

Half-year financial report

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

This free translation of the activity report Q3 2022 published in French is provided solely
for the convenience of English-speaking readers.

Figures: due to rounding, the totals of the columns of the tables are likely to differ slightly from the sum of the rows
that compose 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-laws¹) 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 well-known in the world of bond issuers and investors. They issue covered bonds, known as "*obligations foncières*" and may contract other covered debts that are or are not tradeable on regulated markets. These instruments are characterized by the legal privilege, which, as a priority, allocates the sums from the Company's assets to pay their interests and reimbursements. *Sociétés de crédit foncier* may also issue or contract non-covered debt. *Obligations foncières* constitute a significant element in the international covered bond market. Caisse Française de Financement Local bonds benefit from the new label "European Covered Bond (Premium)".

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

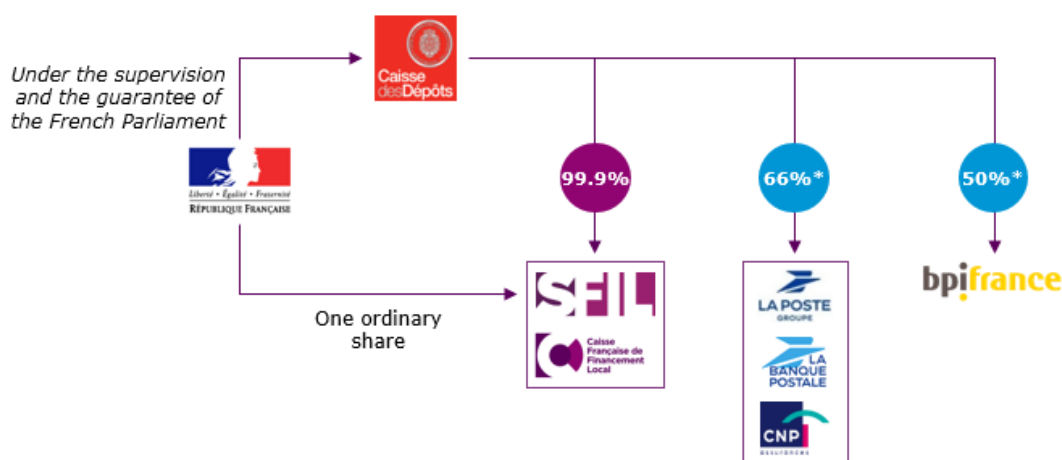
As of September 30, 2022, Caisse Française de Financement Local was wholly owned by SFIL.

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

¹ The wording of the corporate purpose in the by-laws will soon be modified to take into account the new references and formulations resulting from the transposition of the covered bonds directive, without changing the effective activity of the company.

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 State indirectly holds a 50% stake in BPIfrance SA via EPIC BPIfrance and retains a 34% stake in La Poste.

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.

As part of its integration into the Caisse des Dépôts group, Caisse Française de Financement Local will also refinance long-term loans to local authorities originated by Banque des Territoires (CDC) from the end of 2022.

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 bonds issues. From the 4th quarter of 2022, La Banque Postale will market a range of social loans intended to finance social investments by local authorities. The acquisition of these loans by Caisse Française de Financement Local will be financed by social bond 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)². 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

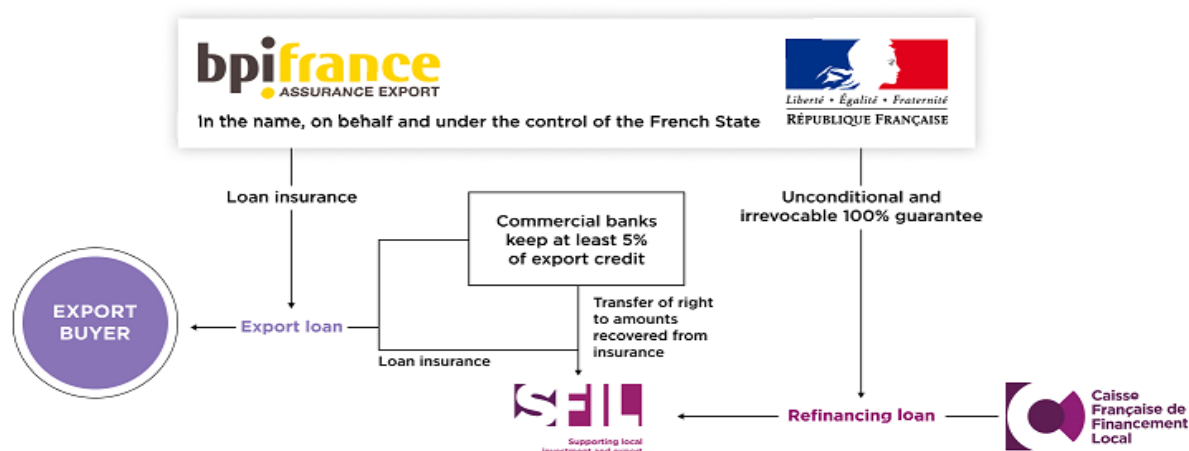
The system functions as follows:

- 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.

² 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.

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



1.3.2.2. Specific case of exports of civil aircraft and helicopters

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

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

1.3.2.3. French State export guarantees

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

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

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

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

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

This source of financing is the main source of liquidity for the SFIL Group and represents an outstanding of EUR 51.0 billion as of September 30, 2022.

1.3.4. Servicing and financing provided by SFIL

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

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

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

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

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

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

1.3.5. Other management agreements

Specific individual agreements have been established with entities that, in the past, have transferred assets to the *société de crédit foncier*, and continue to ensure the management of these assets for their national clientele. These assets are managed in a run-off mode. As of September 30, 2022, there were agreements with the following entities: Belfius Banque et Assurances (Belgium), and Dexia Crediop (Italy). All of these management agreements already existed in previous years.

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

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

As of September 30, 2022, Caisse Française de Financement Local's issuance program was rated by three international rating agencies: Moody's, Standard & Poor's (S&P) and DBRS Morningstar. The ratings of the *obligations foncières* issued by Caisse Française de Financement Local provided by these agencies are at the highest level of credit quality (Step 1). This requires that the quality of the cover pool and strict management rules be consistent with the criteria and approaches of the agencies.

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

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

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

The ratings at September 30, 2022 are presented in section 2.3 of the management report.

2. Highlights of 2022

2.1. Macroeconomic context

The first nine months of 2022 was marked by an international macroeconomic situation strongly impacted by the consequences of the Covid-19 health crisis and by the war in Ukraine. These events resulted in a rise in the consumer price index and an increase in central bank key rates. In this context, financial markets remained volatile throughout the period.

In the face of these developments, Caisse Française de Financement Local continued its two missions of financing the local public sector and refinancing large export credits. Thus, the commercial activity relating to the financing of the local public sector (carried out in partnership with La Banque Postale) was sustained during the first nine months of 2022 and the activity relating to export refinancing remained active.

Caisse Française de Financement Local showed its resilience capacity notably in terms of solvency and liquidity, thanks to the relevance of the public development bank model of its parent company, SFIL. Its access to the bond market remained very strong and the credit quality of its asset portfolios got even better.

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

The foreseeable impacts to date more specifically related to the war situation in Ukraine are limited for Caisse Française de Financement Local. Caisse Française de Financement Local does not have any exposure in Russia or Belarus. SFIL, its parent company, has only one exposure in Ukraine, which as of September 30, 2022 represented outstandings on the balance sheet of EUR 48 million and an off-balance sheet financing commitment of EUR 14 million. This exposure was granted as part of the export credit activity and is 100% guaranteed by the French Republic. SFIL is not, therefore, directly exposed to credit risk on this file. This contract was the subject of a refinancing contract granted by Caisse Française de Financement Local to SFIL which benefits from the irrevocable and unconditional 100% guarantee by the French State, known as the enhanced guarantee.

2.2. The covered bond market

At the end of September 2022, the issue volume on the primary covered bond market in euros amounted to EUR 164 billion, up sharply compared to 2021 over the same period (EUR 78 billion). At the same time, more than EUR 119 billion was repaid resulting in a positive net supply (EUR 45 billion). Gross supply is still dominated by German and French issuers, which represent respectively 23% and 18% of the volume of issues carried out at the end of September. However, the share of Canadian issuers remained at a high level (15%) due to the attractive market conditions in euros.

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

The volatility of interest rates and the prospect of a decrease in the ECB's support for the primary covered bond market led to a phase of consolidation of spreads for this market throughout the half-year. In the third quarter, many issuers seized the opportunity of favorable market conditions to launch their issuances projects. Indeed, the covered bond primary market is currently buoyant thanks to the significant rise in rates and relative values compared to sovereigns and despite the decrease in the Eurosystem's participation to primary emissions through its purchase program CBPP3 dedicated to the covered bond product.

In this changing market context, Caisse Française de Financement Local raised money in the benchmark primary euro market three times during the first nine months of 2022:

- In January, taking advantage of the favorable market context at the beginning of the year to issue a total amount of EUR 1.5 billion with a maturity of 10 years (EUR 750 million) and 20 years (EUR 500 million), which raised a significant amount of its annual financing program at good spread conditions.
- In April, taking advantage of a stabilization of market conditions to issue EUR 1 billion with six-year maturity.
- In May, by capitalizing on its themed issuance capacity with a "social" issue dedicated to refinancing French public hospitals for EUR 500 million with a 12-year maturity. This transaction saw significant demand from ESG investors, representing 46% of the total issue.

2.3. Sound financial and extra-financial ratings

The financial ratings of the *obligations foncières* issued by Caisse Française de Financement Local remained unchanged during 2022. As of September 30, 2022, the ratings were as follows: AAA at Moody's, AA+ at S&P, with a stable outlook and AAA at DBRS Morningstar.

In addition, SFIL, the parent company of Caisse Française de Financement Local, requested an extra-financial rating from Sustainalytics. This annual ESG rating stands at 6.6 (Negligible Risk) as of December 17, 2021, on a scale of 0 to 100 (0 being the best potential score). This ranks SFIL in the 1st percentile of rated institutions and the 9th ranked out of 116 development banks rated by Sustainalytics. Caisse Française de Financement Local is also assessed by the extra-financial rating agency ISS. This ESG rating stood at C + "Prime" on a scale from D- to A+, with A+ being the best potential rating, placing Caisse Française de Financement Local in the 1st decile of the 130 institutions in its "Mortgage & Public Sector Finance" industry.

2.4. Financing of public sector loans

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

In the first nine months of 2022, the local public sector financing activity of the CAFFIL/SFIL/LBP system is comparable in volume to that of 2021 for the same period and above the average of the years 2014-2021. This performance has been achieved in a context of a rapid rise in interest rates and a marked de-correlation between the attrition rate and the interest rates of the financial markets which severely penalized the supply of fixed-rate loans.

Caisse Française de Financement Local acquired EUR 4.3 billion in loans from La Banque Postale in 2022 (compared to EUR 3.8 billion during the first nine months of 2021).

Since the beginning of the partnership in 2013, the total volume of loans acquired by Caisse Française de Financement Local from La Banque Postale amounted EUR 33.2 billion.

2.5. Refinancing of large export credits

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

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

However, the number of consultations and files under study reached a record level in volume during the first nine months of 2022, which suggests sustained activity for 2023 and for the following years.

Since the middle of 2015, date of the start of this activity Caisse Française de Financement Local has granted a total of EUR 10.6 billion in refinancing export loans to SFIL.

As of September 30, 2022, the outstanding amount of these loans on Caisse Française de Financement Local's balance sheet was EUR 5.7 billion. As a reminder, the payment of loans used to refinance large export credits is spread out over several years.

2.6. A new regulatory framework

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

Caisse Française de Financement Local has complied with this new framework in order to obtain the "European High Quality Guarantee Bond" label for its *obligations foncières*. As the new texts are more restrictive with regard to the eligibility of certain assets and the use of certain derivatives, Caisse Française de Financement Local has processed the transactions concerned (which represented less than 1% of the cover pool) and adapted its processes for steering regulatory ratios overcollateralisation and liquidity.

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

2.7. Continued integration into the Caisse des Dépôts group

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

2.8. SFIL Group's future strategy

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

3. Change in the balance sheet

EUR billions	12/31/2021	9/30/2022	Change 2022 / 2021
value after currency swaps			
Cover pool	61.1	58.7	(3.9)%
Loans	51.3	52.7	2.8%
Securities	6.0	5.1	(15.9)%
Cash deposit in central bank	3.8	0.9	(75.9)%
Assets removed from the cover pool	0.0	0.4	ns
Privileged debt	52.6	51.0	(2.9)%
<i>Obligations foncières</i> ⁽¹⁾	52.3	51.0	(2.4)%
Cash collateral received	0.3	0.0	(86.1)%
Non-privileged debt	7.7	7.0	(9.2)%
SFIL	7.7	7.0	(9.2)%
Equity IFRS (excluding unrealized gains and losses)	1.4	1.5	1.3%

(1) Including registered covered bonds

The size of Caisse Française de Financement Local's cover pool decreased by EUR 2.4 billion in 2022, i.e. approximately -3.9% mainly due to lower cash surpluses. This cover pool decrease was accompanied by a reduction in privileged debt of EUR 1.6 billion and non-privileged debt of EUR 0.7 billion. As of September 30, 2022, the cover pool excluding interest accrued not yet due amounted to EUR 58.7 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 0.9 billion as of September 30, 2022 versus EUR 1.1 billion as of December 31, 2021. The cash surplus invested in securities was a total of EUR 1.0 billion as of September 30, 2022 versus EUR 1.3 billion as of December 31, 2021.

Following the entry into force, on July 8, 2022, of the new European directive dedicated to covered bonds, the new version of article 129 of the CRR and the new French legislative and regulatory corpus relating to *sociétés de crédit foncier*, some assets, for a limited amount of EUR 0.4 billion, were excluded from the cover pool. These are loans and securities that do not meet the requirements of this new regulation but which still appear on CAFFIL's balance sheet. Otherwise, as of September 30, 2022, no asset is excluded from the cover pool to be given in repo to a bank or to be given as collateral to the Banque de France.

As of this date, outstanding debt benefiting from the legal privilege, including cash collateral received, was EUR 51.0 billion, a decrease of 2.9% in comparison with December 31, 2021.

As of September 30, 2022, the debt contracted with its parent company was EUR 7.0 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 assets

The asset portfolio of Caisse Française de Financement Local mainly consists of assets held in the cover pool and of some non-eligible assets held outside the cover pool.

EUR billions	12/31/2021	9/30/2022
Assets held in the cover pool	61.1	58.7
Assets held outside the cover pool	0.0	0.4
Total outstanding	61.1	59.1

The cover pool is detailed in section 4.2.

4.1. Change in the cover pool in 2022

The net change in cover pool in 2022 represents a decrease in assets of EUR 2.4 billion. This change is mainly due to the following:

EUR billions	9 months 2022
1- Acquisition of loans from La Banque Postale	4.3
Loans to the French public sector (vanilla loans in euros)	4.3
2- Loans disbursements to refinance export credit	1.0
Loan disbursements to SFIL to refinance export credit guaranteed by the French State	1.0
3- Reduction of loan sensitivity	0.1
Sensitive structured loans eliminated	-0.1
Refinancing loans (vanilla loans in euros)	0.1
New loans (vanilla loans in euros)	0.1
4- Amortization of portfolio of loans and securities	-3.8
5- Early reimbursements	-0.2
6- Removal of ineligible assets from the cover pool	-0.4
7- Decrease in treasury	-3.2
Net change in securities investments	-0.3
Net change in Banque de France cash deposit	-2.9
8- Other changes (sale of assets)	-0.2
Net change in the cover pool	-2.4

During the first nine months of 2022, Caisse Française de Financement Local acquired loans to the local public sector and French public hospitals originated by La Banque Postale for an outstanding of EUR 4.3 billion.

In 2022, drawings on refinancing loans for large export credits granted to SFIL amounted to EUR 1.0 billion. These loans benefit from an irrevocable and unconditional 100% guarantee by the French State.

In 2022, operations to reduce loan sensitivity (as part of the sensitivity reduction policy implemented in early 2013) reduced the outstanding amount of loans considered as sensitive by EUR 0.1 billion by replacing them with fixed-rate loans. They were accompanied by the granting of new fixed-rate loans for EUR 0.1 billion.

The natural amortization of the portfolio of loans and securities was EUR 3.8 billion in 2022, and early reimbursements were EUR 0.2 billion.

Following the entry into force of the new European directive on July 8, 2022, some assets held by la Caisse Française de Financement Local amounting to EUR 0.4 billion were removed from the cover pool (see point 3. above). Free cash flow decreased by EUR 3.2 billion. It is deposited at the Banque de France, invested in bank bonds classified as replacement assets or in European public sector securities.

Loans classified in the run-off portfolio were sold during the first nine months of 2022 for an outstanding amount of EUR 0.2 billion.

4.2. Cover pool outstandings as of September 30, 2022

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

EUR billions	12/31/2021	9/30/2022
Loans and bonds to the public sector	56.5	57.3
<i>of which local public sector business line</i>	51.0	51.0
<i>of which large export credits refinancing business line ⁽¹⁾</i>	5.0	5.7
<i>of which treasury investment in public sector bonds ⁽³⁾</i>	0.5	0.6
Banque de France cash deposit ⁽³⁾	3.8	0.9
Exposure on credit institutions	0.8	0.5
ASSETS IN THE COVER POOL ⁽⁴⁾	61.1	58.7
ASSETS OUTSIDE THE COVER POOL	0.0	0.4
TOTAL ASSETS	61.1	59.1
Financing commitments granted to refinance large export credits ⁽¹⁾⁽²⁾	5.1	4.7
Financing commitments granted to other public sector loans	0.0	-
FINANCING COMMITMENTS GRANTED	5.1	4.7

(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 September 30, 2022

(3) The total amount of excess treasury decreased from EUR 5.1 billion at the end of 2021 to EUR 2.0 billion at the end of September 2022.

(4) Liquid assets and assets eligible for refinancing by the Banque de France before haircut, excluding cash deposited with a bank or the Banque de France amounted to EUR 38.4 billion as of September 30, 2022 instead of EUR 37.3 billion as of December 31, 2021. Liquid assets correspond to exposure on credit institutions amounting to EUR 0.5 billion and other high quality liquid assets (level 1, 2A and 2B) amounting to EUR 2.6 billion. In addition, other assets eligible for refinancing by the Banque de France before haircut, excluding cash deposited with a bank or the Banque de France, totaled EUR 35.3 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 in exposure to credit institution (banking sector securities or short-term loans to SFIL, its parent company – see section 4.1). They are mentioned in the footnote ⁽³⁾ of the table above.

The amount of liquid assets and assets eligible for refinancing by the Banque de France, excluding cash deposited with a bank or the Banque de France, represents EUR 38.4 billion, i.e. 65.5% of the Caisse Française de Financement Local's cover pool.

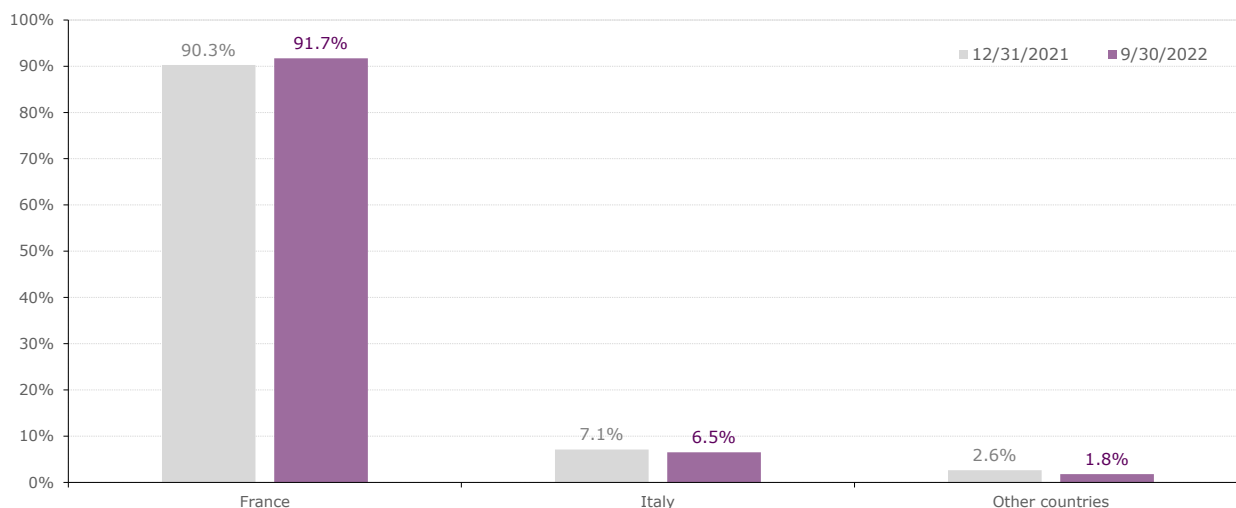
The amount of financing commitments given came to EUR 4.7 billion as of September 30, 2022. These loans are signed but not yet fully paid, granted to SFIL as part of the refinancing of large export credits (as a reminder, these loans benefit from an unconditional and irrevocable 100% guarantee by the French State).

4.2.1. Public sector loans and bonds (excluding exposure on credit institutions and treasury placed with the Banque de France)

4.2.1.1. Geographic breakdown of the cover pool

As of September 30, 2022, French public sector loans made up the majority (91.7%) of the cover pool, a portion that will continue to increase in the future. They include loans acquired from La Banque Postale since 2013 (EUR 25.1 billion of outstanding principal as of September 30, 2022), representing nearly 44% of the Group's public sector loans and securities and 54% of its loans to the French local public sector. The State-guaranteed loans granted to SFIL for the refinancing of large export credits (EUR 5.7 billion on the balance sheet) represent almost 10% 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:



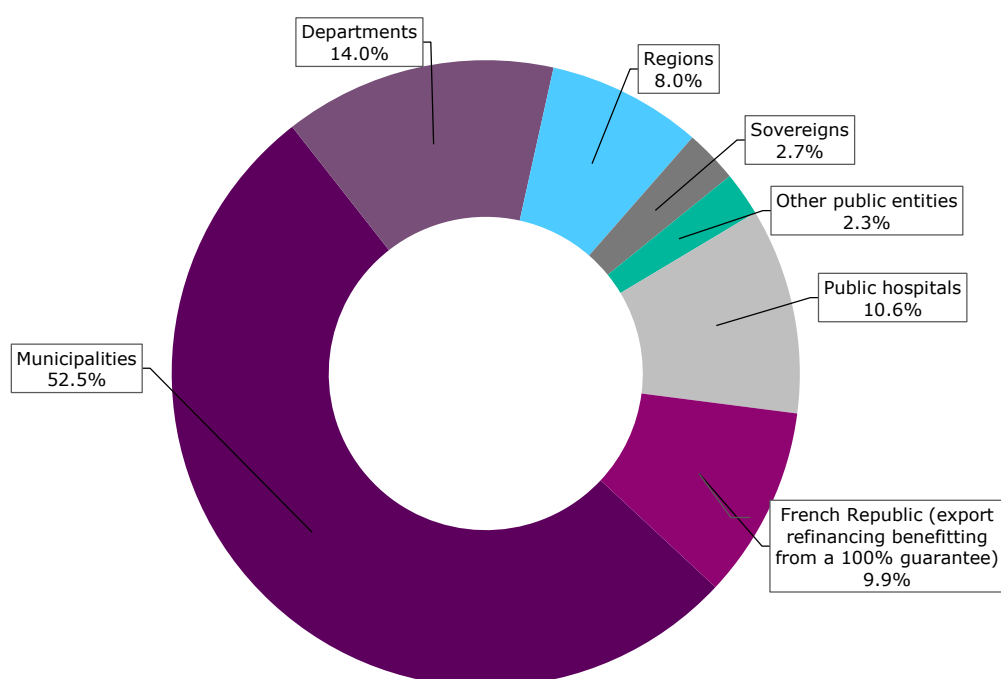
As of September 30, 2022, Italian assets represented the largest portion of non-French assets in run-off mode, with a total volume of EUR 3.7 billion, or 6.5% of public sector loans and bonds. These assets are granular exposures (around 130 counterparties consisting mainly of regional and municipal authorities) distributed throughout Italy.

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

4.2.1.2. Breakdown of the cover pool by type of counterparty

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

- 74.5% exposures on municipalities and their groups, departments or regions;
- 5.0% sovereign exposures or commitments on other public sector entities;
- 10.6% exposures on public hospitals;
- 9.9% exposures 100% guaranteed by the French State in respect of loans granted to SFIL for the refinancing of large export credits.



4.2.2. Exposures to credit institutions (previously referred to as replacement assets)

In accordance with Article 129 CRR and with Directive (EU) 2019/2162 applicable from July 8, 2022, articles L.513-7 and R.513-6 authorize the institution to hold exposures to credit institutions as substitute assets or as liquid assets, in addition to exposure to the public sector, which are the main assets of the Caisse Française de Financement Local cover pool. These exposures considered safe and liquid correspond to securities, exposures and deposits for which credit institutions are indebted. They are subject to the limits specified below:

- The exposures to credit institutions authorized by law are those benefiting from the best or second best credit quality step or, the third best credit quality step when their duration does not exceed 100 days.
- The amount of exposure to credit institutions benefiting from the best credit quality step is limited to 15% of the nominal amount of outstanding covered bonds and registered covered bonds. As of September 30, 2022, this amount represents 1.0%.
- The amount of exposure to credit institutions benefiting from second best credit quality step is limited to 10% of the outstanding nominal amount of covered bonds and registered covered bonds. As of September 30, 2022, this amount is 0.0%.
- The amount of exposure to credit institutions benefiting from third best credit quality step in the form of short-term deposits or derivative contracts is limited to 8% of the outstanding nominal amount of covered bonds and registered covered bonds. As of September 30, 2022, there were no exposures to credit institutions benefiting from third best credit quality step.
- The total amount of exposure to credit institutions benefiting from the best, second best or the third best credit quality step is limited to 15% of the outstanding amount of covered bonds and registered covered bonds. As of September 30, 2022, this amount is 1.0%.
- The total amount of exposures to credit institutions benefiting from the second or third best credit quality step is limited to 10% of the outstanding nominal amount of covered bonds and registered covered bonds. As of September 30, 2022, this amount is 0.0%.

Caisse Française de Financement Local has exposure to credit institutions as part of the management of its excess cash. In addition to deposits at the Banque de France and investments in European public sector bond securities, its exposure to credit institutions corresponds to:

- bond securities from the banking sector,
- loans to its parent company SFIL,
- the balance of its current bank accounts opened in different currencies.

They are broken down below by issuer rating:

Exposure on credit institutions	Country	12/31/2021	9/30/2022
EUR millions			
Step 1 credit rating			
Covered bonds			
	France	174	91
	Other countries	637	393
Other bank bonds			
	France	-	-
	Other countries	-	-
Loans to parent company, SFIL	France	-	-
Bank accounts balances	France and Other countries		1
Step 2 credit rating			
Covered bonds			
	France	-	-
	Other countries	-	-
Other bank bonds			
	France	-	-
	Other countries	-	-
Bank accounts balances	France and Other countries	5	7
Step 3 credit rating			
Bank bonds (maturity < 100 days)			
	France	-	-
	Other countries	-	-
Bank accounts balances	France and Other countries	-	-
TOTAL		815	492

4.2.3. Structured loans

4.2.3.1. 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.).

4.2.3.2. Share of structured loans in the cover pool

EUR billions	Outstanding				Number of customers ⁽¹⁾		
	12/31/2021	9/30/2022	Change	% cover pool	12/31/2021	9/30/2022	Change
French public sector loans	45.5	46.3	+0.8	78.9%	13,220	12,665	-555
- Of which Vanilla loans	42.8	44.0	+1.2	74.9%	12,087	11,639	-448
- Of which Structured loans	2.7	2.3	-0.4	4.0%	1,133	1,026	-107

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

In 2022, outstanding loans to the French local public sector increased by EUR 0.8 billion. Structured loans on Caisse Française de Financement Local's balance sheet amounted to EUR 2.3 billion, representing 4.0% of the cover pool.

4.2.3.3. Sensitive loans in the cover pool and reduction in loan sensitivity

EUR billions	Outstanding				Number of customers ⁽¹⁾		
	12/31/2021	9/30/2022	Change	% cover pool	12/31/2021	9/30/2022	Change
Sensitive loans not in the charter	0.2	0.2	-0.0	0.3%	29	25	-4
Sensitive loans (3E/4E/5E)	0.3	0.3	-0.0	0.5%	104	94	-10
Total sensitive loans	0.5	0.5	-0.0	0.8%	133	119	-14

(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 September 30, 2022, they now represent only EUR 0.5 billion in outstanding (0.8% of the cover pool) compared with EUR 8.5 billion on SFIL's inception at the end of 2012, i.e. a decrease of almost 94%. The number of customers holding sensitive loans fell over the same period from 879 to 119.

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

4.3. Assets removed from the cover pool

4.3.1. Assets temporarily excluded from the cover pool

Because of 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 framework of the Eurosystem. In order to manage its cover pool and overcollateralization or to meet temporary liquidity needs, Caisse Française de Financement Local can convert part of its assets into cash. The loans or securities that are pledged to the central bank as collateral in order to obtain financing during tenders organized by the Banque de France are then removed from the cover pool and replaced by the cash obtained. The same treatment would be applied to assets in the cover pool that would be used in interbank repo transactions in the event of a liquidity need.

Over the past three years, as part of the regular testing of its operating procedures for accessing refinancing from the Banque de France or from a bank counterparty, Caisse Française de Financement Local has mobilized assets for very small amounts.

4.3.2. Assets that become non eligible:

Assets held by Caisse Française de Financement Local may also be withdrawn from the cover pool if they have become non eligible, pending their maturity or sale.

Following the entry into force on July 8, 2022 of a new European directive dedicated to covered bonds, the new version of Article 129 of the CRR and the new French legislative and regulatory corpus relating to *sociétés de crédit foncier*, a few assets, for a limited amount outstanding of EUR 0.4 billion, have been excluded from the cover pool. These are loans and securities that do not meet the requirements of this new regulation but which are still on balance sheet of Caisse Française de Financement Local.

This outstanding amount excluded from the cover pool is made up of nearly EUR 0.3 billion of loans to French local public sector entities that are no longer eligible for the cover pool of Caisse Française de Financement Local in the absence of 100% guarantees of these outstanding amounts by eligible local authorities.

The outstanding amount excluded from the cover pool also includes EUR 0.1 billion of loans or securities granted to regional or local administrations located outside the European Union or multilateral organizations which, since the application of the new directive, must benefit from the best or the second best credit quality step from a rating agency. This concerns loans to Swiss municipalities, bonds issued by a federal state of the United States of America and a loan to an international institution.

5. Debt benefiting from the legal privilege

As of September 30, 2022, debt benefiting from the legal privilege is composed of *obligations foncières* and registered covered bonds issued by Caisse Française de Financement Local as well as cash collateral received from counterparties in derivative transactions.

EUR billions	12/31/2021	9/30/2022
Cash collateral received	0.3	0.0
<i>Obligations foncières</i> and registered covered bonds	52.3	51.0
Total	52.6	51.0

5.1. Changes in cash collateral

As of September 30, 2022, cash collateral received by Caisse Française de Financement Local was down compared to December 31, 2021; its amount stood at EUR 0.05 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 line with the implementation of the SFIL Group's social and environmental policy, SFIL and Caisse Française de Financement Local are regularly active in the "social" and "green" thematic bond market, as evidenced by the fourth "social" thematic issue of Caisse Française de Financement Local in May 2022.

5.2.1. 2022 issues

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

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

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

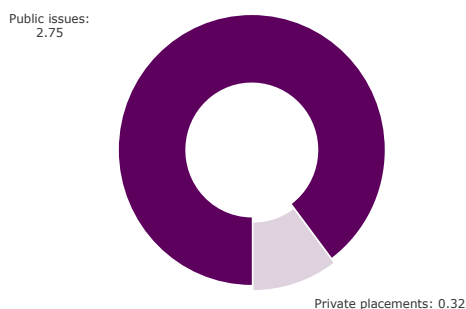
In addition to these public transactions, Caisse Française de Financement Local responded to specific requests from investors in the private placements segment, in both EMTN and registered covered bonds (RCB) formats, for an amount of EUR 315 million.

The weighted average life of the financing raised during the first nine months of the year 2022 was 11 years.

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

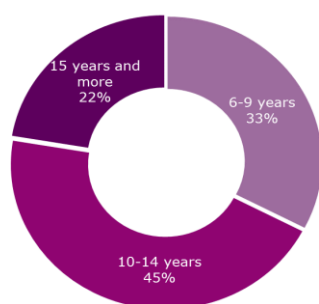
2022 ISSUES BY FORMAT

EUR billions



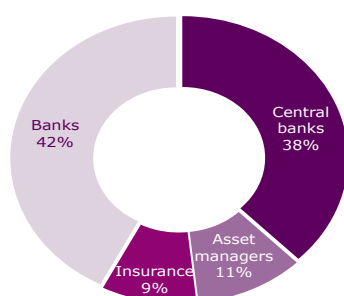
2022 ISSUES BY MATURITY

(%)



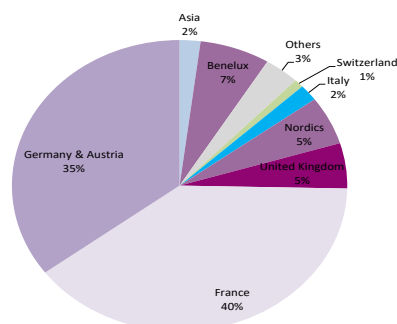
BREAKDOWN OF 2022 BENCHMARK PUBLIC ISSUES BY INVESTOR CATEGORY

(%)



BREAKDOWN OF 2022 BENCHMARK PUBLIC ISSUES BY GEOGRAPHIC ZONE

(%)



5.2.2. Outstandings at September, 30 2022

The outstanding amount of *obligations foncières* and registered covered bonds totaled EUR 51.0 billion in swapped value as of September 30, 2022. This includes new issues of *obligations foncières* for EUR 3.1 billion and after amortization of issues maturing in 2022 for EUR 4.3 billion.

EUR billions. value after currency swaps	Q4 2021	Q3 2022
BEGINNING OF THE PERIOD	50.5	52.3
Issues	5.9	3.1
Amortizations	(4.1)	(4.3)
Buyback	(0.0)	(0.0)
END OF THE PERIOD	52.3	51.0

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



5.2.3. Social and green issues

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

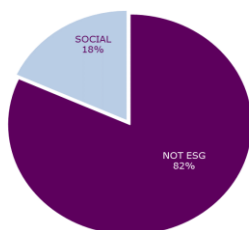
- in 2019, Caisse Française de Financement Local carried out its first "social" issue for an amount of EUR 1 billion with an eight-year maturity and its first "green" issue for an amount of EUR 750 million with a ten-year maturity.
- Caisse Française de Financement Local carried out a second social issue for an amount of EUR 1 billion with a five-year maturity, in April 2020.
- a third social issue for EUR 750 million with an eight-year maturity was carried out in April 2021.
- a fourth social issue was carried out in May 2022, for an amount of 500 million, with a maturity of 12 years,

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

These issues were unanimously recognized as great successes by market observers. In particular, they benefited from very significant over-subscription rates, reflecting the interest of investors in this new type of responsible investment.

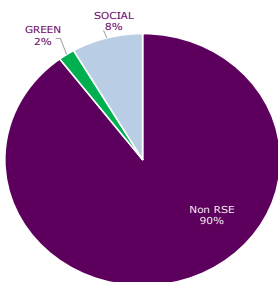
SHARE OF PUBLIC SOCIAL ISSUES IN BENCHMARK PUBLIC ISSUES IN EUR 2022

(%)



SHARE OF PUBLIC SOCIAL AND GREEN ISSUES IN OUTSTANDINGS BENCHMARK PUBLIC ISSUES IN EURO AT SEPTEMBER 30, 2022

(%)



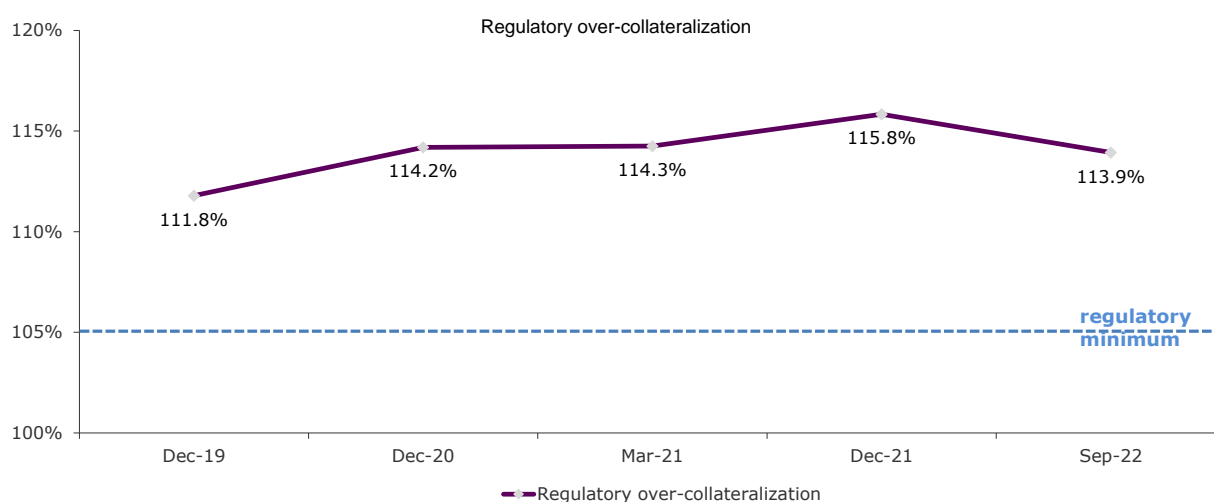
In addition, in November 2020 and November 2021, SFIL carried out two "green" bond issues each for an amount of EUR 500 million. The funds obtained from these issues have been loaned by SFIL to Caisse Française de Financement Local, with the obligation to use them to finance green loans that it will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

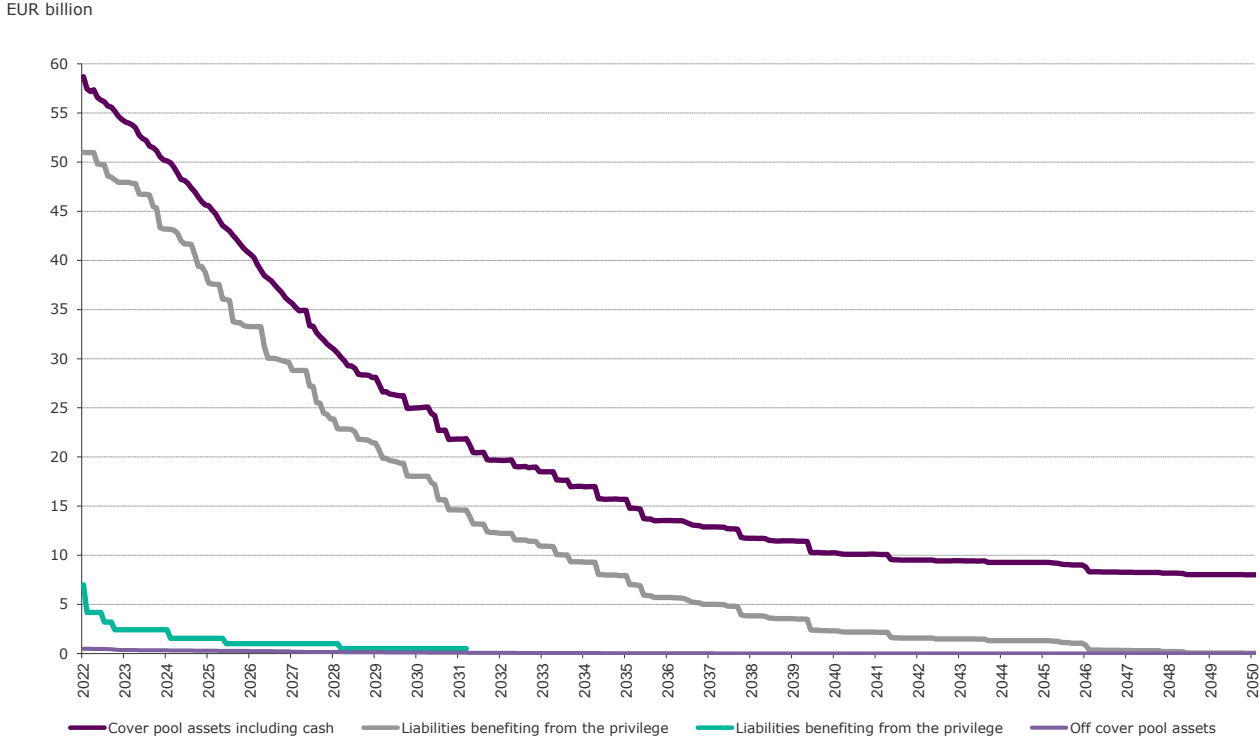
In practice, the over-collateralization ratio is regularly higher than 105%. To maintain a sufficient rating, a level of over-collateralization of more than 5% may be required by the rating agencies. This requirement depends on the methodology used by each rating agency and the new assets and liabilities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

The rules for calculating the regulatory coverage ratio have been modified to take into account the calculation rules applicable from July 8, 2022, the date of entry into force of the European directive on covered bonds of November 2019. Two changes, which have a slightly negative impact, should be noted: exposures in default are now excluded from the assets of the cover pool and a virtual liability is added to the resources benefiting from the legal privilege (corresponding to the maintenance and management costs that would be incurred to end the issuance program). The values of the ratio calculated from this date comply with the new rules.



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 September 30, 2022.

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



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

7. Non-privileged debt

The asset of the cover pool surplus compared to *obligations foncières* and registered covered bonds (over-collateralization), the assets hold outside the cover pool (if any) 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 September 30, 2022, they were made up of different loans with maturities that could run from one day to ten years with a Euribor, Eonia or €str index.

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

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

EUR billions	12/31/2021	9/30/2022
SFIL	7.7	7.0
Banque de France	-	-
TOTAL	7.7	7.0

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

8.1. Credit Risk

8.1.1. Definition

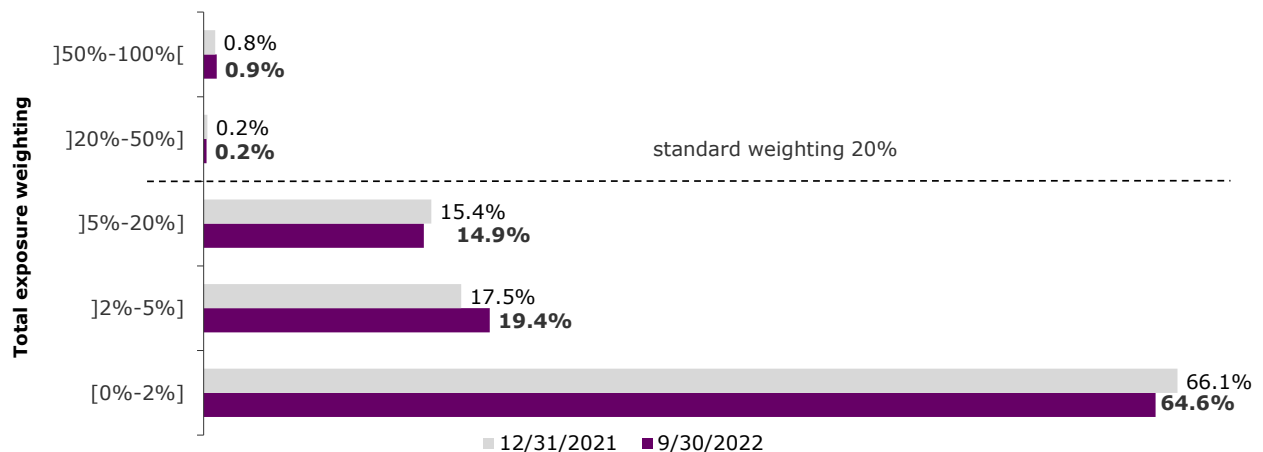
Credit risk represents the potential loss Caisse Française de Financement Local could suffer due to the deterioration of a counterparty's solvency.

8.1.2. Breakdown of 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 September 30, 2022 (in EAD), broken down by risk weighting, as used for the calculation of capital requirements for credit risk (see following page).

RISK WEIGHTING OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL'S PORTFOLIO AS OF SEPTEMBER 30, 2022



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

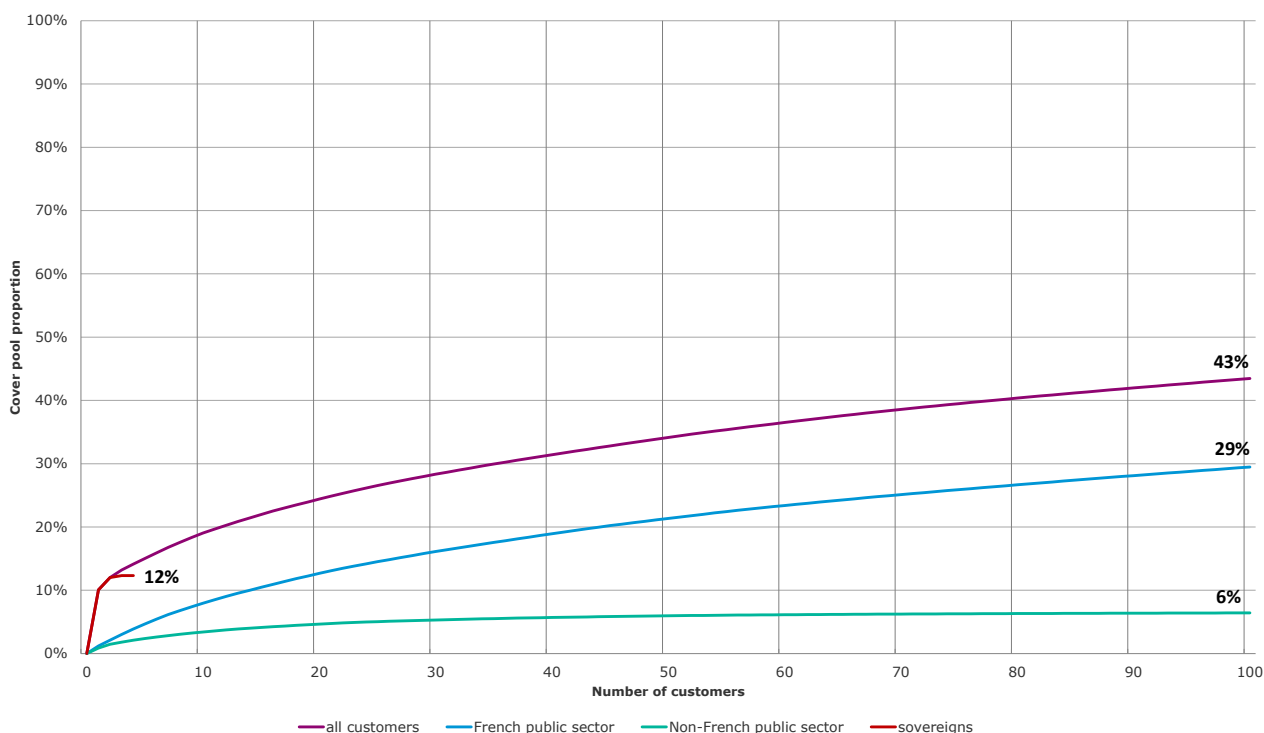
- 84.0% of the portfolio has a risk weighting of 5% or less;
- 1.1% of the portfolio has a weighting greater than 20%.

The average risk weighting of assets is 4.8%, versus 20% for European local government entities according to the Basel standard method. It was 4.6% at December 31, 2021.

8.1.3. Concentration by customer

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

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



As of September 30, 2022, the 20 largest exposures (excluding exposures on credit institutions and cash deposits in the Banque de France), all categories combined, represented 24.2% of all assets. The first exposure, the French Republic, represents 10.0% of all assets (mainly due to the export refinancing loans it guarantees) and the twentieth exposure 0.5%.

8.1.4 Arrears, non-performing loans, litigious loans, provisions September 30, 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 the end of the third quarter 2022 is not available in this activity report. Last published information about these issues was disclosed in the management report of the semi-annual financial report 2022, 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:

- cash investments in the form of bonds (including covered bonds), current account deposits and, occasionally, loans to its parent company SFIL in the amount of EUR 0.5 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 benefiting at least from the second best credit quality step by the rating agencies (new constraint imposed by the covered bonds directive). These contracts have particular characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and other issuers of covered bonds). Over the last few years, Caisse Française de Financement Local amended these contracts to take into account recent EMIR regulatory changes (signing of variation margin amendments). Caisse Française de Financement Local's derivatives are not subject to the clearing obligation nor the payment of initial margin. These interest rate and currency swaps all benefit from the same legal privilege as *obligations foncières*. For this reason, Caisse Française de Financement Local does not pay its derivative counterparties any collateral (or variation margin), whereas they have to pay Caisse Française de Financement Local except for some which benefit from the agencies highest short-term rating.

By way of derogation from this principle, at the end of June 2022, a new derivatives agreement was concluded with SFIL to which are attached only the derivatives that cover the few assets that have been excluded from the cover pool on July 8, 2022 as part of the implementation of the covered bonds directive. Since these derivatives do not benefit from the privilege of the law, the agreement provides for the possibility of exchanging collateral in both directions.

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

EUR billions	Total of notional amounts	% of total notional amounts	Mark to Market		Collateral received	Collateral paid
			-	+		
Cover pool - external counterparties	74.6	82.8%	(1.6)	0.0	(0.0)	-
Cover pool - SFIL	15.2	16.9%	(2.0)	-	-	-
Outside cover pool - SFIL	0.3	0.3%	(0.1)	-	-	0.1
Total	90.2	100.0%	(3.7)	0.0	(0.0)	0.1

As of September 30, 2022, Caisse Française de Financement Local was exposed for a very small amount (positive fair value of swaps) to six bank counterparties, all of these paid cash collateral totaling EUR 0.00 billion, offsetting the total exposure.

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

8.2. Climate risks

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

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

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

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

The SFIL group wishes to integrate climate risks into all its risk management processes. Thus, climate risks have been included in the SFIL Group's risk appetite and indicators with thresholds have been put in place. A mapping of climate risks by risk category was also carried out, the risk policy in terms of granting credit was adapted (exclusion of certain activities for financing, positive consideration of green loan production targets) and the cash investment policy was adjusted to take into account ESG criteria.

In 2021, SFIL's Risks division assessed the impact on credit risk of transition risks and acute physical risks on the portfolio of French local authorities. An assessment of transition risk expenditures for this portfolio is currently underway.

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

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

8.3. Market risk

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

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

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

This concerns mainly the following, under IFRS:

- the assets recorded at fair value through profit or loss or through equity, the value of which can fluctuate;
- cross-currency and basic swaps hedging the export refinancing activity in currency, the changes in value of which may impact earnings or equity depending on the IFRS hedging method used ;
- derivatives, of which the book value adjustments like the CVA (Credit Valuation Adjustment) and the DVA (Debit Valuation Adjustment), are recorded through income pursuant to IFRS.

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

8.4. Asset-Liability Management (ALM) risk

8.4.1. Liquidity risk

8.4.1.1. Definition and liquidity risk management

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

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

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

- financing of the assets that cover the obligations foncières it issues and the few assets held outside the cover pool;
- 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

- liquid assets in the form of highly liquid Level 1, 2A or 2B securities, and short-term exposures to credit institutions (including short-term deposits)
- 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. This access is regularly tested for small amounts in order to ensure the proper functioning of the tools and procedures and to maintain the appropriate level of knowledge.

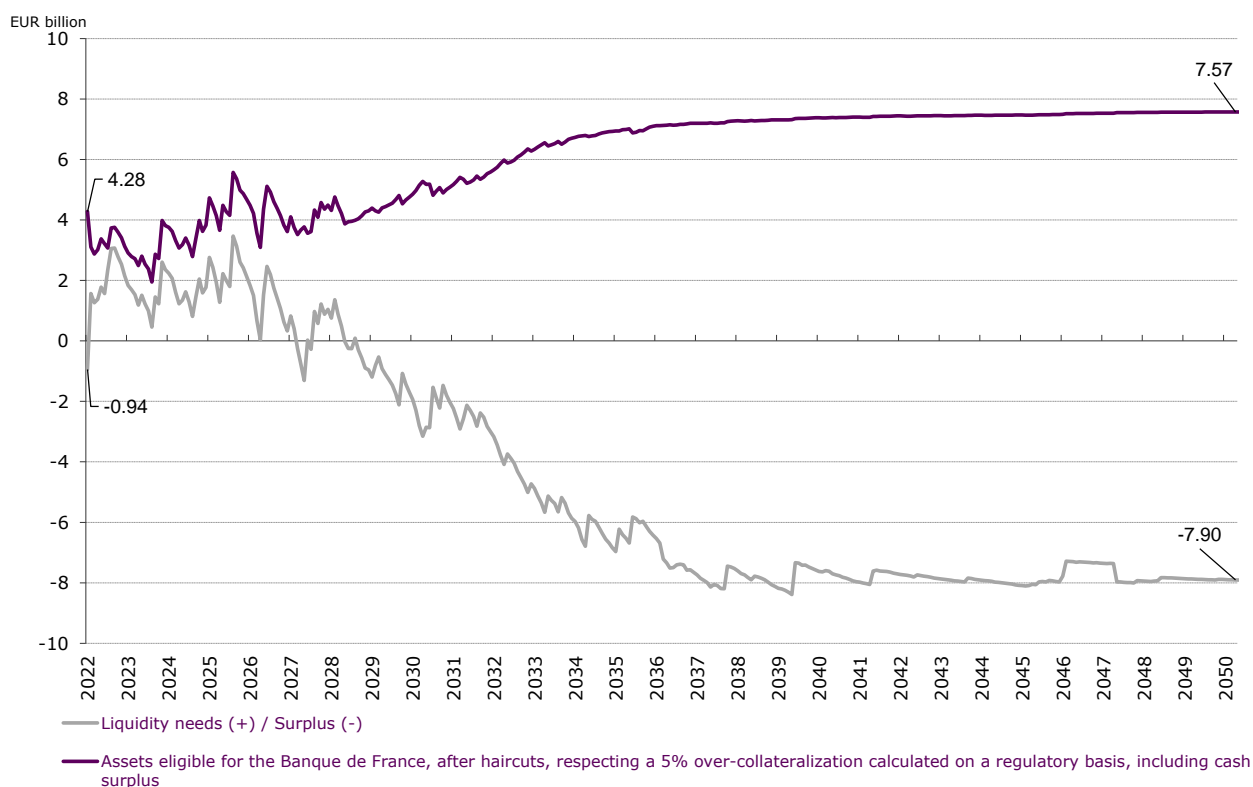
To control its liquidity risk, Caisse Française de Financement Local relies mainly on static, dynamic and stressed liquidity forecasts in order to ensure that the liquidity reserves at its disposal in the short and long term will be able to cope with its commitments.

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

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

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

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



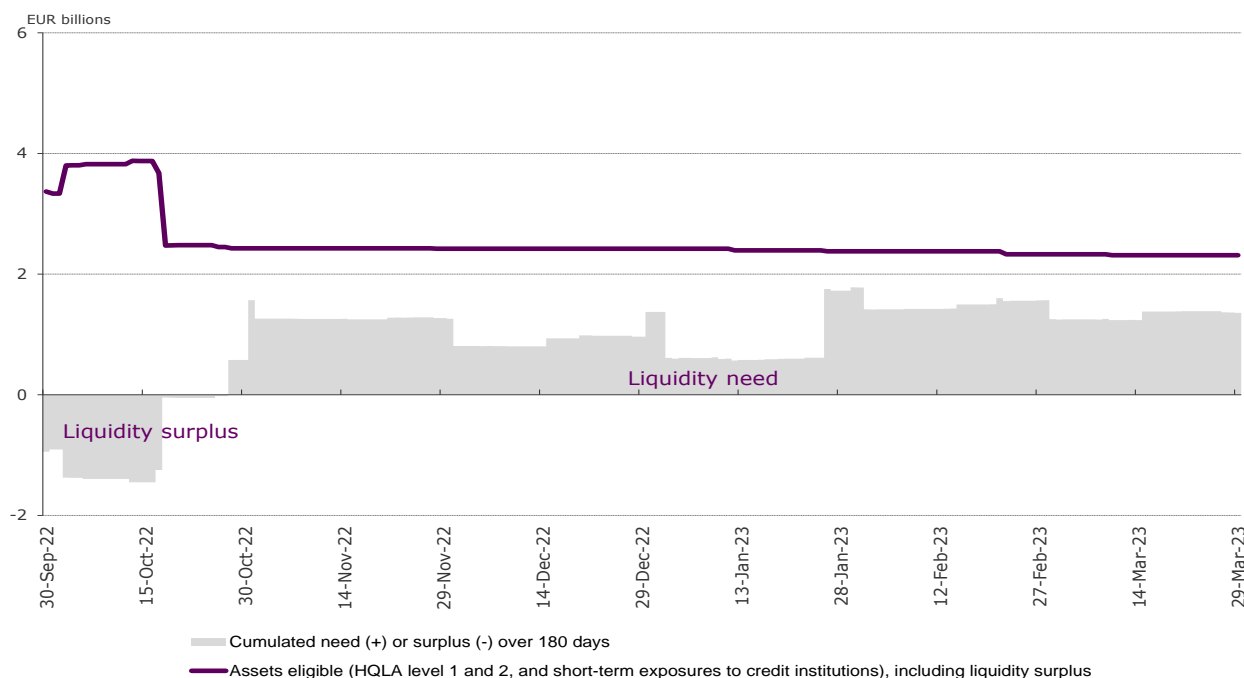
Caisse Française de Financement Local has its own autonomous resources that enable it to cover its temporary liquidity needs, even in the event of the default of its parent company, since any legal proceedings engaged for the bankruptcy or liquidation of its parent company cannot be extended to Caisse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

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

- **the regulatory indicators specific to sociétés de crédit foncier (SCF):**
 - the regulatory coverage ratio (or over-collateralization ratio): this represents the ratio between assets of the cover pool 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 of the cover pool (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 high quality liquid assets (level 1, 2A or 2B) and by short-term exposures to credit institutions (including short-term deposits) which are in the cover pool. Assets in default, in accordance with Article 178 of Regulation

(EU) No 575/2013 of June 26, 2013, cannot participate in covering cash requirements. 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 September 30, 2022, the liquidity situation at 180 days shows a cash surplus over the first month (with a maximum of EUR 1.5 billion) and a cash requirement over the last five months with a maximum requirement of EUR 1.8 billion at the end of January 2023. Over the period, liquidity needs are covered at all times by available liquid assets (see chart below). In addition, specific management measures (for example, the completion of a new bond issue or the use of central bank financing) may be taken to cover the needs.



- the regulatory liquidity indicators applicable to credit institutions, in particular Regulation 575/2013 of the European Parliament and Council of June 26, 2013, concerning:**
 - the LCR ratio (Liquidity Coverage Ratio): as of September 30, 2022, Caisse Française de Financement Local's LCR ratio was 100% : a European delegated act modified the methods for calculating the LCR provided for in the CRR for issuers of covered bonds in order to bring them into line with the new covered bonds directive. As a result, since July 8, 2022, the LCR of covered bond issuers must continue to respect the minimum level of 100% but may no longer exceed 100%.
 - 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 September 30, 2022 Caisse Française de Financement Local's NSFR was 108%;
- the internal liquidity indicators:**
 - the dynamic financing requirement over a one-year period, as well as the issuance conditions of Caisse Française de Financement Local;
 - the coverage ratio (or over-collateralization ratio), which is steered at an over-collateralization level consistent with the Caisse Française de Financement Local's target rating (see section 1.6 – Over-collateralization ratio);
 - the one-year survival horizon in stressed conditions;
 - management of the maturities of privileged liabilities;
 - the difference in duration between assets and liabilities benefiting from the legal privilege (limited to three years): this is published every quarter and came to -0.20 year as of September 30, 2022 (see the specific section on transformation risk below);
 - the sensitivity of the net present value of the static liquidity gap to an increase in the Group's financing costs;
 - the consumption of the spread and basis risk appetite for export credit transactions which measures the loss of revenue on these transactions which could result from stress on the financing costs in euros or foreign currency (USD or GBP).

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

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

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

- duration gap;
- weighted average life gap.

Duration gap

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

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

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

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	9/30/2021	12/31/2021	3/31/2022	6/30/2022	9/30/2022
Assets	7.07	6.57	6.26	6.40	6.21
Privileged liabilities	7.13	6.92	6.90	6.64	6.40
Gap in asset-liability duration	-0.07	-0.35	-0.64	-0.23	-0.20
Duration gap limit	3	3	3	3	3

If the duration only considered assets eligible for the coverage ratio, the duration gap with the privileged liabilities would be almost identical.

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 assets eligible for the coverage ratio I and the liabilities benefiting from the legal privilege, as well as the gap in the weighted average life of all the assets and the liabilities benefiting from the legal privilege are presented below.

Weighted average life (in years)	9/30/2021	12/31/2021	3/31/2022	6/30/2022	9/30/2022
Assets eligible for the coverage ratio	6.90	6.75	6.65	7.10	7.05
Privileged liabilities	6.98	7.10	7.29	7.31	7.18
Gap in asset eligible for the coverage ratio-liability weighted average life	-0.08	-0.35	-0.64	-0.20	-0.13
Weighted average life limit	1.5	1.5	1.5	1.5	1.5

Weighted average life (in years)	9/30/2021	12/31/2021	3/31/2022	6/30/2022	9/30/2022
Assets	6.90	6.75	6.65	7.10	7.03
Privileged liabilities	6.98	7.10	7.29	7.31	7.18
Gap in asset-liability weighted average life	-0.08	-0.35	-0.64	-0.20	-0.15
Weighted average life limit	1.5	1.5	1.5	1.5	1.5

Regulatory limit

Current regulations impose a limit of one-and-a-half year on the average life gap between the assets eligible for the coverage ratio 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	Difference between balance sheet and off-balance sheet assets and liabilities for fixed-rate transactions or transactions for which the rate has been set. It is calculated every month until balance sheet run-off.
Index gap	Difference between balance sheet and off-balance sheet assets and liabilities for a given index tenor that has not yet been fixed. This gap is calculated every month until balance sheet run-off.
Fixing gap	For a given index tenor: difference between floating rate balance sheet and off-balance sheet assets and liabilities, by fixing.

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

Measurement of the slope/rotation risk:

The quarter-end sensitivity measurements are presented below:

RISK OF SLOPE BETWEEN TWO DISTANT POINTS ON THE RATE CURVE

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

RISK OF SLOPE BETWEEN TWO CLOSE POINTS ON THE RATE CURVE

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

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

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

EUR millions	Limit	31/12/2021 (proforma)	31/03/2022	30/06/2022	30/09/2022
Maximum loss observed in NPV	(80.0)	(24.6)	(9.2)	(30.8)	(32.2)

8.4.3. Foreign exchange risk

8.4.3.1. Definition

The foreign exchange risk is defined as the risk of recorded or unrealized earnings volatility, linked to a change in the exchange rate of currencies vis-à-vis a reference currency. Caisse Française de Financement Local's reference currency is the euro: the foreign exchange risk therefore reflects the change in the value of assets and liabilities denominated in a currency other than the euro, due to a fluctuation of the latter against the euro.

8.4.3.2. Hedging Strategy

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

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

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

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

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

8.5. Other risks

8.5.1. Operational risk

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

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

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

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

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

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

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

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

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

8.5.2. Legal and tax risk

8.5.2.1. Legal risk

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

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

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

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

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

As of September 30, 2022, to the Caisse Française de Financement Local's knowledge, there were no other lawsuits or disputes between SFIL or Caisse Française de Financement Local and its borrowers that were considered significant.

8.5.2.2. Tax risk

There was no change during the first nine months of 2022 concerning the taxation in Ireland of the income of the former Dexia Municipal Agency (Caisse Française de Financement Local's former name) branch in Dublin, which closed in 2013 and which resulted in a tax adjustment notice from the French tax authorities for the tax audit for the 2012 and 2013 financial years.

Caisse Française de Financement Local paid the duties assessed.

The French and Irish administrations met during 2021 to address the double taxation to which Caisse Française de Financement Local has been subject,; they should continue their discussions in the second half of 2022.

8.5.3. Risk of non-compliance

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

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

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

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

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

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

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

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

9. Outlook for 2022

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

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

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

As regards the financing of loans to the French local public sector (local authorities and public hospitals), 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. They will encourage the development of financing for the environmental transition thanks in particular to the current range of green loans as well as to the new offer of loans carried out in partnership with Banque des Territoires. They will also actively support the social projects of French local authorities via the development of a new range of social loans dedicated to them. They will support as well the "Ségur de la Santé" plan for investments in public health institutions via the current range of social loans dedicated to French hospitals. The level of production should therefore be sustained in 2022, as well as in the following years, but will nevertheless be conditioned by the speed of familiarization of local authorities with this type of financing as well as by the evolution of interest rates. French regulations on the usury rate, combined with the rapid rise in interest rates, significantly hampered the ability of banking establishments to lend in the second half of 2022.

With regard to the refinancing of large export credits guaranteed by the French State, in support of French exporters, Caisse Française de Financement Local will continue to finance SFIL's activity in this area. The outlook for 2022 and the coming years is favorable considering that the challenges of security, sovereignty and sustainable development have taken on a new dimension with the war in Ukraine, which will probably lead to an increase in investments in the defense and energy sectors. In addition, the SFIL Group continues to support all sectors that use export credit, in particular major transport infrastructures, cruise ships, whose activity has resumed since the end of 2021, the space industry and telecommunications and, potentially, aviation. Otherwise, the SFIL Group wishes to broaden the type of refinancing offered for sustainable projects in which there is a French interest and which call upon sources of financing covered by a European or multilateral public guarantee. SFIL and Caisse Française de Financement Local also wish to be able to intervene in the mechanism for refinancing loans covered by the new guarantee for projects of strategic interest to the French economy abroad. The implementation of these projects is subject to obtaining the necessary authorizations from the European Commission.

The financing needs of the two growing business lines of the SFIL Group will be mainly covered by Caisse Française de Financement Local. 2022 will be marked by the expansion of its bond offering with a new type of "sustainable" thematic bonds notably 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 take into account the advance taken in 2021 on 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 4 and 5 billion, mainly through several benchmark-sized euro-denominated issues on the public primary market, with a medium/long maturity adapted to the profile of the assets financed.

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

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

Breakdown of the cover pool as of September 30, 2022

EUR millions	9/30/2022				12/31/2021	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
France						
Central governments :						
- export refinancing	-	-	5,671	-	5,671	4,954
- others	20	-	0	230	250	250
Central banks						
- cash deposits with Banque de France (2)	916	-	-	-	916	3,796
Regional and local authorities						
- Regions	2,586	65	7	-	2,658	2,592
- Departments	7,161	-	344	-	7,505	7,289
- Municipalities	14,485	13	604	-	15,102	14,612
- Overseas Territories	97	-	4	-	101	120
- Groups of municipalities(3)	13,698	54	108	-	13,861	13,504
Public sector entities :						
- health	6,084	-	0	-	6,084	5,983
- others	1,146	150	0	-	1,296	1,695
Credit institutions	7	91	-	-	98	179
Subtotal	46,201	373	6,739	230	53,543	54,975
Germany						
Regional and local authorities						
- Länder	-	-	-	-	-	275
Subtotal	-	-	-	-	-	275
Austria						
Regional and local authorities						
- Länder	161	-	-	-	161	167
Subtotal	161	-	-	-	161	167
Belgium						
Regional and local authorities						
- Regions	0	-	25	-	26	34
Credit institutions	-	-	-	-	-	50
Subtotal	0	-	25	-	26	84
Canada						
Regional and local authorities						
- Municipalities step 1 credit rating	100	-	34	-	135	135
Credit institutions	-	343	-	-	343	372
Subtotal	100	343	34	-	478	507
Spain						
Central governments	-	180	-	-	180	180
Regional and local authorities						
- Regions	-	50	-	-	50	50
- Municipalities	63	-	-	-	63	64
Subtotal	63	230	-	-	293	294

EUR millions	9/30/2022				12/31/2021	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
United States						
Regional and local authorities						
- Federated States step 1 credit rating	-	108	-	-	108	108
- Federated States step 3 credit rating	-	-	-	-	-	74
Subtotal	-	108	-	-	108	182
Italy						
Central governments	-	1,150	-	-	1,150	1,151
Regional and local authorities						
- Regions	-	1,455	-	-	1,455	1,667
- Provinces	-	406	-	-	406	371
- Municipalities	3	701	-	-	704	820
- Groups of municipalities	-	8	-	-	8	9
Subtotal	3	3,720	-	-	3,723	4,017
Japan						
Regional and local authorities						
- Municipalities step 2 credit rating	-	25	-	-	25	25
Subtotal	-	25	-	-	25	25
Norway						
Credit institutions	-	-	-	-	-	137
Subtotal	-	-	-	-	-	137
Portugal						
Regional and local authorities						
- Municipalities	5	-	-	-	5	5
- Groups of municipalities	0	-	-	-	-	1
Subtotal	5	-	-	-	5	6
Sweden						
Regional and local authorities						
- Municipalities	18	-	-	-	18	18
Credit institutions	-	50	-	-	50	77
Subtotal	18	50	-	-	68	96
Switzerland						
Regional and local authorities						
- Cantons step 1 credit rating	65	-	60	-	126	126
- Municipalities step 1 credit rating	133	-	-	-	133	133
- Municipalities not rated	-	-	-	-	-	89
Subtotal	198	-	60	-	258	347
Supranational						
International organizations	-	-	-	-	-	11
Subtotal	-	-	-	-	-	11
GENERAL SUB TOTAL	46,750	4,848	6,859	230	58,688	61,124
Collective impairment					(19)	(22)
TOTAL COVER POOL					58,669	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.

Breakdown of assets held outside the cover pool: as of September 30, 2022

EUR millions	9/30/2022				12/31/2021	
	Direct exposure		Indirect exposure		Total	Total
COUNTRY	Loans	Bonds	Loans	Bonds		
France						
Public sector entities not eligible under Article	286	-	-	-	286	-
Subtotal	286	-	-	-	286	-
United States						
Regional and local authorities						
- Federated States step 3 credit rating	-	40	-	-	40	-
Subtotal	-	40	-	-	40	-
Switzerland						
Regional and local authorities						
- Municipalities not rated	77	-	-	-	77	-
Subtotal	77	-	-	-	77	-
Supranational						
International organizations	6	-	-	-	6	-
Subtotal	6	-	-	-	6	-
TOTAL OUTSIDE THE COVER POOL	369	40	-	-	409	-

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.