



# Half-year financial report

for the period from January 1<sup>st</sup> to June 30, 2021

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Data subject to limited review by the statutory auditors

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

## Key figures

As of June 30, 2021

Portfolio of assets  
(cover pool)  
**EUR 57.9 billion**

*Obligations foncières*  
(covered bonds)  
**EUR 50.9 billion**

Regulatory  
over-collateralization  
**112.7%**

Covered bonds issued  
over the first half 2021  
**EUR 4.3 billion**

Doubtful and litigious loans –  
French Gaap  
(% cover pool)  
**0.4%**

Assets eligible for the central  
bank refinancing  
(% cover pool)  
**71.9%**

Common Equity Tier 1 Ratio  
(Basel III)  
**32.5%**

Liquidity coverage ratio  
(LCR)  
**647%**

## External ratings

As of June 30, 2021

Moody's  
**Aaa**

S&P  
**AA+**

DBRS  
**AAA**

# 1. Management report

for the period from January 1st to June 30, 2021

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

## 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.

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.

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 (cf. 1.3.1.).

In addition, 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 1.3.2.).

The objective is to enable large export credits, as well as French local authorities and public hospitals to benefit from optimal financing conditions through a high rating and irreproachable risk management.

## 1.2 Form and shareholding structure of the Company

### 1.2.1 Legal structure and name of the Company

The Company was created on December 29, 1998, for a period of 99 years. It was authorized to operate as a *société de crédit foncier* by the Comité des Établissements de Crédit et des Entreprises d'Investissement (now 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.

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the French Commercial Code. Its activity is governed by articles L.511-1 *et seq.* (credit institutions) and L.513-2 *et seq.* (*sociétés de crédit foncier*) of the French Monetary and Financial Code.

### 1.2.2 Company shareholders

As of June 30, 2021, Caisse Française de Financement Local was wholly-owned by SFIL.

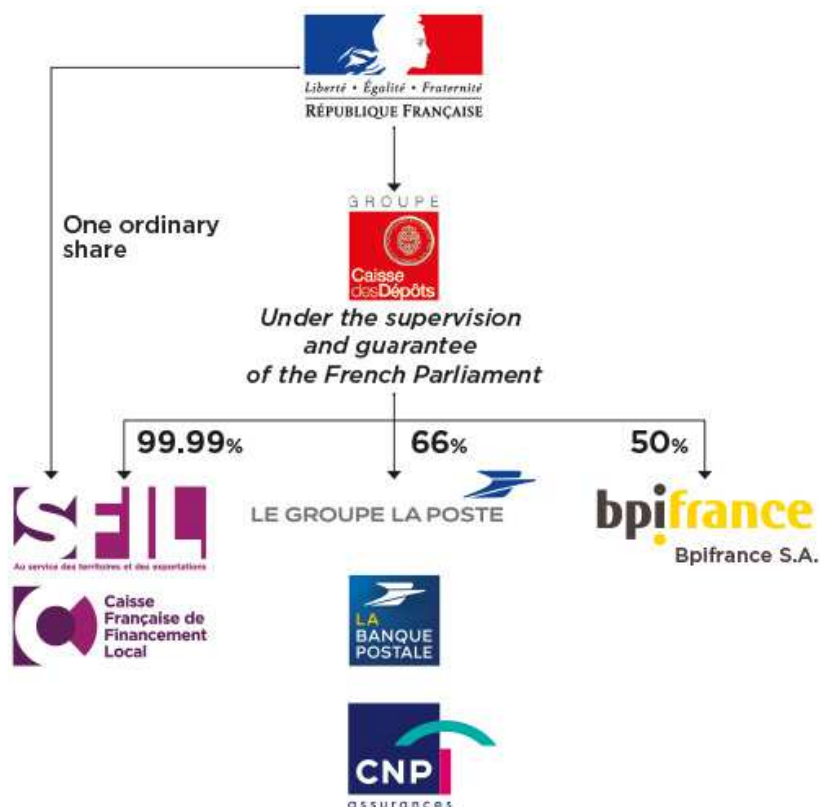
SFIL is a credit institution approved by the ACPR. Since September 30, 2020, its shareholder is the Caisse des Dépôts (CDC) (99.99% holding). The French State retained one ordinary share. SFIL's shareholders thus remain firmly anchored in the public sphere, thus reflecting the missions the French State 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.

To take into account the new shareholding situation, on 5 November 2020, SFIL, the parent company of Caisse Française de Financement Local signed a new declaration of support of Caisse Française de Financement Local, ensuring notably that "SFIL, its reference shareholder the Caisse des dépôts and the French State, will ensure, subject to EU State Aid rules, that the economic base of Caisse Française de Financement Local is protected and its financial strength preserved through its life, in compliance with the requirements of banking regulations in force". This declaration of support is reproduced in issuance documents and will be reproduced in the annual financial report of Caisse Française de Financement Local.

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



### 1.3 Caisse Française de Financement Local's economic model

#### 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, and renewed in 2020 up to the end of 2026, 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*.

#### 1.3.2 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)<sup>1</sup>. This business brings Caisse Française de Financement Local closer to the French State, without modifying the risk profile of its cover pool.

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.

##### 1.3.2.1 The system for refinancing large export credits

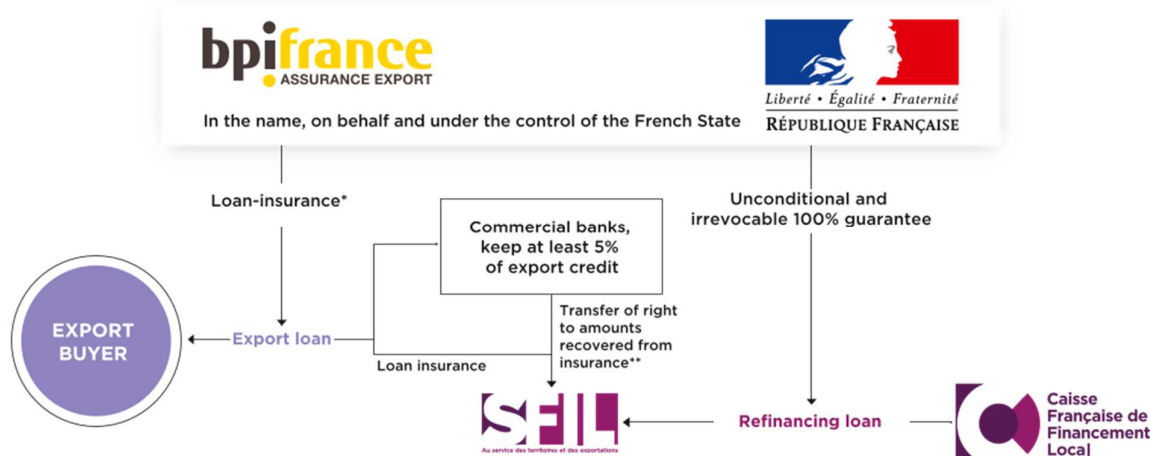
<sup>1</sup> The enhanced guarantee was introduced by law 2012-1510 of December 29, 2012, and Decree 2013-693 of July 30, 2013, as amended by Decree 2018-1162 of December 17, 2018, relating to the granting of the French State's guarantee for transactions that are likely to contribute to the development of France's foreign trade or are of strategic interest for its overseas economy.

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%.

#### 1.3.2.2 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. Indeed, 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.

#### 1.3.2.3 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.



### 1.3.3 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.

This source of financing is the main source of liquidity for the SFIL Group and represents an outstanding of EUR 50.9 billion at June 30, 2021.

### 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 reference 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.

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.

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.

### 1.3.5 Other management agreements

Specific individual agreements have been established with entities that, in the past, have transferred assets to the *société de crédit foncier*, and continue to ensure the management of these assets for their national clientele. These assets are managed in a run-off mode. As of June 30, 2021, there were agreements with the following entities: 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).

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

As of June 30, 2021, Caisse Française de Financement Local's issuance program was rated by three international rating agencies: Moody's, Standard & Poor's (S&P) and DBRS Morningstar.

The ratings of the 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.

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

The ratings at June 30, 2021 are presented in section 2.4. of this report.

## 2. Highlights of 2021

### 2.1 Health crisis due to the Covid-19 pandemic

Within the context of this crisis, Caisse Française de Financement Local continues its two missions of financing the local public sector and refinancing large export credits. It continues to show its resilience capacity notably in terms of solvency and liquidity, thanks to the public development bank model of its parent company, SFIL. SFIL, otherwise, has been able to adapt its organization and IT systems in order to enable all its services for Caisse Française de Financement Local to continue normally. Caisse Française de Financement Local is also able to monitor and manage all of its risks, notably those related to market volatility and the economic situation of its customers.

The financial impacts of this crisis remain very limited for Caisse Française de Financement Local, which confirms excellent market access conditions in the first half of 2021 as well as the persistence of a very low risk profile and solid financial results.

### 2.2. The covered bonds market

During the first half of 2021, the primary market for public issues of euro-denominated covered bonds stood at EUR 48.9 billion, down almost 30% compared to the first half of 2020 (EUR 69.3 billion). This reduction in supply is due in particular to issuers refinancing through other channels, in particular with the European Central Bank (TLTRO).

However, demand in this market segment remains very strong in line with the amount of repayments and the central bank's purchasing programs (CBPP3 in particular).

During the first half of the year, market dynamics led to greater selectivity on the part of investors given the deterioration in the relative value of the covered bond segment compared with the sovereign bond segment. Moreover, the interest rate volatility has resulted in an adjustment of market access premiums and spreads in the second quarter.

### 2.3. Harmonization of the legal framework for covered bonds in Europe

A European directive on covered bonds as well as an amendment to the Article 129 of the Capital Requirements Regulation – CRR) have been published in the Official Journal of the European Union on December 18, 2019. This new legal framework aims at standardizing the different European covered bond models. This directive has been transposed into French national law to take effect on July 8, 2022 at the same time as the new version of the Article 129 of the CRR and the new legislative and regulatory corpus of texts in relation with *the société de crédit foncier*.

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.

### 2.4. Sound financial ratings

The financial ratings of Caisse Française de Financement Local and of its *obligations foncières* remained unchanged during the first semester of 2021.

As of June 30, 2021, the financial ratings of Caisse Française de Financement Local 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.

### 2.5. Financing of public sector loans

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

Commercial activity relating to the financing of the local public sector (carried out in partnership with La Banque Postale) was not as well-supported during the first half of 2021 as in the first half of 2020, particularly in the healthcare sector. However, this should change positively from the second half of the year with the deployment of the Ségur healthcare plan.

Since the beginning of the partnership in 2013, the total volume of loans acquired by Caisse Française de Financement Local from La Banque Postale amounted EUR 27.6 billion, including EUR 3.1 billion over the first half of 2021, i.e. more than the volume acquired in the first half of 2020 (EUR 2.9 billion).

## 2.6. Refinancing of large export credits

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

Since the middle of 2015, date of the start of this mission, whose renewal until 2027 was approved by the European Commission in 2020, Caisse Française de Financement Local has granted a total of EUR 8.5 billion in refinancing loans to SFIL.

During the first semester 2021, two new contracts were signed for an amount of EUR 67 million as well as one new contract financing infrastructure for an amount of EUR 143 million, i.e. a total of EUR 210 million over the semester. In addition, after the overall Covid-19 health crisis-related slowdown in the pace of negotiation of major export contracts in 2020, the start of 2021 seems to confirm a pronounced recovery in activity. Indeed, the number of requests for projects under negotiation is up sharply and doubled in the first half of 2021 compared to the first half of 2020.

Moreover, SFIL has maintained and extended the liquidity support on export credits for cruise lines, introduced in the spring of 2020 as part of the approach developed jointly by the European credit insurance agencies and the lending banks.

As of June 30, 2021, the outstanding amount of these loans on Caisse Française de Financement Local's balance sheet was EUR 4.0 billion. As a reminder, the payment of loans used to refinance large export credits is spread out over several years.

## 2.7. Issuance of covered bonds

During the first half of 2021, CAFFIL was very active in the public issuance market with four new issues, including one "social"-themed issue :

- In January, taking advantage of the favorable market environment at the beginning of the year for EUR 1.5 billion with a ten-year maturity, it raised a significant amount of its financing program at the beginning of the year at good spread conditions.
- In February, taking advantage of very good market conditions to issue EUR 750 million with a 15-year maturity
- In April, making the most of its "Social"-themed issuance capacity by launching a third issue dedicated to refinancing French public hospitals for EUR 750 million with an eight -year maturity. This transaction found significant demand from ESG investors representing 51% of the placement;
- Lastly, in June, by launching a new ten-year issue, for EUR 1 billion.

## 2.8. SFIL Group's CSR commitment

As a public development bank, SFIL group works for the sustainable and responsible financing of development projects in France.

During the first half of 2021, the SFIL Group continued to develop its CSR commitment according to the three pillars of its strategy; by conducting sustainable public policy missions (EUR 185 million of green loans were issued under the CAFFIL/SFIL/LBP scheme, i.e. 20% of loan production to local authorities and a "social"-themed issue of EUR 750 million was completed by Caisse Française de Financement Local), the roll-out of internal policies and the commitment of its employees. Its CSR report for year 2020 (available in French and English on the SFIL website ( [www.sfil.fr](http://www.sfil.fr) ) has also been published.

### 3. Change in cover pool and debts

EUR billions	12/31/2020	6/30/2021	Change 2021 / 2020
value after currency swaps			
<b>Cover pool</b>	<b>58.5</b>	<b>57.9</b>	<b>(1.0)%</b>
Loans	49.7	51.2	3.2%
Securities	7.0	6.3	(10.4)%
Cash deposit in central bank	1.8	0.4	(78.7)%
<b>Assets removed from the cover pool</b>	<b>(0.0)</b>	<b>(0.0)</b>	<b>ns</b>
<b>Privileged debt</b>	<b>51.1</b>	<b>51.3</b>	<b>0.4%</b>
Obligations foncières <sup>(1)</sup>	50.5	50.9	0.8%
Cash collateral received	0.6	0.4	(33.3)%
<b>Non-privileged debt</b>	<b>6.6</b>	<b>5.8</b>	<b>(12.1)%</b>
SFIL	6.6	5.8	(12.1)%
<b>Equity IFRS (excluding unrealized gains and losses)</b>	<b>1.4</b>	<b>1.4</b>	<b>(2.7)%</b>

(1) Including registered covered bonds

The size of Caisse Française de Financement Local's cover pool decreased by EUR 0.6 billion in 2021, i.e. approximately -1.0%. As of June 30, 2021, the cover pool excluding interest accrued not yet due amounted to EUR 57.9 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 0.4 billion as at June 30, 2021, versus EUR 1.8 billion as at December 31, 2020. The cash surplus invested in securities was a total of EUR 1.5 billion as at June 30, 2021 versus EUR 2.0 billion as at December 31, 2020.

As of June 30, 2021, no assets were excluded from the cover pool in order to be sold to a bank in a repurchase agreement or assigned in guarantee to the Banque de France.

As of this date, outstanding debt benefiting from the legal privilege, including cash collateral received, was EUR 51.3 billion, an increase of 0.4% in comparison with December 31, 2020.

As of June 30, 2021, the debt contracted with its parent company was EUR 5.8 billion. It does not benefit from the legal privilege and mainly corresponds to the financing of the over-collateralization of the cover pool, which is at a significantly higher level than the amount required by regulators and the rating agencies.

## 4. Description of the cover pool

### 4.1 Change in assets in 2021

The net change in the cover pool during 2020 corresponds to an decrease in assets in the amount of EUR 0.6 billion. This change is explained by the following items:

EUR billions	H1 2021
<b>1- Acquisition of loans from La Banque Postale</b>	<b>3.1</b>
Loans to the French public sector (vanilla loans in euros)	3.1
<b>2- Loans disbursements to refinance export credit</b>	<b>0.6</b>
Loan disbursements to SFIL to refinance export credit guaranteed by the French State	0.6
<b>3- Reduction of loan sensitivity</b>	<b>0.1</b>
Sensitive structured loans eliminated	(0.0)
Refinancing loans (vanilla loans in euros)	0.0
New loans (vanilla loans in euros)	0.1
<b>4- Amortization of portfolio of loans and securities</b>	<b>(2.5)</b>
<b>5- Early reimbursements</b>	<b>(0.0)</b>
<b>6- Changes in treasury</b>	<b>(1.9)</b>
Net change in securities investments	(0.5)
Net change in Banque de France cash deposit	(1.4)
<b>Net change in the cover pool</b>	<b>(0.6)</b>

In 2021, Caisse Française de Financement Local acquired a total of EUR 3.1 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 0.6 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 the first quarter of 2021 were very limited and resulted in EUR 0.1 billion in new fixed rate loan payments.

The natural amortization of the portfolio of loans and securities was EUR 2.5 billion in 2021 over the semester, and early reimbursements were EUR 0.0 billion.

Free cash flow decreased by EUR 1.9 billion. It is deposited at the Banque de France, invested in bank bonds classified as replacement assets or in European public sector securities.

There were no divestments during 2021.

### 4.2 Outstandings at June 30, 2021

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	12/31/2020	6/30/2021
Loans and bonds to the public sector	55,2	56,6
<i>of which local public sector business line</i>	51,1	52,0
<i>of which large export credits refinancing business line <sup>(1)</sup></i>	3,6	4,0
<i>of which treasury investment in public sector bonds <sup>(3)</sup></i>	0,5	0,6
Banque de France cash deposit <sup>(3)</sup>	1,8	0,4
Replacement assets <sup>(3)</sup>	1,5	0,9
<b>COVER POOL</b>	<b>58,5</b>	<b>57,9</b>
<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 <sup>(4)</sup></i>	40,2	41,6
Financing commitments granted to refinance large export credits <sup>(1)(2)</sup>	4,7	4,3
Financing commitments granted to other public sector loans	0,1	0,1
<b>FINANCING COMMITMENTS GRANTED</b>	<b>4,8</b>	<b>4,4</b>

(1) For the record, loans refinancing large export credits concluded with SFIL benefit from an irrevocable and unconditional 100% guarantee granted by the French State (enhanced guarantee).

(2) In 2020 and 2021, commitments granted represented concluded contracts in drawing phase and hard offers from CAFFIL to SFIL valid on June 30, 2021

(3) The total amount of excess treasury decreased from EUR 3.8 billion at the end of 2020 to EUR 1.9 billion at the end of June 2021.

(4) Liquid assets correspond to bank exposures classified as replacement assets amounting to EUR 0.9 billion and other high quality liquid assets (level 1, 2A and 2B) amounting to EUR 3.0 billion. In addition, other assets eligible for refinancing by the Banque de France before haircut, excluding cash deposited with a bank or the Banque de France, totaled EUR 37.7 billion

Caisse Française de Financement Local holds cash surpluses in its account at the Banque de France or invests them in either European public sector bonds or replacement assets (banking sector securities or short-term loans to SFIL, its parent company – see section 4.2.2). They are mentioned with a <sup>(3)</sup> 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 41.6 billion, i.e. 71.9% of the Caisse Française de Financement Local's cover pool.

The amount of financing commitments given came to EUR 4.3 billion as of June 30, 2021. These are loans signed but not yet paid, granted to SFIL as part of the refinancing of large export credits for EUR 4.3 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 outstanding for EUR 0.1 billion.

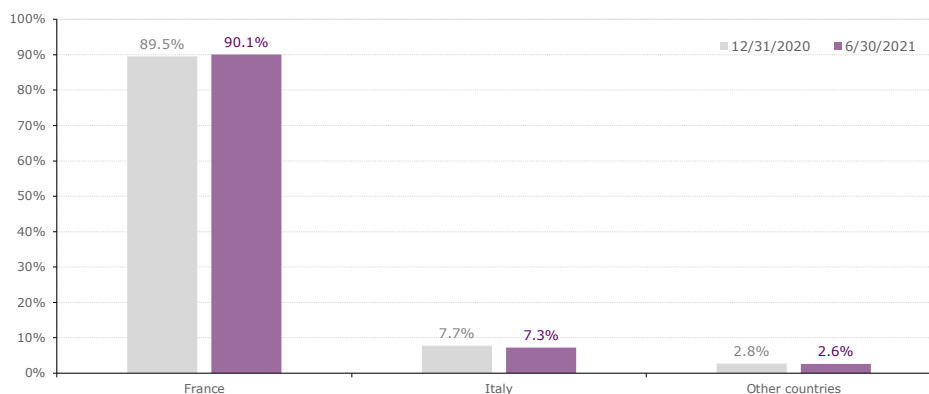
#### 4.2.1 Public sector loans and bonds (excluding replacement assets and treasury placed with the Banque de France)

##### 4.2.1.1 Geographic breakdown

As of June 30, 2021, French public sector loans made up the majority (90.1%) of the cover pool, a portion that will increase in the future. They include loans acquired from La Banque Postale since 2013 (EUR 21.9 billion of outstanding principal as of the end of March 2021), representing 39% of the Group's public sector loans and securities and 48% of its loans to the French local public sector. The State-guaranteed loans granted to SFIL for the refinancing of large export credits (EUR 4.0 billion on the balance sheet) represent approximately 7.1% 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:



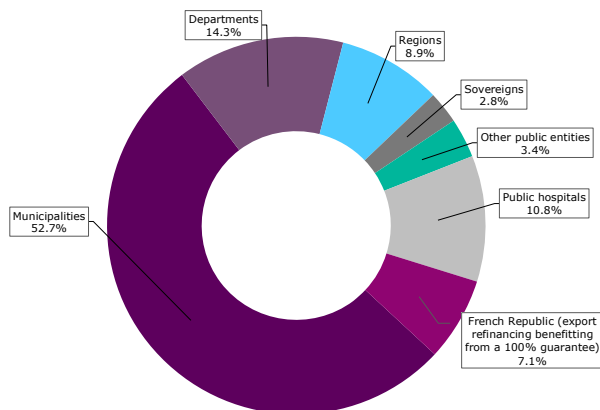
As of June 30, 2021, Italian assets represented the largest portion of non-French assets in run-off mode, with a total volume of EUR 4.1 billion, or 7.3% of public sector loans and bonds. These assets are granular exposures (more than 150 counterparties consisting mainly of regional and municipal authorities) distributed throughout Italy.

Exposures to other countries as of June 30, 2021, are broken down by country in the "Breakdown of cover pool" section, which is at the end of this report.

#### 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.



#### 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.

#### 4.2.2 Replacement assets

Assets considered by law as "replacement assets" correspond to exposures on credit institutions benefiting from at least a "Step 1 rating", or a "Step 2 rating" when their remaining maturity does not exceed 100 days. The amount of the "replacement assets" is limited to 15% of *obligations foncières* and registered covered bonds. As of June 30, 2021, replacement assets represented 1.8% 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	Country	12/31/2020	6/30/2021
EUR millions			
<b>Step 1 credit rating</b>			
Covered bonds			
	France	338	198
	Other countries	676	604
Other bank bonds			
	France	148	12
	Other countries	287	95
Loans to parent company, SFIL	France	-	-
<b>Step 2 credit rating</b>			
Bank bonds (maturity < 100 days)			
	France	-	-
	Other countries	-	-
Bank accounts balances	France and Other countries	4	5
<b>TOTAL</b>		<b>1,453</b>	<b>914</b>

#### 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.

#### 4.2.4 Structured loans

##### 4.2.4.1 Definition

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

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

##### 4.2.4.2 Share of structured loans in the cover pool

EUR billions	Outstanding				Number of customers <sup>(1)</sup>		
	12/31/2020	6/30/2021	Change	% cover pool	12/31/2020	6/30/2021	Change
<b>French public sector loans</b>	<b>45.2</b>	<b>46.4</b>	1.2	<b>80.1%</b>	<b>13,517</b>	<b>13,217</b>	(300.0)
<b>Vanilla loans</b>	<b>42.0</b>	<b>43.4</b>	1.4	<b>74.9%</b>	<b>12,266</b>	<b>12,024</b>	(242.0)
<b>Structured loans</b>	<b>3.2</b>	<b>3.0</b>	(0.2)	<b>5.2%</b>	<b>1,251</b>	<b>1,193</b>	(58.0)

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

During the first semester 2021, outstanding loans to the French local public sector increased by EUR 1.2 billion. Structured loans on Caisse Française de Financement Local's balance sheet amounted to EUR 3.0 billion, representing 5.2% of the cover pool.

##### 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 June 30, 2021, they now represent only EUR 0.6 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 93%. The number of customers holding sensitive loans fell over the same period from 879 to 145.



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 <sup>(1)</sup>		
	12/31/2020	6/30/2021	Change	% cover pool	12/31/2020	6/30/2021
of which sensitive loans not in the charter	0.3	0.2	(0.1)	0.4%	39	35
of which sensitive loans (3E/4E/5E)	0.4	0.4	(0.0)	0.6%	113	110
<b>Subtotal sensitive loans:</b>	<b>0.7</b>	<b>0.6</b>	<b>(0.1)</b>	<b>1.2%</b>	<b>152</b>	<b>145</b>

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

## 5. Debt benefiting from the legal privilege

As of June 30, 2021, debt benefiting from the legal privilege is composed of *obligations foncières* and registered covered bonds issued by Caisse Française de Financement Local as well as cash collateral received from counterparties in derivative transactions.

EUR billions	12/31/2020	6/30/2021
Cash collateral received	0,6	0,4
<i>Obligations foncières</i> and registered covered bonds	49,8	50,9
<b>Total</b>	<b>50,3</b>	<b>51,3</b>

### 5.1 Changes in cash collateral

Cash collateral received by Caisse Française de Financement Local decreases compared with the situation as of December 31, 2020. Its amount stood at EUR 0.4 billion as of June 30, 2021.

### 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.

In support of this diversification and consistent with the implementation of the SFIL Group's social and environmental policy, Caisse Française de Financement Local is also regularly active in the "Social"- and "Green"-themed bond market, as demonstrated by its third social issue in April 2021.

#### 5.2.1 New issues in 2021

During the first semester 2021, Caisse Française de Financement Local generated an issue volume of EUR 4.3 billion *via* benchmark public issues, operations to supplement existing stocks (tap) and private placements.

Caisse Française de Financement Local thus raised money in the public primary market four times, in the total amount of EUR 4.25 billion:

- two issues with a maturity of 10 years in January 2021 in the amount of EUR 1.5 billion and in June 2021 in the amount of EUR 1 billion;
- issue with a maturity of 15 years in February 2021 in the amount of EUR 750 million;
- A "social" thematic issue with a maturity of 8 years in April 2021 in the amount of EUR 750 million.

Caisse Française de Financement Local also provided additional liquidity on one of its reference issues *via* one tap for an amount of EUR 0.25 billion.

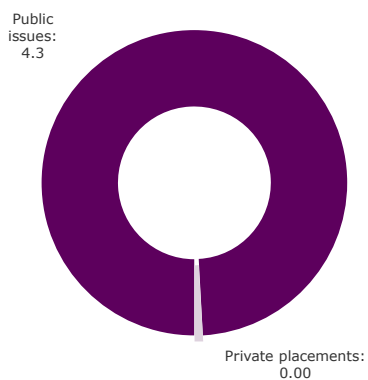
In addition to these public transactions, Caisse Française de Financement Local responded to the specific request from an investor in the private placements segment, in EMTN format.

The weighted average life of the financing raised during 2021 was 11.2 years.

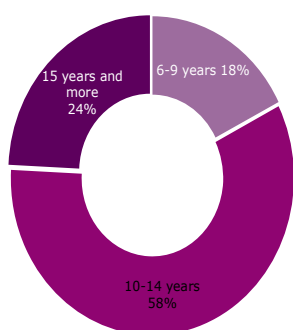
The breakdown of new issues by public/private format and maturity is presented below, as well as the breakdown of benchmark public issues by investor category and geographic zone:

#### 2021 ISSUES BY FORMAT

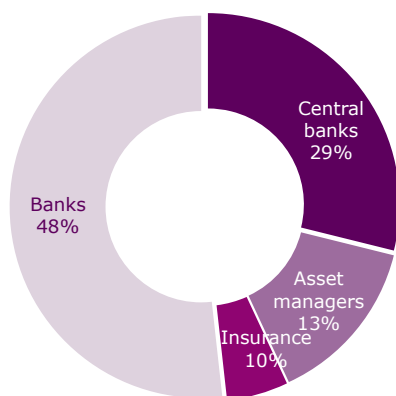
EUR billions



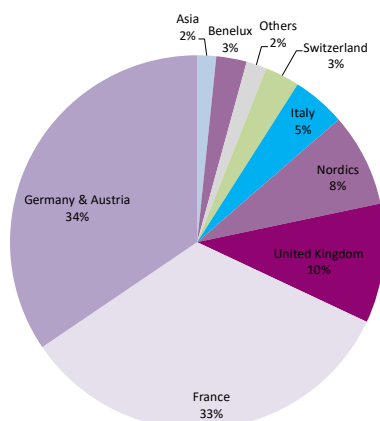
2021 ISSUES BY MATURITY (%)



BREAKDOWN OF 2021 BENCHMARK PUBLIC ISSUES BY INVESTOR CATEGORY (%)



## BREAKDOWN OF 2021 BENCHMARK PUBLIC ISSUES BY GEOGRAPHIC ZONE (%)



## 5.2.2 Outstandings at end June 2021

The outstanding amount of *obligations foncières* and registered covered bonds totaled EUR 50.9 billion in swapped value as of June 30, 2021. This includes new issues of *obligations foncières* for EUR 4.3 billion and after amortization of issues maturing in 2021 for EUR 3.9 billion. Furthermore, limited purchases of own *obligations foncières* were completed during the year.

EUR billions, value after currency swaps	Q4 2020	Q2 2021
<b>BEGINNING OF THE PERIOD</b>	<b>49,8</b>	<b>50,5</b>
Issues	5,5	4,3
Amortizations	(4,8)	(3,9)
Buyback	(0,0)	(0,0)
<b>END OF THE PERIOD</b>	<b>50,5</b>	<b>50,9</b>

As of June 30, 2021, issues can be broken down by currency as follows:

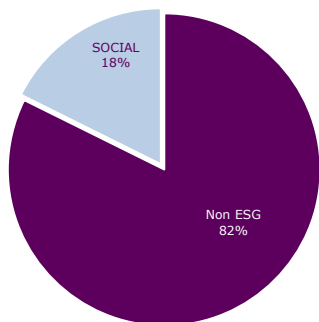


## 5.2.3 Social and green issues

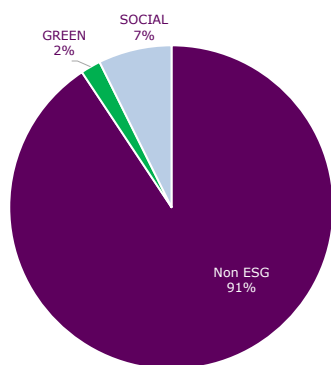
As part of SFIL Group's CSR commitment, the Caisse Française de Financement Local carries out "social" and "green" theme issues. After the success of its first social issue for EUR 1 billion with a 8-year maturity and first green issue for EUR 750 million with a 10-year maturity in 2019, Caisse Française 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. Caisse Française de Financement Local carried out as well a third social issue in April 2021 for EUR 750 million with a 8-year maturity. 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 2021 issues and in the amount outstanding as of June 30, 2021, among the public issues in euro is presented below:

### 2021 ISSUES



### OUTSTANDING AT END OF JUNE 2021

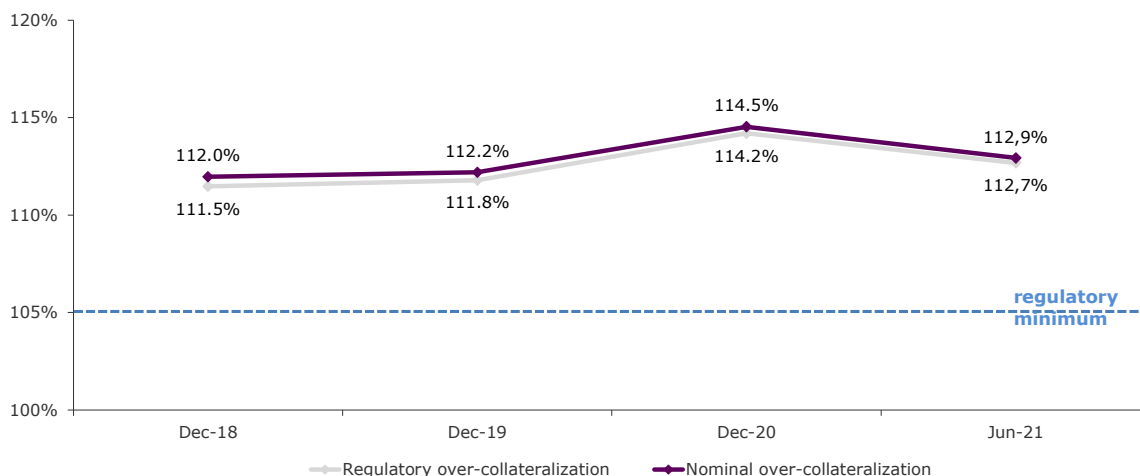


In addition, SFIL carried out a green bond issue for an amount of EUR 500 million. The funds obtained from this issue have been loaned to Caisse Française de Financement Local, with the obligation to use them to finance green loans that it purchases from La Banque Postale, which markets them. This loan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

## 6. Coverage ratio

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

In practice, the over-collateralization ratio is regularly higher than 105%. To maintain 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.

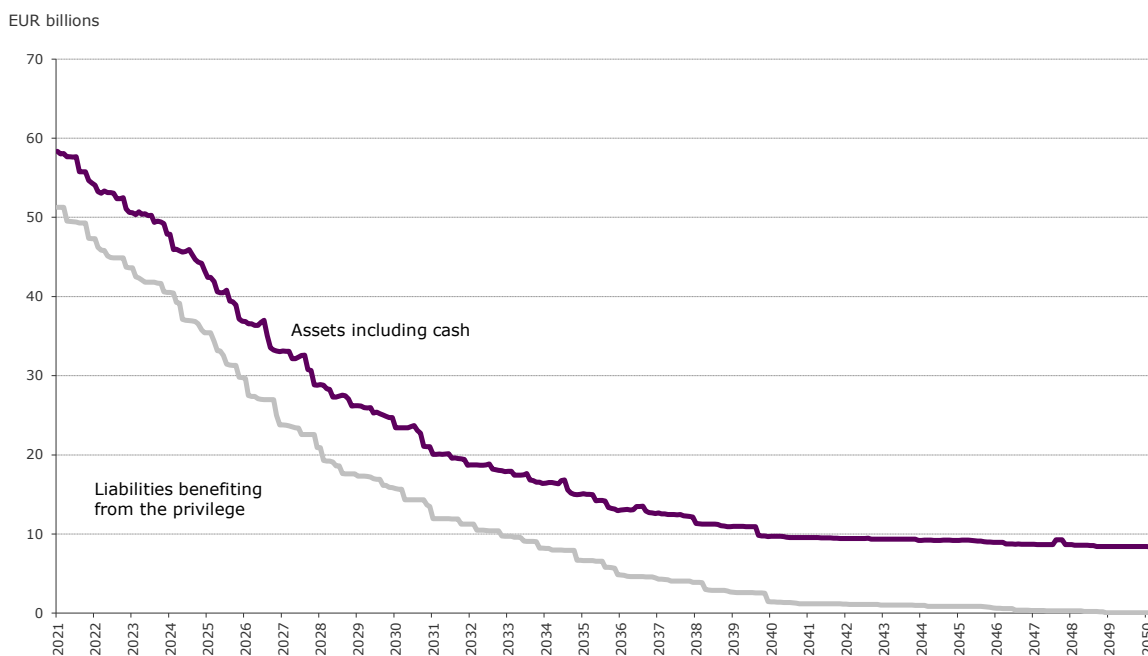


Regulatory over-collateralization may differ from nominal over-collateralization. It is calculated on the basis of the rules determined by the Autorité de Contrôle Prudentiel et de Résolution (ACPR). In particular, these rules require different weighting levels according to the assets. The assets in 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 June 30, 2021.

Amortization of assets and liabilities as of June 30, 2021



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

## 7. Non-privileged debt

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

Such financing is obtained through the parent company. As of June 30, 2021, 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	12/31/2020	6/30/2021
SFIL	6,6	5,8
Banque de France	-	-
<b>TOTAL</b>	<b>6,6</b>	<b>5,8</b>

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

### 8.1 Credit Risk

#### 8.1.1 Definition

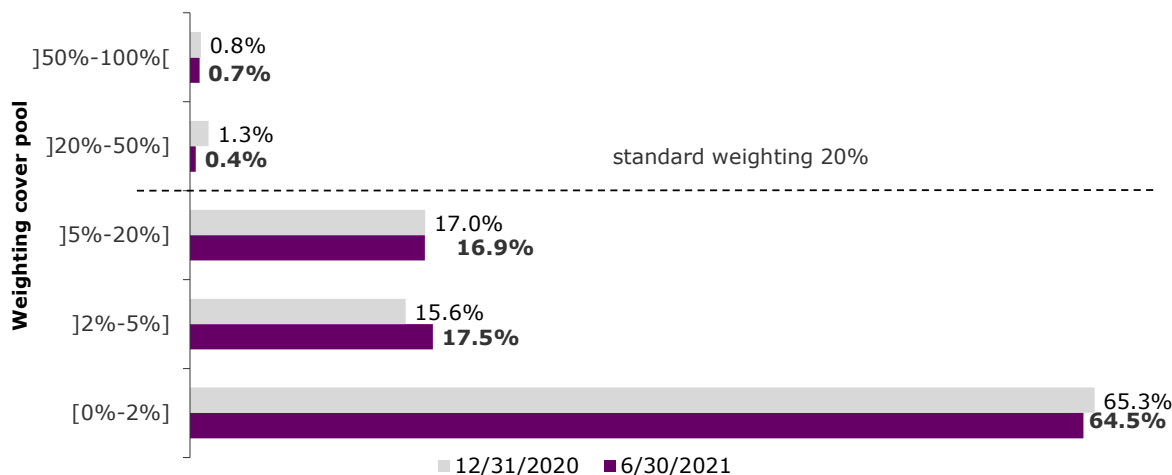
Credit risk represents the potential loss Caisse Française de Financement Local could suffer due to the deterioration of a counterparty's solvency.

#### 8.1.2 Breakdown of cover pool exposures according to risk weightings

The quality of Caisse Française de Financement Local's portfolio is illustrated by the risk weighting assigned to its assets (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 March 31, 2021 (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 JUNE 30, 2021



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

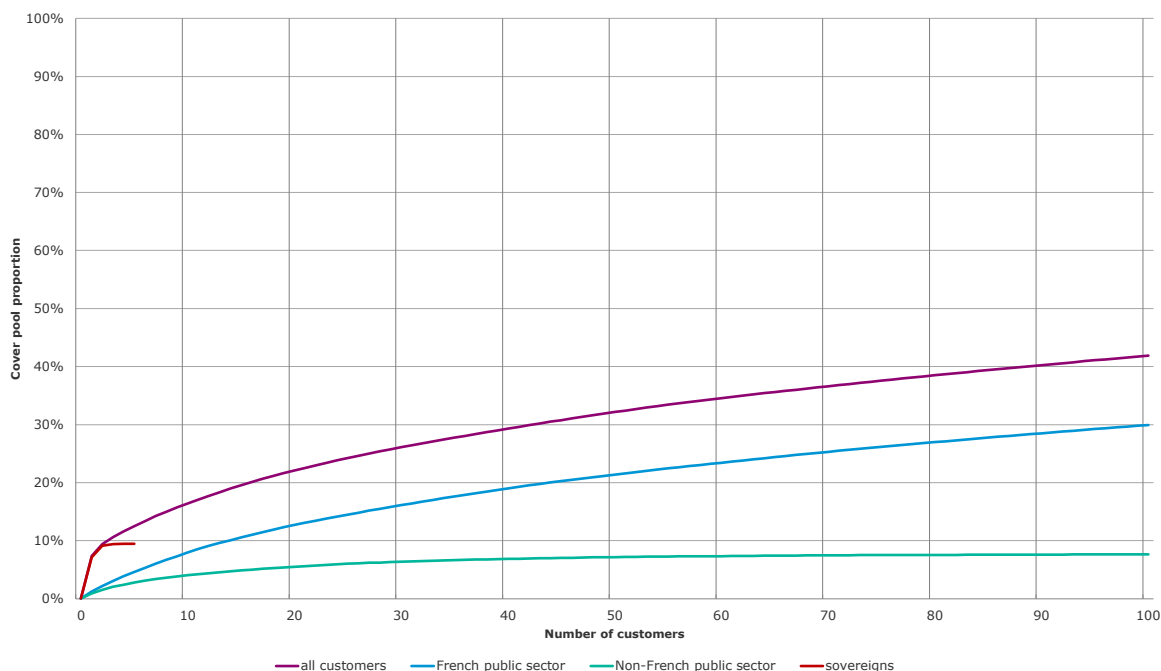
- 82% of the portfolio has a risk weighting of 5% or less;
- 1% of the portfolio has a weighting greater than 20%.

The average risk weighting of the cover pool assets is 5.0%, versus 20% for European local government entities according to the Basel standard method. They were 5.4% at the end of the previous year.

### 8.1.3 Concentration by customer

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

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



As of June 30, 2021, the 20 largest exposures (excluding replacement assets and cash deposits in the Banque de France), all categories combined, represented 22.1% of the cover pool. The largest exposure, the French State, represented 7.4% of the cover pool and the 20<sup>th</sup> exposure, 0.5%.

### 8.1.4 Arrears, non-performing loans, litigious loans, provisions June 30, 2021

#### 8.1.4.1 Change in arrears

As of June 30, 2021, arrears amounted to EUR 33 billion, down by 4 billion from December 31, 2020.

	12/31/2019		12/31/2020		6/30/2021	
	Amounts EUR millions	number of customers(1)	Amounts EUR millions	number of customers(1)	Amounts EUR millions	number of customers(1)
Total arrears	65	49	37	57	33	59
Technical arrears	1	20	1	26	0	21
Non qualifying payment deferrals granted under the COVID-19	-	-	0	1	-	-
Qualifying or litigious arrears	64	29	36	30	33	38
of which payment deferrals granted under the COVID-19	-	-	1	8	1	8
of which other qualifying or litigious arrears	64	29	35	22	32	30
of which less than 90 days	0	3	0	6	0	5
of which more than 90 days	64	26	36	24	33	33
of which doubtful loans (French Gaap)	26	25	32	27	33	37
of which litigious loans	38	4	4	3	0	1
of which vanilla loans	5	17	7	21	9	28
of which structured loans	59	12	29	9	24	10

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

Arrears fell in 2021 (-8%) from EUR 36 to 33 million (excluding technical arrears). This decrease is due in particular to the continued reduction in the sensitivity of structured loans.

As of June 30, 2021, the number of customers arrears in (excluding technical arrears) is low (38 customers or around 0.2% of Caisse Française de Financement Local's total number of customers).

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

As of June 30, 2021, doubtful and litigious loans (French GAAP) amounted to EUR 253 million, or 0.4% of the Caisse Française de Financement Local's cover pool, illustrating the portfolio's excellent quality.

They were however up by EUR 41 million, i.e. +19%, compared to December 31, 2020.

This increase in doubtful loans mainly corresponds to customers whose situation has deteriorated, although they have not had arrears, and who have significant outstanding loans that have been downgraded by contagion<sup>2</sup>. As of June 30, 2021, total outstandings downgraded by contagion amounted to EUR 220 million. Indeed, doubtful and litigious loans<sup>3</sup> were almost entirely composed in doubtful loans, i.e. of EUR 253 million, corresponding to loans granted to customers where the total amount of unpaid loans was EUR 33 million<sup>(1)</sup>;

Doubtful and litigious loans correspond solely to French customers.

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

Impairments	12/31/2020	6/30/2021
French Gaap EUR millions		
Specific impairments	29	29
Collective impairments	31	28
<b>TOTAL</b>	<b>60</b>	<b>57</b>

As of June 30, 2021, the stock of provisions assigned to specific files under French GAAP amounted to EUR 29 million, stable compared to December 31, 2020.

In addition, collective provisions are calculated on the various asset portfolios. They amounted to EUR 31 28 million as of June 30, 2021 compared to EUR 31 million as of December 31, 2020. This change is mainly due to a provision reversal following the annual review of the credit risks of Caisse Française de Financement Local's main loan portfolios;

#### 8.1.4.3 Change in receivables and provisions under IFRS

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

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

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

Stage 3 outstandings correspond mainly to customers:

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

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

<sup>2</sup> 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.

<sup>3</sup> 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.



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

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

Breakdown of assets by stages and IFRS impairments	Net carrying amount before impairments		Impairments	
	EUR millions		EUR millions	
	12/31/2020	6/30/2021	12/31/2020	6/30/2021
Stage 1 : no significant deterioration	59 082	59 366	(9)	(9)
Stage 2 : credit risk deterioration	3 764	3 502	(30)	(28)
Stage 3 : credit impaired	455	324	(6)	(7)
<b>TOTAL SPPI assets</b>	<b>63 301</b>	<b>63 192</b>	<b>(45)</b>	<b>(44)</b>
<b>IFRS Net carrying amount</b>				
	<b>12/31/2020</b>	<b>6/30/2021</b>		
Non-Performing Exposures	608	448		

Outstandings classified as Non-Performing Exposures as well as Stage 3 fell significantly in 2021 despite the health crisis. This improvement is due in particular to the continued reduction in the sensitivity of structured loans. At the same time, outstandings classified in Stage 2 also decreased in line with the annual credit risk review on certain loan portfolios.

### 8.1.5 Bank counterparty risk

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

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

- replacement assets in the amount of EUR 0.9 billion (see 4.2.2);
- derivative contracts, entered into within the framework of its management of interest rate and foreign exchange risks.

All of Caisse Française de Financement Local's derivative operations are conducted within the framework of standard ISDA or FBF (Fédération Bancaire Française) contracts with major international banks. These contracts have particular characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and other issuers of covered bonds). Over the last few years, Caisse Française de Financement Local amended these contracts to take into account recent EMIR regulatory changes (signing of variation margin amendments) and the Brexit. 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 June 30, 2021, are listed below :

EUR billions	Notional amounts	Mark to Market		Collateral received	Number of counterparties
		-	+		
SFIL	15,1	(1,4)	-	-	1
Other counterparties	73,7	(1,8)	0,4	0,4	24
<b>Total</b>	<b>88,8</b>	<b>(3,2)</b>	<b>0,4</b>	<b>0,4</b>	<b>25</b>

As of June 30, 2021, Caisse Française de Financement Local was exposed (positive fair value of swaps) to six bank counterparties, all of these paid cash collateral totaling EUR 0.4 billion, offsetting the total exposure. The swaps negotiated with external counterparties represented 83% of outstanding swaps and those signed with SFIL 17%. The swaps signed with the five largest counterparties represented a total of 53% of notional amounts.

## 8.2 Climate risks

In line with its CSR strategy and Caisse des Dépôts's commitment to the success of the ecological and energy transition, the SFIL Group in 2020 initiated a comprehensive climate risk assessment process on the financial impact of environmental risks and climate change-related risks on the creditworthiness of its borrowers. An initial roadmap was adopted, which led to the development of an initial mapping of physical and transitional risks for the entire customer portfolio, an initial analysis of the acute physical risks of local authorities, a study of transitional risks for French local authorities, as well as the completion of an internal stress test and participation in the pilot exercise on climate risks conducted by the ACPR. A climate risk committee has been set up. A report on climate risks is presented each quarter to the Supervisory Board of Caisse Française de Financement Local as part of the quarterly risk review. A second roadmap

was adopted in April 2021 intended to establish a partnership with I4CE (Institute for Climate Economics), finalizing the study on acute physical risks of the local public sector, individual climate risk rating for local authorities, mapping and monitoring the portfolio based on climate ratings, defining CSR criteria for treasury investments, and integrating climate risks with risk appetite and different risk policies. As part of its lending risk policy, the Caisse Française de Financement Local already applies the following principles: the exclusion of certain activities from its financing and the positive consideration of green loan production targets.

### 8.3 Market risk

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

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

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

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

This concerns mainly the following,

✓ under IFRS:

- the assets recorded at fair value through profit or loss or through 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.

In the first half of 2021, these usual elements of accounting volatility had only a very small impact on net banking income.

- ✓ In French accounting standards, : "placement" securities, the estimated losses in value at closing date of which are provisioned.

### 8.4 Asset-Liability Management (ALM) Risk

#### 8.4.1 Liquidity risk

##### 8.4.1.1 Definition and liquidity risk management

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

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

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).

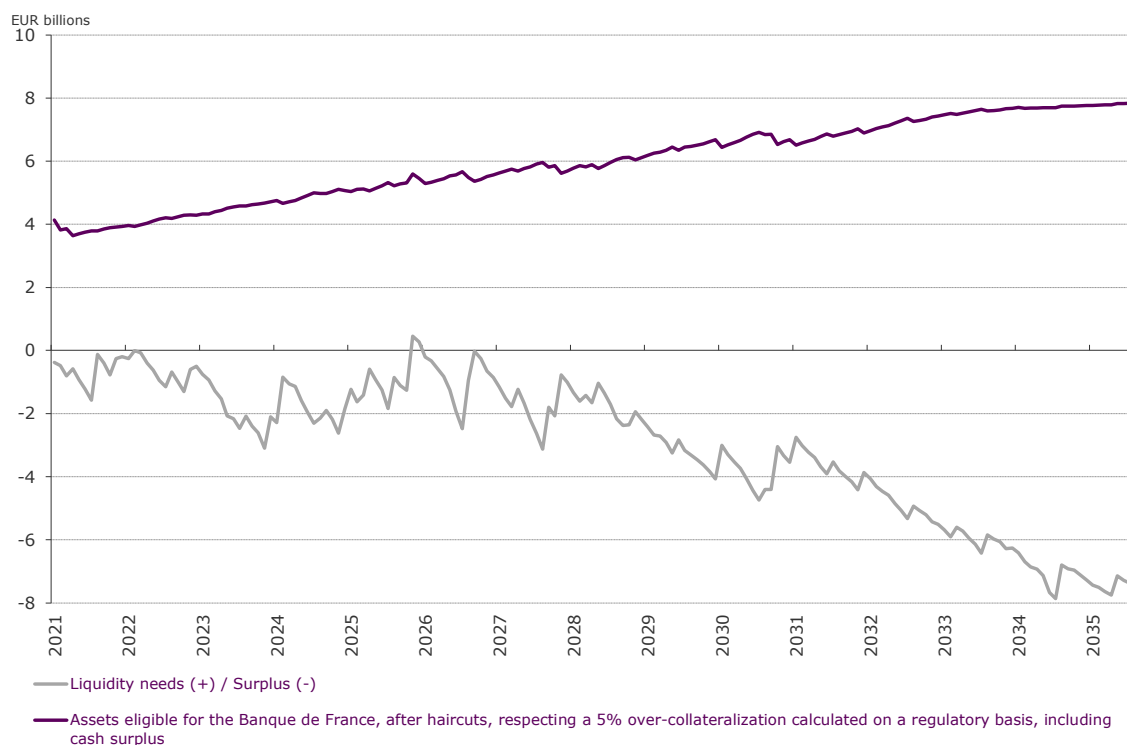
Furthermore, Caisse Française de Financement Local has a very large stock of assets eligible for European Central Bank refinancing *via* the Banque de France. The Caisse Française de Financement Local can easily access the central bank refinancing in its own name, If necessary, to cover its cash flow 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 aggregate maximum liquidity requirement that Caisse Française de Financement Local could face in the future in a run-off situation in which it was unable to issue new *obligations foncières* is lower than the maximum funding already occasionally obtained on a one-off basis from the central bank in the past. It is also lower than the Caisse Française de

Financement Local's refinancing potential with the Banque de France, measured by the amount of eligible assets after haircut that would be available while complying with the minimum over-collateralization required by the regulations.

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

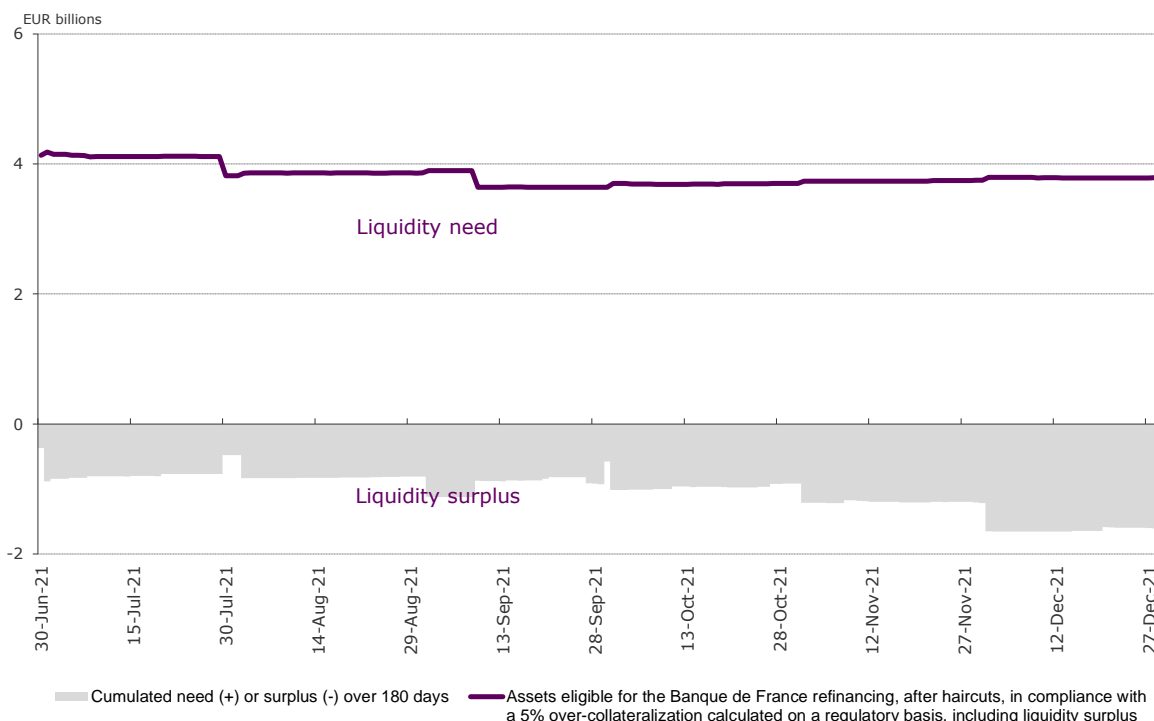


Caisse Française de Financement Local has its own autonomous resources that enable it to cover its temporary liquidity needs, even in the event of the default of its parent company, since any legal proceedings engaged for the bankruptcy or liquidation of its parent company cannot be extended to Caisse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

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

▪ **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 June 30, 2021, forecast cash situation at 180 days presented an excess cash over the whole period with a maximum of EUR 1.7 billion.



• **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 June 30, 2021, Caisse Française de Financement Local's LCR ratio was 647%;
- 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: on June 30, 2021 Caisse Française de Financement Local's NSFR was 116.43%.

• **the internal liquidity indicators:** Eur

- 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 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 year as of June 30, 2021 (see the specific section on transformation risk below);
- the sensitivity of the net present value of the static liquidity gap to an increase in the Group's financing costs;
- the consumption of the spread and basis risk appetite for export credit transactions which measures the loss of revenue on these transactions which could result from stress on the financing costs in euros or foreign currency (USD or GBP).

### 8.3.1.2 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	6/30/2020	9/30/2020	12/31/2020	3/31/2021	6/30/2021
Cover pool	7.20	7.20	7.06	7.10	7.10
Privileged liabilities	6.83	6.70	6.95	7.13	7.20
<b>Gap in asset-liability duration</b>	<b>0.32</b>	<b>0.23</b>	<b>0.11</b>	<b>-0.04</b>	<b>-0.11</b>
Duration gap limit	3	3	3	3	3

### Weighted average life gap

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

Weighted average life (in years)	6/30/2020	9/30/2020	12/31/2020	3/31/2021	6/30/2021
Cover pool	7.16	7.19	7.05	7.25	7.26
Privileged liabilities	6.85	6.97	6.95	7.29	7.35
<b>Gap in asset-liability weighted average life</b>	<b>0.31</b>	<b>0.22</b>	<b>0.10</b>	<b>-0.04</b>	<b>-0.10</b>
Weighted average life limit	1.5	1.5	1.5	1.5	1.5

### Regulatory limit

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

## 8.4.2 Interest rate risk

### 8.4.2.1 Definition

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

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

<b>Fixed interest rate risk</b>	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.
<b>Basis risk</b>	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.
<b>Fixing risk</b>	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.
<b>Option risk</b>	Results from the application of floors at 0 on adjustable rates of local public sector receivables.

### 8.4.2.2 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:

<b>Fixed rate gap</b>	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.
<b>Index gaps</b>	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.
<b>Basis gaps</b>	Gaps resulting from matching two index gaps. There are therefore as many basis gaps as there are index pairs.
<b>Fixing gap</b>	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:

<b>Translation of the rate curve</b>	EUR 25 million limit
<b>Sloping/rotation of the interest rate curve on distant points on the curve</b>	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
<b>Sloping/rotation of the interest rate curve inside a time bucket</b>	EUR 30 million limit on the absolute value of the sensitivities inside each time bucket

#### Measurement of directional risk

The quarter-end<sup>121</sup> are presented below:

#### DIRECTIONAL RISK

Total sensitivity

EUR millions	Limit	6/30/2020	9/30/2020	12/31/2020	3/31/2021	6/30/2021
<b>Sensitivity</b>	<b>(25)/25</b>	(1,9)	(1,0)	(6,8)	(10,1)	<b>(5,3)</b>

#### 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	6/30/2020	9/30/2020	12/31/2020	3/31/2021	6/30/2021
Short term	<b>(15)/15</b>	(4,0)	(5,3)	(9,5)	(4,4)	<b>(5,8)</b>
Medium term	<b>(10)/10</b>	(6,6)	(6,1)	3,1	(6,5)	<b>1,0</b>
Long term	<b>(10)/10</b>	4,1	5,1	(2,5)	0,7	<b>(1,4)</b>
Very long term	<b>(9)/9</b>	4,6	5,3	2,2	0,1	<b>0,9</b>

#### RISK OF SLOPE BETWEEN TWO CLOSE POINTS ON THE RATE CURVE

Sum of sensitivities in absolute value

EUR millions	Limit	6/30/2020	9/30/2020	12/31/2020	3/31/2021	6/30/2021
Short term	<b>30</b>	9,0	12,6	10,9	12,4	<b>7,7</b>
Medium term	<b>30</b>	13,0	13,9	22,3	21,4	<b>24,5</b>
Long term	<b>30</b>	10,4	3,7	11,3	16,7	<b>26,0</b>
Very long term	<b>30</b>	7,6	8,2	8,8	8,3	<b>5,7</b>

### 8.4.3 Foreign exchange risk

#### 8.4.3.1 Definition

The foreign exchange risk is defined as the risk of recorded or unrealized earnings volatility, linked to a change in the exchange rate of currencies *vis-à-vis* a reference currency. 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.

#### 8.4.3.2 Hedging Strategy

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

## 8.5 Other risks

### 8.5.1 Operational risk (excluded risk of non-compliance)

SFIL group defines operational risk as the risk of loss arising from an inadequacy or failure in the processes, personnel and internal systems or from external events including the legal risk. It includes model risks but excludes strategic risks. Management procedures for operational risks apply to all of SFIL's divisions responsible for Caisse Française de Financement Local's management, activities and processes. SFIL group has opted for the standard approach of calculating its regulatory capital for operational risk.

SFIL group has set up an organisation, procedures and a management tool to monitor and control its operational risks. SFIL group's policy for measuring and managing operational risks, excluding non-compliance risk, consists of regularly identifying and assessing its risk exposure and the existing mitigation and control systems to establish whether or not the level of residual risk is acceptable. This policy is divided into three main processes:

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

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

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

During the first semester 2021, SFIL group maintain a crisis unit to manage the operational risks related to the Covid-19 pandemic 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, including the risks incurred by Caisse Française de Financement Local, notably cyber risk and the risk of fraud.

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

### 8.5.2 Risk of non-compliance

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

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

### 8.5.3 Legal and tax risks

#### 8.5.3.1 Legal risk

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

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

The Executive Board and Supervisory Board of Caisse Française de Financement Local receive regular updates on the progress of litigation.

As regards litigation, relating to structured loans, at June 30, 2021, there were 7 borrowers who had brought lawsuits on structured loans, compared to 10 as of December 31, 2020 and 15 as of December 31, 2019, steadily decreasing since 2014 (210 lawsuits as of December 31, 2014). Since SFIL's creation, 216 borrowers have dropped their claims regarding these loans against the Group. In particular, during the first half of the year, the last two borrowers with fewer than 10,000 residents holding loans indexed to the EUR/CHF exchange rate signed an agreement with Caisse Française de Financement Local to secure their outstandings by converting them to fixed rates, which ended their litigation.

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, including 6 judgments from the Cour de Cassation, have dismissed claims by borrowers to invalidate the structured loans recorded on Caisse Française de Financement Local's balance sheet.

As of June 30, 2021, to the Caisse Française de Financement Local's knowledge, there were no other lawsuits or disputes between SFIL or Caisse Française de Financement Local and its borrowers that were considered significant.

#### 8.5.3.2 Tax risk

There was no change during the first quarter 2021 concerning the collection notice issued in relation to the taxation in Ireland of the income of the former Dexia Municipal Agency (CAFFIL's former name) branch, which closed in 2013. Caisse Française de Financement Local paid the tax adjustment to the French administration and initiated a procedure aimed at dealing with the Irish and French double taxation of these results.



## 9. Income for the period from January 1<sup>st</sup> to June 30, 2021

### 9.1 Income according to IFRS

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

#### 9.1.1 Net income for the first half of 2021

Net income is presented below in a synthetic manner :

IFRS EUR millions	H1 2020	2020	H1 2021	change H1 2020 / H1 2021
Interest margin	59	126	70	
Net commissions	13	16	(1)	
Net result on financial instruments at fair value through net income	(18)	5	(3)	
Net result on financial instruments at fair value through equity	-	-	-	
Net result due to derecognition of financial instruments at amortized cost	5	7	9	
Net result resulting from reclassification of financial assets at amortized cost to financial assets at fair value through net income	-	-	-	
Net result resulting from reclassification of financial assets at fair value through equity to financial assets at fair value through net income	-	-	-	
Other income and expense	-	-	(0)	
<b>NET BANKING INCOME</b>	<b>58</b>	<b>154</b>	<b>75</b>	<b>29%</b>
General operating expenses	(52)	(97)	(49)	
Taxes	(6)	(7)	(6)	
<b>GROSS OPERATING INCOME</b>	<b>-</b>	<b>50</b>	<b>19</b>	<b>100%</b>
Cost of risk	1	9	1	
<b>INCOME BEFORE TAX</b>	<b>1</b>	<b>59</b>	<b>20</b>	<b>1934%</b>
Income tax	(1)	(16)	(7)	
<b>NET INCOME</b>	<b>0</b>	<b>43</b>	<b>13</b>	<b>100%</b>

As of June 30, 2021, net income reaches EUR 13 million, versus a balanced result as of June 30, 2020.

#### 9.1.2 Restated income excluding non-recurring items

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

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

(EUR millions)	H1 2020	H1 2021
Fair value adjustment of non SPPI financial assets	(26)	0

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

(EUR millions)	H1 2020	H1 2021
Fair value adjustments on hedging	(3)	(19)

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

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

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

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

(EUR millions)	H1 2020	H1 2021
Linearization of IFRIC 21 expenses	(3)	(6)

The recurring income for 2020 and 2021 was as follows:

EUR millions	H1 2019			H1 2020		
	Accounting income statement	Non-recurring items	Recurring income statement	Accounting income statement	Non-recurring items	Recurring income statement
<b>NET BANKING INCOME</b>	<b>58</b>	<b>(29)</b>	<b>87</b>	<b>75</b>	<b>(19)</b>	<b>94</b>
Operating Expenses	(58)	(3)	(55)	(56)	(6)	(50)
<b>OPERATING INCOME BEFORE COST OF RISK</b>	<b>-</b>	<b>(32)</b>	<b>32</b>	<b>19</b>	<b>(25)</b>	<b>44</b>
Cost of risk	1	-	1	1	-	1
<b>PRE-TAX INCOME</b>	<b>1</b>	<b>(32)</b>	<b>33</b>	<b>20</b>	<b>(25)</b>	<b>45</b>
Income tax	(1)	8	(9)	(7)	6	(13)
<b>NET INCOME</b>	<b>0</b>	<b>(24)</b>	<b>24</b>	<b>13</b>	<b>(19)</b>	<b>32</b>

Restated for the non-recurring items mentioned above, Net banking income for the year increased by EUR 7 million from EUR 87 million in the first half of 2020 to EUR 94 million in the first half 2021. Net income for the half year rose by EUR 8 million, from EUR 24 million to EUR 32 million.

### 9.1.3 Analysis of recurring net income

The EUR 7 million increase in Net Banking Income is due to the Interest Margin item, which increased by EUR 11 million compared to the first semester 2020, due to the reimbursement of covered bonds with a higher spread than the ones recently issued. This rise was partially offset by a decrease in the Net Commissions received item which included earnings received (EUR 13 million) on swap assignment transactions as part of the management of the 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 down by EUR 5 million compared to the first semester 2020.

The cost of risk is stable.

There was a EUR 13 million income tax expense as of June 30, 2021; it notably reflects the non-deductibility of the contribution to the Single Resolution Fund.

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

The health crisis had no impact on Caisse Française de Financement Local's net income as of June 31, 2021, while a very limited impact was observed in the first half of 2020, due to the volatility of certain market parameters. This confirms the SFIL Group's resilience to macro-economic shocks in general and this one in particular.

## 9.2 Income according to French GAAP

Net income is presented below in a synthetic manner ;

<b>Normes comptables françaises</b> (en EUR millions)	<b>S1 2020</b>	<b>2020</b>	<b>S1 2021</b>	<b>Var S1 2020 / S1 2021</b>
Marge d'intérêts	53	152	91	
Commissions nettes	13	16	(1)	
Provisions et résultats de cessions sur les portefeuilles de négociation	-	1	0	
Provisions et résultats de cessions de titres de placement	(11)	10	3	
Autres produits et charges	-	-	(0)	
<b>PRODUIT NET BANCAIRE</b>	<b>56</b>	<b>179</b>	<b>93</b>	<b>66%</b>
Frais administratifs	(58)	(104)	(56)	
Impôts et taxes	-	-	-	
<b>RESULTAT BRUT D'EXPLOITATION</b>	<b>(2)</b>	<b>76</b>	<b>37</b>	<b>1962%</b>
Coût du risque	3	2	4	
<b>RESULTAT D'EXPLOITATION</b>	<b>1</b>	<b>78</b>	<b>41</b>	<b>3978%</b>
Gains ou pertes sur actifs immobilisés	-	-	-	
Impôt sur les bénéfices	(1)	(19)	(10)	
<b>RESULTAT NET</b>	<b>0</b>	<b>59</b>	<b>31</b>	<b>100%</b>

The Company's business is managed according to IFRS (as adopted by the European Union). The French GAAP financial statements are published in accordance with legal requirements and serve as a base to calculate income subject to corporate income tax.

*Readers are reminded that following the transition from IAS 39 to IFRS 9, the accounting treatment under IFRS of early repayment penalties on loans and of associated hedging swap termination fees has converged with these items' accounting treatment under French GAAP. In accordance with IFRS 9, early repayments of Caisse Française de Financement Local's loans in connection with its sensitivity reduction measures result in derecognition of the original loan and recognition of a new loan, which results in recognition in Net Banking Income of the surplus margin on the restructured loan (taking into account hedging impact) to the market conditions observed at the date of restructuring. As a reminder, most of these transactions did not result in derecognition of the original loan under the previous standards as they complied with the 10% test provided for in IAS 39 AG 62. Under French GAAP, the early repayment penalty net of the associated hedging swap termination fees is also recognized in Net Banking Income. However, there may still be a difference between, on the one hand, the surplus margin recognized under IFRS, which is calculated based on market conditions when the loan is restructured, and, on the other hand, the early repayment penalty recognized under French GAAP, which is generally calculated in accordance with the original loan's contractual provisions.*

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

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

Net banking income increased by 66%, or EUR 37 million compared to the first half of 2020, from EUR +56 million to EUR +93 million. It includes in particular the upfront termination fees associated with:

- cancellation of swaps that macro-hedged assets within as part of covered bond issues (EUR -49 million),
- cancellation of swaps that micro-hedged issues as part of the acquisition of receivables from LBP (EUR +36 million)
- swaps assignment transactions and/or changes in the discounting curve or cancellation of swaps (EUR +14 million).

The increase in net banking income is mainly explained by an improvement in financing conditions (maturity of old and expensive issues and realization of new issues with a more advantageous spread).

Operating expenses of Caisse Française de Financement Local, most of which consist of invoices from its parent company, SFIL, for its operational management, were down by EUR 2 million.

Cost of risk is stable.

Net earnings increased by EUR 31 million between the two periods from a balanced result as of 1er semester 2020 to a positive result of EUR 31 million as of 1er semester 2021.

## 10. Outlook for 2021

In 2021, Caisse Française de Financement Local will be able to bring its large refinancing capacity to the new major French public finance hub formed around Caisse des Dépôts, of which it is now a part, as well as its parent company SFIL. The financial resilience which it has demonstrated since the start of the health crisis linked to the Covid-19 pandemic and the excellent conditions of access to financial markets from which it continues to benefit, should consolidate its two business lines, established leaders on their respective markets, for the French local public sector and for large French export contracts.

Concerning the 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 will provide its support for the post-Covid-19 economic recovery, in the context of the French government's economic recovery plans to promote investments by local authorities, particularly for the ecological transition (thanks to its green loans) and of the "*Segur de la Santé*" plan to promote investments by health institutions. Loan financing activity to the French local public sector should therefore be more sustained in the second half of 2021. In addition, work is being carried out with the Banque des Territoires of the Caisse des Dépôts to use the financing capacities of the Caisse Française de Financement Local for structural projects in the local public sector.

Concerning the refinancing of large export credits guaranteed by the French State, supporting the French exporters : Caisse Française de Financement Local will provide as well its support to the post-Covid-19 economic recovery of the different French export credit sectors. The increase in activity seen in the first half of 2021 is expected to continue through to the end of 2021 given the number of projects under review and their level of progress. 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, subject to obtaining the necessary authorizations from the European Commission.

To cover its financing requirements, in a favorable low interest rate environment, Caisse Française de Financement Local plans to issue more than 5.5 billion of covered bonds in 2021, a slightly higher amount than in 2020, 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.

In 2021, SFIL will continue as well its CSR actions, including the integration of climate risks into its methodological criteria, the integration of the European taxonomy in its activities and the issuance of bonds in the form of thematic "social" and/or "green" issues. In addition, the SFIL Group's second strategic plan is currently being developed as an extension of the first strategic plan, which affirmed the public development bank model and enabled the Group to achieve commercial and economic results that were well above expectations.

From a macroeconomic point of view, SFIL group will continue to closely monitored the impacts of the geopolitical environment and the market volatility as well as the changes in the regulatory environment, with the finalization of Basel III and the implementation of the transposition into national law of the European directive aimed at harmonizing the covered bonds regimes of Member States.

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.

# Breakdown of the cover pool as of June 30, 2021

EUR millions	6/30/2021				12/31/2020	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
<b>France</b>						
State:						
- export refinancing	-	-	4,040	-	4,040	3,588
- others	20	-	-	230	250	250
Banque de France	384	-	-	-	384	1,798
Regions	2,347	70	236	-	2,653	2,579
Departments	7,494	-	139	-	7,633	7,240
Municipalities	14,532	14	304	-	14,850	14,748
Groups of municipalities	13,508	62	79	-	13,649	13,087
Public sector entities:						
- health	6,095	8	-	-	6,103	5,997
- social housing	895	-	-	-	895	967
- others	747	150	1	-	898	931
Credit institutions	5	210	-	-	215	490
<b>Subtotal</b>	<b>46,027</b>	<b>514</b>	<b>4,799</b>	<b>230</b>	<b>51,570</b>	<b>51,675</b>
<b>Germany</b>						
Länder	-	275	-	-	275	275
Credit institutions	-	95	-	-	95	95
<b>Subtotal</b>	<b>-</b>	<b>370</b>	<b>-</b>	<b>-</b>	<b>370</b>	<b>370</b>
<b>Austria</b>						
Länder	-	-	170	-	170	173
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>170</b>	<b>-</b>	<b>170</b>	<b>173</b>
<b>Belgium</b>						
Regions	1	-	4	-	5	5
Public sector entities	31	-	-	-	31	37
Credit institutions	-	60	-	-	60	121
<b>Subtotal</b>	<b>32</b>	<b>60</b>	<b>4</b>	<b>-</b>	<b>96</b>	<b>163</b>
<b>Canada</b>						
Municipalities	100	-	-	-	100	100
Public sector entities	35	-	-	-	35	35
Credit institutions	-	322	-	-	322	226
<b>Subtotal</b>	<b>135</b>	<b>322</b>	<b>-</b>	<b>-</b>	<b>457</b>	<b>361</b>
<b>Denmark</b>						
Credit institutions	-	-	-	-	-	5
<b>Subtotal</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5</b>
<b>Spain</b>						
State	-	180	-	-	180	145
Regions	-	50	-	-	50	50
Municipalities	65	-	-	-	65	67
<b>Subtotal</b>	<b>65</b>	<b>230</b>	<b>-</b>	<b>-</b>	<b>295</b>	<b>262</b>

EUR millions	6/30/2021				12/31/2020	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
<b>United States</b>						
Federated States	-	182	-	-	182	211
<b>Subtotal</b>	-	<b>182</b>	-	-	<b>182</b>	<b>211</b>
<b>Finland</b>						
Credit institutions	-	-	-	-	-	96
<b>Subtotal</b>	-	-	-	-	-	<b>96</b>
<b>Italy</b>						
State	-	1,150	-	-	1,150	1,148
Regions	-	1,685	-	-	1,685	1,791
Provinces	-	388	-	-	388	406
Municipalities	4	876	-	-	880	927
<b>Subtotal</b>	<b>4</b>	<b>4,099</b>	-	-	<b>4,103</b>	<b>4,272</b>
<b>Japan</b>						
Municipalities	-	25	-	-	25	25
<b>Subtotal</b>	-	<b>25</b>	-	-	<b>25</b>	<b>25</b>
<b>Norway</b>						
Credit institutions	-	137	-	-	137	192
<b>Subtotal</b>	-	<b>137</b>	-	-	<b>137</b>	<b>192</b>
<b>Netherlands</b>						
Credit institutions	-	-	-	-	-	96
<b>Subtotal</b>	-	-	-	-	-	<b>96</b>
<b>Portugal</b>						
State	-	-	-	-	-	-
Municipalities	5	-	-	-	5	8
Public sector entities	2	-	-	-	2	2
<b>Subtotal</b>	<b>7</b>	-	-	-	<b>7</b>	<b>10</b>
<b>United Kingdom</b>						
State	-	-	-	-	-	8
<b>Subtotal</b>	-	-	-	-	-	<b>8</b>
<b>Sweden</b>						
Municipalities	18	-	-	-	18	18
Credit institutions	-	85	-	-	85	132
<b>Subtotal</b>	<b>18</b>	<b>85</b>	-	-	<b>103</b>	<b>150</b>
<b>Switzerland</b>						
Cantons	65	-	-	-	66	71
Municipalities	230	-	-	-	230	233
Public sector entities	60	-	-	-	60	60
<b>Subtotal</b>	<b>356</b>	-	-	-	<b>356</b>	<b>364</b>
<b>Supranational</b>						
International organizations	13	-	-	-	13	15
<b>Subtotal</b>	<b>13</b>	-	-	-	<b>13</b>	<b>15</b>
<b>TOTAL COVER POOL</b>	<b>46,657</b>	<b>6,024</b>	<b>4,973</b>	<b>230</b>	<b>57,884</b>	<b>58,448</b>

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.

## 2. Financial statements (IFRS) for the period from January 1st to June 30, 2021

## IFRS Financial Statements

### Assets

EUR millions	Note	12/31/2020	6/30/2021
Central banks	2.1	1 798	383
Financial Assets at fair value through profit or loss	2.2	4 266	3 837
Hedging derivatives		4 951	3 828
Financial Assets at fair value through equity	2.3	-	-
Financial Assets at amortized cost			
Loans and advances to banks at amortized cost	2.4	3 753	4 226
Loans and advances to customers at amortized cost	2.4	46 123	46 966
Securities at amortized cost	2.4	8 615	7 645
Fair value revaluation of portfolio hedge		2 842	2 264
Current tax assets		18	15
Deferred tax assets		74	79
Accruals and other assets		21	29
<b>TOTAL ASSETS</b>		<b>72 461</b>	<b>69 271</b>

### Liabilities

EUR millions	Note	12/31/2020	6/30/2021
Central banks		-	-
Financial liabilities at fair value through profit or loss	3.1	1 050	872
Hedging derivatives		6 833	5 695
Financial liabilities at amortized cost			
Due to banks at amortized cost	3.2	6 606	5 846
Customer borrowings and deposits at amortized cost		-	-
Debt securities at amortized cost	3.2	55 092	54 430
Fair value revaluation of portfolio hedge		738	526
Current tax liabilities		1	0
Deferred tax liabilities		-	-
Accruals and other liabilities	3.4	691	492
Provisions	3.3	5	5
Subordinated debt		-	-
<b>EQUITY</b>		<b>1 445</b>	<b>1 405</b>
Capital		1 350	1 350
Reserves and retained earnings		63	57
Net result through equity		(11)	(15)
Net income		43	13
<b>TOTAL LIABILITIES</b>		<b>72 461</b>	<b>69 271</b>



## Income Statement

EUR millions	Note	H1 2020	2020	H1 2021
Interest income	5.1	1 167	2 276	1 070
Interest expense	5.1	(1 108)	(2 150)	(1 001)
Fee and commission income	5.2	14	18	1
Fee and commission expense	5.2	(1)	(2)	(2)
Net result of financial instruments at fair value through profit or loss	5.3	(18)	5	(3)
Net result of financial instruments at fair value through equity	5.4	-	-	-
Gains or losses resulting from derecognition of financial instruments at amortized cost	5.5	5	7	9
Gains or losses resulting from reclassification of financial assets at amortized cost to fair value through profit or loss		-	-	-
Gains or losses resulting from reclassification of financial assets at fair value through equity to fair value through profit or loss		-	-	-
Other income		0	0	0
Other expense		(0)	(0)	(0)
<b>NET BANKING INCOME</b>		<b>58</b>	<b>154</b>	<b>75</b>
Operating expenses	5.6	(58)	(104)	(56)
<b>GROSS OPERATING INCOME</b>		<b>0</b>	<b>50</b>	<b>19</b>
Cost of risk	5.7	1	9	1
<b>OPERATING INCOME</b>		<b>1</b>	<b>59</b>	<b>20</b>
Net gains (losses) on other assets		-	-	-
<b>INCOME BEFORE TAX</b>		<b>1</b>	<b>59</b>	<b>20</b>
Income tax		(1)	(16)	(7)
<b>NET INCOME</b>		<b>0</b>	<b>43</b>	<b>13</b>
EARNINGS PER SHARE (EUR)		-	-	-
- Basic		0,01	3,16	1,00
- Diluted		0,01	3,16	1,00

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

EUR millions	H1 2020	2020	H1 2021
<b>NET INCOME</b>	<b>0</b>	<b>43</b>	<b>13</b>
<b>Items that may subsequently be reclassified through profit or loss</b>	<b>3</b>	<b>3</b>	<b>(4)</b>
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	4	4	(5)
Tax on items that may subsequently be reclassified through profit or loss	(1)	(1)	1
<b>Items that may not be reclassified through profit or loss</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL UNREALIZED OR DEFERRED GAINS OR LOSSES THROUGH EQUITY</b>	<b>3</b>	<b>3</b>	<b>(4)</b>
<b>NET INCOME AND GAINS OR LOSSES THROUGH EQUITY</b>	<b>3</b>	<b>46</b>	<b>9</b>

## Equity

	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			
EUR millions								
<b>EQUITY</b>								
<b>AS OF DECEMBER 31, 2019</b>	<b>1 350</b>	<b>108</b>	<b>1 458</b>	<b>(0)</b>	<b>(14)</b>	<b>(14)</b>		<b>1 444</b>
Stocks issued	-	-	-	-	-	-		-
Dividends	-	(45)	(45)	-	-	-		(45)
Changes in fair value of financial assets through equity	-	-	-	(0)	-	(0)		(0)
Changes in fair value of derivatives through equity	-	-	-	-	3	3		3
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-		-
Net income for the period	-	43	43	-	-	-		43
Other movements	-	-	-	-	-	-		-
<b>EQUITY</b>								
<b>AS OF DECEMBER 31, 2020</b>	<b>1 350</b>	<b>106</b>	<b>1 456</b>	<b>(0)</b>	<b>(11)</b>	<b>(11)</b>		<b>1 445</b>
Stocks issued	-	-	-	-	-	-		-
Dividends	-	(49)	(49)	-	-	-		(49)
Changes in fair value of financial assets through equity	-	-	-	-	-	-		-
Changes in fair value of derivatives through equity	-	-	-	-	(4)	(4)		(4)
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-		-
Net income for the period	-	13	13	-	-	-		13
Other movements	-	-	-	-	-	-		-
<b>EQUITY</b>								
<b>AS OF JUNE 30, 2021</b>	<b>1 350</b>	<b>70</b>	<b>1 420</b>	<b>-</b>	<b>(15)</b>	<b>(15)</b>		<b>1 405</b>

The Ordinary Shareholders' Meeting of May 27, 2021 decided to pay a dividend of EUR 48.6 million, i.e. EUR 3.6 per share (13,500,000 shares). Caisse Française de Financement Local's share capital totaled EUR 1,350 million, comprising 13,500,000 shares.

## Cash flow statement

EUR millions	2020	H1 2021
<b>NET INCOME BEFORE TAX</b>	<b>59</b>	<b>20</b>
+/- Depreciation and write-downs	(2)	(4)
+/- Expense/income from investing activities	32	138
+/- Expense/income from financing activities	(102)	(158)
+/- Other movements	86	139
<b>= NON-MONETARY ITEMS INCLUDED IN NET INCOME BEFORE TAX AND OTHER ADJUSTMENTS</b>	<b>14</b>	<b>115</b>
+/- Cash from interbank operations	809	(1 252)
+/- Cash from customer operations	(582)	(1 116)
+/- Cash from financing assets and liabilities	632	723
+/- Cash from not financing assets and liabilities	(259)	(380)
- Income tax paid	(27)	(17)
<b>= DECREASE/(INCREASE) IN CASH FROM OPERATING ACTIVITIES</b>	<b>573</b>	<b>(2 042)</b>
<b>CASH FLOW FROM OPERATING ACTIVITIES (A)</b>	<b>646</b>	<b>(1 907)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES (B)</b>	<b>-</b>	<b>-</b>
+/- Cash from or for shareholders	(45)	(10)
+/- Other cash from financing activities <sup>(1)</sup>	731	503
<b>CASH FLOW FROM FINANCING ACTIVITIES (C)</b>	<b>686</b>	<b>493</b>
<b>EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)</b>	<b>-</b>	<b>-</b>
<b>INCREASE / (DECREASE) IN CASH EQUIVALENTS (A + B + C + D)</b>	<b>1 332</b>	<b>(1 414)</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	<b>490</b>	<b>1 822</b>
Cash and balances with central banks (assets & liabilities)	473	1 798
Interbank accounts (assets & liabilities) and loans / sight deposits	17	24
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>1 822</b>	<b>408</b>
Cash and balances with central banks (assets & liabilities)	1 798	383
Interbank accounts (assets & liabilities) and loans / sight deposits	24	25
<b>CHANGE IN NET CASH</b>	<b>1 332</b>	<b>(1 414)</b>

(1) As of December, 31, 2020, the net cash flow of EUR +0,5 billion linked to financing activities corresponded to the change in debt represented by a security. Compared with the variation of EUR -0,7 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.

# Notes to the IFRS financial statements

## Note 1 Accounting and valuation policies

### 1.1 Applicable accounting standards

#### 1.1.1 Application of the accounting standards endorsed by the European Union

The Company prepares its individual condensed financial statements in compliance with IAS 34 Interim financial reporting; they have been reviewed by the statutory auditors. The accompanying notes relate to significant items of the half year and should be read in conjunction with the individual financial statements as of December 31, 2020. The latter have been prepared in compliance with International Financial Reporting Standards (IFRS), as endorsed by and applicable within the European Union; they have been audited by the statutory auditors. The Company's activities do not show any seasonal, cyclical or occasional aspects.

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

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

The individual condensed financial statements as of June 30, 2020 were examined by the Management Board on September 06, 2021 and approved by the Supervisory Board on September 09, 2021.

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

- Amendments to **IAS 39 Financial instruments: recognition and measurement / IFRS 9 Financial instruments / IFRS 7 Financial instruments: disclosures**: issued by IASB on September 26, 2019, endorsed by the European Union on January 15, 2020 (UE Regulation n° 2020/34) and effective for reporting periods beginning on or after January 1, 2020 with early application permitted, these amendments complete "phase 1" of IASB's project and are intended to avoid that the uncertainty arising from interest rate benchmark reform results in an early discontinuation of hedging relationships. IASB aimed thus at mitigating the impacts of this global reform on the financial statements of entities. These amendments bring in exemptions as regards especially the assessment of whether hedged future flows may be deemed highly probable (CFH), the requirement that hedged risk must be separately identifiable as well as the realization of prospective and retrospective effectiveness tests. These exemptions apply to hedging relationships affected by the reform, namely the ones where uncertainties arise about the interest rate benchmark designated as a hedged risk and / or the timing or the amount of interest rate benchmark-based cash flows of the hedged item or of the hedging instrument. They cease to apply only when the uncertainty mentioned is no longer present. As part of "phase 2", IASB has finalized during the second semester of 2020 its works on how to account for the consequences of interest rate benchmark reform; such works have resulted in additional amendments (see below).
- Amendments to **IAS 39 Financial instruments: recognition and measurement/IFRS 9 Financial instruments/IFRS 7 Financial instruments: disclosures/IFRS 4 Insurance contracts/IFRS 16 Leases**: issued by the IASB on August 27, 2020, endorsed by the European Union on January 13, 2021 (UE Regulation No. 2021/25) and effective for reporting periods beginning on or after January 1, 2021 with early application permitted, these amendments, which complement those from "phase 1" of IASB's project (see above), finalize "phase 2" of the project and are intended to address the financial reporting consequences of the actual replacement of existing interest rate benchmarks with alternative reference rates specified under the interest rate benchmark reform. These amendments thus apply to every change in the basis for determining the contractual cash flows provided that this change is a direct consequence of the reform and there is an economic equivalence between the former and the new basis for determining those flows.

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

When such changes relate to financial assets or financial liabilities involved in an hedge relationship, the latter shall be re-documented and the IAS 39 "phase 2" amendment specifies further reliefs so as to enable the continuation of hedged relationships beyond the end of application of "phase 1" reliefs. These reliefs apply in particular to the way

retrospective effectiveness tests shall be performed (option to set at zero the cumulative change in fair value of the hedged item and the hedging instrument), the retention of the CFH reserve that relates to forecast transactions (the cumulative gains and losses recognized in Other comprehensive income are deemed to have been determined on the basis of the same rate as the one of future hedged cash flows), the hedging of group of items (requirement to split the group into two sub-groups, one based on the former rate and another on the new one) and the "separately identifiable" requirement of a non-contractually specified portion of hedged risk (deemed fulfilled as regards an alternative benchmark rate provided that there is a reasonable expectation that it will fulfil the requirement within 24 months).

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

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

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

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

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

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

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

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

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

In 2021, the Company has reinforced its access to derivatives markets of alternative reference rates. The Company has moreover pursued its negotiation efforts with its borrowers, its lenders and its derivatives counterparties in the objective

of transitioning towards alternative reference rates or alternatively of inserting resilient fallback provisions. The Company has adhered to the ISDA Protocol covering those aspects. Another point of attention: in 2020, in the context of the implementation of the IBOR reform, LCH clearing house changed the benchmark rate used both for discounting derivative instruments (discount rate) and for related cash collateral compensation: it was using EONIA and now uses €STER. Value changes arising from switching discount rates led to cash compensation, in accordance with the market's practices. As regards derivatives entered into by the Company that are not eligible to clearing houses, the same modification of the rate used for discounting derivative instruments (discount rate) and for related cash collateral compensation has been made with several counterparties during the first semester of 2021. Regarding index rate, LCH clearing house would contemplate to replace EONIA by €STER during the third quarter of 2021; this replacement would result in cash collateral being paid or received. Similarly, the Company would perform similar modifications of the projection index referenced in its derivative contracts that are not eligible to clearing houses. As of June 30, 2021, the projection index of no derivative contract entered into by the Company has been modified.

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

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

The impact of this amendment on the Company's individual financial statements is being analyzed. It is expected to have no impact, given that the latter is involved in no leases.

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

The impact of this amendment on the Company's individual financial statements is being analyzed. It shall be noted 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, endorsed by the European Union on June 28, 2021 (UE Regulation No. 2021/1080) and effective for reporting periods beginning on or after January 1, 2022 with early application permitted, this amendment prohibits henceforth deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use. Those proceeds as well as related costs shall be recognized in net result.

This amendment will have no impact on the Company's individual financial statements given that it holds no property, plant and equipment.

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

The impact of this amendment on the Company's individual financial statements is being analyzed. It is expected to have no impact, given that the Company is not a party of an onerous contract.

- **Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards/IFRS 9 Financial instruments/IFRS 16 Leases/IAS 41 Agriculture:** issued by the IASB in May 2020 within the framework of its regular IFRS improvement process, endorsed by the European Union on June 28, 2021 (UE Regulation No. 2021/1080) and effective for reporting periods beginning on or after January 1, 2022 (except for the amendment to IFRS 16) with early application permitted:
- IFRS 1 amendment extends to the cumulative translation differences from foreign operations the relief available for subsidiaries to measure its assets and liabilities at the carrying amounts that would be included in the parent's consolidated financial statements. It is available for subsidiaries that adopt IFRS later than their parent;
- IFRS 9 amendment clarifies which fees an entity includes when it applies the "10 per cent" test, with the objective of deciding whether or not the terms of modified financial liability may be deemed substantially different from initial terms. Only fees paid or received between the borrower and its lender may be taken into account, including those paid or received by one of them on the other's behalf;

- IFRS 16 amendment removes the illustration of the reimbursement of leasehold improvements in the purpose of avoiding any confusion regarding the treatment of lease incentives. As the amendment only regards the removal of an illustrative example, no effective date is stated;
- IAS 41 amendment concerns agricultural activity.

The amendment to IFRS 1 is not applicable to the Company's individual financial statements. The amendments to IAS 41 and IFRS 16 will have no impact on the Company's individual financial statements. The 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, 2023 with early application permitted, this amendment clarifies the distinguishing criteria between current liabilities on the one hand and non-current liabilities on the other hand.

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

- **IFRS 17 Insurance contracts**: issued by IASB in May 2017, amended by IASB in June 2020, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2023 (June 2020 amendments have postponed by 2 years this date, which was initially January 1, 2021), this standard, which will replace IFRS 4 standard, clarifies in particular how all insurance contracts (life, non-life, insurance and reinsurance) shall be accounted for, contracts for which the entity is the policyholder being in particular out of the scope (excepted reinsurance contracts).

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

- Amendment to **IAS 8 Accounting policies, changes in accounting estimates and errors**: issued by IASB in February 2021, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2023 with early application permitted, this amendment modifies the definition of "accounting estimates" so as to being able to better distinguishing between a change in an accounting estimate and the correction of an error.

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

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

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

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

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

## 1.2 Accounting principles applied to the financial statements

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

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

Judgments were principally made in the following areas:

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

These judgments are detailed in the following chapters.

Estimates were principally made in the following areas:



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

### 1.2.1 Offsetting financial assets and liabilities

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

### 1.2.2 Foreign currency transactions

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

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

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

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

### 1.2.3 Trade date and settlement date accounting

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

### 1.2.4 Financial assets

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

#### 1.2.4.1 Business model

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

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

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

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

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

#### 1.2.4.2 Characteristics of contractual cash flows (SPPI criterion)

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



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

#### 1.2.4.3 Financial assets measured at amortized cost

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

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

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

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

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

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

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

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

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

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

#### 1.2.4.5 Financial assets measured at fair value through profit or loss

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

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

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

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

#### 1.2.4.6 Designation options

The Company does not use the following options:

- option to designate a financial asset as measured at fair value through profit or loss: this option can be exercised only if it eliminates or significantly reduces a recognition inconsistency for assets or liabilities (accounting mismatch);

- option to present in other comprehensive income subsequent changes in fair value of particular investments in equity instruments; the Company does not hold such instruments.

#### 1.2.4.7 Impairment of financial assets

##### Defining the impairment base

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

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

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

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

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

##### Assessing whether credit risk has significantly increased

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

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

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

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

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

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

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

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

Stages transitions must be compliant with the following rules:

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

- for the contracts in Forbearance, exiting from Stage 2 or as appropriate Stage 3 (and getting back to Stage 1) can only occur after a cure period of at least two years which starts from the date when the forbearance had been granted if the counterparty was not in “default” within the meaning of the CRR or from the date of exit from “default” if it was.

### Measuring the amount of the expected credit loss

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

In the case of French local authorities, the main hypothesis as well as the scenarios and their weighting are presented below. The hypothesis of these scenarios are regularly updated and have in particular been adapted so as to take into account the impacts of Covid-19 pandemic. Apart from the change in the method to build the three scenarios (see below), it has notably been taken into account the effects of Covid-19 pandemic through a recalibration of probabilities of default of counterparties.

- a base scenario (weighted at 60%) based on an evolution of local authorities 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 authorities cannot compensate in our scenario.
- an upside scenario (weighted at 25%) based on the same hypothesis is 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 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:
  1. Covid-19 negative impact on tax revenues and service revenues as well as other revenues is increased by 30%,
  2. financial endowments granted by French State do not increase in 2021 and 2022, and remain at their level of 2020,
  3. 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, as of December 31, 2020, an increase in 10% for the downside scenario combined with a decrease in 5% for both upside and base scenarios would have 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 authorities and inter-municipal grouping with own-source tax revenue, given that this portfolio is the most material for the Company. These calculations have been performed by taking the following steps:

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

For the contracts classified in Stage 3, the expected credit losses 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 Other comprehensive income, cumulative gains or losses previously recognized in equity are, applying FIFO method, reversed in profit or loss on disposal, under the item of the net banking income used for recognizing the net gains and losses of this category.

## Case of repos and reverse repos operations

Sold securities that are subject to a commitment to repurchase them at a predetermined price (repos) are not derecognized and remain on the balance sheet in their original category. The corresponding liability is recognized as financial liabilities at amortized cost. The asset is reported as pledged in the notes.

Securities purchased under commitment to sell at a predetermined price (reverse repos) are recognized off-balance sheet and the corresponding loans are recognized on the balance sheet as financial assets at amortized cost.

The difference between the sale and the repurchase price is recognized as interest income or expense and is capitalized and amortized over the term of the maturity of the contract using the effective interest rate method.

## Case of prepayments

The prepayment of a loan results in general in the payment of a penalty which is included within the gain or the loss realized on derecognition.

In the case of a prepayment without refinancing, the loan does not exist any longer and is derecognized.

In the case of a prepayment with refinancing, the accounting treatment differs depending on whether the restructured terms are substantially different from the original terms; it is in particular the case in one of the following situations:

- the restructured loan is not classified in the same accounting category as the original loan, either because its contractual cash flows are from now compliant with the SPPI criterion (while they were not originally) or because they are not any longer (while they were originally);
- the net present value of the cash flows under the new conditions, including any fees paid net of any fees received, is more than 10% different from the net present value of the cash flows remaining from the original loan, both of these present values being discounted at the original effective interest rate.

If restructured terms are not substantially different from original terms, the original loan is not derecognized. Its gross carrying amount is adjusted so as to reflect the post-restructuring terms, including costs and fees incurred; it corresponds to the present value of the cash flows of the restructured loan discounted at the original effective interest rate (or, in the case of purchased or originated credit-impaired assets, at this rate adjusted so as to reflect credit quality). Such an adjustment, called "catch-up" effect, constitutes the excess of the restructured margin of the loan over its original margin: it is immediately recognized in profit or loss of the reporting period, within the net interest margin. Furthermore, for financial assets measured at amortized cost or at fair value through the item Other comprehensive income, the Company assesses whether, due to the modifications in the terms, a significant increase in credit risk since initial recognition has occurred: if so, an adjustment of the loss allowance for expected credit losses is recognized (see above).

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

restructured: it is immediately recognized in profit or loss of the reporting period, under the item of the net banking income used for recognizing the net gains and losses of the category of the derecognized financial asset.

### 1.2.5 Financial liabilities

#### 1.2.5.1 Financial liabilities held for trading

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

#### 1.2.5.2 Financial liabilities designated at fair value through profit or loss

The Company does not use this option.

#### 1.2.5.3 Financial liabilities at amortized cost

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

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

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

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

#### 1.2.5.4 Derecognition of financial liabilities

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

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

### 1.2.6 Derivatives

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

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

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

#### 1.2.6.1 Derivatives not documented in a hedging relationship

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

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

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

#### 1.2.6.2 Hedging derivatives

Hedging derivatives can be classified as either:

- hedges of the fair value of a recognized asset or liability or a firm commitment (fair value hedge); or

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

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

- precise and formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be effective both prospectively and retrospectively in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the reporting periods;
- the hedge, effectiveness of which has been reliably measured, shall be effective at inception and on an ongoing basis;
- for hedges of a future cash flow, the future transaction that constitutes if applicable the hedged item must be highly probable and must 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 effective portion of the changes in the fair value of derivatives that are designated and documented in a cash flow hedging relationship and that respect the criteria set out above, is recognized in equity. The non-efficient portion of the changes in the fair value of the derivatives is recognized in profit or loss. Amounts deferred in equity are recycled to profit or loss and classified as income or expense when the hedged firm commitment or forecast transaction affects the profit or loss.

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

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

#### 1.2.6.3 Hedging of the interest rate risk of a portfolio

The Company uses the provisions of IAS 39 as adopted by the European Union (IAS 39 carve-out) because it better reflects the way the Company manages its financial instruments.

The objective of hedging relationships is to reduce the interest rate risk exposure stemming from certain categories of assets or liabilities designated as the hedged items.

The Company performs a comprehensive analysis of its interest rate risk exposure. It consists in assessing fixed-rate exposure generated by all fixed-rate balance sheet items. The Company selects financial assets and liabilities to be included in the hedge of the portfolio's interest rate risk exposure. The same methodology is constantly applied to select financial assets and liabilities that are included in the portfolio. Financial assets and liabilities are classified by time buckets. Hence, when they are removed from the portfolio, they must be removed from all time-buckets on which they have an impact.

The Company chose to put together homogeneous portfolios of loans and portfolios of bonds. Based on this gap analysis, which is realized on a net basis, the Company defines at inception the risk exposure to be hedged, the length of time buckets and the testing method and frequency.

Most of macro-hedging instruments used by the Company are plain-vanilla interest rate swaps designated at inception within a fair value hedge of fixed-rate resources or expenses. Hedge effectiveness is assessed through the use of target schedules. Prospective (realized at inception) and retrospective (realized at each half-year and annual closing date) effectiveness tests are intended to ensure there is no "over" hedging: they are successful if, for each time-bucket of the target schedule, the nominal amount of hedged items is superior to the notional amount of hedging derivatives.

Hedging instruments are made up of a portfolio of derivatives, in which positions may be offset. Hedging items are recognized at fair value (including accrued interest expense or income) with fair value adjustments recognized in profit or loss.

Revaluation related to the hedged risk is recognized on the balance sheet (respectively in asset or liability depending on whether the groups of hedged items are assets or liabilities) as Fair value revaluation of portfolio hedge with fair value adjustments recognized in profit or loss.

#### 1.2.7 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market, or in its absence, the most advantageous market the Company has access to on that date. The fair value of a liability reflects its non-performance risk, which includes in particular the Company's own credit risk.

Market prices are used to determine fair value where an active market exists. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on a



going concern basis. Active market prices are not, however, available for a significant number of the financial assets and liabilities held or issued by the Company.

If a financial instrument is not listed on an active market, valuation techniques are used. Valuation techniques include the use of market data from recent arm's length transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same if any, and valuation models.

A valuation model reflects what the transaction price would have been on the measurement date in current market conditions. The valuation model incorporates all the factors that market participants would consider when pricing the instrument; for example modifications in the credit risk quality of the underlying financial instruments as well as instrument and market liquidity. Within this framework, the Company uses its own valuation models and market assumptions, *i.e.* present value of cash flows or any other techniques based on market conditions existing at closing date.

#### 1.2.7.1 Fair value of financial instruments measured at amortized cost

The following additional comments are applicable to the fair value of financial instruments measured at amortized cost presented in note 7 of the financial statements:

- the fair value of fixed-rate loans is estimated by comparing market interest rates when the loans were granted with current market interest rates offered on similar loans;
- caps, floors and prepayment penalties are included in determining the fair value these instruments.

#### 1.2.7.2 Financial instruments measured at fair value

Non derivative financial assets measured at fair value, either through other comprehensive income or through profit or loss, and derivative instruments are measured at fair value by reference to listed market prices when available. When listed market prices are not available, fair value is estimated on the basis of valuation models or discounted cash flows method, using as much as possible observable, and if necessary non-observable market data.

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

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

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

In addition, a value adjustment is included in the fair value of derivatives to reflect the impact of counterparty's credit risk (CVA – credit valuation adjustment) or the Company's own credit risk (DVA - debit valuation adjustment). Value adjustment allows switching from a fair value based on cash flows discounted at risk-free rate, *i.e.* without considering credit risk, into a fair value including this risk. Its calculation is based on the risk exposures combined with loss rates including market parameters.

### 1.2.8 Deferred taxes

Deferred taxes are recognized using the liability method to account for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The tax rates enacted or substantively enacted at closing date are used to determine deferred taxes.

Deferred tax assets are recognized to the extent that it is probable that sufficient future taxable profit will be available against which the temporary differences can be utilized.

Deferred tax liabilities are recognized to account for temporary differences arising from investments in subsidiaries, jointly controlled companies and associates, except where the timing of the reversal of the temporary difference cannot be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred taxes relating to fair value re-measurements of financial assets measured at fair value through other comprehensive income and cash flow hedges, and other operations which are charged or credited directly to other comprehensive income, are also charged or credited to other comprehensive income.

### 1.2.9 Provisions

Provisions mainly include mainly provisions for litigations, restructuring, and loan commitments.

Regarding mainly litigations and restructuring, under IAS 37, a provision is recognized when and only when:

- the Company has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate of the amount of the obligation can be made.

A provision is measured at the present value of the expenditures expected to be required to settle the obligation. The discount rate used is the pre-tax rate that reflects current market assessments of the time value of money.

Regarding loan commitments, the followings must be distinguished (see above):

- loan commitments measured at fair value through profit or loss: they are fully in the scope of IFRS 9. Therefore, they are not impaired for expected credit losses but valued and their valuation is recognized on the asset side;
- other loan commitments: they are in the scope of the provisions of IFRS 9 related to derecognition and impairment only. Therefore, loss allowances for expected credit losses related to these commitments are measured and recognized the same way as the ones related to financial assets measured at amortized cost or fair value through other comprehensive income. The assessment of whether credit risk has significantly increased since initial recognition is performed from the date on which the Company is irrevocably and legally committed, *i.e.* from the issuing of a letter of loan offer. Besides, related loss allowances are recognized on the liability side with an offsetting entry to profit or loss as cost of risk.

### 1.2.10 Interest income and expense

For all interest-bearing instruments, interest income and expense are recognized in profit or loss using the effective interest rate method (see above).

Accrued interest is recognized on the balance sheet under the same item as the related financial assets or liabilities.

### 1.2.11 Commissions

Most of the commissions arising from the Company's activities are recognized on an accrual basis over the life of the underlying transaction.

Loan commitment commissions are recognized as an adjustment to the effective interest rate and recognized in net interest margin if the loan is withdrawn.

### 1.2.12 Earnings per share

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

### 1.2.13 Cash and cash equivalents

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

### 1.2.14 Related-party transactions

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

### 1.2.15 Segment reporting

The Company's unique activity involves the financing or refinancing of loans to public sector entities and exporters.

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



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

### 2.1 - Central banks

	12/31/2020	6/30/2021
Mandatory reserve deposits with central banks	-	-
Other deposits	1 798	383
<b>TOTAL</b>	<b>1 798</b>	<b>383</b>

### 2.2 - Financial assets at fair value through profit or loss

#### 2.2.1. Analysis by nature

	12/31/2020	6/30/2021
Loans and advances to customers	4 243	3 821
Non-hedging derivatives <sup>(1)</sup>	22	15
<b>TOTAL</b>	<b>4 266</b>	<b>3 837</b>

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

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

#### 2.2.2. Analysis by counterparty

	12/31/2020	6/30/2021
Public sector	3 839	3 446
Other - guaranteed by a State or local government	404	375
<b>TOTAL</b>	<b>4 243</b>	<b>3 821</b>

### 2.3 - Financial assets at fair value through equity

#### 2.3.1. Analysis by nature

	12/31/2020	6/30/2021
Loans	-	-
Bonds	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>

#### 2.3.2. Analysis by counterparty

	12/31/2020	6/30/2021
Public sector	-	-
Credit institutions guaranteed by the public sector	-	-
<b>Total public sector</b>	<b>-</b>	<b>-</b>
of which replacement assets	-	-

### 2.4 - Financial assets at amortized cost

#### 2.4.1. Analysis by nature and by counterparty

	12/31/2020	6/30/2021
Current accounts	4	5
SFIL - Refinancing loans for export credits guaranteed by the French State <sup>(1)</sup>	3 539	4 013
SFIL - Loans not guaranteed by public sector assets <sup>(2)</sup>	-	-
Loans from credit institutions guaranteed by a local authority or municipal credit	210	208
<b>Subtotal loans and receivables from credit institutions at amortized cost</b>	<b>3 753</b>	<b>4 226</b>
Public sector loans	45 040	45 954
Public sector guaranteed loans	1 083	1 012
<b>Subtotal loans and receivables from customers at amortized cost</b>	<b>46 123</b>	<b>46 966</b>
Securities issued by the public sector	7 064	6 725
Securities guaranteed by the public sector	81	-
Securities issued by credit institutions	1 470	920
<b>Securities subtotal at amortized cost</b>	<b>8 615</b>	<b>7 645</b>
<b>TOTAL FINANCIAL ASSETS AT AMORTIZED COST</b>	<b>58 491</b>	<b>58 837</b>

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

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

## 2.4.2. Replacement assets

	12/31/2020	6/30/2021
Current accounts	4	5
SFIL - Loans not guaranteed by public sector assets <sup>(1)</sup>	-	-
securities issued credit institutions	1 470	920
<b>TOTAL</b>	<b>1 474</b>	<b>924</b>

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

## 2.4.3. Classification by level of credit risk and impairment

	12/31/2020								Net Amount	Accumulated partial write-	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	3 753	-	-	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	-	-

	6/30/2021								Net Amount	Accumulated partial write-	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	4 226	-	-	4 226	(0)	-	-	(0)	4 226	-	-
Loans and receivables from customers at amortized cost	44 511	2 162	320	46 993	(5)	(15)	(7)	(27)	46 966	-	-
Securities at amortized cost	6 316	1 341	4	7 662	(4)	(13)	(0)	(17)	7 645	-	-
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	55 054	3 502	324	58 880	(9)	(27)	(7)	(44)	58 837	-	-

The breakdown of financial assets at amortized cost by Stage at June 30, 2021 has not changed significantly compared to December 31, 2020. The associated impairments also changed marginally compared to December 31, 2020.

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 122 forbore contracts as of June 30, 2021, with 76 borrowers, for a total exposure of EUR 449 million.

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

#### 3.1 - Financial liabilities at fair value through profit or loss

	12/31/2020	6/30/2021
Non hedging derivatives <sup>(1)</sup>	1 050	872
<b>TOTAL</b>	<b>1 050</b>	<b>872</b>

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

#### 3.2 - Financial liabilities at amortized costs

	12/31/2020	6/30/2021
Current accounts	-	-
Term loans from parent company <sup>(1)</sup>	6 606	5 846
<b>Sub-total debts to credit institutions at amortized cost</b>	<b>6 606</b>	<b>5 846</b>
Obligations foncières	47 270	46 877
Registered covered bonds	7 822	7 553
<b>Sub-total debts securities at amortized cost</b>	<b>55 092</b>	<b>54 430</b>
<b>TOTAL FINANCIAL LIABILITIES AT AMORTIZED COST</b>	<b>61 698</b>	<b>60 276</b>

(1) As of June 30, 2021, the funding borrowed from SFIL within the framework of the financing agreement was comprised of different loans with maturities that could initially run from one day to ten years with an Euribor or €ster index.

#### 3.3 - Provisions

	12/31/2020	Additions	Amounts used	Unused amounts reversed during the period	Increase in the discounted amount (passage of time) and effect of any change in the discount rate	Other movements	6/30/2021
Commitments and guarantees given	2	0	-	(0)	-	-	2
Other provisions <sup>(1)</sup>	3	0	-	-	-	-	3
<b>TOTAL</b>	<b>5</b>	<b>0</b>	<b>-</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>5</b>

(1) As a reminder, in the context of the health crisis and its consequences for the cruise industry, Caisse Française de Financement Local decided, during 2020, to provision EUR 2.6 million for risks on foreign exchange hedging instruments used to refinance dollar-denominated export credits in this sector. This provision was revalued at June 30, 2021 and increased to EUR 2.7 million (See Note 8.).

#### 3.4 - Accruals and other liabilities

Cash collateral received by Caisse Française de Financement Local amounted to EUR 380 million as of June 30, 2021 and EUR 567 million as of December 31, 2020.

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

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

The following table shows the breakdown by benchmark index of financial assets and liabilities as well as derivatives affected by the amendment to IFRS9, IAS39 and IFRS7, which allows exemption from certain hedge accounting requirements under the benchmark interest rate reform:

Current benchmark index rate	Exposure at of 6/30/2021	
	Oustanding amounts	Notional amount net
	Financial assets (excl. derivatives) concerned by Benchmark index rate reform	Financial liabilities (excl. derivatives) concerned by Benchmark index rate reform
		Derivatives concerned by Benchmark index rate reform
EONIA	580	3 915
EURIBOR	12 860	972
ESTER <sup>(1)</sup>	-	1 937
LIBOR USD	781	-
LIBOR GBP	46	-
LIBOR CHF	218	-
STIBOR	17	-
Fixed rate	43 034	47 700
Others	106	2 185
<b>TOTAL</b>	<b>57 641</b>	<b>56 709</b>

(1) This amount relates solely to contracts initially entered into against €STR

### 4.2 - Transactions with related-parties

#### Analysis by nature

	Parent company <sup>(1)</sup>		Other related parties <sup>(2)</sup>	
	12/31/2020	6/30/2021	12/31/2020	6/30/2021
<b>ASSETS</b>				
Hedging derivatives	1 447	1 125	-	-
Loans and advances to banks at amortized cost	3 539	4 013	-	-
Securities at amortized cost	-	-	148	12
Accruals and other assets	1	14	0	0
<b>LIABILITIES</b>				
Financial liabilities at fair value through profit or loss	157	121	-	-
Hedging derivatives	2 687	2 226	-	-
Due to banks at amortized cost	6 606	5 846	-	-
Debt securities at amortized cost	-	-	868	46
Accruals and other liabilities	27	24	-	0
<b>INCOME STATEMENT</b>				
Interest income	267	128	0	0
Interest expense	(278)	(138)	(34)	(2)
Fee and commission income	3	-	-	-
Fee and commission expense	-	-	(0)	(0)
Net result of financial instruments at fair value through profit or loss	(59)	127	29	3
Gains or losses resulting from derecognition of financial instruments at amortized cost	(4)	0	-	-
Other income	-	-	-	-
Other expense	-	-	-	-
Operating expenses	(95)	(48)	-	-
Cost of risk	0	(0)	0	0
<b>OFF BALANCE SHEET</b>				
Foreign exchange derivatives	820	690	-	-
Interest rate derivatives	15 364	14 508	-	-
Financing commitments received	50	50	-	-
Financing commitments given	4 703	4 260	-	-

(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.

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

### 5.1 - Interest income - interest expense

Caisse Française de Financement Local presents interest calculated using the effective interest rate method on financial instruments measured at amortized cost or at market value through equity under the headings "Interest income" and "Interest expense".

These headings also include interest income and expense on financial instruments recognized at fair value through profit or loss because they do not meet the SPPI criterion due to the fact that the cash flows received do not consist solely of principal and interest payments. However, the change in value calculated excluding accrued interest on these financial instruments at fair value through profit or loss is recorded under Net result of financial instruments at fair value through profit or loss (see note 5.3). Interest income and expense on hedging derivatives are included with the revenue generated by the associated hedged items. Meanwhile, certain derivatives not classified as hedging instruments for accounting purposes are held as economic hedges of financial instruments carried at fair value through profit or loss; the interest income and expense on these hedging derivatives are included in the headings recording the interest on these financial instruments.

	H1 2020			H1 2021		
	Income	Expense	Net	Income	Expense	Net
Loans / borrowings with credit institutions	-	-	-	-	-	-
Loans / borrowings with customers	70	-	70	56	-	56
Derivatives outside the hedging relationship	15	(78)	(63)	15	(67)	(52)
<b>Financial assets and liabilities at fair value through profit or loss</b>	<b>85</b>	<b>(78)</b>	<b>7</b>	<b>71</b>	<b>(67)</b>	<b>4</b>
Hedging derivatives	620	(554)	66	579	(535)	44
<b>Hedging derivatives</b>	<b>620</b>	<b>(554)</b>	<b>66</b>	<b>579</b>	<b>(535)</b>	<b>44</b>
Securities	(0)	-	(0)	-	-	-
<b>Financial assets at fair value through equity</b>	<b>(0)</b>	<b>-</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Central bank accounts	-	(2)	(2)	-	(3)	(3)
Accounts and loans / borrowings with credit institutions	12	4	16	17	(2)	15
Accounts and loans / borrowings with customers	375	-	375	330	-	330
Securities	75	(478)	(403)	73	(394)	(321)
<b>Financial assets and liabilities at amortized cost</b>	<b>462</b>	<b>(476)</b>	<b>(14)</b>	<b>420</b>	<b>(398)</b>	<b>22</b>
<b>TOTAL</b>	<b>1 167</b>	<b>(1 108)</b>	<b>59</b>	<b>1 070</b>	<b>(1 001)</b>	<b>70</b>

Interest income and expenses, measured using the effective interest rate method were EUR 420 million and EUR -398 million respectively for the first half of 2021 and EUR 462 million and EUR -476 million respectively for the first half of 2020.

The negative interest paid by CAFFIL on the financial instrument assets represents EUR 4 million and the negative interest received by CAFFIL on the financial instrument liabilities represents EUR 9 million.

### 5.2 - Fees and commissions

	H1 2020	H1 2021
Commissions paid to / received from SFIL	(1)	-
Other commissions <sup>(1)</sup>	14	(1)
<b>TOTAL</b>	<b>13</b>	<b>(1)</b>

(1) As at June 30, 2020, this line included 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.

	H1 2020	H1 2021
Net result on financial instruments at fair value through profit or loss	(17)	(3)
Net result of hedge accounting	(1)	2
Net result of foreign exchange transactions	(0)	(1)
<b>TOTAL</b>	<b>(18)</b>	<b>(3)</b>

#### Analysis of net result of hedge accounting

	H1 2020	H1 2021
<b>Fair value hedges</b>	<b>0</b>	<b>(0)</b>
Fair value changes in the hedged item attributable to the hedged risk	(182)	371
Fair value changes in the hedging derivatives	182	(371)
<b>Cash flow hedges</b>	<b>-</b>	<b>-</b>
Fair value changes in the hedging derivatives - ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
<b>Portfolio hedge</b>	<b>-</b>	<b>0</b>
Fair value changes in the hedged item	329	(323)
Fair value changes in the hedging derivatives	(329)	323
<b>CVA / DVA Impact <sup>(1)</sup></b>	<b>(1)</b>	<b>2</b>
<b>TOTAL</b>	<b>(1)</b>	<b>2</b>

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

	H1 2020	H1 2021
Net result of disposals or prepayments of bonds at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to banks at amortized cost	-	0
Net result of disposals or prepayments of loans and advances to customers at amortized cost	5	9
Net result of disposals or prepayments of due to banks at amortized cost	-	-
Net result of disposals or prepayments of debt securities at amortized cost	-	-
<b>TOTAL</b>	<b>5</b>	<b>9</b>

#### Detail of on derecognition of assets and liabilities at amortized cost

	H1 2021	
	Notional amount	Impact net result
Prepayments of securities	-	-
<b>Net result of disposals or prepayments of securities at amortized cost</b>	<b>-</b>	<b>-</b>
Restructuring of loans and advances to credit institutions <sup>(1)</sup>	2 433	0
<b>Net result of disposal or prepayment of loans and advances to credit institution at amortized cost</b>	<b>2 433</b>	<b>0</b>
Prepayments of loans and advances to customers	39	2
Restructuring of loans and advances to customers	309	7
<b>Net result of disposals or prepayments of loans and advances to customers at amortized cost</b>	<b>348</b>	<b>9</b>
<b>Sub-total Assets</b>	<b>2 781</b>	<b>9</b>
Prepayments of debt to banks	-	-
<b>Net result of disposals or prepayments of debt to banks at amortized cost</b>	<b>-</b>	<b>-</b>
Prepayments of debt securities	-	-
<b>Net result of disposals or prepayments of debt securities at amortized cost</b>	<b>-</b>	<b>-</b>
<b>Sub-total Liabilities</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>-</b>	<b>9</b>

(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 by SFIL. As a reminder, these loans benefit from an irrevocable and unconditional 100% guarantee granted by the French State.

#### 5.5 - Operating expenses

	H1 2020	H1 2021
Payroll costs	-	-
Other general and administrative expenses <sup>(1)</sup>	(52)	(49)
Taxes	(6)	(6)
<b>TOTAL</b>	<b>(58)</b>	<b>(56)</b>
<i>of which recharged costs by SFIL</i>	<i>(52)</i>	<i>(48)</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.

## 5.6 - Cost of risk

	H1 2020				
	January 1st	Impairments	Reversals	Losses	June 30
Stage 1	(0)	-	-	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
<b>Financial assets at fair value through equity</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(0)</b>
Stage 1	(0)	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
<b>Loans and advances due from banks at amortized cost</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>-</b>	<b>(0)</b>
Stage 1	(1)	(8)	6	-	(5)
Stage 2	(24)	(4)	10	-	(19)
Stage 3	(10)	(2)	2	-	(10)
<b>Loans and advances to customers at amortized cost</b>	<b>(35)</b>	<b>(14)</b>	<b>17</b>	<b>-</b>	<b>(33)</b>
Stage 1	(4)	(0)	0	-	(4)
Stage 2	(12)	(2)	0	-	(13)
Stage 3	(0)	(0)	-	-	(0)
<b>Bonds at amortized cost</b>	<b>(16)</b>	<b>(2)</b>	<b>1</b>	<b>-</b>	<b>(18)</b>
Stage 1	(0)	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
<b>Off-balance sheet commitments at amortized cost</b>	<b>(0)</b>	<b>(0)</b>	<b>0</b>	<b>-</b>	<b>(0)</b>
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	H1 2021				
	January 1	Impairments	Reversals	Losses	June 30
Stage 1	-	-	-	-	-
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
<b>Financial assets at fair value through equity</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Stage 1	(0)	(0)	0	0	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
<b>Loans and advances due from banks at amortized cost</b>	<b>-</b>	<b>(0)</b>	<b>0</b>	<b>0</b>	<b>(0)</b>
Stage 1	(4)	(1)	3	(2)	(5)
Stage 2	(17)	(1)	1	2	(15)
Stage 3	(6)	(2)	1	0	(7)
<b>Loans and advances to customers at amortized cost</b>	<b>(26)</b>	<b>(4)</b>	<b>5</b>	<b>-</b>	<b>(27)</b>
Stage 1	(4)	(0)	0	(0)	(4)
Stage 2	(13)	(1)	2	0	(13)
Stage 3	(0)	-	-	-	(0)
<b>Bonds at amortized cost</b>	<b>(17)</b>	<b>(1)</b>	<b>2</b>	<b>(0)</b>	<b>(17)</b>
Stage 1	(0)	0	(0)	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
<b>Off-balance sheet commitments at amortized cost</b>	<b>-</b>	<b>0</b>	<b>(0)</b>	<b>-</b>	<b>(0)</b>
<b>TOTAL</b>	<b>(45)</b>	<b>(6)</b>	<b>7</b>	<b>-</b>	<b>(44)</b>

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

### 6.1 - Regular way trade

	12/31/2020	6/30/2021
Assets to be delivered	-	-
Liabilities to be received	-	-

### 6.2 - Guarantees

	12/31/2020	6/30/2021
Guarantees received from credit institutions	-	-
Enhanced guarantees <sup>(1)</sup>	8 243	8 273
Guarantees received from customers <sup>(2)</sup>	1 746	1 646

(1) Irrevocable and unconditional guarantee issued by the French State to the benefit of Caisse Française de Financement Local for the refinancing of large export credits.

(2) Guarantees received from customers are generally granted by local governments.

### 6.3 - Financing commitments

	12/31/2020	6/30/2021
Financing commitments granted to credit institutions <sup>(1)</sup>	4 703	4 260
Financing commitments granted to customers <sup>(2)</sup>	63	53
Financing commitments received from credit institutions <sup>(3)</sup>	50	50
Financing commitments received from customers	-	-

(1) Within the framework of the large export credit refinancing business, the balance corresponded to a commitment of Caisse Française de Financement Local to finance its parent company (SFIL).

(2) The financing commitments on loans and lines of credit corresponded to contracts issued but not paid out.

(3) This item concerned the amount of the overdraft authorized on the current account with SFIL, which totaled EUR 50 million.

### 6.4 - Other commitments

	12/31/2020	6/30/2021
Commitments given <sup>(1)</sup>	5	5
Commitments received <sup>(2)</sup>	233	228

(1) These concern the irrevocable payment commitment to the Fonds de garantie des dépôts et de résolution.

(2) these mainly concern a loan granted to a credit institution and guaranteed by a public sector entity.



## 6.5 - Impairments on financing commitments and other commitments granted

12/31/2020											
Financing commitments and financial guarantees under IFRS 9									Commitments and financial		
Gross amount				Impairment				Net amount	Nominal amount	Accumulated negative	
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	-	-
<b>TOTAL</b>	<b>4 766</b>	<b>-</b>	<b>-</b>	<b>4 766</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>(0)</b>	<b>4 766</b>	<b>-</b>	<b>-</b>

6/30/2021											
Financing commitments and financial guarantees under IFRS 9									Commitments and financial		
Gross amount				Impairment				Net amount	Nominal amount	Accumulated negative	
Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total				
Granted to credit institutions	4 260	-	-	4 260	(0)	-	-	(0)	4 259	-	-
Granted to customers	53	-	-	53	(0)	-	-	(0)	53	-	-
<b>TOTAL</b>	<b>4 312</b>	<b>-</b>	<b>-</b>	<b>4 312</b>	<b>(0)</b>	<b>-</b>	<b>-</b>	<b>(0)</b>	<b>4 312</b>	<b>-</b>	<b>-</b>

## 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 c. below; it can be seen that most assets are valued according to a technique that takes into account the fact that significant parameters are not observable for the assets since the exposure primarily consists of loans, a form of debt that is not listed on liquid markets. For the valuation of liabilities, certain observable parameters have been used.

These fair values provide interesting information but are not relevant for drawing conclusions on the value of the company or on the income generated in the future. The assets and liabilities stand out for being consistent in rates and maturity and moreover are intended to be maintained on the balance sheet until their maturity, given the specialized activity of the company.

#### 7.1.1. Composition of the fair value of the assets

	12/31/2020		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1 798	1 798	-
Financial assets at fair value through profit or loss	4 266	4 266	-
Hedging derivatives	4 951	4 951	-
Financial assets at fair value through equity	-	-	-
Loans and advances to banks 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)
<b>TOTAL</b>	<b>69 506</b>	<b>68 589</b>	<b>(917)</b>

	6/30/2021		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	383	383	-
Financial assets at fair value through profit or loss	3 837	3 837	-
Hedging derivatives	3 828	3 828	-
Financial assets at fair value through equity	-	-	-
Loans and advances to banks at amortized cost	4 226	4 222	(4)
Loans and advances to customers at amortized cost	46 966	46 373	(593)
Securities at amortized cost	7 645	6 951	(694)
<b>TOTAL</b>	<b>66 885</b>	<b>65 594</b>	<b>(1 291)</b>

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

	12/31/2020		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	1 050	1 050	-
Hedging derivatives	6 833	6 833	-
Due to banks at amortized cost	6 606	6 603	(3)
Debt securities at amortized cost	55 092	55 656	564
<b>TOTAL</b>	<b>69 581</b>	<b>70 142</b>	<b>561</b>

	6/30/2021		
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	872	872	-
Hedging derivatives	5 695	5 695	-
Due to banks at amortized cost	5 846	5 855	9
Debt securities at amortized cost	54 430	54 706	276
<b>TOTAL</b>	<b>66 843</b>	<b>67 128</b>	<b>285</b>

### 7.1.3. Methods used to determine the fair value of financial instruments

The fair value of a financial instrument is determined on the basis of prices that can be observed in the market for the instrument itself or for a comparable instrument, or with the help of a technical evaluation utilizing observable market data. A hierarchy of the methods used to establish fair value has been drawn up. It is composed of the following three levels:

- Level 1 corresponds to instruments considered to be liquid, i.e. their valuation is based on the price observed in a liquid market, for which Caisse Française de Financement Local assured itself of the existence of a large number of contributors. Level 1 securities include in particular certain government bonds.
  - Level 2 uses another method to determine the value of instruments for which Caisse Française de Financement Local can not observe market prices, but observes such for similar instruments by the same issuer or guarantor listed in the market. In this case, observable prices and other data observable in the market are used and an adjustment is made to account for the degree of the security's lack of liquidity.
  - level 3, when there is no active market or observable market data, the fair value of instruments is determined by using a valuation spread developed from an internal model. Level 3 hedging derivatives are valued using these internal
- The measurement of derivatives is based on an analysis combining the observability of the market data used in the assessment and the robustness of the valuation models measured in 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.

Fair value of financial assets	12/31/2020			
	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 to banks at amortized cost	4	3 629	262	3 895
Loans and advances to customers at amortized cost	-	-	45 871	45 871
Securities at amortized cost	3 977	2 094	1 737	7 808
<b>TOTAL</b>	<b>5 779</b>	<b>10 351</b>	<b>52 459</b>	<b>68 589</b>

Fair value of financial assets	6/30/2021			
	Level 1	Level 2	Level 3	Total
Central banks	383	-	-	383
Financial assets at fair value through profit or loss	-	3	3 833	3 837
Hedging derivatives	-	3 624	204	3 828
Financial assets at fair value through equity	-	-	-	-
Loans and advances to banks at amortized cost	5	3 966	251	4 222
Loans and advances to customers at amortized cost	-	-	46 373	46 373
Securities at amortized cost	3 503	2 025	1 423	6 951
<b>TOTAL</b>	<b>3 890</b>	<b>9 619</b>	<b>52 084</b>	<b>65 594</b>

Fair value of financial liabilities	12/31/2020			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	-	903	147	1 050
Hedging derivatives	-	6 728	104	6 833
Due to banks at amortized cost	-	6 603	-	6 603
Debt securities at amortized cost	40 936	6 810	7 910	55 656
<b>TOTAL</b>	<b>40 936</b>	<b>21 044</b>	<b>8 161</b>	<b>70 142</b>

Fair value of financial liabilities	6/30/2021			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value through profit or loss	-	764	108	872
Hedging derivatives	-	5 629	66	5 695
Due to banks at amortized cost	-	5 855	-	5 855
Debt securities at amortized cost	40 369	6 677	7 660	54 706
<b>TOTAL</b>	<b>40 369</b>	<b>18 925</b>	<b>7 833</b>	<b>67 127</b>

### 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.

	12/31/2020	6/30/2021
Uncertainty inherent in level 3 market parameters	5	4
Uncertainty inherent in level 3 derivatives valuation models	17	17
<b>Sensitivity of the market value of level 3 financial instruments</b>	<b>22</b>	<b>21</b>

### 7.1.4. Transfer between level 1 and 2

	12/31/2020	6/30/2021
Level 1 to level 2	-	-
<b>TOTAL</b>	<b>-</b>	<b>-</b>

## 7.2 - Off-setting financial assets and liabilities

### 7.2.1. Financial assets subject to off-setting, enforceable master netting arrangements and similar agreements

	12/31/2020				
	Gross amounts before off- setting	Gross amounts off-set according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the	
				Effect of master netting arrangements	Financial instruments received as collateral
Derivatives (including hedging instruments)	4 973	-	4 973	(4 088)	(546)
Loans and advances at fair value through profit or loss	4 244	-	4 244	-	-
Loans and advances to banks at amortized cost	3 753	-	3 753	-	-
Loans and advances to customers at amortized cost	46 123	-	46 123	-	-
<b>TOTAL</b>	<b>59 093</b>	<b>-</b>	<b>59 093</b>	<b>(4 088)</b>	<b>(546)</b>

	6/30/2021				
	Gross amounts before off- setting	Gross amounts off-set according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the	
				Effect of master netting arrangements	Financial instruments received as collateral
Derivatives (including hedging instruments)	3 843	-	3 843	(3 341)	(377)
Loans and advances at fair value through profit or loss	3 821	-	3 821	-	-
Loans and advances to banks at amortized cost	4 226	-	4 226	-	-
Loans and advances to customers at amortized cost	46 966	-	46 966	-	-
<b>TOTAL</b>	<b>58 857</b>	<b>-</b>	<b>58 857</b>	<b>(3 341)</b>	<b>(377)</b>

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

	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	
				Effect of master netting arrangements	Financial instruments received as collateral
Derivatives (including hedging instruments)	7 883	-	7 883	(4 088)	-
Due to banks at amortized cost	6 606	-	6 606	-	-
Customer borrowings and deposits at amortized cost	-	-	-	-	-
<b>TOTAL</b>	<b>14 489</b>	<b>-</b>	<b>14 489</b>	<b>(4 088)</b>	<b>-</b>

	6/30/2021				
	Gross amounts before offsetting	Gross amounts offset according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the	
				Effect of master netting arrangements	Financial instruments received as collateral
Derivatives (including hedging instruments)	6 567	-	6 567	(3 341)	-
Due to banks at amortized cost	5 846	-	5 846	-	-
Customer borrowings and deposits at amortized cost	0	-	-	-	-
<b>TOTAL</b>	<b>12 413</b>	<b>-</b>	<b>12 413</b>	<b>(3 341)</b>	<b>-</b>

### 7.3 - Exposure to credit risk

In 2021, exposure to credit risks, includes the following :

- for assets other than derivatives : the amount on the balance sheet ;
- for derivatives: the standardized approach to measure the credit risk of a counterparty (SA-CCR methodology) was applied from June 30, 2021; the Exposure at Default (EAD) is thus calculated on the basis of the following formula (alpha x (Replacement cost + Potential future exposure)) in accordance with the recommendations of the Basel Committee.
- for off-balance sheet commitments : the undrawn amount of financing commitment, which is stated in the notes to the financial statements.

The metric used is exposure at default (EAD).

Exposure to credit risk is broken down by region and by counterparty, taking into account the guarantees received. This means that when the credit risk is guaranteed by a third party whose weighted risk (within the meaning of Basel regulations) is less than that of the direct borrower, the exposure is included in the guarantor's region and business sector.

#### 7.3.1. Breakdown of exposure to credit risks

##### Analysis of exposure by geographic region

	12/31/2020	6/30/2021
France	64 169	61 827
Italy	5 820	5 396
Germany	450	395
Spain	328	333
Belgium	181	103
Other European Union countries	603	288
United Kingdom	125	1
Norway	201	140
Switzerland	611	578
United States and Canada	794	749
Japan	42	41
<b>TOTAL EXPOSURE</b>	<b>73 324</b>	<b>69 849</b>

##### Analysis of exposure by category of counterparty

	12/31/2020	6/30/2021
Sovereigns	12 651	11 108
Local public sector	58 077	57 658
Other assets guaranteed by public sector entities	25	23
Financial institutions	2 562	1 055
Other exposures	9	5
<b>TOTAL EXPOSURE</b>	<b>73 324</b>	<b>69 849</b>

Exposure on financial institutions is primarily comprised of counterparties in hedging derivatives and replacement assets.

As of June 30, 2021, Caisse Française de Financement Local had no asset-backed securities.

##### Analysis of exposure by category of instrument

	12/31/2020	6/30/2021
Banks	1 798	383
Loans at fair value through profit or loss	4 239	3 818
Hedging derivatives	1 072	107
Securities at fair value through equity	-	-
Loans to credit institutions at amortized cost	25	25
Loans to customers at amortized cost	52 483	53 289
Securities at amortized cost	8 829	7 793
Accruals and other assets	112	122
Financing commitments	4 767	4 313
<b>TOTAL EXPOSURE</b>	<b>73 324</b>	<b>69 849</b>

#### 7.3.2. Evaluation of asset credit quality

Caisse Française de Financement Local decided to use the advanced method recommended by the regulators in relation to the Basel III reforms on the capital adequacy ratio and capital requirements. Caisse Française de Financement Local has developed internal rating models covering the main client segments. These models were validated by the banking supervisors who authorized the Group to use these advanced internal models for the calculation and reporting of equity requirements for credit risk as of January 1, 2008. This enables Caisse Française de Financement Local to present as at December 31, 2020, an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements. Credit weighting is mainly calculated on the basis of the probability of default of the counterparty and of the loss incurred in the event of default.

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

This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio. 82% of the portfolio has a weighting of less than 5% and close to 99% of the portfolio has a weighting that is less than or equal to 20%.

	Risk weighting (Basel III)					Total
	from 0 to 2%	from 2 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	
Central banks	383	-	-	-	-	383
Fair value loans through profit or loss	2 387	873	436	0	122	3 818
Hedging derivatives	-	-	3	79	26	107
Securities at fair value through equity	-	-	-	-	-	-
Loans to credit institutions amortized cost	20	-	-	5	-	25
Loans to customers at amortized cost	34 670	11 359	6 930	11	320	53 289
Securities at amortized cost	3 187	12	4 417	172	4	7 793
Accruals and other assets	103	-	-	13	5	122
Funding commitments	4 263	0	50	0	-	4 313
<b>TOTAL EXPOSURE</b>	<b>45 013</b>	<b>12 244</b>	<b>11 835</b>	<b>280</b>	<b>478</b>	<b>69 849</b>
<b>SHARE OF TOTAL EXPOSURE</b>	<b>64,4%</b>	<b>17,5%</b>	<b>16,9%</b>	<b>0,4%</b>	<b>0,7%</b>	<b>100,0%</b>

Certain exposures do not yet benefit from an internal evaluation system validated by banking supervisors; in this case, their weighting is that used in the standard method, which is, for example, 20% for local governments.

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

The health crisis had a limited impact on the Company's financial statements prepared in accordance with IFRS at end June 2021. This confirms the Caisse Française de Financement Local's resilience to macro-economic shocks.

### 8.1 - Impacts on the adjustments to the value of financial assets and liabilities recognized at fair value

In a health context that remained unfavorable throughout the first quarter and then gradually improved in the second quarter, the financial markets showed great resilience, with credit spreads remaining stable overall, equity markets reaching historic highs and long-term interest rates remaining at historically low levels, even though they increased. The possible effects on inflation of the new stimulus plan in the USA have been countered for the moment by the Fed and ECB announcements. In this context, the effects of the Covid-19 crisis on the value adjustments of financial instruments recognized at fair value were extremely limited and can be considered as neutral as at June 30, 2021 for Caisse Française de Financement Local.

### 8.2 - Impacts on arrears, breakdown of net book values by Stages and IFRS provisions

From spring 2020, 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 thus proposed payment terms of 180 days to these borrowers for all of their loan contract maturities between March 12 and June 30, 2020, without any late interest or penalties being invoiced. These payment terms could have been renewed at the request of customers. As of June 30, 2020, these offset payment maturities represented EUR 9 million. One year later, on June 30, 2021, all the payment terms granted have been settled;
- the other approach was to respond to requests from local and equivalent authorities faced with temporary cash flow difficulties. Caisse Française de Financement Local thus mobilized to respond to all requests from borrowers and to support them in their possible 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. One year later on June 30, 2021, a residual amount of payment delay of EUR 0.5 million remains active.

On-going payment terms granted as at June 30, 2021					
	Financial assets at amortized cost			Financial assets at fair value through profit or loss	TOTAL
	Stage 1	Stage 2	Stage 3	TOTAL	
Health sector customers	-	-	-	-	-
Other local public sector customers	-	-	1	1	1
<b>TOTAL</b>	-	-	1	1	1

The payment terms granted to CAFFIL's customers did not result in a significant change in the breakdown of outstandings by Stage. At the same time, Caisse Française de Financement Local decided to revalue its provisions for public sector customers, which led it to reduce its impairments by EUR 0.2 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	192	23	23	(3)	(0)	(0)
Other local public sector customers benefiting from extensions to payment terms	244	2	33	(0)	(0)	(0)
<b>SITUATION AS AT DECEMBER 31, 2019</b>	<b>436</b>	<b>24</b>	<b>56</b>	<b>(3)</b>	<b>(0)</b>	<b>(1)</b>
Health sector customers benefiting from extensions to payment terms	166	36	29	(2)	(1)	(0)
Other local public sector customers benefiting from extensions to payment terms	250	1	25	(0)	(0)	(0)
<b>SITUATION AS AT DECEMBER 31, 2020</b>	<b>415</b>	<b>37</b>	<b>54</b>	<b>(2)</b>	<b>(1)</b>	<b>(1)</b>
Health sector customers benefiting from extensions to payment terms	(26)	13	6	0	(0)	0
Other local public sector customers benefiting from extensions to payment terms	6	(1)	(8)	(0)	0	0
<b>CHANGE DURING THE YEAR MAINLY DUE TO THE IMPACT OF THE COVID-19 HEALTH CRISIS</b>	<b>(21)</b>	<b>13</b>	<b>(2)</b>	<b>0</b>	<b>(0)</b>	<b>0</b>
<b>FOR THE RECORD, CHANGE DURING 2020 MAINLY DUE TO THE IMPACT OF THE COVID-19 HEALTH CRISIS</b>	<b>(37)</b>	<b>(14)</b>	<b>31</b>	<b>(3)</b>	<b>0</b>	<b>(0)</b>

As a reminder, in the context of the health crisis and its consequences for the cruise industry, Caisse Française de Financement Local decided to provision EUR 2.6 million in 2020 for risks on the foreign exchange hedging instruments used to refinance the dollar-denominated export credits in this sector. This provision was revalued at June 30, 2021 and increased to EUR 2.7 million (See Note 8.).

Finally, within the export credit business, Caisse Française de Financement Local, with the support of SFIL, is part of the approach developed jointly by the European export credit insurance agencies to provide liquidity support on export credits for cruise companies, a sector particularly hard hit by the pandemic. This support consists of deferring the repayment of the loans principle. This deferral was also applied by Caisse Française de Financement Local to refinancing loans for the cruise sector granted to SFIL. As a reminder, these loans benefit from an irrevocable and unconditional 100% guarantee granted by the French State.

### 8.3 - Summary of the impacts of the Covid-19 health crisis on the Company's results as at June 30, 2021

	(1) Reported accounting income	(2) of which impacts of the Covid-19 health crisis	=(1)-(2) Accounting income restated for the impacts of Covid-19
		Reinforcement of provisions on the public sector	Reinforcement of provisions on export credit - cruise sector
Net banking income	75	-	-
General operating expenses	(56)	-	-
<b>Gross operating income</b>	<b>19</b>	-	-
Cost of risk	1	0	(0)
<b>Income before non-recurring items and taxes</b>	<b>20</b>	<b>0</b>	<b>(0)</b>
Income tax	(7)	(0)	0
<b>Net income</b>	<b>13</b>	<b>0</b>	<b>(0)</b>

## 9. Post-closing events

No significant event that influences the Company's financial situation has occurred since the closing on June 30, 2021.

### 3. Statutory auditors' report (IFRS)

*This is a free translation into English of the Statutory Auditors' review report issued in French and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

# **Caisse Française de Financement Local**

## **Statutory auditors' review report on the condensed**

### **interim financial statements**

#### **For the six months ended 30 June 2021**

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, we have reviewed the accompanying condensed interim financial statements of Caisse Française de Financement Local for the six months ended 30 June 2021.

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

We conducted our review in accordance with professional standards applicable in France and the professional guidance issued by the French Institute of Statutory Auditors (*Compagnie Nationale des Commissaires aux Comptes*) relating to this engagement. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements have not been prepared, in all material respects, in accordance with IAS 34 – "Interim Financial Reporting", as adopted by the European Union.

This report is governed by French law. The French courts have exclusive jurisdiction to rule on any dispute, claim or disagreement resulting from our engagement letter or this report, or on any matter related thereto. Each party irrevocably waives any right to lodge objections to action brought before these courts, to claim that the action was brought before a French court lacking jurisdiction or that the French courts lacked jurisdiction.

Neuilly-sur-Seine and Paris La Défense, 13 September 2021

The Statutory Auditors

PricewaterhouseCoopers Audit

KPMG S.A.

Ridha Ben Chamek

Jean-François Dandé



## 4. Financial statements (French GAAP) for the period from January 1st to June 30, 2021

## Financial Statements

### Assets

EUR millions	Notes	12/31/2020	6/30/2021
Central banks	2.1	1 798	383
Government and public securities	2.2	3 717	3 617
Loans and advances to banks	2.3	3 776	4 248
Loans and advances to customers	2.4	46 434	47 551
Bonds and other fixed income securities	2.5	3 551	2 888
Equities and other variable income securities		-	-
Investments in non-consolidated companies and other long-term investments		-	-
Investments in consolidated companies		-	-
Intangible assets		-	-
Tangible assets		-	-
Unpaid capital		-	-
Uncalled subscribed capital		-	-
Treasury stock		-	-
Other assets	2.6	24	20
Accruals and other assets	2.7	2 437	2 349
<b>TOTAL ASSETS</b>	<b>2.8</b>	<b>61 738</b>	<b>61 056</b>

### Liabilities

EUR millions	Notes	12/31/2020	6/30/2021
Central banks		-	-
Due to banks	3.1	6 606	5 846
Customer borrowings and deposits		-	-
Debt securities	3.2	51 069	51 450
Other liabilities	3.3	680	473
Accruals and other liabilities	3.4	1 864	1 790
Provisions	3.5	54	49
Subordinated debt		-	-
<b>Equity</b>		<b>1 465</b>	<b>1 447</b>
Share capital	3.6	1 350	1 350
Additional paid-in capital	3.6	-	-
Reserves and retained earnings	3.6	56	66
Net income	3.6	59	31
<b>TOTAL LIABILITIES</b>	<b>3.7</b>	<b>61 738</b>	<b>61 056</b>

### Off-balance sheet items

EUR millions	Notes	12/31/2020	6/30/2021
<b>COMMITMENTS GRANTED</b>	<b>4.1</b>	<b>4 771</b>	<b>4 318</b>
Financing commitments		4 766	4 312
Guarantees granted		-	-
Commitments on securities		-	-
Other commitments granted		5	5
<b>COMMITMENTS RECEIVED</b>	<b>4.2</b>	<b>10 272</b>	<b>10 197</b>
Financing commitments		50	50
Guarantees received		10 222	10 147
Commitments on securities		-	-
Forward commitments		-	-
Other commitments received		-	-
<b>OTHER COMMITMENTS</b>	<b>4.3</b>	<b>104 606</b>	<b>97 493</b>
Foreign currency transactions		12 906	12 911
Commitments on forward financial instruments		91 700	84 582
Commitments related to securities transactions		-	-

## Income statement

EUR millions	Notes	H1 2020	2020	H1 2021
Interest income	5.1	572	1 059	461
Interest expense	5.1	(519)	(907)	(370)
Income from variable income securities		-	-	-
Commission income	5.2	14	18	1
Commission expense	5.2	(1)	(2)	(2)
Net gains (losses) on held for trading portfolio		-	1	0
Net gains (losses) on placement portfolio	5.3	(11)	10	3
Other banking income		0	0	0
Other banking expense		(0)	(0)	(0)
<b>NET BANKING INCOME</b>		<b>56</b>	<b>179</b>	<b>93</b>
General operating expenses	5.4	(58)	(104)	(56)
Depreciation and amortization		-	-	-
<b>GROSS OPERATING INCOME</b>		<b>(2)</b>	<b>75</b>	<b>37</b>
Cost of risk	5.5	3	2	4
<b>INCOME FROM OPERATIONS</b>		<b>1</b>	<b>77</b>	<b>41</b>
Gains or losses on fixed assets		-	-	-
<b>INCOME BEFORE NON-RECURRING ITEMS AND TAXES</b>		<b>1</b>	<b>77</b>	<b>41</b>
Non-recurring items		-	-	-
Income tax	5.6	(1)	(19)	(10)
<b>NET INCOME</b>		<b>0</b>	<b>59</b>	<b>31</b>
Basic earnings per share		0,01	4,34	2,30
Diluted earnings per share		0,01	4,34	2,30

## Equity

EUR millions	Amount
<b>AS OF 12/31/2020</b>	
Share capital	1 350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	56
Net income for the year	59
Interim dividends	-
<b>EQUITY AS OF 12/31/2020</b>	<b>1 465</b>
<b>MOVEMENTS FOR THE PERIOD</b>	
Changes in share capital	-
Changes in additional paid-in capital	-
Changes in commitments to increase share capital and additional paid-in capital	-
Changes in reserves and retained earnings	59
Dividends paid (-)	(49)
Changes in net income for the period	(28)
Other movements	-
<b>AS OF 6/30/2021</b>	
Share capital	1 350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	66
Net income for the period	31
<b>EQUITY AS OF 6/30/2021</b>	<b>1 447</b>

# Notes to the French GAAP financial statements

## Note 1 Accounting and valuation policies

### 1.1 Applicable accounting standards: rules adopted by the French Accounting Standards Board (Autorité des Normes Comptables – ANC)

The financial statements as of June 30, 2021, were examined by the Management Board on September 6, 2021 and approved by the Supervisory Board on September 9, 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 June 30, 2021, were prepared using the same accounting policies as those used in the financial statements as of December 31, 2020. Between these two dates, the applicable regulation has in particular been amended as such (NB: only amendments deemed as potentially relevant for the Company are mentioned):

- **ANC Recommendations and observations of May 18, 2020 – Regarding how to take the consequences of Covid-19 event into consideration in the financial statements prepared from January 1, 2020:** this statement from the ANC aims at accompanying companies so as for them to communicate efficiently about the economic consequences of Covid-19 pandemic. Subsequently, The ANC has regularly updated its recommendations and observations: on July 3, 2020, July 24, 2020, January 15, 2021 and June 7, 2021.

This communication and its subsequent updates were taken into account by the Caisse Française de Financement Local in the preparation of its 2020 and 2021 financial statements. So as to enable users to measure the impact of this crisis on financial statements, qualitative and quantitative information has been disclosed in note 6 below.

### 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, *pro rata temporis* for accrued amounts due and not yet due, as is interest on past-dues.

Commissions received and marginal transaction costs related to the granting or the acquisition of a loan, if they are significant, are amortized over the maturity of the loan. Other commission income is immediately recognized in the income statement.

Prepayment indemnities are recognized in the income statement at the date they occur.

A loan is considered as non-performing when it presents one of the following characteristics:

- a probable or certain risk that it will not be repaid (past-due for more than nine months for local government borrowers, and for more than three months for the other counterparties);
- the existence of a factual counterparty risk (worsening of the financial situation, alert procedures).

Compromised non-performing loans are loans to borrowers whose recovery outlook is so downgraded that they might be ultimately written off. Loans accounted for as non-performing for more than one year are transferred to this category.

For the sake of operational simplicity and conservatism, Caisse Française de Financement Local has aligned the notion of non-performing loan with the prudential notion of actual default, i.e. a default due to arrears in payment and/or due to the risk of non-payment of the totality of outstanding due by the borrower (notion of "Unlikely To Pay (UTP)" with reference to the default policy of the Company. Counterparties on probation prior a potential reclassification out of the default category are thus out of the scope of non-performing loans from an accounting perspective.

Impairment charges are recognized for non-performing and compromised non-performing loans:

- the fraction of principal impaired is determined by Risk Management in function of incurred losses. Underlying impairment charges and subsequent reversals are recognized as Cost of risk as well as the losses and subsequent recoveries on the principal of non-recoverable loans;
- interest is fully impaired. Underlying impairment charges and subsequent reversals are recognized in the net interest margin as well as the losses and subsequent recoveries on the interest of non-recoverable loans.

## 1.2.2 Securities

Securities held by Caisse Française de Financement Local are recognized on the asset side of the balance sheet under the item Government and public securities or Bonds and other fixed income securities.

The item Government and public securities includes securities issued by public sector entities that may be refinanced through the European system of central banks.

The item Bonds and other fixed income securities includes:

- securities issued by public sector entities that are not eligible for refinancing by central banks;
- securities guaranteed by public sector entities.

Securities held by Caisse Française de Financement Local are recognized as either investment securities or placement securities.

### 1.2.2.1 Investment securities

Fixed income securities with a specified maturity are recognized as investment securities when there is the intention and the capacity to hold them to maturity. Securities in this category are subject to back-financing or interest-rate hedging over their residual maturity.

Investment securities are recognized on the date of purchase at acquisition clean price, excluding fees. Accrued interest at the date of acquisition and subsequently accrued interest at each closing date is recognized on the balance sheet in the same categories as the corresponding security. Interest on these securities is recognized as Interest income.

The difference between the redemption value and the acquisition clean cost (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

At closing date, unrealized gains are not recognized and unrealized losses are generally not impaired. By way of exception, unrealized losses are impaired in the following cases:

- a doubt about the issuer's ability to meet its obligations;
- the probability that the Company will not hold these securities until maturity due to new circumstances.

### 1.2.2.2 Placement securities

Securities that do not fit into the category investment securities are recognized as placement securities.

Placement securities are recognized on the date of purchase at acquisition clean price, excluding fees. Accrued interest at the date of acquisition and subsequently accrued interest at each closing date is recognized on the balance sheet in the same categories as the corresponding security. Interest on these securities is recognized as Interest income.

The difference between the redemption value and the acquisition clean cost (discount or premium) is amortized according to a quasi-actuarial method over the residual maturity of the security.

In application of the principle of prudence, placement securities are recognized on the balance sheet at their acquisition cost including if applicable the amortization of discount or premium or selling price at closing date, whichever is lower, after accounting, when relevant, for the value of the micro-hedge swap.

If the market for a financial instrument is not active, valuation techniques are used to calculate its selling price. The valuation model should take into account all the factors that market players would consider to 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 *pro rata 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 *pro rata temporis*.

Issuance costs and commissions related to issued securities are amortized according to a quasi-actuarial method over the maturity of the related debts and are recognized in the net interest margin.

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

### 1.2.5 Provisions

Provisions are recognized based on their discounted value when the following three conditions are met:

- Caisse Française de Financement Local has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources representing economic benefits will be required to settle the obligation;
- a reliable estimate of the amount of the obligation can be made.

Collective provision covers the risk of loss in value among the loans, bonds and loan commitments not yet covered by any specific loss allowance at closing date. Among this group, counterparties that are reviewed in Watchlist Committee or might be reviewed in a foreseeable future are identified through the use of automatic criteria (based in particular on internal ratings and warning indicators for rating migration determined to be risky) and *ad-hoc* analysis based on the use of professional judgment and expert opinion: outstandings on these counterparties form the base of the collective provision. Losses on these counterparties are estimated on the basis of past events (use of historical patterns), current economic environment and expectations on future economic environment. For this purpose, Caisse Française de Financement Local uses a credit risk model based on an approach derived from Basel approach; this model is subject to regular back-testing.

### 1.2.6 Derivative transactions

Caisse Française de Financement Local engages in derivative transactions only to hedge the interest rate and foreign exchange risks to which it is exposed in its activity. Depending on their purpose, these transactions are assigned to micro-hedge or macro-hedge portfolios. The valuation and accounting treatments of these financial instruments depends on the chosen category.

The notional amount of these transactions is recognized off-balance sheet over the maturity of the instruments, *i.e.* from the date the contract is signed (including forward contracts) up to maturity. The amount recognized is adjusted to reflect any changes in notional amounts so as to represent the current or future maximum commitment.

Payments made at the inception of financial instruments are amortized over their maturity for the time remaining according to a quasi-actuarial method.

#### 1.2.6.1 Micro-hedge transactions

Derivatives are booked as micro-hedges when they are designed to hedge against the interest rate risk or the foreign exchange risk related to an item or a set of homogeneous items identified from the outset.

Expense and income on these transactions are recognized in the income statement the same way as income and expense on the hedged item or set of homogeneous items.

Termination fees received or paid because of the early interruption of the hedging instrument are generally recognized in the income statement at the termination date. In the framework of a restructuring, they are by way of exception amortized when they constitute an expense in compliance with the tax rule.

#### 1.2.6.2 Macro-hedge transactions

This category includes transactions designed to hedge and manage the Company's overall exposure to interest rate risk on assets, liabilities and off-balance sheet items, excluding micro-hedge transactions. They were authorized on December 1, 1999, by a specific decision of the Executive Board of Caisse Française de Financement Local.

Expense and income on these transactions are recognized in the income statement *pro rata temporis*, respectively as Interest expense and Interest income. The counterpart is recognized in accruals until the payment date.

Termination fees received or paid because of the early interruption of the hedging instrument are recognized in the income statement at the termination date.

### 1.2.7 Foreign currency transactions

Caisse Française de Financement Local recognizes foreign currency transactions in accounts opened and denominated in each of the currencies used.

Specific foreign exchange position accounts and foreign exchange position equivalent accounts are opened in each currency.

At each closing date, differences between on the one hand the amounts resulting from a market price valuation at closing date of the foreign exchange position accounts and on the other hand the amounts recognized in the foreign exchange position equivalent accounts are recognized in the income statement.

### 1.2.8 Foreign exchange transactions

In the course of systematic hedging of its foreign exchange risk, Caisse Française de Financement Local enters into currency swaps. These currency swaps are initiated to eliminate the risk of foreign exchange rate fluctuations that might affect an asset or liability as soon as such a risk is identified. They are mainly used to hedge certain liabilities, debt securities and customer loans.

Results of foreign exchange hedging transactions are accounted for by recognizing the difference between the hedging rate and the spot rate – contango or backwardation – *prorata temporis* in the income statement.

### 1.2.9 Guarantees

As part of its activity to refinance large export credits, Caisse Française de Financement Local benefits from an irrevocable and unconditional 100% guarantee by the French State, called an enhanced guarantee. Expenses related to these guarantees are recognized *prorata temporis* in the net interest margin.

### 1.2.10 Non-recurring income and expense

Non-recurring income and expense results from events or transactions that do not relate to ordinary business operations or routine management of the Company's assets and liabilities.

Furthermore, the income or expense involved does not depend on decisions taken within the framework of usual management of the Company's activities or assets, but results from external events of a completely exceptional nature. Only items of this nature that have a significant impact on the period's income statement are recognized as non-recurring income and expense.

### 1.2.11 Tax consolidation

Since January 1, 2014, Caisse Française de Financement Local belongs to the tax group that is headed up by SFIL. This entity pays the total income tax and lump-sum annual tax owed by the Group. Caisse Française de Financement Local recognizes in its accounts the tax expense for which it would be liable if it were not a member of the tax group.

Tax savings realized by the tax group are recognized in the accounts of SFIL.

### 1.2.12 Offices and activities in uncooperative States and territories

In application of article L.511-45 of the Monetary and Financial Code, it should be noted that Caisse Française de Financement Local has no offices in States that have not signed an administrative assistance agreement with France (subsidiaries, branches, including *ad hoc* entities, and equity interest in other entities over which the Company has exclusive or joint (or *de facto*) control).

### 1.2.13 Identity of the parent company consolidating the accounts of Caisse Française de Financement Local as of June 30, 2021

SFIL

1-3 rue du Passeur de Boulogne

92130 Issy-les-Moulineaux

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

### 2.1 - Central banks

	12/31/2020	6/30/2021
Mandatory reserves	-	-
Other deposits	1 798	383
<b>TOTAL</b>	<b>1 798</b>	<b>383</b>

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

#### 2.2.1. Accrued interest included in this item: 34

#### 2.2.2. Analysis by residual maturity excluding accrued interest

	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	indeterminate	Total
	3	2	310	529	2 740	(0)	<b>3 584</b>

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

	Net amount as of 12/31/2020	Gross amount as of 6/30/2021	Impairment as of 6/30/2021	Net amount as of 6/30/2021	Unrealized capital gain or loss as of 12/31/2020 <sup>(2)</sup>
Listed securities <sup>(1)</sup>	3 669	3 584	(0)	3 584	(489)
Other securities	-	-	-	-	-
<b>TOTAL</b>	<b>3 669</b>	<b>3 584</b>	<b>(0)</b>	<b>3 584</b>	<b>(489)</b>

(1) Listed securities are registered for trading on a stock exchange.

(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

#### 2.2.4. Analysis by type of portfolio excluding accrued interest and changes during the year

Portfolio	Net amount as of 12/31/2020	Gross amount as of 12/31/2020	Acquisitions	Amortization, redemption or disposals	Others movements	Gross amount as of 6/30/2021
Trading	-	-	-	-	-	-
Placement	439	439	2	(14)	-	426
Investment	3 230	3 230	36	(108)	-	3 158
<b>TOTAL</b>	<b>3 669</b>	<b>3 669</b>	<b>38</b>	<b>(123)</b>	<b>-</b>	<b>3 584</b>

Portfolio	Gross amount as of 6/30/2021	Impairment as of 6/30/2021	Net amount as of 6/30/2021 <sup>(1)</sup>	Unrealized capital gain or loss as of 6/30/2021 <sup>(2)</sup>
Trading	-	-	-	-
Placement	426	(0)	426	(18)
Investment	3 158	-	3 158	(471)
<b>TOTAL</b>	<b>3 584</b>	<b>(0)</b>	<b>3 584</b>	<b>(489)</b>

(1) This amount includes a premium / discount of EUR 7 million for the placement portfolio and of EUR 98 million for the investment portfolio.

(2) The unrealized capital gain or loss is calculated as the difference between the book value and the market value, taking derivatives into account.

#### 2.2.5. Impairment breakdown by country

See note 2.9



## 2.3 - Loans and advances to banks

### 2.3.1. Sight loans and advances to banks

	12/31/2020	6/30/2021
Sight accounts	4	5
Unallocated sums	-	-
<b>TOTAL</b>	<b>4</b>	<b>5</b>
<i>of which replacement assets</i>	4	5

### 2.3.2. Term loans and advances to banks

#### 2.3.2.1 Accrued interest included in this item: 2

#### 2.3.2.2 Analysis by residual maturity excluding accrued interest

	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	indeterminate	Total
	1	36	338	1 910	1 955	-	<b>4 241</b>

#### 2.3.2.3 Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2020	Gross amount as of 6/30/2021	Impairment as of 6/30/2021	Net amount as of 6/30/2021
Loans of less than 1 year	-	-	-	-
Loans of more than 1 year	3 770	4 241	-	4 241
<b>TOTAL</b>	<b>3 770</b>	<b>4 241</b>	<b>-</b>	<b>4 241</b>

#### 2.3.2.4 Breakdown by counterparty

	12/31/2020	6/30/2021
SFIL - Export credits refinancing loans guaranted by the French State <sup>(1)</sup>	3 538	4 012
SFIL - Others loans <sup>(2)</sup>	-	-
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	232	229
<b>TOTAL</b>	<b>3 770</b>	<b>4 241</b>
<i>of which replacement assets</i>	-	-

(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: 417

### 2.4.2. Analysis by residual maturity excluding accrued interest

	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	indeterminate	Total
	556	587	3 148	15 319	27 553	(29)	47 134

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

Economic sector	12/31/2020	6/30/2021
Public sector	44 540	45 859
Other sectors	1 472	1 274
<b>TOTAL</b>	<b>46 012</b>	<b>47 134</b>

### 2.4.4. Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2020	Gross amount as of 6/30/2021	Impairment as of 6/30/2021	Net amount as of 6/30/2021
Loans of less than 1 year	20	20	-	20
Loans of more than 1 year	45 992	47 142	(29)	47 113
<b>TOTAL</b>	<b>46 012</b>	<b>47 162</b>	<b>(29)</b>	<b>47 134</b>

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

	Net amount as of 12/31/2020	Gross amount as of 6/30/2021	Impairment as of 6/30/2021	Net amount as of 6/30/2021
Performing commitments	45 832	46 914	-	46 914
Non-performing loans	53	104	(1)	103
Compromised non-performing loans	127	145	(27)	117
<b>TOTAL</b>	<b>46 012</b>	<b>47 162</b>	<b>(29)</b>	<b>47 134</b>

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

There were 122 forborne contracts as of June 30, 2021, with 76 borrowers, for a total of EUR 449 million.

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

	12/31/2020	Allocations	Reversals	Transfers	6/30/2021
<b>For non-performing loans</b>					
On loans	-	-	-	-	-
On interest	(1)	(1)	0	-	(1)
<b>For compromised non-performing loans</b>					
On loans	-	-	-	-	-
On interest	(28)	(4)	4	-	(27)
<b>TOTAL</b>	<b>(29)</b>	<b>(5)</b>	<b>5</b>	<b>-</b>	<b>(29)</b>

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

**2.6 - Other assets**

	12/31/2020	6/30/2021
Taxes	18	15
Other receivables	6	5
<b>TOTAL</b>	<b>24</b>	<b>20</b>

**2.7 - Accruals and other assets**

	12/31/2020	6/30/2021
Deferred losses on hedging transactions	1 004	976
Deferred charges on bond issues	54	61
Prepaid charges on hedging transactions	162	171
Premiums on acquisition of loans	580	616
Other prepaid charges	0	0
Accrued interest not yet due on hedging	633	511
Translation adjustments	-	(0)
Other deferred income	1	14
Other accruals	3	0
<b>TOTAL</b>	<b>2 437</b>	<b>2 349</b>

**2.8 - Breakdown of assets by original currency**

	Amount in original currency as of 12/31/2020	Amount in euros as of 12/31/2020	Amount in original currency as of 6/30/2021	Amount in euros as of 6/30/2021
EUR	61 110	61 110	60 509	60 509
AUD	20	13	20	13
CAD	307	197	306	209
CHF	131	121	128	117
GBP	128	143	132	153
JPY	5 052	40	5 109	39
NOK	1 039	99	-	0
PLN	49	11	50	11
SEK	0	0	0	0
USD	6	5	6	5
<b>TOTAL</b>		<b>61 738</b>		<b>61 056</b>

**2.9 - Breakdown of impairment by country**

	Net amount as of 12/31/2020	Amount as of 6/30/2021
<b>Government and public entity - placement securities</b>	<b>(0)</b>	<b>(0)</b>
France	(0)	(0)
<b>Bonds and other fixed income - placement securities</b>	<b>(0)</b>	<b>(0)</b>
France	(0)	-
Germany	(0)	(0)
Canada	-	-
Finland	(0)	-
Netherlands	(0)	-
Sweden	-	-
<b>Bonds and other fixed income - investment securities</b>	<b>-</b>	<b>-</b>
<b>Loans and advances to customers</b>	<b>(29)</b>	<b>(29)</b>
France	(29)	(29)
<b>TOTAL</b>	<b>(29)</b>	<b>(29)</b>

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

#### 3.1 - Due to banks

Funding obtained from SFIL, within the framework of the financing agreement, was comprised of different loans with maturities initially between one day and 10 years, indexed on Euribor or €ster.

##### 3.1.1 Accrued interest included in this item: (5)

##### 3.1.2. Debt to credit institutions excluding accrued interest

	12/31/2020	6/30/2021
Sight accounts	-	-
Current account - parent company	-	-
Term borrowing - parent company	6 610	5 852
Unallocated sums	-	-
<b>TOTAL</b>	<b>6 610</b>	<b>5 852</b>

##### 3.1.3. Analysis by residual maturity excluding accrued interest

	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	indeterminate	Total
Sight	-	-	-	-	-	-	-
Term	300	250	1 107	3 695	500	-	5 852
<b>TOTAL</b>	<b>300</b>	<b>250</b>	<b>1 107</b>	<b>3 695</b>	<b>500</b>	<b>-</b>	<b>5 852</b>

#### 3.2 - Debt securities

##### 3.2.1. Debt securities (obligations foncières)

##### 3.2.1.1. Accrued interest included in this item: 376

##### 3.2.1.2. Analysis by residual maturity excluding accrued interest

Type of securities	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	indeterminate	Total
Obligations foncières	42	-	3 431	16 839	24 331	-	44 642
of which net issue premiums <sup>(1)</sup>	0	-	0	(0)	45	-	45

(1) The gross amount of positive and negative issue premiums totaled EUR 18 million before amortization.

##### 3.2.1.3. Changes during the year excluding accrued interest

Type of securities	Amount as of 12/31/2020	Increases	Decreases	Translation adjustments	Amount as of 6/30/2021
Obligations foncières	44 069	4 380	(3 821)	15	44 642

##### 3.2.2. Other bonds (registered covered bonds)

##### 3.2.2.1. Accrued interest included in this item: 137

##### 3.2.2.2. Analysis by residual maturity excluding accrued interest

Type of securities	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	indeterminate	Total
Registered covered bonds	-	15	113	1 430	4 738	-	6 295
of which net issue premiums <sup>(1)</sup>	-	-	(0)	(0)	35	-	35

(1) The gross amount of positive and negative issue premiums totaled EUR 50 million before amortization.

##### 3.2.2.3. Changes during the year excluding accrued interest

Type of securities	Amount as of 12/31/2020	Increases	Decreases	Translation adjustments	Amount as of 6/30/2021
Registered covered bonds	6 329	2	(36)	-	6 295

**3.3 - Other liabilities**

	12/31/2020	6/30/2021
Cash collateral received	567	380
Accrued interest not yet due on cash collateral received	(0)	(0)
Taxes	20	10
Balances to pay on unwound hedging contracts	-	-
Contribution to the support fund <sup>(1)</sup>	80	70
Other creditors	13	13
<b>TOTAL</b>	<b>680</b>	<b>473</b>

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

**3.4 - Accruals and other liabilities**

	12/31/2020	6/30/2021
Deferred gains on hedging transactions	-	-
Deferred income on hedging transactions	1 048	979
Deferred income on loans	127	179
Accrued interest not yet due on hedging transactions	479	439
Other accrued charges	13	19
Translation adjustments	196	174
Other accruals	0	0
<b>TOTAL</b>	<b>1 864</b>	<b>1 790</b>

**3.5 - Provisions**

	Amount as of 12/31/2020	Increases	Decreases	Translation adjustments	Amount as of 6/30/2021
Loans and commitments	(4)	-	(4)	-	28
Financial instruments <sup>(1)</sup>	(3)	0	(3)	-	18
Other provisions <sup>(3)</sup>	-	0	-	-	3
<b>TOTAL</b>	<b>(6)</b>	<b>0</b>	<b>(6)</b>	<b>-</b>	<b>49</b>

(1) The change in provisions for loans and commitments is mainly due to additions and removals from the customer credit watchlist approved during the semester. As a reminder, in the context of the health crisis, Caisse Française de Financement Local decided during the year 2020 to constitute a provision for liabilities and charges of EUR 2.6 million associated with public healthcare customers who benefited from extensions to payment terms. This provision was reassessed on June 30, 2021 and its amount was reduced to EUR 2.4 million (see note 6).

(2) The change in provisions for risks and charges on financial instruments relates to the change in the market value of the hedged placement securities concerned.

(3) As a reminder, in the context of the health crisis and the consequences for the cruise industry, Caisse Française de Financement Local decided during the year 2020 to set up a provision of EUR 2.6 million for risks on the foreign exchange hedging instruments used to refinance the export credits in dollars in this sector. This provision was reassessed on June 30, 2021 and its amount was increased to EUR 2.7 million. (see note 6).

### 3.6 Equity

	Amount as of 12/31/2020	Amount as of 6/30/2021
Share capital	1 350	1 350
Legal reserve	55	58
Retained earnings (+/-)	1	8
Net income (+/-)	59	31
<b>TOTAL</b>	<b>1 465</b>	<b>1 447</b>

On May 27, 2021, the Ordinary and Extraordinary Shareholders' Meeting decided to allocate the 2020 net profit, is EUR 57 million after taking into account of positive retained earnings and legal reserve, to payment of a dividend in the amount of EUR 49 million, the balance EUR 8 million being allocated to retained earnings  
Caisse Française de Financement Local's share capital totaled EUR 1,350 million, comprising 13,500,000 shares.

### 3.7 - Breakdown of liabilities by original currency

	Amount in original currency as of 12/31/2020	Amount in euros as of 12/31/2020	Amount in original currency as of 6/30/2021	Amount in euros as of 6/30/2021
EUR	61 110	61 110	60 509	60 509
AUD	20	13	20	13
CAD	307	197	306	209
CHF	131	121	128	117
GBP	128	143	132	153
JPY	5 052	40	5 109	39
NOK	1 039	99	-	0
PLN	49	11	50	11
SEK	0	0	0	0
USD	6	5	6	5
<b>TOTAL</b>		<b>61 738</b>		<b>61 056</b>

### 3.8 - Transactions with related parties

Analysis by nature	Parent company <sup>(1)</sup>		Other related parties <sup>(2)</sup>	
	12/31/2020	6/30/2021	12/31/2020	6/30/2021
<b>ASSETS</b>				
Loans and advances to banks	3 539	4 013	-	-
Bonds and other fixed income securities	-	-	148	12
Other assets	17	14	-	-
Accruals and other assets	144	171	-	0
<b>LIABILITIES</b>				
Due to banks	6 606	5 846	-	-
Debt securities	-	-	866	45
Other liabilities	19	9	-	-
Accruals and other liabilities	254	225	-	0
<b>INCOME STATEMENT</b>				
Interest income	74	(49)	0	0
Interest expense	124	45	(35)	(3)
Commission income	3	-	-	-
Commission expense	-	-	-	(0)
Net gains (losses) on held for trading portfolio	-	-	-	-
Net gains (losses) on placement portfolio	-	-	-	-
Other banking income	-	-	-	-
Other banking expense	-	-	-	-
General operating expenses	(95)	(48)	-	-
<b>OFF-BALANCE SHEET</b>				
Interest rate derivatives	15 374	14 518	-	-
Foreign exchange derivatives	618	524	-	-
Financing commitments received	50	50	-	-
Financing commitments given	4 703	4 260	-	-

(1) This item includes transactions with SFIL, the parent company of Caisse Française de Financement Local.

(2) This item includes transactions with Caisse des dépôts, shareholders of SFIL and La Banque Postale and Bpifrance, subsidiaries of Caisse des dépôts group.

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

##### 4.1 - Commitments granted

	12/31/2020	6/30/2021
Financing commitments granted to credit institutions <sup>(1)</sup>	4 703	4 260
Financing commitments granted to customers <sup>(2)</sup>	63	53
Other commitments given, assets assigned in guarantee <sup>(3)</sup>	5	5
<b>TOTAL</b>	<b>4 771</b>	<b>4 318</b>

(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

	12/31/2020	6/30/2021
Financing commitments received from credit institutions <sup>(1)</sup>	50	50
Currencies borrowed	-	-
Guarantees received from credit institutions	-	-
Enhanced guarantees <sup>(2)</sup>	8 243	8 273
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	1 979	1 874
Other commitments received	-	-
<b>TOTAL</b>	<b>10 272</b>	<b>10 197</b>

(1) At the end of June 2021, 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.

	12/31/2020	6/30/2021	Fair value as of 6/30/2021
Currencies to receive	6 257	6 281	(284)
Currencies to deliver	6 453	6 455	191
<b>TOTAL</b>	<b>12 710</b>	<b>12 737</b>	<b>(93)</b>

##### 4.4 - Commitments on interest rate derivatives

Commitments on interest rate derivatives 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 12/31/2020	up to 1 month	1 month to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	indeterminate	6/30/2021
Notional amount	91 700	313	1 277	10 174	37 863	34 955	-	84 582
of which deferred start	162	-	-	2 000	14	273	-	2 286

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

###### 4.4.2. Analysis of interest rate transactions by product type

	12/31/2020	6/30/2021
Interest rate swaps	91 700	84 582
Term contracts	-	-
Interest rate options	-	-
<b>TOTAL</b>	<b>91 700</b>	<b>84 582</b>

###### 4.4.3. Analysis of interest rate swap transactions

	12/31/2020	12/31/2020	Fair value as of 6/30/2021
Micro-hedge	55 357	51 569	(561)
Macro-hedge	36 343	33 013	(1 895)
<b>TOTAL</b>	<b>91 700</b>	<b>84 582</b>	<b>(2 456)</b>

###### 4.4.4. Analysis of interest rate transactions by counterparty

	12/31/2020	6/30/2021
Related parties	15 374	14 518
Other counterparties	76 326	70 063
<b>TOTAL</b>	<b>91 700</b>	<b>84 582</b>

## 5. Notes to the statement of income (EUR millions)

### 5.1 - Interest and related income

	H1 2020	H1 2021
<b>Interest and related income</b>	<b>572</b>	<b>461</b>
Loans and advances to banks	6	5
Loans and advances to customers	394	358
Bonds and other fixed income securities	33	27
Macro-hedge transactions	139	70
Other commitments	-	-
<b>Interest and related expense</b>	<b>(519)</b>	<b>(370)</b>
Due to banks	3	3
Due to customers	(96)	(88)
Bonds and other fixed income securities	35	(6)
Macro-hedge transactions	(461)	(280)
Other commitments	-	-
<b>INTEREST MARGIN</b>	<b>53</b>	<b>91</b>

### 5.2 - Commission received and paid

	H1 2020	H1 2021
Billing commissions received from/paid to SFIL	(1)	-
Other commissions <sup>(1)</sup>	14	(1)
<b>TOTAL</b>	<b>13</b>	<b>(1)</b>

(1) As at 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

	H1 2020	H1 2021
Transactions on placement securities <sup>(1)</sup>	(11)	3
Transactions on investment securities	-	-
Transactions on interest rate derivatives	-	(0)
Foreign exchange transactions	0	0
<b>TOTAL</b>	<b>(11)</b>	<b>3</b>

(1) This item regroups capital gains and losses on sales and provisions and reversals on this portfolio amount after swaps.

### 5.4 - General operating expenses

Caisse Française de Financement Local has no salaried employees in accordance with article L.513-15 of the Monetary and Financial Code. The general management of the operations of Caisse Française de Financement Local has been entrusted by way of an agreement to its parent company, SFIL, a credit institution.

	H1 2020	H1 2021
Payroll costs	-	-
Other general and administrative operating expense	(52)	(49)
Taxes	(6)	(6)
<b>TOTAL</b>	<b>(58)</b>	<b>(56)</b>
of which fees charged back by SFIL.	(52)	(48)

### 5.5 - Cost of risk

	H1 2020	H1 2021
Collective and specific impairments	3	4
<b>TOTAL</b>	<b>3</b>	<b>4</b>

### 5.6 - Corporate income tax

	H1 2020	H1 2021
Income tax for the year <sup>(1)</sup>	(1)	(10)
<b>TOTAL</b>	<b>(1)</b>	<b>(10)</b>

(1) As of December 31, 2020, the corporate tax rate in France was 32.02%, it is 28.41% for the first half of 2021.



## 6. Impacts of the Covid-19 health crisis on the company's financial statements

Since 2020, the health crisis had a limited impact on the Company's financial statements prepared in accordance with French GAAP. This confirms the Caisse Française de Financement Local's resilience to macro-economic shocks.

### 6.1 - Impacts on arrears, doubtful loans and specific and collective impairments

From spring 2020, 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 thus proposed payment terms of 180 days to these borrowers for all of their loan contract maturities between March 12 and June 30, 2020, without any late interest or penalties being invoiced. These payment terms could have been renewed at the request of customers. As of June 30, 2020, these offset payment maturities represented EUR 9 million. One year later, on June 30, 2021, all the payment terms granted have been settled;
- the other approach was to respond to requests from local and equivalent authorities faced with temporary cash flow difficulties. Caisse Française de Financement Local thus mobilized to respond to all requests from borrowers and to support them in their possible 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. One year later on June 30, 2021, a residual amount of payment delay of EUR 0.5 million remains active.

	Payment terms granted as at June 30, 2021		
	Performing customers	Non-performing customers	TOTAL
Health sector customers	-	-	-
Other local public sector customers	-	1	1
<b>TOTAL</b>	-	<b>1</b>	<b>1</b>

As of June 30, 2021, the payment terms granted to customers declassified as doubtful led to a very slight increase of EUR 119,000 in specific provisions.

From June 30, 2020, in the context of the health crisis, Caisse Française de Financement Local decided to strengthen its provisions for risks and charges. Subsequently, the Caisse Française de Financement Local reassessed the amount of these provisions. The details of these provisions at June 30, 2021 are the following :

- a provision for risks and charges of EUR 2.4 million associated with public sector healthcare customers who benefited from extensions to payment terms (EUR 2.6 million as of December 31, 2020);
- a provision for risks and charges of EUR 2.7 million associated with foreign exchange hedging instruments used for the refinancing of export credits in dollars in the cruise sector (EUR 2.6 million as of December 31, 2020)

Finally, within the export credit business, Caisse Française de Financement Local, with the support of SFIL, is part of the approach developed jointly by the European export credit insurance agencies to provide liquidity support on export credits for cruise companies, a sector particularly hard hit by the pandemic. This support consists of deferring the repayment of the loans principle. This deferral was also applied by Caisse Française de Financement Local to refinancing loans for the cruise sector granted to SFIL. As a reminder, these loans benefit from an irrevocable and unconditional 100% guarantee granted by the French State.

### 6.2 - Summary of the impacts of the Covid-19 health crisis on the Company's results as at June 30, 2021

	(1) Reported accounting income	(2) of which impacts of the Covid-19 health crisis		=(1)-(2) Accounting income restated for the impacts of Covid- 19
		Reinforcement of specific provisions	Reinforcement of provisions for risks and charges	
Net banking income	93	(0)	-	93
General operating expenses	(56)	-	-	(56)
<b>Gross operating income</b>	<b>37</b>	<b>(0)</b>	<b>-</b>	<b>37</b>
Cost of risk	4	-	0	3
<b>Income before non-recurring items and taxes</b>	<b>41</b>	<b>(0)</b>	<b>0</b>	<b>41</b>
Income tax	(10)	0	(0)	(10)
<b>NET INCOME</b>	<b>31</b>	<b>(0)</b>	<b>0</b>	<b>31</b>

## 7. Post-closing events

No significant event that influenced the Company's financial situation has occurred since the closing on June 30, 2021.

## 5. Statutory auditors' report (French GAAP)

*This is a free translation into English of the statutory auditors' review report on the half-yearly financial information issued in French and is provided solely for the convenience of English-speaking users. This report includes information relating to the specific verification of information given in the half-yearly management report. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.*

# Caisse Française de Financement Local

## Statutory auditors' review report on the half-yearly financial information

**For the period from January 1 to June 30, 2021**

To the Shareholders,

In compliance with the assignment entrusted to us by Annual General Meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code ("*Code monétaire et financier*"), we hereby report to you on:

- the review of the accompanying half-yearly financial statements of Caisse Française de Financement Local, for the period from January 1, 2021 to June 30, 2021,
- the verification of the information presented in the half-yearly management report.

Due to the global crisis related to the Covid-19 pandemic, the half-yearly consolidated financial statements have been prepared and reviewed 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 organization and the performance of our review procedures.

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

### **I. Conclusion on the financial statements**

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

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

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly financial statements are not prepared, in all material respects, in accordance with the accounting rules and principles applicable in France.

### **II. Specific verification**

We have also verified the information presented in the half-yearly management report on the half-yearly financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the half-yearly financial statements.

Paris La Défense, on the 13 September 2021

Neuilly-sur-Seine, on the 13 September 2021

KPMG S.A.  
Jean-Francois Dandé  
*Partner*

PricewaterhouseCoopers Audit  
Ridha Ben Chamek  
*Partner*

## 6. Statement by the person responsible

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

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

Issy-les-Moulineaux, September 13, 2021

Gilles GALLERNE  
Chairman of the executive board