Annual Financial Report 2021

Caisse
Française de
Financement
Local

Public sector *obligations foncières* to support the economic recovery and environmental transition

2021

CONTENTS

Figures

Due to rounding, column totals in the tables may differ slightly from the sum of the lines comprising them.

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

Caisse Française de Financement Local

2021

Annual Financial Report

AUTORITÉ DES MARCHÉS FINANCIERS
AMF

This document aims to present the Company's business during the fiscal year 2021, in accordance with the provisions of Article L. 451-1-2 of the French Monetary and Financial Code and Article 222-3 of the AMF General Regulation. It is filed with the AMF in accordance with the modalities provided by the General Regulation, and is available on the issuer's website.

CAFFIL
Caisse Française de Financement Local

The SFIL group

A vision

Financing a sustainable future by providing sustainable and responsible support for regional development and the international activity of large companies

Two public policy missions, serving the economic recovery and the environmental transition

Long-term financing of French local authorities and public hospitals

Long-term financing of large contracts for French companies abroad

CAFFIL

A market leader in covered bonds

Leading European issuer of covered bonds financing the public sector.
A recognized issuer with excellent standing

A subsidiary of the French public development bank SFIL

A fully public shareholding structure with a very low-risk profile

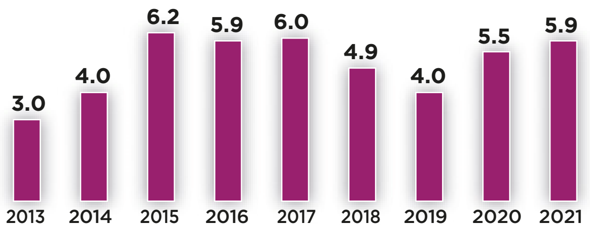
Strong resilience to the current crisis, marked by high solvency and liquidity

High visibility in terms of business volume, financing conditions and results

The leading European issuer of covered bonds funding only the public sector

An exceptional funding capacity

BOND ISSUES SINCE 2013



EUR 5.9 billion
Issues in 2021 of obligations foncières (covered bonds)

EUR 52.3 billion
Outstanding obligations foncières as of December 31, 2021

A recognized issuer

Issues awarded internationally

Best Covered Bond Issuer
CMD Portal Awards 2021

Best Social Bond
IFR Awards 2021

Best Social Bond - Asset based & Covered Bonds
Environmental Finance 2021

Best Euro Issuer
CBR Awards 2021

With excellent standing

High ratings reflecting the ties with the State

	MOODY'S	S&P	DBRS
République Française	Aa2	AA	AA High
Caisse des Dépôts	Aa2	AA	non noté
SFIL	Aa3	AA	AA High
Caisse Française de Financement Local	Aaa	AA+	AAA

An improving extra-financial rating

For SFIL:
Sustainalytics*: 6.6 in the 1st percentile among rated financial institutions and 9th out of 116 rated development banks

** Solicited rating.*

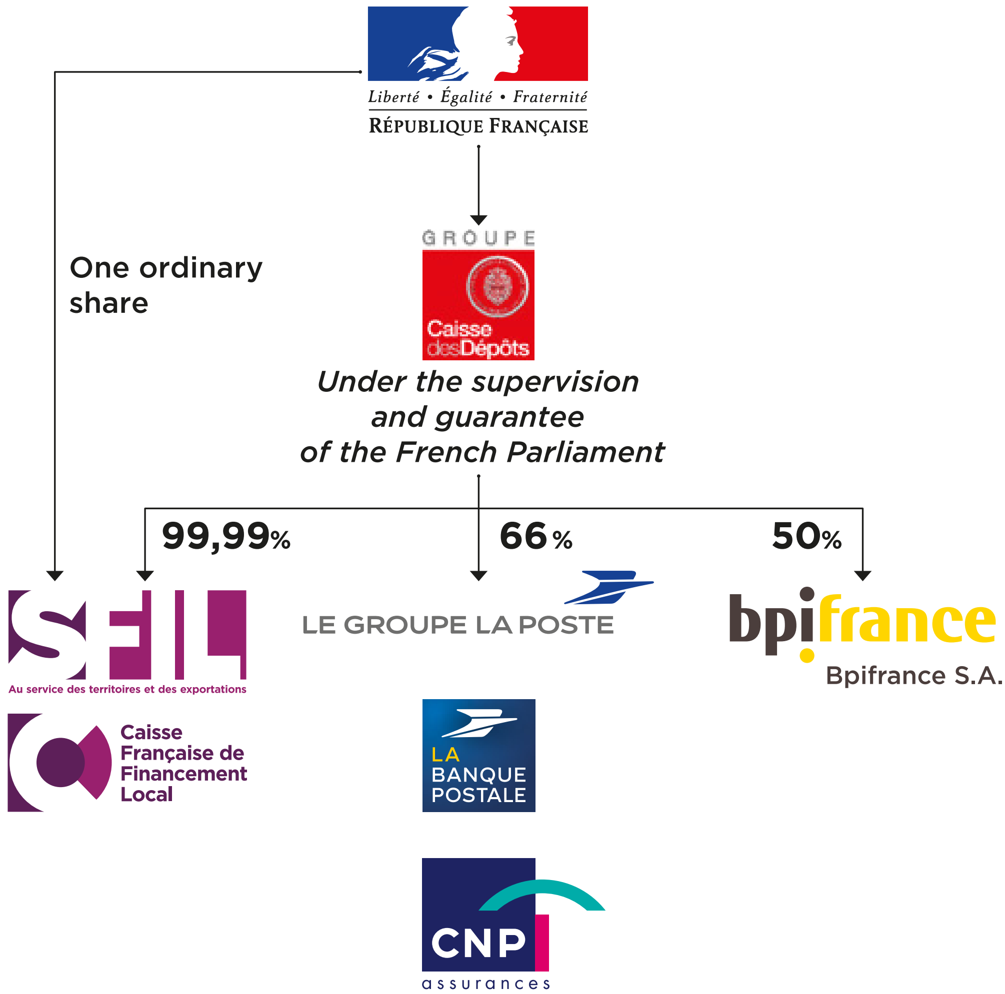
High-quality bonds

- Solid and very protective legal framework for *sociétés de crédit foncier*
- Eligibility for European Central Bank (ECB) refinancing operations
- Compliance with the European directives and regulations in force
- Preferential prudential treatment when calculating equity requirements
- Benefits from the covered bond label created by the ECBC

The SFIL group

I Successful integration into the new major public finance hub

Caisse des Dépôts is the reference shareholder of SFIL. By integrating the Caisse des Dépôts group, SFIL maintains all of its activities and its status. In particular, it will enable the major public finance hub to benefit from its efficient financing platform. The Caisse des Dépôts' commitment is evidenced by a letter of support, supplemented by a second letter of support from the State for the direct benefit of SFIL. SFIL's letter of support to Caisse Française de Financement Local has been adapted accordingly.



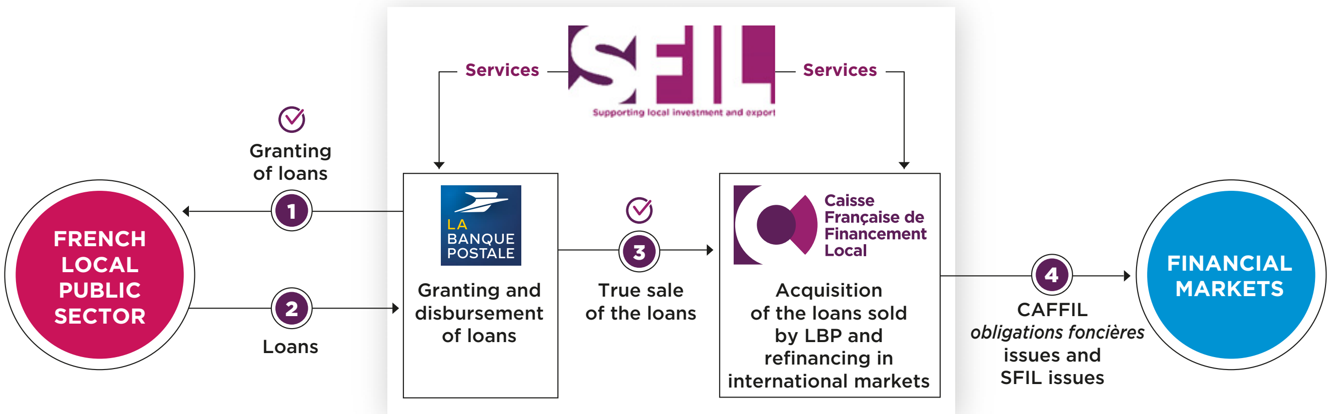
SFIL's shareholders is firmly anchored in the public sphere, thus reflecting the missions the French State assigned it.

Leader in its two large markets

The leading local public sector financer in France in partnership with La Banque Postale

The SFIL group refinances medium- and long-term loans originated by La Banque Postale to regional authorities and public hospitals. These loans are refinanced by bond issues designed for institutional investors.

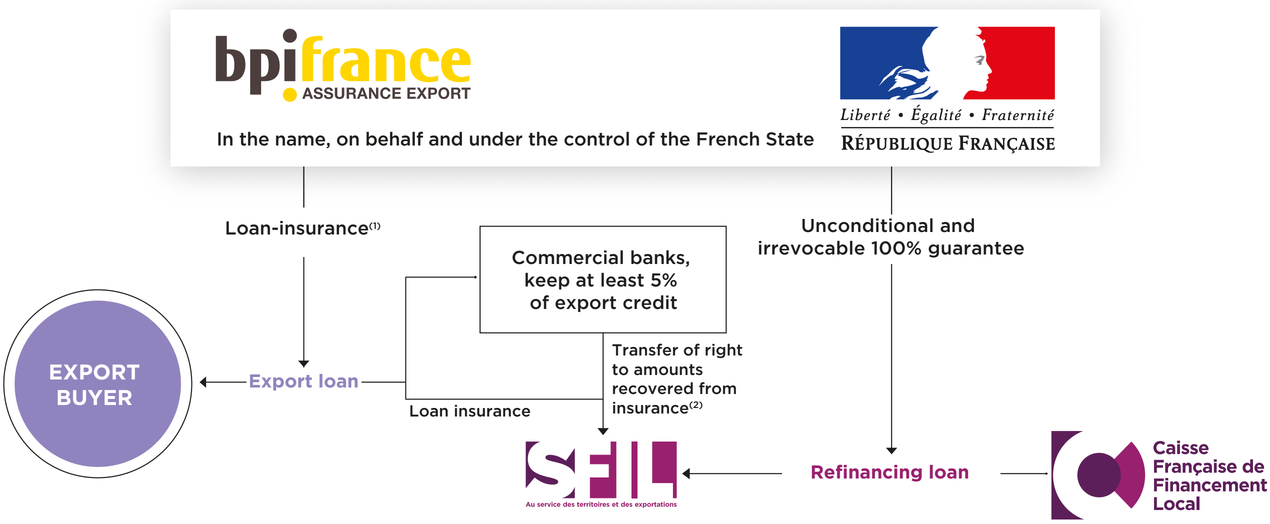
OPERATIONAL DIAGRAM OF THE SYSTEM



Caisse Française de Financement Local credit process

The leading contributor of liquidities on the export credit market

A SYSTEM WITHIN THE PUBLIC SPHERE



(1) Or, pure and unconditional guarantee for the aviation sector.
(2) In the case of credit insurance at 95 %.

A regular, trustworthy issuer of green and social issues

Three objectives linked to the SFIL Group's CSR commitment and strategy

Finance green and social public investments

In the healthcare, clean public transport, clean water and waste processing sectors

Develop a new funding channel

Consistent with the increasingly important role played by the environmental, social and governance criteria in investment decisions

Develop the ecosystem of responsible finance

Contribute to the growth of the thematic bonds market

A commitment to support France Recovery Plan thanks to green loans

The range of green loans on CAFFIL's balance sheet, broken down into five categories for local authorities, is fully in line with the France Recovery Plan.

- Renewable energies
- Sustainable water and sanitation management
- Management and waste recovery
- Soft mobility and clean transport
- Energy efficiency in construction and urban planning

Achievements

2019: **1 green issue** and **1 social issue**

2020: **1 social issue**

2021: **1 social issue**

Dec. 2020: nearly **EUR 3.5 billion** in outstandings of **green and social bonds**

Key Figures

Balance sheet

EUR 61.1 billion
Asset portfolio
(cover pool)

EUR 52.3 billion
Obligations foncières
(covered bonds)

115.8%
Coverage ratio

Activity 2021

EUR 4.4 billion
Acquisition of loans to French public sector
(partnership with LBP)

EUR 2.2 billion
Export refinancing signed

EUR 5.9 billion
Covered bonds issued

Quality of assets

0.25%
Doubtful and litigious loans in French Gaap
(% cover pool)

61.0%
Assets eligible for Banque de France refinancing
(% cover pool)

33.2%
Common Equity Tier 1 Ratio
(Bâle III)

Liquidity ratio

771%
LCR ratio

113%
NSFR ratio

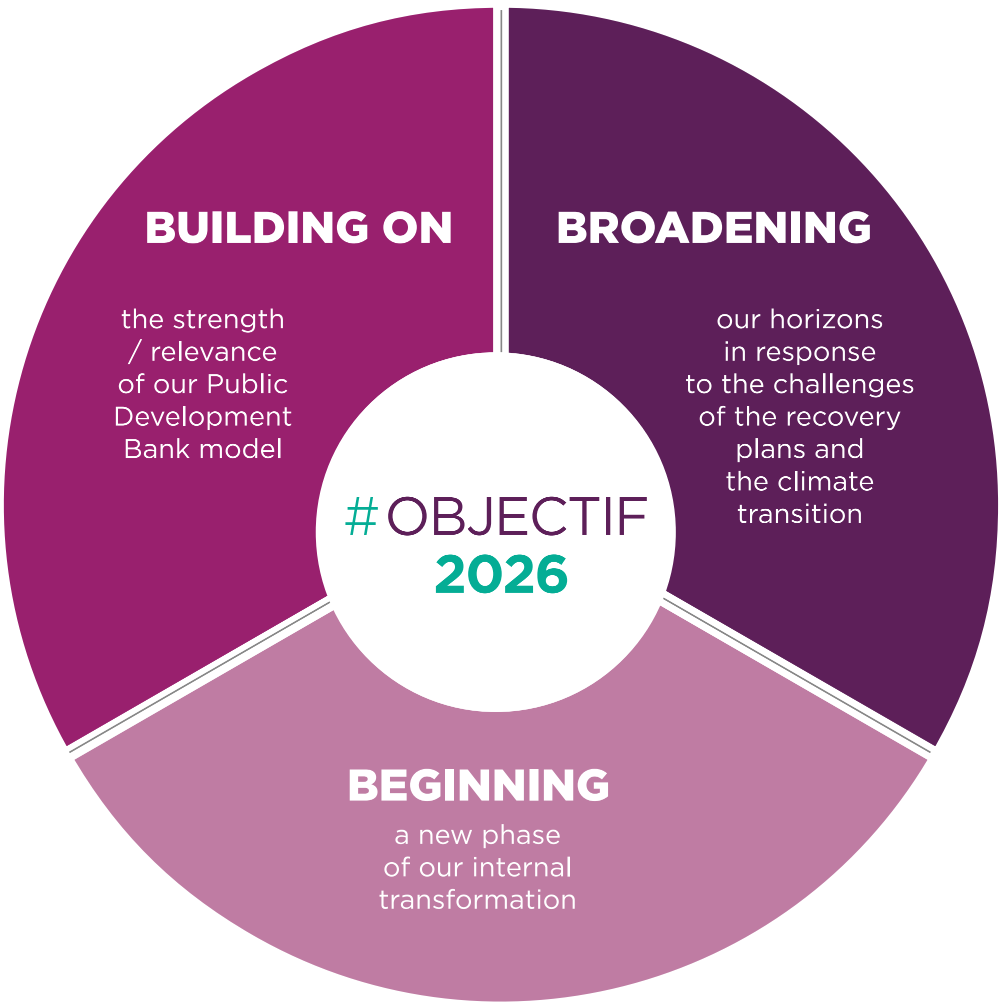
#OBJECTIF 2026

SFIL's strategic plan

A new take-off

Following the success of its first strategic plan, SFIL continues to forge ahead within a powerful group, Caisse des Dépôts (CDC), and in a changing world with new structuring challenges.

The aim of the 2nd strategic plan named #Objectif 2026, is to build the successful development of SFIL through actions in three defined areas:



Outlook

Local public sector financing

Increased production driven by the recovery plans and the climate transition.

OPPORTUNITIES FOR SFIL

- Deployment of a social loan offer in partnership with La Banque Postale
- Deployment of a second partnership with Banque des Territoires (CDC)
- Becoming the competence center for climate impacts on local authorithies within the CDC Group

LA BANQUE POSTALE

BANQUE des TERRITOIRES

Caisse des Dépôts GROUPE

Growing financing needs from 2022

Recovery plan & "Ségur de la santé" health plan + **Climate transition & sustainable development** = **New production & market share to grow**

Refinancing of export credits

SFIL's export credit activity, refinanced by CAFFIL, has solid foundations for meeting the challenges of the climate transition and the issues of sustainable and economic development.

CAFFIL's role in the success of SFIL's strategic plan

The growth expected over the duration of the strategic plan (new developments and contribution to the economic recovery, sustainable development and climate transition) will be based on CAFFIL's refinancing capacities.

The SFIL Group's thematic offering will be enriched by a new offering of social loans to the local public sector, which will concern sectors such as education, leisure and culture. These loans will be financed by thematic "social" or "sustainable" *obligations foncières*.

Three major strengths to finance these developments:

STRENGTH # 1
a well-established brand based on high ratings

STRENGTH # 2
a strategy of regular funding diversification

STRENGTH # 3
a large and diversified number of investors

1

Management report

Management report of Caisse Française de Financement Local 2021

1.1 General scope of Caisse Française de Financement Local's business activity

1.1.1 Nature and activity of the Company

1.1.1.1 Nature of the Company

Caisse Française de Financement Local (CAFFIL) is a credit institution active in the refinancing of loans to public sector entities through the issue of covered bonds, known as *obligations foncières*. This specialized credit institution is authorized to operate as a *société de crédit fonci*er. As a credit institution, the Company is subject to all legal and regulatory provisions that apply to credit institutions. It conducts banking transactions in its ordinary course of business.

1.1.1.2 Company activity

As a *société de crédit foncier*, it engages in transactions that are specialized and have an exclusive purpose, as defined in articles L.513-2 *et seq*. of the French Monetary and Financial Code.

In the case of Caisse Française de Financement Local, this specialization is exclusively limited to transactions with public sector entities or entities they fully guarantee as specified in its October 1, 1999 authorization and its own by-laws:

- the authorization mentions that the Company "is approved as a *société de crédit foncier*, the activities of which exclusively concern the granting or acquisition of loans to public sector entities or those they guarantee, as well as the holding of securitization units or shares of similar entities when the assets in these securitizations are at least 90% composed of assets of the same nature as the above-mentioned loans, in accordance with article 94-II and III of law No. 99-532";
- the purpose of the Company (article 2 of the by-laws) specifies that the exclusive purpose of the Company is:
  - to grant or to acquire exposures on public sector entities as defined in article L.513-4 of the French Monetary and Financial Code as well as securitization units or shares of similar entities considered as exposures on public sector entities as defined in article L.513-5 of the French Monetary and Financial Code,
  - to hold securities and other assets under the conditions set by decree to be considered as replacement assets.

Sociétés de crédit foncier (SCF), which were created by the law of June 1999, are now well-known in the world of bond issuers and investors. They issue covered bonds, known as "*obligations foncières*" and may contract other covered debts, that are or are not tradeable on regulated markets. These instruments are characterized by the legal privilege, which, as a priority, allocates the sums from the Company's assets to pay their interest and reimbursements. *Sociétés de crédit foncier* may also issue or contract non-covered debt. *Obligations foncières* constitute a significant element in the international covered bond market.

1.1.2 Form and shareholding structure of the Company

1.1.2.1 Legal structure and name of the Company

The Company was created on December 29, 1998, for a period of 99 years. It was authorized to operate as a *société de crédit foncier* by the Comité des Établissements de Crédit et des Entreprises d'Investissement (now part of the French Autorité de Contrôle Prudentiel et de Résolution - ACPR) at its meeting of July 23, 1999. This approval became definitive on October 1, 1999. On January 31, 2013, the Company took the name Caisse Française de Financement Local, replacing Dexia Municipal Agency, upon the sale of its sole shareholder, Société de Financement Local (renamed SFIL in June 2015), to the French State, Caisse des Dépôts (CDC) group and La Banque Postale (LBP).

Caisse Française de Financement Local's registered office is located at 1-3, rue du Passeur de Boulogne in Issy-les-Moulineaux (92130), France.

Caisse Française de Financement Local is a limited liability company with an Executive Board and a Supervisory Board (*société anonyme à directoire et conseil de surveillance*), governed by the provisions of articles L.210-1 *et seq*. of the French Commercial Code. Its activity is governed by articles L.511-1 *et seq*. (credit institutions) and L.513-2 *et seq*. (*sociétés de crédit foncier*) of the French Monetary and Financial Code.

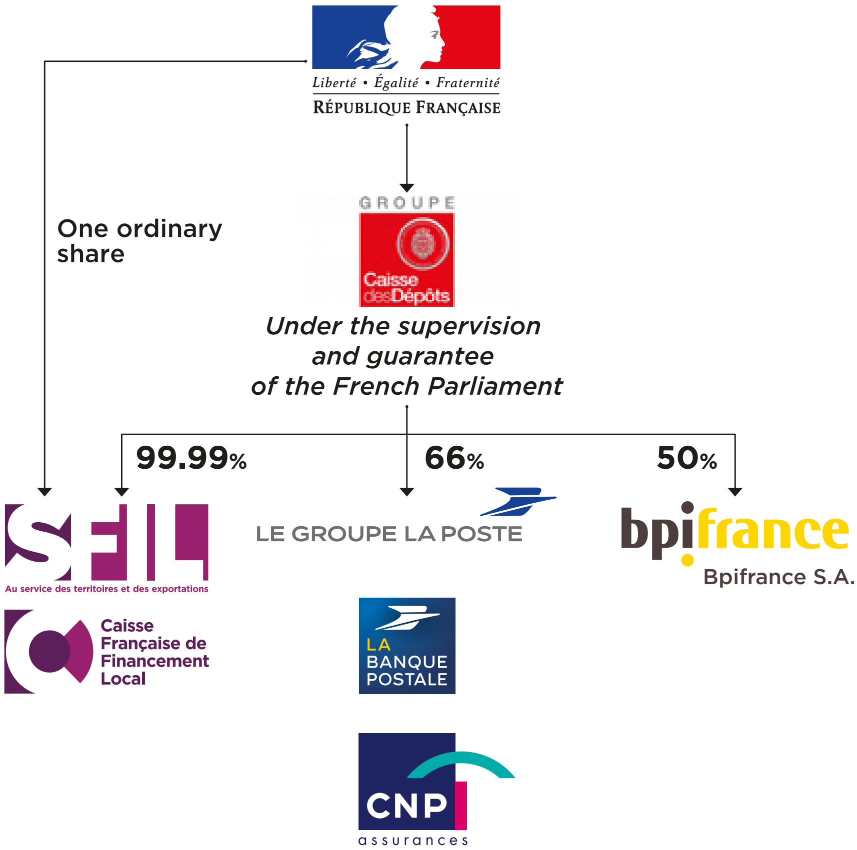
1.1.2.2 Company shareholders

As of December 31, 2021, Caisse Française de Financement Local was wholly owned by SFIL.

SFIL is a credit institution approved by the ACPR. Since September 30, 2020, its shareholder, Caisse des Dépôts, holds 99.99% of its shares. The French State retained one ordinary share. SFIL's shareholders thus remain firmly anchored in the public sphere, thus reflecting the missions the French State assigned it. Caisse des Dépôts is the reference shareholder of SFIL. This commitment, made to the ACPR, underlines its involvement in oversight and strategic decision-making. It also confirms its desire to ensure the continuity of financial operations and compliance with regulatory obligations of SFIL and Caisse Française de Financement Local, if necessary.

SFIL is also the institution managing Caisse Française de Financement Local, in accordance with article L.513-15 of the French Monetary and Financial Code.

CAPITAL OF SFIL AND ITS SOLE SUBSIDIARY, CAISSE FRANÇAISE DE FINANCEMENT LOCAL



1.1.3 Caisse Française de Financement Local's economic model

Caisse Française de Financement Local and its parent company SFIL are key elements of the framework set up by the French State in 2013 to fund French local authorities and public hospitals. It is based on a commercial activity developed by La Banque Postale whose refinancing is ensured by Caisse Française de Financement Local.

Since 2015, the French State has entrusted SFIL and Caisse Française de Financement Local with a second mission, which is the responsibility to refinance large export credits with the guarantee of the State (see 1.1.3.2.). The objective is to enable large export credits as well as French local authorities and public hospitals to benefit from optimal financing conditions through a high rating and irreproachable risk management.

1.1.3.1 Financing of loans to the local public sector and French public hospitals

In early 2013, Caisse Française de Financement Local and La Banque Postale signed an exclusive sale agreement to fund the needs of the French local public sector and public hospitals. The arrangement, set up under the aegis of the French State, works as follows:

- La Banque Postale markets loans to the French local public sector and public hospitals then sells them to Caisse Française de Financement Local, which refinances them by issuing *obligations foncières* (covered bonds);
- the loans originated are exclusively in euros with a simple interest rate;
- La Banque Postale committed to offer Caisse Française de Financement Local all the loans that would be eligible for its cover pool. Since mid-2019, La Banque Postale has also been marketing green loans; the purpose of which is to finance local investments contributing to the ecological transition carried out by local authorities. These loans are refinanced by the SFIL Group's green issues.

LBP-SFIL-CAISSE FRANÇAISE DE FINANCEMENT LOCAL PARTNERSHIP

Caisse Française de Financement Local credit process

This partnership enables Caisse Française de Financement Local to maintain its control of the credit risk through a two-stage analysis:

- before a loan is originated, an initial analysis of the counterparty is carried out by the two entities. The loans that do not meet the credit and eligibility criteria of Caisse Française de Financement Local cannot be transferred to its balance sheet. The eligibility criteria of Caisse Française de Financement Local are strictly governed by internal management policies;
- each time Caisse Française de Financement Local acquires loans originated by La Banque Postale, the credits are analyzed again. Caisse Française de Financement Local may then, before the transfer, refuse any loan that does no longer meet its criteria.

As required by law, the sale of loans to Caisse Française de Financement Local is carried out by using a transfer form (*bordereau de cession*) that is provided by law and specific to *sociétés de crédit foncier*.

1.1.3.2 Refinancing of large export credits

The French State has entrusted SFIL and Caisse Française de Financement Local with a second mission: the refinancing of large export contracts. Its objective is to improve the competitiveness of financing associated with French exports, according to a public refinancing scheme that already exists in several OECD countries. In this context, SFIL signed a protocol agreement governing relations with almost all the banks active in the French export credit market. SFIL may acquire all or a part of the investment of each of these banks in an export credit.

In this context, Caisse Française de Financement Local grants loans to SFIL in order to refinance its export credits. Such refinancing loans benefit from an irrevocable and unconditional 100% guarantee by the French State (enhanced guarantee)[1]. This business brings Caisse Française de Financement Local closer to the French State, without modifying the risk profile of its cover pool.

(1) *The enhanced guarantee was introduced by law No. 2012-1510 of December 29, 2012 and Decree No. 2013-693 of July 30, 2013. It was then amended by Decree No. 2018-1162 of December 17, 2018 relating to the granting of the French State's guarantee for transactions that are likely to contribute to the development of France's foreign trade or are of strategic interest for its overseas economy.*

These loans, like the new French public sector loans marketed by La Banque Postale, are added to the portfolio of Caisse Française de Financement Local, which is financed by the issues of *obligations foncières*. Given the current size of the cover pool and the growth of its traditional line of business, the percentage share of export refinancing in Caisse Française de Financement Local's portfolio will increase gradually. It will only become significant in several years.

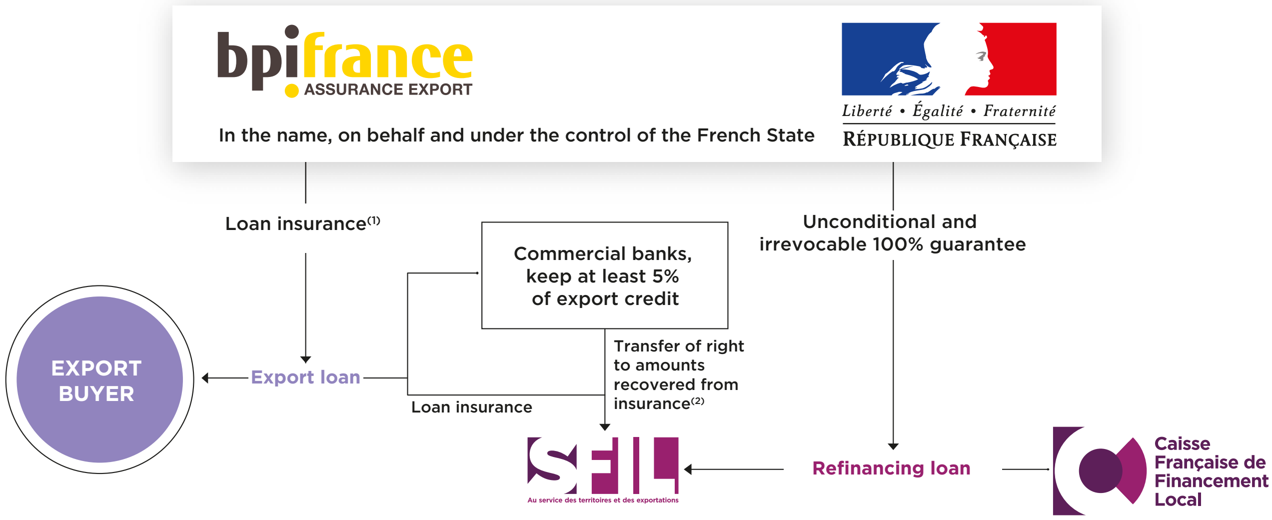
1.1.3.2.1 Refinancing system for large export credits

The system functions as follows:

- SFIL contributes to the financial proposal prepared by one or more banks of the banking syndicate granting buyer credit covered by export credit insurance granted by the French State (hereinafter referred to as the "State");
- after the export contract finalization, these banks sell a part of the loans (and the attached rights) to SFIL and keep at least the share of the export credit not covered by the insurance (usually 5%);
- Caisse Française de Financement Local grants a loan to SFIL to enable it to refinance the acquired export credit. This refinancing loan benefits from an irrevocable and unconditional 100% guarantee by the French State, referred to as an enhanced guarantee.

The export refinancing loans granted by Caisse Française de Financement Local thus constitute exposures guaranteed by a central European Union administration and eligible for the cover pool of a *société de crédit foncier*. These loans also comply with article 129 of the European regulation on Prudential Requirements (the CRR Regulation) which describes the assets authorized for inclusion in a cover pool to ensure that the covered bonds will benefit from the best prudential treatment.

OPERATION OF THE SYSTEM OF EXPORT CREDIT REFINANCING BY SFIL-CAFFIL



(1) *Or, pure and unconditional guarantee for the aviation sector.*
(2) *In the case of credit insurance at 95%.*

1.1.3.2.2 Specific case of exports of civil aircraft and helicopters

Financing of export contracts for civil aircraft and helicopters benefits from a so-called "pure and unconditional" guarantee (GPI) aimed at unconditionally and fully guaranteeing at 100% the non-repayment of the loan by the debtor. This guarantee is managed by Bpifrance Assurance Export in the name, on behalf of and under the control of the French State.

These transactions do not give rise to the setting up of an enhanced guarantee to cover the refinancing loan of SFIL by Caisse Française de Financement Local. In effect, SFIL transfers to Caisse Française de Financement Local, with the agreement of Bpifrance Assurance Export, full ownership of the benefit of the GPI, under a financial guarantee contract provided for in the refinancing loan agreement.

1.1.3.2.3 French State export guarantees

These guarantees are managed by Bpifrance Assurance Export, in the name, on behalf of, and under the control of the French State, pursuant to article L.432.2 of the French Insurance Code. They are therefore granted directly by the State, demonstrating its support for exporters. These guarantees are intended to encourage, support and secure French exports financed over the long- and medium-term as well as French investment abroad:

- the Minister of the Economy and Finance takes the decision to grant the guarantee after examination by Bpifrance Assurance Export and the opinion from the Commission for Guarantees and Foreign Trade Credit. Bpifrance Assurance Export manages French State guarantees in strict compliance with the international rules of the WTO, the European Union and the OECD;
- Bpifrance Assurance Export issues insurance policies, as well as enhanced guarantees, in accordance with the decision made. In this context, it is also tasked with collecting insurance and guarantee premiums, managing risks, payments, and recoveries on behalf of the French State;
- the French State bears the risks associated with these guarantees. All financial flows (premiums, payments, repayments) are recorded in separate accounting entries by Bpifrance Assurance Export. Premiums and recoveries are received directly on the account of the French State, and payments are made directly from the same account, without passing through the accounts of Bpifrance Assurance Export.

1.1.3.3 Caisse Française de Financement Local financing through the issue of covered bonds

To refinance these two activities, Caisse Française de Financement Local issues *obligations foncières* (covered bonds) on financial markets both in the form of benchmark public issues and in the form of private placements, particularly in the registered covered bonds format, suitable for its broad investor base. These instruments are characterized by the legal privilege which, as a priority, allocates the sums from the Company's assets to pay their interest and reimbursements (see 1.1.4.2. Current French legal and regulatory framework).

This source of financing is the main source of liquidity for the SFIL Group and represents an outstanding of EUR 52.3 billion as of December 31, 2021.

1.1.3.4 Servicing and financing provided by SFIL

The role of SFIL with regard to Caisse Française de Financement Local primarily involves the following:

- operational management of all of the Company's transactions in accordance with the regulations applicable to *sociétés de crédit foncier*, in particular within the meaning of article L.513-15 of the French Monetary and Financial Code. In this context, SFIL and Caisse Française de Financement Local signed a management agreement developed in a Service Level Agreement (SLA) that precisely determines the tasks entrusted to SFIL and the indicators for monitoring the quality of the service provided. This agreement and its SLA are regularly updated by the parties;
- provision of Caisse Française de Financement Local with the non-privileged funding and derivatives it needs to carry out its activities.

SFIL obtains the resources needed to fund Caisse Française de Financement Local's activity (financing of overcollateralization and derivatives) from the markets by issuing long-dated (bonds) debt and, to a lesser degree, short-dated (certificates of deposit) debt. SFIL has gradually established its signature in the French agency segment by launching benchmark EMTN issues in euros and dollars.

SFIL can also finance these needs under loan agreements signed with its shareholder, Caisse des Dépôts, and its partner, La Banque Postale. The refinancing initially provided *via* these agreements has gradually been completely replaced since 2016 by the financing obtained by SFIL on the financial markets. Nevertheless, they are still available particularly in the case of liquidity requirements generated under a situation of stress.

In addition to the commitments made by Caisse des Dépôts as SFIL's reference shareholder, a statement of support for Caisse Française de Financement Local was signed by SFIL on November 5, 2020; its text is reproduced in section 7 - General information.

SFIL also supplies services to La Banque Postale (LBP) and La Banque Postale Collectivités Locales, a joint venture between LBP and CDC for their credit activity to French public sector entities: commercial support, financial monitoring, data provision for risk analysis and back office.

1.1.3.5 Other management agreements

Specific individual agreements have been established with entities that, in the past, have transferred assets to the *société de crédit foncier*, and continue to ensure the management of these assets for their national clientele. These assets are managed in a run-off mode. As of December 31, 2021, there were agreements with the following entities: Belfius Banque et Assurances (Belgium), and Dexia Crediop (Italy). All of these management agreements already existed in previous years.

Management of the registered covered bonds (RCB) subscribed by German investors is entrusted to Landesbank Baden-Württemberg (LBBW).

1.1.4 Legal framework

1.1.4.1 European framework

The *obligations foncières* issued by Caisse Française de Financement Local are covered bonds. Many countries have passed specific legal provisions for covered bonds in recent years, and the number of issuers has risen significantly.

Two European directives govern and define covered bonds:

- UCITS (Undertakings for Collective Investment in Transferable Securities) Directive on the legislative, regulatory and administrative provisions concerning certain vehicles for collective investment in securities, article 52-4;
- the Capital Requirements Directive (CRD) on the regulatory equity requirement, which is complemented by the related Capital Requirements Regulation (CRR), article 129.

These two directives in particular specify the assets that may be incorporated into the portfolio financed by the covered bonds, the privilege that protects investors, as well as the required level of public oversight and transparency in terms of communication. Investors in bonds that satisfy the requirements of these two directives and the associated regulation benefit from financial and regulatory advantages. The *obligations foncières* issued by Caisse Française de Financement Local satisfy the requirements of these two European directives and the associated regulation. In this regard, they benefit from a 10% preferential risk weighting in the calculation of the solvency ratio with the standard method (given their current rating).

In 2019, a new directive dedicated to covered bonds aimed at standardizing the European models as well as amendments to article 129 of the CRR Regulation were voted by the European Parliament and Council. They were published in the *Official Journal of the European Union* on December 18, 2019 (see section 1.2.6 of the management report). The directive was transposed into French law mid-2021 for entry into force on July 8, 2022. The new version of article 129 of the CRR will also take effect on the same date.

Current and future *obligations foncières* issued by Caisse Française de Financement Local respect the conditions of eligibility for refinancing by the European Central Bank.

Furthermore, all the *obligations foncières* issued on the basis of the Caisse Française de Financement Local cover pool benefit from the Covered Bond Label. The label was created in 2012 by the European Covered Bond Council (ECBC) to improve the quality of the financial information and the transparency of the European covered bonds market. To meet Label requirements, Caisse Française de Financement Local committed to respect the above-mentioned directives and to ensure a high level of transparency in its communication to investors. All detailed information on the issues and cover pool of Caisse Française de Financement Local is now posted on the Covered Bond Label site (https://www.coveredbondlabel.com/issuer/47/).

A harmonized standard quarterly reporting template (Harmonized Transparency Template - HTT) used by all beneficiaries of the label is presented.

1.1.4.2 Current French legal and regulatory framework

Sociétés de crédit foncier are governed by the contents of articles L.513-2 to L.513-27 and R.513-1 to R.513-18 of the French Monetary and Financial Code.

These articles of the law are complemented by the following regulatory texts:

- Regulation No. 99-10 of the Comité de la Réglementation Bancaire et Financière of July 9, 1999, as amended, relating to *sociétés de crédit foncier* and *sociétés de financement de l'habitat*;
- ACPR instructions 2016-I-09, 2011-I-07, 2014-I-16 and 2014-I-17.

In addition to the laws and regulations described below, Caisse Française de Financement Local is subject to the same obligations as credit institutions in terms of reporting *vis-à-vis* the regulator and respect for liquidity ratios. In terms of solvency (solvency ratio, major risks and leverage), monitoring is carried out on a consolidated basis at the level of the parent company, SFIL. The following table describes the main provisions of the French legal and regulatory framework for *sociétés de crédit foncier* and its application to Caisse Française de Financement Local. This entire *corpus* of texts was amended in 2021 to comply with the new European directive and regulation on covered bonds.

Main provisions of the French legal and regulatory framework	Application to Caisse Française de Financement Local (CAFFIL)

General operating framework of the SCFs:
• article L.513-2 which describes in particular:
  • their exclusive purpose which is to finance guaranteed home loans and loans to the public sector, replacement assets, refinanced by *obligations foncières* and other resources which may or may not benefit from the legal privilege,
  • the possibility of obtaining financing by pledging certain assets,
  • the impossibility of owning subsidiaries or affiliates.
	• CAFFIL's assets solely made up of exposure to the public sector and replacement assets.
	• CAFFIL has a large stock of assets eligible for European Central Bank refinancing. They provide additional access to financing that can be mobilized very quickly in the event of a need for liquidity.
	• CAFFIL holds no shares.

Definition of assets eligible to *sociétés de crédit foncier*: • article L.513-3 (home loans); • article L.513-4 (exposures on public sector entities); • article L.513-5 (securitization shares); • article L.513-6 (replacement assets).	• CAFFIL major assets: exposure on public sector entities (article L.513-4), in other words, loans and/or bond issues representing a commitment on, or totally guaranteed by, these public bodies. • Other CAFFIL assets: replacement assets (article L.513-6), that is, exposures on credit institutions benefiting from a credit quality step 1 (triple A or double A level) rating or, when their remaining maturity does not exceed 100 days, a credit quality step 2 (A) rating. The total amount of replacement assets is limited to 15% of total covered bonds issued by CAFFIL. This asset category is used for CAFFIL's cash investments.

Legal privilege:
• article L.513-2: possibility for *sociétés de crédit foncier* to issue debts which may or may not benefit from the privilege;
• article L.513-10: possibility of hedging the risks associated with the assets and liabilities that benefit from the privilege through derivative contracts. In that case, the derivative contract also benefits from the privilege;
• article L.513-11:
  • when a *société de crédit foncier* is subject to a safeguard, bankruptcy, or liquidation, or conciliation procedure, the cash flows generated by the assets after financial instrument hedges, if applicable, are allocated as a priority to service the *obligations foncières* and other resources benefiting from the privilege, also after any financial instrument hedges, if applicable,
  • the liquidation of a *société de crédit foncier* does not accelerate the reimbursement of *obligations foncières* and other debts benefiting from the privilege, which continue to be paid on their contractual due dates with priority over all other commitments;
• article L.513-20: stipulates that the bankruptcy or liquidation of the shareholder of a *société de crédit foncier* cannot be extended to the *société de crédit foncier;*
• article L.513-15: the *société de crédit foncier* entrusts the management of its transactions to another credit institution to which it is bound by an agreement(1)[(1)] which itself benefits from the legal privilege defined in article L.513-11;
• article L.613-55-1.I, transposing the BRRD directive: the *obligations foncières* cannot be used to absorb losses in the event of the resolution of the *société de crédit foncier* (bail-in).
	• CAFFIL contracts that benefit from the legal privilege are:
	  • *obligations foncières,*
	  • registered covered bonds,
	  • derivative contracts that hedge the risks associated with the privileged assets and liabilities,
	  • the management agreement signed with SFIL in accordance with article L.513-15.

Other provisions: • articles L.513-12 and R.513-8: the coverage ratio (ratio between the assets covering the privileged debts and the debts benefiting from the privilege) must at all times be greater than 105%.	• CAFFIL shall at all times maintain a coverage ratio greater than 105%. In practice, for several years, it has been set at a much higher level, in order to comply with the minimum requirements required by external rating agencies to ensure CAFFIL's current financial rating levels (see section 1.6 of the management report).

The other articles of the French Monetary and Financial Code define management and control procedures for *sociétés de crédit foncier*. They can be accessed on the Company's website (http://www.CAFFIL.fr) or on the official Legifrance website (http://www.legifrance.gouv.fr/).

(1) To maintain the privilege which benefits investors in obligations foncières and other covered resources, the société de crédit foncier must not have employees (who would benefit under French law from a first ranking privilege). This management agreement itself benefits from the privilege of article L.513-11, pari passu with holders of privileged debt.

1.1.5 Ratings of the *obligations foncières* issued by Caisse Française de Financement Local

As of December 31, 2021, Caisse Française de Financement Local's issuance program was rated by three international rating agencies: Moody's, Standard & Poor's (S&P) and DBRS Morningstar.

The ratings of the *obligations foncières* issued by Caisse Française de Financement Local provided by these agencies are at the highest level of credit quality (Step 1). This requires that the quality of the cover pool and strict management rules be consistent with the criteria and approaches of the agencies.

The principle by which each agency rates *obligations foncières* (and covered bonds in general) involves taking as a starting point the issuer's rating or that of the parent company if the issuer is not rated, and enhancing this rating by one or more notches in function of the current safeguards (legal framework, quality of assets, asset/liability management, over-collateralization, etc.).

SFIL is currently rated at the same level as France by S&P and DBRS Morningstar and one notch below it by Moody's.

SFIL benefits from these very good ratings because it is considered as a French-government related entity. The agencies take into account the strong probability that if necessary the Caisse des Dépôts and the French State would provide extraordinary support to SFIL given the strategic importance of the public service responsibilities entrusted to it, the Caisse des Dépôts and the State's commitments and their influence on SFIL's governance.

S&P caps the rating of Caisse Française de Financement Local's *obligations foncières* at one notch above that of SFIL and, consequently, one notch above that of the French State, because some of its derivative contracts do not comply with the agency's methodological criteria (counterparties not rated by S&P or absence of a replacement clause).

The ratings at December 31, 2021 are presented in section 1.2.4 of the management report.

1.2 Highlights of 2021

1.2.1 Health crisis due to the Covid-19 pandemic

Within the context of this crisis, which began in the first quarter of 2020, Caisse Française de Financement Local continued its two missions of financing the local public sector and refinancing large export credits. The commercial activity relating to the financing of the local public sector (carried out in partnership with La Banque Postale) as well as activity relating to export refinancing were sustained in 2021 despite the continuing health crisis linked to the Covid-19 pandemic (see 1.2.2).

It showed its resilience capacity notably in terms of solvency and liquidity, thanks to the public development bank model of its parent company, SFIL.

Its access to the bond market remained very strong and the credit quality of its asset portfolios remained very good.

On the operational side, SFIL was able to adapt its organization and IT systems in order to function almost entirely remotely and enable all of its activities, and notably its services for Caisse Française de Financement Local, to continue normally.

The SFIL Group was able to monitor and manage all of its risks, notably those related to market volatility and the economic situation of its customers.

1.2.2 Activity of the SFIL Group and Caisse Française de Financement Local in 2021

Financing of loans to the French local public sector and public hospitals in partnership with La Banque Postale

The SFIL Group through its subsidiary Caisse Française de Financement Local (CAFFIL), finances the loans granted by La Banque Postale (LBP) to French local authorities and public hospitals.

In 2021, this partnership has once again demonstrated its performance by retaining its leading position in the financing of the French local public sector, which it has held since 2015.

The financing activity of the French local public sector was very dynamic in 2021. Production amounted to EUR 4.9 billion.

The impact of the health crisis on the financial position of the local authorities was very limited, given the support measures put in place by the French State.

At the same time, Caisse Française de Financement Local acquired EUR 4.4 billion in loans from LBP. Since the beginning of the partnership, loans acquired have accounted for EUR 28.9 billion.

Throughout 2021, the SFIL group also continued to finance the environmental investments of local authorities, via the range of green loans designed and distributed in partnership with LBP. In 2021, EUR 680 million of green loans were produced by the SFIL-Caisse Française de Financement Local-LBP scheme, i.e. 13% of the year's production, up sharply compared to the previous year. This change is due in particular to the French national recovery plan, and more specifically the section relating to the environmental and energy transition, in which the SFIL Group's green loan offer is fully integrated.

Refinancing of large export credits

2021 confirmed the expected increase in the use of export credit in a context of the crisis with five transactions signed by the SFIL mechanism for EUR 2.2 billion, 10% higher than the budget for the year, along with a sustained increase in requests for quotations compared to pre-crisis years, which bodes well for sustained activity in the coming years. 2021 was also an opportunity to carry out a first operation in two new sectors for the mechanism: aviation and space.

In the cruise sector, the SFIL Group has maintained its support for the Chantiers de l'Atlantique cruise lines, participating in the second tranche of the debt holiday developed by European credit insurance agencies to help them weather the crisis. This consists of deferring the repayment of the loan principal.

Bond financing of SFIL Group activities

In 2021, despite the context of the Covid-19 pandemic, the SFIL Group was able to borrow a significant volume of diversified and effective financing to support its two activities; it raised EUR 8.2 billion on the bond markets, including:

- EUR 5.85 billion in covered bonds through Caisse Française de Financement Local;
- EUR 2.3 billion in unsecured debt through SFIL.

2021 was also an opportunity for the SFIL Group to implement its social and environmental policy for its bond financing through two thematic "social" and "green" issues, one by Caisse Française de Financement Local and the other by SFIL.

The covered bonds market in 2021

Still affected by the health crisis linked to the Covid-19 pandemic, 2021 was nevertheless marked by an improvement in the economic situation. This context encouraged the main central banks to maintain their support for the economy. In particular, the Eurosystem provided support *via* its bond asset purchase programs (APP and PEPP) and a liquidity contribution to the banking sector (TLTRO), while considering the next steps (exit from quantitative easing, rate increase, etc.).

The euro covered bonds segment continued to show resilience with issues of EUR 101 billion, an increase of 5% compared to 2020 (EUR 96 billion). However, the volume for 2021 remains lower than the volumes before the Covid-19 crisis, due to lower intrinsic refinancing needs (decline in lending activity) but above all due to significant recourse by European banks to the advantageous refinancing mechanisms set up by the Eurosystem (TLTRO).

As in 2020, French and German issuers were the most active (respectively 23% and 19% of the offering), ahead of Canadian (12%), Norwegian (8%) and Dutch (7%) issuers. The share of issuers from peripheral jurisdictions (Spain and Italy) decreased again this year to 4% after reaching 5% in 2020 and even 10% in 2019. The latter preferred to request the TLTRO drawdowns on favorable terms. Issuers not eligible for the European Central Bank's repurchase program (CBPP3) are significantly more present, increasing from 26% (EUR 24.6 billion in 2020) to 38% (EUR 38.9 billion) of the euro covered bonds offer, supported by Canada and Norway (more than half of the volume).

This volume of activity was very well absorbed by investors, whose aggregate demand (EUR 207 billion) was twice as high as the volume of primary supply. In terms of spread, the covered bonds asset class ended the year below the levels of the beginning of 2021 (-2 to -3 bps on average), after experiencing a low point at the end of May linked to the relative value between the different market segments, then an increase of 3 to 4 bps on average during the summer.

The European Central Bank continued to support the covered bonds asset class:

- increase of EUR 11 billion in the outstanding amount of the covered bonds (CBPP3) purchase program between December 31, 2020 (EUR 287 billion) and December 31, 2021 (EUR 298 billion) compared to an increase of EUR 24 billion the previous year;
- additional purchases under the PEPP (Pandemic Emergency Purchase Program) in which the covered bonds asset class represented EUR 6 billion in outstanding at the end of November (compared with EUR 3 billion at the end of 2020).

In 2022, the covered bonds asset class, which benefits from an attractive regulatory treatment for investors, will still be characterized by significant volumes reaching maturity (EUR 136 billion compared to EUR 134 billion in 2021). The European Central Bank's covered bonds purchasing program (CBPP3) should also be at least renewed (EUR 40 billion falling in 2022) and potentially supplemented by additional purchases.

CAFFIL funding activity in 2021

In the market context, Caisse Française de Financement Local implemented its annual *obligations foncières* financing program under in good volume, spread and average maturity conditions. This has provided the long-term liquidity necessary for the development of La Banque Postale's commercial offering to the public sector in France and the refinancing of large export credits.

In 2021, Caisse Française de Financement Local raised EUR 5.85 billion *via* its issuance of covered bonds by soliciting the public primary market five times for a total amount of EUR 5.25 billion. It thus enriched its benchmark curve for eight year (EUR 1.5 billion, including EUR 750 million *via* a "social" thematic issue), ten year (EUR 2.5 billion), fifteen year (EUR 750 million) and twenty-five year maturities (EUR 500 million).

Caisse Française de Financement Local also provided additional liquidity on several of its reference issues *via* three taps for a cumulative amount of EUR 0.55 billion. In addition to these public transactions, Caisse Française de Financement Local responded to specific requests from investors in the private placements segment, in the EMTN format, for an amount of EUR 0.05 billion.

Caisse Française de Financement Local's outstanding covered bonds amounted to EUR 52.3 billion at December 31, 2021.

1.2.3 Sound financial and extra-financial ratings

The financial ratings of the *obligations foncières* issued by Caisse Française de Financement Local remained unchanged during 2021. As of December 31, 2021, the ratings were as follows: AAA at Moody's, AA+ at S&P and AAA at DBRS Morningstar. The outlooks associated with each of these ratings remained stable.

In addition, SFIL, the parent company of Caisse Française de Financement Local, requested an extra-financial rating from Sustainalytics. In 2020, the initial rating assigned to SFIL was 7.7 with the lowest number corresponding to the highest rating. This ESG rating was updated at the beginning of 2021 and now stands at 6.6, which still ranks SFIL in the 1st percentile of rated institutions and the 9th ranked out of 116 development banks rated by Sustainalytics. SFIL's ESG risk is considered negligible by Sustainalytics, which also praised its performance in the areas of governance, human capital management and business ethics.

Caisse Française de Financement Local is also assessed on its ESG axes by ISS. Its current rating is Prime C+.

1.2.4 Very low credit risk

In 2021, all the risk metrics, in particular unpaid debts, doubtful and disputed loans (French GAAP), receivables classified in the Stage 3 (IFRS accounting standards) and the Non-Performing Exposures which have been constantly improving for several years, reached their lowest level since the creation of Caisse Française de Financement Local in 2013. This shows the very high quality of the Caisse Française de Financement portfolio and the great resilience of local public sector players in the face of an unprecedented Covid-19 health crisis.

1.2.5 Continued integration into the Caisse des Dépôts group

During 2021, the SFIL group took part in the approach introduced by the Caisse des Dépôts Group to develop cooperation between the Group's various entities and coordinate the operations of the business lines.

This approach aims to:

- enable SFIL employees to adhere to shared values and objectives, with the expression of a Group "purpose";
- generalize a networked mode of operation within each sector;
- develop new intra-group cooperation in terms of activity;
- develop the attractiveness of human resources and employment pools within the Group.

1.2.6 A new regulatory framework

A European directive on covered bonds as well as an amendment to article 129 of the Capital Requirements Regulation (CRR) were published in the *Official Journal of the European Union* on December 18, 2019. This new framework aims to standardize European covered bonds models and creates a "European Guarantee Bond" and a “European High Quality Guarantee Bond” label. This directive has been transposed into French national law to take effect on July 8, 2022; at the same time as the new version of article 129 of the CRR and the new legislative and regulatory *corpus* of texts in relation with the *société de crédit foncier*.

Caisse Française de Financement Local aims to obtain the “European High Quality Guarantee Bond” label for its *obligations foncières*. The new texts are more restrictive as regards the eligibility of certain assets and the use of certain derivatives. However, the impact of the implementation of these texts remains very limited, at this stage, for Caisse Française de Financement Local. The transactions concerned will be processed by July 8, 2022 and the processes for steering the regulatory over-collateralization and liquidity ratios will be adapted.

1.2.7 SFIL Group’s future strategy

Following the success of its first strategic plan, the SFIL Group drew up its second strategic plan: #Objectif 2026, during the second half year 2021. It is within a powerful Group, Caisse des Dépôts, and in a changing world that the SFIL Group aims to succeed in its development around three focuses: fully exploit the strengths of its public development bank model, broaden its intervention modalities in response to the challenges of the recovery plans and the climate transition and initiate a new phase of internal transition with, in particular, the adaptation of its operating methods to hybrid methods.

In order to meet the challenges of the recovery plans and the climate transition, the SFIL Group’s objectives include:

- enhanced support for hospitals via the “Ségur de la santé”;
- the roll-out of a “social” loan offering in conjunction with La Banque Postale;
- changes in the way in which export credit is used for sustainable projects;
- the acceleration of thematic, social and green emissions as part of a new “sustainable” framework;
- actions to promote sustainable investments with local authorities.

1.3 Change in cover pool and debts

EUR billions value after currency swaps	12/31/2020	12/31/2021	Change 2021/2020
Cover pool	**58.5**	**61.1**	**4.5%**
Loans	49.7	51.3	3.2%
Securities	7.0	6.0	(13.4)%
Cash deposits with Banque de France	1.8	3.8	111.1%
Assets removed from the cover pool	**(0.0)**	**(0.0)**	**ns**
Privileged debt	**51.1**	**52.6**	**3.0%**
Obligations foncières[1]	50.5	52.3	3.5%
Cash collateral received	0.6	0.3	(42.0)%
Non-privileged debt	**6.6**	**7.7**	**16.7%**
SFIL	6.6	7.7	16.7%
Equity IFRS (excluding unrealized gains and losses)	**1.4**	**1.4**	**0.1%**

(1) Including registered covered bonds.

The size of Caisse Française de Financement Local's cover pool increased by EUR 2.6 billion in 2021, *i.e.* approximately +4.5%. This portfolio growth was financed by an increase in privileged debt of EUR 1.5 billion and non-privileged debt of EUR 1.1 billion. As of December 31, 2021, the cover pool excluding interest accrued not yet due amounted to EUR 61.1 billion.

Caisse Française de Financement Local's cover pool is made up of loans and securities to the public sector. It also includes temporary cash surpluses, created in anticipation of reimbursement of *obligations foncières* or in advance of export credit transactions. This temporary cash surplus is deposited at the Banque de France, or invested in bank or European public sector securities, or loaned to SFIL, the parent company of Caisse Française de Financement Local. The cash surplus, deposited with the Banque de France, was EUR 3.8 billion as of December 31, 2021, versus EUR 1.8 billion as of December 31, 2020. The cash surplus invested in securities was a total of EUR 1.3 billion as of December 31, 2021 versus EUR 2.0 billion as of December 31, 2020. As of December 31, 2021, no assets were excluded from the cover pool in order to be sold to a bank in a repurchase agreement or assigned in guarantee to the Banque de France.

As of this date, outstanding debt benefiting from the legal privilege, including cash collateral received, was EUR 52.6 billion, an increase of 3.0% in comparison with December 31, 2020.

As of December 31, 2021, the debt contracted with its parent company was EUR 7.7 billion. It does not benefit from the legal privilege and mainly corresponds to the financing of the over-collateralization of the cover pool, which is at a significantly higher level than the amount required by regulators and the rating agencies.

1.4 Description of the cover pool

1.4.1 Change in assets in 2021

The net change in cover pool in 2021 represents an increase in assets of EUR 2.6 billion. This change is mainly due to the following:

EUR billions		2021
1 - ACQUISITION OF LOANS FROM LA BANQUE POSTALE		**4.4**
Loans to the French public sector (vanilla loans in euros)	4.4	
2 - LOANS DISBURSEMENTS TO REFINANCE EXPORT CREDIT		**1.6**
Loan disbursements to SFIL to refinance export credit guaranteed by the French State	1.6	
3 - REDUCTION OF LOAN SENSITIVITY		**0.1**
Sensitive structured loans repaid	(0.1)	
Refinancing loans (vanilla loans in euros)	0.1	
New loans (vanilla loans in euros)	0.1	
4 - AMORTIZATION OF PORTFOLIO OF LOANS AND SECURITIES		**(4.7)**
5 - EARLY REIMBURSEMENTS		**(0.1)**
6 - CASH INCREASE		**1.3**
Net change in securities investments	(0.7)	
Net change in Banque de France cash deposit	2.0	
NET CHANGE IN THE COVER POOL		**2.6**

In 2021, Caisse Française de Financement Local acquired a total of EUR 4.4 billion in loans to the French local public sector and public hospitals originated by La Banque Postale.

In 2021, refinancing loans for large export credits granted to SFIL amounted to EUR 1.6 billion. These loans benefit from an irrevocable and unconditional 100% guarantee by the French State.

In 2021, operations to reduce loan sensitivity (as part of the sensitivity reduction policy implemented in early 2013) reduced the outstanding amount of loans considered as sensitive by EUR 0.1 billion by replacing them with fixed-rate loans. They were accompanied by the granting of new fixed-rate loans for EUR 0.1 billion.

The natural amortization of the portfolio of loans and securities was EUR 4.7 billion in 2021, and early reimbursements were EUR 0.1 billion.

Free cash flow increased by EUR 1.3 billion. It is deposited at the Banque de France, invested in bank bonds classified as replacement assets or in European public sector securities.

There were no divestments during 2021.

1.4.2 Outstandings at December 31, 2021

Caisse Française de Financement Local's pool of assets is exclusively composed of exposures on public sector borrowers, or guaranteed by the same, and replacement assets (within the limits specified by current legislation).

EUR billions	12/31/2020	12/31/2021
Loans and bonds to the public sector	55.2	56.5
of which local public sector business line	*51.1*	*51.0*
of which large export credits refinancing business line(1)	*3.6*	*5.0*
of which treasury investment in public sector bonds(3)	*0.5*	*0.5*
Banque de France cash deposit(3)	1.8	3.8
Replacement assets(3)	1.5	0.8
TOTAL COVER POOL	**58.5**	**61.1**
of which liquid assets and of which assets eligible for refinancing by the Banque de France before haircut, excluding cash deposited with a bank or the Banque de France(4)	*40.2*	*37.3*
Financing commitments for large export credits(1)(2)	4.7	5.1
Financing commitments granted to other public sector loans	0.1	0.0
FINANCING COMMITMENTS GRANTED	**4.8**	**5.1**

(1) For the record, loans refinancing large export credits concluded with SFIL benefit from an irrevocable and unconditional 100% guarantee granted by the French State (enhanced guarantee).
(2) In 2020 and 2021, the commitments given in respect of large export credits correspond to contracts entered into in the course of payment and to firm refinancing offers from CAFFIL to SFIL valid at December 31, 2021.
(3) The total amount of excess treasury increased from EUR 3.8 billion at the end of December 2020 to EUR 5.1 billion at the end of December 2021.
(4) Liquid assets correspond to bank exposures classified as replacement assets amounting to EUR 0.8 billion and other high quality liquid assets (level 1, 2A and 2B) amounting to EUR 3.0 billion. In addition, other assets eligible for refinancing by the Banque de France before haircut, excluding cash deposited with a bank or the Banque de France, totaled EUR 33.5 billion.

Caisse Française de Financement Local holds cash surpluses in its account at the Banque de France or invests them in either European public sector bonds or replacement assets (banking sector securities or short-term loans to SFIL, its parent company – see section 1.4.2.2). They are mentioned in the footnote (3) of the table above.

The amount of liquid assets and assets eligible for refinancing by the Banque de France, excluding cash deposited with a bank or the Banque de France, represents EUR 37.3 billion, *i.e.* 61.0% of the Caisse Française de Financement Local's cover pool.

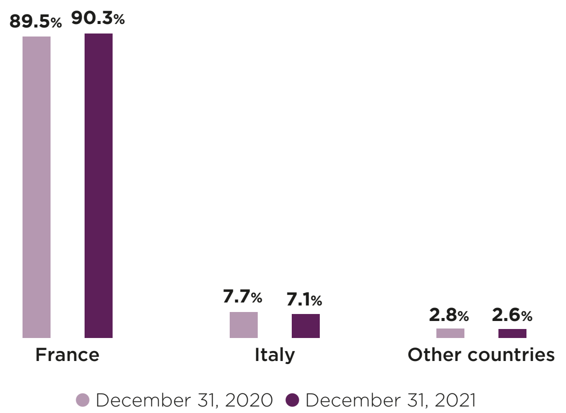
The amount of financing commitments given came to EUR 5.1 billion as of December 31, 2021. Almost all of these loans are signed but not yet fully paid, granted to SFIL as part of the refinancing of large export credits (as a reminder, these loans benefit from an unconditional and irrevocable 100% guarantee by the French State).

1.4.2.1 Public sector loans and bonds (excluding replacement assets and treasury placed with the Banque de France)

1.4.2.1.1 Geographic breakdown

As of December 31, 2021, French public sector loans made up the majority (90.3%) of the cover pool, a portion that will increase in the future. They include loans acquired from La Banque Postale since 2013 (EUR 22.3 billion of outstanding principal as of the end of December 2021), representing more than 39% of the Group's public sector loans and securities and 49% of its loans to the French local public sector. The State-guaranteed loans granted to SFIL for the refinancing of large export credits (EUR 5.0 billion on the balance sheet) represent approximately 8.8% of its public sector loans and bonds. The other assets are managed in run-off mode; they correspond to granular and geographically diversified exposures on foreign public sector entities.

The change in the relative proportion of total assets by country is as follows:



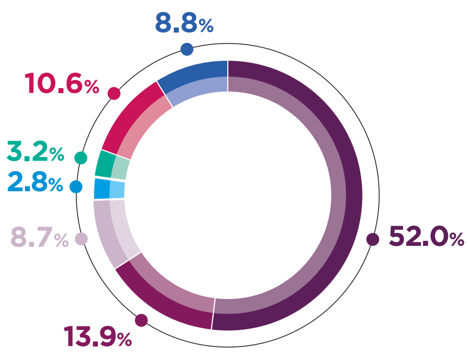
As of December 31, 2021, Italian assets represented the largest portion of non-French assets in run-off mode, with a total volume of EUR 4.0 billion, or 7.1% of public sector loans and bonds. These assets are granular exposures (almost 150 counterparties consisting mainly of regional and municipal authorities) distributed throughout Italy.

Exposures to other countries as of December 31, 2021, are broken down by country in the "Breakdown of cover pool" section, which is at the end of this management report.

1.4.2.1.2 Breakdown by type of counterparty

Caisse Française de Financement Local's portfolio breaks down as follows:

- 75% exposures on municipalities and their groups, departments or regions;
- 6% sovereign exposures or commitments on other public sector entities;
- 10% exposures on public hospitals;
- 9% exposures 100% guaranteed by the French State in respect of loans granted to SFIL for the refinancing of large export credits.



1.4.2.1.3 Securitizations

There are no securitization units in the cover pool of Caisse Française de Financement Local (since July 1, 2013). Its *obligations foncières* respect the conditions of eligibility for refinancing by the European Central Bank and the new CRR Regulation/CRD IV Directive requirements.

1.4.2.2 Replacement assets

Assets considered by law as "replacement assets" correspond to exposures on credit institutions benefiting from at least a "Step 1 rating", or a "Step 2 rating" when their remaining maturity does not exceed 100 days. The amount of the "replacement assets" is limited to 15% of *obligations foncières* and registered covered bonds. As of December 31, 2021, replacement assets represented 1.6% of *obligations foncières* and registered covered bonds.

The Caisse Française de Financement Local's cash surplus can be invested in banking sector securities (in addition to deposits at the Banque de France and investments in European public sector securities). In this case, bank exposures are classified as replacement assets, broken down below based on the rating of the issuers. In addition, Caisse Française de Financement Local can grant loans to SFIL to invest its surplus cash. These loans are also included in the replacement assets.

Replacement assets *EUR millions*	Country	12/31/2020	12/31/2021
STEP 1 CREDIT RATING			
Covered bonds			
	France	338	174
	Other countries	676	636
Other bank bonds		-	-
	France	148	-
	Other countries	287	-
Loans to parent company, SFIL	France	-	-
STEP 2 CREDIT RATING			
Bank bonds (maturity <100 days):			
	France	-	-
	Other countries	-	-
Bank accounts balances	France and other countries	4	5
TOTAL		**1,453**	**815**

1.4.2.3 Assets removed from the cover pool

Thanks to its status as a credit institution, Caisse Française de Financement Local has access to refinancing operations offered to banks by the Banque de France within the Eurosystem. To manage its cover pool and its over-collateralization or in order to meet the need for temporary liquidity, Caisse Française de Financement Local may thus convert a portion of its assets into cash. The loans or securities assigned in guarantee with the central bank in order to obtain financing on the occasion of tenders organized by the Banque de France are then taken out of the cover pool and replaced by the cash thus obtained. The same treatment would be applied to the assets in the cover pool if they were mobilized in interbank repurchase agreements in the event of a need for liquidity.

During the last three financial years, in the context of the regular tests of its operational procedures for accessing refinancing from the Banque de France or bank counterparties, Caisse Française de Financement Local has mobilized assets of very small amounts.

Caisse Française de Financement Local may also withdraw assets that it holds from the cover pool if they have become ineligible, pending their disposal or maturity.

1.4.2.4 Structured loans

1.4.2.4.1 Definition

Certain loans to French counterparties in Caisse Française de Financement Local's cover pool are classified as structured loans. The Gissler charter, the code of conduct adopted by banking institutions and local government entities (available on the French Ministry of the Interior's website) defines structured loans as:

- all loans with structures classified in categories B to E;
- all "not in the charter" loans, *i.e.* that the charter prohibits them from being marketed because of their structure (leverage >5, etc.), their underlying index (or indices) (foreign exchange, etc.) or their currency (denominated in CHF, JPY, etc.).

1

1.4.2.4.2 Share of structured loans in the cover pool

	Outstanding				Number of customers[1]		
EUR billions	12/31/2020	**12/31/2021**	Change	% cover pool	12/31/2020	**12/31/2021**	Change
FRENCH PUBLIC SECTOR LOANS	**45.2**	**45.5**	**+0.3**	**74.5%**	**13,517**	**13,220**	**(297)**
Vanilla loans	**42.0**	**42.8**	**+0.8**	**70.0%**	**12,266**	**12,087**	**(179)**
Structured loans	**3.2**	**2.7**	**-0.5**	**4.5%**	**1,251**	**1,133**	**(118)**

(1) Considering the customer in the category with its most highly structured loan.

In 2021, outstanding loans to the French local public sector increased by EUR 0.3 billion. Structured loans on Caisse Française de Financement Local's balance sheet amounted to EUR 2.7 billion, representing 4.5% of the cover pool.

1.4.2.4.3 Sensitive loans and reduction in loan sensitivity

The most structured loans according to the Gissler classification (categories 3E, 4E and 5E as well as "not in the charter" loans) may be classified as "sensitive". As of December 31, 2021, they now represent only EUR 0.5 billion in outstanding (0.8% of the cover pool) compared with EUR 8.5 billion on SFIL's inception at the end of 2012, *i.e.* a decrease of almost 94%. The number of customers holding sensitive loans fell over the same period from 879 to 133.

The scope of sensitive structured loans is therefore extremely limited and the associated risk is no longer material for Caisse Française de Financement Local.

	Sensitive outstandings				Number of sensitive customers[1]		
EUR billions	12/31/2020	**12/31/2021**	Change	% cover pool	12/31/2020	**12/31/2021**	Change
Sensitive loans "not in the charter"	*0.3*	*0.2*	*(0.1)*	*0.3%*	*39*	*29*	*(10)*
Sensitive loans 3E/4E/5E	*0.4*	*0.3*	*(0.1)*	*0.5%*	*113*	*104*	*(9)*
TOTAL SENSITIVE LOANS	**0.7**	**0.5**	**(0.2)**	**0.8%**	**152**	**133**	**(19)**

(1) Considering the customer in the category with its most highly structured loan.

1.5 Debt benefiting from the legal privilege

As of December 31, 2021, debt benefiting from the legal privilege is composed of *obligations foncières* and registered covered bonds issued by Caisse Française de Financement Local as well as cash collateral received from counterparties in derivative transactions.

EUR billions	12/31/2020	12/31/2021
Cash collateral received	0.6	0.3
Obligations foncières and registered covered bonds	50.5	52.3
TOTAL	**51.1**	**52.6**

1.5.1 Changes in cash collateral

At December 31, 2021, cash collateral received by Caisse Française de Financement Local was down compared to the end of December 2020; its amount stood at EUR 0.3 billion.

1.5.2 Changes in issues

As part of a recurring EUR 4 to 6 billion annual program, Caisse Française de Financement Local's issue policy aims first and foremost to build a coherent benchmark curve on the euro market while ensuring the strong performance of its issues on the secondary market. The diversification of its sources of financing is necessary to achieve long maturities consistent with its needs. This involves an active presence in the private placements market as part of the EMTN program or by issuing registered covered bonds, a format for German investors.

In addition, as part of the diversification of their investor base and in line with the implementation of the Group's social and environmental policy, SFIL and Caisse Française de Financement Local are regularly active in the "social" and "green" thematic bond market, as demonstrated by the completion in April 2021 of its third "social" issue.

1.5.2.1 2021 issues

In 2021, Caisse Française de Financement Local generated an issue volume of EUR 5.85 billion, enriching its reference curve with six new transactions, including its first public issue with a twenty-five year maturity. It was also active in matching transactions for existing tranches and in the private placement segment.

Caisse Française de Financement Local raised money in the public primary market five times, in the total amount of EUR 5.25 billion:

- two issues with a maturity of ten years in January 2021 in the amount of EUR 1.5 billion and in June 2021 in the amount of EUR 1 billion;
- one issue with a maturity of 15 years in February 2021 in the amount of EUR 750 million;
- a "social" thematic issue with a maturity of eight years in April 2021 in the amount of EUR 750 million;
- a double tranche issue in September 2021 for a total amount of EUR 1.25 billion, composed of an issue with an eight year maturity of EUR 750 million and an issue with a twenty-five year maturity of EUR 500 million.

Caisse Française de Financement Local also provided additional liquidity on several of its reference issues *via* three taps for a cumulative amount of EUR 0.55 billion.

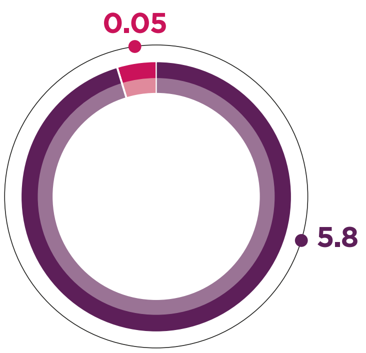
In addition to these public transactions, Caisse Française de Financement Local responded to specific requests from investors in the private placements segment, in the EMTN format, for an amount of EUR 0.05 billion.

The weighted average life of the financing raised during 2021 was 12.1 years.

The breakdown of new issues by format (public issues or private placements) and by maturity is presented below, as well as the breakdown of benchmark public issues by investor category and geographic zone:

2021 ISSUES BY FORMAT

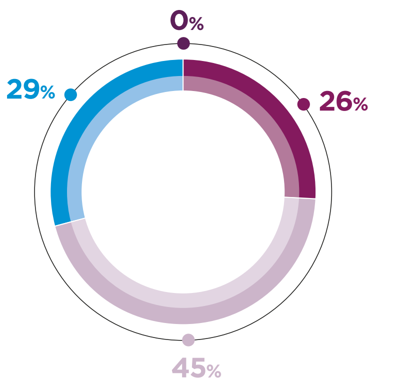
EUR billions



- Public issues
- Private placements (of which RCB: 0.1)

2021 ISSUES BY MATURITY

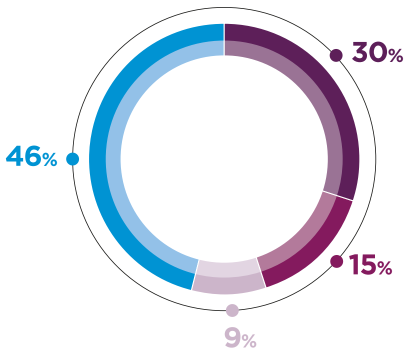
(%)



- 0-5 years
- 6-9 years
- 10-14 years
- 15 years and more

BREAKDOWN OF 2021 BENCHMARK PUBLIC ISSUES BY INVESTOR CATEGORY

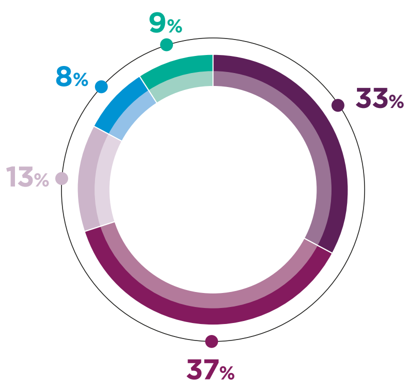
(%)



- Central banks
- Asset managers
- Insurance
- Banks

BREAKDOWN OF 2021 BENCHMARK PUBLIC ISSUES BY GEOGRAPHIC ZONE

(%)



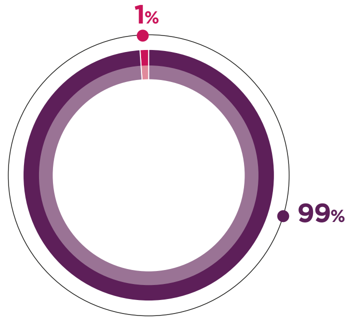
- France
- Germany & Austria
- Others
- Nordics
- United Kingdom

1.5.2.2 Outstandings at end December 2021

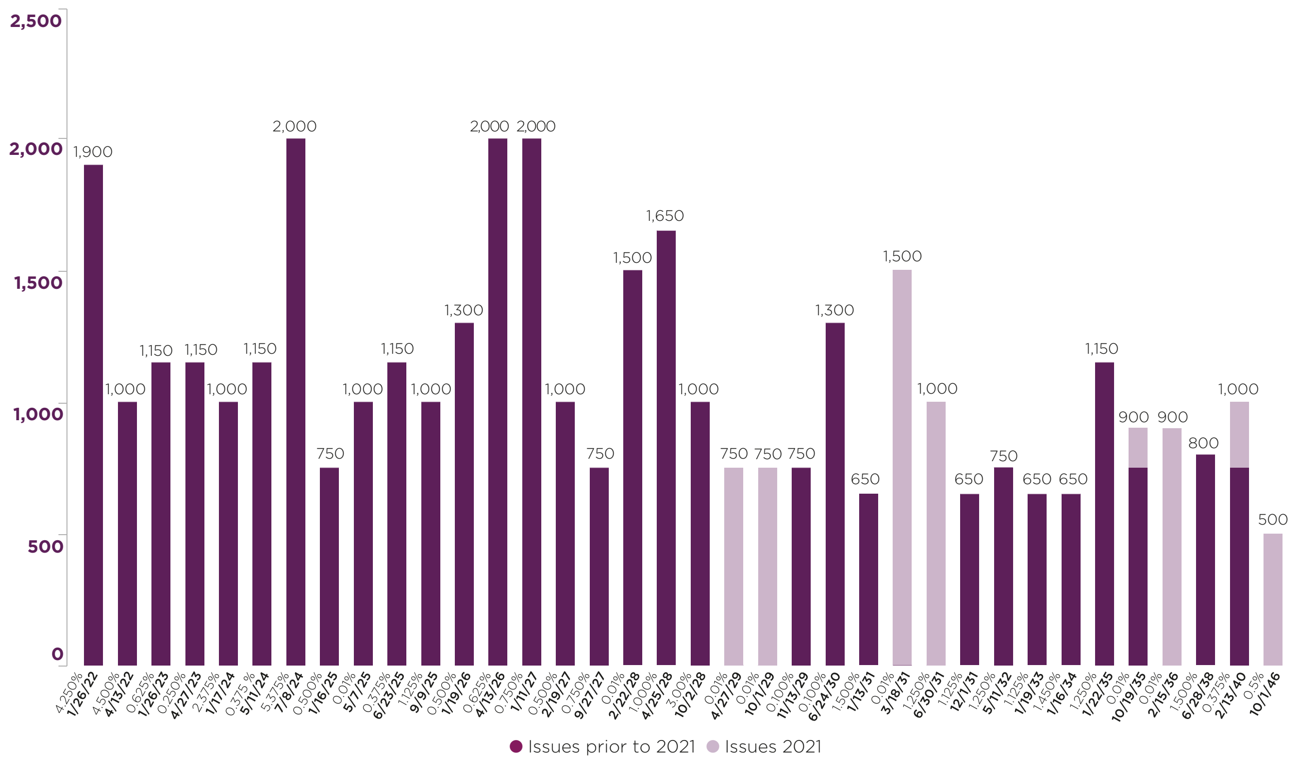
The outstanding amount of *obligations foncières* and registered covered bonds totaled EUR 52.3 billion in swapped value at the end of December 2021. This includes new issues of *obligations foncières* for EUR 5.9 billion and after amortization of issues maturing in 2021 for EUR 4.1 billion.

EUR billions, value after currency swaps	Q4 2020	Q4 2021
BEGINNING OF THE PERIOD	**49.8**	**50.5**
Issues	5.5	5.9
Amortizations	(4.8)	(4.1)
Buyback	(0.0)	(0.0)
END OF THE PERIOD	**50.5**	**52.3**

At December 31, 2021, issues can be broken down by currency as follows:

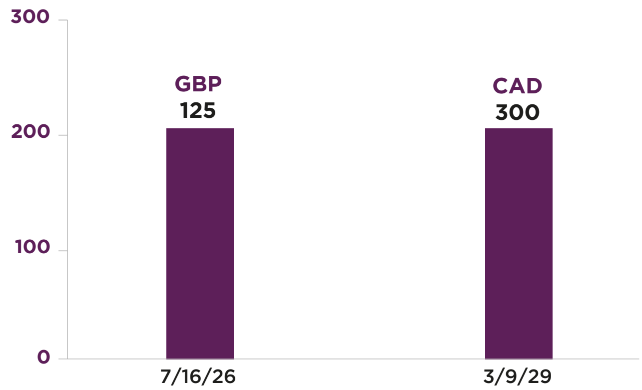


DETAIL OF BENCHMARK PUBLIC TRANCHES
EUR millions

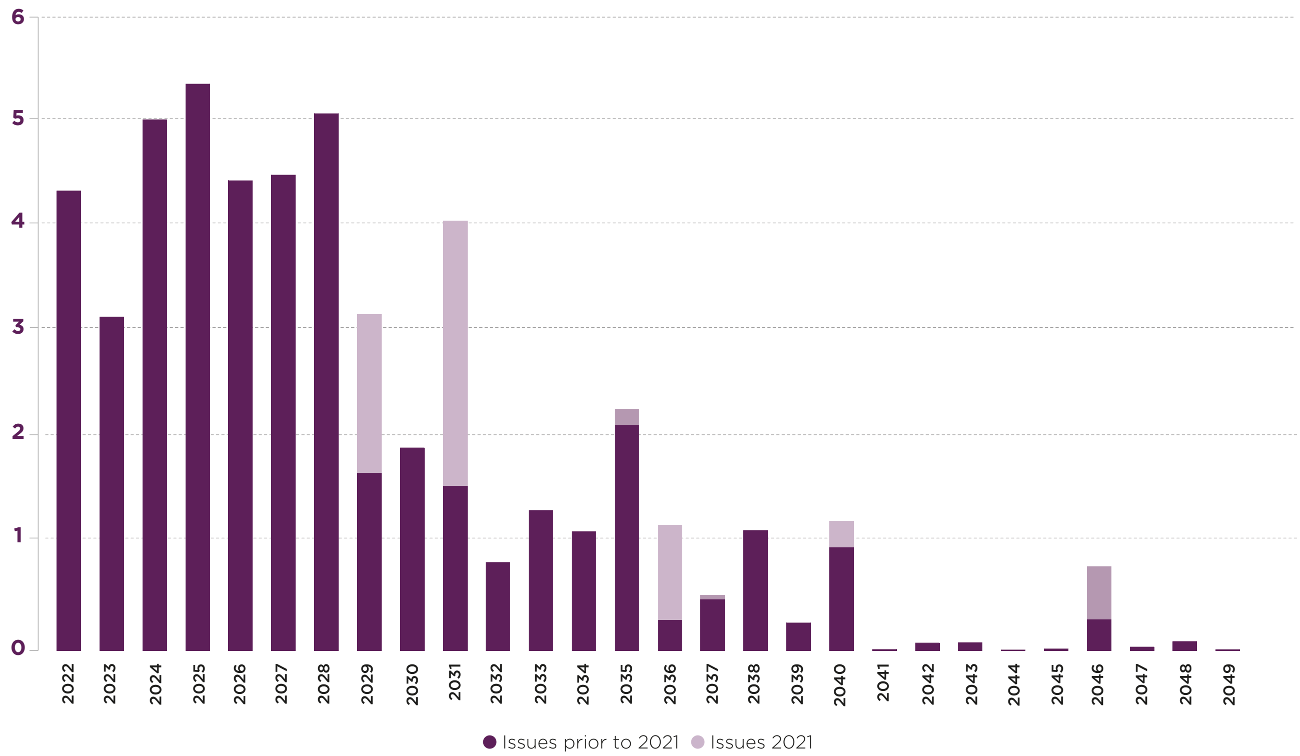


Total benchmark public tranches in euros amounted to EUR 39.1 billion.

MAIN TRANCHES IN OTHER CURRENCIES
Value in EUR millions (swapped value)



AMORTIZATION OF *OBLIGATIONS FONCIÈRES* AND REGISTERED COVERED BONDS
EUR billions

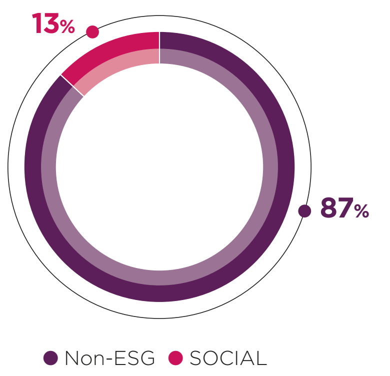


1.5.2.3 Social and green issues

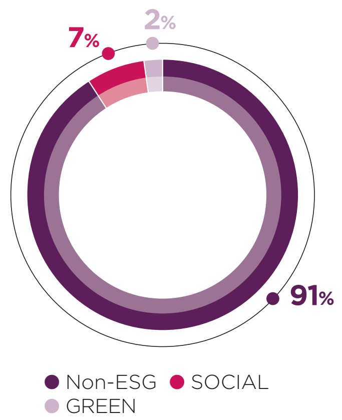
As part of the Group's CSR commitment, SFIL and Caisse Française de Financement Local carry out "social" and "green" theme issues. In 2019, Caisse Française de Financement Local carried out its first "social" issue for an amount of EUR 1 billion with an eight-year maturity and its first "green" issue for an amount of EUR 750 million with a ten-year maturity. Building on these successes, Caisse Française de Financement Local carried out a second social issue for an amount of EUR 1 billion with a five-year maturity, dedicated to the financing of French hospitals in April 2020. A third social issue for EUR 750 million with an eight-year maturity was carried out in April 2021. These issues were unanimously recognized as great successes by market observers. In particular, they benefited from very significant over-subscription rates, reflecting the interest of investors in this new type of responsible investment.

The share of thematic bonds in the 2021 issues and in the amount outstanding at the end of 2021, among the benchmark public issues in euro is presented below:

ISSUES 2021



OUTSTANDINGS AT END-2021

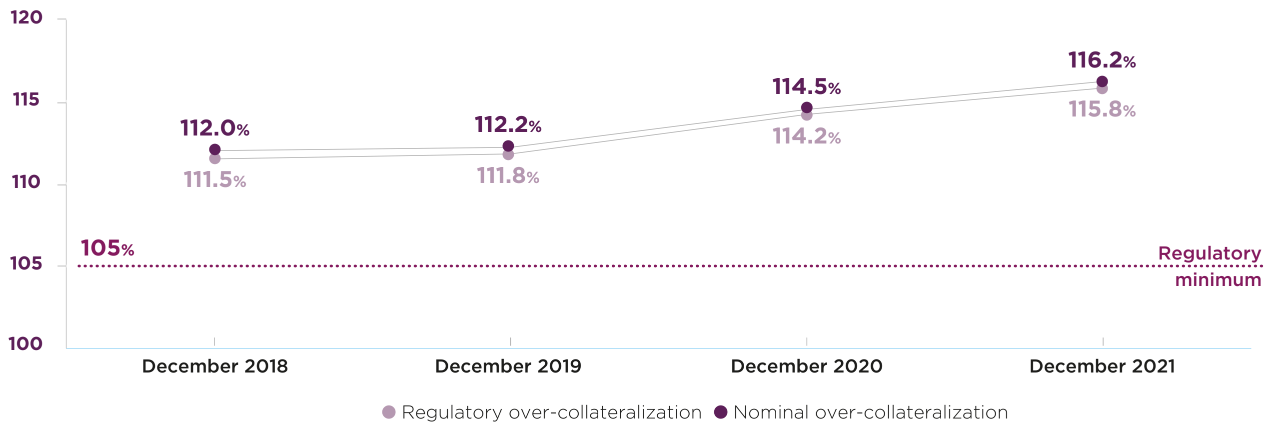


In addition, in November 2020 and November 2021, SFIL carried out two "green" bond issues each for an amount of EUR 500 million. The funds obtained from these issues have been or will be loaned by SFIL to Caisse Française de Financement Local, with the obligation to use them to finance green loans that it will purchase from La Banque Postale, which markets them. These loans granted by SFIL do not benefit from the privilege of the *société de crédit foncier*.

1.6 Coverage ratio

The over-collateralization ratio, which is calculated on the basis of regulatory standards governing *sociétés de crédit foncier*, is the ratio between the assets and the resources benefiting from the legal privilege. The legal minimum threshold is set at 105% and corresponds to the minimum level that Caisse Française de Financement Local had committed to maintain since its creation.

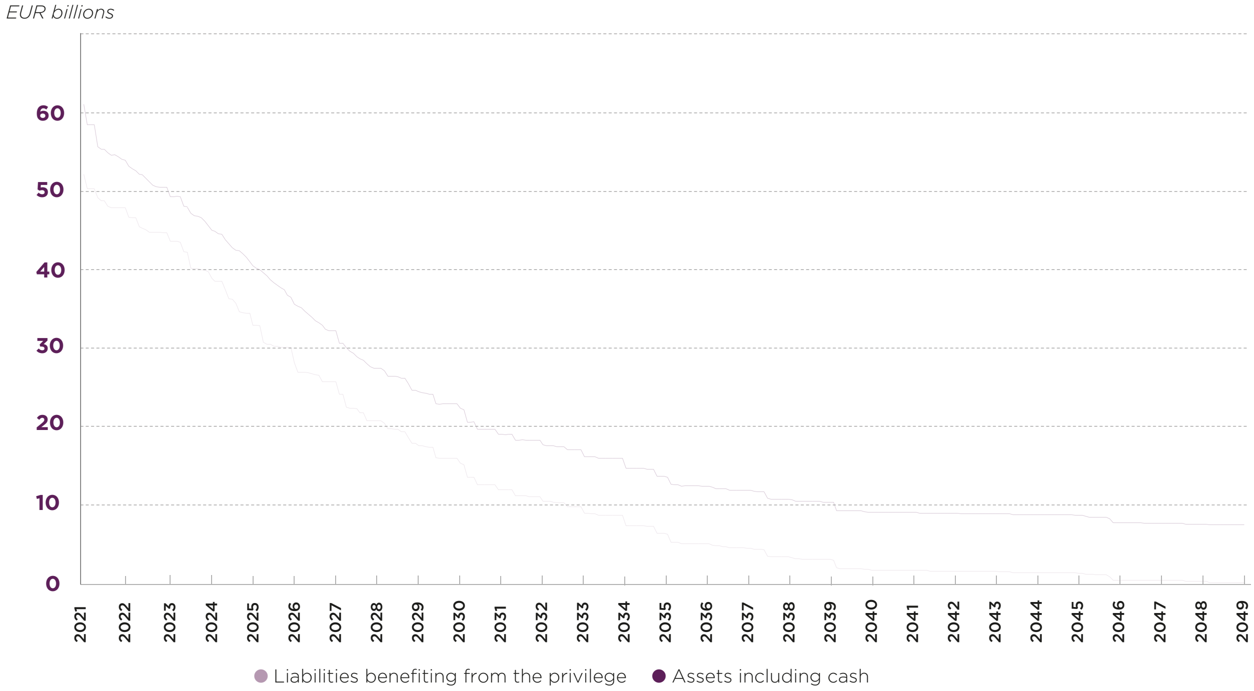
In practice, the over-collateralization ratio is regularly higher than 105%. To maintain a sufficient rating, a level of over-collateralization of more than 5% may be required. This requirement depends on the methodology used by each rating agency and the new assets and liabilities recorded on the balance sheet of Caisse Française de Financement Local. It is also variable over time. Caisse Française de Financement Local takes these specific requirements into account in the steering of its business to ensure that they are always met. It strives to keep its over-collateralization at a relatively stable level, as shown in the chart below.



Regulatory over-collateralization may differ from nominal over-collateralization. It is calculated on the basis of the rules determined by the Autorité de Contrôle Prudentiel et de Résolution (ACPR). In particular, these rules require different weighting levels according to the assets. Caisse Française de Financement Local's cover pool assets are weighted at 100%. The small difference between the two ratios is explained by the accrued interest taken into account for the calculation of the regulatory over-collateralization.

Any assets that Caisse Française de Financement Local may have assigned in guarantee to borrow funds from the Banque de France or any other banking institution would be excluded from the calculation of over-collateralization. Over-collateralization may also be illustrated by the gap between the amortization curves of the assets and liabilities benefiting from the legal privilege. The following graph presents the curves as of December 31, 2021.

FORECAST DISPOSAL OF ASSETS AND LIABILITIES AS OF DECEMBER 31, 2021



This graph assumes that the cash surpluses generated over time are retained in the cover pool.

1.7 Non-privileged debt

The asset surplus compared to *obligations foncières* and registered covered bonds (over-collateralization) and miscellaneous needs are financed by equity and debt that does not benefit from the privilege of the law on *sociétés de crédit foncier*. Such financing is obtained through the parent company, SFIL, under the financing agreement. As of December 31, 2021, they were made up of different loans with maturities that could run from one day to ten years with a Euribor, Eonia or €str index.

Temporary financing may also be obtained from the Banque de France. These debts do not benefit from the privilege provided by the law on *sociétés de crédit foncier*. They are guaranteed by loans and/or securities deposited as collateral in the Caisse Française de Financement Local account opened with the Banque de France. Since the creation of SFIL, except when it regularly uses very small sums to test the access procedure for such funding, Caisse Française de Financement Local has not contracted any loans from the Banque de France. Neither has it obtained financing from credit institutions other than its parent company.

Change in financing not covered by the privilege, excluding accrued interest not yet due:

EUR billions	12/31/2020	12/31/2021
SFIL	6.6	7.7
Banque de France	-	-
TOTAL	**6.6**	**7.7**

1.8 Net income for the year

1.8.1 Income according to IFRS

Caisse Française de Financement Local publishes its financial statements according to IFRS as adopted by the European Union in order to allow for a better understanding and a better comparability of its financial statements by international investors.

1

1.8.1.1 Net income for 2021

Net income is resented below in a synthetic manner;

IFRS *EUR millions*	**2020**	**2021**	**Change 2020/2021**
Interest margin	126	152	
Net commissions	16	1	
Net income from financial instruments at fair value through profit or loss	5	32	
Net income from financial instruments at fair value through equity	-	-	
Net income from derecognition of financial instruments at amortized cost	7	17	
Net income from reclassification of financial assets at amortized cost to financial assets at fair value through profit or loss	-	-	
Net income from reclassification of financial assets at fair value through equity to financial assets at fair value through profit or loss	-	-	
Other income and expense	-	-	
NET BANKING INCOME	**154**	**200**	**30%**
General operating expenses	(97)	(97)	
Taxes	(7)	(7)	
GROSS OPERATING INCOME	**50**	**96**	**92%**
Cost of risk	9	6	
NET INCOME BEFORE TAX	**59**	**102**	**73%**
Income tax	(16)	(45)	
NET INCOME	**43**	**57**	**33%**

As of December 31, 2021, net income was positive at EUR 57 million, versus EUR 43 million as of December 31, 2020.

1.8.1.2 Restated income excluding non-recurring items

Accounting income was strongly influenced by the following factors that should be mentioned in the analysis:

- the change in the fair value of financial assets classified as non-SPPI under IFRS 9 (*i.e.* assets whose cash flows do not consist solely of the payment of principal and interest). This impact is recognized in the income statement under net income from financial assets at fair value through profit or loss and is restated under non-recurring items:

EUR millions	**2020**	**2021**
Fair value adjustment of non SPPI financial assets	(2)	22

- the adjustments in fair value concerning hedges. The application of certain accounting standards or methods (see below) is a source of volatility in net banking income as shown in the table below.

EUR millions	**2020**	**2021**
Fair value adjustments on hedging	(6)	(27)

For the record, since 2013, fair value adjustments have an effect on existing hedging transactions the Company uses to cover its interest rate and foreign exchange risks. These adjustments impact asymmetrically the hedged item and its hedging derivative, although the Company applies strict financial hedging rules. This factor was the cause of major changes in net banking income. It concerns mainly:

- fair value adjustments introduced by IFRS 13: Credit Valuation Adjustment/Debit Valuation Adjustment (CVA/DVA);
- adjustment of fair value of derivatives that hedge the foreign exchange risk related to export credit refinancing loans which could not be formally documented as hedging derivatives, according to IAS 39, before the foreign currency loans are recorded on the Company's balance sheet.

These adjustments in the carrying amount are recorded in the income statement mainly in the item Net income from financial instruments at fair value through profit or loss.

In addition, Caisse Française de Financement Local reassessed the tax bases of assets and liabilities corresponding to temporary differences. As a result, the current level of deferred tax assets has been adjusted by approximately EUR -17 million.

The recurring income for 2020 and 2021 was as follows:

	2020			2021		
EUR millions	Accounting income	Non-recurring items	Recurring income	**Accounting income**	**Non-recurring items**	**Recurring income**
NET BANKING INCOME	**154**	**(8)**	**162**	**200**	**(5)**	**205**
Operating expenses	(104)	-	(104)	(104)		(104)
GROSS OPERATING INCOME	**50**	**(8)**	**58**	**96**	**(5)**	**101**
Cost of risk	9	-	9	6	-	6
PRE-TAX INCOME	**59**	**(8)**	**67**	**102**	**(5)**	**107**
Income tax	(16)	2	(18)	(45)	(16)	(29)
NET INCOME	**43**	**(6)**	**49**	**57**	**(21)**	**78**

Restated for the non-recurring items mentioned above, net banking income for the year rose from EUR 162 million in 2020 to EUR 205 million in 2021, an increase of EUR 43 million. Over the same period, net income rose by EUR 29 million, from EUR 49 million to EUR 78 million.

1.8.1.3 Analysis of recurring net income

The EUR 43 million increase in net banking income is mainly due to the improvement in the interest margin of EUR 27 million (see note 5.1 to the IFRS financial statements) thanks to the repayment of obligations foncières with a higher spread than those recently issued.

General operating expenses of Caisse Française de Financement Local, most of which consist of invoices from its parent company, SFIL, for its operational management, are stable.

The cost of risk recorded a reversal of provisions of EUR 6 million in 2021, thanks to the reduction of Stage 2 outstanding loans (mainly a reduction in the credit watchlist portfolio). Provisions are presented in section 1.12.2.1.6 of this report.

There was a EUR -29 million income tax expense as of December 31, 2021; it notably reflects the non-deductibility of the contribution to the Single Resolution Fund.

1.8.1.4 Analysis of the impact of the Covid-19 pandemic health crisis on net recurring income

The health crisis had a very limited impact on Caisse Française de Financement Local's net income as of December 31, 2021. This confirms the SFIL Group's resilience to macro-economic shocks in general and this one in particular.

Recurring income was not impacted by the crisis in 2021.

1.8.2 Income according to French GAAP

Net income is resented below in a synthetic manner;

French GAAP *EUR millions*	2020	2021	Change 2020/2021
Interest margin	152	201	
Net commissions	16	1	
Provisions and income on trading portfolio	1	-	
Provisions and income on securities	10	4	
Other income and expense	-	-	
NET BANKING INCOME	**179**	**206**	**15%**
General operating expenses	(97)	(97)	
Taxes	(7)	(7)	
GROSS OPERATING INCOME	**75**	**102**	**36%**
Cost of risk	2	7	
INCOME FROM OPERATIONS	**77**	**109**	**42%**
Gains or losses on fixed assets	-	-	
Income tax	(19)	(28)	
NET INCOME	**59**	**81**	**37%**

The Company's activity is managed in accordance with IFRS (as adopted by the European Union). The publication of the financial statements according to French GAAP meets legal requirements and is used to calculate the income subject to income tax.

Readers are reminded that following the transition from IAS 39 to IFRS 9, the accounting treatment under IFRS of early repayment penalties on loans and of associated hedging swap termination fees has converged with these items' accounting treatment under French GAAP. The early repayments of Caisse Française de Financement Local's loans made as part of sensitivity reduction operations give rise, in accordance with IFRS 9, to the derecognition of the original loan and the recognition of a new loan. This results in the recognition in net banking income of the excess of the restructured margin of the loan (taking into account the effects of the hedging) compared to the market conditions observed at the restructuring date.

As a reminder, most of these transactions did not result in derecognition of the original loan under the previous standards as they complied with the 10% test provided for in IAS 39 AG 62. Under French GAAP, the early repayment penalty net of the associated hedging swap termination fees is also recognized in net banking income. However, there may still be a difference between, on the one hand, the surplus margin recognized under IFRS, which is calculated based on market conditions when the loan is restructured, and, on the other hand, the early repayment penalty recognized under French GAAP, which is generally calculated in accordance with the original loan's contractual provisions.

Furthermore, the accounting treatment of termination fees on hedging swaps designed to directly match assets with liabilities differs from the treatment applied in the financial statements prepared under IFRS. These swap termination fees are usually amortized in the IFRS financial statements, while under French GAAP they are generally recognized immediately in net banking income. This accounting treatment may lead to recognition of the results earlier than would a systematic amortization approach.

The methods used under French GAAP, which have not changed in the last two years, are described in the financial statements presentation and measurement rules in the notes to the annual financial statements, in the sections entitled Customer loans, Micro-hedging transactions and Macro-hedging transactions.

Net banking income was up by EUR 27 million, or 15% compared to 2020. It increased from EUR 179 million to EUR 206 million.

This increase is mainly due to the improvement in the interest margin of EUR 49 million (see note 5.1 to the annual financial statements) thanks to the repayment of obligations foncières with a higher spread than those recently issued. It also includes the balances recorded upfront associated with the de-hedging of macro-hedged assets in the context of Caisse Française de Financement Local issues (EUR -86 million) and the de-hedging of micro-hedged issues as part of the acquisition of receivables from LBP (EUR +79 millions).

General operating expenses of Caisse Française de Financement Local, most of which consist of invoices from its parent company, SFIL, for its operational management, are stable.

Cost of risk is positive due to reversals of general provisions related to the reduction in the watchlist portfolio.

Net earnings increased by EUR 22 million between the two periods, from EUR 59 million in 2020 to EUR 81 million in 2021.

1.8.3 Proposed appropriation of net income

In previous years, Caisse Française de Financement Local has made the following distributions:

Year of distribution	On the net income for the financial year	Amount distributed (EUR)	Amount per share (EUR)	Number of shares
2000	1999	3,600,000	1.20	3,000,000
2001	2000	-	-	4,000,000
2002	2001	-	-	4,500,000
2003	2002	-	-	4,500,000
2004	2003	120,000,000	24.00	5,000,000
2005	2004	62,000,000	10.00	6,200,000
2006	2005	84,320,000	12.40	6,800,000
2007	2006	116,280,000	15.30	7,600,000
2008	2007	70,080,000	8.00	8,760,000
2009	2008	113,520,000	12.00	9,460,000
2010	2009	133,560,000	12.60	10,600,000
2011	2010	110,075,000	9.25	11,900,000
2012	2011	15,080,000	1.16	13,000,000
2013	2012	-	-	13,150,000
2014	2013	-	-	13,150,000
2015	2014	-	-	13,150,000
2016	2015	-	-	13,150,000
2017	2016	35,110,500	2.67	13,150,000
2018	2017	49,950,000	3.70	13,500,000
2019	2018	40,500,000	3.00	13,500,000
2020	2019	45,225,000	3.35	13,500,000
2021	2020	48,600,000	3.60	13,500,000

The Ordinary Shareholders' Meeting will be asked to distribute a dividend in the amount of EUR 85.3 million and to allocate net income for the financial year as follows:

Allocation of net income	EUROS
NET INCOME FOR THE YEAR	**81,259,053.27**
Legal reserve (5%)	(4,062,952.66)
INCOME AVAILABLE	**77,196,100.61**
Retained earnings	8,224,997.35
INCOME AVAILABLE FOR DISTRIBUTION	**85,421,097.96**
PROPOSED DIVIDENDS	**85,320,000.00**
Retained earnings after allocation	101,097.96

1.9 Commitments granted - commitments received

In addition to exposures in the form of interest rate or foreign exchange derivatives, the off-balance sheet commitments of Caisse Française de Financement Local consist of financing commitments and guarantee commitments.

The total amount of financing commitments given as of December 31, 2021 was EUR 5.1 billion. These financing commitments given correspond to loan agreements signed but not yet disbursed and unexpired credit offers. They are mainly commitments to SFIL related to the export credit refinancing business line.

Financing commitments received consisted of the authorized overdraft in the current account as stipulated in the financing agreement signed with SFIL, for EUR 50 million.

As for the guarantee commitments received, they mainly consist of:

- unconditional and irrevocable enhanced guarantees received from the French State in connection with the export credit refinancing activity, for EUR 10.1 billion;
- guarantees received on loans to public sector customers, for EUR 1.6 billion.

1.10 Outlook for 2022

2022 marks the beginning of the SFIL Group's new strategic plan, "#Objectif 2026", which aims to continue and accentuate its expansion within a powerful group, Caisse des Dépôts.

The plan is based on three areas:

- make full use of the strengths of the SFIL Group's public development bank model, through its strong issuance capacity and its recognized know-how in its two business lines;
- broaden its intervention horizons in response to the challenges of recovery plans and the climate transition;
- initiate a new phase of its internal transformation with new ways of working in hybrid mode and greater openness to the Caisse des Dépôts Group, and by making itself better known to the outside world.

In 2022, the SFIL Group will continue its CSR (corporate social responsibility), actions with the realization of thematic "social", "green" or "sustainable" bond issues, the integration of the impacts of the new European taxonomy in its activities and the integration of climate risks in its risk analysis methodological criteria.

As regards the financing of loans to the French local public sector (local authorities and public hospitals), activity should increase from 2022 thanks to the dynamism of the partnership formed with La Banque Postale (LBP) and the implementation of a new partnership with Banque des Territoires (Caisse des Dépôts) to refinance a complementary offer to that of LBP. Caisse Française de Financement Local, SFIL and their partners will support the post-Covid economic recovery as part of the government recovery plan for investments in local authorities and the "*Ségur de la Santé*" plan for investments in public health institutions. In particular, they will encourage the development of financing for the environmental transition through the current range of green loans (local authorities) and social loans (hospitals) and *via* the development of a new range of social loans to local authorities. Production should, therefore, be at a sustained level, but will nevertheless be conditioned by the attractiveness of this type of financing for local authorities and by La Banque Postale's leadership position in this market.

With regard to the refinancing of large export credits guaranteed by the French State, in support of French exporters, Caisse Française de Financement Local will continue to finance SFIL's activity in this area. The outlook for 2022 is very favorable, particularly in the transport, road and rail infrastructure, cruise – whose activity has resumed since the end of 2021 – defense and space sectors, and potentially aviation and energy. The Group will thus support the post-Covid economic recovery of the various French export sectors. In addition, as part of its strategic plan, the SFIL Group wishes to broaden the type of refinancing offered for sustainable projects in which there is a French interest and which call upon sources of financing covered by a European or multilateral public guarantee. SFIL and Caisse Française de Financement Local also intend to be able to intervene in the credit refinancing system covered by the new guarantee for projects with a strategic interest for the French overseas economy, subject to obtaining the necessary authorizations from the European Commission.

The financing needs of the two growing business lines of the SFIL Group will be mainly covered by Caisse Française de Financement Local. 2022 will be marked by the expansion of its bond offering with a new type of "sustainable" thematic bond intended to finance a new range of social loans to local authorities marketed *via* La Banque Postale. Its high refinancing capacity has demonstrated strong resilience since the start of the health crisis linked to the Covid-19 pandemic, with excellent conditions for access to financial markets maintained. Caisse Française de Financement Local's issuance program in 2022 will be relatively modest, since it voluntarily anticipated in 2021 the covering of its future needs due to excellent market conditions and in order to have some leeway to manage any increase in volatility. Thus, Caisse Française de Financement Local plans to use the financial markets in 2022 for volumes between EUR 3 and 5 billion, mainly through several benchmark-sized euro-denominated *obligations foncières* on the public primary market, with a medium/long maturity adapted to the profile of the assets financed.

The SFIL group will closely monitor the international situation and macroeconomic developments (impacts related to the geopolitical environment, low interest rates and inflation) in order to anticipate their effects. It will pay particular attention to regulatory changes (completion of Basel III, the LCR regulation and CSR-related texts), the challenges of which have been included in the new strategic plan, and the possible impacts of the Covid-19 pandemic (on its operations, customers and risks).

Lastly, Caisse Française de Financement Local will comply with the new French legal and regulatory framework resulting from the European directive on covered bonds of November 2019, which will be applicable from July 8, 2022.

1.11 Internal control and preparation of accounting and financial information

1.11.1 General description of the internal control organization

SFIL is one of the large banks that has been under the direct supervision of the European Central Bank (ECB) since November 2014 within the framework of the Single Supervisory Mechanism (SSM). In addition, as a *société de crédit foncier*, Caisse Française de Financement Local is subject to special and additional oversight by the Autorité de Contrôle Prudentiel et de Résolution (ACPR).

Caisse Française de Financement Local, which has no employees of its own, has delegated the exercise of its internal control functions to its parent company, SFIL, pursuant to the management agreement that binds the two companies. Consequently, internal control at SFIL, as described below, also fulfills the regulatory obligations of Caisse Française de Financement Local in this regard.

1.11.1.1 Responsibilities of internal control and the general architecture of the internal control system

The objectives and organization of the SFIL Group's internal control system comply with the provisions of the amended ministerial amended decree of November 3, 2014. This text requires that an internal control system be set up and specifies in particular the principles relating to:

- the systems to control transactions and internal procedures;
- accounting organization and data processing;
- risk and results measurement systems;
- risk monitoring and control systems;
- the verification of compliance;
- the internal control documentation and information system.

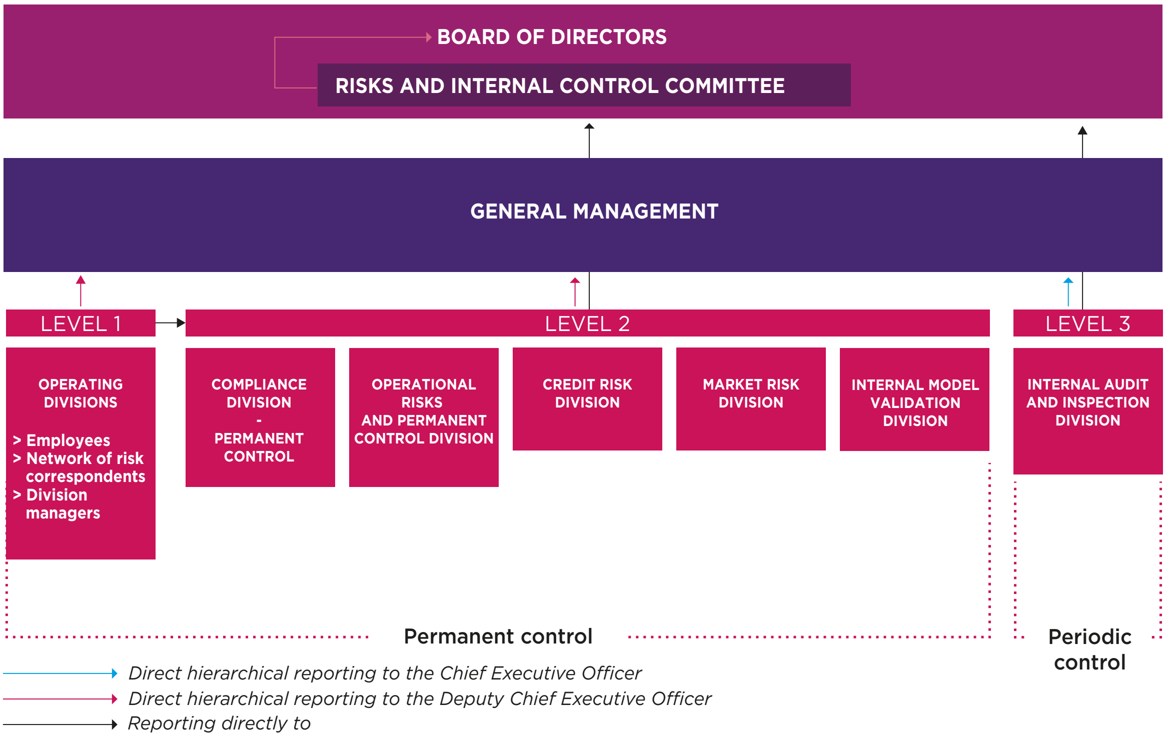
Its main purpose is to ensure the overall control of the SFIL Group's risks and to provide reasonable, but not absolute, assurance of the SFIL Group's attainment of the objectives that it has set in this area.

The internal control objectives in effect at SFIL on behalf of Caisse Française de Financement Local aim more precisely to:

- verify the effectiveness of the risk control system to ensure that risks are in line with the risk appetite that its governance bodies have defined;
- verify the reliability and relevance of the accounting and financial information produced;
- monitor compliance with laws, regulations (including those specific to the SCF) and internal policies;
- monitor the operational security of the SFIL Group's processes to ensure that transactions are conducted properly.

General architecture of the SFIL Group internal control system

Three levels of control



In accordance with the amended *arrêté* of November 3, 2014, the general architecture of the SFIL Group's internal control system is based on three levels of control, under the ultimate responsibility of SFIL's Chief Executive Officer and the supervision of SFIL's Board of Directors.

The permanent control is provided by the first two levels which allow the internal control procedures to be implemented without interruption. The Operational Risks and Permanent Control division (ORPCD) and the Compliance division are in charge of second-level permanent control activities. The permanent control of the anti-money laundering and anti-terrorist financing system is also part of the compliance control system. The periodic control at the third level is a verification and assessment function for the first two levels, with its own audit cycle.

The functions for the second and third levels are independent control functions. They report directly to SFIL's General Management and the Executive Board of Caisse Française de Financement Local. In application of the *arrêté* of February 25, 2021, amending the *arrêté* of November 3, 2014, the permanent control functions are placed under the responsibility of SFIL's Deputy Chief Executive Officer, who is appointed as the effective manager responsible for the consistency and effectiveness of permanent control. The third level of control is placed under the responsibility of SFIL's Chief Executive Officer, who is appointed as the effective manager responsible for the consistency and effectiveness of periodic control. Two members of the Executive Board of Caisse Française de Financement Local were also appointed respectively to be responsible for the consistency and effectiveness of permanent control and responsible for the consistency and effectiveness of the internal audit function for Caisse Française de Financement Local.

These functions also report on the performance of their duties to the SFIL Risks and Internal Control Committee, a specialized committee of the Board of Directors, which also acts on behalf of Caisse Française de Financement Local. Every half-year, they also present their activity reports, mapping and control plan to the Executive Board of Caisse Française de Financement Local for approval. Once approved, they are presented to the Supervisory Board.

They may be heard by the Risks and Internal Control Committee, by the Board of Directors of SFIL and by the Executive Board of Caisse Française de Financement Local at their request. They also have the right of initiative and may directly contact SFIL's Risks and Internal Control Committee, SFIL's Board of Directors or the Executive Board of Caisse Française de Financement Local if they consider that an event that could have a significant impact must be submitted to it.

The players in the second and third levels of control meet as needed in the Internal Control Coordination Committee, which coordinates the SFIL Group's internal control system.

1.11.1.2 Supervisory body and effective managers

SFIL's Board of Directors

The internal control system is placed under the supervision of SFIL's Board of Directors.

SFIL's Board of Directors directly exercises key responsibilities in terms of internal control:

- firstly, it ensures that an adequate and effective framework with a clear organizational structure and independent and effective risk management, compliance and audit functions exists;

- on the proposal of the effective managers, it determines the strategy and guidelines of the internal control activity and oversees their implementation;
- it reviews the activity and results of internal control at least twice a year;
- it regularly examines, assesses and controls the effectiveness of the governance system, including in particular the clear definition of the responsibilities of internal control, including the procedures for declaring risks, and takes the appropriate measures to remedy any shortcomings that it observes;
- it validates the Risk Appetite Statement, approves and regularly reviews the strategies and policies governing the taking, management, monitoring and control of risks and approves their overall limits.

SFIL's Risks and Internal Control Committee

For the purposes of carrying out its responsibilities, SFIL's Board of Directors relies on the Risks and Internal Control Committee, of which it is an offshoot, which also acts on behalf of Caisse Française de Financement Local and which is responsible for:

- advising SFIL's Board of Directors on risk management and monitoring as well as risk appetite, taking into account all types of risks in order to ensure that they are in line with the bank's strategy and objectives;
- conducting a regular review of (i) the strategies, policies, procedures, systems, tools and limits used to detect, measure, manage and monitor liquidity risk as well as (ii) the underlying assumptions. It communicates its findings to SFIL's Board of Directors;
- examining different scenarios, including stress scenarios, to assess how the bank's risk profile would react to external and internal events;
- assessing the effectiveness of internal control, in particular the consistency of the systems for measuring, monitoring and controlling risks, particularly with regard to the Risk Appetite Statement approved by the Board of Directors of SFIL and the Supervisory Board of Caisse Française de Financement Local, and to propose, as necessary, additional actions in this respect;
- carrying out the monitoring of SFIL Group's permanent control, compliance and periodic control system; to this end, it analyzes the reports on internal control and the measurement and monitoring of risks, the activity reports of the Internal Audit division, and any significant correspondence with supervisors and reports thereon to SFIL's Board of Directors;
- giving an opinion on the compensation policy and practices, notably whether they are compatible with the situation of the Company with regard to the risks to which it is exposed, its capital, its liquidity as well as the probability and staggering of expected benefits over time.

The heads of the internal control functions provide SFIL's Board of Directors and effective managers with a reasoned opinion on the level of control of actual or potential risks, particularly with regard to the Risk Appetite Statement defined and propose any improvement actions they deem necessary. The reports of the internal control functions are presented and discussed within the Risks and Internal Control Committee. The heads of Internal Audit, the Risks division and the Compliance division may be heard by SFIL's Board of Directors or one of its specialized committees, possibly without the presence of the effective managers.

SFIL's effective managers, namely the Chief Executive Officer and the Deputy Chief Executive Officer, are responsible for the overall internal control system. As such and without prejudice to the prerogatives of SFIL's Board of Directors, they:

- determine the essential policies and procedures governing this system;
- directly supervise the functions exercising independent control and provide them with the means enabling them to carry out their responsibilities effectively;
- set the Group's risk-taking policies, validate the most important decisions in this area and, if necessary, make the final decisions as part of the escalation process;
- periodically assess and monitor the effectiveness of internal control policies, systems and procedures and take appropriate measures to remedy any shortcomings;
- are sent the internal control reports prepared by the three control functions;
- report to SFIL's Board of Directors or its relevant committee on the operation of this system.

Executive Board of Caisse Française de Financement Local

The Executive Board of Caisse Française de Financement Local is the front-ranking guarantor of the efficient operation of the Company's internal control procedures. In light of the structure of Caisse Française de Financement Local and the management agreement which binds it to its parent company, the Executive Board relies on the governance and organization of internal control in effect at SFIL and in particular on:

- SFIL's Risks and Internal Control Committee, attached to SFIL's Board of Directors, the role of which, described in the French Commercial Code and in the amended decree of November 3, 2014, is described in detail above;
- SFIL's Chief Executive Officer and its Deputy Chief Executive Officer, effective managers within the meaning of the regulations, who are responsible for the efficient operation of the SFIL Group's internal control system, within their respective scope as defined in the general architecture of the internal control system. They allocate the resources that the various divisions in charge of control need to carry out their responsibilities, and verify that the objectives are met and that the internal control system is adapted to the regulations and SFIL's and Caisse Française de Financement Local's activities. To do this, they regularly receive activity reports and the results of the checks carried out. These reports are also presented and discussed at meetings of Operational Risks and Permanent Control Committee and SFIL's Executive Committee, and the issues raised engender action and decisions in order to ensure continuous improvement in internal control.

1.11.1.3 The first level of control: control carried out at operational level

First level of the internal control system, employees, risk correspondents and line managers of SFIL's operating divisions are responsible for analyzing the risks of each transaction that they handle according to their field of activity, and defining and describing the first-level controls relating to these transactions in the operational procedures, implementing them, checking that these controls are effectively adapted to these risks and modifying them if necessary. The internal control system is in fact the responsibility of each employee, whatever their hierarchical level and their responsibilities. To this end, they rely on the policies, limits and indicators with a clear separation between the launch of operations and their validation, control or settlement. These policies, limits and indicators are defined by several internal committees. They are composed of operating, support, and control staff, and chaired by a member of the Executive Committee of SFIL.

1.11.1.4 The second level of control: permanent control excluding compliance

The SFIL Group's second level permanent controls are carried out by the Operational Risks and Permanent Control division (ORPCD) and by the Compliance division. Those carried out by the Compliance division are described in section 1.11.1.5.

1.11.1.4.1 Objective

The SFIL Group's permanent control system, excluding compliance, aims to verify the:

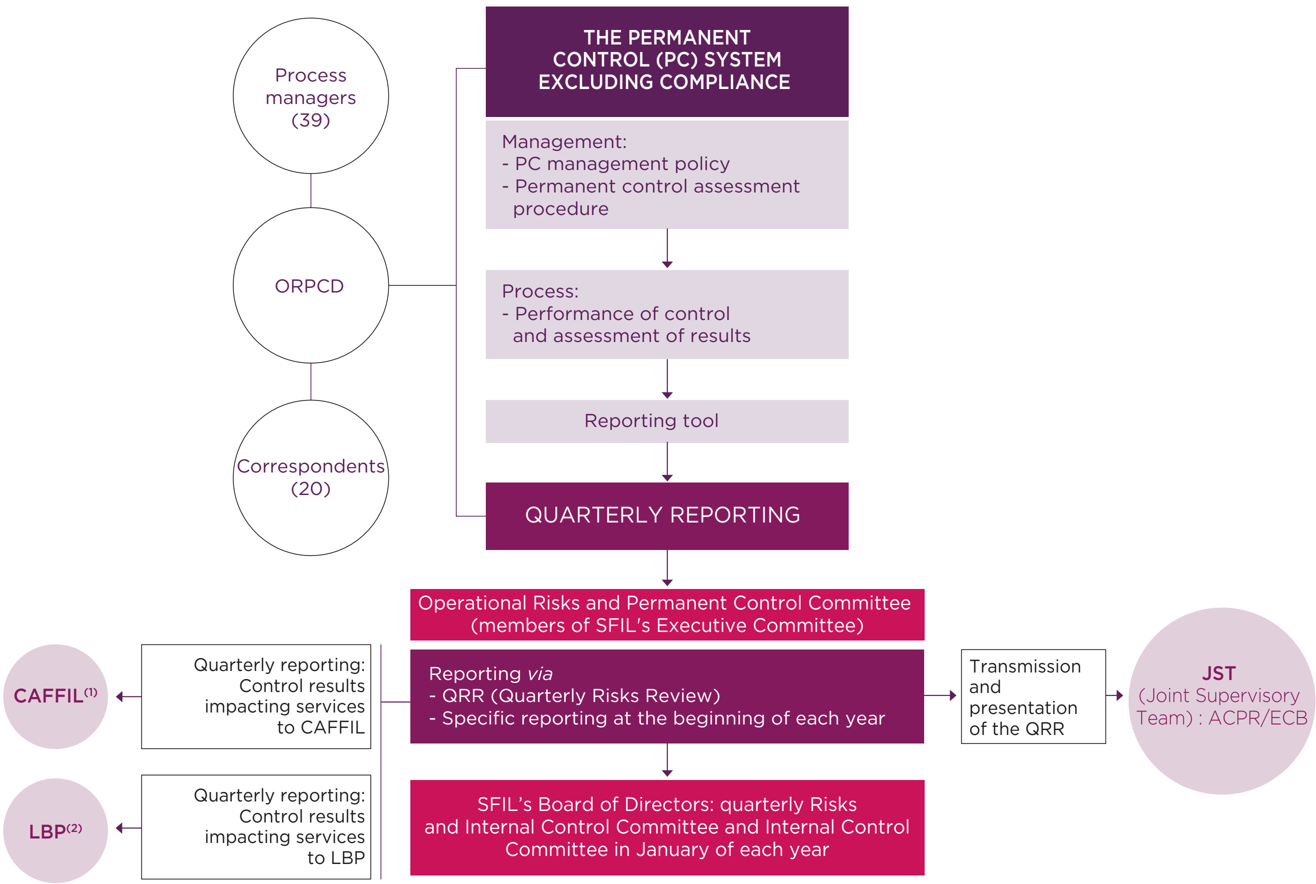
- effectiveness and solidity of the risk control system (excluding non-compliance risk);
- effectiveness of the operational control system and internal procedures;
- quality of the accounting and financial information and quality of the information systems.

The permanent control system applies to all SFIL Group's divisions, activities and processes (SFIL and Caisse Française de Financement Local).

1.11.1.4.2 Organization and governance

The system is steered by the Operational Risks and Permanent Control division (ORPCD) with six employees and a manager. It relies on:

- a network of correspondents located within the operating divisions who are responsible for performing and monitoring certain controls;
- process managers who are responsible for permanently verifying the solidity and effectiveness of the internal control system for their perimeter;
- the Operational Risks and Permanent Control division, which manages the system and performs second-level controls on operational risks.



(1) *Within the framework of the SFIL/CAFFIL agreement (Caisse Française de Financement Local).*
(2) *Within the framework of the SFIL/LBP agreement (La Banque Postale).*

1.11.1.4.3 Permanent control system excluding compliance

Permanent control excluding compliance is based on a control plan covering the various divisions, activities and processes of the SFIL Group. These controls are defined in conjunction with the operating divisions and reviewed each year, in order to adapt them to the situation of the SFIL Group, by integrating:

- the results of the controls carried out over the past year and their appropriateness to the risks to be hedged;
- the review of incidents raised;
- the results of the operational risk mapping by process;
- the recommendations of the Internal Audit division, the external auditors and the regulator;
- the new activities and new processes of the SFIL Group.

In addition, a project to overhaul the permanent control plan was initiated at the end of 2021 to systematically review each control in order to verify its adequacy to the corresponding risk and to replace it with other controls that would are more relevant.

Missions	2021 activities and results
Performance and assessment of permanent controls	Permanent control plan consisting of 134 controls
Regular monitoring of the action plans	13 action plans opened as at 12/31/2021 7 action plans implemented during the period
Start of the overhaul of the permanent control plan	Overhaul of the permanent controls of two test processes (accounting and management control)
Internal and external reporting	4 Operational Risks and Permanent Control Committee meetings
	Contribution to 4 Quarterly Risk Reviews (QRR) for the Risks and Internal Control Committee transmitted to the ECB
	1 Risks and Internal Control Committee meeting dedicated to internal control
Reporting to the Executive Board of Caisse Française de Financement Local	Reports, by the Caisse Française de Financement Local coordination division, of the results of permanent controls impacting SFIL's services to CAFFIL, based on the Quarterly Risk Reviews (RTR)
	Presentation of its annual report by the ORPCD
Reporting to the Supervisory Board of Caisse Française de Financement Local	4 reports by the Executive Board based on the RTR or the ORPCD annual report

1.11.1.5 The second level of control: compliance control

1.11.1.5.1 Objective

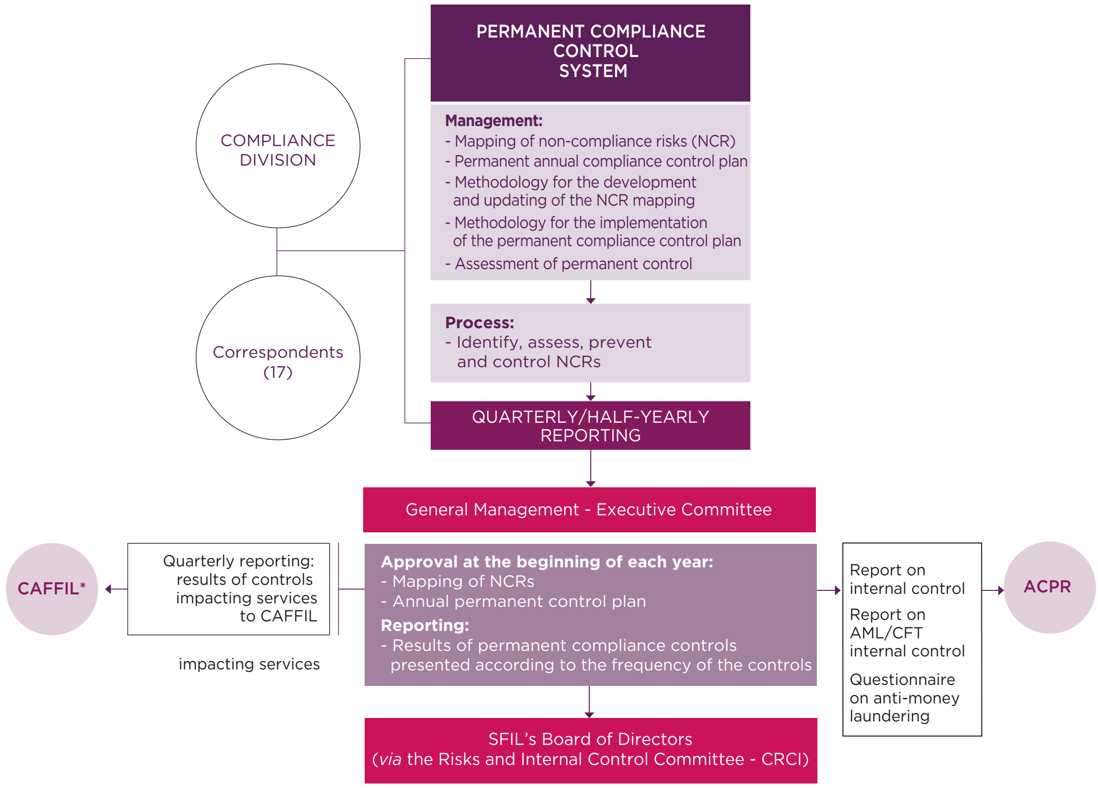
The permanent compliance control system aims to ensure:

- compliance with laws, regulations, ethics rules and internal instructions;
- protection for the SFIL Group's reputation;
- ethics in professional behavior;
- prevention of conflicts of interest;
- protection of the interests of investors and clients and the integrity of the markets;
- the fight against money laundering, corruption and the financing of terrorism;
- compliance with financial sanctions or embargoes.

The identification and monitoring of compliance with the regulations relating to certain specific sectors are the responsibility of the second level of control which has the appropriate resources and expertise (accounting standards, prudential ratios, monitoring of large exposure risk, IT security, etc.). Moreover, the Compliance division control scope does not extend to the control of compliance with rules outside the banking and financial sphere (labor and social security law, regulations regarding personal and property security, etc.), which other divisions are responsible for monitoring.

It applies to all SFIL Group divisions, activities and processes.

1.11.1.5.2 Organization and governance



* *Within the framework of the SFIL/CAFFIL agreement*

Permanent compliance control is the responsibility of SFIL's Compliance division, which is independent of the operating teams. More precisely, the permanent compliance control system is segregated within a "permanent control" unit of the Compliance division (for a more detailed description of the organization and governance of the compliance control system, see section 1.12.2.7 of the management report – Risks of non-compliance). The system also covers Caisse Française de Financement Local, a subsidiary of SFIL, having delegated its management thereto in application of article L.513-15 of the French Monetary and Financial Code.

The Compliance division also relies on internal systems for reporting breaches, infringements and malfunctions, namely:

i) a network of 17 "risk" correspondents; and

ii) a professional or ethical whistleblowing procedure. No alert was sent in 2021 to the General Secretary, Director of Compliance, on risks relating to the compliance system.

To ensure the effectiveness of the non-compliance risk management system, the Compliance division defines an annual control plan based on the identification and assessment of non-compliance risks. This mapping is reviewed at least once a year in order in particular to take into account changes in SFIL Group's activities, the results of compliance checks carried out in N-1, compliance incidents and regulatory developments. The risk assessment methodology is identical to that of the other two control functions.

The risk mapping and the control plan are presented for validation at the beginning of each year to the effective managers of SFIL and to the Executive Board of Caisse Française de Financement Local. They are also presented to the Risks and Internal Control Committee for approval at a meeting of SFIL's Risks and Internal Control Committee dedicated to hearing from the risk management, compliance, and periodic control officers, not attended by SFIL's General Management.

The action plans following the results of permanent compliance controls are monitored by the Compliance division and are the subject of periodic reports filed with the governing bodies of SFIL and Caisse Française de Financement Local.

The effective managers of SFIL and the Executive Board of Caisse Française de Financement Local, as well as the Board of Directors of SFIL, and the Supervisory Board of Caisse Française de Financement Local are given regular updates on the compliance control system. The General Secretary presents the results of the permanent compliance controls to the Executive Committee of SFIL, the Executive Board of Caisse Française de Financement Local, and to SFIL's Risks and Internal Control Committee according to their completion frequency (quarterly or half yearly). These bodies examine the results of the controls and the progress made with the action plans. They assess the relevance of the controls, decide on any improvements to be made, and, more generally, rule on the key challenges connected with the compliance system.

1.11.1.5.3 Permanent control activities carried out by the Compliance division

During the 2021 financial year, the Compliance division carried out the following work in the context of its missions in relation to permanent compliance controls:

Missions	2021 Performance
Identifying and assessing non-compliance risk	• Presentation of the updated compliance risk mapping including the corruption risk mapping to SFIL's Risks and Internal Control Committee on January 28, 2021. • A total of 61 non-compliance risks were mapped in 2021 compared to 60 in 2020.
Controlling the risks of non-compliance	• The 2021 control plan was presented to SFIL's Risks and Internal Control Committee on January 28, 2021. The plan included 26 thematic controls to be carried out on a quarterly, half-yearly or annual basis with no change compared to 2020. • In the course of the 2021 financial year and following the integration of SFIL into the CDC group, the control plan was revised in order to be consistent with the CDC internal control structure. All the changes made were presented to the governing bodies of Caisse Française de Financement Local for approval. • 100% of the controls were implemented in accordance with the amended 2021 plan.
Defining and monitoring action plans	• Anomalies or non-compliances identified as part of the compliance controls were the subject of specific action plans proposed to the relevant SFIL divisions in charge of their implementation. These compliance action plans were continuously monitored by the Compliance division during 2021. • 62 new action plans were launched during the period. As of December 31, 2021, 19 action plans remained open, compared with 22 as of December 31, 2020, reflecting an overall improvement in the SFIL Group's non-compliance risk profile.
Informing management and the governance bodies	The results of the 2021 permanent compliance controls along with the follow-up of the action plans were presented, highlighting the key risks identified, actions taken, and the actions still to be taken: • each half year to Caisse Française de Financement Local's Executive Board (in addition to the reports examined by the Executive Board at the meetings preceding the quarterly Supervisory Board Meetings); • to SFIL's Risks and Internal Control Committee of March 17, May 28, September 8, 2021 and March 16, 2022.
Reporting to the banking supervisor	• Contribution to the SFIL Group's 2021 internal control report under the guidance of the Internal Audit division. • Preparation of the report on the AML/CFT internal control of Caisse Française de Financement Local and submission to the ACPR, after having been approved by the Supervisory Board of Caisse Française de Financement Local on March 18, 2021. • Preparation of the Caisse Française de Financement Local anti-money laundering questionnaire submitted to the ACPR on February 17, 2021., • Preparation of the questionnaire on customer protection and commercial practices submitted to the ACPR in a simplified version (Caisse Française de Financement Local being exempted in view of its activities).

1.11.1.6 The third level of control: periodic control

1.11.1.6.1 Organization and governance

The periodic control function is performed by SFIL's Internal Audit and Inspection division. The scope of intervention of this division extends to all activities carried out, operational processes and systems of SFIL and Caisse Française de Financement Local, without reservation or exception, including essential outsourced activities and techniques to fight against fraud.

In addition to the direct reporting of the General Auditor to SFIL's Chief Executive Officer, independence and efficiency of the Internal Audit and Inspection division is assured by:

- the absence of involvement in the operational management of SFIL and Caisse Française de Financement Local activities;
- unconditional and immediate access to all information, documents, premises, systems or persons its activities require;
- the resources supplied by the General Management to carry out these missions;
- the respect of the principles of integrity, objectivity, confidentiality and competence (in particular through a permanent training plan on audit techniques and regulatory developments) on the part of the staff of the Internal Audit division.

These principles are reflected in the internal audit charter and the inspection charter, approved by SFIL's Risks and Internal Control Committee and by the Executive Board of Caisse Française de Financement Local, and distributed to all SFIL employees to remind them of the rights and duties of the auditors and the auditees.

As of January 1, 2022, the Internal Audit and Inspection division had nine staff (plus two alternates), including six auditors and mission heads. The General Auditor supervises all the division's audit activities and reports. She is assisted by a supervisor, who shares responsibility for the team of auditors and oversees the audit assignments that they carry out under the auspices of the mission heads. Furthermore, every auditor and mission head is responsible for a specific field, reflected in their responsibility to update permanent documentation, sit on some of the SFIL's group's committees as an observer, risk monitoring and the following up of recommendations for implementation by SFIL's operating divisions.

1.11.1.6.2 Activities of the Internal Audit and Inspection division

The division's activities are described in an internal audit manual that is based on the reference framework of the professional internal audit practices of the IFACI[1] (Institut Français de l'Audit et du Contrôle interne) and are mapped in a process which is dedicated to major risk management.

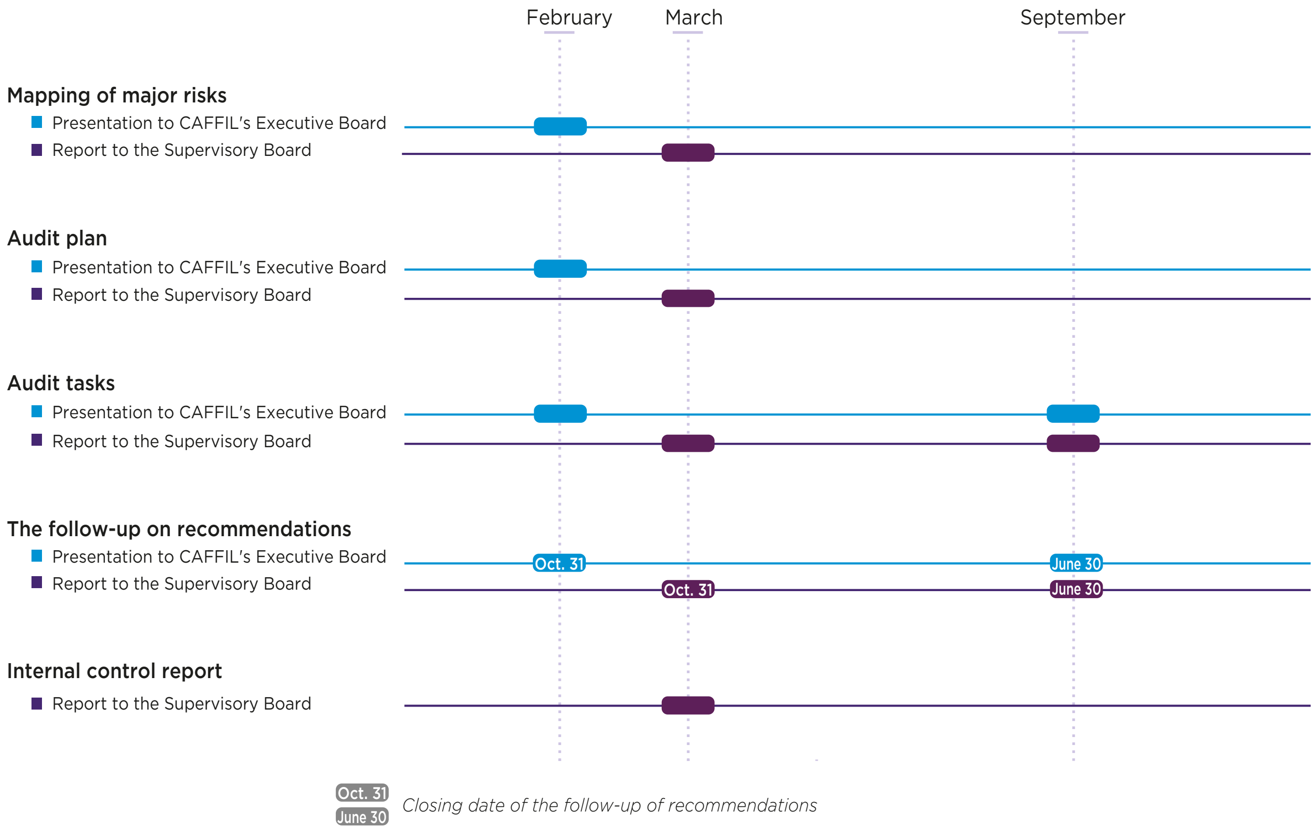
Missions	2021 Performance
Annual risk assessment Approach based on an identification of SFIL's strategic objectives then an independent examination of the critical risks which could prevent these objectives being attained.	The SFIL Group's major risk mapping was updated during the fourth quarter of 2021. The number of risks identified remains stable and the overall level of criticality is down compared to the 2020 assessment.
The preparation and structure of the multi-yearly audit plan The multi-yearly plan is prepared from the results of the annual risks assessment and the coverage objective of all the SFIL's group activities over a three-year cycle. The annual audit plan is divided into audit missions which run from February 1 of the reference year to January 31 of the following year.	The annual audit plan for 2022 was validated in January 2022 by the Risks and Internal Control Committee and provides for the performance of 24 audits (including 16 relating directly to Caisse Française de Financement Local), 3 of which will be carried out by the Internal Audit division of the Caisse des Dépôts group. Under the 2021 audit plan validated in January 2021, 13 audit missions had been carried out at the end of January 2022, i.e. a completion rate of 76%, given that one audit mission not completed at the end of January 2022 has since been completed. In addition, three missions out of the 17 initially planned for 2021 were postponed to 2022 for strategic reasons. These internal audit missions cover: • the SFIL Group's core business (financing of export credits, granting loans to the local public sector, refinancing of the SFIL Group); • key operational processes (cash management, CSR system); • support processes (management of local public sector operations including "green" loans, management of international outstandings, operation of IT assets); • risk monitoring (internal credit models, market models, outsourcing system, SWIFT information system security).
The preparation and structure of the inspection plan The purpose of this function is to play a role in the prevention, detection and investigation of fraud in accordance with the inspection plan or on the request of the General Secretary or General Management.	The 2022 inspection was prepared during the fourth quarter; it stipulates three inspection controls. Under the 2021 inspection plan, all planned controls have been completed
Monitoring the recommendations made following missions by the internal Audit and Inspection division, the supervisory authorities or Statutory Auditors This monitoring is performed *via* an automated monitoring process to implement the action plans resulting from these recommendations. Responsibility for the appropriate implementation of the recommendations is incumbent on identified managers. The follow-up of this implementation is under the responsibility of the auditors and mission heads according to their field of competence. The validation of the stage of progress or accomplishment of these action plans is the responsibility of the Supervisor and the General Auditor.	All these recommendations prompted continuous monitoring in 2021 and the production of quarterly statements highlighting the main risk points remaining to be covered or those closed during the review period.
The Secretariat to the Accounts Committee and the Risks and Internal Control Committee The organization of committee meetings and monitoring of actions decided during them, under the aegis of their Chairman.	Six Risks and Internal Control Committees and five Accounts Committees were organized.

Indicators dedicated to measuring the effectiveness and performance of the internal audit department's activities are monitored on a quarterly basis.

(1) *French Institute for Audit and Internal Control (IFACI).*

1.11.1.6.3 Internal Audit and Inspection division reporting

The supervision of the periodic control by SFIL's Board of Directors and SFIL's Risks and Internal Control Committee is based on a system of structured and recurrent reporting of all of the Internal Audit and Inspection division's activities. The effective managers ensure that the periodic control system functions correctly, and are kept regularly informed of the results of the division's activities through reporting to SFIL's Executive Committee and the Executive Board of Caisse Française de Financement Local which then reports to its Supervisory Board.



1.11.1.7 The Specific Controller

The Specific Controller is responsible for ensuring that the Company respects its exclusive corporate purpose and prudential standards specific to *sociétés de crédit foncier*. The Specific Controller is a French professionally certified auditor named by the Company's Executive Board. The Specific Controller performs controls pursuant to articles L.513-23 and L.513-24 and articles R.513-15 and R.513-16 of the French Monetary and Financial Code and CRBF Regulation No. 99-10. He conducts appropriate audits in cooperation with the Statutory Auditors and is completely independent vis-à-vis the Company's officers. He is also liable for the negative consequences of any error or negligence committed in the exercise of his functions. The Specific Controller has access to all information from management, internal control units and internal audit. In addition, operating services and internal control units have been instructed to provide specified information in order to allow the Specific Controller to monitor the over-collateralization ratio, the nature of assets, interest rate risk management, the gap in the average life of assets and privileged liabilities, coverage of cash needs over 180 days, and the coverage plan of privileged liabilities by the assets. For every Caisse Française de Financement Local issue contract or on the basis of a quarterly issuance program, he affirms compliance with legal and regulatory standards concerning the over-collateralization ratio of the privileged liabilities by the assets, once the issue has been settled. The Specific Controller certifies that the documents the Company sends to the ACPR meet legal and regulatory requirements for *sociétés de crédit foncier*. At the request of the Banque de France, the Specific Controller annually issues a certificate in support of the statement submitted by Caisse Française de Financement Local concerning the composition of the cover pool. He submits a comprehensive annual report on his activity to the Supervisory Board of Caisse Française de Financement Local, and a copy is addressed to the Autorité de Contrôle Prudentiel et de Résolution (ACPR).

1.11.1.8 Supervisors

Given its status as a *société de crédit foncier*, Caisse Française de Financement Local is subject to regular supervision and controls by the ACPR and the Banque de France. In this respect, the ACPR carried out two inspection missions in 2021. The first mission concerned the management of the cover pool and the associated credit risk. The second mission focused on the process of remitting credit claims to the Banque de France.

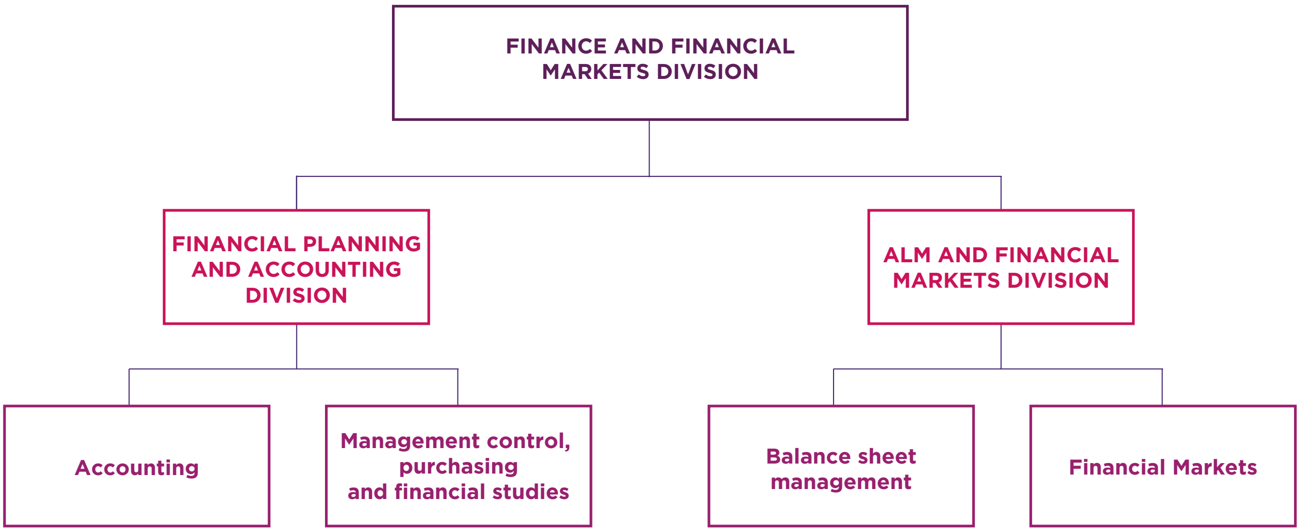
1.11.2 Preparation and processing of accounting and financial information

1.11.2.1 Financial statements

The main aim of the company's annual financial statements, as well as all the financial data produced by the Accounting department is to give a true and fair view of its assets, financial position and results. The *arrêté* of November 3, 2014, on internal control highlights in its accounting chapter that the organization adopted should guarantee the existence of procedures called audit tracks. They make it possible to establish a link between accounting data and the original supporting document, and vice versa. All these items should make it possible to reconstitute, justify and explain any and all financial items produced for accounting or regulatory purposes. This principle grounds the organization of accounting practices in the SFIL Group and also applies to both SFIL and Caisse Française de Financement Local.

1.11.2.1.1 Role and organization of accounting

Accounting data is produced at Caisse Française de Financement Local by the Accounting division of SFIL, within the framework of the management agreement between the two companies. SFIL's Accounting division reports to the Financial Planning and Accounting division, which itself reports to SFIL's Finance and financial markets division. It interacts with numerous divisions within SFIL, providing it with a cross-sectional overview of the current business activities.



The Accounting division produces Caisse Française de Financement Local's basic accounting data and financial statements; it is organized around four teams:

- the business line accounting team, which provides first-level control over transactions relating to customers and market instruments;
- the overheads and payroll accounting team, which is responsible for paying supplier invoices. This team also provides first-level control over the accounting processing associated with supplier invoices and the payroll process;
- the statutory accounting and regulatory declarations team, which provides second-level control over the activities carried out by the two previous teams. This team is also responsible for preparing SFIL's consolidated financial statements and submitting them to the Caisse des Dépôts group. It also prepares the financial statements for publication for SFIL and Caisse Française de Financement Local. Finally, this team performs tax and regulatory reporting;
- the standards and studies team, which is responsible for managing the accounting basis and monitoring accounting and prudential standards. This team is totally independent of the others and reports to the Chief Accounting Officer.

The Accounting division, along with the Risks division's teams, ensures that regulatory and prudential standards are respected.

The Accounting division is tasked with analyzing and verifying accounting data. It relies, in particular, on a process of reconciling this data in the context of a contradictory approach with the other SFIL teams, notably the finance department, in particular on analysis of the formation of results and balance sheet and off-balance sheet balances. This approach is also applied to the Company's balance sheet data which are reconciled with the data used to calculate the prudential indicators and reporting by the Risks division.

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

This organization makes it possible to ensure continuous improvement in terms of process quality and efficiency and reliability of financial information.

1.11.2.1.2 Preparation of the separate financial statements

Caisse Française de Financement Local's accounting system enables the separate financial statements to be prepared and is in large measure automatically supplied by upstream management systems that manage transactions with customers and market counterparties as well as operating expenses. When a transaction is entered in one of the systems, one or more accounting entries are directly generated through automated accounting plans. These automatic functions are supplemented by manual entries for certain types of specific transactions. Caisse Française de Financement Local can record operations in a single accounting system based on a double set of accounting standards (French GAAP and IFRS standards as adopted by the European Union). The synthesis of this data is thus obtained automatically using parameterized publication tools.

The internal control system in the operating divisions guarantees the completeness and accuracy of accounting entries. The team in charge of accounting standards ensures compliance with standards, validates automated accounting procedures and examines new, complex or unusual operations. When certain operations cannot be completely incorporated into the management tools available, the controls implemented within the accounting teams aim to translate the specific effects related to these specific transactions and correct their translation if required.

A first level of control is conducted by accounting teams that are specialized by products, in particular by analyzing accounting/management data reconciliation, bank reconciliation and technical suspense accounts. Monthly comparisons with management data and reconciliations of micro-hedges make it possible to ensure the correct retranscription of financial operations. These teams also reconcile the accounting data from net banking income with management data produced by separate teams. This cross-referencing is done at least once a quarter and consistency from one period to the next is verified using analytical controls. The main changes must be explained. Finally, these teams also prepare a synthetic memorandum on the work done, which points out areas that need attention and improvement for the processes to be used in future financial statements. Finally, the management control team checks the consistency of interest income and expenses from one period to another by reconciling this data with the average outstandings of operations in order to produce average rates that are more easily comparable from one period to the next or compared to budget projections. Significant changes in average margin rates from one period to another or those that do not comply with budget forecasts are systematically analyzed by management control, which can, if necessary, target its analysis at the unit level of each transaction.

In addition, the statutory accounting and regulatory reporting team, responsible for producing the financial statements, ensures, through specific reviews, the quality of the work carried out by the business line accounting and overheads accounting teams in charge of the first-level control work.

To ensure thorough implementation of its control plan, Accounting has a monitoring tool at its disposal with which it can verify the deployment of key controls and their validation. The validation of key controls is carried out by the line manager of the employee who carried out the control. Finally, this information and any comments made on discrepancies are subject to review by the Deputy Head of the Accounting division and the Head of Financial Planning and Accounting with the main heads of accounting teams.

The preparation of the financial statements is carried out by the aggregation of the accounts thus produced according to an automated and standardized process. This function requires a configuration administered by the standards and design team. Stability in reporting, which represents a key point in terms of communication, is thereby verified. Notes to the consolidated and financial statements are generally produced based on accounting data that may be enhanced by management information. Qualitative analyses are then performed through cross-referenced controls of synthetic data in the Accounting division, and also *via* the contribution of the teams which are responsible for monitoring the Group's balance sheet or producing financial reports. Cross-referenced controls are also conducted between the financial statements and the notes to the financial statements.

1.11.2.1.3 Approval of the financial statements

The annual financial report and the half-year financial report are prepared by SFIL's divisions, in particular the CAFFIL coordination division, the Accounting division, the Risks division and the General Secretary. The financial statements, balance sheet, income statement and notes are subject to particular scrutiny during the preparatory phase and in their final form by a delegated member of Caisse Française de Financement Local's Executive Board. The Executive Board of Caisse Française de Financement Local approves the yearly and half-yearly financial statements at a meeting attended by the two Statutory Auditors and the accounting department. The principal issues in the period's management report are also examined on this occasion. These annual and half-year financial statements are subject to an audit and a review (respectively) by the Statutory Auditors. The annual report and the half-year report are presented by the Executive Board to the Supervisory Board of Caisse Française de Financement Local and then to the Annual Shareholders' Meeting. The calling of Shareholders' Meetings and the right to attend such meetings are described in articles 27 and 28 of the Company's by-laws.

1.11.2.1.4 Publication of the financial statements

This accounting and financial information is made public in several ways. In addition to the regulatory publication in the BALO, the half-year and annual financial statements, together with the corresponding management reports, are posted on the website: www.caffil.fr. Half-year and annual financial reports are filed directly with the French Financial Markets Authority (AMF – Autorité des Marchés Financiers) *via* a regulatory information provider authorized by AMF. Moreover, unaudited activity reports are drawn up to describe the situation as of March 31 and September 30. They are available to the public on the Company's website.

Some of this information is also available, with differences in presentation, in the report on the quality of the assets that is submitted to the ACPR and posted on Caisse Française de Financement Local's website, in compliance with CRBF instruction No. 2011-I-07. Other information is also posted on the website of the Company, in accordance with the transparency required by the Covered Bond Label.

1.11.2.1.5 Role of the Statutory Auditors

Caisse Française de Financement Local's financial statements are audited by a panel of two Statutory Auditors.

The Statutory Auditors review the financial statements only on a yearly and half-yearly basis. They are consulted throughout the process of preparation of the financial statements in order to ensure efficiency and transparency. As part of their due diligence, they analyze accounting procedures and evaluate current internal control systems to determine the nature of their controls following an assessment of the principal areas of risk. They may make recommendations to the Company's management on internal control procedures and systems that could improve the quality or security of financial and accounting information produced. They have access to all memoranda and notes produced by staff in charge of accounting principles and standards, and they also review the accounting manuals, as well as the analyses conducted by the Accounting teams. They consult Internal Audit and Inspection reports, as well as the minutes of meetings of the Executive Board and the Supervisory Board. They verify the consistency of the data in the management report with the accounting information, as well as the consistency of the management report and the financial statements with all the items they have reviewed and audited. Their contribution includes a review of all the agreements that are regulated. They provide an exhaustive and accurate summary of regulated agreements in the special report they submit at the end of their legal mission. They employ due diligence to obtain reasonable assurance that the financial statements are free from any material misstatement.

1.11.2.2 Management reporting

The financial statements (balance sheet, off-balance sheet, income statement, cash flow statement and notes) that Caisse Française de Financement Local communicates to its shareholder and to the general public are supplemented by half-yearly management reports. Caisse Française de Financement Local also publishes quarterly activity reports containing management information. This management information includes items related to loans originated by La Banque Postale and acquired by Caisse Française de Financement Local, as well as to the refinancing of large export credits and updates on the sensitivity reduction of structured loans. This information is mainly prepared by the accounting department and the Financial Performance division on the basis of management data reconciled with the accounts. The half-yearly financial reports also include risk assessments and projections. This information is supplied directly by the operating divisions or the Risks division. Their accuracy is therefore guaranteed by the internal control system of the divisions concerned. The Statutory Auditors also verify the consistency of this information during their review or audit of the management report section of the half-yearly and annual financial reports.

For the activity marketed by LBP and for the refinancing of large export credits after taking into account the French Republic's credit insurance granted *via* Bpifrance Assurance Export, Caisse Française de Financement Local is exposed to exclusively French counterparties. A geographical breakdown between borrowers in France and outside France of assets according to the country of residence of the counterparty is presented in the management report. This information is prepared by SFIL's Accounting Department and the Financial Performance division on the basis of management data reconciled with the accounts.

Since SFIL both manages Caisse Française de Financement Local's activities and acts as a service provider for La Banque Postale, it has adopted analytical cost accounting to ensure proper billing of the financial services it renders.

1.12 Management of Caisse Française de Financement Local's main risks

The SFIL Group's risk appetite is defined based on strategic and budgetary objectives: it is presented to SFIL's Risks Committee, then to SFIL's Executive Committee and Caisse Française de Financement Local's Executive Board. It is approved by SFIL's Risks and Internal Control Committee and ultimately approved by SFIL's Board of Directors and Caisse Française de Financement Local's Supervisory Board.

The risk appetite framework is formalized by indicators that are monitored quarterly by the Risks and Internal Control Committee, defined for each risk area. Most of these indicators are accompanied by levels to be monitored or respected (Early Warning RAF and RAF limit). In the event of non-compliance with the limits, a system for reporting and correcting information is provided.

1.12.1 Global risk management system (excluding non-compliance, legal and tax risks)

Because the Company is an issuer of covered bonds, the risks authorized for Caisse Française de Financement Local are strictly selected and limited. When the Company was created, a distinction was made between risks that are compatible and risks that are not compatible with the legal and regulatory framework of *sociétés de crédit foncier* and with the specific nature of Caisse Française de Financement Local's by-laws and its license granted by the Comité des Établissements de Crédit et des Entreprises d'Investissement (CECEI), now merged into the Autorité de Contrôle Prudentiel et de Résolution (ACPR).

The criteria of the rating agencies define restrictions or limits for risks compatible with the Company's activity.

The general approach decided by the Executive Board of Caisse Française de Financement Local and applied in every SFIL department in charge of the operations concerned involves monitoring that:

- risks not compatible with the activity of Caisse Française de Financement Local are not taken by the Company or are eliminated from the start;
- risks compatible with the activity are maintained strictly within authorized limits;
- controls are defined by the Risks division and carried out by the front and middle offices of SFIL. The results of the controls are reported to the Executive Board of Caisse Française de Financement Local and any anomalies discovered during such controls are reported to the Supervisory Board. Finally, these results are transmitted to the Specific Controller and the data is made available for his review.

The SFIL Group has set up a comprehensive risk management system:

- to identify, monitor, manage and measure risks using specific methods;
- to decide on limits to be implemented;
- to decide on delegations to assign to the front office teams;
- to decide on the amount of the provisions that are required;
- to inform the competent committees regarding changes in these risks, proactively warning them that a limit or threshold has been exceeded.

Risk review

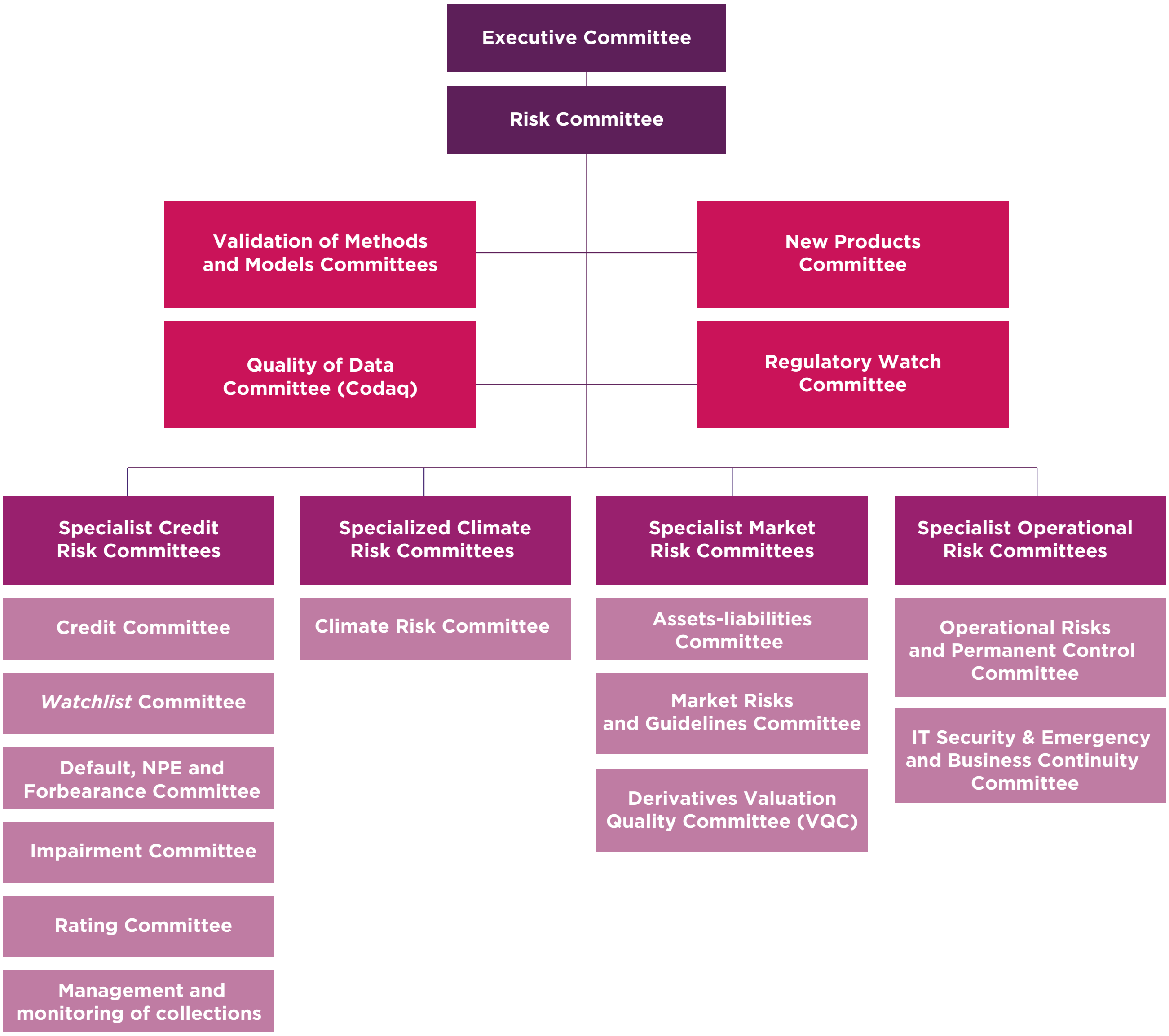
The Chief Risk Officer presents a "Quarterly Risks Review" to the Risks and Internal Control Committee. This review provides a synthetic overview of the SFIL Group's main risks and the changes to them during the previous quarter (credit risks, market and balance sheet risks, operational risks, climatic risks) as well as changes in regulations during the period. Items concerning Caisse Française de Financement Local are also presented by the Executive Board to the Supervisory Board of Caisse Française de Financement Local.

Overall governance of risks

All operations conducted by Caisse Française de Financement Local are subject to the control of the various committees set up by SFIL. This control takes into account the specific rules and limits applicable to Caisse Française de Financement Local.

To respect the risk appetite, policies have been defined for the entire scope of the SFIL Group's activities as well as limits and rules for delegating decisions. The Risk Management division monitors these limits and, where appropriate, proposes measures to General Management to ensure compliance therewith.

The Risks division relies on several committees, whose missions and composition have been approved by SFIL's Risks and Internal Control Committee. There are cross-functional committees - the Risk Committee, the Validation of Methods and Models Committee, and the New Products Committee - and committees specializing in credit risks, climate risks, market risks and operational risks.



The Chairman of Caisse Française de Financement Local's Executive Board is a member of the Risks Committee and of the main committees mentioned above.

The tasks of the cross-divisional committees are described below; those of the main specialized committees are described in each section dedicated to the risk concerned.

Risks Committee

This committee is the umbrella committee of the Risk Committees and is chaired by SFIL's Chief Executive Officer or Deputy Chief Executive Officer. It defines the SFIL Group's risk profile, validates the risk management systems and ensures their compliance. In particular, it is in charge of defining delegations in the granting of credit and approving the risk policies of SFIL concerning all types of risks and the limits proposed by the Risks division.

Validation of Methods and Models Committees

These committees are chaired by SFIL's Chief Risk Officer. The Market Validation Committee is responsible for validating and implementing the Group's market risk and derivatives valuation models. The Credit Validation and Quality Control Committees are responsible for validating the Internal rating systems used to calculate regulatory capital and the IFRS 9 impairment and economic capital models as well as their implementation.

New Products Committee

The New Products Committee is chaired by SFIL's Chief Risk Officer. It is responsible for examining any new product or management process or any transformation of a pre-existing product or process, insofar as it substantially changes the risk profile or internal processes. It also determines and assesses the risks of non-compliance connected to the creation or significant modification of products or services on the basis of the compliance report which is submitted to it. SFIL's Chief Risk Officer informs SFIL's Executive Committee of the decisions taken by the New Products Committee.

1.12.2 Caisse Française de Financement Local's main risks

1.12.2.1 Credit Risk

1.12.2.1.1 Definition

Credit risk represents the potential loss Caisse Française de Financement Local could suffer due to the deterioration of a counterparty's solvency.

1.12.2.1.2 Organization and governance

The Credit Risks division is tasked with the following missions within the scope of its function to monitor credit risks:

Definition	In line with the risk appetite of Caisse Française de Financement Local: • credit risk policies and directives; • different concentration limits; • delegations to be granted.
Management	• of the process of granting loans (new commitments and restructurings) through credit analysis and giving ratings.
Monitoring existing portfolios	• by performing annual reviews; • by re-rating portfolios annually; • by identifying assets with degraded risk (watchlist, default or NPE, contract under forbearance); • by estimating the provisions required; • by proactively monitoring limits; • by performing stress tests.
Models	• development and monitoring IRBA credit models, economic capital models or expert models.

Credit risk governance is structured around specialized committees which meet quarterly except for the Credit Committee which meets weekly:

- the **Credit Committee**:
  - approves the new commitments[(1)] made by Caisse Française de Financement Local (loans and market transactions) and the restructuring of loans based on an independent analysis by the Risks division,
  - monitors concentration limits and sets credit limits if they exceed certain pre-defined thresholds,
  - reviews the report on the commitments made within the framework of delegations granted (to the Risks division, the Local public sector and operations division, the ALM and financial markets division);
- the **Watchlist Committee:**
  - is responsible for monitoring assets subject to special attention given the deterioration of their risk;
- the **Default, Non-Performing Exposures & Forbearance Committee**:
  - categorizes arrears as either real default or technical arrears and decides to add or withdraw borrowers in the default category,
  - validates the list of counterparties with non-performing exposure,
  - validates the forbearance exposure list;
- the **Impairment Committee:**
  - determines the amount of provisions in accordance with IFRS: Expected Credit Losses (ECL) for each of the three stages, and for stage 3 based on either the LGD (Loss Given Default) of defaults, or the recovery scenarios that the Watchlist Committee determines;
- the **Rating Committee** (organized by the "Credit Validation and Quality Control" team to guarantee the independence of the control process):
  - ensures that the Internal rating systems and processes are correctly and appropriately applied.

Moreover, the control of the eligibility of the assets for a *société de crédit foncier* is organized at two successive levels for Caisse Française de Financement Local's asset acquisitions:

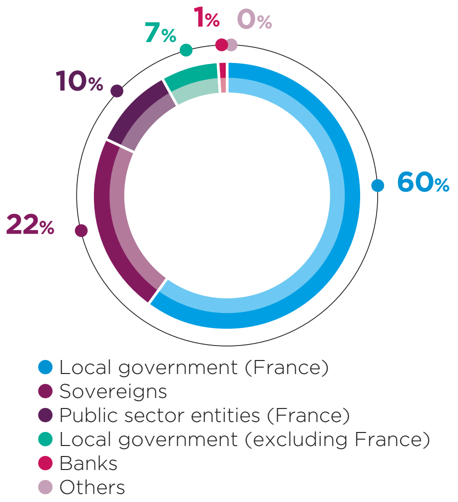
- the CAFFIL coordination division within SFIL pilots the process of asset acquisition and associated eligibility controls prepared by the different divisions of SFIL; the definitive portfolio is validated by the Executive Board after soliciting the opinion of SFIL's Credit Committee;
- the back office carries out permanent daily checks on the outstanding amount.

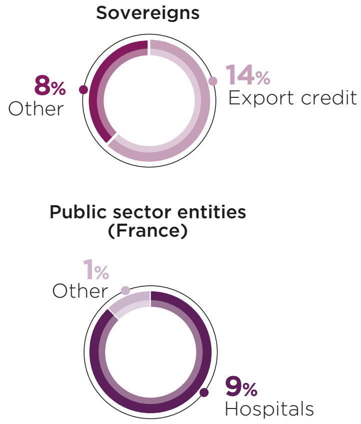
These controls are standardized by procedures.

The Specific Controller also carries out regular, detailed ex-post checks on the eligibility of Caisse Française de Financement Local assets.

(1) Not delegated to the Risks division, the Local Public Sector and Operations division and the ALM and Financial Markets division.

1.12.2.1.3 Exposure to credit risk





This breakdown of exposure to credit risk is presented as EAD (Exposure At Default), which takes into account the off-balance sheet part (loans not yet drawn) of exposures. Thus, export credit refinancing loans are picked up here in their entirety, including the major portion that has not yet been paid (the payment period for these loans is spread out over several years). Hence this breakdown differs from the one presented in 1.4.2.1.2, which presents only the capital remaining due from the credits on the balance sheet. It may be noted here that:

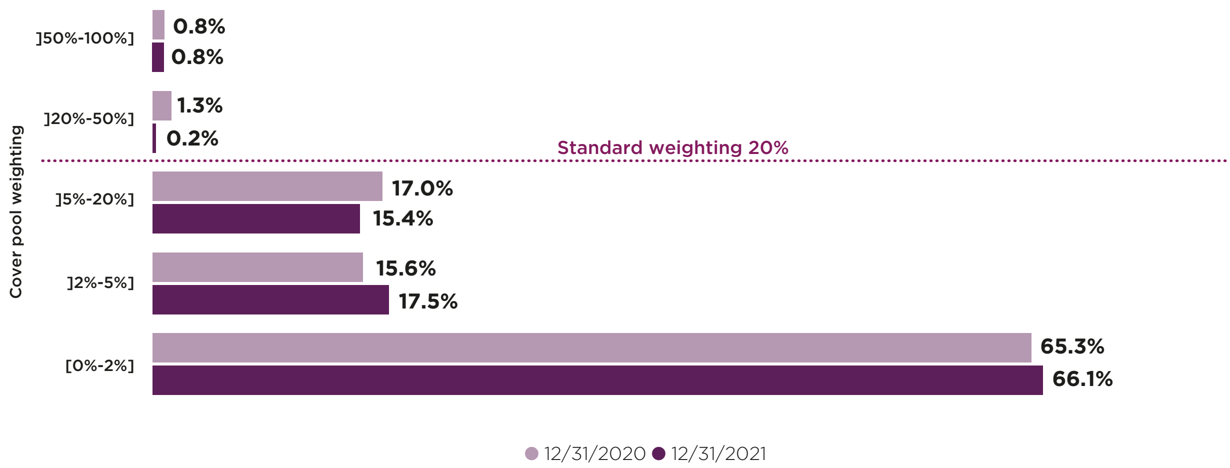
- 60% of these exposures are concentrated on French local government bodies (regions, departments, municipalities, groups of municipalities, etc.);
- 14% of the exposures result from export refinancing activity;
- 9% of the exposures concern the public hospital sector.

1.12.2.1.4 Breakdown of cover pool exposures according to risk weightings

The quality of Caisse Française de Financement Local's portfolio is illustrated by the risk weighting assigned to its assets for the calculation of the bank's solvency ratio. This reflects the fact that for most of its assets, Caisse Française de Financement Local has opted for the advanced method of calculating regulatory capital requirements.

This enables Caisse Française de Financement Local to present an analysis of its exposure as of December 31, 2021 (in EAD), broken down by risk weighting, as used for the calculation of capital requirements for credit risk (see following page).

RISK WEIGHTING OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL'S PORTFOLIO AS OF DECEMBER 31, 2021



This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio:

- 84% of the portfolio has a risk weighting of 5% or less;
- 1% of the portfolio has a weighting greater than 20%.

The average risk weighting of the cover pool assets is 4.6%, versus 20% for European local government entities according to the Basel standard method. They were 5.4% at the end of the previous year; most of this variation is due to the change in the weighting method for sovereign exposure and exposure on Italian local authorities (now in the standard method).

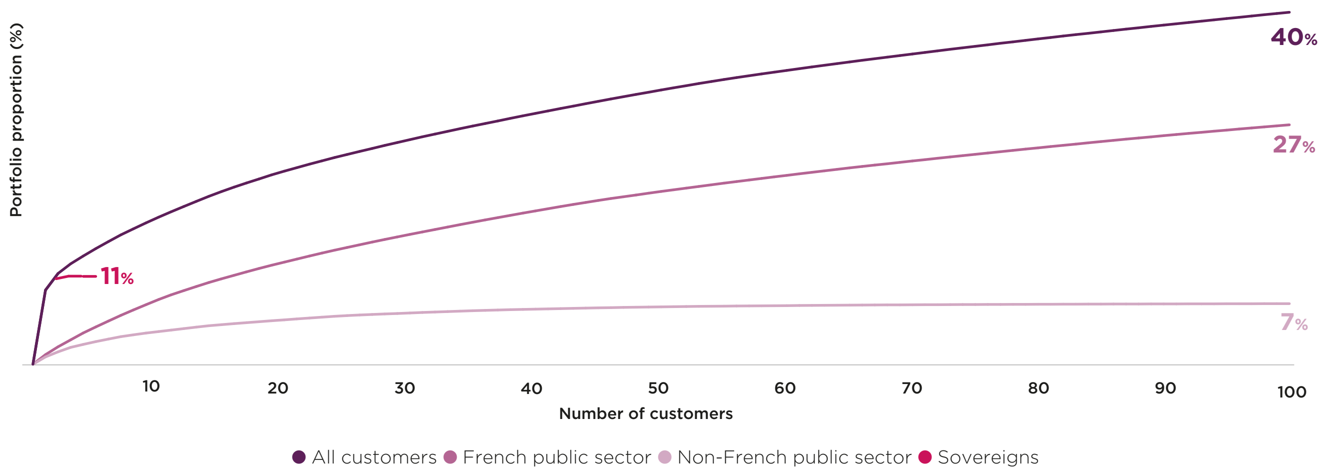
The impacts of the Covid-19 pandemic are limited at this stage for French local public sector entities. The SFIL Group has supported all health institutions as part of the national mobilization to fight against the global pandemic. The SFIL Group proposed payment terms of 180 days to these entities for all of their loan contract maturities between March 12 and June 30, 2020, without any late interest or penalties being invoiced. Requests for payment terms were also received from certain local authorities or French public sector entities. As of December 31, 2021, all borrowers who had benefited from payment periods had repaid the amounts due, with the exception of five borrowers who were classified in default but represented very low exposures (EUR 0.4 million of unpaid installments and EUR 4.0 million global exposure).

Weighted exposure with respect to credit risk amounted to EUR 3,392 million. Including other risks, total weighted risks came to EUR 3,777 million. Combined with its high level of regulatory equity, the credit quality of Caisse Française de Financement Local's assets enabled the Company to post a Common Equity Tier 1 Ratio of 33.2% as of December 31, 2021.

1.12.2.1.5 Concentration by customer

The risk of concentration refers to exposure to a limited number of counterparties. Diversification can make it possible to avoid this problem, and is a capital loss risk management tool.

The chart below presents the concentration of the cover pool by type of counterparty (in outstanding capital); it confirms the great diversity of Caisse Française de Financement Local's portfolio of assets.



As of December 31, 2021, the 20 largest exposures (excluding replacement assets and cash deposits in the Banque de France), all categories combined, represented 22.1% of the cover pool. The first exposure, the French Republic, represents 8.5% of the cover pool (mainly due to the export refinancing loans it guarantees) and the twentieth exposure 0.4%.

1.12.2.1.6 Arrears, doubtful loans, litigious loans and provisions as of December 31, 2021

Financial year	Arrears	Doubtful and litigious loans	Defaulted loans (stage 3)	Non-performing loans (non-performing exposures)
		French GAAP	IFRS	Prudential rules
12/31/2021	**EUR 13 million** *i.e.* 0.02% of cover pool	**EUR 155 million** (EUR 129 million of which is for loans without arrears)	**EUR 265 million** (EUR 253 million of which is for loans without arrears)	**EUR 331 million** (EUR 306 million of which is for loans without arrears)
12/31/2020	EUR 37 million *i.e.* 0.06% of cover pool	EUR 212 million (EUR 123 million of which is for loans without arrears)	EUR 455 million (EUR 424 million of which is for loans without arrears)	EUR 608 million (EUR 485 million of which is for loans without arrears)

Change in arrears

Arrears continued to decline in 2021 with a further sharp decrease (-64%). With an amount of EUR 13 million (compared to EUR 37 million in 2020 and EUR 65 million in 2019), they reached the lowest amount since the creation of SFIL and Caisse Française de Financement Local in 2013. They are concentrated on a few, only French, counterparties. This decrease is due in particular to the continued reduction in the sensitivity of structured loans, and mainly to the agreement reached this year with several major customers, which reduced the amount of their arrears. Of the EUR 13 million in arrears, EUR 8 million concern local authorities with which a plan to settle their debt over several years has been put in place. This amount will therefore gradually decrease.

Change in doubtful and litigious loans and provisions under French accounting standards

As of December 31, 2021, doubtful and litigious loans (French GAAP) amounted to EUR 155 million, or 0.25% of the Caisse Française de Financement Local's cover pool, illustrating the portfolio's excellent quality. They were down significantly by EUR 57 million, or 27%, compared to December 31, 2020 (EUR 212 million). This decrease mainly corresponds to borrowers who are no longer considered doubtful[1], and which had a high amount of outstandings downgraded to doubtful due to contagion, despite little or no arrears. Outstandings downgraded by contagion represent EUR 142 million as of December 31, 2021.

Doubtful and litigious loans at the end of 2021 concern only French customers.

(1) *When a customer is classified in default in terms of credit risk, the outstanding amount of all his loans is classified as doubtful loans, by contagion, in addition unpaid installments.*

The total amount of provisions, under French accounting standards, is presented in the table below.

Provisions French GAAP *EUR millions*	12/31/2020	12/31/2021
Specific impairments	29	11
Collective impairments	31	23
TOTAL	**60**	**34**

As of December 31, 2021, the stock of specific provisions under French standards amounted to EUR 11 million. They are down sharply compared to December 31, 2020, due to the sharp decrease in arrears and doubtful and litigious loans.

In addition, collective provisions are calculated on the various asset portfolios. They amounted to EUR 23 million as of December 31, 2021 compared to EUR 31 million as of December 31, 2020. This change is mainly due to:

- a provision reversal following the annual review of the credit risks of Caisse Française de Financement Local's main loan portfolios;
- the reversal, in 2021, of the provision made in 2020 for the portfolio of public hospitals and retirement homes that had benefited from a payment postponement granted in the context of the Covid-19 health crisis. All payment terms were reimbursed in accordance with the established schedule and the financial situation of hospitals and retirement homes did not deteriorate compared to their pre-crisis situation.

Change in receivables and provisions under IFRS

Effective January 1, 2018, IFRS 9 introduced changes to the classification of Caisse Française de Financement Local's financial assets. As a reminder, this standard now only provides for three categories of financial instruments: those recognized at amortized cost, those recognized at fair value through profit or loss and those recognized at fair value through equity. This classification depends on both the characteristics of the instrument's contractual cash flows and the business model in which the financial asset is used (see section 1.2.4.2. of the notes to the financial statements under IFRS).

In accordance with the new IFRS 9, all loans and securities recognized at amortized cost or at fair value through equity, as well as financing commitments, must be provisioned for expected credit losses. They are classified into three levels of risk (stages):

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

Stage 3 outstandings correspond mainly to customers:

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

Thus, the definition of default (stage 3) under IFRS accounting standards covers a larger perimeter than the notion of doubtful and litigious loans under French GAAP and is very close to the regulatory definition of non-performing exposures (NPE). This definition not only covers stage 3 assets but also customers already in forbearance and to which a new forbearance has been granted and/or an incident of payment past due of between 31 and 90 days has occurred.

Provisions for expected credit losses are set aside for all of these outstandings, including stage 1 and stage 2 outstandings. The related impairment is based on forward-looking scenarios (with a probability of occurrence assigned to each of them), and takes into account expected losses over the next 12 months (stage 1) or to maturity (stages 2 and 3).

The following table shows the exposure of Caisse Française de Financement Local (financial assets and off-balance sheet financing commitment) broken down by stage, the IFRS provisions for associated expected credit losses, as well as regulatory non-performing exposures.

	Net carrying amount before impairments *EUR millions*		Impairments *EUR millions*	
Breakdown of exposures by stages and IFRS impairments *EUR millions*	12/31/2020	12/31/2021	12/31/2020	12/31/2021
Stage 1: no significant deterioration	59,082	60,465	(9)	(7)
Stage 2: credit risk deterioration	3,764	3,000	(30)	(27)
Stage 3: credit impaired	455	265	(6)	(5)
TOTAL SPPI ASSETS	**63,301**	**63,730**	**(45)**	**(39)**

	IFRS Net carrying amount	
	12/31/2020	12/31/2021
Non-Performing Exposures	608	331

Outstandings classified as non-performing exposures as well as stage 3 fell sharply between December 31, 2021 and December 31, 2020 despite the ongoing Covid-19 health crisis. This improvement is linked in particular to the termination of the probationary period of several customers, in accordance with Caisse Française de Financement Local's policy in this area. At the same time, outstandings classified in stage 2 also decreased in line with the annual credit risk review on certain loan portfolios.

In conclusion, all the risk metrics and in particular arrears, doubtful and litigious loans (French GAAP), and the carrying amounts allocated to stage 3 (IFRS accounting standards) and the non-performing exposures improved over one year and reached their lowest level since the creation of Caisse Française de Financement Local in 2013. This demonstrates the very high resilience of Caisse Française de Financement Local and its customers in an unprecedented context of the ongoing Covid-19 health crisis.

1.12.2.1.7 Bank counterparty risk

Counterparty risk refers to the risk of loss on an exposure linked to the default of a counterparty. It is naturally in function of the amount of the exposure, the probability of default on the part of the counterparty, and the portion of the loan that cannot be recovered in the event of default.

Caisse Française de Financement Local holds two types of exposure to banks:

- replacement assets in the amount of EUR 0.8 billion (see 1.4.2.2);
- derivative contracts, entered into within the framework of its management of interest rate and foreign exchange risks.

All of Caisse Française de Financement Local's derivative operations are conducted within the framework of standard ISDA or FBF (Fédération Bancaire Française) contracts with major international banks. These contracts have particular characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and other issuers of covered bonds). Over the last few years, Caisse Française de Financement Local amended these contracts to take into account recent EMIR regulatory changes (signing of variation margin amendments). These interest rate and currency swaps all benefit from the same legal privilege as *obligations foncières*. For this reason, Caisse Française de Financement Local does not pay its derivative counterparties any collateral (or variation margin), whereas they have to pay Caisse Française de Financement Local except for some which benefit from the agencies highest short-term rating. Caisse Française de Financement Local's derivatives are not subject to the clearing obligation nor the payment of initial margin.

All derivative exposures as of December 31, 2021, are listed below.

EUR billions	**Total Notional amounts**	**% of total notional amounts**	Mark to Market -	Mark to Market +	**Collateral received**	Number of counterparties
SFIL	15.2	16.6 %	(1.5)	-		1
Other counterparties	76.0	83.4 %	(1.3)	0.3	0.3	26
TOTAL	**91.2**	**100.0 %**	**(2.8)**	**0.3**	**0.3**	**27**

As of December 31, 2021, Caisse Française de Financement Local was exposed (positive fair value of swaps) to eight bank counterparties, all of these paid cash collateral totaling EUR 0.3 billion, offsetting the total exposure.

The swaps negotiated with external counterparties represented 83% of outstanding swaps and those signed with SFIL 17%. The swaps signed with the five largest counterparties represented a total of 55% of notional amounts.

1.12.2.2 Climate risks

Acute physical risks represent the risk of loss resulting from extreme weather events, the resulting damage of which may lead to the destruction of the physical assets of local authorities or corporate customers.

Chronic physical risks represent the risk of loss resulting from longer-term changes in climate models (e.g. sea level rise).

Transition risks refer to the financial loss resulting from the transition process towards a low-carbon and environmentally sustainable economy.

The SFIL group wishes to integrate climate risks into all its risk management processes. In 2021, SFIL's Risks division assessed the impact on credit risk of transition risks and acute physical risks on the portfolio of French local authorities. Work will continue in 2022 by studying the impacts on other risk categories (in particular on liquidity risk, market risk and operational risk).

A climate risk committee has been set up. Chaired by SFIL's Chief Risk Officer, it is composed of representatives of the various divisions concerned. The work examined by the climate risk committee is then presented in summary form to SFIL's CSR Committee.

A report on climate risks is presented each quarter to the Risks and Internal Control Committee as part of the Quarterly Risks Review.

These elements are also presented to the Supervisory Board of Caisse Française de Financement Local through the quarterly risk review.

Thus, in 2021, the SFIL Group implemented the following actions:

- transition risk: completion of a study on transition risk for French local authorities. This made it possible to assess the impact of the additional investments required by local authorities in their operating sections and on their level of debt. This model showed that the implementation of the national low-carbon strategy would require a significant, but achievable, investment effort and financing requirements for French local authorities, but would not, overall, be likely to significantly weaken their solid financial position;
- physical risk: completion of a study to quantify the impact of acute physical risks on the main financial ratios of French local authorities. This study made it possible to quantify, for each local authority, the impact on gross savings of the occurrence of certain acute physical risks and then to define a scale of five categories (critical, high, moderate, low, very low) to quantify the intensity of the acute physical risk of each local authority. A mapping of exposures was carried out by linking the local authorities in the portfolio to their department. No department falls into the "critical" risk category, and only the overseas departments, with the exception of French Guiana, are considered to be at high or moderate risk. This work will continue in 2022 to integrate chronic risk factors related to environmental degradation.

In addition, climate risks have been included in the SFIL Group's risk appetite and indicators with thresholds have been put in place. A mapping of climate risks by risk category was also carried out.

1.12.2.3 Market risk

1.12.2.3.1 Definition and scope of market risks

Market risk is defined as the potential risk of loss (through the income statement or directly through other comprehensive income) resulting from fluctuations in the prices of financial instruments that make up a particular portfolio.

If the transactions of a portfolio are entered into for trading purposes, regulatory market risk requires daily monitoring of risk and result indicators of that portfolio. Changes in the value of trading portfolios directly impact the income statement. Caisse Française de Financement Local, as a *société de crédit foncier*, is not authorized to hold a trading or stocks investment portfolio and is therefore not exposed to regulatory market risks.

Certain positions or activities in the banking portfolio of Caisse Française de Financement Local, even if they do not carry any market risk in the regulatory sense of the term, are nevertheless sensitive to the volatility of market parameters and pose a risk to the accounting result or on equity; they are monitored for non-regulatory market risks.

This concerns mainly the following, under IFRS:

- the assets recorded at fair value through profit or loss or through equity, the value of which can fluctuate;
- cross-currency and basic swaps hedging the export refinancing activity in currency, the changes in value of which pass directly through net income as long as the underlying loan is not totally paid;
- derivatives, of which the book value adjustments like the CVA (Credit Valuation Adjustment) and the DVA (Debit Valuation Adjustment), are recorded through income pursuant to IFRS.

Despite the persistence of the health crisis, the financial markets have shown great resilience, thanks in particular to the support provided by central banks and the public policies implemented to support economic activity. In this context, changes in credit spreads have remained modest and the market index used to measure the credit component of the portfolio of loans recognized at fair value through profit or loss is up by nine basis points over one year. In 2021, the impact of these items on net banking income amounts to EUR 22 million on financial assets recognized at fair value through profit or loss and EUR -27 million on book value adjustments. These results have no economic impact for Caisse Française de Financement Local, insofar as these assets are intended to be held on the balance sheet until maturity (and are financed up to maturity).

In French GAAP, this also concerns "placement" securities, the losses in value at closing date of which are provisioned.

1.12.2.3.2 Market risk governance and monitoring

Market risk governance is structured around the Market Risks Committee, which is responsible for approving policies, directives and procedures relating to non-regulatory market risks before submission to the Risks Committee. This committee monitors the defined risk indicators on a quarterly basis:

- valuation of assets recognized at fair value through profit or loss or equity under IFRS and provisions for "placement" securities under French GAAP;
- interest rate limits;
- cash collateral received;
- export credit activity indicators.

The continuous monitoring of non-regulatory market risks is carried out by SFIL's Market and Balance Sheet Risks division, which is mainly responsible for:

Definition	In line with SFIL's and Caisse Française de Financement Local's Risk Appetite: • market risk policies and directives; • different limits; • methodologies for calculating and measuring risks.
Certification	• the valuation of derivatives for accounting purposes.
Valuation	• balance sheet items (assets and liabilities); • value adjustments for derivatives (CVA and DVA).
Monitoring	• the valuation of cross-currency swaps for export credits in foreign currency not yet classified under hedge accounting;
Daily control	• margin calls on derivatives (cash collateral) *via* the monitoring of sensitivities to the market parameters. They correspond to a change in the fair value of the instruments for a standardized movement (or shock) of the market's parameters.
Calculation and control	• the impact of the spread risk on the securities portfolio.

Securities not offering a variable rate at outset are generally hedged by swaps. The residual risk of the securities portfolio is limited to credit spread risk: the Market and Balance Sheet Risks division then calculates the impact of changes in the issuers' credit spreads. Their changes in fair value are recorded through equity under IFRS or provisioned, in the case of "placement" securities, under French GAAP.

1.12.2.4 Asset-Liability Management (ALM) risk

The continued health crisis in 2021 did not have a significant impact in terms of interest rate and foreign exchange risk for Caisse Française de Financement Local, given the very cautious policy implemented in this area and the reduced level of unhedged positions. In terms of liquidity risk management, the year was marked by the implementation of a long-term issuance program that was slightly higher than that carried out in 2020, with cost and maturity conditions that improved compared to 2020.

1.12.2.4.1 Governance

Balance sheet risk management is structured around three committees:

- the Asset-Liability Management (ALM) Committee, with representatives of the Finance division's ALM unit, the Market and Balance Sheet Risks division and the other bank business lines concerned, decide the balance sheet risks management strategy. The Committee checks that it is correctly implemented through management indicator reviews;
- the "Interest Rate ALM" and "Liquidity ALM" committees prepare information for the ALM Committee and are responsible for implementing its decisions.

The finance division's ALM unit is responsible for managing the balance sheet risks generated by the SFIL Group's activity in compliance with the management limits defined for SFIL and Caisse Française de Financement Local and the regulatory framework. The principles of this management are described in the ALM management policies. The Market and Balance Sheet Risks division is in charge of defining the balance sheet risk management policy, calibrating and monitoring the limits on ALM indicators and performing second-level controls.

1.12.2.4.2 Liquidity risk

Definition

Liquidity risk is defined as the risk that the institution may not be able to meet its liquidity commitments on a timely basis and at a reasonable cost.

Liquidity risk management

Caisse Française de Financement Local's liquidity risk mainly reflects how able it is to reimburse certain debts benefiting from the legal privilege on a timely basis in the event of an excessive lag between the repayment of its assets and that of its debt benefiting from the legal privilege or a closure of the markets.

Caisse Française de Financement Local has three main types of liquidity need:

- financing of the assets that cover the *obligations foncières* it issues;
- repayment of debts as they fall due;
- financing of the liquidity requirements related to compliance with regulatory ratios, specific *sociétés de crédit foncier* ratios and the rating agency methodologies used to meet a rating target.

The sources of financing used to meet these requirements, other than the entity's equity, are:

- debt benefiting from the legal privilege, *i.e. obligations foncières*, registered covered bonds and cash collateral received;
- refinancing arising from the financing agreement entered into with SFIL to cover the financing requirements related to Caisse Française de Financement Local's over-collateralization. It relates to the fact that SFIL is responsible for most of the funding requirement associated with Caisse Française de Financement Local's over-collateralization (the remainder being total equity).

Furthermore, Caisse Française de Financement Local has a very large stock of assets eligible for European Central Bank refinancing *via* the Banque de France. Caisse Française de Financement Local can easily access the central bank refinancing in its own name, If necessary, to cover its cash flow requirements.

To control its liquidity risk, Caisse Française de Financement Local relies mainly on static, dynamic and stressed liquidity forecasts in order to ensure that the liquidity reserves at its disposal in the short and long term will be able to cope with its commitments.

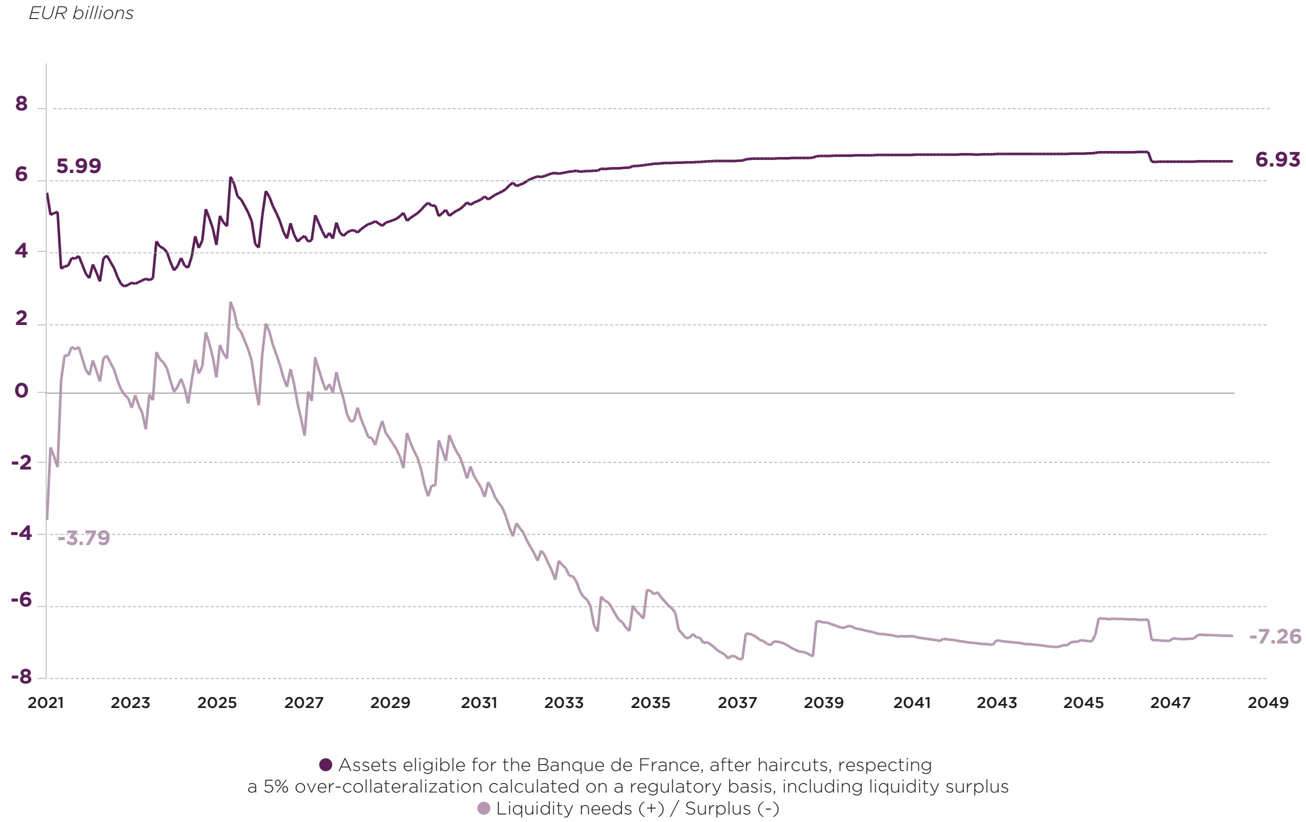
Dynamic liquidity forecasts take into account business assumptions (new assets and new financing), under normal and stressed conditions:

- under normal conditions, these forecasts aim to define the amounts and maturity of the various sources of financing that may be raised by Caisse Française de Financement Local;
- under stressed conditions, these forecasts aim to assess the resilience of Caisse Française de Financement Local to a liquidity shock and to determine its survival horizon.

The impacts of the crisis on the Group's liquidity remain very limited. In particular, the annual issuance program was carried out in accordance with the budget.

The aggregate maximum liquidity requirement that Caisse Française de Financement Local could face in the future in a run-off situation in which it was unable to issue new *obligations foncières* is lower than the maximum funding already occasionally obtained on a one-off basis from the central bank in the past. It is also lower than the Caisse Française de Financement Local's refinancing potential with the Banque de France, measured by the amount of eligible assets after haircut that would be available while complying with the minimum over-collateralization required by the regulations.

The chart below shows the forecast aggregate liquidity requirement and the assets needed to cover this requirement:

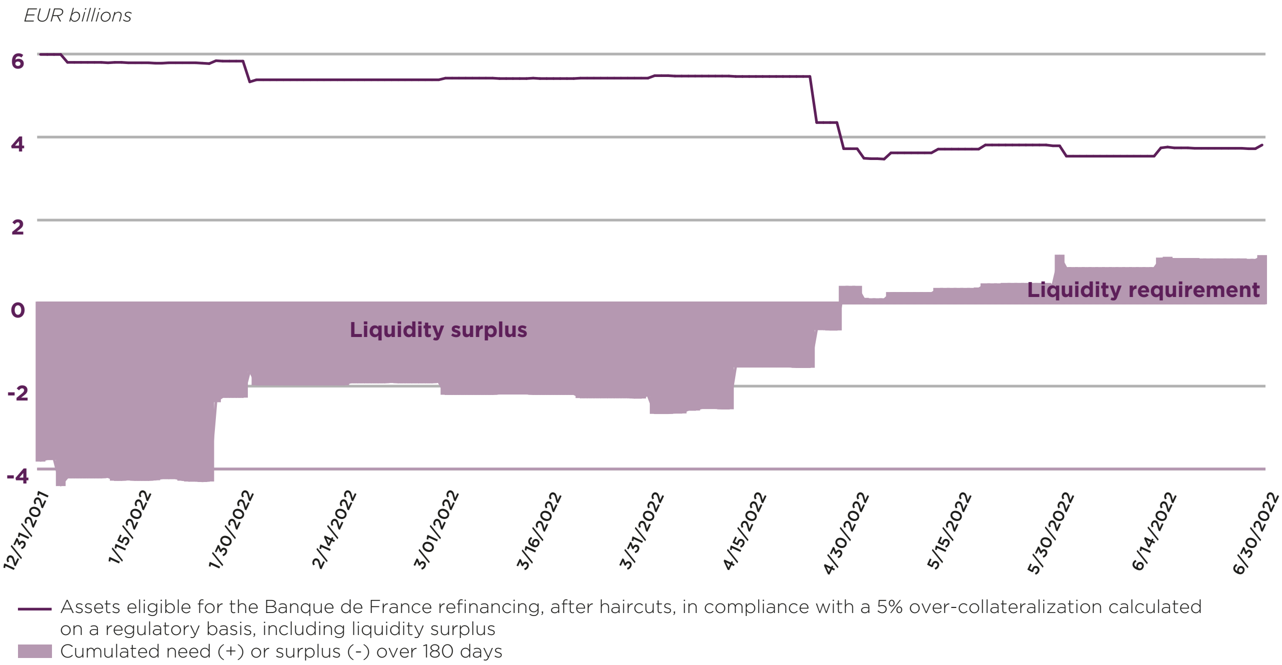


Caisse Française de Financement Local has its own autonomous resources that enable it to cover its temporary liquidity needs, even in the event of the default of its parent company, since any legal proceedings engaged for the bankruptcy or liquidation of its parent company cannot be extended to Caisse Française de Financement Local (article L.513-20 of the French Monetary and Financial Code).

Meanwhile, Caisse Française de Financement Local manages its liquidity risk using the following indicators:

- **the regulatory indicators specific to *sociétés de crédit foncier* (SCF):**
  - the regulatory coverage ratio (or over-collateralization ratio): this represents the ratio between assets and debts benefiting from the legal privilege, and must be at least 105% (see section 6);
  - the maximum gap of 1.5 years between the average maturity of debt benefiting from the legal privilege and that of assets (see the specific section on transformation risk below);

- the forecast cash needs at 180 days: Caisse Française de Financement Local ensures that, at any time, its cash needs over a period of 180 days, calculated in a situation of run-off, are covered by cash, replacement assets, high-quality liquid assets or assets eligible for the Banque de France's credit operations. Cash needs include repayments of *obligations foncières* and registered covered bonds, debt not benefiting from the legal privilege and forecast repayments of cash collateral received, after deduction of received assets repayments. This forecast is published quarterly in the asset quality report, and is shown below. As of December 31, 2021, the liquidity situation at 180 days shows a cash surplus over the first four months (with a maximum of EUR 4.4 billion) and a cash requirement over the last two months with a maximum requirement of EUR 1.1 billion at the end of June for which the necessary management measures have been or will be taken.



- **the regulatory liquidity indicators applicable to credit institutions, in particular Regulation 575/2013 of the European Parliament and Council of June 26, 2013, concerning:**
  - the LCR ratio (Liquidity Coverage Ratio): as of December 31, 2021, Caisse Française de Financement Local's LCR ratio was 771%,
  - the Net Stable Funding Ratio (NSFR), a transformation ratio which compares with a one-year horizon, the proportion of available stable funding over required stable funding: as of December 31, 2021 Caisse Française de Financement Local's NSFR was 113%;
- **the internal liquidity indicators:**
  - the dynamic financing requirement over a one-year period, as well as the issuance conditions of Caisse Française de Financement Local;
  - the coverage ratio (or over-collateralization ratio), which is steered at an over-collateralization level consistent with the Caisse Française de Financement Local's target rating (see section 1.6 – Over-collateralization ratio);
  - the one-year survival horizon in stressed conditions;
  - management of the maturities of privileged liabilities;
  - the level of unencumbered assets available in the event of a liquidity crisis;
  - the difference in duration between assets and liabilities benefiting from the legal privilege (limited to three years): this is published every quarter and came to -0.35 year as of December 31, 2021 (see the specific section on transformation risk below);
  - the sensitivity of the net present value of the static liquidity gap to an increase in the Group's financing costs;
  - the consumption of the spread and basis risk appetite for export credit transactions which measures the loss of revenue on these transactions which could result from stress on the financing costs in euros or foreign currency (USD or GBP).

Definition of the transformation risk contained in the specific components monitored in connection with liquidity risk

Transformation risk is part of liquidity risk. It corresponds to the differences in maturity between assets and the resources used to refinance them.

Caisse Française de Financement Local manages this risk using the following two indicators:

- duration gap;
- weighted average life gap.

Duration gap

The difference in maturity between assets and liabilities can lead to liquidity risk. As interest rate risk is controlled (see section 1.12.2.3.3.), Caisse Française de Financement Local ensures that asset and liability maturities match by keeping the difference in duration between assets and debts benefiting from the legal privilege to three years or less.

Given the method used to hedge interest rate risk, assets and debts benefiting from the legal privilege are all generally recognized at floating rates after swaps. Caisse Française de Financement Local's balance sheet thus appears to have a single loan opposite a single borrowing. Durations are calculated as follows: "sum of the periods, weighted by the cash flows and discounted at the zero coupon curve rate for the period (t), over the sum of cash flows discounted at the interest rate of the zero coupon curve for the period (t)":

$$D = \sum_{t=1}^{T} [(t \times CFt) / (1 + st)^t] \Big/ \sum_{t=1}^{T} [(CFt) / (1 + st)^t]$$

The duration gap between the assets and the liabilities is closely monitored since it is sensitive to fluctuations in interest rates used to calculate the net present value and to significant changes in assets and liabilities.

The duration gap observed in practice remains under the three-year limit, as shown in the table below:

Duration *(in years)*	12/31/2020	3/31/2021	6/30/2021	9/30/2021	12/31/2021
Cover pool	7.06	7.10	7.10	7.07	6.57
Privileged liabilities	6.95	7.13	7.20	7.13	6.92
ASSET-LIABILITY DURATION GAP	**0.11**	**(0.04)**	**(0.11)**	**(0.07)**	**(0.35)**
Duration gap limit	3	3	3	3	3

Weighted average life gap

Changes in the gap in weighted average life can differ from the changes in the gap in duration over the same period, for the evolution in the duration gap is partly attributable to movements in the interest rate curve. The gap in the weighted average life of the cover pool and the liabilities benefiting from the legal privilege is presented below.

Weighted average life *(in years)*	12/31/2020	3/31/2021	6/30/2021	9/30/2021	12/31/2021
Cover pool	7.05	7.25	7.26	6.90	6.75
Privileged liabilities	6.95	7.29	7.35	6.98	7.10
GAP IN ASSET-LIABILITY WEIGHTED AVERAGE LIFE	**0.10**	**(0.04)**	**(0.10)**	**(0.08)**	**(0.35)**
Weighted average life limit	1.5	1.5	1.5	1.5	1.5

Regulatory limit

Current regulations impose a limit of one-and-a-half years on the average life gap between the cover pool and privileged liabilities. Caisse Française de Financement Local respects this limit.

1.12.2.4.3 Interest rate risk

Definition

Interest rate structural risk is defined as the risk of loss incurred in the event of a change in interest rates that would lead to a loss in value of balance sheet and off-balance sheet transactions, excluding any trading portfolio transactions. Since Caisse Française de Financement Local does not have a trading portfolio, it is not concerned by this exception.

There are four types of interest rate risks, which are generally covered using derivatives as well as a risk related to any options:

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

Hedging Strategy

Caisse Française de Financement Local has defined an appetite for fixed interest rate risk, which is broken down into several limits that frame the directional sensitivities and time bucket of the net present value (NPV).

To limit its impact, Caisse Française de Financement Local implements the following interest rate risk hedging strategy:

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

This fixed-rate risk management is supplemented by monitoring of the fixings of operations at adjustable rates in order to ensure that they do not lead to the short-term sensitivity limit being exceeded. Where appropriate, swaps against €str may be entered into to hedge the fixing risk.

These hedges can be entered into either directly on the market by Caisse Française de Financement Local, or through SFIL, which in turn hedges its resulting position in the market.

Non-privileged debt is not hedged. Debt contracted by Caisse Française de Financement Local with its shareholder to finance over-collateralization is borrowed either directly with a €str index and does not need to be swapped, or with a Euribor index and thus finances assets also indexed on Euribor. Short-term debt owed to the Banque de France with a fixed rate (if any) is not hedged, but finances fixed rate assets.

These different kinds of interest rate risks are analyzed and managed through:

- monitoring fixed rate, index and fixing gaps:

Fixed rate gap	Difference between balance sheet and off-balance sheet assets and liabilities for fixed-rate transactions or transactions for which the rate has been set. It is calculated every month until balance sheet run-off.
Index gap	Difference between balance sheet and off-balance sheet assets and liabilities for a given index tenor that has not yet been fixed. This gap is calculated every month until balance sheet run-off.
Fixing gap	For a given index tenor: difference between floating rate balance sheet and off-balance sheet assets and liabilities, by fixing.

- the monthly production of net present value (NPV) sensitivity indicators, calculated for a rate shock of 100 bp, which aim to regulate the fixed or set rate residual positions of Caisse Française de Financement Local (after setting up hedges). These indicators are calculated for four predefined time buckets (short-term, medium-term, long-term, very long-term) regulated by limits which are calibrated to avoid losing more than EUR 80 million with a 99% quantile calculated on a 10-year history:

Translation of the rate curve	EUR 25 million limit
Rate curve sloping/rotation on distant points of the curve	EUR 15 million limit over short-term time buckets EUR 10 million limit over medium-term time buckets EUR 10 million limit over long-term time buckets EUR 9 million limit over very long-term time buckets
Sloping/rotation of the interest rate curve inside a time bucket	EUR 30 million limit on the absolute value of the sensitivities inside each time bucket

Measurement of directional risk

The quarter-end sensitivity measurements are presented below:

DIRECTIONAL RISK

Total sensitivity *EUR millions*	Limit	12/31/2020	3/31/2021	6/30/2021	9/30/2021	12/31/2021
SENSITIVITY	**(25)/25**	**(6.8)**	**(10.1)**	**(5.3)**	**(3.3)**	**(8.0)**

Measurement of the slope/rotation risk:

The quarter-end sensitivity measurements are presented below:

RISK OF SLOPE BETWEEN TWO DISTANT POINTS ON THE RATE CURVE

Sum of sensitivities *EUR millions*	**Limit**	**12/31/2020**	**3/31/2021**	**6/30/2021**	**9/30/2021**	**12/31/2021**
Short term	(15)/15	(9.5)	(4.4)	(5.8)	(3.0)	(6.0)
Medium term	(10)/10	3.1	(6.5)	1.0	4.9	1.7
Long term	(10)/10	(2.5)	0.7	(1.4)	(6.5)	(0.4)
Very long term	(9)/9	2.2	0.1	0.9	1.3	0.0

RISK OF SLOPE BETWEEN TWO CLOSE POINTS ON THE RATE CURVE

Sum of sensitivities in absolute value *EUR millions*	**Limit**	**12/31/2020**	**3/31/2021**	**6/30/2021**	**9/30/2021**	**12/31/2021**
Short term	30	10.9	12.4	7.7	13.3	12.7
Medium term	30	22.3	21.4	24.5	23.1	12.5
Long term	30	11.3	16.7	26.0	10.6	18.2
Very long term	30	8.8	8.3	5.7	15.0	13.0

Outstanding derivatives

The strategies for hedging interest rate and foreign exchange risks necessitate entering into a significant amount of swaps the notional outstanding of which as of December 31, 2021 is analyzed in the table below.

Breakdown of outstanding swaps *EUR billions*	**Notational amounts** *in absolute value*
EURIBOR AGAINST € STR	
Macro-hedge	24.2
TOTAL SHORT-TERM SWAPS	**24.2**
FIXED RATE AGAINST EURIBOR OR € STR	
Micro-hedges of *obligations foncières*	34.5
Micro-hedges of loans and debt securities	16.7
Macro-hedges of loans	11.2
SUBTOTAL	**62.4**
CURRENCY SWAPS	
Micro-hedges of *obligations foncières*	0.5
Micro-hedges of loans	3.7
Micro-hedges of loans debt securities	0.3
SUBTOTAL	**4.5**
TOTAL LONG-TERM SWAPS	**66.9**
TOTAL SWAPS	**91.2**

1.12.2.4.4 Foreign exchange risk

Definition

The foreign exchange risk is defined as the risk of recorded or unrealized earnings volatility, linked to a change in the exchange rate of currencies vis-à-vis a reference currency. The reference currency of Caisse Française de Financement Local is the euro. The foreign exchange risk reflects a change in the value of assets and liabilities denominated in a currency other than the euro because of fluctuations of this same currency *vis-à-vis* the euro.

Hedging Strategy

Caisse Française de Financement Local's foreign exchange risk management policy is to incur no foreign exchange risk: it enters into cross-currency swaps against the euro for its issues and assets denominated in foreign currency, on initial recognition at the latest and until their final maturity, thereby ensuring that these balance sheet items' principal and interest rates are fully hedged. Floating rate exposures in euros generated by this management policy are incorporated into interest rate risk management. Nonetheless, certain loans to refinance large export credits denominated in foreign currency may cause a very limited temporary foreign exchange risk during their drawing phase in case of a shift between effective drawing dates and those initially scheduled and hedged. This residual risk is handled through the calculation of a very low sensitivity limit.

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

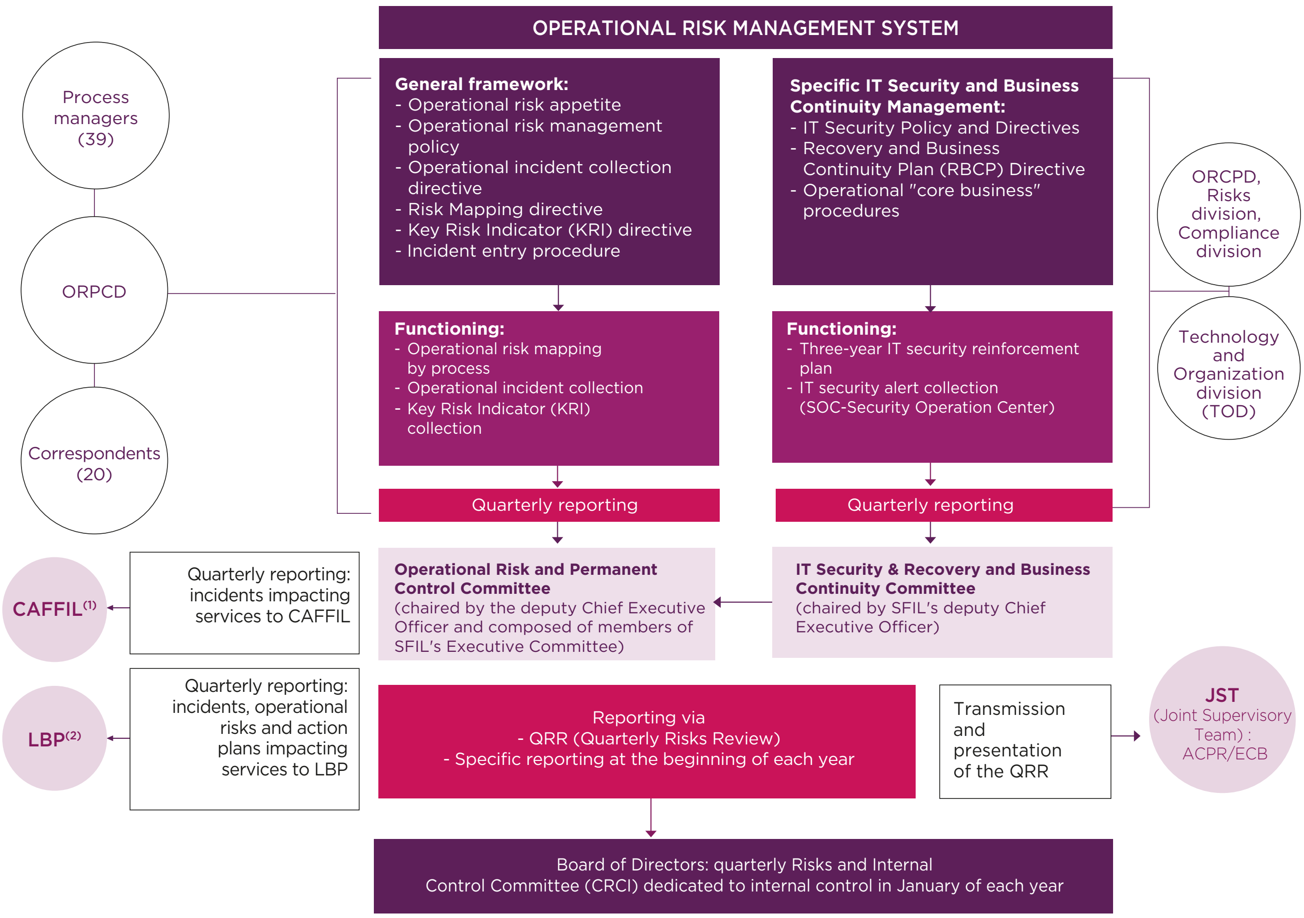
1.12.2.5 Operational risk

1.12.2.5.1 Definition

The SFIL Group defines operational risk as the risk of loss arising from an inadequacy or failure in the processes, personnel and internal systems or from external events including the legal risk. It includes model risks but excludes strategic risks.

Management procedures for operational risks apply to all of SFIL's divisions responsible for Caisse Française de Financement Local's management, activities and processes.

1.12.2.5.2 Organization and governance



(1) *Within the framework of the SFIL/CAFFIL (Caisse Française de Financement Local) agreement.*
(2) *Within the framework of the SFIL/LBP (La Banque Postale) agreement.*

SFIL has set up an organization, procedures and a management tool to monitor and control its operational risks. This system is managed by the Operational Risks and Permanent Control division (ORPCD), which is made up of six employees and a manager.

The Compliance division is responsible for the policy and supervision of the non-compliance and reputation risk system (see global internal control system and non-compliance risks).

Operational risks management and permanent control are organized around two committees:

- the Operational Risks Management and Permanent Control Committee (ROCP), whose role is to:
  - examine the main risks identified following (i) the update of the risk mapping, (ii) the occurrence of an incident, (iii) the permanent control campaigns, (iv) the management of business continuity, (v) information security management, then to decide whether or not they are acceptable, and any corrective actions to be implemented,
  - validate the permanent control plan and monitor the results of the controls.
- the IT Security Committee (ISS) and the Recovery and Business Continuity Plan (PUPA), whose role is to monitor the implementation of the IT security policy, the physical security policy and the recovery and business continuity plan as well as the directives and procedures in force, and to arbitrate the problems or alerts that arise from them.

1.12.2.5.3 Measurement and management of operational risk excluding non-compliance risk

The SFIL Group has opted for the standard method of calculating the regulatory capital requirement for operational risk. This requirement amounts to EUR 29 million at December 31, 2021. This should not be interpreted as a specific measure of the Company's operational risk.

The SFIL Group 's policy for measuring and managing operational risks, excluding non-compliance risk, consists of regularly identifying and assessing its risk exposure and the existing mitigation and control systems to establish whether or not the level of residual risk is acceptable. This policy is divided into three main processes:

- the collection and reporting of operational incidents;
- operational risk mapping;
- monitoring key operational risk indicators.

This system is complemented by an IT security management policy, a Recovery and Business Continuity Plan (RBCP) and, where necessary, insurance policies to cover specific risks.

Missions	2021 activities and results
Operational risk appetite monitoring	2 operational risk indicators defined and regularly monitored; 2 indicators defined in 2021 for IT security.
Operational incident collection	3 incidents in 2021, impacting the service provided by SFIL to Caisse Française de Financement Local (CAFFIL), resulting in direct financial losses above the collection threshold (EUR 10,000).
Operational risk identification and assessment (mapping)	100% of SFIL/Caisse Française de Financement Local processes have been subject to operational risk mapping.
Definition and monitoring of action plans	Half-yearly monitoring carried out in the RTR and presentation to the CRCI and to the Supervisory Board of Caisse Française de Financement local; Monitoring by SFIL's Executive Committee of the performance of the action plans defined for residual risks assessed as major.
Monitoring key operational risk indicators	62 key operational risk indicators monitored and analyzed.
IT security management	Update and validation of the three-year IT security reinforcement plan (2020-2022).
	Response to 3 self-assessment questionnaires (standard or requested by the IT security supervisory authority - SWIFT, Banque de France and JST).
	5 e-learning modules raising awareness of IT security among SFIL employees.
	Regular reminders *via* intranet or phishing awareness emails; Addition of a warning banner in the inbox to identify emails from outside.
	Monitoring the news and vulnerabilities of IT system components and the use of the SFIL and Caisse Française de Financement Local brands.
Business continuity and crisis management	3 functional tests (backup sites).
	Holding of regular crisis cells to steer the management of the Covid-19 crisis.
	2 tests of the IT backup plan.
	1 test of the crisis cell carried out with a cyber incident scenario.

Missions	2021 activities and results
Internal and external reporting	4 IT Security & Recovery and Business Continuity Planning Committee meetings
	4 Operational Risks and Permanent Control Committee meetings
	Contribution to 4 Quarterly Risk Reviews (QRR) for SFIL's Risks and Internal Control Committee
	Specific contribution during an annual meeting of the Risks and Internal Control Committee
Reporting to CAFFIL's Executive Board	Reporting, by the CAFFIL coordination division, of operational incidents impacting SFIL's service to Caisse Française de Financement Local on the basis of quarterly risk reviews (RTR) or specific reporting Presentation of its annual report by the ORPCD
Reporting to CAFFIL's Supervisory Board	4 reports by the Executive Board based on the RTR and the annual report of the ORPCD

Operational incident collection

SFIL has defined an operational incident and loss collection process governed by guidelines and procedures. This process allows SFIL not only to comply with regulatory requirements but also to gather key data to improve the quality of its internal control system.

The threshold of mandatory declaration for financial impacts is EUR 10,000. The identification and analysis of incidents is the responsibility of the risk correspondents with the support of the Operational Risks and Permanent Control division, by using a dedicated tool. Preventative or corrective actions are implemented depending on the outcome of the incident analysis.

Operational risk identification and assessment

An operational risk map is drawn up and regularly updated for each SFIL Group process. This is based on a methodology which conforms with best practices and notably on the analysis of past operational incidents. This methodology makes it possible to identify and assess the inherent risks of each process, as well as the existing mitigation factors of these risks (systems or controls in place), to determine the residual impact in order to decide whether or not to accept them. Where residual impacts are deemed to be material and operational risks are major, corrective actions or improvement initiatives are taken (strengthening systems, procedures and the permanent control plan, implementing monitoring or risk control systems). The mapping of operational risks by process and its updates are validated by the Operational Risks and Permanent Control Committee and then presented to the Risks and Internal Control Committee at its annual meeting dedicated to the internal control function.

This methodology has been rolled out to all 37 processes, the formalization of which has now been completed and replaces the mapping of operational risks by division. The full deployment of this methodology has been effective since 2021.

Monitoring of key operational risk indicators

In addition to the mapping of operational risks which provides a periodic instantaneous picture of the risk profile, the SFIL Group has defined 62 key operational risk indicators associated with warning thresholds. These indicators are used to continuously and dynamically monitor changes in operational risks. They are monitored on a quarterly basis and reported in the RTR.

Definition and monitoring of action plans

The correspondents define the actions to correct the significant incidents or major operational risks identified. The Operational Risks and Permanent Control division regularly monitors these action plans. The results of these action plans are presented to the CRCI through the RTR on a quarterly basis.

IT security management

The Operational Risks and Permanent Control division has put in place a set of provisions, governed by a policy and directives, based on the requirements of the ISO 27001 standard, applicable to all SFIL's operating divisions. These provisions are intended to protect information against any threat that could affect its confidentiality, integrity or availability. It comprises operational rules, procedures, and operating processes, determined in collaboration with the Technology and Organization division (TOD). This set of measures is subject to regular controls, especially regarding authorizations to access SFIL's IT applications and systems and regarding the respect of IT security rules.

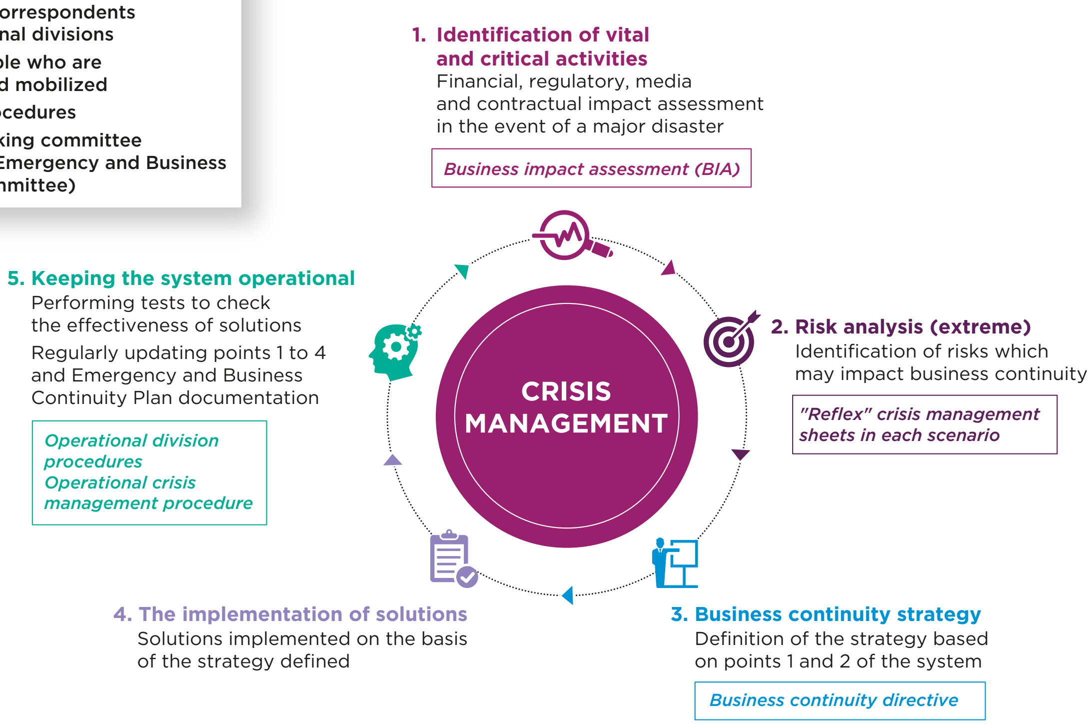
In addition, to improve existing systems a three-year (2020-2022) information system security strengthening plan has been defined and is regularly monitored. A SOC (Security Operation Center) system was set up to prevent and manage IT security warnings and threats.

Business continuity and crisis management

The SFIL Group has developed a Recovery and Business Continuity Plan (RBCP). It covers all the measures and procedures aimed at maintaining the provision of services or other essential operational tasks performed by SFIL (and in particular for Caisse Française de Financement Local), temporarily and if necessary in a downgraded mode.

This system has five key parts and a specific governance:

- A dedicated team (Operational Risks and Permanent Control division)*
- A network of correspondents in the operational divisions
- Identified people who are mobilizable and mobilized
- Up-to-date procedures
- A decision-making committee (IT Security & Emergency and Business Continuity Committee)



** The Technology and Organization division for the IT backup plan*

Operational risk insurance

The SFIL Group has standard operating liability insurance and loss insurance, comprehensive IT equipment and premises insurance. It also has insurance to cover the liability of its corporate officers (RCMS), civil professional liability (RCpro) and fraud.. These policies cover SFIL and its subsidiary Caisse Française de Financement Local.

Management of the Covid-19 pandemic

In the first days of March 2020, the SFIL Group set up a crisis management cell linked to the Covid-19 pandemic, with three main objectives:

- protecting the health of internal and external employees;
- maintaining the operational capacity of the institution to ensure business continuity;
- controlling all risks, which were increased during this period.

The crisis cell met 17 times in 2021.

At the beginning of 2021, the SFIL Group also provided feedback on its Covid-19 crisis management, which gave rise to areas for improvement that are monitored within the framework of the ISS & RBCP committees.

In total, few incidents were identified in connection with the Covid-19 crisis. They generated low impacts and, in any case, below the regulatory collection thresholds.

Secure payment methods

Caisse Française de Financement Local does not provide its customers with any means of payment and is not exposed to operational risks in this area.

1.12.2.6 Legal and tax risk

1.12.2.6.1 Legal risk

The *arrêté* of November 3, 2014 defines Legal Risk as the risk of any dispute with a counterparty resulting from any inaccuracy, lack or insufficiency that may be attributed to the Company in the exercise of its activities.

Caisse Française de Financement Local's monitoring of legal risks focuses on the prevention of litigation, the anticipation of legal developments and the respect of governance principles.

The legal risk control is carried out by :

- Legal division, which includes three sections: a "financial markets" section, a "public sector credit " section and an" export credit" section:
- the "General Secretariat and Social Affairs" department, dedicated to the social affairs of SFIL and Caisse Française de Financement Local and their governance.

  These two departments report to the General Secretary, a member of SFIL's Executive Committee, which validates the legal strategies implemented.

Their main missions are:

- advising and assisting the bank's General Management and operating divisions in order to prevent, detect, measure and control the legal and tax risks inherent in their activity. As such, the Legal Department is involved in all legal issues related to the management of outstanding loans to the local public sector. It is also involved in the entire process of preparing, negotiating and managing export credit refinancing operations. Lastly, it is regularly consulted on issues related to the run-off management of the portfolio of loans to foreign local authorities;

- participation in the organization of governance and the implementation of best practices in this area (policy, procedures and internal regulations) in order to promote the management and control of risks by the management bodies;
- monitoring regulatory changes via a legal watch initiated by the two departments; in this context, the Legal Department has endeavored to comply with the Benchmark regulations and to continue its work under the EMIR Directive regarding the initial margin for derivative transactions not offset in clearing;
- the review and negotiation of contracts, in particular the contracts governing the partnership between SFIL/CAFFIL and La Banque Postale, framework agreements on financial instruments, bond issue documentation, green financing, supplier contracts, including outsourced essential services and, more generally, the adaptation of all contracts to regulatory changes having an impact on the business;
- insurance management (excluding social protection insurance);
- trademark protection;
- the management of pre-litigation and litigation. In this context, the Legal Department participates in defining the provisioning policy by providing analyses of the legal issues and risks associated with each dispute.

In addition, these departments contribute to the work of various committees:

- within the framework of its Regulatory Watch Committee, it provides information on the principles underlying legal and regulatory provisions that affect the operations of SFIL and Caisse Française de Financement Local;
- within the New Products Committee, the Legal division advises, as necessary, on the cases presented to it;
- the Legal division analyzes the legal risks associated with the cases presented for the Credit Committee it is associated with the processing of at risk or doubtful credit files;
- as part of the weekly financial markets committee, the Legal Department presents its analyses of legislative and regulatory texts that impact the bank's capital markets activities and communicates on ongoing contract negotiations;
- it reviews the cases under litigation and the progress of the proceedings at the Loan Sensitivity Reduction Committee meeting. It also expresses its opinion when a loan sensitivity reduction operation involves a legal risk.

The Legal division may also participate in formulating the comments made as part of the audit and internal control operations.

The effective managers of SFIL and the Board of Directors, of SFIL, as well as the Executive Board and Supervisory Board of Caisse Française de Financement Local receive regular updates on significant events in the above areas.

As regards litigation, relating to structured loans, as of December 31, 2021, there were 3 borrowers who had brought lawsuits on structured loans, compared to 10 as of December 31, 2020 and 15 as of December 31, 2019, steadily decreasing since 2014 (210 lawsuits as of December 31, 2014). Since the creation of SFIL, 220 borrowers dropped the claims they had initiated.

The Court of Cassation issued six new judgments in 2021, without calling into question its now established case law (in particular by its judgments of March 28, 2018 and June 26, 2019, confirmed in 2020) confirming the validity of the structured loans recorded on the balance sheet of Caisse Française de Financement Local.

Thus, since the entry into force on July 30, 2014 of the law on the securitization of structured loan contracts taken out by public legal entities, over 70 legal decisions have dismissed claims by borrowers to invalidate the structured loans recorded on Caisse Française de Financement Local's balance sheet.

As of December 31, 2021, to the Caisse Française de Financement Local's knowledge, there were no other lawsuits or disputes between SFIL or Caisse Française de Financement Local and its borrowers that were considered significant.

1.12.2.6.2 Tax risk

SFIL's Accounting division is responsible for tax declarations for Caisse Française de Financement Local and may contact SFIL's General Secretary for tax advice. SFIL relies notably on tax advisory firms of excellent repute for managing its tax risk.

During 2021, the French and Irish administrations met concerning the taxation in Ireland of the income of the former Dexia Municipal Agency (CAFFIL's former name) branch in Dublin, which closed in 2013 and which resulted in a tax adjustment notice from the French tax authorities for the tax audit relating to the 2012 and 2013 financial years. Discussions, which aim to address the double taxation to which Caisse Française de Financement Local has been subject, should continue in 2022. Caisse Française de Financement Local paid all of the duties assessed.

1.12.2.7 Risk of non-compliance

1.12.2.7.1 Definition

Non-compliance risk is defined in article 10 p) of the ruling of November 3, 2014, as amended as the risk of legal, administrative or disciplinary sanction, significant financial loss or damage to reputation resulting from failure to respect the provisions directly applicable to banking and financial activities, irrespective of whether they are legislative or regulatory, national or European and irrespective of whether it concerns professional and ethical standards or instructions from effective managers taken pursuant to guidelines from the supervisory body.

Reputational risk is the risk of damage to the trust in the SFIL Group by its customers, counterparties, suppliers, employees, shareholders, supervisors or any other third party whose trust, in any capacity whatsoever, is a necessary condition for the normal continuation of activity. Reputational risk is essentially a risk contingent on all the other risks incurred by the bank and in particular the potential materialization of a credit risk, a market risk, an operational risk or a risk of non-compliance, as well as a violation of SFIL's Ethic and Professional Conduct Code.

Non-compliance risks by the SFIL Group are organized into two major categories: regulatory compliance risks and risks in terms of financial security:

The non-compliance risk management processes apply to all the SFIL Group's departments, activities and processes (SFIL and Caisse Française de Financement Local).

Regulatory non-compliance risks					Risks in terms of financial security			
Professional conduct and prevention of conflicts of interest	Integrity of markets	Protection of interest of customers	Fight against corruption	Protection of personal data	Customer knowledge (KYC)	AML/CFT	Sanctions, asset freezes and embargoes	Export rules

1.12.2.7.2 Organization and governance

The SFIL Group has defined and put in place a system for preventing non-compliance risk, which is up-to-date, sufficient and suited to the Group's activities. Responsibility for this system is shared between:

- all the operating divisions, which must incorporate into their daily actions respect for laws and regulations, rules of proper professional conduct as well as the Group's internal procedures/rules, and they must implement level 1 controls of their activities;
- the Compliance division, which defines, puts in place, supervises the compliance system and sees to it that it is respected.

Pursuant to article 29 of the *arrêté* of November 3, 2014, SFIL's Compliance division is autonomous, independent of all operational units and particularly of any commercial, financial or accounting activity. It was composed of six employees as of December 31, 2021, under the responsibility of the General Secretary, Director of Compliance. A member of SFIL's Executive Committee, the General Secretary is appointed as Compliance Officer and AML/CFT Officer for the ACPR. Reporting directly to the Chief Executive Officer until September 2021, then to the Deputy Chief Executive Officer, she has direct and independent access to the Risks and Internal Control Committee as well as to the SFIL Board of Directors and the Executive Board of Caisse Française de Financement Local.

SFIL ensures the compliance of Caisse Française de Financement Local's operations in accordance with the provisions of the *arrêté* of November 3, 2014 as amended and the EBA guidelines on outsourcing of February 25, 2019. To this end, SFIL's Compliance Director is appointed as head of Caisse Française de Financement Local's compliance function in order to ensure the consistency and effectiveness of the control of the risk of non-compliance of transactions. The Chairman of the Executive Board of Caisse Française de Financement Local is appointed to be responsible for implementing the AML/CFT system.

To support the business lines and ensure the supervision of the system, the organization of the Compliance division is based on:

- employees identified as points of contact with the business lines for all compliance issues (17 risk correspondents);
- a unit dedicated to permanent compliance control and personal data protection.

A report on the compliance system is prepared and submitted to the governing bodies of SFI and Caisse Française de Financement Local.

Thus, the General Secretary presents to SFIL's Executive Committee and Risks Committee on which the SFIL effective managers sit, and to the Executive Board of Caisse Française de Financement Local, and to SFIL's Risks and Internal Control Committee, a half-year activity report as well as the results of the permanent compliance controls and progress on the compliance action plans.

During the Executive Committee and the Executive Board Meetings, the effective managers evaluate the relevance of the controls, decide on any improvements to be implemented and more generally make a final decision on the main issues related to the compliance system. The other members of SFIL's Executive Committee are responsible for steering the management of non-compliance risks and the first level controls on their scope of responsibility, while remaining consistent with the Risk Appetite Statement. They monitor the implementation of compliance action plans.

SFIL's Board of Directors and Caisse Française de Financement Local's Supervisory Board, through SFIL's Risks and Internal Control Committee, examine the results of the Compliance division's activity, the result of the compliance controls and the progress of the actions plans aimed at correcting the discrepancies noted. They are informed of major compliance issues, particularly in the event of regulatory changes.

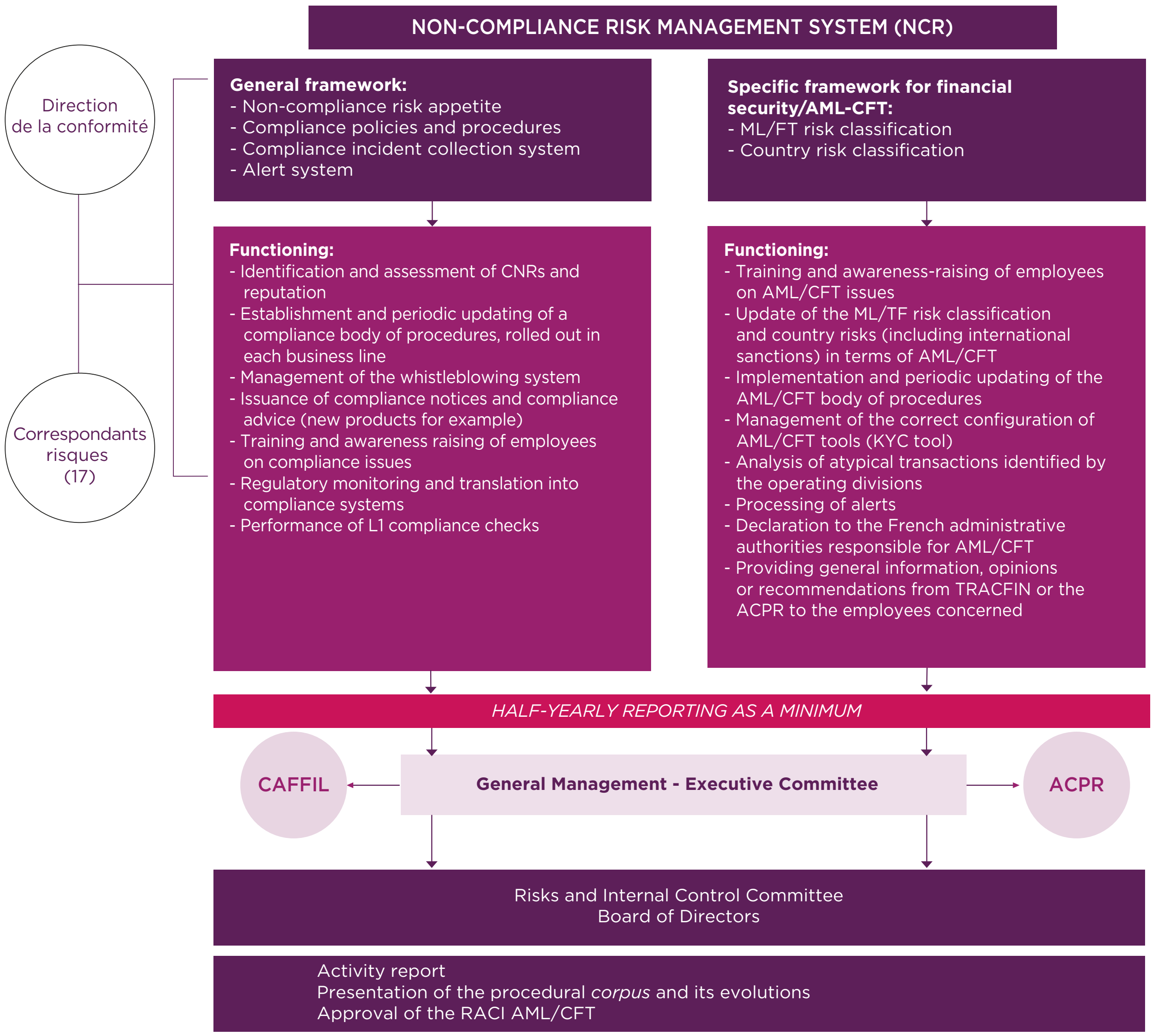
Lastly, the Compliance division presents its annual activity to SFIL's Executive Committee, to Caisse Française de Financement Local's Executive Board and to SFIL's Risks and Internal Control Committee.

1.12.2.7.3 Measurement and management of non-compliance risk

The management of non-compliance risk is consistent with the SFIL Group's risk appetite. This is defined by General Management and approved by SFIL's Risks and Internal Control Committee and *in fine* by the Board of Directors of SFIL and the Supervisory Board of Caisse Française de Financement Local. Within this framework, policies have been defined for the entire scope of the SFIL Group as well as limits and rules for delegating decisions. The Risk Management division monitors these limits and, where appropriate, proposes measures to General Management to ensure compliance therewith.

SFIL's policy for measuring and managing non-compliance risk, consists of regularly identifying and assessing its risk exposure and the existing mitigation and control systems to establish whether or not the level of residual risk is acceptable. This policy is divided into four main processes:

- the mapping of non-compliance risks;
- the collection and reporting of compliance incidents;
- the performance of permanent compliance controls;
- the monitoring of key non-compliance risk indicators including AML/CFT indicators.



1.12.2.7.4 Implementation of the compliance system

During 2021, the SFIL Group continued to implement its compliance system, through the following initiatives:

- **financial security/AML/CFT:**

  SFIL has implemented all the provisions related to the fifth Anti-Money Laundering and the Financing of Terrorism Directive, which entered into force under French law following the decree of February 12, 2020, with the regulatory framework for compliance being implemented in operational processes. In addition, as part of the project to update the Caisse des Dépôts group's money laundering and terrorist financing risk management tools, the SFIL Group has endeavored to implement the normative *corpus* of its parent company. The general AML/CFT procedure and the risk classification methodology were reviewed. The SFIL Group's harmonized procedural *corpus* was presented to the Risks and Internal Control Committee and approved by SFIL's Board of Directors on December 8, 2021 and the Supervisory Board of CAFFIL on December 9, 2021, for application from January 1, 2022. During the first half of 2022, the Compliance division will focus on the operational implementation of these new standards in order to meet the requirements of inter-group reporting and information sharing through ML/TF risk indicators.

- **Know Your Client:**

  The business lines endeavored to complete their compliance action plans. The financial security tool project intended to strengthen the robustness of the business relationship screening system has been completed. The Compliance division and the Technology and Organization division are now focusing on improving existing functionalities for a better user experience.

- **fight against corruption:**

  The corruption risk was up to now mapped among the risks of non-compliance. In 2021, the SFIL Group undertook to redesign this aspect of the mapping for a more granular approach to this risk. Based on corruption risk situations established by the Compliance division *via* interviews with all the business lines, these were validated with the various divisions, in line with their activities. The new recommendations of the French Anti-Corruption Agency have also been taken into account insofar as they are relevant SFIL Group's activities, as it is not subject to the Sapin II law. The new mapping was presented to the Risks and Control Committee on January 27, 2022 and to the Executive Board of Caisse Française de Financement Local on February 21, 2022.

- **market integrity:**

  The procedure for combating market abuse has been updated to take into account, in particular, European regulation No. 2019/2115 of November 27, 2019 amending Directive 2014/65/EU and the Regulations No. (EU) 596/2014 and (EU) 2017/1129 which entered into force on January 1, 2021. This update was accompanied by work on the organizational implementation of the system within the SFIL Group and in particular on the process for qualifying inside information.

- **protecting customer interests:**

  Actions were carried out on the system to strengthen internal rules on customer protection elements such as complaints management and product governance. Regarding the latter, a policy for approving new products was drafted in 2021 by the Risks division in conjunction with Compliance and approved by the Executive Board of Caisse Française de Financement Local in November 2021 and by the Board of Directors of SFIL in December 2021 in order to incorporate the new regulatory requirements emanating from the European Banking Authority guidelines. The importance that the SFIL Group attaches to this topic is reflected in the SFIL Code of Ethics and professional conduct.

On a more cross-functional basis, the SFIL Group is constantly striving to improve its compliance system in order to ensure the effectiveness of prevention actions and compliance with applicable regulations. This improvement continued in 2021, notably with:

(i) the overhaul of the permanent compliance control plan with the aim in particular of reinforcing the consistency between level 2 and level 1 controls. In this context, the objective of compliance is to continue to consolidate and strengthen its supervisory role, relying more and more on the permanent control actions of the first line of defense. The plan has also been made consistent with the AML/CFT steering of CDC as parent company;

(ii) implementation of the training plan as validated by the Risks and Internal Control Committee in January 2021. The training of employees and corporate officers is a priority for SFIL insofar as it contributes to strengthening the culture of compliance. These training courses cover all topics: the fight against money laundering and the financing of terrorism, customer protection, the fight against corruption, professional conduct and ethics, prevention of conflicts of interest and market abuse, protection of personal data. The training plan was enriched in 2021 by a training course dedicated to corporate officers on "governance and compliance". Numerous training sessions and training materials were rolled out and enhanced in 2021, with 21 sessions conducted and over 350 employees trained in person.

In general, the Compliance division continued to improve its organization, processes and tools with a focus on digital, with the constant aim of improving its effectiveness in handling regulatory changes and meeting supervisors' expectations.

1.13 Additional information

1.13.1 Yield on assets indicator

Article R.511-16-1 of the French Monetary and Financial Code, introduced by Decree No. 2014-1315 of November 3, 2014, sets forth that in their annual financial report that credit institutions shall publish the yield on their assets, defined as the ratio between the net result profit (loss) for the period and the total of the balance sheet. In 2021, this ratio was equal to +0.08% in IFRS and +0.13% in French GAAP.

1.13.2 Payment terms

Pursuant to articles L.441-14 and D.441-6 of the French Commercial Code, Caisse Française de Financement Local must publish an annual breakdown of the balance of its trade payables by due date.

Caisse Française de Financement Local has a very limited number of direct suppliers, since its management is contractually entrusted to its parent company, in accordance with article L.513-15 of the French Monetary and Financial Code.

Caisse Française de Financement Local usually settles its bills as soon as they are recorded, and the balance of monies owed to suppliers is theoretically always zero. The breakdown of arrears on invoices due at the end of 2021 is as follows:

	Invoices received and not paid at the reporting date whose term has expired					
	0 days (indicative)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	TOTAL
(A) CLASSES OF LATE PAYMENT						
Number of invoices concerned	-	-	-	-	-	-
Total amount of invoices concerned excl. *of VAT (EUR thousands)*	-	-	-	-	-	-
Percentage of the total amount of purchases excl. of VAT in the financial year	-	-	-	-	-	-
(B) INVOICES EXCLUDED FROM (A) RELATING TO LITIGIOUS DEBT OR DEBT NOT YET POSTED						
Number of invoices excluded	-	-	-	-	-	-
Amount of invoices excluded	-	-	-	-	-	-

Reference payment period: legal or contractual, generally 45 days.
Bank and related transactions are not included in the information on payment terms.

1.13.3 Research and development

Since the Company exercises no activity in research and development, no data related to this activity is mentioned in the financial statements.

1.13.4 Non-tax deductible charges and expenses

In accordance with article 223 (4) of the French General Tax Code, no non-deductible expense or charge referred to in article 39-4 of the French General Tax Code was made by the Company during the financial year.

The general operating expenses considered non-deductible following a final tax assessment (article 223 (5), articles 39-5 and 54 (4) of the French General Tax Code) are zero.

1.13.5 Social, environmental and societal information

Caisse Française de Financement Local is not subject to the provisions relating to the Extra-Financial Performance Statement.

Social, environmental and societal information concerning SFIL, which manages the activities of Caisse Française de Financement Local, is presented in its annual financial report and on its website.

A complete annual CSR report is prepared for the SFIL Group and is available on the SFIL website. In particular, it covers the activities of Caisse Française de Financement Local.

1.13.6 Ordinary and Extraordinary Shareholders' Meeting of May 24, 2022

The Ordinary and Extraordinary Shareholders' Meeting of May 24, 2022 will be asked to amend articles 20, 22 and 35 of the bylaws, namely:

- to amend article 20 to allow the convening of the Supervisory Board by electronic means;
- bring article 22 into compliance with the provisions of article 4 allowing the Supervisory Board to transfer the registered office to French territory;
- bring the sixth paragraph of article 35 into line with the terminology of article L.225-45 of the French Commercial Code by replacing the term “directors' fees” with the term “compensation”.

1.13.7 Post-closing events

No events impacting the Company's financial situation occurred between the closing date and the management report date.

The foreseeable impacts to date related to the war situation in Ukraine are limited for Caisse Française de Financement Local. Caisse Française de Financement Local does not have any exposure in Russia or Belarus. SFIL, its parent company, has only one exposure in Ukraine, which at December 31, 2021 represented an outstanding on the balance sheet of EUR 51.1 million and an off-balance sheet financing commitment of EUR 17.4 million. This exposure was granted as part of the export credit activity and is 100% guaranteed by the French Republic. SFIL is not, therefore, directly exposed to credit risk on this file. This contract was the subject of a refinancing contract granted by CAFFIL which, in addition to the 100% credit insurance, benefits from the 100% guarantee granted by the French Republic known as the enhanced guarantee.

1.14 Breakdown of the cover pool as of December 31, 2021

	12/31/2021					12/31/2020
EUR millions	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
FRANCE						
State						
• export refinancing	-	-	4,954	-	4,954	3,588
• others	20	-		230	250	250
Banque de France	3,796	-	-	-	3,796	1,798
Regions	2,291	70	232	-	2,592	2,579
Departments	7,281	-	128	-	7,409	7,240
Municipalities	14,306	13	292	-	14,612	14,748
Groups of municipalities	13,376	54	73	-	13,504	13,087
Public sector entities:	-	-	-	-		
• health	5,983	-	-	-	5,983	5,997
• social housing	842	-	-	-	842	967
• others	703	150		-	853	931
Credit institutions	5	174		-	179	490
SUBTOTAL	**48,604**	**461**	**5,680**	**230**	**54,975**	**51,675**
GERMANY						
Länder	-	275	-	-	275	275
Credit institutions	-	-	-	-	-	95
SUBTOTAL	**-**	**275**	**-**	**-**	**275**	**370**
AUSTRIA						
Länder	-	-	167	-	167	173
SUBTOTAL	**-**	**-**	**167**	**-**	**167**	**173**
BELGIUM						
Regions	1	-	31	-	32	5
Public sector entities	2	-	-	-	2	37
Credit institutions	-	50	-	-	50	121
SUBTOTAL	**3**	**50**	**31**	**-**	**84**	**163**
CANADA						
Municipalities	100	-	-	-	100	100
Public sector entities	34	-	-	-	34	35
Credit institutions	-	372	-	-	372	226
SUBTOTAL	**135**	**372**	**-**	**-**	**507**	**361**
DENMARK						
Credit institutions	-	-	-	-	-	5
SUBTOTAL	**-**	**-**	**-**	**-**	**-**	**5**
SPAIN						
State	-	180	-	-	180	145
Regions	-	50	-	-	50	50
Municipalities	64	-	-	-	64	67
SUBTOTAL	**64**	**230**	**-**	**-**	**294**	**262**

	12/31/2021					12/31/2020
EUR millions	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
UNITED STATES						
Federated States	-	182	-	-	182	211
SUBTOTAL	**-**	**182**	**-**	**-**	**182**	**211**
FINLAND						
Credit institutions	-	-	-	-	-	96
SUBTOTAL	**-**	**-**	**-**	**-**	**-**	**96**
ITALY						
State	-	1,151	-	-	1,151	1,148
Regions	-	1,667	-	-	1,667	1,791
Provinces	-	428	-	-	428	406
Municipalities	3	759	-	-	762	927
Municipality groups	-	9	-	-	9	-
SUBTOTAL	**3**	**4,014**	**-**	**-**	**4,017**	**4,272**
JAPAN						
Municipalities	-	25	-	-	25	25
SUBTOTAL	**-**	**25**	**-**	**-**	**25**	**25**
NORWAY						
Credit institutions	-	137	-	-	137	192
SUBTOTAL	**-**	**137**	**-**	**-**	**137**	**192**
NETHERLANDS						
Credit institutions	-	-	-	-	-	96
SUBTOTAL	**-**	**-**	**-**	**-**	**-**	**96**
PORTUGAL						
State	-	-	-	-	-	-
Municipalities	5	-	-	-	5	8
Municipality groups	1	-	-	-	1	-
Public sector entities	-	-	-	-	-	2
SUBTOTAL	**6**	**-**	**-**	**-**	**6**	**10**
UNITED KINGDOM						
State	-	-	-	-	-	8
SUBTOTAL	**-**	**-**	**-**	**-**	**-**	**8**
SWEDEN						
Municipalities	18	-	-	-	18	18
Credit institutions	-	77	-	-	77	132
SUBTOTAL	**18**	**77**	**-**	**-**	**96**	**150**
SWITZERLAND						
Cantons	65	-	-	-	65	71
Municipalities	222	-	-	-	222	233
Public sector entities	60	-	-	-	60	60
SUBTOTAL	**347**	**-**	**-**	**-**	**347**	**364**
SUPRANATIONAL						
International organizations	11	-	-	-	11	15
SUBTOTAL	**11**	**-**	**-**	**-**	**11**	**15**
COLLECTIVE PROVISIONS	**-**	**-**	**-**	**-**	**(22)**	
TOTAL COVER POOL	**49,191**	**5,824**	**5,878**	**230**	**61,101**	**58,448**

Loans and securities are excluding premium/discount. Loans and securities denominated in foreign currencies are recorded at their euro swapped value. Loans and bonds are presented after specific impairments. In addition, Caisse Française de Financement Local establishes collective and sectoral provisions; these are deducted from the total cover pool from the 2021 financial year. In 2021, some reclassifications were made between the categories of local authorities in Belgium, Italy and Portugal.

TABLE OF RESULTS DURING THE LAST FIVE FINANCIAL YEARS

Financial position	2017	2018	2019	2020	2021
Share capital *(EUR millions)*	1,350	1,350	1,350	1,350	1,350
Number of shares	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000
RESULTS OF OPERATIONS *(EUR millions)*					
Revenues[1]	575	542	423	326	371
Income before income tax, amortization, depreciation and contingencies	14	18	32	68	80
Income tax	(5)	(27)	(6)	(19)	(28)
Income after income tax, amortization, depreciation and contingencies	30	44	46	59	81
Exceptional distribution	-	-	-	-	-
Dividend distributed[2]	50	41	45	49	85
PER SHARE DATA *(EUR)*					
Revenues	43.72	40.15	31.36	24.12	27.47
Income after income tax, and before amortization, depreciation and contingencies net of reversals	0.64	3.30	2.84	6.44	7.98
Income tax	(0.40)	(2.00)	(0.45)	(1.43)	(2.04)
Income after income tax, amortization, depreciation and contingencies	2.26	3.23	3.40	4.34	6.02
Exceptional distribution	-	-	-	-	-
Dividend per share[2]	3.70	3.00	3.35	3.60	6.32

(1) Revenue comprises the following items:
- *interest and related income, net of macro-hedging expense;*
- *commission income;*
- *net income on foreign exchange transactions;*
- *other operating income.*

(2) Proposed dividend distribution for the 2021 financial year.

1

2

Report on corporate governance

Report on corporate governance established pursuant to articles L.225-68, L.225-37-4, L.22-10-10 and L.22-10-11 of the French Commercial Code

This Supervisory Board's report on corporate governance presented pursuant to articles L.225-68, L.225-37-4, L.22-10-10 and L.22-10-11 of the French Commercial Code aims to report to shareholders on the Board's activities in 2021, its composition, and the conditions for preparing and organizing the Board's work. It also includes the list of all terms of office and functions exercised in any company by each corporate officer during the financial year, information on the compensation of corporate officers, the diversity policy applied to the members of the Supervisory Board and information on the elements likely to have an impact in the event of a takeover bid or public offer.

To prepare this report, Caisse Française de Financement Local refers to:

- the French Commercial Code, as a commercial company;
- the French Monetary and Financial Code, as a credit institution;
- the relevant European regulations for credit institutions;
- the governance provisions adopted by its parent company SFIL, which opted to refer to the Afep/Medef Code of corporate governance as a reference for the SFIL Group.

This report was drawn up by Caisse Française de Financement Local's Supervisory Board which gathered the appropriate information from the Company's Executive Board and its parent company's General Secretariat.

As a reminder, Caisse Française de Financement Local's operational structure and organization are restricted by its status as a *société de crédit foncier*. It is a legally independent company with its own Supervisory Board and Executive Board. However, in order to preserve the privilege enjoyed by holders of *obligations foncières* and other privileged debt securities, the law stipulates that a *société de crédit foncier* is not allowed to employ staff directly and must entrust the management of all its operations to a credit institution with which it signs an agreement (article L.513-15 of the French Monetary and Financial Code). This is because employees would have a priority that would supersede any other claim in the event of bankruptcy or liquidation, whereas the management agreement, which benefits from the privilege granted by the law on *sociétés de crédit foncier*, is *pari passu* with the holders of *obligations foncières* and other privileged debt securities. Caisse Française de Financement Local has entrusted the management of its operations to SFIL, since January 31, 2013. There are divisions or departments at SFIL that handle transactions conducted in the name of Caisse Française de Financement Local.

All items presented are as of December 31, 2021.

2.1 Governance

Caisse Française de Financement Local is a limited liability company with an Executive Board and a Supervisory Board (*société anonyme à directoire et conseil de surveillance*), governed by the provisions of articles L.210-1 *et seq.* and L.22-10-1 *et seq.* of the French Commercial Code. Its activity is governed by articles L.511-1 *et seq.* (credit institutions) and L.513-2 *et seq.* (*sociétés de crédit foncier*) of the French Monetary and Financial Code.

As the French Monetary and Financial Code authorizes an entity to refer to the Governance, Appointments and CSR Committee and the Compensation Committee of its parent company for the definition of its appointment and compensation policy, the Supervisory Board of Caisse Française de Financement Local has decided not to create a specific committee at its level Local and to rely on those of SFIL. Similarly, SFIL's Financial Statements Committee, on the one hand, and SFIL's Risks and Internal Control Committee, on the other hand, deal with issues concerning Caisse Française de Financement Local. The documents presenting these issues are included in the files presented to the Supervisory Board, which is also briefed on these committees' discussions when they are related to the Company.

In terms of governance, Caisse Française de Financement Local implements, for the areas relating to it, the provisions of its parent company that refer to the Afep/Medef Code. There is gender parity on the Supervisory Board. The composition of the Supervisory Board reflects the Company's business activity in terms of skills, training and professional experience. The Board's members are qualified experts in the main areas of activity of the *société de crédit foncier*. In 2021, all Board members received training on governance and compliance. In addition, the members of the Supervisory Board, all SFIL employees, follow the compliance training plan, including AML/CFT, for all of the bank's employees.

Caisse Française de Financement Local has a succession plan for corporate officers.

However, there are some deviations from good governance practices. Thus, the lack of independent members on its Supervisory Board reflects a choice made in relation to the status and role conferred on Caisse Française de Financement Local under arrangements for the SFIL Group's refinancing of the French public sector and French exports, and the Company's shareholding structure. In addition, Caisse Française de Financement Local is wholly-owned by SFIL, a public development bank that complies with the rules relating to the independence of members of its Board of Directors. Also, as a result of this organization and the Company's shareholding structure, it does not implement the recommendations relating to the number of shares held by members of the Supervisory Board and to the convening at least once a year of a Supervisory Board's meeting without the presence of members of the Executive Board.

2.1.1 Supervisory Board

2.1.1.1 Key figures of the Supervisory Board

Number of members	Independence	Women	Average age	Average seniority	Meetings	Attendance rate
6	**0**	**50%**	**53 years**	**7 years and 4 months**	**6 in 2021**	**97%**

2.1.1.2 The role of the Supervisory Board

The Supervisory Board exercises permanent control over the Executive Board's management of the Company. The Shareholders' Meeting appoints the Supervisory Board's members for four-year terms, on the basis of their qualifications and potential contribution to the Company. SFIL's Governance, Appointments and CSR Committee examines a comparison chart and file identifying the key skills the Board is seeking, for each appointment. Although this is an individual assessment, it also considers the Board's collective expertise. The appointments are approved by the European supervisor through the Fit & Proper analysis. In 2021, the terms of office of five members of the Supervisory Board were renewed. SFIL's Governance, Appointments and CSR Committee also took note of the absence of an independent member within the Supervisory Board.

The Supervisory Board meets at least once a quarter, with both Statutory Auditors and the Company's Specific Controller in attendance. The Board met six times in 2021. The members' attendance rate was 97% (individual rates are given in 2.1.1.3.). The Chairman of the Supervisory Board or of the Executive Board informs the Board's members of meeting agendas, allowing enough time before the meetings take place for them to review the items for discussion, and provides a file containing the memos or documents relating to said items. The files containing the information and documents sent to the Board enable it to form a clear, reliable and comprehensive view of the Company's situation, profitability and development. At the Supervisory Board Meetings, the Executive Board reviews and comments on the agenda items, using summary presentations where appropriate. The Supervisory Board issues opinions on strategic choices, makes recommendations and, where appropriate, commissions *ad hoc* studies, which are reviewed at subsequent meetings.

The main tasks of the Supervisory Board	Specific work carried out by the Supervisory Board in 2021
• Appoint the members of the Executive Board and co-opt the members of the Supervisory Board after favorable opinion from the Governance, Appointments and CSR Committee of SFIL. • Establish a succession plan to prepare and organize changes to the members of the supervisory and management bodies. • Examine the system of governance. • Prepare the corporate governance report. • Ensure that effective policies to prevent and manage conflicts of interest exist.	• Proposal for the renewal of 5 of the 6 members of the Supervisory Board. • Registration of the change of the permanent representative of the incumbent specific controller and of the change of the alternate specific controller. • Appointment of an effective manager responsible for the consistency and effectiveness of permanent control, an effective manager responsible for the consistency and effectiveness of the internal audit function and an effective manager responsible for the implementation of the AML/CFT system. • Approval of the update of the Supervisory Board's internal rules. • Annual update on the operation of the Supervisory Board. • Preparation of the annual report on corporate governance. • Convening of the Ordinary Annual Shareholders' Meeting.
• Authorize the Company's agreements.	• Validation of amendment No. 3 to the exclusive loan sale framework agreement signed between Caisse Française de Financement Local and LBP, in the presence of SFIL. • Update of the management agreement and SLA between SFIL and Caisse Française de Financement Local. • Approval of amendment No. 1 to the SFIL/Caisse Française de Financement Local management agreement.
• Monitor the compliance with internal control obligations. • Examine the results and activity of internal control.	• Validation of the internal control report, including the report on AML/CFT internal control, and recording of the implementation of the CDC group's procedures. • Followed-up the half-yearly Internal Audit and Compliance reports. • Followed-up inspections by supervisors and the responses to their recommendations.
• Define risk appetite. • Regularly examine the Company's opportunities and risks especially in the financial, legal, social and environmental sectors and the measures taken as a result. • Define the terms and frequency for communicating information on compliance with risk limits to it. • Approve the overall risk limits which are fixed and review at least once a year by the Executive Board. • Regularly examine the Company's policies. • Ensure the implementation of compliance policies.	• Validate Caisse Française de Financement Local's Risk appetite and the relevant aspects of the ICAAP, ILAAP policies and SFIL's Preventative Recovery Plan. • Systematic review of quarterly reports on SFIL Group risk monitoring. • Conducted the annual approval of all the Caisse Française de Financement Local management policies. • Monitoring of the quality of SFIL's services to Caisse Française de Financement Local *via* the quarterly review of indicators covering all the areas of the service. • Reviewed the CSR strategy and report for SFIL Group and took note of what is expected from Caisse Française de Financement Local in this area.
• Perform the controls and verifications it considers appropriate.	• Monitoring of Caisse Française de Financement Local's activity comprising i) monitoring the conditions for issues and the execution of the issuance program notably the social and green issues, ii) asset acquisition from LBP and iii) new loans to refinance signed export credits. • Examined the financial statements prepared in accordance with IFRS and French GAAP. • Conducted a strategic review of the local public sector and hospitals financing sector in France. • Performed a strategic review of the refinancing of large export credits activity. • Approval of the 2026 strategic plan.

2.1.1.3 Composition of the Supervisory Board

SUPERVISORY BOARD (AS OF DECEMBER 31, 2021)

The Board met six times in 2021. The attendance rate of the Supervisory Board members is stated in the table below.

Members of the Supervisory Board	Attendance rate at Supervisory Board Meetings
Philippe Mills – Chairman	100%
François Laugier – Vice-Chairman	100%
Nathalie Argourd – Member	100%
Anne Crépin – Member	100%
Béatrice Gosserez – Member	100%
Florent Lecinq – Member	83%

2.1.2 Executive Board

2.1.2.1 Key figures for the Executive Board

Number of members	Independence	Women*	Average age	Average seniority	Meetings	Attendance rate
5	**0**	**3**	**52 years**	**4 years and 10 months**	**29 in 2021**	**94%**

** Women have become the majority on the Executive Board (three women/two men) since the last renewal its members on January 31, 2021.*

2.1.2.2 The role of the Executive Board

The Executive Board is in charge of Caisse Française de Financement Local's management and administration. It represents and binds it. As such, its role is to take all decisions impacting Caisse Française de Financement Local's activity and results. Moreover, the Executive Board is the first guarantor of the proper functioning of Caisse Française de Financement Local's internal control procedures (see section 1.11 - management report).

The main tasks of the Executive Board	The Executive Board performed the following specific tasks in 2021

• Convene Shareholders' Meetings.
• Decide, by delegation from the Extraordinary Shareholders' Meeting, to increase the share capital and/or determine the terms of this increase, and if necessary carrying out a capital reduction.
• Modify the share capital following the conversion of convertible bonds, subscriptions using rights detached from hybrid securities containing share subscription options, and the exercise of share subscription options.
	• Convening of an Ordinary Shareholders' Meeting held on May 27, 2021. The purpose of this meeting was to:
	  • Approve the 2020 financial statements and the appropriation of income;
	  • Approve the Company's regulated agreements and commitments;
	  • Renew the terms of office of several members of the Supervisory Board.

• Decide to issue *obligations foncières* or registered covered bonds. • Decide to acquire assets within the framework of the two missions entrusted to Caisse Française de Financement Local by the French State. • Decide to sell assets. • Monitor the Company's balance sheet and off-balance sheet operations.	• Annual update of the EMTN issuance program for covered bonds • Annual issue volume of EUR 5.9 billion (including a "social" thematic issue). • Carried out 4 loan acquisitions from LBP totaling EUR 4.4 billion. • Signed 5 refinancing loans with SFIL, guaranteed by the French State, in connection with the export credit refinancing activity for a total of EUR 2.3 billion. • Monitored Caisse Française de Financement Local's debt management operations.
• Validate the Company's risk appetite and its application in the risk analysis and measurement oversight systems and procedures. • Monitor the Company's level of risk and took the necessary measures to reduce it if necessary.	• Validated evolutions proposed by SFIL for risk appetite and relevant aspects for Caisse Française de Financement Local in group reports related to the ICAAP and ILAAP policies and to the preventative Recovery Plan. • Systematic review of quarterly reports on SFIL Group risk monitoring. • Reviewed the Recovery and Business Continuity plan. • Reviewed litigation. • Monitored non-compliance risks *via* the review of the half-yearly report prepared by the Compliance division. • Monitored the internal control system for Caisse Française de Financement Local *via* a quarterly review of operational incidents and the implementation of the permanent control plan and a half-yearly review of the internal audit report (debriefing of the missions carried out during the period and review of the recommendations not yet closed).
• Defined SFIL's servicing conditions, notably by (i) approving and monitoring the management agreement and amendments thereto, the Service Level Agreement and the associated quality indicators, and (ii) approving Caisse Française de Financement Local's operational management policies.	• Monitored the quality of SFIL's services to Caisse Française de Financement Local *via* the quarterly review of indicators covering all the areas of the service. • Approved all management policies of Caisse Française de Financement Local.
• Prepare financial reports or quarterly activity reports to present to the Supervisory Board.	• Preparation of 6 Supervisory Board Meetings. • Preparation of 2 financial reports and 2 activity reports.
• Prepare and close the financial statements in accordance with IFRS and French GAAP standards.	• Made decisions to prepare and close the 2020 annual financial statements and interim financial statements 2021 in accordance with French GAAP and IFRS standards respectively at the Executive Board Meetings of March 15, 2021 and September 6, 2021.

The Executive Board meets bimonthly on average. A quarterly meeting is dedicated to preparing the next Supervisory Board Meeting. One-off meetings may also be held depending on the urgent issues to be addressed.

The Statutory Auditors are invited to Executive Board Meetings if their attendance is mandatory, in particular during the review of the annual and interim financial statements. Depending on the agenda items, the Chairman of the Executive Board may decide, in particular on the proposal of another Executive Board member, to invite any person that he or she deems useful to present a subject or assist with preparatory discussions for decisions.

2.1.2.3 Composition of the Executive Board

EXECUTIVE BOARD (AS OF DECEMBER 31, 2021)

Members of the Executive Board	Attendance rate at Executive Board Meetings
Gilles Gallerne – Chairman	97%
Herdile Guérin – Chief Executive Officer	97%
Olivier Eudes – Member	93%
Emmanuel Moritz – Member(1)	100%
Patrick Galland – Member(1)	100%
Valérie Schiltz – Member(2)	92%
Thi Lan Anh – Member(2)	92%

(1) Members of the Executive Board until January 31, 2021.
(2) Members of the Executive Board since January 31, 2021.

2.2 Terms of office of corporate officers

In application of article L.225-37-4 1° of the French Commercial Code, the following list presents the directorships and positions held in 2021 by every corporate officer of Caisse Française de Financement Local who served during the financial year.

2.2.1 Supervisory Board

The members of Caisse Française de Financement Local's Supervisory Board are qualified experts in the Company's main areas of activity as a *société de crédit foncier*. They are all employees of SFIL, except for the Chairman of the Supervisory Board, who is a corporate officer of the parent company, and almost all of them are either members of the Executive Committee or directors. The Chairman of Caisse Française de Financement Local's Supervisory Board is also a member of the Board of Directors and the Chief Executive Officer of SFIL.

Chairman

Philippe Mills

56 years old – French nationality

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

Date term of office begins and ends: May 27, 2021 - 2025

Date of first mandate: January 31, 2013

Principal function: Chief Executive Officer of SFIL

Other mandates and responsibilities:

- SFIL, Director and Chairman of the Executive Committee;
- Chairman of the Board of Directors and director, European Association of Public Banks (EAPB).

Vice-Chairman

François Laugier

57 years old – French nationality

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

Date term of office begins and ends: May 27, 2021 - 2025

Date of first mandate: January 31, 2013

Principal function: Deputy Chief Executive Officer, SFIL

Other mandates and responsibilities: Member of the Executive Committee, SFIL

Members

Nathalie Argourd

50 years old – French nationality

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

Date term of office begins and ends: May 27, 2021 - 2025

Date of first mandate: May 30, 2017

Principal function: Director of Middle Office, applications and partnership for the management of outstandings and SFIL's CSR deployment

Other mandates and responsibilities: None

Anne Crépin

52 years old – French nationality

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

Date term of office begins and ends: May 27, 2021 - 2025

Date of first mandate: May 30, 2017

Principal function: Deputy Director, Export Credit, SFIL

Other mandates and responsibilities: Member of the National Committee of Foreign Trade Advisors of France - Vice-Chair of the Business Support Commission

Béatrice Gosserez

56 years old – French nationality

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

Date term of office begins and ends: May 27, 2020 - 2024

Date of first mandate: December 12, 2012

Principal function: General Secretary, SFIL

Other mandates and responsibilities: Member of the Executive Committee, SFIL

Florent Lecinq

46 years old – French nationality

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

Date term of office begins and ends: May 27, 2021 - 2025

Date of first mandate: February 25, 2013

Principal function: Chief Financial Officer and Director of Financial Markets, SFIL

Other mandates and responsibilities: Member of the Executive Committee, SFIL

2.2.2 Executive Board

Chairman

Gilles Gallerne

58 years old – French nationality

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

Date term of office begins and ends: January 31, 2021 - 2025

Date of first mandate: January 1, 2008

Principal function: Director, CAFFIL Coordination, SFIL

Other mandates and responsibilities:

- Member of the Executive Committee, SFIL;
- Member of the Board of Directors, Association Française des Sociétés Financières (ASF).

Chief Executive Officer

Herdile Guérin

48 years old – French nationality

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

Date term of office begins and ends: January 31, 2021 - 2025

Date of first mandate: March 18, 2020

Principal function: Head of CAFFIL Coordination division, SFIL

Other mandates and responsibilities: None

Members

Olivier Eudes

53 years old – French nationality

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

Date term of office begins and ends: January 31, 2021 - 2025

Date of first mandate: May 27, 2015

Principal function: Director of ALM and Financial Markets, SFIL

Other mandates and responsibilities:

- until July 1, 2021: Director, Financial Markets, SFIL;
- SCI Phœnix, Manager.

Patrick Galland (until January 31, 2021)

55 years old – French nationality

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

Date term of office begins and ends: January 31, 2017 - January 31, 2021

Date of first mandate: December 7, 2016

Principal function: Director, Coordination Financial Performance Management division, SFIL

Other mandates and responsibilities: None

Emmanuel Moritz (until January 31, 2021)

46 years old – French nationality

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

Date term of office begins and ends: January 31, 2017 - January 31, 2021

Date of first mandate: January 31, 2013

Principal function: Director, Credit Risks, SFIL

Other mandates and responsibilities: None

Thi Lan Anh Pham (since January 31, 2021)

37 years old – French nationality

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

Date term of office begins and ends: January 31, 2021 - 2025

Date of first mandate: January 31, 2021

Main function: Head of Financial Control, SFIL

Other mandates and responsibilities: SARL Mai Kim, co-Manager

Valérie Schiltz (since January 31, 2021)

53 years old – French nationality

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

Date term of office begins and ends: January 31, 2021 - 2025

Date of first mandate: January 31, 2021

Principal function: Director of Financial Engineering, SFIL

Other mandates and responsibilities: None

2.3 Compensation of corporate officers

In 2021, Caisse Française de Financement Local paid no compensation to the corporate officers who were employees of SFIL and who exercised their terms of office with no specific compensation, except for the Chairman of the Supervisory Board, who is also a corporate officer of the parent company and only in this role receives any compensation. Readers are reminded that Caisse Française de Financement Local has no Compensation Committee and that reference is made to the Governance, Appointments and CSR Committee and the Compensation Committee that exist at the level of its parent company, SFIL.

2.4 Statutory Auditors

The Statutory Auditors of Caisse Française de Financement Local are:

PricewaterhouseCoopers Audit

63, rue de Villiers - 92200 Neuilly-sur-Seine (France)

Company represented by Ridha Ben Chamek, partner

Appointed by the Ordinary Shareholders' Meeting of September 30, 2020 up to the end of the Shareholders' Meeting called to approve the financial statements for the financial year ended December 31, 2022.

KPMG SA

Eqho Tower - 2, avenue Gambetta - 92066 Paris-La Défense Cedex (France)

Company represented by Jean-François Dandé, partner

Appointed by the Ordinary Shareholders' Meeting of September 30, 2020 up to the end of the Shareholders' Meeting called to approve the financial statements for the financial year ended December 31, 2022.

2.5 Specific Controller

RSM Paris

26, rue Cambacérès - 75008 Paris

Represented by Martine Leconte[1]

Reappointed by the Executive Board on March 18, 2019, for a term of four years.

Alternate: Ratana Lyvong

Since May 27, 2021 replacing Éric Lebegue for the remaining term of his current term of office, which was renewed by the Executive Board on March 18, 2019 for a term of four years.

(1) Martine Leconte replaced Jean-Michel Thierry on May 27, 2021.

2.6 Information on elements likely to have a material impact in the event of a takeover or share exchange offer

Given that the Company's shares are not listed and that the securities (*obligations foncières*) it issues do not give access to its capital, there is no requirement to give specific information in relation to the provisions of article L.22-10-11 of the French Commercial Code. The composition of the share capital is specified below.

2.6.1 Information about the capital and shares

2.6.1.1 Amount of capital, number and nature of shares making up the capital

Share capital currently stands at EUR 1,350,000,000 represented by 13,500,000 nominative shares with a face value of EUR 100. There are no other securities that grant rights to shares in the capital of Caisse Française de Financement Local.

2.6.1.2 Breakdown of capital

Caisse Française de Financement Local's share capital is owned by SFIL with the exception of one share which was lent to an individual (*prêt de consommation d'action*), a member of the Supervisory Board.

2.6.2 Information concerning voting rights (article 31 of the by-laws)

The voting rights attached to the shares are proportional to the percentage of capital the shares represent. Each share conveys one voting right. At Shareholders' Meetings, the number of votes that may be cast by each shareholder corresponds to the number of shares held plus the number of shares for which the shareholder holds proxy.

2.6.3 Information concerning transactions by executive officers on the Company's shares

No transactions were brought to the attention of Caisse Française de Financement Local (see article 223-26 of the AMF General Regulation).

2.6.4 Agreements referred to in article L.225-37-4 of the French Commercial Code

No convention subject to article L.225-37-4 2° of the French Commercial Code requires mention.

3

Financial statements according to IFRS standards

3.1 Financial statements

3.1.1 Assets

EUR millions	*Note*	12/31/2020	12/31/2021
Central banks	*2.1*	1,798	3,796
Financial Assets at fair value through profit or loss	*2.2*	4,266	3,518
Hedging derivatives	*4.1*	4,951	3,172
Financial Assets at fair value through equity	*2.3*	-	-
Financial Assets at amortized cost			
Loans and advances to banks at amortized cost	*2.4*	3,753	5,171
Loans and advances to customers at amortized cost	*2.4*	46,123	46,008
Securities at amortized cost	*2.4*	8,615	7,385
Fair value revaluation of portfolio hedge		2,842	1,988
Current tax assets	*2.5*	18	35
Deferred tax assets	*2.5*	74	59
Accruals and other assets	*2.6*	21	22
TOTAL ASSETS		**72,461**	**71,154**

3.1.2 Liabilities

EUR millions	*Note*	12/31/2020	12/31/2021
Central banks		-	-
Financial liabilities at fair value through profit or loss	*3.1*	1,050	802
Hedging derivatives	*4.1*	6,833	5,177
Financial liabilities at amortized cost			
Due to banks at amortized cost	*3.2*	6,606	7,677
Customer borrowings and deposits at amortized cost		-	-
Debt securities at amortized cost	*3.2*	55,092	55,163
Fair value revaluation of portfolio hedge		738	430
Current tax liabilities	*3.3*	1	1
Deferred tax liabilities	*3.3*	-	-
Accruals and other liabilities	*3.4*	691	454
Provisions	*3.5*	5	5
Subordinated debt		-	-
EQUITY		**1,445**	**1,446**
Capital		1,350	1,350
Reserves and retained earnings		63	57
Net result through equity	*4.4*	(11)	(18)
Net income		43	57
TOTAL LIABILITIES		**72,461**	**71,154**

3.1.3 Income statement

EUR millions	*Note*	2020	2021
Interest income	*5.1*	2,276	2,068
Interest expense	*5.1*	(2,150)	(1,916)
Fee and commission income	*5.2*	18	4
Fee and commission expense	*5.2*	(2)	(3)
Net result of financial instruments at fair value through profit or loss	*5.3*	5	32
Net result of financial instruments at fair value through equity	*5.4*	-	-
Gains or losses resulting from derecognition of financial instruments at amortized cost	*5.5*	7	17
Gains or losses resulting from reclassification of financial assets at amortized cost to fair value through profit or loss		-	-
Gains or losses resulting from reclassification of financial assets at fair value through equity to fair value through profit or loss		-	-
Other income		0	0
Other expense		(0)	(0)
NET BANKING INCOME		**154**	**200**
Operating expenses	*5.6*	(104)	(104)
GROSS OPERATING INCOME		**50**	**96**
Cost of risk	*5.7*	9	6
OPERATING INCOME		**59**	**102**
Net gains (losses) on other assets		-	-
INCOME BEFORE TAX		**59**	**102**
Income tax		(16)	(45)
NET INCOME		**43**	**57**
EARNINGS PER SHARE *(EUR)*			
• Basic		3.16	4.24
• Diluted		3.16	4.24

3.1.4 Net income and unrealized or deferred gains and losses through equity

EUR millions	2020	2021
NET INCOME	**43**	**57**
Items that may subsequently be reclassified through profit or loss	**3**	**(7)**
Unrealized or deferred gains and losses of financial assets at fair value through equity	0	-
Unrealized or deferred gains and losses of cash flow hedges	4	(9)
Tax on items that may subsequently be reclassified through profit or loss	(1)	2
Items that may not be reclassified through profit or loss	**-**	**-**
Actuarial gains and losses under defined benefit plans	-	-
Related taxes	-	-
TOTAL UNREALIZED OR DEFERRED GAINS AND LOSSES THROUGH EQUITY	**3**	**(7)**
NET INCOME AND GAINS OR LOSSES THROUGH EQUITY	**46**	**50**

3.1.5 Equity

EUR millions	Capital and reserves			Unrealized or deffered gains and losses				
	Share capital, additional paid-in capital	Retained earnings and net income for the period	Total	Remeasurement gains (losses) related to post-employment benefit plans, after tax	Net change in fair value of financial assets at fair value through equity, after tax	Net change in fair value of cash flow hedging derivatives, after tax	Total	Total equity
EQUITY AS OF JANUARY 1, 2020	**1,350**	**108**	**1,458**	**-**	**(0)**	**(14)**	**(14)**	**1,444**
Stocks issued	-	-	-	-	-	-	-	-
Dividends	-	(45)	(45)	-	-	-	-	(45)
Changes in fair value of financial assets through equity	-	-	-	-	(0)	-	(0)	(0)
Changes in fair value of derivatives through equity	-	-	-	-	-	3	3	3
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-	-
Net income for the period	-	43	43	-	-	-	-	43
Other movements	-	-	-	-	-	-	-	-
EQUITY AS OF DECEMBER 31, 2020	**1,350**	**106**	**1,456**	**-**	**(0)**	**(11)**	**(11)**	**1,445**
Stocks issued	-	-	-	-	-	-	-	-
Dividends	-	(49)	(49)	-	-	-	-	(49)
Changes in fair value of financial assets through equity	-	-	-	-	-	-	-	-
Changes in fair value of derivatives through equity	-	-	-	-	-	(7)	(7)	(7)
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-	-
Net income for the period	-	57	57	-	-	-	-	57
Other movements	-	-	-	-	-	-	-	-
EQUITY AS OF DECEMBER 31, 2021	**1,350**	**115**	**1,465**	**-**	**(0)**	**(18)**	**(18)**	**1,446**

3.1.6 Cash flow statement

EUR millions	2020	2021
NET INCOME BEFORE TAX	**59**	**102**
+/- Net depreciation and amortization of tangible and intangible fixed assets	-	-
+/- Net allocations to provisions and impairments	(2)	(31)
+/- Expense/income from investing activities	32	105
+/- Expense/income from financing activities	(102)	(109)
+/- Other non-cash items	86	266
NON-MONETARY ITEMS INCLUDED IN NET INCOME BEFORE TAX AND OTHER ADJUSTMENTS	**14**	**231**
+/- Cash from interbank operations	809	(289)
+/- Cash from customer operations	(582)	(228)
+/- Cash from financing assets and liabilities	632	955
+/- Cash from not financing assets and liabilities	(259)	(517)
- Income tax paid	(27)	(38)
DECREASE/(INCREASE) IN CASH FROM OPERATING ACTIVITIES	**573**	**(117)**
CASH FLOW FROM OPERATING ACTIVITIES (A)	**646**	**216**
CASH FLOW FROM INVESTING ACTIVITIES (B)	**-**	**-**
+/- Cash from or for shareholders	(45)	(49)
+/- Other cash from financing activities	731	1,831
CASH FLOW FROM FINANCING ACTIVITIES (C)	**686**	**1,782**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	**-**	**-**
INCREASE/(DECREASE) IN CASH EQUIVALENTS (A + B + C + D)	**1,332**	**1,998**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**490**	**1,822**
Cash and balances with central banks (assets & liabilities)	473	1,798
Interbank accounts (assets & liabilities) and loans/sight deposits	17	24
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**1,822**	**3,820**
Cash and balances with central banks (assets & liabilities)	1,798	3,795
Interbank accounts (assets & liabilities) and loans/sight deposits	24	25
CHANGE IN NET CASH	**1,332**	**1,998**

3.2 Notes to the IFRS financial statements

Note 1 Accounting and valuation policies

1.1 Applicable accounting standards

1.1.1 Application of the accounting standards endorsed by the European Union

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

This publication is voluntary. As a reminder on July 19, 2002, the European Union published Regulation EC 1606/2002, which obliged listed groups to apply IFRS as from January 1, 2005 and the Company deliberately decided to apply, as from January 1, 2007 all the IAS, IFRS, SIC and IFRIC standards adopted by the European Union.

Although it is not subject to this obligation, the Company has furthermore voluntarily decided to use as from 2020 the new European Single Electronic Format (ESEF) format.

The individual financial statements as of December 31, 2021 were examined by the Management Board on March 14, 2022 and approved by the Supervisory Board on March 17, 2022.

Due to Covid-19 outbreak in 2020 and the widespread of health crisis in 2020 and 2021, the Company has disclosed in note 8 below qualitative and quantitative information so as to enable the users to measure the impact of this crisis on its individual financial statements. Further information is disclosed in the management report of the Company.

Accounting principles applied to the financial statements are detailed in chapter 1.2. below.

The Company considers applying IFRS 9 transitional arrangements as regards hedge accounting starting from January 1, 2022. In this case, IFRS 9 standard would apply prospectively from this date to all of the Company's micro-hedging (FVH and CFH) relationships. Macro-hedging (PHE) relationships would keep being recognized under IAS 39 requirements, in accordance with the transitional arrangements stated by IFRS 9. A bimonthly steering committee was set up by SFIL on behalf of the Company to coordinate this transition, in terms of accounting principles and choices, and of operational aspects and systems. This committee gathers members of the ALM and financial markets division, the financial planning and Accounting division, the technology and organization division, and the market risk division. The first time application (FTA) impacts are very limited: they relate to the accounting recognition of hedging relationships on credit export activity and would mostly stem from the choice considered by the Group on behalf of the Company to retrospectively apply an option introduced by IFRS 9 to export credit hedging relationships. This approach consists in applying the so-called "cost of hedging of foreign currency basis spread". Cross currency basis swaps used for export credit purposes are concerned. This approach enables to initially account for the fair value movement of hedging derivatives attributable to basis spread under a specific section of other comprehensive income. This reserve is recycled to profit or loss when the hedged cash flows impact profit or loss. The treatment applied until December 31, 2021 already consists in a recognition in other comprehensive income and an amortization through profit or loss: the only difference is the section used within other comprehensive income. Thus, there should be no overall impact on financial statements.

1.1.2 IASB and IFRIC texts endorsed by the European Union and effective as of January 1, 2021

- Amendments to **IAS 39 Financial instruments: recognition and measurement/IFRS 9 Financial instruments/IFRS 7 Financial instruments: disclosures**: issued by IASB on September 26, 2019, endorsed by the European Union on January 15, 2020 (UE Regulation n° 2020/34) and effective for reporting periods beginning on or after January 1, 2020 with early application permitted, these amendments complete "phase 1" of IASB's project and are intended to avoid that the uncertainty arising from interest rate benchmark reform results in an early discontinuation of hedging relationships. IASB aimed thus at mitigating the impacts of this global reform on the financial statements of entities. These amendments bring in exemptions as regards especially the assessment of whether hedged future flows may be deemed highly probable (CFH), the requirement that hedged risk must be separately identifiable as well as the realization of prospective and retrospective effectiveness tests. These exemptions apply to hedging relationships affected by the reform, namely the ones where uncertainties arise about the interest rate benchmark designated as a hedged risk and/or the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. They cease to apply only when the uncertainty mentioned is no longer present. As part of "phase 2", IASB has finalized during the second semester of 2020 its works on how to account for the consequences of interest rate benchmark reform; such works have resulted in additional amendments (see below).

- Amendments to **IAS 39 Financial instruments: recognition and measurement/IFRS 9 Financial instruments/IFRS 7 Financial instruments: disclosures/IFRS 4 Insurance contracts/IFRS 16 Leases:** issued by the IASB on August 27, 2020, endorsed by the European Union on January 13, 2021 (UE Regulation No. 2021/25) and effective for reporting periods beginning on or after January 1, 2021 with early application permitted, these amendments, which complement those from "phase 1" of IASB's project (see above), finalize "phase 2" of the project and are intended to address the financial reporting consequences of the actual replacement of existing interest rate benchmarks with alternative reference rates specified under the interest rate benchmark reform. These amendments thus apply to every change in the basis for determining the contractual cash flows provided that this change is a direct consequence of the reform and there is an economic equivalence between the former and the new basis for determining those flows.

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

When such changes relate to financial assets or financial liabilities involved in an hedge relationship, the latter shall be re-documented and the IAS 39 "phase 2" amendment specifies further reliefs so as to enable the continuation of hedged relationships beyond the end of application of "phase 1" reliefs. These reliefs apply in particular to the way retrospective effectiveness tests shall be performed (option to set at zero the cumulative change in fair value of the hedged item and the hedging instrument), the retention of the CFH reserve that relates to forecast transactions (the cumulative gains and losses recognized in Other comprehensive income are deemed to have been determined on the basis of the same rate as the one of future hedged cash flows), the hedging of group of items (requirement to split the group into two sub-groups, one based on the former rate and another on the new one) and the "separately identifiable" requirement of a non-contractually specified portion of hedged risk (deemed fulfilled as regards an alternative benchmark rate provided that there is a reasonable expectation that it will fulfil the requirement within 24 months).

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

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

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

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

Broadly speaking, the impacts of the "phase 2" amendments on the Company's individual financial statements are for now relatively limited due to the low number of transitions to alternative benchmark rates to date. More specifically, the impacts of these amendments are the following:

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

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

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

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

basis risk between the various interest rate curves previously mentioned might also result in some P&L volatility. At this stage, such a volatility seems however to be immaterial.

In 2021, the Company has reinforced its access to derivatives markets of alternative reference rates. The Company has moreover pursued its negotiation efforts with its borrowers, its lenders and its derivatives counterparties in the objective of transitioning towards alternative reference rates or alternatively of inserting resilient fallback provisions. The Company has adhered to the ISDA Protocol covering those aspects. As a reminder, in 2020, in the context of the implementation of the IBOR reform, LCH clearing house changed the benchmark rate used both for discounting derivative instruments (discount rate) and for related cash collateral compensation: it was using EONIA and has been using €STER since that date. Value changes arising from switching discount rates led to cash compensation, in accordance with the market's practices. As regards derivatives entered into by the Company that are not eligible to clearing houses, the same modification of the rate used for discounting derivative instruments (discount rate) and for related cash collateral compensation has been made with several counterparties in the year 2021. Regarding index rate, the Company pays no cash collateral to its derivatives counterparties due to the provisions applicable to covered bonds issuers. Financial assets, financial liabilities and derivative contracts of the Company affected by the reform are presented in note 4.2.

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

- Amendment to **IFRS 16 Leases:** issued by the IASB in March 2021, endorsed by the European Union on August 30, 2021 (UE Regulation n° 2021/1421) and effective for reporting periods beginning on or after April 1, 2021 with early application permitted, this amendment provides for a one-year extension (until June 2022 instead of initially planned June 2021) for the provisions of the amendment issued par IASB in May 2020 and endorsed by the European Union on October 9, 2020 (EU regulation No. 2020/1434). As a reminder, this amendment is intended to specify how rent concessions to lessees arising as a direct consequence of the Covid-19 pandemic shall be accounted for. It provides a practical expedient to lessees, that enables them to elect not to assess whether such concessions constitute a lease modification and, as a result, to account for them as if it were not a modification.

  This amendment is expected to have no impact on the Company's individual financial statements, given that the latter is involved in no leases.
- Amendment to **IFRS 3 Business combinations:** issued by the IASB in May 2020, endorsed by the European Union on June 28, 2021 (UE Regulation No. 2021/1080) and effective for reporting periods beginning on or after January 1, 2022 (for combinations in those periods) with early application permitted, this amendment updates a reference made to the conceptual framework and furthermore requires the acquirer to determine on the one hand whether for obligations within the scope of IAS 37 a present obligation exists at the acquisition date as a result of past events, and on the other hand whether for levies within the scope of IFRIC 21 the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date. The amendment further confirms the prohibition for the acquirer to recognize contingent assets acquired in a business combination.

  This amendment is expected to have no impact on the Company's individual financial statements, given that its operations are generally out of the scope of IFRS 3.
- Amendment to **IAS 16 Property, plant and equipment:** issued by the IASB in May 2020, endorsed by the European Union on June 28, 2021 (UE Regulation No. 2021/1080) and effective for reporting periods beginning on or after January 1, 2022 with early application permitted, this amendment prohibits henceforth deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Those proceeds as well as related costs shall be recognized in net result.

  This amendment is expected to have no impact on the Company's individual financial statements given that it holds no property, plant and equipment.
- Amendment to **IAS 37 Provisions, contingent liabilities and contingent assets:** issued by the IASB in May 2020, endorsed by the European Union on June 28, 2021 (UE Regulation No. 2021/1080) and effective for reporting periods beginning on or after January 1, 2022 with early application permitted, this amendment further specifies how the unavoidable cost of a contract shall be calculated and, as a result, how the assessment of whether the contract is onerous shall be made. More precisely, the amendment specifies that the cost of fulfilling a contract comprises not only the incremental costs that relate to this contract in particular, but also an allocation of other costs that relate directly to fulfilling contracts in general.

  This amendment is expected to have no impact on the Company's individual financial statements, given that the latter is not a party of an onerous contract.
- Amendments to **IFRS 1 First-time adoption of International Financial Reporting Standards/IFRS 9 Financial instruments/IFRS 16 Leases/IAS 41 Agriculture:** issued by the IASB in May 2020 within the framework of its regular IFRS improvement process, endorsed by the European Union on June 28, 2021 (UE Regulation No. 2021/1080) and effective for reporting periods beginning on or after January 1, 2022 (except for the amendment to IFRS 16) with early application permitted:
  - IFRS 1 amendment extends to the cumulative translation differences from foreign operations the relief available for subsidiaries to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements. It is available for subsidiaries that adopt IFRS later than their parent;
  - IFRS 9 amendment clarifies which fees an entity includes when it applies the "10 per cent" test, with the objective of deciding whether or not the terms of modified financial liability may be deemed substantially different from initial terms. Only fees paid or received between the borrower and its lender may be taken into account, including those paid or received by one of them on the other's behalf;
  - IFRS 16 amendment removes the illustration of the reimbursement of leasehold improvements in the purpose of avoiding any confusion regarding the treatment of lease incentives. As the amendment only regards the removal of an illustrative example, no effective date is stated;
  - IAS 41 amendment concerns agricultural activity.

The amendment to IFRS 1 is not applicable to the Company's individual financial statements. The amendments to IAS 41 and IFRS 16 will have no impact on the Company's individual financial statements. The amendment to IFRS 9 will have no impact on the Company's individual financial statements, given that the latter already takes into account all the fees exchanged between the borrower and the lender, excluding those exchanged with third parties, for the purpose of the "10 per cent" test.

- Amendment to **IAS 1 Presentation of financial statements:** issued by IASB in January 2020, not yet endorsed by the European Union and initially effective for reporting periods beginning on or after January 1, 2023 with potential postponement to January 1, 2024, and with early application permitted, this amendment clarifies the distinguishing criteria between current liabilities on the one hand and non-current liabilities on the other hand.

  This amendment will have no impact on the Company's individual financial statements given that it classifies its assets and liabilities based on a liquidity criterion, as most credit institutions do.

- **IFRS 17 Insurance contracts:** issued by IASB in May 2017, amended by IASB in June 2020, endorsed by the European Union on November 23, 2021 (UE Regulation No. 2021/2036) and effective for reporting periods beginning on or after January 1, 2023 (June 2020 amendments have postponed by 2 years this date, which was initially January 1, 2021), this standard, which will replace IFRS 4 standard, clarifies in particular how all insurance contracts (life, non-life, insurance and reinsurance) shall be accounted for, contracts for which the entity is the policyholder being in particular out of the scope (excepted reinsurance contracts).

  Given the distant date of application and as the European Union has not endorsed it, the impacts of this standard on the Company's individual financial statements will be analyzed at a later stage.

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

  Given the distant date of application and as the European Union has not endorsed it, the impacts of this amendment on the Company's individual financial statements will be analyzed at a later stage.

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

  Given the distant date of application and as the European Union has not endorsed it, the impacts of this amendment on the Company's individual financial statements will be analyzed at a later stage.

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

  Given the distant date of application and as the European Union has not endorsed it, the impacts of this amendment on the Company's individual financial statements will be analyzed at a later stage.

1.2 Accounting principles applied to the financial statements

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

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

Judgments were principally made in the following areas:

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

These judgments are detailed in the following chapters.

Estimates were principally made in the following areas:

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

1.2.1 Offsetting financial assets and liabilities

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

1.2.2 Foreign currency transactions

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

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

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

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

1.2.3 Trade date and settlement date accounting

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

1.2.4 Financial assets

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

1.2.4.1 Business model

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

- refinancing local government entities and public hospitals through the acquisition by Caisse Française de Financement Local of medium/long-run loans granted by La Banque Postale;
- refinancing SFIL by the Company for the activity of export financing covered by French State;
- reducing the sensitivity of remaining sensitive structured loans held by Caisse Française de Financement Local.

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

- qualitative evidence: how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Company's key management personnel, the risks that affect the performance of the business model and the financial assets held within that business model and, in particular, the way in which those risks are managed, how managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);
- quantitative evidence: the frequency, value and timing of sales in prior reporting periods, the reasons for those sales and expectations about future sales activity.

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

1.2.4.2 Characteristics of contractual cash flows (SPPI criterion)

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

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

1.2.4.3 Financial assets measured at amortized cost

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

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

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

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

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

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

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

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

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

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

1.2.4.5 Financial assets measured at fair value through profit or loss

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

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

So as to be in line with the accounting principles applied at Group level and stated under ANC Recommendation 2017-02 issued on June 2, 2017, the Company decided to recognize separately:

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

1.2.4.6 Designation options

The Company does not use the following options:

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

1.2.4.7 Impairment of financial assets

Defining the impairment base

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

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

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

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

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

Assessing whether credit risk has significantly increased

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

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

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

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

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

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

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

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

Stages transitions must be compliant with the following rules:

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

Measuring the amount of the expected credit loss

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

In the case of French local authorities, the main hypothesis as well as the scenarios and their weighting are presented below. The hypothesis of these scenarios are regularly updated and have in particular been adapted so as to take into account the impacts of Covid-19 pandemic. Two types of hypothesis are used to model macro-budgetary variables:

- operating revenue and expenses;
- investment revenue and expenses. As regards investment expenses, their evolution is more and more influenced by the electoral cycle and the planned climate-related investments.

Three scenarios are therefore built:

- a base scenario (weighted at 60%) that foresees an evolution of local authorities accounts through an increase in operating revenue slightly more dynamic than that of operating expenses, which entails a significant increase in gross and net savings;
- an upside scenario (weighted at 15%) that deviates from the base scenario through more favorable macroeconomic hypothesis (GDP evolution, inflation and unemployment), a lower indexation of staff expenses on GDP growth and a stronger increase in State endowments;
- a downside scenario (weighted at 25%) that deviates from the base scenario through less favorable macroeconomic hypothesis (GDP evolution, inflation and unemployment), freeze on State endowments and steady volume overhead costs despite the contraction in GDP and a stronger increase in intervention expenditures.

The impact of changing weights between the three scenarios on the amounts of expected credit losses is deemed very limited. As an illustration, as of December 31, 2021, the following table presents the accounted ECL (EUR 38.6 million) and the unweighted ECL of the three scenarios. The respective weights of each scenario and the detail of macro-budgetary variables used are also specified.

Scenarios	Weight	Macro-budgetary variables	Var. 2021/2022	Var. 2022/2023	Var. 2023/2024	Unweighted ECL *(in EUR millions)*	Weighted ECL *(in EUR millions)*
Base	60%	**Carrying debt as of 12/31/2021**	**(0.5)%**	**0.7%**	**1,0%**	**37.9**	**38.6**
		Deleveraging capacity (in years)	4.5	4.4	4.4		
		Leveraging ratio (in% of AOE)	76.3%	75.3%	74.6%		
		Gross savings ratio (in% of AOE)	16.8%	16.9%	17.1%		
Downside	25%	**Carrying debt as of 12/31/2021**	**1.1%**	**3.2%**	**4.1%**	**40.2**	
		Deleveraging capacity (in years)	5.2	5.6	5.9		
		Leveraging ratio (in% of AOE)	79.9%	82.3%	85.2%		
		Gross savings ratio (in% of AOE)	15.5%	14.8%	14.4%		
Upside	15%	**Carrying debt as of 31/12/2021**	**(1.7)%**	**(1.5)%**	**(1.8)%**	**37.1**	
		Deleveraging capacity (in years)	4.2	3.9	3.6		
		Leveraging ratio (in% of AOE)	74.9%	71.9%	68.8%		
		Gross savings ratio (in% of AOE)	17.7%	18.4%	19.0%		

* AOE: Actual operating expenses.

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

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

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

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

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

Recognizing the impairment

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

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

1.2.4.8 Derecognition of financial assets

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

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

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

Case of disposals

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

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

Case of repos and reverse repos operations

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

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

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

Case of prepayments

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

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

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

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

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

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

1.2.5 Financial liabilities

1.2.5.1 Financial liabilities held for trading

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

1.2.5.2 Financial liabilities designated at fair value through profit or loss

The Company does not use this option.

1.2.5.3 Financial liabilities at amortized cost

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

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

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

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

1.2.5.4 Derecognition of financial liabilities

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

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

1.2.6 Derivatives

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

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

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

1.2.6.1 Derivatives not documented in a hedging relationship

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

- the ones which failed hedge effectiveness tests at closing date;
- the ones which hedge financial assets that are measured at fair value through profit or loss. It comprises mainly the financial assets that are not compliant with the SPPI criterion. In this case, the revaluation of the derivative hedges natively the revaluation of the hedged risk of the hedged item, making pointless the documentation of a hedging relationship;
- the ones which hedge the foreign exchange risk related to export credit financing loans denominated in a currency other than the euro. These derivatives are concluded before the end of the drawing phase of the hedged loans and foreign exchange hedging relationship is documented only from the complete payment in the Company's balance sheet.

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

1.2.6.2 Hedging derivatives

Hedging derivatives can be classified as either:

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

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

- precise and formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be effective both prospectively and retrospectively in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the reporting periods;
- the hedge, effectiveness of which has been reliably measured, shall be effective at inception and on an ongoing basis;
- for hedges of a future cash flow, the future transaction that constitutes if applicable the hedged item must be highly probable and must involved an exposure to variations in cash flows that could ultimately affect the profit or loss.

Changes in the fair value of derivatives that are designated and documented in a fair value hedging relationship, and that respect the criteria set out above, are recognized in profit or loss, along with the corresponding change in fair value of the hedged items that are attributable to that specific hedged risk.

Regarding notably structured financial instruments, the existence of a perfect hedge with a derivative, and the documentation of the associated hedging relationship, have the effect of reevaluating the hedged risk of the financial instrument, in parallel with the revaluation of the hedging derivative.

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

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

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

1.2.6.3 Hedging of the interest rate risk of a portfolio

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

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

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

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

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

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

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

1.2.7 Fair value of financial instruments

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

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

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

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

1.2.7.1 Fair value of financial instruments measured at amortized cost

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

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

3

1.2.7.2 Financial instruments measured at fair value

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

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

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

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

1.2.8 Deferred taxes

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

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

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

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

1.2.9 Provisions

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

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

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

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

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

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

1.2.10 Interest income and expense

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

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

1.2.11 Commissions

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

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

1.2.12 Earnings per share

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

1.2.13 Cash and cash equivalents

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

1.2.14 Related-party transactions

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

1.2.15 Segment reporting

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

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

Note 2 Notes to the assets *(EUR millions)*

2.1 Central banks

	12/31/2020	12/31/2021
Mandatory reserve deposits with central banks	-	-
Other deposits	1,798	3,796
TOTAL	**1,798**	**3,796**

2.2 Financial assets at fair value through profit or loss

2.2.1 Analysis by nature

	12/31/2020	12/31/2021
Loans and advances to customers	4,243	3,514
Non-hedging derivatives	22	4
TOTAL	**4,266**	**3,518**

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

2.2.2 Loans and advances to customers analysis by counterparty

	12/31/2020	12/31/2021
Public sector	3,839	3,157
Other – guaranteed by a State or local government	404	357
TOTAL	**4,243**	**3,514**

2.2.3 Analysis by residual maturity

See note 7.4.

2.3 Financial assets at fair value through equity

2.3.1 Analysis by nature

	12/31/2020	12/31/2021
Loans	-	-
Bonds	-	-
TOTAL	**-**	**-**

2.3.2 Analysis by counterparty

	12/31/2020	12/31/2021
Public sector	-	-
Credit institutions guaranteed by the public sector	-	-
TOTAL PUBLIC SECTOR	**-**	**-**
of which replacement assets	-	-

2.3.3 Impairment

See note 7.4.

2.4 Financial assets at amortized cost

2.4.1 Analysis by nature and by counterparty

	12/31/2020	12/31/2021
Current accounts	4	5
SFIL – Refinancing loans for export credits guaranteed by the French State(1)	3,539	4,961
SFIL – Loans not guaranteed by public sector assets(2)	-	-
Loans from credit institutions guaranteed by a local authority or municipal credit	210	204
SUBTOTAL LOANS AND RECEIVABLES FROM CREDIT INSTITUTIONS AT AMORTIZED COST	**3,753**	**5,171**
Public sector loans	45,040	45,070
Public sector guaranteed loans	1,083	938
SUBTOTAL LOANS AND RECEIVABLES FROM CUSTOMERS AT AMORTIZED COST	**46,123**	**46,008**
Securities issued by the public sector	7,064	6,567
Securities guaranteed by the public sector	81	-
Securities issued by credit institutions	1,470	819
SUBTOTAL SECURITIES AT AMORTIZED COST	**8,615**	**7,385**
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	**58,491**	**58,564**

(1) Caisse Française de Financement Local grants loans to its parent company, SFIL, to refinance large export credits it has granted. Such loans benefit from an irrevocable and unconditional 100% guarantee by the French State, referred to as an enhanced guarantee.
(2) Caisse Française de Financement Local may invest some of its surplus cash in loans granted to its parent company SFIL.

2.4.2 Replacement assets

	12/31/2020	12/31/2021
Current accounts	4	5
SFIL – Loans not guaranteed by public sector assets(1)	-	-
securities issued credit institutions	1,470	819
TOTAL	**1,474**	**824**

(1) Caisse Française de Financement Local may invest some of its surplus cash in loans granted to its parent company SFIL.

2.4.3 Classification by level of credit risk and impairment

	12/31/2020										
	Gross amount				Impairment						
	Stage 1	Stage 2	Stage 3	TOTAL	Stage 1	Stage 2	Stage 3	TOTAL	Net Amount	Accumulated partial write-offs	Accumulated total write-offs
Loans and receivables from credit institutions at amortized cost	3,753	-	-	**3,753**	(0)	-	-	**(0)**	**3,753**	-	-
Loans and receivables from customers at amortized cost	43,428	2,271	451	**46,150**	(4)	(17)	(6)	**(27)**	**46,123**	-	-
Securities at amortized cost	7,135	1,493	4	**8,632**	(4)	(13)	(0)	**(17)**	**8,615**	-	-
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	**54,316**	**3,764**	**455**	**58,535**	**(8)**	**(30)**	**(6)**	**(44)**	**58,491**	**-**	**-**

	12/31/2021										
	Gross amount				Impairment				Net Amount	Accumulated partial write-offs	Accumulated total write-offs
	Stage 1	Stage 2	Stage 3	*TOTAL*	Stage 1	Stage 2	Stage 3	TOTAL			
Loans and receivables from credit institutions at amortized cost	5,171	-	-	**5,171**	(0)	-	-	**(0)**	**5,171**	-	-
Loans and receivables from customers at amortized cost	44,095	1,674	261	**46,030**	(3)	(15)	(5)	**(23)**	**46,008**	-	-
Securities at amortized cost	6,070	1,327	4	**7,401**	(4)	(12)	(0)	**(16)**	**7,385**	-	-
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	**55,337**	**3,000**	**265**	**58,602**	**(7)**	**(27)**	**(5)**	**(39)**	**58,564**	**-**	**-**

The main changes in gross amounts and impairment between Stages mainly concern the asset category of loans and advances to customers at amortized cost. However, changes in this asset category between December 31, 2020 and December 31, 2021 remain limited. During 2021, the gross amounts of impairments increased by EUR 667 million on the Stage 1 category, while the gross amounts allocated to Stage 2 and 3 decreased by EUR 597 million and EUR 190 million respectively. The decrease identified in Stage 3 corresponds to customers who left their probationary period. The decrease in Stage 2 is explained by the review of the ratings of certain customers whose financial position has improved. These movements led to a decrease in Expected Credit Losses (ECL) for approximately EUR 3 million. The decrease in ECL in 2021 is also due to Caisse Française de Financement Local's decision to reverse the provision of EUR 2.6 million that it had set aside for the public hospitals and public retirement homes that had benefited from the payment terms granted in the context of the Covid-19 crisis. Indeed, all payment terms were repaid and the financial position of the customers concerned has not deteriorated (see Note 8).

The forborne outstandings of Caisse Française de Financement Local correspond to the exposure of contracts on which concessions have been granted due to the debtor's financial difficulties (actual or future), which would not have been granted otherwise. These concessions may be waivers of receivables, deferred payments or restructuring subject to an amendment to the contract; they can also be granted during a total or partial refinancing subject to a new contract, including within the framework of the policy of desensitization.

The number of forborne contracts thus amounted to 92 as of December 31, 2021, carried by 71 borrowers, for a total risk exposure of EUR 371 million.

2.5 Tax assets

	12/31/2020	12/31/2021
Current income tax	17	34
Other taxes	1	1
CURRENT TAX ASSETS	**18**	**35**
DEFERRED TAX ASSETS (SEE NOTE 4.2)	**74**	**59**
TOTAL TAX ASSETS	**92**	**94**

Deferred tax assets were submitted to a recoverability test taking into account the business plans presented to the Supervisory Board according to realistic hypotheses. Deferred taxes as of December 31, 2020, are recoverable on the basis of this analysis within a reasonable horizon by taking into account the tax rules governing the treatment of past deficits. As of December 31, 2021, Caisse Française de Financement Local has no deferred tax assets related to carry forward tax losses.

In addition, Caisse Française de Financement Local takes into account the legislative measures designed to reduce the corporate income tax rate to 25.83% as of 2022.

2.6 Accruals and other assets

	12/31/2020	12/31/2021
Cash collateral paid	-	-
Other accounts receivable	1	1
Prepaid charges	10	13
Other assets	10	8
TOTAL ACCRUALS AND OTHER ASSETS	**21**	**22**

Note 3 Notes to the liabilities *(EUR millions)*

3.1 Financial liabilities at fair value through profit or loss

3.1.1 Analysis by nature

	12/31/2020	12/31/2021
Non hedging derivatives[1]	1,050	802
TOTAL	**1,050**	**802**

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

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

3.1.2 Analysis by residual maturity

See note 7.4.

3.2 Financial liabilities at amortized cost

3.2.1 Analysis by nature

	12/31/2020	12/31/2021
Current accounts	-	-
Term loans from parent company[1]	6,606	7,677
SUB-TOTAL DEBTS TO CREDIT INSTITUTIONS AT AMORTIZED COST	**6,606**	**7,677**
Obligations foncières	47,270	47,826
Registered covered bonds	7,822	7,337
SUB-TOTAL DEBTS SECURITIES AT AMORTIZED COST	**55,092**	**55,163**
TOTAL FINANCIAL LIABILITIES AT AMORTIZED COST	**61,698**	**62,840**

(1) As of December 31, 2021, the funding borrowed from SFIL within the framework of the financing agreement was comprised of different loans with maturities that could initially run from one day to ten years with an Euribor or EONIA €ster.

3.3 Tax liabilities

	12/31/2020	12/31/2021
Current income tax	-	-
Other taxes	1	1
CURRENT TAX LIABILITIES	**1**	**1**
DEFERRED TAX LIABILITIES (SEE NOTE 4.2)	**-**	**-**
TOTAL TAX LIABILITIES	**1**	**1**

3.4 Accruals and other liabilities

	12/31/2020	12/31/2021
Cash collateral received	567	330
Other accrued charges	13	14
Deferred income	-	-
Contribution to support fund[1]	80	70
Other accounts payable and other liabilities	32	40
TOTAL	**692**	**454**

(1) This item includes the residual balance of the commitments made in 2013 by Caisse Française de Financement Local to contribute EUR 10 million per year over 15 years to the multi-year local government entity support funds, for a total of EUR 150 million.

3.5 Provisions

	12/31/2020	Additions	Amounts used	Unused amounts reversed during the period	Increase in the discounted amount (passage of time) and effect of any change in the discount rate	Other movements	12/31/2021
Commitments and guarantees given	2	-	-	(1)	-	-	1
Other provisions[1]	3	1	-	-	-	-	4
TOTAL	**5**	**1**	**-**	**(1)**	**-**	**-**	**5**

(1) As a reminder, in the context of the health crisis and the consequences for the cruise industry, Caisse Française de Financement Local decided during 2020 to set up a provision of EUR 2.6 million for risks on the foreign exchange hedging instruments used to refinance the export credits in dollars in this sector. In 2021, Caisse Française de Financement Local decided to increase the amount of this provision by EUR 1.3 million given the health context of the year that continued to impact the cruise sector (see Note 8).

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

4.1 Derivatives

4.1.1 Analysis by nature

	12/31/2020		12/31/2021	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS[(1)]	**22**	**1,050**	**4**	**802**
Derivatives designated as fair value hedges	4,138	4,266	2,582	3,307
Derivatives designated as cash flow hedges	(9)	58	(9)	110
Derivatives designated as portfolio hedges	822	2,512	600	1,766
HEDGING DERIVATIVES	**4,951**	**6,836**	**3,172**	**5,182**
CVA/DVA IMPACT	**(0)**	**(4)**	**(0)**	**(6)**
TOTAL DERIVATIVES	**4,974**	**7,883**	**3,176**	**5,979**

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

4.1.2 Detail of derivatives designated as fair value through profit or loss

	12/31/2020				
	Notional amount				
	To receive	To deliver	Net	Assets	Liabilities
Foreign exchange derivatives	2,182	2,022	160	19	14
Interest rate derivatives	3,327	3,327	-	3	1,036
TOTAL	**5,509**	**5,349**	**160**	**22**	**1,050**

	12/31/2021				
	Notional amount				
	To receive	To deliver	Net	Assets	Liabilities
Foreign exchange derivatives	2,391	2,387	4	0	44
Interest rate derivatives	2,848	2,848	(0)	4	758
TOTAL	**5,239**	**5,235**	**4**	**4**	**802**

4.1.3 Detail of derivatives designated as fair value hedges

	12/31/2020				
	Notional amount				
	To receive	To deliver	Net	Assets	Liabilities
Foreign exchange derivatives	1,256	1,429	(173)	111	313
Interest rate derivatives	47,763	47,749	14	4,027	3,953
TOTAL	**49,019**	**49,178**	**(159)**	**4,138**	**4,266**

	12/31/2021				
	Notional amount				
	To receive	To deliver	Net	Assets	Liabilities
Foreign exchange derivatives	1,104	1,256	(153)	81	256
Interest rate derivatives	45,328	45,312	17	2,501	3,051
TOTAL	**46,432**	**46,568**	**(136)**	**2,582**	**3,307**

4.1.4 Detail of derivatives designated as cash flow hedges

	12/31/2020				
	Notional amount				
	To receive	To deliver	Net	Assets	Liabilities
Foreign exchange derivatives	805	824	(19)	(9)	58
Interest rate derivatives	-	-	-	-	-
TOTAL	**805**	**824**	**(19)**	**(9)**	**58**

	12/31/2021				
	Notional amount				
	To receive	To deliver	Net	Assets	Liabilities
Foreign exchange derivatives	1,001	1,084	(83)	(9)	110
Interest rate derivatives	-	-	-	-	-
TOTAL	**1,001**	**1,084**	**(83)**	**(9)**	**110**

	12/31/2020	12/31/2021
Amount removed from cash flow hedge reserve and included in the carrying amount of a non-financial instrument (hedging of cash flows of a highly probable transaction)	-	-

4.1.5 Detail of derivatives designated as portfolio hedges

	12/31/2020				
	Notional amount				
	To receive	To deliver	Net	Assets	Liabilities
Interest rate derivatives	40,532	40,527	5	822	2,512
TOTAL	**40,532**	**40,527**	**5**	**822**	**2,512**

	12/31/2021				
	Notional amount				
	To receive	To deliver	Net	Assets	Liabilities
Interest rate derivatives	38,429	38,424	5	600	1,766
TOTAL	**38,429**	**38,424**	**5**	**600**	**1,766**

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

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

	Exposures as of 12/31/2020			**Exposures as of 12/31/2021**		
	Outstanding amount		Net notionel amount	**Outstanding amount**		**Net notionel amount**
current reference interest rate	Financial assets (excluding derivatives)	Financial liabilities (Exclu derivatives)	Derivatives	**Financial assets (excluding derivatives)**	**Financial liabilities (excluding derivatives)**	**Derivatives**
INTEREST RATES BENCHMARK AFFECTED BY THE REFORM						
EONIA	631	4,760	1,106	569	3,915	-
LIBOR CHF	223	-	(214)	222	-	(212)
LIBOR GBP	32	-	(330)	76	-	(364)
LIBOR USD	697	-	(2,502)	855	-	(2,110)
STIBOR	17	-	(17)	17	-	(17)
INTEREST RATES BENCHMARK NOT AFFECTED BY THE REFORM						
SONIA	-	-	-	-	-	(185)
EURIBOR	13,236	984	(5,349)	13,142	972	(6,144)
€STER	-	1,850	5,461	-	3,767	6,701
FIXED RATE	41,826	47,176	2,266	42,562	49,168	2,523
OTHERS	102	2,205	(435)	104	2,075	(402)
TOTAL	**56,765**	**56,975**	**(14)**	**57,547**	**59,896**	**(210)**

In 2020, the amount of assets, liabilities and derivatives against €STER relate only to contracts initially entered into against this benchmark index. In 2021, transactions against EONIA all switched to €STER. The remaining financial assets against EONIA correspond to a portfolio of loans with a TAM / TAG interest rate. The calculation of this interest rate will refer to €STER from January 1, 2022. Financial liabilities correspond to refinancing granted by SFIL which also changed to €STER at January 1, 2022. The financial assets and derivatives indexed to LIBOR and STIBOR at December 31, 2021 should be subject to a transition to the new benchmark indices in 2022 and 2023.

4.3 Deferred taxes

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

4.3.1 Analysis by nature

	12/31/2020	**12/31/2021**
Deferred tax assets before impairment	74	59
Impairment on deferred tax assets	-	-
Deferred tax assets	**74**	**59**
Deferred tax liabilities	**-**	**-**
TOTAL	**74**	**59**

3

4.3.2 Movements

	12/31/2020	12/31/2021
As of January 1	**72**	**74**
Charge/credit recognized in the income statement	3	(0)
Effect of change in tax rates – impact on the income statement[(1)]	-	(17)
Movements directly recognized in equity	(1)	2
Effect of change in tax rates – impact on equity	-	-
Effects of tax adjustment	-	-
Translation adjustment	-	-
Other movements	-	-
AS OF DECEMBER 31	**74**	**59**

(1) In 2021, Caisse Française de Financement Local decided to reassess the stock of deferred tax assets and the reversal of this stock in the context of a drop in the fully effective tax rate from 2022.

4.3.3 Deferred taxes from assets on the balance sheet

	12/31/2020	12/31/2021
Loans and loan loss provisions	1,027	(924)
Securities	(281)	(265)
Derivatives	(431)	0
Accruals and other assets	13	-
TOTAL	**328**	**(1,188)**

4.3.4 Deferred taxes from liabilities on the balance sheet

	12/31/2020	12/31/2021
Borrowings, deposits and issues of debt securities	(255)	739
Derivatives	-	490
Provisions	1	1
Accruals and other liabilities	-	18
TOTAL	**(254)**	**1,248**

4.4 Transactions with related parties

Analysis by nature

	Parent company[1]		Other related parties[2]	
	12/31/2020	12/31/2021	12/31/2020	12/31/2021
ASSET				
Financial assets at fair value through profit or loss	0	0	-	-
Hedging derivatives	1,447	901	-	-
Loans and receivables due from credit institutions at amortized cost	3,539	4,961	-	-
Securities at amortized cost	-	-	148	-
Current tax assets	17	34	-	-
Accruals and other assets	1	1	0	1
LIABILITIES				
Financial liabilities at fair value through profit or loss	157	121	-	-
Hedging derivatives	2,687	2,139	-	-
Payables to credit institutions at amortized cost	6,606	7,677	-	-
Debts represented by a security at amortized cost	-	-	868	371
Accruals and miscellaneous liabilities	27	38	0	0
Provisions	0	0	-	-
INCOME				
Interests and similar products	267	251	0	0
Interest and similar charges	(278)	(271)	(34)	(15)
Commissions (products)	3	-	-	-
Commissions (expenses)	-	-	(0)	(0)
Net gains or losses on financial instruments at fair value through profit or loss	(59)	48	29	16
Net gains or losses resulting from the derecognition of financial assets at amortized cost	(4)	0	-	-
Income from other activities	-	-	-	-
Fees for other activities	-	-	-	-
General operating expenses	(95)	(96)	-	-
Cost of risk	0	(0)	0	0
HORS BILAN				
Foreign exchange transactions	820	699	-	-
Interest rate derivatives	15,364	14,594	-	-
Commitments and guarantees received	50	50	-	-
Commitments and guarantees	4,703	5,097	-	-

(1) This item includes transactions with SFIL, parent company of Caisse Française de Financement Local.
(2) This item includes transactions with Caisse des Dépôts, a shareholder of SFIL, as well as La Banque Postale and Bpifrance, subsidiaries of the Caisse des Dépôts group.

4.5 Unrealized or deferred gains and losses, breakdown

	12/31/2020	12/31/2021
Unrealized gains and losses on financial assets at fair value through equity	-	-
Unrealized gains and losses on derivatives designated as cash-flow hedges	(15)	(24)
TOTAL	**(15)**	**(24)**
Deferred taxes on gains ans losses, financial assets at fair value through equity	-	-
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	4	6
TOTAL AFTER TAXES	**(11)**	**(18)**

3

Note 5 Notes to the income statement *(EUR millions)*

5.1 Interest income – interest expense

Caisse Française de Financement Local presents interest calculated using the effective interest rate method on financial instruments measured at amortized cost or at market value through equity under the headings "Interest income" and "Interest expense".

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

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

	2020			2021		
	Income	Expense	Net	Income	Expense	Net
Loans/loans with credit institutions	-	-	-	-	-	-
Loans/loans with customers	135	-	135	110	-	110
Derivatives outside the hedging relationship	28	(151)	(123)	27	(130)	(103)
FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	**163**	**(151)**	**12**	**137**	**(130)**	**7**
Hedging derivatives	1,215	(1,070)	145	1,095	(1,018)	78
HEDGING DERIVATIVES	**1,215**	**(1,070)**	**145**	**1,095**	**(1,018)**	**78**
Securities	(0)	-	(0)	-	-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	**(0)**	**-**	**(0)**	**-**	**-**	**-**
Central bank accounts	-	(3)	(3)	-	(3)	(3)
Accounts and loans with credit institutions	22	7	29	33	(7)	26
Accounts and loans with customers	725	-	725	657	-	657
Securities	150	(933)	(783)	145	(758)	(613)
FINANCIAL ASSETS AND LIABILITIES AT AMORTIZED COST	**897**	**(929)**	**(32)**	**836**	**(769)**	**67**
TOTAL	**2,275**	**(2,150)**	**125**	**2,068**	**(1,916)**	**152**

Interest income and expense measured using the effective interest rate method were respectively EUR 836 million and EUR -767 million in 2021 and EUR 897 million and EUR -929 million in 2020.
In 2021, negative interest paid by CAFFIL on financial instruments in assets represents EUR 9 million and negative interest received by CAFFIL on financial instruments in liabilities represents EUR 17 million.

5.2 Fees and commissions

	2020	2021
Commissions paid to/received from SFIL[1]	3	-
Other commissions[2]	13	1
TOTAL	**16**	**1**

(1) In 2021, SFIL and CAFFIL decided to end the rebilling of commission on margin calls and to process this service through the overall rebilling of financial services rendered by SFIL to CAFFIL (see 5.6).
(2) As of December 31, 2020, this line included in particular a commission on financial instruments received as part of a hedging derivative assignment transaction.

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

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

	2020	2021
Net result on financial instruments at fair value through profit or loss	7	31
Net result of hedge accounting	(3)	2
Net result of foreign exchange transactions	1	(1)
TOTAL	**5**	**32**

Analysis of net result of hedge accounting

	2020	2021
FAIR VALUE HEDGES	**0**	**(0)**
Fair value changes in the hedged item attributable to the hedged risk	(98)	653
Fair value changes in the hedging derivatives	98	(654)
CASH FLOW HEDGES	**-**	**-**
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
PORTFOLIO HEDGE	**-**	**0**
Fair value changes in the hedged item	300	(455)
Fair value changes in the hedging derivatives	(300)	455
CVA/DVA IMPACT (1)	**(3)**	**2**
TOTAL	**(3)**	**2**

(1) The effect of the application of the IFRS 13 standard shows as of December 31, 2021 an income of EUR 2 million over the year, which is essentially analyzed by an increase in the income from DVA

5.4 Net result of financial instruments at fair value through equity

	2020	2021
Net result of disposals of bonds at fair value through equity	-	-
Net result of disposals of loans at fair value through equity	-	-
TOTAL	**-**	**-**

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

	2020	2021
Net result of disposals or prepayments of bonds at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to banks at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to customers at amortized cost	11	17
Net result of disposals or prepayments of due to banks at amortized cost	(4)	-
Net result of disposals or prepayments of debt securities at amortized cost	0	-
TOTAL	**7**	**17**

Detail of on derecognition of assets and liabilities at amortized cost

	2020		2021	
	Notional amount	Impact net result	Notional amount	Impact net result
Prepayments of securities	-	-	-	-
Net result of disposals or prepayments of securities at amortized cost	**-**	**-**	**-**	**-**
Restructuring of loans and advances to credit institutions[1]	908	-	1,984	0
Net result of disposal or prepayment of loans and advances to credit institution at amortized cost	**908**	**-**	**1,984**	**0**
Prepayments of loans and advances to customers	47	3	111	7
Restructuring of loans and advances to customers	386	8	430	10
Net result of disposals or prepayments of loans and advances to customers at amortized cost	**433**	**11**	**542**	**17**
SUB-TOTAL ASSETS	**1,341**	**11**	**2,526**	**17**
Prepayments of debt to banks	332	(4)	-	-
Net result of disposals or prepayments of debt to banks at amortized cost	**332**	**(4)**	**-**	**-**
Prepayments of debt securities	7	0	-	-
Net result of disposals or prepayments of debt securities at amortized cost	**7**	**0**	**-**	**-**
SUB-TOTAL LIABILITIES	**339**	**(4)**	**-**	**-**
TOTAL	**-**	**7**	**-**	**17**

(1) The notional amount of loan restructuring with credit institutions includes SFIL's refinancing loans affected by the liquidity support measures granted to customers in the cruise sector as part of the export credit activity. In fact, Caisse Française de Financement Local, with the support of SFIL, is part of the approach developed jointly by European export credit insurance agencies aimed at providing liquidity support on export credits in favor of companies cruising, a sector particularly affected by the pandemic. This support consisted in deferring the repayment of the loan principal. This shift was also made by Caisse Française de Financement Local on cruise sector refinancing loans granted to SFIL. As a reminder, these loans benefit from an unconditional and irrevocable 100% guarantee granted by the French Republic.
The gains and losses resulting from derecognition of financial instruments at amortized cost are mostly associated with the activity of restructuring loans to local public sector customers, which lead to the upfront recognition of income in accordance with the principles of IFRS standards (see note 1.2.5.8).

5.6 Operating expenses

	2020	2021
Payroll costs	-	-
Other general and administrative expenses[1]	(97)	(98)
Taxes	(7)	(7)
TOTAL	**(104)**	**(104)**
of which re-invoiced costs by SFIL	*(95)*	*(96)*

Caisse Française de Financement Local has no salaried employees in accordance with Article L.513-15 of the French Monetary and Financial Code. The general management of the operations of Caisse Française de Financement Local has been entrusted by an agreement to its parent company, SFIL, a credit institution.

5.7 Cost of risk

	2020				
	January 1	**Impairments**	**Reversals**	**Losses**	**December 31**
Stage 1	(0)	-	-	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	**(0)**	**-**	**-**	**-**	**(0)**
Stage 1	(0)	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
LOANS AND ADVANCES DUE FROM BANKS AT AMORTIZED COST	**(0)**	**(0)**	**0**	**-**	**(0)**
Stage 1	(1)	(15)	12	-	(4)
Stage 2	(24)	(5)	12	-	(17)
Stage 3	(10)	(3)	8	-	(6)
LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	**(35)**	**(23)**	**32**	**-**	**(26)**
Stage 1	(4)	(0)	0	-	(4)
Stage 2	(12)	(1)	0	-	(13)
Stage 3	(0)	(0)	-	-	(0)
BONDS AT AMORTIZED COST	**(16)**	**(1)**	**0**	**-**	**(17)**
Stage 1	(0)	(0)	-	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
OFF-BALANCE SHEET COMMITMENTS AT AMORTIZED COST	**(0)**	**(0)**	**-**	**-**	**(0)**
TOTAL	**(52)**	**(24)**	**32**	**-**	**(45)**

	2021				
	January 1	**Impairments**	**Reversals**	**Transfers**	**December 31**
Stage 1	(0)	-	0	-	-
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	**(0)**	**-**	**0**	**-**	**-**
Stage 1	(0)	(0)	0	0	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
LOANS AND ADVANCES DUE FROM BANKS AT AMORTIZED COST	**(0)**	**(0)**	**0**	**0**	**(0)**
Stage 1	(4)	(1)	7	(4)	(3)
Stage 2	(17)	(3)	2	3	(15)
Stage 3	(6)	(2)	3	1	(5)
LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	**(26)**	**(7)**	**11**	**-**	**(23)**
Stage 1	(4)	(0)	1	(0)	(4)
Stage 2	(13)	(1)	2	0	(12)
Stage 3	(0)	(0)	-	-	(0)
BONDS AT AMORTIZED COST	**(17)**	**(1)**	**2**	**(0)**	**(16)**
Stage 1	(0)	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	(0)	-	-	(0)
OFF-BALANCE SHEET COMMITMENTS AT AMORTIZED COST	**(0)**	**(0)**	**0**	**-**	**(0)**
TOTAL	**(45)**	**(8)**	**14**	**0**	**(39)**

5.8 Corporate income tax

5.8.1 Breakdown of tax expense

	2020	2021
Current taxes	(19)	(27)
Deferred taxes	3	(0)
Deferred taxes on previous exercise[1]	-	(17)
Other income taxes on previous exercise	-	(0)
TOTAL	**(16)**	**(45)**

(1) *In 2021, Caisse Française de Financement Local decided to revalue the stock of deferred tax assets and the reversal of this stock in the context of the decrease in the fully effective tax rate from 2022.*

5.8.2 Effective tax expense

The difference between the actual corporate income tax rate and the French tax rate can be analysed as follow:

	2020	2021
INCOME BEFORE INCOME TAXES	**59**	**102**
TAX BASE	**59**	**102**
Applicable tax rate at end of the period	32.02%	28.41%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	**(19)**	**(29)**
Tax effect of non-deductible expenses	(1)	(1)
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Other supplements or tax savings	-	-
Effects of the tax adjustment	-	-
Other corporation tax previous year	-	(0)
Revaluation of the stock of deferred taxes[1]	-	(17)
Use of corporate income tax rate applicable to the future fiscal years[2]	4	3
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	**(16)**	**(45)**

(1) *In 2021, Caisse Française de Financement Local decided to revalue the stock of deferred tax assets and the reversal of this stock in the context of the decrease in the fully effective tax rate from 2022.*
(2) *Caisse Française de Financement Local has taken into account the legislative measures designed to reduce the corporate income tax rate to 25.83% as of 2022.*

5.8.3 Tax consolidation

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

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

6.1 Regular way trade

	12/31/2020	12/31/2021
Assets to be delivered	-	-
Liabilities to be received	-	-

6.2 Guarantees

	12/31/2020	12/31/2021
Guarantees received from credit institutions	-	-
Enhanced guarantees(1)	8,243	10,059
Guarantees received from customers(2)	1,746	1,557

(1) Irrevocable and unconditional guarantee issued by the French State to the benefit of Caisse Française de Financement Local for the refinancing of large export credits.
(2) Guarantees received from customers are generally granted by local governments.

6.3 Financing commitments

	12/31/2020	12/31/2021
Loan commitments granted to credit institutions(1)	4,703	5,097
Loan commitments granted to customers(2)	63	31
Loan commitments received from credit institutions(3)	50	50
Loan commitments received from customers	-	-

(1) Within the framework of the large export credit refinancing business, the balance corresponded to a commitment of Caisse Française de Financement Local to finance its parent company (SFIL).
(2) The financing commitments on loans and lines of credit corresponded to contracts issued but not paid out.
(3) This item concerned the amount of the overdraft authorized on the current account with SFIL, which totaled EUR 50 million.

6.4 Other commitments

	12/31/2020	12/31/2021
Commitments given(1)	5	5
Commitments received(2)	233	223

(1) These concern the irrevocable payment commitment to the Fonds de garantie des dépôts et de résolution.
(2) these mainly concern a loan granted to a credit institution and guaranteed by a public sector entity.

6.5 Impairments on financing commitments and other commitments granted

12/31/2020											
	Financing commitments and financial guarantees under IFRS 9									Commitments and financial guarantees measured at fair value	
	Gross amount				Impairment						
	Stage 1	Stage 2	Stage 3	**Total**	Stage 1	Stage 2	Stage 3	**Total**	**Net amount**	Nominal amount	Accumulated negative changes in fair value due to credit risk on non-performing commitments
Granted to credit institutions	4,703	-	-	**4,703**	(0)	-	-	**(0)**	**4,703**	-	-
Granted to customers	63	-	-	**63**	(0)	-	-	**(0)**	**63**	-	-
TOTAL	**4,766**	**-**	**-**	**4,766**	**(0)**	**-**	**-**	**(0)**	**4,766**	**-**	**-**

12/31/2021											
	Financing commitments and financial guarantees under IFRS 9									Commitments and financial guarantees measured at fair value	
	Gross amount				Impairment						
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Net amount	Nominal amount	Accumulated negative changes in fair value due to credit risk on non-performing commitments
Granted to credit institutions	5,097	-	-	**5,097**	(0)	-	-	**(0)**	**5,097**	-	-
Granted to customers	31	-	-	**31**	(0)	-	-	**(0)**	**31**	-	-
TOTAL	**5,128**	**-**	**-**	**5,128**	**(0)**	**-**	**-**	**(0)**	**5,128**	**-**	**-**

Note 7 Notes on risk exposure *(EUR millions)*

7.1 Fair value

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

These fair value adjustments take into account the features of the relevant assets and liabilities (maturity, hedging of interest rate risk, amortization profile, and, for assets, their rating); they also take into account current market conditions in terms of price or spread of these same operations, or operations to which they could be assimilated. The breakdown of assets and liabilities as a function of the method used to determine their fair value is shown in note 7.1.3 below; it can be seen that most assets are valued according to a technique that takes into account the fact that significant parameters are not observable for the assets since the exposure primarily consists of loans, a form of debt that is not listed on liquid markets. For the valuation of liabilities, certain observable parameters have been used.

These fair values provide interesting information but are not relevant for drawing conclusions on the value of the company or on the income generated in the future. The assets and liabilities stand out for being consistent in rates and maturity and moreover are intended to be maintained on the balance sheet until their maturity, given the specialized activity of the company.

7.1.1 Composition of the fair value of the assets

	12/31/2020		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1,798	1,798	-
Financial assets at fair value through profit or loss	4,266	4,266	-
Hedging derivatives	4,951	4,951	-
Financial assets at fair value through equity	-	-	-
Loans and receivables from credit institutions at amortized cost	3,753	3,895	142
Loans and advances to customers at amortized cost	46,123	45,871	(252)
Securities at amortized cost	8,615	7,808	(807)
TOTAL	**69,506**	**68,589**	**(917)**

	12/31/2021		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	3,796	3,796	-
Financial assets at fair value through profit or loss	3,518	3,518	-
Hedging derivatives	3,172	3,172	-
Financial assets at fair value through equity	-	-	-
Loans and receivables from credit institutions at amortized cost	5,171	5,163	(8)
Loans and advances to customers at amortized cost	46,008	45,436	(572)
Securities at amortized cost	7,385	6,719	(666)
TOTAL	**69,050**	**67,805**	**(1,245)**

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

	12/31/2020		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	1,050	1,050	-
Hedging derivatives	6,833	6,833	-
Due to banks at amortized cost	6,606	6,603	(3)
Debt securities at amortized cost	55,092	55,656	564
TOTAL	**69,581**	**70,142**	**561**

	12/31/2021		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	802	802	-
Hedging derivatives	5,177	5,177	-
Due to banks at amortized cost	7,677	7,681	4
Debt securities at amortized cost	55,163	55,231	68
TOTAL	**68,819**	**68,891**	**72**

7.1.3 Methods used to determine the fair value of financial instruments

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

- level 1 corresponds to instruments considered to be liquid, i.e. their valuation is based on the price observed in a liquid market, for which Caisse Française de Financement Local assured itself of the existence of a large number of contributors. Level 1 securities include in particular certain government bonds;
- level 2 uses another method to determine the value of instruments for which Caisse Française de Financement Local can not observe market prices, but observes such for similar instruments by the same issuer or guarantor listed in the market. In this case, observable prices and other data observable in the market are used and an adjustment is made to account for the degree of the security's lack of liquidity;
- level 3, when there is no active market or observable market data, the fair value of instruments is determined by using a valuation spread developed from an internal model. Level 3 hedging derivatives are valued using these internal valuation models.

The measurement of derivatives is based on an analysis combining the observability of the market data used in the assessment and the robustness of the valuation models measured in tems of effectiveness at providing a market consensus valuation. The result of this application is that the derivatives used by Caisse Française de Financement Local in hedging its activities are primarily of level 2. For the derivatives in level 3, this classifcation mainly involves hybrid, structured products (interest rate – foreign exchange), spread (correlation) products and options on interest rates. This classifcation is mainly due to the fact that these products present complex payoffs which require an advanced statistical model with variable parameters which are sometimes unobservable on the market.

	12/31/2020			
Fair value of financial assets	Level 1	Level 2	Level 3	Total
Central banks	1,798	-	-	1,798
Financial assets at fair value through profit or loss	-	3	4,263	4,266
Hedging derivatives	-	4,625	326	4,951
Financial assets at fair value through equity	-	-	-	-
Loans and advances due from banks at amortized cost	4	3,629	262	3,895
Loans and advances to customers at amortized cost	-	-	45,871	45,871
Bonds at amortized cost	3,977	2,094	1,737	7,808
TOTAL	**5,779**	**10,351**	**52,459**	**68,589**

Fair value of financial assets	12/31/2021 Level 1	Level 2	Level 3	Total
Central banks	3,796	-	-	3,796
Financial assets at fair value through profit or loss	-	3	3,515	3,518
Hedging derivatives	-	2,991	182	3,172
Financial assets at fair value through equity	-	-	-	-
Loans and advances due from banks at amortized cost	5	4,913	245	5,163
Loans and advances to customers at amortized cost	-	-	45,436	45,436
Bonds at amortized cost	3,394	2,012	1,313	6,719
TOTAL	**7,195**	**9,919**	**50,691**	**67,805**

Fair value of financial liabilities	12/31/2020 Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	903	147	1,050
Hedging derivatives	-	6,728	104	6,833
Debt due to the banks at amortized cost	-	6,603	-	6,603
Debt securities at amortized cost	40,936	6,810	7,910	55,656
TOTAL	**40,936**	**21,044**	**8,161**	**70,142**

Fair value of financial liabilities	12/31/2021 Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	744	58	802
Hedging derivatives	-	5,056	120	5,177
Debt due to the banks at amortized cost	-	7,681	-	7,681
Debt securities at amortized cost	41,049	6,870	7,313	55,231
TOTAL	**41,049**	**20,350**	**7,491**	**68,891**

Sensitivity of the market value of level 3 financial instruments to changes in reasonably possible assumptions

The following table gives a synthetic view of financial instruments in level 3 for which changes in assumptions concerning one or more non-observable parameters would cause a significant change in market value. These amounts illustrate the interval of uncertainty inherent in the recourse to judgment in estimating parameters of level 3 or in the choice of valuation techniques and models. They reflect the uncertainty of valuation which is effective at the date of valuation. Although this uncertainty essentially results from the sensitivity of the portfolio at the date of valuation, it does not make it possible to foresee or to deduct future variations in the market value any more than they represent the effect of extreme market conditions on the value of the portfolio. To estimate sensitivity, Caisse Française de Financement Local either values fnancial instruments using reasonably possible parameters or applies hypotheses based on its policy of additional valuation adjustments.

	12/31/2020	12/31/2021
Uncertainty inherent in level 3 market parameters	5	3
Uncertainty inherent in level 3 derivatives valuation models	17	12
SENSITIVITY OF THE MARKET VALUE OF LEVEL 3 FINANCIAL INSTRUMENTS	**22**	**15**

7.1.4 Transfer between level 1 and 2

	12/31/2020	12/31/2021
Level 1 to level 2	-	-
TOTAL	**-**	**-**

3

7.1.5 Level 3: flow analysis

Fair value of financial assets	Financial assets at fair value through profit or loss	Hedging derivatives	Financial assets at fair value through equity	total financial assets
12/31/2020	**4,263**	**326**	**-**	**4,589**
Total unrealized or deferred gains and losses through profit or loss	(450)	(49)	-	(498)
Total unrealized or deferred gains and losses through equity	-	-	-	-
Purchase	24	0	-	24
Sale	-	-	-	-
Direct origination	-	-	-	-
Settlement	(323)	(95)	-	(418)
Transfer to activities destined to be sold	-	-	-	-
Transfer to level 3	-	-	-	-
Transfer out of level 3	-	-	-	-
Other variations	-	-	-	-
31/12/2021	**3,515**	**182**	**-**	**3,697**

Fair value of financial liabilities	Financial liabilities at fair value through profit or loss	Hedging derivatives	Total financial liabilities
12/31/2020	**147**	**104**	**251**
Total unrealized or deferred gains and losses through profit or loss	(11)	31	20
Total unrealized or deferred gains and losses through equity	-	-	-
Purchase	(4)	3	(1)
Sale	-	-	-
Direct origination	-	-	-
Settlement	(75)	(18)	(92)
Transfer to activities destined to be sold	-	-	-
Transfer to level 3	-	-	-
Transfer out of level 3	-	-	-
Other variations	-	-	-
31/12/2021	**58**	**120**	**178**

7.2 Off-setting of financial assets and liabilities

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

	12/31/2020					
				Other amounts in the application scope but not offset		
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented in the balance sheet	Effect of master netting arrangements	Financial instruments received as collateral	Net amounts according to IFRS 7 and 13
Derivatives (including hedging instruments)	4,973	-	4,973	(4,088)	(546)	339
Loans and advances at fair value through profit or loss	4,244	-	4,244	-	-	4,244
Loans and advances due from banks at amortized cost	3,753	-	3,753	-	-	3,753
Loans and advances to customers at amortized cost	46,123	-	46,123	-	-	46,123
TOTAL	**59,093**	**-**	**59,093**	**(4,088)**	**(546)**	**54,459**

	12/31/2021					
				Other amounts in the application scope but not offset		
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented in the balance sheet	Effect of master netting arrangements	Financial instruments received as collateral	Net amounts according to IFRS 7 and 13
Derivatives (including hedging instruments)	3,176	-	3,176	(2,775)	(326)	75
Loans and advances at fair value through profit or loss	3,514	-	3,514	-	-	3,514
Loans and advances due from banks at amortized cost	5,171	-	5,171	-	-	5,171
Loans and advances to customers at amortized cost	46,008	-	46,008	-	-	46,008
TOTAL	**57,869**	**-**	**57,869**	**(2,775)**	**(326)**	**54,768**

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

	12/31/2020					
				Other amounts in the application scope but not offset		
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented in the balance sheet	Effect of master netting arrangements	Financial instruments received as collateral	Net amounts according to IFRS 7 and 13
Derivatives (including hedging instruments)	7,883	-	7,883	(4,088)	-	3,795
Due to banks at amortized cost	6,606	-	6,606	-	-	6,606
Customer borrowings and deposits at amortized cost	-	-	-	-	-	-
TOTAL	**14,489**	**-**	**14,489**	**(4,088)**	**-**	**10,401**

	12/31/2021					
				Other amounts in the application scope but not offset		
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Effect of master netting arrangements	Financial instruments received as collateral	Net amounts according to IFRS 7 and 13
Derivatives (including hedging instruments)	5,979	-	5,979	(2,775)	-	3,204
Due to banks at amortized cost	7,677	-	7,677	-	-	7,677
Customer borrowings and deposits at amortized cost	-	-	-	-	-	-
TOTAL	**13,656**	**-**	**13,656**	**(2,775)**	**-**	**10,881**

7.3 Exposure to credit risk

In 2021, exposure to credit risks, as presented to management, includes the following:

- for assets other than derivatives: the amount on the balance sheet;

  for derivatives: the standardized approach for measuring a counterparty's credit risk (SA-CCR methodology) has been applied from June 30, 2021. Exposure At Default (EAD) is thus calculated on the basis of the following formula: alpha x (Replacement cost + Potential future amount), in accordance with the recommendations of the Basel Committee;
- for off-balance sheet commitments: the undrawn amount of financing commitments, which is stated in the notes to the financial statements.

The metric used is exposure at default (EAD).

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

7.3.1 Breakdown of exposure to credit risks

Analysis of exposure by geographic region

	12/31/2020	12/31/2021
France	64,169	65,321
Italy	450	296
Germany	181	90
Spain	5,820	5,235
United Kingdom	328	328
Belgium	603	270
Other European Union countries	611	592
Norway	201	139
Switzerland	125	1
United States and Canada	794	802
Japan	42	39
TOTAL EXPOSURE	**73,324**	**73,113**

Analysis of exposure by category of counterparty

	12/31/2020	12/31/2021
Sovereigns	12,651	16,171
Local public sector	58,077	55,731
Other assets guaranteed by public sector entities	25	243
Financial institutions	2,562	960
Other exposures	9	8
TOTAL EXPOSURE	**73,324**	**73,113**

Exposure on financial institutions is primarily comprised of counterparties in hedging derivatives and replacement assets. As of December 31, 2021, Caisse Française de Financement Local had no asset-backed securities.

Analysis of exposure by category of instrument

	12/31/2020	12/31/2021
Banks	1,798	3,796
Fair value loans through profit or loss	4,239	3,505
Hedging derivatives	1,072	93
Securities at fair value through equity	-	-
Loans to credit institutions at amortized cost	25	25
Loans to customers at amortized cost	52,483	53,003
Securities at amortized cost	8,829	7,508
Adjustment accounts and miscellaneous assets	112	57
Financing commitments	4,767	5,126
TOTAL EXPOSURE	**73,324**	**73,113**

7.3.2 Evaluation of asset credit quality

Caisse Française de Financement Local decided to use the advanced method recommended by the regulators in relation to the Basel III reforms on the capital adequacy ratio and capital requirements. Caisse Française de Financement Local has developed internal rating models covering the main client segments. These models were validated by the banking supervisors who authorized the Group to use these advanced internal models for the calculation and reporting of equity requirements for credit risk as of January 1, 2008. This enables Caisse Française de Financement Local to present, as at December 31, 2021, an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements. Credit weighting is mainly calculated on the basis of the probability of default of the counterparty and of the loss incurred in the event of default.

This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio. More than 83% of the portfolio has a weighting of less than 5% and close to 99% of the portfolio has a weighting that is less than or equal to 20%.

	Risk weighting (Basel III)					
	from 0 to 2%	from 2 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	**Total**
Banks	3,796	-	-	-	-	3,796
Fair value loans through profit or loss	2,239	806	333	0	127	3,505
Hedging derivatives	-	-	3	70	20	93
Securities at fair value through equity	-	-	-	-	-	-
Loans to credit institutions amortized cost	20	-	-	5	-	25
Loans to customers at amortized cost	33,995	11,965	6,622	11	411	53,003
Securities at amortized cost	3,135	-	4,305	65	4	7,508
Adjustment accounts and miscellaneous assets	14	-	-	35	8	57
Funding commitments	5,098	1	28	-	-	5,126
TOTAL EXPOSURE	**48,295**	**12,772**	**11,290**	**186**	**569**	**73,113**
QUOTE-PART DE L'EXPOSITION TOTALE	**66.1%**	**17.5%**	**15.4%**	**0.3%**	**0.8%**	**100.0%**

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

7.4 Climate risk

Climate change and the transition to carbon neutrality in 2050 are currently one of the European Union's political priorities. With the challenge they present come opportunities and risks for the economy as a whole, and consequently, for financial institutions. Thus, the European Central Bank recognized in the risk mapping of the prudential supervision mechanism that climate risks were one of the main risk factors for European banks, requiring credit institutions to take a comprehensive and forward-looking approach to risks related to climate and environmental issues. Climate issues are also one of the main focuses of SFIL's strategic plan, whose purpose, as a public development bank, is to meet the requirements and challenges of the period by financing a sustainable future through its two public policy missions.

SFIL shares the regulator's priority in terms of integrating climate risks into risk policies. In 2020, the Risk Department launched a global approach to assessing climate-related risks with the adoption of a first roadmap for climate risks. This roadmap is part of a risk management approach as recommended by the regulators. It is consistent with Caisse des Dépôts' sustainable policy in favor of the success of the environmental and energy transition: the final objective is to assess the financial impact of climate-related risks on the asset portfolio as well as actions to be taken to limit these risks, in particular by taking into account transition[(1)] and physical risks[(2)], for which the transmission channels take the form of traditional risk categories (credit risk, market risk, operational risk, liquidity risk, etc.). On April 14, 2021, SFIL's Board of Directors adopted a second roadmap in terms of climate risks, in line with the work undertaken in 2020. In 2021, SFIL implemented the following actions:

Transition risk

- A first step was taken by SFIL as part of the development of a climate risk map, by finalizing a study on transition risk for French local authorities. The analysis is based on three transition scenarios or trajectories (ordered, accelerated and delayed) and made it possible to quantify the expenditure of local authorities as part of the transition to a low-carbon economy. The impact of these expenses on the financial position of local authorities was quantified and the risk metrics (RWA and ECL) were simulated on the basis of these stressed financial ratios; the impact in terms of RWA and ECL of these scenarios remains limited and mainly results from the expected growth of the portfolio of loans to local authorities to finance the investments necessary for the transition to a low-carbon economy.

(1) ECB definition (ECB, Guide on Climate-Related and Environmental Risks, 2020): transition risk refers to the financial loss resulting from the transition process towards a low-carbon and more environmentally sustainable economy.

(2) ECB definition (ECB, Guide on Climate-Related and Environmental Risks, 2020): physical risk is that arising from the financial impact of a changing climate and of environmental degradation. It can be acute (extreme events) or chronic (progressive shifts).

- This work was used as part of the finalization of the ACPR climate pilot exercise on transition risks.
- This first study is being deepened as part of a partnership with the I4CE (Institute for Climate Economics). The purpose of this work is to identify climate change mitigation actions, as well as the investment effort of local authorities necessary to decarbonize the entire economy, according to a scenario of deployment of the National Low Carbon Strategy (SNBC), which aims to achieve carbon neutrality by 2050.

Physical risk

- In 2021, SFIL's Risk Department carried out a quantitative study on acute physical risks for French local authorities. The approach used is based on the CLIMADA (climate adaptation) model – developed by researchers at the Zurich Federal Institute of Technology (ETHZ) – which simulates a set of natural disasters based on a history of climate events and projects it over a distant time horizon. Five major sets of natural disasters were simulated at the departmental level, namely tropical cyclones, tropical cyclones with rising sea levels, tropical cyclones with torrential rains, European winter storms and seismic/volcanic events. This study enabled SFIL's Risks division to determine a scale of five categories (critical, high, moderate, low, very low) of acute physical risk so as to qualify the financial impact of natural disasters on French local authorities. A mapping of exposures was possible by linking the local authorities in the portfolio to their department, reporting an amount in EAD for each of the five risk categories. It should be noted that no department falls into the critical risk category, and only the overseas departments, with the exception of French Guiana, are considered to be at high or moderate risk. This work marks a first step in SFIL's consideration of the physical risk. It will continue to reduce methodological biases by covering a wider spectrum of climate events and by reiterating the approach, and also by integrating chronic risk factors related to environmental degradation.

At this stage, the preliminary conclusions of the projections made in terms of physical and transition risks do not conclude that there is a significant impact and have therefore not been taken into account for the calculation of Exposures Credit Loss (ECL).

Certain acute physical risks (hurricane risk in particular) or chronic risks (snowfall issues for the local authorities supporting winter sports resorts) were taken into account to adjust the internal rating of the local authorities concerned and therefore the PD parameter of the ECL calculation. The associated effect on the calculation of ECL is not measurable at this stage because it is diluted in the overall internal rating of the local authority concerned. However, it is expected to be very low.

7.5 Liquidity risk: analysis by term to maturity

7.5.1 Breakdown of assets

	12/31/2021							
	Less than 1 month	1 to 3 months	**3 months to 6 months**	6 months to 1 year	**1 year to 5 years**	More than 5 years	**Indeterminate**	Total broken down
Central banks	3,796	-	-	-	-	-	-	3,796
Financial assets at fair value through profit or loss	35	32	108	170	1,011	1,658	9	3,024
Hedging derivatives	63	2	415	-	-	-	-	480
Financial assets at fair value through equity	-	-	-	-	-	-	-	-
Loans and advances due from banks at amortized cost	6	37	185	159	2,418	2,365	0	5,171
Loans and advances to customers at amortized cost	604	536	1,224	1,943	14,755	25,872	4	44,937
Securities at amortized cost	153	95	493	130	1,876	3,578	-	6,326
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	-	94	94
Accruals and other assets	-	-	-	-	-	-	22	22
TOTAL	**4,657**	**703**	**2,425**	**2,403**	**20,060**	**33,474**	**129**	**63,851**

	12/31/2021		
	Total broken down	Fair value adjustment	**Total**
Central banks	3,796	-	3,796
Financial assets at fair value through profit or loss	3,024	494	3,518
Hedging derivatives	480	2,693	3,172
Financial assets at fair value through equity	-	-	-
Hedging derivatives	5,171	-	5,171
Loans and advances to customers at amortized cost	44,937	1,070	46,008
Securities at amortized cost	6,326	1,059	7,385
Fair value revaluation of portfolio hedge	-	1,988	1,988
Tax assets	94	-	94
Accruals and other assets	22	-	22
TOTAL	**63,851**	**7,304**	**71,154**

7.5.2 Breakdown of liabilities, excluding equity

	12/31/2021							
	Less than 1 month	1 to 3 months	**3 months to 6 months**	6 months to 1 year	**1 year to 5 years**	More than 5 years	**Indeterminate**	**Total broken down**
Central banks	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	0	0	46	-	-	-	-	46
Hedging derivatives	7	1	336	-	-	-	-	344
Due to banks at amortized cost	680	-	2,802	1,200	2,495	500	-	7,677
Customer borrowing and deposits at amortized cost	-	-	-	-	-	-	-	-
Debt securities at amortized cost	1,976	22	1,964	963	17,814	30,456	-	53,194
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-	-
Tax liabilities	-	-	-	-	-	-	1	1
Accruals and other liabilities	-	-	-	-	-	-	454	454
Provisions	-	-	0	0	0	0	5	5
Subordinated debt	-	-	-	-	-	-	-	-
TOTAL	**2,663**	**23**	**5,148**	**2,163**	**20,309**	**30,956**	**460**	**61,721**

	12/31/2021		
	Total broken down	Fair value adjustment	**Total**
Central banks	-	-	-
Financial liabilities at fair value through profit or loss	46	756	802
Hedging derivatives	344	4,833	5,177
Due to banks at amortized cost	7,677	-	7,677
Customer borrowing and deposits at amortized cost	-	-	-
Debt securities at amortized cost	53,194	1,969	55,163
Fair value revaluation of portfolio hedge	-	430	430
Tax liabilities	1	-	1
Accruals and other liabilities	454	-	454
Provisions	5	-	5
Subordinated debt	-	-	-
TOTAL	**61,721**	**7,987**	**69,708**

7.5.3 Net liquidity gap

	12/31/2021								
	Less than 1 month	1 to 3 months	3 months to 6 months	6 months to 1 year	1 year to 5 years	More than 5 years	Indeter-minate	Not broken down	Total
MONTANT	**1,994**	**679**	**(2,723)**	**240**	**(249)**	**2,518**	**(330)**	**(683)**	**1,446**

This table presents the balance sheet at the closing date; it does not take into account the management decisions that will make it possible to manage differences in maturity or the future production of assets and liabilities. Caisse Française de Financement Local's liquidity is provided by its refnancing agreement with SFIL.

In addition, Caisse Française de Financement Local may obtain financing from the Banque de France, in its own name, by giving certain of these assets as collateral. If necessary, these transactions would easily cover its cash flow requirements.

7.6 Currency risk

	12/31/2020				
Classification by original currency	EUR	Other EU currencies	USD	Other currencies	Total
Total assets	71,448	515	162	336	72,461
Total liabilities	71,448	515	162	336	72,461
NET BALANCE SHEET POSITION	-	-	-	-	-

	12/31/2021				
Classification by original currency	EUR	Other EU currencies	USD	Other currencies	Total
Total assets	70,317	387	164	286	71,154
Total liabilities	70,317	387	164	286	71,154
NET BALANCE SHEET POSITION	-	-	-	-	-

Caisse Française de Financement Local takes no foreign exchange risk when setting up operations. Assets and liabilities originally in non-euro currencies are swapped against Euribor as soon as they are recognized on the balance sheet.

7.7 Sensitivity to interest rate risk

Definition

Interest rate structural risk is defined as the risk of loss incurred in the event of a change in interest rates that would lead to a loss in value of balance sheet and off-balance sheet transactions, excluding any trading portfolio transactions. Since Caisse Française de Financement Local does not have a trading portfolio, it is not concerned by this exception.

There are four types of interest rate risks, which are generally covered using derivatives as well as a risk related to any options:

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

Hedging Strategy

Caisse Française de Financement Local has defined fixed-rate risk appetite which is reflected in a system of limits on directional and time bucket sensitivities of the Net Present Value (NPV). To limit the impact of this risk, Caisse Française de Financement Local implements an interest rate risk hedging strategy consisting of:

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

These hedges can be entered into either directly on the market by Caisse Française de Financement Local, or through SFIL, which in turn hedges its resulting position in the market.

Non-privileged debt is not concerned by these hedging operations. Debt contracted by Caisse Française de Financement Local with its shareholder to finance over-collateralization is borrowed either directly with a €str index and does not need to be swapped, or with a Euribor index and thus finances assets also indexed on Euribor. Short-term debt owed to the Banque de France with a fixed rate (if any) is not hedged, but finances fixed rate assets.

These different kinds of interest rate risks are monitored, analyzed and managed through:

- the production of gaps (fixed rate, index and fixing respectively):

Fixed rate gap	Difference between balance sheet and off-balance sheet assets and liabilities for fixed-rate transactions or transactions for which the rate has been set. It is calculated every month until balance sheet run-off.
Index gap	Difference between balance sheet and off-balance sheet assets and liabilities for a given index tenor that has not yet been fixed. This gap is calculated every month until balance sheet run-off.
Fixing gap	Difference between balance sheet and off-balance sheet assets and liabilities for a given index tenor that has not yet been fixed.

- the monthly production of net present value (NPV) sensitivity indicators, calculated for a rate shock of 100 bp, which aim to regulate the fixed or set rate residual positions of Caisse Française de Financement Local (after setting up hedges). These indicators are calculated for four predefined time buckets (short-term, medium-term, long-term, very long-term) regulated by limits which are calibrated to avoid losing more than EUR 80 million with a 99% quantile calculated on a 10-year history:

Translation of the rate curve	Limit of EUR 25 million
Sloping/rotation of the interest rate curve on distant points on the curve	EUR 15 million limit over Short-term time buckets EUR 10 million limit over Medium-term time buckets EUR 10 million limit over Long-term time buckets EUR 9 million limit over Very long-term time buckets
Sloping/rotation of the interest rate curve inside a time bucket	EUR 30 million limit on the absolute value of the sensitivities inside each time bucket

Measurement of directional risk

The quarter-end sensitivity measurements are presented below :

Total sensitivity *(EUR millions)*	**Limit**	**3/31/2021**	**6/30/2021**	**9/30/2021**	**12/31/2021**
Sensitivity	25/(25)	(10.1)	(5.3)	(3.3)	(8.0)

Measurement of the slope/rotation risk

The quarter-end sensitivity measurements are presented below.

Risk of slope between two distant points on the rate curve

Sum of sensitivities *(EUR millions)*	**Limit**	**3/31/2021**	**6/30/2021**	**9/30/2021**	**12/31/2021**
Short term	15/(15)	(4.4)	(5.8)	(3.0)	(6.0)
Medium term	10/(10)	(6.5)	1.0	4.9	(1.7)
Long term	10/(10)	0.7	(1.4)	(6.5)	(0.4)
Very long term	9/(9)	0.1	0.9	1.3	0.0

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value *(EUR millions)*	**Limit**	**3/31/2021**	**6/30/2021**	**9/30/2021**	**12/31/2021**
Short term	30	12.4	7.7	13.3	12.7
Medium term	30	21.4	24.5	23.1	12.5
Long term	30	16.7	26.0	10.6	18.2
Very long term	30	8.3	5.7	15.0	13.0

Note 8 Impacts of the Covid-19 health crisis on the Company's financial statements *(EUR millions)*

The health crisis had a limited impact on the Company's financial statements prepared in accordance with IFRS at end December 2021. This confirms Caisse Française de Financement Local's resilience to macro-economic shocks.

8.1 Impacts on the adjustments to the value of financial assets and liabilities recognized at fair value

After a start of the year impacted by a resurgence of the epidemic and a new lockdown in April, the health context improved in particular thanks to the ramp-up of vaccinations until the autumn and then deteriorated again at the end of the year due in particular to the Omicron variant. In this context, the financial markets showed very strong resilience with loan spreads that improved in particular in the second half of the year, the equity market reached record highs and long-term rates, although they increased, remained at historically low levels (notably short-term rates). Inflation, in particular linked to the US and EUR stimulus plans and the growing demand for energy resources, increased over the year without having had a significant impact on the markets. In this context, the effects of the Covid-19 crisis on the value adjustments of financial instruments recognized at fair value were extremely limited and may be considered neutral for 2021.

8.2 Impacts on past due, breakdown of net book values by Stages and IFRS provisions

In the spring of 2020, Caisse Française de Financement Local decided to deploy two approaches to support borrowers faced with difficulties following the health crisis:

- one, proactive, by proposing payment terms to all health institutions in recognition of their exceptional involvement in the Covid-19 pandemic. Caisse Française de Financement Local thus proposed payment terms of 180 days to these borrowers for all of their loan contract maturities between March 12 and June 30, 2020, without any late interest or penalties being invoiced. These payment terms could have been renewed at the request of customers. As of June 30, 2020, these offset payment maturities represented EUR 9 million. One and a half years later on December 31, 2021, all the payment extensions granted have been paid;
- the other approach is to respond to requests from local and equivalent authorities faced with temporary cash flow difficulties. Caisse Française de Financement Local thus mobilized to respond to all requests from borrowers and to support them in their difficulties due to the health crisis caused by the decline in revenue from specific activities, related to economic, cultural and touristic activities (cinemas, swimming pools, car parks, thermal baths, etc.). As of June 30, 2020, these offset payment maturities represented EUR 8 million. One and a half years later on December 31, 2021, a residual amount of EUR 0.2 million remains active.

	On-going payment terms granted as at December 31, 2021					
	Financial assets at amortized cost				Financial assets at fair value through profit or loss	TOTAL
	Stage 1	Stage 2	Stage 3	TOTAL		
Performing health sector customers	-	-	-	-	-	-
Other local public sector customers	-	-	0	0	-	0
TOTAL	**-**	**-**	**0**	**0**	**-**	**0**

For the record, in 2020, the payment terms granted to CAFFIL's customers had resulted in a very slight increase in exposures classified in Stage 3 and a reduction in exposures classified in Stages 1 and 2. In addition to the effects linked to the downgrading to Stage 3 exposures of certain customers, Caisse Française de Financement Local had decided to increase its stock of provisions associated with public sector customers by EUR 3 million.

In 2021, the continuation of certain payment deadlines with local public sector customers did not lead to a change in the distribution of exposure by Stages. At the same time, the Company decided to reverse the provision of EUR 3 million set up in 2020 on customers in the healthcare sector, as the financial situation of these customers did not ultimately deteriorate.

	Financial assets at amortized cost					
	Gross book value			Provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Health sector customers benefiting from extensions to payment terms	192	23	23	(3)	(0)	(0)
Other local public sector customers benefiting from extensions to payment terms	244	2	33	(0)	(0)	(0)
SITUATION AS AT DECEMBER 31, 2020	**436**	**24**	**56**	**(3)**	**(0)**	**(1)**
Health sector customers benefiting from extensions to payment terms	137	55	28	(0)	(1)	(0)
Other local public sector customers benefiting from extensions to payment terms	238	0	31	(0)	(0)	(0)
SITUATION AS AT DECEMBER 31, 2021	**375**	**55**	**59**	**(0)**	**(1)**	**(1)**
Health sector customers benefiting from extensions to payment terms	(55)	32	5	3	(0)	0
Other local public sector customers benefiting from extensions to payment terms	(6)	(2)	(2)	(0)	0	(0)
CHANGE DURING THE YEAR NOTABLY DUE TO THE IMPACT OF THE COVID-19 HEALTH CRISIS	**(61)**	**31**	**3**	**3**	**(0)**	**(0)**
FOR THE REMINDER, VARIATION DURING THE 2020 FINANCIAL YEAR MAINLY RELATED TO THE IMPACTS OF THE COVID-19 HEALTH CRISIS	(37)	(14)	31	(3)	0	(0)

Moreover, during the 2020-2021 period, and in the context of the health crisis, Caisse Française de Financement Local decided to set up a provision for risks and charges of EUR 3.9 million associated with the foreign exchange hedging instruments used in the context of the refinancing of the export credits in dollars from the cruise industry. This provision represented an amount of EUR 2.6 million at December 31, 2020 and was supplemented by EUR 1.3 million in 2021.

Finally, within the export credit business, Caisse Française de Financement Local, with the support of SFIL, is part of the approach developed jointly by the European export credit insurance agencies to provide liquidity support on export credits for cruise companies, a sector particularly hard hit by the pandemic. The support consists of deferring the repayment of the loans principle. This deferral was also made by Caisse Française de Financement Local to refinancing loans for the cruise sector granted by SFIL. As a reminder, these loans benefit from an unconditional and irrevocable 100% guarantee granted by the French Republic.

3

8.3 Summary of the impacts of the Covid-19 health crisis on the Company's results as at December 31, 2021

	(1)	(2)		=(1)-(2)
		of which impacts of the Covid-19 health crisis		
	Reported accounting income	Reinforcement of provisions on the public sector	Reinforcement of provisions on export credit – cruise sector	Accounting income restated for the impacts of Covid-19
Net banking income	200	-	-	200
General operating expenses	(104)	-	-	(104)
GROSS OPERATING INCOME	**96**	**-**	**-**	**96**
Cost of risk	6	3	(1)	5
INCOME BEFORE NON-RECURRING ITEMS AND TAXES	**102**	**3**	**(1)**	**101**
Income tax	(45)	(1)	0	(45)
NET INCOME	**57**	**2**	**(1)**	**56**

Note 9 Post-closing events

No significant event that influences the Company's financial situation has occurred since the closing on December 31, 2021.

The foreseeable impacts to date related to the war situation in Ukraine are limited for Caisse Française de Financement Local. Caisse Française de Financement Local does not have any exposure in Russia or Belarus. SFIL, its parent company, has only one exposure in Ukraine, which at December 31, 2021 represented an outstanding on the balance sheet of EUR 51.1 million and an off-balance sheet financing commitment of EUR 17.4 million. This exposure was granted as part of the export credit activity and is 100% guaranteed by the French Republic. SFIL is not, therefore, directly exposed to credit risk on this file. This contract was the subject of a refinancing contract granted by CAFFIL which, in addition to the 100% credit insurance, benefits from the 100% guarantee granted by the French Republic known as the enhanced guarantee.

3.3 Statutory Auditors' report on the financial statements prepared under IFRS

For the year ended December 31, 2021

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Chairman of the Executive Board,

In our capacity as Statutory Auditors of Caisse Française de Financement Local and in response to the Company's request to provide extended financial information to investors, we have audited the accompanying financial statements of the Caisse Française de Financement Local, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, for the year ended 31 December 2021.

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organisation and the performance of the audits.

It is in this complex and evolving context that the financial statements were prepared by the Executive Board. Our role is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with professional standards applicable in France and the professional guidance issued by the French Institute of Statutory Auditors (*Compagnie nationale des commissaires aux comptes*) relating to this engagement. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. It also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the financial statements, in all material respects, give a true and fair view of the assets and liabilities and of the financial position of the Company at 31 December 2021, and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

This report is governed by French law. The French courts have exclusive jurisdiction to rule on any dispute, claim or disagreement resulting from our engagement letter or this report, or on any matter related thereto. Each party irrevocably waives any right to lodge objections to action brought before these courts, to claim that the action was brought before a French court lacking jurisdiction or that the French courts lacked jurisdiction.

Neuilly-sur-Seine and Paris La Défense, March 30, 2022

The Statutory Auditors

PricewaterhouseCoopers Audit
Ridha BEN CHAMEK
Partner

KPMG SA
Jean-François DANDÉ
Partner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4

Financial statements according to French GAAP

4.1 Financial statements

4.1.1 Assets

EUR millions	*Notes*	12/31/2020	12/31/2021
Central banks	*2.1*	1,798	3,796
Government and public securities	*2.2*	3,717	3,603
Loans and advances to banks	*2.3*	3,776	5,193
Loans and advances to customers	*2.4*	46,434	46,662
Bonds and other fixed income securities	*2.5*	3,551	2,725
Equities and other variable income securities		-	-
Investments in non-consolidated companies and other long-term investments		-	-
Investments in consolidated companies		-	-
Intangible assets		-	-
Property and equipment		-	-
Unpaid capital		-	-
Uncalled subscribed capital		-	-
Treasury stock		-	-
Other assets	*2.6*	24	40
Accruals and other assets	*2.7*	2,437	2,261
TOTAL ASSETS	***2.8***	**61,738**	**64,280**

4.1.2 Liabilities

EUR millions	*Notes*	12/31/2020	12/31/2021
Central banks		-	-
Due to banks	*3.1*	6,606	7,677
Customer borrowings and deposits		-	-
Debt securities	*3.2*	51,069	52,849
Other liabilities	*3.3*	680	441
Accruals and other liabilities	*3.4*	1,864	1,772
Provisions	*3.5*	54	44
Subordinated debt		-	-
EQUITY		**1,465**	**1,497**
Share capital	*3.6*	1,350	1,350
Additional paid-in capital	*3.6*	-	-
Reserves and retained earnings	*3.6*	56	66
Net income	*3.6*	59	81
TOTAL LIABILITIES	***3.7***	**61,738**	**64,280**

4.1.3 Off-balance sheet items

EUR millions	*Notes*	12/31/2020	12/31/2021
COMMITMENTS GRANTED	**4.1**	**4,771**	**5,133**
Financing commitments		4,766	5,128
Guarantees granted		-	-
Commitments on securities		-	-
Other commitments granted		5	5
COMMITMENTS RECEIVED	**4.2**	**10,272**	**11,890**
Financing commitments		50	50
Guarantees received		10,222	11,840
Commitments on securities		-	-
Forward commitments		-	-
Other commitments received		-	-
OTHER COMMITMENTS	**4.3**	**104,606**	**100,889**
Foreign currency transactions		12,906	14,221
Commitments on forward financial instruments		91,700	86,668
Commitments on bonds		-	-

4.1.4 Income statement

EUR millions	*Notes*	2020	2021
Interest income	*5.1*	1,059	892
Interest expense	*5.1*	(907)	(690)
Income from variable income securities		-	-
Commission income	*5.2*	18	4
Commission expense	*5.2*	(2)	(3)
Net gains (losses) on held for trading portfolio		1	0
Net gains (losses) on placement portfolio	*5.3*	10	4
Other banking income		0	0
Other banking expense		(0)	(0)
NET BANKING INCOME		**179**	**206**
General operating expenses	*5.4*	(104)	(104)
Depreciation and amortization		-	-
GROSS OPERATING INCOME		**75**	**101**
Cost of risk	*5.5*	2	7
INCOME FROM OPERATIONS		**77**	**109**
Gains or losses on fixed assets		-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		**77**	**109**
Non-recurring items		-	-
Income tax	*5.6*	(19)	(28)
NET INCOME		**59**	**81**
Basic earnings per share		4.34	6.02
Diluted earnings per share		4.34	6.02

4.1.5 Equity

EUR millions	Amount
AS OF 12/31/2020	
Share capital	1,350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	56
Net income for the year	59
Interim dividends	-
EQUITY AS OF 12/31/2020	**1,465**
MOVEMENTS FOR THE PERIOD	
Changes in share capital	-
Changes in additional paid-in capital	-
Changes in commitments to increase share capital and additional paid-in capital	-
Changes in reserves and retained earnings	59
Dividends paid (-)	(49)
Changes in net income for the period	22
Other movements	-
AS OF 12/31/2021	
Share capital	1,350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	66
Net income for the period	81
EQUITY AS OF 12/31/2021	**1,497**

4.2 Notes to the French GAAP financial statements

Note 1 Accounting and valuation policies

1.1 Applicable accounting standards: rules adopted by the French Accounting Standards Board (Autorité des Normes Comptables – ANC)

The financial statements as of December 31, 2021, were examined by the Management Board on March 14, 2022 and approved by the Supervisory Board on March 17, 2022.

Caisse Française de Financement Local prepares its financial statements in compliance with ANC Regulation n°2014-07 issued on November 26, 2014 and related to the financial statements for the reporting entities of the banking sector, and in particular credit institutions. As stated in its article 3 and subject to the provisions of the latter regulation, these reporting entities prepare their financial statements in compliance with ANC Regulation n°2014-03 issued on June 5, 2014 and related to general accounting plan. The financial statements are furthermore in accordance with the indications of Directive 86/635/EEC of the Council of European Communities.

The financial statements as of December 31, 2021, were prepared using the same accounting policies as those used in the financial statements as of December 31, 2020. Between these two dates, the applicable regulation has in particular been amended as such (NB: only amendments deemed as potentially relevant for the Company are mentioned):

- **ANC Recommendations and observations of May 18, 2020 – Regarding how to take the consequences of Covid-19 event into consideration in the financial statements prepared from January 1, 2020:** this statement from the ANC aims at accompanying companies so as for them to communicate efficiently about the economic consequences of Covid-19 pandemic. Subsequently, The ANC has regularly updated its recommendations and observations: on July 3, 2020, July 24, 2020, January 15, 2021, June 7, 2021 and July 9, 2021.

  This communication and its subsequent updates were taken into account by the Caisse Française de Financement Local in the preparation of its 2020 and 2021 financial statements. So as to enable users to measure the impact of this crisis on financial statements, qualitative and quantitative information has been disclosed in note 6 below.

- **Update of the documentation on the *Plan de Comptes des Établissements de Crédit* (PCEC – Chart of Accounts of Credit Institutions) on October 15, 2021:** this update has been performed under the guidance of the French Banking Federation (FBF) and approved by the federation's Accounting Committee. As a reminder, PCEC is not a binding chart of accounts for credit institutions' accounting records. It is however a reference used by numerous stakeholders (credit institutions, external controllers…). Besides changes without novelty (updated references and terminologies), FBF's Accounting Committee approved the following evolutions:
  - integrating CRC Regulation n°2009-03 (art. 2111 to 2171 of ANC Regulation n° 2014-07): joining business providers fees to the outstanding amounts of the related instruments in the balance sheet and joining the related expenses into the Effective Interest Rate (EIR) in the income statement;
  - revising comments on the apparent choice to amortize discounts/premiums on placement and investment securities, whereas this amortization is mandatory.

  These updates had no impact on Caisse Française de Financement Local's individual financial statements, as the Company already applied these requirements.

1.2 Accounting principles applied to the financial statements

The financial statements have been prepared in accordance with French generally accepted accounting principles, respecting the principles of prudence, sincerity and true and faithful image, on the basis of the following assumptions:

- going concern principle;
- segregation of accounting periods;
- consistency of methods;
- historical costs;
- no netting principle;
- intangibility of the opening balance sheet.

1.2.1 Loans and advances to banks and to customers

Loans and advances to banks include all loans connected to banking transactions with credit institutions, except securities. They are broken down into sight accounts and term loans. They include in particular loans granted to SFIL refinancing export credit transactions.

Loans and advances to customers comprise loans granted to authorities or guaranteed by authorities.

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

In the absence of definition of restructured loans under the French accounting regulation, the company assimilates restructured loans to forbearance in the purpose of enhancing operational simplicity as well as comparability between the various standards frameworks.

Interest on loans is recognized as Interest income, *prorata temporis* for accrued amounts due and not yet due, as is interest on past-dues.

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

Prepayment indemnities are recognized in the income statement at the date they occur.

A loan is considered as non-performing when it presents one of the following characteristics:

- a probable or certain risk that it will not be repaid (past-due for more than nine months for local government borrowers, and for more than three months for the other counterparties);
- the existence of a factual counterparty risk (worsening of the financial situation, alert procedures).

Compromised non-performing loans are loans to borrowers whose recovery outlook is so downgraded that they might be ultimately written off. Loans accounted for as non-performing for more than one year are transferred to this category.

For the sake of operational simplicity and conservatism, Caisse Française de Financement Local has aligned the notion of non-performing loan with the prudential notion of actual default, *i.e.* a default due to arrears in payment and/or due to the risk of non-payment of the totality of outstanding due by the borrower (notion of "Unlikely To Pay" (UTP) with reference to the default policy of the Company. Counterparties on probation prior a potential reclassification out of the default category are thus out of the scope of non-performing loans from an accounting perspective.

Impairment charges are recognized for non-performing and compromised non-performing loans:

- the fraction of principal impaired is determined by Risk Management in function of incurred losses. Underlying impairment charges and subsequent reversals are recognized as Cost of risk as well as the losses and subsequent recoveries on the principal of non-recoverable loans;
- interest is fully impaired. Underlying impairment charges and subsequent reversals are recognized in the net interest margin as well as the losses and subsequent recoveries on the interest of non-recoverable loans.

1.2.2 Securities

Securities held by Caisse Française de Financement Local are recognized on the asset side of the balance sheet under the item Government and public securities or Bonds and other fixed income securities.

The item Government and public securities includes securities issued by public sector entities that may be refinanced through the European system of central banks.

The item Bonds and other fixed income securities includes:

- securities issued by public sector entities that are not eligible for refinancing by central banks;
- securities guaranteed by public sector entities.

Securities held by Caisse Française de Financement Local are recognized as either investment securities or placement securities.

1.2.2.1 Investment securities

Fixed income securities with a specified maturity are recognized as investment securities when there is the intention and the capacity to hold them to maturity. Securities in this category are subject to back-financing or interest-rate hedging over their residual maturity.

Investment securities are recognized on the date of purchase at acquisition clean price, excluding fees. Accrued interest at the date of acquisition and subsequently accrued interest at each closing date is recognized on the balance sheet in the same categories as the corresponding security. Interest on these securities is recognized as Interest income.

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

At closing date, unrealized gains are not recognized and unrealized losses are generally not impaired. By way of exception, unrealized losses are impaired in the following cases:

- a doubt about the issuer's ability to meet its obligations;
- the probability that the Company will not hold these securities until maturity due to new circumstances.

1.2.2.2 Placement securities

Securities that do not fit into the category investment securities are recognized as placement securities.

Placement securities are recognized on the date of purchase at acquisition clean price, excluding fees. Accrued interest at the date of acquisition and subsequently accrued interest at each closing date is recognized on the balance sheet in the same categories as the corresponding security. Interest on these securities is recognized as Interest income.

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

In application of the principle of prudence, placement securities are recognized on the balance sheet at their acquisition cost including if applicable the amortization of discount or premium or selling price at closing date, whichever is lower, after accounting, when relevant, for the value of the micro-hedge swap.

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

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

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

1.2.3 Debt due to banks

Debt due to banks is broken down according to the type of debt (sight accounts, current accounts, long-term loans or non-allocated receivables) and the initial maturity (sight or term debt).

Interest accrued on this debt is recognized in liabilities, offsetting income statement.

1.2.4 Debt securities

Debt securities comprise *obligations foncières* and other resources benefiting from the privilege defined in article L.513-11 of the French Monetary and Financial Code (Registered covered bonds).

Debt securities are recognized at nominal value.

Redemption and issue premiums are amortized according to a quasi-actuarial method over the maturity of the securities concerned *prorata temporis*. They are recognized on the balance sheet in the same categories as the corresponding debt. Amortization of these premiums is recognized in the income statement as Interest expense. If securities are issued above par, amortization of issue premiums is deducted from Interest expense.

Interest is recognized in the net interest margin for accrued amounts calculated *prorata temporis*.

Issuance costs and commissions related to issued securities are amortized according to a quasi-actuarial method over the maturity of the related debts and are recognized in the net interest margin.

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

1.2.5 Provisions

Provisions are recognized based on their discounted value when the following three conditions are met:

- Caisse Française de Financement Local has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources representing economic benefits will be required to settle the obligation;
- a reliable estimate of the amount of the obligation can be made.

Collective provision covers the risk of loss in value among the loans, bonds and loan commitments not yet covered by any specific loss allowance at closing date. Among this group, counterparties that are reviewed in Watchlist Committee or might be reviewed in a foreseeable future are identified through the use of automatic criteria (based in particular on internal ratings and warning indicators for rating migration determined to be risky) and *ad-hoc* analysis based on the use of professional judgment and expert opinion: outstandings on these counterparties form the base of the collective provision. Losses on these counterparties are estimated on the basis of past events (use of historical patterns), current economic environment and expectations on future economic environment. For this purpose, Caisse Française de Financement Local uses a credit risk model based on an approach derived from Basel approach; this model is subject to regular back-testing.

1.2.6 Derivative transactions

Caisse Française de Financement Local engages in derivative transactions only to hedge the interest rate and foreign exchange risks to which it is exposed in its activity. Depending on their purpose, these transactions are assigned to micro-hedge or macro-hedge portfolios. The valuation and accounting treatments of these financial instruments depends on the chosen category.

The notional amount of these transactions is recognized off-balance sheet over the maturity of the instruments, *i.e.* from the date the contract is signed (including forward contracts) up to maturity. The amount recognized is adjusted to reflect any changes in notional amounts so as to represent the current or future maximum commitment.

Payments made at the inception of financial instruments are amortized over their maturity for the time remaining according to a quasi-actuarial method.

1.2.6.1 Micro-hedge transactions

Derivatives are booked as micro-hedges when they are designed to hedge against the interest rate risk or the foreign exchange risk related to an item or a set of homogeneous items identified from the outset.

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

Termination fees received or paid because of the early interruption of the hedging instrument are generally recognized in the income statement at the termination date. In the framework of a restructuring, they are by way of exception amortized when they constitute an expense in compliance with the tax rule.

1.2.6.2 Macro-hedge transactions

This category includes transactions designed to hedge and manage the Company's overall exposure to interest rate risk on assets, liabilities and off-balance sheet items, excluding micro-hedge transactions. They were authorized on December 1, 1999, by a specific decision of the Executive Board of Caisse Française de Financement Local.

Expense and income on these transactions are recognized in the income statement *prorata temporis*, respectively as Interest expense and Interest income. The counterpart is recognized in accruals until the payment date.

Termination fees received or paid because of the early interruption of the hedging instrument are recognized in the income statement at the termination date.

1.2.7 Foreign currency transactions

Caisse Française de Financement Local recognizes foreign currency transactions in accounts opened and denominated in each of the currencies used.

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

At each closing date, differences between on the one hand the amounts resulting from a market price valuation at closing date of the foreign exchange position accounts and on the other hand the amounts recognized in the foreign exchange position equivalent accounts are recognized in the income statement.

1.2.8 Foreign exchange transactions

In the course of systematic hedging of its foreign exchange risk, Caisse Française de Financement Local enters into currency swaps. These currency swaps are initiated to eliminate the risk of foreign exchange rate fluctuations that might affect an asset or liability as soon as such a risk is identified. They are mainly used to hedge certain liabilities, debt securities and customer loans.

Results of foreign exchange hedging transactions are accounted for by recognizing the difference between the hedging rate and the spot rate – contango or backwardation – *prorata temporis* in the income statement.

1.2.9 Guarantees

As part of its activity to refinance large export credits, Caisse Française de Financement Local benefits from an irrevocable and unconditional 100% guarantee by the French State, called an enhanced guarantee. Expenses related to these guarantees are recognized *prorata temporis* in the net interest margin.

1.2.10 Non-recurring income and expense

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

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

1.2.11 Tax consolidation

Since January 1, 2014, Caisse Française de Financement Local belongs to the tax group that is headed up by SFIL. This entity pays the total income tax and lump-sum annual tax owed by the Group. Caisse Française de Financement Local recognizes in its accounts the tax expense for which it would be liable if it were not a member of the tax group.

Tax savings realized by the tax group are recognized in the accounts of SFIL.

1.2.12 Offices and activities in uncooperative States and territories

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

1.2.13 Identity of the parent company consolidating the accounts of Caisse Française de Financement Local as of December 31, 2021

SFIL

1-3 rue du Passeur de Boulogne

92130 Issy-les-Moulineaux

Note 2 Notes to the assets *(EUR millions)*

2.1 Central banks

	12/31/2020	**12/31/2021**
Mandatory reserves	-	-
Other deposits	1,798	3,796
TOTAL	**1,798**	**3,796**

2.2 Government and public entity securities eligible for central bank refinancing

2.2.1 Accrued interest included in this item: 48

2.2.2 Analysis by residual maturity excluding accrued interest

Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Indeterminate	**Total**
3	2	302	752	2,496	-	3,555

2.2.3 Analysis by listed securities and other securities excluding accrued interest

	Net amount as of 12/31/2020	**Gross amount as of 12/31/2021**	Impairment as of 12/31/2021	**Net amount as of 12/31/2021**	Unrealized capital gain or loss as of 12/31/2021(2)
Listed securities(1)	3,669	3,555	-	3,555	(471)
Other securities	-	-	-	-	-
TOTAL	**3,669**	**3,555**	**-**	**3,555**	**(471)**

(1) Listed securities are registered for trading on a stock exchange.
(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

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

Portfolio	Net amount as of 12/31/2020	Gross amount as of 12/31/2020	Acquisitions	Amortization, redemption or disposals	Others movements	Gross amount as of 12/31/2021
Trading	-	-	-	-	-	-
Placement	438	438	3	(25)	-	417
Investment	3,231	3,231	36	(129)	-	3,138
TOTAL	**3,669**	**3,669**	**39**	**(153)**	**-**	**3,555**

Portfolio	Gross amount as of 12/31/2021	Impairment as of 12/31/2021	Net amount as of 12/31/2021(1)	Unrealized capital gain or loss as of 12/31/2021(2)
Trading	-	-	-	-
Placement	417	-	417	(17)
Investment	3,138	-	3,138	(454)
TOTAL	**3,555**	**-**	**3,555**	**(471)**

(1) This amount includes a premium/discount of EUR 7 million for the placement portfolio and of EUR 92 million for the investment portfolio.
(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

2.2.5 Impairment breakdown by country

See note 2.9.

2.3 Loans and advances to banks

2.3.1 Sight loans and advances to banks

	12/31/2020	12/31/2021
Sight accounts	4	5
Unallocated sums	-	-
TOTAL	**4**	**5**
of which replacement assets	*4*	*5*

2.3.2 Term loans and advances to banks

2.3.2.1 Accrued interest included in this item: 2

2.3.2.2 Analysis by residual maturity excluding accrued interest

Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Indeterminate	Total
1	37	342	2,419	2,385	-	5,185

2.3.2.3 Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2020	Gross amount as of 12/31/2021	Impairment as of 12/31/2021	Net amount as of 12/31/2021
Loans of less than 1 year	-	-	-	-
Loans of more than 1 year	3,770	5,185	-	5,185
TOTAL	**3,770**	**5,185**	**-**	**5,185**

2.3.2.4 Breakdown by counterparty

	12/31/2020	12/31/2021
SFIL – Export credits refinancing loans guaranteed by the French State[1]	3,538	4,960
SFIL – Others loans[2]	-	-
Banks guaranteed by a local government, *crédits municipaux*	0	0
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	232	225
TOTAL	**3,770**	**5,185**
of which replacement assets	-	-

(1) Caisse Française de Financement Local grants loans to its parent company, SFIL, to refinance large export credits granted by SFIL. These loans benefit from an irrevocable and unconditional 100% guarantee by the French Republic, referred to as enhanced guarantee.
(2) Caisse Française de Financement Local may invest some of its surplus cash in loans granted to its parent company SFIL. These loans are eligible as replacement assets.

2.4 Loans and advances to customers

2.4.1 Accrued interest included in this item: 381

2.4.2 Analysis by residual maturity excluding accrued interest

Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Indeterminate	Total
647	559	2,999	15,409	26,679	(11)	46,281

2.4.3 Analysis of commitments by the counterparty’s economic sector excluding accrued interest

Economic sector	12/31/2020	12/31/2020
Public sector	44,540	45,092
Other sectors	1,472	1,189
TOTAL	**46,012**	**46,281**

2.4.4 Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2020	Gross amount as of 12/31/2021	Impairment as of 12/31/2021	Net amount as of 12/31/2021
Loans of less than 1 year	20	20	-	20
Loans of more than 1 year	45,992	46,272	(11)	46,261
TOTAL	**46,012**	**46,292**	**(11)**	**46,281**

2.4.5 Analysis of loans by category of outstanding loans excluding accrued interest

	Net amount as of 12/31/2020	Gross amount as of 12/31/2021	Impairment as of 12/31/2021	Net amount as of 12/31/2021
Performing commitments	45,832	46,139	-	46,139
Non-performing loans	53	60	(1)	59
Compromised non-performing loans	127	93	(10)	83
TOTAL	**46,012**	**46,292**	**(11)**	**46,281**

In the absence of a precise definition of the concept of a restructured loan in French GAAP, Caisse Française de Financement Local equates the concept of restructured loan with the concept of forbearance with a view to operational simplification and comparability between the various sets of standards. Assets considered as forborne by Caisse Française de Financement Local concern exposures to loan contracts for which concessions have been granted in light of the borrower’s financial difficulties (recognized or to come) that would not have been granted in other circumstances. These concessions may either be a waiver of a part of the debt, a rescheduling of the loan repayment, restructuring measures through an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions aiming to reduce of the sensitivity of the loan.

There were 92 forborne contracts as of December 31, 2021, with 71 borrowers, for a total of EUR 371 million.

2.4.6 Depreciation for non-performing loans – changes during the year

	12/31/2020	Allocations	Reversals	Transfers	**12/31/2021**
FOR NON-PERFORMING LOANS					
On loans	(0)	-	0	-	-
On interest	(1)	(1)	1	-	(1)
FOR COMPROMISED NON-PERFORMING LOANS					
On loans	-	-	-	-	-
On interest	(28)	(1)	19	-	(10)
TOTAL	**(29)**	**(2)**	**20**	**-**	**(11)**

Provisions on interest are recorded in Net banking income and provisions on nominal are recorded in Cost of risk.

Net banking income for the year 2021 shows reversals of significant specific impairments following the desensitization of sensitive structured loans whose customers had significant outstanding payments.

2.4.7 Impairment breakdown by country

See note 2.9.

2.5 Bonds and other fixed income securities

2.5.1 Accrued interest included in this item: 21

2.5.2 Analysis by residual maturity excluding accrued interest

Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Indeterminate	**Total**
150	91	254	1,123	1,085	(0)	2,704

2.5.3 Analysis by the issuer's economic sector excluding accrued interest

	12/31/2020	**12/31/2021**
Public sector	2,007	1,890
Other sectors (guaranteed by a State or by a local government)	59	-
Credit institutions	1,457	814
TOTAL	**3,523**	**2,704**
of which replacement assets	*1,457*	*814*

2.5.4 Analysis by listed securities and other securities excluding accrued interest

	Net amount as of 12/31/2020	Gross amount as of 12/31/2021	Impairment as of 12/31/2021	**Net amount as of 12/31/2021**	Unrealized capital gain or loss as of 12/31/2021(2)
Listed securities(1)	1,998	1,513	(0)	1,513	(25)
Other securities	1,525	1,191	-	1,191	(68)
TOTAL	**3,523**	**2,704**	**(0)**	**2,704**	**(93)**

(1) Listed securities are registered for trading on a stock exchange.
(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

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

Portfolio	Net amount as of 12/31/2020	Gross amount as of 12/31/2020	Acquisitions	Amortization, redemption or disposals	Others movements	Gross amount as of 12/31/2021
Trading	-	-	-	-	-	-
Placement	1,588	1,588	33	(832)	11	801
Investment	1,935	1,935	151	(194)	12	1,904
TOTAL	**3,523**	**3,523**	**184**	**(1,026)**	**23**	**2,704**

Portfolio	Gross amount as of 12/31/2021	Impairment as of 12/31/2021	Net amount as of 12/31/2021(1)	Unrealized capital gain or loss as of 12/31/2021(2)
Trading	-	-	-	-
Placement	801	(0)	801	13
Investment	1,904	-	1,904	(106)
TOTAL	**2,704**	**(0)**	**2,704**	**(93)**

(1) This amount includes a premium/discount of EUR 2 million for the placement portfolio and of EUR 56 million for the investment portfolio.
(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

2.5.6 Breakdown of impairment by country

See note 2.9

2.6 Other assets

	12/31/2020	12/31/2021
Taxes	18	35
Other receivables	6	5
TOTAL	**24**	**40**

2.7 Accruals and other assets

	12/31/2020	12/31/2021
Deferred losses on hedging transactions	1,004	893
Deferred charges on bond issues	54	60
Prepaid charges on hedging transactions	162	171
Premiums on acquisition of loans	580	606
Other prepaid charges	0	0
Accrued interest not yet due on hedging transactions	633	528
Translation adjustments	-	-
Other deferred income	1	1
Other accruals	3	3
TOTAL	**2,437**	**2,261**

2.8 Breakdown of assets by currency

Analysis by original currency	Amount in original currency as of 12/31/2020	Amount in euros as of 12/31/2020	Amount in original currency as of 12/31/2021	Amount in euros as of 12/31/2021
EUR	61,109	61,109	63,759	63,759
CHF	131	121	130	126
DKK	-	-	-	-
GBP	128	143	128	153
NOK	1,039	99	-	-
PLN	49	11	51	11
USD	6	5	6	5
AUD	20	13	20	13
CAD	307	197	306	213
JPY	5,052	40	-	-
SEK	0	0	0	0
TOTAL		**61,738**		**64,280**

2.9 Breakdown of depreciation by country

	Amount as of 12/31/2020	Amount as of 12/31/2021
GOVERNMENT AND PUBLIC ENTITY – PLACEMENT SECURITIES	**(0)**	**-**
France	(0)	-
BONDS AND OTHER FIXED INCOME – PLACEMENT SECURITIES	**(0)**	**(0)**
France	(0)	-
Belgium	(0)	-
Canada	-	(0)
Finland	(0)	-
Norway	(0)	-
Netherlands	(0)	-
Germany	(0)	-
BONDS AND OTHER FIXED INCOME – INVESTMENT SECURITIES	**-**	**-**
LOANS AND ADVANCES TO CUSTOMERS	**(29)**	**(11)**
France	(29)	(11)

Note 3 Notes to the liabilities *(EUR millions)*

3.1 Due to banks

Funding obtained from SFIL, within the framework of the financing agreement, was comprised of different loans with maturities initially between one day and ten years, indexed on Euribor, Eonia or €ster.

3.1.1 Accrued interest included in this item: (5)

3.1.2 Debt to credit institutions excluding acrrued interest

	12/31/2020	12/31/2021
Sight accounts	-	-
Current account – parent company	-	-
Term borrowing – parent company	6,610	7,682
Unallocated sums	-	-
TOTAL	**6,610**	**7,682**

3.1.3 Analysis by residual maturity excluding accrued interest

	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Indeterminate	Total
Sight	-	-	-	-	-	-	-
Term	680	-	4,007	2,495	500	-	7,682
TOTAL	**680**	**-**	**4,007**	**2,495**	**500**	**-**	**7,682**

3.2 Debt securities

3.2.1 Debt securities *(obligations foncières)*

3.2.1.1 Accrued interest included in this item: 416

3.2.1.2 Analysis by residual maturity excluding accrued interest

Type of securities	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Indeterminate	Total
Obligations foncières	1,900	21	2,363	16,042	25,737	-	46,063
of which net issue premiums[1]	*0*	*0*	*2*	*(2)*	*38*	-	*38*

(1) The gross amount of positive and negative issue premiums totaled EUR 14 million before amortization.

3.2.1.3 Changes during the year excluding accrued interest

Type of securities	Amount as of 12/31/2020	Increases	Decreases	Others movements	Amount as of 12/31/2021
Obligations foncières	44,069	5,955	(3,991)	30	46,063

3.2.2 Other bonds (registered covered bonds)

3.2.2.1 Accrued interest included in this item: 146

3.2.2.2 Analysis by residual maturity excluding accrued interest

Type of securities	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Indeterminate	Total
Registered covered bonds	0	0	78	1,620	4,526	-	6,224
of which net issue premiums[1]	*0*	*0*	*-*	*(0)*	*34*	*-*	*34*

(1) The gross amount of positive and negative issue premiums totaled EUR 50 million before amortization.

3.2.2.3 Changes during the year excluding accrued interest

Type of securities	Amount as of 12/31/2020	Increases	Decreases	Others movements	Amount as of 12/31/2021
Registered covered bonds	6,329	2	(108)	-	6,224

3.3 Other liabilities

	12/31/2020	12/31/2021
Cash collateral received	567	331
Accrued interest not yet due on cash collateral received	(0)	(0)
Taxes	20	28
Balances to pay on unwound hedging contracts	-	-
Contribution to the support fund[1]	80	70
Other creditors	13	13
TOTAL	**680**	**441**

(1) This item includes the residual balance of the commitments made in 2013 by Caisse Française de Financement Local to contribute EUR 10 million per year over 15 years to the multi-year local government entity support funds, for a total of EUR 150 million.

3.4 Accruals and other liabilities

	12/31/2020	12/31/2021
Deferred gains on hedging transactions	-	-
Deferred income on hedging transactions	1,048	909
Deferred income on loans	127	172
Accrued interest not yet due on hedging transactions	479	438
Other accrued charges	13	14
Translation adjustments	196	239
Other accruals	0	0
TOTAL	**1,864**	**1,772**

3.5 Provisions for risks and charges

	Amount as of 12/31/2020	Increases	Decreases	Others movements	Amount as of 12/31/2021
Loans and commitments(1)	30	0	(8)	0	23
Financial instruments(2)	21	0	(4)	-	17
Other provisions(3)	3	1	-	-	4
TOTAL	**54**	**2**	**(11)**	**0**	**44**

(1) The change in provisions for loans an commitments is mainly due to additions and removals from the customer credit watchlist approved during the financial year. Moreover, in the context of the health crisis, Caisse Française de Financement Local decided in 2020 to constitute a provision for liabilities and charges of EUR 2.6 million associated with public healthcare customers who benefited from extensions to payment terms. As all payment terms concerning this customer base were settled within the agreed deadlines, it was decided to reverse this provision during 2021 (see Note 6.).

(2) The change in provisions for risks and charges on financial instruments relates to the change in the market value of the hedged placement securities concerned.

(3) As a reminder, in the context of the health crisis and the consequences for the cruise industry, Caisse Française de Financement Local decided during 2020 to set up a provision of EUR 2.6 million for risks on the foreign exchange hedging instruments used to refinance the export credits in dollars in this sector. In 2021, Caisse Française de Financement Local decided to increase the amount of this provision by EUR 1.3 million given the health context of the year that continued to impact the cruise sector (see Note 6.).

3.6 Equity

	Amount as of 12/31/2020	Amount as of 12/31/2021
Share capital	1,350	1,350
Legal reserve	55	58
Retained earnings (+/-)	1	8
Net income (+/-)	59	81
TOTAL	**1,465**	**1,497**

On May 27, 2021, the Ordinary and Extraordinary Shareholders' Meeting decided to allocate the 2020 net profit, is EUR 57 millions after taking into account of positive retained earnings, to payment of a dividend in the amount of EUR 49 million, the balance EUR 8 million being allocated to retained earnings.

Caisse Française de Financement Local's share capital totaled EUR 1,350 million, comprising 13,500,000 shares.

3.7 Breakdown of liabilities by currency

Analysis by original currency	Amount in original currency as of 12/31/2020	Amount in euros as of 12/31/2020	Amount in original currency as of 12/31/2021	Amount in euros as of 12/31/2021
EUR	61,109	61,109	63,759	63,759
CHF	131	121	130	126
DKK	-	-	-	-
GBP	128	143	128	153
NOK	1,039	99	-	-
PLN	49	11	51	11
USD	6	5	6	5
AUD	20	13	20	13
CAD	307	197	306	213
JPY	5,052	40	-	-
SEK	0	0	0	0
TOTAL		**61,738**		**64,280**

3.8 Transactions with related parties

	Parent company(1)		Other related parties(2)	
Analysis by nature	**12/31/2020**	**12/31/2021**	**12/31/2020**	**12/31/2021**
ASSETS				
Loans and advances to banks	3,539	4,962	-	-
Bonds and other fixed income securities	-	-	148	-
Other assets	17	34	-	-
Accruals and other assets	144	136	-	-
LIABILITIES				
Due to banks	6,606	7,677	-	-
Debt securities	-	-	866	366
Other liabilities	19	28	-	-
Accruals and other liabilities	254	241	-	0
INCOME STATEMENT				
Interest income	74	(98)	0	0
Interest expense	124	90	(35)	(17)
Commission income	3	-	-	-
Commission expense	-	-	-	(0)
Net gains (losses) on held for trading portfolio	-	-	-	-
Net gains (losses) on placement portfolio	-	-	-	-
Other banking income	-	-	-	-
Other banking expense	-	-	-	-
General operating expenses	(95)	(96)	-	-
OFF-BALANCE SHEET				
Interest rate derivatives	15,374	14,602	-	-
Foreign exchange derivatives	618	519	-	-
Financing commitments received	50	50	-	-
Financing commitments given	4,703	5,097	-	-

(1) This item includes transactions with SFIL, the parent company of Caisse Française de Financement Local.
(2) This item includes transactions with Caisse des Dépôts, shareholders of SFIL and La Banque Postale and Bpifrance, subsidiaries of Caisse des Dépôts group.

Note 4 Notes to the off-balance sheet items *(EUR millions)*

4.1 Commitments granted

	12/31/2020	12/31/2021
Financing commitments granted to credit institutions(1)	4,703	5,097
Financing commitments granted to customers(2)	63	31
Other commitments given, assets assigned in guarantee(3)	5	5
TOTAL	**4,771**	**5,133**

(1) Within the framework of the export credit business, this amount corresponds to a commitment by Caisse Francaise de Financement Local to refinance its parent company, SFIL.
(2) Financing commitments granted to customers correspond to contracts signed for loans not yet paid out to customers at year-end.
(3) It means the irrevocable payment commitment to the Fonds de garantie et de résolution.

4.2 Commitments received

	12/31/2020	12/31/2021
Financing commitments received from credit institutions(1)	50	50
Currencies borrowed	-	-
Guarantees received from credit institutions	-	-
Enhanced guarantees(2)	8,243	10,059
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	1,979	1,780
Other commitments received	-	-
TOTAL	**10,272**	**11,890**

(1) This item corresponded to the amount of the overdraft, authorized in the current account agreement set up with SFIL, totaling EUR 50 million.
(2) The financing and financing commitments granted to SFIL by Caisse de Financement Local to refinance the former's large export credits benefit from a 100% unconditional and irrevocable guarantee of the French Republic, referred to as an enhanced guarantee.

4.3 Foreign currency transactions

Cash and forward foreign exchange transactions are recorded at their value in foreign currencies translated at the exchange rate at the end of the period.

The items Currencies to receive and Currencies to deliver are composed of long currency swaps with intermediate payment flows corresponding to hedging transactions.

	12/31/2020	12/31/2021	Fair value as of 12/31/2021
Currencies to receive	6,257	6,871	(271)
Currencies to deliver	6,453	7,111	173
TOTAL	**12,710**	**13,982**	**(98)**

4.4 Commitments on foward financial instruments

Commitments on forward interest rate financial instruments are recorded in accordance with the provisions of regulations no. 88-02 and no. 90-15: amounts relating to firm transactions are recorded for the nominal value of the contracts.

4.4.1 Analysis of over-the-counter interest rate transactions by residual maturity

Type of transaction	Amount as of 12/31/2020	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	More than 5 years	Indeterminate	Amount as of 12/31/2021
Notional amount	91,700	4,262	2,189	21,181	24,586	34,450	-	86,668
of which deferred start	*162*	-	-	*1,500*	-	*487*	-	*1,987*

These hedging transactions include micro-hedge and macro-hedge transactions.

4.4.2 Analysis of interest rate transactions by product type

	12/31/2020	12/31/2021
Interest rate swaps	91,700	86,668
Term contracts	-	-
Interest rate options	-	-
TOTAL	**91,700**	**86,668**

4.4.3 Analysis of interest rate swap transactions

	12/31/2020	12/31/2020	Fair value as of 12/31/2021
Micro-hedge	55,357	51,208	(832)
Macro-hedge	36,343	35,460	(1,633)
TOTAL	**91,700**	**86,668**	**(2,465)**

4.4.4 Analysis of interest rate transactions by counterparty

	12/31/2020	12/31/2021
Related parties	15,374	14,602
Other counterparties	76,326	72,066
TOTAL	**91,700**	**86,668**

Note 5 Notes to the income statement *(EUR millions)*

5.1 Interets and related income/expense

	2020	2021
INCOME	**1,059**	**892**
Due from banks	13	11
Due from customers	781	692
Bonds and other fixed income securities	64	50
Macro-hedge transactions	201	138
Other commitments	-	-
EXPENSE	**(906)**	**(690)**
Due to banks	(0)	4
Due to customers	(180)	(150)
Bonds and other fixed income securities	27	(20)
Macro-hedge transactions	(753)	(524)
Other commitments	-	-
INTEREST MARGIN	**153**	**202**

5.2 Commisions received and paid

	2020	2021
Chargeback commissions received from/paid to SFIL(1)	3	-
Other commissions(2)	13	1
TOTAL	**16**	**1**

(1) In 2021, SFIL and CAFFIL decided to end the rebilling of commission on margin calls and to process this service through the overall rebilling of financial services rendered by SFIL to CAFFIL (see 5.4).
(2) As of December 31, 2020, this line includes a commission on financial instruments received as part of a hedging derivative allocation transaction.

5.3 Net gains or losses on portfolio transactions

	2020	2021
Transactions on placement securities(1)	10	4
Transactions on investment securities	-	-
Transactions on interest rate derivatives	-	0
Foreign exchange transactions	1	0
TOTAL	**11**	**4**

(1) This item regroups capital gains and losses on sales and provisions and reversals on this portfolio amount after swaps.

5.4 General operating expenses

Caisse Française de Financement Local has no salaried employees in accordance with article L.513-15 of the Monetary and Financial Code. The general management of the operations of Caisse Française de Financement Local has been entrusted by way of an agreement to its parent company, SFIL, a credit institution.

	2020	2021
Payroll costs	-	-
Other general and admnistrative operating expenses	(97)	(98)
Taxes	(7)	(7)
TOTAL	**(104)**	**(104)**
of which fees charged back by SFIL.	*(95)*	*(96)*

5.5 Cost of risk

	2020	2021
Collective and specific impairments	2	7
TOTAL	**2**	**7**

5.6 Corporate income tax

	2020	2021
Income tax for the year(1)	(19)	(28)
TOTAL	**(19)**	**(28)**

(1) As of December 31, 2021, the corporate tax rate in France was 32.02%. It reaches 28.41% for the year ended December 31, 2021

Note 6 Impacts of the Covid-19 health crisis on the Company's financial statements *(EUR millions)*

As of December 31, 2021, the health crisis had a low impact on the Caisse Française de Financement Local's financial statements prepared in accordance with French GAAP. This confirms the Caisse Française de Financement Local's resilience to macro-economic shocks.

6.1 Impacts on arrears, doubtful loans and specific and collective provisions

In the spring of 2020, Caisse Française de Financement Local decided to deploy two approaches to support borrowers faced with difficulties following the health crisis:

- one, proactive, by proposing payment terms to all health institutions in recognition of their exceptional involvement in the Covid-19 pandemic. Caisse Française de Financement Local thus proposed payment terms of 180 days to these borrowers for all of their loan contract maturities between March 12 and June 30, 2020, without any late interest or penalties being invoiced. These payment terms could have been renewed at the request of customers. As of June 30, 2020, these offset payment maturities represented EUR 9 million. One and a half years later on December 31, 2021, all the payment extensions granted have been paid;
- the other approach is to respond to requests from local and equivalent authorities faced with temporary cash flow difficulties. Caisse Française de Financement Local thus mobilized to respond to all requests from borrowers and to support them in their difficulties due to the health crisis caused by the decline in revenue from specific activities, related to economic, cultural and touristic activities (cinemas, swimming pools, car parks, thermal baths, etc.). As of June 30, 2020, these offset payment maturities represented EUR 8 million. One and a half years later on December 31, 2021, a residual amount of EUR 0.2 million remains active.

	Payment terms granted as at December 31, 2021		
	Performing customers	Doubtful customers	TOTAL
Health sector customers	-	-	-
Other local public sector customers	-	0	0
TOTAL	**-**	**0**	**0**

At the end of December 2021, customers declassified as doubtful and having benefited from payment terms gave rise to specific impairments in the amount of EUR 107 thousand compared to EUR 325 thousand at December 31, 2020.

As a reminder, from June 30, 2020, in the context of the health crisis, Caisse Française de Financement Local decided to strengthen its provisions for risks and charges. Subsequently, Caisse Française de Financement Local reassessed the amount of these provisions for risks and charges, thus, as at December 31, 2021:

- the provision for risks and charges associated with public sector healthcare customers who benefited from extensions to payment terms was reversed in full. This provision reversal is linked to the repayment of all of the payment terms granted and to the absence of any deterioration in the financial position of the customers concerned. In addition, since that date, no credit events have been recorded for this customer base. As a reminder, this provision represented an amount of EUR 2.6 million at December 31, 2020;
- the provision for risks and charges associated with foreign exchange hedging instruments used to refinance export credits in dollars in the cruise sector was increased to EUR 3.9 million given the continued health crisis throughout 2021. As a reminder, this provision was EUR 2.6 million at December 31, 2020.

Finally, within the export credit business, Caisse Française de Financement Local, with the support of SFIL, is part of the approach developed jointly by the European export credit insurance agencies to provide liquidity support on export credits for cruise companies, a sector particularly hard hit by the pandemic. The support consists of deferring the repayment of the loans principle. This deferral was also applied by Caisse Française de Financement Local to refinancing loans for the cruise sector granted by SFIL. As a reminder, these loans benefit from an unconditional and irrevocable 100% guarantee granted by the French Republic.

6.2 Summary of the impacts of the Covid-19 health crisis on the Company's results as at December 31, 2021

	(1)	(2)			=(1)-(2)
		Of which impacts of the Covid-19 health crisis			
	Published accounting income	Change in specific provisions	Change in provisions for risks and charges – export credit	Change in provisions for risks and charges – Public health	Accounting income restated for the impacts of Covid-19
Net banking income	206	0	-	-	206
General operating expenses	(104)	-	-	-	(104)
GROSS OPERATING INCOME	**101**	**0**	**-**	**-**	**101**
Cost of risk	7	-	(1)	3	6
INCOME BEFORE NON-RECURRING ITEMS AND TAXES	**109**	**0**	**(1)**	**3**	**107**
Income tax	(28)	-	-	-	(28)
NET INCOME	**81**	**0**	**(1)**	**3**	**80**

Note 7 Post-closing events

No significant event that influenced the Company's financial situation has occured since the closing on December 31, 2021.

The foreseeable impacts to date related to the war situation in Ukraine are limited for Caisse Française de Financement Local. Caisse Française de Financement Local does not have any exposure in Russia or Belarus. SFIL, its parent company, has only one exposure in Ukraine, which at December 31, 2021 represented an outstanding on the balance sheet of EUR 51.1 million and an off-balance sheet financing commitment of EUR 17.4 million. This exposure was granted as part of the export credit activity and is 100% guaranteed by the French Republic. SFIL is not, therefore, directly exposed to credit risk on this file. This contract was the subject of a refinancing contract granted by CAFFIL which, in addition to the 100% credit insurance, benefits from the 100% guarantee granted by the French Republic known as the enhanced guarantee.

4.3 Statutory Auditors' report on the financial statements

For the year ended December 31, 2021

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying financial statements of Caisse Française de Financement Local (CAFFIL) for the year ended 31 December 2021.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at 31 December 2021 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Financial Statements Committee.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules provided for in the French Commercial Code (*Code de commerce*) and the French Code of Ethics (*Code de déontologie*) for Statutory Auditors for the period from 1 January 2021 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by article 5(1) of Regulation (EU) No. 537/2014.

Justification of assessments– Key audit matters

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organisation and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of articles L.823-9 and R.823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgement, were the most significant in our audit of the financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the financial statements.

Risk of estimating collective provisions on customer loan portfolios

Description of risk	How our audit addressed this risk
As part of its activities, CAFFIL is exposed to credit risk in connection with its credit transactions, particularly with local authorities and hospitals. At 31 December 2021, transactions with customers amounted to €46.7 billion, in addition to financing commitments given for €30.8 million, as shown under off-balance sheet commitments. In relation to credit risk, CAFFIL records a collective provision whose purpose is to cover the risk of probable impairment of loans and loan commitments not already covered by specific (individual) impairment. These collective provisions are assessed according to a credit risk model based on an approach consistent with the Basel approach. At 31 December 2021, CAFFIL's collective provisions amounted to €22.2 million. The Covid-19 pandemic has caused a health and economic crisis affecting the repayment ability of borrowers. It is in this environment of great uncertainty owing to the complex and evolving nature of the pandemic and the absence of comparable historical situation that CAFFIL introduced a certain number of adjustments as specified in note 6 to the financial statements. Some of these adjustments have been carried over to the 2021 financial year. Given the significant judgement required in determining these collective provisions, we considered that their assessment at 31 December 2021 constituted a key audit matter, in particular in the context of the crisis related to the Covid-19 pandemic, as management must exercise judgement when determining the inputs and calculation methods of the provisions. Transactions with customers, financing commitments given, collective provisions and cost of risk are presented in notes 2.4, 3.5, 4.1, 5.5 and 6 respectively to the financial statements of CAFFIL.	In view of the increased uncertainty, we maintained an enhanced level of procedures. Our work consisted primarily in: • verifying that a governance system is in place that ensures that the appropriateness of the provision models and inputs used to calculate provisions is reviewed at a suitable frequency, as well as an analysis of the changes in collective provisions; • testing the controls considered key in the provision calculation process; • analysing assumptions leading to the identification of a deterioration in credit risk; • assessing the main inputs used to estimate the collective provisions; • performing a counter-calculation of the collective provisions, in collaboration with our experts; • carrying out checks on the IT system, including a review of general IT controls, interfaces and automatic controls for specific data used to define the collective provisions. We assessed the adequacy of the level of credit risk coverage and the overall level of the related cost of risk and, in particular, ensured that it was suitable in the context of the current crisis. We have also examined the qualitative and quantitative information provided in the notes to the financial statements.

Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French legal and regulatory provisions.

Information given in the management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Executive Board and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements, with the exception of the following item.

Concerning the fair presentation and the consistency with the financial statements of the information about payment terms referred to in article D.441-6 of the French Commercial Code, we have the following matter to report: As indicated in the management report, these disclosures do not include banking and related transactions as the Company considers that such disclosures are not within the scope of the information to be provided.

Report on corporate governance

We attest that the Supervisory Board's report on corporate governance sets out the information required by articles L.225-37-4 and L.225-37-10 of the French Commercial Code.

Other verifications and information pursuant to legal and regulatory requirements

Presentation of the financial statements included in the annual financial report

In accordance with professional standards applicable to the Statutory Auditors' procedures for annual and consolidated financial statements presented according to the European single electronic reporting format, we have verified that the presentation of the financial statements to be included in the annual financial report referred to in paragraph I of article L. 451-1-2 of the French Monetary and Financial Code (*Code monétaire et financier*) and prepared under the Chairman of the Executive Board's responsibility, complies with this format, as defined by European Delegated Regulation No. 2019/815 of December 17, 2018.

On the basis of our work, we conclude that the presentation of the financial statements to be included in the annual financial report complies, in all material respects, with the European single electronic reporting format.

Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Caisse Française de Financement Local by the Annual General Meeting of 30 September 2020.

At 31 December 2021, we were in the second consecutive year of our engagement.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for preparing financial statements giving a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The Financial Statements Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems, as well as, where applicable, any internal audit systems relating to accounting and financial reporting procedures.

The financial statements were approved by the Executive Board.

Responsibilities of the Statutory Auditors relating to the audit of the financial statements

Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these financial statements.

As specified in article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgement throughout the audit. They also:

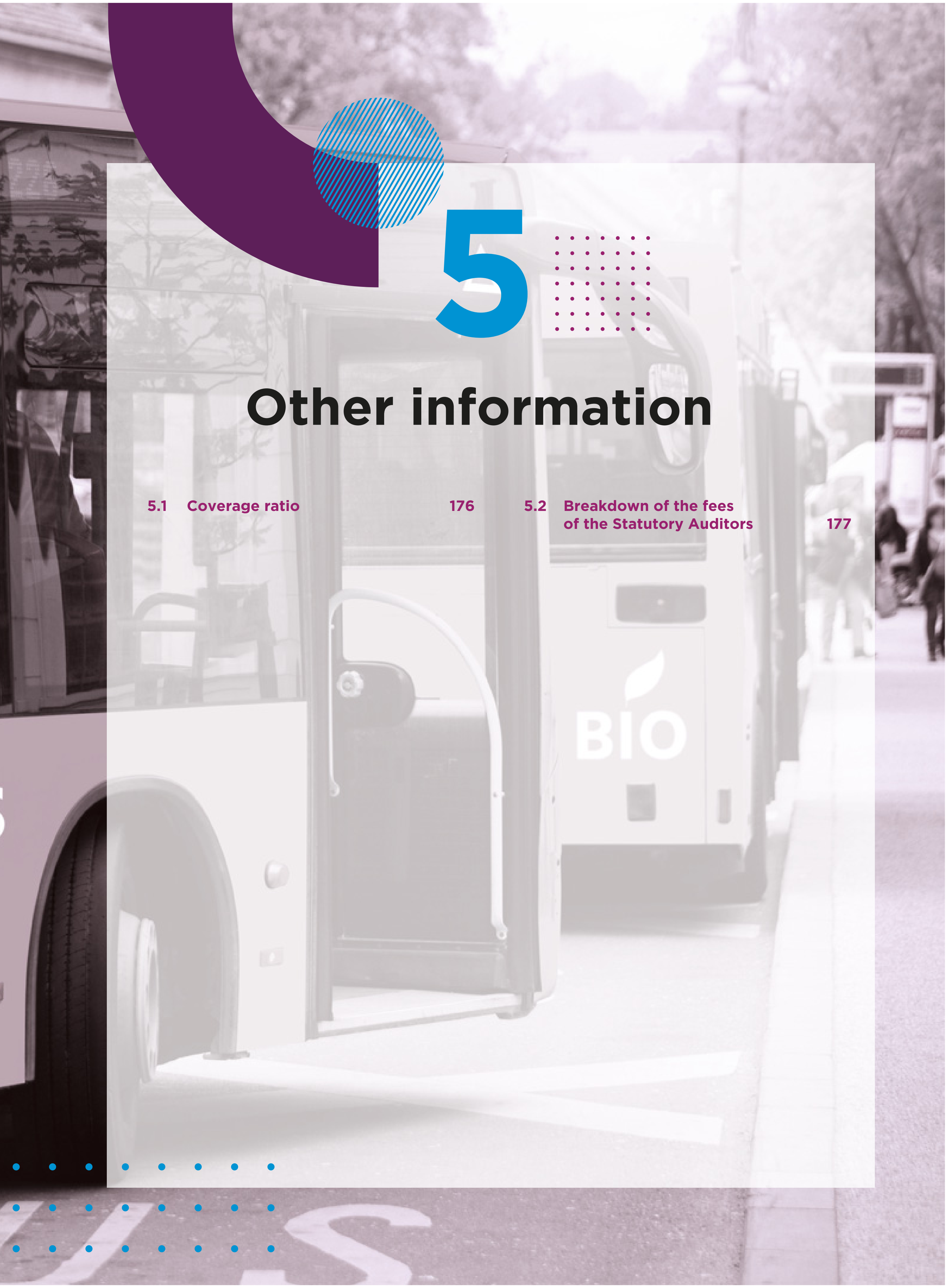
- identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Neuilly sur Seine and Paris La Défense, March 30, 2022

The Statutory Auditors

PricewaterhouseCoopers Audit	KPMG S.A.
Ridha BEN CHAMEK	Jean-François DANDÉ
Partner	*Partner*


BIOGAS
BUS
BIO



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Other information

5.1 Coverage ratio

Pursuant to articles L.513-12 and R.513-8 of the French Monetary and Financial Code, the total of the assets of Caisse Française de Financement Local must at all times be greater than 105% of the liabilities benefiting from the privilege referred to in article L.513-11 of the French Monetary and Financial Code.

Assets covering liabilities benefiting from the privilege *(Weighted amounts in EUR millions)*	**12/31/2021**
Exposures on public sector entities	56,789
Interests in securitization funds or similar entities which satisfy the conditions of article L.513-5 of the French Monetary and Financial Code	-
Replacement assets	818
Other assets	4,703
Operations deducted from the assets	-
TOTAL ASSETS	**62,310**

Liabilities benefiting from the privilege defined in article L.513-11 of the French Monetary and Financial Code *(Weighted amounts in EUR millions)*	**12/31/2021**
Obligation foncières	46,025
Other bonds benefiting from the privilege	6,190
Liabilities related to these securities	562
Amounts owed under the contract stipulated in article L.513-15 of the French Monetary and Financial Code	12
Amounts owed for derivatives benefiting from the privilege defined in article L.513-11 the French Monetary and Financial Code	1,008
Debt attributable to miscellaneous expenses mentioned in the last section of article L.513-11 of the French Monetary and Financial Code	-
TOTAL LIABILITIES	**53,797**

COVERAGE RATIO	**115.8%**

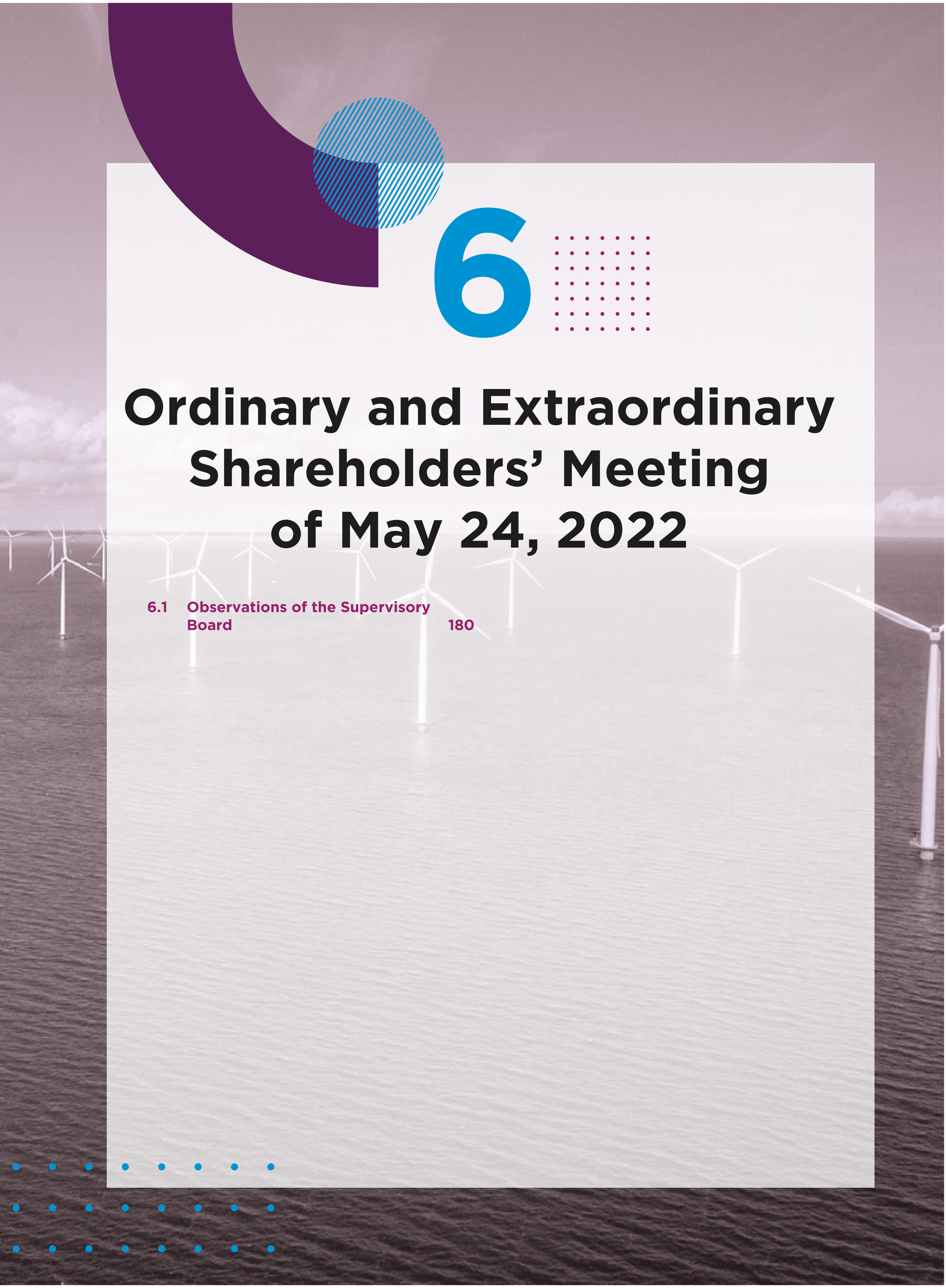
5.2 Breakdown of the fees of the Statutory Auditors

	Deloitte & Associés				Ernst & Young et Autres			
	Amount including VAT		%		Amount including VAT		%	
(EUR thousands)	2020	2021	2020	2021	2020	2021	2020	2021
Statutory audit, certification, examination of the individual and consolidated financial statements	54	-	47%	-	54	-	52%	-
Services other than statutory audit	61	-	53%	-	49	-	48%	-
TOTAL	**115**	**-**	**100%**	**-**	**103**	**-**	**100%**	**-**

	KPMG SA				PricewaterhouseCoopers Audit			
	Amount including VAT		%		Amount including VAT		%	
(EUR thousands)	2020	2021	2020	2021	2020	2021	2020	2021
Statutory audit, certification, examination of the individual and consolidated financial statements	234	248	84%	69%	270	272	88%	72%
Services other than statutory audit	49	112	16%	31%	37	104	12%	28%
TOTAL	**283**	**360**	**100%**	**100%**	**307**	**376**	**100%**	**100%**

The terms of office of the firms Deloitte & Associés and Ernst & Young et Autres ended on September 30, 2020 at the Extraordinary Shareholders' Meeting of Caisse Française de Financement Local noting the takeover of SFIL by Caisse des Dépôts. KPMG SA and PricewaterhouseCoopers Audit were appointed as Statutory Auditors of SFIL and Caisse Française de Financement Local at the same Extraordinary Shareholders' Meeting. Consequently, the fees for 2020 presented in the tables above relate to the period from January 1 to September 30 for the firms Deloitte & Associés and Ernst & Young et Autres and the period from October 1 to December 31 for the firms KPMG SA and PricewaterhouseCoopers Audit.

Services other than the certification of financial statements mainly include the issuance of comfort letters for the updating of EMTN programs or for syndicated public issues and the audit of the approved financial statements according to EU IFRS.



6

Ordinary and Extraordinary Shareholders' Meeting of May 24, 2022

6.1 Observations of the Supervisory Board

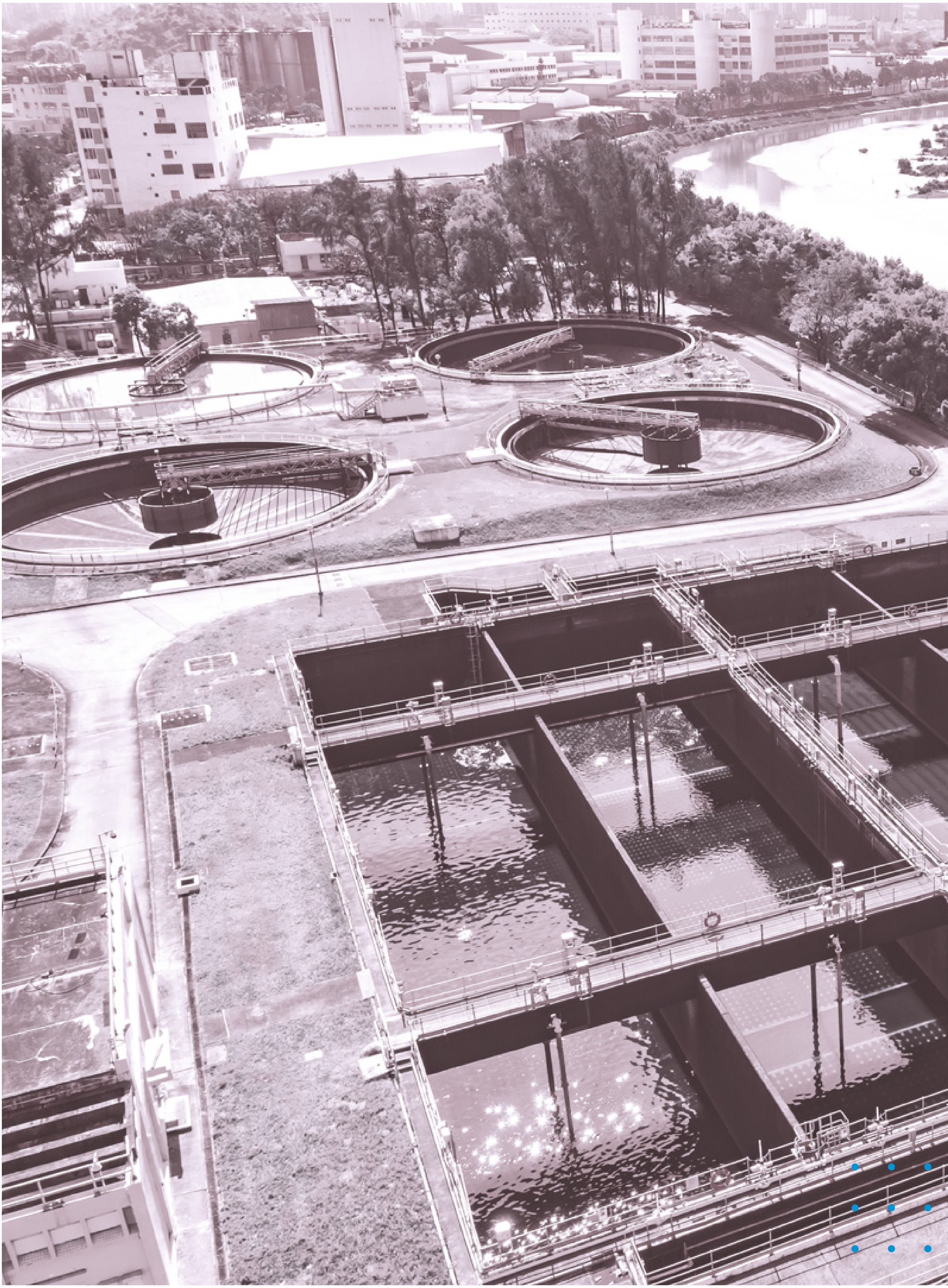
To whom it may concern,

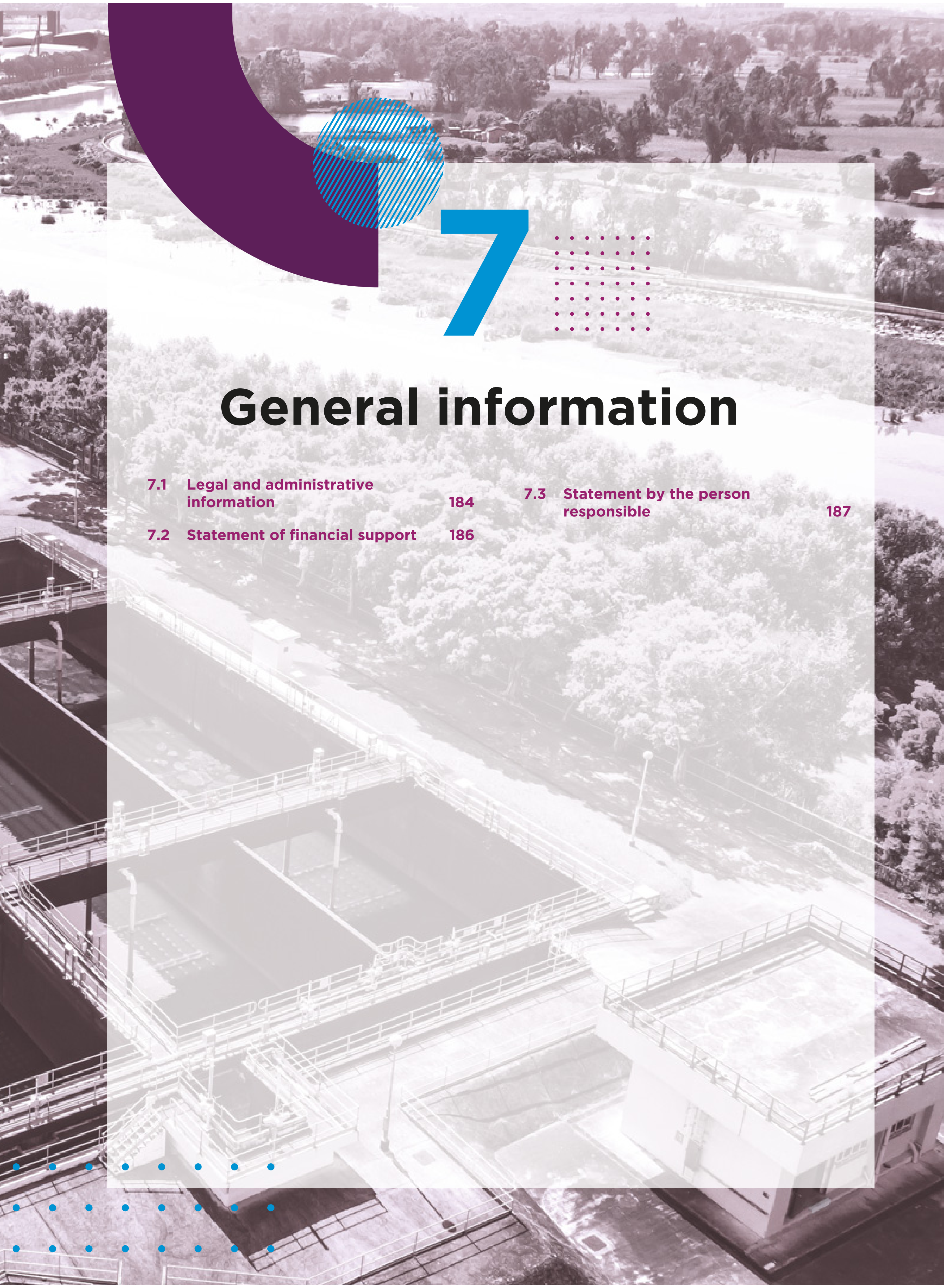
Pursuant to the provisions of article L.225-68 of the French Commercial Code, we hereby state that we have no comment to make on the management report of the Executive Board or on the financial statements for the financial year ended December 31, 2021.

The Supervisory Board wishes to thank the Executive Board for the initiatives taken and the results achieved during the financial year ended December 31, 2021.

The Supervisory Board

6





7 General information

7.1 Legal and administrative information

Corporate name

Caisse Française de Financement Local

Acronym

CAFFIL

Headquarters

1-3, rue du Passeur de Boulogne

92130 Issy-les-Moulineaux

France

Legal structure

A limited liability company with an Executive Board and a Supervisory Board (*société anonyme à directoire et conseil de surveillance*).

Official approval

The Company was approved by the Comité des Établissements de Crédit et des Entreprises d'Investissement (CECEI) on July 23, 1999, as a *société financière – société de crédit foncier*. This approval became definitive on October 1, 1999. Ordonnance 2013-544 of June 27, 2013, modified the legal status of *sociétés de crédit foncier* (article L.513-2 of the French Monetary and Financial Code). Since January 1, 2014, *sociétés de crédit foncier* are no longer financial companies (*sociétés financières*), but specialized credit institutions (*établissements de crédit spécialisés*).

Applicable legislation

A corporation under the provisions of articles L.210-1 *et seq.* and L 22-10-1 *et seq.* of the French Commercial Code, and by articles L.511-1 *et seq.* and L.513-2 *et seq.* of the French Monetary and Financial Code.

Date of incorporation and duration of the Company

The Company was founded on December 29, 1998, for a period of 99 years.

Corporate purpose (article 2 of the by-laws)

The Company's exclusive purpose is:

- to grant or to acquire exposures on public sector entities as defined in article L.513-4 of the French Monetary and Financial Code as well as securitization units or shares of similar entities considered as exposures on public sector entities as defined in article L.513-5 of the French Monetary and Financial Code;
- to hold assets, securities and deposits according to the conditions defined by decree to be considered replacement assets;
- in order to finance the above-mentioned exposures, to issue *obligations foncières* benefiting from the privilege defined in article L.513-11 of the French Monetary and Financial Code and to raise other funds, for which the contract or document intended for the general public within the meaning of article L.412-1 of the French Monetary and Financial Code, or any equivalent document required for admission to foreign regulated markets mentions this privilege.

The Company may also fund the above-mentioned activities by issuing bonds or other sources of financing that do not benefit from the privilege defined in article L.513-11 of the French Monetary and Financial Code.

The Company may mobilize, in accordance with articles L.211-36 to L.211-40 and articles L.313-23 to L.313-35 of the French Monetary and Financial Code, all or part of the assets it holds, regardless of whether or not they are trade receivables.

Within the framework of the achievement of the exclusive purpose mentioned above, the Company may conduct all related operations directly or indirectly associated with its activities or contributing to this exclusive purpose, as long as these operations are carried out in accordance with the terms of articles L.513-2 *et seq.* and R.513-1 *et seq.* of the French Monetary and Financial Code related to *sociétés de crédit foncier*.

Company registration and APE business identification code, LEI

Caisse Française de Financement Local is registered as a corporate entity under the designation NANTERRE 421 318 064 (*Registre du Commerce et des Sociétés*). Its APE code is 6492Z. Its LEI code is 549300E6W08778I4OW85.

Availability of information

Legal documents concerning Caisse Française de Financement Local may be consulted at the Company's registered office:

1-3, rue du Passeur de Boulogne

92130 Issy-les-Moulineaux

France

Financial year (article 38 of the by-laws)

The Company's financial year begins on January 1 and ends on December 31.

Exceptional events and lawsuits

See the section on litigation in part 1.12.2.6. of the management report of this annual financial report on legal and tax risks.

Allocation of income (article 39 of the by-laws)

Income available for distribution comprises net income for the year minus any prior year losses and any allocations to reserves pursuant to current legislation, plus any retained earnings carried forward from previous years.

From the available surplus, the Ordinary Shareholders' Meeting, voting on a recommendation of the Executive Board, may allocate all or a part of the remaining income to retained earnings.

There are no priority shares or priority dividends.

Shareholders' Meetings

Calling of meetings (article 27 of the by-laws)

Shareholders' Meetings are called as required by current legislation. They are held at the Company's registered office or any other location specified in the notice of meeting.

All shareholders have the right to obtain copies of the documents required to make an informed decision concerning the overall management and control of the Company.

The types of documents concerned and the terms of their availability and dispatch are determined by applicable legislation and regulations.

Right to attend Shareholders' Meetings

Legal rights apply.

Voting rights (article 31 of the by-laws)

The voting rights attached to the shares are proportional to the percentage of capital the shares represent. Each share conveys one voting right. At Shareholders' Meetings, the number of votes that may be cast by each shareholder corresponds to the number of shares held plus the number of shares for which the shareholder holds proxy.

Information about the capital and shares

Amount of the capital

Share capital currently stands at EUR 1,350,000,000 represented by 13,500,000 nominative shares with a face value of EUR 100.

There are no other securities that grant rights to shares in the capital of Caisse Française de Financement Local.

Breakdown of capital in the last five years

Date of the Shareholders' Meeting	Date of the capital increase	Amount of the capital increase *(EUR)*	Cumulated capital *(EUR)*
5/25/2016			1,315,000,000
5/30/2017	6/8/2017	35,000,000	1,350,000,000
5/28/2018			1,350,000,000
5/28/2019			1,350,000,000
5/27/2020			1,350,000,000
5/27/2021			1,350,000,000

Breakdown of capital	2017	2018	2019	2020	2021
SFIL	99.99%	99.99%	99.99%	99.99%	99.99%
Individual investors	0.01%	0.01%	0.01%	0.01%	0.01%

From January 31, 2013 to May 18, 2016, Caisse Française de Financement Local was 99.99%-owned by SFIL (previously denominated Société de Financement Local), and 0.01% of its capital was in the hands of private investors (individuals, members of the Supervisory Board, to whom SFIL had lent shares).

Since May 18, 2016, only one individual, a member of the Supervisory Board, has kept a share of the Company (lent by SFIL as a *prêt de consommation d'action*).

7.2 Statement of financial support

SFIL formalized a "statement of support" for its subsidiary, Caisse Française de Financement Local, on November 5, 2020:

"Since January 31, 2013, SFIL has been the reference shareholder of Caisse Française de Financement Local, a société de crédit foncier subject to the provisions of articles L.513-2 et seq. of the French Monetary and Financial Code, and holds 99.99% of its capital. SFIL will continue to play the role of reference shareholder of Caisse Française de Financement Local and will hold more than 99.99% of the capital over the long term. SFIL, its reference shareholder Caisse des Dépôts et Consignations and the French State will ensure, subject to the European Union rules on State aid, to protect the economic base of Caisse Française de Financement Local and to preserve its financial viability throughout its existence in accordance with the obligations imposed by the banking regulations in force."

7.3 Statement by the person responsible

I, Gilles Gallerne, Chairman of the Executive Board of Caisse Française de Financement Local, hereby affirm that to the best of my knowledge, the financial statements have been prepared in conformity with applicable accounting standards and present fairly, in all material aspects, the assets and liabilities, financial position and results of Caisse Française de Financement Local, and that the management report presents a fair image of trends in the Company's business, results and financial position, as well as a description of the main risks and uncertainties it faces.

Signed in Issy-les-Moulineaux, March 30, 2022

Gilles Gallerne

Chairman of the Executive Board

NOTES

Caisse Française de Financement Local
A French joint-stock corporation
with an Executive Board and a Supervisory Board
Capital of EUR 1,350,000,000
R.C.S. NANTERRE 421 318 064

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This annual financial report is available in French and in English at
www.caissefrancaisedefinancementlocal.fr
www.caffil.fr

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Au service des territoires et des exportations