



Annual Financial Report 2020



Caisse
Française de
Financement
Local



Public sector obligations
foncières to support
the economic recovery



2020



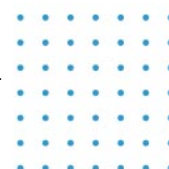
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This free translation of the annual financial report published in French is provided solely for the convenience of English-speaking readers.





2020



Annual Financial Report



This document aims to present the Company's business during the fiscal year 2020, in accordance with the provisions of Article L. 451-1-2 of the French Monetary and Financial Code and Article 222-3 of the AMF General Regulation. It is filed with the AMF in accordance with the modalities provided by the General Regulation, and is available on the issuer's website.

CAFFIL

Caisse Française de Financement Local

The SFIL group

A vision

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

Two public policy missions, serving the economic recovery

Long-term financing of French local authorities and public hospitals

Long-term financing of large contracts for French companies abroad

CAFFIL

A market leader in covered bonds

Leading European issuer of covered bonds financing the public sector.

A recognized issuer with excellent standing

A subsidiary of the French public development bank SFIL

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

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

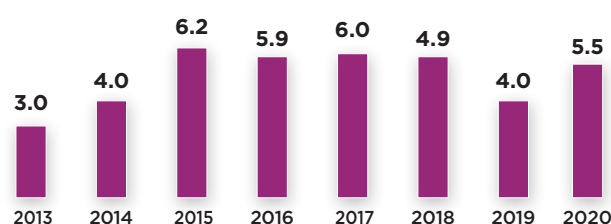
High visibility in terms of business volume,
financing conditions and results



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

I An exceptional funding capacity

BOND ISSUES SINCE 2013



EUR 5.5 billion

Issues in 2020 of obligations foncières (covered bonds)

EUR 50.5 billion

Outstanding obligations foncières as of December 31, 2020

I A recognized issuer

Issues awarded internationally

Best Social Bond
IFR Awards 2019

Best Social Bond - Asset based & Covered Bonds Issuer
Environmental Finance 2020

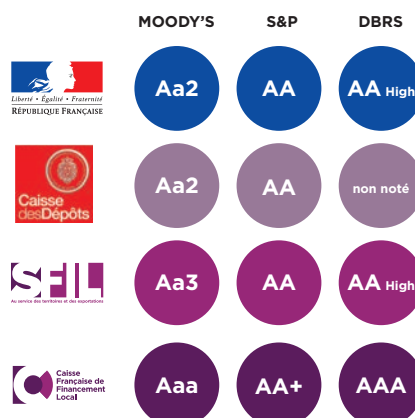
Best green, social or sustainability deal
The Covered Bond Report, Awards 2020

Most impressive Fi Funding Strategy during Covid Pandemic
Global Capital Bond Awards 2020

Best Covered Bond Issuer
CMD Portal Awards 2020

With excellent standing

High ratings reflecting the ties with the State



Extra-financial ratings reflecting the SFIL group's CSR commitments

For bonds issued by CAFFIL:

ISS: Prime C⁺

MSCI: AA for CAFFIL

IMUG: Positive BBB

For SFIL:

Sustainalytics*: 7.7/100, one of the best scores among 1,000 financial institutions

* Solicited rating.

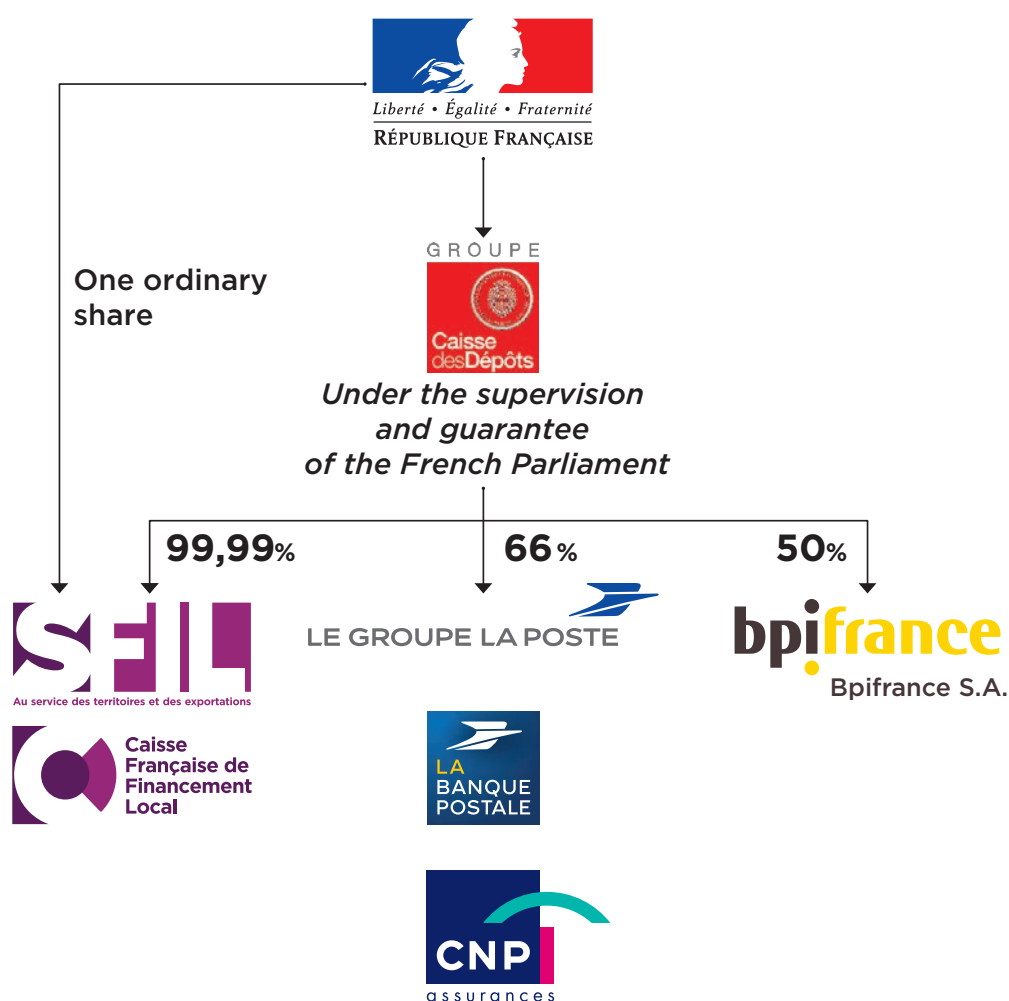
I High-quality bonds

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

The SFIL group

I Successful integration into the new major public finance hub

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



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

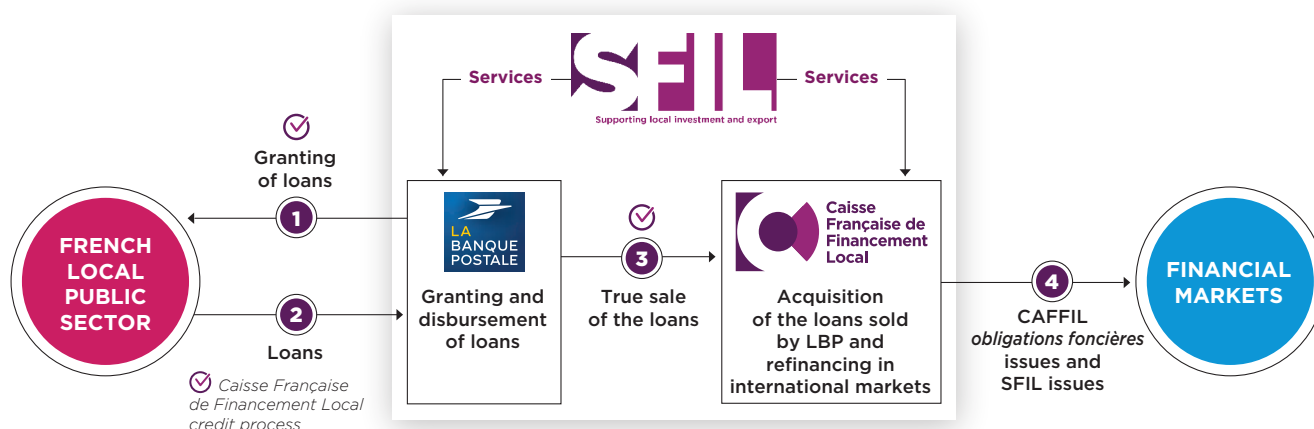


Leader in its two large markets

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

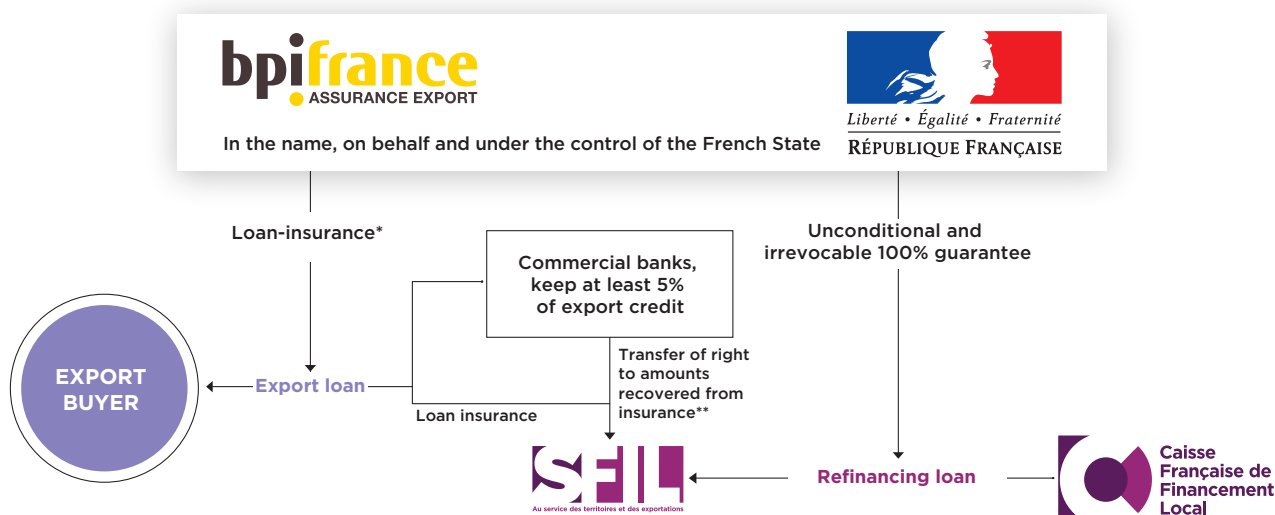
The SFIL group refinances medium- and long-term loans originated by La Banque Postale to regional authorities and public hospitals. These loans are refinanced by bond issues designed for institutional investors.

OPERATIONAL DIAGRAM OF THE SYSTEM



The leading contributor of liquidities on the export credit market

A SYSTEM WITHIN THE PUBLIC SPHERE



* Or, pure and unconditional guarantee for the aviation sector.

** In the case of credit insurance at 95 %.

A regular, trustworthy issuer of green and social issues

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

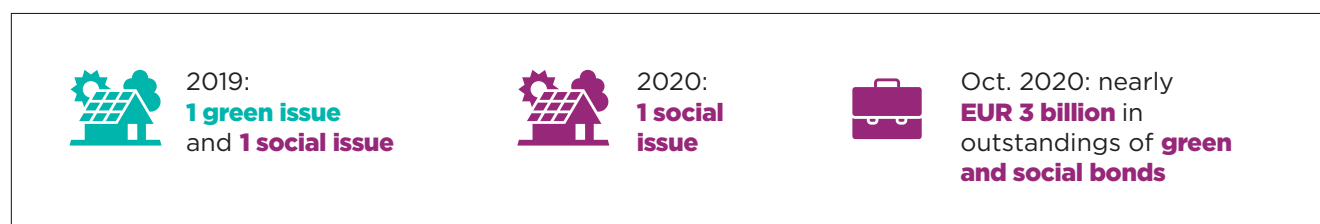


One commitment to the France Recovery Plan thanks to green loans

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



Achievements





Key Figures

I Balance sheet

EUR 58.5 billion

Asset portfolio
(cover pool)

EUR 50.5 billion

Obligations foncières
(covered bonds)

I Activity 2020

EUR 4.6 billion

**Acquisition of loans
to French public sector**
(partnership with LBP)

EUR 0.2 billion

**Export refinancing
signed**

EUR 5.5 billion

**Covered bonds
issued in 2020**

I Quality of assets

0.4%

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

68.8%

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

28.8%

Common Equity Tier 1 Ratio
(Bâle III)



1



Management report

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Management report of Caisse Française de Financement Local 2020

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

1.1.1 Nature and activity of the Company

Caisse Française de Financement Local (also known by its acronym 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*.

It is a specialized credit institution authorized to operate as a *société de crédit foncier*. 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. 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 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, 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 contract other covered bonds negotiable or not in regulated markets. All these instruments are characterized by the legal privilege that primarily affects cash flows from the Company's assets to pay the interest and reimbursement of the *obligations foncières*. *Sociétés de crédit foncier* may also issue or contract non-covered debt. *Obligations foncières* constitute a significant element in the international covered bond market.

1.1.2 Form and shareholding structure of the Company

1.1.2.1 Legal structure and name of the Company

The Company was created on December 29, 1998, for a period of 99 years. It was authorized to operate as a *société de crédit foncier* by the Comité des Établissements de Crédit et des Entreprises d'Investissement (now a part of ACPR) at its meeting on July 23, 1999. The authorization became definitive as of 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 group and La Banque Postale.

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

1.1.2.2 Company shareholders

As of December 31, 2020, Caisse Française de Financement Local was wholly-owned by SFIL.

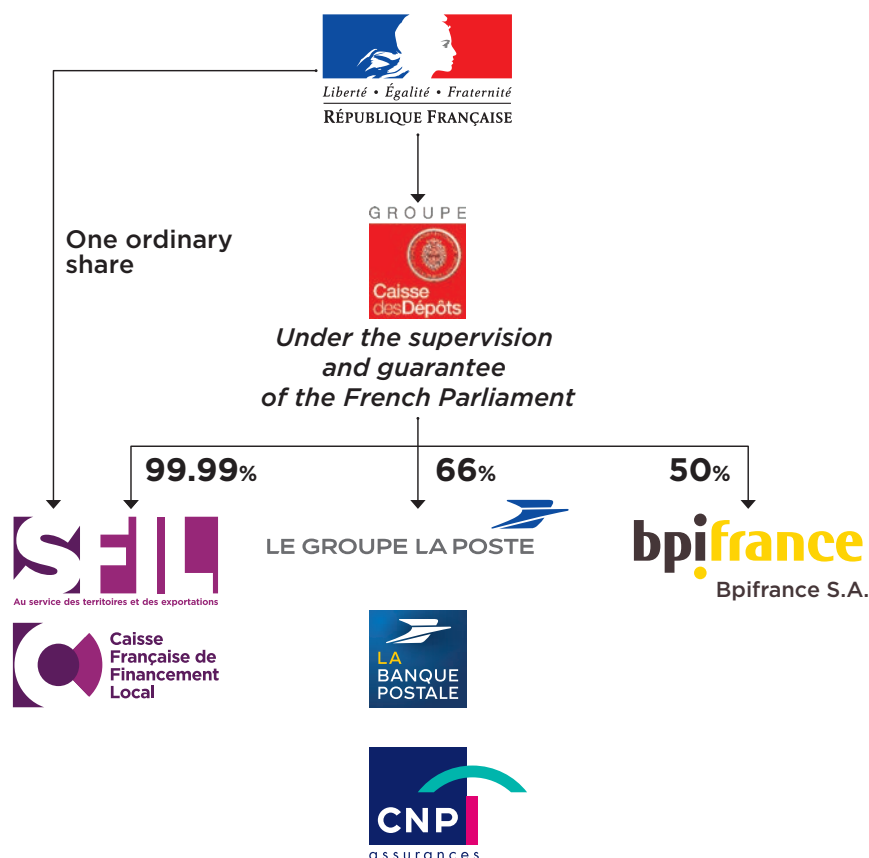
Caisse Française de Financement Local and its parent company SFIL are key elements in the financing of local authorities and public hospitals in France. This organization, introduced by the French State in 2013, is based on a commercial activity developed by La Banque Postale whose refinancing is ensured 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.

SFIL is a credit institution approved by the ACPR. Since September 30, 2020, its shareholder is the Caisse des Dépôts (99.99% holding). 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 with the Autorité de Contrôle Prudentiel et de Résolution (ACPR), underlines its involvement to ensure oversight and to influence strategic decisions, as well as its determination to ensure Caisse Française de Financement Local's and SFIL's ongoing financial transactions and to comply with regulatory requirements, if so required.

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.

THE OWNERSHIP STRUCTURE OF SFIL AND ITS SOLE SUBSIDIARY, CAISSE FRANÇAISE DE FINANCEMENT LOCAL

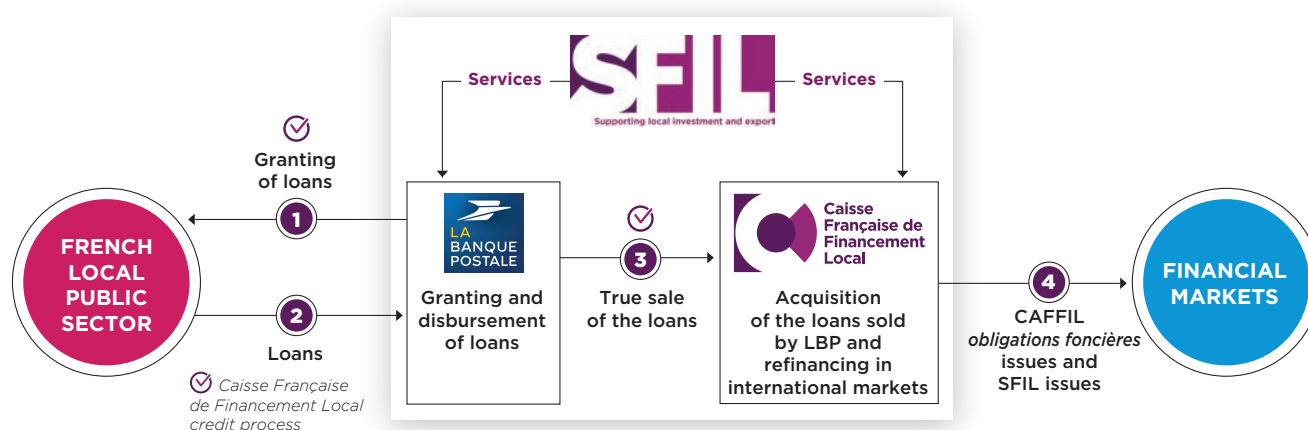


1.1.3 Caisse Française de Financement Local's economic model

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

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 vanilla 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.



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. Caisse Française de Financement Local's eligibility criteria are strictly monitored by internal management policies and limit eligible counterparties to French local public sector entities and public hospitals;
- 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 specific to *sociétés de crédit foncier*.

1.1.3.2 Refinancing of large export credits

SFIL and Caisse Française de Financement Local have been entrusted with a second mission by the French State: to refinance large French export contracts, with the objective of supporting French exports in terms of financial competitiveness, in accordance with a public refinancing plan comparable to that of other 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 loans benefit from an irrevocable and unconditional 100% guarantee by the French State (enhanced guarantee)⁽¹⁾. This business brings Caisse Française de Financement Local closer to the French State, without modifying the risk profile of its cover pool.

⁽¹⁾ The enhanced guarantee was introduced by law 2012-1510 of December 29, 2012, and Decree 2013-693 of July 30, 2013, as amended by Decree 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 export refinancing 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 this refinancing activity in Caisse Française de Financement Local's portfolio will increase gradually and will only become significant in several years.

1.1.3.2.1 The system for refinancing large export credits

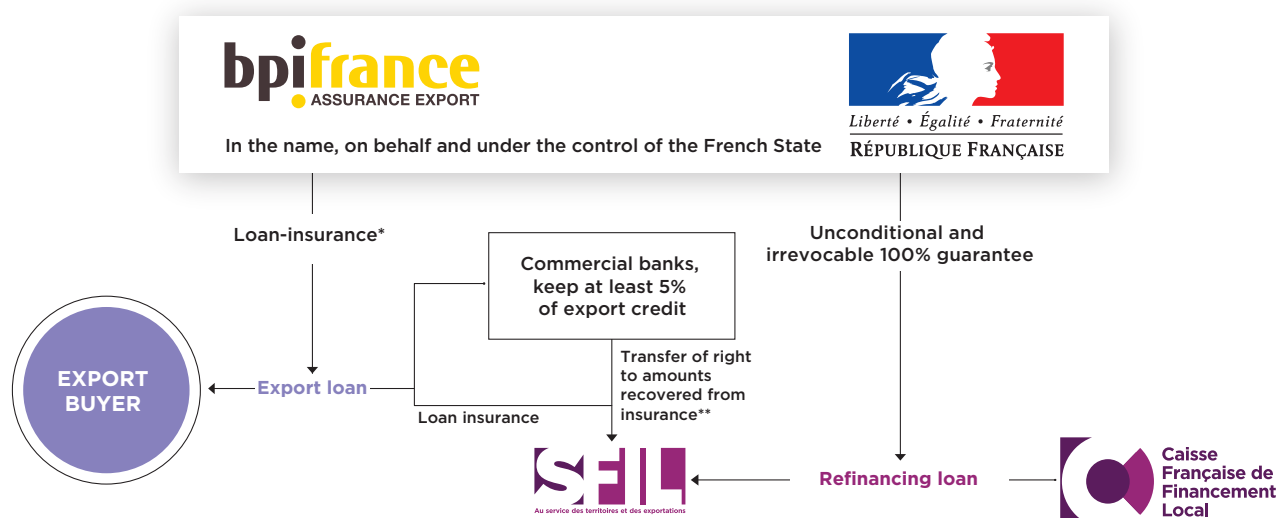
The system functions as follows:

- 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.

Loans granted by Caisse Française de Financement Local to SFIL to refinance the purchased export credits thus constitute exposures that are totally guaranteed by the French State and eligible for the cover pool of a *société de crédit foncier*. These loans also comply with the European CRR regulation (article 129, which specifies the assets authorized for inclusion in a cover pool to ensure that the covered bonds will benefit from the best prudential treatment).

OPERATIONAL DIAGRAM OF THE SYSTEM OF EXPORT CREDIT REFINANCING BY SFIL-CAFFIL



* Or, pure and unconditional guarantee for the aviation sector.

** In the case of credit insurance at 95%.

1.1.3.2.2 The 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.

For these transactions, no enhanced guarantee has been put in place 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 unconditional guarantee at 100% from which the export credit benefits (GPI), under a financial guarantee contract provided for in the refinancing loan agreement.

1.1.3.2.3 French State export guarantees

Since the end of 2016, these guarantees have been 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. The guarantees are therefore directly granted by the State, demonstrating

the support of the French State 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 decisions to grant the guarantee are taken by the French Minister of the Economy and Finance after examination by Bpifrance Assurance Export and opinion of the Commission for Guarantees and Foreign Trade Credit; Bpifrance Assurance Export manages public 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, Bpifrance Assurance Export is also tasked with collecting insurance and guarantee premiums, managing risks, payments, and collections on behalf of the French State;
- the risks related to these guarantees are borne by the French State and all financial flows (premiums, payments, repayments) are recorded in separate accounting entries by Bpifrance Assurance Export. Premiums and collections are received directly on the account of the French State, and payments are made directly from the same account, without passing through the accounts of Bpifrance Assurance Export.

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

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

This source of financing is the main source of liquidity for the SFIL Group and represents an outstanding of EUR 50.5 billion at December 31, 2020.

1.1.3.4 Servicing and financing provided by SFIL

The role of SFIL primarily involves the following:

- the complete operational management of the Company, as defined by the regulations applicable to *sociétés de crédit foncier*, in particular 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. It 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, shareholder refinancing is still available particularly in the case of liquidity requirements generated under a situation of stress. The financing agreement signed between CDC and SFIL (initially signed in February 2013) was also revised in December 2020 to adapt it to the new shareholder environment and SFIL's current financial position.

In addition to the commitments made by Caisse des Dépôts as SFIL's reference shareholder, a new 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.

It should be noted that SFIL also supplies services for the business of lending to French public sector entities engaged by La Banque Postale (LBP) and its LBP/CDC joint venture,

La Banque Postale Collectivités Locales. These services concern activities involving commercial support, financial oversight, the supply of data for risk analysis and back office operations.

1.1.3.5 Other management agreements

Specific individual agreements have been established with entities that, in the past, have transferred assets to the *société de crédit foncier*, and continue to ensure the management of these assets for their national clientele. These assets are managed in a run-off mode. As of December 31, 2020, there were agreements with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium), and Dexia Crediop (Italy). These agreements already existed in previous years.

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

1.1.4 Legal framework

1.1.4.1 The European framework

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

Two European directives govern and define covered bonds:

- the first directive is Undertakings for Collective Investment in Transferable Securities (UCITS) on the legislative, regulatory, and administrative provisions concerning certain vehicles for collective investment in securities, article 52-444;
- the second is the Capital Requirements Directive (CRD), on the minimum regulatory equity requirement, which is complemented by the related Capital Requirements Regulation (CRR), article 129.

These two directives in particular specify the assets that may be incorporated into the portfolio financed by the covered bonds, the privilege that protects investors, as well as the required level of public oversight and transparency in terms of communication. Investors in bonds that satisfy the requirements of these two directives and the associated regulation benefit from financial and regulatory advantages.

The *obligations foncières* issued by Caisse Française de Financement Local satisfy the requirements of these two European directives and the associated regulation. In this regard, they benefit from a 10% preferential risk weighting in the calculation of the solvency ratio with the standard method (given their current rating).

During 2019, a new directive on covered bonds that aimed at standardizing European models as well as amendments to article 129 of the CRR were voted on by the European Parliament and Council and were published in the *Official Journal of the European Union* on December 18, 2019 (see section 1.2.6. of the management report). The directive should be transposed into French law by mid-2021 to take effect no later than mid-2022. The new version of article 129 of the CRR will also take effect on the same date.



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

Furthermore, all the *obligations foncières* issued on the basis of the Caisse Française de Financement Local cover pool benefit from the Covered Bond Label. The label was created in 2012 by the European Covered Bond Council (ECBC) to improve the quality of the financial information and the transparency of the European covered bonds market.

To meet Label requirements, Caisse Française de Financement Local committed to respect the above-mentioned directives and to ensure a high level of transparency in its communication to investors. All detailed information on the issues and cover pool of Caisse Française de Financement Local is now posted on the Covered Bond Label site (<https://www.coveredbondlabel.com/issuer/47/>). It includes a harmonized standard quarterly reporting template (Harmonized Transparency Template - HTT) used by all beneficiaries of the label.

1.1.4.2 The French legal and regulatory framework

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

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

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

In addition to these regulations and the law on *sociétés de crédit foncier*, which is described below, Caisse Française de Financement Local is subject to the same obligations as credit institutions in terms of reporting *vis-à-vis* the regulator and respect for liquidity ratios. The solvency ratio, large exposures and the leverage ratio are reported to the regulator on a consolidated basis, at the level of the parent company SFIL.

The following table describes the main provisions of the legal and regulatory framework for *sociétés de crédit foncier* (SCF) as well as their application to Caisse Française de Financement Local.

This entire *corpus* of texts will be amended in 2021 to comply with the new European directive and regulation on covered bonds.



Main provisions of the French legal and regulatory framework

General operating framework of the SCF:

- article L.513-2 which describes in particular:
 - their exclusive purpose which is to finance guaranteed home loans and loans to the public sector, replacement assets, and to issue *obligations foncières* and other resources which may or may not benefit from the legal privilege,
 - the possibility of obtaining financing by pledging certain assets,
 - the impossibility of owning subsidiaries or affiliates.

Definition of assets eligible to *sociétés de crédit foncier*:

- article L.513-3 (home loans);
- article L.513-4 (exposures on public sector entities);
- article L.513-5 (securitization shares);
- article L.513-6 (replacement assets).

Legal privilege:

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

Other provisions:

- articles L.513-12 and R.513-8: the coverage ratio, that is the ratio between the assets covering the privileged debts and the debts benefiting from the privilege, must at all times be greater than 105%.

Application to Caisse Française de Financement Local (CAFFIL)

- CAFFIL assets solely made up of exposure to the public sector and replacement assets.
- CAFFIL has a large stock of assets eligible for European Central Bank refinancing. They provide additional access to financing that can be mobilized very quickly in the event of a need for liquidity.
- CAFFIL holds no shares.

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

- CAFFIL contracts that benefit from the legal privilege are:
 - *obligations foncières*,
 - registered covered bonds,
 - derivative contracts that hedge the risks associated with the privileged assets and liabilities,
 - the management agreement signed with SFIL in accordance with article L.513-15.

- CAFFIL shall at all times maintain a coverage ratio greater than 105%. In practice, for several years, it has been set at a much higher level, in order to comply with the minimum requirements required by external rating agencies to ensure CAFFIL's current financial rating levels (see section 1.6 of the management report).

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

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



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

As of December 31, 2020, 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 bonds 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. The agencies have given SFIL these excellent ratings because they consider it to be a French government-related entity.

They reflect the strong probability that if necessary the Caisse des Dépôts and the French State would provide extraordinary support to SFIL because of 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.

Note that 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).

Lastly, based on the Company's performance in terms of social and environmental responsibility, Caisse Française de Financement Local's *obligations foncières* also benefit from very good ratings from extra-financial rating agencies.

The ratings at December 31, 2020 are presented in section 1.2.5 of the management report.



1.2 Highlights of 2020

1.2.1 Health crisis due to the Covid-19 pandemic

Within the context of this crisis, Caisse Française de Financement Local continued its two missions of financing the local public sector and refinancing large export credits. The commercial activity relating to the financing of the local public sector (carried out in partnership with La Banque Postale) was very strong, while activity related to export refinancing was slowed down by the health situation (see 1.2.2).

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

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

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

For Caisse Française de Financement Local, the financial impacts of this crisis remained very limited, even if some temporary impacts were visible in its interim accounting results (1st half of 2020) due to banking regulations and IFRS accounting rules. These impacts are explained in the different sections of this report.

1.2.2 Changes in the shareholding structure of SFIL, the parent company of Caisse Française de Financement Local

As announced in October 2019, Caisse des Dépôts group purchased the entire stake held by La Banque Postale in the capital of SFIL (*i.e.* 5%) and the entire stake held by the French State (*i.e.* 75%), with the exception of one ordinary share that the French State will retain. This transaction is part of the creation of a major public financial group based on Caisse des Dépôts group and La Poste.

Following this transfer, carried out on September 30, 2020, Caisse des Dépôts group holds all of SFIL's share capital (with the exception of one share retained by the French State) and became SFIL's new reference shareholder.

The French State will continue to be present on SFIL's Board of Directors through a non-voting member, given the public interest missions entrusted to SFIL. SFIL therefore retains its status as a public development bank with fully public shareholding structure. Its scope of intervention is maintained as is, with a commitment from its shareholders,

the Caisse des Dépôts group and the French State, to protect the economic base and the financial viability of the Group and to support it in accordance with applicable regulations.

Moreover, La Banque Postale, which also joined the Caisse des Dépôts group and retains a central role in this system, has ahead of time decided to extend its partnership with SFIL up to the end of 2026 for the marketing of medium- and long-term loans to French regional authorities and public hospitals refinanced by Caisse Française de Financement Local.

With this transaction, the shareholding structure of Caisse Française de Financement Local remains firmly anchored in the public sphere, thus reflecting the missions the French State assigned to it.

1.2.3 Activity of the SFIL Group and of Caisse Française de Financement Local in 2020

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

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

This partnership has once again demonstrated its performance by retaining its leading position in the financing of the French local public sector, which it has held since 2015. It was strengthened in 2020 since La Banque Postale and SFIL/CAFFIL now belong to the same Caisse des Dépôts group, and the partnership was renewed until 2026 when the shareholding changed on September 30, 2020.

Despite the particular health and economic situation, activity in 2020 was almost equivalent to the record activity of 2019. The partnership has proven its resilience by issuing loans of EUR 5.6 billion (down by only 3% compared to 2019 which showed an increase of more than 55% compared to 2018) and by maintaining a similar market share. The market for financing local authorities and public hospitals remained dynamic in 2020, despite the usually negative impact of the electoral cycle for the municipalities and groups of municipalities, and thanks to increased loans for the regions, departments and hospitals. The volume of these loans acquired by Caisse Française de Financement Local in 2020 amounted to EUR 4.6 billion (as a reminder, the loans produced by La Banque Postale are only transferred to Caisse Française de Financement Local after having been paid in full). It is the highest amount of loans acquired since the SFIL Group was created and the partnership was set up with La Banque Postale in 2013. Since the beginning of the partnership, loans acquired have accounted for EUR 24.5 billion.



The SFIL Group decided to deploy two approaches to support its customers faced with difficulties due to the health crisis:

- one, proactive and systematic, by proposing extensions to payment terms to all health institutions in recognition of the cost of their exceptional involvement in the Covid-19 pandemic. Caisse Française de Financement Local 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. Only 27 public health institutions had benefited from these payment terms. The extended payment maturities amounted to EUR 9 million as of June 30, 2020. As of December 31, 2020, two healthcare establishments were still benefiting from these payment terms extensions for an amount of EUR 0.3 million;
- the other, by responding to incoming requests from health institutions with customized needs and local authorities or their equivalent authorities faced with temporary cash flow 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, parkings, thermal baths, etc.), on a case by case basis. As of December 31, 2020, the amount of maturities whose payment has been deferred and which have not yet been repaid amounted to EUR 0.5 million for six borrowers compared to EUR 8 million for 28 borrowers as of June 30, 2020.

As of December 31, 2020, the balance of deferred payments represented a very small number of customers (eight) and a very low amount (EUR 0.8 million).

Refinancing of large export credits

In the short term, the health crisis has led to a general slowdown in the pace of contract negotiations in 2020. Only one file was signed in 2020 for EUR 0.2 billion in the renewable energy sector in Europe.

Since 2015, the total volume refinanced by the SFIL Group amounts to EUR 8.4 billion for EUR 15 billion in total export credits. On average, over the last four years, SFIL's contribution of liquidity to the refinancing of large export credits represents more than 40% of the market.

In addition, in 2020, the public financing system entrusted to SFIL was in great demand for projects in the preliminary study phase, with an increase of 40% compared to 2019.

The Covid-19 pandemic had a limited impact on the SFIL Group's current export refinancing portfolio. The only business sector that required special action is the cruise ship financing sector, in which SFIL has been present since 2016. The cruise lines were impacted by the sudden interruption to their business and the need to continue to cover their fixed costs. The SFIL Group entered into the approach developed jointly by the European export credit guarantee agencies to provide liquidity support for export credits for cruise companies. This liquidity support consists of deferring the repayment of the principal amount of the loans due for a

12-month period and spreading repayment over four years. In this context, in 2020, Caisse Française de Financement Local agreed to postpone the payment of three contracts for a total amount of slightly less than EUR 68 million. In addition, the manufacture and delivery of certain cruise ships will be staggered over time, which will have an impact on the profile of the refinancing granted by CAFFIL to SFIL, which benefits from the French State guarantee.

Moreover, in May 2020, the European Commission renewed for seven years, i.e. until 2027, its agreement to the SFIL Group to carry out its activity of refinancing export credits provided by the French State; it confirmed its diagnosis of a market failure for the financing of export credits and the appropriateness and necessity of the intervention of a public development bank such as SFIL. An initiative is also underway to extend the scope of this activity to strategic projects: this involves allowing the SFIL Group to intervene in the mechanism for refinancing loans covered by the Strategic Projects Guarantee⁽¹⁾. This plan to expand the activity of the SFIL Group will enable France to propose to exporters a financing offer in line with the best practices in other large exporting countries, particularly in Asia.

Bond financing of SFIL Group activities

In 2020, despite the context of the Covid-19 pandemic, the SFIL Group was able to borrow a significant volume of diversified and effective financing to support its two activities; it raised EUR 7.1 billion on the bond markets, including:

- EUR 5.5 billion in covered bonds through Caisse Française de Financement Local;
- EUR 1.6 billion in unsecured debt through SFIL.

Throughout the year, SFIL also maintained a significant amount of outstanding certificates of deposit of less than one year, amounting to EUR 1.6 billion as of December 31, 2020.

2020 was also an opportunity for the SFIL Group to implement its social and environmental policy for its bond financing through two thematic "social" and "green" issues, one by Caisse Française de Financement Local and the other by SFIL (see 1.2.2 Strengthening the SFIL Group's CSR commitment).

The covered bonds market in 2020

2020 was marked by the Covid-19 pandemic which led to significant volatility in the financial markets, including in the covered bonds market in euros, for which spreads deviated significantly in March. This volatility peaked at the beginning of April, then spreads tightened rapidly until May and more slowly thereafter, reaching levels close to those of the beginning of the year at the end of 2020.

The bond markets were thus supported by the intervention of the Eurosystem through the increase in its bond asset purchase programs and its massive contribution of liquidity to the banking sector.

(1) Decree No. 2018-1162 of December 17, 2018 on the granting of French State guarantees for operations likely to contribute to the development of France's foreign trade or of strategic interest to the French economy abroad.

The support provided by the asset purchase program (in particular covered bonds) of the European Central Bank in 2020 is illustrated by an increase in the outstanding amount of covered bonds of the CBPP3 purchase program (EUR 288 billion at the end of 2020, i.e. EUR 24 billion more than at the end of 2019 and a level comparable to 2018), as well as by the additional purchases made under the new program set up by the Bank in response to the pandemic (Pandemic Emergency Purchase Program - PEPP) in which the covered bonds asset class represented EUR 3 billion in outstandings at the end of November.

In 2020, European banks also used the advantageous refinancing mechanisms introduced by the Eurosystem (TLTRO) to the detriment of their issuing activity.

The pandemic has therefore not had a lasting impact on the strength of the covered bonds market. The primary market for public euro-denominated issues remained active throughout the year, with a cumulative offer volume of EUR 96 billion. However, this volume was down by 31% compared to the very active year in 2019 (EUR 119 billion).

French, German and Canadian issuers were still present (respectively 29%, 20% and 10% of the offering): they took advantage of an open euro market, even in the midst of the crisis, unlike the dollar market. However, there was less activity from issuers in peripheral jurisdictions (Spain, Italy and Portugal for a total of 5% of the offering compared to 10% in 2019). The share of issuers not eligible for ECB purchase programs (mainly Canada and Norway for two-thirds of the volume) decreased to 26% of the offer in euros (EUR 24.6 billion).

The market for covered bonds showed very good resilience in 2020 by remaining active throughout the year, and by returning to its pre-crisis spread levels by the end of the year.

CAFFIL funding activity in 2020

In the context of the Covid-19 pandemic, Caisse Française de Financement Local succeeded in carrying out its annual *obligations foncières* issuance program under good volume, spread and average maturity conditions. This has provided the long-term liquidity necessary for the development of La Banque Postale's commercial offering to the public sector in France and the refinancing of large export credits.

In 2020, Caisse Française de Financement Local raised EUR 5.5 billion *via* its issuance of covered bonds by soliciting the public primary market five times for a total amount of EUR 5.0 billion. It thus enriched its benchmark curve for five-year maturities (EUR 1 billion) *via* a "Covid-19" social issue, 7 years (EUR 1.5 billion), 10 years (EUR 1 billion), 15 years (EUR 750 million) and 20 years (EUR 750 million).

CAFFIL also provided additional liquidity to several of its benchmark issues *via* three tap transactions for a cumulative amount of EUR 450 million. In addition to these public transactions, Caisse Française de Financement Local responded to specific requests from investors in the private placement segment, as part of its EMTN program or in the registered covered bonds (RCB) format for a total of EUR 97 million.

The outstanding of CAFFIL covered bonds was EUR 50.5 billion as of December 31, 2020.

1.2.4 Reinforcement of the SFIL Group's CSR commitment

More than ever, the SFIL Group has placed social and environmental issues at the heart of its strategy and activities during 2020.

The SFIL Group's commitment to Corporate Social Responsibility (CSR) is based on three major areas:

- conducting sustainable public policy missions;
- the deployment of balanced internal policies; and
- employee engagement.

With a dedicated governance and CSR Committee since the end of 2019, the Group has continued to develop and disseminate its CSR commitments in all aspects of its business, including:

- SFIL Group's membership in the "Finance for Tomorrow" initiative in early 2020, which aims to promote the power of the French ecosystem in terms of responsible investment and green finance;
- the publication on April 30, on time and in accordance with its commitments to the United Nations Global Compact, of its second CSR report in this area;
- the measurement of its carbon footprint for 2019, published in April 2020 in accordance with its roadmap, and the continuation of actions to reduce CO₂.

Finally, the takeover of the SFIL Group by the Caisse des Dépôts group in September 2020 has already enabled the implementation of synergies between the two entities in terms of CSR ambitions, objectives and best practices.

In the social field, the Group strengthened its key role in the healthcare sector with the launch, in April, of a social issue by Caisse Française de Financement Local aimed at providing new financing directly or indirectly to sectors affected by the Covid-19 pandemic. In addition, payment terms have been proposed to all healthcare players due to their exceptional involvement in the face of the pandemic, as detailed in point 1.2.2.

In the environmental field, throughout the year, the SFIL Group also financed the environmental investments of regional authorities and their associations, *via* a range of green loans, in partnership with La Banque Postale. The projects financed in this way concern the fields of renewable energies, sustainable management of water and sanitation, waste management and recovery, sustainable mobility and clean transport, and energy efficiency in construction and urban planning.

As part of its CSR commitment, in 2019, the SFIL Group, through its subsidiary Caisse Française de Financement Local, launched its first two "social" and "green" thematic bonds. 2020 was an opportunity for the SFIL Group to continue its social and environmental refinancing policy through two thematic "social" and "green" issues, one by Caisse Française de Financement Local, the other by SFIL.



These two issues were respectively exclusively dedicated to the financing of French public hospitals and to projects to promote the ecological transition within French local authorities. Market observers unanimously recognized them as successful and they were notably very largely oversubscribed, demonstrating investors' strong interest in this new type oversubscribed of responsible investment.

Over the coming years, these thematic bonds will become a regular and significant source of finance for the SFIL Group.

As regards the risks related to climate change, and their impacts on the overall financial risks, SFIL fully agrees with the regulators' priority to fight against global warming and to participate in the measures towards the mitigation of its effects. A first climate risk roadmap has been established by

the Risk Division and a « Climate Risk Committee » has been set up. SFIL is also involved in the CDC group climate risk workshops. In this context, the following points are in progress, or have already been carried out:

- a study on the French local authorities transition risk, with in the framework of the climate stress tests proposed by the ACPR in its climate risk pilot exercise. This study will enable in 2021 the calculation of the transition risk impacts on the bank's risk metrics;
- a synthetic mapping of climate risk aimed at identifying the types of climate risks faced by each sector, and their time frame;
- a preparatory work on the impact of natural disasters on the financial situation of the French local authorities.



1.2.5 Sound financial and extra-financial ratings

The financial ratings of the *obligations foncières* issued by Caisse Française de Financement Local remained unchanged during 2020. As of December 31, 2020, the ratings were as follows: AAA at Moody's, AA+ at S&P and AAA at DBRS Morningstar. The outlooks associated with each of these ratings remained stable.

As of December 31, 2020, Caisse Française de Financement Local was awarded the extra-financial (i.e. environmental, social and governance - ESG) ratings of Prime C+ by the ISS agency and AA by the MSCI agency. Its issues are rated Positive-BBB by the IMUG agency.

In addition, SFIL, the parent company of Caisse Française de Financement Local, requested an extra-financial rating from the Sustainalytics agency, which awarded it a score of 7.7/100 on a scale ranging from 0 to 100, with the lowest figure corresponding to the best score. This rating places SFIL in the top percentile of rated institutions and in rank seventh position out of 93 development banks rated by Sustainalytics. The agency considers SFIL's ESG risk to be negligible and praised its performance in the areas of governance, human capital management and business ethics.

1.2.6 A favorable future regulatory framework

The harmonized European legal and regulatory framework for covered bonds (dedicated directive and amendment to article 129 of the *Capital Requirements Regulation* - CRR) was published in *Official Journal of the European Union* on December 18, 2019. From this date, the Member States have a period of 18 months, i.e. until mid-2021, to transpose the directive into their national law and at the same time bring into force the amendments to article 129 of the CRR

regulation. Issuers will then have 12 months to comply, and the new texts will enter into force no later than July 2022.

This transposition was not carried out in France in 2020, but should be carried out in the 1st half of 2021. At this stage, Caisse Française de Financement Local has not identified any significant positive or negative impact on its activities, related to the implementation of this new directive and regulation.

1.3 Change in cover pool and debts

EUR billions, value after currency swaps	12/31/2019	12/31/2020	Change 2020/2019
Cover pool	56.5	58.5	3.5%
Loans	48.4	49.7	2.6%
Securities	7.6	7.0	(8.0)%
Cash deposits with Banque de France	0.5	1.8	280.1%
Assets removed from the cover pool	(0.0)	(0.0)	ns
Privileged debt	50.3	51.1	1.4%
<i>Obligations foncières</i> ⁽¹⁾	49.8	50.5	1.5%
Cash collateral received	0.6	0.6	(1.7)%
Non-privileged debt	5.2	6.6	26.7%
SFIL	5.2	6.6	26.7%
IFRS Equity (excluding unrealized gains and losses)	1.4	1.4	0.0%

(1) Including registered covered bonds.

The size of Caisse Française de Financement Local's cover pool increased by EUR 2.0 billion in 2020, *i.e.* approximately +3.5%. As of December 31, 2020, the cover pool excluding interest accrued not yet due amounted to EUR 58.5 billion.

Caisse Française de Financement Local's cover pool is composed of loans and debt securities financing the public sector and also includes the temporary cash surplus put aside to anticipate the forthcoming repayment of *obligations foncières* or to prefinance new export loans. This temporary cash surplus is deposited at the Banque de France, or invested in bank or European public sector securities, or loaned to SFIL, the parent company of Caisse Française de Financement Local. The cash surplus, deposited with the Banque de France, was EUR 1.8 billion at the end of December 2020, versus EUR 0.5 billion at the end of December 2019. The cash surplus invested in securities was

a total of EUR 2.0 billion at the end of December 2020 versus EUR 2.6 billion at the end of December 2019.

As of December 31, 2020, 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 51.1 billion, an increase of 1.4% in comparison with December 31, 2019.

As of December 31, 2020, the debt contracted with its parent company was EUR 6.6 billion. It does not benefit from the legal privilege and mainly corresponds to the financing of the over-collateralization of the cover pool which is at a significantly higher level than the amount required by regulators and the rating agencies.



1.4 Description of the cover pool

1.4.1 Change in assets in 2020

The net change in the cover pool during 2020 corresponds to an increase in assets in the amount of EUR 2.0 billion. This change is explained by the following items.

EUR billions	2020
1- ACQUISITION OF LOANS FROM LA BANQUE POSTALE	4.6
Loans to the French public sector (vanilla loans in euros)	4.6
2- DRAWINGS OF EXPORT REFINANCING LOANS	1.2
Loans to SFIL to refinance export credit guaranteed by the French State	1.2
3- REDUCTION OF LOAN SENSITIVITY	0.2
Sensitive structured loans eliminated	(0.1)
Refinancing loans (vanilla loans in euros)	0.1
New loans (vanilla loans in euros)	0.2
4- AMORTIZATION OF PORTFOLIO OF LOANS AND SECURITIES	(4.7)
5- EARLY REIMBURSEMENTS	(0.0)
6- CHANGES IN TREASURY	0.7
Net change in securities investments	(0.6)
Net change in Banque de France cash deposit	1.3
NET CHANGE IN THE COVER POOL	2.0

In 2020, Caisse Française de Financement Local acquired a total of EUR 4.6 billion in loans to the French local public sector and public hospitals originated by La Banque Postale.

Drawings on refinancing loans of large export credits granted to SFIL during 2020 amounted to EUR 1.2 billion. These loans benefit from an irrevocable and unconditional 100% guarantee by the French State.

In application of the policy to reduce loan sensitivity in effect since the beginning of 2013, the sensitivity reduction operations conducted by SFIL during 2020 made it possible to decrease outstanding loans considered as sensitive by

EUR 0.1 billion through their replacement with fixed rate loans. They were accompanied by new fixed rate loans in the amount of EUR 0.2 billion.

The natural amortization of the portfolio of loans and securities was EUR 4.7 billion in 2020, and early reimbursements were EUR 0.0 billion.

Free cash flow increased by EUR 0.7 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 2020.

1.4.2 Outstandings at December 31, 2020

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

EUR billions	12/31/2019	12/31/2020
Loans and bonds to the public sector	53.5	55.2
<i>of which local public sector business line</i>	50.8	51.1
<i>of which large export credits refinancing business line⁽¹⁾</i>	2.6	3.6
<i>of which treasury investment in public sector bonds⁽³⁾</i>	0.1	0.5
Banque de France cash deposit ⁽³⁾	0.5	1.8
Replacement assets ⁽³⁾	2.5	1.5
TOTAL COVER POOL	56.5	58.5
<i>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⁾</i>	39.2	40.2
Financing commitments granted to refinance large export credits ⁽¹⁾⁽²⁾	5.5	4.7
Financing commitments granted to other public sector loans	0.0	0.1
FINANCING COMMITMENTS GRANTED	5.5	4.8

(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 2019 and 2020, the commitments given in respect of large export credits correspond to contracts entered into in the course of payment and to firm refinancing offers from CAFFIL to SFIL valid at December 31, 2020.

(3) The total amount of excess treasury increased from EUR 3.1 billion at the end of 2019 to EUR 3.8 billion at the end of December 2020.

(4) Liquid assets correspond to bank exposures classified as replacement assets amounting to EUR 1.5 billion and other high quality liquid assets (level 1, 2A and 2B) amounting to EUR 1.3 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 37.4 billion.

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

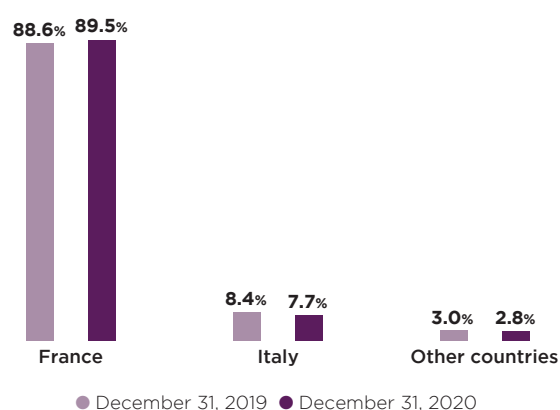
The amount of liquid assets and assets eligible for refinancing by the Banque de France, excluding cash deposited with a bank or the Banque de France, represents EUR 40.2 billion, i.e. 68.8% of the Caisse Française de Financement Local's cover pool.

The amount of financing commitments given came to EUR 4.8 billion as of December 31, 2020. These are loans signed but not yet paid, granted to SFIL as part of the refinancing of large export credits for EUR 4.7 billion (as a reminder, these loans benefit from an unconditional and irrevocable guarantee from the French State) and new loans still to be paid to French local authorities as part of the sensitivity reduction of outstandings for EUR 0.1 billion.

balance sheet) represent approximately 6.5% 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 relative proportion of the total assets by country can be broken down as follows:



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

1.4.2.1.1 Geographic breakdown

As of December 31, 2020, French public sector loans made up the majority (89.5%) of the cover pool, a portion that will increase in the future. They include loans acquired from La Banque Postale since 2013 (EUR 19.6 billion of outstanding principal as of the end of December 2020), representing nearly 36% of the Group's public sector loans and securities and more than 43% of its loans to the French local public sector. The State-guaranteed loans granted to SFIL for the refinancing of large export credits (EUR 3.6 billion on the

As of December 31, 2020, Italian assets represented the largest portion of non-French assets in run-off mode, with a total volume of EUR 4.3 billion, or 7.7% of public sector loans and bonds. These assets are granular exposures (more than 150 counterparties consisting mainly of regional and municipal authorities) distributed throughout Italy.

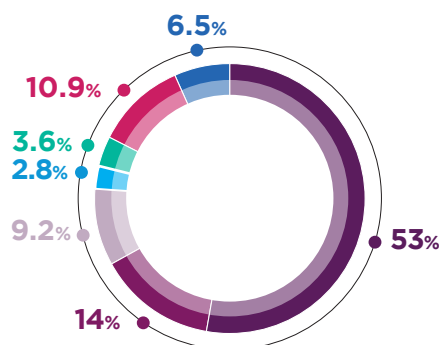
Exposures to other countries as of December 31, 2020, are broken down by country in the "Breakdown of cover pool" section, which is at the end of this management report.



1.4.2.1.2 Breakdown by type of counterparty

Caisse Française de Financement Local's portfolio is made up of:

- 76% exposures on municipalities, departments or regions;
- 6% sovereign exposures or commitments on other public sector entities;
- 11% exposures on public hospitals;
- 7% exposures 100% guaranteed by the French State in respect of loans granted to SFIL for the refinancing of large export credits.



- Municipalities
- Departments
- Regions
- Sovereigns
- Other public entities
- Public hospitals
- French Republic (export refinancing benefitting from a 100% guarantee)

1.4.2.1.3 Securitizations

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

1.4.2.2 Replacement assets

Assets considered by law as "replacement assets" correspond to exposures on credit institutions benefiting from at least a "Step 1 rating", or a "Step 2 rating" when their remaining maturity does not exceed 100 days. The amount of the "replacement assets" is limited to 15% of *obligations foncières* and registered covered bonds. As of December 31, 2020, replacement assets represented 2.9% of *obligations foncières* and registered covered bonds.

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

Replacement assets

EUR millions

	Country	12/31/2019	12/31/2020
STEP 1 CREDIT RATING			
Covered bonds			
	France	474	338
	Other countries	856	676
Other bank bonds			
	France	381	148
	Other countries	509	287
Loans to parent company, SFIL	France	300	-
STEP 2 CREDIT RATING			
Bank securities (maturity < 100 days)			
	France	-	-
	Other countries	-	-
	France and other countries	4	4
Bank account balances			
TOTAL		2,523	1,453

1.4.2.3 Assets removed from the cover pool

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

The same treatment would be applied to the assets in the cover pool if they were mobilized in interbank repurchase agreements in the event of a need for liquidity.

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

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

1.4.2.4 Structured loans

1.4.2.4.1 Definition

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

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

1.4.2.4.2 Share of structured loans in the cover pool

EUR billions	Outstanding				Number of customers ⁽¹⁾		
	12/31/2019	12/31/2020	Change	% cover pool	12/31/2019	12/31/2020	Change
FRENCH PUBLIC SECTOR LOANS	44.5	45.2	0.7	77.3%	14,142	13,517	(625)
Vanilla loans	40.7	42.0	1.3	71.8%	12,783	12,266	(517)
Structured loans	3.8	3.2	(0.6)	5.5%	1,359	1,251	(108)

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

During 2020, outstanding loans to the French local public sector increased by EUR 0.7 billion. Structured loans on Caisse Française de Financement Local's balance sheet amounted to EUR 3.2 billion, representing 5.5% of the cover pool.

1.4.2.4.3 Sensitive loans and reduction in loan sensitivity

The most structured loans according to the Gissler classification (categories 3E, 4E and 5E as well as "not in the charter" loans) may be classified as "sensitive". As of December 31, 2020, they now represent only EUR 0.7 billion (1.2% 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

92%. The number of customers holding sensitive loans fell over the same period from 879 to 152.

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

EUR billions	Outstanding				Number of customers ⁽¹⁾		
	12/31/2019	12/31/2020	Change	% cover pool	12/31/2019	12/31/2020	Change
<i>of which sensitive loans not in the charter</i>	0.4	0.3	(0.1)	0.5%	44	39	(5)
<i>of which sensitive loans (3E/4E/5E)</i>	0.5	0.4	(0.1)	0.7%	129	113	(16)
TOTAL SENSITIVE LOANS	0.9	0.7	(0.2)	1.2%	173	152	(21)

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



1.5 Debt benefiting from the legal privilege

As of December 31, 2020, 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	12/31/2019	12/31/2020
Cash collateral received	0.6	0.6
<i>Obligations foncières</i> and registered covered bonds	49.8	50.5
TOTAL	50.3	51.1

1.5.1 Changes in cash collateral

Cash collateral received by Caisse Française de Financement Local was stable compared with the situation at the end of December 2019. Its amount stood at EUR 0.6 billion at the end of December 2020.

1.5.2 Changes in issues

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

Moreover, as part of its diversification and in line with the implementation of the SFIL Group's social and environmental policy, Caisse Française de Financement Local produced a new social issue in April 2020, which was the first European issue of covered bonds related to "Covid-19" and aimed at providing new funding directly or indirectly to public hospitals affected by the pandemic.

1.5.2.1 New issues in 2020

In 2020, Caisse Française de Financement Local generated an issue volume of EUR 5.5 billion, *i.e.* 37.5% more than in 2019 *via* benchmark public issues, operations to supplement existing stocks (tap) and private placements.

Caisse Française de Financement Local raised money in the public primary market five times, in the total amount of EUR 5.0 billion:

- a public issue with a maturity of 20 years in February in the amount of EUR 750 million;
- a "Covid-19" "social" bond issue with a maturity of 5 years in April in the amount of EUR 1 billion;
- a public issue with a maturity of 10 years in June in the amount of EUR 1 billion;
- a public issue with a maturity of 7.5 years in September in the amount of EUR 1.5 billion;
- a public issue with a maturity of 15 years in October in the amount of EUR 750 million.

Caisse Française de Financement Local also provided additional liquidity on several of its reference issues *via* three taps for a cumulative amount of EUR 0.45 billion.

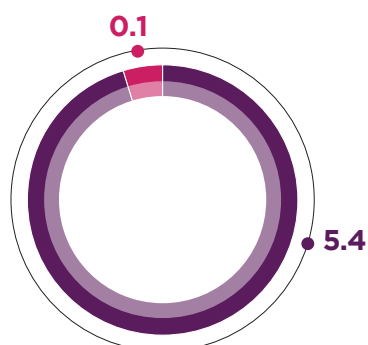
In addition to these public transactions, Caisse Française de Financement Local responded to specific requests from investors in the private placements segment, in both EMTN and registered covered bonds (RCB) formats for an amount of EUR 0.1 billion.

The weighted average life of the financing raised during 2020 was 10.2 years.

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

2020 ISSUES BY FORMAT

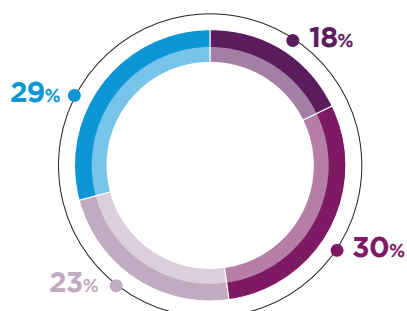
EUR billions



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

2020 ISSUES BY MATURITY

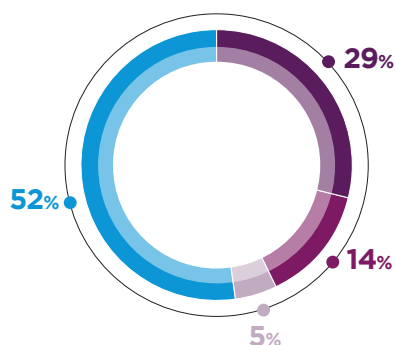
(%)



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

BREAKDOWN OF 2020 BENCHMARK PUBLIC ISSUES BY INVESTOR CATEGORY

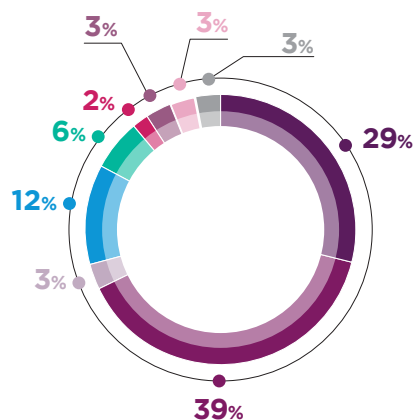
(%)



- Central banks
- Asset managers
- Insurance
- Banks

BREAKDOWN OF 2020 BENCHMARK PUBLIC ISSUES BY GEOGRAPHIC ZONE

(%)



- France
- Germany & Austria
- Benelux
- United Kingdom
- Nordics
- Asia
- Switzerland
- Italy
- Others

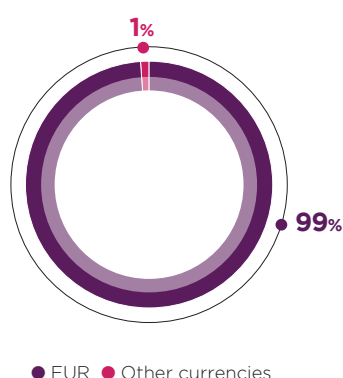


1.5.2.2 Outstandings at end December 2020

The outstanding amount of *obligations foncières* and registered covered bonds totaled EUR 50.5 billion in swapped value at the end of December 2020. This includes new issues of *obligations foncières* for EUR 5.5 billion and after amortization of issues maturing in 2020 for EUR 4.8 billion. Furthermore, limited purchases of own *obligations foncières* were completed during the year.

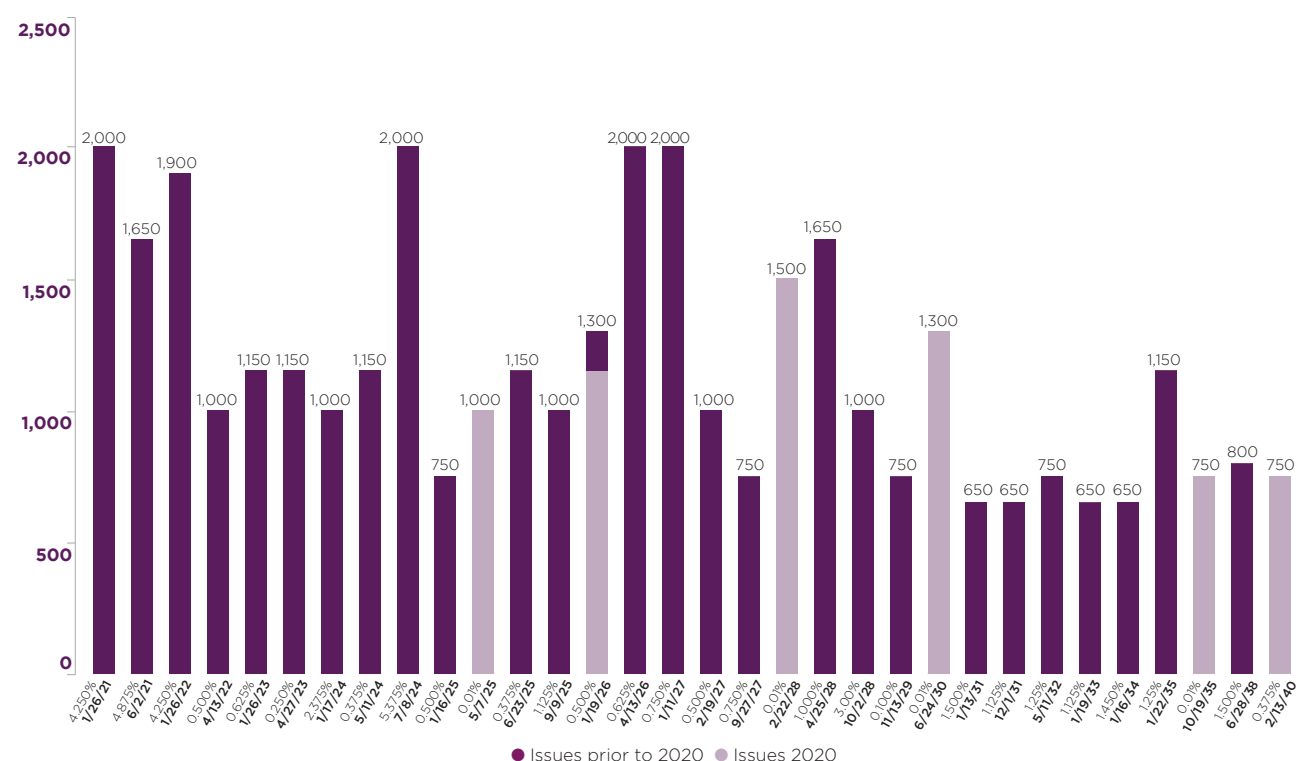
EUR billions, value after currency swaps	2019	2020
BEGINNING OF THE PERIOD	50.3	49.8
Issues	4.0	5.5
Amortizations	(4.5)	(4.8)
Buyback	(0.1)	(0.0)
END OF THE PERIOD	49.8	50.5

As of December 31, 2020, issues can be broken down by currency as follows:



DETAIL OF BENCHMARK PUBLIC TRANCHES

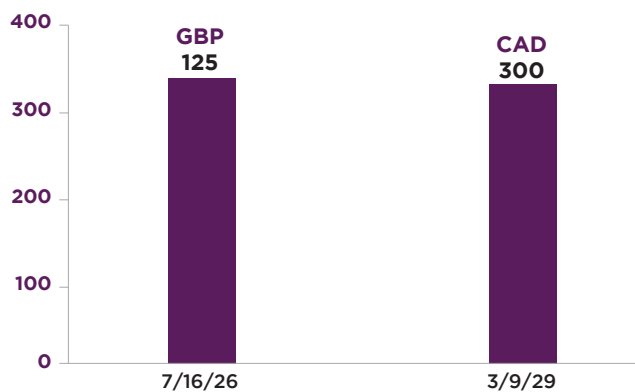
(EUR millions)



Total benchmark public tranches in euros amounted to EUR 36.9 billion.

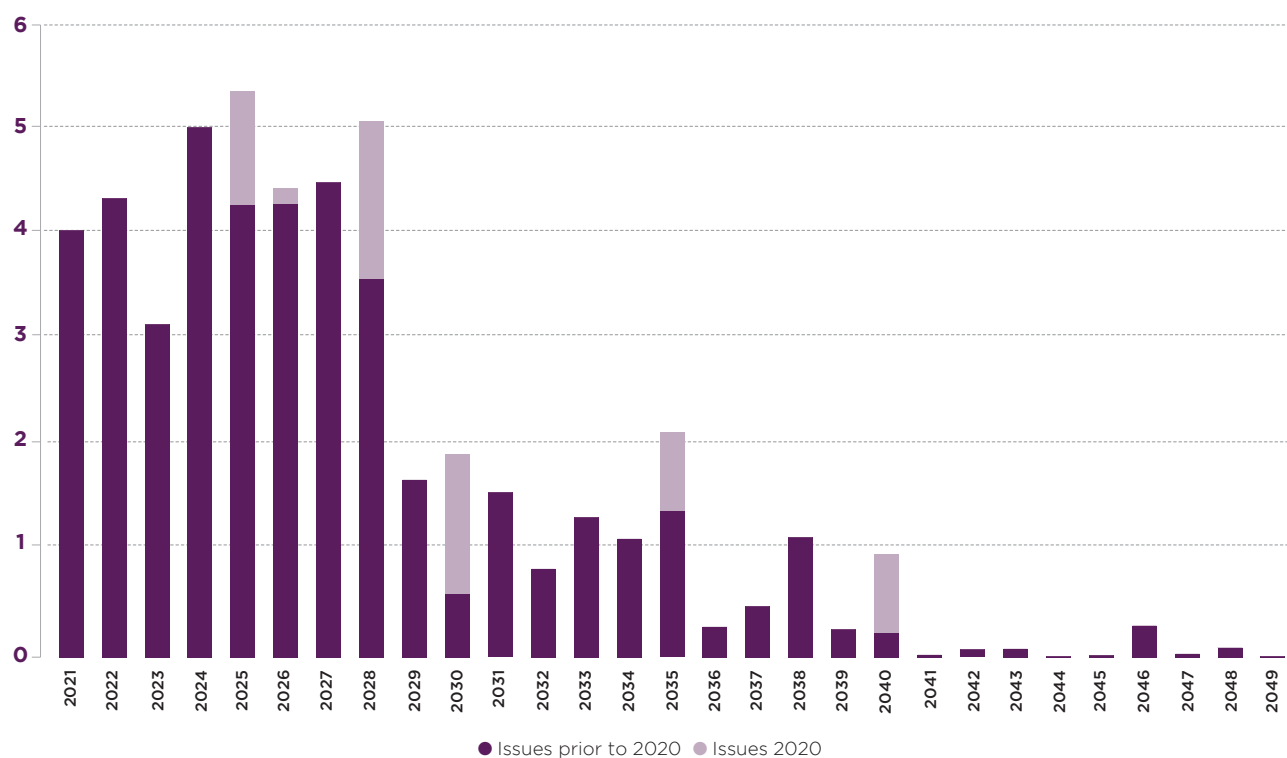
MAIN TRANCHES IN OTHER CURRENCIES

Value in EUR millions (swapped value)



AMORTIZATION OF OBLIGATIONS FONCIÈRES AND REGISTERED COVERED BONDS

EUR billions





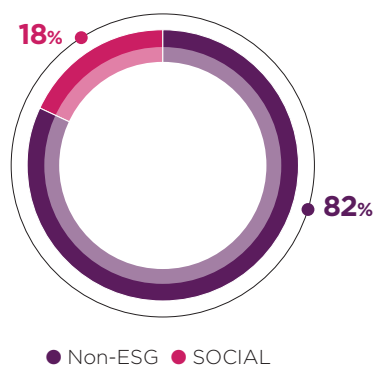
1.5.2.3 Social and green issues

As part of SFIL Group's CSR commitment, the Caisse Française de Financement Local carries out "social" and "green" theme issues. After the success of its first "social" issue for EUR 1 billion with an 8-year maturity and first "green" issue for EUR 750 million with a 10-year maturity in 2019, Caisse Française de Financement Local carried out a

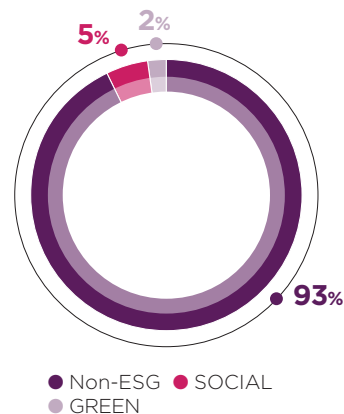
second social issue in April 2020 for EUR 1 billion with a 5-year maturity, dedicated to financing French hospitals. Market observers unanimously recognized them as successful and they were notably very largely oversubscribed, demonstrating investors' strong interest in this new type of responsible investment.

The share of thematic bonds in the 2020 issues and in the amount outstanding at the end of 2020, among the benchmark public issues in euro is presented below:

EMISSIONS 2020



ISSUES 2020



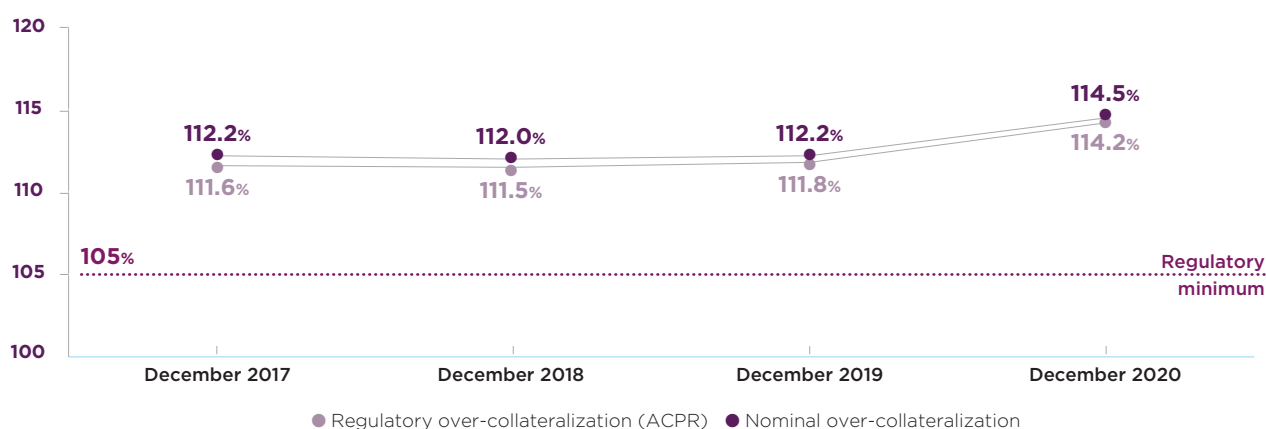
In addition, SFIL carried out a green bond issue for an amount of EUR 500 million. The funds obtained from this issue have been or will be loaned to Caisse Française de Financement Local, with the obligation to use them to finance green loans that it will purchase from La Banque Postale, which markets them. This loan will not benefit from the privilege of the *société de crédit foncier*.

1.6 Coverage ratio

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

In practice, the over-collateralization ratio is regularly higher than 105%. To maintain an adequate level of credit rating, a level of over-collateralization of more than 5% may be

required. This requirement depends on the method applied by each of the rating agencies and on the new assets and liabilities on Caisse Française de Financement Local's balance sheet and it may vary over time. Caisse Française de Financement Local takes these particular requirements into account in the management of its activity in order to make sure they are constantly met and strives to maintain its over-collateralization at a relatively stable level, as can be seen in the following graph.



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. The assets in Caisse Française de Financement Local's cover pool are weighted at 100%. The small difference between the two ratios can be explained by the accrued interest not yet due taken into account in the regulatory over-collateralization ratio.

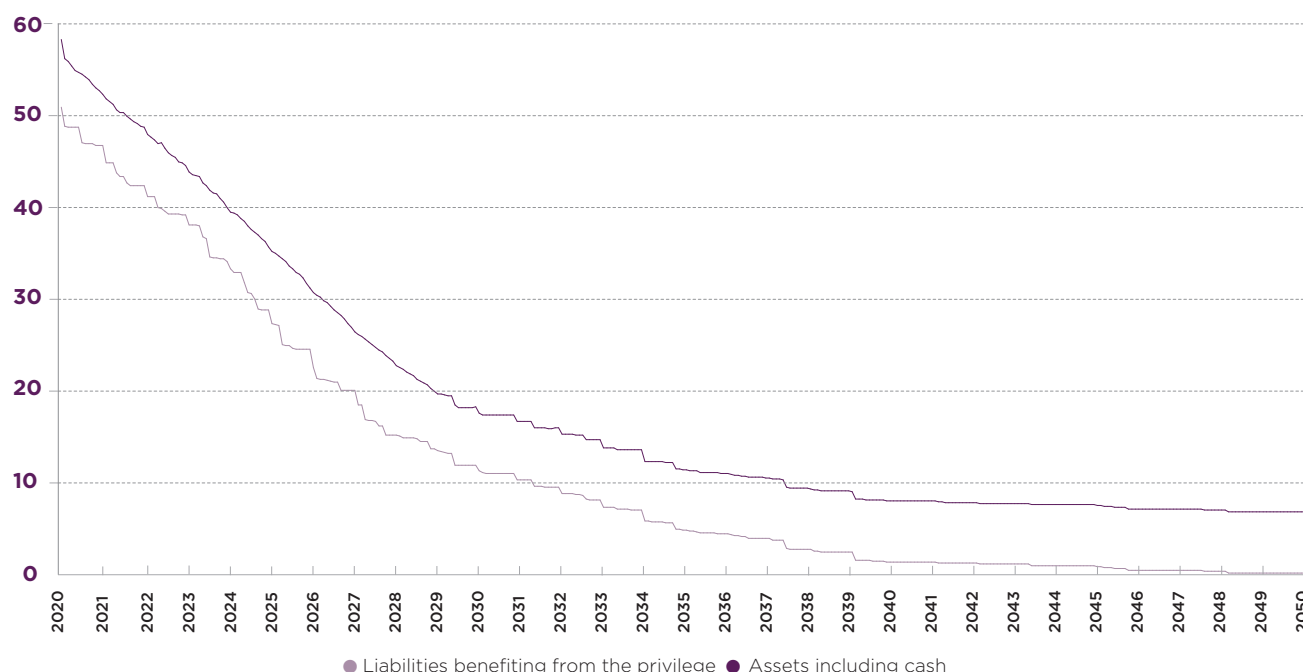
Any assets that Caisse Française de Financement Local may have assigned in guarantee to borrow funds from the Banque de France or any other banking institution would be excluded from the calculation of over-collateralization.

Over-collateralization may also be illustrated by the gap between the amortization curves of the assets and liabilities benefiting from the legal privilege. The following graph presents the curves as of December 31, 2020.



AMORTIZATION OF ASSETS AND LIABILITIES AS OF DECEMBER 31, 2020

EUR billions



In this graph, the assumption is made that excess cash generated over time is included in the cover pool.

1.7 Non-privileged debt

The asset surplus compared to *obligations foncières* and registered covered bonds (over-collateralization) and miscellaneous needs are financed by equity and debt that does not benefit from the privilege of the law on *sociétés de crédit foncier*.

Such financing is obtained through the parent company. At the end of December 2020, the funds borrowed from SFIL within the framework of the financing agreement 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 funds do not benefit from the legal privilege stipulated in the law on *sociétés de crédit foncier*, but they are guaranteed by loans and securities assigned for this purpose in the account of Caisse Française de Financement Local at Banque de France. Since the creation of SFIL, except when it used 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 or from credit institutions other than its parent company.

The change in financing that does not benefit from the legal privilege, excluding accrued interest not yet due, can be presented as follows:

EUR billions	12/31/2019	12/31/2020
SFIL	5.2	6.6
Banque de France	-	-
TOTAL	5.2	6.6

1.8 Net income for the financial year

1.8.1 Income according to IFRS

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

1.8.1.1 Net income for 2020

Net income is presented below in a synthetic manner.

IFRS EUR millions	2019	2020	Change 2019/2020
Interest margin	119	126	
Net commissions	(3)	16	
Net income from financial instruments at fair value through profit or loss	16	5	
Net income from financial instruments at fair value through equity	-	-	
Net income from derecognition of financial instruments at amortized cost	8	7	
Net income from reclassification of financial assets at amortized cost to financial assets at fair value through profit or loss		-	
Net income from reclassification of financial assets at fair value through equity to financial assets at fair value through profit or loss	-	-	
Other income and expense	-	-	
NET BANKING INCOME	140	154	10%
General operating expenses	(92)	(97)	
Taxes	(5)	(7)	
GROSS OPERATING INCOME	43	50	16%
Cost of risk	8	9	
NET INCOME BEFORE TAXES	51	59	16%
Income tax	(11)	(16)	
NET INCOME	40	43	8%

As of December 31, 2020, net income was positive at EUR 43 million, versus EUR 40 million as of December 31, 2019.

1.8.1.2 Restated income excluding non-recurring items

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

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

EUR millions	2019	2020
Fair value adjustment of non-SPPI financial assets	9	(2)

- 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	2019	2020
Fair value adjustments on hedging	(23)	(6)



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);
- Moreover, in 2019, Caisse Française de Financement Local had taken into account the definitive effects of the tax reassessment of the financial years 2012 and 2013 on the calculation of the income tax for the financial years 2014 to 2018, which had led it to recognize additional income of EUR 3 million in its financial statements.

- adjustment of fair value of derivatives that hedge the foreign exchange risk related to export credit refinancing loans which could not be formally documented as hedging derivatives, according to IAS 39, before the foreign currency loans are recorded on the Company's balance sheet.

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

EUR millions	2019	2020
Tax adjustment effects	3	-

The recurring income for 2019 and 2020 was as follows:

EUR millions	2019			2020		
	Accounting income statement	Non-recurring items	Recurring income statement	Accounting income statement	Non-recurring items	Recurring income statement
NET BANKING INCOME	140	(14)	154	154	(8)	162
Operating expenses	(97)		(97)	(104)	-	(104)
GROSS OPERATING INCOME	43	(14)	57	50	(8)	58
Cost of risk	8	-	8	9	-	9
PRE-TAX INCOME	51	(14)	65	59	(8)	67
Income tax	(11)	7	(18)	(16)	2	(18)
NET INCOME	40	(7)	47	43	(6)	49

Restated for the non-recurring items mentioned above, Net Banking Income for the year rose from EUR 154 million in 2019 to EUR 162 million in 2020, an increase of EUR 8 million. For the same period, the Net income rose from EUR 47 million to EUR 49 million i.e. an increase of EUR 2 million.

1.8.1.3 Analysis of recurring net income

The EUR 8 million increase in Net Banking Income is due to the Net Commissions item which mainly includes earnings received (EUR 13 million) on swap assignment transactions as part of the management of its swap counterparty portfolio.

The 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. This increase is due to higher invoicing with respect to 2020 of approximately EUR 4 million, partly due

to an overall increase in SFIL's costs, and by additional invoicing in respect of 2019

The cost of risk recorded a reversal of provisions of EUR 9 million in 2020, thanks to the reduction of Stage 2 outstanding loans (mainly a reduction in the credit watchlist portfolio). Provisions are presented in section 1.12.2.1.6 of this report.

There was a EUR 18 million income tax expense as of December 31, 2020; it notably reflects the non-deductibility of the contribution to the Single Resolution Fund.

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

The health crisis had a very limited impact on Caisse Française de Financement Local's net income as of December 31, 2020. This confirms the SFIL Group's resilience to macro-economic shocks in general and this one in particular.

The usual elements of volatility under IFRS (fair value adjustments of non-SPPI financial assets and hedging adjustments) had a greater impact than in previous years in the months following the start of the pandemic, partly due to the deterioration and volatility observed in the financial

markets. This impact, visible on the half-year results as of June 30, 2020, was then reduced and practically disappeared at the end of the year.

Recurring income for 2020 was only slightly affected by the crisis, in respect of additional provisions made on local public sector customers for EUR 2.6 million before tax and on export refinancing related to the cruise sector for EUR 2.6 million before tax (to cover any termination costs of hedging derivatives of loans in USD).

1.8.2 Income according to French GAAP

Net income is presented below in a synthetic manner.

French GAAP <i>EUR millions</i>	2019	2020	Change 2019/2020
Interest margin	133	152	
Net commissions	(3)	16	
Provisions and income on trading portfolio	(0)	1	
Provisions and income on securities	8	10	
Other income and expense	0	-	
NET BANKING INCOME	138	179	30%
General operating expenses	(92)	(97)	
Taxes	(5)	(7)	
GROSS OPERATING INCOME	41	75	83%
Cost of risk	11	2	
INCOME FROM OPERATIONS	52	77	48%
Gains or losses on fixed assets	-	-	
Income tax	(6)	(19)	
NET INCOME	46	59	29%

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 year-on-year by EUR 41 million, or +30%, from EUR 138 million to EUR 179 million. In particular, it includes upfront termination fees associated with the cancellation of swaps that macro-hedged assets as part of CAFFIL issues (EUR -45 million) and the cancellation of swaps that micro-hedged issues as part of the acquisition of receivables from LBP (EUR +170 million). It also includes the effects of swap assignment transactions (EUR -101 million).

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. This increase is due to higher invoicing in respect of 2020 of approximately EUR 4 million, partly due to an overall increase in SFIL's costs, and by additional invoicing in respect of 2019.

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

Net earnings increased by EUR 13 million between the two periods from EUR 46 million in 2019 to EUR 59 million in 2020.



1.8.3 Proposed appropriation of net income

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

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

The Ordinary Shareholders' Meeting will be asked to distribute a dividend in the amount of EUR 48.6 million and to allocate net income for the financial year as follows:

Allocation of net income	EUROS
NET INCOME FOR THE YEAR	58,587,570.62
Legal reserve (5%)	-2,929,378.53
INCOME AVAILABLE	55,658,192.09
Retained earnings	1,166,805.26
INCOME AVAILABLE FOR DISTRIBUTION	56,824,997.35
PROPOSED DIVIDENDS	48,600,000.00
Retained earnings after allocation	8,224,997.35

1.9 Commitments granted – Commitments received

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

The total amount of financing commitments given as of December 31, 2020 was EUR 4.8 billion. These financing commitments given correspond to signed loan agreements not yet disbursed and unexpired credit offers. They are mainly related to SFIL's export credit refinancing activity for EUR 4.7 billion and to the financing activity for French local authorities as part of the sensitivity reduction of outstanding loans for EUR 0.1 billion.

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

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

- unconditional and irrevocable enhanced guarantees received from the French State in connection with the export credit refinancing activity, for EUR 8.2 billion;
- guarantees received on loans to customers, for EUR 2.0 billion.

1.10 Outlook for 2021

Since September 30, 2020, Caisse Française de Financement Local and its parent company SFIL have joined the new major French public finance hub formed around Caisse des Dépôts. The SFIL Group will be able to provide the major French public finance hub with its high-performance financing platform, which has continued to benefit from excellent access to financial markets despite the instability related to the health and economic crisis, as well as from its two business lines, established leaders in their respective markets, financing for the French local public sector and for large export contracts. In particular, the crisis has strengthened SFIL's strategic positioning and shown its financial resilience, a strong characteristic of public development banks.

In 2021, Caisse Française de Financement Local and its parent company SFIL will aim to maintain their position as a recognized leader for the two activities entrusted to them by the French State:

- financing loans to French local authorities and public hospitals, within the framework of the partnership established with La Banque Postale. Caisse Française de Financement Local and its parent company, SFIL, will also provide their support for the post-Covid-19 economic recovery, and in particular to supplement the French government's economic recovery plans to promote investments by local authorities and health institutions, notably through their green loans;
- supporting French exporters by refinancing large export credits guaranteed by the State. Indeed, for projects in the preliminary study phase, market demand for SFIL's system is very high compared to last year. Thus, export credit is expected to play its counter-cyclical role in supporting certain sectors such as civil aviation, in which SFIL will be present. Moreover, the increased attention paid to sustainable development issues and the French economic recovery plans should support export business in the areas of infrastructure and equipment. In this context, the Caisse Française de Financement Local and its parent company, SFIL, will provide their support to the post-Covid-19 economic recovery for these various sectors. As part of its export refinancing mission, Caisse Française de Financement Local also intends to be able to intervene in the credit refinancing system covered by the new guarantee for projects with a strategic interest for the French overseas economy. Once the necessary authorizations have been obtained from the European Commission, this extension could come into operation as of 2021.

To cover its financing requirements, Caisse Française de Financement Local plans to issue between EUR 3.5 and 5.5 billion of covered bonds in 2021 with a long-dated average maturity, adapted to the profile of the assets financed. It will carry out this program mainly through a

number of benchmark *obligations foncières* issued in euros on the primary market and private placements adapted to the needs of its broad investor base. Caisse Française de Financement Local's issue program should be carried out in a dynamic market context and low rates in view of:

- the interest taken by investors in this asset category which notably benefits from preferential regulatory treatment;
- the strong support provided by the European Central Bank with the continuation of its program to purchase covered bonds.

In 2021, SFIL will continue its CSR measures, including the integration of climate risks into its methodological criteria and the issuance of bonds in the form of thematic "social" and/or "green" issues. These should become a permanent and significant source of refinancing to support the investments needed by French public hospitals and those of French local authorities dedicated to the ecological transition. These new types of financings will enable SFIL to fully exercise its role as a public development bank to support a sustainable future.

The macroeconomic context will be closely monitored in 2021:

- the geopolitical environment and the degree of market volatility;
- changes in the regulatory environment, with the finalization of Basel III and, with regard to Caisse Française de Financement Local, the transposition into national law of the European directive aimed at harmonizing the covered bonds regimes of Member States.

For its operations, Caisse Française de Financement Local will continue to rely on SFIL, whose teams have shown constant commitment since the beginning of the crisis. SFIL will continue to adapt its organization and its tools to the new operational context that will result in the long term from the health crisis, and will continue to strengthen its prevention system against new risks that have appeared or intensified during the health crisis, such as cybercrime.

Moreover, the SFIL Group will continue to attentively monitor the potential short to medium-term impacts of the Covid-19 pandemic on the Caisse Française de Financement Local's current and forecast operations, on the financial situation of its counterparties (local authorities, hospitals, export credit counterparties, banks, partners) and on market conditions notably for covered bonds. The quality of SFIL's shareholding structure, its status as a public development bank, the resilience of its business model, the quality of CAFFIL's and SFIL's standings, the very rigorous risk management of Caisse Française de Financement and its solid solvency ratio are all advantages within the current context.



1.11 Internal control and preparation of accounting and financial information

1.11.1 General description of the internal control organization

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

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

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

The objectives and organization of SFIL's internal control system comply with the provisions of the ministerial *arrêté* of November 3, 2014, which requires an internal control system to be set up. This text lays down the principles for:

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

This internal control system is a structure implemented by Executive Management and all the employees of SFIL, at the initiative of its Board of Directors. This organization is designed to provide reasonable but not absolute assurance of SFIL's attainment of the objectives it has set in this area.

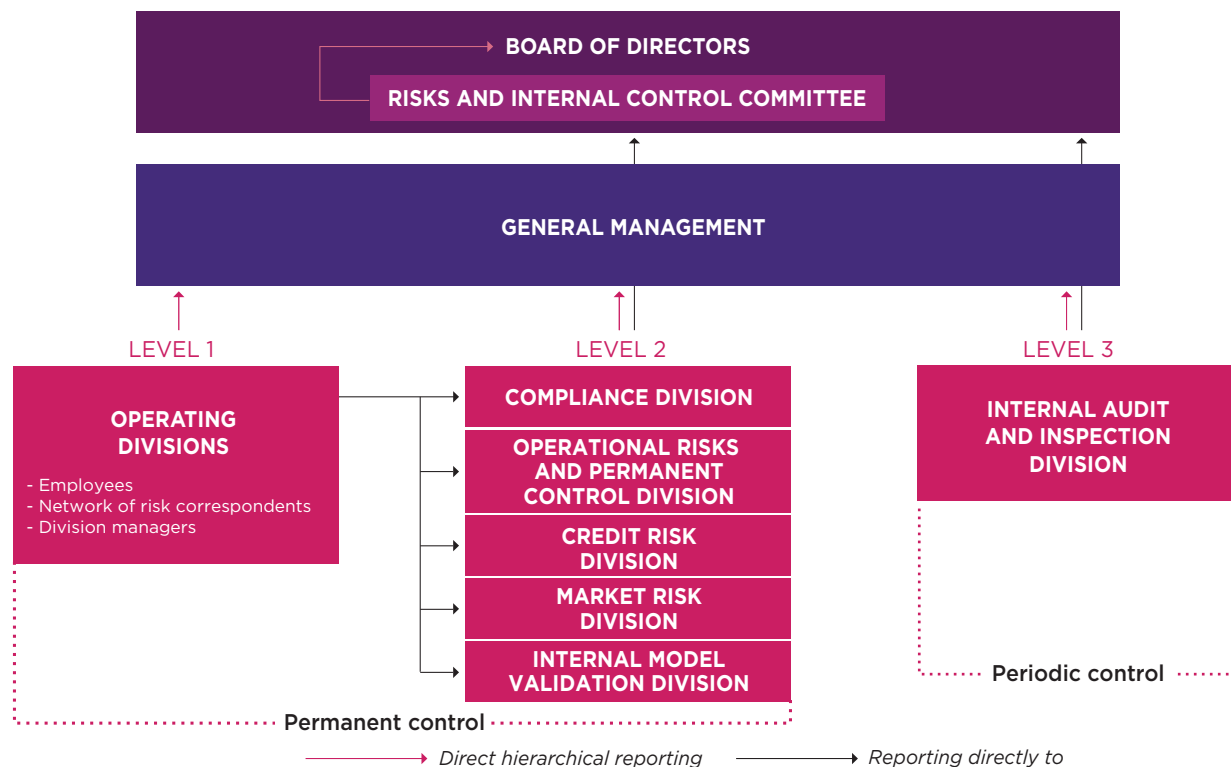
The internal control objectives in effect at SFIL on behalf of Caisse Française de Financement Local aim to:

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



General architecture of SFIL internal controls applied to Caisse Française de Financement Local

Three levels of control



In accordance with the *arrêté* of November 3, 2014, the general architecture of SFIL's internal control system is based on three levels of control, under the responsibility of SFIL's accountable officers and the supervision of its Board of Directors.

Every half-year, the managers responsible for the level 2 and 3 control functions present their activity reports, mapping and plan to the Executive Board of Caisse Française de Financement Local for approval. Once approved, they are presented to the Supervisory Board.

The permanent control is provided by the first two levels which allow the internal control procedures to be implemented without interruption. The periodic control at the third level is a verification and assessment function for the first two levels, with its own audit cycle.

The functions for the second and third levels are independent control functions. They report directly to the accountable officers, and give an account of the performance of their work to the relevant committee attached to the Board of Directors (the Risks and Internal Control Committee), also referred to by Caisse Française de Financement Local, as well as to the Executive Board. They can be heard by this committee and by the Executive Board upon request from the latter. They can also refer matters directly to the Executive Board or the relevant committee on their own initiative, if they deem that an event could have a significant impact and should be brought to its attention.

Those involved in the second and third levels of internal control meet regularly within the Internal Control Coordination Committee, which is responsible for the

operational management of the internal control system. In 2020, the Committee met monthly to oversee the project to replace the risk management and internal control tool. The new tool, shared by the three internal control levels, has been in production since the end of 2020. In addition, the Committee continued to oversee actions aimed at improving the structure of the internal control system, notably by approving the revision of the scope and objectives of the first and second level controls.

1.11.1.2 Supervisory body and accountable officers

The Risks and Internal Control Committee

An offshoot from the Board of Directors, this committee is responsible for:

- advising the Board of Directors on risk management and monitoring as well as risk appetite, taking into account all types of risks in order to ensure that they are in line with the bank's strategy and objectives;
- assessing the effectiveness of internal control, in particular the consistency of the systems for measuring, monitoring and controlling risks, particularly with regard to the Risk Appetite Statement approved by the Board of Directors of SFIL and the Supervisory Board of Caisse Française de Financement Local, and to propose, as necessary, additional actions in this respect;
- monitoring SFIL's permanent control, compliance and periodic control system;



- examining different scenarios, including stress scenarios, to assess how the bank's risk profile would react to external and internal events;
- giving an opinion on the compensation policy and practices proposed by the Compensation Committee;
- participating in appointing and supervising Statutory Auditors.

Executive Board of Caisse Française de Financement Local

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

- SFIL's Risks and Internal Control Committee, attached to SFIL's Board of Directors, the role of which, described in the French Commercial Code and in the *arrêté* of November 3, 2014, is described in detail above;
- SFIL's Chief Executive Officer and Deputy Chief Executive Officer, who are in charge of effectively running the business of the institution within the meaning of the regulations, are responsible for the efficient operation of SFIL's internal control system. They allocate the resources that the various divisions in charge of control need to carry out their responsibilities, and verify that the objectives are met and that the internal control system is adapted to the regulations and SFIL's and Caisse Française de Financement Local's activities. To this end, they regularly receive activity reports and the results of the controls carried out in terms of permanent control, compliance and periodic control. These reports are also presented and discussed at meetings of Operational Risks and Permanent Control Committee and SFIL's Executive Committee, and the issues raised engender action and decisions in order to ensure continuous improvement in internal control.

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

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

1.11.1.4 The second level of control: permanent control excluding compliance

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

1.11.1.4.1 Definition

SFIL's permanent control excluding compliance aims to verify the:

- effectiveness and solidity of the risk control system;
- effectiveness of the operational control system and internal procedures;
- quality of the accounting and financial information and quality of the information systems.

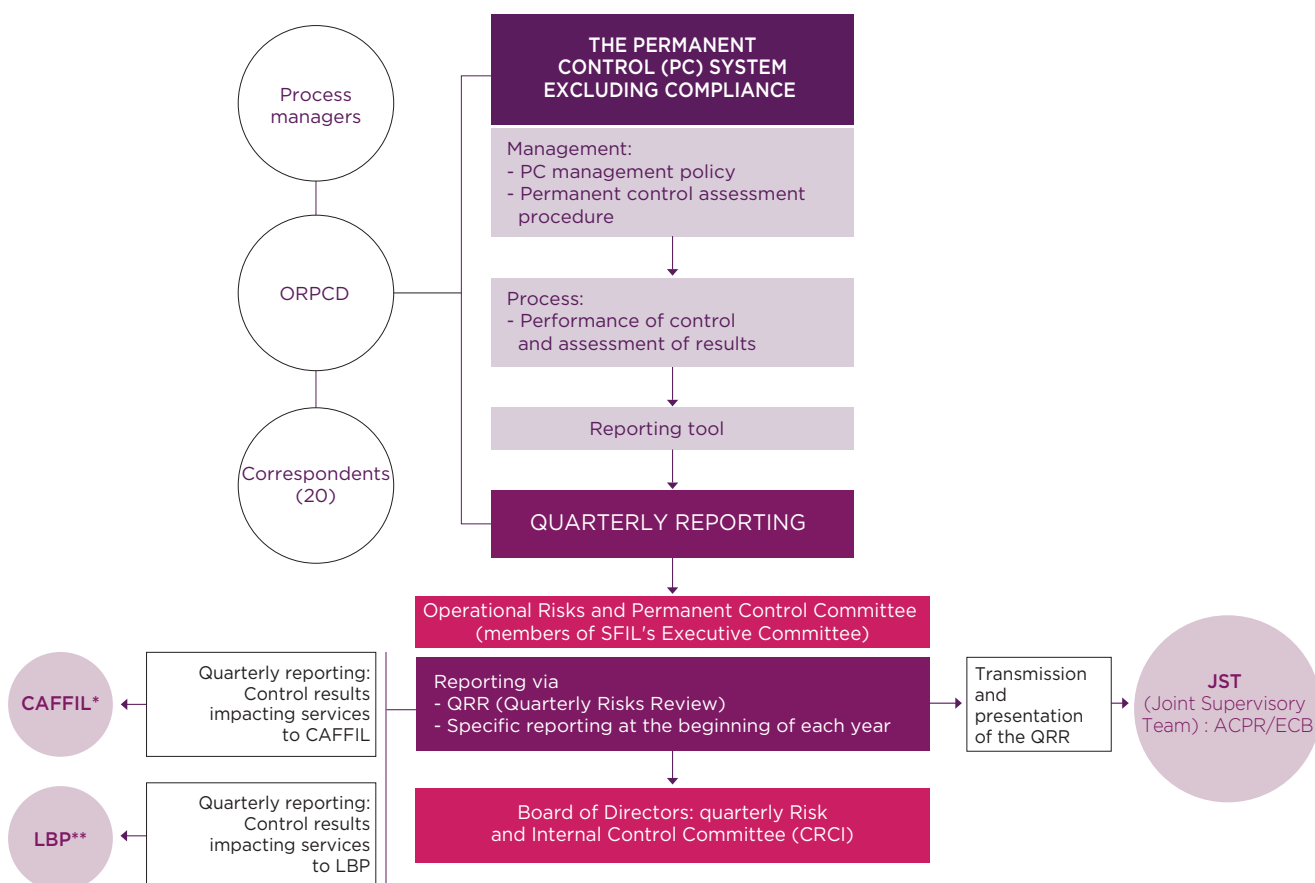
The permanent control system applies to all the Group's divisions, activities and processes (SFIL and Caisse Française de Financement Local).



1.11.1.4.2 Organization and governance

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

- a network of correspondents inside the operating divisions who are responsible for performing and monitoring certain controls;
- process managers who are responsible for permanently verifying the solidity and effectiveness of the internal control system for their perimeter;
- the Operational Risks and Permanent Control division which steers the system and carries out second level controls (e.g.: IT application authorizations, IT backups, steering essential outsourced services).



* Within the framework of the SFIL/CAFFIL agreement

** Within the framework of the SFIL/LBP agreement

1.11.1.4.3 The second level of control: permanent control excluding compliance

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

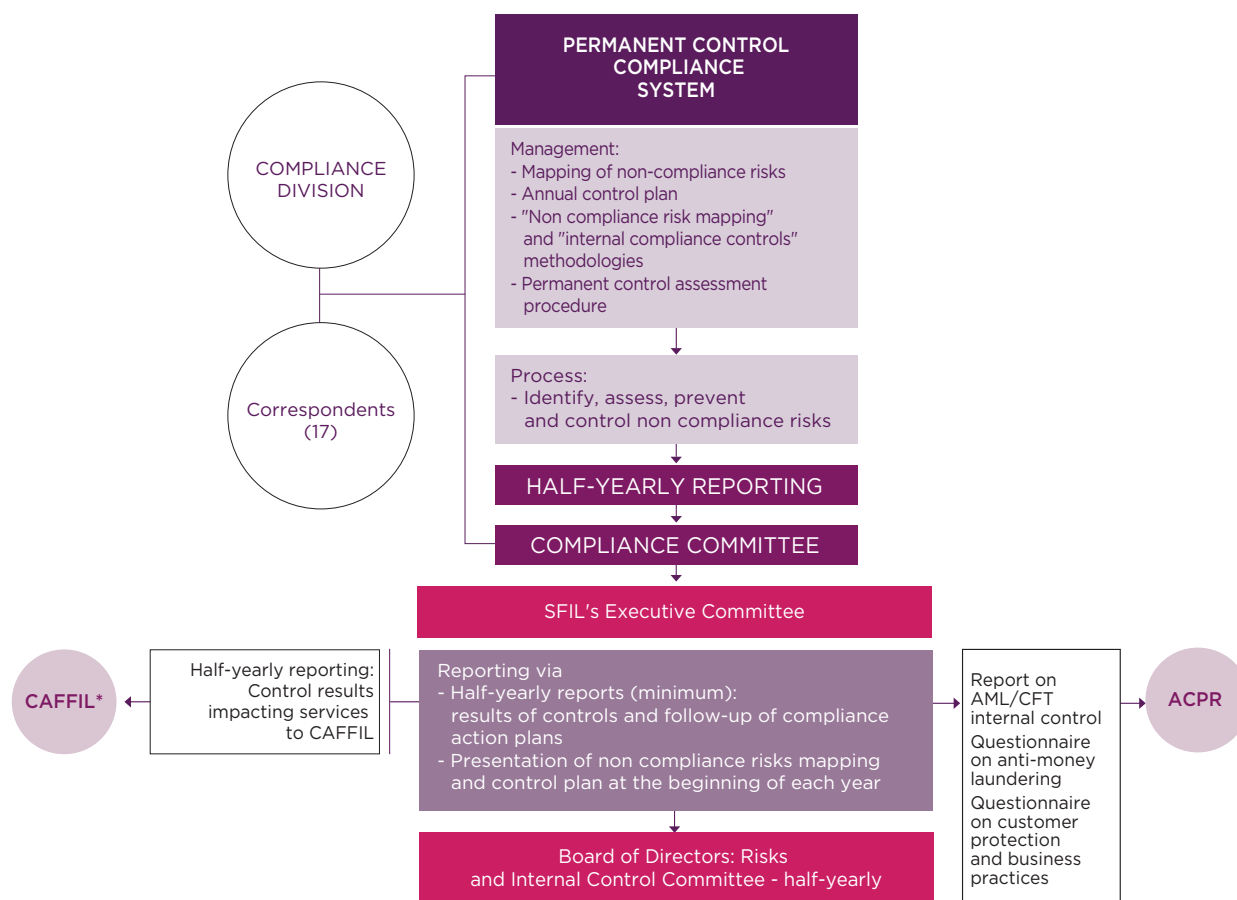
- the results of the controls carried out over the past year and their appropriateness to the risks to be hedged;
- the review of incidents raised;
- the results of the operational risk mapping by process;
- the recommendations of the Internal Audit division, the external auditors and the regulator;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



Missions	2020 activities and results
Performance and assessment of permanent controls	Permanent control plan consisting of 128 controls.
Monitoring recurrent action plans	21 action plans were open as of December 31, 2020. 9 action plans were implemented over the period.
Internal and external reporting	4 Operational Risks and Permanent Control Committee meetings. Contribution to 4 Quarterly Risk Reviews (QRR) for the Risks and Internal Control Committee transmitted to the ECB. 1 Risks and Internal Control Committee meeting dedicated to internal control.
Change in risk and compliance management tool (GRC)	Implementation of a new tool at end 2020 dedicated to internal control functions.
Coordination of the network of correspondents	Training of correspondents on the new tool.
Reporting to the Executive Board of Caisse Française de Financement Local	4 reports on permanent controls by the CAFFIL coordination division based on the Quarterly Risk Reviews (QRR) and annual presentation of its report by the ORPCD.
Reporting to the Supervisory Board of Caisse Française de Financement Local	4 reports to the Supervisory Board by the Executive Board on the basis of the QRR and the annual report by the ORPCD.

1.11.1.5 The second level of control: compliance control

1.11.1.5.1 Organization and governance of SFIL's compliance control system applied to Caisse Française de Financement Local's operations



* Within the framework of the SFIL/CAFFIL agreement

The SFIL Compliance division, which is independent from the operating teams, is responsible for the permanent control system for risks of non-compliance, as defined by article 10 p) of the *arrêté* of November 3, 2014 as amended. The permanent compliance control system is segregated within a "permanent control" unit of the Compliance division (for a more detailed description of the organization and governance of the compliance control system, please see section 1.12.2.6 of the management report – Risks of non-compliance). The system also covers Caisse Française de Financement Local, a subsidiary of SFIL, having delegated its management thereto in application of article L.513-15 of the French Monetary and Financial Code.

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

To ensure that the system for managing SFIL's and Caisse Française de Financement Local's business-related compliance risks is effective, the Compliance division defines a compliance control plan. This plan is based on the identification and assessment of the risks identified *via* the non-compliance risk mapping process. This mapping is reviewed at least once a year in order in particular to take into account changes in SFIL's activities as well as regulatory developments. The methodology used to assess non-compliance risks is identical to the methodology used by the operational risks and permanent control and internal audit departments, in order to share a common language between the three lines of defense. Since the end of 2020, these three lines of defense have had a common risk management tool that provides a consolidated and shared vision of the risks, controls implemented and the monitoring of action plans by process and by department.

The compliance risk mapping and control plan are presented to the accountable officers for approval at the beginning of each year, at a meeting of SFIL's Executive Committee and of Caisse Française de Financement Local's Executive Board. They are then presented to the Risks and Internal Control

Committee for approval at a meeting of SFIL's Risks and Internal Control Committee dedicated to hearing from the risk management, compliance, and periodic control officers, not attended by SFIL's General management.

The Compliance division implements its control plan in accordance with the defined schedule. Any change to and/or adaptation of the control plan is disclosed to the governance bodies of SFIL and Caisse Française de Financement Local.

The compliance controls have two components:

- the assessment of the level 1 control system, which consists of verifying the definition and effective implementation of level 1 controls and their correct formalization;
- the implementation of control points on specific topics through execution and /or assessment: these control points ensure that the systems implemented are effective.

Anomalies or non-compliances identified as part of controls are systematically the subject of specific action plans proposed to the departments concerned, in charge of their implementation. These action plans are monitored by the Compliance division and are the subject of reports filed with the governing bodies of SFIL and Caisse Française de Financement Local.

As part of permanent control, the Compliance Division also relies on internal systems for reporting breaches, infringements and malfunctions, namely: i) a network of 17 "risks" correspondents, ii) a procedure for reporting on professional or ethical alerts. No alerts were escalated to the General Secretary, Compliance Director in 2020.

The accountable officers of SFIL and Caisse Française de Financement Local, as well as the Board of Directors of SFIL, and the Supervisory Board of the Caisse Française de Financement Local are given regular updates on the compliance control system. Every quarter or half-year, the General Secretary presents the results of the permanent compliance controls to the Executive Committee of SFIL, the Executive Board of Caisse Française de Financement Local, and to SFIL's Risks and Internal Control Committee. These bodies examine the results of the controls and the progress made with the action plans. They assess the relevance of the controls, decide on any improvements to be made, and, more generally, rule on the key challenges connected with the compliance measures.



1.11.1.5.2 Permanent control activities carried out by the Compliance division

During the 2020 financial year, the Compliance division carried out the following work in the context of its missions in relation to permanent compliance controls:

Missions	2020 Performance
Identifying and assessing non-compliance risk	<ul style="list-style-type: none"> • Presentation of the updated compliance risk mapping including the corruption risk mapping to SFIL's Risks and Internal Control Committee on January 30, 2020. • In total, the risk mapping identified 60 risks of non-compliance.
Controlling the risks of non-compliance	<ul style="list-style-type: none"> • The 2020 control plan was presented to SFIL's Risks and Internal Control Committee on January 30, 2020. The plan featured 26 topical controls to be carried out quarterly, half-yearly or yearly; as of the date of the report, the controls had been implemented in accordance with the 2020 plan for the first three quarters of 2020. The controls for the fourth quarter of 2020 are being finalized and will be presented to SFIL's Risks and Internal Control Committee on March 17, 2021.
Defining and monitoring action plans	<ul style="list-style-type: none"> • The action plans as a whole led to permanent monitoring during 2020 and to the presentation of the state of progress made to Caisse Française de Financement Local's Executive Board and to SFIL's Risks and Internal Control Committee; • 62 new action plans launched during the period. At December 31, 2020, 22 action plans remained open compared to 27 on December 31, 2019.
Informing management and the governance bodies	<p>The results of the permanent compliance controls and the follow-up of the action plans were presented, highlighting the key risks identified, actions taken, and the actions still to be taken:</p> <ul style="list-style-type: none"> • each half year to Caisse Française de Financement Local's Executive Board (in addition to the reports examined by the Executive Board at the meetings preceding the quarterly Supervisory Board Meetings); • each half year to SFIL's Risks and Internal Control Committee;
Reporting to the banking supervisor	<ul style="list-style-type: none"> • Contribution to the 2020 Internal Control Report steered by the internal audit division; • Drafting of the internal control report on AML/CFT; • Questionnaire on anti-money laundering; • Questionnaire on customer protection and business practices.

1.11.1.6 The third level of control: periodic control

1.11.1.6.1 Organization and governance of the periodic control system

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

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

- the absence of involvement in the operational management of SFIL and Caisse Française de Financement Local activities;
- unconditional and immediate access to all information, documents, premises, systems or persons its activities require;
- the resources supplied by the General management to carry out these missions;

- the respect of the principles of integrity, objectivity, confidentiality and competence (in particular through a permanent training plan on audit techniques and regulatory developments) on the part of the staff of the Internal Audit division.

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

As of January 1, 2021, the Internal Audit and Inspection division had nine staff (plus two alternates), including six auditors and audit managers. The General Auditor supervises all the division's audit activities and reports. She is assisted by a supervisor, who shares responsibility for the team of auditors and oversees the audit assignments that they carry out under the auspices of the audit managers. Furthermore, every auditor and audit manager is responsible for a specific field, reflected in their responsibility to update permanent documentation, sit on some of the SFIL's group's committees as an observer, risk monitoring and the following up of recommendations for implementation by SFIL's operating divisions.

1.11.1.6.2 Internal Audit and Inspection division activities

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

Missions	2020 Performance
<p>Annual risk assessment</p> <p>Approach based on an identification of SFIL's strategic objectives then an independent examination of the critical risks which could prevent these objectives being attained.</p>	<p>The SFIL Group's major risk mapping was updated during the fourth quarter of 2020. The number of risks identified is decreasing and the overall level of criticality is slightly lower than the 2019 assessment.</p>
<p>The preparation and structure of the multi-yearly audit plan</p> <p>The multi-yearly plan is prepared from the results of the annual risks assessment and the coverage objective of all the SFIL's group activities over a three-year cycle. The annual audit plan is divided into audit missions which run from February 1 of the reference year to January 31 of the following year.</p>	<p>As part of its interactions with the Caisse des Dépôts group internal audit department, SFIL's internal audit department updated its multi-year audit plan by integrating assignments directly carried out by the Internal Audit Department of the Caisse des Dépôts group on cross-functional issues.</p> <p>The annual audit plan for 2021 was validated in January 2021 by the Risks and Internal Control Committee and provides for the performance of 19 audits (including 11 relating directly to the Caisse Française de Financement Local), four of which will be carried out by the Internal Audit Department of the Caisse des Dépôts group.</p> <p>Under the 2020 audit plan, 12 audit missions were carried out at the end of January 2021, i.e. 80% of the year's target, given that all of the audit missions that had not been completed at the end of January 2021 have since been finalized with the exception of one postponed to 2021. These internal audit missions cover:</p> <ul style="list-style-type: none"> • the core business of the SFIL Group (management of local public sector outstandings); • key operational processes (liquidity management, pledge of credit loans at the Banque de France); • support processes (€STER project, payroll management, outsourced information system hosting service, data quality); • risk monitoring (processing of arrears and defaults, internal credit models, risk appetite, adequacy of risk resources dedicated to credit analysis & IFRS 9, GDPR system and confidentiality framework).
<p>The preparation and structure of the inspection plan</p> <p>The purpose of this function is to play a role in the prevention, detection and investigation of fraud in accordance with the inspection plan or on the request of the General Secretary or general management.</p>	<p>The 2021 inspection was prepared during the fourth quarter; it stipulates three inspection controls.</p> <p>Under the 2020 inspection plan, two of the three checkpoints aimed at ensuring the segregation of duties in terms of entering bank details were carried out and one is being implemented at the date of publication of this report. The audit of the application of SFIL's compensation policy is being finalized at the date of publication of this report.</p>
<p>Monitoring the recommendations made following missions by the Internal Audit and Inspection division, the supervisory authorities or Statutory Auditors</p> <p>This monitoring is performed via an automated monitoring process to implement the action plans resulting from these recommendations. Responsibility for the appropriate implementation of the recommendations is incumbent on identified managers. The follow-up of this implementation is under the responsibility of the auditors and audit managers in function of their field of competence. The validation of the stage of progress or accomplishment of these action plans is the responsibility of the Supervisor and the General Auditor.</p>	<p>All of these recommendations prompted continuous monitoring in 2020 and the production of two reports dated May 31, 2020 and October 31, 2020 highlighting the main risk points closed over the review periods and those remaining to be covered.</p> <p>From 2021, the reports will be produced on a quarterly basis.</p>
<p>The Secretariat to the Accounts Committee and the Risks and Internal Control Committee</p> <p>The organization of committee meetings and monitoring of actions decided during them, under the aegis of their Chairman.</p>	<p>Six risk and Internal Control Committees and five accounts committees were organized. The information and files required to hold the meetings and decision-making were transmitted and communicated within the deadlines.</p>

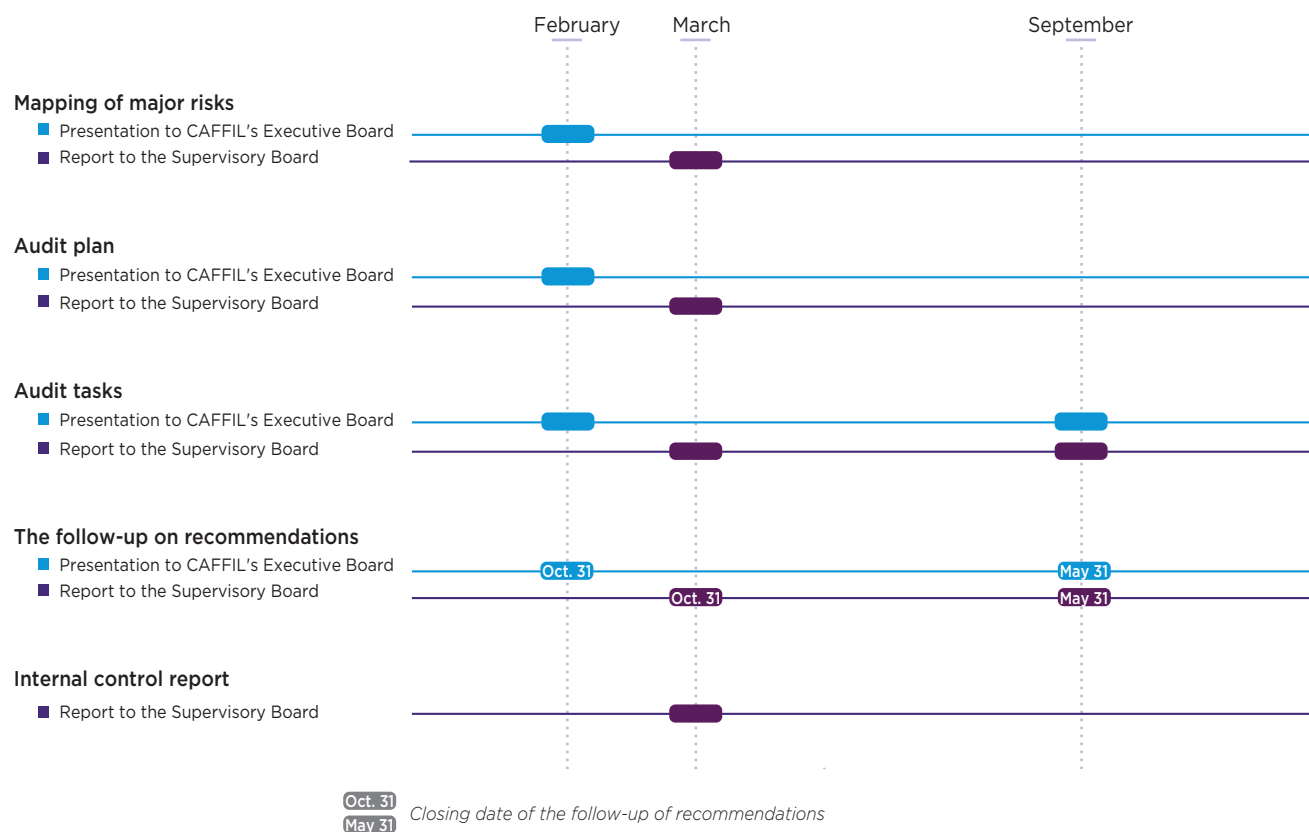
Indicators dedicated to measuring the effectiveness and performance of the internal audit department's activities are monitored on a quarterly basis. The areas for improvement identified at the end of 2019 in terms of written communication of the results of internal audit assignments were implemented during 2020.

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

1.11.1.6.3 Internal Audit and Inspection division reporting

The supervision of the periodic control by SFIL's Board of Directors and SFIL's Risks and Internal Control Committee is based on a system of structured and recurrent reporting of all of the Internal Audit and Inspection division's activities. The accountable officers ensure that the periodic control

system functions correctly, and are kept regularly informed of the results of the division's activities through reporting to SFIL's Executive Committee and the Executive Board of Caisse Française de Financement Local which then reports to its Supervisory Board.



1.11.1.7 The Specific Controller

The Specific Controller is responsible for ensuring that the Company respects its exclusive corporate purpose and prudential standards specific to *sociétés de crédit foncier*. The Specific Controller is a French professionally certified auditor named by the Company's Executive Board. The Specific Controller performs controls pursuant to articles L.513-23 and L.513-24 and articles R.513-15 and R.513-16 of the French Monetary and Financial Code and CRBF Regulation No. 99-10. He conducts appropriate audits in cooperation with the Statutory Auditors and is completely independent *vis-à-vis* the Company's officers. He is also liable for the negative consequences of any error or negligence committed in the exercise of his functions. The Specific Controller has access to all information from management, internal control units and internal audit. In addition, operating services and internal control units have been instructed to provide specified information in order to allow the Specific Controller to monitor the over-collateralization ratio, the nature of assets, interest rate

risk management, the gap in the average life of assets and privileged liabilities, coverage of cash needs over 180 days, and the coverage plan of privileged liabilities by the assets. For every Caisse Française de Financement Local issue contract or on the basis of a quarterly issuance program, he affirms compliance with legal and regulatory standards concerning the over-collateralization ratio of the privileged liabilities by the assets, once the issue has been settled. The Specific Controller certifies that the documents the Company sends to the ACPR meet legal and regulatory requirements for *sociétés de crédit foncier*. At the request of the Banque de France, the Specific Controller annually issues a certificate in support of the statement submitted by Caisse Française de Financement Local concerning the composition of the cover pool. He submits a comprehensive annual report on his activity to the Supervisory Board of Caisse Française de Financement Local, and a copy is addressed to the Autorité de Contrôle Prudentiel et de Résolution (ACPR).

1.11.2 Preparation of accounting and financial information

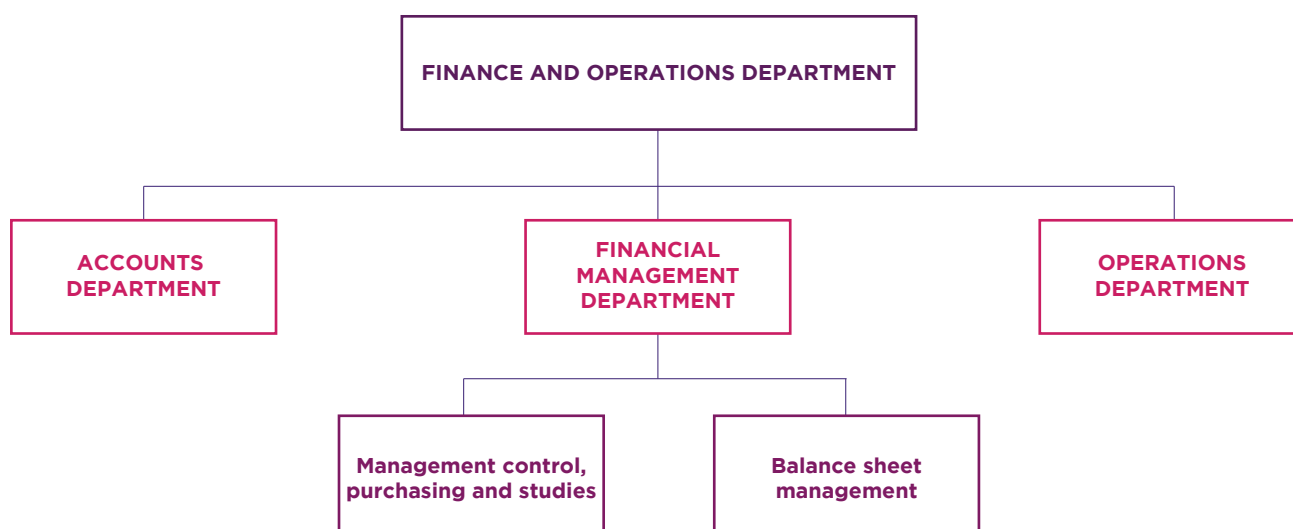
1.11.2.1 Financial statements

The main aim of the company's annual financial statements, as well as all the financial data produced by the Accounting department is to give a true and fair view of its assets, financial position and results. For credit institutions, the *arrêté* of November 3, 2014, on internal control highlights in its accounting chapter that the organization adopted should guarantee the existence of procedures called audit tracks. They make it possible to establish a link between accounting data and the original supporting document, and vice versa. All these items should make it possible to reconstitute, justify and explain any and all financial items produced for

accounting or regulatory purposes. This principle grounds the organization of accounting practices in the SFIL Group and also applies to both SFIL and Caisse Française de Financement Local.

1.11.2.1.1 Role and organization of accounting

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



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

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

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

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

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



1.11.2.1.2 Preparation of the separate financial statements

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

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

A first level of control is conducted by accounting teams that are specialized by products, in particular by analyzing accounting/management data reconciliation, bank reconciliation and technical suspense accounts. Monthly comparisons with management data and reconciliations of micro-hedges make it possible to ensure the correct retranscription of financial operations. These teams also reconcile the accounting data from net banking income with management data produced by separate teams. This cross-referencing is done at least once a quarter and consistency from one period to the next is verified using analytical controls. The main changes must be explained. Finally, these teams also prepare a synthetic memorandum on the work done, which points out areas that need attention and improvement for the processes to be used in future financial statements. Finally, the management control team, in order to check the consistency of interest income and expenses from one period to another, reconciles this data with average outstandings in order to produce average rates that are more easily comparable from one period to another.

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

To ensure thorough implementation of its control plan, Accounting has a monitoring tool at its disposal with which it can verify the deployment of key controls and their validation. The validation of key controls is carried out by the line manager of the employee who carried out the control. This information and any comments on discrepancies are subject to review by the head of Accounting with the main team members.

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

1.11.2.1.3 Approval of the financial statements

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

1.11.2.1.4 Publication of the financial statements of Caisse Française de Financement Local

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

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



1.11.2.1.5 Role of Statutory Auditors

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

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

1.11.2.2 Management reporting

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

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

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



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

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

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

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

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

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

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

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

Risk appetite

The appetite for risk of SFIL is defined based on strategic and budgetary objectives: it is presented to SFIL's Risks Committee, then to SFIL's Executive Committee and Caisse Française de Financement Local's Executive Board. It is approved by SFIL's Risks and Internal Control Committee and ultimately approved by SFIL's Board of Directors and Caisse Française de Financement Local's Supervisory Board. Within this framework, policies have been defined for the entire scope as well as limits and rules for delegating decisions. The Risk Management division monitors these limits and, where appropriate, proposes measures to Executive Management to ensure compliance therewith.

Risk review

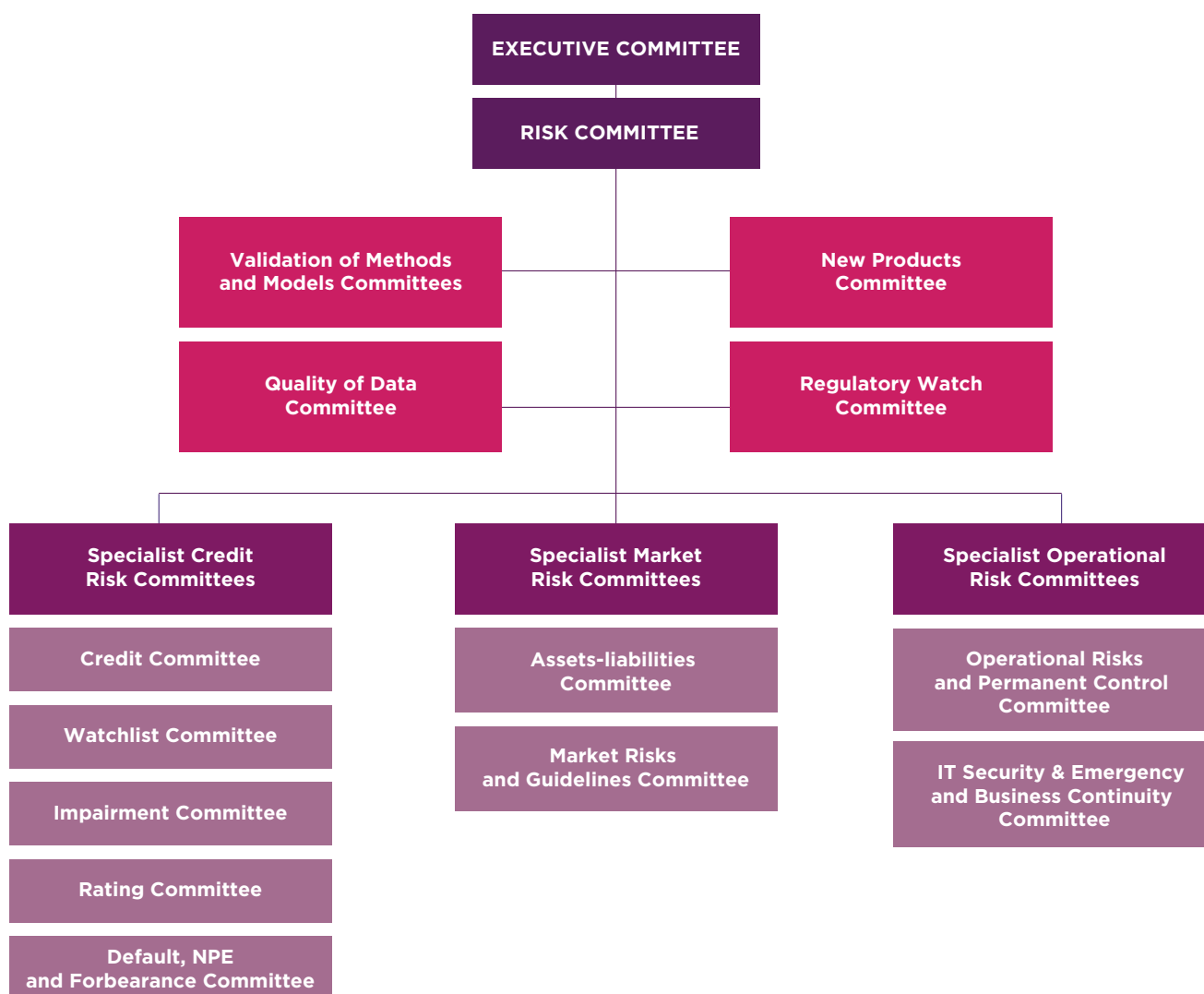
The Chief Risk Officer presents a "Quarterly Risks Review" to the Risks and Internal Control Committee. This review provides a synthetic overview of the Group's main risks and the changes to them during the previous quarter (credit risks, market and balance sheet risks, operational risks) as well as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

Overall governance of risks

All operations conducted by Caisse Française de Financement Local are subject to the control of the different committees set up by SFIL. This control incorporates the specific rules and limits which apply to Caisse Française de Financement Local.

The Risk division uses several committees whose missions and composition have been approved by SFIL's Risks and Internal Control Committee. There are cross-functional committees – the Risk Committee, the Methods and Model Validation Committee, and the New Products Committee – and committees specializing in credit risk, market risk and operational risk.





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

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

Risks Committee

This committee is the umbrella committee of the risk committees. It defines the SFIL Group's risk profile, validates the risk management systems and ensures their compliance. In particular, it is in charge of defining delegations in the granting of credit and approving the risk policies of SFIL concerning all types of risks and the limits defined by the Risks division.

Validation of Methods and Models Committees

The Market validation Committee is responsible for validating and implementing the Group's market risk and derivatives valuation models. The Credit validation and Quality Control Committees are responsible for validating the internal rating systems used to calculate regulatory capital and the IFRS 9 impairment and economic capital models as well as their implementation.

New Products Committee

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



1.12.2 Caisse Française de Financement Local's main risks

1.12.2.1 Credit Risk

1.12.2.1.1 Definition

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

1.12.2.1.2 Organization and governance

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

Definition	In line with the risk appetite of Caisse Française de Financement Local: <ul style="list-style-type: none"> • credit risk policies and directives; • different concentration limits; • delegations to be granted.
Management	<ul style="list-style-type: none"> • of the process of granting loans (new commitments and restructurings) through credit analysis and giving ratings;
Monitoring existing portfolios	<ul style="list-style-type: none"> • by performing annual reviews; • by re-rating portfolios annually; • by identifying assets with degraded risk (watchlist, default or NPE, contract under Forbearance); • by estimating the provisions/impairments required; • by proactively monitoring limits; • by performing stress tests.
Models	<ul style="list-style-type: none"> • development and monitoring IRBA credit models, economic capital models or expert models.

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

- the **Credit Committee**:
 - approves the new⁽¹⁾ commitments made by Caisse Française de Financement Local (loans and market transactions) and the restructuring of loans based on an independent analysis by the Risks division,
 - sets credit limits if they exceed certain predefined thresholds,
 - reviews the report on the commitments made within the framework of delegations granted (to the Risks division, the Debt Portfolio Management division, the Financial Markets division or the commercial teams of La Banque Postale);
- the **Watchlist Committee**:
 - is responsible for monitoring assets subject to special attention given the deterioration of their risk;
- the **Default, Non-Performing Exposures & Forbearance Committee**:
 - decides to add or withdraw borrowers in the default category,
 - categorizes arrears as either real default or technical arrears,
 - validates the list of counterparties with non-performing exposure,
 - validates the Forbearance exposure list;

- the **Impairment Committee**:
 - draws up the amount of provisions in accordance with IFRS standards: Expected Credit Losses (ECL) for each of the three Stages, and for Stage 3 based on the recovery scenarios that the Watchlist Committee determines;
- the **Rating Committee** (organized by the "Credit Validation and Quality Control" team to guarantee the independence of the control process):
 - ensures that the Internal rating systems and processes are correctly and appropriately applied.

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

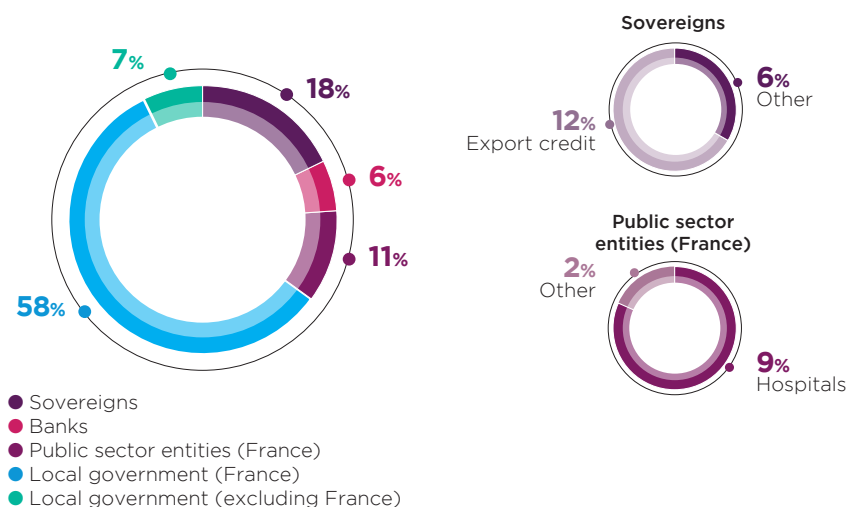
- the CAFFIL Coordination division within SFIL pilots the process of asset acquisition and associated eligibility controls prepared by the different divisions of SFIL; the definitive portfolio is validated by the Executive Board after soliciting the opinion of SFIL's Credit Committee;
- the back office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

These controls are standardized by procedures.

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

(1) Not delegated to the Risks division, to the Debt Portfolio Management division, and to the sales teams of La Banque Postale.

1.12.2.1.3 Exposure to credit risk



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

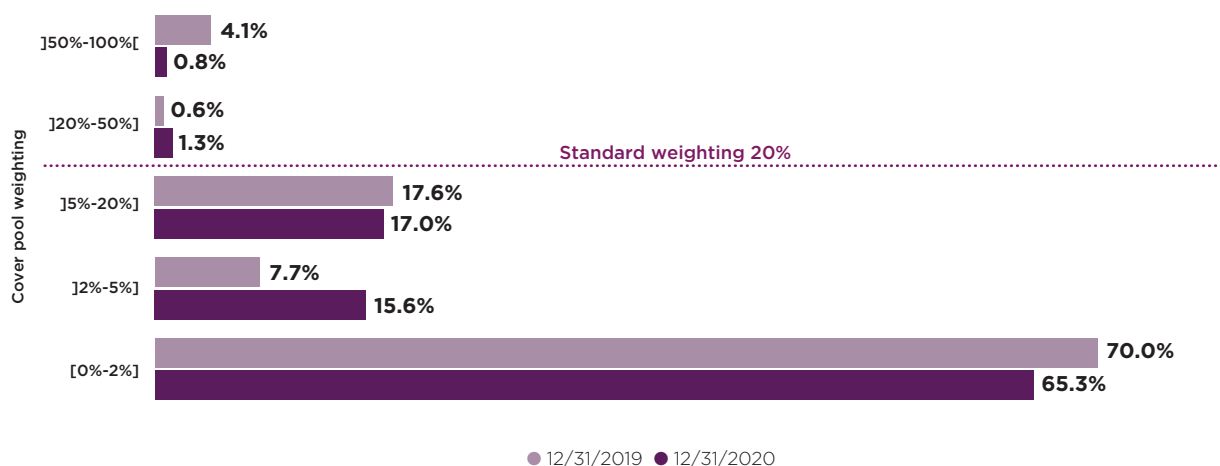
- 58% of these exposures are concentrated on French local government bodies (regions, departments, municipalities, groups of municipalities, etc.);
- 12% of the exposures result from export credit activity;
- 9% of the exposures concern the public hospital sector.

1.12.2.1.4 Breakdown of cover pool exposures according to risk weightings

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

This enables Caisse Française de Financement Local to present an analysis of its exposure as of December 31, 2020 (in EAD), broken down by risk weighting, as used for the calculation of capital requirements for credit risk.

RISK WEIGHTING OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL'S PORTFOLIO AS OF DECEMBER 31, 2020



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

- 81% of the portfolio has a risk weighting of 5% or less;
- 2% of the portfolio has a weighting greater than 20%.

The average risk weighting of the cover pool assets is 5.4%, versus 20% for European local government entities according to the Basel standard method. They were 6.6% at the end of the previous year; most of this variation is due to the change in the weighting method for sovereign exposure and exposure on Italian local authorities (now in the standard method).

The impacts of the Covid-19 pandemic are limited at this stage for French local public sector entities. The SFIL Group has supported all health institutions as part of the national mobilization to fight against the global pandemic. The SFIL Group proposed payment terms of 180 days to these entities for all of their loan contract maturities between March 12 and June 30, 2020, without any late interest or penalties being invoiced. Requests for payment terms were also received from certain local authorities or French public sector entities. As of December 31, 2020, eight borrowers that benefited from payment terms were considered to be in default due to their financial positions, representing a limited credit exposure of EUR 11.6 million.

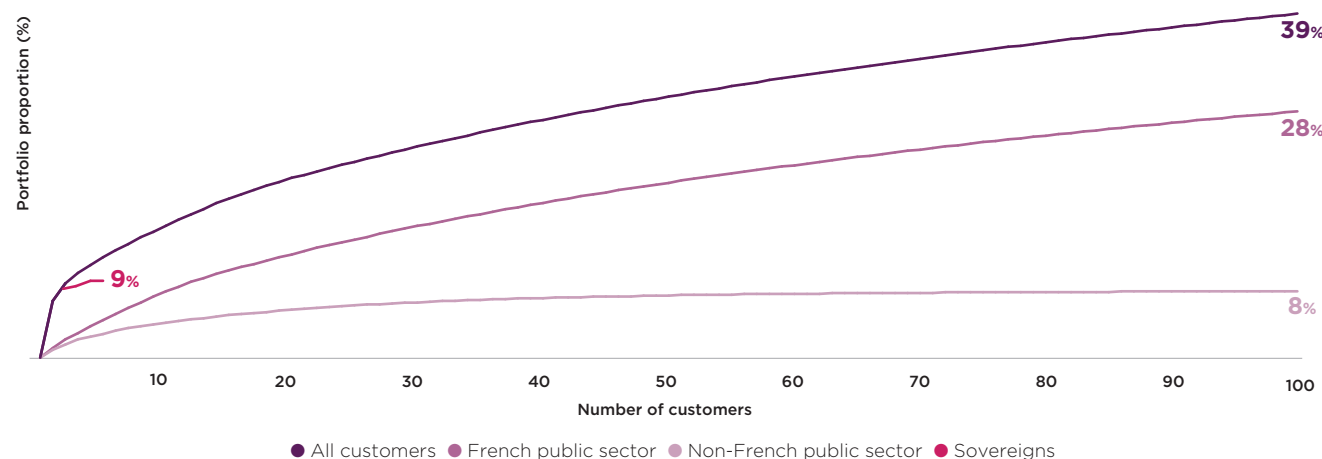
Among them, five borrowers were still benefiting from extensions to payment terms at December 31, 2020 for an amount of deferred payments of EUR 0.6 million, one borrower had not met all or part of its payment deadline for an amount of deferred payments of EUR 0.2 million and two borrowers had met their payment terms due before December 31, 2020.

Weighted exposure with respect to credit risk amounted to EUR 3,962 million. Including other risks, total weighted risks came to EUR 4,672 million. Combined with its high level of regulatory equity, the credit quality of Caisse Française de Financement Local's assets enabled the Company to post a Common Equity Tier 1 Ratio of 28.8% as of December 31, 2020.

1.12.2.1.5 Concentration by customer

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

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



As of December 31, 2020, the 20 largest exposures (excluding replacement assets and cash deposits in the Banque de France), all categories combined, represented 20.4% of the cover pool. The largest exposure, the French State, represented 6.4% of the cover pool and the 20th exposure, 0.4%.

1.12.2.1.6 Arrears, non-performing loans, litigious loans, provisions at December 31, 2020

Arrears	Doubtful and litigious loans	Defaulted loans (Stage 3)	Non-performing loans (Non-Performing Exposures)
	French Gaap	IFRS	Prudential rules
EUR 37 million	EUR 212 million	EUR 455 million	EUR 608 million
<i>i.e. 0.06% of cover pool</i>	<i>(EUR 123 million of which is for loans without arrears)</i>	<i>(EUR 424 million of which is for loans without arrears)</i>	<i>(EUR 485 million of which is for loans without arrears)</i>

Change in arrears

Arrears fell sharply in 2020 (-43%) from EUR 64 to 36 million (excluding technical arrears). This decrease is due in particular to the continued reduction in the sensitivity of structured loans, and mainly to the agreement reached this year with a major customer, which allowed the payment of its arrears. The number of customers arrears in (excluding technical arrears) is low and almost stable (30 customers or around 0.2% of Caisse Française de Financement Local's total number of customers).

	12/31/2019		12/31/2020	
	Amounts EUR millions	Number of customers ⁽¹⁾	Amounts EUR millions	Number of customers ⁽¹⁾
TOTAL ARREARS	65	49	37	57
Technical arrears	1	20	1	26
Non-qualifying default payment deferrals granted in respect of Covid-19	-	-	0	1
Qualifying arrears	64	29	36	30
<i>of which payment terms granted in respect of Covid-19, qualified in default</i>	0	0	1	8
<i>of which other qualifying arrears</i>	64	29	35	22
<i>of which less than 90 days</i>	0	4	0	6
<i>of which more than 90 days</i>	64	25	36	24
<i>of which doubtful loans (French Gaap)</i>	26	25	32	27
<i>of which litigious loans</i>	38	4	4	3
<i>of which vanilla loans</i>	5	17	7	21
<i>of which structured loans</i>	59	12	29	9

(1) For each line, considering the customer in the category of its longest arrear, considering the customer as litigious if one of its loans is under litigation unless the customer is also classified as doubtful, and considering the customer in the category of its most highly structured loan.

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

As of December 31, 2020, doubtful and litigious loans (French GAAP) amounted to EUR 212 million, or 0.4% of the Caisse Française de Financement Local's cover pool, illustrating the portfolio's excellent quality.

They were down significantly by EUR 137 million, *i.e.* -39%.

This decrease mainly corresponds to customers whose situation has improved and who are no longer classified in this category, and who had significant outstanding loans that were downgraded by contagion⁽¹⁾. As of December 31,

2020, outstandings downgraded by contagion amounted to EUR 176 million.

Doubtful and litigious loans⁽²⁾ were as follows:

- EUR 208 million in doubtful loans, corresponding to loans granted to customers where the total amount of unpaid loans was EUR 32 million⁽¹⁾;
- EUR 4 million in disputed loans, corresponding to interest unpaid by three customers subject to litigation proceedings.

Doubtful and litigious loans correspond solely to French customers.

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

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

Provisions French GAAP EUR millions	12/31/2019	12/31/2020
Specific impairments	27	29
Collective impairments	36	31
TOTAL	63	60

As of December 31, 2020, the stock of specific provisions under French GAAP amounted to EUR 29 million, up very slightly compared to December 31, 2019.

In addition, collective provisions are calculated on the various asset portfolios. They amounted to EUR 31 million as of December 31, 2020 compared to EUR 36 million as of December 31, 2019. 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;
- an allocation to provisions for the portfolio of public hospitals and retirement homes that benefited in 2020 from a payment postponement granted in the context of the Covid-19 health crisis;

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 1.2.4.1. 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*: performing assets with no significant credit risk deterioration since initial recognition;
- *Stage 2*: performing assets with significant credit risk deterioration since initial recognition;

- *Stage 3*: loans in default.

Stage 3 outstandings correspond mainly to customers :

- with an amount due and unpaid for more than 90 days;
- whose financial situation has characteristics which could lead to conclude, independently from the existence of unpaid amounts, to the existence of a probable credit risk (unlikely to pay);
- that were in a situation of actual default and for which amounts unpaid for more than 90 days have been settled. After all unpaid outstandings have been settled and the default committee has formally decided to remove them from default status, they are kept at Stage 3 for a minimum period of one year, known as the "probation period".

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 non-performing assets recognized at their fair value through profit or loss (i.e. non-performing assets classified as not Solely Payment of Principal and Interest [SPPI]).

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

Breakdown of exposures by stages and IFRS impairments EUR millions	Net carrying amount before impairments EUR millions		Impairments EUR millions	
	12/31/2019	12/31/2020	12/31/2019	12/31/2020
Stage 1: no significant deterioration	57,097	59,082	(6)	(9)
Stage 2: credit risk deterioration	4,547	3,764	(36)	(30)
Stage 3: credit impaired	963	455	(10)	(6)
TOTAL SPPI ASSETS	62,607	63,301	(52)	(45)

IFRS Net carrying amount		
EUR millions	12/31/2019	12/31/2020
Non-Performing Exposures	1,278	608

Outstandings classified as Non-Performing Exposures as well as Stage 3 fell sharply in 2020 despite the health crisis. This improvement is due in particular to the continued reduction in the sensitivity of structured loans, and mainly to the agreement reached this year with a customer whose outstandings are significant, which allowed the payment of all its arrears. At the same time, outstandings classified in Stage 2 also decreased in line with the annual credit risk review on certain loan portfolios.

The outstandings of healthcare establishments that benefited from the moratorium put in place by Caisse Française de Financement Local were not downgraded to Stage 3, in accordance with Caisse Française de Financement Local's interpretation of European regulations.

In conclusion, all the risk metrics and in particular arrears, doubtful and disputed loans (French GAAP), the net carrying amounts allocated to the Stage 3 (IFRS) and the Non Performing Exposures have improved significantly over one year and reached their highest level since the creation of SFIL in 2013. This demonstrates the Group's strong resilience in the face of an unprecedented health crisis.

1.12.2.1.7 Bank counterparty risk

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

EUR billions	Short-term notional amounts	Long-term notional amounts	% of long-term notional amounts	Mark to Market		Collateral received	Number of counterparties
				-	+		
SFIL		16.1	22%	(1.6)			1
Other counterparties	23.0	56.9	78%	(2.0)	0.6	0.6	25
TOTAL	23.0	73.0	100%	(3.6)	0.6	0.6	26

As of December 31, 2020, Caisse Française de Financement Local was exposed (positive fair value of swaps) to eight bank counterparties, all of these paid cash collateral totaling EUR 0.6 billion, offsetting the total exposure.

The swaps negotiated with external counterparties represented 78% of outstanding long-term swaps and those signed with SFIL 22%. The long-term swaps signed with the five largest counterparties represented a total of 45% of notional amounts.

Short-term swaps (Eonia or €str) were all contracted with external counterparties.

1.12.2.2 Market risk

1.12.2.2.1 Definition and scope of market risks

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

If the transactions of a portfolio are entered into for trading purposes, regulatory market risk requires daily monitoring of risk and result indicators of that portfolio. Changes in the value of trading portfolios directly impact the income statement.

Caisse Française de Financement Local, as a *société de crédit foncier*, is not authorized to hold a trading or stocks investment portfolio and is therefore not exposed to regulatory market risks.

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

- replacement assets in the amount of EUR 1.5 billion (see 1.4.2.2);
- derivative contracts, entered into within the framework of its management of interest rate and foreign exchange risks.

All of Caisse Française de Financement Local's derivative operations are conducted within the framework of standard ISDA or FBF (Fédération Bancaire Française) contracts with major international banks. These contracts have particular characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and other issuers of covered bonds). Over the last few years, Caisse Française de Financement Local amended these contracts to take into account recent EMIR regulatory changes (signing of variation margin amendments). These interest rate and currency swaps all benefit from the same legal privilege as *obligations foncières*. For this reason, Caisse Française de Financement Local does not pay its derivative counterparties any collateral (or variation margin), whereas they have to pay Caisse Française de Financement Local except for some which benefit from the agencies highest short-term rating.

Caisse Française de Financement Local's derivatives are not subject to the clearing obligation nor the payment of initial margin.

All derivative exposures as of December 31, 2020, are listed below.

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 other comprehensive income, 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.

The health crisis linked to the Covid-19 pandemic had an impact on these usual elements of accounting volatility in the first half of 2020: as at June 30, 2020, the impact of these items on net banking income was EUR -26 million on financial assets recognized at fair value through profit or loss and EUR -3 million on carrying amount adjustments. However, these expenses were not of an economic nature, insofar as these transactions are intended to be maintained on the balance sheet until maturity. In addition, valuation adjustments of the same order of magnitude have already been encountered in the past during periods of market instability. These impacts were absorbed during the second half-year given the improvement in market conditions:



throughout the financial year 2020, the impact of these items on net banking income amounted to EUR -2 million on financial assets recognized at fair value through profit or loss and EUR -6 million on carrying amount adjustments.

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

1.12.2.2.2 Market risk governance and monitoring

Market risk governance is structured around the Market Risks Committee, which is responsible for approving policies,

directives and procedures relating to non-regulatory market risks before submission to the Risks Committee. This Committee monitors the defined risk indicators on a quarterly basis:

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

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

Definition	In line with SFIL's and CAFFIL's Risk Appetite: <ul style="list-style-type: none"> • market risk policies and directives; • different limits; • methodologies for calculating and measuring risks.
Certification	<ul style="list-style-type: none"> • the valuation of derivatives for accounting purposes.
Valuation	<ul style="list-style-type: none"> • balance sheet items (assets and liabilities); • value adjustments for derivatives (CVA and DVA).
Monitoring	<ul style="list-style-type: none"> • the valuation of cross-currency swaps for export credits in foreign currency not yet classified under hedge accounting; • the valuation of swaps that can no longer be classified under hedge accounting following the default of the loan covered.
Daily control	<ul style="list-style-type: none"> • margin calls on derivatives (cash collateral) <i>via</i> the monitoring of sensitivities to the market parameters. They correspond to a change in the fair value of the instruments for a standardized movement (or shock) of the market's parameters.
Calculation and control	<ul style="list-style-type: none"> • the impact of the spread risk on the securities portfolio.

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

Caisse Française de Financement Local and the regulatory framework. The principles of this management are described in the ALM management policies. The Market and Balance Sheet Risks division is in charge of defining the balance sheet risk management policy, calibrating and monitoring the limits on ALM indicators and performing second-level controls.

1.12.2.3 Asset-Liability Management (ALM) Risk

1.12.2.3.1 Governance

Balance sheet risk management is structured around three committees:

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

The finance division's ALM unit is responsible for managing the balance sheet risks generated by the SFIL Group's activity in compliance with the management limits defined for SFIL and

1.12.2.3.2 Liquidity risk

Definition

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

Liquidity risk management

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

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

- financing of the assets that cover the *obligations foncières* it issues;
- 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 the cash collateral received by Caisse Française de Financement Local;
- 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 the 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. The Caisse Française de Financement Local can easily access the central bank refinancing in its own name. If necessary, to cover its cash flow requirements.

Within the framework of the Covid-19 health crisis, liquidity risk management was strengthened, by extending the

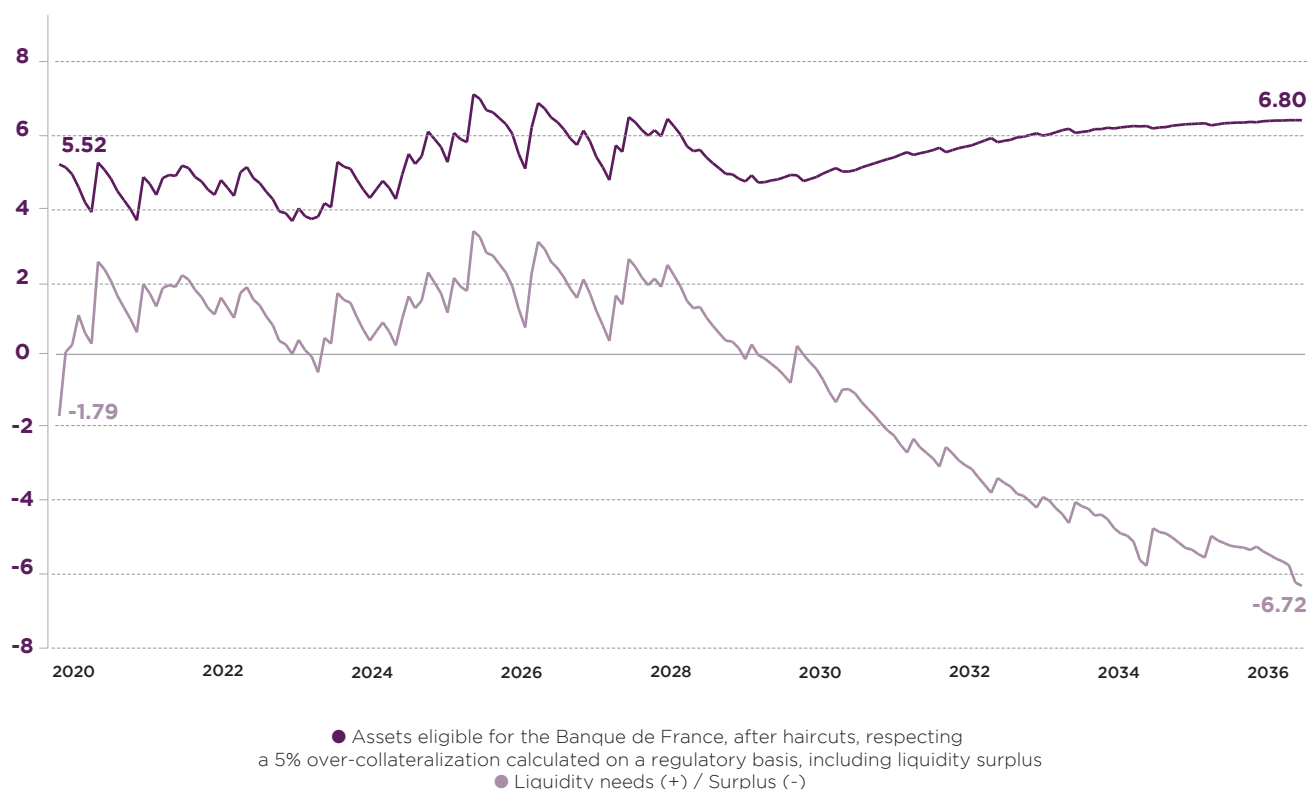
short-term liquidity requirement steering horizon and more frequently updating these forecasts.

The impacts of the crisis on the Group's liquidity remain very limited. Specifically, the half-year issue program was carried out in line with the budget, despite the temporary closure of financing markets during April. The gradual return to normal of the financing markets gave rise to a return to the issue activity for Caisse Française de Financement Local from the end of April, then SFIL in May 2020. The measures decided by the European Central Bank on April 7 (reduction in the discounts applied to claims used as collateral) also enabled a EUR 5.4 billion increase in the amount of financing that can be mobilized from Eurosystem.

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:

EUR billions



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).

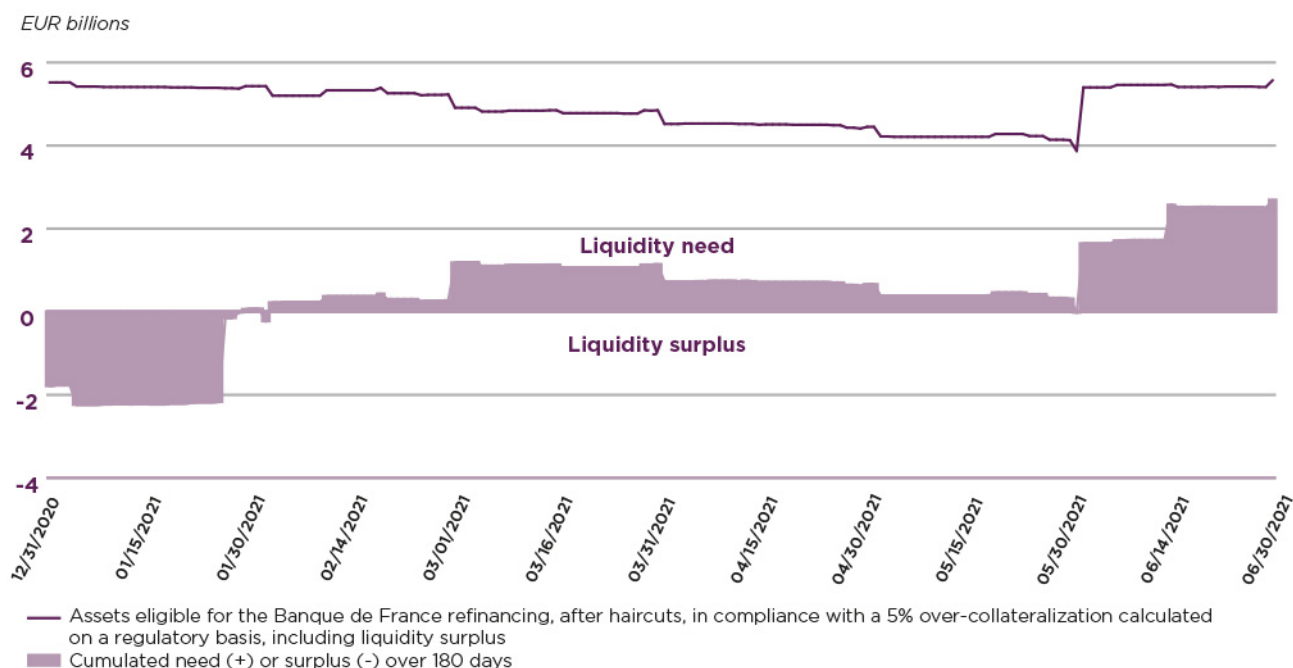
Meanwhile, Caisse Française de Financement Local manages its liquidity risk using the following indicators:

• 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),

- 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 are covered by replacement assets and assets eligible for the Banque de France's credit operations. Cash needs include repayments of *obligations foncières* and registered covered bonds, debt not benefiting from the legal privilege and forecast repayments of cash collateral

received, after deduction of received assets repayments. This forecast is published quarterly in the asset quality report, and is shown below. As of December 31, 2020, forecast cash needs at 180 days presented a maximum liquidity requirement of EUR 2.7 billion (for June 2021). Management measures were taken or will be taken to cover this liquidity needs;



- **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): on December 31, 2020, Caisse Française de Financement Local's LCR ratio was 176%;
- 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: Regulation 2019/876 which will come into effect in June 2021 defines the methods for calculating this indicator.

- **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 difference in duration between assets and liabilities benefiting from the legal privilege (limited to three years): this is published every quarter and came to 0.11 years as of December 31, 2020 (see the specific section on transformation risk below);
- the sensitivity of the net present value of the static liquidity gap to an increase in the Group's financing costs;
- the consumption of the spread and basis risk appetite for export credit transactions which measures the loss of revenue on these transactions which could result

from stress on the financing costs in euros or foreign currency (USD or GBP).

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

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

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

- duration gap;
- weighted average life gap.

Duration gap

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

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

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

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

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

Duration (in years)	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Cover pool	7.01	7.20	7.15	7.20	7.06
Privileged liabilities	6.71	6.84	6.83	6.97	6.95
GAP IN ASSET-LIABILITY DURATION	0.30	0.36	0.32	0.23	0.11
Duration gap limit	3	3	3	3	3

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.

Average life (in years)	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Cover pool	7.21	7.28	7.16	7.19	7.05
Privileged liabilities	6.89	6.92	6.85	6.97	6.95
GAP IN ASSET-LIABILITY AVERAGE LIFE	0.32	0.36	0.31	0.22	0.10

Regulatory limit

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

1.12.2.3.3 Interest rate risk

Definition

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

There are three 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 application of floors at 0 on adjustable rates of local public sector receivables.

Hedging Strategy

To limit its impact, Caisse Française de Financement Local implements an interest rate risk hedging strategy consisting of:

- micro-hedging balance sheet items denominated in a currency other than the euro or indexed to a complex rate structure. Certain euro-denominated vanilla transactions may also be micro-hedged if their notional value or duration could lead to a sensitivity limit being exceeded. Micro-hedging is carried out exclusively by swap;
- macro-hedging all transactions that are not micro-hedged. The transactions concerned are mainly (i) loans to the local public sector and (ii) issues of *obligations foncières* denominated in euros. This macro-hedging is obtained as 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 concerned by these hedging operations. Debt contracted by Caisse Française de

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

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

- the production of gaps (fixed rate index, basis and fixing respectively), calculated statically:

Fixed rate gap	Difference between balance sheet and off-balance sheet assets and liabilities for fixed-rate transactions or transactions for which the rate has been set. It is calculated every month until balance sheet run-off.
Index gaps	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.
Basis gaps	Gaps resulting from matching two index gaps. There are therefore as many basis gaps as there are index pairs.
Fixing gap	For a given index tenor: difference between floating rate balance sheet and off-balance sheet assets and liabilities, by fixing.

- the monthly production of net present value (NPV) sensitivity indicators, calculated for a rate shock of 100 bp, which aim to regulate the fixed or set rate residual positions of Caisse Française de Financement Local (after setting up hedges). These indicators are calculated for

4 predefined time buckets (short-term, medium-term, long-term, very long-term) regulated by limits which are calibrated to avoid losing more than 6% of equity (i.e. EUR 80 million) with a 99% quantile calculated on a 10-year history:

Translation of the rate curve	EUR 25 million limit
Sloping/rotation of the interest rate curve on distant points on the curve	EUR 15 million limit over Short-term time buckets EUR 10 million limit over Medium-term time buckets EUR 10 million limit over Long-term time buckets EUR 9 million limit over Very long-term time buckets
Sloping/rotation of the interest rate curve inside a time bucket	EUR 30 million limit on the absolute value of the sensitivities inside each time bucket

Measurement of directional risk

The quarter-end¹²¹ are presented below.

DIRECTIONAL RISK

Total sensitivity EUR millions	Limit	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2020
SENSITIVITY	(25)/25	(0.3)	(2.7)	(1.9)	(1.0)	(6.8)

Measurement of the slope/rotation risk:

The quarter-end sensitivity measurements are presented below.

RISK OF SLOPE BETWEEN TWO DISTANT POINTS ON THE RATE CURVE

Sum of sensitivities EUR millions	Limit*	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Short term	(15)/15	(5.5)	(6.0)	(4.0)	(5.3)	(9.5)
Medium term	(10)/10	(9.2)	(2.1)	(6.6)	(6.1)	3.1
Long term	(10)/10	8.4	1.6	4.1	5.1	(2.5)
Very long term	(9)/9	6.0	3.8	4.6	5.3	2.2

* The limits applicable to points prior to 6/30/2020 were EUR 10 million for each time bucket. Since 6/30/2020, the limit is EUR 15 million for the short-term time bucket, EUR 10 million for the medium-term and long-term time buckets and EUR 9 million for the very long-term time bucket.

RISK OF SLOPE BETWEEN TWO CLOSE POINTS ON THE RATE CURVE

Sum of sensitivities in absolute value EUR millions	Limit*	12/31/2019	3/31/2020	6/31/2020	9/30/2020	12/31/2020
Short term	30	10.8	17.3	9.0	12.6	10.9
Medium term	30	15.3	12.7	13.0	13.9	22.3
Long term	30	12.3	12.3	10.4	3.7	11.3
Very long term	30	9.0	7.0	7.6	8.2	8.8

* The limit, which applied before 12/31/2019 and to 3/31/2020, was EUR 40 million. Since 6/30/2020, the limit applicable is EUR 30 million.

Outstanding derivatives

The strategies for hedging interest rate and foreign exchange risks necessitate entering into a significant amount of swaps the notional outstanding of which as of December 31, 2020 is analyzed in the table below.

Breakdown of outstanding swaps EUR billions	Notional Absolute value
EURIBOR AGAINST EONIA	
Macro-hedge	23.0
TOTAL SHORT-TERM SWAPS	23.0
FIXED RATE SWAPS AGAINST EURIBOR	
Micro-hedges on obligations foncières	37.1
Micro-hedges on loans and debt securities	18.3
Macro-hedges	13.3
SUBTOTAL	68.7
CURRENCY SWAPS	
Micro-hedges on obligations foncières	0.7
Micro-hedges loans	3.3
Micro-hedges on loans debt securities	0.3
SUBTOTAL	4.3
TOTAL LONG-TERM SWAPS	73.0

1.12.2.3.4 Foreign exchange risk

Definition

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

Hedging Strategy

Caisse Française de Financement Local's foreign exchange risk management policy is to incur no foreign exchange risk: it enters into cross-currency swaps against the euro for its issues and assets denominated in foreign currency, on initial recognition at the latest and until their final maturity, thereby ensuring that these balance sheet items' principal and interest rates are fully hedged. Floating rate exposures in euros generated by this management policy are incorporated into interest rate risk management. Nonetheless, certain loans to refinance large export credits denominated in foreign currency may cause a very limited temporary foreign

exchange risk during their drawing phase in case of a shift between effective drawing dates and those initially scheduled and hedged. This residual risk is handled through the calculation of a very low sensitivity limit.

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

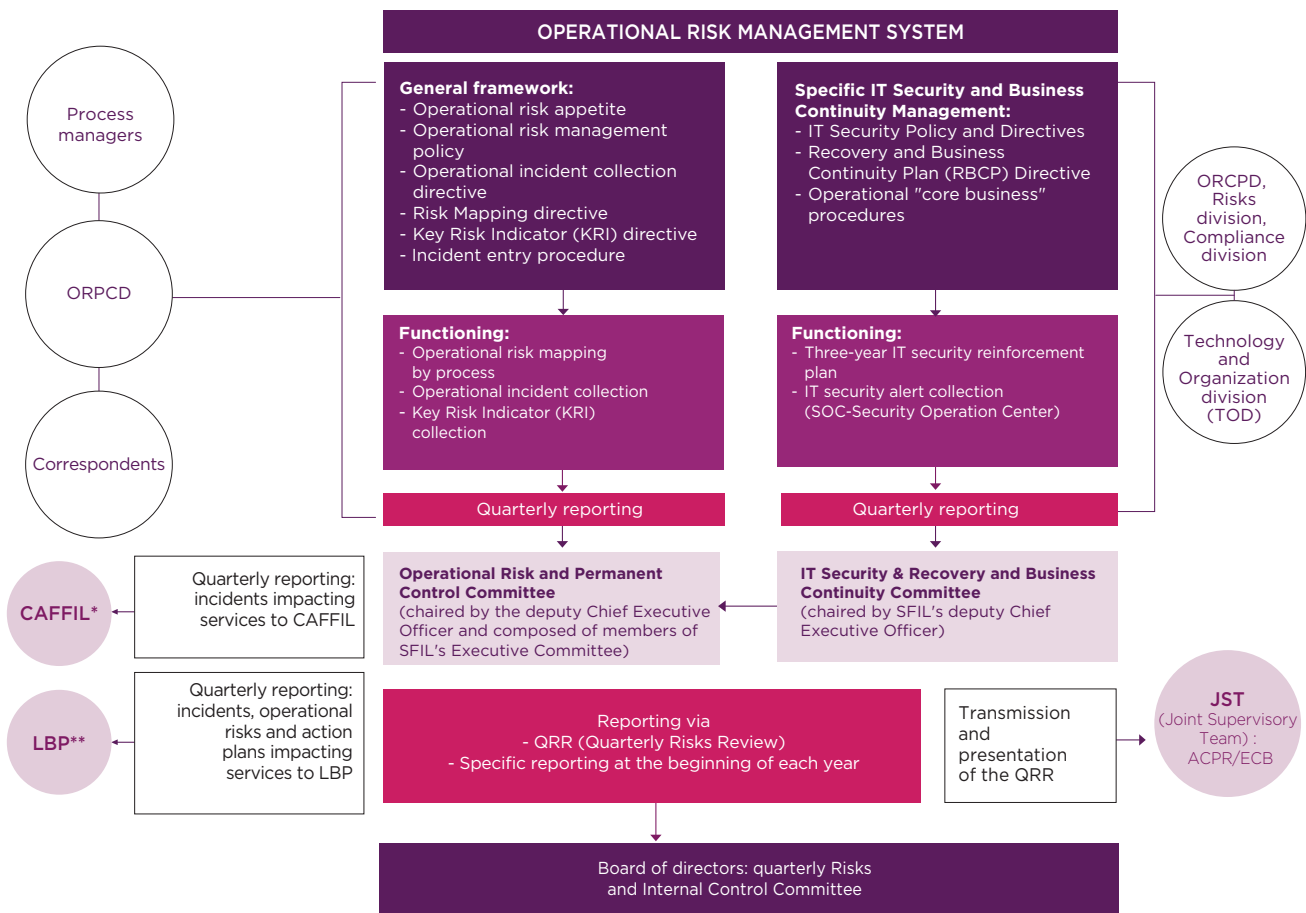
1.12.2.4 Operational risk

1.12.2.4.1 Definition

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

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

1.12.2.4.2 Organization and governance of SFIL's operational risks, applied to operations by Caisse Française de Financement Local



* Within the framework of the SFIL/CAFFIL (Caisse Française de Financement Local) agreement

** Within the framework of the SFIL/LBP (La Banque Postale) agreement

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

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

SFIL has opted for the standardized method to include operational risk in the calculation of its regulatory equity requirements. The amount concerned was EUR 26.6 million as of December 31, 2020. This should not be interpreted as a specific measure of the Company's operational risk.

SFIL's policy for measuring and managing operational risks, excluding non-compliance risk, consists of regularly identifying and assessing its risk exposure and the existing mitigation and control systems to establish whether or not

the level of residual risk is acceptable. This policy is divided into three main processes:

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

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

Missions	2020 activities and results
Definition of operational risk appetite	2 indicators defined and regularly monitored
Operational incident collection	3 incidents in 2020, impacting the service provided by SFIL to Caisse Française de Financement Local (CAFFIL), resulting in losses above the collection threshold (EUR 10,000).
Operational risk identification and assessment (mapping)	86% of SFIL/CAFFIL's processes were the subject of operational risk mapping (see next point on the identification of operational risks).
Definition and monitoring of action plans	Monitoring by SFIL's Executive Committee of the performance of the action plans defined for residual risks assessed as major.
Monitoring key operational risk indicators	62 key operational risk indicators monitored and analyzed.
IT security management	<p>Presentation and validation of the three-year plan (2020-2022) to strengthen IT security.</p> <p>Response to 3 self-assessment "market" questionnaires or those requested by the supervisory authority for IT security.</p> <p>2 e-learning training modules on IT security for SFIL's employees.</p> <p>Phishing simulation campaign carried out in June 2020.</p> <p>Cyber risk awareness plenary sessions for the functions most exposed to this risk.</p> <p>In the context of the Covid-19 crisis, raising awareness throughout the year, particularly on the risks of phishing.</p>
Business continuity and crisis management	<p>1 test of the functional system (backup sites) Following the Covid-19 crisis, other planned tests have been postponed until 2021.</p> <p>Since the start of the Covid-19 crisis, SFIL employees have benefited from teleworking.</p> <p>Regular crisis units were held to manage the Covid-19 crisis.</p> <p>2 tests of the IT backup plan which made it possible to test 100% of the information system.</p> <p>1 crisis cell test carried out for a cyber crisis simulation.</p>
Internal and external reporting	<p>4 IT Security & Recovery and Business Continuity Committee meetings.</p> <p>4 Operational Risks and Permanent Control Committee meetings.</p> <p>Contribution of 4 Quarterly Risk Reviews (QRR) for SFIL's Risk and Internal Control Committee.</p> <p>Specific contribution during an annual meeting of the Risks and Internal Control Committee.</p>
Change in risk and compliance management tool (GRC)	Implementation of a new tool at end of 2020 dedicated to internal control functions.
Coordination of the network of correspondents	A plenary meeting and training sessions on the new tool for correspondents.



Missions

Reporting to the CAFFIL's Executive Board

Reporting to CAFFIL's Supervisory Board

2020 activities and results

Presentation of the annual report to the Executive Board, and quarterly reports to CAFFIL's Executive Board by CAFFIL Coordination division based on 4 Quarterly Risk Reviews (QRR).

4 reports to CAFFIL's Supervisory Board by CAFFIL's Executive Board on the incidents impacting SFIL's service to the Caisse Française de Financement Local.

Operational incident collection

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

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

Operational risk identification and assessment

An operational risk map is drawn up and regularly updated for each SFIL process. This map is based on a methodology which conforms with the best practices and notably on an analysis of past operational incidents. This methodology makes it possible to identify and assess the inherent risks of each process, as well as the existing mitigation factors of these risks (systems or controls in place), to determine the residual impact in order to decide whether or not to accept them. Corrective or improvement actions must be set up, if the residual impact is considered too significant or the operational risks are assessed as major, (reinforcement of systems, procedures and of the permanent control plan, implementing monitoring and risk control systems, etc.). This methodology is being rolled out as the processes are formalized, and is gradually replacing the mapping of operational risks by division. The full deployment of this methodology will be effective in 2021.

Monitoring of key operational risk indicators

In addition to the mapping of operational risks which provides an periodic instantaneous picture of the risk profile,

the SFIL Group has defined 62 key operational risk indicators associated with warning thresholds. These indicators are used to continuously and dynamically monitor changes in operational risks.

Definition and monitoring of action plans

The process managers define the actions to correct significant incidents, or notable operational risks identified. The Operational Risks and Permanent Control division regularly monitors these action plans.

IT security management

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

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

Business continuity and crisis management

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



This system has five key parts and a specific governance:

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

5. Keeping the system operational

Performing tests to check the effectiveness of solutions
Regularly updating points 1 to 4 and Emergency and Business Continuity Plan documentation

Operational division procedures
Operational crisis management procedure

1. Identification of vital and critical activities

Financial, regulatory, media and contractual impact assessment in the event of a major disaster

Business impact assessment (BIA)

2. Risk analysis (extreme)

Identification of risks which may impact business continuity

"Reflex" crisis management sheets in each scenario

3. Business continuity strategy

Definition of the strategy based on points 1 and 2 of the system

Business continuity directive

4. The implementation of solutions

Solutions implemented on the basis of the strategy defined

* The Technology and Organization division for the IT backup plan

During 2020, as part of the management of the operational risks related to the Covid-19 pandemic, SFIL set up a crisis unit which met throughout the period with three main objectives: protecting the health of internal and external employees, maintaining operational capacity in order to ensure business continuity, notably the services carried out on behalf of the Caisse Française de Financement Local, and managing all increased risks during this period, notably cyber risk and the risk of fraud.

Overall, few incidents were reported concerning the Covid-19 crisis and they generated low impacts.

Operational risk insurance

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

Security of means of payment

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

1.12.2.5 Legal and tax risks

1.12.2.5.1 Legal risk

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

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

The legal risk control is in particular the responsibility of the SFIL's Legal division, which is part of the General Secretariat. The Legal Division is organized into two sections: a "financial markets" section and a "public sector credit and export credit" section. It plays a dual role:

- to advise SFIL's other divisions so they can measure the legal risks inherent in their activities;
- to defend the interests of SFIL and Caisse Française de Financement Local.

Furthermore, the Legal division contributes to the work of various committees:

- within the framework of its Regulatory Watch Committee, it provides information on the principles underlying legal and regulatory provisions that affect the operations of SFIL and Caisse Française de Financement Local;
- within the New Products Committee, it advises on the cases presented to it, as necessary;
- it analyzes the legal risks associated with the cases presented for the Credit Committee;
- it reviews the cases under litigation and the progress of the proceedings at the Loan Sensitivity Reduction Committee meeting. It also expresses its opinion when a loan sensitivity reduction operation involves a legal risk.

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



The Board of Directors, Executive Management and Executive Committee of SFIL, as well as the Executive Board and Supervisory Board of Caisse Française de Financement Local receive regular updates on the progress of litigation. A report regarding the lawsuits management is presented at each Supervisory Board.

As regards litigation, relating to structured loans, at December 31, 2020, there were 10 borrowers who had brought lawsuits on structured loans, compared to 15 at the end of 2019, 18 at the end of 2018, 25 at the end of 2017, and 39 at the end of 2016. Since SFIL's creation, 213 borrowers have dropped their claims regarding these loans against the Group. In line with a now established case law (in particular by its judgments of March 28, 2018 and June 26, 2019), the Court of Cassation once again confirmed the validity of the structured loans recorded on the balance sheet of Caisse Française de Financement Local with two judgments on May 20 and November 12, 2020. Thus, since the entry into force on July 30, 2014 of the law on the securitization of structured loan contracts taken out by public legal entities, over 60 legal decisions have dismissed claims by borrowers to invalidate the structured loans recorded on Caisse Française de Financement Local's balance sheet.

As of December 31, 2020, to the Caisse Française de Financement Local's knowledge, there were no other lawsuits or disputes between SFIL or Caisse Française de Financement Local and its borrowers that were considered significant.

1.12.2.5.2 Tax risk

SFIL's Finance division is responsible for tax declarations and may consult the SFIL's General Secretary for tax advice. SFIL

relies notably on tax advisory firms of excellent repute for managing its tax risk.

There was no change during 2020 concerning the collection notice issued at the end of 2018, for tax related to the inspection for 2012 and 2013, in relation to the taxation in Ireland of the income of the former Dexia Municipal Agency (CAFFIL's former name) branch in Dublin which closed in 2013 and which resulted in a tax adjustment notice from the French tax authorities. Caisse Française de Financement Local paid the duties assessed.

1.12.2.6 Risk of non-compliance

1.12.2.6.1 Definition

Non-compliance risk is defined in French regulations 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 accountable officers or the executive body 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		
Ethics and prevention of conflicts of interest	Integrity of markets	Protection of the interests of customers	Fight against corruption	Protection of personal data	Tax transparency	Customer knowledge (KYC)	AML/CFT	Sanctions, asset freezes and embargoes

1.12.2.6.2 Organization and governance

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

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

Pursuant to article 29 of the *arrêté* of November 3, 2014, SFIL's Compliance division is autonomous, independent of all operational units and particularly of any commercial, financial or accounting activity. It is attached to the General Secretary, a member of SFIL's Executive Committee and designated as Compliance Officer with the ACPR. Under the direct authority of SFIL's Chief Executive Officer, the General Secretary has direct and independent access to the Risks and Internal Control Committee and to the SFIL's Board of Directors.

SFIL ensures the compliance of Caisse Française de Financement Local's operations in accordance with the provisions of the *Arrêté* of November 3, 2014 and the EBA guidelines on outsourcing of February 25, 2019. To this end, SFIL's Compliance Director is appointed as head of Caisse Française de Financement Local's compliance function in order to ensure the consistency and effectiveness of the

control of the risk of non-compliance of transactions. To support the business lines and ensure the supervision of the system, the organization of the Compliance division is based on:

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

As of December 31, 2020, the Compliance division included five employees under the authority of the General Secretary, compliance director.

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

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

During the Executive Committee and the Executive Board Meetings, the accountable officers evaluate the relevance of the controls, decide on any improvements to be implemented and more generally make a final decision on the main issues related to the compliance system. The other members of the Executive Committee are responsible for steering the management of non-compliance risks and the first level controls on their scope of responsibility, while

remaining consistent with the Risk Appetite Statement. They monitor the implementation of compliance action plans.

SFIL's Board of Directors and Caisse Française de Financement Local's Supervisory Board, through SFIL's Risks and Internal Control Committee, examine the results of the Compliance division's activity, the result of the compliance controls and the progress of the actions plans aimed at correcting the discrepancies noted.

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

Missions of the Compliance division

The chief responsibility of the Compliance division is to define and put in place a regulatory framework, *i.e.* the policies and procedures relating to its field of expertise, and their operational adaptation and implementation for the aspects under its functional responsibility in order to control the non-compliance risks unique to the SFIL Group.

The Compliance division is also responsible for the following:

- preparing a compliance training program and implementing it in close coordination with the DHR;
- analyzing plans to create or modify products or services and issuing compliance opinions, and, more generally, working on SFIL Group's cross-functional projects with compliance implications;
- anticipating and helping to apply regulatory changes impacting the compliance system using a watch;
- advising employees for any issue related to compliance;
- implementing the internal alert system;
- carrying out transformation and management efficiency projects, in particular the transformation of the business line tools/applications contributing to the compliance systems, in cooperation with the Technology and Organization division;
- preparing and updating a mapping of non-compliance risks;
- defining and developing a permanent annual compliance control plan;
- defining action plans and the monitoring thereof in order to correct any situations of non-compliance identified;
- informing the SFIL Group's General management and governance bodies;
- communicating specific reports to banking supervisors on areas of compliance.

The compliance system as a whole (organization, procedures, raising awareness, training, controls) helps to strengthen the control system within the Group.

1.12.2.6.3 Implementation of the compliance system

The non-compliance risk management system is based first of all on disseminating a sound culture of ethics and compliance to all employees, in particular through awareness and training projects.

Employee training programs are therefore a priority for the SFIL Group, which has, for several years, had awareness-raising and training objectives aimed at strengthening the culture of compliance. These training courses cover all topics: the fight against money laundering and the financing of terrorism, customer protection, the fight against corruption, professional conduct and ethics, prevention of conflicts of interest and market abuse, protection of personal data. Numerous training sessions and training materials were rolled out and enhanced in 2020,

with 23 sessions conducted and over 520 employees trained in person. As of December 31, 2020, 100% of employees convened during the year had been trained. Two new e-learning programs have been rolled out on the prevention of corruption and personal data protection.

In order to disseminate the culture of compliance, a Compliance Committee, chaired by SFIL's General Secretary, compliance director, was set up in 2020 to promote information and dialog with the operating divisions, particularly on issues relating to regulatory changes impacting the SFIL Group and its compliance system, the results of compliance checks and the progress of action plans. In addition, the Compliance division's charter, which specifies the role, missions, resources and positioning of the Compliance division as well as its governance, has been updated. This charter aims to enable each SFIL employee to fully understand the importance of Compliance in their cross-functional role in terms of managing non-compliance risk, providing assistance and advice to operational staff, as well as their role in the internal control system.

The compliance activity resulted in the following developments in 2020:

- The corruption prevention system continued to be strengthened with the improvement of the ethics whistleblowing system through the deployment of an external portal for whistleblowers. This portal is accessible to SFIL employees, but also to external persons, and is part of a prevention program that is broader than compliance alone, as it covers the scope of unethical, delinquent or criminal behavior. All employees followed the e-learning on corruption risk prevention to increase everyone's commitment to the fight against corruption.
- Financial security risk management system: compliance with international sanctions and the fight against money laundering are two key priorities for the SFIL Group, which has been refining its system for years in these high-stakes areas. In 2020, the SFIL Group updated several key elements of its normative framework, with regard to the texts transposing the Fifth Directive. The general AML/CFT procedure, the risk classification methodology and the country risk classification were updated. During the first half of 2021, the Compliance division will support the operating divisions in the operational implementation of the new standards. In the area of Know Your Customer (KYC), the business lines continued to implement the Group's policies as part of the review of operational processes. They have endeavored to advance the compliance action plans, which are regularly monitored by General management. Significant IT developments were carried out during 2020 as part of the deployment of the financial security tool intended to strengthen the robustness of the filtering and monitoring system.
- Protection of personal data: the SFIL Group takes the greatest care to protect the personal data it collects in the course of its activities. To this end, in early 2020, it defined a privacy policy on personal data which aims to inform people outside the SFIL Group with whom it interacts, including visitors to the SFIL and Caisse Française de Financement Local websites, its prospects, borrowers, and recruitment candidates. In addition, the governance of the personal data system has been strengthened with the update of the internal personal data protection charter and the establishment of a GDPR (General Data Protection Regulation) committee every six months. This committee, chaired by the Data Protection Officer (DPO), brings together the 17 GDPR contacts who act as local correspondents to the DPO in the various SFIL departments. The Technology and Organization Department, the Head of Information System Security and the Legal division are associated with this committee. The first report of the DPO, whose mission is to ensure the proper level of compliance of the SFIL Group with the



regulations on the protection of personal data, was presented to the Executive Board of Caisse Française de Financement Local in April 2020. The register of personal data processing was also migrated to a new external collaborative tool offering reporting and centralized incident reporting functions. Lastly, a special effort was made to raise employee awareness through the deployment of an e-learning program followed in 2020 by 100% of SFIL employees.

- Customer protection: compliance aims to protect the interests of the SFIL Group, but also the legitimate interests of its borrowing customers. In this context, actions have been taken in terms of customer protection with the updating of the procedure for receiving and processing complaints.
- The regulatory compliance control system: the SFIL Group is constantly improving this system in order to ensure the effectiveness of preventive actions and compliance with applicable regulations. This improvement continued in 2020, with in particular (i) the review of level 1 compliance controls and a consistency check between the first level and second level controls, (ii) an active contribution to the risk management tool project, a tool shared by the three internal control functions; in this context, the objective of

compliance is to continue to consolidate and strengthen its supervisory role, by increasingly relying on the permanent control actions of the first line of defense and by supporting the operational departments during the transformation phase resulting from the new tool, while ensuring respect at all times with the SFIL Group's regulatory obligations in terms of compliance.

The non-compliance risk control and reputation protection system must be adapted at all times to changes in its internal and external environment. Work to ensure compliance with EBA guidelines on outsourcing continued in 2020. In addition, the DAC 6 tax regulation has been incorporated into the SFIL Group's non-compliance risk review system in order to comply with tax transparency requirements in the context of the transactions that the SFIL Group finances.

In general in 2020, the Compliance division continued to improve its organization, processes and tools with a focus on digital, with the constant aim of improving its effectiveness in handling regulatory changes and meeting supervisors' expectations. The Compliance division must respond to the dual challenge of efficiency and careful management of non-compliance risks.



1.13 Additional information

1.13.1 Yield on assets indicator

Article R.511-16-1 of the French Monetary and Financial Code, introduced by Decree No. 2014-1315 of November 3, 2014, sets forth that in their annual financial report, credit institutions shall publish the yield on their assets, defined as

the ratio between the net result profit (loss) for the period and the total of the balance sheet. In 2020, this ratio was equal to +0.06% in IFRS and +0.09% in French GAAP.

1.13.2 Payment terms

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

Caisse Française de Financement Local has a very limited number of direct suppliers, since its management is

contractually entrusted to its parent company, in accordance with article L.513-15 of the French Monetary and Financial Code.

Caisse Française de Financement Local usually settles its bills as soon as they are recorded, and the balance of monies owed to suppliers is theoretically always zero.

The breakdown of arrears on invoices due at the end of 2020 is as follows:

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

Reference payment period: legal or contractual, generally 45 days.

Bank and related transactions are not included in the information on payment terms.

1.13.3 Research and development

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

1.13.4 Non-tax deductible charges and expenses

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

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

1.13.5 Social, environmental and societal information

In application of article L.225-102-1 of the French Commercial Code modified by article 225 of law No. 2010-788 of July 12, 2010 (Grenelle 2 law) and decree No. 2012-557 of April 24, 2012, Caisse Française de Financement Local must communicate information on social, environmental and societal issues in the management report. Since Caisse Française de Financement Local has no salaried employees nor actual premises, social, environmental and societal issues do not apply to this entity.

Social, environmental and societal information concerning SFIL, which manages the activities of Caisse Française de Financement Local, is presented in its annual financial report and on its website. See also section 1.2.4 of this report.

1.13.6 Events after the reporting period

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



1.14 Breakdown of the cover pool as of December 31, 2020

EUR millions	31/12/2020				31/12/2019	
	Direct exposure		Indirect exposure		Total	Total
	Loans	Bonds	Loans	Bonds		
COUNTRY						
FRANCE						
State:						
• export refinancing	-	-	3,588	-	3,588	2,588
• other	20	-	0	230	250	13
Banque de France	1,798	-	-	-	1,798	473
Regions	2,264	75	240	-	2,579	2,227
Departments	7,095	-	145	-	7,240	6,906
Municipalities	14,449	14	285	-	14,748	15,293
Groups of municipalities	12,938	62	87	-	13,087	12,325
Public sector entities:						
• health	5,989	8	-	-	5,997	6,093
• social housing	967	-	-	-	967	1,053
• other	768	162	1	-	931	861
Credit institutions	4	486	-	-	490	1,159
SUBTOTAL	46,292	807	4,346	230	51,675	48,991
GERMANY						
Länder	-	275	-	-	275	275
Credit institutions	-	95	-	-	95	95
SUBTOTAL	-	370	-	-	370	370
AUSTRIA						
Länder	-	-	173	-	173	178
SUBTOTAL	-	-	173	-	173	178
BELGIUM						
Regions	1	-	4	-	5	12
Public sector entities	37	-	-	-	37	43
Credit institutions	-	121	-	-	121	174
SUBTOTAL	38	121	4	-	163	229
CANADA						
Municipalities	100	-	-	-	100	100
Public sector entities	35	-	-	-	35	34
Credit institutions	-	226	-	-	226	225
SUBTOTAL	135	226	-	-	361	359
DENMARK						
Credit institutions	-	5	-	-	5	91
SUBTOTAL	-	5	-	-	5	91
SPAIN						
State	-	145	-	-	145	25
Regions	-	50	-	-	50	50
Municipalities	67	-	-	-	67	69
SUBTOTAL	67	195	-	-	262	144

EUR millions	31/12/2020				31/12/2019	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
UNITED STATES						
Federated States	-	211	-	-	211	234
SUBTOTAL	-	211	-	-	211	234
FINLAND						
Credit institutions	-	96	-	-	96	96
SUBTOTAL	-	96	-	-	96	96
ITALY						
State	-	1,148	-	-	1,148	1,138
Regions	-	1,791	-	-	1,791	1,862
Provinces	-	406	-	-	406	442
Municipalities	5	922	-	-	927	1,030
SUBTOTAL	5	4,267	-	-	4,272	4,472
JAPAN						
Municipalities	-	25	-	-	25	25
SUBTOTAL	-	25	-	-	25	25
NORWAY						
Credit institutions	-	192	-	-	192	222
SUBTOTAL	-	192	-	-	192	222
NETHERLANDS						
Credit institutions	-	96	-	-	96	151
SUBTOTAL	-	96	-	-	96	151
PORTUGAL						
State	-	-	-	-	-	-
Municipalities	8	-	-	-	8	11
Public sector entities	2	-	-	-	2	3
SUBTOTAL	10	-	-	-	10	14
UNITED KINGDOM						
State	-	-	-	8	8	39
Credit institutions	-	-	-	-	-	10
SUBTOTAL	-	-	-	8	8	49
SWEDEN						
Municipalities	18	-	-	-	18	18
Credit institutions	-	132	-	-	132	301
SUBTOTAL	18	132	-	-	150	319
SWITZERLAND						
Cantons	65	-	6	-	71	168
Municipalities	233	-	-	-	233	259
Public sector entities	60	-	-	-	60	60
SUBTOTAL	358	-	6	-	364	487
SUPRANATIONAL						
International organizations	15	-	-	-	15	20
SUBTOTAL	15	-	-	-	15	20
TOTAL COVER POOL	46,938	6,743	4,529	238	58,448	56,451

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 to these impairments, Caisse Française de Financement Local makes collective and sector provisions.



TABLE OF RESULTS DURING THE LAST FIVE FINANCIAL YEARS

Financial position	2016	2017	2018	2019	2020
Share capital (EUR millions)	1,315	1,350	1,350	1,350	1,350
Number of shares	13,150,000	13,500,000	13,500,000	13,500,000	13,500,000
RESULTS OF OPERATIONS (EUR MILLIONS)					
Revenues ⁽¹⁾	2,476	575	542	423	326
Income before income tax, amortization, depreciation and contingencies	86	14	18	32	68
Income tax	(16)	(5)	(27)	(6)	(19)
Income after income tax, amortization, depreciation and contingencies net of reversals	67	30	44	46	59
Exceptional distribution	-	-	-	-	-
Dividend distributed ⁽²⁾	35	50	41	45	49
PER SHARE DATA (EUR)					
Revenues	188.28	43.72	40.15	31.36	24.12
Income after income tax, and before amortization, depreciation and contingencies net of reversals	5.37	0.64	3.30	2.84	6.44
Income tax	(1.19)	(0.40)	(2.00)	(0.45)	(1.43)
Income after income tax, amortization, depreciation and contingencies	5.08	2.26	3.23	3.40	4.34
Exceptional distribution	-	-	-	-	-
Dividend per share ⁽²⁾	2.67	3.70	3.00	3.35	3.60

(1) Revenue comprises the following items:

- interest and related income, net of macro-hedging expense;
- commission income;
- net income on foreign exchange transactions;
- other operating income.

(2) Proposed dividend distribution for the 2020 financial year.





2

Report on corporate governance

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Report on corporate governance established pursuant to article L.225-68 of the French Commercial Code

This report presents Caisse Française de Financement Local's governance, detailing notably the role and composition of its Supervisory Board and Executive Board, and the compensation of members of supervisory and management bodies.

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

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

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

Caisse Française de Financement Local has two main missions, as follows:

- to refinance public sector loans within the framework set up by the French State to fund French local authorities and public hospitals;
- to grant loans to SFIL in order to fund large export credits within the framework set up by the French State. Such refinancing benefits from an irrevocable and unconditional 100% guarantee by the French State.

These two activities are based on the issue of *obligations foncières* and use of other financial resources benefiting from the same privilege. The objective is to provide optimal financing conditions for large export credits as well as French local authorities and public hospitals through a high rating and irreproachable risk management.

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



2.1 Governance

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

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

In terms of governance, Caisse Française de Financement Local implements, for the areas relating to it, the provisions of its parent company that refer to the Afep/Medef Code.

There is gender parity on the Supervisory Board. The composition of the Supervisory Board reflects the Company's business activity in terms of skills, training and professional experience. The Board's members are qualified experts in the main areas of activity of the *société de crédit foncier*. In 2020, Board members benefited from compliance training sessions.

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

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



2.1.1 Supervisory Board

2.1.1.1 Key figures of the Supervisory Board

Number of members	Independence	Women	Average age	Average seniority	Meetings	Attendance rate
6	0	50%	52 years	6 years and 4 months	6 in 2020	97%

2.1.1.2 The role of the Supervisory Board

The Supervisory Board exercises permanent control over the Executive Board's management of the Company. The Shareholders' Meeting appoints the Supervisory Board's members for four-year terms, on the basis of their qualifications and potential contribution to the Company. SFIL's Governance, Appointments and CSR Committee examines a comparison chart and file identifying the key skills the Board is seeking, for each appointment. Although this is an individual assessment, it also considers the Board's collective expertise. The appointments are approved by the European supervisor through the Fit & Proper analysis. In 2020, the term of office of a member of the Supervisory Board was renewed. The Governance, Appointments and CSR Committee also took note of the absence of an independent member within the Supervisory Board.

The Supervisory Board meets at least once a quarter, with both Statutory Auditors and the Company's Specific

Controller in attendance. The Board met six times in 2020. The members' attendance rate was 97% (individual rates are given in 2.1.1.3.). The Chairman of the Supervisory Board or of the Executive Board informs the Board's members of meeting agendas, allowing enough time before the meetings take place for them to review the items for discussion, and provides a file containing the memos or documents relating to said items. The files containing the information and documents sent to the Board enable it to form a clear, reliable and comprehensive view of the Company's situation, profitability and development. At the Supervisory Board Meetings, the Executive Board reviews and comments on the agenda items, using summary presentations where appropriate. The Supervisory Board issues opinions on strategic choices, makes recommendations and, where appropriate, commissions *ad hoc* studies, which are reviewed at subsequent meetings.

The main tasks of the Supervisory Board

- Appoint the members of the Executive Board and co-opt the members of the Supervisory Board after favorable opinion from the Governance, Appointments and CSR Committee of SFIL;
- Establish a succession plan to prepare and organize changes to the members of the supervisory and management bodies;
- Examine the system of governance;
- Prepare the corporate governance report;
- Ensure that effective policies to prevent and manage conflicts of interest exist.

- Authorize the Company's agreements.

- Monitor the compliance with internal control obligations;
- Examine the results and activity of internal control.

- Define risk appetite;
- Regularly examine the Company's opportunities and risks especially in the financial, legal, social and environmental sectors and the measures taken as a result;
- Define the terms and frequency for communicating information on compliance with risk limits to it;
- Approve the overall risk limits which are fixed and review at least once a year by the Executive Board;
- Regularly examine the Company's policies;
- Ensure the implementation of compliance policies.

- Perform the controls and verifications it considers appropriate.

Specific work carried out by the Supervisory Board in 2020

- Appointment of the Chief Executive Officer to replace the resigning incumbent;
- Reappointment and appointment of members of the Executive Board;
- Approval of the update of the Supervisory Board's internal rules;
- Approval of the update of the Statutory Auditors' independence policy;
- Annual update on the operation of the Supervisory Board;
- Preparation of the annual report on corporate governance;
- Official update of SFIL's code of conduct and ethics.

- Approval of the agreement to terminate the business provider agreement with LBP;
- Validation of an amendment to the exclusive loan sale agreement signed between Caisse Française de Financement Local and LBP, in the presence of SFIL;
- Validation of the proposed framework export credit refinancing agreement benefiting from the Pure and Unconditional Guarantee between SFIL and Caisse Française de Financement Local.

- Validated the internal control report including the report on LCB-FT internal control;
- Followed-up the half-yearly Internal Audit and Compliance reports;
- Followed-up inspections by supervisors and the responses to their recommendations.

- Validated Caisse Française de Financement Local's Risk appetite and the relevant aspects of the ICAAP, ILAAP policies and SFIL's Preventative Recovery Plan;
- Systematically reviewed quarterly risk monitoring reports of the SFIL group;
- Reviewed the Recovery and Business Continuity Plan (RBCP);
- Conducted the annual approval of all the Caisse Française de Financement Local management policies;
- Monitored the quality of SFIL's service to Caisse Française de Financement Local *via* the quarterly review of indicators covering all the areas of the service;
- Reviewed the CSR strategy and report for SFIL Group and took note of what is expected from Caisse Française de Financement Local in this area.

- Monitored Caisse Française de Financement Local's activity comprising i) monitoring the conditions for issues and the execution of the issuance program notably social and green issues, ii) asset acquisition from LBP and iii) new loans to refinance signed export credits;
- Examined the financial statements prepared in accordance with IFRS and French GAAP;
- Monitored the work for the transfer of control of SFIL to the Caisse des Dépôts;
- Conducted a strategic review of the local public sector and hospitals financing sector in France;
- Performed a strategic review of the refinancing of large export credits activity.



2.1.1.3 Composition of the Supervisory Board

SUPERVISORY BOARD (AS OF DECEMBER 31, 2020)

The Board met six times in 2020. The attendance rate of the Supervisory Board members is stated in the table below.

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

2.1.2 Executive Board

2.1.2.1 Key figures for the Executive Board

Number of members	Independence	Women*	Average age	Average seniority	Meetings	Attendance rate
5	0	1	51 years	6 years and 2 months	35 in 2020	93%

* A woman was appointed as a member of the Executive Board in 2020. Women have become the majority on the Executive Board (three women/two men) since the last renewal its members on January 31, 2021.



2.1.2.2 The role of the Executive Board

The Executive Board is in charge of Caisse Française de Financement Local's management and administration. It represents and binds it. As such, its role is to take all decisions impacting Caisse Française de Financement

Local's activity and results. Moreover, the Executive Board is the first guarantor of the proper functioning of Caisse Française de Financement Local's internal control procedures (see Management report 1.11).

The main tasks of the Executive Board	The Executive Board performed the following specific tasks in 2020
<ul style="list-style-type: none"> • Convene Shareholders' Meetings; • Decide, by delegation from the Extraordinary Shareholders' Meeting, to increase the share capital and/or determine the terms of this increase, and if necessary carrying out a capital reduction; • Modify the share capital following the conversion of convertible bonds, subscriptions using rights detached from hybrid securities containing share subscription options, and the exercise of share subscription options. 	<ul style="list-style-type: none"> • Convening of an Ordinary and Extraordinary Shareholders' Meeting held on May 27, 2020. The purpose of this Ordinary and Extraordinary Shareholders' Meeting was to: <ul style="list-style-type: none"> • Approve the 2019 financial statements and the appropriation of income; • Approve the Company's regulated agreements and commitments; • Renew the term of office of a member of the Supervisory Board; • Amend the by-laws to comply with the latest regulatory provisions; • Convening of an Ordinary Shareholders' Meeting held on September 30, 2020 (change of Statutory Auditors).
<ul style="list-style-type: none"> • Decide to issue <i>obligations foncières</i> or registered covered bonds; • Decide to acquire assets within the framework of the two missions entrusted to Caisse Française de Financement Local by the French State; • Decide to sell assets; • Monitor the Company's balance sheet and off-balance sheet operations. 	<ul style="list-style-type: none"> • Annual update of the EMTN issuance program for covered bonds • Annual issue volume of EUR 5.5 billion (including a "social" thematic issue); • Carried out 4 loan acquisitions from LBP totaling EUR 4.6 billion; • Signed 2 refinancing loans with SFIL, guaranteed by the French State, in connection with the export credit refinancing activity for a total of EUR 0.2 billion; • Monitored Caisse Française de Financement Local's debt management operations.
<ul style="list-style-type: none"> • Validate the Company's risk appetite and its application in the risk analysis and measurement oversight systems and procedures; • Monitor the Company's level of risk and took the necessary measures to reduce it if necessary. 	<ul style="list-style-type: none"> • Validated evolutions proposed by SFIL for risk appetite and relevant aspects for Caisse Française de Financement Local in group reports related to the ICAAP and ILAAP policies and to the preventative Recovery Plan; • Systematic review of quarterly reports on SFIL Group risk monitoring; • Reviewed the Recovery and Business Continuity plan; • Reviewed litigation. • Monitored non-compliance risks <i>via</i> the review of the half-yearly report prepared by the Compliance division. • Monitored the internal control system for Caisse Française de Financement Local <i>via</i> a quarterly review of operational incidents and the implementation of the permanent control plan and a half-yearly review of the internal audit report (debriefing of the missions carried out during the period and review of the recommendations not yet closed).
<ul style="list-style-type: none"> • Define SFIL's servicing conditions, notably by (i) approving and monitoring the management agreement and amendments thereto, the Service Level Agreement and the associated quality indicators, and (ii) approving Caisse Française de Financement Local's operational management policies. 	<ul style="list-style-type: none"> • Monitored the quality of SFIL's service to Caisse Française de Financement Local via the quarterly review of indicators covering all the areas of the service. • Approved all management policies of Caisse Française de Financement Local.
<ul style="list-style-type: none"> • Prepare financial reports or quarterly activity reports to present to the Supervisory Board. 	<ul style="list-style-type: none"> • Prepared 6 Supervisory Board Meetings and reports during 2020.
<ul style="list-style-type: none"> • Prepare and close the financial statements in accordance with IFRS and French GAAP standards. 	<ul style="list-style-type: none"> • Made decisions to prepare and close the 2019 annual financial statements and interim financial statements as of June 30, 2020 in accordance with French GAAP and IFRS standards respectively at the Executive Board Meetings of March 16, 2020 and September 7, 2020.



The Executive Board meets bimonthly on average. A quarterly meeting is dedicated to preparing the next Supervisory Board Meeting. One-off meetings may also be held on the basis of current events and urgent subjects in need of approval.

The Statutory Auditors are invited to Executive Board Meetings if their attendance is mandatory, which applies

specifically for the review of the annual or interim financial statements. Depending on the agenda items, the Chairman of the Executive Board may decide, in particular on the proposal of another Board member, to invite any person that he or she deems useful to present a subject or assist with preparatory discussions of said items.

2.1.2.3 Composition of the Executive Board

EXECUTIVE BOARD (AS OF DECEMBER 31, 2020)

Members of the Executive Board	Attendance rate at Executive Board meetings
Gilles Gallerne – Chairman	94%
Herdile Guérin – Chief Executive Officer	97%
Olivier Eudes – Member	91%
Emmanuel Moritz – Member	91%
Patrick Galland – Member	91%



2.2 Terms of office of corporate officers

In application of article L.225-37-4 1° of the French Commercial Code, the following list presents the directorships and positions held in 2020 by every corporate officer of Caisse Française de Financement Local who served during the financial year.

2.2.1 Supervisory Board

The members of Caisse Française de Financement Local's Supervisory Board are qualified experts in the Company's main areas of activity as a *société de crédit foncier*. They are all employees of SFIL, members of its Executive Committee or managers. The Chairman of Caisse Française de Financement Local's Supervisory Board is also a member of the Board of Directors and the Chief Executive Officer of SFIL.

Chairman

Philippe Mills

55 years old – French nationality

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

Date term of office begins and ends: May 30, 2017 – 2021

Date of first mandate: January 31, 2013

Principal function: Member of the Board of Directors, Chief Executive Officer, SFIL

Other mandates and responsibilities:

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

Vice-Chairman

François Laugier

56 years old – French nationality

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

Date term of office begins and ends: May 30, 2017 – 2021

Date of first mandate: January 31, 2013

Principal function: Deputy Chief Executive Officer, SFIL

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

Members

Nathalie Argourd

49 years old – French nationality

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

Date term of office begins and ends: May 30, 2017 – 2021

Date of first mandate: May 30, 2017

Principal function: Director, Middle Office and Customer's Debt Management Applications, SFIL

Other mandates and responsibilities: None

Anne Crépin

51 years old – French nationality

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

Date term of office begins and ends: May 30, 2017 – 2021

Date of first mandate: May 30, 2017

Principal function: Deputy Director, Export Credit, SFIL

Mandates and other positions: member of the National Committee of French Foreign Trade Advisors

Béatrice Gosserez

55 years old – French nationality

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

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

Date of first mandate: December 12, 2012

Principal function: General Secretary, SFIL

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

Florent Lecinq

45 years old – French nationality

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

Date term of office begins and ends: May 30, 2017 – 2021

Date of first mandate: February 25, 2013

Principal function: Chief Financial Officer, SFIL

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



2.2.2 Executive Board

Chairman

Gilles Gallerne

57 years old – French nationality

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

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

Date of first mandate: January 1, 2008

Principal function: Director, CAFFIL Coordination, SFIL

Other mandates and responsibilities:

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

Chief Executive Officer

Romain Bailly (until March 17, 2020)

39 years old – French nationality

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

Date term of office begins and ends: January 31, 2017 - March 17, 2020

Date of first mandate: December 7, 2016

Main function: Chief Accounting Officer of SFIL

Other mandates and responsibilities: None

Herdile Guérin (from March 18, 2020)

47 years old – French nationality

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

Date term of office begins and ends: January 18, 2020 -2021

Date of first mandate: March 18, 2020

Principal function: Head of CAFFIL Coordination division, SFIL

Other mandates and responsibilities: None

Members

Olivier Eudes

52 years old – French nationality

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

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

Date of first mandate: May 27, 2015

Principal function: Director, Financial Markets, SFIL

Other mandates and responsibilities: Manager, SCI Phoenix

Patrick Galland⁽¹⁾

54 years old – French nationality

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

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

Date of first mandate: December 7, 2016

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

Other mandates and responsibilities: None

Emmanuel Moritz⁽¹⁾

45 years old – French nationality

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

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

Date of first mandate: January 31, 2013

Principal function: Director, Credit Risks, SFIL

Other mandates and responsibilities: None



2.3 Compensation of corporate officers

In 2020, Caisse Française de Financement Local paid no compensation to the corporate officers who were employees of SFIL and who exercised their terms of office with no specific compensation, except for the Chairman of the Supervisory Board, who is also a member of the parent company's Board of Directors and only in this role receives

any compensation. Readers are reminded that Caisse Française de Financement Local has no Compensation Committee and that reference is made to the Governance, Appointments and CSR Committee and the Compensation Committee that exist at the level of its parent company, SFIL.

⁽¹⁾ Members of the Executive Board who were replaced at the last renewal of its members on January 31, 2021.

2.4 Statutory Auditors

The Statutory Auditors of Caisse Française de Financement Local are:

PricewaterhouseCoopers Audit

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

Company represented by Ridha Ben Chamek, partner

Appointed by the Ordinary Shareholders' Meeting of September 30, 2020 to replace Deloitte & Associés for the remainder of the current term of office, *i.e.* until the Shareholder's Meeting which will approve the financial statements of the Company for the financial year ending December 31, 2022.

KPMG SA

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

Company represented by Jean-François Dandé, partner

Appointed by the Ordinary Shareholders' Meeting of September 30, 2020 to replace Ernst & Young et Autres for the remainder of the current term of office, *i.e.* until the Shareholder's Meeting which will approve the financial statements of the Company for the financial year ending on December 31, 2022.

2.5 Specific Controller

RSM (formerly Fidus)⁽¹⁾

26, rue Cambacérès - 75008 Paris (France)

Represented by Jean-Michel Thierry

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

Alternate: Éric Lebègue

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

The signing partner of the Specific Controller's firm and his or her alternate should be replaced during the first half of 2021.

⁽¹⁾ Fidus, the Company's Specific Controller, merged with RSM via a universal transfer of assets (TUP).



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

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

2.6.1 Information about the capital and shares

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

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

2.6.1.2 Breakdown of capital

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

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

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

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

No transaction is to be reported (see article 223-26 of the General Regulation of the French Financial Markets Authority (AMF – *Autorité des Marchés Financiers*)).

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

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







3



Financial statements according to IFRS standards

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3.1 Financial statements

3.1.1 Assets

<i>EUR millions</i>	<i>Note</i>	12/31/2019	12/31/2020
Central banks	2.1	473	1,798
Financial assets at fair value through profit or loss	2.2	4,899	4,266
Hedging derivatives	4.1	4,902	4,951
Financial assets at fair value through equity	2.3	91	-
Financial assets at amortized cost			
Loans and advances to banks at amortized cost	2.4	3,109	3,753
Loans and advances to customers at amortized cost	2.4	44,801	46,123
Securities at amortized cost	2.4	9,090	8,615
Fair value revaluation of portfolio hedge		2,774	2,842
Current tax assets	2.5	7	18
Deferred tax assets	2.5	72	74
Accruals and other assets	2.6	15	21
TOTAL ASSETS		70,233	72,461

3.1.2 Liabilities

<i>EUR millions</i>	<i>Note</i>	12/31/2019	12/31/2020
Central banks		-	-
Financial liabilities at fair value through profit or loss	3.1	1,119	1,050
Hedging derivatives	4.1	6,813	6,833
Financial liabilities at amortized cost			
Due to banks at amortized cost	3.2	5,206	6,606
Customer borrowings and deposits at amortized cost		-	-
Debt securities at amortized cost	3.2	54,604	55,092
Fair value revaluation of portfolio hedge		338	738
Current tax liabilities	3.3	8	1
Deferred tax liabilities	3.3	-	-
Accruals and other liabilities	3.4	695	691
Provisions	3.5	6	5
Subordinated debt		-	-
EQUITY		1,444	1,445
Capital		1,350	1,350
Reserves and retained earnings		68	63
Net result through equity	4.4	(14)	(11)
Net income		40	43
TOTAL LIABILITIES		70,233	72,461



3.1.3 Income statement

EUR millions	Note	2019	2020
Interest income	5.1	2,509	2,276
Interest expense	5.1	(2,390)	(2,150)
Fee and commission income	5.2	3	18
Fee and commission expense	5.2	(6)	(2)
Net result of financial instruments at fair value through profit or loss	5.3	16	5
Net income from of financial instruments at fair value through equity	5.4	-	-
Gains or losses resulting from derecognition of financial instruments at amortized cost	5.5	8	7
Gains or losses resulting from reclassification of financial assets at amortized cost to fair value through profit or loss		-	-
Gains or losses resulting from reclassification of financial assets at fair value through equity to fair value through profit or loss		-	-
Other income		0	0
Other expense		(0)	(0)
NET BANKING INCOME		140	154
Operating expenses	5.6	(97)	(104)
GROSS OPERATING INCOME		43	50
Cost of risk	5.7	8	9
OPERATING INCOME		51	59
Net gains (losses) on other assets		-	-
INCOME BEFORE TAX		51	59
Income tax		(11)	(16)
NET INCOME		40	43
EARNINGS PER SHARE (EUR)			
• Basic		2.96	3.16
• Diluted		2.96	3.16

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

EUR millions	2019	2020
NET INCOME	40	43
Items that may subsequently be reclassified through profit or loss	4	3
Unrealized or deferred gains and losses of financial assets at fair value through equity	0	(0)
Unrealized or deferred gains and losses of cash flow hedges	6	4
Tax on items that may subsequently be reclassified through profit or loss	(2)	(1)
Items that may not be reclassified through profit or loss	-	-
TOTAL UNREALIZED GAINS AND LOSSES THROUGH EQUITY	4	3
NET INCOME AND GAINS OR LOSSES THROUGH EQUITY	44	46

3.1.5 Equity

EUR millions	Capital and reserves			Unrealized or deferred gains and losses		Total	Total equity
	Share capital, additional paid-in capital	Retained earnings and net income for the period	Total	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		
EQUITY AS OF JANUARY 1, 2019	1,350	109	1,459	(0,1)	(19)	(19)	1,440
Stocks issued	-	-	-	-	-	-	-
Dividends	-	(41)	(41)	-	-	-	(41)
Changes in fair value of financial assets through equity	-	-	-	(0)	-	-	(0)
Changes in fair value of derivatives through equity	-	-	-	-	5	5	5
Changes in fair value of financial assets through profit or loss	-	-	-	-	-	-	-
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-
Net income for the period	-	40	40	-	-	-	40
Other movements	-	-	-	-	-	-	-
EQUITY AS OF DECEMBER 31, 2019	1,350	108	1,458	(0)	(14)	(14)	1,444
Stocks issued	-	-	-	-	-	-	-
Dividends	-	(45)	(45)	-	-	-	(45)
Changes in fair value of financial assets through equity	-	-	-	(0)	-	(0)	(0)
Changes in fair value of derivatives through equity	-	-	-	-	3	3	3
Changes in fair value of financial assets through profit or loss	-	-	-	-	-	-	-
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-
Résultat net de la période	-	43	43	-	-	-	43
Other movements	-	-	-	-	-	-	-
EQUITY AS OF DECEMBER 31, 2020	1,350	106	1,456	(0)	(11)	(11)	1,445

The Ordinary Shareholder's meeting decided on May 27, 2020, to distribute a dividend in the amount of EUR 45,225 million. Each share (13,500,000 shares) received a dividend of EUR 3.35.

Share capital currently stands at EUR 1,350,000,000 represented by 13,500,000 nominative shares.



3.1.6 Cash flow statement

EUR millions	2019	2020
NET INCOME BEFORE TAX	51	59
+/- Depreciation and write-downs	(27)	(2)
+/- Expense/income from investing activities	49	32
+/- Expense/income from financing activities	(36)	(102)
+/- Other movements	(142)	86
NON-MONETARY ITEMS INCLUDED IN NET INCOME BEFORE TAX AND OTHER ADJUSTMENTS	(156)	14
+/- Cash from interbank operations	(714)	809
+/- Cash from customer operations	98	(582)
+/- Cash from financial assets and liabilities	547	632
+/- Cash from not financing assets and liabilities	(18)	(259)
- Income tax paid	(21)	(27)
DECREASE/(INCREASE) IN CASH FROM OPERATING ACTIVITIES	(108)	573
CASH FLOW FROM OPERATING ACTIVITIES (A)	(213)	646
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-
+/- Cash from or for shareholders	(41)	(45)
+/- Other net cash from financing activities	(537)	731
CASH FLOW FROM FINANCING ACTIVITIES (C)⁽¹⁾	(578)	686
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	-	-
INCREASE/(DECREASE) IN CASH EQUIVALENTS (A + B + C + D)	(791)	1,332
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,281	490
Cash and balances with central banks (assets & liabilities)	1,271	473
Interbank accounts (assets & liabilities) and loans/sight deposits	10	17
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	490	1,822
Cash and balances with central banks (assets & liabilities)	473	1,798
Interbank accounts (assets & liabilities) and loans/sight deposits	17	24
CHANGE IN NET CASH	(791)	1,332

(1) As of December, 31, 2020, the net cash flow of EUR +0.7 billion linked to financing activities corresponded to the change in debt represented by a security. Compared with the variation of EUR +0.5 billion in debt represented by a security mentioned in note 3.2.1., the difference primarily reflects the change in the revaluation of hedged risk and foreign exchange variations.



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Note 1 Accounting and valuation policies

1.1 Applicable accounting standards

1.1.1 Application of the accounting standards endorsed by the European Union

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

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

Albeit is not subject to this obligation, the Company has furthermore voluntarily decided to use as from this year the new European Single Electronic Format (ESEF) format. The primary statement of the 2020 annual individual financial statements are therefore available under this new format.

The individual financial statements as of December 31, 2020 were examined by the Executive Board on March 15, 2021.

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

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

1.1.2 IASB and IFRIC texts endorsed by the European Union and effective as of January 1, 2020

- Amendments to **IAS 1 Presentation of financial statements/IAS 8 Accounting policies, changes in accounting estimates and errors/IAS 34 Interim financial reporting/IAS 37 Provisions, contingent liabilities and contingent assets/IAS 38 Intangible assets/IFRS 2 Share-based payment/IFRS 3 Business combinations/IFRS 6 Exploration for and evaluation of mineral resources/IFRIC 12 Service Concession Arrangements/IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments/IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine/IFRIC 22 Foreign Currency Transactions and Advance Consideration/SIC 32 Intangible Assets - Web Site Costs**: issued by IASB on March 29, 2018, endorsed by the European Union on November 29, 2019 (EU Regulation n° 2019/2075) and effective for reporting periods beginning on or after January 1, 2020, these amendments aim at updating references made to the conceptual framework in existing standards and interpretations. It follows the revision of this framework by the IASB.

These amendments have no impact on the Company's individual financial statements given that they are merely an update of the references made to the conceptual framework in existing standards and interpretations.

- Amendments to **IAS 1 Presentation of financial statements/IAS 8 Accounting policies, changes in accounting estimates and errors/IAS 10 Events after the balance sheet date/IAS 34 Interim financial reporting/IAS 37 Provisions, contingent liabilities and contingent assets**: issued by the IASB on October 31, 2018, endorsed by the European Union on November 29, 2019 (UE Regulation n° 2019/2104) and effective for reporting periods beginning on or after January 1, 2020, these amendments aim at clarifying and aligning the definition of material across the IFRS standards in the purpose of enhancing the consistency of its application in financial statements.

The Company takes due consideration of these amendments when assessing the materiality of information contained in its individual financial statements.

- 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 those in which uncertainties arise about the benchmark interest rate 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 work have resulted in additional amendments (see below).

The interest rate benchmarks to which the Company is mainly exposed are EURIBOR, EONIA and LIBOR (USD, GBP, CHF and JPY) 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 Front office, the Legal department, the Finance and Operations division and the Risk division. This committee aims at reducing the risks arising from the transition, monitoring its effective implementation within the time and to follow-up on the industry's work on this matter. In addition to these qualitative disclosures, the quantitative pieces of information required by the amendment to IFRS 7 are disclosed below in note 4.1, especially the notional amounts of hedging derivatives to which these amendments are applied.

Apart from the disclosures of the information previously mentioned, these amendments have no impact on the Company's individual financial statements given that it had opted for early application of them from January 1, 2019.



- Amendment to **IFRS 3 Business combinations**: issued by IASB in October, 2018, endorsed by the European Union on April 21, 2020 (UE Regulation n° 2020/551) and effective for reporting periods beginning on or after January 1, 2020 (for combinations in those periods), this amendment narrows and clarifies the definition of a business, a key concept that enables to distinguish a business combination from a mere acquisition of a group of assets.

This amendment has no impact on the Company's individual financial statements given that it has undertaken no operation referred to in the amendment during the period.

- Statement of conclusions from ANC **regarding the application of the IFRS 16 standard - Leases**: issued by ANC on July 3, 2020, superseding the previous version issued on February 16, 2018, this statement of conclusions is intended to align ANC opinion regarding French commercial property leases in the scope of French Code de commerce with the clarifications made by IFRIC on November 26, 2019 regarding the requirements for determining the length of the enforceable period and the consistency between the lease term on the one hand and the useful life of non-removable leasehold improvements made in the rent premises on the other hand. ANC specifies in particular that the enforceable period of this kind of leases within the meaning of IFRS 16 is generally of 9 years, but that it can however be longer when the lessee can reasonably expect that he will trigger the tacit renewal clause and/or when the lessor won't then be able to terminate the contract without material penalty.

This opinion from the ANC has no impact on the Company's individual financial statements given that the latter is involved in no leases.

- Amendment to **IFRS 16 Leases**: issued by IASB in May 2020, endorsed by the European Union on October 9, 2020 (EU Regulation n° 2020/1434) and effective as from June 1, 2020 for reporting periods beginning on or after January 1, 2020 with early application permitted, this amendment is intended to specify how rent concessions to lessees arising as a direct consequence of the Covid-19 pandemic shall be accounted for. It provides a practical expedient to lessees, that enables them to elect not to assess whether such concessions constitute a lease modification and, as a result, to account for them as if it were not a modification.

This amendment has no impact on the Company's individual financial statements given that the latter is involved in no leases.

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

- 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 IASB on August 27, 2020, endorsed by the European Union on January 13, 2021 (EU Regulation n° 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 economical equivalence between the former and the new basis for determining those flows.

The "phase 2" amendment to IFRS 9 provides a practical expedient that enables to account for the impact of such changes to be accounted for prospectively through an adjustment to 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 test 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 OCI 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 in two sub-groups, one 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 reference rate provided that there is a reasonable expectation that it fulfils 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 the application of IFRS 9.

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

The Company has not opted for an early application of these "phase 2" amendments. The future impact of the amendments to IAS 39, IFRS 9, IFRS 7, IFRS 4 and IFRS 16 on the Company's individual financial statements is being analyzed. The amendment to IFRS 4 will have no impact given that the Company operates no insurance business. The amendment to IFRS 16 will have no impact given that the Company is involved in no leases.

- Amendment to **IFRS 3 Business combinations**: issued by IASB in May 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2022 (for combinations of 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.



The impact of this amendment on the Company's individual financial statements is being analyzed. It is expected to have no impact, given that Company's operations are generally out of the scope of IFRS 3.

- Amendment to **IAS 16 Property, plant and equipment:** issued by the IASB in May 2020, not yet endorsed by the European Union 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.

The impact of this amendment on the Company's individual financial statements is being analyzed. This topic is however not material company-wide.

- Amendment to **IAS 37 Provisions, contingent liabilities and contingent assets:** issued by the IASB in May 2020, not yet endorsed by the European Union 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.

The impact of this amendment on the Company's individual financial statements is being analyzed.

- Amendments to **IFRS 1 First-time adoption of International Financial Reporting Standards/IFRS 9 Financial instruments/IFRS 16 Leases/IAS 41 Agriculture:** issued by IASB in May 2020 within the framework of its regular IFRS improvement process, not yet endorsed by the European Union 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 16 has no impact on the Company's individual financial statements. The amendments to IFRS 1 and IAS 41 will have no impact on the Company's individual financial statements. The impact of the amendment to IFRS 9 on the Company's individual financial statements is being analyzed.

- Amendment to **IAS 1 Presentation of financial statements:** issued by IASB in January 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2022 (or January 1, 2023 given the IASB's provisional decision), 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 liabilities based on a liquidity criterion.

- **IFRS 17 Insurance contracts:** issued by IASB in May 2017, amended by IASB in June 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2023 (June 2020 amendments postponed this date, which was initially January 1, 2021, by two years), this standard, which will replace IFRS 4 standard, clarifies in particular how all insurance contracts (life, non-life, insurance and reinsurance) shall be accounted for, contracts for which the entity is the policyholder being in particular out of the scope (excepted reinsurance contracts).

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

1.2 Accounting principles applied to the financial statements

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

The preparation of financial information requires management to resort to 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 Unrealized or deferred gains and losses of equity 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 holds no 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 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 form of its rate (fixed or variable), this is the case when the contractual cash flows embed 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 Unrealized or deferred gains and losses of equity

A financial asset is classified and subsequently measured at fair value through the item Unrealized or deferred gains and losses of equity 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 Unrealized or deferred gains and losses through equity) 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 Unrealized or deferred gains and losses through equity. 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 notation 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 recourse to realizing securities 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 to be as such based on a quantitative modeling realized 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" within 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.

All impairments operated in the context of the health crisis are the result of an analysis of the particular situation of each counterparty.

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 research developed from data issued from advanced models.

In the case of French local communities, 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. Apart from the change in the method to build the three scenarios (see below), the company has notably taken into account the effects of Covid-19 pandemic through a marginal adjustment to probabilities of default of SFIL's counterparties.

- a base scenario (weighted at 60%) based on an evolution of local communities accounts is established following a two-steps approach:
 - the "base scenario without Covid-19". The evolution of the accounts deemed as "natural", i.e. the one that would have been expected had the pandemic crisis not occurred. It is based on the increase of tax bases, financial endowments from budget bills, investment trends before the crisis for the period 2020, etc.



- the “base scenario with Covid-19”. To these “natural” evolutions, we add-back the so-called “Covid-19” evolutions, i.e. the ones resulting from the pandemic crisis. The estimate of this crisis is at the moment the subject of several studies. We distinguish a “short-term” impact, i.e. due to the lockdown and/or for which a quick catch-up effect is expected, from a “long-term” impact, where the economic crisis results in losses of revenues that the local communities cannot compensate in our scenario.
- an upside scenario (weighted at 25%) based on the same hypothesis as the base scenario, with the following deviations:
 - Covid-19 negative impact on tax revenues and service revenues as well as other revenues is decreased by 30%;
 - financial endowments granted by the French State are more dynamic in 2021 and 2022;
- a downside scenario (weighted at 15%) based on the same hypothesis as the base scenario, with the following deviations:
 - Covid-19 negative impact on tax revenues and service revenues as well as other revenues is increased by 30%;
 - financial endowments granted by French State do not increase in 2021 and 2022, and remain at their level of 2020;
 - the increase in investment public expenditures is very sharp in 2021 and 2022.

The impact of changing weights between the three scenarios on the amounts of expected credit losses is deemed very limited. As an illustration, an increase in 10% for the downside scenario combined with a decrease in 5% for both upside and base scenarios would lead to a surplus of EUR 0.2 million of expected credit losses.

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 communities 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 equals 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 Unrealized or deferred gains and losses of equity, 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 the 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 Unrealized or deferred gains and losses of equity, the Company assesses whether, due to the modifications in the terms, a significant increase in credit risk since initial recognition has occurred: if so, an adjustment of the loss allowance for expected credit losses is recognized (see above).

If restructured terms are substantially different from original terms, the original loan is derecognized and the loan under restructured terms is recognized as a new financial asset. Its gross carrying amount is adjusted so as to reflect market conditions; it corresponds to the present value of the restructured cash flows discounted at the effective interest rate of a loan granted under normal market conditions at the date when the loan is restructured. Such an adjustment constitutes the excess of the restructured margin of the loan over normal market conditions at the date when the loan is restructured: it is immediately recognized in profit or loss of

the reporting period, under the item of the net banking income used for recognizing the net gains and losses of the category of the derecognized financial asset.

1.2.5 Financial liabilities

1.2.5.1 Financial liabilities held for trading

The Company does not hold financial liabilities belonging to this category.

1.2.5.2 Financial liabilities designated at fair value through profit or loss

The Company does not use this option.

1.2.5.3 Financial liabilities at amortized cost

Financial liabilities at amortized cost are mainly *obligations foncières* and other resources that benefit from the privilege defined in article L.513-11 of the Monetary and Financial Code.

At initial recognition, the Company recognizes a financial liability belonging to this category at fair value, which is its nominal value including if applicable any reimbursement and issue premiums and transaction costs (mainly fees and commissions on bond issues). Subsequently, the financial liability is measured at amortized cost, which corresponds to its carrying amount at initial recognition plus or minus as appropriate the amortization of premiums and transaction costs calculated using the effective interest rate method.

Due and accrued interest on financial liabilities belonging to this category as well as the amortization of premiums and transaction costs calculated using the effective interest rate method, are recognized in the net interest margin.

Bonds issued which are denominated in foreign currencies are accounted for using the same method as foreign currency transactions (see above).

1.2.5.4 Derecognition of financial liabilities

A financial liability is derecognized when and only when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expires.

The restructuring of a financial liability results in the derecognition of this financial liability when the restructured terms are substantially different from the original terms (see above).

1.2.6 Derivatives

Applying the provisions of IFRS 9, the Company has decided to maintain the provisions of IAS 39 for hedge accounting at the date of entry into force of IFRS 9. However, the Company discloses the financial information on hedge accounting that is required under IFRS 7 as amended by IFRS 9.

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

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



1.2.6.1 Derivatives not documented in a hedging relationship

The Company enters into derivative contracts for the unique purpose of hedging its exposures to interest rate or foreign exchange positions. However, some derivatives must be measured at fair value through profit or loss at closing date; they are:

- the ones which failed hedge effectiveness tests at closing date;
- the ones which hedge financial assets that are measured at fair value through profit or loss. It comprises mainly the financial assets that are not compliant with the SPPI criterion. In this case, the revaluation of the derivative hedges natively the revaluation of the hedged risk of the hedged item, making pointless the documentation of a hedging relationship;
- the ones that hedge the foreign exchange risk related to export credit financing loans denominated in a currency other than the euro. These derivatives are concluded before the end of the drawing phase of the hedged loans and foreign exchange hedging relationship is documented only from the complete payment in the Company's balance sheet.

Both realized and unrealized gains and losses on these derivatives, measured at fair value through profit or loss at closing date, are recognized in profit or loss within the net banking income.

1.2.6.2 Hedging derivatives

Hedging derivatives can be classified as either:

- hedges of the fair value of a recognized asset or liability or a firm commitment (fair value hedge); or
- hedges of a future cash flow that might eventually impact the future profit or loss and that is attributable to a recognized asset or liability or a forecast and highly probable future transaction (cash flow hedge).

Hedge accounting may be used for such derivatives, provided certain criteria are met:

- precise and formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be effective both prospectively and retrospectively in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the reporting periods;
- the hedge, effectiveness of which has been reliably measured, shall be effective at inception and on an ongoing basis;
- for hedges of a future cash flow, the future transaction that constitutes if applicable the hedged item must be highly probable and must involve an exposure to variations in cash flows that could ultimately affect the profit or loss.

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

The efficient portion of the changes in the fair value of derivatives that are designated and documented in a cash flow hedging relationship and that respect the criteria set out above, is recognized in equity. The non-efficient portion of the changes in the fair value of the derivatives is recognized in profit or loss. Amounts deferred in equity are recycled to profit or loss and classified as income or expense when the hedged firm commitment or forecast transaction affects the profit or loss.

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

- in the case of a fair value hedge, the portion attributable to the hedged risk of the adjustment to the carrying amount of a hedged interest-bearing financial instrument is amortized to profit or loss over the residual maturity of the hedged item by adjusting the yield 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 efficient 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) efficiency 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 the 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 the item Unrealized or deferred gains and losses of equity or through profit or loss, and derivative instruments are measured at fair value by reference to listed market prices when available. When listed market prices are not available, fair value is estimated on the basis of valuation models or discounted cash flows method, using as much as possible observable, and if necessary non-observable market data.

For non derivative financial assets measured at fair value and for derivative instruments, when listed prices are not available, the pricing model attempts to reflect as accurately as possible the market conditions on the valuation date as well as any changes in the credit quality of these financial instruments and the market liquidity.

To determine the fair value of its derivatives, the Company uses different discount curves depending on whether collateral was actually exchanged. When the Company receives collateral, related future cash flows are discounted using an OIS-based curve or an €STER curve for centrally cleared derivatives for which the discounting index has transitioned in the year 2020. In contrast, uncollateralized derivatives related future cash flows are discounted using an Euribor-based curve. This differential treatment reflects the different financing costs associated with the derivatives used (FVA – funding valuation adjustment).

As a reminder, Caisse Française de Financement Local does not pay any collateral to its derivative counterparties, which benefit from the legal privilege on assets, as well as the legal holders of covered bonds.

In addition, a value adjustment is included in the fair value of derivatives to reflect the impact of counterparty's credit risk (CVA – credit valuation adjustment) or the Company's own credit quality (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 the item Unrealized or deferred gains and losses of equity and cash flow hedges, and other operations which are charged or credited directly to other comprehensive income, are also credited or charged 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 the item Unrealized or deferred gains and losses of equity. 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 granted.

1.2.12 Earnings per share

Basic earnings per share before dilution are calculated by dividing net income available for shareholders by the weighted average number of shares outstanding at closing date.

1.2.13 Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents include balances at central banks and interbank deposits and demand deposits on credit institutions.

1.2.14 Related-party transactions

Two parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party when making financial or operational decisions. The parent company of the Company is SFIL, a *société anonyme* incorporated in France, which is owned by the Group Caisse des Dépôts, a company registered in France, and by the French State. Within this framework, related-party transactions are those with companies owned directly or indirectly by the same final shareholder and with directors.

1.2.15 Segment reporting

The Company's sole activity involves the financing or refinancing of loans to public sector (loans to French authorities and public hospitals, or loans to SFIL with an unconditional and irrevocable 100% guarantee by the French State, as part of the financing of large export credits).

The Company conducts its business solely from France. It has no direct activity in other countries and is unable to present a relevant geographic breakdown of its results.



Note 2 Notes to the assets (EUR millions)

2.1 Central banks

	12/31/2019	12/31/2020
Mandatory reserve deposits with central banks	-	-
Other deposits	473	1,798
TOTAL	473	1,798

2.2 Financial assets at fair value through profit or loss

2.2.1 Analysis by nature

	12/31/2019	12/31/2020
Loans and advances to customers	4,894	4,243
Non-hedging derivatives	5	22
TOTAL	4,899	4,266

2.2.2 Loans and advances to customers analysis by counterparty

	12/31/2019	12/31/2020
Public sector	4,463	3,839
Other – guaranteed by a State or local government	431	404
TOTAL	4,894	4,243

2.2.3 Analysis by residual maturity

See note 7.4.

2.3 Financial assets at fair value through equity

2.3.1 Analysis by nature

	12/31/2019	12/31/2020
Loans	-	-
Bonds	91	-
TOTAL	91	-

2.3.2 Analysis by counterparty

	12/31/2019	12/31/2020
Public sector	-	-
Credit institutions guaranteed by the public sector	91	-
TOTAL PUBLIC SECTOR	91	-
<i>of which replacement assets</i>	<i>91</i>	<i>-</i>

All of the financial assets at fair value through equity as of December 31, 2019, were allocated to the Stage 1 category.

2.3.3 Analysis by maturity

See note 7.4.



2.4 Financial assets at amortized cost

2.4.1 Analysis by nature and by counterparty

	12/31/2019	12/31/2020
Current accounts	4	4
SFIL – Refinancing loans for export credits guaranteed by the French State ⁽¹⁾	2,590	3,539
SFIL – Loans not guaranteed by public sector assets ⁽²⁾	299	-
Loans from credit institutions guaranteed by a local authority or municipal credit	216	210
SUBTOTAL LOANS AND RECEIVABLES FROM CREDIT INSTITUTIONS AT AMORTIZED COST	3,109	3,753
Public sector loans	43,604	45,040
Public sector guaranteed loans	1,197	1,083
SUBTOTAL LOANS AND RECEIVABLES FROM CUSTOMERS AT AMORTIZED COST	44,801	46,123
Securities issued by the public sector	6,800	7,064
Securities guaranteed by the public sector	116	81
Securities issued by credit institutions	2,174	1,470
SECURITIES SUBTOTAL AT AMORTIZED COST	9,090	8,615
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	57,000	58,491

(1) Caisse Française de Financement Local grants loans to its parent company, SFIL, to refinance large export credits it has granted. Such loans benefit from an irrevocable and unconditional 100% guarantee by the French State, referred to as an enhanced guarantee.

(2) Caisse Française de Financement Local may invest some of its surplus cash in loans granted to its parent company SFIL.

2.4.2 Replacement assets

	12/31/2019	12/31/2020
Current accounts	4	4
SFIL – Loans not guaranteed by public sector assets ⁽¹⁾	299	-
Securities issued by credit institutions	2,174	1,470
TOTAL	2,477	1,474

(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

	12/31/2019								Net Amount	Accumulated partial write-offs	Accumulated total write-offs
	Gross amount				Impairment						
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total			
Loans and receivables from credit institutions at amortized cost	3,109	-	-	3,109	(0)	-	-	(0)	3,109	-	-
Loans and receivables from customers at amortized cost	40,937	2,942	958	44,837	(2)	(24)	(10)	(36)	44,801	-	-
Securities at amortized cost	7,496	1,605	5	9,106	(4)	(12)	(0)	(16)	9,090	-	-
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	51,542	4,547	963	57,052	(6)	(36)	(10)	(52)	57,000	-	-

12/31/2020											
	Gross amount				Impairment				Net Amount	Accumulated partial write-offs	Accumulated total write-offs
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total			
Loans and receivables from credit institutions at amortized cost	3,753	-	-	3,753	(0)	-	-	(0)	3,753	-	-
Loans and receivables from customers at amortized cost	43,428	2,271	451	46,150	(4)	(17)	(6)	(27)	46,123	-	-
Securities at amortized cost	7,135	1,493	4	8,632	(4)	(13)	(0)	(17)	8,615	-	-
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	54,316	3,764	455	58,535	(8)	(30)	(6)	(44)	58,491	-	-

The main changes in gross amounts and impairment between Stages mainly concern the asset category of loans and advances to customers at amortized cost. For this asset category, a significant change can be seen in 2020: a transfer from Stage 3 to Stage 1 for EUR 422 million, following the settlement of all arrears by a customer as part of a sensitivity reduction operation on its sensitive structured loans. The arrears of this customer were related to a dispute. The sensitivity reduction operation for this client also brought an end to the dispute. At December 31, 2019, the financial assets at amortized cost of this customer had been downgraded to Stage 3 by contagion effect. This transfer from Stage 3 to Stage 1 is accompanied by a decrease in impairment of EUR 5 million.

Assets considered as forbore by Caisse Française de Financement Local concern exposure to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognized or to come) that would not have been granted in other circumstances. These concessions may either be a waiver of a part of the debt, a rescheduling of the loan repayment, restructuring measures through an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions aiming to reduce the sensitivity of the loan.

There were 134 forbore contracts as of December 31, 2020, with 83 borrowers, for a total exposure of EUR 491 million.

2.5 Tax assets

	12/31/2019	12/31/2020
Current income tax	7	17
Other taxes	0	1
CURRENT TAX ASSETS	7	18
DEFERRED TAX ASSETS (SEE NOTE 4.2)	72	74
TOTAL TAX ASSETS	79	92

Deferred tax assets were submitted to a recoverability test taking into account the business plans presented to the Supervisory Board according to realistic hypotheses. Deferred taxes as of December 31, 2020, are recoverable on the basis of this analysis within a reasonable horizon by taking into account the tax rules governing the treatment of

past deficits. As of December 31, 2020, Caisse Française de Financement Local has no deferred tax assets related to carry forward tax losses.

In addition, Caisse Française de Financement Local takes into account the legislative measures designed to reduce the corporate income tax rate to 25.83% as of 2022.

2.6 Accruals and other assets

	12/31/2019	12/31/2020
Cash collateral paid	-	-
Other accounts receivable	1	1
Prepaid charges	4	10
Other assets	10	10
TOTAL ACCRUALS AND OTHER ASSETS	15	21



Note 3 Notes to the liabilities (EUR millions)

3.1 Financial liabilities at fair value through profit or loss

3.1.1 Analysis by nature

	12/31/2019	12/31/2020
Non hedging derivatives ⁽¹⁾	1,119	1,050
TOTAL	1,119	1,050

(1) Caisse Française de Financement Local is only authorized to enter into derivative transactions for hedging purposes. However, as certain hedging derivatives do not meet all the conditions required by IFRS to be classified as hedging instruments for accounting purposes, they are classified as derivative instruments at fair value through profit or loss.

Furthermore, as from January 1, 2018 and the entry into force of IFRS 9, derivatives used to hedge assets reclassified as assets measured at fair value through profit or loss can no longer be classified as hedging instruments for accounting purposes. They are therefore now allocated to this category.

3.1.2 Analysis by residual maturity

See note 7.4.

3.2 Financial liabilities at amortized cost

3.2.1 Analysis by nature

	12/31/2019	12/31/2020
Current accounts	-	-
Term loans from parent company ⁽¹⁾	5,206	6,606
SUB-TOTAL DEBTS TO CREDIT INSTITUTIONS AT AMORTIZED COST	5,206	6,606
Obligations foncières	46,812	47,270
Registered covered bonds	7,792	7,822
SUB-TOTAL DEBTS SECURITIES AT AMORTIZED COST	54,604	55,092
TOTAL FINANCIAL LIABILITIES AT AMORTIZED COST	59,810	61,698

(1) As of December 31, 2020, 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 €ster index.

3.3 Tax liabilities

	12/31/2019	12/31/2020
Current income tax	8	-
Other taxes	-	1
CURRENT TAX LIABILITIES	8	1
DEFERRED TAX LIABILITIES (SEE NOTE 4.2)	-	-
TOTAL TAX LIABILITIES	8	1

3.4 Accruals and other liabilities

	12/31/2019	12/31/2020
Cash collateral received	580	567
Other accrued charges	12	13
Deferred income	-	-
Contribution to support fund ⁽¹⁾	90	80
Other accounts payable and other liabilities	13	32
TOTAL	695	692

(1) This item includes the residual balance of the commitments made in 2013 by Caisse Française de Financement Local to contribute EUR 10 million per year over 15 years to the multi-year local government entity support funds, for a total of EUR 150 million.

3.5 Provisions

	12/31/2019	Additions	Amounts used	Unused amounts reversed during the period	Increase in the discounted amount (passage of time) and effect of any change in the discount rate	Other movements	12/31/2020
Commitments and guarantees given	6	-	-	(4)	-	-	2
Other provisions ⁽¹⁾	-	3	-	-	-	-	3
TOTAL	6	3	-	(4)	-	-	5

(1) In the context of the health crisis and the consequences for the cruise industry, Caisse Française de Financement Local has decided to set up a provision of EUR 2.6 million for risks on the foreign exchange hedging instruments used to refinance the export credits in dollars in this sector (see note 8).



Note 4 Other notes on the balance sheet (EUR millions)

4.1 Derivatives

4.1.1 Analysis by nature

	12/31/2019		12/31/2020	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS⁽¹⁾	5	1,119	22	1,050
Derivatives designated as fair value hedges	3,934	4,107	4,138	4,266
Derivatives designated as cash flow hedges	(9)	86	(9)	58
Derivatives designated as portfolio hedges	977	2,627	822	2,512
HEDGING DERIVATIVES	4,902	6,820	4,951	6,836
CVA/DVA IMPACT	(0)	(7)	(0)	(4)
TOTAL DERIVATIVES	4,907	7,932	4,974	7,883

(1) Caisse Française de Financement Local is only authorized to enter into derivative transactions for hedging purposes. However, as certain hedging derivatives do not meet all the conditions required by IFRS to be classified as hedging instruments for accounting purposes, they are classified as derivative instruments at fair value through profit or loss. Furthermore, as from January 1, 2018 and the entry into force of IFRS 9, derivatives used to hedge assets reclassified as assets measured at fair value through profit or loss can no longer be classified as hedging instruments for accounting purposes. They are therefore now allocated to this category.

4.1.2 Detail of derivatives designated as fair value through profit or loss

	12/31/2019				
	Notional amount				
	To receive	To deliver	Net	Assets	Liabilities
Foreign exchange derivatives	2,033	2,031	2	0	17
Interest rate derivatives	3,856	3,856	-	5	1,102
TOTAL	5,889	5,887	2	5	1,119

	12/31/2020				
	Notional amount				
	To receive	To deliver	Net	Assets	Liabilities
Foreign exchange derivatives	2,182	2,022	160	19	14
Interest rate derivatives	3,327	3,327	-	3	1,036
TOTAL	5,509	5,349	160	22	1,050

4.1.3 Detail of derivatives designated as fair value hedges

	12/31/2019				
	Notional amount				
	To receive	To deliver	Net	Assets	Liabilities
Foreign exchange derivatives	1,677	1,890	(213)	106	360
Interest rate derivatives	50,133	50,121	12	3,828	3,747
TOTAL	51,810	52,011	(201)	3,934	4,107

12/31/2020					
	Notional amount			Assets	Liabilities
	To receive	To deliver	Net		
Foreign exchange derivatives	1,256	1,429	(173)	111	313
Interest rate derivatives	47,763	47,749	14	4,027	3,953
TOTAL	49,019	49,178	(159)	4,138	4,266

4.1.4 Detail of derivatives designated as cash flow hedges

12/31/2019					
	Notional amount			Assets	Liabilities
	To receive	To deliver	Net		
Foreign exchange derivatives	535	605	(70)	(9)	86
Interest rate derivatives	-	-	-	-	-
TOTAL	535	605	(70)	(9)	86

12/31/2020					
	Notional amount			Assets	Liabilities
	To receive	To deliver	Net		
Foreign exchange derivatives	805	824	(19)	(9)	58
Interest rate derivatives	-	-	-	-	-
TOTAL	805	824	(19)	(9)	58

	12/31/2019	12/31/2020
Amount removed from cash flow hedge reserve and included in the carrying amount of a non-financial instrument (hedging of cash flows of a highly probable transaction)	-	-

4.1.5 Detail of derivatives designated as portfolio hedges

12/31/2019					
	Notional amount			Assets	Liabilities
	To receive	To deliver	Net		
Interest rate derivatives	47,582	47,577	5	977	2,627
TOTAL	47,582	47,577	5	977	2,627

12/31/2020					
	Notional amount			Assets	Liabilities
	To receive	To deliver	Net		
Interest rate derivatives	40,532	40,527	5	822	2,512
TOTAL	40,532	40,527	5	822	2,512



4.1.6. Breakdown of net notional amounts by rate index

The net notional amounts of the hedging instruments affected by the amendment to IFRS 9, IAS 39 and IFRS 7, which allows exemption from certain requirements in terms of hedge accounting as part of the reform of benchmark interest rates, arise for instruments indexed to the following rates:

	Notional amount net
EONIA	1,106
EURIBOR	(5,275)
€STER ⁽¹⁾	5,461
LIBOR USD	(2,502)
LIBOR GBP	(330)
LIBOR CHF	(214)
STIBOR	(17)
Fixed rate	2,192
Others	(435)
TOTAL	(14)

(1) This items relates only to derivative contracts initially entered into against €ster.

4.2 Deferred taxes

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

4.2.1 Analysis by nature

	12/31/2019	12/31/2020
Deferred tax assets before impairment	72	74
Impairment on deferred tax assets	-	-
Deferred tax assets	72	74
Deferred tax liabilities	-	-
TOTAL	72	74

4.2.2 Movements

	12/31/2019	12/31/2020
As of January 1	79	72
Charge/credit recognized in the income statement	(5)	3
Effect of change in tax rates - impact on the income statement ⁽¹⁾	-	-
Movements directly recognized in equity	(2)	(1)
Effect of change in tax rates - impact on equity	-	-
Effects of tax adjustment	-	-
Translation adjustment	-	-
Other movements	-	-
AS OF DECEMBER 31	72	74

(1) Caisse Française de Financement Local took into account the legislative measures designed to reduce the corporate income tax rate to 25.83% as of 2022.

4.2.3 Deferred taxes from assets on the balance sheet

	12/31/2019	12/31/2020
Loans and loan loss provisions	1,074	1,027
Securities	(243)	(281)
Derivatives	(567)	(431)
Accruals and other assets	13	13
TOTAL	277	328

4.2.4 Deferred taxes from liabilities on the balance sheet

	12/31/2019	12/31/2020
Borrowings, deposits and issues of debt securities	(207)	(255)
Derivatives	-	-
Provisions	2	1
Accruals and other liabilities	-	-
TOTAL	(205)	(254)

4.3 Transactions with related-parties

Analysis by nature

	Parent company ⁽¹⁾		Other related parties ⁽²⁾	
	12/31/2019	12/31/2020	12/31/2019	12/31/2020
ASSETS				
Loans and advances due from banks at amortized cost	2,889	3,539	-	-
Securities at amortized cost	-	-	-	148
LIABILITIES				
Due to banks at amortized cost	5,206	6,606	-	-
Debt securities at amortized cost	-	-	-	868
INCOME STATEMENT				
Interest income on loans and advances due from banks at amortized cost	13	14	(1)	0
Interest income on bonds at amortized cost	-	-	-	0
Interest expense due to banks on borrowings at amortized cost	6	11	-	-
Interest expense on debt securities at amortized cost	-	-	-	(34)
Fees and commissions	(1)	3	(0)	(0)
Gains or losses on derecognition of financial assets at amortized cost	(2)	(4)	-	-
OFF BALANCE SHEET				
Foreign exchange derivatives	920	820	-	-
Interest rate derivatives	15,474	15,364	-	-
Commitments and guarantees received	50	50	-	-
Commitments and guarantees given	5,460	4,703	-	-

(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.

4.4 Unrealized or deferred gains and losses, breakdown

	12/31/2019	12/31/2020
Unrealized gains and losses on financial assets at fair value through equity	0	-
Unrealized gains and losses on derivatives designated as cash flow hedges	(19)	(15)
TOTAL	(19)	(15)
Deferred taxes on gains and losses, financial assets at fair value through equity	(0)	-
Deferred taxes on gains and losses, derivatives designated as cash flow hedges	5	4
TOTAL AFTER TAXES	(14)	(11)



Note 5 Notes to the income statement (EUR millions)

5.1 Interest income – interest expense

Caisse Française de Financement Local presents interest calculated using the effective interest rate method on financial instruments measured at amortized cost or at market value through equity under the headings “Interest income” and “Interest expense”.

These headings also include interest income and expense on financial instruments recognized at fair value through profit or loss because they do not meet the SPPI criterion due to the fact that the cash flows received do not consist solely of principal and interest payments. However, the change in value calculated excluding accrued interest on these

financial instruments at fair value through profit or loss is recorded under Net result of financial instruments at fair value through profit or loss (see note 5.3).

Interest income and expense on hedging derivatives are included with the revenue generated by the associated hedged items. Meanwhile, certain derivatives not classified as hedging instruments for accounting purposes are held as economic hedges of financial instruments carried at fair value through profit or loss; the interest income and expense on these hedging derivatives are included in the headings recording the interest on these financial instruments.

	2019			2020		
	Income	Expense	Net	Income	Expense	Net
Loans/loans with credit institutions	-	-	-	-	-	-
Loans/loans with customers	147	-	147	135	-	135
Derivatives outside the hedging relationship	32	(161)	(129)	28	(151)	(123)
FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	179	(161)	18	163	(151)	12
Hedging derivatives	1,356	(1,166)	190	1,215	(1,070)	145
HEDGING DERIVATIVES	1,356	(1,166)	190	1,215	(1,070)	145
Securities	(0)	-	(0)	(0)	-	(0)
FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	(0)	-	(0)	(0)	-	(0)
Central bank accounts	-	(6)	(6)	-	(3)	(3)
Accounts and loans with credit institutions	18	7	25	22	7	29
Accounts and loans with customers	803	-	803	725	-	725
Securities	153	(1,064)	(911)	150	(933)	(783)
FINANCIAL ASSETS AND LIABILITIES AT AMORTIZED COST	974	(1,063)	(89)	897	(929)	(32)
TOTAL	2,509	(2,390)	119	2,275	(2,150)	125

Income and expenses, measured using the effective interest rate method were EUR 897 million and EUR -929 million respectively in 2020 and EUR 974 million and EUR -1,063 million in 2019.

5.2 Fees and commissions

	2019	2020
Commissions paid to/received from SFIL	2	3
Other commissions ⁽¹⁾	(5)	13
TOTAL	(3)	16

(1) As of December 31, 2020, this line includes a commission on financial instruments received as part of a hedging derivative allocation transaction.



5.3 Net 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.

	2019	2020
Net result on financial instruments at fair value through profit or loss	39	7
Net result of hedge accounting	(24)	(3)
Net result of foreign exchange transactions	1	1
TOTAL	16	5

Analysis of net result of hedge accounting

	2019	2020
FAIR VALUE HEDGES	0	0
Fair value changes in the hedged item attributable to the hedged risk	(332)	(98)
Fair value changes in the hedging derivatives	332	98
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	-	-
Fair value changes in the hedged item	410	300
Fair value changes in the hedging derivatives	(410)	(300)
CVA/DVA IMPACT⁽¹⁾	(24)	(3)
TOTAL	(24)	(3)

(1) As of December 31, 2020, the application of IFRS 13 shows a net result of EUR -3 million, mainly due to a reduction in DVA.

5.4 Net result of financial instruments at fair value through equity

	2019	2020
Net result of disposals of bonds at fair value through equity	-	-
Net result of disposals of loans at fair value through equity	-	-
TOTAL	-	-

5.5 Gains and losses resulting from derecognition of financial instruments at amortized costs

	2019	2020
Net result of disposals or prepayments of bonds at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to banks at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to customers at amortized cost	10	11
Net result of disposals or prepayments of due to banks at amortized cost	(2)	(4)
Net result of disposals or prepayments of debt securities at amortized cost	-	0
TOTAL	8	7



Detail of on derecognition of assets and liabilities at amortized cost

	2019		2020	
	Notional amount	Impact net result	notional amount	Impact net result
Prepayments of securities	-	-	-	-
Net result of disposals or prepayments of securities at amortized cost	-	-	-	-
Restructuring of loans and advances to credit institutions ⁽¹⁾	-	-	908	-
Net result of disposal or prepayment of loans and advances to credit institution at amortized cost	-	-	908	-
Prepayments of loans and advances to customers	279	6	47	3
Restructuring of loans and advances to customers	278	4	386	8
Net result of disposals or prepayments of loans and advances to customers at amortized cost	557	10	433	11
SUB-TOTAL ASSETS	557	10	1,341	11
Prepayments of debt to banks	286	(2)	332	(4)
Net result of disposals or prepayments of debt to banks at amortized cost	286	(2)	332	(4)
Prepayments of debt securities	100	0	7	0
Net result of disposals or prepayments of debt securities at amortized cost	100	0	7	0
SUB-TOTAL LIABILITIES	386	(2)	339	(4)
TOTAL	-	8	-	7

(1) The notional amount of loan restructurings on credit institutions includes refinancing loans from SFIL concerned 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 the European export credit insurance agencies to provide liquidity support on export credits for cruise companies, a sector particularly affected by the pandemic. This support consists of deferring the repayment of the loan principle. This deferral was also applied by Caisse Française de Financement Local to refinancing loans for the cruise sector granted to SFIL. As a reminder, these loans benefit from an irrevocable and unconditional 100% guarantee granted by the French State.



5.6 Operating expenses

	2019	2020
Payroll costs	-	-
Other general and administrative expenses ⁽¹⁾	(92)	(97)
Taxes	(5)	(7)
TOTAL	(97)	(104)
<i>of which re-invoiced costs by SFIL</i>	<i>(97)</i>	<i>(95)</i>

Caisse Française de Financement Local has no salaried employees in accordance with Article L.513-15 of the French Monetary and Financial Code. The general management of the operations of Caisse Française de Financement Local has been entrusted by an agreement to its parent company, SFIL, a credit institution.



5.7 Cost of risk

	2019				
	January 1	Impairments	Reversals	Losses	December 31
Stage 1	(0)	-	-	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	(0)	-	-	-	(0)
Stage 1	(0)	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
LOANS AND ADVANCES DUE FROM BANKS AT AMORTIZED COST	(0)	(0)	0	-	(0)
Stage 1	(1)	(3)	3	-	(1)
Stage 2	(21)	(10)	7	-	(24)
Stage 3	(10)	(4)	4	-	(10)
LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	(32)	(17)	14	-	(35)
Stage 1	(3)	(2)	1	-	(4)
Stage 2	(24)	(0)	12	-	(12)
Stage 3	(0)	(0)	-	-	(0)
BONDS AT AMORTIZED COST	(27)	(2)	13	-	(16)
Stage 1	(0)	(0)	0	-	(0)
Stage 2	(0)	-	0	-	-
Stage 3	-	-	-	-	-
OFF-BALANCE SHEET COMMITMENTS AT AMORTIZED COST	(0)	(0)	0	-	(0)
TOTAL	(60)	(19)	27	-	(52)

	2020				
	January 1	Impairments	Reversals	Losses	December 31
Stage 1	(0)	-	-	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	(0)	-	-	-	(0)
Stage 1	(0)	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
LOANS AND ADVANCES DUE FROM BANKS AT AMORTIZED COST	(0)	(0)	0	-	(0)
Stage 1	(1)	(15)	12	-	(4)
Stage 2	(24)	(5)	12	-	(17)
Stage 3	(10)	(3)	8	-	(6)
LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	(35)	(23)	32	-	(26)
Stage 1	(4)	(0)	0	-	(4)
Stage 2	(12)	(1)	0	-	(13)
Stage 3	(0)	(0)	-	-	(0)
BONDS AT AMORTIZED COST	(16)	(1)	0	-	(17)
Stage 1	(0)	(0)	-	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
OFF-BALANCE SHEET COMMITMENTS AT AMORTIZED COST	(0)	(0)	-	-	(0)
TOTAL	(52)	(24)	32	-	(45)



5.8 Corporate income tax

5.8.1 Breakdown of tax expense

	2019	2020
Current taxes	(9)	(19)
Deferred taxes	(5)	3
Tax adjustment effects ⁽¹⁾	3	-
TOTAL	(11)	(16)

(1) As of the end of 2018, the tax authority had levied adjustments relating to the 2012 and 2013 inspections. It nevertheless reduced the amount of the adjustment relating to the reintegration of the results of the former branch in Ireland, but maintained the principle of taxation of these results in France. Caisse Française de Financement Local settled this adjustment, assessed related deferred taxes and reversed the relevant provisions. It kept in its accounts the amount of the provision set aside in respect of sums not yet called. Following the conclusion of this issue, Caisse Française de Financement Local also took into account in 2019 the effects of the adjustment on the income tax base for the years 2014 to 2018.

5.8.2 Effective tax expense

The difference between the actual corporate income tax rate and the French tax rate can be analysed as follow:

	2019	2020
INCOME BEFORE INCOME TAXES	51	59
TAX BASE	51	59
Applicable tax rate at end of the period	34.43%	32.02%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	(18)	(19)
Tax effect of non-deductible expenses	(1)	(1)
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Tax audit effects ⁽¹⁾	3	-
Use of corporate income tax rate applicable to the future fiscal years ⁽²⁾	5	4
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	(11)	(16)

(1) As of the end of 2018, the tax authority had levied adjustments relating to the 2012 and 2013 inspections. It nevertheless reduced the amount of the adjustment relating to the reintegration of the results of the former branch in Ireland, but maintained the principle of taxation of these results in France. Caisse Française de Financement Local settled this adjustment, assessed related deferred taxes and reversed the relevant provisions. It kept in its accounts the amount of the provision set aside in respect of sums not yet called. Following the conclusion of this issue, Caisse Française de Financement Local also took into account in 2019 the effects of the adjustment on the income tax base for the years 2014 to 2018.

(2) Caisse Française de Financement Local has taken into account the legislative measures designed to reduce the corporate income tax rate to 25.83% as of 2022.

5.8.3 Tax consolidation

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



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

6.1 Regular way trade

	12/31/2019	12/31/2020
Assets to be delivered	-	-
Liabilities to be received	-	-

6.2 Guarantees

	12/31/2019	12/31/2020
Guarantees received from credit institutions	-	-
Enhanced guarantees ⁽¹⁾	8,051	8,243
Guarantees received from customers ⁽²⁾	2,352	1,746

(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 authorities.

6.3 Financing commitments

	12/31/2019	12/31/2020
Loan commitments granted to credit institutions ⁽¹⁾	5,460	4,703
Loan commitments granted to customers ⁽²⁾	4	63
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

	12/31/2019	12/31/2020
Commitments given ⁽¹⁾	4	5
Commitments received ⁽²⁾	216	233

(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 Financing commitments and other commitments granted

12/31/2019											
	Financing commitments and financial guarantees under IFRS 9								Commitments and financial guarantees measured at fair value		
	Gross amount				Impairment				Net amount	Notional amount	Accumulated changes in fair value due to credit risk on non-performing commitments
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total			
Granted to credit institutions	5,460	-	-	5,460	(0)	-	-	(0)	5,460	-	-
Granted to customers	4	-	-	4	(0)	-	-	(0)	4	-	-
TOTAL	5,464	-	-	5,464	(0)	-	-	(0)	5,464	-	-

12/31/2020											
	Financing commitments and financial guarantees under IFRS 9								Commitments and financial guarantees measured at fair value		
	Gross amount				Impairment				Net amount	Nominal amount	Accumulated changes in fair value due to credit risk on non-performing commitments
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total			
Granted to credit institutions	4,703	-	-	4,703	(0)	-	-	(0)	4,703	-	-
Granted to customers	63	-	-	63	(0)	-	-	(0)	63	-	-
TOTAL	4,766	-	-	4,766	(0)	-	-	(0)	4,766	-	-



Note 7 Notes on risk exposure (EUR millions)

7.1 Fair value

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

These fair value adjustments take into account the features of the relevant assets and liabilities (maturity, hedging of interest rate risk, amortization profile, and, for assets, their rating); they also take into account current market conditions in terms of price or spread of these same operations, or operations to which they could be assimilated. The breakdown of assets and liabilities as a function of the method used to determine their fair value is shown in note 7.1.3 below; it can be seen that most assets are valued

according to a technique that takes into account the fact that significant parameters are not observable for the assets since the exposure primarily consists of loans, a form of debt that is not listed on liquid markets. For the valuation of liabilities, certain observable parameters have been used.

These fair values provide interesting information but are not relevant for drawing conclusions on the value of the Company or on the income generated in the future. The assets and liabilities stand out for being consistent in rates and maturity and moreover are intended to be maintained on the balance sheet until their maturity, given the specialized activity of the Company.

7.1.1 Composition of the fair value of the assets

	12/31/2019		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	473	473	-
Financial assets at fair value through profit or loss	4,899	4,899	-
Hedging derivatives	4,902	4,902	-
Financial assets at fair value through equity	91	91	-
Loans and receivables from credit institutions at amortized cost	3,109	3,168	59
Loans and advances to customers at amortized cost	44,801	44,374	(427)
Securities at amortized cost	9,090	7,934	(1,156)
TOTAL	67,365	65,841	(1,524)

	12/31/2020		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1,798	1,798	-
Financial assets at fair value through profit or loss	4,266	4,266	-
Hedging derivatives	4,951	4,951	-
Financial assets at fair value through equity	-	-	-
Loans and receivables from credit institutions at amortized cost	3,753	3,895	142
Loans and advances to customers at amortized cost	46,123	45,871	(252)
Securities at amortized cost	8,615	7,808	(807)
TOTAL	69,506	68,589	(917)



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

12/31/2019			
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	1,119	1,119	-
Hedging derivatives	6,813	6,813	-
Due to banks at amortized cost	5,206	5,195	(11)
Debt securities at amortized cost	54,604	55,188	584
TOTAL	67,742	68,315	573

12/31/2020			
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	1,050	1,050	-
Hedging derivatives	6,833	6,833	-
Due to banks at amortized cost	6,606	6,603	(3)
Debt securities at amortized cost	55,092	55,656	564
TOTAL	69,581	70,142	561

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 derivatives are valued using these internal valuation models.

The measurement of derivatives, qualified or not in hedging relationship, 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 terms 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 classification mainly involves hybrid, structured products (interest rate - foreign exchange), spread (correlation) products and options on interest rates. This classification is mainly due to the fact that these products present complex payoffs which require an advanced statistical model with variable parameters which are sometimes unobservable on the market.

12/31/2019				
Fair value of financial assets	Level 1	Level 2	Level 3	Total
Central banks	473	-	-	473
Financial assets at fair value through profit or loss	-	4	4,895	4,899
Hedging derivatives	-	4,424	477	4,902
Financial assets at fair value through equity	31	60	-	91
Loans and advances due from banks at amortized cost	4	2,900	264	3,168
Loans and advances to customers at amortized cost	-	-	44,374	44,374
Bonds at amortized cost	2,751	3,375	1,808	7,934
TOTAL	3,259	10,763	51,818	65,841



	12/31/2020			
Fair value of financial assets	Level 1	Level 2	Level 3	Total
Central banks	1,798	-	-	1,798
Financial assets at fair value through profit or loss	-	3	4,263	4,266
Hedging derivatives	-	4,625	326	4,951
Financial assets at fair value through equity	-	-	-	-
Loans and advances due from banks at amortized cost	4	3,629	262	3,895
Loans and advances to customers at amortized cost	-	-	45,871	45,871
Bonds at amortized cost	3,977	2,094	1,737	7,808
TOTAL	5,779	10,351	52,459	68,589

	12/31/2019			
Fair value of financial liabilities	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	925	194	1,119
Hedging derivatives	-	6,631	183	6,813
Debt due to the banks at amortized cost	-	5,195	-	5,195
Debt securities at amortized cost	-	55,188	-	55,188
TOTAL	-	67,939	377	68,315

	12/31/2020			
Fair value of financial liabilities	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	903	147	1,050
Hedging derivatives	-	6,728	104	6,833
Debt due to the banks at amortized cost	-	6,603	-	6,603
Debt securities at amortized cost	40,936	6,810	7,910	55,656
TOTAL	40,936	21,044	8,161	70,142

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 financial instruments using reasonably possible parameters or applies hypotheses based on its policy of additional valuation adjustments.

	12/31/2019	12/31/2020
Uncertainty inherent in level 3 market parameters	4	5
Uncertainty inherent in level 3 derivatives valuation models	34	17
SENSITIVITY OF THE MARKET VALUE OF LEVEL 3 FINANCIAL INSTRUMENTS	38	22

7.1.4 Transfer between level 1 and 2

	12/31/2019	12/31/2020
Level 1 to level 2	-	-
TOTAL	-	-



7.1.5 Level 3: flow analysis

Fair value of financial assets	Financial assets at fair value through profit or loss	Hedging derivatives	Financial assets at fair value through equity	TOTAL FINANCIAL ASSETS
12/31/2019	4,895	477	-	5,372
Total gains and losses through profit or loss	-	-	-	-
Total unrealized or deferred gains and losses	(280)	(68)	-	(348)
Total OCI unrealized or deferred gains and losses	-	-	-	-
Purchase	-	-	-	-
Sale	-	-	-	-
Direct origination	-	0	-	0
Settlement	(371)	(83)	-	(454)
Transfer to activities destined to be sold	-	-	-	-
Transfer to level 3	19	-	-	19
Transfer out of level 3	-	-	-	-
Other variations	-	-	-	-
12/31/2020	4,263	326	-	4,589

Fair value of financial liabilities	Financial liabilities at fair value through profit or loss	Hedging derivatives	TOTAL FINANCIAL LIABILITIES
12/31/2019	194	183	377
Total gains and losses through profit or loss	-	-	-
Total unrealized or deferred gains and losses	26	(1)	25
Total OCI unrealized or deferred gains and losses	-	-	-
Purchase	-	-	-
Sale	-	-	-
Direct origination	-	-	-
Settlement	(72)	(3)	(75)
Transfer to activities destined to be sold	-	-	-
Transfer to level 3	(1)	-	(1)
Transfer out of level 3	-	(75)	(75)
Other variations	-	-	-
12/31/2020	147	104	251



7.2 Off-setting financial assets and liabilities

7.2.1 Financial assets subject to off-setting, enforceable master netting arrangements and similar agreements

12/31/2019						
	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
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	4,906	-	4,906	(4,083)	(543)	280
Loans and advances at fair value through profit or loss	4,894	-	4,894	-	-	4,894
Loans and advances due from banks at amortized cost	3,109	-	3,109	-	-	3,109
Loans and advances to customers at amortized cost	44,801	-	44,801	-	-	44,801
TOTAL	57,710	-	57,710	(4,083)	(543)	53,084

12/31/2020						
	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
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	4,973	-	4,973	(4,088)	(546)	339
Loans and advances at fair value through profit or loss	4,244	-	4,244	-	-	4,244
Loans and advances due from banks at amortized cost	3,753	-	3,753	-	-	3,753
Loans and advances to customers at amortized cost	46,123	-	46,123	-	-	46,123
TOTAL	59,093	-	59,093	(4,088)	(546)	54,459



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

12/31/2019						
	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
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	7,932	-	7,932	(4,083)	-	3,849
Due to banks at amortized cost	5,206	-	5,206	-	-	5,206
Customer borrowings and deposits at amortized cost	-	-	-	-	-	-
TOTAL	13,138	-	13,138	(4,083)	-	9,055

12/31/2020						
	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
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	7,883	-	7,883	(4,088)	-	3,795
Due to banks at amortized cost	6,606	-	6,606	-	-	6,606
Customer borrowings and deposits at amortized cost	-	-	-	-	-	-
TOTAL	14,489	-	14,489	(4,088)	-	10,401

7.3 Exposure to credit risk

In 2020, exposure to credit risks, includes the following:

- for assets other than derivatives: the amount on the balance sheet;
- for derivatives: the derivative's market value (marked-to-market), the amount of collateral exchanged and a flat-rate add-on, depending on the derivative's maturity and the nature of the underlying;
- 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

	12/31/2019	12/31/2020
France	61,977	64,169
Italy	5,989	5,820
Germany	448	450
Spain	187	328
United Kingdom	171	125
Belgium	257	181
Other European Union countries	926	603
Norway	239	201
Switzerland	797	611
United States and Canada	845	794
Japan	41	42
TOTAL EXPOSURE	71,877	73,324

Analysis of exposure by category of counterparty

	12/31/2019	12/31/2020
Sovereigns	10,808	12,651
Local public sector	57,310	58,077
Other assets guaranteed by public sector entities	26	25
Financial institutions	3,724	2,562
Other exposures	9	9
TOTAL EXPOSURE	71,877	73,324

Exposure on financial institutions is primarily comprised of counterparties in hedging derivatives and replacement assets. As of December 31, 2020, Caisse Française de Financement Local had no asset-backed securities.

Analysis of exposure by category of instrument

	12/31/2019	12/31/2020
Banks	473	1,798
Fair value loans through profit or loss	4,937	4,239
Hedging derivatives	1,124	1,072
Securities at fair value through equity	209	-
Loans to credit institutions at amortized cost	303	25
Loans to customers at amortized cost	50,135	52,483
Securities at amortized cost	9,199	8,829
Adjustment accounts and miscellaneous assets	33	112
Financing commitments	5,464	4,767
TOTAL EXPOSURE	71,877	73,324



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 of 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 81% of the portfolio has a weighting of less than 5% and close to 98% of the portfolio has a weighting that is less than or equal to 20%.

	Risk weighting (Basel III)					Total
	from 0 to 2%	from 2 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	
Banks	1,798	-	-	-	-	1,798
Fair value loans through profit or loss	2,691	928	488	0	133	4,239
Hedging derivatives	546	-	15	478	33	1,072
Securities at fair value through equity	-	-	-	-	-	-
Loans to credit institutions amortized cost	20	-	-	5	0	25
Loans to customers at amortized cost	34,675	10,465	6,945	2	395	52,483
Securities at amortized cost	3,391	13	4,921	500	4	8,829
Adjustment accounts and miscellaneous assets	102	-	-	1	9	112
Funding commitments	4,707	0	60	0	-	4,767
TOTAL EXPOSURE	47,929	11,406	12,429	986	574	73,324
SHARE OF TOTAL EXPOSURE	65.4%	15.6%	17.0%	1.3%	0.8%	100.0%

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

7.4 Liquidity risk: analysis by term to maturity

7.4.1 Breakdown of assets

	12/31/2020						Total broken down
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	
Central banks	1,798	-	-	-	-	-	1,798
Financial assets at fair value through profit or loss	-	104	263	1,117	2,023	-	3,507
Hedging derivatives	-	-	-	-	-	-	-
Financial assets at fair value through equity	-	-	-	-	-	-	-
Loans and advances due from banks at amortized cost	4	18	307	1,655	1,767	-	3,751
Loans and advances to customers at amortized cost	20	1,128	2,849	14,530	25,496	-	44,023
Securities at amortized cost	-	487	708	2,271	3,738	-	7,204
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	92	92
Accruals and other assets	-	-	11	10	-	-	21
TOTAL	1,822	1,737	4,138	19,583	33,024	92	60,396

12/31/2020

	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	1,798	(0)	-	-	1,798
Financial assets at fair value through profit or loss	3,507	63	696	-	4,266
Hedging derivatives	-	590	4,361	-	4,951
Financial assets at fair value through equity	-	-	-	-	-
Hedging derivatives	3,751	2	-	(0)	3,753
Loans and advances to customers at amortized cost	44,023	359	1,768	(27)	46,123
Securities at amortized cost	7,204	76	1,352	(17)	8,615
Fair value revaluation of portfolio hedge	-	-	2,842	-	2,842
Tax assets	92	-	-	-	92
Accruals and other assets	21	-	-	-	21
TOTAL	60,396	1,090	11,019	(44)	72,461

7.4.2 Breakdown of liabilities, excluding equity

12/31/2020

	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
Due to banks at amortized cost	-	1,850	845	3,065	850	-	6,610
Customer borrowing and deposits at amortized cost	-	-	-	-	-	-	-
Debt securities at amortized cost	-	2,100	1,906	17,889	28,876	-	50,771
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	1	-	-	-	1
Accruals and other liabilities	-	611	10	40	30	-	691
Provisions	-	-	-	5	0	-	5
Subordinated debt	-	-	-	-	-	-	-
TOTAL	-	4,561	2,762	20,999	29,756	-	58,078

12/31/2020

	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Financial liabilities at fair value through profit or loss	-	57	993	1,050
Hedging derivatives	-	380	6,453	6,833
Due to banks at amortized cost	6,610	(4)	-	6,606
Customer borrowing and deposits at amortized cost	-	-	-	-
Debt securities at amortized cost	50,771	671	3,650	55,092
Fair value revaluation of portfolio hedge	-	-	738	738
Tax liabilities	1	-	-	1
Accruals and other liabilities	691	(0)	-	691
Provisions	5	-	-	5
Subordinated debt	-	-	-	-
TOTAL	58,078	1,104	11,834	71,016

7.4.3 Net liquidity gap

12/31/2020

	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total not broken down	Total
MONTANT	1,822	(2,824)	1,376	(1,416)	3,268	92	(873)	1,445

This table presents the balance sheet on the closing date; it does not take into account management decisions that will make it possible to manage differences in maturity or the future production of assets and liabilities. Caisse Française de Financement Local's liquidity is provided by its

refinancing agreement with SFIL. In addition, Caisse Française de Financement Local may obtain financing from the Banque de France, in its own name, by giving certain of these assets as collateral. If necessary, these transactions would easily cover its cash flow requirements.

7.5 Currency risk

12/31/2019

Classification by original currency	EUR	Other EU currencies	USD	Other currencies	Total
Total assets	68,950	543	167	572	70,233
Total liabilities	68,950	543	167	572	70,233
NET BALANCE SHEET POSITION	-	-	-	-	-

12/31/2020

Classification by original currency	EUR	Other EU currencies	USD	Other currencies	Total
Total assets	71,448	515	162	336	72,461
Total liabilities	71,448	515	162	336	72,461
NET BALANCE SHEET POSITION	-	-	-	-	-

Caisse Française de Financement Local takes no foreign exchange risk when setting up operations. Assets and liabilities originally in non-euro currencies are swapped against Euribor as soon as they are recognized on the balance sheet.

7.6 Sensitivity to interest rate risk

To limit its impact, Caisse Française de Financement Local has put in place an interest rate risk hedging strategy consisting of:

- micro-hedging balance sheet items denominated in a currency other than the euro or indexed to a complex rate structure. Certain euro-denominated vanilla transactions may also be micro-hedged if their notional value or duration could lead to a sensitivity limit being exceeded. Micro-hedging is carried out exclusively by swap;
- macro-hedging all transactions that are not micro-hedged. The transactions concerned are mainly (i) loans to the local public sector and (ii) issues of *obligations foncières* denominated in euros. This macro-hedging is obtained as much as possible by matching fixed-rate assets and liabilities via the 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 transactions at adjustable rates in order to ensure that they do not lead to the

short-term sensitivity limit being exceeded. Where appropriate, swaps against €ster 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.

Debt not benefiting from the legal privilege is not covered by hedging transactions. Indeed, regarding its debts for funding over-collateralization, the Caisse Française de Financement Local borrows this funding either directly with Eonia or €ster index, with no swap requirement, or from the Euribor index, facing assets also indexed on Euribor. Where applicable, short-term and fixed-rate debts owed to Banque de France are not hedged, but also fund fixed-rate assets.

These different types of interest rate risk are monitored, analyzed and managed through:

- the production of gaps (fixed rate, basic and fixing), calculated on a static basis:

Fixed rate 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 extinction;
Index gaps	Basis gaps, which result from the matching of two index gaps. There are therefore as many basis gaps as there are index pairs.
Basis gaps	Basis gaps, which result from the matching of two index gaps. There are therefore as many basis gaps as there are index pairs.
Fixing gap	For a given index tenor, the difference between adjustable rate balance sheet and off-balance sheet assets and liabilities, by fixing date.

- The net present value (NPV) sensitivity indicators at an interest rate shock of 100 bp are produced monthly, to protect residual fixed rate positions set by CAFFIL (after hedging has been set up). These indicators are calculated based on four pre-defined time buckets and supported by limits calibrated to restrict capital loss to 6% (EUR 80 million) with a 99% quantile calculated based on 10-year historical data:

Translation of the rate curve	Limit of EUR 25 million
Sloping/rotation of the interest rate curve on distant points on the curve	Limit* of EUR 15 million on the short term time bucket, EUR 10 million on the medium to long-term time buckets and EUR 9 million on the very long term time bucket.
Sloping/rotation of the interest rate curve inside a time bucket	EUR 30 million limit** on the absolute value of the sensitivities inside each time bucket.

* In first-half 2020, CAFFIL's interest rate sensitivity limits were adjusted, while keeping the overall value of interest rate risk appetite unchanged (EUR 80 million). The previous limit was 10 million for the four time buckets.

** The limit applicable to points prior to May 31, 2020 was EUR 40 million. Since May 2020, it has stood at EUR 30 million.

Lastly, CAFFIL is only marginally exposed to prepayment risks as prepayment indemnity clauses are included in almost all of its loan agreements.

Measurement of Directional risk

The measurement of sensitivity at the end of each quarter is presented below.

Directional risk

Total sensitivity (EUR millions)	Limit	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Sensitivity	25/(25)	(2.7)	(1.9)	(1.0)	(6.8)



Measurement of the slope/rotation risk

The quarter-end sensitivity measurements are presented below.

Risk of slope between two distant points on the rate curve

Sum of sensitivities (EUR millions)	Limit	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Short term	15/(15)	(6.0)	(4.0)	(5.3)	(9.5)
Medium term	10/(10)	(2.1)	(6.6)	(6.1)	3.1
Long term	10/(10)	1.6	4.1	5.1	(2.5)
Very long term	9/(9)	3.8	4.6	5.3	2.2

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value (EUR millions)	Limit	3/31/2020	6/30/2020	9/30/2020	12/31/2020
Short term	30	17.3	9.0	12.6	10.9
Medium term	30	12.7	13.0	13.9	22.3
Long term	30	12.3	10.4	3.7	11.3
Very long term	30	7.0	7.6	8.2	8.8

Note 8 Impacts of the Covid-19 health crisis on the Company's financial statements

The health crisis had a limited impact on the Company's financial statements prepared in accordance with IFRS at end December 2020. This confirms the Caisse Française de Financement Local's resilience to macro-economic shocks.

Impacts on the adjustments to the value of financial assets and liabilities recognized at fair value

The context of volatility and deterioration in the financial markets, particularly in the first half of 2020, led to changes in the value of financial assets and liabilities as well as hedging instruments with an overall impact of EUR -28 million on net banking income at end-June 2020. Financial markets gradually returned to normal during the second half of 2020, driven by the stimulus plans announced by national governments and the European Commission. This had the effect of gradually reducing the unfavorable impact visible in the financial statements of June 30, 2020. As of December 31, 2020, the unfavorable impact of the end of June can be considered as being completely eliminated. As Caisse Française de Financement Local intends to retain the large majority of its assets until expiry, these valuations may continue to change along with market conditions but will return to balance in the long term.

Impacts on past due, breakdown of net book values by Stages and IFRS provisions

Caisse Française de Financement Local decided to deploy two approaches to support borrowers faced with difficulties due to the health crisis:

- one, proactive, by proposing extensions to payment terms to all health institutions in recognition of their exceptional involvement in the Covid-19 pandemic. Caisse Française de Financement Local 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. As of June 30, 2020, these offset payment maturities represented EUR 9 million. As of December 31, 2020, these payment terms had been almost fully reimbursed and represented a residual amount of EUR 0.3 million;
- the other approach was to respond to requests from local and equivalent authorities faced with temporary cash flow difficulties. Caisse Française de Financement Local 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, parkings, thermal baths, etc.). As of June 30, 2020, these offset payment maturities represented EUR 8 million. As of December 31, 2020, these payment terms had also been almost fully reimbursed and represented a residual amount of EUR 0.5 million.



On-going payment terms granted as of December 31, 2020

	Financial assets at amortized cost				Financial assets at fair value through profit or loss	TOTAL
	Stage 1	Stage 2	Stage 3	TOTAL		
Performing health sector customers	-	-	0	0	-	0
Other local public sector customers	-	-	1	1	-	1
TOTAL	-	-	1	1	-	1

The payment terms granted to Caisse Française de Financement Local clients resulted as of December 31, 2020, in a very slight increase in exposures classified in Stage 3 and a decrease in exposures classified in Stage 1 and 2. In addition

to the effects of the declassification to Stage 3 of the exposures of certain customers, the Caisse Française de Financement Local decided to increase its provisions related to public sector customers by EUR 3 million.

	Financial assets at amortized cost					
	Gross book value			Provisions		
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3
Health sector customers benefiting from extensions to payment terms		185	34	24	(0)	(1)
Other local public sector customers benefiting from extensions to payment terms		288	5	1	(0)	(0)
SITUATION AS OF DECEMBER 31, 2019	473	38	25	(0)	(1)	(1)
Health sector customers benefiting from extensions to payment terms		192	23	23	(3)	(0)
Other local public sector customers benefiting from extensions to payment terms		244	2	33	(0)	(0)
SITUATION AS OF DECEMBER 31, 2020	436	24	56	(3)	(0)	(1)
Health sector customers benefiting from extensions to payment terms		7	(11)	(1)	(3)	0
Other local public sector customers benefiting from extensions to payment terms		(44)	(3)	32	0	(0)
CHANGE DURING THE YEAR MAINLY DUE TO THE IMPACT OF THE COVID-19 HEALTH CRISIS	(37)	(14)	31	(3)	0	(0)

Over the same period, in the context of the health crisis, the Caisse Française de Financement Local decided to set up a provision for risks and charges of EUR 2.6 million associated with the foreign exchange hedging instruments used in the context of the refinancing of the export credits in dollars from the cruise industry.

Furthermore, within the export credit business, Caisse Française de Financement Local, with the support of SFIL, is part of the approach developed jointly by the European

export credit insurance agencies to provide liquidity support on export credits for cruise companies, a sector particularly hard hit by the pandemic. This support consists of deferring the repayment of the loan principle. This deferral was also applied by Caisse Française de Financement Local to refinancing loans for the cruise sector granted to SFIL. As a reminder, these loans benefit from an irrevocable and unconditional 100% guarantee granted by the French State.

Summary of the impacts of the Covid-19 health crisis on the Company's results as of December 31, 2020

	(1)	(2)		=(1)-(2)
		of which impacts of the Covid-19 health crisis		
	Reported accounting income	Reinforcement of provisions on the public sector	Reinforcement of provisions on export credit - cruise sector	Accounting income restated for the impacts of Covid-19
Net banking income	154	-	-	154
General operating expenses	(104)	-	-	(104)
GROSS OPERATING INCOME	50	-	-	50
Cost of risk	9	(3)	(3)	14
INCOME BEFORE NON-RECURRING ITEMS AND TAXES	59	(3)	(3)	64
Income tax	(16)	1	1	(17)
NET INCOME	43	(2)	(2)	47



Note 9 Post-closing events

No significant event that influences the Company's financial situation has occurred since the closing on December 31, 2020.



3.3 Statutory Auditors' report on the financial statements prepared under IFRS

For the year ended December 31, 2020

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Chairman of the Executive Board,

In our capacity as Statutory Auditors of Caisse Française de Financement Local and in response to your company's request to provide extended financial information to investors, we have audited the accompanying financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, of Caisse Française de Financement Local for the year ended December 31, 2020.

Due to the global crisis related to the Covid-19 pandemic, the financial statements for the year ended December 31, 2020 have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organisation and the performance of the audits. It is in this complex and evolving context that the financial statements were prepared by the Executive Board. Our role is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with professional standards applicable in France and the professional guidance issued by the French Institute of Statutory Auditors (*Compagnie nationale des commissaires aux comptes*) relating to this engagement. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. It also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the financial statements, in all material respects, give a true and fair view of the assets and liabilities and of the financial position of the Company at December 31, 2020, and of the results of its operations for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

This report is governed by French law. The French courts have exclusive jurisdiction to rule on any dispute, claim or disagreement resulting from our engagement letter or this report, or on any matter related thereto. Each party irrevocably waives any right to lodge objections to action brought before these courts, to claim that the action was brought before a French court lacking jurisdiction or that the French courts lacked jurisdiction.

Neuilly-sur-Seine and Paris La Défense, March 30, 2021

The Statutory Auditors

PricewaterhouseCoopers Audit
Ridha BEN CHAMEK

KPMG SA
Jean-François DANDÉ







4



Financial statements according to French GAAP

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4.1 Financial statements

4.1.1 Assets

<i>EUR millions</i>	<i>Notes</i>	12/31/2019	12/31/2020
Central banks	2.1	473	1,798
Government and public securities	2.2	3,340	3,717
Loans and advances due from banks	2.3	3,133	3,776
Loans and advances to customers	2.4	45,950	46,434
Bonds and other fixed income securities	2.5	4,601	3,551
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	13	24
Accruals and other assets	2.7	2,522	2,437
TOTAL ASSETS	2.8	60,032	61,738

4.1.2 Liabilities

<i>EUR millions</i>	<i>Notes</i>	12/31/2019	12/31/2020
Central banks		-	-
Due to banks	3.1	5,206	6,606
Customer borrowings and deposits		-	-
Debt securities	3.2	50,395	51,069
Other liabilities	3.3	691	680
Accruals and other liabilities	3.4	2,222	1,864
Provisions	3.5	66	54
Subordinated debt		-	-
EQUITY		1,452	1,465
Share capital	3.6	1,350	1,350
Additional paid-in capital	3.6	-	-
Reserves and retained earnings	3.6	56	56
Net income	3.6	46	59
TOTAL LIABILITIES	3.7	60,032	61,738



4.1.3 Off-balance sheet items

<i>EUR millions</i>	<i>Notes</i>	12/31/2019	12/31/2020
COMMITMENTS GRANTED	4.1	5,468	4,771
Financing commitments		5,464	4,766
Guarantees granted		-	-
Commitments on securities		-	-
Other commitments granted		4	5
COMMITMENTS RECEIVED	4.2	10,669	10,272
Financing commitments		50	50
Guarantees received		10,619	10,222
Commitments on securities		-	-
Forward commitments		-	-
Other commitments received		-	-
OTHER COMMITMENTS	4.3	114,760	104,606
Foreign currency transactions		13,091	12,906
Commitments on forward financial instruments		101,669	91,700
Commitments on bonds		-	-



4.1.4 Income statement

<i>EUR millions</i>	<i>Notes</i>	2019	2020
Interest income	5.1	1,018	1,059
Interest expense	5.1	(885)	(907)
Income from variable income securities		-	-
Commission income	5.2	3	18
Commission expense	5.2	(6)	(2)
Net gains (losses) on held for trading portfolio		(0)	1
Net gains (losses) on placement portfolio	5.3	8	10
Other banking income		0	0
Other banking expense		(0)	(0)
NET BANKING INCOME		138	179
General operating expenses	5.4	(98)	(104)
Depreciation and amortization		-	-
GROSS OPERATING INCOME		41	75
Cost of risk	5.5	11	2
INCOME FROM OPERATIONS		52	77
Gains or losses on fixed assets		-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		52	77
Non-recurring items		-	-
Income tax	5.6	(6)	(19)
NET INCOME		46	59
Basic earnings per share		3.40	4.34
Diluted earnings per share		3.40	4.34



4.1.5 Equity

EUR millions

	Amount
AS OF 12/31/2019	
Share capital	1,350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	56
Net income for the year	46
Interim dividends	-
EQUITY AS OF 12/31/2019	1,452
MOVEMENTS FOR THE PERIOD	
Changes in share capital	-
Changes in additional paid-in capital	-
Changes in commitments to increase share capital and additional paid-in capital	-
Changes in reserves and retained earnings	45
Dividends paid (-)	(45)
Changes in net income for the period	13
Other movements	-
AS OF 12/31/2020	
Share capital	1,350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	56
Net income for the period	59
EQUITY AS OF 12/31/2020	1,465



4.2 Notes to the French GAAP financial statements

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Note 1 Accounting and valuation policies

1.1 Applicable accounting standards: rules adopted by the French Accounting Standards Board (Autorité des Normes Comptables – ANC)

The financial statements as of December 31, 2020, were examined by the Executive Board on March 15, 2021.

Caisse Française de Financement Local prepares its financial statements in compliance with ANC Regulation n°2014-07 issued on November 26, 2014 and related to the financial statements for the reporting entities of the banking sector, and in particular credit institutions. As stated in its article 3 and subject to the provisions of the latter regulation, these reporting entities prepare their financial statements in compliance with ANC Regulation n°2014-03 issued on June 5, 2014 and related to general accounting plan. The financial statements are furthermore in accordance with the indications of Directive 86/635/EEC of the Council of European Communities.

The financial statements as of December 31, 2020, were prepared using the same accounting policies as those used in the financial statements as of December 31, 2019. 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 and January 15, 2021.

This communication and its subsequent updates were taken into account by the Caisse Française de Financement Local in the preparation of its 2020 half-year and annual 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.

- **ANC Regulation n° 2020-10 of December 22, 2020 amending ANC Regulation n°2014-07 issued on November 26, 2014 and related to the accounts for the reporting entities of the banking sector:** this regulation from the ANC aims at completing Regulation 2014-07 by specifying how to account for and recognize on the one hand deposits centralized at the French Fonds d'épargne within the Caisse des Dépôts group (regulated savings: *livrets A*, *livrets développement durable and solidaire* and *livrets d'épargne populaire*) and on the other hand securities lending/borrowing operations. Regarding regulated savings, the institution recognizes the amount receivable from the French Fonds d'épargne on the Liability side of the Balance sheet, deducting it from the outstanding amount of underlying collected deposits. Regarding securities lending/borrowing operations, the borrowing institution recognizes borrowed securities on the Liability side of the Balance sheet, deducting it from the underlying debt.

This regulation has no impact on the Caisse Française de Financement Local 2020 annual financial statements,

given that on the one hand Caisse Française de Financement Local receives no deposits centralized to the Fonds d'épargne and on the other hand Caisse Française de Financement Local did not conduct any securities lending/borrowing operations in 2020.

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.

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.



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 value 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 recognized in the income statement at the termination date.

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.

If the prepayment of a loan leads to the cancellation of macro-hedge swaps, the swaps termination fee is recognized in the income statement at the termination date.

1.2.7 Foreign currency transactions

Caisse Française de Financement Local recognizes foreign currency transactions in accounts opened and denominated in each of the currencies used.

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

At each closing date, differences between on the one hand the amounts resulting from a market price valuation at closing date of the foreign exchange position accounts and on the other hand the amounts recognized in the foreign exchange position equivalent accounts are recognized in the income statement.

1.2.8 Foreign exchange transactions

In the course of systematic hedging of its foreign exchange risk, Caisse Française de Financement Local enters into currency swaps. These currency swaps are initiated to eliminate the risk of foreign exchange rate fluctuations that might affect an asset or liability as soon as such a risk is identified. They are mainly used to hedge certain liabilities, debt securities and customer loans.

Results of foreign exchange hedging transactions are accounted for by recognizing the difference between the hedging rate and the spot rate – contango or backwardation – *prorata temporis* in the income statement.

1.2.9 Guarantees

As part of its activity to refinance large export credits, Caisse Française de Financement Local benefits from an irrevocable and unconditional 100% guarantee by the French State, called an enhanced guarantee. Expenses related to these guarantees are recognized *prorata temporis* in the net interest margin.



1.2.10 Non-recurring income and expense

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

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

1.2.11 Tax consolidation

Since January 1, 2014, Caisse Française de Financement Local belongs to the tax group that is headed up by SFIL. This entity pays the total income tax and lump-sum annual tax owed by the Group. Caisse Française de Financement Local recognizes in its accounts the tax expense for which it would be liable if it were not a member of the tax group.

Tax savings realized by the tax group are recognized in the accounts of SFIL.

1.2.12 Offices and activities in uncooperative States and territories

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

1.2.13 Identity of the parent company consolidating the accounts of Caisse Française de Financement Local as of December 31, 2020

SFIL
1-3 rue du Passeur de Boulogne
92130 Issy-les-Moulineaux

Note 2 Notes to the assets (EUR millions)

2.1 Central banks

	12/31/2019	12/31/2020
Mandatory reserves	-	-
Other deposits	473	1,798
TOTAL	473	1,798

2.2 Government and public entity securities eligible for central bank refinancing

2.2.1 Accrued interest included in this item: 48

2.2.2 Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
-	109	663	2,897	3,669

2.2.3 Analysis by listed securities and other securities excluding accrued interest

	Net amount as of 12/31/2019	Gross amount as of 12/31/2020	Impairment as of 12/31/2020	Net amount as of 12/31/2020	Unrealized capital gain or loss as of 12/31/2020 ⁽²⁾
Listed securities ⁽¹⁾	3,291	3,669	(0)	3,669	(596)
Other securities	-	-	-	-	-
TOTAL	3,291	3,669	(0)	3,669	(596)

(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 12/31/2019	Gross amount as of 12/31/2019	Acquisitions	Amortization, redemption or disposals	Others movements	Gross amount as of 12/31/2020
Trading	-	-	-	-	-	-
Placement	502	502	-	(62)	(2)	438
Investment	2,789	2,789	438	-	4	3,231
TOTAL	3,291	3,291	438	(62)	2	3,669

Portfolio	Gross amount as of 12/31/2020	Impairment as of 12/31/2020	Net amount as of 12/31/2020 ⁽¹⁾	Unrealized capital gain or loss as of 12/31/2020 ⁽²⁾
Trading	-	-	-	-
Placement	438	(0)	438	(20)
Investment	3,231	-	3,231	(576)
TOTAL	3,669	(0)	3,669	(596)

(1) This amount includes a premium/discount of EUR 8 million for the placement portfolio and of EUR 103 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 hedging 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

	12/31/2019	12/31/2020
Sight accounts	4	4
Unallocated sums	-	-
TOTAL	4	4
<i>of which replacement assets</i>	4	4

2.3.2 Term loans and advances to banks

2.3.2.1 Accrued interest included in this item: 2

2.3.2.2 Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
18	307	1,655	1,790	3,770

2.3.2.3 Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2019	Gross amount as of 12/31/2020	Impairment as of 12/31/2020	Net amount as of 12/31/2020
Loans of less than 1 year	300	-	-	-
Loans of more than 1 year	2,828	3,770	0	3,770
TOTAL	3,128	3,770	0	3,770

2.3.2.4 Breakdown by counterparty

	12/31/2019	12/31/2020
SFIL – Export credits refinancing loans guaranteed by the French State ⁽¹⁾	2,589	3,538
SFIL – Others loans ⁽²⁾	300	-
Banks guaranteed by a local government, <i>crédits municipaux</i>	0	0
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	239	232
TOTAL	3,128	3,770
<i>of which replacement assets</i>	300	-

(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 State, referred to as enhanced guarantee.

(2) Caisse Française de Financement Local may invest some of its surplus cash in loans granted to its parent company SFIL. These loans are eligible as replacement assets.

2.4 Customer loans and advances

2.4.1 Accrued interest included in this item: 422

2.4.2 Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
1,215	3,086	15,544	26,167	46,012

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

Economic sector	12/31/2019	12/31/2020
Public sector	43,860	44,540
Other sectors	1,633	1,472
TOTAL	45,493	46,012

2.4.4 Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2019	Gross amount as of 12/31/2020	Impairment as of 12/31/2020	Net amount as of 12/31/2020
Loans of less than 1 year	13	20	-	20
Loans of more than 1 year	45,480	46,021	(29)	45,992
TOTAL	45,493	46,041	(29)	46,012

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

	Net amount as of 12/31/2019	Gross amount as of 12/31/2020	Impairment as of 12/31/2020	Net amount as of 12/31/2020
Performing commitments	45,177	45,832	-	45,832
Non-performing loans	162	54	(1)	53
Compromised non-performing loans	154	155	(28)	127
TOTAL	45,493	46,041	(29)	46,012

Assets considered as forbore by Caisse Française de Financement Local concern exposures to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognized or to come) that would not have been granted in other circumstances. These concessions may either be a waiver of a part of the debt, a

rescheduling of the loan repayment, restructuring measures through an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions aiming to reduce of the sensitivity of the loan.

There were 134 forbore contracts as of December 31, 2020, with 83 borrowers, for a total of EUR 491 million.



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

	12/31/2019	Allocations	Reversals	Transfers	12/31/2020
FOR NON-PERFORMING LOANS					
On loans	(0)	-	0	-	(0)
On interest	(2)	(1)	2	-	(1)
FOR COMPROMISED NON-PERFORMING LOANS					
On loans	-	-	-	-	-
On interest	(25)	(5)	2	-	(28)
TOTAL	(27)	(6)	4	-	(29)

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

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: 28

2.5.2 Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
461	342	1,030	1,690	3,523

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

	12/31/2019	12/31/2020
Public sector	2,229	2,007
Other sectors (guaranteed by a State or by a local government)	92	59
Credit institutions	2,245	1,457
TOTAL	4,566	3,523
<i>of which replacement assets</i>	<i>2,245</i>	<i>1,457</i>

2.5.4 Analysis by listed securities and other securities excluding accrued interest

	Net amount as of 12/31/2019	Gross amount as of 12/31/2020	Impairment as of 12/31/2020	Net amount as of 12/31/2020	Unrealized capital gain or loss as of 12/31/2020 ⁽²⁾
Listed securities ⁽¹⁾	2,805	1,998	(0)	1,998	(9)
Other securities	1,761	1,525	(0)	1,525	(79)
TOTAL	4,566	3,523	(0)	3,523	(88)

(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 hedging derivatives into account.



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

Portfolio	Net amount as of 12/31/2019	Gross amount as of 12/31/2019	Acquisitions	Amortization, redemption or disposals	Others movements	Gross amount as of 12/31/2020
Trading	-	-	-	-	-	-
Placement	2,439	2,440	-	(836)	(16)	1,588
Investment	2,127	2,127	-	(185)	(7)	1,935
TOTAL	4,566	4,567	-	(1,021)	(23)	3,523

Portfolio	Gross amount as of 12/31/2020	Impairment as of 12/31/2020	Net amount as of 12/31/2020 ⁽¹⁾	Unrealized capital gain or loss as of 12/31/2020 ⁽²⁾
Trading	-	-	-	-
Placement	1,588	(0)	1,588	14
Investment	1,935	-	1,935	(102)
TOTAL	3,523	(0)	3,523	(88)

(1) This amount includes a premium/discount of EUR 8 million for the placement portfolio and of EUR 61 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

	12/31/2019	12/31/2020
Taxes	7	18
Other receivables	6	6
TOTAL	13	24

2.7 Accruals and other assets

	12/31/2019	12/31/2020
Deferred losses on hedging transactions	1,165	1,004
Deferred charges on bond issues	51	54
Prepaid charges on hedging transactions	148	162
Premiums on acquisition of loans	464	580
Other prepaid charges	0	0
Accrued interest not yet due on hedging transactions	689	633
Translation adjustments	-	-
Other deferred income	1	1
Other accruals	4	3
TOTAL	2,522	2,437



2.8 Breakdown of assets by original currency

Analysis by original currency	Amount in original currency as of 12/31/2019	Amount in euros as of 12/31/2019	Amount in original currency as of 12/31/2020	Amount in euros as of 12/31/2020
EUR	59,140	59,140	61,110	61,110
AUD	20	13	20	13
CAD	510	350	307	197
CHF	134	123	131	121
GBP	128	151	128	143
JPY	16,115	132	5,052	40
NOK	1,039	106	1,039	99
PLN	47	11	49	11
SEK	0	0	0	0
USD	7	6	6	5
TOTAL	-	60,032	-	61,738

2.9 Breakdown of impairment by country

	Net amount as of 12/31/2019	Amount as of 12/31/2020
GOVERNMENT AND PUBLIC ENTITY - PLACEMENT SECURITIES	(0)	(0)
France	(0)	(0)
BONDS AND OTHER FIXED INCOME - PLACEMENT SECURITIES	(1)	(0)
France	(0)	(0)
Germany	(0)	(0)
Canada	(0)	-
Finland	(0)	(0)
Netherlands	(0)	(0)
Sweden	(0)	-
BONDS AND OTHER FIXED INCOME - INVESTMENT SECURITIES	-	-
LOANS AND ADVANCES TO CUSTOMERS	(27)	(29)
France	(27)	(29)

Note 3 Notes to the liabilities (EUR millions)

3.1 Due from banks

Funding obtained from SFIL, within the framework of the financing agreement, was comprised of different loans with maturities initially between one day and 10 years, indexed on Euribor or €ster.

3.1.1 Accrued interest included in this item: (4)

3.1.2 Debt from credit institutions excluding accrued interest

	12/31/2019	12/31/2020
Sight accounts	-	-
Current account - parent company	-	-
Term borrowing - parent company	5,210	6,610
Unallocated sums	-	-
TOTAL	5,210	6,610

3.1.3 Analysis by residual maturity excluding accrued interest

	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Sight	-	-	-	-	-
Term	1,850	845	3,065	850	6,610
TOTAL	1,850	845	3,065	850	6,610

3.2 Debt securities

3.2.1 Debt securities (*obligations foncières*)

3.2.1.1 Accrued interest included in this item: 531

3.2.1.2 Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
<i>Obligations foncières</i>	2,070	1,858	16,573	23,568	44,069
<i>of which net issue premiums⁽¹⁾</i>	(0)	0	(5)	2	(3)

(1) The gross amount of positive and negative issue premiums totaled EUR -40 million before amortization.

3.2.1.3 Changes during the year excluding accrued interest

Type of securities	Amount as of 12/31/2019	Increases	Decreases	Other changes	Amount as of 12/31/2020
<i>Obligations foncières</i>	43,312	5,522	(4,768)	3	44,069

3.2.2 Other bonds (registered covered bonds)

3.2.2.1 Accrued interest included in this item: 140

3.2.2.2 Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Registered covered bonds	30	48	1,205	5,046	6,329
<i>of which net issue premiums⁽¹⁾</i>	(0)	(0)	(0)	37	37

(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 12/31/2019	Increases	Decreases	Other changes	Amount as of 12/31/2020
Registered covered bonds	6,360	25	(55)	(1)	6,329

3.3 Other liabilities

	12/31/2019	12/31/2020
Cash collateral received	580	567
Accrued interest not yet due on cash collateral received	(0)	(0)
Taxes	8	20
Balances to pay on unwound hedging contracts	-	-
Contribution to the support fund ⁽¹⁾	90	80
Other creditors	13	13
TOTAL	691	680

(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

	12/31/2019	12/31/2020
Deferred gains on hedging transactions	-	-
Deferred income on hedging transactions	1,231	1,048
Deferred income on loans	144	127
Accrued interest not yet due on hedging transactions	546	479
Other accrued charges	12	13
Translation adjustments	289	196
Other accruals	0	0
TOTAL	2,222	1,864

3.5 Provisions for risks and charges

	Amount as of 12/31/2019	Increases	Decreases	Other changes	Amount as of 12/31/2020
Loans and commitments ⁽¹⁾	35	3	(8)	-	30
Financial instruments ⁽²⁾	30	1	(10)	-	21
Other provisions ⁽³⁾	-	3	-	-	3
TOTAL	66	4	(18)	-	54

(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. Moreover, in the context of the health crisis, Caisse Française de Financement Local decided to constitute a provision for liabilities and charges of EUR 2.6 million associated with public healthcare customers who benefited from extensions to payment terms (see note 6).

(2) The change in provisions for risks and charges on financial instruments relates to the change in the market value of the hedged placement securities concerned.

(3) In the context of the health crisis and the consequences for the cruise industry, Caisse Française de Financement Local decided to set up a provision of EUR 2.6 million for risks on the foreign exchange hedging instruments used to refinance the export credits in dollars in this sector (see note 6).

3.6 Equity

	Amount as of 12/31/2019	Amount as of 12/31/2020
Share capital	1,350	1,350
Legal reserve	53	55
Retained earnings (+/-)	3	1
Net income (+/-)	46	59
TOTAL	1,452	1,465

On May 27, 2020, the Ordinary and Extraordinary Shareholders' Meeting decided to allocate the 2019 net profit, is EUR 46 million after taking into account of positive retained earnings, to payment of a dividend in the amount of EUR 45 million, the balance EUR 1 million being allocated to retained earnings.

Caisse Française de Financement Local's share capital totaled EUR 1,350 million, comprising 13,500,000 shares.



3.7 Breakdown of liabilities by original currency

Analysis by original currency	Amount in original currency as of 12/31/2019	Amount in euros as of 12/31/2019	Amount in original currency as of 12/31/2020	Amount in euros as of 12/31/2020
EUR	59,140	59,140	61,110	61,110
AUD	20	13	20	13
CAD	510	350	307	197
CHF	134	123	131	121
GBP	128	151	128	143
JPY	16,115	132	5,052	40
NOK	1,039	106	1,039	99
PLN	47	11	49	11
SEK	0	0	0	0
USD	7	6	6	5
TOTAL		60,032		61,738

3.8 Transactions with related parties

Analysis by nature	Parent company ⁽¹⁾		Other related parties ⁽²⁾	
	12/31/2019	12/31/2020	12/31/2019	12/31/2020
ASSETS				
Loans and advances due from banks – sight	-	-	-	-
Loans and advances due from banks – term	2,890	3,539	-	-
Bonds and other fixed income securities	-	-	-	148
LIABILITIES				
Due to banks – sight	-	-	-	-
Due to banks – term	5,206	6,606	-	-
Debt securities	-	-	-	866
INCOME STATEMENT				
Interest income on loans and advances	12	14	(2)	-
Interest income on securities	-	-	(0)	0
Interest expense on borrowings	4	6	-	-
Interest expense on debt securities	-	-	-	(35)
Net commissions	2	3	(0)	(0)
OFF-BALANCE SHEET				
Interest rate derivatives	15,481	15,374	-	-
Foreign exchange derivatives	692	618	-	-
Commitments and guarantees received	50	50	-	-
Commitments and guarantees given	5,460	4,703	-	-

(1) This item includes transactions with SFIL, the parent company of Caisse Française de Financement Local.

(2) This item includes transactions with Caisse des Dépôts, shareholders of SFIL and La Banque Postale and Bpifrance, subsidiaries of Caisse des Dépôts group.



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

4.1 Commitments granted

	12/31/2019	12/31/2020
Financing commitments granted to credit institutions ⁽¹⁾	5,460	4,703
Financing commitments granted to customers ⁽²⁾	4	63
Other commitments given, assets assigned in guarantee ⁽³⁾	4	5
TOTAL	5,468	4,771

(1) Within the framework of the export credit business, this amount corresponds to a commitment by Caisse Française 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

	12/31/2019	12/31/2020
Financing commitments received from credit institutions ⁽¹⁾	50	50
Currencies borrowed	-	-
Guarantees received from credit institutions	-	-
Enhanced guarantees ⁽²⁾	8,051	8,243
Guarantees received from authorities and asset transfers as guarantees of commitments on authorities	2,568	1,979
Other commitments received	-	-
TOTAL	10,669	10,272

(1) At the end of December 2020, 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 State, 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.

	12/31/2019	12/31/2020	Fair value as of 12/31/2020
Currencies to receive	6,256	6,257	(289)
Currencies to deliver	6,546	6,453	224
TOTAL	12,802	12,710	(65)

4.4 Commitments on forward financial instruments

Commitments on forward financial instruments are recorded in accordance with CRB standards 88-02 and 90-15: amounts related to unconditional operations are recorded at the contractual notional value.

4.4.1 Analysis of over-the-counter interest rate transactions by residual maturity

Type of transaction	Amount as of 12/31/2019	Less than 1 year	1 year to 5 years	More than 5 years	12/31/2020
Notional amount	101,669	15,410	37,985	38,305	91,700
of which deferred start	3,036	-	-	162	162

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



4.4.2 Analysis of interest rate transactions by product type

	12/31/2019	12/31/2020
Interest rate swaps	101,669	91,700
Term contracts	-	-
Interest rate options	-	-
TOTAL	101,669	91,700

4.4.3 Analysis of interest rate swap transactions

	12/31/2019	12/31/2020	Fair value as of 12/31/2020
Micro-hedge	58,427	55,357	(229)
Macro-hedge	43,242	36,343	(2,416)
TOTAL	101,669	91,700	(2,645)

4.4.4 Analysis of interest rate transactions by counterparty

	12/31/2019	12/31/2020
Related parties	15,484	15,374
Other counterparties	86,185	76,326
TOTAL	101,669	91,700

Note 5 Notes to the income statement (EUR millions)

5.1 Interest and related income/expense

	2019	2020
INCOME	1,018	1,059
Due from banks	8	13
Due from customers	742	781
Bonds and other fixed income securities	76	64
Macro-hedge transactions	193	201
Other commitments	-	-
EXPENSE	(885)	(906)
Due to banks	(2)	(0)
Due to customers	(98)	(180)
Bonds and other fixed income securities	(187)	27
Macro-hedge transactions	(598)	(753)
Other commitments	-	-
INTEREST MARGIN	134	153

5.2 Commissions received and paid

	2019	2020
Commissions received from/paid to SFIL	2	3
Other commissions ⁽¹⁾	(5)	13
TOTAL	(3)	16

(1) As of December 31, 2020, this line includes a commission on financial instruments received as part of a hedging derivative allocation transaction.



5.3 Analysis of gains and losses on portfolio transactions

	2019	2020
Transactions on placement securities ⁽¹⁾	8	10
Transactions on investment securities	0	-
Transactions on interest rate derivatives	0	-
Foreign exchange transactions	(0)	1
TOTAL	8	11

(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.

	2019	2020
Payroll costs	-	-
Other general and administrative operating expenses	(92)	(97)
Taxes	(6)	(7)
TOTAL	(98)	(104)
<i>of which fees charged back by SFIL.</i>	<i>(91)</i>	<i>(95)</i>

5.5 Cost of risk

	2019	2020
Collective and specific impairments	11	2
TOTAL	11	2

5.6 Corporate income tax

	2019	2020
Income tax for the year ⁽¹⁾	(9)	(19)
Provisions for tax litigation ⁽²⁾	3	-
TOTAL	(6)	(19)

(1) As of December 31, 2020, the corporate tax rate in France was 32.02%.

(2) Following the conclusion of the tax audit and in light of the notice received from the authorities of the effects of this audit on the tax base for previous years, Caisse Française de Financement Local has taken these effects into account and recorded an income of EUR 3 million in its 2019 financial statements.



Note 6 Impacts of the Covid-19 health crisis on the Company's financial statements

As of December 31, 2020, the health crisis had a low impact on the Caisse Française de Financement Local's financial statements prepared in accordance with French GAAP. This confirms the Caisse Française de Financement Local's resilience to macro-economic shocks.

Impacts on arrears, doubtful loans and specific and collective provisions

The Caisse Française de Financement Local decided to deploy two approaches to support borrowers faced with difficulties due to the health crisis:

- One, proactive, by proposing extensions to payment terms to all health institutions in recognition of their exceptional involvement in the COVID-19 pandemic. CAFFIL 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. As of June 30, 2020, these offset payment maturities represented EUR 9 million. As of December 31, 2020, these payment terms had been almost fully reimbursed and represent a residual amount of EUR 0.3 million;

- The other approach was to respond to requests from local and equivalent authorities faced with temporary cash flow difficulties. CAFFIL 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, parking, thermal baths, etc.). As of June 30, 2020, these offset payment maturities represented EUR 8 million. As of December 31, 2020, these payment terms had also been almost fully reimbursed and represented a residual amount of EUR 0.5 million.

On-going payment terms granted as of December 31, 2020

	Performing customers	Doubtful customers	TOTAL
Health sector customers	-	0	0
Other local public sector customers	0	1	1
TOTAL	0	1	1

At the end of December 2020, the payment terms granted to customers declassified as doubtful led to a very slight increase of EUR 325,000 in specific provisions.

Over the same period, in the context of the health crisis, the Caisse Française de Financement Local decided to set up:

- a provision for risks and charges of EUR 2.6 million associated with public sector healthcare customers who benefited from extensions to payment terms;
- a provision for risks and charges of EUR 2.6 million associated with foreign exchange hedging instruments used for the refinancing of export credits in dollars in the cruise sector.

Lastly, also within the export credit business, Caisse Française de Financement Local, with the support of SFIL, is part of the approach developed jointly by the European export credit insurance agencies to provide liquidity support on export credits for companies cruising, a sector particularly affected by the pandemic. This support consists of deferring the repayment of the loan principle. This deferral was also applied by Caisse Française de Financement Local to refinancing loans for the cruise sector granted by SFIL. As a reminder, these loans benefit from an irrevocable and unconditional 100% guarantee granted by the French State.

Summary of the impacts of the Covid-19 health crisis on the Company's results as of December 31, 2020

	(1)	(2)	=(1)-(2)
	of which impacts of the Covid-19 health crisis		
	Reported accounting income	Reinforcement of specific provisions	Reinforcement of provisions for risks and charges
			Accounting income restated for the impacts of Covid-19
Net banking income	179	(0)	-
General operating expenses	(104)	-	-
GROSS OPERATING INCOME	75	(0)	-
Cost of risk	2	-	(5)
INCOME BEFORE NON-RECURRING ITEMS AND TAXES	77	(0)	(5)
Income tax	(19)	0	-
NET INCOME	59	(0)	(5)

Note 7 Post-closing events

No significant events that influenced the Company's financial situation have occurred since the closing on December 31, 2020.



4.3 Statutory Auditors' report on the financial statements

For the year ended December 31, 2020

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English-speaking readers. This report includes information specifically required by European regulations or French law, such as information about the appointment of Statutory Auditors. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders,

Opinion

In compliance with the engagement entrusted to us by your General Meeting, we have audited the accompanying financial statements of Caisse Française de Financement Local (CAFFIL) for the year ended December 31, 2020.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at 31 December 2020 and of the results of its operations for the year then ended in accordance with French accounting principles.

Basis for opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under these standards are further described in the "Responsibilities of the Statutory Auditors relating to the audit of the financial statements" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules provided for in the French Commercial Code (*Code de commerce*) and the French Code of Ethics (*Code de déontologie*) for Statutory Auditors for the period from 1 January 2020 to the date of our report, and, in particular, we did not provide any non-audit services prohibited by Article 5(1) of Regulation (EU) No. 537/2014.

Justification of assessments- Key audit matters

Due to the global crisis related to the Covid-19 pandemic, the financial statements of this period have been prepared and audited under specific conditions. Indeed, this crisis and the exceptional measures taken in the context of the state of sanitary emergency have had numerous consequences for companies, particularly on their operations and their financing, and have led to greater uncertainties on their future prospects. Those measures, such as travel restrictions and remote working, have also had an impact on the companies' internal organisation and the performance of the audits.

It is in this complex and evolving context that, in accordance with the requirements of Articles L.823-9 and R.823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters relating to the risks of material misstatement that, in our professional judgement, were the most significant in our audit of the financial statements, as well as how we addressed those risks.

These matters were addressed as part of our audit of the financial statements as a whole, and therefore contributed to the opinion we formed as expressed above. We do not provide a separate opinion on specific items of the financial statements.



Risk of estimating collective impairment on customer loan portfolios

Description of risk	How our audit addressed this risk
<p>As part of its activities, CAFFIL is exposed to credit risk in connection with its credit transactions. At December 31, 2020, transactions with customers amounted to €46.4 billion.</p> <p>In relation to credit risk, CAFFIL records a collective provision whose purpose is to cover the risk of probable impairment of loans and loan commitments not already covered by specific (individual) provisions. These collective provisions are assessed according to a credit risk model based on an approach consistent with the Basel approach.</p> <p>The Covid-19 pandemic has caused a health crisis affecting the repayment ability of borrowers. In response to this crisis, governmental measures were introduced and public authorities were overstretched. It is in this environment of great uncertainty owing to the complex and evolving context of the pandemic and the absence of comparable historical situation that CAFFIL introduced a certain number of adjustments as specified in note 6 to the financial statements.</p> <p>Given the significant judgement required in determining these collective provisions, we considered that their assessment at December 31, 2020 constituted a key audit matter, in particular in the context of the crisis related to the Covid-19 pandemic, as management must exercise judgement when determining the inputs and calculation methods of the provisions.</p> <p>Transactions with customers and collective provisions are presented in notes 2.4 and 5.7 respectively to the financial statements of CAFFIL.</p>	<p>Our work consisted primarily in:</p> <ul style="list-style-type: none"> • verifying the existence of a governance system for reviewing, at an appropriate frequency, the appropriateness of the impairment models and the inputs used to calculate impairment, and analysing changes in impairments; • testing the key controls in the process for determining the impairment; • analysing assumptions leading to the identification of a deterioration in credit risk; • assessing the main inputs used to assess the collective provisions; • perform a counter-calculation of the collective provisions per counterparty type, in collaboration with our data experts; • carry out checks on the IT system, including a review of the general IT controls, interfaces and embedded controls for specific data used to define the collective provisions. <p>We assessed the adequacy of the level of provisions for credit risk and the overall level of the associated cost of risk and in particular its appropriateness with regard to the current crisis.</p> <p>We also examined the qualitative and quantitative information described in notes 2.4 - Financial assets at amortised cost, 5.7 - Cost of risk, and 6. - Impacts of the Covid-19 health crisis on the Company's financial statements, to the financial statements of CAFFIL.</p>

Specific verifications

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French legal and regulatory provisions.

Information given in the management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the Executive Board's management report and in the other documents provided to the shareholders with respect to the Company's financial position and the financial statements, with the exception of the matter described below.

Concerning the fair presentation and the consistency with the financial statements of the information about payment terms referred to in Article D.441-6 of the French Commercial Code, we have the following matter to report: as indicated in the management report, these disclosures do not include banking and related transactions as the Company considers that such disclosures are not within the scope of the information to be provided.

Report on corporate governance

We attest that the Supervisory Board's report on corporate governance sets out the information required by Articles L.225-37-4 and L.22-10-10 of the French Commercial Code.

Other verifications and information pursuant to legal and regulatory requirements

Presentation of the financial statements included in the annual financial report

In accordance with professional standards applicable to the Statutory Auditors' procedures for annual and consolidated financial statements presented according to the single European electronic reporting format, we have verified that the presentation of the financial statements to be included in the annual financial report referred to in paragraph I of Article L.451-1-2 of the French Monetary and Financial Code (*Code monétaire et financier*) and prepared under the responsibility of the Chairman of the Executive Board, complies with this format, as defined by European Delegated Regulation No. 2019/815 of December 17, 2018.

On the basis of our work, we conclude that the presentation of the financial statements to be included in the annual financial report complies, in all material respects, with the single European electronic reporting format.



Appointment of the Statutory Auditors

We were appointed Statutory Auditors of Caisse Française de Financement Local by the Annual General Meeting of September 30, 2020.

At December 31, 2020, we were in the first year of our engagement.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for preparing financial statements giving a true and fair view in accordance with French accounting principles, and for implementing the internal control procedures it deems necessary for the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless it expects to liquidate the Company or to cease operations.

The financial statements were approved by the Executive Board.

Responsibilities of the Statutory Auditors relating to the audit of the financial statements

Objective and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions taken by users on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code, our audit does not include assurance on the viability or quality of the Company's management.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditors exercise professional judgement throughout the audit. They also:

- identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures in response to those risks, and obtain audit evidence considered to be sufficient and appropriate to provide a basis for their opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of the internal control procedures relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management and the related disclosures in the notes to the financial statements;
- assess the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of the audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditors conclude that a material uncertainty exists, they are required to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified opinion or a disclaimer of opinion;
- evaluate the overall presentation of the financial statements and assess whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Neuilly sur Seine and Paris La Défense, March 30, 2021

The Statutory Auditors

PricewaterhouseCoopers Audit
Ridha BEN CHAMEK
Partner

KPMG S.A.
Jean-François DANDÉ
Partner







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Other information

5.1 Coverage ratio

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**5.2 Breakdown of the fees
of the Statutory Auditors**

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5.1 Coverage ratio

Pursuant to articles L.513-12 and R.513-8 of the French Monetary and Financial Code, the total of the assets of Caisse Française de Financement Local must at all times be greater than 105% of the liabilities benefiting from the privilege referred to in article L.513-11 of the French Monetary and Financial Code.

Assets covering liabilities benefiting from the privilege <i>Weighted amounts in EUR millions</i>	12/31/2020
Exposures on public sector entities	55,396
Interests in securitization funds or similar entities which satisfy the conditions of article L.513-5 of the French Monetary and Financial Code	-
Replacement assets	1,462
Other assets	2,851
Operations deducted from the assets	-
TOTAL ASSETS	59,709
Liabilities benefiting from the privilege defined in article L.513-11 of the French Monetary and Financial Code <i>Weighted amounts in EUR millions</i>	12/31/2020
<i>Obligations foncières</i>	44,072
Other bonds benefiting from the privilege	6,293
Liabilities related to these securities	671
Amounts owed under the contract stipulated in article L.513-15 of the French Monetary and Financial Code	11
Amounts owed for derivatives benefiting from the privilege defined in article L.513-11 of the French Monetary and Financial Code	1,243
Debt attributable to miscellaneous expenses mentioned in the last section of article L.513-11 of the French Monetary and Financial Code	0
TOTAL LIABILITIES	52,290
COVERAGE RATIO	114.2%



5.2 Breakdown of the fees of the Statutory Auditors

EUR thousands	Deloitte & Associés				Ernst & Young et Autres			
	Amount including VAT		%		Amount including VAT		%	
	2019	2020	2019	2020	2019	2020	2019	2020
Statutory audit, certification, examination of the individual and consolidated financial statements	259	54	78%	47%	216	54	77%	52%
Services other than statutory audit	74	61	22%	53%	64	49	23%	48%
TOTAL	333	115	100%	100%	280	103	100%	100%

EUR thousands	KPMG SA				PricewaterhouseCoopers Audit			
	Amount including VAT		%		Amount including VAT		%	
	2019	2020	2019	2020	2019	2020	2019	2020
Statutory audit, certification, examination of the individual and consolidated financial statements	-	234	-	84%	-	270	-	88%
Services other than statutory audit	-	46	-	16%	-	37	-	12%
TOTAL	-	280	-	100%	-	307	-	100%

The terms of office of the firms Deloitte & Associés and Ernst & Young et Autres ended on September 30, 2020 at the Extraordinary Shareholders' Meeting of Caisse Française de Financement Local noting the takeover of SFIL by Caisse des Dépôts. KPMG SA and PricewaterhouseCoopers Audit were appointed as Statutory Auditors of SFIL and Caisse Française de Financement Local at the same Extraordinary Shareholders' Meeting. Consequently, the fees for 2020 presented in the tables above relate to the period from

January 1 to September 30, 2020 for the firms Deloitte & Associés and Ernst & Young et Autres and the period from October 1 to December 31, 2020 for the firms KPMG SA and PricewaterhouseCoopers Audit.

In 2020, services other than the certification of financial statements mainly include the issuance of comfort letters for the updating of EMTN programs or for syndicated public issues and the audit of the approved financial statements according to EU IFRS.





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Ordinary and Extraordinary Shareholders' Meeting of May 27, 2021

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6.1 Observations of the Supervisory Board

To whom it may concern,

Pursuant to the provisions of article L.225-68 of the French Commercial Code, we hereby state that we have no comment to make on the management report of the Executive Board or on the financial statements for the financial year ended December 31, 2020.

The Supervisory Board wishes to thank the Executive Board for the initiatives taken and the results achieved during the financial year ended December 31, 2020.

The Supervisory Board







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General information

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7.1 Legal and administrative information

Corporate name

Caisse Française de Financement Local

Acronym

CAFFIL

Headquarters

1-3 rue du Passeur de Boulogne
92130 Issy-les-Moulineaux
France

Legal France structure

Société anonyme à directoire et conseil de surveillance, a joint-stock corporation with an Executive Board and a Supervisory Board.

Official approval

The Company was approved by the *Comité des Établissements de Crédit et des Entreprises d'Investissement* (CECEI) on July 23, 1999, as a *société financière – société de crédit foncier*. This approval became definitive on October 1, 1999. Ordonnance 2013-544 of June 27, 2013, modified the legal status of *sociétés de crédit foncier* (article L.513-2 of the French Monetary and Financial Code). Since January 1, 2014, *sociétés de crédit foncier* are no longer financial companies (*sociétés financières*), but specialized credit institutions (*établissements de crédit spécialisés*).

Applicable legislation

A corporation under the provisions of articles L.210-1 *et seq.* and L.22-10-1 *et seq.* of the Code of Commerce, articles L.511-1 *et seq.* of the French Monetary and Financial Code and articles L.513-2 *et seq.* of the French Monetary and Financial Code.

Date of incorporation and duration of the Company

The Company was founded on December 29, 1998, for a period of 99 years.

Corporate purpose (article 2 of the by-laws)

The Company's exclusive purpose is:

- to grant or to acquire exposures on public sector entities as defined in article L.513-4 of the French Monetary and Financial Code as well as securitization units or shares of similar entities considered as exposures on public sector entities as defined in article L.513-5 of the French Monetary and Financial Code;
- to hold assets, securities and deposits according to the conditions defined by decree to be considered replacement assets;
- in order to finance the above-mentioned exposures, to issue *obligations foncières* benefiting from the privilege defined in article L.513-11 of the French Monetary and Financial Code and to raise other funds, for which the contract or document intended for the general public within the meaning of article L.412-1 of the French Monetary and Financial Code, or any equivalent document required for admission to foreign regulated markets mentions this privilege.

The Company may also fund the above-mentioned activities by issuing bonds or other sources of financing that do not benefit from the privilege defined in article L.513-11 of the French Monetary and Financial Code.

The Company may mobilize, in accordance with articles L.211-36 to L.211-40 of the French Monetary and Financial Code or in accordance with articles L.313-23 to L.313-35 of the French Monetary and Financial Code, all or part of the assets it holds, regardless of whether or not they are trade receivables.

Within the framework of the achievement of the exclusive purpose mentioned above, the Company may conduct all related operations directly or indirectly associated with its activities or contributing to this exclusive purpose, as long as these operations are carried out in accordance with the terms of articles L.513-2 *et seq.* and R.513-1 *et seq.* of the French Monetary and Financial Code related to *sociétés de crédit foncier*.



Company registration and APE business identification code, LEI

Caisse Française de Financement Local is registered as a corporate entity under the designation NANTERRE 421 318 064 (*Registre du Commerce et des Sociétés*). Its APE code is 6492Z. Its LEI code is 549300E6W0877814OW85.

Availability of information

Legal documents concerning Caisse Française de Financement Local may be consulted at the Company's registered office:

1-3 rue du Passeur de Boulogne
92130 Issy-les-Moulineaux
France

Financial year (article 38 of the by-laws)

The Company's financial year begins on January 1 and ends on December 31.

Exceptional events and lawsuits

See the section on litigation in part 1.12.2.5. of the management report of this annual financial report on legal and tax risks.

Allocation of income (article 39 of the by-laws)

Income available for distribution comprises net income for the year minus any prior year losses and any allocations to reserves pursuant to current legislation, plus any retained earnings carried forward from previous years.

From the available surplus, the Ordinary Shareholders' Meeting, voting on a recommendation of the Executive Board, may allocate all or a part of the remaining income to retained earnings.

There are no priority shares or priority dividends.

Annual Shareholders' Meetings

Calling of meetings (article 27 of the by-laws)

Annual Shareholders' Meetings are called as required by current legislation. They are held at the Company's registered office or any other location specified in the notice of meeting.

All shareholders have the right to obtain copies of the documents required to make an informed decision concerning the overall management and control of the Company.

The types of documents concerned and the terms of their availability and dispatch are determined by applicable legislation and regulations.

Right to attend Annual Shareholders' Meetings

Legal rights apply.

Voting rights (article 31 of the by-laws)

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

Information about the capital and shares

Amount of the capital

Share capital currently stands at EUR 1,350,000,000 represented by 13,500,000 nominative shares with a face value of EUR 100.

There are no other securities that grant rights to shares in the capital of Caisse Française de Financement Local.



Breakdown of capital in the last five years

Date of the Shareholders' Meeting	Date of the capital increase	Amount of the capital increase (EUR)	Cumulated capital (EUR)
5/25/2016			1,315,000,000
5/30/2017	6/8/2017	35,000,000	1,350,000,000
5/28/2018			1,350,000,000
5/28/2019			1,350,000,000
5/27/2020			1,350,000,000

Breakdown of capital	2016	2017	2018	2019	2020
SFIL	99.99%	99.99%	99.99%	99.99%	99.99%
Individual investors	0.01%	0.01%	0.01%	0.01%	0.01%

From January 31, 2013 to May 18, 2016, Caisse Française de Financement Local was 99.99%-owned by SFIL (previously denominated Société de Financement Local), and 0.01% of its capital was in the hands of private investors (individuals, members of the Supervisory Board, to whom SFIL had lent shares).

Since May 18, 2016, only one individual, a member of the Supervisory Board, has kept a share of the Company (lent by SFIL as a *prêt de consommation d'action*).

7.2 Statement of financial support

SFIL formalized a new "statement of support" for its subsidiary, Caisse Française de Financement Local, on November 5, 2020:

"Since January 31, 2013, SFIL has been the reference shareholder of Caisse Française de Financement Local, a société de crédit foncier subject to the provisions of articles L.513-2 et seq. of the French Monetary and Financial Code, and holds 99.99% of its capital. SFIL will continue to play the role of reference shareholder of Caisse Française de Financement Local and will hold more than 99.99% of the capital over the long term. SFIL, its reference shareholder Caisse des Dépôts et Consignations and the French State will ensure, subject to the European Union rules on State aid, to protect the economic base of Caisse Française de Financement Local and to preserve its financial viability throughout its existence in accordance with the obligations imposed by the banking regulations in force."



7.3 Statement by the person responsible

I, Gilles Gallerne, Chairman of the Executive Board of Caisse Française de Financement Local, hereby affirm that to the best of my knowledge, the financial statements have been prepared in conformity with applicable accounting standards and present fairly, in all material aspects, the assets and liabilities, financial position and results of Caisse Française de Financement Local, and that the management report presents a fair image of trends in the Company's business, results and financial position, as well as a description of the main risks and uncertainties it faces.

Signed in Issy-les-Moulineaux, March 30, 2021

Gilles Gallerne

Chairman of the Executive Board









Caisse Française de Financement Local

A French joint-stock corporation
with an Executive Board and a Supervisory Board
Capital of EUR 1,350,000,000
R.C.S. NANTERRE 421 318 064

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This annual financial report is available in French and in English at
www.caissefrancaisedefinancementlocal.fr
www.caffil.fr

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