale (FGAS)
3. Nationale Hypotheek Garantie (NHG)

To reduce credit risk on part of the commitments guaranteed by the FGAS facility:

Pursuant to the decision of the ACPR college of 19 June 2014 taking into account the specific characteristics of the **FGAS guarantee** facility, the prudential treatment under the CRR of the outstandings guaranteed by the FGAS for institutions using the standard approach for measuring credit risk is the following:

For the generations after 2007, 50% of the guarantees received from the State can be taken into account by the institutions on the condition of a loss experience below the applicable reference thresholds.

To reduce credit risk on part of the Dutch home mortgage portfolios:

The WEW (Waarborgfond Eigen Woningen/housing guarantee fund) an organisation backed by the Dutch government which manages the NHG public guarantee system (rated AAA), covers 90 % of the final loss.

To mitigate consumer credit risk

Consumer loans are generally granted without guarantees or collateral. Some consumer loans can be subject to a guarantee or pledge.

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 La Banque Postale's loss in the event of a borrower default (LGD);
- ▶ any commitment must be covered by a guarantee except where risk management rules provide otherwise;
- ▶ the guarantees taken must comply with the risk management rules: be legally approved and managed by operational entities;
- ▶ insofar as possible, security rights must be qualified 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 its 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)

La Banque Postale has implemented internal eligibility criteria as a guarantee for repo agreement transactions.

A TARC Committee, which will be implemented in 2019, will be responsible for approving the eligibility of collateral with respect to regulations and its implementation in the Group standard.

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	136,182	43,476	20,630	343	-
Total debt securities	68,119	2,555	989	713	-
Total exposure	204,301	46,031	21,618	1,055	-
Of which defaulted	384	277	215	-	-

Non-guaranteed exposures include exposures to centralised savings with the Caisse des Dépôts et Consignations (CDC) for €68 billion.

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	123,775	781	130,667	357	17	0.0%
Regional governments and local authorities	4,207	4,730	5,904	2,680	1,704	19.9%
Public sector entities	528	87	592	55	149	23.2%
Multilateral development banks	-	-	-	-	-	-
International organisations	-	2	-	2	-	-
Institutions	8,206	2,996	40,792	2,852	10,639	24.4%
Corporate	18,968	7,915	19,082	5,082	18,244	76.0%
Retail	52,832	10,438	12,290	1,302	10,056	74.0%
Exposures secured by mortgages on real estate	21,911	988	21,911	988	9,271	40.6%
Exposures in default	881	30	604	4	653	110.4%
Exposures with particularly high risk	877	384	877	384	1,782	149.4%
Covered bonds	3,034	-	3,034	-	303	10.0%
Institutions and companies being evaluated for short-term credit	-	-	-	-	-	-
Securities of undertakings for collective investment	351	6	351	6	319	100.0%
Equities	4,999	72	4,466	72	5,041	111.1%
Other items	4,011	1	4,010	-	3,165	78.9%
Total	244,582	28,429	244,582	13,782	61,343	24%

At 30 June 2019, the average weighting of La Banque Postale's 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 La Banque Postale'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 in 2018 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 Counterparty 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 BFI (Corporate and Investment Bank) 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 La Banque Postale 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/ 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	-	7,689	878	-	-	6,112	2,145
Initial exposure	-	-	-	-	-	-	-
Standardised approach	-	-	-	-	-	-	-
IMM (for derivatives and SFT)	-	-	-	-	-	-	-
Of which securities financing transactions	-	-	-	-	-	4,987	1,714
Of which derivatives and deferred settlement transactions	-	-	-	-	-	1,124	431
Of which resulting from a multiproduct clearing agreement	-	-	-	-	-	1,608	2,145
Simple method based on financial security rights (for SFTs)	-	-	-	-	-	-	-
General method based on financial security rights (for SFTs)	-	-	-	-	-	6,112	2,145
VaR for SFTs	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	2,145

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	-	2	-	-	-	-	-	-	-	-	-	-	2	-
Regional governments and local authorities	-	-	-	-	-	28	-	-	-	-	-	-	28	-
Public sector entities	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Multilateral development banks	-	-	-	-	-	-	-	-	-	-	-	-	-	-
International organisations	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions	-	-	1,731	-	-	875	3,114	-	-	62	-	-	5,782	-
Corporate	-	-	-	-	-	-	27	-	-	223	34	-	284	-
Retail	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Institutions and companies being evaluated for short-term credit	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other items	-	-	-	-	-	-	-	-	-	-	16	-	16	-
Total	-	2	1,731	-	-	903	3,141	-	-	285	50	-	6,112	-

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)	-	47
Exposure to transactions with qualifying central counterparties (to the exclusion of initial margins and contributions for default funds); of which	1731	35
(i) OTC derivatives	99	2
(ii) Listed derivatives	-	-
(iii) SFT	1632	33
(iv) All clearing in which multiproduct clearing has been approved	567	470
Segregated initial margin	1164	-
Non-segregated initial margin	-	-
Contributions to pre-funded default funds	28	12
Alternative calculation method of the capital requirement for exposure	-	-
Exposures to non-QCCP (total)	-	4
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	4	4
(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	2,997	1,153	1,738	504	1,234
SFT	13,943	13,546	5,033	17	5,016
Multiproduct netting	-	-	-	-	-
Total	16,940	14,699	6,771	521	6,250

(€ 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		
...	392	-	480	-	34,346	30,384
Total	392	-	480	-	34,346	30,384

Exposures to credit derivatives

(€ millions)	Hedges based on credit derivatives		Other credit derivatives
	Protection purchased	Protection sold	
Notional amounts			
Single-signature CDS	1495	-	-
Indexed CDS	-	-	-
Exchange contracts on global returns	-	-	-
Credit options	-	-	-
Other credit derivatives	-	-	-
Total notional amounts	1495	-	-
Fair values	10	-	-
Positive fair value (assets)	10	-	-
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 the rate risk related to banking transformation and exchange activities 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

ALM Committee

The ALM Committee (Asset and Liability Management Committee), the main decision-making body for matters concerning La Banque Postale'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 ALM threshold and limit monitoring table to the managers;
- ▶ the periodic review of the modelling of customer products and formal validation of the associated assumptions after prior review by the Group Risk Department;
- ▶ annual review by the committee of the overall cash envelope allocated to CIB;
- ▶ setting the strategy in terms of rates and liquidity, within the framework of the group's financial and commercial policies with regard to financing capacity and in accordance with the 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 La Banque Postale'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 La 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.

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 (CPRG)

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 validates the instruments used for financial management (ALM, trading room).

ALM Risk Committees

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 the limits and exposures of the portfolios, notably in view of the periodic reviews of the Group Risk Management Committee;
- ▶ defining the exposure calculation methodologies and their implementation;
- ▶ validating the action plans resulting from observed anomalies.

Model Approval Committee

This committee is in charge of validating the models of La Banque Postale Group, and includes the ALM models in its mapping and road map.

Risk Management Rules Committee (RMRC)

This committee is responsible for approving the La Banque Postale Group's risk management rules. It is a sub-committee of the Group Risk Management Committee.

Capital Management Committee

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

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

4.5.1.2 Banking portfolio rate risk

Interest rate risk management includes managing the sensitivity of the net interest margin.

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.

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 La Banque Postale'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

As required by the Basel Committee, 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.

Trading room bond portfolio transactions 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 outflows adjusted or not with a model);
- ▶ 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 through its Risk Management Rules Committee.

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 rate gap is the difference between the average amount of fixed-rate assets and the average amount of fixed-rate liabilities including the effects of off-balance sheet items (swaps and amortisation of balancing payments) by maturity.

Table: Interest Rate Gap by maturity (€ million) at 30.06.2019

(Negative amount = Surplus positions at fixed rate)

Average spot gaps (in € millions)	0 to 1 year	1 to 5 years	5-10 years	>10 years
Uses	-114,067	-79,534	-44,516	-5,191
Resources	114,028	89,682	48,512	3,540
Off-balance sheet	-6,546	-6,138	-2,122	-302
Rate gap 30/06/2019	-6,584	4,009	1,874	-1,952
Rate gap 31/12/2018	-5,700	-994	-6,009	-3,896
Adjustments	-884	5,003	7,884	1,944

The decline in the transformation position is due to the lengthening of sight deposit outflows 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 (in € millions) at 30.06.2019 (former and new EBA guidelines)

	(200)	200
EVE sensitivity (in € millions) at 30.06.2019 (former guidelines)	-261	512
EVE/Capital sensitivity at 30.06.2019 (former guidelines)	-2.27%	4.45%
EVE sensitivity (in € millions) at 30.06.2019 (new guidelines)	-412	828
EVE/Capital sensitivity at 30.06.2019 (new guidelines)	-4.35%	8.75%
EVE sensitivity (in € millions) at 31.12.2018	-639	-1824
EVE/Capital sensitivity at 31/12/2018	-5.52%	-15.75%

The change in the sensitivity of fixed-rate positions is mainly due to the implementation of the new agreement for the disposal of sight deposits corresponding to an extension as well as to compliance with the new EBA IRRBB guidelines.

Exposure to a shock of +/- 200 bps is now -4.35% of equity. It should be noted that the regulatory limit is - 20% for a shock of +/- 200 bps.

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 30.06.2019

	30.06.2019	31.12.2018
Translation +1	94	85
Translation – 1	-90	(117)
Steepening	26	22
Flattening	-44	-18

The least favourable scenario at 1 year for La Banque Postale is a shock of -100 basis points with a fall in NIM of €90 million amounting to forecast NIM of €2.1 billion, or 4.3%. 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 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 La Banque Postale (Supervisory Board) approved the entire liquidity assessment system and its adequacy (ILAAP) in March 2018.

La Banque Postale's overall liquidity risk profile

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 €180 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 %;
- ▶ a forward-looking financing plan updated on a regular basis;
- ▶ 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 La Banque Postale'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 La Banque Postale'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 alert thresholds to enable early detection of liquidity stress, regardless if is idiosyncratic (specific to La Banque Postale) 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;
- ▶ 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 liquidity risk prudential declaration systems cover the entire prudential consolidation scope. Some Group entities are also subject at the individual level.

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 La Banque Postale'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 161% at the end of June 2019.

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 30.06.2019

Item	Jun-19	Dec-18
Buffer of liquid assets	29,858	24,555
Cash outflows	-26,401	-23,972
Cash inflows	7,837	7,070
Net cash outflows	-18,564	-16,902
Shortfall	11,294	7,653
LCR	161%	145%
Ratio inflows/outflows	30%	29%

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

The LCR's proxy 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 frame, in this case, 1 year within the context of the NSFR. 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%.

Long-term liquidity monitoring

The procedure consists of:

- ▶ a financing plan, to ensure that the provisional budget path is combined with liquidity projections;
- ▶ in the framework of the execution of the financing plan, the provisional LCR is assessed, and the bank ensures an adequate level over the long term;
- ▶ several LCR ratio stress scenarios created as part of the ILAAP;
- ▶ the concentration, the cost and structure of refinancing, the concentration of the asset buffer, are assessed on a regular basis and are subject to regulatory reporting (ALMM) along with the publication of the LCR;
- ▶ biannual market access tests to verify market access in different currencies;
- ▶ an assessment of the liquidity gap, described below.

La Banque Postale 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 used correspond to a stressed approach, resulting from 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:

- ▶ outstandings with a contractual maturity (contractual outflows adjusted or not with a model);
- ▶ outstandings with no contractual maturity (conventional outflows);
- ▶ the liquidity profile of the disposable 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 30.06.2019

Average spot gaps (in € millions)	1 year	3 years	5 years
Uses	-101,637	-75,615	-57,494
Resources	120,169	100,045	78,467
Off-balance sheet	-7,686	-6,027	-4,397
Liquidity gap 30.06.2019	10,845	18,403	16,576
Liquidity gap 31.12.2018	6,000	11,615	6,682
Adjustments	4,846	6,788	9,894

The increase in the gap (excess resources) in the first half of 2019 was essentially due to the increase in the amount and lengthening of the outflow of sight deposits and the decrease in CDC Livret A centralisation. This increase in customer liabilities was partially offset by the rise in credit activity.

"Dynamic" liquidity assessments involve the application of assumptions on La Banque Postale'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 Corporate and Investment Banking.

The Emergency Funding Plan (EFP) is part of the internal liquidity assessment procedures which La Banque Postale reports annually. 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 reassure La Banque Postale's management of the heightened surveillance of the liquidity risk. The indicators (during normal periods) are presented at meetings of the Capital Operational Management Committee and periodically to the CPRG. 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 La Banque Postale'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.

On 13 May 2019, La Banque Postale successfully tested its ability to finance itself.

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 placed with the central bank (excluding the average compulsory reserves calculated over the creation period);
- ▶ 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 secured 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 €13.1 billion of collateral at 30 June 2019, in addition to the other sources of funding usually used by the bank).

Composition of the liquidity reserve in securities at 30.06.2019 (in € millions)

Liquidity reserve (in € millions)	Jun-19
Cash and Central Bank	18,371
Unencumbered HQLA securities	12,841
Other ECB eligible securities	7,352
TOTAL LIQUIDITY RESERVE	38,563

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 programme of €10 billion in EMTN for the issue of Obligations de Financement de l'Habitat (OFH) via its secure financing vehicle La Banque Postale Home Loan SFH, a subsidiary of La Banque Postale SA, created in 2013;
- access to refinancing by the EIB under La Banque Postale's commitment for eligible envelopes;
- 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.
- In addition to its short/medium-term market financing sources, La Banque Postale has used two secured financing vehicles since 2013 which are:
 - La Banque Postale Home Loan SFH, a subsidiary of La Banque Postale S.A. which is 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 2011 banking crisis.

4.5.1.4 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 financing business by the Corporate and Regional Development Department.

In fact, the balance sheet of La Banque Postale is managed almost exclusively 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 2019, the exchange rate position of La Banque Postale amounted to €74.4 million, of which more than 90% was dollar-denominated.

4.5.2 Market risks

4.5.2.1 Organisation and governance

Financial Risk Department (Market risk)

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 La Banque Postale.

Within the Group Risk Department, it is the responsibility of the Financial Risk Department (DRF) 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.

As such, the Financial 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 financial risks. It also reports to the Group Risk Management Committee monthly on market risks and informs it of its main activities.

The global market limits, as defined in the Risk Appetite Statement and the associated Risk Appetite Dashboard are approved by the Supervisory Board. Group Risk Management Policy market limits are approved by the Executive Board in the Group Risk Management Committee (CPRG) meetings. Risk Management Rules operational limits are approved in the Risk Management Rules Committee meetings.

The Risk and Results unit

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

The unit is responsible for implementing the valuation and risk calculation architecture. 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 spread, exchange and equity indexes) hedge and assess the risk of a spread between transactions and their hedges.

The consistent tracking of significant day-one profits (calculated by the Middle Office) is another indicator of the quality of the results and risks processes.

Models and Methodology unit

This La Banque Postale unit is responsible for validating and documenting the valuation methods used for the financial instruments sold by BFI.

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,

► 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 tasks assigned to the Market Risk unit are 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 overrun notification sheets.

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 Approval unit;
- ▶ 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

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:

- a) identifying risk factors according to the products and strategies implemented;
- b) establishing risk measurement methodologies and retrospectively verifying their effectiveness (Backtesting);
- c) controlling the positions taken by the Group in order to ensure that they fall within the established thresholds.

4.5.2.5 Market risk indicators

Sensitivities

Sensitivities enable measurement of the exposure of La Banque Postale'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 La Banque Postale 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 the Group Risk Department to adopt a more appropriate methodology.

The Group 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 is why 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 planned 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 riskiest positions.

Historical scenarios reconstruct the following 12 financial crises:

- ▶ stock exchange crash, 19 October 1987;
- ▶ withdrawal of sterling from the European Monetary System, 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;
- ▶ Lehman collapse, 15 September 2008;
- ▶ Greek crisis, 2010;
- ▶ US debt crisis, 2011;
- ▶ European sovereign debt crisis, 2011;
- ▶ Brexit, 2016.

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 risks are managed via limits set by the Supervisory Board's Risk Committee in the Risk Appetite Statement and the associated Risk Appetite Dashboard. These operational limits, implemented by activity in the Risk Management Policy, are approved by the Executive Board at Group Risk Management Committee meetings.

The 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 La Banque Postale'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 La Banque Postale'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 La Banque Postale's internal systems are operationally capable of managing.

Review of thresholds

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 La Banque Postale's activities.

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

Exceeding the threshold

The threshold limits exceeded are managed via an alert procedure defined in the standard on the management of exceeded limits approved by the Risk Management Rules Committee of the Group Risk Department.

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);
- Collective investment schemes;
- CDS hedges;
- Structured EMTNs;
- transactions on listed markets (essentially rate/sovereign bond futures).

The main changes in 2019 involved the ABS/RMBS authorisation.

4.5.2.8 Exposure to risk

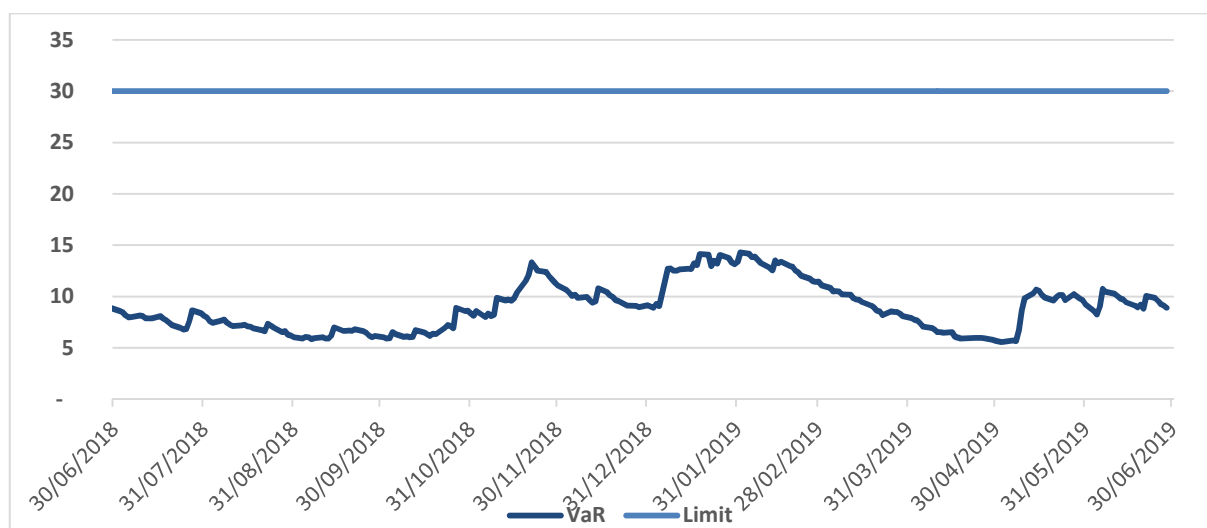
La Banque Postale is exposed to market risks due to its cash management activities, its excess liquidity management (portfolio of assets available for sale and hedging transactions) and through transactions undertaken on behalf of customers.

The market portfolio, which combines all transactions exposed to market risks, includes not only the trading portfolio, defined in Articles 102 to 104 of Regulation (EU) no. 575/2013 of the European Parliament and the 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 spread risk and equities market risk. Exchange-rate risk, particularly connected with international mandates and financial activities, and volatility risks are moderate.

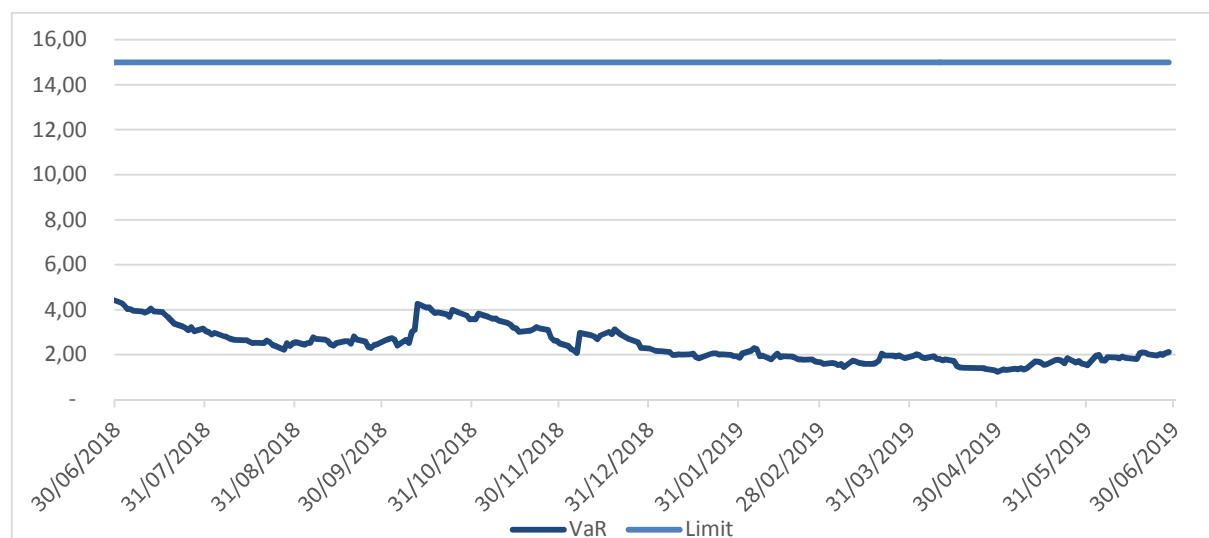
4.5.2.9 Change in the main risk indicators for the trading room and threshold monitoring in 2019

GLOBAL VALUE AT RISK (IN € MILLIONS)



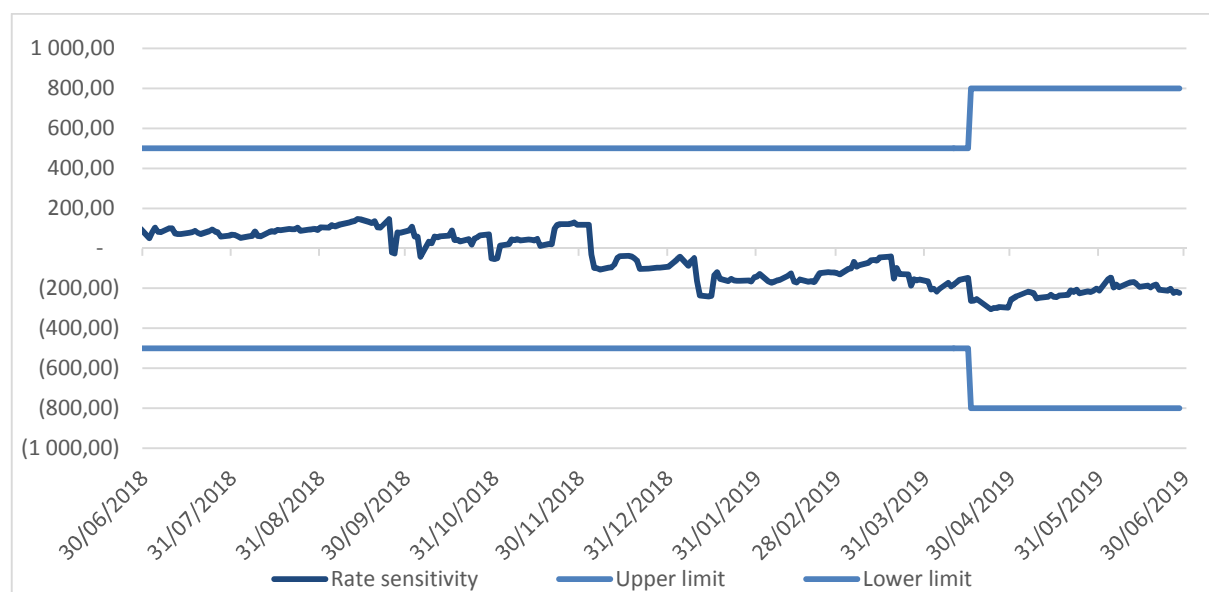
The VaR varied significantly according to market volatility, notably at the beginning of 2019 and during the period of uncertainty caused by the situation involving China and the United States. The limit was respected throughout 2019.

VALUE AT RISK OF THE TRADING ROOM FOR THE FAIR VALUE THROUGH PROFIT OR LOSS SCOPE (IN MILLIONS OF EUROS)



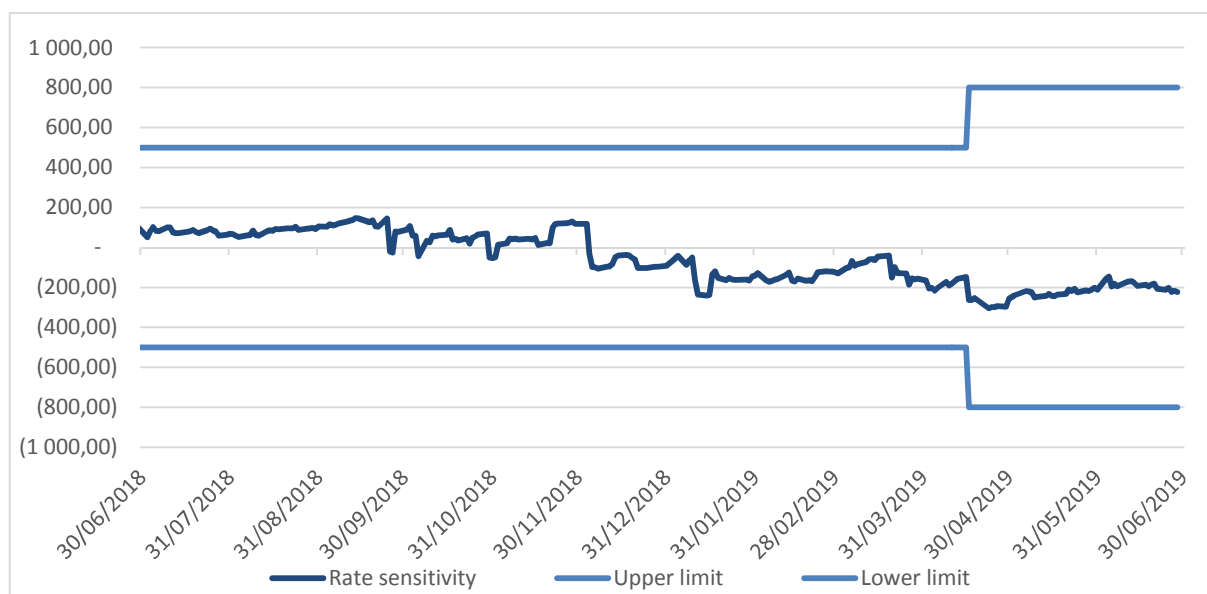
The VaR of the Fair value through Profit or Loss portfolios remained well below its limit, with a variation between €2m and €5M over the year.

RATE SENSITIVITY OF THE TRADING PORTFOLIO (IN € THOUSANDS/BP)



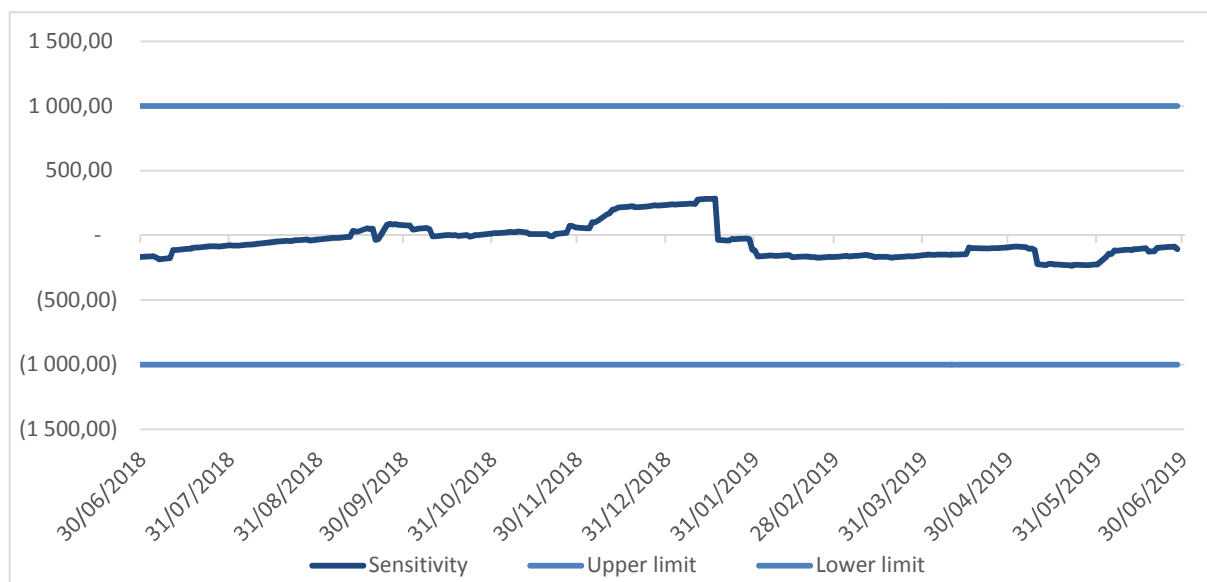
The sensitivity of the trading portfolio doubled since the start of the year but is far from its limit (revised upward in April 2019)

OVERALL RATE SENSITIVITY (IN € THOUSANDS/BP)

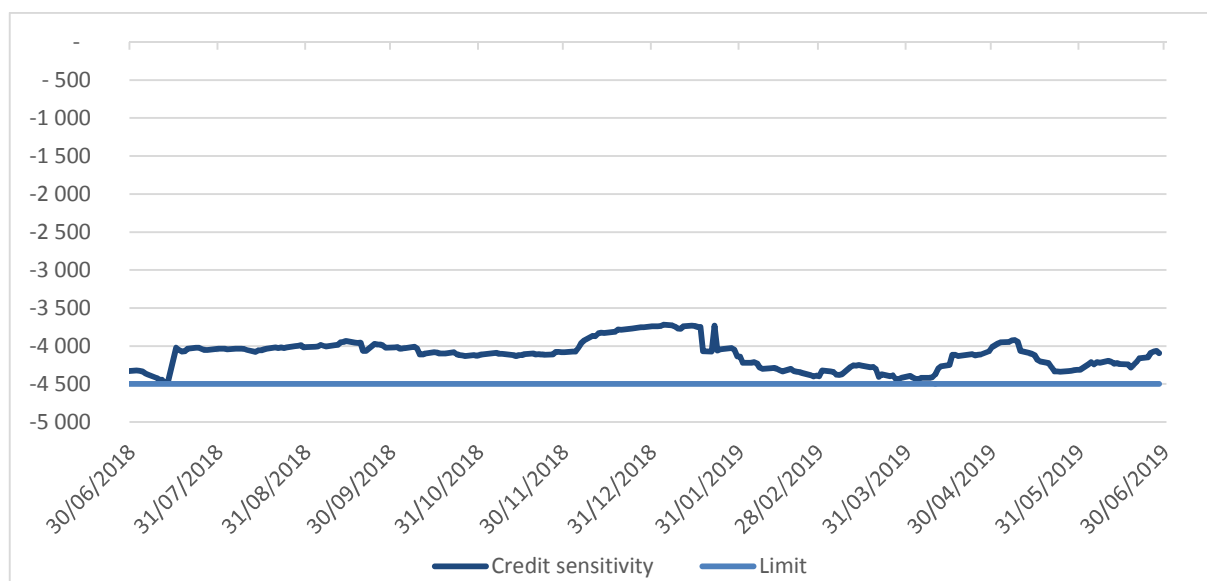


The exposure to rate sensitivity remained low compared to the limit set at €800,000/bp.

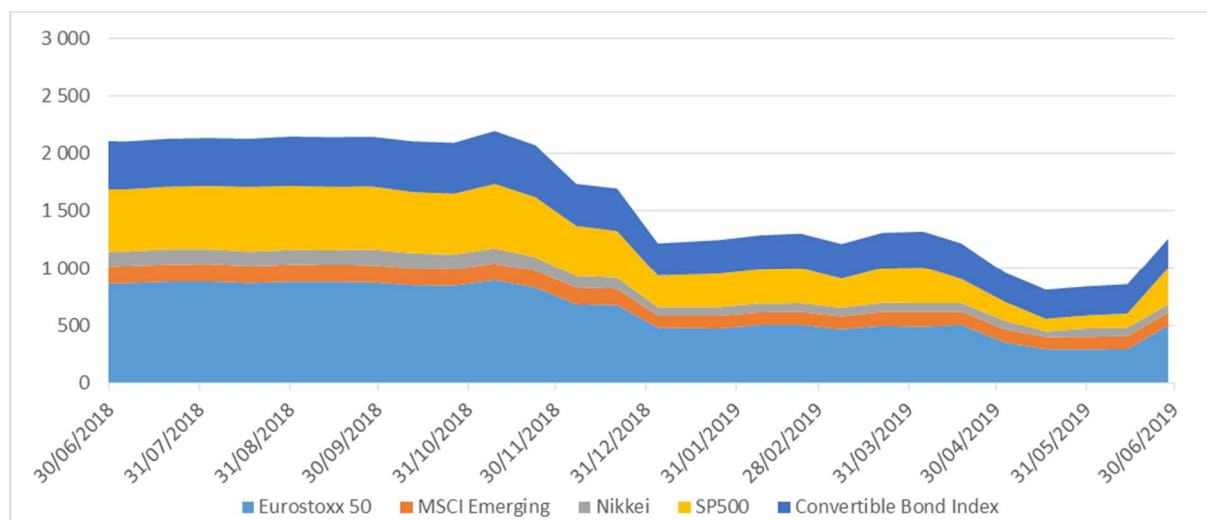
CREDIT SENSITIVITY OF THE TRADING PORTFOLIO (IN € THOUSANDS/BP)



The credit sensitivity of the trading portfolio remained low.

CREDIT SENSITIVITY OF THE TRADING ROOM (IN € THOUSANDS/BP)

The credit sensitivity limit is set at €4,500 thousand/bp. It was not exceeded over the period. The decrease in sensitivity seen in June was due to the purchase of CDS.

SENSITIVITY TO INDICES

The sensitivity of the UCITS portfolio to indexes returned to its level of the end of 2018.

Exceeding the threshold

Thresholds were exceeded 19 times in 2018 within the scope monitored by the Market Risk Department. All of the breaches were minor (lowest severity level). They 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**CVA equity requirements**

Market risk within the standardised approach (EU MR1)

(in € millions)	RWA	Capital requirements
Confirmed revenue		
Interest rate risk (general and specific)	1,314	105
Equities risk (general and specific)	-	-
Exchange rate risk	84	7
Raw materials risk	-	-
Options	-	-
Simplified approach	-	-
Delta Plus approach	-	-
Scenario-based approach	-	-
Securitisation (specific risk)	-	-
Total	1,398	112

CVA equity requirements (CCR2)

(€ millions)	Exposure value	RWA
Total of portfolios under the advanced method	-	-
VaR component (including the x3 multiplier)	-	-
SVaR component (including the x3 multiplier)	-	-
All portfolios subject to the standardised method	745	228
Based on the initial exposure method	-	-
Total subject to capital requirements with regard to the credit valuation adjustment (CVA)	745	228

4.5.3 Exposure to portfolio equities not included in the trading book

(in € millions)	Direct
Equity investments	4,539
Subordinated securities	265
Other	271
TOTAL EQUITY RISK	5,075

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 tables "4.4 Financial assets recognised at fair value through equity" and "5.3 Net gains and losses on financial assets recognised at fair value through profit or loss" attached to the consolidated financial statements.

4.6 Operational risks

4.6.1 Key figures

The indicators, warning thresholds and limits for operational risk are defined in La Banque Postale Group's Risk Appetite Statement, approved by the Supervisory Board.

Since 1 January 2019, no significant incidents within the meaning of Article 98 of the decree of 3 November 2014, were identified.

The "external fraud" family is the Group's main exposure. These are frequent cases of fraud, mainly linked to means of payment (electronic money and cheques). However, the actions taken over the past years under the direction of Executive Management have strengthened the system to fight against fraud and significantly reduced the losses resulting from this risk.

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 models, 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:

- ▶ **establish the framework:** establish operational risk policy and governance for La Banque Postale Group, define operational risk management rules, standards, methods and tools and ensure their operational application (leadership of the unit);
- ▶ **monitor:** identify the major risks of La Banque Postale Group, monitor and report on the effectiveness of the systems put in place to manage those risks;
- ▶ **anticipate future threats:** identify and model stress test scenarios, identify weak signals;
- ▶ **provide support:** help unit players with the implementation and leadership of the system in place in their business line.

4.6.4.2 Operational risk management players

The respective roles and responsibilities of La Banque Postale Group players with respect to operational risk management are formalised in the 2018 Risk Division Charter. This system is approved by the Group Risk Management Committee and distributed to the various Group entities and to entities acting in the name of and on behalf of La Banque Postale (La Poste Network).

The Group entities are responsible for managing the risks generated by their activities. They implement a control system which ensures compliance with the internal requirements defined by the Group as well as with external requirements. Risk taking and management are undertaken within the framework of risk appetite defined by the Group;

The Risk Division defines the risk management framework for the Group and presents it for approval by the Executive Board and by the Supervisory Board. It ensures the implementation of the framework and its effectiveness. The Risk Division consists of central functions within the Group Risk Department and of decentralised functions within the Group entities or working on behalf of the Group.

These decentralised risk management functions can be provided by teams dedicated to risk management or by operational teams which have a risk management mission within their remit (function not dedicated to risk management).

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

4.6.4.3 Bodies

Depending on the topics, the Operational Risk Department (OR) presents at meetings of the Group Risk Steering Committee, chaired by the General Secretary. 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 twice-yearly meetings of the Risk Division 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 Regulation (EU) 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. 575/20123.

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 produced and transferred and of related assets in order to ensure:

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

The process of securing the Information System is the responsibility of the business lines under the leadership of the Group RSSI (Manager of Information Systems Security). Cross-entity information security is provided in all business activities of La Banque Postale Group by the RSSI.

The process has four primary focuses:

- ▶ 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 with their approach to the 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.

Cyber risk and insurance coverage

Cyber risk is a major concern for La Banque Postale within the context of the massive digitalisation of services and of a growing cyber threat.

In addition to the cyber risk management action plans deployed within the Group, an analysis of the level of coverage provided by cyber risk insurance was undertaken in 2018 and resulted in taking out additional capacity.

4.6.5.2 Emergency and Business Continuity Plan (EBCP) and Safety of Persons and Property (SPP)

The Group's Emergency and Business Continuity Plan (EBCP) and Safety of Persons and Property (SPP) framework is intended to minimise the impact of potential accidents on customers, staff, activities and infrastructure in order to preserve the reputation of the Group and its survival.

The goal of the approach implemented is to optimise the business continuity and physical resilience systems of all of the Group's entities. It is based on a methodology consisting in:

- ▶ identifying threats;
- ▶ protecting infrastructure via prevention and physical protection systems and measures;
- ▶ identifying business line continuity priorities, needs and strategies;

- ▶ implementing an effective response capacity for a range of crisis scenarios, including extreme shocks, via a group crisis management system;
- ▶ testing and maintaining the systems to ensure their effectiveness.

The Group has defined four interruption scenarios:

- ▶ lasting unavailability of a site hosting personnel;
- ▶ failure of information systems and/or technical systems;
- ▶ significant employee absenteeism;
- ▶ unavailability of essential service providers.

The EBCP/SPP manager works with a specialised unit which manages the risk of business continuity failure in a cross-entity capacity.

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 chapter 1 of the 2018 Registration Document "Overview of La Banque Postale Group", Section 1.4.2 "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. La Banque Postale, while not an insurance group within the meaning of Article L.322-1-2 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 Group's Risk Management Policy and Group Risk Management Charter.

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, Compliance and General Management 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 management 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 La Banque Postale's Risk Department. It is led by La Banque Postale Group's Risk Department with, notably, the Risk and Actuarial Department. Within this framework, the head of risk management within the Insurance Division is, 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, Compliance and General Management. Committee meetings are attended by managers from various functions contributing to the risk control and management system of La Banque Postale:

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 systems tools ensure a dual 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; defining in detail the organisation of the Subsidiary and, notably, the associated decision-making processes; defining and developing an internal control environment; ensuring 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; alerting 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 (assists General Management with the definition and monitoring of the risk strategy, the measurement of the associated

capital levels and the definition of any corrective actions, provides oversight of the risk management system and of the control plans, and ensures the regular production of the risk indicator dashboard);

- the Model and Assumptions Committee of each subsidiary reporting to the Actuarial Unit (provides General Management, the Actuarial function and the Risk function with a report on the status of the models, the environment and security in place and their updating in order to understand, approve and report 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 the Company's business heads, takes part in training managers on the tools and their limits, arbitrates 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.
- 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 report on their work to the Audit and Risk Committee which reports in turn to the Board of Directors.

The risk thresholds are set 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 and CNP Assurances' Audit and Risk Committee.

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, including the model risk.

FINANCIAL RISKS

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

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

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

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

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

Due to 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;
- **model risk:** this risk covers the risk of specification error, implementation risk and estimate risk and the risk of improper use.

4.7.2 Conglomerate risks

(Addition to point 4.7.2 “Conglomerate risk” on pages 167 and 168 of the 2018 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 2018, the equity of the financial conglomerate meets the solvency requirements for banking and insurance activities.

(€ millions)	31.12.2018	31.12.2017
Total equity of the financial conglomerate	12,150	13,175
Regulatory requirement for the regulated entities	8,325	8,035
Equity excess or shortage	3,825	5,140

4.8 Other risks

4.8.1 Legal and tax risk

The Group Legal Department has a dual role in terms of controlling legal risk. It advises La Banque Postale's departments, enabling them to measure the legal risk inherent to their activity, and it also defends La Banque Postale's interests.

The management of legal risk is extended throughout La Banque Postale Group with the creation of La Banque Postale Group's legal unit. Given that the legal officers of the subsidiaries report functionally to the La Banque Postale Group Deputy 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 Group Legal Department also contributes to the work performed by La Banque Postale's various committees:

1. within the Regulatory Oversight Committees, the Legal Department defines, disseminates and ensures the implementation of the policy positions concerning the laws and regulations which affect La Banque Postale's business activities;
2. within the New Products Review Committee, the Legal Department analyses the cases presented and issues opinions;
3. within the Disputes & Provisions Committee, the Legal Department discusses the litigation under way and the provisions to be booked for them;
4. within the Internal Control Coordination Committee, the Legal Department takes part in reviews concerning audits and internal control activities;

On 21 December 2018, the ACPR Sanctions Committee reprimanded La Banque Postale and issued a financial penalty of €50 million following a report on its AML/CFT initiative. The report found that the control system was deficient with respect to national mandates issued by non-customers. This activity was terminated as of 31 December 2017. La Banque Postale decided to lodge an appeal against the ruling before the Council of State. In addition, the report led to the opening of a preliminary inquiry.

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. Given this, La Banque Postale and the banks accused appealed on 22 January 2018.

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.

La Banque Postale's fiscal risks are the responsibility of the Tax Department reporting to the Bank's Finance Department. This Department provides La Banque Postale's fiscal management and centralises tax advisory for all of the Bank's different business lines and the subsidiaries. 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, the Cross-Entity Securities Committee and the Cross-Entity Savings Committee.

On 14 November 2018, La Banque Postale was reassessed VAT collected on recovery transactions on behalf of third parties (notice to third-party debtors and others) for the period from 1 January to 31 January 2015.

On 1 April 2019, the audit was extended through 2016 and 2019.

Following a decision of the Council of State on 24/04/2019 (SA Caisse d'Epargne no. 412570) against the Tax Office, the verification department announced that there would be no adjustment.

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 by the decree of 3 November 2014 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".

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 Regulation of the French Financial Markets Authority (AMF) and to manage the associated risks.

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

Non-compliance risk management involves the following departments:

- the Compliance Department (the Customer Protection Department, Financial Security Department, Coordination and Steering Committee;
- the Permanent Control Department;
- the Legal Department;

Three committees are dedicated to governance of this risk: the CCCID (Internal Control Coordination and Ethics Committee), the LBP's AML/CFT Committee and the Group AML/CFT Committee.

4.8.2.2 Action by the Compliance Department to ensure customer protection and investment services compliance

Customer protection

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.

It has implemented a management system for this risk based on three departments: Regulatory Monitoring within the Legal Department and the Compliance and Customer Protection Policy Departments within the Compliance Department.

The Compliance Customer Protection Department ensures the implementation of the system provided for by Article 35 of the decree of 3 November 2014 by preparing and leading the Product Review Committee. This committee meets for all new products and major changes at La Banque Postale. It is chaired by the Head of Compliance.

The Compliance Customer Protection Department ensures the consistency of the messages broadcast via advertising media with the values of La Banque Postale (priority given to customer interests, clear information).

The Customer Protection Policy Department manages customer protection risk mapping for all La Banque Postale Group entities. The mapping is included in the Group's operational risk mapping, managed with a centralised tool. It is updated at least once a year by the Group entities subject to this risk. To manage mapping, the department relies on the leadership of the compliance correspondents of the entities within the framework of the coordination committees.

The department also handles customer complaints forwarded by the supervisors and leads the Compliance and Claims Control group. This group brings together all of the Compliance correspondents of the business lines in question to define and monitor implementation of the improvement actions identified during the complaints process. It also prepares the questionnaire on commercial practices and customer protection for the ACPR (QPC).

Compliance of investment services

The compliance control system for investment services is managed by the Head of Compliance for Investment Services (CCSN), 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.

La Banque Postale Group's RCCI/CCSN Committee is a forum for compliance and internal control managers of subsidiaries providing investment services. It ensures the consistency of investment services positions within La Banque Postale Group.

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.

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 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 Action by the Compliance Department to fight against money laundering and the financing of terrorism

The system to fight against money laundering and the financing of terrorism (AML/CFT) is implemented by the Financial Security Department (FSD) reporting to the Compliance Department. It is deployed within the La Poste Network and at the subsidiaries by the Coordination and Steering Committee (DAP).

Financial Security Department

The Financial Security Department defines La Banque Postale Group's rules of procedure for AML/CFT and for regulatory AML/CFT documentation and training.

It manages the alerts issued by the La Poste Network and the alert tools;

It also plays a role in the supervision, expertise and definition of training for the bank's AML/CFT Division. It ensures that the system is consistent throughout the La Banque Postale Group with regard to the classification of AML/CFT risks and ensures consolidated reporting.

The Financial Security Department is also responsible for managing the Bank's relationships with Tracfin (AML/CFT) and with the Treasury (financial penalties and embargoes) at national level.

The Financial Security Department has the following dedicated resources to carry out its work successfully:

AML Department

- ▶ The AML Department consists of 14 Tracfin Declarants/Correspondents (DCT) and seven AML units.

The AML units in the Financial Centres (i.e. about 60 employees) are responsible for analysing all alerts from Post Offices, Business Centres and Financial Centres, as well as the alerts generated by the dedicated AML/CFT software package.

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 TRACFIN informant officers are the only persons within the function (excluding the subsidiaries and branches) authorised to convey suspicious transaction reports to Tracfin and to respond to the rights of communication exercised by that body.

Financial Sanctions Department

The Financial Sanctions Department consists of experts and an anti-terrorism unit.

The anti-terrorism unit is responsible for the first-level handling of alerts identified by filtering financial penalty lists with the aid of the filtering tool, and is responsible for monitoring countries under embargo.

Alerts which are not raised by the anti-terrorism unit are sent for processing to the dedicated operational unit of the Financial Security Department which manages the overall system.

Risks and Procedures Department

This department consists of two departments that define the classification of risks and the applicable procedures in terms of Financial Security.

Data Sciences Financial Security Department

This department consists of a business line Project Management team which ensures that the financial security tools are mastered, and of a team dedicated to modelling Fraud and AML/CFT alert scenarios within the La Banque Postale Group and La Poste Network (RLP).

La Poste Network

- ▶ The AML/CFT system of La Poste Network (RLP) is based on the RLP's Sector Directors for Post Offices and on the Operational Risk Managers in the Financial Centres.

The Sector Heads act in the name of and on behalf of La Banque Postale. They are in charge of establishing alerts for 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 responsible for the execution of the customer knowledge system (KYC) by applying the procedures defined by La Banque Postale.

- ▶ 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/CFT 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.
- ▶

The business centres

The Business Centre Directors for the Corporate business line are in charge of establishing alerts related to anomalies, reported as part of Business Centre 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 responsible for the execution of the customer knowledge system (KYC) by applying the procedures defined by La Banque Postale.

4.8.2.4 Action by the Compliance Department related to ethics risks

Ethics represent the principles and values of the Company and are a continuation of La Poste's historical values which consist of business ethics and the rules of individual and collective conduct to be applied by every employee.

The Ethics/Corruption Prevention Department combines the functions responsible for ethics, regulatory approvals, conduct risk and the system to prevent corruption.

Ethics and corruption prevention rules are formalised in the Ethical Conduct Code and its appendixes and in the Anti-Corruption Code of Conduct. The codes are appended to the Internal Rules to ensure that any breaches can be penalised.

They are disseminated using different methods: distribution of the Codes and explanatory and illustrative documents, Intranet page, in-class training and e-learning to reach all employees at different times in their career, i.e. when they begin with the Company, carry out activities and take regular refresher courses.

Ethics

The ethics function defines and disseminates La Banque Postale's ethics rules.

- they are distributed by the network of ethics correspondents in the head office departments, the subsidiaries and the Financial Centres which meet periodically;
- finally, any breaches of ethics or misappropriations discovered by the control bodies and forwarded for action to HR managers and services are escalated and analysed monthly to ensure national monitoring of the most serious cases.

Corruption prevention system

The Ethics and Corruption Prevention Department is responsible for defining and monitoring the implementation of the corruption prevention system in accordance with law no. 2016-1691 of 9 December 2016, known as the Sapin II Law.

A steering committee which brings together all of the departments and subsidiaries of La Banque Postale Group around the Legal and Compliance functions has organised the implementation of eight points of the ethics and corruption prevention system within La Banque Postale Group: code of conduct, alert system, risk mapping, assessment of third parties, accounting procedures, training, disciplinary regime, and system control and assessment.

Monitoring of the operation of the corruption prevention system is carried out by:

- the Corruption Prevention Committee which consists of the corruption prevention players within La Banque Postale Group. The committee is chaired by the Head of Compliance
- within the Internal Control Coordination and Ethics Committee, chaired by the General Secretary, a member of the Executive Board.

Approvals

Ownership of the global approval system includes Insurance approval, AMF certification and the approval for banking and financial sales. This involves the personnel of La Banque Postale, of La Poste and of Financial Services acting in the name of and on behalf of the Bank. The following points are handled, in particular:

- functions within the remit of each of the approvals are correctly identified and their mapping kept up to date;
- the management directions and rules defined are shared and implemented;

- the training and exams leading to employee authorisation are compliant with the requirements of regulations;
- the method for processing each of the authorisations enables the production of a report if requested by the regulator.

The operational handling of the three authorisations is provided by the Centre national de l'assurance et de l'habilitation (CNAH).

Conduct risk

Conduct risk, which was added to the Risk Management Policy in 2017, is defined as the current or potential risk of losses resulting from the inappropriate provision of financial services, including cases of improper conduct, whether voluntary or out of negligence.

A monitoring system based on qualitative indicators fed from several sources has been implemented. It aggregates financial and extra-financial ratings, complaints, the study of disputes, customer and social network studies, fraud analysis and penalties and is completed by external opinion regarding similar issues encountered by peers.

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.

In application of Article 13 of the decree of 3 November 2014, La Banque Postale has set up two types of permanent controls:

- 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 performed ex post 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.

Permanent control at La Banque Postale is managed and coordinated by the Permanent Control Department (PCD).

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.

Two Deputy Heads of Permanent Control are responsible for managing the two main units:

- since the end of 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 the subsidiaries and of head office units. 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.

4.8.2.6 Action of the Legal Department with respect to regulatory monitoring

In addition, the organisation of non-compliance risk management is based on the regulatory monitoring system implemented at the Bank. 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 (notably by its Group Regulatory Monitoring Department).

Within the La Banque Postale, regulatory monitoring is organised around four business line regulatory monitoring committees (retail banking, insurance, asset management/financial markets and accounting/prudential/governance) which meet bi-monthly and bring together legal experts, representatives of the business lines and subsidiaries in question and representatives of the risk, compliance and Internal Audit departments.

A summary of the regulatory monitoring is provided at each La Banque Postale Group General Management Committee meeting.

4.9 Remuneration policy

Items related to the remuneration policy are set out in chapter 2 of the present document, under Section 2.1 “Remuneration”.

4.10 Pillar III correlation table

CRR Article	Subject	Chapter 4 - Risk Management	Universal Registration Document page	Or Annual Registration Document page
90 (CRDIV)	Return on assets		Page 31	
435	Risk management policy and objectives	Operational implementation of the reference framework	Page 54-56	
436	Scope of application	Capital management and capital adequacy	Page 43	
437	Capital	Capital management and capital adequacy	Pages 46	
438	Capital requirements	Current methodology used to calculate capital requirements Capital management and capital adequacy	Pages 47+	
439	Exposure to credit and counterparty risk	Credit risks	Pages 66+	
440	Capital buffers	Capital management and capital adequacy	Page 50	
441	Indicators of global systemic importance	Publication of indicators of global systemic importance		Page 115
442	Credit risk adjustments	Credit risks	Page 67	
443	Unencumbered assets	Encumbered/unencumbered assets		Pages 150+
444	Use of external ratings agencies	Use of external ratings agencies	Page 79	
445	Market risk exposure	Market risk	Pages 94+	
446	Operational risk	Operational risks	Pages 103+	
447	Exposures in equities not included in the trading book	Exposures in equities not included in the trading book	Page 103	
448	Exposures to interest rate risk on positions not included in the trading book	Interest rate risk	Pages 85+	
449	Exposures to securitisation positions	Securitisation		Page 139+
450	Remuneration policy		Chapter 2, pages 10+	
451	Leverage	Prudential ratios	Pages 52	
452	Use of the IRB approach for credit risk	N/A	N/A	
453	Use of credit risk mitigation techniques	Credit risks	Page 77+	
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 Universal 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 herein was produced and documented by the Accounting Department, the Balance Sheet Management Department, the Tax Department and the Department of Public Affairs of Institutional and Financial Communication, all four reporting to the Finance Department, the Group Risk Department, the Compliance and 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 in full by the Statutory Auditors as part of their work to review the Universal Registration Document.

CONSOLIDATED FINANCIAL STATEMENTS LA BANQUE POSTALE GROUP

HALF-YEAR CLOSE 30 JUNE 2019



5. Financial statements - Consolidated financial statements

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5.1 COMPTES CONSOLIDÉS

Income statement Notes

In application of ANC recommendation No. 2017.02 of 2 June 2017, La Banque Postale opted to no longer present its insurance activities as separate items on the balance sheet and income statement. In order to ensure the compatibility of the financial statements, the restated 2018 data are presented in columns “31.12.2018 restated” of the balance sheet and “30.06.2018” of the income statement.

(in € thousands)	Notes	30.06.2019	30.06.2018 adjusted	30.06.2018 reported
Interest and similar income	4.1	2,131,182	2,060,880	2,029,585
Interest and similar expenses	4.1	(1,015,278)	(908,338)	(908,338)
Commissions (income)	4.2	1,320,509	1,339,021	1,316,976
Commissions (expenses)	4.2	(143,925)	(138,391)	(109,696)
Net gains and losses on financial instruments at fair value through profit or loss	4.3	52,537	29,517	30,526
Net gains and losses on financial instruments at fair value through other comprehensive income	4.4	87,784	322,143	321,704
Net gains or losses resulting from the derecognition of financial assets at amortised cost	4.5	163,828	-	-
Net income from insurance activities	5			218,967
Impacts of the overlay approach (gross impact)	5	(15,449)	5,418	5,418
Income from other activities	4.6	681,010	616,880	131,792
Expenses from other activities	4.6	(412,397)	(400,922)	(110,726)
Net banking income		2,849,801	2,926,208	2,926,208
General operating expenses	4.7	(2,232,331)	(2,271,445)	(2,271,445)
Net depreciation and amortisation and impairment of tangible and intangible fixed assets		(120,747)	(97,125)	(97,125)
Gross operating income		496,723	557,638	557,638
Cost of risk	4.8	(41,441)	(49,183)	(49,183)
Operating income		455,282	508,455	508,455
Share of profits of equity associates		135,881	130,551	130,551
Net gains and losses on other assets		(358)	(315)	(315)
Pre-tax income		590,805	638,691	638,691
Income tax	4.9	(162,003)	(197,619)	(197,619)
Net income		428,803	441,073	441,073
Non-controlling interests		7,014	19,565	19,565
NET INCOME, GROUP SHARE		421,789	421,508	421,508
<i>Undiluted earnings per ordinary share (in euros)</i>		11.71	11.98	11.98
<i>Diluted earnings per ordinary share (in euros)</i>		10.96	10.50	10.50

Consolidated balance

(in € thousands)	Notes	30.06.2019	31.12.2018 adjusted	31.12.2018 reported
ASSETS				
Cash, central banks		3,341,505	2,006,794	2,006,794
Financial assets at fair value through profit or loss	3.1	11,019,356	10,618,753	10,238,167
Hedging derivatives		1,693,267	1,159,300	1,159,300
Financial assets at fair value through equity	3.2	15,683,132	15,996,897	13,864,449
Securities at amortised cost	3.3	30,848,344	23,581,891	23,581,891
Loans and receivables due from credit institutions and similar at amortised cost	3.4	88,946,034	87,351,923	87,351,923
Loans and receivables due from customers at amortised cost	3.5	101,910,627	95,735,985	95,735,985
Revaluation differences on rate hedged portfolios		279,720	81,915	81,915
Investments of the insurance activities and reinsurers' share of technical provisions				2,810,350
Current tax assets		178,027	343,672	343,672
Deferred tax assets		237,365	234,580	234,580
Accruals and other assets	3.6	3,803,836	3,278,561	2,981,245
Equity associates	3.7	3,503,959	3,266,820	3,266,820
Property, plant and equipment		794,718	638,447	638,447
Intangible fixed assets		792,272	745,188	745,188
Goodwill	3.8	160,227	160,227	160,227
TOTAL		263,192,390	245,200,953	245,200,953
LIABILITIES				
Financial liabilities at fair value through profit or loss	3.1	1,438,940	809,214	809,214
Hedging derivatives		754,381	347,654	347,654
Liabilities due to credit institutions and similar	3.9	24,404,024	18,877,248	18,877,248
Liabilities to customers	3.10	191,379,403	185,810,952	185,810,952
Debt securities		22,088,414	16,933,918	16,933,918
Revaluation differences on interest rate risk hedged portfolios		996,640	742,855	742,855
Current tax liabilities		37,465	17,758	17,758
Deferred tax liabilities		127,348	105,564	105,564
Accruals and other liabilities	3.11	4,997,065	5,059,790	5,059,790
Insurance company underwriting provisions and shadow accounting	3.12	2,548,597	2,479,619	2,479,619
Provisions	3.13	372,046	468,767	468,767
Subordinated debt	3.14	3,126,359	3,879,757	3,879,757
EQUITY		10,921,710	9,667,857	9,667,857
Non-controlling interests		120,545	119,112	119,112
Equity, Group share		10,801,164	9,548,745	9,548,745
Share capital		4,631,654	4,046,408	4,046,408
Consolidated and other reserves		4,901,231	4,305,756	4,305,756
Gains and losses recognised directly in equity		846,491	470,672	470,672
Profit (loss) for the period		421,789	725,908	725,908
TOTAL		263,192,390	245,200,953	245,200,953

Statement of net income and gains and losses recognised directly in equity

(in € thousands)	30.06.2019	30.06.2018
NET INCOME	428,803	441,073
Items recycled to profit or loss:	382,960	(416,559)
Translation adjustments	-	-
Revaluation of financial assets at fair value through other comprehensive income with recycling	218,051	(278,377)
<i>Changes in the revaluation reserve</i>	306,503	(150,089)
<i>Reclassification in profit and loss</i>	(88,452)	(128,288)
Revaluation of derivatives hedging items of items recycled in profit or loss	(9,082)	(165,140)
<i>Changes in the revaluation reserve</i>	20,444	9,230
<i>Reclassification in profit and loss</i>	(29,526)	(174,370)
Impact of the overlay approach	15,449	(5,418)
Items from the share in gains and losses recognised directly in equity from associates*	219,760	(121,574)
Deferred taxes	(61,218)	153,949
Items not recycled in profit or loss:	(2,746)	2,558
Actuarial adjustments for defined-benefit schemes	(51)	-
Revaluation of the credit risk of financial liabilities classified as fair value through profit or loss on option	(1,895)	-
Revaluation of equity instruments classified as fair value through other comprehensive income (excluding securities sold during the year)	331	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*	(1,595)	2,315
Other changes	-	-
Deferred taxes	464	(44)
TOTAL GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY NET OF TAXES	380,214	(414,001)
NET INCOME AND GAINS AND LOSSES RECOGNISED DIRECTLY IN EQUITY NET OF TAXES	809,017	27,072
Of which net income and gains and losses recognised directly in equity, Group share	797,622	7,906
Of which net income and gains and losses recognised directly in equity, non-controlling interests	11,395	19,166

* 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 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	-	-	-	(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	9,954,615
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 (3)	-	-	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
Remuneration of super subordinated securities	-	-	-	(64,000)	-	-	-	(64,000)	-	(64,000)
Capital increase	-	-	-	-	-	-	-	-	8,646	8,646
Sub-total of movements related to shareholder relations	-	-	-	(64,000)	-	-	-	(64,000)	8,646	(55,354)
Changes in gains and losses recognised directly in equity	-	-	-	-	-	(74,468)	-	(74,468)	(145)	(74,613)
Net income for H2 2017	-	-	-	-	-	-	304,400	304,400	20,170	324,570
Sub-total	-	-	-	-	-	(74,468)	304,400	229,932	20,025	249,957
Effect of acquisitions and disposals on non-controlling interests	-	-	-	(48)	-	-	-	(48)	(2,816)	(2,864)
Share in the changes in equity of equity associates	-	-	-	(1,069)	(4,811)	(133,633)	-	(139,513)	-	(139,513)
Other changes (3)	-	-	-	13,886	(5,570)	93	-	8,409	(14,153)	(5,744)
IFRS equity at 31 December 2018	4,046,408	16,719	2,002,586	2,286,452	(35,357)	506,029	725,908	9,548,745	119,112	9,667,857
Appropriation of 2018 net income	-	-	566,144	159,764	-	-	(725,908)	-	-	-
Distribution (4)	-	-	(326,528)	(29,155)	-	-	-	(355,683)	(10,757)	(366,440)
Capital increase (5)	585,246	214,754	-	-	-	-	-	800,000	-	800,000
Sub-total of movements related to shareholder relations	585,246	214,754	239,616	130,609	-	-	(725,908)	444,317	(10,757)	433,560
Changes in gains and losses recognised directly in equity	-	-	-	-	-	157,703	-	157,703	5,013	162,715
Net income at 30 June 2019	-	-	-	-	-	-	421,789	421,789	7,014	428,803
Sub-total	-	-	-	-	-	157,703	421,789	579,491	12,027	591,518
Share in the changes in equity of equity associates	-	-	-	10,066	(1,595)	219,760	-	228,231	-	228,231
Other changes (3)	-	-	7	423	(50)	1	-	380	163	543
IFRS equity at 30 June 2019	4,631,654	231,473	2,242,209	2,427,549	(37,001)	883,492	421,789	10,801,164	120,545	10,921,710

(1) At 30 June 2019, La Banque Postale's capital consisted of 40,275,255 shares with a nominal value of €115.

(2) The gains and losses recognised directly in equity include translation reserves from foreign subsidiaries consolidated by the CNP Assurances and AEW Europe groups.

(3) Other changes during the 2018 period, relate mainly to changes in puts on non-controlling interests of €20 million with an impact of +€15 million on Group equity and of -€35 million on non-controlling interests. Other changes in 2019 correspond primarily to the impact of IFRS 16. These impacts are detailed in Note 2 "Effect of the application of IFRS 16 at 1 January 2019".

(4) Of which €29 million corresponding to the payment of the coupon on the bond issued.

(5) See the Note "Highlights of the year, 1.1 Conversion of AT1 bonds to shares".

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)	30.06.2019	30.06.2018
Pre-tax income	590,805	638,691
+/- Net depreciation and amortisation of tangible and intangible fixed assets	120,742	96,552
- Changes in goodwill and impairment of other non-current assets	-	572
+/- Net provisions and impairment charges	(89,204)	65,820
+/- Share of profits of equity associates	(135,881)	(130,551)
+/- Net losses/gains on investment activities	358	315
+/- Other movements	1,205,467	754,239
= Total of non-monetary items included in net income before taxes and other adjustments	1,101,482	786,946
+/- Flows from credit institution transactions	5,587,961	4,058,978
+/- Flows from customer transactions	(8,375,427)	804,023
+/- Flows from other transactions impacting financial assets or liabilities	5,291,137	2,183,650
+/- Flows from other transactions impacting non-financial assets or liabilities	(470,822)	(394,644)
- Taxes paid	15,992	(92,219)
Net increase (decrease) in assets and liabilities from operating activities	2,048,841	6,559,788
Total net cash generated from operations (A)	3,741,128	7,985,425
+/- Flow from financial assets and interests	(252,514)	121,315
+/- Flow from tangible and intangible fixed assets	(145,902)	(129,226)
Total net cash from investment activities (B)	(398,416)	(7,911)
+/- Cash flow from or to shareholders	(366,440)	(344,862)
+/- Other net cash flows from financing activities	(20,184)	(2,567)
Total net cash from financial transactions (C)	(386,624)	(347,429)
Net increase (decrease) in cash and cash equivalents (A+B+C)	2,956,088	7,630,085
Net cash generated by operations (A)	3,741,128	7,985,425
Net cash generated by investment activities (B)	(398,416)	(7,911)
Net cash generated by financing activities (C)	(386,624)	(347,429)
Cash and cash equivalents at opening	16,494,097	12,921,400
Cash, central banks (assets and liabilities)	2,006,794	3,324,831
Accounts (assets and liabilities) and overnight borrowing and lending with credit institutions	14,487,303	9,596,569
Cash and cash equivalents at closing	19,450,185	20,551,486
Cash, central banks (assets and liabilities)	3,341,497	2,832,523
Accounts (assets and liabilities) and overnight borrowing and lending with credit institutions	16,108,688	17,718,963
CHANGE IN NET CASH	2,956,088	7,630,086

5.2 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

LEGAL AND FINANCIAL FRAMEWORK

1 Highlights of the year

1.1 Conversion of AT1 bonds to shares

La Banque Postale increased its equity by €800 million on 27 May 2019 following the conversion into shares of AT1 bonds issued in 2013, held entirely by La Poste. This conversion resulted in the subscription of 5,089,102 new shares in the total nominal amount of €585,246,730. The issue premium was €214,753,270. La Banque Postale's share capital is now €4,631,654,325, consisting of 40,275,255 shares of €115 each, fully paid up.

1.2 Buyout of minority holders of La Banque Postale Financement

On 1 March 2019, taking into account the results as at 1 January 2019, La Banque Postale acquired Société Générale's 35% holding in La Banque Postale Financement. It now holds 100% of the capital of the company which is already fully consolidated. This acquisition involved the purchase of 154,000 Société Générale shares for €376 million with no impact on equity because a put debt on minority shareholders was already recognised in La Banque Postale's accounts on 31 December 2018 in the same amount.

1.3. Creation of a major public financial unit

As part of the joint La Poste and Caisse des Dépôts project for the creation of a major public financial unit, a memorandum of understanding between the government, Caisse des Dépôts, La Poste and La Banque Postale was signed on 11 June 2019.

The project would be implemented through the transfer of both CDC and the French State's respective stakes of 1.11% and 40.87% in the capital of CNP Assurances to La Poste, and then by the latter to La Banque Postale. On completion of this transaction, La Poste will be fully consolidated by Caisse des Dépôts and CNP Assurances, previously equity consolidated and will be fully consolidated at 62.13% by La Banque Postale.

The transaction will be carried out during the first quarter of 2020 after obtaining the regulatory authorisations from the competent authorities.

1.4 CNP highlights

On 4 June 2019, CNP Assurances announced the signature of an agreement for the acquisition of the 49.9% stake of the Bank of Cyprus in CNP Insurance Holdings, a 50.1% subsidiary of CNP Assurances since the end of 2008.

The acquisition price is €97.5 million and will be financed by CNP Assurances out of its own resources.

The acquisition is subject to the authorisation of the competent regulatory authorities. The transaction should be finalised during the second half of 2019.

2 Post balance sheet events

La Banque Postale Group has not identified any events after the closing of accounts which could have a significant impact on the financial statements closed on 30 June 2019.

NOTE 1 PRINCIPAL VALUATION AND PRESENTATION RULES APPLYING TO THE CONSOLIDATED FINANCIAL STATEMENTS

1.1 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 (including the special provisions related to fair value macro-hedging).

The full set of standards adopted in the European Union can be consulted on the European Commission's website at the following address:

https://ec.europa.eu/info/business-economy-euro/company-reporting-and-auditing/company-reporting_fr

The consolidated financial statements are presented in thousands of euros.

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 2018. 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 2018.

These summary consolidated financial statements were prepared under the responsibility of the Executive Board meeting on 22 July 2019.

Main accounting methods

The accounting methods used by the Group in the summary consolidated interim financial statements are identical to those used in the consolidated financial statements for the year ended 31 December 2018, with the exception of the principles applicable to lease expenses as a result of the entering in effect of IFRS 16. These principles are detailed in the special note on the change to IFRS 16 "Leases".

Presentation of the financial statements

In the absence of a model imposed by the IFRS framework, the Group used the format of summary statements proposed by recommendation no. 2017-02 of 2 June 2017 of the French accounting standards authority (Autorité des normes comptables - ANC). At 30 June 2019, the Group changed the option previously selected for the presentation of its insurance business. As a result, the investments of insurance activities are no longer presented on a separate line item of the balance sheet and the net income from insurance activities on a separate income statement line. This information is provided in detail in the special note on insurance activities (Note 5).

1.2 Standards and interpretations applied by the Group from 1 January 2019

Compared with the consolidated financial statements as at 31 December 2018, the Group implemented the following standards and interpretations, with mandatory application within the European Union from 1 January 2019:

Standards and interpretations	Date adopted by the EU
IFRS 16 “Leases”	31 October 2017
Amendments to IFRS 9 “Prepayment Features with Negative Compensation”	22 March 2018
IFRIC 23 “Uncertainty over income tax treatments”	23 October 2018
Amendment to IAS 28 “Long-term Interests in Associates and Joint Ventures”	08 February 2019
Amendments to IAS 19 “Remeasurement at a plan amendment, curtailment or settlement”	13 March 2019
IFRS annual improvements 2015-2017 cycle	14 March 2019

* already applied early at 31/12/2018

- The interpretation of IFRIC 23 “Uncertainty over Income Tax Treatments” was published on 7 June 2017 for application on 1 January 2019. IFRIC 23 clarifies IAS 12 “Income Taxes” and applies to the applied to the valuation of tax risks linked to the uncertainty over income tax treatments for the determination of taxable profit. La Banque Postale studied the implementation of this interpretation as part of a global project carried out at La Poste group level. No significant impact was identified in the financial statements of 30 June 2019.
- The amendments to IAS 19 are applicable to the changes, reductions and liquidations of defined benefits schemes. In this case, IAS 19 already required the updating of actuarial assumptions and the revaluation of net (liabilities) or assets for defined benefits. These amendments clarify the fact that a company must use these updated actuarial assumptions to assess the cost of current services and the net interest for the defined benefits.
- As part of its annual IFRS improvements procedure (2015-2017 cycle), the IASB provided a clarification on IAS 12 “Income Taxes”, confirming that the income tax consequences of dividends are to be recognised in profit or loss unless they result from transactions recognised elsewhere or if they were generated by a business combination. The La Banque Postale Group reviewed the origin of the transactions that generated the distributions of profits on its equity instruments and concluded that the distributions were solely from profit or loss.
- The other applicable standards and interpretations at 1 January 2019 did not have a significant impact on the La Banque Postale group's accounts either at 30 June 2019.

1.3 Standards and interpretations not yet applied

The IASB and IFRIC have issued standards and interpretations that were not compulsory as at 30 June 2019. 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 2022(2)
Amendments to the conceptual framework in IFRS	Not adopted	1 January 2020
Amendments to IFRS 3 “Business Combinations”	Not adopted	1 January 2020
Amendments to IAS 1 and IAS 8: “Definition of Material”	Not adopted	1 January 2020

(1) Subject to adoption by the European Union. Applicable as of the financial years opened on:

A deferral was granted for application from 01.01.2022 instead of 01.01.2021 as initially planned.

As at 30 June 2019, the Group has not applied these standards.

IFRS 17 “Insurance contracts” was published by the IASB on 18 May 2017. It is set to apply from 1 January 2022, following the deferral granted in November 2018 and subject to adoption by the European Union.

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The general model of measuring the value of insurance contracts under liabilities is the “Building Blocks Approach” (BBA), which consists of the sum of three components:

- ▶ Insurance contracts are measured at the present value (discounted future cash flows);
- ▶ A risk adjustment to allow for the uncertainty involved in these future flows;
- ▶ A contractual service margin, representing the unearned profitability of the insurance contract to be recognised in profit or loss over the service period.

IFRS 17 also proposes two other approaches: a simplified approach, the Premium Allocation Approach (PAA), and an approach that is an adaptation of the general model called the Variable Fee Approach (VFA), which is mandatory for direct participating contracts.

In 2018, the project to implement IFRS 17 has primarily involved analysing the standard and carrying out an assessment that aims to identify the different impacts of the standard and works to be carried out. Work continued during the first half of 2019.

1.4 Use of estimates in the preparation of the financial statements

Preparation of the interim consolidated financial statements requires Management to exercise its judgement, to make the best possible estimates, and to make assumptions that have an impact on the adoption of accounting methods and on the amounts of assets and liabilities and income and expenses. The final values of these elements may be different from these estimates and have an impact on the financial statements.

As part of the preparation of the summary interim consolidated financial statements, the significant judgements made by Management in applying the Group's accounting methods and the main grounds for uncertainty related to those estimates are identical to those that affected the consolidated financial statements for the period to 31 December 2018.

NOTE 2 EFFECTS OF THE APPLICATION OF IFRS 16 ON 1 JANUARY 2019

IFRS 16 “Leases” was adopted by the European Union on 31 October 2017, with mandatory application from 1 January 2019.

It replaces IAS 17 “Leases”, as well as the associated interpretations. It defines a single model for recording lease contracts and eliminates the distinction between operating and finance leases on the lessee’s side.

According to IFRS 16, regardless of its legal form, a contract is a lease contract when an asset can be identified and the lessee controls its use.

All lease contracts imply recognition by the lessee of:

- ▶ a right to use the leased property in balance sheet assets,
- ▶ a debt in liabilities corresponding to the discounted value of the leases to be paid 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 IAS 17 model for lessors.

2.1 First-time application of IFRS 16 at LBP

2.1.1 Retrospective application of IFRS 16 and transition options

The application of IFRS 16 is retrospective according to IAS 8, which implies the application of IFRS 16 principles as if the standard had always been applied. However, the standard provides the choice between a fully retrospective application (including the restatement of comparative periods) or retrospective application with recognition of the impact on the date of first application.

La Banque Postale opted for retrospective application recognising the cumulative effect of first application on 1 January 2019 according to the following transition provisions:

2. Use of the IFRS 16 lease contract definition to determine the scope of contracts to be restated on 1 January 2019. La Banque Postale Group reassessed the nature of each contract to determine if a contract is, or contains, a lease contract as meant by IFRS 16. At 1 January 2019, the Group applied the standard to all of its contracts meeting the definition of a lease contract as meant by IFRS 16 (excluding intangible lease contracts and low-value and short-term contracts). Contracts previously defined as lease contracts may be qualified as service contracts (notably if the asset underlying the contract isn’t identified) or inversely.
3. The amount of the lease liability on 1 January is determined from the leases outstanding discounted at the marginal rate of indebtedness on 1 January 2019. The maturity of the rate used corresponds to the initial length of the lease.
4. The asset used is valued at the lease commencement date and then amortised up to 1 January 2019. The direct costs on the effective date of the contract are not taken into account in the valuation of the asset on 1 January 2019. The difference between the amount of the assets and the amount of the lease debt on 1 January 2019 was recognised in the opening equity.
5. Contracts with a residual life less than or equal to 12 months on 1 January 2019 are considered to be short-term contracts.

2.1.2 Adjustment of comparative data

La Banque Postale decided to apply IFRS 16 retrospectively, recognising the cumulative effect of the first application as an adjustment to the opening balance of its reserves on 1 January 2019 and, therefore, doesn't restate the comparative information in its financial statements.

2.2 The main impacts of the adoption of IFRS 16 on 1 January 2019

2.2.1 Contracts within the scope of IFRS 16

The La Banque Postale Group chose not to apply IFRS 16 to lease contracts for intangible assets. The latter are handled in application of IAS 38 "Intangible Assets".

In addition, the La Banque Postale Group applies the exemptions provided by the standard. It does not apply the provisions of IFRS 16:

1. To short-term leases of less than 12 months
2. Leases whose underlying asset is of low value, i.e. €5K in new value.

For these contracts, lease payments are recognised in expenses periodically.

As of the date of first application, all leases with a residual duration of less than 12 months were considered to be short-term contracts.

The main lease contracts at La Banque Postale Group are real estate leases.

2.2.2 Accounting impact of the first application

At 1 January 2019, the amount recognised in assets for use rights was €160.3 million and was classified with other tangible fixed assets.

The amount recognised in liabilities for the lease debt was €160 million and is classified with other liabilities.

Deferred taxes are calculated both on the use right and on the debt (they are, respectively, future taxable income and a future deductible expense).

The net impact of the differed tax on equity related to the move to IFRS 16 is not significant in the amount of €0.3 million.

NOTE 3 NOTES TO THE BALANCE SHEET

3.1 Financial assets and liabilities at fair value through profit or loss

(in € thousands)	30.06.2019			
	Financial assets held for trading	Fair value on option	Fair value not SPPI	TOTAL
Derivative instruments	740,196			740,196
- interest rate	681,154			681,154
- foreign exchange	48,038			48,038
- credit	11,004			11,004
- other	-			-
Debt instruments	8,049,912	-	1,092,899	9,142,811
Government paper and similar securities	1,357,125	-	-	1,357,125
Bonds and other fixed-income securities	6,692,787	-	52,090	6,744,877
UCITS	-	-	1,040,809	1,040,809
Equity instruments	7	-	178,085	178,092
Equities and other variable-income securities	7	-	178,085	178,092
Non-consolidated equity stakes	-	-	-	-
Loans and advances	958,257	-	-	958,257
Credit institutions	-	-	-	-
Customers	958,257	-	-	958,257
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	9,748,372	-	1,270,984	11,019,356
Derivative instruments	888,265	-	-	888,265
- interest rate	722,951			722,951
- foreign exchange	127,491			127,491
- credit	24,177			24,177
- other	13,646	-	-	13,646
Debt securities	-	550,675	-	550,675
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	888,265	550,675	-	1,438,940

(in € thousands)	31.12.2018 Restated			
	Financial assets held for trading	Fair value on option	Fair value not SPPI	TOTAL
Derivative instruments	458,400	-	-	458,400
- interest rate	396,528	-	-	396,528
- foreign exchange	59,382	-	-	59,382
- credit	2,490	-	-	2,490
- other	-	-	-	-
Debt instruments	7,327,462	-	1,113,759	8,441,221
Government paper and similar securities	1,842,477	-	-	1,842,477
Bonds and other fixed-income securities	5,484,985	-	53,500	5,538,485
UCITS	-	-	1,060,259	1,060,259
Equity instruments	7	-	148,150	148,157
Equities and other variable-income securities	7	-	148,150	148,157
Non-consolidated equity stakes	-	-	-	-
Loans and advances	1,570,975	-	-	1,570,975
Credit institutions	-	-	-	-
Customers	1,570,975	-	-	1,570,975
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	9,356,844	-	1,261,909	10,618,753
Derivative instruments	530,402	-	-	530,402
- interest rate	421,122	-	-	421,122
- foreign exchange	80,576	-	-	80,576
- credit	13,152	-	-	13,152
- other	15,552	-	-	15,552
Debt securities	-	278,812	-	278,812
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	530,402	278,812	-	809,214

- Derivatives held for trading

(in € thousands)	30.06.2019	
	Assets	Liabilities
Interest rate instruments	681,154	722,951
Futures	-	-
FRA	-	-
Interest rate swaps	649,183	694,120
Interest rate options	-	-
Caps-floors-collars	31,971	28,831
Other interest rate instruments	-	-
Forex instruments	48,038	127,491
Currency futures	48,038	127,491
Currency options	-	-
Credit instruments	11,004	24,177
Other instruments	-	13,646
TOTAL DERIVATIVES HELD FOR TRADING AT FAIR VALUE THROUGH PROFIT OR LOSS	740,196	888,265

(in € thousands)	31.12.2018 Reported	
	Assets	Liabilities
Interest rate instruments	396,528	421,122
Futures	-	-
FRA	-	-
Interest rate swaps	382,768	405,976
Interest rate options	-	-
Caps-floors-collars	13,760	15,146
Other interest rate instruments	-	-
Forex instruments	59,382	80,576
Currency futures	59,382	80,576
Currency options	-	-
Credit instruments	2,490	13,152
Other instruments	-	15,552
TOTAL DERIVATIVES HELD FOR TRADING AT FAIR VALUE THROUGH PROFIT OR LOSS	458,400	530,402

3.2 Financial assets recognised at fair value through other comprehensive income

(in € thousands)	30.06.2019							
	Fair value				Impairments			
	B1	B2	B3	Total	B1	B2	B3	Total
Financial assets at fair value through OCI - Without recycling				300,106				
Equity instruments:				300,106				
- Equities and other variable-income securities				79,020				
- Other securities held over the long term				1,319				
- Non-consolidated equity stakes				219,767				
Financial assets at fair value through OCI - With recycling	15,383,026	-	-	15,383,026	(3,471)	-	-	(3,471)
Debt instruments:	15,383,026	-	-	15,383,026	(3,471)	-	-	(3,471)
- Government paper and similar securities	4,193,306	-	-	4,193,306	(408)	-	-	(408)
- Bonds	11,189,720	-	-	11,189,720	(3,063)	-	-	(3,063)
Loans and advances to credit institutions	-	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-	-
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME				15,683,132				(3,471)

(in € thousands)	31.12.2018 Restated							
	Fair value				Impairments			
	B1	B2	B3	Total	B1	B2	B3	Total
Financial assets at fair value through OCI - Without recycling	-	-	-	288,764	-	-	-	-
Equity instruments:	-	-	-	288,764	-	-	-	-
- Equities and other variable-income securities	-	-	-	79,021	-	-	-	-
- Other securities held over the long term	-	-	-	989	-	-	-	-
- Non-consolidated equity stakes	-	-	-	208,754	-	-	-	-
Financial assets at fair value through OCI - With recycling	15,708,077	56	-	15,708,133	(3,487)	(14)	-	(3,501)
Debt instruments:	15,708,077	56	-	15,708,133	(3,487)	(14)	-	(3,501)
- Government paper and similar securities	5,050,944	-	-	5,050,944	(631)	-	-	(631)
- Bonds	10,657,133	56	-	10,657,189	(2,856)	(14)	-	(2,870)
Loans and advances to credit institutions	-	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-	-
TOTAL FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME				15,996,897				(3,501)

- Equity instruments recognised at fair value through OCI without recycling

	30.06.2019		
	Fair value	Unrealised gains	Unrealised losses
(in € thousands)			
Equities, other variable-income securities held over the long term	80,339	726	-
Non-consolidated equity stakes	219,767	64,689	(19,641)
VALUE ON THE BALANCE SHEET	300,106	65,415	(19,641)
Tax	-	(1,856)	610
Gains and losses recorded directly in equity on equity instruments recognised at fair value through other comprehensive income without recycling	-	63,559	(19,031)

	31.12.2018 Reported		
	Fair value	Unrealised gains	Unrealised losses
(in € thousands)			
Equities, other variable-income securities held over the long term	80,010	856	-
Non-consolidated equity stakes	208,754	64,228	(19,641)
VALUE ON THE BALANCE SHEET	288,764	65,084	(19,641)
Tax	-	(1,677)	610
Gains and losses recorded directly in equity on equity instruments recognised at fair value through other comprehensive income without recycling	-	63,407	(19,031)

► Investments in equity instruments that were derecognised over the period

	30.06.2019		
	Fair value at the date of derecognition	Cumulated realised gains (1)	Cumulated realised losses (1)
(in € thousands)			
Equities and other variable-income securities	-	-	-
Non-consolidated equity stakes	-	-	-
Value on the balance sheet	-	-	-
Tax	-	-	-
Net gains and losses recognised directly in equity on equity instruments at fair value through OCI with no recycling (after tax)	-	-	-

(1) Realised gains and losses are transferred to consolidated reserves at the time of derecognition of the instrument in question

	31.12.2018 Reported		
	Fair value at the date of derecognition	Cumulated realised gains (1)	Cumulated realised losses (1)
(in € thousands)			
Equities and other variable-income securities	-	-	-
Non-consolidated equity stakes	5,972	3,090	-
Value on the balance sheet	5,972	3,090	-
Tax	-	(124)	-
Net gains and losses recognised directly in equity on equity instruments at fair value through OCI with no recycling (after tax)	-	2,966	-

(1) Realised gains and losses are transferred to consolidated reserves at the time of derecognition of the instrument in question

• Non-consolidated equity stakes

	30.06.2019		31.12.2018 Reported	
	Fair value of securities	Share of capital in %	Fair value of securities	Share of capital in %
(in € thousands)				
Crédit Logement	102,396	6 %	102,396	6 %
KissKissBankBank	29,000	100 %	24,000	100 %
Domiserve	26,586	100 %	26,586	100 %
Mandarine Gestion	15,999	12 %	15,999	12 %
LBP Immobilier Conseil	15,000	100 %	15,000	100 %
Ezyness	9,200	100 %	3,200	100 %
STET	6,917	5 %	6,917	5 %
BPIfrance Financement	4,469	0.15 %	4,469	0.15 %
Transactis	2,474	50 %	2,474	50 %
Other	7,726		7,713	
TOTAL INTERESTS AND ADVANCES	219,767	-	208,754	-

- Debt instruments recognised at fair value through OCI with recycling

(in € thousands)	30.06.2019		
	Fair value	Unrealised gains	Unrealised losses
Government paper and similar securities	4,193,306		
Bonds	11,189,720		
Total debt instruments	15,383,026	224,578	(61,236)
Total loans and receivables	-	-	-
VALUE ON THE BALANCE SHEET OF FINANCIAL ASSETS RECOGNISED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME WITH RECYCLING	15,383,026	224,578	(61,236)
Tax		(58,388)	18,647
Gains and losses recognised directly in equity on debt instruments at fair value through OCI with recycling (after tax)		166,190	(42,589)

(in € thousands)	31.12.2018 Restated		
	Fair value	Unrealised gains	Unrealised losses
Government paper and similar securities	5,050,944	-	-
Bonds	10,657,189	-	-
Total debt instruments	15,708,133	108,981	(194,824)
Total loans and receivables	-	-	-
VALUE ON THE BALANCE SHEET OF FINANCIAL ASSETS RECOGNISED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME WITH RECYCLING	15,708,133	108,981	(194,824)
Tax	-	(30,008)	61,579
Gains and losses recognised directly in equity on debt instruments at fair value through OCI with recycling (after tax)	-	78,973	(133,245)

3.3 Securities at amortised cost

(in € thousands)	30.06.2019						
	Gross carrying amount			Impairment			Net carrying amount
	B1	B2	B3	B1	B2	B3	
- Government paper and similar securities	27,704,269	-	-	(1,302)	-	-	27,702,967
- Bonds	3,136,305	11,347	-	(2,102)	(173)	-	3,145,377
- Subordinated securities	-	-	-	-	-	-	-
LIABILITIES AT AMORTISED COST	30,840,574	11,347	-	(3,404)	(173)	-	30,848,344

(in € thousands)	31.12.2018 Reported						
	Gross carrying amount			Impairment			Net carrying amount
	B1	B2	B3	B1	B2	B3	
- Government paper and similar securities	20,298,037	-	-	(359)	-	-	20,297,678
- Bonds	3,275,008	11,370	-	(1,961)	(204)	-	3,284,213
- Subordinated securities	-	-	-	-	-	-	-
LIABILITIES AT AMORTISED COST	23,573,045	11,370	-	(2,320)	(204)	-	23,581,891

3.4 Loans and receivables due from credit institutions and equivalent

	30.06.2019						
	Gross carrying amount			Impairment			Net carrying amount
	B1	B2	B3	B1	B2	B3	
(in € thousands)							
Sight deposit accounts and loans with credit institutions	17,117,405	-	-	(43)	-	-	17,117,362
Current accounts in debit	395,014	-	-	(43)	-	-	394,971
Overnight accounts and loans	16,699,630	-	-	-	-	-	16,699,630
Amounts not classified	22,761	-	-	-	-	-	22,761
Term accounts and loans with credit institutions	71,730,739	-	-	(1,580)	-	-	71,729,159
Accounts and loans	1,545,154	-	-	(335)	-	-	1,544,819
Centralisation CDC	67,894,838	-	-	(539)	-	-	67,894,299
Securities and other assets received under repurchase	2,290,747	-	-	(706)	-	-	2,290,041
Subordinated loans	99,526	-	-	(13)	-	-	99,513
LOANS AND RECEIVABLES – CREDIT INSTITUTIONS AND SIMILAR	88,947,670	-	-	(1,636)	-	-	88,946,034

	31.12.2018						
	Reported						
	Gross carrying amount			Impairment			Net carrying amount
	B1	B2	B3	B1	B2	B3	
(in € thousands)							
Sight deposit accounts and loans with credit institutions	15,766,765	-	-	(44)	-	-	15,766,721
Current accounts in debit	253,822	-	-	(44)	-	-	253,778
Overnight accounts and loans	15,500,000	-	-	-	-	-	15,500,000
Amounts not classified	12,943	-	-	-	-	-	12,943
Securities and other assets received under repurchase	-	-	-	-	-	-	-
Term accounts and loans with credit institutions	71,493,582	-	-	(1,477)	-	-	71,492,105
Accounts and loans	1,361,966	-	-	(353)	-	-	1,361,613
Centralisation CDC	69,466,140	-	-	(539)	-	-	69,465,601
Securities and other assets received under repurchase	665,476	-	-	(585)	-	-	664,891
Subordinated loans	93,109	-	-	(12)	-	-	93,097
LOANS AND RECEIVABLES – CREDIT INSTITUTIONS AND SIMILAR	87,353,456	-	-	(1,533)	-	-	87,351,923

3.5 Loans and receivables – customers

(in € thousands)	30.06.2019						
	Gross carrying amount			Impairments			Net carrying amount
	B1	B2	B3	B1	B2	B3	
Sight deposit accounts and loans to customers	5,255,432	57,328	214,168	(7,893)	(4,845)	(74,439)	5,439,751
Retail current accounts in debit*	285,692	46,339	63,933	(4,513)	(4,519)	(53,886)	333,046
Corporate current accounts in debit*	282,306	10,694	10,037	(404)	(326)	(5,576)	296,731
Factoring	4,637,107	-	124,252	(2,976)	-	(265)	4,758,118
Overnight accounts and loans	-	-	-	-	-	-	-
Amounts not classified	29,857	-	14,555	-	-	(14,555)	29,857
Other sight accounts and loans to customers	20,470	295	1,391	-	-	(157)	21,999
Term accounts and loans to customers	90,897,454	2,327,011	1,198,931	(77,290)	(104,612)	(443,489)	93,798,005
Corporate	22,020,619	138,310	84,363	(29,868)	(5,650)	(34,897)	22,172,877
Short-term credit facilities	3,885,446	3,541	2,887	(2,796)	(60)	(736)	3,888,282
Home Loans	8,152,518	30,892	13,228	(6,323)	(1,165)	(768)	8,188,382
Equipment loans	3,798,704	5,173	2,143	(2,617)	(360)	(746)	3,802,297
Loans to financial customers	328,576	35,846	1,291	(346)	(893)	(1,005)	363,469
Other loans	5,855,375	62,858	64,814	(17,786)	(3,172)	(31,642)	5,930,447
Retail	67,261,246	2,188,701	1,114,568	(47,420)	(98,962)	(408,592)	70,009,541
Short-term credit facilities	4,360,321	558,134	382,881	(20,755)	(45,387)	(201,563)	5,033,631
Home loans	62,900,925	1,630,567	731,687	(26,665)	(53,575)	(207,029)	64,975,910
Securities and other assets received under repurchase	1,615,589	-	-	(2)	-	-	1,615,587
Finance lease transactions	2,559,467	83,632	61,722	(2,065)	(634)	(29,251)	2,672,871
Equipment leasing	1,049,061	47,353	26,654	(1,240)	(415)	(11,596)	1,109,817
Real estate leasing	1,510,406	36,279	35,068	(825)	(219)	(17,655)	1,563,054
LOANS AND RECEIVABLES DUE FROM CUSTOMERS AT AMORTISED COST	98,712,353	2,467,971	1,474,821	(87,248)	(110,091)	(547,179)	101,910,627

(in € thousands)	31.12.2018 Reported						
	Gross carrying amount			Impairments			Net carrying amount
	B1	B2	B3	B1	B2	B3	
Sight deposit accounts and loans to customers	5,067,185	68,678	171,535	(6,187)	(4,956)	(103,904)	5,192,351
Retail current accounts in debit*	291,563	49,622	72,059	(4,819)	(4,718)	(61,465)	342,242
Corporate current accounts in debit*	298,300	17,802	5,761	(238)	(238)	(2,684)	318,703
Factoring	4,393,052	-	53,193	(1,130)	-	(778)	4,444,337
Overnight accounts and loans	-	-	-	-	-	-	-
Amounts not classified	15,994	-	38,855	-	-	(38,855)	15,994
Other sight accounts and loans to customers	68,276	1,254	1,667	-	-	(122)	71,075
Term accounts and loans to customers	85,114,118	2,313,826	1,198,284	(71,577)	(109,934)	(434,274)	88,010,443
Corporate	19,833,718	71,499	43,146	(20,744)	(3,540)	(16,684)	19,907,395
Short-term credit facilities	3,070,387	3,210	8,434	(695)	(150)	(5,959)	3,075,227
Home Loans	7,101,393	32,387	16,711	(2,563)	(1,324)	(6,535)	7,140,069
Equipment loans	3,633,050	3,942	1,568	(899)	(413)	(294)	3,636,954
Loans to financial customers	371,434	8,264	14,536	(5,332)	(918)	(2,423)	385,561
Other loans	5,657,454	23,696	1,897	(11,255)	(735)	(1,473)	5,669,584
Retail	65,265,217	2,242,327	1,155,138	(50,830)	(106,394)	(417,590)	68,087,868
Short-term credit facilities	4,270,793	554,550	381,784	(20,441)	(45,153)	(200,733)	4,940,800
Home loans	60,994,424	1,687,777	773,354	(30,389)	(61,241)	(216,857)	63,147,068
Securities and other assets received under repurchase	15,183	-	-	(3)	-	-	15,180
Finance lease transactions	2,473,301	19,191	73,753	(1,923)	(2,177)	(28,954)	2,533,191
Equipment leasing	961,309	8,149	26,581	(1,164)	(255)	(11,355)	983,265
Real estate leasing	1,511,992	11,042	47,172	(759)	(1,922)	(17,599)	1,549,926
LOANS AND RECEIVABLES DUE FROM CUSTOMERS AT AMORTISED COST	92,654,604	2,401,695	1,443,572	(79,687)	(117,067)	(567,132)	95,735,985

3.6 Accruals and other assets

(in € thousands)	30.06.2019	31.12.2018 Restated
Prepaid expenses and accrued income	271,223	338,638
Collection accounts	214,931	15,501
Other accruals	916,039	794,676
Accruals	1,402,193	1,148,815
Other debtors and guarantee deposits paid	1,627,344	1,533,518
Settlement accounts for securities transactions	2,236	1,026
Impairments	(5,440)	(5,424)
Other assets	1,624,140	1,529,120
Reinsurance companies' share of technical provisions	437,196	297,316
Other insurance assets	340,307	303,310
Reinsurance companies' share of technical provisions and other insurance assets	777,503	600,626
ACCRUALS AND OTHER ASSETS	3,803,836	3,278,561

3.7 Holdings valued by the equity method

(in € thousands)	30.06.2019		31.12.2018 Reported	
	Equity-accounted value	Of which profit (loss)	Equity-accounted value	Of which profit (loss)
CNP Assurances Group	3,453,057	134,061	3,213,842	262,859
AEW	50,902	1,820	52,978	5,368
EQUITY ASSOCIATES	3,503,959	135,881	3,266,820	268,227

The data published by the CNP Assurances Group show a balance sheet total of €437,292 million and revenue of €17,570 million at 30 June 2019. The capitalisation is €13,704.9 million at 30 June 2019 based on 686,618,477 shares outstanding and a closing price of €19.96/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.

3.8 Goodwill

(in € thousands)	30.06.2019	31.12.2018 Reported
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

3.9 Liabilities due to credit institutions and similar and similar

(in € thousands)	30.06.2019	31.12.2018 Reported
Current accounts in credit	939,950	1,263,422
Overnight accounts and borrowings	61,519	-
Other amounts owed	6,270	15,100
Sight liabilities due to credit institutions	1,007,739	1,278,522
Accounts and borrowings	4,063,099	2,980,388
Securities and other assets delivered under repurchase agreements	19,333,186	14,618,338
Term liabilities due to credit institutions	23,396,285	17,598,726
LIABILITIES DUE TO CREDIT INSTITUTIONS AND SIMILAR	24,404,024	18,877,248

3.10 Liabilities due to customers

(in € thousands)	30.06.2019	31.12.2018 Reported
Livret A	62,022,717	60,616,446
Home savings schemes and accounts	31,581,767	31,804,658
Other special accounts	22,470,293	22,110,498
Special scheme savings accounts	116,074,777	114,531,602
Sight deposit accounts in credit	69,472,289	65,671,405
Overnight accounts and borrowings	1,539,381	778,166
Other amounts owed	892,491	800,115
Sight liabilities due to customers	71,904,161	67,249,686
Term deposit accounts and borrowings	3,999	43,676
Term deposit accounts in credit	86,138	51,689
Securities delivered under term repurchase agreements	3,310,328	3,934,299
Term liabilities to customers	3,400,465	4,029,664
LIABILITIES TO CUSTOMERS	191,379,403	185,810,952

3.11 Accruals and other payables

(in € thousands)	30.06.2019	31.12.2018 Reported
Accrued expenses and deferred income	550,213	574,602
Other accruals	1,622,412	1,684,187
Accruals	2,172,625	2,258,789
Securities-related liabilities	85,186	461,197
Guarantee deposits received	1,367,859	1,133,946
Other payables	1,227,308	1,079,845
Settlement accounts for securities transactions	1,214	6,923
Other liabilities	2,681,567	2,681,911
Other insurance liabilities	142,873	119,090
Other insurance liabilities	142,873	119,090
ACCRUALS AND OTHER LIABILITIES	4,997,065	5,059,790

3.12 Technical provisions of the insurance companies

(in € thousands)	30.06.2019	31.12.2018 Reported
Life technical provisions	1,004,394	1,042,471
Non-life technical provisions	1,418,136	1,354,317
TECHNICAL PROVISIONS	2,422,530	2,396,788

(in € thousands)	30.06.2019	31.12.2018 Reported
Deferred participating liabilities	126,067	82,831
SHADOW ACCOUNTING	126,067	82,831

The provision for deferred participation in profits arises from the use of “shadow accounting”: it represents the share of policyholders of 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 booked primarily by La Banque Postale Prévoyance and La Banque Postale Assurances IARD.

3.13 Provisions

(in € thousands)	31.12.2018 Reported	Allocations	Reversals	Reversals of unused provisions	Other	30.06.2019
Provisions for employee benefits	39,357	2,215	-	-	-	41,572
Provisions for risk on home savings plans	252,246	15	(28,300)	-	-	223,961
Provisions for labour disputes and benefits expenses	7,098	2,590	(3,492)	(115)	-	6,081
Provisions for guarantee contracts	458	277	(3)	-	(1)	731
Provisions for financing commitments	46,384	11,111	(22,086)	-	1	35,410
Other provisions for liabilities and charges	123,224	5,656	(54,449)	(10,140)	-	64,291
PROVISIONS	468,767	21,864	(108,330)	(10,255)	-	372,046

3.14 Subordinated debt

(in € thousands)	30.06.2019	31.12.2018 Reported
Subordinated debt (1)	3,126,359	3,879,757
TOTAL	3,126,359	3,879,757

La Banque Postale increased its equity by €800 million following the conversion into shares of AT1 bonds issued in 2013, held entirely by La Poste (See “Highlights, 1.1. Conversion of AT1 bonds to shares”).

Subordinated debt breaks down as follows:

(in € thousands)	Date of issue	Maturity date	Original currency	30.06.2019
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
TOTAL				3,000,000

(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

NOTE 4 NOTES TO THE INCOME STATEMENT

4.1 Interest income and expense and similar items

(in € thousands)	30.06.2019	Including negative interest	30.06.2018 adjusted	Including negative interest
On financial assets valued at amortised cost	1,838,097	68,476	1,828,748	55,917
Transactions with credit institutions	588,029	60,556	602,476	45,170
Customer transactions	931,586	7,907	887,911	10,387
Finance lease transactions	19,278	-	17,451	-
Securities transactions at amortised cost	299,204	13	320,910	360
On financial assets at fair value through OCI with recycling	89,881	-	73,153	-
Transactions with credit institutions	-	-	-	-
Customer transactions	-	-	-	-
Debt securities	89,881	-	73,153	-
Interest accrued and due on hedging instruments	203,204	-	158,979	-
Other interest and similar income	-	-	-	-
Interest income	2,131,182	68,476	2,060,880	55,917
On financial liabilities at amortised cost	(894,852)	(41,151)	(849,614)	(35,722)
Transactions with credit institutions	(56,208)	(39,967)	(50,574)	(35,721)
Customer transactions	(684,294)	(1,184)	(687,209)	(1)
Debt securities	(154,350)	-	(111,831)	-
Interest accrued and due on hedging instruments	(120,426)	-	(58,724)	-
Other interest and similar expense	-	-	-	-
Interest expense	(1,015,278)	(41,151)	(908,338)	(35,722)
INTEREST AND SIMILAR INCOME AND EXPENSE	1,115,904	-	1,152,542	-

The amount of interest and remuneration 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 €518 million as at 30 June 2019, compared with €538 million as at 30 June 2018.

4.2 Net commissions

(in € thousands)	30.06.2019		30.06.2018 Restated	
	Income	Expenses	Income	Expenses
Commissions on cash and interbank transactions	32,021	(2,515)	27,294	(1,590)
Commissions on customer transactions	620,188	(1,050)	646,040	(443)
Commissions on financial services provided	451,798	(102,393)	447,340	(97,270)
Commissions on securities transactions	158,831	(11,001)	162,909	(10,184)
Commissions on insurance services provided	24,204	(25,287)	22,045	(27,327)
Commissions on financial instruments	-	(233)	-	(209)
Other commissions	33,467	(1,446)	33,393	(1,368)
Commission income and expenses	1,320,509	(143,925)	1,339,021	(138,391)
NET COMMISSIONS	1,176,584		1,200,630	

4.3 Net gains and losses on financial instruments at fair value through profit or loss

(in € thousands)	30.06.2019	30.06.2018 Restated
Dividends received	3,525	3,709
Changes in the fair value of financial assets and liabilities through profit or loss	38,862	14,135
Changes in fair value and interest on financial assets and liabilities held for trading	31,984	2,023
Changes in fair value and interest on financial assets and liabilities not meeting SPPI criteria	35,556	7,119
Changes in fair value and interest on financial assets and liabilities on option	(28,678)	4,993
Gains or losses on financial assets and liabilities through profit or loss	10,528	12,745
Gains or losses on financial assets and liabilities held for trading	(5,573)	2,761
Gains or losses on financial assets and liabilities not meeting SPPI criteria	16,101	9,984
Gains or losses on financial assets and liabilities on option	-	-
Result of the hedge accounting	(378)	(1,072)
Result on forex transactions	-	-
NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS	52,537	29,517

The result of the hedge accounting breaks down as follows:

(in € thousands)	30.06.2019		
	Profits	Losses	Net
Fair value hedges	873,203	(873,581)	(378)
Changes in fair value of hedged items attributable to the hedged risks	295,359	(439,851)	(144,492)
Changes in fair value of hedging derivatives (including hedge termination)	577,844	(433,730)	144,114
Cash flow hedges	-	-	-
Changes in fair value of hedging derivatives - ineffective portion	-	-	-
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 portion	-	-	-
RESULT OF THE HEDGE ACCOUNTING	873,203	(873,581)	(378)

(in € thousands)	30.06.2018 Reported		
	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 portion	-	-	-
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 portion	-	-	-
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)	30.06.2019	30.06.2018 Restated
Dividends received on equity instruments recognised at fair value through OCI without recycling	17,883	8,709
Gains or losses on disposals recorded at fair value through OCI with recycling	69,901	313,434
- On debt securities	69,901	313,434
- 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	87,784	322,143

4.5 Gains and losses on the derecognition of debt instruments recognised at amortised cost

(in € thousands)	30.06.2019		30.06.2018 Reported	
	Income	Expenses	Income	Expenses
Gains and losses on derecognition events	163,828	-	-	-
Debt instruments	163,828	-	-	-
GAINS AND LOSSES ON THE DERECOGNITION OF FINANCIAL ASSETS RECOGNISED AT AMORTISED COST	163,828	-	-	-

The disposal of debt securities in the ALM portfolio was carried out as part of the programme to extend the duration of fixed-rate assets to offset sight deposits, while maintaining the risk profile. La Banque Postale had to review the outflows of sight deposits to take into account the growth of its business (notably, taking account of corporate behaviour, different from the behaviour of private individuals) and to be more in line with the duration of the outflows in question in the market place. This disposal call into question the documentation of the portfolio management model.

4.6 Total income and expenses from other activities

(in € thousands)	30.06.2019		30.06.2018 Restated	
	Income	Expenses	Income	Expenses
Income retrocessions, re-invoiced expenses, expense transfers	15,948	-	14,880	-
Other operating income and expenses	172,173	(153,250)	106,904	(104,260)
Provisions for other operating expenses	8,770	(5,420)	10,008	(6,466)
Income and expenses from insurance and reinsurance	484,119	(253,727)	485,088	(290,196)
Income and expenses from other activities	681,010	(412,397)	616,880	(400,922)
NET INCOME AND EXPENSES FROM OTHER ACTIVITIES	268,613		215,958	

4.7 General operating expenses

(in € thousands)	30.06.2019	30.06.2018 Reported
Personnel costs	(305,057)	(276,821)
Taxes, duties and miscellaneous contributions (1)	(96,464)	(98,055)
External services	(1,753,219)	(1,775,986)
Other expenses	(77,591)	(120,583)
Other general operating expenses	(1,927,274)	(1,994,624)
GENERAL OPERATING EXPENSES	(2,232,331)	(2,271,445)

(1) including contributions to the supervisory bodies

Average number of employees during the year

	30.06.2019	30.06.2018 Reported
Executive positions	3,919	3,612
Non-executive positions	1,297	1,250
TOTAL	5,216	4,862

4.8 Cost of risk

(in € thousands)	30.06.2019	30.06.2018 Reported
Bucket 1 - Healthy assets - 12-month expected losses	13,806	(2,283)
Bucket 2 - Sensitive assets - Lifetime expected losses	6,935	38,653
Bucket 3 - Impaired assets	8,176	(22,894)
Impairment provisions net of reversals	28,917	13,476
Amounts recovered on amortised receivables	2,764	3,131
Credit losses	(73,011)	(66,107)
Other losses or income	(111)	317
COST OF RISK	(41,441)	(49,183)

4.9 Income tax and deferred taxes

(in € thousands)	30.06.2019	30.06.2018 Reported
Current tax	(204,116)	(70,954)
Deferred taxes	42,113	(126,665)
TAXES	(162,003)	(197,619)

The effective tax rate at 30 June 2019 was 35.61% on the basis of the pre-tax income of €454,925K (before results of the equity-consolidated companies and goodwill amortisation) compared to 38.89% on 30 June 2018.

NOTE 5 INSURANCE ACTIVITIES

(in € thousands)	30.06.2019 Carrying value	31.12.2018 Carrying value
Financial assets at fair value through profit or loss not meeting SPPI criteria	398,822	380,586
Debt instruments at fair value through OCI - With recycling	2,233,443	2,132,448
INVESTMENTS OF THE INSURANCE ACTIVITIES	2,632,265	2,513,034

(in € thousands)	30.06.2019		31.12.2018	
	Fair value	Impairments	Fair value	Impairments
Government paper and similar securities	908,084	(41)	893,510	(55)
Bonds and other fixed-income securities	1,325,359	(318)	1,238,938	(306)
DEBT INSTRUMENTS AT FAIR VALUE THROUGH OCI WITH RECYCLING	2,233,443	(359)	2,132,448	(361)

The debt instruments at fair value through OCI with recycling of the insurance companies are classified in bucket 1.

(in € thousands)	30.06.2019		
	Fair value	Unrealised gains	Unrealised losses
Government paper and similar securities	908,084	56,917	-
Bonds	1,325,359	108,734	(107)
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI WITH RECYCLING	2,233,443	165,651	(107)
Tax	-	(40,317)	21
Gains and losses recognised directly in equity on debt instruments at fair value through other comprehensive income with recycling (net of tax) on insurance investments	-	125,334	(86)

(in € thousands)	31.12.2018 Reported		
	Fair value	Unrealised gains	Unrealised losses
Government paper and similar securities	893,510	9,261	(764)
Bonds and other fixed-income securities	1,238,938	75,276	(5,035)
FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI WITH RECYCLING	2,132,448	84,537	(5,799)
Tax	-	(22,065)	1,054
Gains and losses recognised directly in equity on debt instruments at fair value through other comprehensive income with recycling (net of tax) on insurance investments	-	62,472	(4,745)

(in € thousands)	30.06.2019	30.06.2018 Reported
Sales	484,083	485,088
Premiums written	512,290	502,500
Change in unearned premiums	(28,207)	(17,412)
Sub-Total - Retained premiums	484,083	485,088
Income from investments net of expenses	46,462	30,299
Income from investments incl. investment properties	24,987	37,727
Expenses on investments and other financial charges	(4)	(2,905)
Gains and losses on disposals of investments	996	(271)
Change in fair value of investments recognised at fair value through profit or loss	20,483	(4,252)
Results of the fair value hedges	-	-
Amortisation of deferred acquisition costs	1,149	-
Expenses on contract services	(224,629)	(295,870)
Commissions on the insurance activities	(2,529)	(6,224)
Result of reinsurance assets	(30,211)	5,674
NET INCOME OF THE INSURANCE COMPANIES	274,325	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:

(in € thousands)	30.06.2019	
	Carrying amount	Change in fair value
UCITS	185,924	5,205
Equities and other variable-income securities	146,585	10,206
Bonds	7,375	38
Other financial assets	-	-
TOTAL	339,884	15,449

Effect of the application of the overlay approach to Net Income items:

(in € thousands)	IAS 39	IFRS 9	Overlay impact
Net income of the insurance companies	8,321	23,770	-
Overlay impact	-	-	(15,449)
Net banking income	8,321	23,770	(15,449)
Deferred taxes	(2,389)	(4,004)	1,615
NET INCOME	5,932	19,766	(13,834)

NOTE 6 COMMITMENTS GIVEN AND RECEIVED

Contractual value of commitments given and received:

(in € thousands)	30.06.2019	31.12.2018
FINANCING COMMITMENTS		
To credit institutions and similar	1,534,506	1,576,276
To customers	24,515,670	23,234,668
Total financial commitments given	26,050,176	24,810,944
Received from credit institutions and similar	9,932,430	1,966,559
Received from customers	-	1,620,000
Total financial commitments received	9,932,430	3,586,559
GUARANTEE COMMITMENTS		
To credit institutions and similar	383,006	379,346
To customers*	2,037,710	1,937,735
Total guarantee commitments given	2,420,716	2,317,081
Received from credit institutions and similar	35,638,146	33,997,941
Received from customers	5,012,656	4,638,902
Total guarantee commitments received	40,650,802	38,636,843
SECURITIES COMMITMENTS		
Securities to be delivered	10,604,709	3,213,365
Total securities commitments	10,604,709	3,213,365
Securities to be received	1,066,044	461,367
Total commitments received for securities	1,066,044	461,367
OTHER COMMITMENTS		
Total of other commitments given	13,347,048	11,708,325
Total of other commitments received	3,416,675	2,416,700

* Including capital and performance guarantees granted to the holders of UCITS 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 €225 million at 30 June 2019. This amount was €236 million at 31 December 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 (€258 million) is in return for a financing commitment received (€247 million) from the Banque de France (3G funding).

Other commitments also include €12,847 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 7 FAIR VALUE OF BALANCE SHEET ITEMS

7.1 Fair value of balance sheet items recognised at amortised cost

The table below shows the fair value of balance

	30.06.2019				
	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	30,848,344	33,024,694	31,035,732	1,778,798	210,164
Sight loans and receivables due from credit institutions	17,117,362	17,117,362	-	17,052,026	65,336
Term loans and receivables due from credit institutions	71,828,672	71,841,867	-	71,689,991	151,876
Loans and receivables due from credit institutions	88,946,034	88,959,229	-	88,742,017	217,212
Sight loans and receivables due from customers	5,439,751	5,439,751	-	5,343,591	96,160
Term loans and receivables due from customers	93,798,005	100,285,125	-	88,479,926	11,805,199
Finance lease transactions	2,672,871	2,972,962	-	2,972,962	-
Loans and receivables due from customers	101,910,627	108,697,838	-	96,796,479	11,901,359
LIABILITIES					
Sight liabilities due to credit institutions	1,007,739	1,007,739	-	1,000,744	6,995
Term liabilities due to credit institutions	23,396,285	23,383,530	-	23,352,412	31,118
Liabilities due to credit institutions	24,404,024	24,391,269	-	24,353,156	38,113
Sight liabilities due to customers	187,978,938	187,978,938	-	186,873,483	1,105,455
Term liabilities to customers	3,400,465	3,407,124	-	3,405,436	1,688
Liabilities to customers	191,379,403	191,386,062	-	190,278,919	1,107,143
Debt securities	22,088,414	22,354,909	5,868,282	16,486,627	-
Subordinated debt	3,126,359	3,267,666	3,162,171	105,495	-

	31.12.2018				
	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	23,581,891	25,024,268	23,193,399	1,639,980	190,889
Sight loans and receivables due from credit institutions	15,766,721	15,766,721	-	15,675,117	91,604
Term loans and receivables due from credit institutions	71,585,202	71,595,733	-	71,476,479	119,254
Loans and receivables due from credit institutions	87,351,923	87,362,454	-	87,151,596	210,858
Sight loans and receivables due from customers	5,192,351	5,204,106	-	5,115,931	88,175
Term loans and receivables due from customers	88,010,443	90,438,506	-	79,379,022	11,059,484
Finance lease transactions	2,533,191	2,761,973	-	2,761,973	-
Loans and receivables due from customers	95,735,985	98,404,585	-	87,256,926	11,147,659
LIABILITIES					
Sight liabilities due to credit institutions	1,278,522	1,278,522	-	1,267,843	10,679
Term liabilities due to credit institutions	17,598,726	17,591,082	-	17,545,554	45,528
Liabilities due to credit institutions	18,877,248	18,869,604	-	18,813,397	56,207
Sight liabilities due to customers	181,781,288	181,781,288	-	180,709,340	1,071,948
Term liabilities to customers	4,029,664	4,037,358	-	4,035,326	2,032
Liabilities to customers	185,810,952	185,818,646	-	184,744,666	1,073,980
Debt securities	16,933,918	16,947,513	6,665,718	10,281,795	-
Subordinated debt	3,879,757	4,011,965	3,146,886	865,079	-

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 sight deposits is assumed to correspond to the carrying value 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.

7.2 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

	30.06.2019			
	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)				
FINANCIAL ASSETS				
Financial assets held for trading	9,748,372	2,120,063	7,628,309	-
Financial assets at fair value through profit or loss on option	-	-	-	-
Financial assets at fair value not meeting the SPPI criteria	1,270,984	683,898	252,970	334,116
Financial assets at fair value through profit or loss	11,019,356	2,803,961	7,881,279	334,116
Fair value hedging derivatives	1,693,267	-	1,693,267	-
Cash flow hedging derivatives	-	-	-	-
Hedging derivatives	1,693,267	-	1,693,267	-
Financial assets at fair value through OCI - without recycling	300,106	-	-	300,107
Financial assets at fair value through OCI - with recycling	15,383,026	15,133,297	249,729	-
Financial assets at fair value through equity	15,683,132	15,133,297	249,729	300,107
FINANCIAL LIABILITIES				
Financial liabilities held for trading	888,265	-	888,265	-
Financial liabilities at fair value on option	550,675	-	550,675	-
Financial liabilities at fair value through profit or loss	1,438,940	-	1,438,940	-
Fair value hedging derivatives	754,381	-	754,381	-
Cash flow hedging derivatives	-	-	-	-
Hedging derivatives	754,381	-	754,381	-

Transfer from level 2 to level 1: €97 million (four fixed-income securities for which transactions now meet the volume and frequency conditions, characteristics of an active market).

Transfer from level 1 to level 2: €40 million (one fixed-income security whose price is no longer representative of a price quoted on the active market and no longer meet volume and frequency conditions).

31.12.2018 Adjusted

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	9,355,836	2,758,487	6,597,349	-
Financial assets at fair value through profit or loss on option	-	-	-	-
Financial assets at fair value not meeting the SPPI criteria	1,262,917	712,686	247,651	302,580
Financial assets at fair value through profit or loss	10,618,753	3,471,173	6,845,000	302,580
Fair value hedging derivatives	1,130,766	-	1,130,766	-
Cash flow hedging derivatives	28,534	-	28,534	-
Hedging derivatives	1,159,300	-	1,159,300	-
Financial assets at fair value through OCI - without recycling	288,764	-	(2,776,029)	288,764
Financial assets at fair value through OCI - with recycling	15,708,133	13,186,286	389,399	-
Financial assets at fair value through equity	15,996,897	13,186,286	(2,386,630)	288,764
FINANCIAL LIABILITIES				
Financial liabilities held for trading	530,402	-	530,402	-
Financial liabilities at fair value on option	278,812	-	278,812	-
Financial liabilities at fair value through profit or loss	809,214	-	809,214	-
Fair value hedging derivatives	347,654	-	347,654	-
Cash flow hedging derivatives	-	-	-	-
Hedging derivatives	347,654	-	347,654	-

○ Change in fair value related to Level 3: reconciliation of opening and closing balances

	30.06.2019			
	Financial assets at fair value through profit or loss	Hedging derivatives	Financial assets at fair value through equity	Total
(in € thousands)				
OPENING	302,580	-	288,764	591,344
Total gains and losses recorded in profit or loss	11,362	-	-	11,362
Total gains and losses recorded in equity	-	-	330	330
Purchases	28,111	-	11,013	39,124
Disposals	-	-	-	-
Issues	-	-	-	-
Redemptions	(8,018)	-	-	(8,018)
Transfer to or from level 3	-	-	-	-
Other movements	81	-	-	81
CLOSING	334,116	-	300,107	634,223

NOTE 8 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 Leasing & Factoring, 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.

Net income by business segment as at 30 June 2019 (excluding the cost of equity for each segment)

(in € thousands)	Retail banking	Insurance	Asset management	Total
Net banking income	2,596,234	179,760	73,807	2,849,801
General operating expenses	(2,127,399)	(60,896)	(44,036)	(2,232,331)
Net depreciation and amortisation and impairment of tangible and intangible fixed assets	(115,044)	(3,513)	(2,190)	(120,747)
Gross operating income	353,791	115,351	27,581	496,723
Cost of credit risk	(41,442)	1	-	(41,441)
Operating income	312,349	115,352	27,581	455,282
Share of profits of equity associates	-	134,061	1,820	135,881
Net gains and losses on other assets	(358)	-	-	(358)
Changes in the value of goodwill	-	-	-	-
Pre-tax income	311,991	249,413	29,401	590,805
Income tax	(112,022)	(41,162)	(8,819)	(162,003)
Consolidated net income	199,969	208,252	20,582	428,803
Non-controlling interests	444	940	5,630	7,014
NET INCOME, GROUP SHARE	199,525	207,312	14,952	421,789

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

NOTE 9 SCOPE OF CONSOLIDATION

Companies	Registered office: City/Country	Method (1)	Movements	% Control	% Interest	Method	Movements	% Control	% Interest
		30.06.2019	30.06.2019	30.06.2019	30.06.2019	31.12.2018	31.12.2018	31.12.2018	31.12.2018
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	-	100.00	100.00	FULL	-	100.00	100.00
SCI Tertiaire Saint Romain (2)	Paris - France	FULL	-	100.00	100.00	FULL	-	100.00	100.00
SF 2	Paris - France	FULL	-	100.00	100.00	FULL	-	100.00	100.00
La Banque Postale Financement	Saint-Denis - France	FULL	-	100.00	100.00	FULL	-	65.00	65.00
La Banque Postale Leasing & Factoring	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	Paris - France	FULL	-	95.00	95.00	FULL	-	95.00	95.00
BPE	Paris - France	FULL	-	100.00	100.00	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
Ma French Bank	Paris - France	FULL	-	100.00	100.00	FULL	Entered	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	-	99.76	69.83	FULL	-	97.70	69.82
Tocqueville Finance SA	Paris - France	FULL	-	99.89	69.77	FULL	-	99.89	69.75

(1) Consolidation method

(2) Property investment company holding the bank's operating buildings

FULL: Fully consolidated

EQUITY: Accounted for using the equity method

JOINT: Joint control recorded for the share of assets, liabilities and income received

NC: Not consolidated

5.3 REPORT BY THE STATUTORY AUDITORS ON THE 2019 INTERIM FINANCIAL INFORMATION

Period from 1 January 2019 to 30 June 2019

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 2019 to 30 June 2019, 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 find any significant anomalies which could call into question, with respect to the IFRS standards as adopted by the European Union, the compliance and truthfulness of the interim consolidated financial statements and the true and fair picture they provide of the assets and financial position at the end of the half year and of the results for the past half year of the people and entities included in the consolidation.

Without calling into question the conclusion provided above, we nevertheless draw your attention to Notes 1.1 “Regulatory framework” and 5 “Insurance activities” of the notes to the summary consolidated interim financial statements which report on the changes in presentation of the Group’s insurance business in its financial statements of 30 June 2019 based on the option recommended by ANC 2017.02.

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 consolidated interim financial statements.

Paris La Défense, 31 July 2019

Neuilly-sur-Seine, 31 July 2019

KPMG S.A.

PricewaterhouseCoopers Audit

Marie-Christine Jolys

Jacques Lévi

Partner

Partner

OTHER INFORMATION



BANQUE "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 Postale	Start date of first assignment	End date of the assignment
PricewaterhouseCoopers Audit SAS (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 Eqho 2, avenue Gambetta CS60055 92066 Paris La Défense Represented by Marie-Christine Jolys as from the 2015 financial year Alternate auditor: KPMG Audit FS I	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 THE UNIVERSAL REGISTRATION DOCUMENT

Person responsible for the Universal Registration Document

Tony Blanco
General Secretary
La Banque Postale

Attestation of the person responsible for the Universal Registration Document

I hereby certify that I have taken all reasonable steps to ensure that the information contained in this Universal Registration Document is, to my knowledge, consistent with reality, and makes no omission likely to affect its import.

I certify that, to my knowledge, the complete financial statements for the half-year just ended have been drawn up in accordance with applicable accounting standards and give a true and fair view of the assets and liabilities, financial position and profits and losses of the Company and of all companies included in the scope of consolidation and that the interim business report (referenced in the correlation table of this document) provides a true picture of the significant events that occurred during the first six months of the financial year, their impact on the financial statements and the main related-party transactions, together with a description of the main risks and uncertainties for the remaining six months of the financial year.

Paris, 09 August 2019,

Tony Blanco

General Secretary.

6.4. CORRELATION TABLE FOR THE REGISTRATION DOCUMENT

Incorporation by reference

Pursuant to article 19 of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017, the information referred to in the table below in column “Page numbers of the 2018 Reference Document incorporated into the Universal Registration Document” shall be incorporated by reference into this Universal Registration Document.

These pages refer to the La Banque Postale 2018 Reference Document, filed on 14 March 2019 with the Autorité des Marchés Financiers (French securities regulator) under number D.19-0152, available via the following link:

https://www.labanquepostale.com/content/dam/groupe/actus-pub/pdf/publi-instit/ra-2018/DDR_2018_LBP_EN.pdf

Correlation Table (Annex to Regulation (EU) 2017/1129 of the European Parliament and of the Council)	Page numbers of the 2018 Reference Document incorporated into the Universal Registration Document	Page numbers of the Universal Registration Document	Sections
Persons responsible			1
Persons responsible for the information in the document	404	172	1.1
A declaration by those responsible	404	172	1.2
Statement or report attributed to a person as an expert	N/A	N/A	1.3
Information sourced from a third party	N/A	N/A	1.4
Statement by the issuer	N/A	N/A	1.5
Statutory auditors			2
Names and addresses of the auditors	92	171	2.1
Indication of the resignation, removal or non re-appointment of auditors	N/A	N/A	2.2
Risk factors			3
Risk factors	97-99	34-42	3.1
Capital adequacy	100-115	43-54	3.2
Information about the issuer			4
Legal and commercial name of the issuer	4		4.1
Place of registration, registration number and LEI of the issuer	4		4.2
Date of incorporation and the length of life of the issuer	4		4.3
Domicile and legal form of the issuer, legislation, country, address and telephone number of its registered office and website	4		4.4
Business overview			5
Principal activities	6; 9; 11	4 ; 6	5.1
Principal markets	17-23		5.2
Important events in the development of the issuer's business	24	22-25	5.3
Strategy and objectives	14-16		5.4
Extent to which the issuer is dependent on patents or licences, industrial, commercial or financial contracts or new manufacturing processes	N/A	N/A	5.5
The basis for any statements made by the issuer regarding its competitive position	6-24		5.6

Investments	79; 241	129	5.7
Organisational structure			6
Description of the group	6; 9-10	4 ; 6-7	6.1
List of significant subsidiaries	9; 310	6	6.2
Operating and financial review			7
Financial condition	69-93; 178-315.	21-32 ; 125-169	7.1
Operating results	69-93; 178-315.	21-32 ; 125-169	7.2
Capital resources			8
Information concerning the issuer's capital resources	183-184	131	8.1
Sources and amounts of the issuer's cash flows	185	132	8.2
Information on the borrowing requirements and funding structure of the issuer	103-108	46	8.3
Information regarding any restrictions on the use of capital resources that have materially affected, or could materially affect, the issuer's operations	N/A	N/A	8.4
Information regarding the anticipated sources of funds needed to fulfil commitments referred to in item 5.7.2	N/A	N/A	8.5
Regulatory environment			9
Regulatory environment	97-98	36-38	9.1
Trend information			10
The most significant recent trends in production, sales and inventory, and costs and selling prices since the end of the last financial year	N/A	N/A	10.1
Trends, uncertainties, demands, commitments or events that are reasonably likely to have a material effect on the issuer's prospects for at least the current financial year	70-71	22-24	10.2
Profit forecasts or estimates	N/A	N/A	11
Administrative, management and supervisory bodies and senior management			12
Names, business addresses and functions within the issuer of the members of the administrative, management or supervisory bodies	32-57	9	12.1
Administrative, management and supervisory bodies and senior management conflicts of interests	58		12.2
Remuneration and benefits			13
Amount of remuneration paid and benefits in kind	59-67	10-20	13.1
The total amounts set aside or accrued by the issuer or its subsidiaries to provide for pension, retirement or similar benefits	65	18	13.2
Board practices			14
Date of expiry of current term of office	32-34; 36-45; 53-57		14.1
Information about members of the administrative, management or supervisory bodies' service contracts	N/A	N/A	14.2
Information about the issuer's audit committee and remuneration committee	29-31		14.3
Corporate governance regime applicable to the issuer	26-67	08-20	14.4
Potential material impacts on the corporate governance	N/A	N/A	14.5
Employees			15
Number of employees	10; 256 ; 363	4 ; 154	15.1

Shareholdings and stock options	364		15.2
Arrangements for involving the employees in the capital of the issuer	N/A	N/A	15.3
Major shareholders			16
Shareholders controlling over 5% of the share capital or voting rights	6	5	16.1
Existence of different voting rights	6	5	16.2
Control of the issuer	6	5	16.3
Any arrangements, known to the issuer, the operation of which may at a subsequent date result in a change in control of the issuer	N/A	N/A	16.4
Related party transactions			17
Details of related party transactions	268		17.1
Financial information concerning the issuer's assets and liabilities, financial position and profits and losses			18
Historical financial information	7; 11-12; 312	4 ; 5 ; 128-169	18.1
Interim and other financial information	N/A	N/A	18.2
Auditing of historical annual financial information	275-278; 313-315.	168-169	18.3
Pro forma financial information	178-312	128-167	18.4
Dividend policy	7		18.5
Legal and arbitration proceedings	169	115-116	18.6
Significant change in the issuer's financial position	376	31	18.7
Additional information			19
Share capital	7	5	19.1
Memorandum and articles of association	382-390		19.2
Material contracts	376		20
Documents available	376	171	21

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	172
ACTIVITY REPORT	21-123
Main events occurring during the first six months of the financial year	21-24
Main risks and uncertainties	31-123
Main transactions between related parties	-
CONSOLIDATED FINANCIAL STATEMENTS	127-166
REPORT BY THE STATUTORY AUDITORS ON THE 2019 INTERIM FINANCIAL INFORMATION	168-169



Limited Company with Executive and Supervisory Boards, with a capital of € 4,631,654,325.00
Registered office and postal address at 115 rue de Sèvres - 75275 Paris Cedex 06, France
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