Caisse Française de Financement Local

Half-year financial report

for the period from January 1st to June 30, 2022

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

Half-Year Financial Report
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Figures: Due to rounding, column totals in the tables may differ slightly from the sum of the lines comprising them

Key figures

As of June 30, 2022

Portfolio of assets (cover pool)	*Obligations foncières* (covered bonds)
EUR 59.5 billion	EUR 51.9 billion
Regulatory over-collateralization	Common Equity Tier 1 Ratio (Basel III)
114.2%	34.9%
Doubtful and litigious loans – French Gaap (% cover pool)	Assets eligible for the central bank refinancing (% cover pool)
0.2%	65.5%
Net Stable Funding Ratio (NSFR)	Liquidity coverage ratio (LCR)
111%	261%

External ratings

As of June 30, 2022

Moody's	S&P	DBRS
Aaa	AA+	AAA

1. Management report
for the period from January 1st to June 30, 2022

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

1.1. Nature and activity of the Company

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 foncie*r. 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.

1.1.2. 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 interests 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.

1.2. Form and shareholding structure of the Company

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.

1.2.2. Company shareholders

As of June 30, 2022, 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

* The Caisse des Dépôts holds all SFIL shares with the exception of one ordinary share retained by the French State.

** The French State holds 50% of the capital of Bpifrance S.A. (through EPIC Bpifrance) and 34% of La Poste's capital.

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.

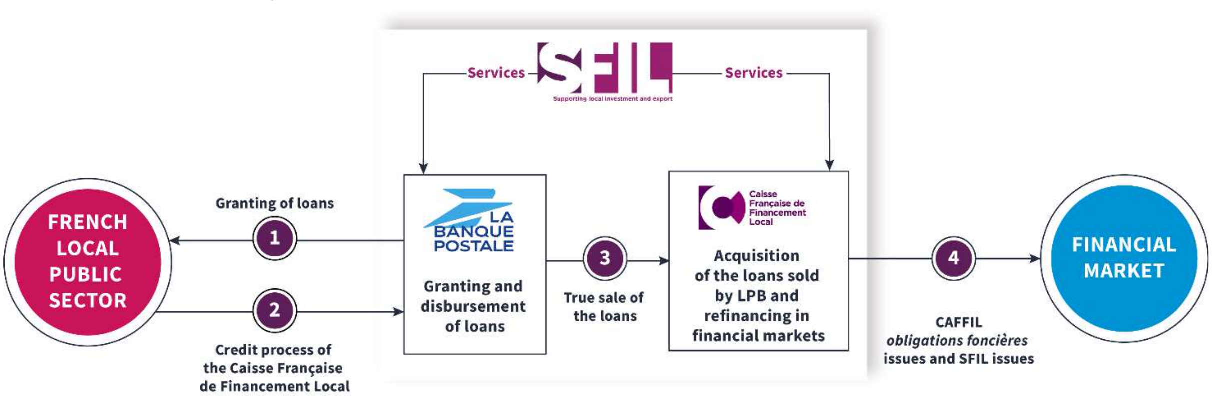
Since 2015, the French State has entrusted SFIL and Caisse Française de Financement Local with a second mission, which is the responsibility to refinance large export credits with the guarantee of the State (see 1.1.3.2.). The objective is to enable large export credits as well as French local authorities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

1.3.1. 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



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*.

1.3.2. 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.

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.

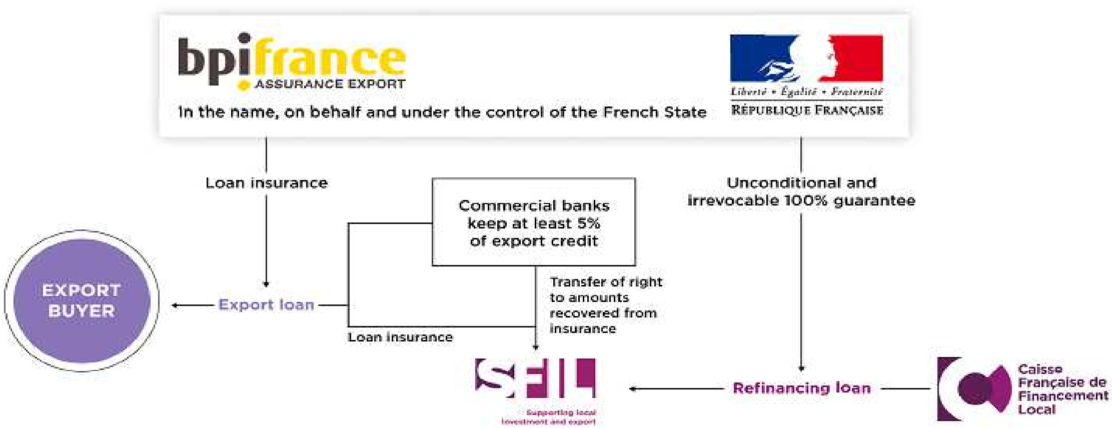
1.3.2.1. Refinancing system for large export credits

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



1.3.2.2. 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.

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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 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.

1.3.2.3. 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.

1.3.3. 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).

Caisse Française de Financement Local (CAFFIL) received authorization to use the "European Covered Bond Premium" label for its future issues. ACPR, the competent French authority for the supervision of covered bonds, granted this authorization for both French law and German law (registered covered bond) issues. Securities issued prior to July 8, 2022 will continue to benefit from favorable and preferential prudential treatment, in the same way as newly labeled securities.

This source of financing is the main source of liquidity for the SFIL Group and represents an outstanding of EUR 51.9 billion as of June 30, 2022.

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.

1.3.5. 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 June 30, 2022, 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).

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

As of June 30, 2022, 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 June 30, 2022 are presented in section 2.3 of the management report.

2. Highlights of 2022

2.1. Macroeconomic context

The first half of 2022 was marked by an international macroeconomic situation strongly impacted by the consequences of the Covid-19 health crisis and by the war in Ukraine. These events resulted in a rise in the consumer price index and an increase in central bank key rates. In this context, financial markets remained volatile throughout the first half of the year, equity market valuations fell sharply and a significant increase in money market and long-term rates was observed.

In the face of these developments, Caisse Française de Financement Local continued its two missions of financing the local public sector and refinancing large export credits. Thus, the commercial activity relating to the financing of the local public sector (carried out in partnership with La Banque Postale) was sustained in the first half of 2022, with a production volume slightly higher than in the first half of 2021 (see 2.4) and the activity relating to export refinancing remained active (see 2.5).

The company showed its resilience capacity notably in terms of solvency and liquidity, thanks to the relevance of 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 got even better.

On the operational side, SFIL was able to adapt its organization and IT systems during the crisis 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.

The foreseeable impacts to date more specifically 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 as of June 30, 2022 represented outstandings on the balance sheet of EUR 50 million and an off-balance sheet financing commitment of EUR 14 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 Caisse Française de Financement Local to SFIL which benefits from the irrevocable and unconditional 100% guarantee by the French State, known as the enhanced guarantee.

2.2. The covered bond market

During the first half of 2022, the primary market for public issues of euro-denominated covered bonds stood at EUR 122.3 billion, a strong 150% increase compared to the first half of 2021 (EUR 48.9 billion).

In a context marked by the normalization of the monetary policies of the main central banks (Fed and European Central Bank (ECB)), in response to inflation, and by the invasion of Ukraine by Russia at the end of February, the covered bonds market was particularly sought after by bank issuers, due to their resilience.

However, the ECB confirmed its intention to reduce its asset purchase programs, including the CBPP3 program dedicated to covered bond product, from April 2022 and then confirmed a complete halt to its asset purchase programs from July 1, 2022.

Thus, the volatility of interest rates, as well as the prospect of a decrease in the ECB's support for the primary covered bond market led to a phase of consolidation of spreads for this market throughout the half-year.

In this changing market context, Caisse Française de Financement Local raised money in the benchmark primary euro market three times:

- In January, taking advantage of the favorable market context at the beginning of the year to issue a total amount of EUR 1.5 billion with a maturity of 10 years (EUR 750 million) and 20 years (EUR 500 million), which raised a significant amount of its annual financing program at good spread conditions.
- In April, taking advantage of a stabilization of market conditions to issue EUR 1 billion with six-year maturity.

In May, by capitalizing on its themed issuance capacity with a "'social" issue dedicated to refinancing French public hospitals for EUR 500 million with a 12-year maturity. This transaction saw significant demand from ESG investors, representing 46% of the total issue.

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 2022. As of June 30, 2022, the ratings were as follows: AAA at Moody's, AA+ at S&P, with a stable outlook and AAA at DBRS Morningstar.

In addition, SFIL, the parent company of Caisse Française de Financement Local, requested an extra-financial rating from Sustainalytics. This annual ESG rating stands at 6.6 (Negligible Risk) as of December 17, 2021, 0 being the best potential score, which ranks SFIL in the 1st percentile of rated institutions and the 9th ranked out of 116 development banks rated by Sustainalytics. Caisse Française de Financement Local is also assessed by the extra-financial rating agency ISS. This ESG rating stood at C + "Prime" on a scale from D- to A+, with A+ being the best potential rating, placing Caisse Française de Financement Local in the 1st decile of the 130 institutions in its "Mortgage & Public Sector Finance" industry.

2.4. Financing of public sector loans

As part of its first mission, Caisse Française de Financement Local refinances the loans granted by LBP to French local governments and public hospitals. The CAFFIL/SFIL/LBP scheme has been recognized as the leader in French local public sector financing since 2015.

In the first half of 2022, the local public sector financing activity continued at a stable pace compared to the same period in 2021 in a context of a rapid rise in interest rates and a marked de-correlation between the attrition rate and the instantaneous position of the financial markets which severely penalized the supply of fixed-rate loans. Caisse Française de Financement Local thus acquired EUR 3.3 billion in loans from La Banque Postale (compared to EUR 3.1 billion in the first half of 2021). Since the beginning of the partnership in 2013, the total volume of loans acquired by Caisse Française de Financement Local from La Banque Postale amounted EUR 32.2 billion.

2.5. Refinancing of large export credits

As part of its second mission, Caisse Française de Financement Local grants loans to SFIL to refinance the large export credits it issues. These loans are unconditionally and irrevocably guaranteed in full by the French government. This activity anchors Caisse Française de Financement Local in the public sphere without changing the risk profile of its cover pool.

A new large export credit refinancing contract has been signed during the first semester of 2022 for an amount of EUR 68 million.

Moreover, the number of consultations and files under study reached a record level in volume during the first half of 2022, which suggests sustained activity for 2022 and for the years to come.

Since the middle of 2015, date of the start of this mission Caisse Française de Financement Local has granted a total of EUR 10.6 billion in refinancing loans to SFIL. As of June 30, 2022, the outstanding amount of these loans on Caisse Française de Financement Local's balance sheet was EUR 5.4 billion. As a reminder, the payment of loans used to refinance large export credits is spread out over several years.

2.6. A new regulatory framework

A European directive on covered bonds, which has been transposed into French national law, as well as an amendment to the 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 to create a "European Guarantee Bond" and a “European High Quality Guarantee Bond” label. This directive as well as the new version of the article 129 of the CRR and the new legislative and regulatory *corpus* of texts in relation with the *société de crédit foncier* have taken effect on July 8, 2022. Caisse Française de Financement Local has complied with this new framework in order to obtain the “European High Quality Guarantee Bond” label for its *obligations foncières*. As the new texts are more restrictive with regard to the eligibility of certain assets and the use of certain derivatives, Caisse Française de Financement Local has processed the transactions concerned (which represented less than 1% of the cover pool) and adapted its processes for steering regulatory ratios overcollateralisation and liquidity. The accounting impacts associated with these transactions as of June 30, 2022 can be considered negligible.

On September 6, 2022, Caisse Française de Financement Local (CAFFIL) received authorization to use the "European Covered Bond Premium " label for its future issues. ACPR, the competent French authority for the supervision of covered bonds, granted this authorization for both French law and German law (registered covered bond) issues. Securities issued prior to July 8, 2022 will continue to benefit from favourable and preferential prudential treatment, in the same way as newly labelled securities.

2.7. Continued integration into the Caisse des Dépôts group

The SFIL group tangibly committed to implementing the cooperation projects that are an integral part of its #Objectif2026 strategic plan, with in particular the definition of a “purpose” which defines the common culture serving the Group’s missions, the launch in early 2022 of its partnership project with La Banque des Territoires relating to the refinancing by Caisse Française de Financement Local of long-term fixed-rate loans and participation in numerous projects and intra-group working groups, particularly on sustainable development.

2.8. SFIL Group’s future strategy

The first half of 2022 enabled the SFIL Group to initiate the implementation of the second strategic plan: #Objectif2026, which focuses on three areas: fully exploiting the strengths of the public development bank model, expanding the intervention methods in response to the challenges of the recovery plans and the climate transition and initiating a new phase of internal transformation by, in particular, adapting its operating methods to the hybrid mode.

3. Change in cover pool and debts

EUR billions value after currency swaps	12/31/2021	6/30/2022	Change 2022 / 2021
Cover pool	**61.1**	**59.5**	**(2.6)%**
Loans	51.3	53.0	3.4%
Securities	6.0	5.4	(10.5)%
Cash deposit in central bank	3.8	1.1	(71.8)%
Assets removed from the cover pool	**(0.0)**	**(0.0)**	**ns**
Privileged debt	**52.6**	**51.9**	**(1.2)%**
Obligations foncières (1)	52.3	51.9	(0.6)%
Cash collateral received	0.3	0.0	(89.0)%
Non-privileged debt	**7.7**	**6.5**	**(15.6)%**
SFIL	7.7	6.5	(15.6)%
Equity IFRS (excluding unrealized gains and losses)	**1.4**	**1.4**	**(1.1)%**

(1) Including registered covered bonds

The size of Caisse Française de Financement Local's cover pool decreased by EUR 1.6 billion in 2022, i.e. approximately -2.6%. This portfolio decrease was accompanied by a reduction in privileged debt of EUR 0.7 billion and non-privileged debt of EUR 1.2 billion. As of June 30, 2022, the cover pool excluding interest accrued not yet due amounted to EUR 59.5 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, represented EUR 3.8 billion as of June 30, 2022 versus EUR 1.1 billion as of December 31, 2021. The cash surplus invested in securities was a total of EUR 1.1 billion as of June 30, 2022 versus EUR 1.3 billion as of December 31, 2021. As of June 30, 2022, 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 51.9 billion, a decrease of 1.2% in comparison with December 31, 2021.

As of June 30, 2022, the debt contracted with its parent company was EUR 6.5 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.

4. Description of the cover pool

4.1. Change in assets in 2022

The net change in cover pool in 2022 represents a decrease in assets of EUR 1.6 billion. This change is mainly due to the following:

EUR billions	H1 2022	
1- Acquisition of loans from La Banque Postale		**3.3**
Loans to the French public sector (vanilla loans in euros)	3.3	
2- Loans disbursements to refinance export credit		**0.6**
Loan disbursements to SFIL to refinance export credit guaranteed by the French State	0.6	
3- Reduction of loan sensitivity		**0.1**
Sensitive structured loans eliminated	(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		**(2.7)**
5- Early reimbursments		**(0.0)**
6- Decrease in treasury		**(2.9)**
Net change in securities investments	(0.2)	
Net change in Banque de France cash deposit	(2.7)	
Net change in the cover pool		**(1.6)**

During the first semester of 2022, Caisse Française de Financement Local acquired loans to the local public sector and French public hospitals originated by La Banque Postale for an outstanding of EUR 3.3 billion.

In 2022, drawings on refinancing loans for large export credits granted to SFIL amounted to EUR 0.6 billion. These loans benefit from an irrevocable and unconditional 100% guarantee by the French State.

In 2022, 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 2.7 billion in 2022, and early reimbursements were EUR 0.03 billion.

Free cash flow decreased by EUR 2.9 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 2022.

4.2. Outstandings at June 30, 2022

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	12/31/2021	6/30/2022
Loans and bonds to the public sector	56.5	57.8
of which local public sector business line	*51.0*	*51.9*
of which large export credits refinancing business line (1)	*5.0*	*5.4*
of which treasury investment in public sector bonds (3)	*0.5*	*0.5*
Banque de France cash deposit (3)	3.8	1.1
Replacement assets (3)	0.8	0.6
COVER POOL	**61.1**	**59.5**
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)	*37.3*	38.9

Financing commitments granted to refinance large export credits(1)(2)	5.1	5.0
Financing commitments granted to other public sector loans	0.0	-
FINANCING COMMITMENTS GRANTED	**5.1**	**5.0**

(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 2021 and 2022, commitments granted represented concluded contracts in drawing phase and hard offers from CAFFIL to SFIL valid on june 30, 2022.

(3) The total amount of excess treasury decreased from EUR 5.1 billion at the end of 2021 to EUR 2.2 billion at the end of June 2022.

(4) Liquid assets correspond to bank exposures classified as replacement assets amounting to EUR 0.6 billion and other high quality liquid assets (level 1, 2A and 2B) amounting to EUR 2.7 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 35.6 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 4.1). 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 38.9 billion, *i.e.* 65.5% of the Caisse Française de Financement Local's cover pool.

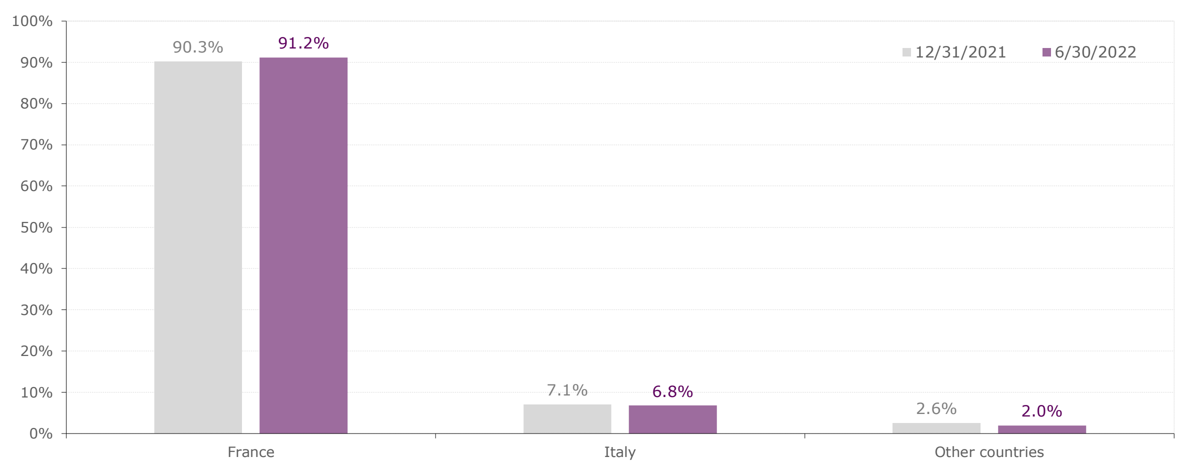
The amount of financing commitments given came to EUR 5.0 billion as of June 30, 2022 These loans are signed but not yet fully paid, granted to SFIL as part of the refinancing of large export credits (as a reminder, these loans benefit from an unconditional and irrevocable 100% guarantee by the French State).

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

4.2.1.1. Geographic breakdown

As of June 30, 2022, French public sector loans made up the majority (91.2%) of the cover pool, a portion that will increase in the future. They include loans acquired from La Banque Postale since 2013 (EUR 24.6 billion of outstanding principal as of June 30,2022), representing more than 43% of the Group's public sector loans and securities and 53% of its loans to the French local public sector. The State-guaranteed loans granted to SFIL for the refinancing of large export credits (EUR 5.4 billion on the balance sheet) represent approximately 9.5% 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 June 30, 2022, Italian assets represented the largest portion of non-French assets in run-off mode, with a total volume of

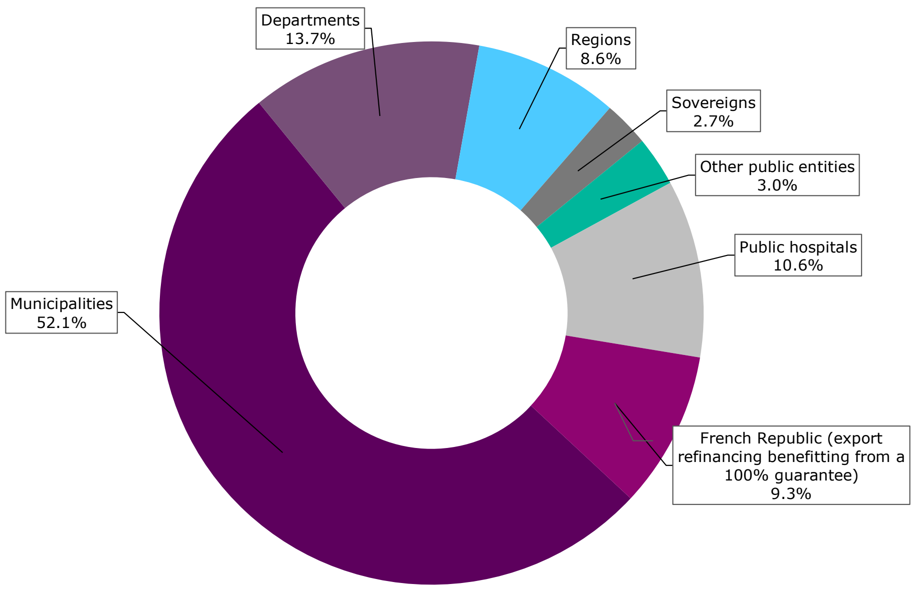
EUR 3.9 billion, or 6.8% of public sector loans and bonds. These assets are granular exposures (around 130 counterparties consisting mainly of regional and municipal authorities) distributed throughout Italy.

Exposures to other countries as of June 30, 2022, are broken down by country in the “Breakdown of cover pool” section, which is at the end of this management report.

4.2.1.2. Breakdown by type of counterparty

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

- 74.4% exposures on municipalities and their groups, departments or regions;
- 5.7% sovereign exposures or commitments on other public sector entities;
- 10.6% exposures on public hospitals;
- 9.3% exposures 100% guaranteed by the French State in respect of loans granted to SFIL for the refinancing of large export credits.



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.

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 June 30, 2022, replacement assets represented 1.1% 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.As of June 30, the replacement assets include receivables related to the management of forward financial instruments, which correspond to cash collateral paid to SFIL.

Replacement assets EUR millions	Country	12/31/2021	6/30/2022
Step 1 credit rating			
Covered bonds			
	France	174	126
	Other countries	637	409
Other bank bonds			
	France	-	-
	Other countries	-	-
Loans to parent company, SFIL	France	-	-
Receivables related to the management of forward financial instruments with the parent company, SFIL	France	-	37
Step 2 credit rating			
Bank bonds (maturity < 100 days)			
	France	-	-
	Other countries	-	-
Bank accounts balances	France and Other countries	5	5
TOTAL		**815**	**577**

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.

4.2.4. Structured loans

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.).

4.2.4.2. Share of structured loans in the cover pool

	Outstanding				Number of customers (1)		
EUR billions	12/31/2021	6/30/2022	Change	% cover pool	12/31/2021	6/30/2022	Change
French public sector loans	**45.5**	**46.8**	+1.3	**78.7%**	**13,220**	**12,835**	-385
- Of which Vanilla loans	**42.8**	**44.3**	+1.5	**74.5%**	**12,087**	**11,760**	-327
- Of which Structured loans	**2.7**	**2.5**	-0.2	**4.2%**	**1,133**	**1,075**	-58

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

In 2022, outstanding loans to the French local public sector increased by EUR 1.3 billion. Structured loans on Caisse Française de Financement Local's balance sheet amounted to EUR 2.5 billion, representing 4.2% of the cover pool.

4.2.4.3. Sensitive loans and reduction in loan sensitivity

	Outstanding				Number of customers (1)		
EUR billions	12/31/2021	6/30/2022	Change	% cover pool	12/31/2021	6/30/2022	Change
Sensitive loans not in the charter	0.2	0.2	-0.0	0.3%	29	25	-4
Sensitive loans (3E/4E/5E)	0.3	0.3	-0.0	0.5%	104	101	-3
Total sensitive loans	**0.5**	**0.5**	+0.0	**0.8%**	**133**	**126**	-7

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

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 June 30, 2022, 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 126.

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

5. Debt benefiting from the legal privilege

As of June 30, 2022, 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	12/31/2021	6/30/2022
Cash collateral received	0.3	0.0
Obligations foncières and registered covered bonds	52.3	51.9
Total	**52.6**	**51.9**

5.1. Changes in cash collateral

At June 30, 2022, cash collateral received by Caisse Française de Financement Local was down compared to December 31, 2021; its amount stood at EUR 0.04 billion.

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 evidenced by the fourth "social" thematic issue of Caisse Française de Financement Local in May 2022.

5.2.1. 2022 issues

During the first semester 2022, Caisse Française de Financement Local generated an issue volume of EUR 3.1 billion, in the frame of its issuance policy consisting in enriching its reference curve in euros by creating new lines and to ensure an active presence in the private placement segment.

Caisse Française de Financement Local raised money in the public primary market three times, in the total amount of EUR 2.75 billion:

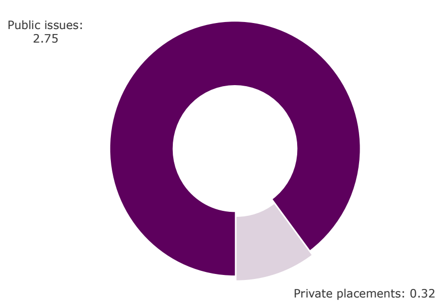
- a double tranche transaction in the total amount of EUR 1.25 billion in January 2022, consisting in of a 10-year issue for EUR 750 million and a 20-year issue for EUR 500 million.
- one issue with a maturity of 6-year in April 2022 in the amount of EUR 1 billion
- one "social" thematic issue with a maturity of 12-year in May 2022 in the amount of 500 million.

In addition to these public transactions, Caisse Française de Financement Local responded to specific requests from investors in the private placements segment, in both EMTN and registered covered bonds (RCB) formats, for an amount of EUR 315 million.

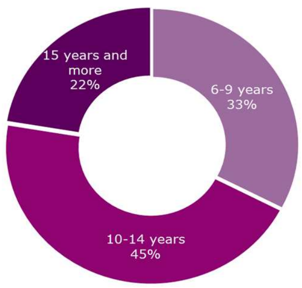
The weighted average life of the financing raised during the first semester of 2022 was 11 years.

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:

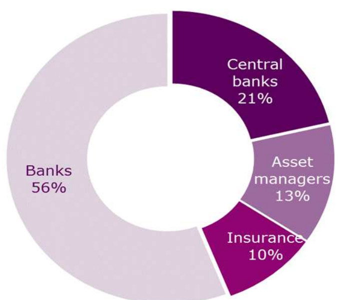
2022 ISSUES BY FORMAT
EUR billions



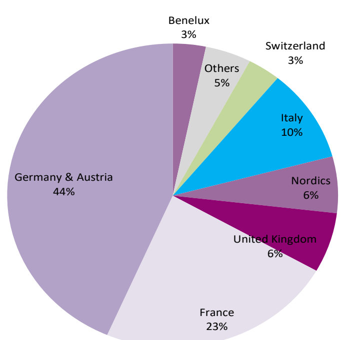
2022 ISSUES BY MATURITY
(%)



BREAKDOWN OF 2022 BENCHMARK PUBLIC ISSUES BY INVESTOR CATEGORY
(%)



BREAKDOWN OF 2022 BENCHMARK PUBLIC ISSUES BY GEOGRAPHIC ZONE
(%)



5.2.2. Outstandings at June, 30 2022

The outstanding amount of *obligations foncières* and registered covered bonds totaled EUR 51.9 billion in swapped value at the end of June 30, 2022. This includes new issues of *obligations foncières* for EUR 3.1 billion and after amortization of issues maturing in 2022 for EUR 3.4 billion.

EUR billions, value after currency swaps	Q4 2021	Q2 2022
BEGINNING OF THE PERIOD	**50.5**	**52.3**
Issues	5.9	3.1
Amortizations	(4.1)	(3.4)
Buyback	(0.0)	(0.0)
END OF THE PERIOD	**52.3**	**51.9**

At June 30, 2022, issues can be broken down by currency as follows:

5.2.3. Social and green issues

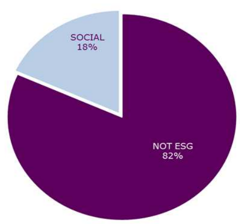
As part of the Group's CSR commitment, Caisse Française de Financement Local carry out "social" and "green" theme issues:

- 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.
- Caisse Française de Financement Local carried out a second social issue for an amount of EUR 1 billion with a five-year maturity, in April 2020.
- a third social issue for EUR 750 million with an eight-year maturity was carried out in April 2021.
- a fourth social issue was carried out in May 2022, for an amount of 500 million, with a maturity of 10 years,

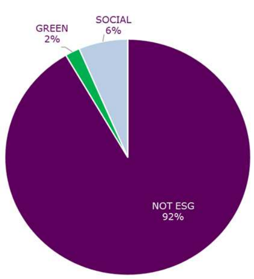
The social issues of Caisse Française de Financement Local are exclusively dedicated to the financing of French public hospitals.

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.

SHARE OF PUBLIC SOCIAL ISSUES IN BENCHMARK PUBLIC ISSUES IN EUR 2022
(%)



SHARE OF PUBLIC SOCIAL ISSUES IN OUTSTANDINGS BENCHMARK PUBLIC ISSUES IN EURO AT JUNE 30, 2022
(%)

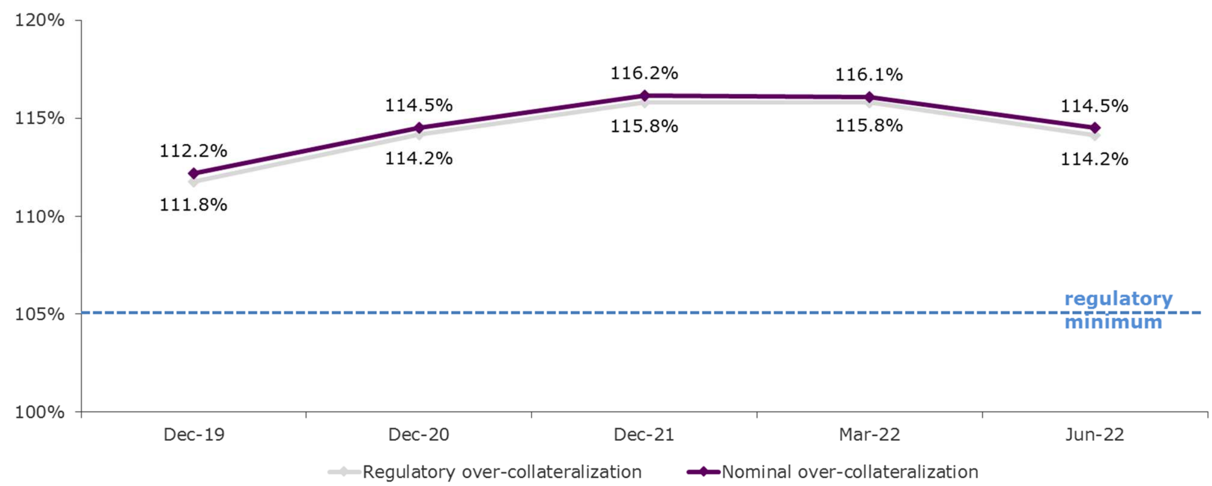


In addition, in November 2020 and November 2021, SFIL carried out two "green" bond issues each for an amount of EUR 500 million. The funds obtained from these issues have been or will be loaned by SFIL to Caisse Française de Financement Local, with the obligation to use them to finance green loans that 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*.

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.

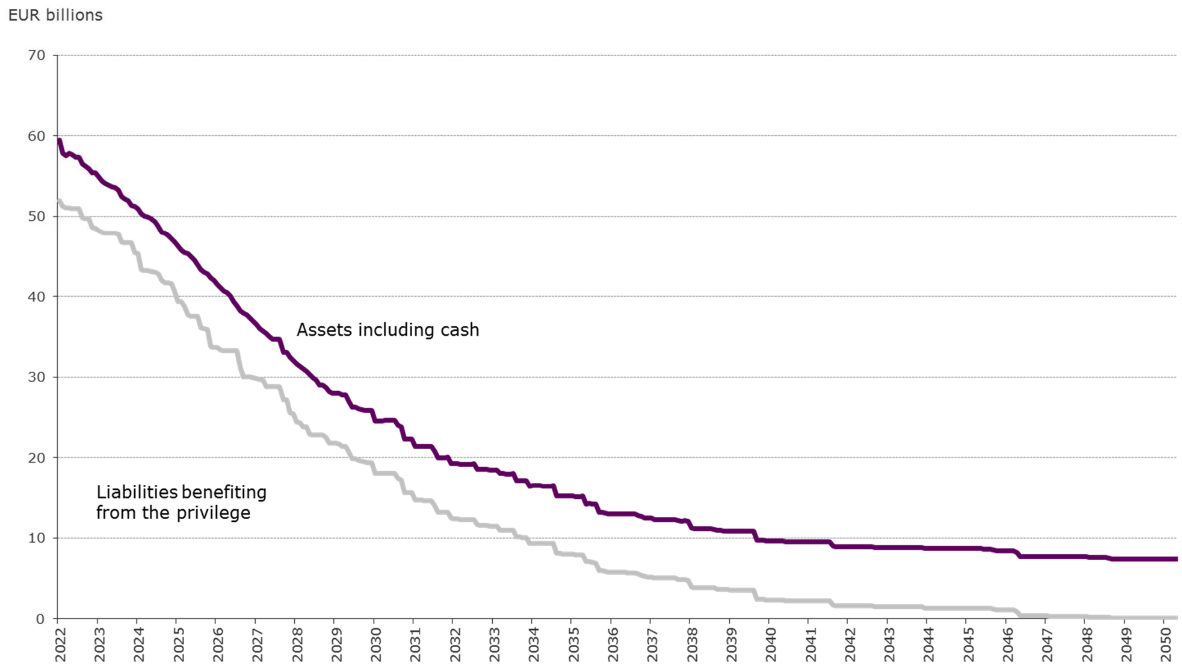
In practice, the over-collateralization ratio is regularly higher than 105%. To maintain a sufficient rating, a level of over-collateralization of more than 5% may be required. This requirement depends on the methodology used by each rating agency and the new assets and liabilities recorded on the balance 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 June 30, 2022.

FORECAST DISPOSAL OF ASSETS AND LIABILITIES AS OF JUNE 30, 2022



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

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 June 30, 2022, 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 requested 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	**12/31/2021**	**6/30/2022**
SFIL	7.7	6.5
Banque de France	-	-
TOTAL	**7.7**	**6.5**

8.Management of Caisse Française de Financement Local's main risks

8.1. Credit Risk

8.1.1. Definition

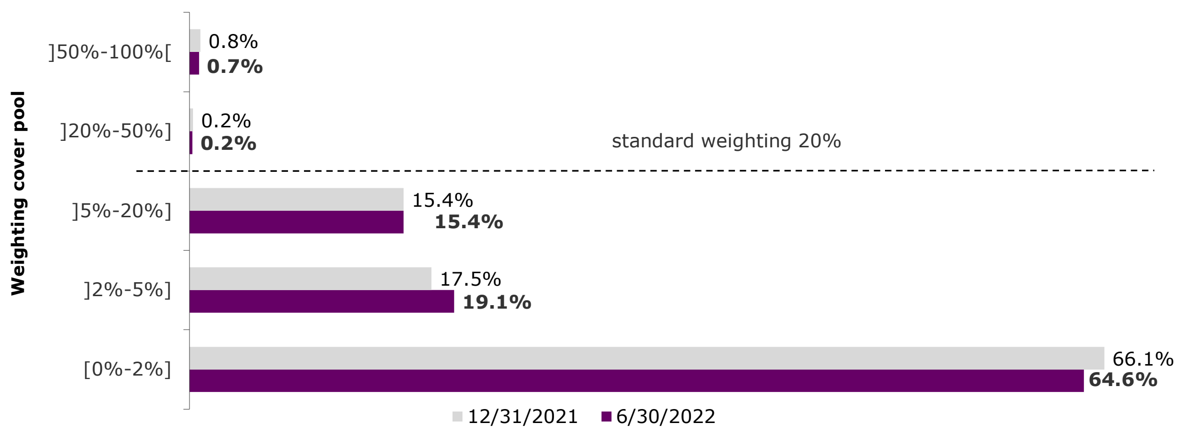
Credit risk represents the potential loss Caisse Française de Financement Local could suffer due to the deterioration of a counterparty's solvency.

8.1.2. 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 June 30, 2022 (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 JUNE 30, 2022



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

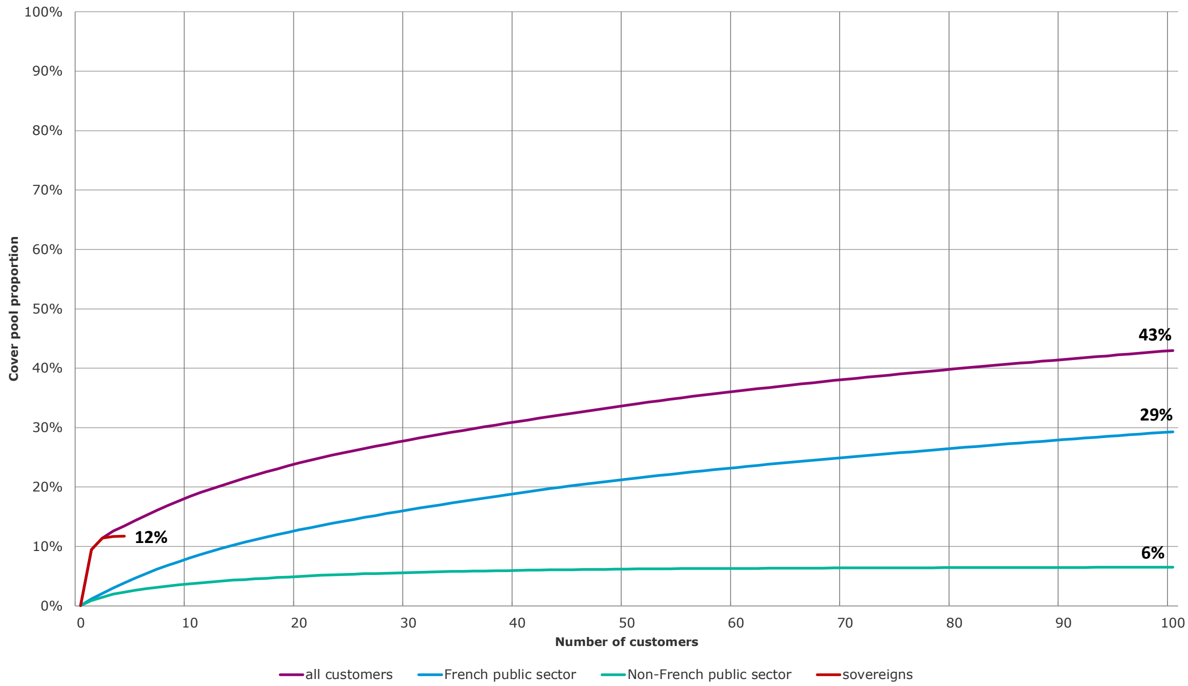
- 84% of the portfolio has a risk weighting of 5% or less;
- 1% of the portfolio has a weighting greater than 20%.

The average risk weighting of the cover pool assets is 4.7%, versus 20% for European local government entities according to the Basel standard method. It was 4.6% at December 31, 2021.

8.1.3. 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 June 30, 2022, the 20 largest exposures (excluding replacement assets and cash deposits in the Banque de France), all categories combined, represented 24.0% of the cover pool. The first exposure, the French Republic, represents 9.4% of the cover pool (mainly due to the export refinancing loans it guarantees) and the twentieth exposure 0.5%.

8.1.4. Arrears, doubtful loans, litigious loans and provisions as of June 30, 2022

8.1.4.1 Change in arrears

As of June 30, 2022, total arrears was at its lowest level since the creation of SFIL in early 2013; it amounts to EUR 6 million, down EUR 7 million compared to December 31, 2021.

This amount includes an arrear of EUR 1 million for a loan excluded from the cover pool.

The cover pool loan arrears are detailed below :

	12/31/2020		12/31/2021		6/30/2022	
	Amounts EUR millions	number of customers(1)	Amounts EUR millions	number of customers(1)	Amounts EUR millions	number of customers(1)
Total arrears	37	57	13	41	5	37
Technical arrears / non qualifying arrears	1	27	0	20	2	22
Qualifying or litigious arrears	36	30	13	21	3	15
of which less than 90 days	*0*	*6*	*0*	*4*	*0*	*4*
of which more than 90 days	*36*	*24*	*13*	*16*	*3*	*11*
of which doubtful loans (French Gaap)	*32*	*27*	*13*	*20*	*3*	*15*
of which litigious loans	*4*	*3*	*0*	*1*	*-*	*-*
of which vanilla loans	*7*	*21*	*4*	*16*	*3*	*13*
of which structured loans	*29*	*9*	*9*	*5*	*0*	*2*

(1) depending on each row, considering the customer in the category with its most long arrear, considering the customer as litigious if one of its loans is under litigation, considering the customer in the category with its most highly structured loan.

Arrears (excluding technical arrears) fell in 2021 (-77%) from EUR 13 to 3 million. This decrease is mainly due to the fact that the sums remaining due by some customers who benefited from a payment schedule under a protocol signed to reduce their sensitive outstanding amounts are no longer considered as unpaid as long as this schedule is respected.

As of June 30, 2022, the number of customers arrears in (excluding technical arrears) is low (15 customers or around 0.1% of Caisse Française de Financement Local's total number of customers).

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

As of June 30, 2022, doubtful and litigious loans (French GAAP) amounted to EUR 142 million, or 0.2% of the Caisse Française de Financement Local's total assets. They were down by EUR 13 million, i.e. 8%, compared to December 31, 2021, illustrating the portfolio’s excellent quality.

As of June 30, 2022, the portion of doubtful and litigious loans relating to cover pool loans amounted to EUR 139 million, made up of EUR 3 million of unpaid loans and of a total outstanding amount of EUR 136 million downgraded by contagion. Doubtful and litigious debts (2) consist almost entirely of debts classified as doubtful (1);

Doubtful and litigious loans correspond solely to French customers.

The total amount of provisions, covering the credit risk relating to cover pool loans under French accounting standards, is presented in the table below.

Impairments French Gaap EUR millions	**12/31/2021**	**6/30/2022**
Specific impairments	11	2
Collective impairments	23	18
TOTAL	**34**	**20**

As of June 30, 2022, the stock of provisions assigned to specific files under French GAAP amounted to EUR 2 million. It is down very significantly compared to December 31, 2021 in connection with the fall in the amount of arrears.

In addition, collective provisions are calculated on the various asset portfolios. They amounted to EUR 18 million as of June 30, 2022 compared to EUR 23 million as of December 31, 2021. 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.

8.1.4.3 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 other comprehensive income. 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 other comprehensive income, 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 it is 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 custermer 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 occurence 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, on cover pool loans*.

Breakdown of assets by stages and IFRS impairments	**Net carrying amount before impairments** EUR millions		**Impairments** EUR millions	
	12/31/2021	**6/30/2022**	**12/31/2021**	**6/30/2022**
Stage 1 : no significant deterioration	60,465	59,801	(7)	(7)
Stage 2 : credit risk deteriotation	3,000	2,666	(27)	(23)
Stage 3 : credit impaired	265	251	(5)	(2)
TOTAL SPPI assets	**63,730**	**62,718**	**(39)**	**(32)**

	IFRS Net carrying amount	
	12/31/2021	**6/30/2022**
Non-Performing Exposures	331	293

(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.

(2) 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 fully repaid (unpaid for more than nine months for local authorities and for more than three months for other counterparties);*

● *the existence of a factual counterparty risk (deterioration of the financial situation, alert procedures). A loan is considered litigious when it is unpaid and is the subject of legal proceedings*

** The data in the table above does not include assets removed from the cover pool. These represent EUR 3 million of Stage 3 and NPE outstandings, and EUR 1 million of provisions.*

Outstandings classified as Non-Performing Exposures as well as Stage 3 fell in 2022 despite macroeconomic context. This improvement results in particular from the improvement in the financial situation of several customers (end of the observation period provided for in the policy of Caisse Française de Financement Local in this area).

At the same time, outstandings classified in Stage 2 also decreased in line with the regular credit risk review.

8.1.5. 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 0.6 billion (see 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). Caisse Française de Financement Local's derivatives are not subject to the clearing obligation nor the payment of initial margin 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. At the end of June 2022, a new derivatives agreement was concluded with SFIL to which will be attached only the derivatives that cover the few assets that will be excluded from the cover pool on July 8, 2022 as part of the implementation of the covered bonds directive. Since these derivatives will not benefit from the privilege of the law, the agreement provides for the possibility of exchanging collateral in both directions.

All derivative exposures as of June 30, 2022, are listed below.

EUR billions	Total of notional amounts	% of total notional amounts	*Mark to Market* -	*Mark to Market* +	Collateral received	Number of counterparties
SFIL	14.9	16.8%	(1.6)	0.0	0.0	1
Other counterparties	73.8	83.2%	(1.6)	0.0	0.0	24
Total	**88.8**	**100.0%**	**(3.2)**	**0.0**	**0.0**	**25**

As of June 30, 2022, Caisse Française de Financement Local was exposed (positive fair value of swaps) to six bank counterparties, all of these paid cash collateral totaling EUR 0.03 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 58% of notional amounts.

8.2. 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.

Climate issues are also one of the main focuses of the SFIL Group's strategic plan, in line with Caisse des Dépôts' sustainable policy to promote the success of the environmental and energy transition. This is reflected in the setting each year of production volume targets for green loans for French local authorities.

The SFIL group wishes to integrate climate risks into all its risk management processes. Thus, 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, the risk policy in terms of granting credit was adapted (exclusion of certain activities for financing, positive consideration of green loan production targets) and the cash investment policy was adjusted to take into account ESG criteria.

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. An assessment of transition risk expenditures for this portfolio is currently underway.

In the first half of 2022, the SFIL Group carried out a qualitative mapping of climate-induced risks, integrated ESG risks into the ICAAP and ILAAP and took part in the ECB's climate stress tests.

A report on climate risks is presented to the Supervisory Board of Caisse Française de Financement Local through the quarterly risk review.

8.3. Market risk

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.

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

8.4. Asset-Liability Management (ALM) risk

8.4.1. Liquidity risk

8.4.1.1. Definition and liquidity risk management

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.

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.

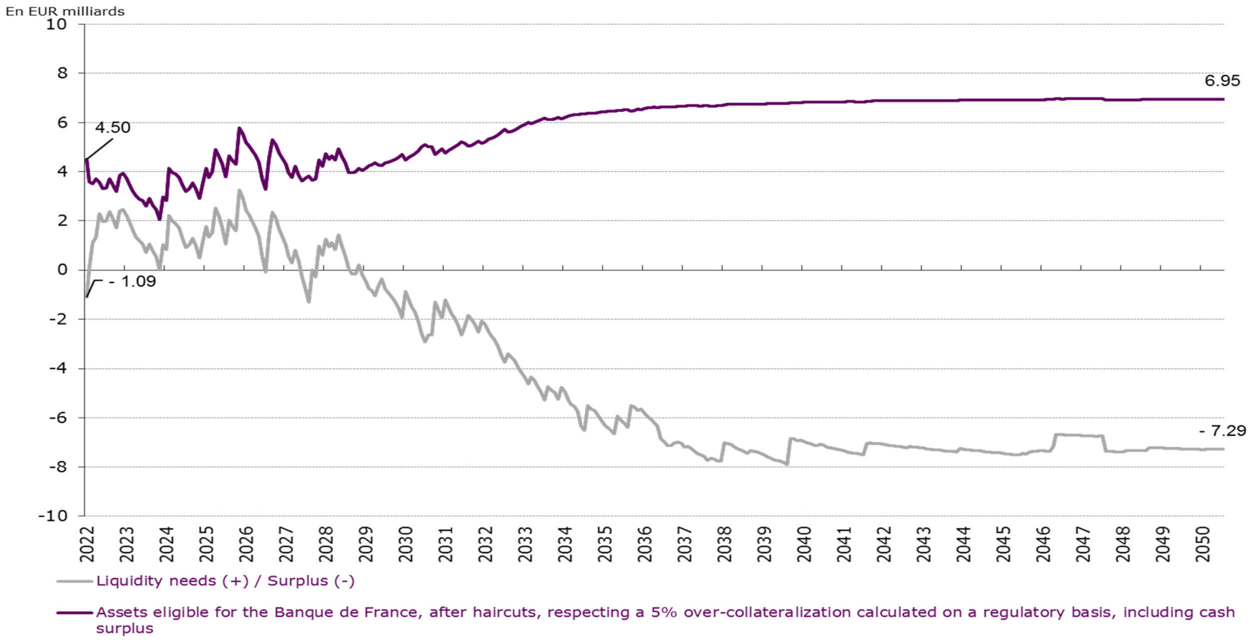
To control its liquidity risk, Caisse Française de Financement Local relies mainly on static, dynamic and stressed liquidity forecasts in order to ensure that the liquidity reserves at its disposal in the short and long term will be able to cope with its commitments.

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 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.

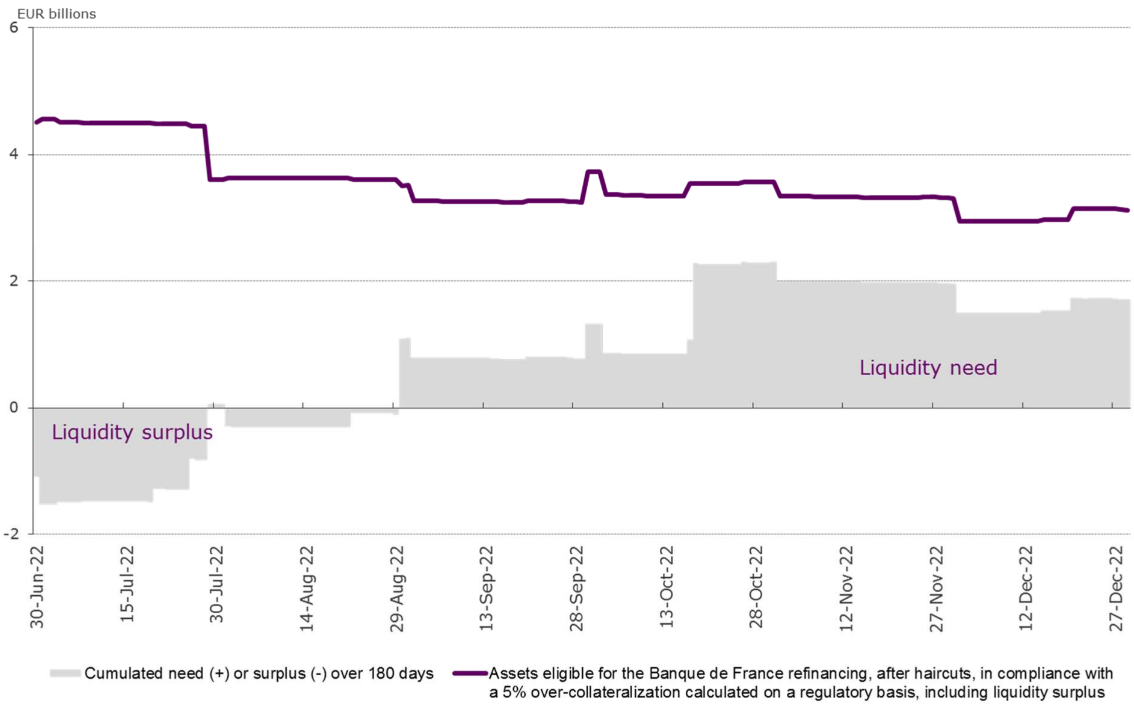
The chart below shows the forecast aggregate liquidity requirement and the assets needed to cover this requirement:



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 June 30, 2022, the liquidity situation at 180 days shows a cash surplus over the first two months (with a maximum of EUR 1.5 billion) and a cash requirement over the last four months with a maximum requirement of EUR 2.3 billion at the end of October 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 June 30, 2022, Caisse Française de Financement Local's LCR ratio was 261%,
  - 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 June 30, 2022 Caisse Française de Financement Local's NSFR was 111%;
- **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 -0.23 year as of June 30, 2022 (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).

8.4.1.2. Definition and management 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 8.4.2.), 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	**6/30/2021**	**9/30/2021**	**12/31/2021**	**3/31/2022**	**6/30/2022**
Cover pool	7.10	7.07	6.57	6.26	6.40
Privileged liabilities	7.20	7.13	6.92	6.90	6.64
Gap in asset-liability duration	**-0.11**	**-0.07**	**-0.35**	**-0.64**	**-0.23**
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)	**6/30/2021**	**9/30/2021**	**12/31/2021**	**3/31/2022**	**6/30/2022**
Cover pool	7.26	6.90	6.75	6.65	7.10
Privileged liabilities	7.35	6.98	7.10	7.29	7.31
Gap in asset-liability weighted average life	**-0.10**	**-0.08**	**-0.35**	**-0.64**	**-0.20**
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 year on the average life gap between the cover pool and privileged liabilities. Caisse Française de Financement Local respects this limit.

8.4.2. Interest rate risk

8.4.2.1. 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.

8.4.2.2 Hedging Strategy

Caisse Française de Financement Local has defined an appetite for fixed interest rate risk of EUR 80 million, 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 the monitoring fixed rate, index and fixing gaps:

Fixed rate gap	The risk is monitored through the sensitivity of the net present value (NPV) by pillar to a change of 10 bp in rates
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 date.

Assets portfolios for which the strategy is to be entirely hedged are not sensitive to interest rates changes and thus are not integrated in the calculation of the global sensitivity of Caisse Française de Financement Local's balance sheet.

8.4.2.3 Interest rate risk management

The interest rate risk management system is mainly based on the risk indicator in economic value (sensitivity of the net present value (NPV))

- Until December 31, 2021, Caisse Française de Financement Local's fixed rate risk appetite system consisted of a set of limits governing the overall and time-bucket sensitivities of the net present value (NPV). This framework took the form of 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 hedging). These indicators were calculated for four predefined time buckets (short-term, medium-term, long-term, very long-term) regulated by limits which were calibrated to avoid losing more than EUR 80 million with a 99% quantile calculated on a 10-year history:

<u>Measurement of directional risk</u>

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)**

<u>Measurement of the slope/rotation risk:</u>

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

- Since January 1, 2022, Caisse Française de Financement Local has implemented a new methodology for managing interest rate risk: the measurement of this risk will be the maximum loss in net present value (NPV) observed according to eight different scenarios of rate changes. These eight scenarios correspond to the six scenarios used for calculating the regulatory "outlier" ratio, to which are added two additional internal scenarios based on historical variations in rates.

The maximum loss observed at the end of the quarter among the eight scenarios used is presented below:

EUR millions	**Limit**	**12/13/2021 (proforma)**	**3/31/2021**	**6/30/2022**
Maximum loss observed in NPV	**-80,0**	(24.6)	(9.2)	**(30.8)**

8.4.3. Foreign exchange risk

8.4.3.1. 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. Caisse Française de Financement Local's reference currency is the euro: the foreign exchange risk therefore reflects the change in the value of assets and liabilities denominated in a currency other than the euro, due to a fluctuation of the latter against the euro.

8.4.3.2. Hedging Strategy

Caisse Française de Financement Local's foreign exchange risk management policy is to incur no foreign exchange risk.

It enters into swaps against the euro for the assets and issues denominated in foreign currencies, on initial recognition at the latest and until their final maturity, thereby ensuring that these balance sheet items' principal and interest are hedged.

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

- operational cost of hedging swaps too high in relation to the risk to be hedged (low amount of drawdowns entered on the balance sheet, non-standard index to be hedged, etc.)
- impossibility of perfectly micro-hedging off-balance sheet drawdowns, the amount and timing of which are, by definition, unknown
- payment of a commission in a currency other than the euro.

The risk resulting from these foreign exchange positions is monitored using the total net foreign exchange position in each currency, calculated on all receivables, payables and off-balance sheet commitments. Net positions are subject to a very low foreign exchange limit.

8.5. Other risks

8.5.1. Operational risk

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.

SFIL's group has set up an organization, procedures and a management tool to monitor and control its operational risks. It has opted for the standard method of calculating the regulatory capital requirement for 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.

The members of Caisse Française de Financement Local's Executive Board and Supervisory Board are regularly informed of changes in the operational risk mapping, major operational incidents, key indicators of operational risks exceeding the alert thresholds and the corrective action plans developed to reduce identified risks.

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During the first half of 2022, the crisis unit was not systematically mobilized to monitor the Covid-19 health crisis. However, the monitoring of surveillance indicators and vigilance in terms of compliance with the health protocol remain in force.

In addition, in the current international context of conflict between Russia and Ukraine, the cybercrime monitoring process and the configuration of SFIL's IT security equipment have been strengthened. No security incidents or impacts have been identified at this stage.

8.5.2. Legal and tax risk

8.5.2.1. 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 Executive Board and Supervisory Board of Caisse Française de Financement Local receive regular updates on the progress of litigation. A management report regarding the lawsuits is presented at each Supervisory Board.

There were 2 borrowers who had brought lawsuits on structured loans as of June 30, 2022, compared to 3 as of December 31, 2021, steadily decreasing since 2014 (210 lawsuits as of December 31, 2014). Since the creation of SFIL, 221 borrowers dropped the claims they had initiated against structured loans, which had been marketed by Dexia. The processing of the most sensitive structured credit files can be considered complete.

The number of borrowers in litigation under unstructured loans amounted to 4 as of June 30, 2022.

As of June 30, 2022, 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.

8.5.2.2. Tax risk

There was no change during the first half of 2022 concerning the taxation in Ireland of the income of the former Dexia Municipal Agency (Caisse Française de Financement Local'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 for the 2012 and 2013 financial years. The French and Irish administrations that met during 2021 to address the double taxation to which Caisse Française de Financement Local has been subject, should continue their discussions in the second half of 2022.

Caisse Française de Financement Local paid the duties assessed.

8.5.3. Risk of non-compliance

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.

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

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

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

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.

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

With regard to the fight against money laundering and the financing of terrorism (AML/CFT) and the freezing of assets, the first half of 2022 was particularly marked by the international context due to the sanctions against Russia and Belarus. The SFIL Group has no activity with Russia and Belarus or with the persons sanctioned. The SFIL Group also continued to develop its system to adapt to regulatory changes and harmonize it with the CDC Group's corpus.

At the same time, the improvement to the professional conduct and ethics system continued, the mapping of corruption risks was updated, a new product policy was enacted and mandatory compliance training continued.

9. Income for the period from January 1st to June 30, 2022

9.1 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.

9.1.1 Net income for the first half of 2022

Net income is presented below in a synthetic manner:

IFRS EUR millions	**H1 2021**	**2021**	**H1 2022**	**change H1 2021 / H1 2022**
Interest margin	70	152	79	
Net commissions	(1)	1	(2)	
Net result on financial instruments at fair value through net income	(3)	32	43	
Net result on financial instruments at fair value through equity	-	-	0	
Net result due to derecognition of financial instruments at amortized cost	9	17	4	
Net result resulting from reclassification of financial assets at amortized cost to financial assets at fair value through net income	-	-	-	
Net result resulting from reclassification of financial assets at fair value through equity to financial assets at fair value through net income	-	-	-	
Other income and expense	-	-	-	
NET BANKING INCOME	**75**	**200**	**125**	**66%**
General operating expenses	(49)	(97)	(53)	
Taxes	(6)	(7)	(8)	
GROSS OPERATING INCOME	**19**	**96**	**64**	**100%**
Cost of risk	1	6	6	
INCOME BEFORE TAX	**20**	**102**	**70**	**245%**
Income tax	(7)	(45)	(19)	
NET INCOME	**13**	**57**	**51**	**100%**

As of June 30, 2022, net income reaches EUR+51 million, versus a net income of EUR +13 million as of June 30, 2021.

9.1.2 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)	**H1 2021**	**H1 2022**
Fair value adjustment of non SPPI financial assets	-	29

- 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)	**H1 2021**	**H1 2022**
Fair value adjustments on hedging	(19)	2

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 impacted asymmetrically the hedged item and its hedging derivative, although the Company applies strict financial hedging rules, and this factor was therefore 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. The prospective application on January 1, 2022 of the option provided by IFRS 9 to deal with the cost of hedging the basis risk of foreign currency transactions will reduce this volatility; in fact, hedging derivatives such as cross currency basis swaps used in the context of export credit transactions may be documented in this new hedging relationship as soon as they are signed and variations in the value of the risk hedged will go directly to the cost of hedging reserve. Nevertheless, the changes in value that are taken directly to income in previous years will be gradually taken back to income until the maturity of the operations concerned; and this part of the cost of hedging reserve, which has been recognized in foreign currencies, may generate accounting foreign exchange income.

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

- certain annual taxes and contributions fully recognized as from the first quarter in accordance with IFRIC 21. The linearization of these charges over the year is shown in the table below.

(EUR millions)	**H1 2021**	**H1 2022**
Linearization of IFRIC 21 expenses	(6)	(7)

The recurring income for 2021 and 2022 was as follows:

EUR millions	H1 2021			H1 2022		
	Accounting income statement	Non-reccuring items	Recurring income statement	Accounting income statement	Non-reccuring items	Recurring income statement
NET BANKING INCOME	**75**	**(19)**	**94**	**125**	**31**	**94**
Opertating Expenses	(56)	(6)	(50)	(61)	(7)	(54)
OPERATING INCOME BEFORE COST OF RISK	**19**	**(25)**	**44**	**64**	**25**	**39**
Cost of risk	1	-	1	6	-	6
PRE-TAX INCOME	**20**	**(25)**	**45**	**70**	**25**	**46**
Income tax	(7)	6	(13)	(19)	(7)	(12)
NET INCOME	**13**	**(19)**	**32**	**51**	**18**	**34**

Restated for the non-recurring items mentioned above, net banking income is stable between the first half of 2021 and the first half of 2022. It amounted to EUR +94 million. Net income for the half year increased by EUR +2 million, from EUR +32 million to EUR +34 million.

9.1.3 Analysis of recurring net income

The net banking is stable and is mainly explained by the fall in income from the portfolio managed in run-off, due to the reduction in outstandings, offset by lower financing costs thanks to the repayment of obligations foncières with a higher spread than those recently issued.

The operating expenses of Caisse Française de Financement Local rose by EUR +4 million compared to the first semester 2021. They consist mainly of invoices from its parent company, SFIL, for its operational management.

The cost of risk favorably evolved by EUR +5 million

There was a EUR 12 million income tax expense as of June 30, 2022; it notably reflects the non-deductibility of the contribution to the Single Resolution Fund.

9.1.4 Analysis of the impact of the war in Ukraine and the health crisis linked to the Covid-19 pandemic on net income

The effects of the war in Ukraine and the health crisis have not had a significant impact on Caisse Française de Financement Local's 2022 half-year net income.

9.2 Income according to French GAAP

Net income is presented below in a synthetic manner:

French GAAP EUR millions	H1 2021	2021	H1 2022	change H1 2021 / H1 2022
Interest margin	91	201	164	
Net commissions	(1)	1	(2)	
Provisions and income on trading portfolio	-	-	0	
Provisions and income on securities	3	4	(3)	
Other income and expense	-	-	(0)	
NET BANKING INCOME	**93**	**207**	**160**	**72%**
General operating expenses	(49)	(97)	(53)	
Taxes	(6)	(7)	(8)	
GROSS OPERATING INCOME	**37**	**103**	**99**	**165%**
Cost of risk	4	7	5	
OPERATING INCOME	**41**	**110**	**104**	**151%**
Income (loss) on fixed assets	-	-	-	
Income tax	(10)	(28)	(23)	
NET INCOME	**31**	**81**	**81**	**100%**

The Company's business is managed according to IFRS (as adopted by the European Union). The French GAAP financial statements are published in accordance with legal requirements and serve as a base to calculate income subject to corporate 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. In accordance with IFRS 9, early repayments of Caisse Française de Financement Local's loans in connection with its sensitivity reduction measures result in derecognition of the original loan and recognition of a new loan, which results in recognition in Net Banking Income of the surplus margin on the restructured loan (taking into account hedging impact) to the market conditions observed at the date of restructuring. 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 increased by 72%, or EUR +67 million compared to the first half of 2021, from EUR +93 million to EUR +160 million. This strong increase mainly corresponds to the upfront termination fees received with the cancellation of swaps that macro-hedged assets within as part of covered bond issues (EUR +62 million). The increase in net banking income is also explained by an improvement in financing conditions (maturity of old and expensive issues and realization of new issues with a more advantageous spread).

Operating expenses of Caisse Française de Financement Local, most of which consist of invoices from its parent company, SFIL, for its operational management, were up by EUR +5 million.

Cost of risk is stable.

Net earnings increased by EUR +50 million between the two periods from EUR +31 million as of first semester 2021 to EUR +81 million as of first semester 2022.

10. Outlook for 2022

2022 is the first year of SFIL's new "Objectif 2026" strategic plan, which aims to continue and accentuate its growth in three key areas:

- Fully exploit the strengths of its public development bank model,
- Broaden its intervention modalities in response to the challenges of recovery plans and the climate transition, and
- Engage in a new phase of internal transformation with, in particular, the adaptation of its operating methods to hybrid mode.

by relying on the strengths of a powerful group, the Caisse des Dépôts.

As regards the financing of loans to the French local public sector (local authorities and public hospitals), activity should increase thanks to the dynamism of the partnership formed with La Banque Postale (LBP) and the operational implementation of a new partnership with Banque des Territoires (Caisse des Dépôts) to refinance a complementary offer to that of LBP.

Indeed, 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 which, given the central role of local authorities in the recovery plan and the environmental transition, are very significant, thanks in particular to the current range of green loans (local authorities) as well as to the new offer of loans carried out in partnership with Banque des Territoires.

The SFIL Group will also actively support its customers' social projects *via* the current range of social loans dedicated to hospitals in France and the development of a new range of social loans for local authorities.

The level of production should therefore be sustained in 2022, as well as in the following years, but will nevertheless be conditioned by the speed of familiarization of local authorities with this type of financing as well as by the evolution of interest rates.

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 and the coming years is favorable. The historically present challenges of security, sovereignty and sustainable development have taken on a new dimension with the war in Ukraine and will probably lead to an increase in investments in the defense and energy sectors, part of which could be financed through export credits to which the SFIL Group would contribute. In addition, the SFIL Group continues to support all sectors that use export credit, in particular major transport infrastructures, cruise ships, whose activity has resumed since the end of 2021, the space industry and telecommunications and, potentially, aviation. 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 wish to be able to intervene in the mechanism for refinancing loans covered by the new guarantee for projects of strategic interest to the French economy abroad. The implementation of these projects is 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 bonds intended to finance a new range of social loans to local authorities marketed *via* La Banque Postale. Caisse Française de Financement Local's issuance program in 2022 remains 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 issues on the public primary market, with a medium/long maturity adapted to the profile of the assets financed.

Caisse Française de Financement Local will closely monitor the international macroeconomic situation (degree of market volatility in a context influenced by the evolution of the pandemic, the increase in inflation, the geopolitical environment and more particularly the conflict in Ukraine, and the monetary policy of the European Central Bank and the FED in response to these events). It will also pay particular attention to the pace and methods for combating global warming by its borrowers and partners, as well as to changes in the regulatory environment (completion of Basel III, the LCR regulation and texts related to CSR).

Lastly, Caisse Française de Financement Local has complied with the new French legal and regulatory framework resulting from the European directive on covered bonds of November 2019, which has been applicable since July 8, 2022. On September 6, 2022, Caisse Française de Financement Local (CAFFIL) received authorization to use the "European Covered Bond Premium " label for its future issues. ACPR, the competent French authority for the supervision of covered bonds, granted this authorization for both French law and German law (registered covered bond) issues. Securities issued prior to July 8, 2022 will continue to benefit from favorable and preferential prudential treatment, in the same way as newly labeled securities.

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Breakdown of the cover pool as of June 30, 2022

	6/30/2022					12/31/2021
EUR millions	**Direct exposure**		**Indirect exposure**		**Total**	**Total**
COUNTRY	**Loans**	**Bonds**	**Loans**	**Bonds**		
France						
State:						
- export refinancing	-	-	5,388	-	5,388	4,954
- others	20	-		230	251	250
Banque de France	1,069	-	-	-	1,069	3,796
Regions	2,627	65	228	-	2,921	2,592
Departments	7,291	-	122	-	7,413	7,409
Municipalities	14,604	13	276	-	14,894	14,612
Groups of municipalities	13,937	54	67	-	14,058	13,504
Public sector entities:						
- health	6,125	-	-	-	6,125	5,983
- social housing	802	-	-	-	802	842
- others	757	150		-	908	853
Credit institutions	42	126	-	-	168	179
Subtotal	**47,275**	**408**	**6,082**	**230**	**53,995**	**54,975**
Germany						
Länder	-	-	-	-	-	275
Subtotal	**-**	**-**	**-**	**-**	**-**	**275**
Austria						
Länder	-	-	164	-	164	167
Subtotal	**-**	**-**	**164**	**-**	**164**	**167**
Belgium						
Regions		-	27	-	28	32
Public sector entities	-	-	-	-	-	2
Credit institutions	-	10	-	-	10	50
Subtotal		**10**	**27**	**-**	**38**	**84**
Canada						
Municipalities	100	-	34	-	135	100
Public sector entities	-	-	-	-	-	34
Credit institutions	-	349	-	-	349	372
Subtotal	**100**	**349**	**34**	**-**	**484**	**507**
Spain						
State	-	180	-	-	180	180
Regions	-	50	-	-	50	50
Municipalities	64	-	-	-	64	64
Subtotal	**64**	**230**	**-**	**-**	**294**	**294**

EUR millions	6/30/2022					12/31/2021
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	**Loans**	**Bonds**	**Loans**	**Bonds**		
United States						
Federated States	-	147	-	-	147	182
Subtotal	**-**	**147**	**-**	**-**	**147**	**182**
Italy						
State	-	1,150	-	-	1,150	1,151
Regions	-	1,648	-	-	1,648	1,667
Provinces	-	411	-	-	411	428
Municipalities	3	714	-	-	717	771
Group of Municipalities	-	9	-	-	9	-
Subtotal	**3**	**3,932**	**-**	**-**	**3,936**	**4,017**
Japan						
Municipalities	-	25	-	-	25	25
Subtotal	**-**	**25**	**-**	**-**	**25**	**25**
Norway						
Credit institutions	-	-	-	-	-	137
Subtotal	**-**	**-**	**-**	**-**	**-**	**137**
Portugal						
Municipalities	5	-	-	-	5	5
Group of Municipalities	1	-	-	-	1	1
Subtotal	**6**	**-**	**-**	**-**	**6**	**6**
Sweden						
Municipalities	18	-	-	-	18	18
Credit institutions	-	50	-	-	50	77
Subtotal	**18**	**50**	**-**	**-**	**68**	**96**
Switzerland						
Cantons	65	-	60	-	126	65
Municipalities	210	-	-	-	210	222
Public sector entities	-	-	-	-	-	60
Subtotal	**276**	**-**	**60**	**-**	**336**	**347**
Supranational						
International organizations	8	-	-	-	8	11
Subtotal	**8**	**-**	**-**	**-**	**8**	**11**
GENERAL SUB TOTAL	**47,751**	**5,152**	**6,368**	**230**	**59,502**	**61,123**
Collectives provisions	**-**	**-**	**-**	**-**	**(18)**	**(22)**
TOTAL *COVER POOL*	**-**	**-**	**-**	**-**	**59,484**	**61,101**

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. In 2022, some reclassifications were made between the categories of local authorities in Canada and Switzerland .

2. Financial statements (IFRS)

for the period from January 1st to June 30, 2022

IFRS Financial Statements

Assets

EUR millions	Note	12/31/2021	6/30/2022
Central banks	*2.1*	3,796	1,069
Financial Assets at fair value through profit or loss	*2.2*	3,518	3,024
Hedging derivatives		3,172	1,595
Financial Assets at fair value through equity	*2.3*	-	-
Financial Assets at amortized cost			
Loans and advances to banks at amortized cost	*2.4*	5,171	5,735
Loans and advances to customers at amortized cost	*2.4*	46,008	45,748
Securities at amortized cost	*2.4*	7,385	6,193
Fair value revaluation of portfolio hedge		1,988	778
Current tax assets		35	14
Deferred tax assets		59	57
Accruals and other assets	*2.5*	22	56
TOTAL ASSETS		**71,154**	**64,267**

Liabilities

EUR millions	Note	12/31/2021	6/30/2022
Central banks		-	-
Financial liabilities at fair value through profit or loss	*3.1*	802	452
Hedging derivatives		5,177	4,385
Financial liabilities at amortized cost			
Due to banks at amortized cost	*3.2*	7,677	6,495
Customer borrowings and deposits at amortized cost		-	-
Debt securities at amortized cost	*3.2*	55,163	51,145
Fair value revaluation of portfolio hedge		430	211
Current tax liabilities		1	1
Deferred tax liabilities		-	-
Accruals and other liabilities	*3.4*	5	4
Provisions	*3.3*	454	145
Subordinated debt		-	-
EQUITY		**1,446**	**1,430**
Capital		1,350	1,350
Reserves and retained earnings		57	29
Net result through equity		(18)	0
Net income		57	51
TOTAL LIABILITIES		**71,154**	**64,267**

Income Statement

EUR millions	Note	H1 2021	2021	H1 2022
Interest income	*5.1*	1,070	2,068	1,031
Interest expense	*5.1*	(1,001)	(1,916)	(952)
Fee and commission income	*5.2*	1	4	0
Fee and commission expense	*5.2*	(2)	(3)	(2)
Net result of financial instruments at fair value through profit or loss	*5.3*	(3)	32	43
Net result of financial instruments at fair value through equity		-	-	0
Gains or losses resulting from derecognition of financial instruments at amortized cost	*5.4*	9	17	4
Gains or losses resulting from reclassification of financial assets at amortized cost to fair value through profit or loss		-	-	-
Gains or losses resulting from reclassification of financial assets at fair value through equity to fair value through profit or loss		-	-	-
Other income		0	0	0
Other expense		(0)	(0)	(0)
NET BANKING INCOME		**75**	**200**	**125**
Operating expenses	*5.5*	(56)	(104)	(61)
GROSS OPERATING INCOME		**19**	**96**	**64**
Cost of risk	*5.6*	1	6	6
OPERATING INCOME		**20**	**102**	**70**
Net gains (losses) on other assets		-	-	-
INCOME BEFORE TAX		**20**	**102**	**70**
Income tax		(7)	(45)	(19)
NET INCOME		**13**	**57**	**51**
Earnings per share (EUR)		-	-	**-**
- Basic		1.00	4.24	3.78
- Diluted		1.00	4.24	3.78

Net income and unrealized or defferred gains and losses through equity

EUR millions	H1 2021	2021	H1 2022
NET INCOME	**13**	**57**	**51**
Items that may subsequently be reclassified through profit or loss	**(4)**	**(7)**	**18**
Unrealized or deferred gains and losses of financial assets at fair value through equity	-	-	-
Unrealized or deferred gains and losses of cash flow hedges	(5)	(9)	26
Unrealized or deferred gains and losses of coct of hedging	-	-	(2)
Tax on items that may subsequently be reclassified through profit or loss	1	2	(6)
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	(4)	(7)	**18**
NET INCOME AND GAINS OR LOSSES THROUGH EQUITY	**9**	**50**	**69**

Equity

EUR millions	Capital and reserves			Unrealized or deferred gains and losses					Total equity
	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	Net change in fair value of cost of hedging derivatives, after tax	Total	
EQUITY AS OF JANUARY 1, 2021	**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**
Stocks issued	-	-	-	-	-	-	-	-	-
Dividends	-	(85)	(85)	-	-	-	-	-	(85)
Changes in fair value of financial assets through equity	-	-	-	-	-	-	-	-	-
Changes in fair value of derivatives through equity	-	-	-	-	-	20	(1)	18	18
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-	-	-
Net income for the period	-	51	51	-	-	-	-	-	51
Other movements	-	-	-	-	-	-	-	-	-
EQUITY AS OF JUNE 30, 2022	**1,350**	**80**	**1,430**	**-**	**(0)**	**2**	**(1)**	**0**	**1,430**

Cash flow statement

EUR millions	2021	H1 2022
NET INCOME BEFORE TAX	**102**	**70**
+/- Net depreciation and amortization of tangible and intangible fixed assets	-	-
+/- Net allocations to provisions and impairments	(31)	(19)
+/- Expense / income from investing activities	105	52
+/- Expense / income from financing activities	(109)	(69)
+/- Other non-cash items	266	504
Non-monetary items included in net income before tax and other adjustments	**231**	**468**
+/- Cash from interbank operations	(289)	(1,617)
+/- Cash from customer operations	(228)	(1,304)
+/- Cash from financing assets and liabilities	955	679
+/- Cash from not financing assets and liabilities	(517)	(566)
- Income tax paid	(38)	(22)
Decrease / (increase) in cash from operating activities	**(117)**	**(2,829)**
CASH FLOW FROM OPERATING ACTIVITIES (A)	**216**	**(2,291)**
CASH FLOW FROM INVESTING ACTIVITIES (B)	**-**	**-**
+/- Cash from or for shareholders	(49)	(85)
+/- Other cash from financing activities	1,831	(351)
CASH FLOW FROM FINANCING ACTIVITIES (C)	**1,782**	**(436)**
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	**-**	**-**
INCREASE / (DECREASE) IN CASH EQUIVALENTS (A + B + C + D)	**1,998**	**(2,727)**
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**1,822**	**3,821**
Cash and balances with central banks (assets & liabilities)	1,798	3,796
Interbank accounts (assets & liabilities) and loans / sight deposits	24	25
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	**3,820**	**1,094**
Cash and balances with central banks (assets & liabilities)	3,795	1,069
Interbank accounts (assets & liabilities) and loans / sight deposits	25	25
CHANGE IN NET CASH	**1,998**	**(2,727)**

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 condensed financial statements in compliance with IAS 34 Interim financial reporting; they have been reviewed by the statutory auditors. The accompanying notes relate to significant items of the half year and should be read in conjunction with the individual financial statements as of December 31, 2021. The latters have been prepared in compliance with International Financial Reporting Standards (IFRS), as endorsed by and applicable within the European Union; they have been audited by the statutory auditors. The Company's activities do not show any seasonal, cyclical or occasional aspects.

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 for the preparation of its yearly financial statements.

The individual condensed financial statements as of June 30, 2022 were examined by the Management Board on September 5, 2022 and approved by the Supervisory Board on September 8, 2022.

Due to Covid-19 outbreak in 2020 and the widespread of health crisis between 2020 and 2022, 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 condensed financial statements. Further information is disclosed in the management report of the Company.

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

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

The Company applies IFRS 9 transitional arrangements as regards hedge accounting starting from January 1, 2022. IFRS 9 standard applies prospectively from this date to all of the Group's micro-hedging (FVH and CFH) relationships. Macro-hedging (PHE) relationships keep being recognized under IAS 39 requirements, in accordance with the arrangements of regulation n°2086/2004 from European commission on IAS 39 standard (IAS 39 « carve out »). All affected hedging relationships recognized under IAS 39 were maintained under IFRS 9, without a need of rebalancing, and no profit and loss impact was observed as of January 1, 2022. The first time application (FTA) impacts are thus very limited: they only relate to the choice from the Group to apply the option introduced by IFRS 9 which consists in retrospectively applying the so-called "cost of hedging of foreign currency basis spread" to cross currency basis swaps used for export credit purposes documented as Cash-Flow Hedge relationships, and, to a lesser extent, cross currency interest rate swaps documented as Fair-Value-Hedge relationships. This approach enables to initially account for the fair value movement of hedging derivatives attributable to basis spread under a new section of other comprehensive income called "Cost of hedging". 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 consisted in a recognition in other comprehensive income and an amortization through profit or loss for derivatives initially documented in a cash flow hedge relationship: the only difference is the section used within other comprehensive income. Thus, there is no overall impact on financial statements.

The below table presents the details of the FTA incidence as of January 1, 2022 in the Company's accounts:

Accounting sense (credit = +)

		DISCLOSED	TOTAL FTA	RESTATED	
OCI reserve	Cash-Flow Hedge reserve	-24 449 773	26 585 236	2 135 462	The residual amount stems from a cash-flow hedge relationship that had been put to an end in the past; it does not correspond to a basis element and thus shall not migrate to the Cost of Hedging reserve.
	Cost of Hedging reserve	0	-26 585 236	-26 585 236	

1.1.2 IASB and IFRIC texts endorsed by the European Union and effective as of January 1, 2022

- 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 has no impact on the Company's individual financial statements, given that its operations are 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 has 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 has 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 have no impact on the Company's individual financial statements. The amendment to IFRS 9 has no impact on the Company's individual financial statements, given that the latter already took 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.

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 **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).

This amendment will have no impact on the Company's individual financial statements given that the latter does not have insurance activities

- Amendment to **IAS 8 Accounting policies, changes in accounting estimates and errors:** issued by IASB in February 2021, endorsed by the European Union on March 2, 2022 (UE Regulation No. 2022/357) and effective for reporting periods beginning on or after January 1, 2023 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.

The Company will take due consideration of this amendment when assessing events to be qualified as corrections of errors or changes in accounting estimates.

- Amendment to **IAS 1 Presentation of financial statements:** issued by IASB in February 2021, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2023 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.

The Company will take due consideration of this amendment when assessing the information to be disclosed in its individual financial statements.

- Amendment to **IAS 12 Income taxes:** issued by IASB in May 2021, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2023 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.

  This amendment is expected to have no impact on the Company's individual financial statements given that the latter does not operate transactions impacted by this amendment.

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

This recommendation is expected to have no impact on the Company's consolidated financial statements, given that the latter does not have insurance activities, already applies the IFRS IC10 recommendation, and is involved in no leases.

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

- Amendments to **IAS 39 Financial instruments: recognition and measurement/IFRS 9 Financial instruments/IFRS 7 Financial instruments: disclosures**: issued by IASB on September 26, 2019, endorsed by the European Union on January 15, 2020 (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.

Since 2020, 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. Regarding EONIA index rate, the Company pays no cash collateral to its derivatives counterparties due to the provisions applicable to covered bonds issuers. Regarding LIBOR CHF and LIBOR GBP, the transition was operated though restructuring mechanisms. LIBOR USD migration should happen in 2022, while STIBOR's should happen before the end of 2023. Financial assets, financial liabilities and derivative contracts of the Company affected by the reform are presented in note 4.1.

1.2 Accounting principles applied to the financial statements

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

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

Judgments were principally made in the following areas:

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

These judgments are detailed in the following chapters.

Estimates were principally made in the following areas:

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

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. To date, the impacts of the war in Ukraine on financial situation of French local authorities and the assumptions of forward-looking scenarios are being defined. Nevertheless, the impacts are expected to be low and will be implemented for the December 31, 2022 financial statements. In general, 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 June 30, 2022, the following table presents the accounted ECL (EUR 32.8 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)*
		Carrying debt as of 12/31/2021	(0,5) %	0,7 %	1,0 %		
		Leveraging ratio (in % of AOE)	4,5	4,4	4,4		
BASE	**60 %**	Gross savings ratio (in % of AOE)	76,3 %	75,3 %	74,6 %	**32.5**	
		Carrying debt as of 12/31/2021	16,8 %	16,9 %	17,1 %		
		Deleveraging capacity (in years)	1,1 %	3,2 %	4,1 %		
		Leveraging ratio (in % of AOE)	5,2	5,6	5,9		
DOWNSIDE	**25 %**	Gross savings ratio (in % of AOE)	79,9 %	82,3 %	85,2 %	**33.9**	**32.8**
		Carrying debt as of 12/31/2021	15,5 %	14,8 %	14,4 %		
		Deleveraging capacity (in years)	(1,7) %	(1,5) %	(1,8) %		
		Leveraging ratio (in % of AOE)	4,2	3,9	3,6		
UPSIDE	**15 %**	Gross savings ratio (in % of AOE)	74,9 %	71,9 %	68,8 %	**32.3**	
		Leveraging 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

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

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

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

1.2.6.1 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;

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 can be used to account for these derivatives if certain conditions are met:

- the hedging relationship only includes qualifying hedging instruments and qualifying hedged items;
- the hedging relationship is formally designated at inception and documented in a structured manner that describes: the hedging strategy, the entity's risk management objective, the hedging instrument, the item being hedged, the nature of the risk being hedged, and how the entity assesses the effectiveness of the hedge;
- the hedging relationship meets all of the following hedge effectiveness constraints that together constitute the prospective effectiveness test:
    - there is an economic relationship between the hedged item and the hedging instrument;
    - the effect of the credit risk does not be predominant over the changes in value that result from the economic link;
    - there is no lack of balance in the used hedge ratio that would create hedge ineffectiveness.
- for cash flow hedges, the forecast transaction that constitutes the hedged item, if any, must be highly probable and must involve exposure to a change in cash flows that could ultimately affect net income.

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

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

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

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

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

1.2.6.3 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.

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, if they benefit from the legal privilege on assets, as well as the legal holders of covered bonds.

In addition, a value adjustment is included in the fair value of derivatives to reflect the impact of counterparty's credit risk (CVA – credit valuation adjustment) or the 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 French public financial institution, 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.

2. Notes to the assets *(EUR millions)*

2.1 - Central banks

	12/31/2021	6/30/2022
Mandatory reserve deposits with central banks	-	-
Other deposits	3,796	1,069
TOTAL	**3,796**	**1,069**

2.2 -Financial assets at fair value through profit or loss

2.2.1. Analysis by nature

	12/31/2021	6/30/2022
Loans and advances to customers	3,514	3,013
Non-hedging derivatives	4	11
TOTAL	**3,518**	**3,024**

(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

	12/31/2021	6/30/2022
Public sector	3,157	2,682
Other - guaranteed by a State or local government	357	331
TOTAL	**3,514**	**3,013**

2.3 - Financial assets at fair value through equity

2.3.1. Analysis by nature

	12/31/2021	6/30/2022
Loans	-	-
Bonds	-	-
TOTAL	**-**	**-**

2.3.2. Analysis by counterparty

	12/31/2021	6/30/2022
Public sector	-	-
Credit institutions guaranteed by the public sector	-	-
Total public sector	**-**	**-**
of which replacement assets	-	-

2.4 - Financial assets at amortized cost

2.4.1. Analysis by nature and by counterparty

	12/31/2021	6/30/2022
Current accounts	5	5
SFIL - Refinancing loans for export credits guaranteed by the French State (1)	4,961	5,528
SFIL - Loans not guaranteed by public sector assets	-	-
Loans from credit institutions guaranteed by a local authority or municipal credit	204	202
Subtotal loans and receivables from credit institutions at amortized cost	**5,171**	**5,735**
Public sector loans	45,070	44,894
Public sector guaranteed loans	938	854
Subtotal loans and receivables from customers at amortized cost	**46,008**	**45,748**
Securities issued by the public sector	6,567	5,654
Securities guaranteed by the public sector	-	-
Securities issued by credit institutions	819	539
Subtotal securities at amortized cost	**7,385**	**6,193**
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	**58,564**	**57,676**

(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.

2.4.2. Replacement assets

	12/31/2021	6/30/2022
Current accounts	5	5
securities issued credit institutions	819	539
TOTAL	**824**	**544**

(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

	12/31/2021										
	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	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**	-	-

	6/30/2022										
	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	5,735	-	-	**5,735**	(0)	-	-	**(0)**	**5,735**	-	-
Loans and receivables from customers at amortized cost	44,109	1,406	250	**45,765**	(3)	(11)	(3)	**(17)**	**45,748**	-	-
Securities at amortized cost	4,945	1,260	4	**6,209**	(4)	(12)	(0)	**(16)**	**6,193**	-	-
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	**54,789**	**2,666**	**254**	**57,708**	**(7)**	**(23)**	**(3)**	**(33)**	**57,676**	-	-

In summary, the gross amounts decreased by around EUR 0.9 billion between the two periods, notably due to the increase in long-term rates observed in the first half of 2022, which led to a downward adjustment of the visible hedged risk, particularly on securities at amortized cost. Loans and receivables to customers at amortized cost saw a more limited decline, as acquisitions of loans from LBP offset the natural amortization of these assets. Loans and receivables to credit institutions at amortized cost increased over the half-year due to the effect of drawdowns on refinancing loans for the export credit activity granted to SFIL. As a reminder, these loans benefit from a 100% guarantee granted by the French Republic.

Impairment losses decreased by EUR 6 million over the first half of 2022. This decrease relates entirely to loans and receivables at amortized cost and is localized in Stages 2 and 3. The decrease identified in Stage 3 corresponds to customers who left their probationary period. The decrease in Stage 2 is due to the review of the ratings of certain customers whose financial situation has improved and who have, therefore, switched back to Stage 1.

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 93 as of June 30, 2022, carried by 74 borrowers, for a total risk exposure of EUR 334 million.

2.5 - Accruals and other assets

It should be noted that the Caisse Française de Financement Local has set up a new ISDA framework agreement with SFIL. This new framework agreement enables the implementation of interest rate and exchange rate risk hedging derivatives associated with a very limited number of Caisse Française de Financement Local's assets that do not meet the requirements of article 129 of the CRR as amended as part of the new covered bonds directive that will enter into force at the beginning of July 2022. Caisse Française de Financement Local has complied with this new framework in order to obtain the "European High Quality Covered Bond" label for its obligations foncières. As the new texts are more restrictive as regards the eligibility of certain assets, the derivatives used to hedge the associated risks no longer benefit from the legal privilege. A symmetrical exchange of cash collateral between the parties is carried out in line with market practices. In this context, on June 30, 2022, Caisse Française de Financement Local paid EUR 37 million in cash collateral to SFIL.
It is recalled that all of SFIL's other derivative counterparties benefit from the legal privilege and therefore do not receive any cash collateral paid by CAFFIL.

3. Notes to the liabilities *(EUR millions)*

3.1 - Financial liabilities at fair value through profit or loss

3.1.1. Analysis by nature

	12/31/2021	6/30/2022
Non hedging derivatives [1]	802	452
TOTAL	**802**	**452**

(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.

3.2 - Financial liabilities at amortized cost

3.2.1. Analysis by nature

	12/31/2021	6/30/2022
Current accounts	-	-
Term loans from parent company [1]	7,677	6,495
Sub-total debts to credit institutions at amortized cost	**7,677**	**6,495**
Obligations foncières	47,826	44,570
Registered covered bonds	7,337	6,575
Sub-total debts securities at amortized cost	**55,163**	**51,145**
TOTAL FINANCIAL LIABILITIES AT AMORTIZED COST	**62,840**	**57,640**

(1) As of June 30, 2022, 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 - Provisions

	12/31/2021	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	6/30/2022
Commitments and guarantees given	1	0	-	-	-	-	1
Other provisions [1]	4	0	-	(1)	-	-	3
TOTAL	**5**	**-**	**-**	**(1)**	**-**	**-**	**4**

(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 for risks on the foreign exchange financial hedging instruments used to refinance the export credits in dollars in this sector. This provision was raised to EUR 3.9 million at the end of 2021. Caisse Française de Financement Local decided to reduce the amount of this provision by EUR 0.5 million at the end of June 2022 (see note 8).

3.4 - Accruals and other liabilities

Cash collateral received by Caisse Française de Financement Local amounted to EUR 330 million as of December 31, 2021 and EUR 36 million as of June 30, 2022.

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

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

The table below shows the breakdown by benchmark index of financial assets and liabilities as well as 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 12/31/2021			Exposures as of 6/30/2022		
current reference interest rate	Outstanding amount		Net notionel amount	Outstanding amount		Net notionel amount
	Financial assets (Exclu derivatives)	Financial liabilities (Exclu derivatives)	Derivatives	Financial assets (Exclu derivatives)	Financial liabilities (Exclu derivatives)	Derivatives
interest rates benchmark affected by the reform						
EONIA	569	3,915	-	-	-	-
LIBOR CHF	222	-	(212)	1	-	-
LIBOR GBP	76	-	(364)	-	-	-
LIBOR USD	855	-	(2,110)	1,782	-	(3,073)
STIBOR	17	-	(17)	16	-	(16)
interest rates benchmark not affected by the reform						
SONIA	-	-	(185)	131	-	(563)
SARON	-	-	-	221	-	(221)
SOFR	-	-	-	-	-	(88)
EURIBOR	13,142	972	(6,144)	12,273	972	(7,857)
€STER	-	3,767	6,701	503	6,495	7,344
TAUX FIXE	42,562	49,168	2,523	43,764	49,271	4,378
AUTRES	104	2,075	(402)	87	1,654	(375)
TOTAL	**57,547**	**59,896**	**(210)**	**58,777**	**58,392**	**(471)**

In 2021, transactions against EONIA all switched to €STER. The financial assets remaining against EONIA at December 31, 2021 corresponded to a portfolio of loans with TAM/TAG type interest rates. The calculation of this interest rate refers to €STER from January 1, 2022. Financial liabilities corresponded to refinancing granted by SFIL which also changed to €STER at January 1, 2022. Financial assets and derivatives indexed to LIBOR CHF were switched to SARON during the first half of 2022. Assets, liabilities and derivatives indexed to LIBOR USD and STIBOR should be transitioned to the new benchmarks no later than mid-2023.

4.2 - Transactions with related parties

Analysis by nature

	Parent company (1)		Other related parties (2)	
	12/31/2021	6/30/2022	12/31/2021	6/30/2022
ASSET				
Financial assets at fair value through profit or loss	0	0	-	-
Hedging derivatives	901	400	-	-
Loans and receivables due from credit institutions at amortized cost	4,961	5,528	-	-
Securities at amortized cost	-	-	-	-
Current tax assets	34	14	-	-
Accruals and other assets	1	37	1	-
LIABILITIES				
Financial liabilities at fair value through profit or loss	121	104	-	-
Hedging derivatives	2,139	1,686	-	-
Payables to credit institutions at amortized cost	7,677	6,495	-	-
Debts represented by a security at amortized cost	-	-	371	332
Accruals and miscellaneous liabilities	38	31	0	-
Provisions	0	0	-	-
INCOME				
Interests and similar products	251	124	0	-
Interest and similar charges	(271)	(137)	(15)	(6)
Commissions (products)	-	-	-	-
Commissions (expenses)	-	-	(0)	(0)
Net gains or losses on financial instruments at fair value through profit or loss	48	(43)	16	12
Net gains or losses resulting from the derecognition of financial assets at amortized cost	0	1	-	-
Income from other activities	-	-	-	-
Fees for other activities	-	-	-	-
General operating expenses	(96)	(52)	-	-
Cost of risk	(0)	0	0	-
OFF BALANCE COMMITMENTS				
Foreign exchange transactions	699	792	-	-
Interest rate derivatives	14,594	14,311	-	-
Commitments and guarantees received	50	50	-	-
Commitments and guarantees	5,097	5,012	-	-

(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.

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.

	H1 2021			H1 2022		
	Income	**Expense**	**Net**	**Income**	**Expense**	**Net**
Loans / loans with credit institutions	-	-	-	-	-	-
Loans / loans with customers	56	-	56	49	-	49
Derivatives outside the hedging relationship	15	(67)	(52)	16	(61)	(45)
Financial assets and liabilities at fair value through profit or loss	**71**	**(67)**	**4**	**65**	**(61)**	**4**
Hedging derivatives	579	(535)	44	550	(550)	0
Hedging derivatives	**579**	**(535)**	**44**	**550**	**(550)**	**0**
Securities	-	-	-	-	-	-
Financial assets at fair value through equity	**-**	**-**	**-**	**-**	**-**	**-**
Central bank accounts	-	(3)	(3)	-	(6)	(6)
Accounts and loans with credit institutions	17	(2)	15	24	(4)	19
Accounts and loans with customers	330	-	330	321	-	321
Securities	73	(394)	**(321)**	70	(331)	(260)
Financial assets and liabilities at amortized cost	**420**	**(398)**	**22**	**415**	**(341)**	**74**
TOTAL	**1,070**	**(1,001)**	**70**	**1,031**	**(952)**	**79**

Interest income and expenses measured using the effective interest rate method were respectively EUR 415 million and EUR -341 million at June 30, 2022 and EUR 420 million and EUR -398 million at June 30, 2021.
At June 30, 2021, the negative interest paid on financial instruments in assets and received on financial instruments in liabilities represented EUR -4 million and EUR +9 million respectively. At June 30, 2022, the negative interest paid on financial instruments in assets and received on financial instruments in liabilities represented EUR -6 million and EUR +8 million, respectively.

5.2 - Fees and commissions

	H1 2021	**H1 2022**
Commissions paid to / received from SFIL [1]	-	-
Other commissions	(1)	(2)
TOTAL	**(1)**	**(2)**

(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).

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.

	H1 2021	**H1 2022**
Net result on financial instruments at fair value through profit or loss	(3)	42
Net result of hedge accounting	2	11
Net result of foreign exchange transactions	(1)	(9)
TOTAL	**(3)**	**43**

Analysis of net result of hedge accounting

	H1 2021	**H1 2022**
Fair value hedges	**(0)**	**0**
Fair value changes in the hedged item attributable to the hedged risk	371	1,651
Fair value changes in the hedging derivatives	(371)	(1,651)
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**	**0**
Fair value changes in the hedged item	(323)	(956)
Fair value changes in the hedging derivatives	323	956
CVA / DVA Impact [1]	**2**	**10**
TOTAL	**2**	**11**

(1)The effect of the application of the IFRS 13 standard shows as of June 30, 2022 an income of EUR 11 million, which is essentially analyzed by an increase in the income from DVA.

5.4 - Gains and losses resulting from derecognition of financial instruments at amortized cost

	H1 2021	H1 2022
Net result of disposals or prepayments of bonds at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to banks at amortized cost	0	1
Net result of disposals or prepayments of loans and advances to customers at amortized cost	9	3
Net result of disposals or prepayments of due to banks at amortized cost	-	-
Net result of disposals or prepayments of debt securities at amortized cost	-	-
TOTAL	**9**	**4**

Detail of on derecognition of assets and liabilities at amortized cost

	H1 2022	
	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)	2,690	1
Net result of disposal or prepayment of loans and advances to credit institution at amortized cost	**2,690**	**1**
Prepayments of loans and advances to customers	29	1
Restructuring of loans and advances to customers	279	2
Net result of disposals or prepayments of loans and advances to customers at amortized cost	**308**	**3**
Sub-total Assets	**2,998**	**4**
Prepayments of debt to banks	-	-
Net result of disposals or prepayments of debt to banks at amortized cost	**-**	**-**
Prepayments of debt securities	**-**	**-**
Net result of disposals or prepayments of debt securities at amortized cost	-	-
Sub-total Liabilities	-	-
TOTAL	**-**	**4**

(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).

5.5 - Operating expenses

	H1 2021	H1 2022
Payroll costs	-	-
Other general and administrative expenses (1)	(49)	(53)
Taxes	(6)	(8)
TOTAL	**(56)**	**(61)**
of which re-invoiced costs by SFIL	*(48)*	*(52)*

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.

5.6 - Cost of risk

	H1 2021				
	January 1	Impairments	Reversals	Losses	June 30
Stage 1	-	-	-	-	-
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Financial assets at fair value through equity	**-**	**-**	**-**	**-**	**-**
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)	3	(2)	(5)
Stage 2	(17)	(1)	1	2	(15)
Stage 3	(6)	(2)	1	0	(7)
Loans and advances to customers at amortized cost	**(26)**	**(4)**	**5**	**-**	**(27)**
Stage 1	(4)	(0)	0	(0)	(4)
Stage 2	(13)	(1)	2	0	(13)
Stage 3	(0)	-	-	-	(0)
Bonds at amortized cost	**(17)**	**(1)**	**2**	**(0)**	**(17)**
Stage 1	(0)	0	(0)	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Off-balance sheet commitments at amortized cost	**(0)**	**0**	**(0)**	**-**	**(0)**
TOTAL *Expected Credit Losses*	**(43)**	**(6)**	**7**	**-**	**(44)**
Other provisions	**(5)**	**(0)**	**-**	**-**	**(5)**
TOTAL	**(48)**	**(6)**	**7**	**-**	**(48)**

	H1 2022				
	January 1	Impairments	Reversals	Losses	June 30
Stage 1	-	-	-	-	-
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
Financial assets at fair value through equity	**-**	**-**	**-**	**-**	**-**
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	(3)	(1)	7	6	9
Stage 2	(15)	(3)	2	(5)	(20)
Stage 3	(5)	(0)	1	(1)	(5)
Loans and advances to customers at amortized cost	**(23)**	**(4)**	**9**	**-**	**(17)**
Stage 1	(4)	0	0	0	(4)
Stage 2	(12)	(1)	0	-	(12)
Stage 3	(0)	(0)	-	-	(0)
Bonds at amortized cost	**(16)**	**(1)**	**1**	**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 *Expected Credit Losses*	**(39)**	**(4)**	**10**	**-**	**(33)**
Other provisions	**(5)**	**-**	**1**	**-**	**(4)**
TOTAL	**(43)**	**(4)**	**11**	**-**	**(37)**

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

6.1 - Regular way trade

	12/31/2021	6/30/2022
Assets to be delivered	-	-
Liabilities to be received	-	-

6.2 - Guarantees

	12/31/2021	6/30/2022
Guarantees received from credit institutions	-	-
Enhanced guarantees (1)	10,059	10,541
Guarantees received from customers (2)	1,557	1,482

(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

	12/31/2021	6/30/2022
Loan commitments granted to credit institutions (1)	5,097	5,012
Loan commitments granted to customers (2)	31	0
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

	12/31/2021	6/30/2022
Commitments given(1)	5	6
Commitments received(2)	223	220

(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

	12/31/2021										
	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**	**-**	**-**

	6/30/2022										
	Financing commitments and financial guarantees under IFRS 9									Commitments and financial guarantees measured at fair	
	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**
Granted to credit institutions	5,012	-	-	5,012	(0)	-	-	(0)	5,012	-	-
Granted to customers	0	-	-	0	(0)	-	-	(0)	0	-	-
TOTAL	**5,012**	**-**	**-**	**5,012**	**(0)**	**-**	**-**	**(0)**	**5,012**	**-**	**-**

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

	12/31/2021		
	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)**

	6/30/2022		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1,069	1,069	-
Financial assets at fair value through profit or loss	3,024	3,024	-
Hedging derivatives	1,595	1,595	-
Financial assets at fair value through equity	-	-	-
Loans and receivables from credit institutions at amortized cost	5,735	5,703	(32)
Loans and advances to customers at amortized cost	45,748	43,190	(2,558)
Securities at amortized cost	6,193	5,472	(721)
TOTAL	**63,363**	**60,051**	**(3,312)**

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

	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**

	6/30/2022		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	452	452	-
Hedging derivatives	4,385	4,385	-
Due to banks at amortized cost	6,495	6,421	(74)
Debt securities at amortized cost	51,145	48,048	(3,096)
TOTAL	**62,476**	**59,306**	**(3,170)**

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 heddging 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.

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 assets

	6/30/2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Central banks	1,069	-	-	1,069
Financial assets at fair value through profit or loss	-	10	3,014	3,024
Hedging derivatives	-	1,505	90	1,595
Financial assets at fair value through equity	-	-	-	-
Loans and advances due from banks at amortized cost	5	5,476	222	5,703
Loans and advances to customers at amortized cost	-	-	43,190	43,190
Bonds at amortized cost	2,450	1,822	1,200	5,472
TOTAL	**3,523**	**8,812**	**47,716**	**60,051**

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**

Fair value of financial liabilities

	6/30/2022			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss	-	358	94	452
Hedging derivatives	-	4,047	338	4,385
Debt due to the banks at amortized cost	-	6,421	-	6,421
Debt securities at amortized cost	36,244	5,777	6,028	48,048
TOTAL	**36,244**	**16,604**	**6,459**	**59,306**

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.

	12/31/2021	**6/30/2022**
Uncertainty inherent in level 3 market parameters	3	4
Uncertainty inherent in level 3 derivatives valuation models	12	31
FINANCIAL INSTRUMENTS	**15**	**35**

7.1.4. Transfer between level 1 and 2

	12/31/2021	**6/30/2022**
Level 1 to level 2	-	-
TOTAL	**-**	**-**

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

	12/31/2021					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
			Montant net présenté au bilan	Effect of master netting arrangements	Financial instruments received as collateral	
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**

	6/30/2022					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
			Montant net présenté au bilan	Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	1,606	-	1,606	(1,533)	(29)	44
Loans and advances at fair value through profit or loss	3,013	-	3,013	-	-	3,013
Loans and advances due from banks at amortized cost	5,735	-	5,735	-	-	5,735
Loans and advances to customers at amortized cost	45,748	-	45,748	-	-	45,748
TOTAL	**56,101**	**-**	**56,101**	**(1,533)**	**(29)**	**54,539**

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

	12/31/2021					
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
			Montant net présenté au bilan	Effect of master netting arrangements	Financial instruments received as collateral	
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**

	6/30/2022					
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
			Montant net présenté au bilan	Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	4,837	-	4,837	(1,533)	(32)	3,272
Due to banks at amortized cost	6,495	-	6,495	-	-	6,495
Customer borrowings and deposits at amortized cost	-	-	-	-	-	-
TOTAL	**11,332**	**-**	**11,332**	**(1,533)**	**-**	**9,767**

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	12/31/2021	6/30/2022
France	65 321	61 036
Germany	296	2
Belgium	90	41
Italy	5 235	4 628
Spain	328	316
Other European Union countries	270	220
Switzerland	592	573
Norway	139	-
United Kingdom	1	4
United States and Canada	802	736
Japan	39	32
TOTAL EXPOSURE	**73 113**	**67 587**

Analysis of exposure by category of counterparty	12/31/2021	6/30/2022
Sovereigns	16 171	13 717
Local public sector	55 731	53 047
Other assets guaranteed by public sector entities	243	213
Financial institutions	960	605
Other exposures	8	6
TOTAL EXPOSURE	**73 113**	**67 587**

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	12/31/2021	6/30/2022
Banks	3 796	1 069
Fair value loans through profit or loss	3 505	2 995
Hedging derivatives	93	43
Securities at fair value through equity	-	-
Loans to credit institutions at amortized cost	25	26
Loans to customers at amortized cost	53 003	52 177
Securities at amortized cost	7 508	6 233
Adjustment accounts and miscellaneous assets	57	33
Financing commitments	5 126	5 013
TOTAL EXPOSURE	**73 113**	**67 587**

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, 2020, 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. Almost 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	1 069	-	-	-	-	1 069
Fair value loans through profit or loss	1 844	789	281	0	81	2 995
Hedging derivatives	-	-	2	37	3	43
Securities at fair value through equity	-	-	-	-	-	-
Loans to credit institutions amortized cost	20	-	-	5	-	26
Loans to customers at amortized cost	33 300	12 127	6 369	6	375	52 177
Securities at amortized cost	2 376	-	3 785	67	4	6 233
Adjustment accounts and miscellaneous assets	13	-	-	14	6	33
Funding commitments	5 010	0	-	3	-	5 013
TOTAL EXPOSURE	**43 633**	**12 916**	**10 438**	**131**	**469**	**67 587**
SHARE OF TOTAL EXPOSURE	**64,6%**	**19,1%**	**15,4%**	**0,2%**	**0,7%**	**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.

8. Impacts of the Covid-19 health crisis on the company's financial statements *(EUR millions)*

At June 30, 2022, the impacts associated with the Covid-19 health crisis on Caisse Française de Financement Local's financial statements prepared according to IFRS remained very limited.

Firstly, it is recalled that from spring 2020, the Caisse Française de Financement Local decided to deploy two approaches to support borrowers in coping with their difficulties as a result of the health crisis:
- one, proactive, offering extensions to payment terms for all health institutions due to their exceptional commitment in the Covid-19 pandemic. CAFFIL 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 be renewed at the request of customers.
- the other approach was to respond to requests from local and equivalent authorities faced with temporary cash flow difficulties. CAFFIL 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.).

From the beginning of 2022, all the payment extensions granted have been paid by the concerned customers. It should be noted that the public health institutions had already paid all maturities due before the end of 2021.

Lastly, as a reminder, Caisse Française de Financement Local also decided during 2020 to set up a provision for risks on the foreign exchange financial hedging instruments used to refinance the export credits in dollars in this sector. This provision was raised to EUR 3.9 million at the end of 2021. Caisse Française de Financement Local decided to reduce the amount of this provision by EUR 0.5 million at the end of June 2022. As a result, this provision for risks and expenses represented EUR 3.3 million at end June 2022.

Finally, within the export credit business and from the start of the health crisis, Caisse Française de Financement Local, with the support of SFIL, has been 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 a 100% unconditional and irrevocable guarantee granted by the French Republic.

9. Impacts of the conflict in Ukraine

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 as of June 30, 2022 represented outstandings on the balance sheet of EUR 50 million and an off-balance sheet financing commitment of EUR 14 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.

The consequences of the war in Ukraine on the forward-looking macroeconomic scenarios used to calculate the ECLs associated with local authorities in France are being finalized and will be implemented by the end of the year. These impacts are currently expected to be very limited.

10. Post- closing events

No significant event that influences the Company's financial situation has occurred since the closing on June 30, 2022.

3. Statutory auditors' report (IFRS)

This is a free translation into English of the Statutory Auditors' review 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.

Caisse Française de Financement Local

Statutory auditors' review report on the

interim financial statements

(For the six months ended 30 June 2022)

To the Chairman of the Executive Board,

In our capacity as Statutory Auditors of Caisse Française de Financement Local and in response to your request, we have performed a review of the accompanying interim financial statements of Caisse Française de Financement Local for the six months ended 30 June 2022.

These interim financial statements are the responsibility of the Executive Board. Our role is to express a conclusion on these interim financial statements based on our review.

We conducted our review 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements have not been prepared, in all material respects, in accordance with IAS 34 – "Interim Financial Reporting", 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 such action was brought before a court lacking jurisdiction or that those courts lack jurisdiction.

Neuilly-sur-Seine and Paris La Défense, 14 September 2022

The Statutory Auditors

PricewaterhouseCoopers Audit	KPMG S.A.
Ridha Ben Chamek	Jean-François Dandé

4.Financial statements (French GAAP)

for the period from January 1st to June 30, 2022

Financial Statements

Assets

EUR millions	Notes	12/31/2021	6/30/2022
Central banks	*2.1*	3,796	1,069
Government and public securities	*2.2*	3,603	3,290
Loans and advances to banks	*2.3*	5,193	5,755
Loans and advances to customers	*2.4*	46,662	48,002
Bonds and other fixed income securities	*2.5*	2,725	2,353
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*	40	57
Accruals and other assets	*2.7*	2,261	2,204
TOTAL ASSETS	*2.8*	**64,280**	**62,730**

Liabilities

EUR millions	Notes	12/31/2021	6/30/2022
Central banks		-	-
Due to banks	*3.1*	7,677	6,495
Customer borrowings and deposits		-	-
Debt securities	*3.2*	52,849	52,441
Other liabilities	*3.3*	441	134
Accruals and other liabilities	*3.4*	1,772	2,128
Provisions	*3.5*	44	39
Subordinated debt		-	-
Equity		**1,497**	**1,493**
Share capital	*3.6*	1,350	1,350
Additional paid-in capital	*3.6*	-	-
Reserves and retained earnings	*3.6*	66	62
Net income	*3.6*	81	81
TOTAL LIABILITIES	*3.7*	**64,280**	**62,730**

Off-balance sheet items

EUR millions	Notes	12/31/2021	6/30/2022
COMMITMENTS GRANTED	***4.1***	**5,133**	**5,019**
Financing commitments		5,128	5,012
Guarantees granted		-	-
Commitments on securities		-	-
Other commitments granted		5	6
COMMITMENTS RECEIVED	***4.2***	**11,890**	**12,294**
Financing commitments		50	50
Guarantees received		11,840	12,244
Commitments on securities		-	-
Forward commitments		-	-
Other commitments received		-	-
OTHER COMMITMENTS	***4.3***	**100,889**	**97,519**
Foreign currency transactions		14,221	13,264
Commitments on forward financial instruments		86,668	84,255
Commitments on bonds		-	-

Income statement

EUR millions	Notes	H1 2021	2021	H1 2022
Interest income	5.1	461	892	576
Interest expense	5.1	(370)	(690)	(412)
Income from variable income securities		-	-	-
Commission income	5.2	1	4	-
Commission expense	5.2	(2)	(3)	(2)
Net gains (losses) on held for trading portfolio		0	0	0
Net gains (losses) on placement portfolio	5.3	3	4	(3)
Other banking income		0	0	0
Other banking expense		(0)	(0)	(0)
NET BANKING INCOME		**93**	**206**	**160**
General operating expenses	5.4	(56)	(104)	(61)
Depreciation and amortization		-	-	-
GROSS OPERATING INCOME		**37**	**101**	**99**
Cost of risk	5.5	4	7	5
INCOME FROM OPERATIONS		**41**	**109**	**104**
Gains or losses on fixed assets		-	-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		**41**	**109**	**104**
Non-recurring items		-	-	-
Income tax	5.6	(10)	(28)	(23)
NET INCOME		**31**	**81**	**81**
Basic earnings per share		2.30	6.02	5.97
Diluted earnings per share		2.30	6.02	5.97

Equity

EUR millions	Montant
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 year	81
Interim dividends	-
EQUITY AS OF 12/31/2021	**1,497**
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 capita	-
Changes in reserves and retained earnings	81
Dividends paid (-)	(85)
Changes in net income for the period	(1)
Other movements	-
AS OF 06/30/2022	
Share capital	1,350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	62
Net income for the period	81
EQUITY AS OF 06/30/2022	**1,493**

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 June 30, 2022, were examined by the Management Board on September 5, 2022 and approved by the Supervisory Board on September 8, 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 June 30, 2022, were prepared using the same accounting policies as those used in the financial statements as of December 31, 2021. 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, 2021 and 2022 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.

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 June 30, 2022

SFIL

1-3 rue du Passeur de Boulogne

92130 Issy-les-Moulineaux

2. Notes to the assets *(EUR millions)*

2.1 - Central banks

	12/31/2021	6/30/2022
Mandatory reserves	-	-
Other deposits	3,796	1,069
TOTAL	**3,796**	**1,069**

2.2 - Government and public entity securities eligible for central bank refinancing

2.2.1. Accrued interest included in this item: 31

2.2.2. 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
3	2	258	520	2,476	(0)	3,259

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

	Net amount as of 12/31/2021	Gross amount as of 6/30/2022	Impairment as of 6/30/2022	Net amount as of 6/30/2022	Unrealized capital gain or loss as of 6/30/2022 (2)
Listed securities (1)	3,555	3,259	(0)	3,259	(546)
Other securities	-	-	-	-	-
TOTAL	**3,555**	**3,259**	**(0)**	**3,259**	**(546)**

(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 12/31/2021	Gross amount as of 12/31/2021	Acquisitions	Amortization, redemption or disposals	Others movements	Excahnge rate variation	Impairment as of 6/30/2022	Net amount as of 6/30/2022 (1)	Unrealized capital gain or loss as of 6/30/2022 (2)
Trading	-	-	-	-	-	-	-	-	-
Placement	417	417	(0)	(275)	-	-	-	142	(18)
Investment	3,138	3,138	-	(20)	-	-	-	3,118	(529)
TOTAL	**3,555**	**3,555**	**(0)**	**(296)**	**-**	**-**	**-**	**3,259**	**(546)**

(1) These amounts include a premium/discount of EUR 7 million for the investment portfolio and EUR 87 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

	12/31/2021	6/30/2022
Sight accounts	5	5
Unallocated sums	-	-
TOTAL	**5**	**5**
of which replacement assets	*5*	*5*

2.3.2. Term loans and advances to banks

2.3.2.1 Accrued interest included in this item: 9

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 year to 5 years	More than 5 years	Indeterminate	Total
38	47	520	2,518	2,620	-	5,741

2.3.2.3 Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2021	Gross amount as of 6/30/2022	Impairment as of 6/30/2022	Net amount as of 6/30/2022
Loans of less than 1 year	-	-	-	-
Loans of more than 1 year	5,185	5,741	-	5,741
TOTAL	**5,185**	**5,741**	**-**	**5,741**

2.3.2.4 Breakdown by counterparty

	12/31/2021	6/30/2022
SFIL - Export credits refinancing loans guaranted by the French State (1)	4,960	5,519
local authotity		
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	225	222
TOTAL	**5,185**	**5,741**
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.

2.4 - Loans and advances to customers

2.4.1. Accrued interest included in this item: 388

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
	492	594	3,241	15,745	27,546	(3)	47,614

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

Economic sector	12/31/2021	30/06/2022
Public sector	45,092	46,487
Other sectors	1,189	1,127
TOTAL	**46,281**	**47,614**

2.4.4. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2021	Gross amount as of 6/30/2022	Impairment as of 6/30/2022	Net amount as of 6/30/2022
Loans of less than 1 year	20	20	-	20
Loans of more than 1 year	46,261	47,596	(3)	47,594
TOTAL	**46,281**	**47,616**	**(3)**	**47,614**

2.4.5. Analysis of loans by category of outstanding loans excluding accrued interest

	Net amount as of 12/31/2021	Gross amount as of 6/30/2022	Impairment as of 6/30/2022	Net amount as of 6/30/2022
Performing commitments	46,139	47,476	-	47,476
Non-performing loans	59	71	(1)	70
Compromised non-performing loans	83	70	(2)	68
TOTAL	**46,281**	**47,616**	**(3)**	**47,614**

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. Outstandings 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 within the framework of the loan sensitivity reduction policy.

There were 93 forborne contracts as of June 31, 2022, with 74 borrowers, for a total of EUR 334 million.

2.4.6. Depreciation for non-performing loans - changes during the year

	12/31/2021	Allocations	Reversals	Transfers	6/30/2022
For non-performing loans					
On loans	-	-	-	-	-
On interest	(1)	(1)	1	-	(1)
For compromised non-performing loans	-	-	-	-	-
On loans	-	-	-	-	-
On interest	(10)	(1)	9	-	(2)
TOTAL	**(11)**	**(2)**	**10**	**-**	**(3)**

Provisions on interest are recorded in Net banking income and provisions on nominal are recorded in Cost of risk.

Net banking income for 2021 showed reversals of significant specific impairments following the decision to remove two customers from the doubtful category in line with their contractual payment schedules.

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: 12

2.5.2. 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
18	50	357	918	1,001	(2)	2,341

2.5.3. Analysis by the issuer's economic sector excluding accrued interest

	12/31/2021	6/30/2022
Public sector	1,890	1,803
Other sectors (guaranteed by a State or by a local government)	-	-
Credit institutions	814	538
TOTAL	**2,704**	**2,341**
of which replacement assets	*814*	*538*

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

	Net amount as of 12/31/2021	Gross amount as of 6/30/2022	Impairment as of 6/30/2022	Net amount as of 6/30/2022	Unrealized capital gain or loss as of 6/30/2022 (2)
Listed securities (1)	1,513	1,237	(2)	1,235	(65)
Other securities	1,191	1,106	-	1,106	(60)
TOTAL	**2,704**	**2,343**	**(2)**	**2,341**	**(125)**

(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	Gross amount as of 12/31/2021	Acquisitions	Amortization, redemption or disposals	Others movements	Exchange rate variation	Impairment as of 6/30/2022	Net amount as of 6/30/2022 (1)	Unrealized capital gain or loss as of 6/30/2022 (2)
Trading	-	-	-	-	-	-	-	-
Placement	801	10	(284)	-	14	(2)	539	11
Investment	1,904	2	(115)	-	13	-	1,802	(136)
TOTAL	**2,704**	**12**	**(399)**	**-**	**26**	**(2)**	**2,341**	**(125)**

(1) This amount includes a premium / discount of EUR 1 million for the placement portfolio and of EUR 53 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

	12/31/2021	6/30/2022
Taxes	35	14
Other receivables	5	6
Cash collateral payed to SFIL[1]	-	37
TOTAL	**40**	**57**

It should be noted that the Caisse Française de Financement Local has set up a new ISDA framework agreement with SFIL. This new framework agreement enables the implementation of interest rate and exchange rate risk hedging derivatives associated with a very limited number of Caisse Française de Financement Local's assets that do not meet the requirements of article 129 of the CRR as amended as part of the new covered bonds directive that will enter into force at the beginning of July 2022. Caisse Française de Financement Local has complied with this new framework in order to obtain the "European High Quality Covered Bond" label for its obligations foncières. As the new texts are more restrictive as regards the eligibility of certain assets, the derivatives used to hedge the associated risks no longer benefit from the legal privilege. A symmetrical exchange of cash collateral between the parties is carried out in line with market practices. In this context, on June 30, 2022, Caisse Française de Financement Local paid EUR 37 million in cash collateral to SFIL.
It should be noted that all of SFIL's other derivative counterparties benefit from the legal privilege and therefore do not receive any cash collateral paid by CAFFIL.

2.7 - Accruals and other assets

	12/31/2021	6/30/2022
Deferred losses on hedging transactions	893	892
Deferred charges on bond issues	60	63
Prepaid charges on hedging transactions	171	165
Premiums on acquisition of loans	606	612
Other prepaid charges	0	0
Accrued interest not yet due on hedging transactions	528	472
Translation adjustments	-	0
Other deferred income	1	0
Other accruals	3	(0)
TOTAL	**2,261**	**2,204**

2.8 - Breakdown of assets by currency

Analysis by original currency	**Amount in original currency as of 12/31/2021**	**Amount in euros as of 12/31/2021**	**Amount in original currency as of 6/30/2022**	**Amount in euros as of 6/30/2022**
EUR	63,759	63,759	62,183	62,183
CHF	130	126	127	128
DKK	-	-	-	-
GBP	128	153	132	154
HUF	-	-	-	-
NOK	-	-	-	-
PLN	51	11	52	11
SEK	-	-	-	-
USD	6	5	14	14
AUD	20	13	20	13
CAD	306	213	306	227
HKD	-	-	-	-
JPY	-	-	-	-
NZD	-	-	-	-
TRY	-	-	-	-
ZAR	-	-	-	-
TOTAL	**-**	**64,280**	**-**	**62,730**

2.9 - Breakdown of depreciation by country

	Amount as of 12/31/2021	**Amount as of 6/30/2022**
Government and public entity - placement securities	**-**	**(0)**
France	-	(0)
Bonds and other fixed income - placement securities	**(0)**	**(2)**
France	-	(1)
Belgium	-	-
Canada	(0)	(1)
Finland	-	-
Norway	-	-
Netherlands	-	-
Germany	-	-
Sweden	-	(0)
Bonds and other fixed income - investment securities	**-**	-
Loans and advances to customers	**(11)**	**(3)**
France	(11)	(3)

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 or €ster.

3.1.1 Accrued interest included in this item: 0

3.1.2. Debt to credit institutions excluding acrrued interest

	12/31/2021	6/30/2022
Sight accounts	-	-
Current account - parent company	-	-
Term borrowing - parent company	7,682	6,495
Unallocated sums	-	-
TOTAL	**7,682**	**6,495**

3.1.3 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
Sight	-	-	-	-	-	-	-
Term	900	1,200	1,980	1,415	1,000	-	6,495
TOTAL	**900**	**1,200**	**1,980**	**1,415**	**1,000**	**-**	**6,495**

3.2 - Debt securities

3.2.1. Debt securities (*obligations foncières*)

3.2.1.1. Accrued interest included in this item: 349

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 year to 5 years	More than 5 years	Indeterminate	Total
Obligations foncières	700	231	2,599	16,472	25,771	-	45,773
of which net issue premiums (1)	0	0	-1	-5	28	-	22

(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 12/31/2021	Increases	Decreases	Others movements	Amount as of 6/30/2022
Obligations foncières	46,063	3,074	(3,380)	16	45,773

3.2.2. Other bonds (registered covered bonds)

3.2.2.1. Accrued interest included in this item: 139

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 year to 5 years	More than 5 years	Indeterminate	Total
Registered covered bonds	-	-	183	1,879	4,118	-	6,180
of which net issue premiums (1)	-	-	(0)	(0)	33	-	33

(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 12/31/2021	Increases	Decreases	Others movements	Amount as of 6/30/2022
Registered covered bonds	6,224	38	(81)	-	6,180

3.3 - Other liabilities

	12/31/2021	6/30/2022
Cash collateral received	331	36
Accrued interest not yet due on cash collateral received	(0)	(0)
Taxes	28	25
Balances to pay on unwound hedging contracts	-	-
Contribution to the support fund [1]	70	60
Other creditors	13	13
TOTAL	**441**	**134**

(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

	12/31/2021	6/30/2022
Deferred gains on hedging transactions	-	-
Deferred income on hedging transactions	909	834
Deferred income on loans	172	490
Accrued interest not yet due on hedging transactions	438	402
Other accrued charges	14	12
Translation adjustments	239	391
Other accruals	0	0
TOTAL	**1,772**	**2,128**

3.5 - Provisions for risks and charges

	Amount as of 12/31/2021	Increases	Decreases	Others movements	Amount as of 6/30/2022
Loans and commitments [1]	23	0	(4)	-	19
Financial instruments [2]	17	1	(0)	-	17
Other provisions [3]	4	-	(1)	-	3
TOTAL	**44**	**1**	**(5)**	**-**	**39**

(1) The change in provisions for loans and commitments is mainly due to additions and removals from the customer credit watchlist approved during the financial year.

(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 for risks on the foreign exchange financial hedging instruments used to refinance the export credits in dollars in this sector. This provision was raised to EUR 3.9 million at the end of 2021. Caisse Française de Financement Local decided to reduce the amount of this provision by EUR 0.5 million at the end of June 2022 (see note 6).

3.6 Equity

	Amount as of 12/31/2021	Amount as of 6/30/2022
Share capital	1,350	1,350
Legal reserve	58	62
Retained earnings (+/-)	8	0
Net income (+/-)	81	81
TOTAL	**1,497**	**1,493**

On May 24, 2022, the Ordinary and Extraordinary Shareholders' Meeting decided to allocate the 2021 financial year net profit, *i.e.* a balance of EUR 85 million after taking into account retained earnings and after deduction of the legal reserve, to payment of a dividend in the amount of EUR 85 million.
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 12/31/2021	Amount in euros as of 12/31/2021	Amount in original currency as of 6/30/2022	Amount in euros as of 6/30/2022
EUR	63,759	63,759	62,183	62,183
CHF	130	126	127	128
DKK	-	-	-	-
GBP	128	153	132	154
HUF	-	-	-	-
NOK	-	-	-	-
PLN	51	11	52	11
SEK	-	-	-	-
USD	6	5	14	14
AUD	20	13	20	13
CAD	306	213	306	227
HKD	-	-	-	-
JPY	-	-	-	-
NZD	-	-	-	-
TRY	-	-	-	-
ZAR	-	-	-	-
TOTAL	**-**	**64,280**	**-**	**62,730**

3.8 - Transactions with related parties

	Parent company [(1)]		Other related parties [(2)]	
Analysis by nature	**12/31/2021**	**6/30/2022**	**12/31/2021**	**6/30/2022**
ASSETS				
Loans and advances to banks	4,962	5,528	-	-
Bonds and other fixed income securities	-	-	-	-
Other assets	34	51	-	-
Accruals and other assets	136	151	-	-
LIABILITIES	-	-	-	-
Due to banks	7,677	6,495	-	-
Debt securities	-	-	366	332
Other liabilities	28	24	-	-
Accruals and other liabilities	241	208	0	-
INCOME STATEMENT	-	-	-	-
Interest income	(98)	57	0	-
Interest expense	90	26	(17)	(6)
Commission income	-	-	-	-
Commission expense	-	-	(0)	(0)
Net gains (losses) on held for trading portfolio	-	-	-	-
Net gains (losses) on placement portfolio	-	-	-	-
Other banking income	-	-	-	-
Other banking expense	-	-	-	-
General operating expenses	(96)	(52)	-	-
OFF-BALANCE SHEET	-	-	-	-
Interest rate derivatives	14,602	14,319	-	-
Foreign exchange derivatives	519	569	-	-
Financing commitments received	50	50	-	-
Financing commitments given	5,097	5,012	-	-

(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.

4. Notes to the off-balance sheet items *(EUR millions)*

4.1 - Commitments granted

	12/31/2021	6/30/2022
Financing commitments granted to credit institutions (1)	5,097	5,012
Financing commitments granted to customers (2)	31	0
Other commitments given, assets assigned in guarantee (3)	5	6
TOTAL	**5,133**	**5,019**

(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

	12/31/2021	6/30/2022
Financing commitments received from credit institutions (1)	50	50
Currencies borrowed	-	-
Guarantees received from credit institutions	-	-
Enhanced guarantees (2)	10,059	10,541
Guarantees received from local governments and asset transfers as guarantees of commitments on local government	1,780	1,703
Other commitments received	-	-
TOTAL	**11,890**	**12,294**

(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.

	12/31/2021	6/30/2022	Fair value as of 6/30/2022
Currencies to receive	6,871	6,241	(208)
Currencies to deliver	7,111	6,632	129
TOTAL	**13,982**	**12,873**	**(79)**

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 year to 5 years	More than 5 years	Indeterminate	Amount as of 6/30/2022
Notional amount	86,668	2,123	3,287	19,195	23,791	35,860	-	**84,255**
of which deferred start	1,987	-	-	700	-	3,968	-	**4,668**

These hedging transactions include micro-hedge and macro-hedge transactions.

4.4.2. Analysis of interest rate transactions by product type

	12/31/2021	6/30/2022
Interest rate swaps	86,668	84,255
Term contracts	-	-
Interest rate options	-	-
TOTAL	**86,668**	**84,255**

4.4.3. Analysis of interest rate swap transactions

	12/31/2021	6/30/2022	Fair value as of 6/30/2022
Micro-hedge	51,208	47,945	(2,261)
Macro-hedge	35,460	36,310	(500)
TOTAL	**86,668**	**84,255**	**(2,762)**

4.4.4. Analysis of interest rate transactions by counterparty

	12/31/2021	6/30/2022
Related parties	14,602	14,319
Other counterparties	72,066	69,936
TOTAL	**86,668**	**84,255**

5. Notes to the income statement *(EUR millions)*

5.1 - Interets and related income / expense

	H1 2021	H1 2022
INCOME	**461**	**576**
Due from banks	5	6
Due from customers	358	372
Bonds and other fixed income securities	27	23
Macro-hedge transactions	70	175
Other commitments	-	-
EXPENSE	**(370)**	**(412)**
Due to banks	3	(5)
Due to customers	(88)	(96)
Bonds and other fixed income securities	(6)	(72)
Macro-hedge transactions	(280)	(239)
Other commitments	-	-
INTEREST MARGIN	**91**	**164**

The interest margin at June 30, 2022 recorded income of EUR 62 million from the collection of compensation for the termination of interest rate macro-hedging swaps in accordance with the Company's accounting principles (see 1.2.6). This income may decrease by the end of the year given the method used to hedge the interest rate risk associated with the Company's assets and liabilities and any future swap cancellations. As a reminder, CAFFIL may have to terminate asset or liability hedging swaps in order to naturally match fixed-rate assets with fixed-rate liabilities. This makes it possible to hedge interest rate risk without the use of hedging derivatives. This practice, used for several years, allows the Company to reduce its volume of derivatives. As a reminder, Caisse Française de Financement Local only uses derivatives to hedge its risks and manages its interest rate risk within very low limits given its limited risk appetite.

5.2 - Commisions received and paid

	H1 2021	H1 2022
Chargeback commissions received from / paid to SFIL (1)	-	-
Other commissions (2)	(1)	(2)
TOTAL	**(1)**	**(2)**

(1) As a reminder, 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).

5.3 - Net gains or losses on portfolio transactions

	H1 2021	H1 2022
Transactions on placement securities (1)	3	(3)
Transactions on investment securities	-	-
Transactions on interest rate derivatives	(0)	0
Foreign exchange transactions	0	0
TOTAL	**3**	**(2)**

(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.

	H1 2021	H1 2022
Payroll costs	-	-
Other general and administrative operating expenses	(49)	(53)
Taxes	(6)	(8)
TOTAL	**(56)**	**(61)**
of which fees charged back by SFIL.	*(48)*	*(52)*

5.5 - Cost of risk

	H1 2021	H1 2022
Collective and specific impairments	4	5
TOTAL	**4**	**5**

5.6 - Corporate income tax

	H1 2021	H1 2022
Income tax for the year (1)	(10)	(23)
TOTAL	**(10)**	**(23)**

(1) The tax rate applicable in France for the financial year ended December 31, 2021 was 28.41%. It decreased to 25.83% for the financial years ended on or after December 31, 2022.

6. Impacts of the Covid-19 health crisis on the company's financial statements *(EUR million)*

At June 30, 2022, the impacts associated with the Covid-19 health crisis on Caisse Française de Financement Local's financial statements prepared according to French GAAP remained very limited.

Firstly, it is recalled that from spring 2020, the Caisse Française de Financement Local decided to deploy two approaches to support borrowers in coping with their difficulties as a result of the health crisis:
- one, proactive, offering extensions to payment terms for all health institutions due to their exceptional commitment in the Covid-19 pandemic. CAFFIL 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 be renewed at the request of customers.
- the other approach was to respond to requests from local and equivalent authorities faced with temporary cash flow difficulties. CAFFIL 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.).

From the beginning of 2022, all the payment extensions granted have been paid by the concerned customers. It should be noted that the public health institutions had already paid all maturities due before the end of 2021.

Lastly, as a reminder, Caisse Française de Financement Local also decided during 2020 to set up a provision for risks on the foreign exchange financial hedging instruments used to refinance the export credits in dollars in this sector. This provision was raised to EUR 3.9 million at the end of 2021. Caisse Française de Financement Local decided to reduce the amount of this provision by EUR 0.5 million at the end of June 2022. As a result, this provision for risks and expenses represented EUR 3.3 million at end June 2022.

Finally, within the export credit business and from the start of the health crisis, Caisse Française de Financement Local, with the support of SFIL, has been 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 a 100% unconditional and irrevocable guarantee granted by the French Republic.

7. Impact of the war in Ukraine on the financial statements of the company *(EUR million)*

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 as of June 30, 2022 represented outstandings on the balance sheet of EUR 50 million and an off-balance sheet financing commitment of EUR 14 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.

8. Post-closing events

No significant event that influenced the Company's financial position has occurred since the closing on June 30, 2022.

5. Statutory auditors' report (French GAAP)

This is a free translation into English of the Statutory Auditors' review 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.*

Caisse Française de Financement Local

Statutory auditors' review report on the interim financial information (for the six months ended 30 June 2022)

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting and in accordance with the requirements of Article L. 451-1-2 III of the French Monetary and Financial Code (Code monétaire et financier), we hereby report to you on:
- the review of the accompanying interim financial statements of Caisse Française de Financement Local for the six months ended 30 June 2022;
- the verification of the information contained in the interim management report.

These consolidated financial statements are the responsibility of the Executive Board. Our role is to express a conclusion on these financial statements based on our review.

I – Conclusion on the financial statements

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

A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial statements have not been prepared, in all material respects, in accordance with French accounting principles.

II – Specific verification

We have also verified the information given in the interim management report on the interim financial statements subject to our review.

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

Neuilly-sur-Seine and Paris La Défense, 14 September 2022

The Statutory Auditors

PricewaterhouseCoopers Audit
Ridha Ben Chamek

KPMG S.A.
Jean-François Dandé

6. Statement by the person responsible

STATEMENT OF THE PERSON RESPONSIBLE FOR THE HALF-YEAR FINANCIAL REPORT

I, the undersigned, Gilles GALLERNE, Chairman of the Executive Board of Caisse Française de Financement Local, hereby affirms that, to the best of my knowledge, these half-year financial statements have been prepared in conformity with applicable accounting standards and provide an accurate and fair view of the assets and liabilities, financial position and earnings of the company, and that the half-year financial report presents a fair image of significant events that have taken place during the first six months of the year and their impact on the half-year financial statements, and a description of all the major risks and uncertainties concerning the remaining six months of the fiscal year.

Issy-les-Moulineaux, September 14, 2022

Gilles GALLERNE
Chairman of the executive board