

CAFFIL Activity Report

For the period from January 1st to March 31, 2022

This free translation of the activity report Q1 2022 published in French is provided solely
for the convenience of English-speaking readers.

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

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

1.1. Nature and activity of the Company

1.1.1. Nature of the Company

Caisse Française de Financement Local (CAFFIL) is a credit institution active in the refinancing of loans to public sector entities through the issue of covered bonds, known as *obligations foncières*. This specialized credit institution is authorized to operate as a *société de crédit 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.

1.1.2. Company activity

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

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

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

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

1.2. Form and shareholding structure of the Company

1.2.1. Legal structure and name of the Company

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

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

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

1.2.2. Company shareholders

As of March 31, 2022, Caisse Française de Financement Local was wholly owned by SFIL.

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

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

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



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

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

1.3. Caisse Française de Financement Local's economic model

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

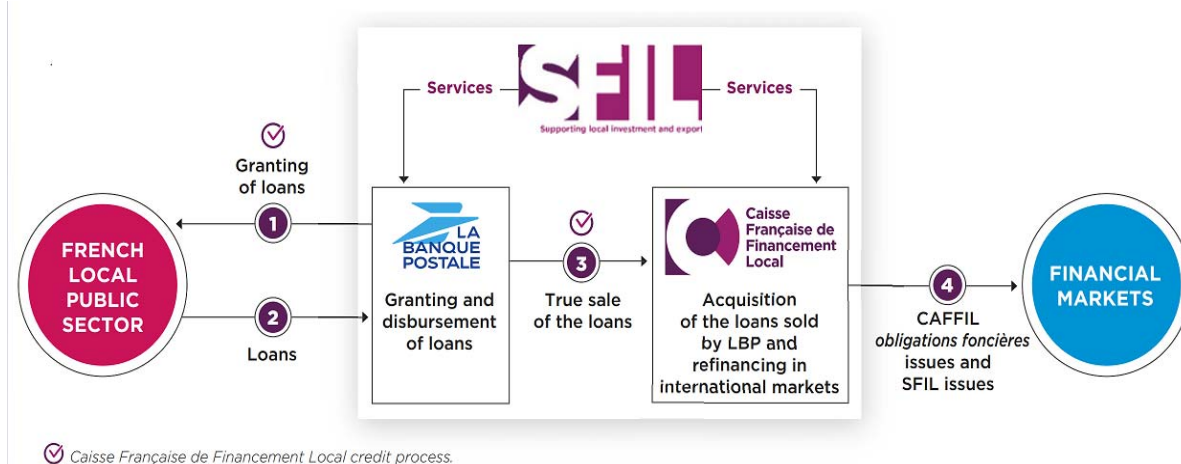
Since 2015, the French State has entrusted SFIL and Caisse Française de Financement Local with a second mission, which is the responsibility to refinance large export credits with the guarantee of the State (see 1.1.3.2.). The objective is to enable large export credits as well as French local authorities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

1.3.1. Financing of loans to the local public sector and French public hospitals

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

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

LBP-SFIL-CAISSE FRANÇAISE DE FINANCEMENT LOCAL PARTNERSHIP



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

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

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

1.3.2. Refinancing of large export credits

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

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

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

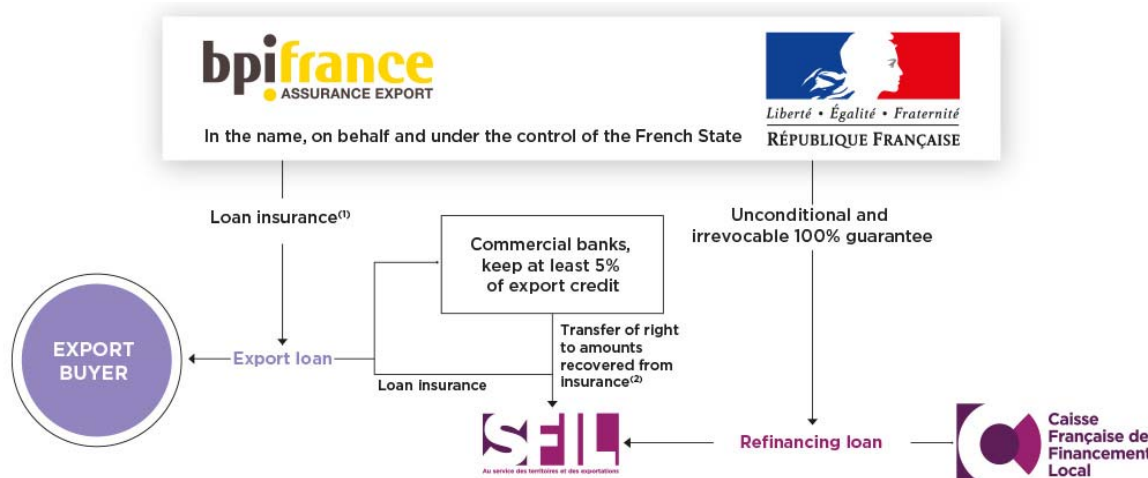
1.3.2.1. Refinancing system for large export credits

The system functions as follows:

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

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

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



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

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

1.3.2.2. Specific case of exports of civil aircraft and helicopters

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

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

1.3.2.3. French State export guarantees

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

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

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

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

This source of financing is the main source of liquidity for the SFIL Group and represents an outstanding of EUR 51.7 billion as of March 31, 2022.

1.3.4. Servicing and financing provided by SFIL

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

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

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

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

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

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

1.3.5. Other management agreements

Specific individual agreements have been established with entities that, in the past, have transferred assets to the *société de crédit foncier*, and continue to ensure the management of these assets for their national clientele. These assets are managed in a run-off mode. As of March 31, 2022, there were agreements with the following entities: Belfius Banque et Assurances (Belgium), and Dexia Crediop (Italy). All of these management agreements already existed in previous years.

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

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

As of March 31, 2022, Caisse Française de Financement Local's issuance program was rated by three international rating agencies: Moody's, Standard & Poor's (S&P) and DBRS Morningstar.

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

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

SFIL is currently rated at the same level as France by S&P and DBRS Morningstar and one notch below it by Moody's. SFIL benefits from these very good ratings because it is considered as a French-government related entity. The agencies take into account the strong probability that if necessary the Caisse des Dépôts and the French State would provide extraordinary support to SFIL given the strategic importance of the public service responsibilities entrusted to it, the Caisse des Dépôts and the State's commitments and their influence on SFIL's governance.

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

The ratings at March 31, 2022 are presented in section 2.5 of the management report.

2. Highlights of 2022

2.1. Health crisis due to the Covid-19 pandemic

Within the context of this crisis, which began in the first quarter of 2020, Caisse Française de Financement Local continued its two missions of financing the local public sector and refinancing large export credits. The commercial activity relating to the financing of the local public sector (carried out in partnership with La Banque Postale) as well as activity relating to export refinancing were sustained during the first quarter 2022 as in 2021 despite the continuing health crisis linked to the Covid-19 pandemic (see 1.2.2).

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

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

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

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

2.2. Crisis relating to the war in Ukraine

The foreseeable impacts to date related to the war situation in Ukraine are limited for Caisse Française de Financement Local. Caisse Française de Financement Local does not have any exposure in Russia or Belarus. SFIL, its parent company, has only one exposure in Ukraine, which at March 31, 2022 represented an outstanding on the balance sheet of EUR 49.1 million and an off-balance sheet financing commitment of EUR 17.4 million. This exposure was granted as part of the export credit activity and is 100% guaranteed by the French Republic. SFIL is not, therefore, directly exposed to credit risk on this file. This contract was the subject of a refinancing contract granted by CAFFIL which, in addition to the 100% credit insurance, benefits from the 100% guarantee granted by the French Republic known as the enhanced guarantee.

In addition, the war situation in Ukraine is causing market disruptions which are subject to appropriate monitoring by Caisse Française de Financement Local.

2.3. The covered bond market

During the first quarter of 2022, the activity of the primary covered bond EUR benchmark market posted a sharp increase with 67 transactions (compared to 36 over the first quarter 2021) for a volume of EUR 77 billion (vs EUR 23 billion over the same period in 2021 and EUR 47 billion in 2020).

The covered bond asset class was in particular demand from banking issuers this quarter. Its resilience was remarkable despite an economic context of volatility of rates with expectations of a gradual normalization of the policies of the main central banks (Fed and ECB) and an international situation marked by the invasion of Ukraine by Russia at the end of February.

At the beginning of March, the European Central Bank confirmed its intention to reduce its asset purchases under the programs, including the program specifically dedicated to covered bonds (CBPP3), starting in April. It envisages a complete cessation of purchases from the third quarter of 2022.

In this changing environment, the spreads of the covered bonds segment underwent a gradual consolidation movement throughout the quarter, with a particular impact since the end of February of the events in Ukraine. This movement nevertheless remains moderated by two structural supports: the significant falls in covered bonds over the quarter (EUR 61 billion against EUR 136 billion for the whole of 2022) and the continued purchase activity of the Eurosystem through the CBPP3 program for the purpose of reinvesting matured securities in its portfolio. At the end of March, the net supply of covered bonds in euros was positive at EUR 16 billion. Over the quarter, Canadian issuers were the most active (25% of supply vs 10% in 2021) ahead of French (20% vs 28%) and German (19% vs 20%) issuers. These three jurisdictions represent almost two-thirds of the volume issued.

In this market context, Caisse Française de Financement Local approached the benchmark primary market in euros in January with a transaction combining two tranches, 10 years and 20 years, for amounts of EUR 750 million and EUR 500 million respectively. Lastly, CAFFIL also issued private placements for EUR 55 million. In total, CAFFIL carried out during this 1st quarter EUR 1.305 billion of issues, i.e. 37% of the volume initially considered for the year 2022 with an average life of 13.9 years.

2.4. A new regulatory framework

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

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

2.5. Sound financial and extra-financial ratings

The financial ratings of the *obligations foncières* issued by Caisse Française de Financement Local remained unchanged during 2022. As of March 31, 2022, the ratings were as follows: AAA at Moody's, AA+ at S&P, with a stable outlook and AAA at DBRS Morningstar.

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

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

2.6. 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.

During the first quarter 2022, local public sector financing activity continues at a rate much higher than that of 2021 and that of the 2014-2021 average on the same date.

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 28.9 billion.

2.7. 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 10.6 billion in refinancing loans to SFIL.

A new large export credit refinancing contract has been signed during the first quarter of 2022 for an amount of EUR 68 million. Moreover, as part of the post-Covid-19 crisis economic recovery, the SFIL group notes a high level of requests for quotations compared to the pre-crisis years, which suggests sustained activity for 2022 and for the years to come.

As of March 31, 2022, the outstanding amount of these loans on Caisse Française de Financement Local's balance sheet was EUR 5.3 billion. As a reminder, the payment of loans used to refinance large export credits is spread out over several years.

2.8. Continued integration into the Caisse des Dépôts group

The SFIL group keep participating in the approach introduced by the Caisse des Dépôts Group to develop cooperation between the Group's various entities and coordinate the operations of the business lines.

This approach aims to:

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

3.Change in cover pool and debts

EUR billions	12/31/2021	3/31/2022	Change 2022 / 2020
value after currency swaps			
Cover pool	61.1	60.1	(1.7)%
Loans	51.3	50.4	(1.6)%
Securities	6.0	5.8	(4.0)%
Cash deposit in central bank	3.8	3.9	1.4%
Assets removed from the cover pool	(0.0)	(0.0)	ns
Privileged debt	52.6	51.8	(1.6)%
Obligations foncières ⁽¹⁾	52.3	51.7	(1.2)%
Cash collateral received	0.3	0.1	(78.0)%
Non-privileged debt	7.7	7.5	(2.6)%
SFIL	7.7	7.5	(2.6)%
Equity IFRS (excluding unrealized gains and losses)	1.4	1.5	3.5%

(1) Including registered covered bonds

The size of Caisse Française de Financement Local's cover pool decreased by EUR 1.0 billion in 2022, i.e. approximately -1.7%. This portfolio decrease was accompanied by a reduction in privileged debt of EUR 0.8 billion and non-privileged debt of EUR 0.2 billion. As of March 31, 2022, the cover pool excluding interest accrued not yet due amounted to EUR 60.1 billion.

Caisse Française de Financement Local's cover pool is made up of loans and securities to the public sector. It also includes temporary cash surpluses, created in anticipation of reimbursement of obligations foncières or in advance of export credit transactions. This temporary cash surplus is deposited at the Banque de France, or invested in bank or European public sector securities, or loaned to SFIL, the parent company of Caisse Française de Financement Local. The cash surplus, deposited with the Banque de France, represented EUR 3.9 billion as of March 31, 2022 versus EUR 3.8 billion as of December 31, 2021. The cash surplus invested in securities was a total of EUR 1.1 billion as of March 31, 2022 versus EUR 1.3 billion as of December 31, 2021. As of December 31, 2021, no assets were excluded from the cover pool in order to be sold to a bank in a repurchase agreement or assigned in guarantee to the Banque de France.

As of this date, outstanding debt benefiting from the legal privilege, including cash collateral received, was EUR 51.8 billion, a decrease of 1.6% in comparison with December 31, 2021.

As of March 31, 2022, the debt contracted with its parent company was EUR 7.5 billion. It does not benefit from the legal privilege and mainly corresponds to the financing of the over-collateralization of the cover pool, which is at a significantly higher level than the amount required by regulators and the rating agencies.

4. Description of the cover pool

4.1. Change in assets in 2022

The net change in cover pool in 2022 represents a decrease in assets of EUR 1.0 billion. This change is mainly due to the following:

EUR billions	Q1 2022
1- Acquisition of loans from La Banque Postale	-
Loans to the French public sector (vanilla loans in euros)	-
2- Loans disbursements to refinance export credit	0.3
Loan disbursements to SFIL to refinance export credit guaranteed by the French State	0.3
3- Reduction of loan sensitivity	0.0
Sensitive structured loans eliminated	(0.0)
Refinancing loans (vanilla loans in euros)	0.0
New loans (vanilla loans in euros)	0.0
4- Amortization of portfolio of loans and securities	(1.2)
5- Early reimbursements	(0.0)
6- Decrease in treasury	(0.1)
Net change in securities investments	(0.2)
Net change in Banque de France cash deposit	0.1
Net change in the cover pool	(1.0)

During the first quarter of 2022, Caisse Française de Financement Local did not acquire any loans to the local public sector and French public hospitals originated by La Banque Postale. The asset acquisition planned for the first quarter was completed in early April 2022 for an amount of EUR 2.6 billion; it will therefore be taken into account in the next quarterly activity report.

In 2022, refinancing loans for large export credits granted to SFIL amounted to EUR 0.3 billion. These loans benefit from an irrevocable and unconditional 100% guarantee by the French State.

In 2022, operations to reduce loan sensitivity (as part of the sensitivity reduction policy implemented in early 2013) reduced the outstanding amount of loans considered as sensitive by EUR 0.03 billion by replacing them with fixed-rate loans. They were accompanied by the granting of new fixed-rate loans for EUR 0.002 billion.

The natural amortization of the portfolio of loans and securities was EUR 1.2 billion in 2022, and early reimbursements were EUR 0.02 billion.

Free cash flow decreased by EUR 0.1 billion. It is deposited at the Banque de France, invested in bank bonds classified as replacement assets or in European public sector securities.

There were no divestments during 2022.

4.2. Outstandings at March 31, 2022

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

EUR billions	12/31/2021	3/31/2022
Loans and bonds to the public sector	56.5	55.6
<i>of which local public sector business line</i>	51.0	49.8
<i>of which large export credits refinancing business line ⁽¹⁾</i>	5.0	5.3
<i>of which treasury investment in public sector bonds ⁽³⁾</i>	0.5	0.5
Banque de France cash deposit ⁽³⁾	3.8	3.9
Replacement assets ⁽³⁾	0.8	0.6
COVER POOL	61.1	60.1
<i>of which liquid assets and of which assets eligible for refinancing by the Banque de France before haircut, excluding cash deposited with a bank or the Banque de France ⁽⁴⁾</i>	37.3	36.8
Financing commitments granted to refinance large export credits ⁽¹⁾⁽²⁾	5.1	4.8
Financing commitments granted to other public sector loans	0.0	0.0
FINANCING COMMITMENTS GRANTED	5.1	4.8

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

(2) In 2021 and 2022, commitments granted represented concluded contracts in drawing phase and hard offers from CAFFIL to SFIL valid on march 31, 2022

(3) The total amount of excess treasury decreased from EUR 5.1 billion at the end of 2021 to EUR 5.0 billion at the end of March 2022.

(4) Liquid assets correspond to bank exposures classified as replacement assets amounting to EUR 0.6 billion and other high quality liquid assets (level 1, 2A and 2B) amounting to EUR 3.0 billion. In addition, other assets eligible for refinancing by the Banque de France before haircut, excluding cash deposited with a bank or the Banque de France, totaled EUR 33.2 billion

Caisse Française de Financement Local holds cash surpluses in its account at the Banque de France or invests them in either European public sector bonds or replacement assets (banking sector securities or short-term loans to SFIL, its parent company – see section 4.1). They are mentioned in the footnote ⁽³⁾ of the table above.

The amount of liquid assets and assets eligible for refinancing by the Banque de France, excluding cash deposited with a bank or the Banque de France, represents EUR 36.8 billion, i.e. 61.3% of the Caisse Française de Financement Local's cover pool.

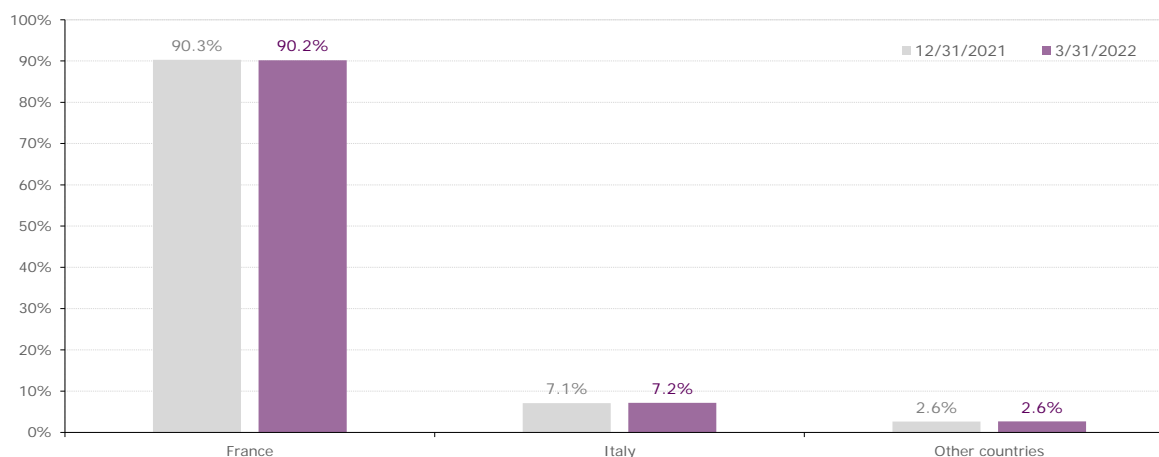
The amount of financing commitments given came to EUR 4.8 billion as of March 31, 2022. Almost all of these loans are signed but not yet fully paid, granted to SFIL as part of the refinancing of large export credits (as a reminder, these loans benefit from an unconditional and irrevocable 100% guarantee by the French State).

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 March 31, 2022, French public sector loans made up the majority (90.2%) of the cover pool, a portion that will increase in the future. They include loans acquired from La Banque Postale since 2013 (EUR 21.8 billion of outstanding principal as of March 31, 2022), representing more than 39% of the Group's public sector loans and securities and 49% of its loans to the French local public sector. The State-guaranteed loans granted to SFIL for the refinancing of large export credits (EUR 5.3 billion on the balance sheet) represent approximately 9.5% of its public sector loans and bonds. The other assets are managed in run-off mode; they correspond to granular and geographically diversified exposures on foreign public sector entities.

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



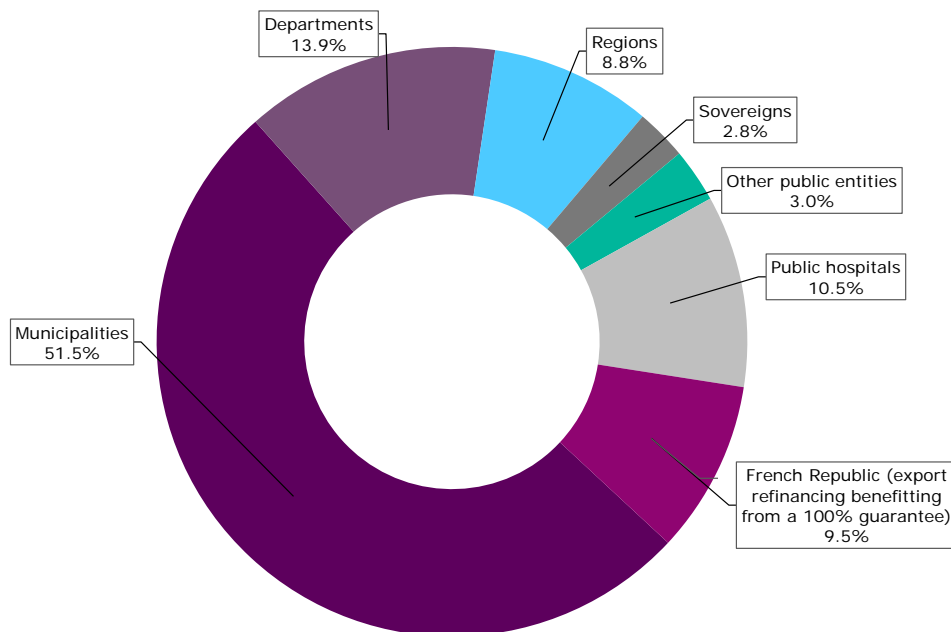
As of March 31, 2022, Italian assets represented the largest portion of non-French assets in run-off mode, with a total volume of EUR 4.0 billion, or 7.2% of public sector loans and bonds. These assets are granular exposures (almost 140 counterparties consisting mainly of regional and municipal authorities) distributed throughout Italy.

Exposures to other countries as of March 31, 2022, are broken down by country in the “Breakdown of cover pool” section, which is at the end of this management report.

4.2.1.2. Breakdown by type of counterparty

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

- 74% exposures on municipalities and their groups, departments or regions;
- 6% sovereign exposures or commitments on other public sector entities;
- 11% exposures on public hospitals;
- 9% exposures 100% guaranteed by the French State in respect of loans granted to SFIL for the refinancing of large export credits.



4.2.1.3. Securitizations

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

4.2.2. Replacement assets

Assets considered by law as “replacement assets” correspond to exposures on credit institutions benefiting from at least a “Step 1 rating”, or a “Step 2 rating” when their remaining maturity does not exceed 100 days. The amount of the “replacement assets” is limited to 15% of *obligations foncières* and registered covered bonds. As of March 31, 2022, replacement assets represented 1.1% of *obligations foncières* and registered covered bonds.

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

Replacement assets	Country	12/31/2021	3/31/2022
EUR millions			
Step 1 credit rating			
Covered bonds			
	France	174	127
	Other countries	637	459
Other bank bonds			
	France	-	-
	Other countries	-	-
Loans to parent company, SFIL	France	-	-
Step 2 credit rating			
Bank bonds (maturity < 100 days)			
	France	-	-
	Other countries	-	-
Bank accounts balances	France and Other countries	5	4
TOTAL		815	590

4.2.3. Assets removed from the cover pool

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

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

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

4.2.4. Structured loans

4.2.4.1. Definition

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

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

4.2.4.2. Share of structured loans in the cover pool

EUR billions	Outstanding				Number of customers ⁽¹⁾		
	12/31/2021	3/31/2022	Change	% cover pool	12/31/2021	3/31/2022	Change
French public sector loans	45.5	44.4	-1.1	74.0%	13,220	12,887	-333
- Of which Vanilla loans	42.8	41.8	-1.0	69.6%	12,087	11,778	-309
- Of which Structured loans	2.7	2.6	-0.1	4.4%	1,133	1,109	-24

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

In 2022, outstanding loans to the French local public sector decreased by EUR 1.1 billion. Structured loans on Caisse Française de Financement Local's balance sheet amounted to EUR 2.6 billion, representing 4.4% of the cover pool.

4.2.4.3. Sensitive loans and reduction in loan sensitivity

EUR billions	Outstanding				Number of customers ⁽¹⁾		
	12/31/2021	3/31/2022	Change	% cover pool	12/31/2021	3/31/2022	Change
Sensitive loans not in the charter	0.2	0.2	-0.0	0.4%	29	26	-3
Sensitive loans (3E/4E/5E)	0.3	0.3	-0.0	0.5%	104	103	-1
Total sensitive loans:	0.5	0.5	+0.0	0.9%	133	129	-4

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

The most structured loans according to the Gissler classification (categories 3E, 4E and 5E as well as "not in the charter" loans) may be classified as "sensitive". As of March 31, 2022, they now represent only EUR 0.5 billion in outstanding (0.9% of the cover pool) compared with EUR 8.5 billion on SFIL's inception at the end of 2012, *i.e.* a decrease of almost 94%. The number of customers holding sensitive loans fell over the same period from 879 to 129.

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

5. Debt benefiting from the legal privilege

As of March 31, 2022, debt benefiting from the legal privilege is composed of obligations foncières and registered covered bonds issued by Caisse Française de Financement Local as well as cash collateral received from counterparties in derivative transactions.

EUR billions	12/31/2021	3/31/2022
Cash collateral received	0.3	0.1
<i>Obligations foncières</i> and registered covered bonds	52.3	51.7
Total	52.6	51.8

5.1. Changes in cash collateral

At March 31, 2022, cash collateral received by Caisse Française de Financement Local was down compared to December 31, 2021; its amount stood at EUR 0.1 billion.

5.2. Changes in issues

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

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

5.2.1. 2022 issues

During the first quarter 2022, Caisse Française de Financement Local generated an issue volume of EUR 1.3 billion, enriching its reference curve with two new transactions. It was also active in the private placement segment.

Caisse Française de Financement Local raised money in the public primary market in January 2022 with a double tranche transaction in the total amount of EUR 1.25 billion, consisting in of a 10-year issue for EUR 750 million and a 20-year issue for EUR 500 million.

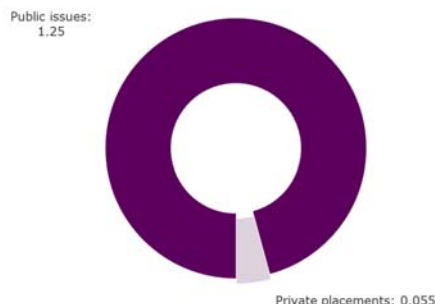
In addition to these public transactions, Caisse Française de Financement Local responded to specific requests from investors in the private placements segment, in the EMTN format, for an amount of EUR 55 million.

The weighted average life of the financing raised during the first quarter of 2022 was 13.9 years.

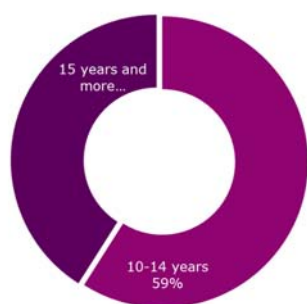
The breakdown of new issues by format (public issues or private placements) and by maturity is presented below, as well as the breakdown of benchmark public issues by investor category and geographic zone:

2022 ISSUES BY FORMAT

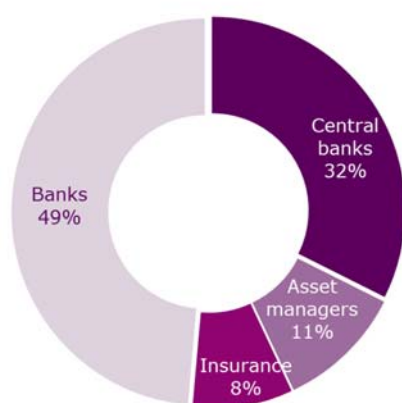
EUR billions



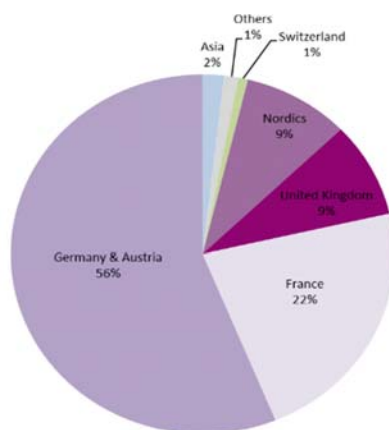
2022 ISSUES BY MATURITY (%)



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



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



5.2.2. Outstandings at March, 31 2022

The outstanding amount of *obligations foncières* and registered covered bonds totaled EUR 51.7 billion in swapped value at the end of March 31, 2022. This includes new issues of *obligations foncières* for EUR 1.3 billion and after amortization of issues maturing in 2022 for EUR 1.9 billion.

EUR billions, value after currency swaps	Q4 2021	Q1 2022
BEGINNING OF THE PERIOD	50.5	52.3
Issues	5.9	1.3
Amortizations	(4.1)	(1.9)
Buyback	(0.0)	(0.0)
END OF THE PERIOD	52.2	51.7

At March 31, 2022, issues can be broken down by currency as follows:

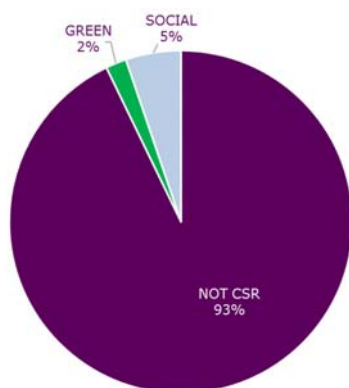


5.2.3. Social and green issues

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

A new social thematic issue is planned in the budget for 2022, but has not yet been produced as of March 31, 2022.

ISSUES 2022 OUTSTANDINGS AT MARCH 31, 2022

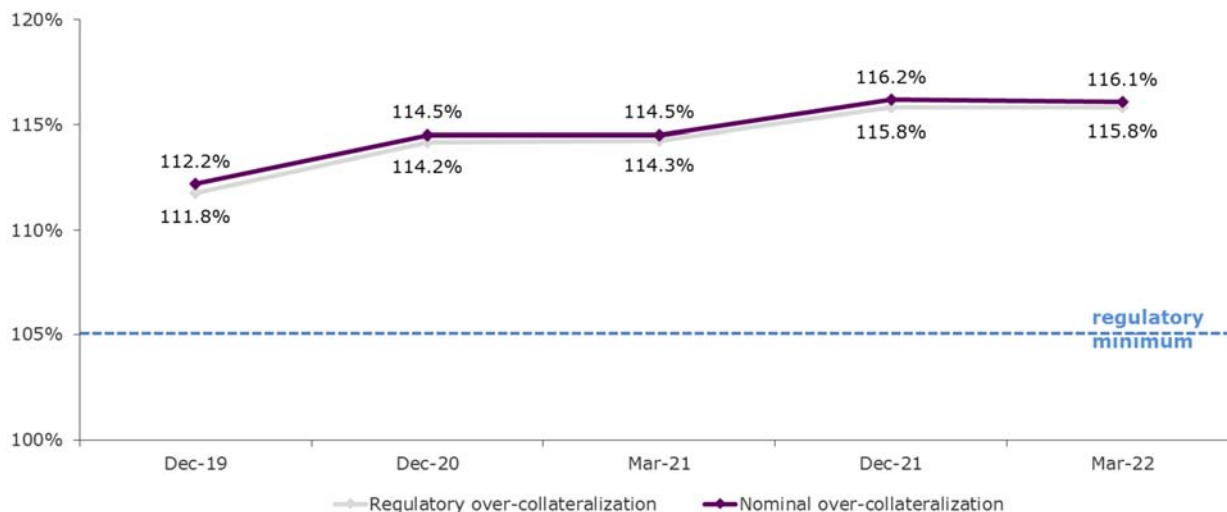


In addition, in November 2020 and November 2021, SFIL carried out two "green" bond issues each for an amount of EUR 500 million. The funds obtained from these issues have been or will be loaned by SFIL to Caisse Française de Financement Local, with the obligation to use them to finance green loans that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

6. Coverage ratio

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

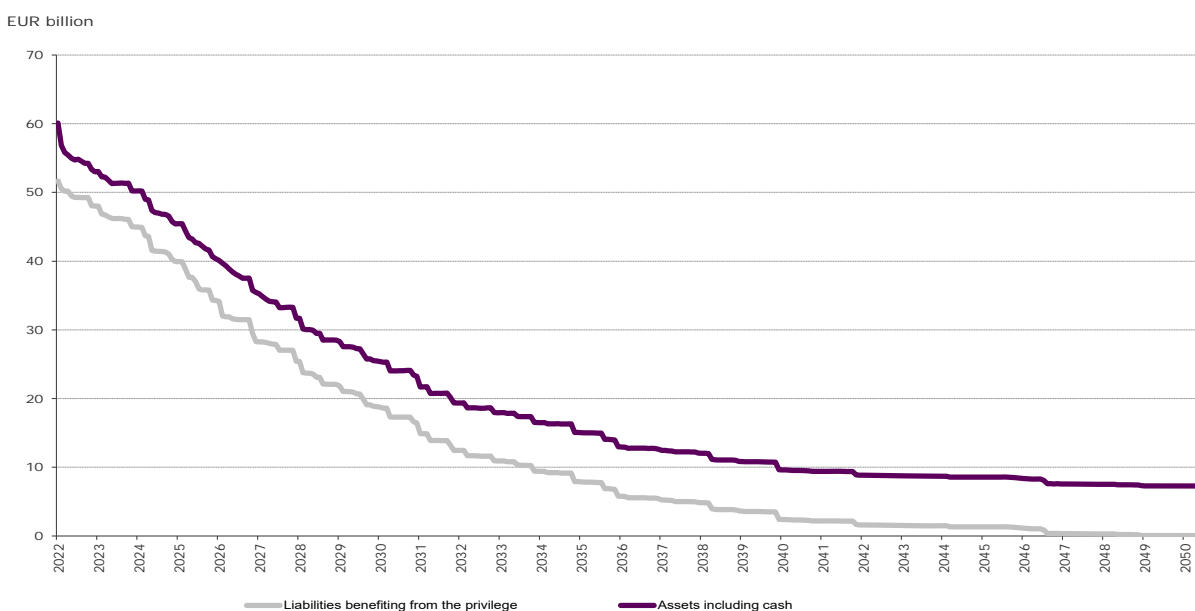
In practice, the over-collateralization ratio is regularly higher than 105%. To maintain a sufficient rating, a level of over-collateralization of more than 5% may be required. This requirement depends on the methodology used by each rating agency and the new assets and liabilities recorded on the balance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



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

Any assets that Caisse Française de Financement Local may have assigned in guarantee to borrow funds from the Banque de France or any other banking institution would be excluded from the calculation of over-collateralization. Over-collateralization may also be illustrated by the gap between the amortization curves of the assets and liabilities benefiting from the legal privilege. The following graph presents the curves as of March 31, 2022.

FORECAST DISPOSAL OF ASSETS AND LIABILITIES AS OF MARCH 31, 2022



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

7. Non-privileged debt

The asset surplus compared to *obligations foncières* and registered covered bonds (over-collateralization) and miscellaneous needs are financed by equity and debt that does not benefit from the privilege of the law on *sociétés de crédit foncier*. Such financing is obtained through the parent company, SFIL, under the financing agreement. As of March 31, 2022, they were made up of different loans with maturities that could run from one day to ten years with a Euribor, Eonia or €str index.

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

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

EUR billions	12/31/2021	3/31/2022
SFIL	7.7	7.5
Banque de France	-	-
TOTAL	7.7	7.5

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

8.1. Credit Risk

8.1.1. Definition

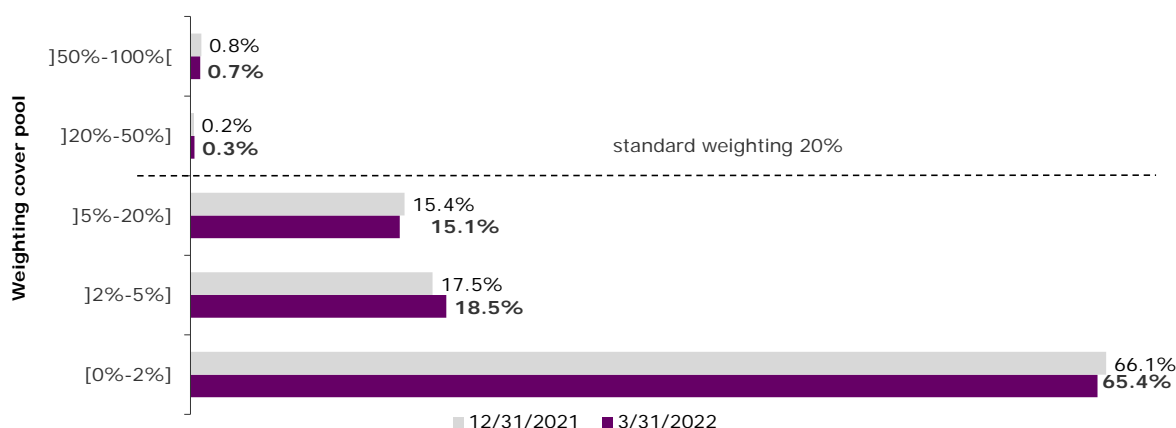
Credit risk represents the potential loss Caisse Française de Financement Local could suffer due to the deterioration of a counterparty's solvency.

8.1.2. Breakdown of cover pool exposures according to risk weightings

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

This enables Caisse Française de Financement Local to present an analysis of its exposure as of March 31, 2022 (in EAD), broken down by risk weighting, as used for the calculation of capital requirements for credit risk (see following page).

RISK WEIGHTING OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL'S PORTFOLIO AS OF MARCH 31, 2022



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

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

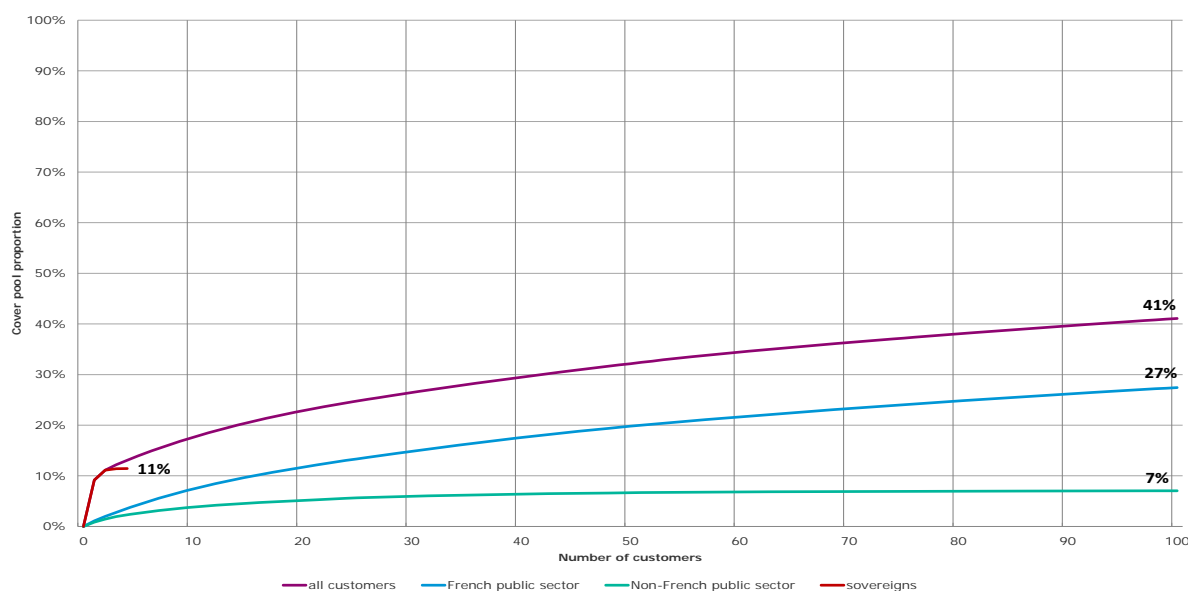
The average risk weighting of the cover pool assets is 4.7%, versus 20% for European local government entities according to the Basel standard method. It was 4.6% at December 31, 2021.

The impacts of the Covid-19 pandemic are limited at this stage for French local public sector entities. The SFIL Group has supported all health institutions as part of the national mobilization to fight against the global pandemic. The SFIL Group proposed temporary payment terms to these entities. Requests for payment terms were also received from certain local authorities or French public sector entities. As of March 31, 2022, all borrowers who had benefited from payment periods had repaid the amounts due.

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 March 31, 2022, the 20 largest exposures (excluding replacement assets and cash deposits in the Banque de France), all categories combined, represented 22.9% of the cover pool. The first exposure, the French Republic, represents 9.2% of the cover pool (mainly due to the export refinancing loans it guarantees) and the twentieth exposure 0.4%.

8.1.4. Arrears, doubtful loans, litigious loans and provisions as of March 31, 2022

Caisse Française de Financement Local does not publish quarterly accounts, but only half-year and annual accounts. Therefore, information concerning Non-performing loans, litigious loans and provisions at March 31, 2022 is not available in this activity report. Last published information about these issues was disclosed in the management report of the annual financial report 2020, which is available on the website of the Company.

8.1.5. Bank counterparty risk

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

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

- replacement assets in the amount of EUR 0.6 billion (see 4.2.2);
- derivative contracts, entered into within the framework of its management of interest rate and foreign exchange risks.

All of Caisse Française de Financement Local's derivative operations are conducted within the framework of standard ISDA or FBF (Fédération Bancaire Française) contracts with major international banks. These contracts have particular characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and other issuers of covered bonds). Over the last few years, Caisse Française de Financement Local amended these contracts to take into account recent EMIR regulatory changes (signing of variation margin amendments). 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 March 31, 2022, are listed below.

EUR billions	Total of notional amounts	% of total notional amounts	Mark to Market		Collateral received	Number of counterparties
			-	+		
SFIL	15.3	17.6%	(1.6)	-	-	1
Other counterparties	71.4	82.4%	(1.6)	0.1	0.1	24
Total	86.7	100.0%	(3.2)	0.1	0.1	25

As of March 31, 2022, Caisse Française de Financement Local was exposed (positive fair value of swaps) to seven bank counterparties, all of these paid cash collateral totaling EUR 0.1 billion, offsetting the total exposure.

The swaps negotiated with external counterparties represented 82% of outstanding swaps and those signed with SFIL 18%. The swaps signed with the five largest counterparties represented a total of 56% of notional amounts.

8.2. Climate risks

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

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

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

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

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

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

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

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

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

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

8.3. Market risk

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

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

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

This concerns mainly the following, under IFRS:

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

The market data used to value these items may have fluctuated due to the health crisis and occasionally and temporarily impacted certain quarterly results, but they had no economic impact on the situation of Caisse Française de Financement Local.

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

8.4. Asset-Liability Management (ALM) risk

8.4.1. Liquidity risk

8.4.1.1. Definition and liquidity risk management

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

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

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

- financing of the assets that cover the obligations foncières it issues;
- repayment of debts as they fall due;

- financing of the liquidity requirements related to compliance with regulatory ratios, specific sociétés de crédit foncier ratios and the rating agency methodologies used to meet a rating target.

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

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

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

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

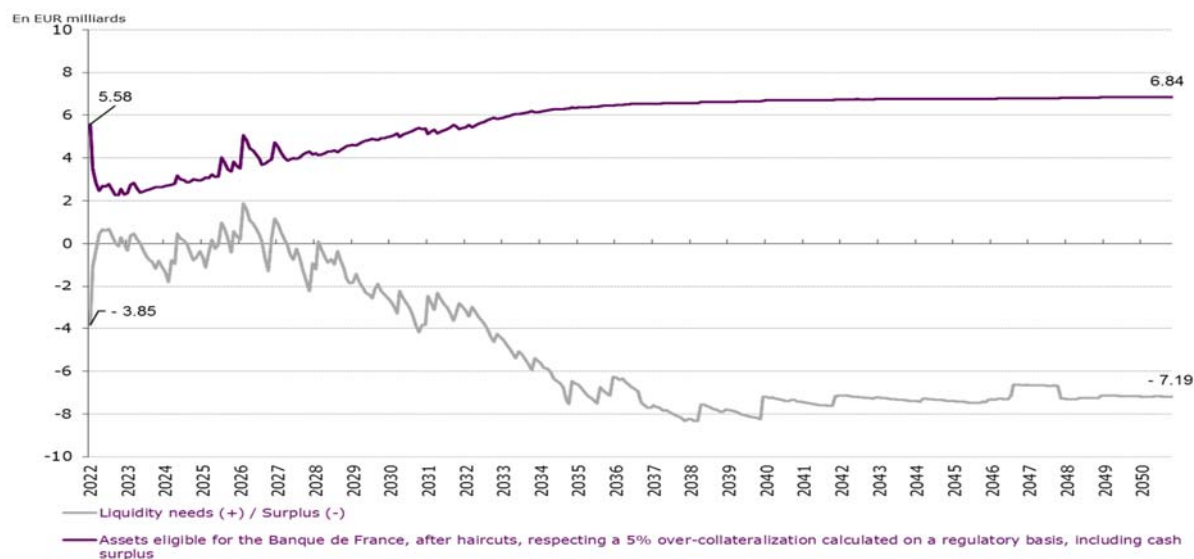
Dynamic liquidity forecasts take into account business assumptions (new assets and new financing), under normal and stressed conditions:

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

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

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

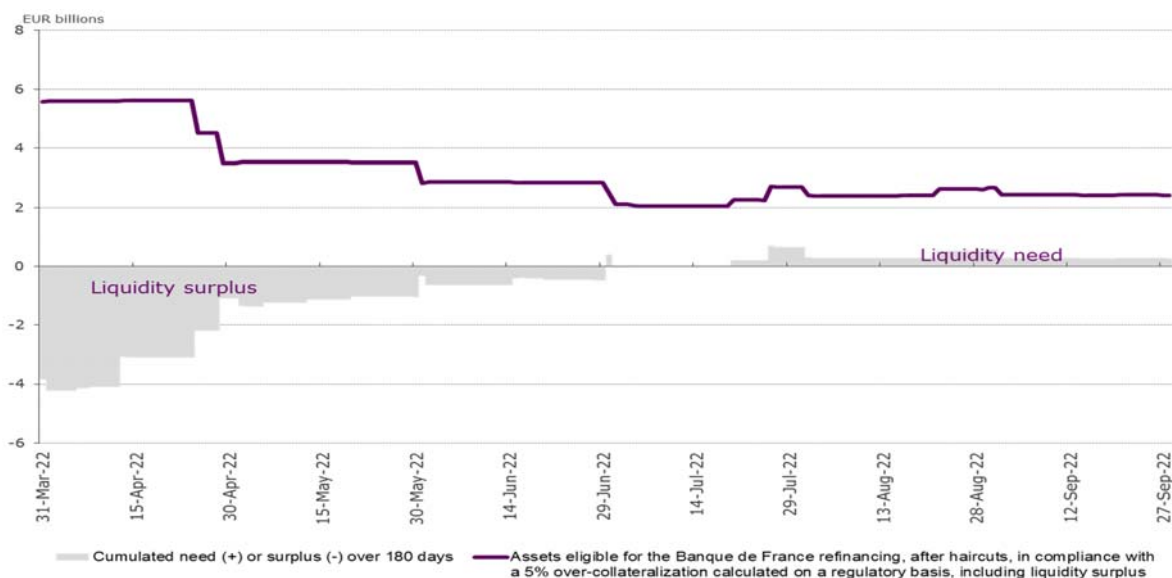
The chart below shows the forecast aggregate liquidity requirement and the assets needed to cover this requirement:



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

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

- the regulatory indicators specific to sociétés de crédit foncier (SCF):
 - the regulatory coverage ratio (or over-collateralization ratio): this represents the ratio between assets and debts benefiting from the legal privilege, and must be at least 105% (see section 6);
 - the maximum gap of 1.5 years between the average maturity of debt benefiting from the legal privilege and that of assets (see the specific section on transformation risk below);
 - the forecast cash needs at 180 days: Caisse Française de Financement Local ensures that, at any time, its cash needs over a period of 180 days, calculated in a situation of run-off, are covered by cash, replacement assets, high-quality liquid assets or assets eligible for the Banque de France's credit operations. Cash needs include repayments of obligations foncières and registered covered bonds, debt not benefiting from the legal privilege and forecast repayments of cash collateral received, after deduction of received assets repayments. This forecast is published quarterly in the asset quality report, and is shown below. As of March 31, 2022, the liquidity situation at 180 days shows a cash surplus over the first three months (with a maximum of EUR 4.2 billion) and a cash requirement over the last three months with a maximum requirement of EUR 0.7 billion at the end of July and September for which the necessary management measures have been or will be taken.



- the regulatory liquidity indicators applicable to credit institutions, in particular Regulation 575/2013 of the European Parliament and Council of June 26, 2013, concerning:
 - the LCR ratio (Liquidity Coverage Ratio): as of March 31, 2022, Caisse Française de Financement Local's LCR ratio was 237%;
 - the Net Stable Funding Ratio (NSFR), a transformation ratio which compares with a one-year horizon, the proportion of available stable funding over required stable funding: as of March 31, 2022 Caisse Française de Financement Local's NSFR was 113%;
- the internal liquidity indicators:
 - the dynamic financing requirement over a one-year period, as well as the issuance conditions of Caisse Française de Financement Local;
 - the coverage ratio (or over-collateralization ratio), which is steered at an over-collateralization level consistent with the Caisse Française de Financement Local's target rating (see section 1.6 – Over-collateralization ratio);
 - the one-year survival horizon in stressed conditions;
 - management of the maturities of privileged liabilities;
 - the level of unencumbered assets available in the event of a liquidity crisis;
 - the difference in duration between assets and liabilities benefiting from the legal privilege (limited to three years): this is published every quarter and came to -0.64 year as of March 31, 2022 (see the specific section on transformation risk below);
 - the sensitivity of the net present value of the static liquidity gap to an increase in the Group's financing costs;
 - the consumption of the spread and basis risk appetite for export credit transactions which measures the loss of revenue on these transactions which could result from stress on the financing costs in euros or foreign currency (USD or GBP).

8.4.1.2. Definition and management of the transformation risk contained in the specific components monitored in connection with liquidity risk

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

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

- duration gap;
- weighted average life gap.

Duration gap

The difference in maturity between assets and liabilities can lead to liquidity risk. As interest rate risk is controlled (see section 8.4.2.), Caisse Française de Financement Local ensures that asset and liability maturities match by keeping the difference in duration between assets and debts benefiting from the legal privilege to three years or less.

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

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

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	3/31/2020	6/30/2021	9/30/2021	12/31/2021	3/31/2022
Cover pool	7.10	7.10	7.07	6.57	6.26
Privileged liabilities	7.13	7.20	7.13	6.92	6.90
Gap in asset-liability duration	-0.04	-0.11	-0.07	-0.35	-0.64
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)	3/31/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022
Cover pool	7.25	7.26	6.90	6.75	6.65
Privileged liabilities	7.29	7.35	6.98	7.10	7.29
Gap in asset-liability weighted average life	-0.04	-0.10	-0.08	-0.35	-0.64
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 four types of interest rate risks, which are generally covered using derivatives as well as a risk related to any options:

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

8.4.2.2 Hedging Strategy

Caisse Française de Financement Local has defined an appetite for fixed interest rate risk of EUR 80 million. To limit its impact, Caisse Française de Financement Local implements the following interest rate risk hedging strategy:

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

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

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

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

These different kinds of interest rate risks are analyzed and managed through the monitoring fixed rate, index and fixing gaps:

Fixed rate gap	The risk is monitored through the sensitivity of the net present value (NPV) by pillar to a change of 10 bp in rates
Index gap	Difference between balance sheet and off-balance sheet assets and liabilities for a given index tenor that has not yet been fixed. This gap is calculated every month until balance sheet run-off.
Fixing gap	For a given index tenor: difference between floating rate balance sheet and off-balance sheet assets and liabilities, by fixing date.

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

8.4.2.3 Interest rate risk management

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

- Until December 31, 2021, Caisse Française de Financement Local's fixed rate risk appetite system consisted of a set of limits governing the overall and time-bucket sensitivities of the net present value (NPV). This framework took the form of the monthly production of net present value (NPV) sensitivity indicators, calculated for a rate shock of 100 bp, which aim to regulate the fixed or set rate residual positions of Caisse Française de Financement Local (after hedging). These indicators were calculated for four predefined time buckets (short-term, medium-term, long-term, very long-term) regulated by limits which were calibrated to avoid losing more than EUR 80 million with a 99% quantile calculated on a 10-year history:

Measurement of directional risk

The quarter-end sensitivity measurements are presented below:

DIRECTIONAL RISK

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

Measurement of the slope/rotation risk:

The quarter-end sensitivity measurements are presented below:

RISK OF SLOPE BETWEEN TWO DISTANT POINTS ON THE RATE CURVE

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

RISK OF SLOPE BETWEEN TWO CLOSE POINTS ON THE RATE CURVE

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

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

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

<i>EUR millions</i>	Limit	12/31/2021 (proforma)	3/31/2022
Maximum loss observed in NPV	(80)	(24.6)	(9.2)

The health did not have a significant impact in terms of interest rate risk for Caisse Française de Financement Local, given the very cautious policy implemented in this area and the reduced level of unhedged positions.

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.

The health crisis did not have a significant impact in terms foreign exchange risk for Caisse Française de Financement Local, given the very cautious policy implemented in this area and the reduced level of unhedged positions.

8.5. Other risks

8.5.1. Operational risk

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

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

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

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

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

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

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

During the first quarter of 2022, the SFIL group maintained a crisis management cell in place to manage operational risks related to the Covid-19 pandemic.

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

8.5.2. Legal and tax risk

8.5.2.1. Legal risk

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

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

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

There were 3 borrowers who had brought lawsuits on structured loans as of March 31, 2022, stable figure to that of December 31, 2021, compared to 10 as of December 31, 2020 and 15 as of December 31, 2019, steadily decreasing since 2014 (210 lawsuits as of December 31, 2014). Since the creation of SFIL, 220 borrowers dropped the claims they had initiated against structured loans. There were 3 borrowers who has brought lawsuits on non-structured loans as of March 31, 2022.

As of March 31, 2022, to the Caisse Française de Financement Local's knowledge, there were no other lawsuits or disputes between SFIL or Caisse Française de Financement Local and its borrowers that were considered significant.

8.5.2.2. Tax risk

During 2021, the French and Irish administrations met concerning the taxation in Ireland of the income of the former Dexia Municipal Agency (CAFFIL's former name) branch in Dublin, which closed in 2013 and which resulted in a tax adjustment notice from the French tax authorities for the tax audit relating to the 2012 and 2013 financial years.

Discussions, which aim to address the double taxation to which Caisse Française de Financement Local has been subject, continue in 2022.

Caisse Française de Financement Local paid all of the duties assessed.

8.5.3. Risk of non-compliance

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

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

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

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

The non-compliance risk management processes apply to all the SFIL Group's departments, activities and processes (SFIL and Caisse Française de Financement Local). The SFIL Group has defined and put in place a system for preventing non-compliance risk, which is up-to-date, sufficient and suited to the Group's activities.

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

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

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

9. Outlook for 2022

2022 marks the beginning of the SFIL Group's new strategic plan, “#Objectif 2026”, which aims to continue and accentuate its expansion within a powerful group, Caisse des Dépôts and which is based on three areas :

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

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

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

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

Caisse Française de Financement Local will closely monitor the international situation and macroeconomic developments (impacts related to the geopolitical environment, particularly those relating to the war in Ukraine, to the rise in interest rates and to the return of inflation) in order to anticipate their effects. It will pay particular attention to regulatory changes (completion of Basel III, the LCR regulation and CSR-related texts), the challenges of which have been included in the new strategic plan, and the possible impacts of the Covid-19 pandemic (on its operations, customers and risks).

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

Breakdown of the cover pool as of March 31, 2022

EUR millions	3/31/2022				12/31/2021	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
France						
State:						
- export refinancing	-	-	5,277	-	5,277	4,954
- others	20	-	0	230	250	250
Banque de France	3,822	-	-	-	3,822	3,796
Regions	2,248	70	229	-	2,547	2,592
Departments	7,079	-	125	-	7,204	7,409
Municipalities	13,929	13	282	-	14,224	14,612
Groups of municipalities	13,059	54	69	-	13,182	13,504
Public sector entities:						
- health	5,860	-	-	-	5,860	5,983
- social housing	823	-	-	-	823	842
- others	667	150	-	-	817	853
Credit institutions	4	127	-	-	131	179
Subtotal	47,510	414	5,982	230	54,136	54,975
Germany						
Länder	-	275	-	-	275	275
Subtotal	-	275	-	-	275	275
Austria						
Länder	-	-	164	-	164	167
Subtotal	-	-	164	-	164	167
Belgium						
Regions	1	-	27	-	28	32
Public sector entities	2	-	-	-	2	2
Credit institutions	-	10	-	-	10	50
Subtotal	3	10	27	-	41	84
Canada						
Municipalities	100	-	35	-	135	100
Public sector entities	-	-	-	-	-	34
Credit institutions	-	371	-	-	371	372
Subtotal	100	371	35	-	506	507
Spain						
State	-	180	-	-	180	180
Regions	-	50	-	-	50	50
Municipalities	64	-	-	-	64	64
Subtotal	64	230	-	-	294	294

EUR millions	3/31/2022				12/31/2020	
	Direct exposure		Indirect exposure		Total	Total
	Loans	Bonds	Loans	Bonds		
COUNTRY						
United States						
Federated States	-	182	-	-	182	182
Subtotal	-	182	-	-	182	182
Italy						
State	-	1,156	-	-	1,156	1,151
Regions	-	1,664	-	-	1,664	1,667
Provinces	-	422	-	-	422	428
Municipalities	3	746	-	-	749	771
Group of Municipalities	-	9	-	-	9	-
Subtotal	3	3,998	-	-	4,001	4,017
Japan						
Municipalities	-	25	-	-	25	25
Subtotal	-	25	-	-	25	25
Norway						
Credit institutions	-	-	-	-	-	137
Subtotal	-	-	-	-	-	137
Portugal						
Municipalities	5	-	-	-	5	5
Group of Municipalities	1	-	-	-	1	1
Subtotal	6	-	-	-	6	6
Sweden						
Municipalities	18	-	-	-	18	18
Credit institutions	-	77	-	-	77	77
Subtotal	18	77	-	-	96	96
Switzerland						
Cantons	65	-	60	-	126	65
Municipalities	222	-	-	-	222	222
Public sector entities	-	-	-	-	-	60
Subtotal	287	-	60	-	347	347
Supranational						
International organizations	8	-	-	-	8	11
Subtotal	8	-	-	-	8	11
GENERAL SUB TOTAL	48,001	5,582	6,269	230	60,081	61,123
Collectives provisions	-	-	-	-	(20)	(22)
TOTAL COVER POOL	-	-	-	-	60,061	61,101

Loans and securities are excluding premium/discount. Loans and securities denominated in foreign currencies are recorded at their euro swapped value. Loans and bonds are presented after specific impairments. In addition, Caisse Française de Financement Local establishes collective and sectoral provisions; these are deducted from the total cover pool. In 2022, some reclassifications were made between the categories of local authorities, in Canada and Switzerland.