



Annual Financial Report 2019

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

Figures

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Annual financial report 2019

CAFFIL

Caisse Française de Financement Local

The SFIL group

A vision

To finance a sustainable future by effectively and responsibly supporting the development of the territories and the international activity of large companies

Two public policy missions

Long-term financing of local government authorities and public hospitals in France
Long-term financing of large contracts of French businesses internationally

CAFFIL

A leader in the covered bonds market

First European issuer of covered bonds financing the public sector
A renowned issuer with excellent standing

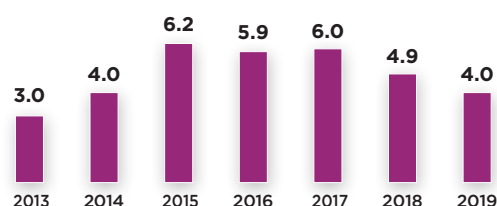
A subsidiary of the French public development bank, SFIL

A fully public shareholding structure
A very low-risk profile
Strong resilience in the current interest rate environment

The first European issuer of covered bonds financing only the public sector

I An exceptional funding capacity

BOND ISSUES SINCE 2013




EUR 4.0 billion

Issues in 2019
of *obligations foncières*
(covered bonds)


EUR 49.8 billion
Outstanding as of December 31, 2019
of *obligations foncières*
(covered bonds)

I A renowned issuer

Issues awarded
internationally



Best Covered Bond Issuer
CMD Portal Awards
2019



Most Impressive Social or Sustainability Issuer
SRI Awards
2019



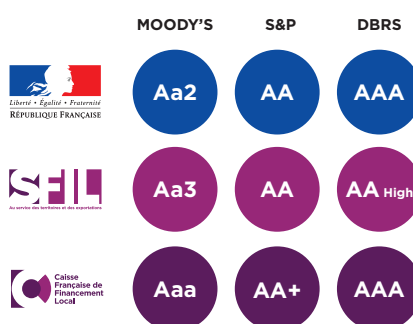
Best ESG Issue
CBR Awards
2019



Best Social Bond
IFR Awards
2019

With excellent
standing

High ratings reflecting the ties
with the State



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

ISS : Prime C for CAFFIL

MSCI : AA for CAFFIL

IMUG : Positive BBB
for bonds issued
by CAFFIL

I High-quality bonds

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

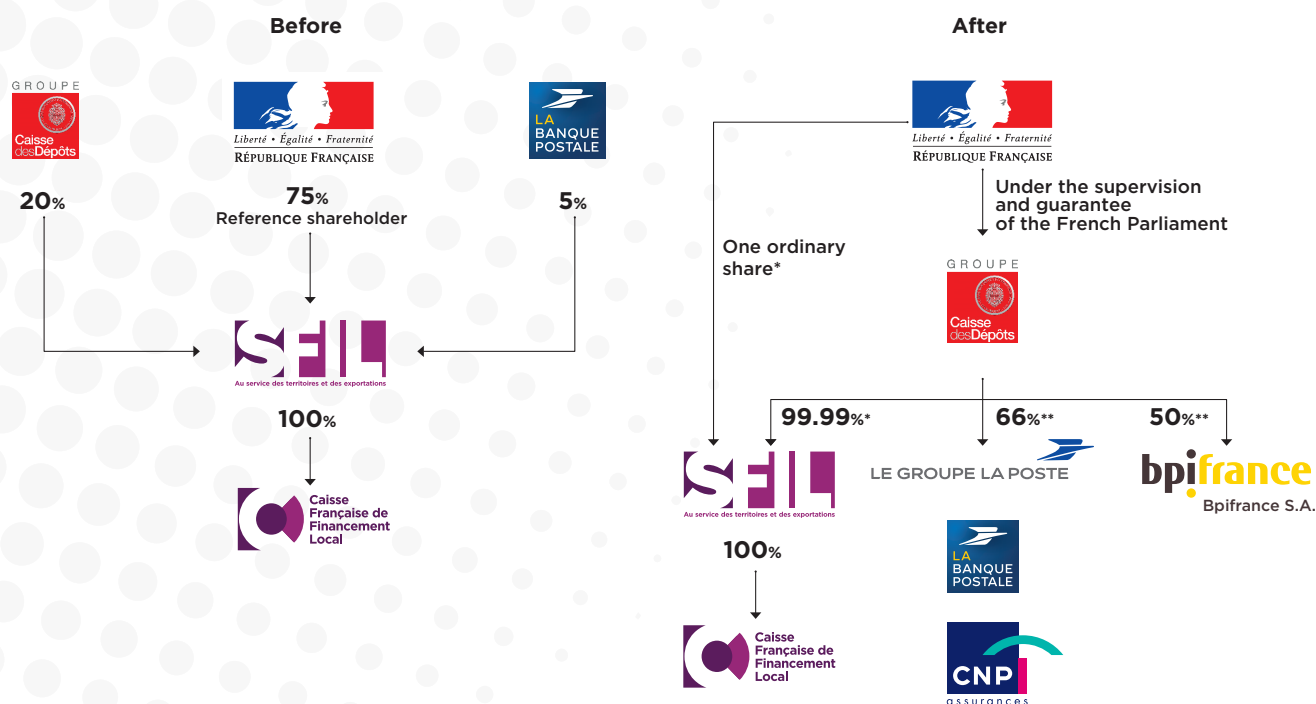
The SFIL group

I Public development bank serving territories and exports

The State has been the reference shareholder of SFIL and Caisse Française de Financement Local since 2013. It is also SFIL's main shareholder, alongside the Caisse des Dépôts (CDC) and La Banque Postale (LBP).

In 2020, SFIL's shareholding structure will change in accordance with the agreement signed on March 4, 2020 by SFIL's shareholders for the acquisition by the Caisse des Dépôts of all the shares held by La Banque Postale in SFIL's capital (5%) and all the shares held by the State (75%), except for one ordinary share that the State will retain. The Caisse des Dépôts will therefore become the reference shareholder of SFIL.

The following is the organization before and after transfer of SFIL's control:



SFIL's shareholders will remain firmly anchored in the public sphere, reflecting the missions entrusted to it by the State.

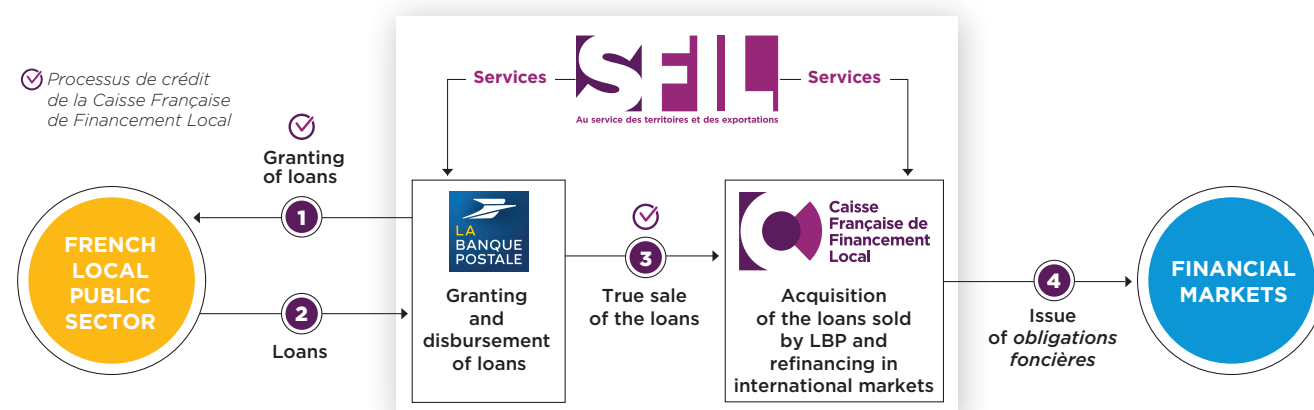
* Subject to approval from the relevant authorities. The Caisse des Dépôts will hold all the SFIL shares with the exception of one ordinary share retained by the French State.

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

Leader on its two large markets

I An exclusive partnership renewed with La Banque Postale through the end of 2026

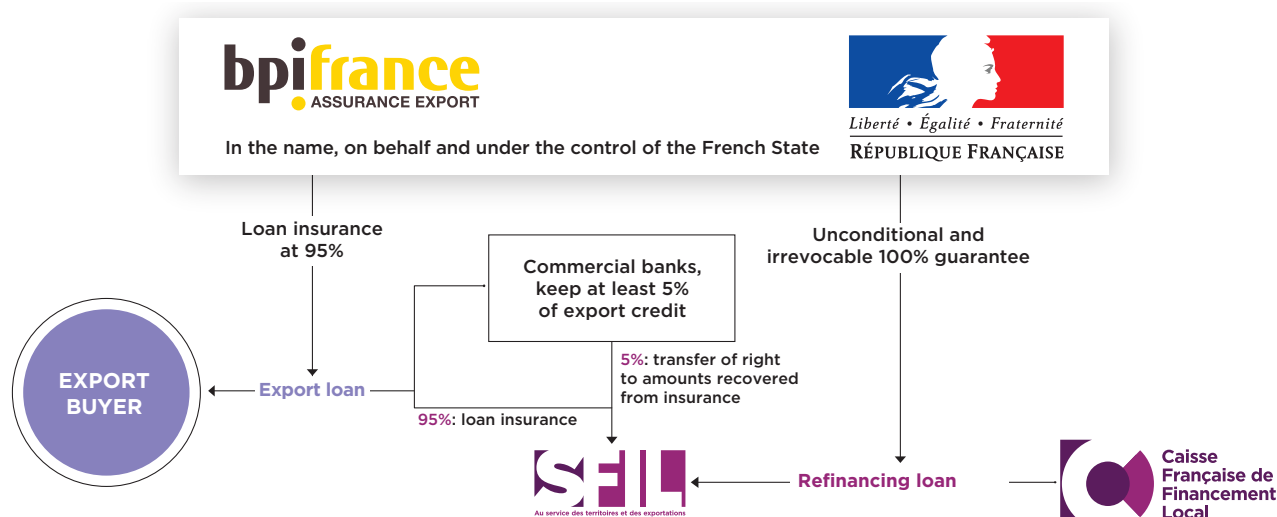
OPERATIONAL DIAGRAM OF THE SYSTEM



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

The leading contributor of liquidities on the export credit market

I A system within the public sphere



CSR thematic issues

3 objectives for CAFFIL,
associated with the SFIL group's CSR commitment and strategy

1

Finance green and social public investments

In the healthcare, clean public transport, clean water
and waste processing sectors

2

Develop a new funding channel

Consistent with the increasingly important role played by the environmental,
social and governance criteria in investment decisions

3

Develop the ecosystem of responsible finance

Contribute to the growth of the thematic bonds market

TIMELINE

FEBRUARY
2019



First social issue in Europe dedicated
exclusively to financing
public hospitals

EUR 1 billion
Volume

8 years
Maturity

114
Investors

2.7x
Oversubscription

JUNE 27,
2019



"Best ESG Transaction"

*"An issue that has already won two
international awards"*



SEPTEMBER 17,
2019



**"Most Impressive
Social or Sustainability
Bond issuer"**

NOVEMBER
2019



First green issue
exclusively financing green
investments for French local
government entities/local authorities

EUR 750 million **10 years**
Volume Maturity

103
Investors

4.3x
Oversubscription

* Awarded by the magazine "The Covered Bond Report" at the Frankfurt ICMA international conference.

** 2019 Global Capital SRI Conference in Amsterdam.

Key figures

I Balance sheet

EUR 56.5 billion

Assets portfolio
(cover pool)

EUR 49.8 billion

Obligations foncières
(covered bonds)

111.8%

Over-collateralization ratio
(regulatory calculation)

I 2019

EUR 4.2 billion

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

EUR 1.0 billion

Export Refinancing signed

EUR 4.0 billion

Covered bonds issued

I Quality of assets

0.6%

Doubtful and litigious loans under French GAAP
(% cover pool)

69.4%

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

23.8%

Common Equity Tier 1 Ratio
(Basel III)



Management report

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Management report

Caisse Française de Financement Local

2019

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

1.1.1 Nature and activities of the Company

Caisse Française de Financement Local (also known by its acronym CAFFIL) is a credit institution active in the refinancing of loans to public sector entities through the issue of covered bonds, which are called *obligations foncières*.

It is a specialized credit institution authorized to operate as a *société de crédit foncier*. As a credit institution, the Company is subject to all legal and regulatory provisions that apply to credit institutions. It conducts banking transactions in its ordinary course of business. As a *société de crédit foncier*, it engages in transactions that are specialized and have an exclusive purpose, as defined in articles L.513-2 et seq. of the Monetary and Financial Code.

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

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

Sociétés de crédit foncier, which were created by the law of June 1999, are now well-known in the world of bond issuers and investors. They issue covered bonds called *obligations foncières* and contract other covered debt negotiable or not in regulated markets. All these instruments are characterized by the legal privilege that primarily affects cash flows from the Company's assets to pay the interest and reimbursement of the *obligations foncières*. *Sociétés de crédit foncier* may also issue or contract non-covered debt. *Obligations foncières* constitute a significant element in the international covered bond market.

1.1.2 Legal and shareholding structure of the Company

1.1.2.1 Legal structure and name of the Company

The Company was created on December 29, 1998, for a period of 99 years. It was authorized to operate as a *société de crédit foncier* by the Comité des établissements de crédit et des entreprises d'Investissement (now a part of ACPR) at its meeting on July 23, 1999. The authorization became definitive as of October 1, 1999.

On January 31, 2013, the Company took the name Caisse Française de Financement Local replacing Dexia Municipal Agency, upon the sale of its sole shareholder, Société de Financement Local (renamed SFIL in June 2015), to the French State, Caisse des Dépôts and La Banque Postale.

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

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

1.1.2.2 Shareholding structure of the Company

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

Since 2015, the French State has entrusted SFIL and Caisse Française de Financement Local with a second mission that 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 governments and public hospitals to benefit from optimal financing conditions through a high rating and irreproachable risk management.

The State is the reference shareholder of SFIL and Caisse Française de Financement Local. This commitment, made

with the Autorité de contrôle prudentiel et de résolution (ACPR), underlines its involvement to ensure oversight and to influence strategic decisions, as well as its determination to ensure Caisse Française de Financement Local's and SFIL's ongoing financial transactions and to comply with regulatory requirements, if so required.

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

As of December 31, 2019, Caisse Française de Financement Local was wholly-owned by SFIL. SFIL is a credit institution approved by the ACPR. Its shareholders are the French State (75%), the Caisse des Dépôts (CDC) (20%) and La Banque Postale (LBP) (5%). SFIL's shareholders are thus firmly anchored in the public sphere, reflecting the missions the French State assigned it.

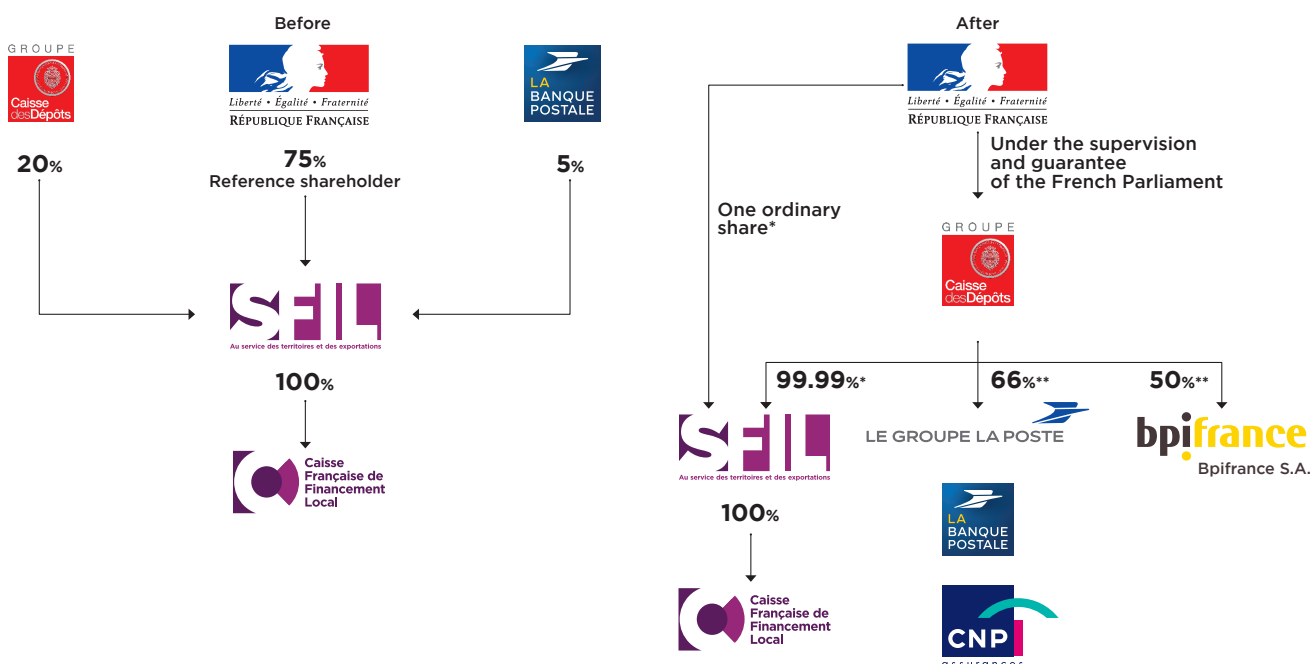
The ownership structure of SFIL and its sole subsidiary, Caisse Française de Financement Local, upon completion of the change of ownership:

The shareholding structure of SFIL, parent company of Caisse Française de Financement Local, will change in 2020. In fact, in accordance with the agreement-in-principle signed by and between the shareholders of SFIL, announced on October 9, 2019, on March 4, 2020, the State, Caisse des Dépôts (CDC) and La Banque Postale (LBP) announced the signature of an agreement on the acquisition by Caisse des Dépôts of all of the SFIL shares held by La Banque Postale (i.e. 5%) and of all of the shares held by the State (i.e. 75%), with the exception of one ordinary share that the State will retain. Caisse des Dépôts will thereby become SFIL's reference shareholder. The State will continue to have a seat on SFIL's Board of Directors by means of a non-voting director, in view of the public interest missions entrusted to SFIL.

SFIL's shareholding structure will remain - as today - fully public. Its shareholders will ensure that SFIL's financial solidity is preserved and its economic base protected, and will

continue to provide it with the necessary support, in accordance with the applicable regulations. CDC, SFIL's new reference shareholder, will confirm its commitment in a letter of support, completed by a letter of support from the State, in the context of SFIL's continuing status as a State-owned development bank.

In addition, on January 31, 2013, SFIL, the parent company of Caisse Française de Financement Local, signed a declaration of support ensuring that "Société de Financement Local and the French State, its reference shareholder, will ensure that Caisse Française de Financement Local will always be able to pursue its activity in an ongoing manner and to honor its financial commitments in compliance with the obligations imposed by banking regulations in effect." This declaration of support is reproduced in issuance documents and the annual financial report of Caisse Française de Financement Local.



* Subject to approval from the relevant authorities. The Caisse des Dépôts will hold all the SFIL shares with the exception of one ordinary share retained by the French State.
** The French State holds 50% of the capital of Bpifrance S.A. (through EPIC Bpifrance) and 34% of La Poste's capital.

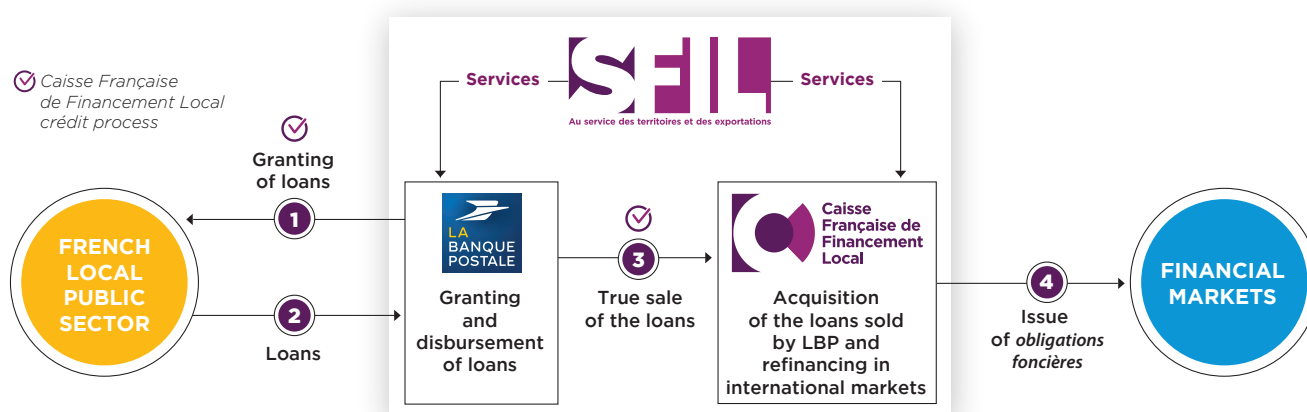
1.1.3 Caisse Française de Financement Local's economic model

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

In early 2013, Caisse Française de Financement Local and La Banque Postale signed an exclusive sale agreement to fund the needs of the French local public sector and public hospitals. The arrangement, set up under the aegis of the French State, works as follows: La Banque Postale markets loans to the French local public sector and public hospitals, then sells them to Caisse Française de Financement Local, which refinances them by issuing *obligations foncières* (covered bonds). Since mid-2019, La Banque Postale has

also been marketing green loans the purpose of which is to finance local investments contributing to the ecological transition carried out by local authorities. These loans are refinanced by the SFIL Group's green issues.

The loans originated are exclusively in euros with a simple vanilla interest rate. La Banque Postale committed to propose to Caisse Française de Financement Local all the loans that would be eligible for its cover pool.



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

- before a loan is originated, an initial analysis of the counterparty is carried out by the two entities. The loans that do not meet the credit and eligibility criteria of Caisse Française de Financement Local cannot be transferred to its balance sheet. Caisse Française de Financement Local's eligibility criteria are strictly monitored by internal management policies and limit eligible counterparties to French local public sector entities and public hospitals;
- each time Caisse Française de Financement Local acquires loans originated by La Banque Postale, the credits are analyzed again. Caisse Française de Financement Local may then, before the transfer, refuse any loan that does not longer meet its criteria.

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

1.1.3.2 Refinancing of large export credits

In addition to their mission of refinancing French local governments and public hospitals, SFIL and Caisse Française de Financement Local have been entrusted with a second mission by the French State: to refinance large French export contracts, with the objective to support French exports in terms of financial competitiveness, in accordance with a public refinancing plan comparable to that of other OECD countries. In this context, SFIL signed a protocol agreement governing relations with almost all the banks active in the French export credit market. SFIL may acquire all or a part of the participation of each of these banks in an export credit.

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

(1) The enhanced guarantee was introduced by law 2012-1510 of December 29, 2012, and Decree 2013-693 of July 30, 2013, as amended by Decree 2018-1162 of December 17, 2018, relating to the granting of the 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.

This export refinancing loans, like the new French public sector loans marketed by La Banque Postale, are added to the portfolio of Caisse Française de Financement Local, which is financed by the issue of *obligations foncières*. Given the current size of the cover pool and the growth of its traditional line of business, the percentage share of this refinancing activity will increase gradually and will only become significant in several years. This share may reach 15% within four to five years.

1.1.3.2.1 The system for refinancing large export credits

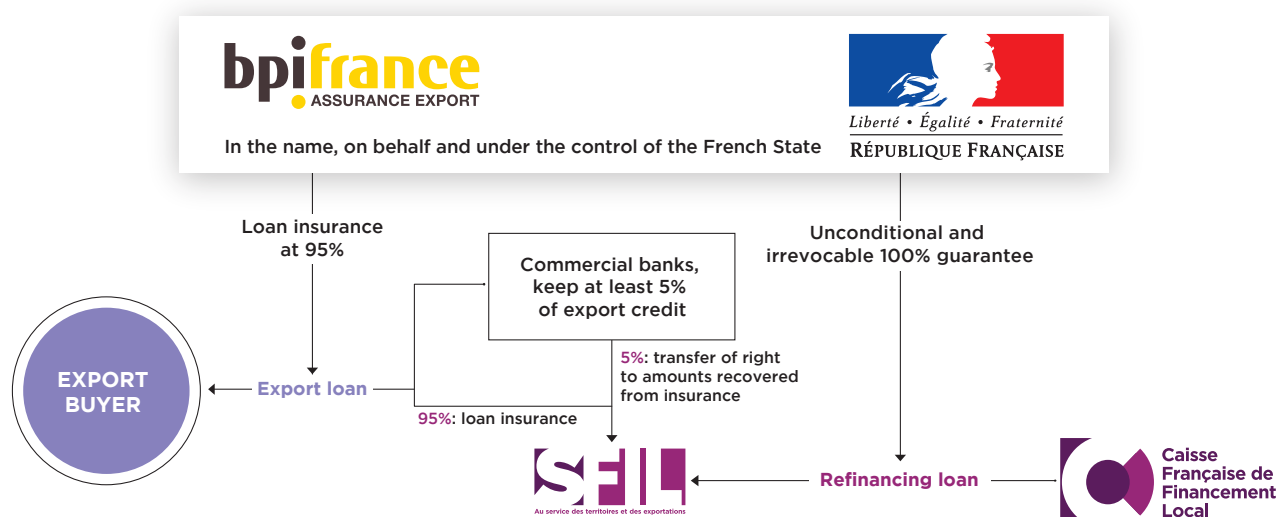
The system functions as follows:

- SFIL contributes to the financial proposal made by one or more banks in the banking syndicate granting the buyer credit covered by the export credit insurance guaranteed by the French State;

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

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

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



1.1.3.2.2 French State export guarantees

Since the end of 2016, these guarantees have been managed by Bpifrance Assurance Export, in the name, on behalf, and under the control of the French State, pursuant to article L.432.2 of the French Insurance Code. The guarantees are therefore directly granted by the State, demonstrating the support of the French State for exporters. These guarantees are intended to encourage, support and secure French exports financed over the long- and medium-term as well as French investment abroad:

- the decisions to grant guarantees are made by the Minister of the Economy and Finance after investigation by Bpifrance Assurance Export and the advice of the French Export Credit and Guarantee Commission (Commission des garanties et du crédit au commerce extérieur); Bpifrance Assurance Export manages the French State guarantees in strict compliance with the rules of the WTO, the European Union and the OECD;
- Bpifrance Assurance Export issues insurance policies, as well as enhanced guarantees, in accordance with the decision made. In this context, Bpifrance Assurance Export is also tasked with collecting insurance and guarantee premiums, managing risks, payments, and collections on behalf of the French State;

- the risks related to these guarantees are borne by the French State and all financial flows (premiums, payments, repayments) are recorded in separate accounting entries by Bpifrance Assurance Export. Premiums and collections are received directly on the account of the French State, and payments are made directly from the same account, without passing through the accounts of Bpifrance Assurance Export.

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

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

This source of financing is the main source of liquidity for the SFIL Group and represents an outstanding of EUR 49.8 billion at December 31, 2019.

1.1.3.4 Servicing and financing provided by SFIL

The role of SFIL primarily involves the following:

- to ensure the complete operational management of the Company, as defined by the regulations applicable to *sociétés de crédit foncier*, in particular article L.513-15 of the 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. Every year, the parties review this SLA;
- to provide Caisse Française de Financement Local with the non-privileged funding and derivatives it needs to carry out its activities.

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

SFIL can also fund these liquidity requirements by entering into loan agreements with its shareholders:

- Caisse des dépôts et consignations for needs related to transactions booked before SFIL's acquisition date (January 31, 2013) and for needs relating to the export credit refinancing activity;
- La Banque Postale for needs related to the loans it grants to French local government entities and public hospitals.

The refinancing provided by the shareholders has been replaced since 2016 by funds obtained by SFIL on the financial markets. Nevertheless, shareholder refinancing is still available particularly in the case of liquidity requirements generated under a situation of stress.

In addition to commitments of the French State as the reference shareholder, on January 31, 2013, SFIL signed a declaration of support of Caisse Française de Financement Local, which is reproduced in this annual financial report – General information.

It should be noted that SFIL also supplies services for the business of lending to French public sector entities engaged by La Banque Postale (LBP) and its joint venture LBP/CDC, La Banque Postale Collectivités Locales. These services concern activities involving commercial support, financial oversight, the supply of data for risk analysis and back office operations.

1.1.3.5 Other management agreements

Specific individual agreements have been established with entities that, in the past, have transferred assets to the *société de crédit foncier*, and continue to ensure partly or totally the management of these assets for their national clientele. These assets are managed in a run-off mode. At the end of 2019, there were agreements with the following entities: Kommunalkredit Austria (Austria), Belfius Banque et Assurances (Belgium), and Dexia Crediop (Italy). These agreements already existed in previous years.

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

1.1.4 Legal framework

1.1.4.1 European framework

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

Two directives govern and define covered bonds:

- the first directive is Undertakings for Collective Investment in Transferable Securities (UCITS) on the legislative, regulatory, and administrative provisions concerning certain vehicles for collective investment in securities, article 52-4;
- the second is the Capital Requirements Directive (CRD), on the minimum regulatory capital requirement, which is complemented by the related Capital Requirements Regulation (CRR), article 129.

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

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

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

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

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

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

1.1.4.2 French legislative framework and regulations

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

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

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

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

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

Main provisions of the French legal and regulatory framework**General operating framework of the SCF:**

Article L.513-2 which describes in particular:

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

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

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

Legal privilege:

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

Other provisions:

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

Application to Caisse Française de Financement Local (CAFFIL)

- CAFFIL assets solely made up of exposure to the public sector and replacement assets.
- CAFFIL has a large stock of assets eligible for European Central Bank refinancing. These assets enable additional access to financing that can quickly be mobilized in case of a need for liquidity (Banque de France or interbank repo).
- CAFFIL holds no shares.
- CAFFIL major assets: exposure on public sector entities (article L.513-4), in other words, loans and/or bond issues representing a commitment on, or totally guaranteed by, these public bodies.
- Other CAFFIL assets: replacement assets (Article L.513-6), that is, exposures on credit institutions benefiting from an EU "credit quality step 1" (triple A or double A level) rating or, when their remaining maturity does not exceed 100 days, a "credit quality step 2" (A) rating. Total amount of the replacement assets limited to 15% of the total covered bonds issued by CAFFIL. This asset category is used for cash investments by the Caisse Française de Financement Local.
- CAFFIL contracts that benefit from the legal privilege are:
 - *obligations foncières*,
 - registered covered bonds,
 - derivative contracts that hedge the risks associated with the privileged assets and liabilities,
 - the management agreement signed with SFIL in accordance with Article L.513-15.

CAFFIL shall at all times maintain a coverage ratio greater than 105%. In practice for several years now, it stands at about 112%, a level higher than the minimum requirements required by the external rating agencies to ensure CAFFIL's current levels of financial rating (see part 1.6 of the management report).

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

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

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

As of December 31, 2019, Caisse Française de Financement Local's issuance program was rated by three international rating agencies: Moody's, Standard & Poor's (S&P) and DBRS.

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

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

SFIL is currently rated at the same level as France by S&P and one notch below it by Moody's and DBRS. The agencies have given SFIL these excellent ratings because they consider it to be a French government-related entity. They reflect the strong probability that if necessary the French State would provide extraordinary support to SFIL because of the strategic importance of the public service responsibilities entrusted to it, the State's commitments and its influence on SFIL's governance.

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

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

The ratings at December 31, 2019 are presented in section 1.2.5. of the management report.

1.2 Highlights of the year 2019

1.2.1 Activity of the SFIL Group and of Caisse Française de Financement Local in 2019

Record year for the granting of loans to the public sector and French public hospitals in partnership with La Banque Postale

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

Since 2015, the CAFFIL/SFIL/LBP network has significantly strengthened its position as the leader in public sector financing for the French local public sector. In fact, during 2019, the SFIL/CAFFIL/La Banque Postale system has generated a record amount of EUR 5.7 billion of loans, an increase of more than 55% compared to 2018, with the strong likelihood of an increased market share. The market for financing local governments and public hospitals was dynamic in 2019, particularly for the municipalities and their groups, in a pre-electoral year. At the same time, Caisse Française de Financement Local acquired EUR 4.2 billion of loans originated by La Banque Postale. It is also the greatest amount of loans acquired since the SFIL Group was created and the partnership set up with La Banque Postale in 2013. Since the beginning of the partnership, loans acquired have accounted for EUR 19.8 billion.

Since May 2019, the SFIL Group, in partnership with La Banque Postale, has been offering "green" loans for the purpose of financing environmental projects conducted by French local authorities, in sectors such as clean local public transport, water treatment, waste recycling and ecological public buildings (see section 1.2.2 Reinforcement of the SFIL Group's CSR commitment).

Maintaining the position of leader in the refinancing of large export credits

Since the French State entrusted SFIL Group with this mission in 2015, it grants loans to refinance large export credits. These loans are unconditionally and irrevocably guaranteed in full by the French government.

Although the export credit market reached particularly high volumes in 2018, the level was historically low in 2019. Nevertheless, with four transactions signed in the total amount of EUR 1 billion in 2019, SFIL's contribution to the market still exceeds 40%, thus confirming its position as leading liquidity provider over four consecutive years.

Since this activity was launched in mid-2015, of an overall volume of EUR 14 billion in large export credits benefiting from the State guarantee, the volume refinanced by SFIL is EUR 8.1 billion.

The French authorities have asked the European Commission to officially approve the renewal of the authorization of SFIL to perform this activity. An approach is also in hand to obtain the approval to extend the scope of activity to the financing of strategic projects. It concerns enabling the SFIL Group to take part in the refinancing of credits covered by the new *garantie des projets stratégiques* (guarantee of strategic projects). This plan to expand the activity of the SFIL Group will enable

France to propose to exporters a financing offer in line with the best practices in other large exporting countries, particularly in Asia.

The SFIL Group's efficient and diversified sources of financing

In order to finance its two activities, in 2019 the SFIL Group raised EUR 6.1 billion on the bond markets, including:

- EUR 4.0 billion of covered bonds through Caisse Française de Financement Local;
- EUR 2.1 billion of unsecured debt through SFIL.

Throughout the year, SFIL maintained an outstanding of EUR 0.6 billion of certificates of deposit with maturities of less than one year.

For the SFIL Group, 2019 was the opportunity to implement its Corporate Social Responsibility (CSR) policy for its financing of bonds through the successful launch of its first "social" and "green" thematic bond issues by Caisse Française de Financement Local (see 1.2.2. Reinforcement of the SFIL Group's CSR commitment).

The covered bonds market in 2019

The market for public issues of covered bonds in euros (benchmark size) was very active in 2019, with a volume issued on the primary market of EUR 140 billion, (compared to EUR 138 billion in 2018 and EUR 115 billion in 2017). This level of activity was mainly attributable to a sizable volume of bonds reaching maturity (EUR 107 billion). In 2019, the significant presence of German, French and Canadian issuers can be seen (respectively 21%, 19% and 8% of the offer). In particular, Canadian issuers benefited from more favorable terms with the euro than with the dollar. This past year was also characterized by the return of issuers from non-core countries (Spain, Italy and Portugal for a total of about 10% of the offer) and the United Kingdom (5% of the offer). The significant level of activity was well absorbed by investors despite the slowdown in the Eurosystem's purchase program on the primary market up to the month of November. Investors' demand was also sustained at the beginning of the year by wider spreads than in 2018.

After having halted its asset purchase program, the European Central Bank decided at the beginning of September to relaunch it to support growth in Europe. At the end of 2019, the outstanding of covered bonds purchased by the European Central Bank under its programs was EUR 264 billion. It remained stable in 2019 while it increased by EUR 22 billion during 2018.

CAFFIL funding activity in 2019

In 2019, CAFFIL raised EUR 4.0 billion through its issues of covered bonds. On three occasions, CAFFIL came to the primary public market for a total amount of EUR 3.0 billion by enriching its reference curve on maturities at 6 years (EUR 750 million), 8 years (EUR 1 billion), 10 years (EUR 750 million) and 15 years (EUR 500 million). At the same time, CAFFIL provided additional liquidity on several of its issues via four taps for a cumulative amount of EUR 600 million in 2019. In addition to these public transactions, CAFFIL implemented an active policy of private placements to meet investors' demands on long and very long maturities. This activity enabled EUR 440 million to be raised with an average lifetime of 16 years. The outstanding of CAFFIL covered bonds was EUR 49.8 billion at December 31, 2019.

1.2.2 Reinforcement of the SFIL Group's CSR commitment

The year 2019 was marked by the strong reinforcement of the SFIL Group's commitment to Corporate Social Responsibility (CSR), already asserted at the end of 2018 when it joined the United Nations Global Compact:

- At the beginning of 2019, SFIL gave priority to 9 Sustainable Development Objectives (SDO) out of the 17 set up by the United Nations which it undertook to sustainably integrate in its operations, activity and corporate culture;
- In July 2019, for the first time, SFIL measured its carbon footprint for 2018 (excluding investments) and announced its commitment to reduce its CO₂ emissions. An action plan targeting the main sources of carbon release was launched for this purpose;
- In September 2019, SFIL published its first CSR report, which accounted for its actions, objectives and results in terms of CSR for 2018. The report was also published on the United Nations Global Compact website as "Communication on Progress";
- During the last quarter of 2019, SFIL announced that a dedicated CSR governance had been set up, aiming at reinforcing the cross-functional nature of the Group's CSR involvement and to improve its visibility.

The SFIL Group's CSR commitment is based on three major areas of focus: the conduct of public policy sustainable missions, the implementation of balanced internal policies and employees' commitment.

Public policy missions: as a public development bank, SFIL participates, through its subsidiary Caisse Française de Financement Local, in the sustainable and responsible financing of development projects throughout France, particularly the financing of local public sector infrastructure projects, the large majority of which are social or environmental (public hospitals, local public transport, water and waste treatment, etc.).

The implementation of well-balanced internal policies: it is expressed by reinforcing the anticorruption, ethics and compliance systems, combating all forms of discrimination through appropriate human resources policies, and initial actions with a view to reducing the Group's carbon footprint.

Employees' Commitment: SFIL's sponsorship program, focused on equal opportunities and insertion, enables, among other things, employees to sponsor young people from low-income neighborhood. The "Commitment by Employees" group brings together all employees who wish to carry out positive and meaningful actions in fields such as environmental protection, solidarity, and setting up best practices within the Company.

As part of its CSR commitment, in 2019 the SFIL Group, through its subsidiary Caisse Française de Financement Local, launched its first two thematic bonds, "social" and "green". The

"social" bond was issued in February 2019 for an amount of EUR 1 billion with maturity at 8 years while the "green" bond was issued in November 2019 for an amount of EUR 750 million and maturity at 10 years. These two issues are respectively exclusively to finance French public hospitals and projects for ecological transition within French local authorities. Market observers unanimously recognized them as successful and they were notably very largely subscribed, which proves investors' strong interest in this new type of responsible investment.

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

1.2.3 Proposed changes to SFIL's shareholding structure

In accordance with the agreement-in-principle signed by and between the shareholders of SFIL, announced on October 9, 2019, on March 4, 2020, the State, Caisse des Dépôts (CDC) and La Banque Postale (LBP) announced the signing of an agreement on the acquisition by Caisse des Dépôts of all of the SFIL shares held by La Banque Postale (i.e. 5%) and of all of the shares held by the State (i.e. 75%), with the exception of one ordinary share that the State will retain. Caisse des Dépôts will therefore become the reference shareholder of SFIL.

The State will continue to have a seat on SFIL's Board of Directors by means of a non-voting director (*censeur*), in view of the public interest missions entrusted to SFIL.

SFIL's shareholding structure will therefore remain entirely public and its shareholders will continue to ensure that its financial soundness is retained and its economic base protected, in accordance with the applicable regulations. La Banque Postale, which will retain a central role in this system, has ahead of time decided to extend its partnership with SFIL up to the end of 2026 for the marketing of medium- and long-term loans to French local governments and public hospitals refinanced by Caisse Française de Financement Local.

This transaction, approved unanimously by the Caisse des Dépôts supervisory committee opinion on October 23, 2019, is part of the project to create a major public financial group based on Caisse des Dépôts and La Poste, the finalization of which was also announced on March 4. The change in SFIL's shareholding structure should be effective in the second quarter of 2020, subject to obtaining all regulatory and administrative authorizations required from the relevant authorities. With this transaction, the shareholding structure of Caisse Française de Financement Local will remain firmly anchored in the public sphere, thus reflecting the missions entrusted thereto by the State.

1.2.4 The SFIL Group's capacity to withstand the geopolitical context and the low-rate environment

The year 2019 was marked by the international geopolitical context, the extremely low-rate environment and the prospect of the United Kingdom's departure from the European Union. The SFIL Group suffered very little impact by the disrupted environment and its business model showed its strong capacity to withstand it.

The continued negotiations between the European Union and the United Kingdom on Brexit, tensions over the increase in customs duties on certain goods, first between the United States and China and then between the United States and the European Union, and the discussions between the European Commission and the Italian government on the Italian budget deficit were highlights of 2019. The effect of these geopolitical events was to increase the volatility of the financial markets but did not significantly affect the covered bonds market and the SFIL Group's bond issuance capacity which was able to execute its program of bond issues in line with its forecasts.

The low-rate environment continued during 2019 and even increased during the second half of the year. In fact, on September 12, 2019 the European Central Bank announced the decision to reactivate its non-standard monetary policies to support growth and inflation in Europe. The consequence of these policies is that interest rates remained at very low, even negative levels, depending on maturities. This type of environment is generally very unfavorable to the commercial banks' margins and encourage borrowers to renegotiate loans. Caisse Française de Financement Local has little exposure to these risks due to its backing policy and early repayment clauses in its agreements. Furthermore, it is very little affected by the reduction in banking margins associated with a low rate environment due in particular to its liabilities structure which does not include customers' deposits.

Lastly, the United Kingdom's departure from the European Union has little impact on SFIL and Caisse Française de Financement Local. In fact, the SFIL Group:

- has very little exposure to United Kingdom public borrowers. As of December 31, 2019, CAFFIL's exposure to United Kingdom borrowers accounts for an outstanding of EUR 49 million, i.e. only 0.1% of the cover pool. In addition, this exposure concerned only one security and one counterpart benefiting from the United Kingdom's guarantee;
- renegotiated in 2019 the documentation on derivative contracts with its UK counterparts so as to enable new transactions to be signed with their subsidiaries in the EU and existing transactions to be transferred if the need arises.

1.2.5 High and sound financial and extra-financial ratings

The financial rating of *obligations foncières* issued by Caisse Française de Financement Local remained unchanged during 2019.

As of December 31, 2019, the ratings were as follows: AAA from Moody's, AA+ from S&P and AAA from DBRS. The outlooks associated with each of these ratings remained stable.

In the press release published in October, Standard & Poor's emphasized the State support from which SFIL would continue to benefit following the change of control. Furthermore, concerning the green bond issued by CAFFIL, Moody's mentioned that it was credit positive for SFIL and CAFFIL in an article published in November.

As of that same date, the non-financial ratings associated with the CAFFIL issuance program or the CAFFIL entity were as follows:

- Premium C by ISS;
- AA by MSCI;
- Positive-BBB by IMUG.

1.2.6 Favorable regulatory changes

In 2019, the European Parliament and Council adopted the "banking package" and particularly the amendments to Regulation No. 575/2013 (CRR) and Directive No. 2013/36 (CRD) which were published on May 20, 2019 in the Official Journal of the European Union. In particular, they provide:

- with regard to the leverage ratio, calculation rules adapted to the specific features of public development banks;
- with regard to the long-term structural liquidity ratio (NSFR-Net Stable Funding Ratio), a weighting adapted to the encumbered assets when they are included in the cover pool of an issuer of covered bonds.

Discussions on proposals for harmonizing the legal frameworks of European covered bonds (draft directive and amendment of Article 129 of the Capital Requirements Regulation - CRR) continued during 2019 finally with publication of the new framework in the Official Journal of the European Union on December 18, 2019. As of that date, the Member States have 18 months to transpose the directive into their national law and, at the same time, to bring into effect the amendments in article 129 of the CRR regulation. Issuers will then have 12 months to comply with it, which means that the new texts will take effect no later than in July 2022.

At this stage, Caisse Française de Financement Local has not identified any significant positive or negative impact on its activities related to the implementation of this new directive and regulation.

1.3 Change in the cover pool and debts

EUR billions, value after currency swaps	12/31/2018	12/31/2019	Change 2019/2018
Cover pool	56.9	56.5	(0.8)%
Loans	47.5	48.4	1.8%
Securities	8.1	7.6	(6.3)%
Cash deposit in central bank	1.3	0.5	(62.8)%
Assets removed from the cover pool	0.0	0.0	ns
Privileged debt	50.8	50.3	(0.9)%
<i>Obligations foncières⁽¹⁾</i>	50.3	49.8	(1.1)%
Cash collateral received	0.5	0.6	12.7%
Non-privileged debt	4.9	5.2	5.4%
SFIL	4.9	5.2	5.4%
Equity IFRS (excluding unrealized gains and losses)	1.5	1.4	(1.0)%

(1) Including registered covered bonds.

The size of Caisse Française de Financement Local's cover pool decreased by EUR 0.4 billion in 2019, i.e. approximately 0.8%. As of December 31, 2019, the cover pool excluding interest accrued not yet due amounted to EUR 56.5 billion.

Caisse Française de Financement Local's cover pool is composed of loans and debt securities financing public sector and also includes the temporary cash surplus put aside to anticipate the forthcoming repayment of *obligations foncières* or to prefinance new export loans. This cash is deposited at the Banque de France, or invested in bank or European public sector securities, or loaned to SFIL, the parent company of Caisse Française de Financement Local. The cash surplus, deposited with the Banque de France, was EUR 0.5 billion at the end of December 2019, versus EUR 1.3 billion at the end of December 2018. The cash surplus invested in securities or loaned to SFIL was a total of EUR 2.6 billion as of December 31, 2019 versus EUR 3.3 billion at the end of December 2018.

As of December 31, 2019, no assets were excluded from the cover pool in order to be sold to a bank in a repurchase agreement or assigned in guarantee to the Banque de France.

As of this date, outstanding debt benefiting from the legal privilege, including cash collateral received, was EUR 50.3 billion, which decreased by 0.9% from December 31, 2018.

As of December 31, 2019, the debt contracted with its parent company was EUR 5.2 billion. It does not benefit from the legal privilege and mainly corresponds to financing the over-collateralization of the *cover pool* which is significantly greater than the amount required by the regulations and the rating agencies.

1.4 Description of the cover pool

1.4.1 Change in assets in 2019

The net change in the cover pool during 2019 corresponds to a decrease in assets in the amount of EUR 0.4 billion. This change is explained by the following items.

EUR billions	2019
1- ACQUISITION OF LOANS FROM LA BANQUE POSTALE	4.2
Loans to the French public sector (vanilla loans in euros)	4.2
2- DRAWINGS OF EXPORT REFINANCING LOANS	1.5
Loans to SFIL to refinance export credit guaranteed by the French State	1.5
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	(4.4)
5- EARLY REIMBURSEMENTS	(0.3)
6- CHANGES IN TREASURY	(1.5)
Net change in securities investments	(0.7)
Net change in Banque de France cash deposit	(0.8)
NET CHANGE IN THE COVER POOL	(0.4)

In 2019, Caisse Française de Financement Local acquired a total of EUR 4.2 billion in loans to the French local public sector and public hospitals originated by La Banque Postale.

Drawings on refinancing loans of large export credits granted to SFIL became effective during 2019 in the amount of EUR 1.5 billion. These loans benefit from an irrevocable and unconditional 100% guarantee by the French State.

In application of the policy of reduction of loan sensitivity in effect since the beginning of 2013, the sensitivity reduction operations conducted by SFIL during 2019 made it possible to decrease outstanding loans considered as sensitive by

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

The natural amortization of the portfolio of loans and securities was EUR 4.4 billion in 2019, and early reimbursements were EUR 0.3 billion.

Available cash decreased by EUR 1.5 billion. It is deposited at the Banque de France, invested in bank bonds classified as replacement assets, in European public sector bonds or lent to SFIL.

There were no divestments during 2019.

1.4.2 Outstanding assets as of December 31, 2019

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

EUR billions	12/31/2018	12/31/2019
Loans and bonds to the public sector	52.8	53.5
<i>of which local public sector business line</i>	51.2	50.8
<i>of which large export credits refinancing business line⁽¹⁾</i>	1.1	2.6
<i>of which treasury investment in public sector bonds⁽³⁾</i>	0.5	0.1
Banque de France cash deposit ⁽³⁾	1.3	0.5
Replacement assets ⁽³⁾	2.8	2.5
COVER POOL	56.9	56.5
<i>of which assets liquid and eligible to ECB refinancing</i>	37.9	39.2
Financing commitments granted to refinance large export credits ⁽¹⁾⁽²⁾	6.0	5.5
Financing commitments granted to other public sector entities	0.0	0.0
FINANCING COMMITMENTS GRANTED	6.0	5.5

(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 2018 and 2019, commitments granted represented concluded contracts in drawing phase.

(3) The total amount of excess treasury decreased from EUR 4.6 billion at the end of 2018 to EUR 3.1 billion at the end of December 2019.

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

Liquid assets (bank securities eligible to replacement assets) or assets which can be assigned in guarantee in order to obtain financing throughout the Banque de France tenders amount to EUR 39.2 billion or 69.4% of Caisse Française de Financement Local's cover pool.

The amount of financing commitments given came to EUR 5.5 billion as of December 31, 2019. It concerns loans to SFIL signed but not yet drawn, in connection with the refinancing of large export credits. As a reminder, these loans benefit from an irrevocable and unconditional 100% guarantee by the French State.

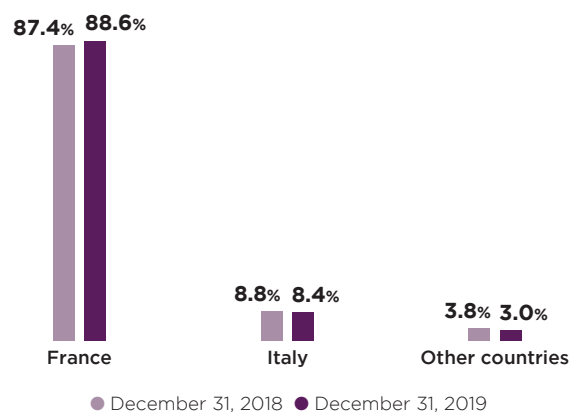
1.4.2.1 Public sector loans and bonds (excluding replacement assets and treasury placed with the Banque de France)

1.4.2.1.1 Geographic breakdown

At the end of December 2019, French public sector loans made up the majority (88.6%) of the cover pool, a portion that will increase in the future. They include loans acquired from La Banque Postale since 2013 (EUR 16.2 billion of outstanding principal as of the end of December 2019), representing 30% of the Group's public sector loans and securities and more than 36% of its loans to the French local public sector. The State-guaranteed loans granted to SFIL for the refinancing of large export credits (EUR 2.6 billion on the balance sheet) represent approximately 4.8% of its public sector loans and bonds.

The other assets are managed in a run-off mode; they correspond to granular and geographically diversified exposures on foreign public sector entities.

The relative proportion of the total assets can be broken down as follows:



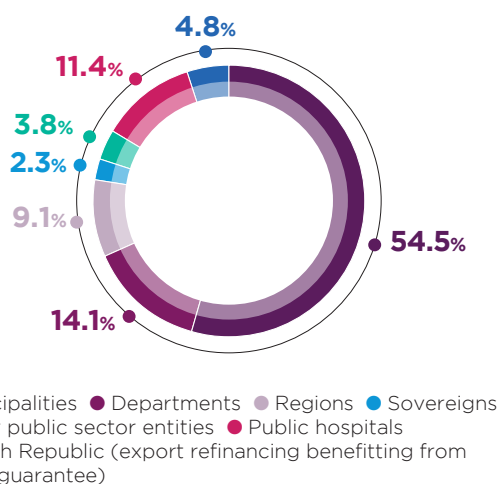
As of December 31, 2019, Italian assets represented the largest portion of non-French assets in run-off, with a total volume of EUR 4.5 billion, or 8.4% of the cover pool (excluding replacement assets and Banque de France cash deposits). These assets are granular exposures (more than 200 counterparties consisting mainly of regional and municipal authorities) distributed throughout Italy.

Exposures to other countries as of December 31, 2019, are broken down by country in the "Breakdown of cover pool" section, which is at the end of this management report.

1.4.2.1.2 Breakdown by type of counterparty

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

- 78% exposures on municipalities, departments or regions;
- 6% sovereign exposures or commitments on other public sector entities;
- 11% exposures on public hospitals;
- 5% exposures 100% guaranteed by the French State in respect of loans granted to SFIL for the refinancing of large export credits.



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

1.4.2.1.3 Securitizations

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

1.4.2.2 Replacement assets

Assets considered by law as "replacement assets" correspond to exposures on credit institutions benefiting from at least a "Step 1 rating", or a "Step 2 rating" when their remaining maturity does not exceed 100 days. The amount of the "replacement assets" is limited to 15% of *obligations foncières* and registered covered bonds. As of December 31, 2019, replacement assets represented 5.1% of *obligations foncières* and registered covered bonds.

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

Replacement assets EUR millions

	Country	12/31/2018	12/31/2019
STEP 1 CREDIT RATING			
Covered bonds			
	France	278	474
	Other countries	677	856
Other bank bonds			
	France	417	381
	Other countries	219	509
Loans to parent company, SFIL	France	800	300
STEP 2 CREDIT RATING			
Bank bonds (maturity < 100 days)			
	France	285	-
	Other countries	122	-
Bank accounts balances	France and Other countries	3	4
TOTAL		2,801	2,523

1.4.2.3 Assets removed from the cover pool

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

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

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

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

1.4.2.4 Structured loans

1.4.2.4.1 Definition

Certain loans to French counterparties in Caisse Française de Financement Local's cover pool may be classified as structured loans. The Gissler charter, the code of conduct adopted by banking institutions and local government entities, which is 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 from being marketed because of their structure (leverage > 5, etc.), their underlying index (or indices) (foreign exchange, etc.) or their currency (denominated in CHF, JPY, etc.).

1.4.2.4.2 Part of structured loans in the cover pool

EUR billions	Outstanding				Number of customers ⁽¹⁾		
	12/31/2018	12/31/2019	Change	% cover pool	12/31/2018	12/31/2019	Change
FRENCH PUBLIC SECTOR LOANS	44.3	44.5	0.2	78.8%	14,615	14,142	(473)
Vanilla loans	39.9	40.7	0.8	72.1%	13,168	12,783	(385)
Structured loans	4.4	3.8	(0.6)	6.7%	1,447	1,359	(88)
<i>of which sensitive loans not in the charter</i>	0.4	0.4	(0.0)	0.6%	51	44	(7)
<i>of which sensitive loans 3E/4E/5E</i>	0.6	0.5	(0.1)	0.9%	145	129	(16)
Total sensitive loans	1.0	0.9	(0.1)	1.6%	196	173	(23)

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

During 2019, outstanding loans to the French local public sector increased by EUR 0.2 billion. Structured loans on Caisse Française de Financement Local's balance sheet amounted to EUR 3.8 billion, representing 6.7% of the cover pool.

1.4.2.4.3 Sensitive loans and reduction in loan sensitivity

The most structured loans according to the Gissler classification (categories 3E, 4E and 5E as well as "not in the charter" loans) may be classified as "sensitive". As of December 31, 2019, they now represent only EUR 0.9 billion (1.6% 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 90%. The number of customers holding sensitive loans fell over the same period from 879 to 173.

Given the transactions of reduction in loan sensitivity already signed, the sensitive structured loans outstanding will

decrease to a maximum amount of EUR 0.8 billion by the end of 2020 and to EUR 0.4 billion for local government entities only. On this same basis, sensitive loans with a rate exceeding 5% will amount by the end of 2020 to EUR 0.1 billion, i.e. 0.2% of the cover pool, and concern 24 customers, i.e. 0.2% of French local public sector customers. The scope of sensitive structured loans is therefore extremely limited and the associated risk is no longer material for Caisse Française de Financement Local.

1.5 Debt benefiting from the legal privilege

As of December 31, 2019, 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 of cash collateral received from counterparties in derivative transactions.

EUR billions	12/31/2018	12/31/2019
Cash collateral received	0.5	0.6
<i>Obligations foncières</i> and registered covered bonds	50.3	49.8
TOTAL	50.8	50.3

1.5.1 Changes in cash collateral

The cash collateral received by Caisse Française de Financement Local is increasing slightly compared with the situation at the end of December 2018. Its amount stood at EUR 0.6 billion at the end of December 2019.

1.5.2 Changes in issues

As part of a recurring EUR 4 to 6 billion annual program, Caisse Française de Financement Local's issue policy aims first and foremost to build a coherent benchmark curve on the euro market while ensuring the strong performance of its issues on the secondary market. Diversification of its sources of financing is necessary to achieve long maturities, in line with its needs; this requires an active presence in the private placements market under the EMTN program or the issue of registered covered bonds, a format intended for German investors. Moreover, as part of the implementation of the SFIL Group's social and environmental policy and to diversify its sources of financing, in February 2019 CAFFIL completed its first "social" and "green" thematic issues, respectively in February 2019 and November 2019.

1.5.2.1 New issues in 2019

During 2019, Caisse Française de Financement Local raised EUR 4.0 billion through benchmark public issues, as well as tap issues, while at the same time continuing to work on the private placements segment.

Caisse Française de Financement Local raised money in the public primary market three times, in the total amount of EUR 3.0 billion:

- a dual tranche issue (6 and 15 years) in January in the total amount of EUR 1.25 billion;
- first "social" bond issue (8 years) in February in the amount of EUR 1.0 billion;
- first "green" bond issue (10 years) in November in the amount of EUR 0.75 billion.

Caisse Française de Financement Local also provided additional liquidity on two of its reference issues via 4 taps for a cumulative amount of EUR 0.6 billion.

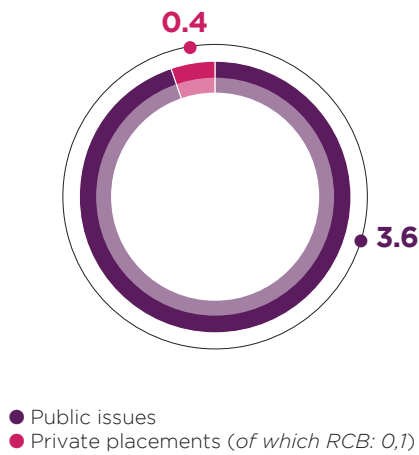
In addition to these public transactions, Caisse Française de Financement Local remained active in the private placement segment through the EMTN and the registered covered bond (RCB) format, thus making it possible to respond to Investors' demand for long and very long maturities. Altogether, it raised EUR 0.4 billion in this market segment.

The weighted average life of the financing raised during 2019 was close to 11 years.

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

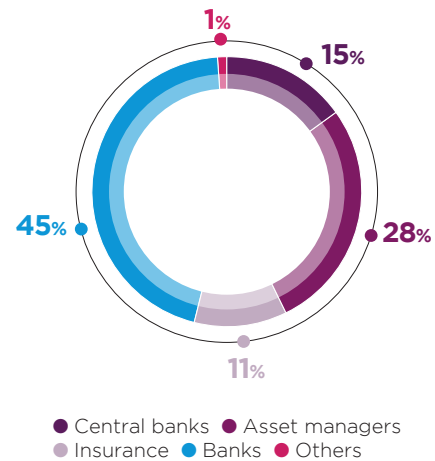
BREAKDOWN OF 2019 ISSUES BY FORMAT

(EUR BILLIONS)



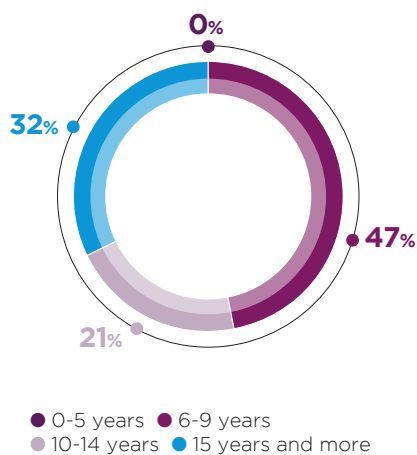
BREAKDOWN OF 2019 ISSUES BY MATURITY

(%)



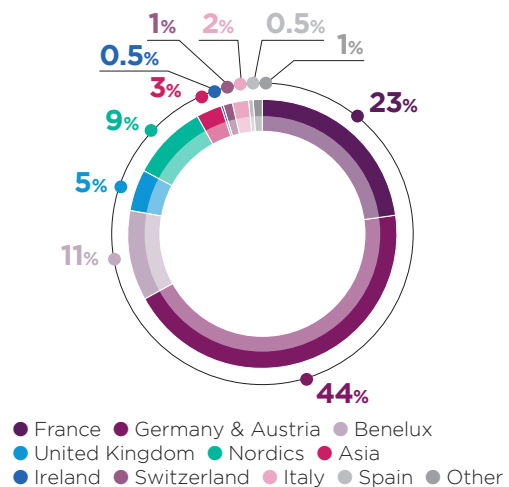
BREAKDOWN OF BENCHMARK 2019 PUBLIC ISSUES BY INVESTOR CATEGORY

(%)



BREAKDOWN OF BENCHMARK 2019 PUBLIC ISSUES BY GEOGRAPHIC ZONE

(%)

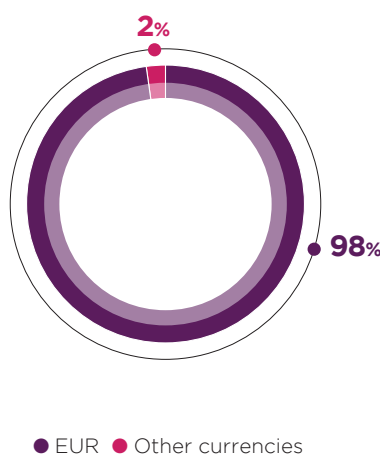


1.5.2.2 Outstanding debt at the end of December 2019

The outstanding amount of *obligations foncières* and registered covered bonds totaled EUR 49.8 billion in swapped value at the end of December 2019. This includes new issues of *obligations foncières* for EUR 4.0 billion and amortization of issues maturing in 2019 for EUR 4.5 billion. Furthermore, limited purchases of own *obligations foncières* were completed during the year.

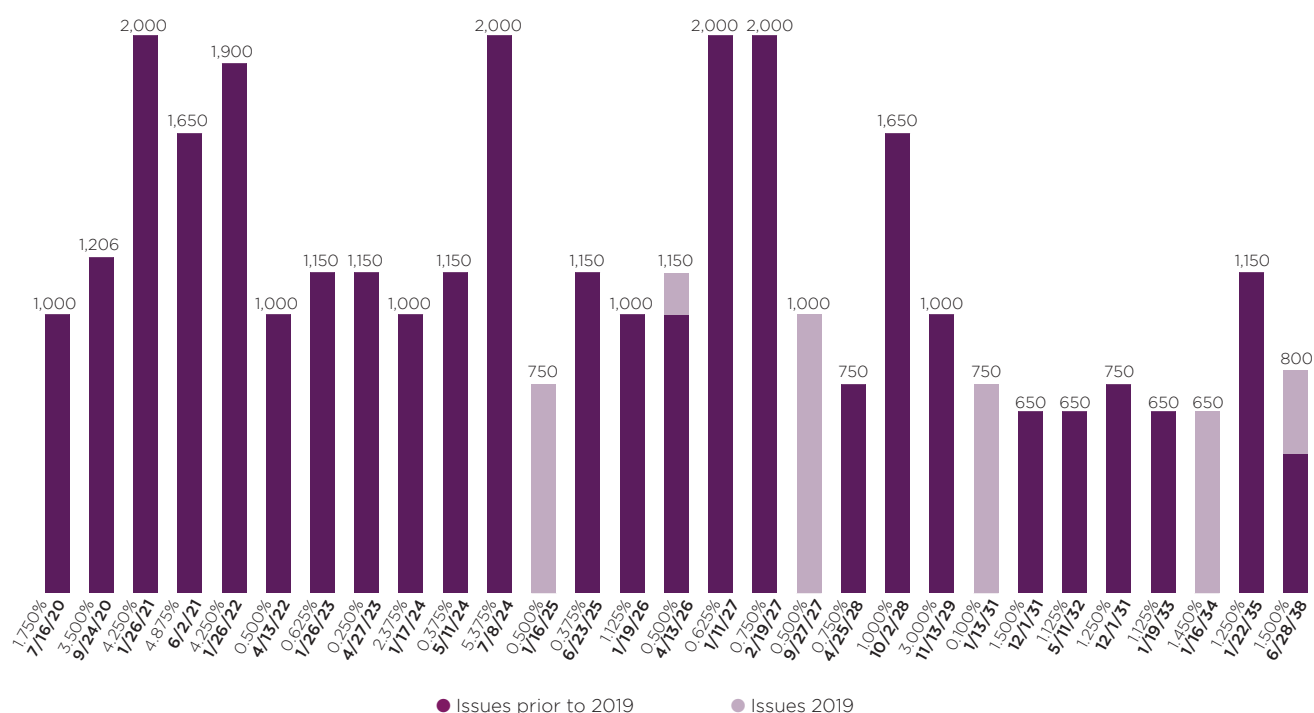
EUR billions, value after currency swaps	2018	2019
BEGINNING OF THE PERIOD	49.0	50.3
Issues	4.9	4.0
Amortizations	(3.6)	(4.5)
Buyback	-	(0.1)
END OF THE PERIOD	50.3	49.8

As of December 31, 2019, issues can be broken down by currency as follows:



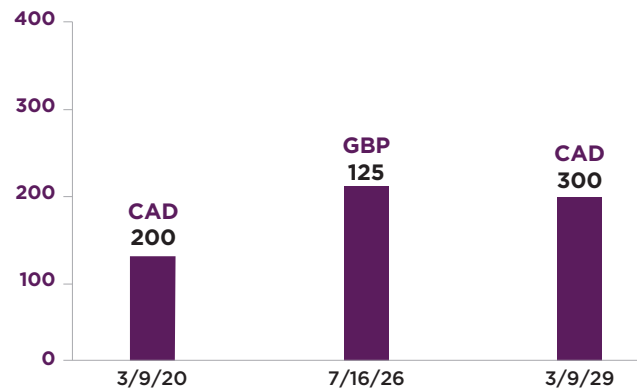
DETAIL OF BENCHMARK PUBLIC TRANCHES

(EUR MILLIONS)



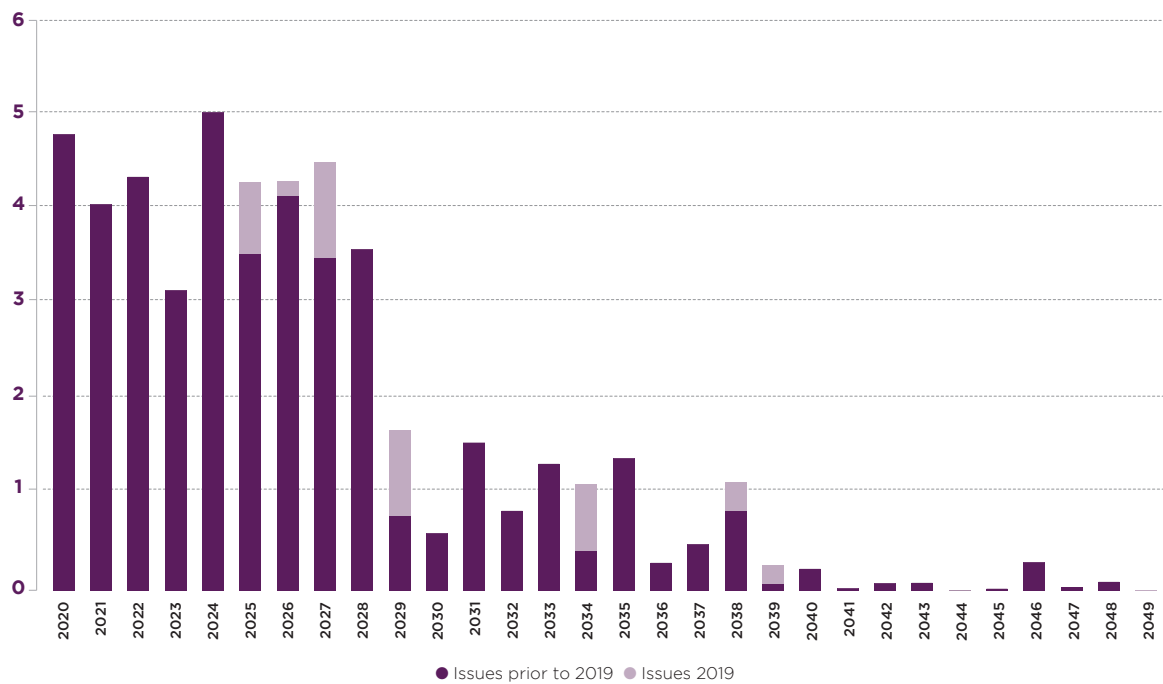
MAIN TRANCHES IN OTHER CURRENCIES

Value in EUR millions (swapped value)



AMORTIZATION OF OBLIGATIONS FONCIÈRES AND REGISTERED COVERED BONDS

(EUR billions)



1.6 Over-collateralization ratio

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

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

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



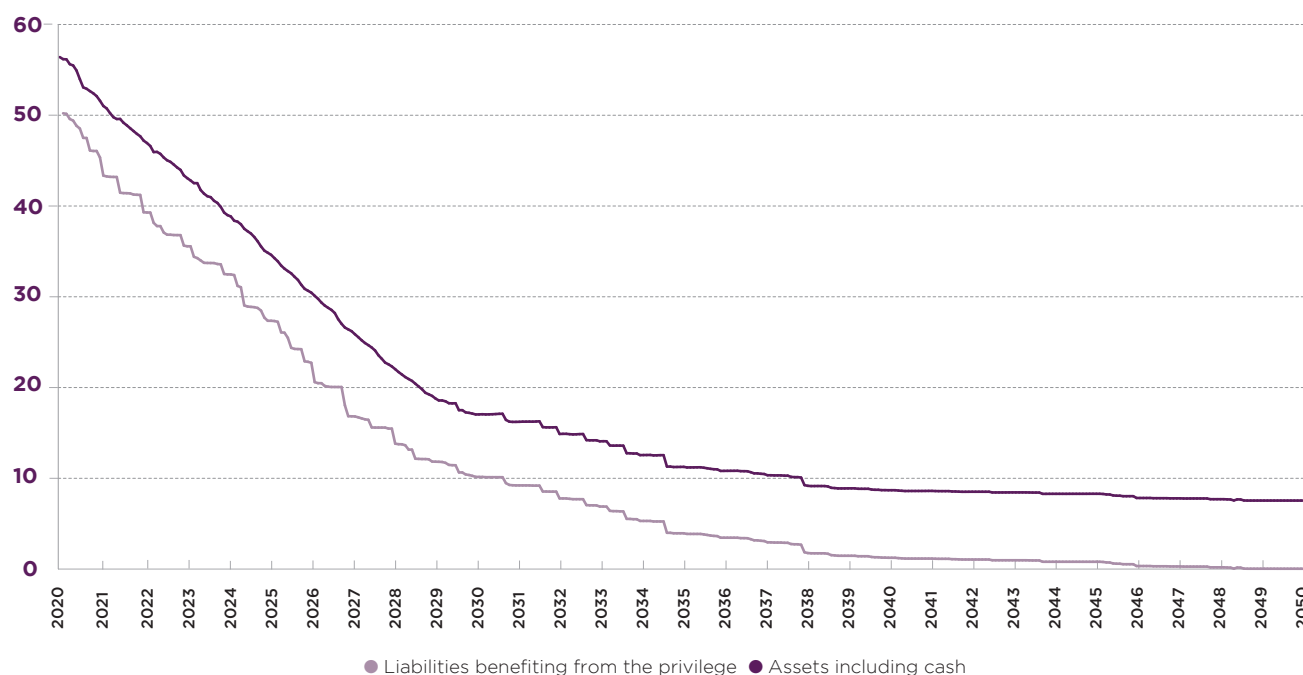
Regulatory over-collateralization may differ from nominal over-collateralization. In fact, it is calculated on the basis of the rules determined by the Autorité de Contrôle Prudentiel et de Résolution (ACPR). In particular, these rules require different weighting levels according to the assets. The assets in Caisse Française de Financement Local's cover pool are weighted at 100%. The small difference between the two ratios can be explained by the accrued interest not yet due taken into account in the regulatory over-collateralization ratio.

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

Over-collateralization may also be illustrated by the gap between the amortization curves of the assets and liabilities benefiting from the privilege. The following graph presents the curves as of December 31, 2019.

AMORTIZATION OF ASSETS AND LIABILITIES AS OF DECEMBER 31, 2019

EUR billions



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

1.7 Non-privileged debt

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

Such financing is obtained through the parent company. At the end of December 2019, the funds borrowed from SFIL within the framework of the financing agreement were made up of different loans with maturities that could initially run from one day to ten years with an Euribor or Eonia index.

Temporary financing may also be obtained from the Banque de France. These funds do not benefit from the privilege stipulated in the law on *sociétés de crédit foncier*, but they are guaranteed by loans and securities assigned for this purpose in the account of Caisse Française de Financement Local at Banque de France. Since the creation of SFIL, except when it used small sums to test the access procedure for such funding, Caisse Française de Financement Local has not contracted any loans from the Banque de France or from credit institutions other than its parent company.

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

(EUR billions)	12/31/2018	12/31/2019
SFIL	4.9	5.2
Banque de France	-	-
TOTAL	4.9	5.2

1.8 Net income

1.8.1 Income according to IFRS

Caisse Française de Financement Local publishes its financial statements according to IFRS⁽¹⁾, as adopted by the European Union in order to allow for a better understanding and a better comparability of its financial statements by international investors.

1.8.1.1 Net income for 2019

Income statement is presented below in a synthetic manner:

IFRS (EUR millions)	2018	2019	change 2018/2019
Interest margin	128	119	
Net commissions	(7)	(3)	
Net result on financial instruments at fair value through profit or loss	36	16	
Net result on financial instruments at fair value through equity	0	-	
Net result due to derecognition of financial instruments at amortized cost	14	8	
Net result resulting from reclassification of financial assets at amortized cost to financial assets at fair value through profit or loss	-	-	
Net result resulting from reclassification of financial assets at fair value through equity to financial assets at fair value through profit or loss	-	-	
Other income and expense	0	0	
NET BANKING INCOME	171	140	(18)%
General operating expenses	(96)	(92)	
Taxes	(5)	(5)	
GROSS OPERATING INCOME	70	43	(39)%
Cost of risk	(4)	8	
INCOME BEFORE TAX	66	51	(23)%
Income tax	(4)	(11)	
NET INCOME	62	40	(36)%

As of December 31, 2019, net result was positive at EUR 40 million, versus EUR 62 million as of December 31, 2018.

1.8.1.2 Income restated excluding non-recurring items

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

- the change in the fair value of financial assets classified as non-SPPI under IFRS 9. This impact is recognized in the income statement under Net result on financial assets at fair value through profit or loss and is restated under non-recurring items;

(EUR millions)	2018	2019
Fair value adjustment of non-SPPI financial assets	(5)	9

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

(EUR millions)	2018	2019
Fair value adjustments on hedging	0	(23)

(1) The implementation as of January 1, 2019 of the IFRS 16 standard and of the interpretation IFRIC 23 was applied by the SFIL Group. These changes in methods have no impact on the income, their impact on the balance sheet are detailed in the notes to the financial statements.

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

- fair value adjustments introduced by the standard IFRS 13: Credit Valuation Adjustment/Debit Valuation Adjustment (CVA/DVA);
- the tax adjustment's positive impact (see section 1.12.2.5.2.). As a reminder, Caisse Française de Financement Local settled this adjustment, assessed related deferred taxes and reversed the relevant provisions/impairments. It kept in its accounts the amount of the provision set aside for the sums not yet paid. These factors had a positive impact of EUR 14 million in 2018. In 2019, it took into account the effects of the final tax adjustment for fiscal years 2012 and 2013 on the calculation of the corporate income tax for fiscal years 2014 to 2018 which resulted in it recognizing additional income of EUR 3 million in its financial statements.

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

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

(EUR millions)	2018	2019
Tax adjustment effects	14	3

The recurring income for 2018 and 2019 is as follows:

(EUR millions)	2018			2019		
	Accounting income statement	Non-recurring items	Recurring income statement	Accounting income statement	Non-recurring items	Recurring income statement
NET BANKING INCOME	171	(5)	176	140	(14)	154
General operating expenses	(101)		(101)	(97)		(97)
GROSS OPERATING INCOME	70	(5)	75	43	(14)	57
Cost of risk	(4)	-	(4)	8	-	8
INCOME BEFORE TAX	66	(5)	71	51	(14)	65
Income tax	(4)	15	(19)	(11)	7	(18)
NET INCOME	62	10	52	40	(7)	47

Restated for the non-recurring items mentioned above, Net Banking Income for the year fell from EUR 176 million in 2018 to EUR 154 million in 2019, a decrease of EUR 22 million. For the same period, the Net income fell from EUR 52 million to EUR 47 million i.e. a decrease of EUR 5 million.

1.8.1.3 Analysis of recurring net income

The EUR 22 million fall in Net Banking Income is mainly attributable to the year-on-year decrease in loan restructuring which leads to an immediate recognition in Net Banking Income, per IFRS 9, of the surplus margin on the restructured loans (taking into account hedging impact) over market rates on the restructuring date.

As a reminder, Caisse Française de Financement Local's operating expenses consist mainly of amounts that its parent company invoices for its operational management. They are slightly down over the period in relation to the reduction in

external advisory expenses recorded at SFIL (end of Oxygen IT project).

The cost of the risk recorded a reversal of EUR 8 million in 2019, related to the reduction of Stage 2 outstanding loans (loans removed from the scope of the credit watchlist). The provisions/impairments for expected credit losses are set out below in this report, in section 1.12.2.1.6.

There was a EUR 18 million tax charge for the fiscal year; it notably reflects the non-deductibility of the contribution to the Single Resolution Fund.

1.8.2 Income according to French GAAP

Net income is presented below in a synthetic manner:

French GAAP (EUR millions)	2018	2019	change 2018/2019
Interest margin	150	133	
Net commissions	(7)	(3)	
Provisions and income on trading portfolio	-	(0)	
Provisions and income on securities	(9)	8	
Other income and expense	-	0	
NET BANKING INCOME	134	138	3%
General operating expenses	(96)	(92)	
Taxes	(5)	(5)	
GROSS OPERATING INCOME	33	41	24%
Cost of risk	(16)	11	
OPERATING INCOME	17	52	206%
Income (loss) on fixed assets	-	-	
Income tax	27	(6)	
NET INCOME	44	46	5%

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

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

Furthermore, the accounting treatment of termination fees on hedging swaps designed to directly match assets with liabilities differs from the treatment applied in the financial statements prepared under IFRS. These swap termination fees are usually amortized in the IFRS financial statements,

while under French GAAP they are generally recognized immediately in Net Banking Income. This accounting treatment may lead to recognition of the results earlier than would a systematic amortization approach.

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

Net Banking Income increased year-on-year of EUR 4 million, or +3%, from EUR 134 million to EUR 138 million.

- This change was attributable:
 - on the one hand, to respective increases of EUR 4 million and EUR 17 million in Net commissions and Provisions and income on securities;
 - and on the other hand, to the EUR 17 million decrease in the interest margin, mainly as a result of the decline in loan restructurings. As a reminder, under French GAAP, transactions of this type result in the recognition on the restructuring date of the early repayment penalty net of the hedging swap termination fees (see italicized section above).

Operating expenses consisted mainly of amounts billed by the parent company for Caisse Française de Financement Local's operational management. They are decreasing slightly.

Cost of risk is positive due to reversals of general provisions related to loans removed from the scope of the watchlist.

Net earnings increased marginally between the two periods from EUR 44 million in 2018 to EUR 46 million in 2019.

1.8.3 Proposed allocation of net income

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

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

The Ordinary Shareholders' Meeting will be asked to distribute a dividend in the amount of EUR 45.2 million and to allocate net income for the year as follows:

Allocation of net income	EUROS
NET INCOME FOR THE YEAR	45,846,559.48
Legal reserve (5%)	(2,292,327.97)
INCOME AVAILABLE	43,554,231.51
Retained earnings	2,837,573.75
INCOME AVAILABLE FOR DISTRIBUTION	46,391,805.26
PROPOSED DIVIDENDS	(45,225,000.00)
Retained earnings after allocation	1,166,805.26

1.9 Commitments granted – Commitments received

Financing commitments given as of December 31, 2019, are mainly related to financing SFIL's export credit activity, for EUR 5.5 billion. They correspond to signed unpaid contracts.

Commitments received consisted mainly of:

- the authorized overdraft in the current account as stipulated in the financing agreement signed with SFIL, for EUR 50 million;
- unconditional and irrevocable enhanced guarantees from the French State received in connection with the export credit refinancing activity, for EUR 8.1 billion;
- guarantees received on loans to customers, for EUR 2.4 billion.

1.10 Outlooks for 2020

In 2020, Caisse Française de Financement Local and its parent company SFIL will aim to maintain their position as the recognized leader for their two activities entrusted by the French State:

- financing loans to French local authorities and public hospitals, within the framework of the partnership established with La Banque Postale;
- supporting French exporters by refinancing large export credits guaranteed by the State. For this second mission (export refinancing), the French authorities asked the European Commission to renew authorization of the system in place and to extend this authorization to the financing of strategic projects. Once the necessary authorizations have been obtained, this extension should come into operation during 2020. This new type of project will enable the SFIL Group to broaden its scope of intervention by financing international projects deemed strategic for France, where a French company operates not as an exporter but as a supplier, investor, operator, service provider or subcontractor.

To cover its financing requirements, in 2020 Caisse Française de Financement Local plans to issue between EUR 3.5 and 5.5 billion of covered bonds with a long-dated average maturity, adapted to the profile of the assets financed. It will carry out this program mainly through a number of benchmark *obligations foncières* issued in euros on the primary market and private placements adapted to the needs of its broad investor base. Caisse Française de Financement Local's issue program should be carried out in a dynamic market context in view of:

- the coming to maturity of volumes of covered bonds still greater than in 2019 (almost EUR 120 billion);
- the interest taken by investors in this asset category which notably benefits from preferential regulatory treatment;
- the strong support provided by the European Central Bank with the restart of the covered bonds purchase program in November 2019.

SFIL will continue its CSR measures in 2020, particularly by:

- reinforcing gender parity and continuing actions in favor of education, insertion and disability;
- continuing its efforts to reduce its CO₂ emissions in accordance with its commitments;
- offering greater possibility for employees' commitment and improving practices (campaign to reduce the use of plastic in the Company, awareness of fair trade, conference on zero waste, etc.).

At the same time, the SFIL Group plans to issue a part of its bonds in 2020 in the form of social and/or green thematic issues. These should become a permanent and significant source of refinancing to support the investments needed by

French public hospitals and those of French local authorities dedicated to the ecological transition. These new types of financings will enable SFIL to fully exercise its role as a public development bank to support a sustainable future.

From a macroeconomic point of view, as in 2019, the Group will closely monitor two important contextual elements in 2020:

- the degree of market volatility in an environment influenced by the European Central Bank returning to non-standard policies, Brexit-related measures and the geopolitical environment;
- changes in the regulatory environment, with the finalization of Basel III and, with regard to Caisse Française de Financement Local, the transposition into national law of the European directive aimed at harmonizing the covered bonds regimes of Member States.

Concerning the Coronavirus (COVID-19) pandemic, the SFIL Group is following the recommendations of the World Health Organization and the French government and has implemented the measures necessary to maintain operational continuity in all its business activities, in particular, almost all of its workers are working remotely and a crisis cell has been meeting daily to adapt the working methods used. The SFIL Group's teams have been very closely monitoring the disruptions to the financial markets since the crisis began. The impact on current and planned future operations for SFIL and CAFFIL, and on their counterparties (customers, banks, partners) are being reassessed regularly. On the date this report was published, no impact was identified that may have significant consequences on the group's financial situation and its capacity to honor its commitments. Time lags in the collection of income from some of its assets (consisting entirely of exposures to public sector borrowers) may be considered, as well as the postponement of certain bond issues in the event of unfavorable market conditions. Nevertheless, the liquidity risk is limited by the good matching of the maturity profiles of assets and liabilities and the ability to benefit from the financing proposed by the European Central Bank through high-quality assets in the portfolio. Moreover, the quality of SFIL's shareholding structure, its status as a public development bank, the quality of CAFFIL's and SFIL's standings, the very rigorous risk management and the solid solvency ratio are all advantages within the current context.

Lastly, the transfer of control of SFIL to the Caisse des Dépôts, pursuant to the agreement signed on March 4, 2020, should be finalized during the first six months of 2020. This operation will enable the public financial institutions to continue to serve the French territory, by grouping them within a large public financial group, formed around the Caisse des Dépôts and La Poste.

1.11 Internal control and preparation of accounting and financial information

1.11.1 General description of the internal control procedures

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

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

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

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

- the systems to control transactions and internal procedures,

- accounting organization and data processing,
- risk and results measurement systems,
- risk monitoring and control systems,
- the internal control documentation and information system.

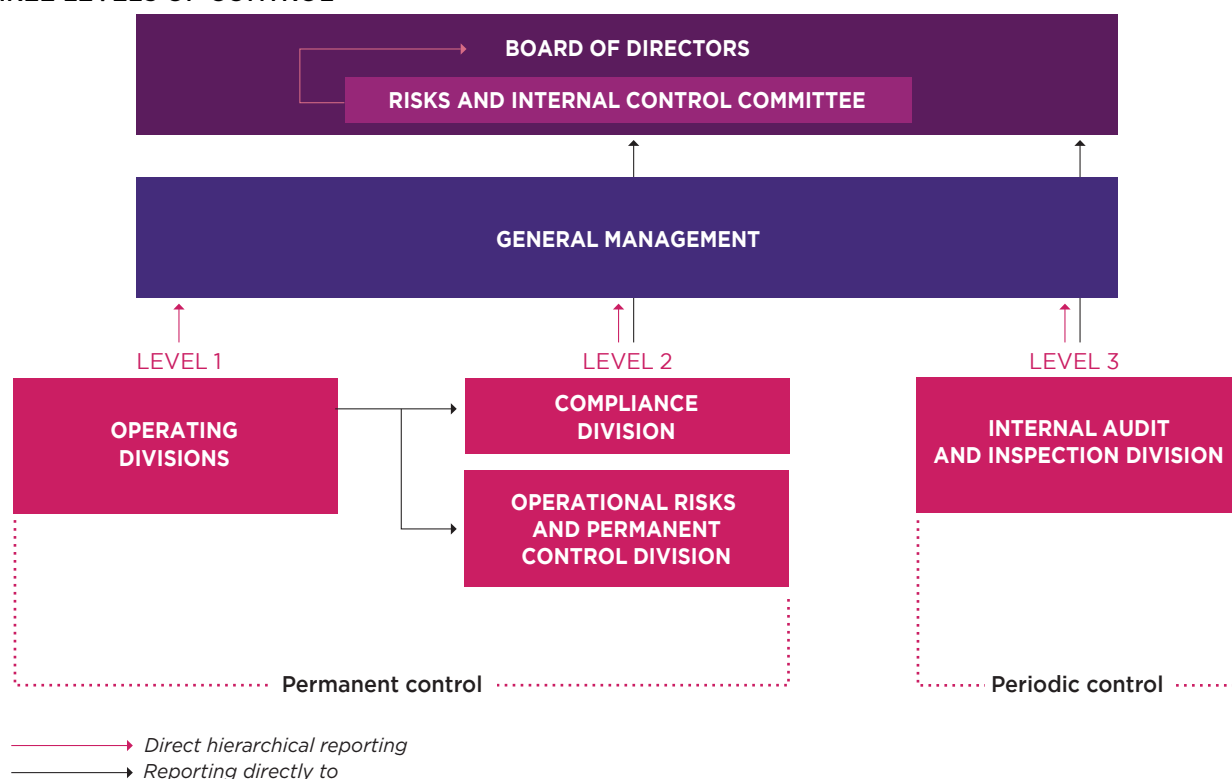
This internal control system is a structure implemented by Executive Management and all the employees of SFIL, at the initiative of its Board of Directors. This organization is designed to provide reasonable but not absolute assurance of SFIL's attainment of the objectives it has set in this area.

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

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

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

THREE LEVELS OF CONTROL



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

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

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

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

The managers at the second and third levels of internal control meet regularly in the Internal Control Coordination Committee. This committee met three times in 2019. It is responsible for the operational management of the internal control system, in particular:

- steering the project to deploy a new risk management and internal control tool across the three levels. This new tool

will replace the current tool which already enables operational incidents, controls, recommendations and action plans to be monitored;

- steering operational projects to improve the structure of the internal control system (roles and responsibilities redefined and clarified, shared and uniform risk nomenclature, common methodology and risk assessment metrics, uniform control plan organization and associated assessment methodology).

1.11.1.2 Supervisory body and accountable officers

The Risks and Internal Control Committee

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

- monitoring the effectiveness of the internal control and risk management systems;
- assessing the quality of internal control especially the consistency of the measurement, surveillance and risk control systems in relation to the "Risk Appetite Statement" validated by SFIL's Board of Directors and CAFFIL's Supervisory Board;
- proposing any additional actions required;
- monitoring SFIL's permanent control, compliance and periodic control system;
- examining different scenarios, including stress scenarios, to assess how the bank's risk profile would react to external and internal events;
- participating in appointing and supervising Statutory Auditors.

Executive Board of Caisse Française de Financement Local

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

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

1.11.1.3 First level of control: control carried out at the operational level

As the first level of the internal control system, employees and managers of SFIL's operating divisions are in charge of analyzing the risks involved in all the transactions they have initiated, organizing and conducting first-level controls for such operations, verifying that internal control procedures in their division are adapted to such risks and contributing to their development. To this end, they rely on the policies, procedures, limits and indicators with a clear separation between the launch of operations and their validation, control or settlement. These policies, procedures, limits and indicators are defined by several internal committees. They are composed of operating, support, and control staff, and chaired by a member of the Executive Committee of SFIL.

1.11.1.4 Second level of control: permanent control excluding compliance

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

1.11.1.4.1 Definition

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

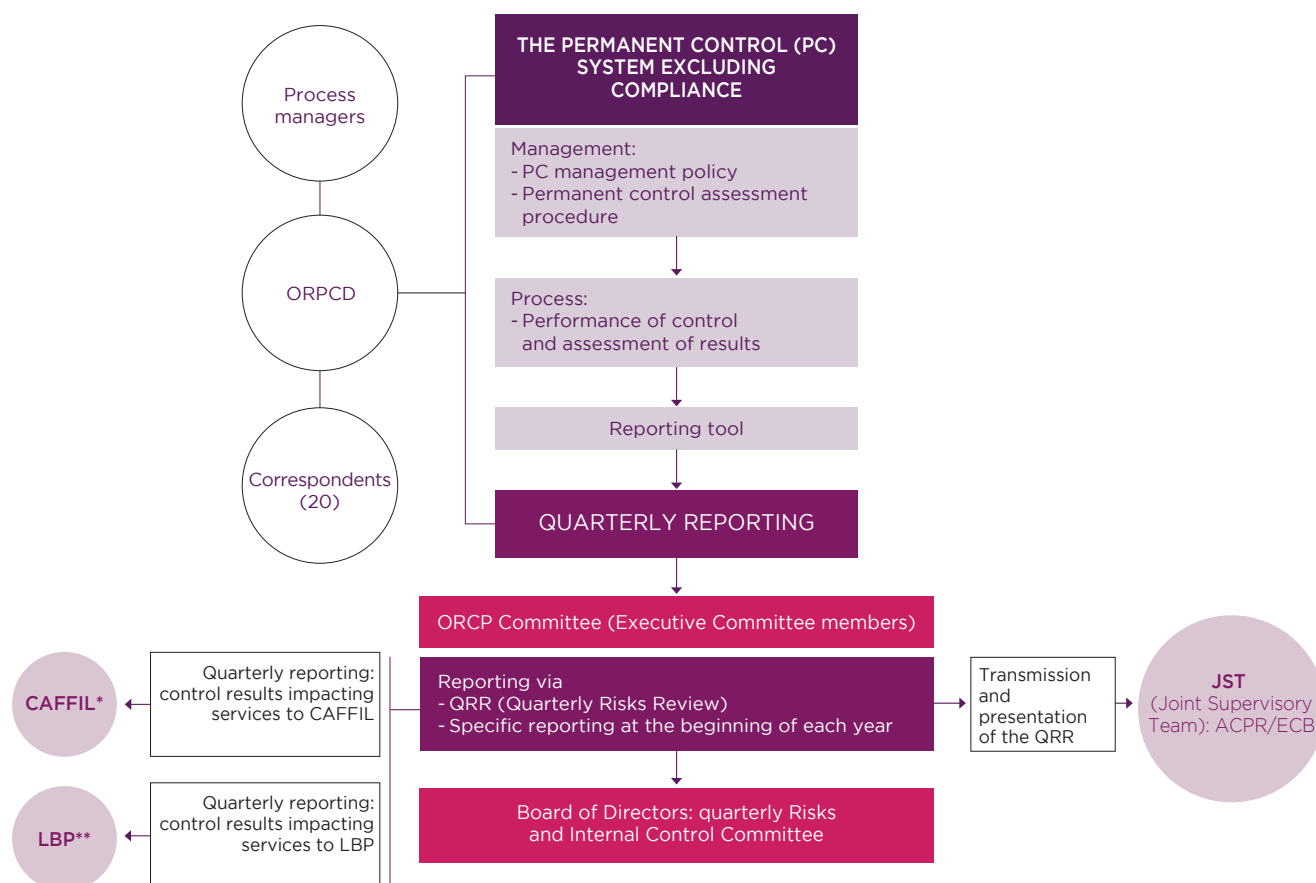
- effectiveness and solidity of the risk control system;
- effectiveness of the operational control system and internal procedures;
- quality of the accounting and financial information and quality of the information systems.

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

1.11.1.4.2 Organization and governance

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

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



* Within the framework of the SFIL/CAFFIL agreement

** Within the framework of the SFIL/LBP agreement

1.11.1.4.3 Permanent control system excluding compliance

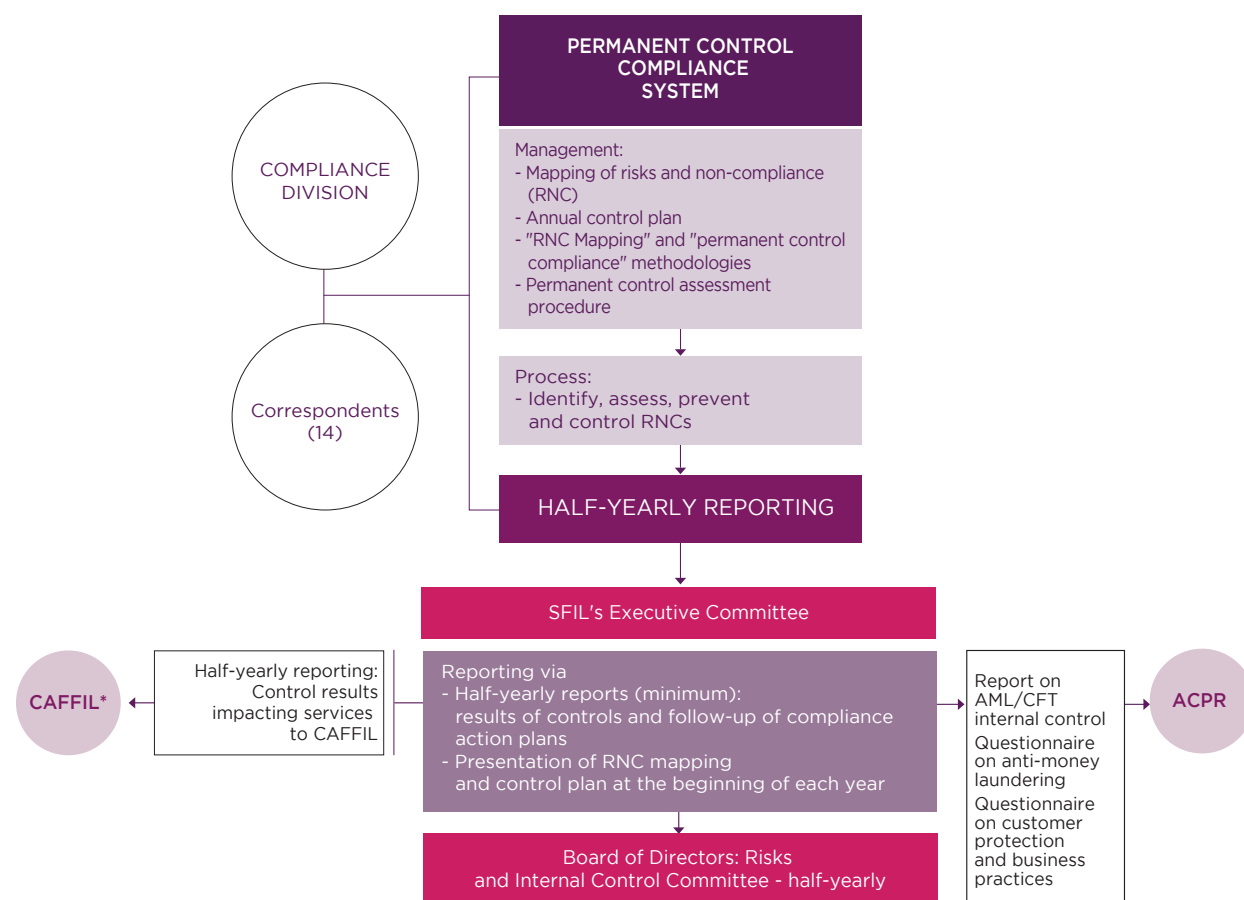
Permanent control uses a control plan covering the SFIL Group's different divisions, activities and processes. These controls are determined in liaison with the operating divisions and are reviewed every year to adapt them to the SFIL Group's situation, by integrating:

- the results of controls performed during the year (their suitability for the risks to be covered, their effectiveness, formalization and the relevance of the associated control points);
- the review of incidents raised;
- the results of the operational risk mapping by process;
- the recommendations of the Internal Audit division, the external auditors and the regulator;
- SFIL's new activities and processes.

Missions	2019 activities and results
Performance and assessment of permanent controls	Permanent control plan consisting of 127 controls
Monitoring recurrent action plans	43 action plans over the period, 23 of which have already been implemented
Internal and external reporting	4 Operational Risks and Permanent Control Committee meetings Contribution to 4 Quarterly Risk Reviews (QRR) for the Risks and Internal Control Committee transmitted to the ECB 1 Risks and Internal Control Committee meeting dedicated to internal control
Coordination of the network of correspondents	Reports following Operational Risk and Permanent Control (ORPC) Committee meetings 1 full annual meeting
Reporting to the Executive Board of Caisse Française de Financement Local	4 reports on permanent controls by the CAFFIL coordination division based on the Quarterly Risk Reviews (QRR) and annual presentation of its report by the ORPCD
Reporting to the Supervisory Board of Caisse Française de Financement Local	4 reports to the Supervisory Board by the Executive Board on the basis of the QRR and the annual report by the ORPCD

1.11.1.5 Second level of control: compliance control

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



* Within the framework of the SFIL/CAFFIL agreement

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

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

To ensure that the system for managing SFIL's and Caisse Française de Financement Local's business-related compliance risks is effective, the Compliance division defines a compliance control plan. This plan is based on the identification and assessment of the risks identified via the non-compliance risk mapping process. This mapping is reviewed at least once a year in order in particular to take into account changes in SFIL's activities as well as regulatory developments. The methodology used to assess non-compliance risks is identical to the risk assessment methodology used by internal audit, in order for the two risk management units to have a common language.

The compliance risk mapping and control plan are presented to the accountable officers for approval at the beginning of each year, at a meeting of SFIL's Executive

Committee and of Caisse Française de Financement Local's Executive Board. They are then presented to the Risks and Internal Control Committee for approval at a meeting of the Risks and Internal Control Committee dedicated to hearing from the risk management, compliance, and periodic control officers, not attended by SFIL's General management.

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

Any discrepancies or non-compliance identified as a result of implementing the control plan are systematically the subject of specific action plans assigned to the divisions in charge of implementing them. These action plans are monitored by the Compliance division and are the subject of reports filed with the governing bodies of SFIL and Caisse Française de Financement Local.

In the context of the permanent control, the Compliance division also uses various internal tools to report shortcomings, breaches, and malfunctions: a network of 14 compliance correspondents and 17 GDPR contacts, and a professional and ethical alert procedure, enabling incidents to be escalated. No alerts or data privacy breaches were escalated to the Compliance division in 2019.

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

1.11.1.5.2 Permanent control activities carried out by the Compliance division

During 2019, the Compliance division carried out the following work in the context of its missions in relation to permanent compliance controls:

Missions	2019 Performance
Identifying and assessing non-compliance risk	<ul style="list-style-type: none"> • Presentation of the updated compliance risk mapping and first corruption risk mapping by the Risks and Internal Control Committee on January 24, 2019; • In total, risk mapping identified 62 risks of non-compliance.
Controlling the risks of non-compliance	<ul style="list-style-type: none"> • The 2019 control plan was presented to the Risks and Internal Control Committee on January 24, 2019. The plan featured 25 topical controls to be carried out either yearly or half-yearly; as of the date of the report, the controls had been implemented in accordance with the 2019 plan, with the exception of two controls which have been carried forward to 2020; • In 2019, the control regarding GDPR compliance was entrusted to a specialized external firm.
Defining and monitoring action plans	<ul style="list-style-type: none"> • The action plans as a whole led to permanent monitoring during 2019 and to the presentation of the state of progress made to the Executive Board and to the Risks and Internal Control Committee; • 68 new action plans launched during the period, 27 action plans were still in force in December 31, 2019, i.e. a number which is equivalent to the number as of December 31, 2018.
Informing management and the governance bodies	<p>The results of the permanent compliance controls and monitoring of action plans were presented:</p> <ul style="list-style-type: none"> • each half year to the Executive Board (in addition to the reports examined by the Executive Board at the meetings preceding the quarterly Supervisory Board meetings); • each half year to the Risks and Internal Control Committee; • highlighting the key risks identified, the actions taken, and the actions still to be taken.
Reporting to the banking supervisor	<ul style="list-style-type: none"> • Contribution to the 2019 Internal Control Report steered by the internal audit division; • Drafting of the first report on AML/CTF internal control; • Questionnaire on anti-money laundering; • Questionnaire on customer protection and business practices.

1.11.1.6 Third level of control: periodic control

1.11.1.6.1 Organization and governance of the periodic control

Periodic control is exercised by the Internal Audit and Inspection division. This division's scope of intervention covers all of SFIL's activities, operational processes and systems without reservation or exception and including outsourced essential activities and antifraud procedures.

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

- the absence of involvement in the operating management of SFIL's activities;
- unconditional and immediate access to all information, documents, premises, systems or persons its activities require;
- the resources supplied by the General Management to carry out these missions;

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

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

As of January 1, 2020, the Internal Audit and Inspection division had nine staff (plus two alternates), including six auditors and audit managers. The General Auditor supervises all the division's audit activities and reports. She is assisted by a supervisor, who shares responsibility for the team of auditors and oversees the audit assignments that they carry out under the auspices of the audit managers. Furthermore, every auditor and audit manager is responsible for a specific field, reflected in their responsibility to update permanent documentation, sit in on some of the SFIL's group's committees as an observer, risk monitoring and the following up of recommendations for implementation by SFIL's operating divisions.

1.11.1.6.2 Internal Audit and Inspection division activities

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

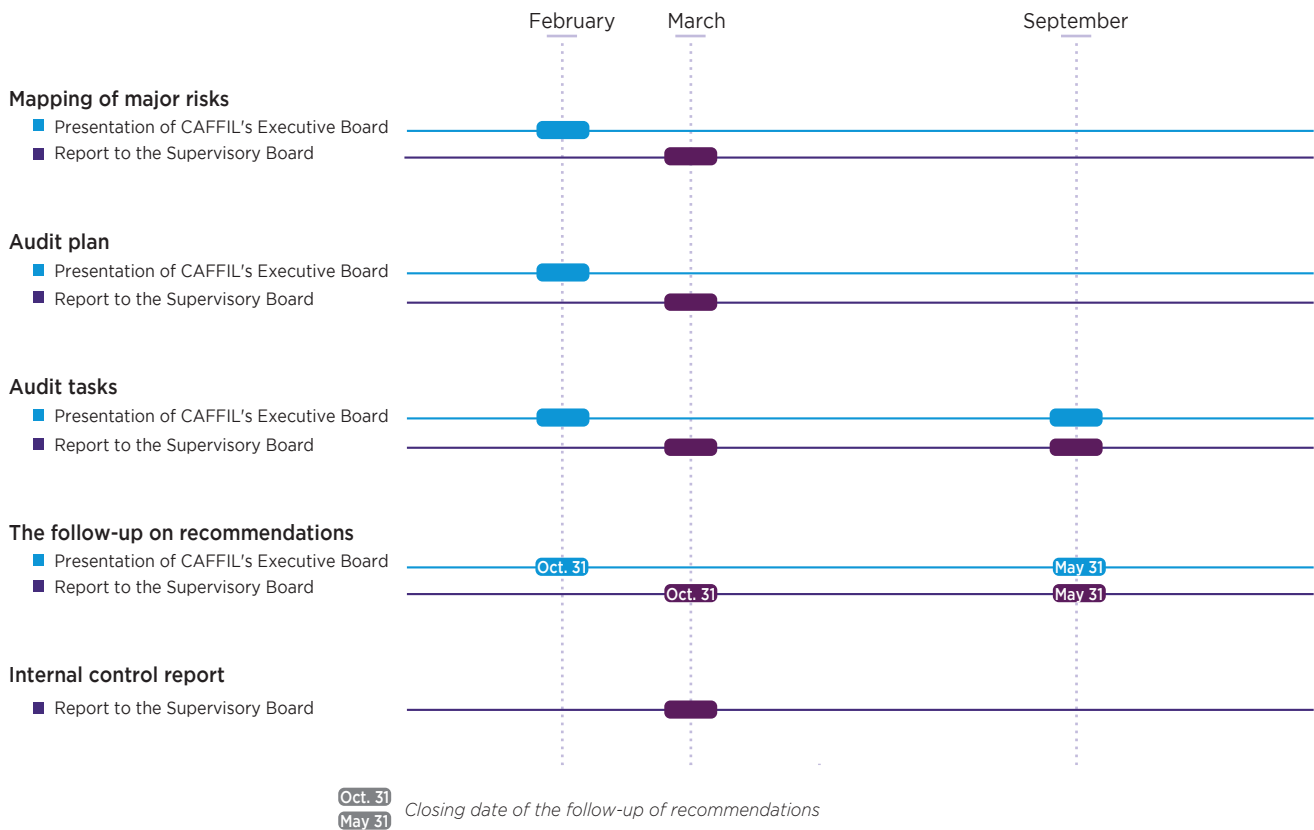
Missions	2019 Performance
<p>Annual risk assessment Approach based on an identification of SFIL's strategic objectives then an independent examination of the critical risks which could prevent these objectives being attained.</p>	<p>The mapping of SFIL's major risks was updated during the fourth quarter. The number of risks identified remained stable and the level of global criticality decreased compared to the 2018 assessment</p>
<p>The preparation and structure of the multi-yearly audit plan The multi-yearly plan is prepared from the results of the annual risks assessment and the coverage objective of all the SFIL's group activities over a three-year cycle. The annual audit plan is divided into audit missions which run from February 1 of the reference year to January 31 of the following year.</p>	<p>A new multi-year audit cycle (the third) for 2020-2022 was defined in the fourth quarter, calling for the completion of 13 auditing missions over the year 2020, ten of which directly concern Caisse Française de Financement Local (the others concern the resources allocated to manage the business). 12 audit tasks out of 13 for the 2019 audit plan had been performed by the end of January 2020, i.e. 92% of the year's target bearing in mind that all audit missions uncompleted at the end of January 2020 were finalized since. These internal audit missions cover:</p> <ul style="list-style-type: none"> • the SFIL Group's core business (export credit refinancing, local public sector asset acquisitions); • the key operating processes (CAFFIL private placements, balance sheet management); • the support processes (account preparation, operational processing of derivatives, IT system security including SWIFT payment means, permanent control systems, IT change management); • risk and internal model monitoring (annual and ongoing evaluation of internal credit risk models, operating risk management, ICAAP processes, management of financial security risks at the origination of export credit transactions).
<p>The preparation and structure of the inspection plan The purpose of this function is to play a role in the prevention, detection and investigation of fraud in accordance with the inspection plan or on the request of the General Secretary or general management.</p>	<p>The 2020 inspection was prepared during the fourth quarter; it stipulates 3 inspection controls. Three controls out of four were implemented for the 2019 inspection plan. They involved the application of the compensation policy, compliance with SFIL's rules for the use of the resources it supplies to its employees, compliance with the "purchase" policy including the rules for calls for bids and competitive tendering. The fourth controls, dealing with the process for the data entry and control of the bank account details of employees and suppliers is being finalized.</p>
<p>Monitoring the recommendations made following missions by the Internal Audit and Inspection division, the supervisory authorities or Statutory Auditors This monitoring is performed via an automated monitoring process to implement the action plans resulting from these recommendations. Responsibility for the appropriate implementation of the recommendations is incumbent on identified managers. The follow-up of this implementation is under the responsibility of the auditors and audit managers in function of their field of competence. The validation of the stage of progress or accomplishment of these action plans is the responsibility of the Supervisor and the General Auditor.</p>	<p>All of these recommendations prompted continuous monitoring in 2019 and the production of two reports dated May 31, 2019 and October 31, 2019 highlighting the main risk points closed over the review periods and those remaining to be covered.</p>
<p>The Secretariat to the Accounts Committee and the Risks and Internal Control Committee The organization of committee meetings and monitoring of actions decided during them, under the aegis of their Chairman.</p>	<p>Five Risk and Internal Control Committee meetings and four Accounts Committee meetings were organized. The information and files required to hold the meetings and decision-making were transmitted and communicated within the deadlines.</p>

The indicators dedicated to monitoring the effectiveness and the performance of the Internal Audit division's activities were rethought at the end of 2019 and will be monitored quarterly as of 2020. Areas for improvement were also identified especially concerning the written communication of the results of the internal audit missions and will be formalized in 2020.

1.11.1.6.3 Internal Audit and Inspection division activity reporting

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

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



1.11.1.7 Specific Controller

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

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

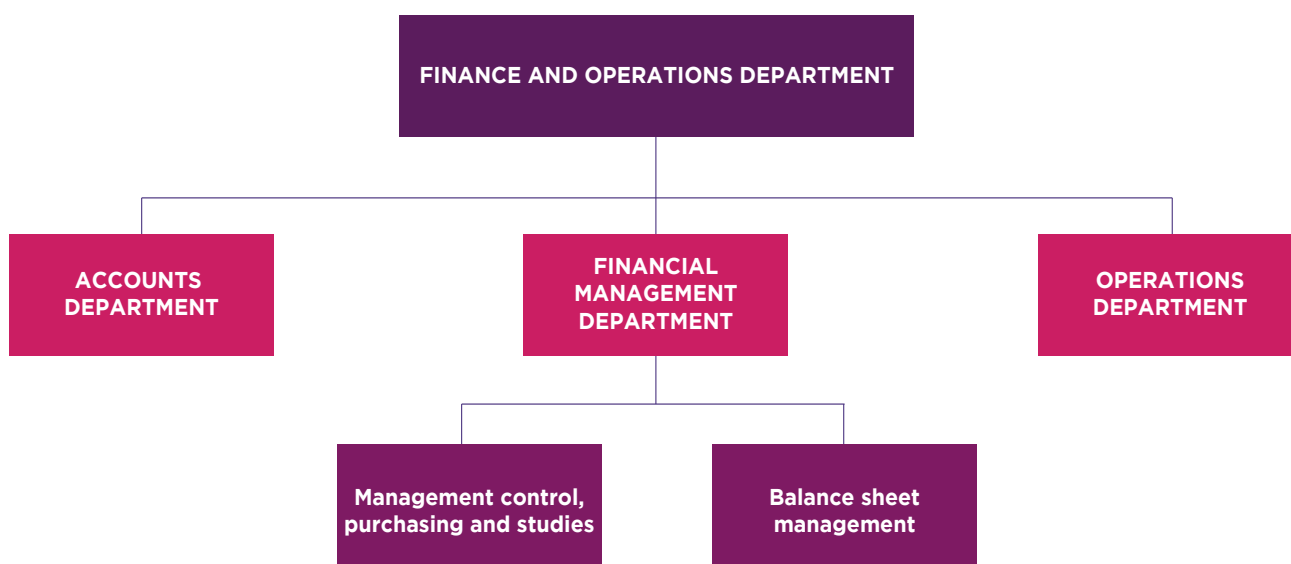
1.11.2 Preparation of accounting and financial information

1.11.2.1 Financial statements

A company's annual financial statements, in addition to all the financial data produced by the Accounting department should give a true and fair view of its assets, financial position and results. For credit institutions, the *arrêté* of November 3, 2014, on internal control highlights in its accounting chapter that the organization adopted should guarantee the existence of procedures called audit tracks. They make it possible to establish a link between accounting data and the original supporting document, and vice-versa. All these items should make it possible to reconstitute, justify and explain any and all financial items produced for accounting or regulatory purposes. This principle grounds the organization of accounting practices in the SFIL Group and also applies to both SFIL and Caisse Française de Financement Local.

1.11.2.1.1 Role and organization of accounting

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



Accounting produces basic accounting data for the financial statements of Caisse Française de Financement Local. The Accounting division, along with the Risks division's teams, ensures that regulatory and prudential standards are respected.

The Accounting division is tasked with analyzing and verifying accounting data. It relies notably on the reconciliation of this data with that of the other Finance division units, in particular as regards the formation of results. This approach is also used to confirm the information on the Company's balance sheet, in particular through data reconciliation used by the Risks Division to calculate prudential indicators.

To carry out its mission, the Accounting division sits on the main committees with a potential impact on its activity and has access to an extensive range of information, either directly or through the Chief Financial Officer. It participates actively in managing the technical development of IT systems, and relies on a cross-divisional team within the Technology and Organization division to improve, secure and ensure the sustainability of its IT system. The Technology and Organization division is notably in charge of accounting and regulatory as well as ALM and management

control tools. Its mission is to actively participate in developing and improving the systems used by the SFIL's operating divisions. This organization therefore makes it possible to ensure continuous improvement in terms of process quality and efficiency and reliability of financial information.

1.11.2.1.2 Preparation of the financial statements

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

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

A first level of control is conducted by accounting teams that are specialized by products, in particular by analyzing accounting/management data reconciliation, bank reconciliation and technical suspense accounts. Monthly comparisons with management data and reconciliations of micro-hedges make it possible to ensure the correct retranscription of financial operations. In order to verify the coherence of interest expense and income from one period to another, this data is compared with average outstandings in order to produce average rates that are easier to compare from one period to the next. Finally, these teams also prepare a synthetic memorandum on the work done which points out areas that need attention and improvement for the processes to be used in future financial statements.

Complementary controls are carried out by other teams from Accounting at the monthly, quarterly and annual closings. Through specific reviews, the teams in charge of preparing the financial statements check the quality of the work done by the teams responsible for first-level control. These teams also reconcile the accounting data from net banking income with management data produced by separate teams. This cross referencing is done at least once a quarter and consistency from one period to the next is verified using analytical controls. The main changes deserve an explanation. These analyses are synthesized in a quarterly report that is submitted to the Chairman of the Executive Board of Caisse Française de Financement Local. The efforts and resources deployed during the year made it possible to stabilize the management data collected both for the validation of the results of a period, and for the estimates required within the framework of the forecasts prepared by the Finance division.

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

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

1.11.2.1.3 Approval of the financial statements

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

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

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

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

1.11.2.1.5 Role of Statutory Auditors

SFIL's financial statements are audited by a panel of two Statutory Auditors. The same applies to auditing Caisse Française de Financement Local.

The Statutory Auditors review the financial statements only on a yearly and half-yearly basis. They are consulted throughout the process of preparation of the financial statements in order to ensure efficiency and transparency. In due diligence, they analyze accounting procedures and evaluate current internal control systems to determine the nature, period and extent of their controls of the principal areas of risk. They may make recommendations on internal control procedures and systems that could improve the quality of financial and accounting information produced. They have access to all memoranda and notes produced by staff that is in charge of accounting principles and standards, and they also review the accounting manuals, as well as the analyses conducted by the Accounting teams. They consult Internal Audit and Inspection reports, as well as the minutes of meetings of the Executive Board and the Supervisory Board. They verify the consistency of the data in the management report with the accounting information, as well as the conformity of the management report and the financial statements with all the items they have reviewed and audited. Their contribution includes a review of all the agreements that

are regulated. They provide an exhaustive and accurate summary of regulated agreements in the specific report they submit at the end of their annual mission. They employ due diligence to obtain reasonable assurance that the financial statements are free of any material misstatement.

1.11.2.2 Management reporting

The financial statements (balance sheet, off-balance sheet, income statement, cash flow statement and notes) that Caisse Française de Financement Local communicates to its shareholder and to the general public are completed by half-yearly management reports. Caisse Française de Financement Local publishes quarterly activity reports with management information. This management information also includes items related to loans originated by La Banque Postale and acquired by Caisse Française de Financement Local, as well as to the refinancing of large export credits and updates on the sensitivity reduction of structured loans. The

half-yearly financial reports also include risk assessments and projections. This information is supplied directly by the operating divisions or the Risks division. Their accuracy is therefore guaranteed by the internal control system of the divisions concerned. The Statutory Auditors also verify the consistency of this information during their review or audit of the management report section of the half-yearly and annual financial reports.

New loans are granted solely in France as concerns LBP's marketing activity, as well as the business of refinancing large export credits and the efforts to reduce the sensitivity of structured loans. A geographic breakdown of borrowers who are French residents and those who are domiciled in another country is presented in the management report.

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

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

1.12.1 Overall risk management system

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

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

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

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

SFIL and Caisse Française de Financement Local have implemented a complete risk management system:

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

Risk appetite

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

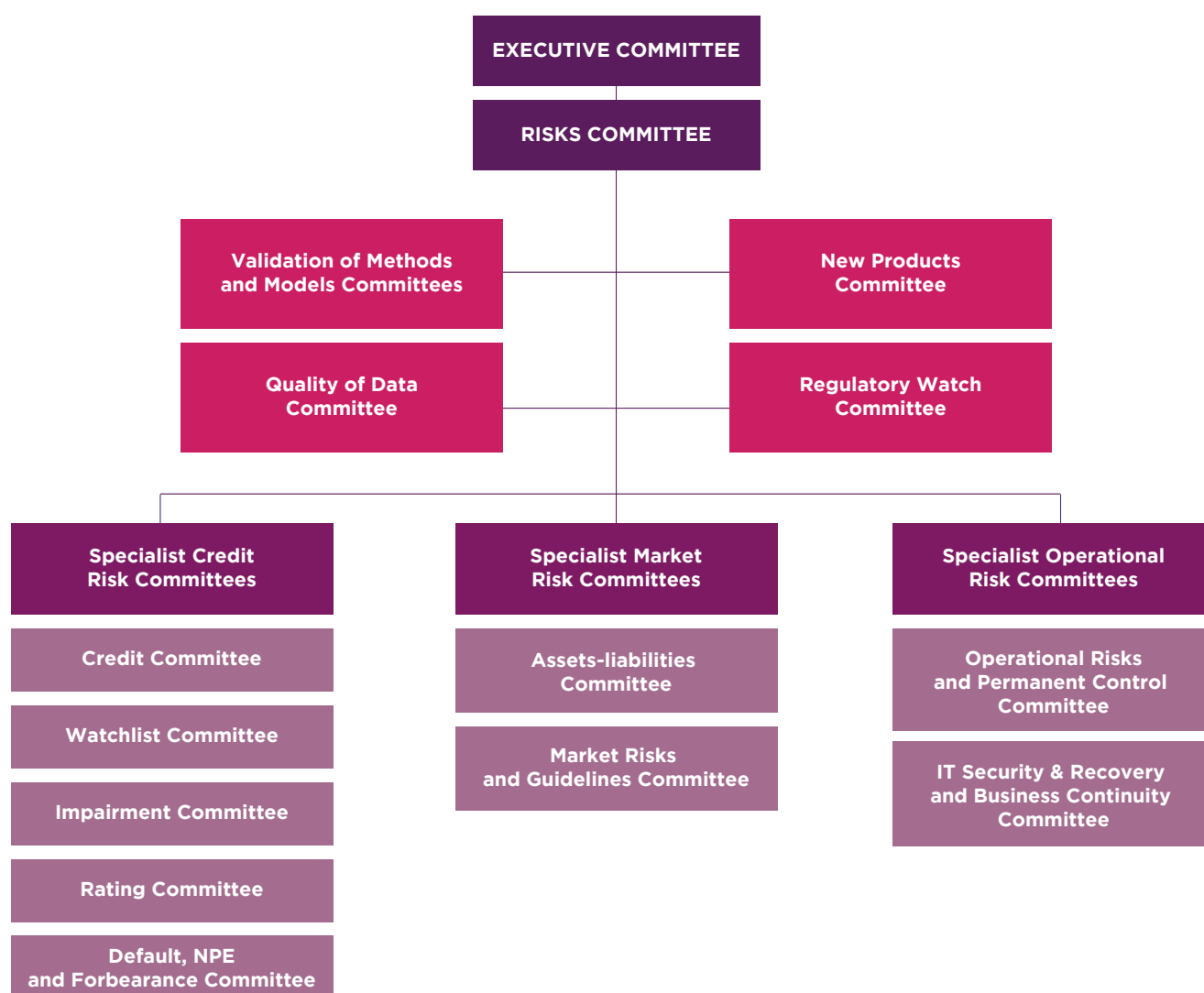
Risk Review

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

Overall governance of risks

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

The Risks division uses several committees whose missions and composition have been approved by SFIL's Risks and Internal Control Committee. They are cross-divisional committees (Risks Committee, Validation of Methods and Models Committee, New Products Committee) as well as specialist committees on credit risks, market risks and operational risks.



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

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

Risks Committee

The Risks Committee defines the risk profile of SFIL and Caisse Française de Financement Local, validates risk control dispositions and ensures their respect. In particular, it is in charge of defining delegations in the granting of credit and approving the risk policies of SFIL concerning all types of risks and the limits defined by the Risks division.

Validation of Methods and Models Committees

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

New Products Committee

The New Products Committee is chaired by SFIL's Chief Risk Officer. It is responsible for examining any new product or management process or transformation of an existing product or process (if this significantly modifies the risk profile or the internal processes). It also determines and assesses the risks of non-compliance connected to the creation or significant modification of products or services on the basis of the compliance report which is submitted to it.

1.12.2 Caisse Française de Financement Local's main risks

1.12.2.1 Credit Risk

1.12.2.1.1 Definition

Credit risk represents the potential loss that Caisse Française de Financement Local may incur as the result of the decline in a counterparty's solvency.

1.12.2.1.2 Organization and governance

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

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

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

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

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

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

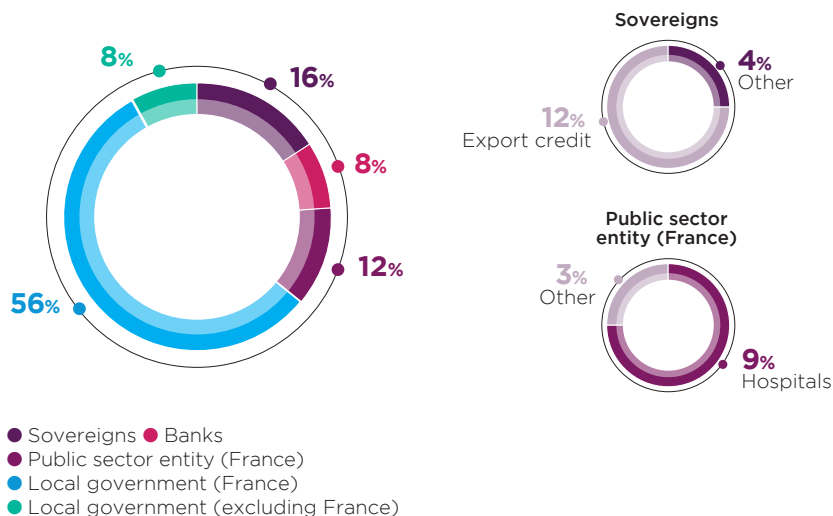
- the CAFFIL Coordination division within SFIL pilots the process of asset acquisition and associated controls of eligibility prepared by the different divisions of SFIL; the definitive portfolio is validated by the Executive Board after soliciting the opinion of SFIL's Credit Committee;
- the customer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

These controls are standardized by procedures.

The Specific Controller also carries out regular, detailed ex-post checks on asset eligibility.

(1) Non-delegated to the Risks division, to the Debt Portfolio Management division, and to the sales teams of La Banque Postale.

1.12.2.1.3 Exposure to credit risk



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

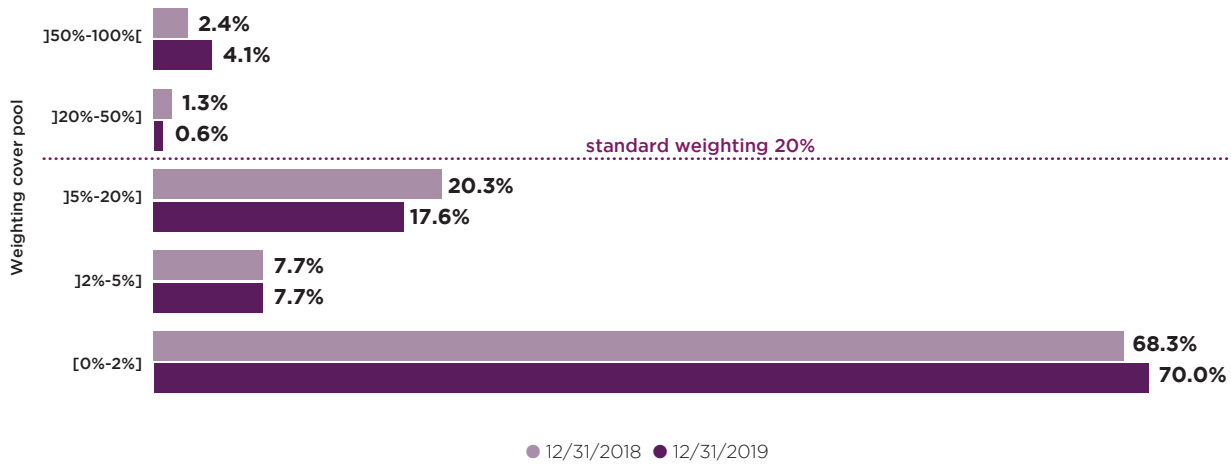
- 56% of these exposures are concentrated on French local government bodies (regions, departments, municipalities, groups of municipalities, etc.);
- 12% of the exposures result from export credit activity;
- 9% of the exposures concern the public hospital sector .

1.12.2.1.4 Breakdown of exposure according to risk weighting

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

This enables Caisse Française de Financement Local to present an analysis of its exposure as of December 31, 2019 (in EAD), broken down by risk weighting, as used for the calculation of capital requirements for credit risk.

RISK WEIGHTING OF CAISSE FRANÇAISE DE FINANCEMENT LOCAL'S PORTFOLIO AS OF DECEMBER 31, 2019



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

- 78% of the portfolio has a risk weighting of 5% or less;
- the average risk weighting of the cover pool assets is 6.6%, versus 20% for European local government entities according to the Basel standard method;
- less than 5% of the portfolio has a weighting of more than 20%.

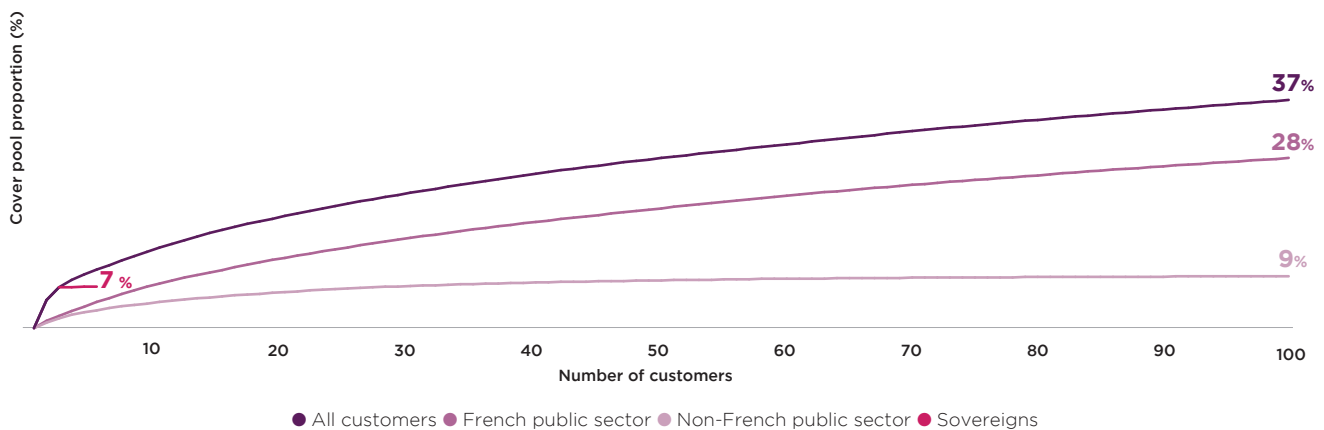
Weighted exposure with respect to credit risk amounted to EUR 4,785 million. Including other risks, total risk weighted assets came to EUR 5,549 million. Combined with its high level of regulatory equity, the credit quality of Caisse Française de Financement Local's assets enabled the

Company to post a Common Equity Tier 1 Ratio of 23.8% as of December 31, 2019.

1.12.2.1.5 Concentration by customer

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

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



As of December 31, 2019, the 20 largest exposures (excluding replacement assets and cash deposits in the Banque de France), all categories combined, represented 18.4% of the cover pool. The biggest exposure, the French State, represented 4.6% of the cover pool and the 20th 0.4%.

1.12.2.1.6 Arrears loans, doubtful loans, litigious and loans provisions as of December 31, 2019

Arrears	Doubtful and litigious loans	Defaulted loans (Stage 3)	Non-Performing Exposures
	French GAAP	IFRS	Prudential rules
EUR 65 million	EUR 349 million	EUR 963 million	EUR 1 278 million
(i.e. 0.1% of cover pool)	(EUR 227 million of which is for loans without arrears)	(EUR 919 million of which is for loans without arrears)	(EUR 1,017 million of which is for loans without arrears)

Change in arrears

As of December 31, 2019, arrears were stable at EUR 65 million; the number of customers in arrears fell significantly from 73 to 49.

	12/31/2017		12/31/2018		12/31/2019	
	Amounts (EUR millions)	Number of customers ⁽¹⁾	Amounts (EUR millions)	Number of customers ⁽¹⁾	Amounts (EUR millions)	Number of customers ⁽¹⁾
TOTAL ARREARS	68	116	66	73	65	49
Technical arrears	3	64	4	33	1	20
Qualifying arrears	65	52	62	40	64	29
<i>of which less than 90 days</i>	-	-	0	5	0	4
<i>of which more than 90 days</i>	65	52	62	35	64	25
<i>of which doubtful loans (French Gaap)</i>	33	45	25	32	26	25
<i>of which litigious loans</i>	32	7	37	8	38	4
<i>of which vanilla loans</i>	5	27	3	24	5	17
<i>of which structured loans</i>	60	25	59	16	59	12

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

Excluding technical arrears, unpaid loans are concentrated entirely in a few counterparties, which represent approximately 0.3% of Caisse Française de Financement Local's total customer base. All customers with unpaid loans are located in France. Since the end of 2016, the number of customers with unpaid loans related to a dispute has decreased significantly, mainly due to the success of the policy of reducing the sensitivity of sensitive structured loans.

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

As of December 31, 2019, doubtful and litigious loans (French GAAP) represent 0.6% of Caisse Française de Financement Local's cover pool (EUR 349 million), illustrating the

portfolio's excellent quality. Doubtful and litigious loans correspond only to French customers. They were down 9% compared with December 31, 2018 (EUR 384 million). These changes are mainly linked to the addition or removal of counterparties from this category for which the outstanding loan amount, downgraded in doubtful category due to a contagion effect, is significant⁽¹⁾.

Doubtful and litigious loans⁽²⁾ were as follows:

- EUR 311 million in doubtful loans, corresponding to loans granted to 25 customers where the total amount of unpaid loans was EUR 26 million⁽¹⁾;
- EUR 38 million in litigious loans, corresponding to interest unpaid by 4 customers subject to litigation proceedings.

(1) When a client is classified as in default in terms of credit risk, the outstanding of all its loans is classified as doubtful debts, by contagion, in addition to the unpaid installments.

(2) A loan is considered as doubtful when it presents one of the following characteristics:

- a probable or certain risk that it will not be fully repaid (unpaid for more than nine months for local governments and for more than three months for other counterparties);
 - the existence of a factual counterparty risk (worsening of the financial situation, alert procedures).
- A loan is considered litigious when it is unpaid and is the subject of legal proceedings.

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

Provisions French GAAP EUR millions	12/31/2018	12/31/2019
Specific provisions	27	27
Collective provisions	47	36
TOTAL	74	63

At the end of December 2019, the stock of specific provisions (impairments) under French GAAP amounted to EUR 27 million, and was stable compared to December 31, 2018.

In addition, collective provisions are calculated on the various asset portfolios. These provisions amounted to EUR 36 million as of December 31, 2019, compared with EUR 47 million as of December 31, 2018. This change was mainly due to the additions to/removals from the watchlist approved in 2019.

Change in receivables and provisions under IFRS

Effective January 1, 2018, IFRS 9 introduced changes to the classification of Caisse Française de Financement Local's financial assets. As a reminder, this standard now only provides for three categories of financial instruments: those recognized at amortized cost, those recognized at fair value through profit or loss and those recognized at fair value through other comprehensive income. This classification depends on both the characteristics of the instrument's contractual cash flows and the business model in which the financial asset is used (see section 1.2.4.1. of the notes to the financial statements under IFRS).

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

- Stage 1: performing assets with no significant credit risk deterioration since initial recognition;
- Stage 2: performing assets with significant credit risk deterioration since initial recognition;
- Stage 3: loans in default.

- Stage 3: loans in default.

Stage 3 outstandings correspond mainly to customers cases:

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

Thus the definition of default (Stage 3) under IFRS accounting standards covers a larger perimeter than the notion of doubtful and litigious loans under French GAAP and is very close to the regulatory definition of Non-Performing Exposures (NPE). This definition not only covers Stage 3 assets but also non-performing assets recognized at their fair value through profit and loss (i.e. non-performing assets classified as not Solely Payment of Principal and Interest {SPPI}).

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

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

Breakdown of assets by stages and IFRS impairments (EUR millions)	Net book value before impairments (EUR millions)		Impairments (EUR millions)	
	12/31/2018*	12/31/2019	12/31/2018*	12/31/2019
Stage 1: no significant deterioration	54,449	57,097	(5)	(6)
Stage 2: credit risk deterioration	6,248	4,547	(45)	(36)
Stage 3: default	1,096	963	(10)	(10)
TOTAL SPPI ASSETS	61,793	62,607	(60)	(52)

* The data released on 12/31/2018 were restated to incorporate off-balance sheet commitments (mainly the portion not yet paid of export refinancing credits).

(EUR millions)	IFRS Net book value	
	12/31/2018	12/31/2019
Non-Performing Exposures	1,454	1,278

During 2019, loans classified as Non-Performing Exposures decreased, and the IFRS provisions for expected credit losses fell by EUR 8 million, mainly in Stage 2. It totaled EUR 52 million on December 31, 2019.

1.12.2.1.7 Bank counterparty risk

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

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

- replacement assets in the amount of EUR 2.5 billion (see 1.4.2.2);
- derivative contracts, entered into within the framework of its management of interest rate and foreign exchange risks.

All of Caisse Française de Financement Local's derivative operations are conducted within the framework of standard

ISDA or FBF (Fédération bancaire française) contracts with major international banks. These contracts have particular characteristics, since they must meet the standards set by rating agencies for *sociétés de crédit foncier* (and other issuers of covered bonds). In 2017, Caisse Française de Financement Local amended these contracts to take into account recent regulatory changes (signing of variation margin amendments). These interest rate and currency swaps all benefit from the same legal privilege as *obligations foncières*. For this reason, Caisse Française de Financement Local does not pay its derivative counterparties any collateral (or variation margin), whereas they have to pay Caisse Française de Financement Local except for some which benefit from the agencies' highest short-term rating.

At the end of December 2019, Caisse Française de Financement Local was exposed (positive fair value of swaps) on nine bank counterparties, all of these paid cash collateral of EUR 0.6 billion, offsetting total exposure.

All derivative exposures as of December 31, 2019, are listed below.

EUR billions	Short-term notional amounts	Long-term notional amounts	% of long-term notional amounts	Mark to Market		Collateral received	Number of counterparties
				-	+		
SFIL	-	16.3	21.4%	(1.4)	-	-	1
Other counterparties	30.0	59.6	78.6%	(2.2)	0.6	0.6	24
TOTAL	30.0	75.9	100.0%	(3.6)	0.6	0.6	25

The swaps negotiated with external counterparties represented 79% of outstanding long-term *swaps* and those signed with SFIL 21%. The long-term swaps signed with the five largest counterparties represented a total of 43% of notional amounts.

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

1.12.2.2 Market risk

1.12.2.2.1 Definition and scope of market risks

Market risk is defined as the potential risk of loss (through 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 risks and results 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 risk.

Caisse Française de Financement Local's banking book positions and activities may be exposed to market volatility that could affect its accounting income and equity. They are monitored under non-regulatory market risks.

This concerns mainly the following, under IFRS standards:

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

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

1.12.2.2.2 Market risk governance and monitoring

Market risk governance is structured around the Market Risks Committee which monitors the defined risk indicators on a quarterly basis:

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

This committee is also in charge of approving the policies, guidelines and procedures relating to non-regulatory market risks for submission to the Risks Committee.

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

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

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

1.12.2.3 Asset-Liability Management (ALM) risk

1.12.2.3.1 Governance

Balance sheet risk management is structured around three committees:

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

The Finance division's ALM unit is responsible for implementing the ALM policies defined for SFIL and Caisse Française de Financement Local in compliance with the relevant management limits and regulatory framework. The Market and Balance Sheet Risks division is in charge of defining the balance sheet risk management policy, calibrating and monitoring the limits on ALM indicators and performing second-level controls.

1.12.2.3.2 Liquidity risk

Definition

Liquidity risk is defined as the risk that the institution may not be able to find the necessary liquidity, on a timely basis and at a reasonable cost, to cover its financing needs.

Liquidity risk management

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

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

- financing of the assets that cover the *obligations foncières* it issues;
- financing of the liquidity requirements related to compliance with regulatory ratios, specific *sociétés de crédit foncier* ratios and the rating agency methodologies used to meet a rating target.

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

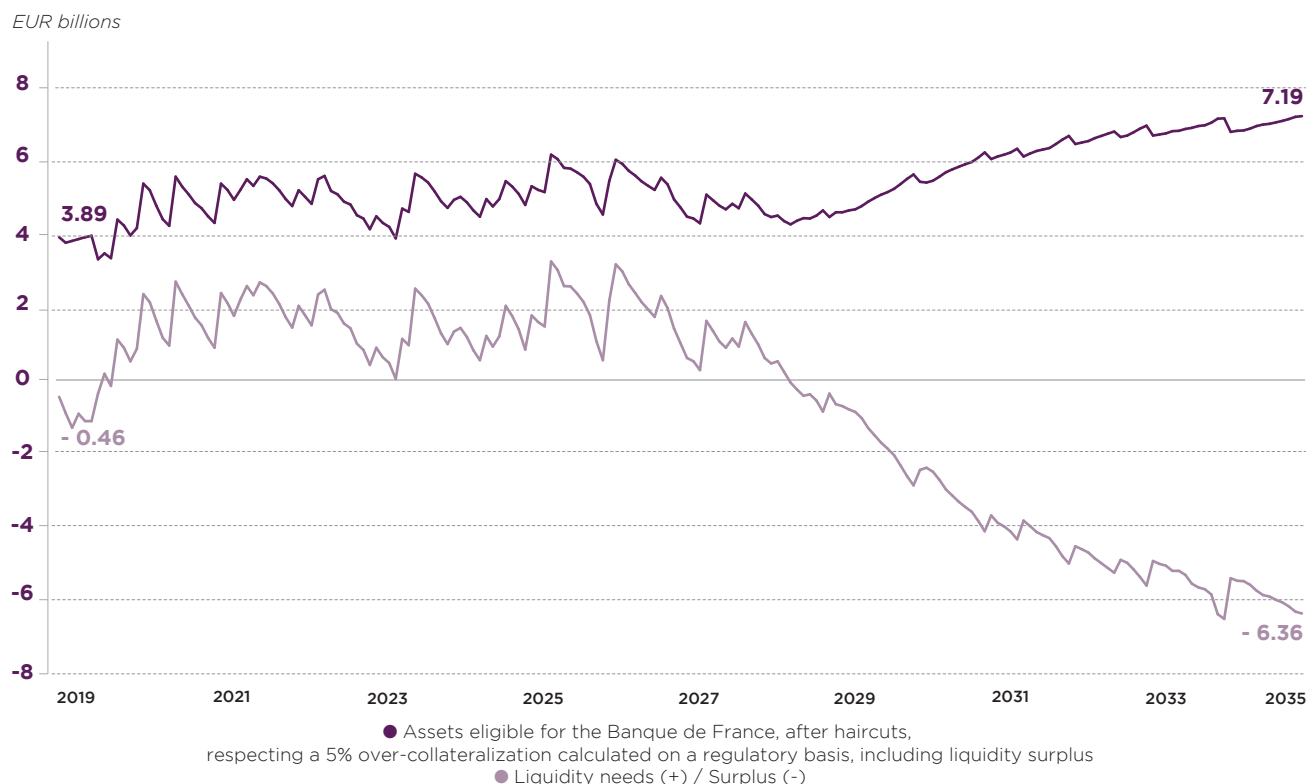
- debt benefiting from the legal privilege, *i.e. obligations foncières*, registered covered bonds and the cash collateral received by Caisse Française de Financement Local;
- refinancing arising from the financing agreement entered into with SFIL to cover the financing requirements related to Caisse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

Furthermore, Caisse Française de Financement Local has a very large stock of assets eligible for European Central Bank refinancing via the Banque de France. In addition to access to the central bank refinancing in its own name, Caisse Française de Financement Local can also mobilize certain of these assets by using interbank financing in the form of repurchase agreements. If necessary, these transactions would easily cover its cash flow requirements.

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:



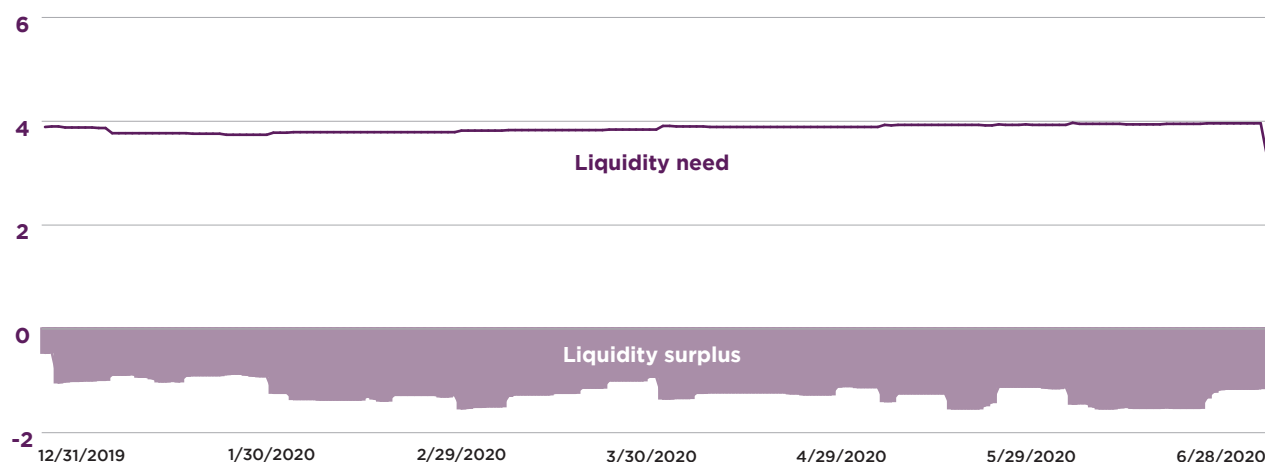
Caisse Française de Financement Local has its own autonomous resources that enable it to cover its temporary liquidity needs, even in the event of the default of its parent company, since any legal proceedings engaged for the bankruptcy or liquidation of its parent company cannot be extended to Caisse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

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

- **regulatory indicators specific to sociétés de crédit foncier (SCF):**
 - the regulatory coverage ratio (or over-collateralization ratio): this represents the ratio between assets and debts benefiting from the legal privilege, and must be at least 105% (see section 6.),

- the maximum gap of 1.5 years between the average maturity of debt benefiting from the legal privilege and that of assets (see the specific section on transformation risk below),
- forecast cash needs at 180 days: Caisse Française de Financement Local ensures that, at any time, its cash needs over a period of 180 days are covered by replacement assets and assets eligible for the Banque de France's credit operations. Cash needs include repayments of *obligations foncières* and registered covered bonds, debt not benefiting from the legal privilege and forecast repayments of cash collateral received, after deduction of cash flows from amortization of assets. This forecast is published quarterly in the asset quality report, and is shown below. At the end of December 2019, there was a liquidity surplus for the whole period;

EUR billions



● Assets eligible for the Banque de France refinancing, after haircuts, in compliance with a 5% over-collateralization calculated on a regulatory basis, including liquidity surplus ● Cumulated need (+) or surplus (-) over 180 days

• **the regulatory liquidity indicators applicable to credit institutions, in particular Regulation 575/2013 of the European Parliament and Council of June 26, 2013, concerning:**

- the LCR ratio (Liquidity Coverage Ratio): on December 31, 2019, Caisse Française de Financement Local's LCR ratio is 10,510%,
- the Net Stable Funding Ratio (NSFR), a transformation ratio which compares with a one year horizon, the proportion of available stable funding over required stable funding: Regulation 2019/876 which will come into effect in June 2021 defines the methods for calculating this indicator;

• **the internal liquidity indicators:**

- the 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 dynamic financing need within one year and the CAFFIL's ability to issue,
- the one-year survival horizon in stressed conditions,
- the limit of privileged liability maturities over the same annual period,
- the difference in duration between assets and debts benefiting from the legal privilege (limited to three years): this is published every quarter and came to 0.3 year as of December 31, 2019 (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 EUR/USD 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 USD.

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

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

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

- duration gap;
- weighted average life gap.

Duration gap

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

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

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

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

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

Duration (in years)	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019
Cover pool	6.78	6.79	6.83	7.16	7.01
Privileged liabilities	6.52	6.88	6.83	6.98	6.71
GAP IN ASSET-LIABILITY DURATION	0.26	-0.09	0.00	0.18	0.30
Duration gap limit	3	3	3	3	3

Weighted average life gap

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

Weighted average life (in years)	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019
Cover pool	7.27	7.15	7.06	7.23	7.21
Privileged liabilities	6.96	7.21	7.06	7.05	6.89
GAP IN ASSET-LIABILITY WEIGHTED AVERAGE LIFE	0.31	-0.06	0.00	0.18	0.32

Regulatory limit

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

1.12.2.3.3 Interest rate risk

Definition

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

There are three types of interest rate risks which are generally covered using derivatives:

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 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.

Hedging Strategy

To limit its impact, interest rate risk is hedged in two stages by Caisse Française de Financement Local:

- in the first stage, all the assets and the liabilities benefiting from the privilege which do not naturally have a floating rate are hedged against Euribor until maturity as soon as they are recorded on the balance sheet. In practice, acquisitions of loan portfolios (in which the unit amount is generally small) are usually macro-hedged. Loans granted individually or bond issues can be micro- or macro-hedged. Hedging of assets and liabilities is more often obtained by entering into interest rate swaps, but also when this is possible, by the cancellation of swaps of opposite direction;

- in the second stage, Euribor lending and borrowing flows (naturally or after hedges) are swapped against Eonia in order to eliminate the basis risk generated by differences in the Euribor (1, 3, 6 or 12 months) and the fixing risk due to the reset dates of reference indices that differ for the assets and the liabilities. The residual risk is managed using macro-hedges with a management horizon of one week.

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

Non-privileged debt is not concerned by these hedging operations. In fact, debt contracted by Caisse Française de Financement Local with its shareholder to finance over-collateralization is borrowed either directly with an Eonia 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 the Banque de France with a fixed rate (if any) is not hedged, but finances fixed rate assets.

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

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

The fixed rate gap	Difference between balance sheet and off-balance sheet assets and liabilities for fixed-rate transactions or transactions for which the rate has been set. It is calculated every month until balance sheet run-off.
Index gaps	Difference between balance sheet and off-balance sheet assets and liabilities for a given index tenor that has not yet been fixed. This gap is calculated every month until balance sheet run-off.
Basis gaps	Gap resulting from the matching of two index gaps. There are therefore as many basis gaps as there are index pairs.
Fixing gap	corresponds, for a given tenor index, to the difference between adjustable rate balance sheet and off-balance sheet assets and liabilities, by fixing date.
<ul style="list-style-type: none"> the monthly production of net present value (NPV) sensitivity indicators, calculated for a rate shock of 100bp, which aim to regulate the fixed or set rate residual positions of Caisse Française de Financement Local (after setting up hedges). These indicators are calculated for 	4 predefined time buckets (short-term, medium-term, long-term, very long-term) regulated by limits which are calibrated to avoid losing more than 6% of equity (i.e. EUR 80 million) with a 99% quantile calculated on a 10-year history.
Translation of the rate curve	Limit of EUR 25 million
Sloping/rotation of the interest rate curve on distant points on the curve	EUR 10 million limit over each of the 4 time buckets
Sloping/rotation of the interest rate curve inside a time bucket	EUR 40 million limit on the absolute value of the sensitivities inside each time bucket

For sensitivity to the sloping/rotation of the rate curve within a time bucket, the limit was raised from EUR 20 million to EUR 40 million as from December 31, 2019, with no change in the overall loss level of 6% of the total equity mentioned above.

Limiting directional risk

The quarter-end sensitivity measurements are presented below.

DIRECTIONAL RISK

Total sensitivity EUR millions	Limit	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019
SENSITIVITY	(25)/25	0.9	(0.2)	(0.1)	3.2	(0.3)

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	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019
Short term	(10)/10	(5.8)	(5.5)	(5.7)	(0.1)	(5.5)
Medium term	(10)/10	0.0	(3.5)	(5.6)	(8.6)	(9.2)
Long term	(10)/10	2.5	5.3	6.7	5.7	8.4
Very long term	(10)/10	4.3	3.6	4.4	6.2	6.0

RISK OF SLOPE BETWEEN TWO CLOSE POINTS ON THE RATE CURVE

Sum of sensitivities in absolute value EUR millions	Limit*	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019
Short term	40	9.2	15.0	9.3	5.9	10.8
Medium term	40	10.0	9.8	13.3	11.0	15.3
Long term	40	12.9	8.9	6.8	8.2	12.3
Very long term	40	13.3	12.8	8.0	10.5	9.0

* The limit which applied to points before 12/31/2019 was EUR 20 million. It is EUR 40 million as of 12/31/2019.

Outstanding derivatives

The strategies for hedging interest rate and foreign exchange risks necessitate entering into a significant amount of swaps the notional outstanding of which as of December 31, 2019 is analyzed in the table below.

Breakdown of outstanding swaps EUR billions	Notional (Absolute value)
EURIBOR AGAINST EONIA	
Macro-hedges	30.0
TOTAL SHORT-TERM SWAPS	30.0
FIXED RATE SWAPS AGAINST EURIBOR	
Micro-hedges on <i>obligations foncières</i>	38.8
Micro-hedges on loans and debt securities	19.6
Macro-hedges on loans	13.2
SUBTOTAL	71.6
CURRENCY SWAPS	
Micro-hedges on <i>obligations foncières</i>	0.9
Micro-hedges on loans	3.0
Micro-hedges on debt securities	0.4
SUBTOTAL	4.3
TOTAL LONG-TERM SWAPS	75.9

1.12.2.3.4 Foreign exchange risk

Definition

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

Hedging strategy

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

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

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

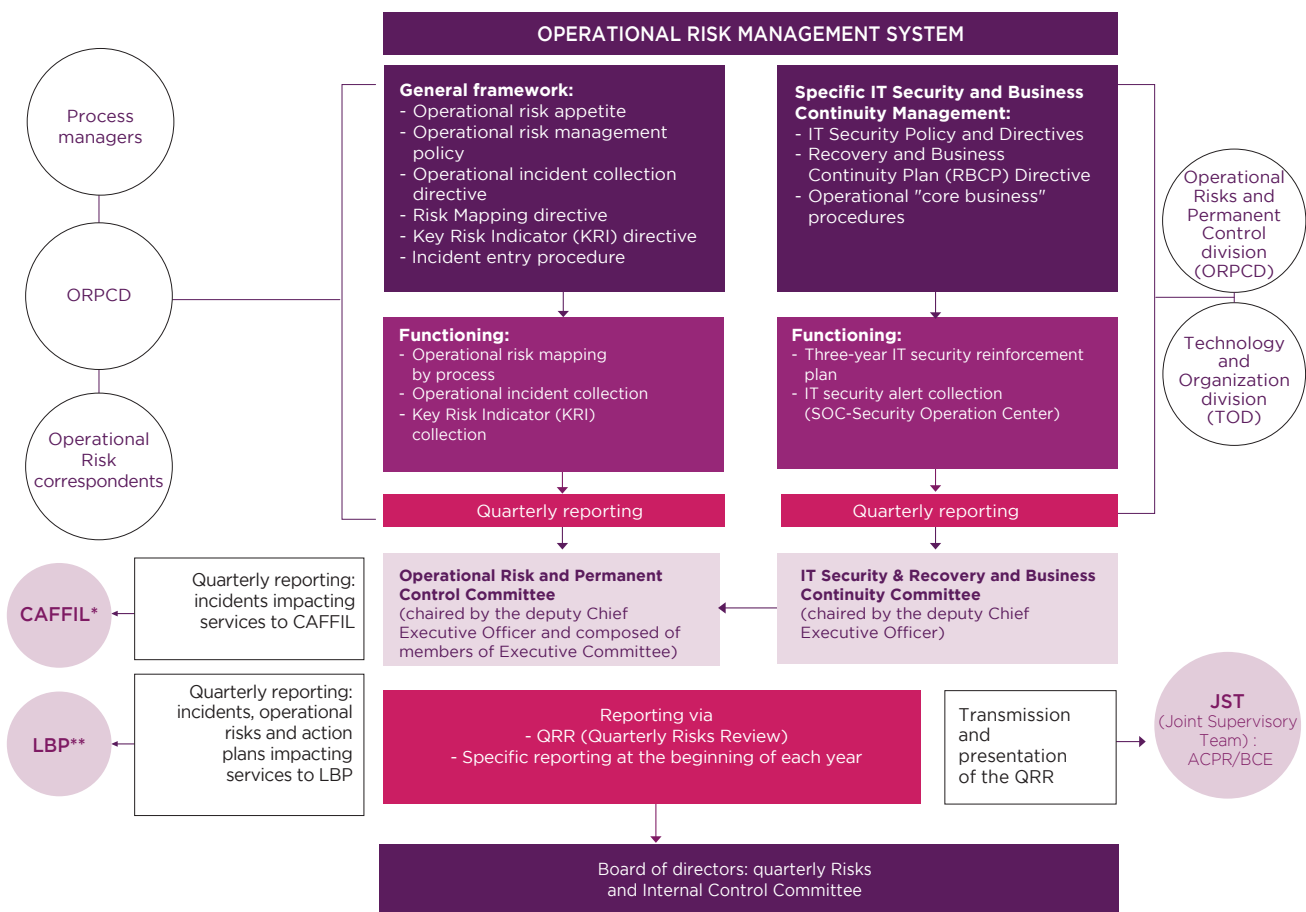
1.12.2.4 Operational risk

1.12.2.4.1 Definition

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

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

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



* Within the framework of the SFIL/CAFFIL agreement

** Within the framework of the SFIL/LBP agreement

SFIL has set up an organisation, procedures and a management tool to monitor and control its operational risks. This system is managed by the Operational Risk and Permanent Control Division (ORPCD), which is made up of 5 employees and a manager.

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

SFIL has opted for the standard method for calculating equity requirements in respect of operational risk. This requirement amounted to just short of EUR 25 million on December 31, 2019.

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

This policy is divided into three main processes:

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

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

Missions	2019 activities and results
Definition of operational risk appetite	2 defined and regularly monitored indicators
Operational incident collection	4 Incidents in 2019 impacting SFIL's service to Caisse Française de Financement Local (CAFFIL) resulted in losses above the collection threshold (EUR 2,500) with limited financial impact in 2019
Operational risk identification and assessment (mapping)	78% of SFIL's processes were the subject of operational risk mapping (see next point on the identification of operational risks)
Definition and monitoring of action plans	Monitoring by SFIL's Executive Committee of the performance of the action plans defined for residual risks assessed as major
Monitoring key operational risk indicators	64 key operational risk indicators monitored and analyzed
IT security management	Performance of the majority of the actions identified within the framework of the three year plan (2017-2019) to reinforce IT security Response to 4 self-assessment "market" questionnaires or requested by supervisory authority for IT security 5 e-learning training modules on IT security for SFIL's employees
Business continuity and crisis management	6 tests of the functional system (backup sites) 3 IT recovery plan tests 1 crisis cell test
Internal and external reporting	4 IT Security & Recovery and Business Continuity Committee meetings 4 Operational Risks and Permanent Control Committee meetings Contribution 4 Quarterly Risk Reviews (QRR) for SFIL's Risk and Internal Control Committee Specific contribution during an annual meeting of the Risks and Internal Control Committee
Coordination of the network of correspondents	4 reports from Risk and Internal Control Committee meetings 1 full annual meeting
Reporting to the CAFFIL's Executive Board	Presentation of the annual report to the Executive Board, and quarterly 4 reports to CAFFIL's Executive Board by CAFFIL Coordination division based on 4 Quarterly Risk Reviews (QRR)
Reporting to CAFFIL's Supervisory Board	4 reports to CAFFIL's Supervisory Board by CAFFIL's Executive Board on the incidents impacting SFIL's service to CAFFIL

Operational incident collection

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

The threshold of the mandatory declaration for financial impacts is EUR 2,500. The identification and analysis of incidents is the responsibility of the operational risk associates with the support of the Operational Risk and Permanent Control division, by using a dedicated tool. Preventative or corrective actions are implemented depending on the outcome of the incident analysis.

Operational risk identification and assessment

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

Monitoring of key operational risk indicators

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

the SFIL Group has defined 64 key operational risk indicators associated with warning thresholds. These indicators are used to continuously and dynamically monitor changes in operational risks.

Definition and monitoring of action plans

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

IT security management

The Operational Risks and Permanent Control division set up a system with a policy and guidelines based on ISO standard 27000, which is applicable to all of SFIL's operating divisions. The system is aimed at protecting information against any threat to its confidentiality, integrity or availability. It comprises operational rules, procedures, and operating processes, determined in collaboration with the Technology and Organization division (DTO). These systems are subject to regular controls, especially regarding authorizations to access SFIL's IT applications and systems and regarding the respect of IT security rules.

In addition, to improve existing systems a three-year (2017-2019) information system security strengthening plan has been defined and is regularly monitored. A SOC (Security Operation Center) system was set up to prevent and manage IT security warnings and threats.

Business continuity and crisis management

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

This system has five key parts and a specific governance:

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

5. Keeping the system operational

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

Operational division procedures
Operational crisis management procedure

1. Identification of vital and critical activities

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

Business impact assessment (BIA)

2. Risks analysis (extreme)

Identification of risks which may impact business continuity

"Reflex" crisis management sheets in each scenario

3. Business continuity strategy

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

Business continuity directive

4. The implementation of solutions

Solutions implemented on the basis of the strategy defined

* The Technology and Organization division for the IT backup plan

Operational risks insurance

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

Security of means of payment

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

1.12.2.5 Legal and tax risks

1.12.2.5.1 Legal risk

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

Caisse Française de Financement Local's monitoring of legal risks focuses on the prevention of litigation, the anticipation of legal developments and the respect of governance principles. The legal risk control is in particular under the responsibility of the SFIL's Legal division, which is part of the General Secretariat. The Legal Division is organized into two sections: a "financial markets" section and a "public sector credit and export credit" section. It plays a dual role:

- to advise SFIL's other divisions so they can measure the legal risks inherent in their activities;

- to defend the interests of SFIL and Caisse Française de Financement Local.

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

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

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

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

As regards litigation, relating to structured loans, at December 31, 2019, there were 15 borrowers who had brought suit on structured loans, compared to 18 at the end of 2018, 25 at the end of 2017, 39 at the end of 2016, and 131 at the end of 2015. Since SFIL's creation, 208 borrowers have dropped their claims regarding these loans against the Group.

In a judgment dated June 26, 2019, the Court of Cassation again confirmed the validity of the structured loans recorded on CAFFIL's balance sheet.

In point of fact, since the law on the securitization of structured loan contracts taken out by public legal entities came into effect on July 30, 2014, over 50 legal decisions including three judgments by the Court of Cassation and 16 appeal court judgments have set aside claims by borrowers to invalidate the structured loans recorded on CAFFIL's balance sheet.

As of December 31, 2019, there were no other lawsuits or disputes between SFIL or Caisse Française de Financement Local and its borrowers that were considered significant.

1.12.2.5.2 Tax risk

SFIL's Finance division is responsible for tax declarations and may consult the SFIL's General Secretary for tax advice. SFIL relies notably on tax advisory firms of excellent repute for managing its tax risk.

A collection notice was issued at the end of 2018, for tax related to the inspection for 2012 and 2013, in relation to the taxation in Ireland of the income of the former Dexia Municipal Agency (CAFFIL's former name) branch which closed in 2013

and which resulted in a tax adjustment notice from the French tax authorities. Caisse Française de Financement Local paid this adjustment at the end of 2018 and kept the provision set aside for the sums not yet paid, including those which will be called in 2020, in its accounts.

1.12.2.6 Risks of non-compliance

1.12.2.6.1 Definition

Non-compliance risk is defined in French regulations as the risk of legal, administrative or disciplinary sanction, significant financial loss or damage to reputation resulting from failure to respect the provisions directly applicable to banking and financial activities, irrespective of whether they are legislative or regulatory, national or European and irrespective of whether it concerns professional and ethical standards or instructions from accountable officers or the executive body taken pursuant to guidelines from the supervisory body.

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

Regulatory non-compliance risks					Risks in terms of financial security		
Professional conduct and preventing conflicts of interest	Integrity of the markets	Protection of the interests of customers	Anti-corruption	Protection of personal data	Customer knowledge (KYC)	AML/CFT	Sanctions, freezing of assets and embargos

1.12.2.6.2 Organization and governance

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

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

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

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

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

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

During the Executive Committee and the Executive Board meetings, the accountable officers evaluate the relevance of the controls, decide on any improvements to be implemented and more generally make a final decision on the main issues related to the compliance system. The other members of the Executive Committee are responsible for steering the management of non-compliance risks and the first level controls on their scope of responsibility, while remaining consistent with the Risk Appetite Statement. They monitor the implementation of compliance action plans.

Lastly, every year the Compliance division presents its annual activity at a meeting of the Risks and Internal Control Committee dedicated to hearing from the risk management, compliance, and periodic control officers, without attendance of SFIL's General management. In respect of the 2019 fiscal year, this presentation was made at the Risks and Internal Control Committee meeting of January 30, 2020.

Responsibilities of the Compliance division

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

The Compliance division is also responsible for the following:

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

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

As of December 31, 2019, the Compliance division included five employees under the authority of the General Secretary, compliance director.

1.12.2.6.3 Implementation of the compliance system

The non-compliance risk management system is based first of all on disseminating a sound culture of ethics and compliance to all employees, in particular through awareness and training projects. At the outset, it means deploying the Ethic and Professional Conduct Code. In 2019, as part of the project to change the anti-corruption system, this code was revamped as a guide to day-to-day actions, decisions, and employee behavior regardless of their status. The code now includes a code of conduct in terms of preventing corruption, including conflicts of interest. It will be distributed during the first quarter of 2020.

SFIL is fully committed to anti-corruption and has joined the United Nations Global Compact. This voluntary approach⁽¹⁾ has led to additions further enriching the existing regulatory framework. Corruption risks were mapped for the first time in January 2019. An anti-corruption framework procedure and a procedure for evaluating third-party purchases have been developed. The procedures for gifts and invitations in terms of preventing conflicts of interest have been updated. These procedures are now being applied within the divisions concerned.

Thus, from now on, SFIL's anti-corruption program is based on:

- the Ethic and Professional Conduct Code, including an anti-corruption code of professional conduct;

- a mapping of corruption risks (included for 2020 in the overall mapping of non-compliance risks);
- an anti-corruption framework procedure;
- a policy on gifts and invitations;
- a procedure for preventing and managing conflicts of interest;
- an anti-corruption training program;
- an evaluation of third parties;
- accounting procedures;
- an internal alert system;
- a control system.

The risk control system in terms of financial security has been enriched. Continuous action plans in the areas of customer knowledge (KYC), anti-money laundering and counter-terrorist financing systems have been developed to take into account changes in risks, regulatory and supervisors' requirements. At the same time, the group rolled out the financial security tool designed to enhance the robustness of its system, which will be finalized in 2020.

Work is ongoing to ensure compliance with the GDPR. A data protection officer (DPO) has been appointed. The data protection officer is attached to the Compliance division, and as the designated CNIL spokesperson, he or she ensures that the SFIL Group applies adequate personal data protection measures. The DPO has a network of 17 GDPR officers within SFIL's divisions. They are responsible for supporting the data protection officer's actions by raising the awareness of the teams in their division, implementing the actions requested by the DPO in their scope, carrying out level 1 controls on the personal data processing for their activities, taking responsibility for all the data entered into the personal data processing register for processing by their division, and reporting to the DPO any violations of the GDPR detected.

The non-compliance risk control and reputation protection system must be adapted at all times to changes in its internal and external environment. Thus, the second part of the year involved efforts to meet EBA compliance guidelines in terms of outsourcing.

Actions were also undertaken to protect customers by updating the procedure for preventing and managing conflicts of interest and the review of product governance.

Thus, during the year 2019, the Compliance division continued to improve its organization, processes and tools with a focus on digital, with the constant aim of improving its effectiveness in handling regulatory changes and meeting supervisors' expectations.

The division also continued its compliance system awareness-raising and training initiatives for all Bank employees, with the aim of strengthening its compliance culture.

Lastly, the division continued to provide support and advisory services to the General management and to the bank's business lines, particularly for the group's initial green and social bond issues in 2019 and more generally in its CSR policies.

(1) SFIL Group is not subject to the Sapin II law on preventing corruption.

1.13 Additional informations

Furthermore, no significant event that influences the Company's financial situation has occurred between the closing date and the management report date.

1.13.1 Yield on assets indicator

Article R.511-16-1 of the Monetary and Financial Code, introduced by Decree No. 2014-1315 of November 3, 2014, sets forth that in their annual financial report, credit institutions shall publish the yield on their assets, defined as the ratio between the net result and the total of the balance sheet. In 2019, this ratio was equal to +0.06% in IFRS and +0.08% in French GAAP.

1.13.2 Payment deadlines

Pursuant to articles L.441-6-1 and D.441-4 of the Code of Commerce, Caisse Française de Financement Local must publish an annual breakdown of the balance of its trade payables by due date.

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

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

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

The breakdown of arrears on invoices due at the end of 2019 is as follows:

	Invoices received and unpaid on the closing date of the fiscal year and due					TOTAL
	0 days (indicatory)	1 to 30 days	31 to 60 days	61 to 90 days	91 days and more	
(A) CLASSES OF LATE PAYMENT						
Number of invoices concerned	-	-	-	-	-	-
Total amount of invoices concerned exclusive of VAT (in EUR thousands)	-	-	-	-	-	-
Percentage of the total amount of purchases excl. of VAT in the fiscal year	-	-	-	-	-	-
(B) INVOICES EXCLUDED FROM (A) CONCERNING LITIGIOUS DEBT OR DEBT NOT YET POSTED						
Number of invoices excluded			-			
Amount of invoices excluded			-			

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

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

1.13.3 Research and development

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

1.13.4 Non-tax-deductible charges and expenses

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

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

1.13.5 Social, environmental and societal information

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

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

For the record, the SFIL Group reinforced its CSR commitment during 2019 (see section 1.2.2. Reinforcement of the SFIL Group's CSR commitment). Within this framework, Caisse Française de Financement Local launched its first two thematic bonds, "social" and "green". These two issues are to finance French public hospitals and projects for ecology transition within French local government entities. Over the coming years, these thematic bonds will become a regular and significant source of finance for the SFIL Group.

1.13.6 Post-closing events

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

Concerning the Coronavirus (COVID-19) pandemic, the SFIL Group is following the recommendations of the World Health Organization and the French government and has implemented the measures necessary to maintain operational continuity in all its business activities, in particular, almost all of its workers are working remotely and a crisis cell has been meeting daily to adapt the working methods used. The SFIL Group's teams have been very closely monitoring the disruptions to the financial markets since the crisis began. The impact on current and planned future operations for SFIL and CAFFIL, and on their counterparties (customers, banks, partners) are being reassessed regularly. On the date this report was published,

no impact was identified that may have significant consequences on the group's financial situation and its capacity to honor its commitments. Time lags in the collection of income from some of its assets (consisting entirely of exposures to public sector borrowers) may be considered, as well as the postponement of certain bond issues in the event of unfavorable market conditions. Nevertheless, the liquidity risk is limited by the good matching of the maturity profiles of assets and liabilities and the ability to benefit from the financing proposed by the European Central Bank through high-quality assets in the portfolio. Moreover, the quality of SFIL's shareholding structure, its status as a public development bank, the quality of CAFFIL's and SFIL's standings, the very rigorous risk management and the solid solvency ratio are all advantages within the current context.

1.14 Breakdown of the cover pool as of December 31, 2019

(EUR millions)	12/31/2019				12/31/2018	
	Direct exposure		Indirect exposure		Total	Total
	Loans	Bonds	Loans	Bonds		
COUNTRY						
FRANCE						
State:						
• export refinancing	-	-	2,588	-	2,588	1,101
• others	13	-	0	-	13	120
Banque de France	473	-	-	-	473	1,271
Regions	1,880	100	247	-	2,227	2,410
Departments	6,747	-	159	-	6,906	6,980
Municipalities	14,953	14	326	-	15,293	15,513
Groups of municipalities	12,141	70	114	-	12,325	11,647
Public sector entities:						
• health	6,085	8	-	-	6,093	6,162
• social housing	1,053	-	-	-	1,053	1,164
• others	806	54	1	-	861	1,006
Credit institutions	304	855	-	-	1,159	1,783
SUBTOTAL	44,455	1,101	3,435	-	48,991	49,157
GERMANY						
Länder	-	275	-	-	275	275
Credit institutions	-	95	-	-	95	-
SUBTOTAL	-	370	-	-	370	275
AUSTRIA						
Länder	-	-	178	-	178	183
SUBTOTAL	-	-	178	-	178	183
BELGIUM						
Regions	2	-	10	-	12	19
Public sector entities	43	-	-	-	43	49
Credit institutions	-	174	-	-	174	176
SUBTOTAL	45	174	10	-	229	244
CANADA						
Municipalities	100	-	-	-	100	100
Public sector entities	34	-	-	-	34	35
Credit institutions	-	225	-	-	225	96
SUBTOTAL	134	225	-	-	359	231
DENMARK						
Credit institutions	-	91	-	-	91	91
SUBTOTAL	-	91	-	-	91	91
SPAIN						
State	-	25	-	-	25	125
Regions	-	50	-	-	50	50
Municipalities	69	-	-	-	69	73
SUBTOTAL	69	75	-	-	144	248

(EUR millions)	12/31/2019				12/31/2018	
	Direct exposure		Indirect exposure		Total	Total
	Loans	Bonds	Loans	Bonds		
COUNTRY						
UNITED STATES						
Federated States	-	234	-	-	234	253
SUBTOTAL	-	234	-	-	234	253
FINLAND						
Credit institutions	-	96	-	-	96	-
SUBTOTAL	-	96	-	-	96	-
ITALY						
State	-	1,138	-	-	1,138	535
Regions	-	1,862	-	-	1,862	1,912
Provinces	-	442	-	-	442	479
Municipalities	6	1,024	-	-	1,030	1,733
SUBTOTAL	6	4,466	-	-	4,472	4,659
JAPAN						
Municipalities	-	25	-	-	25	25
SUBTOTAL	-	25	-	-	25	25
NORWAY						
Credit institutions	-	222	-	-	222	222
SUBTOTAL	-	222	-	-	222	222
NETHERLANDS						
Credit institutions	-	151	-	-	151	95
SUBTOTAL	-	151	-	-	151	95
PORTUGAL						
State	-	-	-	-	-	10
Municipalities	11	-	-	-	11	14
Public sector entities	3	-	-	-	3	4
SUBTOTAL	14	-	-	-	14	28
UNITED KINGDOM						
State	-	-	-	39	39	138
Credit institutions	-	10	-	-	10	216
SUBTOTAL	-	10	-	39	49	354
SWEDEN						
Municipalities	18	-	-	-	18	18
Credit institutions	-	301	-	-	301	122
SUBTOTAL	18	301	-	-	319	140
SWITZERLAND						
Cantons	162	-	6	-	168	263
Municipalities	259	-	-	-	259	335
Public sector entities	60	-	-	-	60	60
SUBTOTAL	481	-	6	-	487	658
SUPRANATIONAL						
International organizations	20	-	-	-	20	24
SUBTOTAL	20	-	-	-	20	24
TOTAL COVER POOL	45,242	7,541	3,629	39	56,451	56,887

Loans and securities are off premium/discount. Loans and securities denominated in foreign currencies are recorded at their euro swapped value. Loans and bonds are presented after specific impairments. In addition to these impairments, Caisse Française de Financement Local makes collective and sectorial impairments.

TABLE OF RESULTS DURING THE LAST FIVE FISCAL YEARS

Financial position	2015	2016	2017	2018	2019
Share capital (EUR millions)	1,315	1,315	1,350	1,350	1,350
Number of shares	13,150,000	13,150,000	13,500,000	13,500,000	13,500,000
RESULTS OF OPERATIONS (EUR MILLIONS)					
Revenues ⁽¹⁾	2,172	2,476	575	542	423
Income before income tax, amortization, depreciation and contingencies net of reversals	71	86	14	18	32
Income tax	(96)	(16)	(5)	(27)	(6)
Income after income tax, amortization, depreciation and contingencies net of reversals	(30)	67	30	44	46
Exceptional distribution	-	-	-	-	-
Dividend distributed ⁽²⁾	-	35	50	41	45
PER SHARE DATA (EUR)					
Revenues	165.16	188.28	43.72	40.15	31.36
Income before income tax, amortization, depreciation and contingencies net of reversals	(1.92)	5.37	0.64	3.30	2.84
Income tax	(7.34)	(1.19)	(0.40)	(2.00)	(0.45)
Income after income tax, amortization, depreciation and contingencies net of reversals	(2.30)	5.08	2.26	3.23	3.40
Exceptional distribution	-	-	-	-	-
Dividend per share ⁽²⁾	-	2.67	3.70	3.00	3.35

(1) Revenues comprises the following items:

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

(2) Proposed dividend distribution for the 2019 fiscal year.



Report on Corporate governance

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

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

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

- the Code of Commerce, as a commercial company;
- the Monetary and Financial Code, as a credit institution;
- the relevant European regulations for credit institutions;
- the provisions of the ordinance of August 20, 2014, on the governance and operations on the equity of companies with public sector shareholders;
- the governance provisions adopted by its parent company SFIL, which opted to refer to the Afep/Medef Code of corporate governance as a reference for the SFIL Group.

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

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

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

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

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

2.1 Caisse Française de Financement Local's Governance

Caisse Française de Financement Local is a *société anonyme* à directoire et conseil de surveillance (French joint-stock corporation with an Executive Board and a Supervisory Board), governed by the provisions of articles L.210-1 et seq. of the French Code of Commerce. 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 Monetary and Financial Code.

As the French Monetary and Financial Code allows an entity to consult its parent company's Governance and Appointments Committee and Compensation Committee to define its appointments and compensation policy, Caisse Française de Financement Local's Supervisory Board has decided not to create specific committees for Caisse Française de Financement Local but to use SFIL's Committees. Likewise SFIL's Accounts Committee and its Risks and Internal Control Committee also deal with issues concerning Caisse Française de Financement Local. The documents presenting these issues are included in the files presented to the Supervisory Board, which is also briefed on these committees' discussions when they are related to the Company.

In terms of governance, Caisse Française de Financement Local implements, for the areas relating to it, the provisions of its parent company that refer to the AFEP/MEDEF code. There is gender parity on the Supervisory Board. The

composition of the Supervisory Board reflects the Company's business activity in terms of skills, training and professional experience. The Board's members are qualified experts in the main areas of activity of the *société de crédit foncier*. Training sessions on compliance, ICAAP and internal models were organized in 2019 for Members of the Supervisory Board.

A succession plan was set up in 2018 for members of supervisory and management bodies.

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

2.1.1 The Supervisory Board

2.1.1.1 Key figures of the Supervisory Board

KEY FIGURES

Members	Independence	Women	Average age	Average term of office	Meetings	Attendance rate
5	0%	50%	51	5 years	4 in 2019	96%

2.1.1.2 The role of the Supervisory Board

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

The Governance and Appointments Committee confirmed that the Supervisory Board collectively possesses the appropriate knowledge, skills and experience, through its analysis of the Supervisory Board's respectability and skills in 2019.

The Supervisory Board considered the position of each member in relation to the criteria in the Afep/Medef Code, on the basis of the report of the Governance and Appointments Committee, and concluded that there were no independent members on the Board (see below).

The Supervisory Board meets at least once a quarter, with both Statutory Auditors and the Company's Specific Controller in attendance. The Board met four times in fiscal year 2019. The members' attendance rate was 93% (individual rates are given in 2.1.1.3.). The Chairman of the Supervisory Board or of the Executive Board informs the Board's members of meeting agendas, allowing enough time before the meetings take place for them to review the items for discussion, and provides a file containing the memos or documents relating to said items. The files containing the information and documents sent to the Board enable it to form a clear, reliable and comprehensive view of the Company's situation, profitability and development. At the Supervisory Board meetings, the Executive Board reviews and comments on the agenda items, using summary presentations where appropriate. The Supervisory Board issues opinions on strategic choices, makes recommendations and, where appropriate, commissions ad hoc studies, which are reviewed at subsequent meetings.

The main tasks of the Supervisory Board

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

- Authorize agreements between the Company and members of the Executive Board or Supervisory Board.

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

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

- Perform the controls and verifications it considers appropriate.

The Supervisory Board performed the following specific tasks in 2019

- Approved the updated internal rules of the Supervisory Board, and Executive Board and of the Accounts Committee and the Risks and Internal Control Committee.
- Approved a policy for assessing the aptitude of members of management bodies and holders of key positions.
- Assessed the way the Supervisory Board operates.
- Approved a procedure for preventing and managing conflicts of interest.

- Validated two amendments to the exclusive loan sale agreement signed by CAFFIL and LBP, in the presence of SFIL.
- Approved amendment 1 to the export refinancing framework agreement signed by CAFFIL and SFIL.

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

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

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

2.1.1.3 Composition of Supervisory Board

SUPERVISORY BOARD (AS OF DECEMBER 31, 2019)

The Board met four times in fiscal year 2019. The attendance rate of the Supervisory Board members is stated in the table below.

Members of the Supervisory Board	Attendance rate at Supervisory Board meetings
Philippe Mills – Chairman	100%
François Laugier – Vice Chairman	100%
Nathalie Argourd – Member	75%
Anne Crépin – Member	100%
Béatrice Gosserez – Member	100%
Florent Lecinq – Member	100%
Sami Gotrane – Member *	0%

* Mr. Sami Gotrane resigned from Caisse Française de Financement Local's Supervisory Board in the first half of 2019. He was not replaced. The number of Board members has been reduced from seven to six.

2.1.2 The Executive Board

2.1.2.1 Key figures for the Executive Board

Members	Independence	Women*	Average age	Average term of office	Meetings	Attendance rate
5	0%	0%	48	6 years	25 in 2019	92% in 2019

* The Supervisory Board seeks to improve the gender balance on the Executive Board at the next renewal of its members.

2.1.2.2 The role of the Executive Board

The Executive Board is in charge of Caisse Française de Financement Local's management and administration. It represents and binds it. As such, its role is to take all decisions impacting Caisse Française de Financement Local's activity and results. Moreover, the Executive Board is the first guarantor of the proper functioning of Caisse Française de Financement Local's internal control procedures (see management report 10).

The main tasks of the Executive Board	The Executive Board performed the following specific tasks in 2019
<ul style="list-style-type: none"> • Convene Shareholders' Meetings. • Decide, by delegation from the Extraordinary Shareholders' Meeting, to increase the share capital and/or determine the terms of this increase, and if necessary carrying out a capital reduction. • Modify the share capital following the conversion of convertible bonds, subscriptions using rights detached from hybrid securities containing share subscription options, and the exercise of share subscription options. 	<ul style="list-style-type: none"> • Convened an Ordinary Shareholders' Meeting on May 28, 2019. The purpose of the Ordinary Shareholders' Meeting was to: <ul style="list-style-type: none"> • Approve the financial statements and the appropriation of income, • Approve the Company's regulated agreements and commitments.
<ul style="list-style-type: none"> • Decide to issue <i>obligations foncières</i> or registered covered bonds. • Decide to acquire assets within the framework of the two missions entrusted to the Caisse Française de Financement Local by the French State. • Decide to sell assets. • Monitor the Company's balance sheet and off-balance sheet operations. 	<ul style="list-style-type: none"> • Updated the covered bonds EMTN issue program and approved the issuance frameworks for "social" and "green" thematic issues. • Decided the issue of covered bonds for an annual amount of EUR 4 billion, including the first two thematic issues, social and green, of the SFIL Group. • Carried out 4 loan acquisitions from LBP totaling EUR 4.2 billion. • Signed 4 refinancing loans with SFIL, guaranteed by the French State, in connection with the export credit refinancing activity for a total of EUR 1.0 billion. • Monitored Caisse Française de Financement Local's debt management operations.
<ul style="list-style-type: none"> • Validate the Company's risk appetite and its application in the risk analysis and measurement oversight systems and procedures. • Monitor the Company's level of risk and took the necessary measures to reduce it if necessary. 	<ul style="list-style-type: none"> • Validated evolutions proposed by SFIL for risk appetite and relevant aspects for Caisse Française de Financement Local in group reports related to the ICAAP and ILAAP policies and to the Recovery Plan. • Systematically reviewed quarterly risk monitoring reports. • Reviewed the Recovery and Business Continuity Plan (RBCP). • Reviewed litigation. • Monitored non-compliance risks via the review of the half-yearly report prepared by the Compliance division. • Monitored the internal control system via a quarterly review of operational incidents, and of the correct completion of the permanent control plan and a half-yearly review of the Internal Audit report (debriefing of missions performed during the period).
<ul style="list-style-type: none"> • Define SFIL's servicing conditions, notably by (i) approving and monitoring the management agreement and amendments thereto, the Service Level Agreement and the associated quality indicators, and (ii) approving Caisse Française de Financement Local's operational management policies. 	<ul style="list-style-type: none"> • Approved the update to the Service Level Agreement entered into by SFIL and CAFFIL in April 2019. • Monitored the quality of SFIL's service to CAFFIL via the quarterly review of indicators covering all the areas of the service. • Approved all of CAFFIL's management policies.
<ul style="list-style-type: none"> • Prepare financial reports or quarterly activity reports to present to the Supervisory Board. 	<ul style="list-style-type: none"> • Prepared 4 Supervisory Board meetings during 2019.
<ul style="list-style-type: none"> • Prepare and close the financial statements in accordance with IFRS and French GAAP standards. 	<ul style="list-style-type: none"> • Made decisions to prepare and close the 2018 annual financial statements and interim financial statements as of June 30, 2019 in accordance with French GAAP and IFRS standards respectively at the Executive Board meetings of March 25, 2019 and September 3, 2019.

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

The Statutory Auditors are invited to Executive Board meetings if their attendance is mandatory, which applies specifically for the review of the annual or interim financial statements. Depending on the agenda items, the Chairman of the Executive Board may decide, in particular on the proposal of another Board member, to invite any person that he or she deems useful to present a subject or assist with preparatory discussions of said items.

2.1.2.3 Composition of the Executive Board

EXECUTIVE BOARD (AS OF DECEMBER 31, 2019)

Members of the Executive Board	Attendance rate at Executive Board meetings
Gilles Gallerne - Chairman	96%
Romain Bailly - Chief Executive Officer	96%
Olivier Eudes - Member	92%
Emmanuel Motitz - Member	92%
Patrick Galland - Member	84%

2.2 Directorships and positions of members of supervisory and management bodies

In application of article L.225-37-4 1° of the Code of Commerce, the following list presents the directorships and positions held in 2019 by every member of the supervisory and management bodies of Caisse Française de Financement Local who served during the year.

2.2.1 The Supervisory Board

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

Chairman

Philippe Mills

54 years old – French nationality

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

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

Date of first mandate: January 31, 2013

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

Other mandates and responsibilities:

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

Vice Chairman

François Laugier

55 years old – French nationality

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

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

Date of first mandate: January 31, 2013

Principal function: Deputy Chief Executive Officer, SFIL

Other mandates and responsibilities:

Member of the Executive Committee, SFIL

Members

Nathalie Argourd

48 years old – French nationality

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

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

Date of first mandate: May 30, 2017

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

Other mandates and responsibilities: None

Anne Crépin

50 years old – French nationality

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

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

Date of first mandate: May 30, 2017

Principal function: Deputy Director, Export Credit, SFIL

Other mandates and responsibilities: None

Béatrice Gosserez

54 years old – French nationality

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

Date term of office begins and ends: May 25, 2016 - 2020

Date of first mandate: December 12, 2012

Principal function: General Secretary, SFIL

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

Sami Gotrane (until April 16, 2019)

55 years old – French nationality

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

Date term of office begins and ends: May 30, 2017 - April 16, 2019

Date of first mandate: January 31, 2013

Principal function: Director, Treasury and Financial Markets, SFIL

Other mandates and responsibilities:

- Member of the Executive Committee, SFIL
- Chairman, CTG Financial Consulting

Florent Lecinq

44 years old – French nationality

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

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

Date of first mandate: February 25, 2013

Principal function: Chief Financial Officer, SFIL

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

2.2.2 The Executive Board

Chairman

Gilles Gallerne

56 years old – French nationality

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

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

Date of first mandate: January 1, 2008

Principal function: Director, CAFFIL Coordination, SFIL

Other mandates and responsibilities:

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

Chief Executive Officer

Romain Bailly

38 years old – French nationality

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

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

Date of first mandate: December 7, 2016

Principal function: Head of CAFFIL Coordination division, SFIL

Other mandates and responsibilities: None

Members

Olivier Eudes

51 years old – French nationality

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

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

Date of first mandate: May 27, 2015

Principal function: Director, Financial Markets, SFIL

Other mandates and responsibilities: Manager, SCI Phoenix

Patrick Galland

53 years old – French nationality

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

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

Date of first mandate: December 7, 2016

Principal function: Director, Coordination Financial Performance

Other mandates and responsibilities: None

Emmanuel Moritz

44 years old – French nationality

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

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

Date of first mandate: January 31, 2013

Principal function: Director, Credit Risks, SFIL

Other mandates and responsibilities: None

2.3 Compensation of members of supervisory and management bodies

In 2019, Caisse Française de Financement Local paid no compensation to the members of its supervisory and management bodies who were employees of SFIL and who exercised their terms of office with no specific compensation, except for the Chairman of the Supervisory Board, who is also a member of the parent company's Board of Directors

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

2.4 Statutory Auditors

The Statutory Auditors of Caisse Française de Financement Local are:

Deloitte & Associés

6, place de la Pyramide – 92908 Paris-La Défense Cedex (France)

Represented by Sylvie Bourguignon, Partner

Reappointed by the Shareholders' Meeting of May 30, 2017, for a term of six years, i.e. until after the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2022.

Ernst & Young et Autres

1-2, place des Saisons - 92400 Courbevoie – Paris-La Defense 1 (France)

Represented by Vincent Roty, Partner

Appointed by the Shareholders' Meeting of May 30, 2017, for a term of six years, i.e. until after the Shareholders' Meeting called to approve the financial statements for the year ending December 31, 2022.

2.5 Specific Controller

Fidus - RSM

26, rue Cambacérès – 75008 Paris (France)

Represented by Jean-Michel Thierry

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

Alternate: Éric Lebègue

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

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

Given that the Company's shares are not listed and that the securities (*obligations foncières*) it issues do not give access to its capital, there is no requirement to give specific information in relation to the provisions of article L.225-37-5 of the Code of Commerce. The composition of the share capital is specified below.

2.6.1 Information about capital and shares

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

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

2.6.1.2 Breakdown of capital

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

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

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

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

No transaction is to be reported (see article 223-26 of the General Regulation of the Autorité des Marchés Financiers).

2.6.4 Conventions subject to article L.225-37-4 2° of the Code of Commerce

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



Financial statements according to IFRS standards

3.1 Financial Statements

- 3.1.1 Assets
- 3.1.2 Liabilities
- 3.1.3 Income statement
- 3.1.4 Net income and unrealized or deferred gains and losses through equity
- 3.1.5 Equity
- 3.1.6 Cash flow statement

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3.1 Financial Statements

3.1.1 Assets

<i>EUR millions</i>	Note	12/31/2018	12/31/2019
Central banks	2.1	1,271	473
Financial assets at fair value through profit or loss	2.2	5,584	4,899
Hedging derivatives	4.1	4,134	4,902
Financial assets at fair value through equity	2.3	124	91
Financial assets at amortized cost			
Loans and advances due from banks at amortized cost	2.4	2,132	3,109
Loans and advances to customers at amortized cost	2.4	43,781	44,801
Bonds at amortized cost	2.4	9,384	9,090
Fair value revaluation of portfolio hedge		2,552	2,774
Current tax assets	2.5	-	7
Deferred tax assets	2.5	79	72
Accruals and other assets	2.6	15	15
TOTAL ASSETS		69,056	70,233

3.1.2 Liabilities

<i>EUR millions</i>	Note	12/31/2018	12/31/2019
Central banks		-	-
Financial liabilities at fair value through profit or loss	3.1	1,195	1,119
Hedging derivatives	4.1	5,994	6,813
Financial liabilities at amortized cost			
Due to banks at amortized cost	3.2	4,941	5,206
Customer borrowings and deposits at amortized cost		-	-
Debt securities at amortized cost	3.2	54,442	54,604
Fair value revaluation of portfolio hedge		342	338
Current tax liabilities ⁽¹⁾	3.3	8	8
Deferred tax liabilities	3.3	-	-
Accruals and other liabilities	3.4	681	695
Provisions ⁽¹⁾	3.5	13	6
Subordinated debt		-	-
EQUITY		1,440	1,444
Capital		1,350	1,350
Reserves and retained earnings		47	68
Net result through equity	4.4	(19)	(14)
Net income		62	40
TOTAL LIABILITIES		69,056	70,233

⁽¹⁾ Since January 1, 2019, as a consequence of the application of IFRIC 23, provisions on tax matters are reclassified from Provisions to Current tax liabilities.

3.1.3 Income statement

EUR millions	Note	2018	2019
Interest income	5.1	2,653	2,509
Interest expense	5.1	(2,525)	(2,390)
Fee and commission income	5.2	1	3
Fee and commission expense	5.2	(8)	(6)
Net result of financial instruments at fair value through profit or loss	5.3	36	16
Net result of financial instruments at fair value through equity	5.4	0	-
Gains or losses resulting from derecognition of financial instruments at amortized cost	5.5	14	8
Gains or losses resulting from reclassification of financial assets at amortized cost to fair value through profit or loss		-	-
Gains or losses resulting from reclassification of financial assets at fair value through equity to fair value through profit or loss		-	-
Other income		0	0
Other expense		(0)	(0)
NET BANKING INCOME		171	140
Operating expenses	5.6	(101)	(97)
GROSS OPERATING INCOME		70	43
Cost of risk	5.7	(4)	8
OPERATING INCOME		66	51
Net gains (losses) on other assets		-	-
INCOME BEFORE TAX		66	51
Income tax		(4)	(11)
NET INCOME		62	40
EARNINGS PER SHARE (EUR)			
• basic		4.59	2.96
• diluted		4.59	2.96

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

EUR millions	2018	2019
NET INCOME	62	40
Items that may subsequently be reclassified as profit or loss	(0)	4
Unrealized or deferred gains and losses of financial assets at fair value through equity	(0)	0
Unrealized or deferred gains and losses of cash flow hedges	5	6
Tax on items that may subsequently be reclassified as profit or loss	(5)	(2)
Item that may not be reclassified as profit or loss	-	-
TOTAL UNREALIZED GAINS OR LOSSES THROUGH EQUITY	(0)	4
TOTAL NET INCOME AND GAINS OR LOSSES THROUGH EQUITY	62	44

3.1.5 Equity

EUR millions	Capital and reserves			Unrealized or deferred gains and losses			Total equity
	Share capital, additional paid-in capital	Retained earnings and net income for the period	Total	Net change in fair value of available-for-sale financial assets, after tax	Net change in fair value of available-for-sale financial assets, after tax	Net change in fair value of hedging derivatives, after tax	
EQUITY AS OF JANUARY 1, 2019	1,350	109	1,459	(0)	(19)	(19)	1,440
Stocks issued	-	-	-	-	-	-	-
Dividends	-	(41)	(41)	-	-	-	(41)
Changes in fair value of available for sale financial assets through equity	-	-	-	0	-	0	0
Changes in fair value of derivatives through equity	-	-	-	-	5	5	5
Changes in fair value of available-for-sale financial assets through profit and loss	-	-	-	-	-	-	-
Changes in fair value of derivatives through profit and loss	-	-	-	-	-	-	-
Net income for the period	-	40	40	-	-	-	40
Other movements	-	-	-	-	-	-	-
EQUITY AS OF DECEMBER 31, 2019	1,350	108	1,458	(0)	(14)	(14)	1,444

The Ordinary Shareholders' Meeting decided on May 28, 2019, to distribute a dividend in the amount of EUR 40.50 millions. Each share (13,500,000 shares) received a dividend of EUR 3.00.

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

3.1.6 Cash flow statement

EUR millions	2018	2019
NET INCOME BEFORE TAX	66	51
+/- Depreciation and write-downs	(104)	(27)
+/- Expense/income from investing activities	(62)	49
+/- Expense/income from financing activities	(13)	(36)
+/- Other items	165	(142)
= NON-MONETARY ITEMS INCLUDED IN NET INCOME BEFORE TAX AND OTHER ADJUSTMENTS	(14)	(156)
+/- Cash from interbank operations	(1,151)	(714)
+/- Cash from customer operations	679	98
+/- Cash from financing assets and liabilities	(934)	547
+/- Cash from non-financing assets and liabilities	(286)	(18)
- Income tax paid	4	(21)
= DECREASE/(INCREASE) IN CASH FROM OPERATING ACTIVITIES	(1,688)	(108)
CASH FLOW FROM OPERATING ACTIVITIES (A)	(1,636)	(213)
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-
+/- Cash from or for shareholders	(50)	(41)
+/- Other cash from financing activities	1,246	(537)
CASH FLOW FROM FINANCING ACTIVITIES (C)⁽¹⁾	1,196	(578)
EFFECT OF CHANGES IN EXCHANGE RATES ON CASH (D)	-	-
INCREASE /(DECREASE) IN CASH EQUIVALENTS (A + B + C + D)	(440)	(791)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,721	1,281
Cash and balances with central banks (assets & liabilities)	1,706	1,271
Interbank accounts (assets & liabilities) and loans/deposits at sight	15	10
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,281	490
Cash and balances with central banks (assets & liabilities)	1,271	473
Interbank accounts (assets & liabilities) and loans/deposits at sight	10	17
CHANGE IN NET CASH	(440)	(791)

(1) As of December, 31, 2019, the net cash flow of EUR -0.6 billion linked to financing activities corresponded to the change in debt represented by a security. Compared with the variation of EUR +0.2 billion in debt represented by a security mentioned in note 3.2.1, the difference primarily reflects the change in the revaluation of hedged risk and foreign exchange variations.

3.2 Notes to the IFRS financial statements

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Note 1 Accounting and valuation policies

1.1 Applicable accounting standards

1.1.1 Application of the accounting standards endorsed by the European Union

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

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

The individual financial statements as of December 31, 2019 were examined by the Executive Board on March 18, 2020.

Due to the entry into force of IFRIC 23 for reporting periods beginning on or after January 1, 2019, the Company has disclosed in its individual financial statements presented below the information required: IFRIC 23 first time application impacts are detailed in a foot note below the Balance-sheet and in the notes detailing the impacted items.

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

1.1.2 IASB and IFRIC texts endorsed by the European Union and effective as of January 1, 2019

- **IFRS 16 Leases:** issued by IASB on January 13, 2016, endorsed by the European Union on October 31, 2017 (UE Regulation n° 2017/1986) and effective for reporting periods beginning on or after January 1, 2019, this standard, which replaces IAS 17 standard, provides that at the commencement date a lessee shall recognize a right-of-use asset and a lease liability.

This standard has no impact on individual financial statements of the Company given that the latter is involved in no leases.

- **Amendment to IFRS 9 Financial instruments:** issued by IASB on October 12, 2017, endorsed by the European Union on March 22, 2018 (UE Regulation n° 2018/498) and effective for reporting periods beginning on or after January 1, 2019, this amendment clarifies that instruments whose contractual terms may eventually result in a prepayment inferior to the sum of the outstanding principal and accrued interest meet the SPPI criterion (Solely Payments of Principal and Interest), provided that the prepayment amount essentially represents the outstanding principal and the related interest, plus a reasonable compensation irrespective of its sign (payment by the borrower to the lender or by the lender to the borrower).

This amendment has no impact on individual financial statements of the Company given that the latter had opted for an earlier application of this amendment from January 1, 2018, which was the transition date from IAS 39 standard to IFRS 9 standard.

- **IFRIC 23 Uncertainty over income tax treatments:** issued by IASB on June 7, 2017, endorsed by the European Union on October 23, 2018 (UE Regulation n° 2018/1595) and effective for reporting periods beginning on or after January 1, 2019, this interpretation specifies how to reflect uncertainty over tax treatments applied when determining taxable profit, tax bases, unused tax losses, unused tax credits and tax rates. The entity shall assume that the taxation authority will perform exhaustive examinations and that, during these examinations, it will have full knowledge of all related information.

This interpretation has a limited impact on individual financial statements of the Company, given that the activity of the latter does not expose it to material tax uncertainties. Moreover, the Company had already provisioned the tax risks to which it may be exposed due to its activity. The provisions of IFRIC 23 regarding the measurement of this provision have resulted in no adjustment of its amount. As a result, the only impact of this interpretation is, as of January 1, 2019, the reclassification from the item Provisions to the item Current tax liabilities of the provision for tax risks previously recognized. Regarding the transition to IFRIC 23, the Company has opted for a limited retrospective application under IFRIC 23: with regard to a reclassification without remeasurement, the first time application impact of IFRIC 23 on the opening equity is zero.

The impacts of this interpretation on the individual financial statements of the Company have been identified and the transition to IFRIC 23 has been realized.

- **Amendment to IAS 28 Investments in associates:** issued by IASB on October 12, 2017 in the framework of its regular IFRS improvement process, endorsed by the European Union on February 8, 2019 (UE Regulation n° 2019/237) and effective for reporting periods beginning on or after January 1, 2019, this amendment confirms that IFRS 9 applies to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in an associate or joint venture.

This amendment has no impact on individual financial statements of the Company given that the latter holds no associate or joint venture.

- **Amendment to IAS 19 Employee benefits:** issued by IASB on February 7, 2018 in the framework of its regular IFRS improvement process, endorsed by the European Union on March 13, 2019 (UE Regulation n° 2019/402) and effective for reporting periods beginning on or after January 1, 2019, this amendment elaborates on how the net liability (or asset) accounted for shall be remeasured in case of amendment, curtailment or settlement of a defined contribution plan within a reporting period.

This amendment has no impact on individual financial statements of the Company given that the latter has no salaried employees in accordance with the provisions of article L.513-15 of the Monetary and Financial Code, the general management of its operations having been entrusted by a contract to its parent company, SFIL, a credit institution.

- **Amendments to IAS 12 Income taxes/IAS 23 Borrowing costs/IFRS 3 Business combinations/IFRS 11 Joint arrangements:** issued by IASB in December 2017 in the framework of its regular IFRS improvement process, endorsed by the European Union on March 14, 2019 (UE Regulation n° 2019/412) and effective for reporting periods beginning on or after January 1, 2019, these amendments elaborate on:

- as regards IAS 12, how income tax consequences of dividend payments shall be recognized: such consequences are linked to past transactions or events that generated distributable profits and shall therefore be recognized in the same statement (statement of profit or loss, statement of other comprehensive income, etc.) as these transactions or events;
- as regards IAS 23, how the residual borrowing costs shall ceased to be incorporated in the cost of an asset when the latter is ready for its intended use or sale: these residual borrowing costs shall become part of the general borrowings used for computing the capitalization rate;
- as regards IFRS 3, how the acquisition of control of a joint operation shall be accounted for;
- as regards IFRS 11, how the joint acquisition of control in the framework of a joint operation shall be accounted for.

The amendment of IAS 12 has no material impact on individual financial statements of the Company. The amendments of IAS 23, IFRS 3 and IFRS 11 have no impact on individual financial statements of the Company given that the operations of the latter are out of the scope of these standards.

- Amendments to **IAS 39 Financial instruments: Recognition and measurement/IFRS 9 Financial instruments/IFRS 7 Financial instruments**: Disclosures: published by the IASB on September 26, 2019, adopted by the European Union on January 15, 2020 (EU Regulation no. 2020/34) and mandatory for fiscal years starting on or after January 1, 2020, with early application permitted, these amendments complete "phase 1" of the IASB project and are intended to avoid any uncertainty resulting from the reform of the reference interest rates leading to the early termination of hedging relations. The IASB has consequently endeavored to limit the impact of this global reform on the financial statements of the entities. These amendments introduce exemptions concerning, in particular, assessing the highly probable nature of cash flow hedges (CFH), respecting the separately identifiable nature of the risk hedged as well as conducting prospective and retrospective effectiveness tests. These exemptions apply to the hedging relationships impacted by the reform, i.e. to those where there is uncertainty with regard to the reference interest rate indicated as the risk hedged and/or to the due date or the amount of the cash flows of the item hedged or the hedging derivative based on a reference interest rate. They remain applicable until the aforementioned uncertainty is eliminated. In the context of "phase 2", the IASB is currently continuing its work regarding the support from an accounting point of view of the reference interest rates reform; this work may give rise to additional amendments during 2020.

The amendment of IFRS 9 has no impact on the Company's individual financial statements as the Company applies IAS 39 for hedge accounting. However, the amendments of IAS 39 and IFRS 7 have an impact on the Company's individual financial statements, as it had decided to apply them in advance with effect from January 1, 2019.

The Euribor, Eonia and Libor (USD, GBP, CHF and JPY) are the main reference interest rates to which the Company is exposed. To steer the transition from the old to the new reference interest rates in all currencies and jurisdictions concerned, the Company has set up a Steering Committee bringing together all the bank departments concerned, notably the Front Office, the Legal Department, the Finance Department and the Risk Department. The Committee's objective is to reduce the risks associated with the transition, to ensure its successful and timely

implementation, and to monitor on-site work on the subject. In addition to this qualitative information, the quantitative information required by the IFRS 7 amendment is presented hereafter in note 4.1, in particular the notional amounts of the hedging derivatives in respect of which these amendments are applied.

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

- Amendments to **IAS 1 Presentation of financial statements/IAS 8 Accounting policies, changes in accounting estimates and errors/IAS 10 Events after the end of the reporting period/IAS 34 Interim financial reporting/IAS 37 Provisions, contingent liabilities and contingent assets**: published by the IASB on October 31, 2018, adopted by the European Union on November 29, 2019 (EU Regulation no. 2019/2104) and mandatory for fiscal years beginning on or after January 1, 2020, these amendments aim to clarify and align the definition of the congruence between the various IFRS standards in order to increase the consistency of their application in financial statements. The impacts of these amendments on individual financial statements of the Company are being analyzed.
- Amendments to **IAS 1 Presentation of financial statements/IAS 8 Accounting policies, changes in accounting estimates and errors/IAS 34 Interim financial reporting/IAS 37 Provisions, contingent liabilities and contingent assets/IAS 38 Intangible assets/IFRS 2 Share-based payment/IFRS 3 Business combinations/IFRS 6 Exploration for and evaluation of mineral resources/IFRIC 12 Service Concession Arrangements/IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments/IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine/IFRIC 22 Foreign Currency Transactions and Advance Consideration/SIC 32 Intangible Assets -Web Site Costs**: issued by IASB on March 29, 2018, endorsed by the European Union on November 29, 2019 (UE Regulation n°2019/2075) and effective for reporting periods beginning on or after January 1, 2020, these amendments aim at updating references made to the conceptual framework in several existing standards and interpretations. It follows the revision of this framework by IASB.
- **IFRS 17 Insurance contracts**: issued by IASB in May 2017, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2021 (if not January 1, 2022 given the tentative decision of IASB's Board taken on November 14, 2018), this standard, which will replace IFRS 4 standard, clarifies in particular how all insurance contracts (life, non-life, insurance and reinsurance) shall be accounted for, contracts for which the entity is the policyholder being in particular out of the scope (excepted reinsurance contracts).

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

- Amendment to **IFRS 3 Business combinations**: issued by IASB in October 2018, not yet endorsed by the European Union and effective for reporting periods beginning on or after January 1, 2020, this amendment narrows and clarifies the definition of a business, a key concept that enables to distinguish a business combination from a mere acquisition of a group of assets.

The impacts of this amendment on individual financial statements of the Company are being analyzed. It will at a first sight have no impact on individual financial statements

of the Company given that the operations of the latter are out of the scope of this standard.

1.2 Accounting principles applied to the financial statements

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

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

Judgments were principally made in the following areas:

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

These judgments are detailed in the following chapters.

Estimates were principally made in the following areas:

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

1.2.1 Offsetting financial assets and liabilities

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

1.2.2 Foreign currency transactions

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

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

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

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

1.2.3 Trade date and settlement date accounting

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

1.2.4 Financial assets

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

1.2.4.1 Business model

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

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

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

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

It can be inferred from this assessment that the Company only uses the Hold-To-Collect (HTC) model and the Hold-To-Collect-and-Sell (HTCS) model. The Company holds no financial assets for trading purposes, i.e. the Company does not acquire, incur or hold financial assets for the purpose of realizing a net gain through selling or repurchasing them in the near term.

1.2.4.2 Characteristics of contractual cash flows (SPPI criterion)

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

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

1.2.4.3 Financial assets measured at amortized cost

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

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

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

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

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

1.2.4.4 Financial assets measured at fair value through the item Unrealized or deferred gains and losses of equity

A financial asset is classified and subsequently measured at fair value through the item Unrealized or deferred gains and losses of equity if it is compliant with both of the two following conditions:

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

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

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

1.2.4.5 Financial assets measured at fair value through profit or loss

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

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

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

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

1.2.4.6 Designation options

The Company does not use the following options:

- option to designate a financial asset as measured at fair value through profit or loss: this option can be exercised only if it eliminates or significantly reduces a recognition inconsistency for assets or liabilities (accounting mismatch);
- option to present in other comprehensive income subsequent changes in fair value of particular investments in equity instruments; the Company does not hold such instruments.

1.2.4.7 Impairment of financial assets

Defining the impairment base

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

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

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

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

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

Assessing whether credit risk has significantly increased

The assessment of credit risk increase is performed on an individual basis: the Company does not use the collective basis approach. The objective of the assessment is to compare the default risk at closing date with its default risk at the date of initial recognition. This assessment takes into consideration all reasonable and supportable information that is relevant and that is available for the Company without incurring undue cost or making undue effort, in particular qualitative and quantitative information on past

events (use of historic metrics), on current economic environment and on expectations on future economic environment (forward looking information). In practice, the assessment of credit risk increase is realized at counterparty level:

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

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

- it is in "default" under Basel framework. It is the case when it is unlikely to pay, which is evidenced by an internal credit risk rating characterizing a real default situation: it is probable that the counterparty will not repay all or part of its debt, without recourse to realizing securities if applicable. It is also the case when it presents a qualifying arrear in payment on the principal and/or on interest past due of more than 90 days, the qualifying characteristic of the arrear being determined on the basis of materiality criteria and expert judgment. Exposures on a counterparty in "default" are considered as Non-Performing Exposures from a prudential perspective;
- it presents an arrear in payment on the principal and/or on interest past due of more than 90 days, even though it is not in "default" under Basel framework on the ground that the arrear is not qualifying. Exposures on a counterparty in this situation are considered as Non-Performing Exposures from a prudential perspective.

On the perimeter being broken down into Stages, the accounting base of Stage 3 is therefore larger than the one of the "default" under Basel framework and is broadly in line with the one of Non-Performing Exposures, with just one significant difference: counterparties already in Forbearance and to which a new Forbearance has been granted and/or an incident of payment past due of more than 30 days has occurred. The contracts of counterparties in this situation are considered as Non-Performing Exposures from a prudential perspective but remain classified in Stage 2 from an accounting perspective (see below).

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

- it is followed by the Watchlist Committee, due to an increase in its credit risk, or it is in Forbearance, which means that the Company has refrained the enforcement of its rights toward counterparty facing financial difficulties;
- it presents material arrears in payment on the principal and/or on interest past due of more than 30 days (and less than 90 days);
- its rating presents one of the following characteristics: it is non-Investment grade (internal rating inferior or equal to BB+), it has no rating, it has experimented or is to experiment a rating migration regarded as risky in the forward looking scenarios. The rating migrations regarded as risky have been assessed to be as such based on a quantitative modeling realized on the basis of a statistical analysis using historical data and completed by the use of expert judgment.

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

Stages transitions must be compliant with the following rules:

- for the contracts of a counterparty in “default”, exiting from Stage 3 and “default” (and getting back to Stage 2 or Stage 1) can only occur after a cure period of one year during which the counterparty is still considered as being in “default” and the contracts of this counterparty remain classified in Stage 3. Exit must in addition be formally decided in Default Committee and is conditional to the full repayment of arrears if any;
- for the contracts in Forebearance, exiting from Stage 2 or as appropriate Stage 3 (and getting back to Stage 1) can only occur after a cure period of 2 years which starts from the date when the forbearance had been granted if the counterparty was not in “default” or from the date of exit from “default” if it was.

Measuring the amount of the expected credit loss

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

In the case of French local communities, the main hypothesis as well as the scenarios and their weighting are presented below:

- a base scenario, in line with the strategic plan as regards debt financing from local communities, and which is based on the expectations and objectives of the French State in term of local public expenditures and tax revenues developed in the draft budget bills and the programs for stability. This scenario is weighted at 60% (compromise between the commitment of France towards Europe as regards public deficit reduction and election issues for local communities);
- an upside scenario, in which local communities raise further taxes and stabilize investment expenditures, which results in further deleveraging and improvement of their financial situation. This scenario is weighted at 25% (election calendar enables to strengthen investment in spite of budget constraints);
- a downside scenario, in which local communities raise investment expenditure without raising further taxes from their taxpayers: they raise debt financing. This scenario is weighted at 15%.

For the contracts classified in Stage 1 or Stage 2, the expected credit losses equals the present value of the product of three parameters discounted at the original effective interest rate of the contract: the probability of default (PD), the exposure at default (EAD) and the loss given default (LGD). These parameters depend on the scenario and the year considered. The Company has capitalized on the framework of calculation of these parameters under Basel regulation and has introduced adjustments so as to comply with specific provisions of IFRS 9. This approach has resulted in the definition of IFRS 9 specific models for each material portfolio.

More precisely, specific models have been developed so as to calculate PD and LGD for local communities and inter-municipal grouping with own-source tax revenue, given that this portfolio is the most material for the Company. These calculations have been performed by taking the following steps:

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

For the contracts classified in Stage 3, the expected credit losses equals the loss at maturity, i.e. the difference between the sequence of cash flows contractually due to the Company and the sequence of cash flows that the Company expects to recover, both discounted at the original effective interest rate. Depending on the materiality of the contract, the cash flows that the Company expects to recover are calculated either through individual simulations performed by the credit risk direction, or through standard recovery scenarios using predefined management rules. These flows are if applicable net of any flows derived from realizing securities which form an integral part of contractual provisions.

At each closing date, the classification in Stages and the loss allowances for expected credit losses are subject to analysis and are validated by the Impairment Committee prior to their accounting. Besides, back testing procedures have been set up so as to annually monitor the efficiency of the framework of expected credit losses calculation under IFRS 9; they encompass data quality, portfolio structure and expectations quality.

Recognizing the impairment

Positive and negative variations of the amount of the loss allowance for expected credit losses are recognized in profit or loss as cost of risk.

When an asset is determined by management as being irrecoverable, it is derecognized (see below): the loss allowance for expected credit losses is reversed and the net loss is recognized in profit or loss as cost of risk. Subsequent recoveries, if any, are also recognized in cost of risk.

1.2.4.8. Derecognition of financial assets

A financial asset is derecognized when and only when the contractual rights to the cash flows from this asset expire or if this asset is transferred and the transfer meets one of the following conditions:

- substantially all the risks and rewards of ownership of this asset have been transferred; or
- substantially all the risks and rewards of ownership of this asset have been neither transferred nor retained and the control on this asset has not been retained. If the control on this asset has been retained, the underlying asset continues to be recognized to the extent of Company's continuing involvement in it.

The gain or loss realized when derecognizing a financial asset equals the difference between on the one hand the consideration received (net of transaction costs and including any new asset obtained less any new liability assumed) and on the other hand the carrying amount of this asset measured at the date of derecognition. It is recognized in profit or loss of the reporting period considered as net banking income.

Case of disposals

Financial assets are derecognized on disposal. The gain or loss realized on disposal takes into account the followings:

- for financial assets measured at amortized cost, the carrying amount of the disposed asset is systematically determined based on the “first in, first out” approach (FIFO method) on a portfolio basis;
- for financial assets measured at fair value through the item Unrealized or deferred gains and losses of equity, cumulative gains or losses previously recognized in equity are, applying FIFO method, reversed in profit or loss on disposal, under the item of the net banking income used for recognizing the net gains and losses of this category.

Case of repos and reverse repos operations

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

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

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

Case of prepayments

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

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

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

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

If restructured terms are not substantially different from original terms, the original loan is not derecognized. Its gross carrying amount is adjusted so as to reflect the post-restructuring terms, including costs and fees incurred; it corresponds to the present value of the cash flows of the restructured loan discounted at the original effective interest rate (or, in the case of purchased or originated credit-impaired assets, at this rate adjusted so as to reflect credit quality). Such an adjustment, called “catch-up” effect, constitutes the excess of the restructured margin of the loan over its original margin: it is immediately recognized in profit

or loss of the reporting period, within the net interest margin. Furthermore, for financial assets measured at amortized cost or at fair value through the item Unrealized or deferred gains and losses of equity, the Company assesses whether, due to the modifications in the terms, a significant increase in credit risk since initial recognition has occurred: if so, an adjustment of the loss allowance for expected credit losses is recognized (see above).

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

1.2.5 Financial liabilities

1.2.5.1 Financial liabilities held for trading

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

1.2.5.2 Financial liabilities designated at fair value through profit or loss

The Company does not use this option.

1.2.5.3 Financial liabilities at amortized cost

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

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

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

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

1.2.5.4 Derecognition of financial liabilities

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

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

1.2.6 Derivatives

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

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

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

1.2.6.1 Derivatives not documented in a hedging relationship

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

- the ones which failed hedge effectiveness tests at closing date;
- the ones which hedge financial assets that are measured at fair value through profit or loss. In this case, the revaluation of the derivative hedges natively the revaluation of the hedged risk of the hedged item, making pointless the documentation of a hedging relationship;
- the ones that hedge the foreign exchange risk related to export credit financing loans denominated in a currency other than the euro. These derivatives are concluded before the end of the drawing phase of the hedged loans but foreign exchange hedging relationship has been documented only from the complete payment in the Company's balance sheet.

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

1.2.6.2 Hedging derivatives

Hedging derivatives can be classified as either:

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

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

- precise and formal documentation of the hedging instrument, hedged item, hedging objective, strategy and relationship between the hedging instrument and the hedged item must be prepared before hedge accounting is applied;

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

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

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

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

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

1.2.6.3 Hedging of the interest rate risk of a portfolio

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

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

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

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

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

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

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

1.2.7 Fair value of financial instruments

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

Market prices are used to determine fair value where an active market exists. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on a going concern basis. Active market prices are not, however, available for a significant number of the financial assets and liabilities held or issued by the Company.

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

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

1.2.7.1 Fair value of financial instruments measured at amortized cost

The following comments are applicable to the fair value of financial instruments measured at amortized cost presented in the notes:

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

1.2.7.2 Financial instruments measured at fair value

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

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

To determine the fair value of its derivatives, the Company uses different discount curves depending on whether collateral was actually exchanged. When the Company receives collateral, related future cash-flows are discounted using an OIS-based curve while uncollateralized derivatives related future cash-flows are discounted using an EURIBOR-based curve. This differential treatment reflects the different financing costs associated with the derivatives used (FVA – funding valuation adjustment).

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

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

1.2.8 Deferred taxes

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

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

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

Deferred taxes relating to fair value remeasurements of financial assets measured at fair value through the item Unrealized or deferred gains and losses of equity and cash flow hedges, and other operations which are charged or credited directly to other comprehensive income, are also credited or charged to other comprehensive income.

1.2.9 Provisions

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

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

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

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

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

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

1.2.10 Interest income and expense

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

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

1.2.11 Commissions

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

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

1.2.12 Earnings per share

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

1.2.13 Cash and cash equivalents

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

1.2.14 Related-party transactions

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

1.2.15 Segment reporting

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

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

Note 2 Notes to the assets (EUR millions)

2.1 Central banks

	12/31/2018	12/31/2019
Mandatory reserve deposits with central banks	-	-
Other deposits	1,271	473
TOTAL	1,271	473

2.2 Financial assets at fair value through profit or loss

2.2.1 Analysis by nature

	12/31/2018	12/31/2019
Loans and advances to customers	5,572	4,894
Non Hedging derivatives	12	5
TOTAL	5,584	4,899

2.2.2 Loans and advances to customers analysis by counterparty

	12/31/2018	12/31/2019
Public sector	5,098	4,463
Other - guaranteed by a State or local government	474	431
TOTAL	5,572	4,894

2.2.3 Analysis by residual maturity

See note 7.4

2.3 Financial assets at fair value through equity

2.3.1 Analysis by nature

	12/31/2018	12/31/2019
Loans	-	-
Bonds	124	91
TOTAL	124	91

2.3.2 Analysis by counterparty

	12/31/2018	12/31/2019
Public sector	94	-
Credit institutions guaranteed by the public sector	30	91
TOTAL PUBLIC SECTOR	124	91
<i>of which replacement assets</i>	<i>30</i>	<i>91</i>

2.3.3 Impairment

See note 7.4.

2.4 Financial assets at amortized cost

2.4.1 Analysis by nature and by counterparty

	12/31/2018	12/31/2019
Current accounts	3	4
SFIL - Refinancing loans for export credits guaranteed by the French State ⁽¹⁾	1,099	2,590
SFIL - Loans not guaranteed by public sector assets ⁽²⁾	798	299
Loans from credit institutions guaranteed by a local authority or municipal credit	232	216
SUBTOTAL LOANS AND RECEIVABLES FROM CREDIT INSTITUTIONS AT AMORTIZED COST	2,132	3,109
Public sector loans	42,296	43,604
Public sector guaranteed loans	1,485	1,197
SUBTOTAL LOANS AND RECEIVABLES FROM CUSTOMERS AT AMORTIZED COST	43,781	44,801
Securities issued by the public sector	7,181	6,800
Securities guaranteed by the public sector	192	116
Securities issued by credit institutions	2,011	2,174
SECURITIES SUBTOTAL AT AMORTIZED COST	9,384	9,090
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	55,297	57,000

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

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

2.4.2 Replacement values

	12/31/2018	12/31/2019
Current accounts	3	4
SFIL - Loans not guaranteed by public sector assets ⁽¹⁾	798	299
Loans from credit institutions	2,011	2,174
TOTAL	2,812	2,477

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

2.4.3 Classification by level of credit risk and impairment

	12/31/2018									Net amount	Accumulated partial write-offs	Accumulated total write-offs
	Gross amount				Impairment							
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total				
Loans and receivables from credit institutions at amortized cost	2,132	-	-	2,132	(0)	-	-	(0)	2,132	-	-	
Loans and receivables from customers at amortized cost	39,351	3,372	1,091	43,814	(2)	(21)	(10)	(33)	43,781	-	-	
Securities at amortized cost	6,553	2,853	5	9,411	(3)	(24)	(0)	(27)	9,384	-	-	
TOTAL FINANCIAL ASSETS AT AMORTIZED COST	48,036	6,225	1,096	55,357	(5)	(45)	(10)	(60)	55,297	-	-	

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

Assets considered as forborne by Caisse Française de Financement Local concern exposure to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognized or to come) that would not have been granted in other circumstances. These concessions may either be a waiver of a part of the debt, a

rescheduling of the loan repayment, restructuring measures through an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions aiming to reduce the sensitivity of the loan.

There were 131 forborne contracts as of December 31, 2019, with 68 borrowers, for a total exposure of EUR 630 million.

2.5 Tax assets

	12/31/2018	12/31/2019
Current income tax	-	7
Other taxes	-	0
CURRENT TAX ASSETS	-	7
DEFERRED TAX ASSETS (SEE NOTE 4.2)	79	72
TOTAL TAX ASSETS	79	79

Deferred tax assets were submitted to a recoverability test taking into account the business plans presented to the Supervisory Board according to realistic hypotheses. Deferred taxes as of December 31, 2019, are recoverable on the basis of this analysis within a reasonable horizon by taking into account the tax rules governing the treatment of

past deficits. As of December 31, 2019, Caisse Française de Financement Local has no deferred tax assets related to carry forward tax losses.

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

2.6 Accruals and other assets

	12/31/2018	12/31/2019
Cash collateral paid	-	-
Other accounts receivable	1	1
Prepaid charges	4	4
Other assets	10	10
TOTAL ACCRUALS AND OTHER ASSETS	15	15

Note 3 Notes to the liabilities (EUR millions)**3.1 Financial liabilities at fair value through profit or loss****3.1.1 Analysis by nature**

	12/31/2018	12/31/2019
Non hedging derivatives ⁽¹⁾	1,195	1,119
TOTAL	1,195	1,119

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

3.1.2 Analysis by residual maturity

See note 7.4.

3.2 Financial liabilities at amortized cost**3.2.1 Analysis by nature**

	12/31/2018	12/31/2019
Current accounts	-	-
Term loans from mother company ⁽¹⁾	4,941	5,206
SUBTOTAL DEBTS TO CREDIT INSTITUTIONS AT AMORTIZED COST	4,941	5,206
Obligations foncières	46,794	46,812
Registered covered bonds	7,648	7,792
SUBTOTAL DEBT SECURITIES AT AMORTIZED COST	54,442	54,604
TOTAL FINANCIAL LIABILITIES AT AMORTIZED COST	59,383	59,810

(1) As of December 31, 2019, the funding borrowed from SFIL within the framework of the financing agreement was comprised of different loans with maturities that could initially run from one day to ten years with an Euribor or EONIA index.

3.3 Tax liabilities

	12/31/2018	12/31/2019
Current income tax	7	8
Other taxes	1	-
CURRENT TAX LIABILITIES	8	8
DEFERRED TAX LIABILITIES (SEE NOTE 4.2)	-	-
TOTAL TAX LIABILITIES	8	8

(1) Following the entry into force of IFRIC 23, tax provisions relating to income tax have been reclassified from Provisions to Current tax liabilities with effect from January 1, 2019.

3.4 Accruals and other liabilities

	12/31/2018	12/31/2019
Cash collateral received	514	580
Other accrued charges	54	12
Deferred income	-	-
Contribution to support fund ⁽¹⁾	100	90
Other accounts payable and other liabilities	13	13
TOTAL	681	695

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

3.5 Provisions

	12/31/2018	Additions, including increases in existing provisions	Amounts used	Unused amounts reversed during the period	Increase in the discounted amount (passage of time) and effect of any change in the discount rate	Other movements	12/31/2019
Pending legal issues and tax litigation ⁽¹⁾	7	-	(7)	-	-	-	-
Commitments and guarantees given	6	0	-	(0)	-	-	6
TOTAL	13	(7)	-	-	-	-	6

(1) In 2019, Caisse Française de Financement Local received notice of the tax adjustment effects for fiscal years 2014 to 2016. The sums due were equal to the sums provisioned in previous years, so it was possible to use these.

Note 4 Other notes on the balance sheet (EUR millions)**4.1 Derivatives****4.1.1 Analysis by nature**

	12/31/2018		12/31/2019	
	Assets	Liabilities	Assets	Liabilities
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS⁽¹⁾	12	1,195	5	1,119
Derivatives designated as fair value hedges	3,023	3,600	3,934	4,107
Derivatives designated as cash flow hedges	(2)	68	(9)	86
Derivatives designated as portfolio hedges	1,114	2,358	977	2,627
HEDGING DERIVATIVES	4,135	6,026	4,902	6,820
CVA/DVA IMPACT	(1)	(32)	(0)	(7)
TOTAL DERIVATIVES	4,146	7,189	4,907	7,932

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

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

	12/31/2018			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,551	1,531	7	25
Interest rate derivatives	4,518	4,518	5	1,170
TOTAL	6,069	6,049	12	1,195

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

4.1.3 Detail of derivatives designated as fair value hedges

	12/31/2018			
	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	2,243	2,427	112	329
Interest rate derivatives	50,913	50,903	2,911	3,271
TOTAL	53,156	53,330	3,023	3,600

12/31/2019

	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	1,677	1,890	106	360
Interest rate derivatives	50,133	50,121	3,828	3,747
TOTAL	51,810	52,011	3,934	4,107

4.1.4 Detail of derivatives designated as cash flow hedges

12/31/2018

	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	697	729	(2)	68
Interest rate derivatives	-	-	-	-
TOTAL	697	729	(2)	68

12/31/2019

	Notional amount		Assets	Liabilities
	To receive	To deliver		
Foreign exchange derivatives	535	605	(9)	86
Interest rate derivatives	-	-	-	-
TOTAL	535	605	(9)	86

12/31/2018

12/31/2019

Amount removed from cash flow hedge reserve and included in the carrying amount of a non-financial instrument (hedging of cash flows of a highly probable transaction)	-	-
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4.1.5 Detail of derivatives designated as portfolio hedges

12/31/2018

	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	51,809	51,804	1,114	2,358
TOTAL	51,809	51,804	1,114	2,358

12/31/2019

	Notional amount		Assets	Liabilities
	To receive	To deliver		
Interest rate derivatives	47,582	47,577	977	2,627
TOTAL	47,582	47,577	977	2,627

4.2 Deferred taxes

Deferred tax assets and liabilities are netted out when they concern the same tax entity.

4.2.1 Analysis by nature

	12/31/2018	12/31/2019
Deferred tax assets before impairment	79	72
Impairment on deferred tax assets	-	-
Deferred tax assets	79	72
Deferred tax liabilities	-	-
TOTAL	79	72

4.2.2 Movements

	12/31/2018	12/31/2019
As of January 1	69	79
Charge/credit recognized in the income statement	(6)	(5)
Effect of change in tax rates - impact on the income statement ⁽¹⁾	-	-
Movements directly recognized in equity	(48)	(2)
Effect of change in tax rates - impact on equity	-	-
Effects of tax adjustment	64	-
Translation adjustment	-	-
Other movements	-	-
AS OF END OF PERIOD	79	72

(1) Caisse Française de Financement Local took into account the legislative measures designed to reduce the corporate income tax rate to 25.83% as of 2022.

4.2.3 Deferred taxes from assets on the balance sheet

	12/31/2018	12/31/2019
Loans and loan loss provisions	1,199	1,074
Securities	(192)	(243)
Derivatives	(591)	(567)
Accruals and other assets	13	13
TOTAL	429	277

4.2.4 Deferred taxes from liabilities on the balance sheet

	12/31/2018	12/31/2019
Borrowings, deposits and issues of debt securities	(352)	(207)
Derivatives	-	-
Provisions	2	2
Accruals and other liabilities	-	-
TOTAL	(350)	(205)

4.3 Transactions with related-parties

Analysis by nature

	Parent company ⁽¹⁾		Other related parties ⁽²⁾	
	12/31/2018	12/31/2019	12/31/2018	12/31/2019
ASSETS				
Loans and advances due from banks at amortized cost	1,897	2,889	-	-
Bonds at amortized cost	-	-	145	-
LIABILITIES				
Due to banks at amortized cost	4,941	5,206	-	-
INCOME STATEMENT				
Interest income on loans and advances due from banks at amortized cost	5	13	(10)	(1)
Interest income on bonds at amortized cost	-	-	(0)	-
Interest expense due to banks on borrowings at amortized cost	3	6	-	-
Fees and commissions	(5)	(1)	(0)	(0)
Net results on derecognition of financial assets at amortized cost	(1)	(2)	-	-
OFF BALANCE SHEET				
Foreign exchange derivatives	1,202	920	-	-
Interest rate derivatives	14,302	15,474	-	-
Commitments and guarantees received	270	50	-	-
Commitments and guarantees given	6,284	5,460	-	-

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

(2) This item may include transactions with Caisse des Dépôts and La Banque Postale, shareholders of SFIL.

4.4 Unrealized or deferred gains and losses

	12/31/2018	12/31/2019
Unrealized gains and losses on financial assets at fair value through equity	(0)	0
Unrealized gains and losses on derivatives designated as cash-flow hedges	(25)	(19)
TOTAL	(25)	(19)
Deferred taxes on gains and losses, financial assets at fair value through equity	0	(0)
Deferred taxes on gains and losses, derivatives designated as cash-flow hedges	6	5
TOTAL AFTER TAXES	(19)	(14)

Note 5 Notes to the income statement (EUR millions)

5.1 Interest income – Interest expense

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

These headings also include interest income and expense on financial instruments recognized at fair value through profit or loss because they do not meet the SPPI criterion due to the fact that the cash flows received do not consist solely of principal and interest payments. However, the change in

value calculated excluding accrued interest on these financial instruments at fair value through profit or loss is recorded under Net result of financial instruments at fair value through profit or loss (see note 5.3).

Interest income and expense on hedging derivatives are included with the revenue generated by the associated hedged items. Meanwhile, certain derivatives not classified as hedging instruments for accounting purposes are held as economic hedges of financial instruments carried at fair value through profit or loss; the interest income and expense on these hedging derivatives are included in the headings recording the interest on these financial instruments.

	2018			2019		
	Income	Expense	Net	Income	Expense	Net
Loans/loans with credit institutions	-	3	3	-	-	-
Loans/loans with customers	167	-	167	147	-	147
Derivatives outside the hedging relationship	25	(178)	(153)	32	(161)	(129)
FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	192	(175)	17	179	(161)	18
Hedging derivatives	1,437	(1,175)	262	1,356	(1,166)	190
HEDGING DERIVATIVES	1,437	(1,175)	262	1,356	(1,166)	190
Securities	5	-	5	(0)	-	(0)
FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	5	-	5	(0)	-	(0)
Central bank accounts	-	(9)	(9)	-	(6)	(6)
Accounts and loans with credit institutions	7	3	10	18	7	25
Accounts and loans with customers	860	-	860	803	-	803
Securities	151	(1,169)	(1,018)	153	(1,064)	(911)
FINANCIAL ASSETS AND LIABILITIES AT AMORTIZED COST	1,018	(1,175)	(157)	974	(1,063)	(89)
TOTAL	2,653	(2,525)	128	2,509	(2,390)	119

Income and expenses, measured using the effective interest rate method were, EUR 974 million and EUR -1,063 million respectively in 2019 and EUR 1,023 million and EUR -1,175 million in 2018.

5.2 Fees and commissions

SFIL commissions paid or received	(5)	2
Other commissions	(2)	(5)
TOTAL	(7)	(3)

5.3 Net result of financial instruments at fair value through profit or loss

All interest received and paid on assets, liabilities and derivatives is recorded in net interest income, as required by IFRS. Thus, net gains (losses) on hedging transactions include only the change in the clean value of derivatives and the revaluation of assets and liabilities qualified as hedge relation.

	2018	2019
Net income from derivatives not documented in a hedging relationship	70	(24)
Net result on financial Assets or liabilities at fair value through profit or loss	(64)	63
Net result of hedge accounting	30	(24)
Net result of foreign exchange transactions	0	1
TOTAL	36	16

Analysis of net result of hedge accounting

	2018	2019
FAIR VALUE HEDGES	(1)	0
Fair value changes in the hedged item attributable to the hedged risk	20	(332)
Fair value changes in the hedging derivatives	(21)	332
CASH FLOW HEDGES	-	-
Fair value changes in the hedging derivatives – ineffective portion	-	-
Discontinuation of cash flow hedge accounting (Cash flows no longer expected to occur)	-	-
PORTFOLIO HEDGE	(0)	-
Fair value changes in the hedged item	49	410
Fair value changes in the hedging derivatives	(49)	(410)
CVA/DVA IMPACT⁽¹⁾	31	(24)
TOTAL	30	(24)

(1) As of December 31, 2019, the application of IFRS 13 shows a net income of EUR -24 million (mainly due to DVA).

5.4 Net result of financial instruments at fair value through equity

	2018	2019
Net result of disposals of bonds at fair value through equity	-	-
Net result of disposals of loans at fair value through equity	0	-
TOTAL	0	-

5.5 Gains and losses resulting from derecognition of financial instruments at amortized costs

	2018	2019
Net result of disposals or prepayments of bonds at amortized cost	0	-
Net result of disposals or prepayments of loans and advances to banks at amortized cost	-	-
Net result of disposals or prepayments of loans and advances to customers at amortized cost	15	10
Net result of disposals or prepayments of due to banks at amortized cost	(1)	(2)
Net result of disposals or prepayments of debt securities at amortized cost	-	-
TOTAL	14	8

Detail of on derecognition of assets and liabilities at amortized cost

	2018		2019	
	Balance sheet	Net banking income	Balance sheet	Net banking income
Prepayments of securities	5	0	-	-
Net result of disposals or prepayments of securities at amortized cost	5	0	-	-
Prepayments of loans and advances to customers	47	6	279	6
Restructuring of loans and advances to customers	68	9	278	4
Net result of disposals or prepayments of loans and advances to customers at amortized cost	115	15	557	10
SUB-TOTAL ASSETS	120	15	557	10
Prepayments of debt to banks	1,275	(1)	286	(2)
Net result of disposals or prepayments of debt to banks at amortized cost	1,275	(1)	286	(2)
Prepayments of debt securities	-	-	100	0
Net result of disposals or prepayments of debt securities at amortized cost	-	-	100	0
SUB-TOTAL LIABILITIES	1,275	(1)	386	(2)
TOTAL		14	-	8

5.6 Operating expense

	2018	2019
Payroll costs	-	-
Other general and administrative expense	(96)	(92)
Taxes	(5)	(5)
TOTAL	(101)	(97)
<i>of which re-invoiced costs by SFIL</i>	<i>(93)</i>	<i>(91)</i>

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

5.7 Cost of risk

	2018				
	January 1	Impairments	Reversals	Losses	December 31
Stage 1	-	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	(0)	0	-	-	(0)
Stage 1	(0)	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
LOANS AND ADVANCES DUE FROM BANKS AT AMORTIZED COST	(0)	(0)	0	-	(0)
Stage 1	(2)	(0)	1	(0)	(1)
Stage 2	(21)	(5)	5	(0)	(21)
Stage 3	(11)	(7)	8	(0)	(10)
LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	(34)	(12)	14	(0)	(32)
Stage 1	(4)	(0)	1	-	(3)
Stage 2	(18)	(11)	5	-	(24)
Stage 3	-	(0)	-	-	(0)
BONDS AT AMORTIZED COST	(22)	(11)	6	-	(27)
Stage 1	(0)	(0)	0	-	(0)
Stage 2	(0)	(0)	0	-	(0)
Stage 3	-	-	-	-	-
OFF-BALANCE SHEET COMMITMENTS AT AMORTIZED COST	(0)	(0)	0	-	(0)
TOTAL	(56)	(24)	20	(0)	(60)

	2019				
	January 1	Impairments	Reversals	Losses	December 31
Stage 1	(0)	-	-	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
FINANCIAL ASSETS AT FAIR VALUE THROUGH EQUITY	(0)	-	-	-	(0)
Stage 1	(0)	(0)	0	-	(0)
Stage 2	-	-	-	-	-
Stage 3	-	-	-	-	-
LOANS AND ADVANCES DUE FROM BANKS AT AMORTIZED COST	(0)	(0)	0	-	(0)
Stage 1	(1)	(3)	3	-	(1)
Stage 2	(21)	(10)	7	-	(24)
Stage 3	(10)	(4)	4	-	(10)
LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST	(32)	(17)	14	-	(35)
Stage 1	(3)	(2)	1	-	(4)
Stage 2	(24)	(0)	12	-	(12)
Stage 3	(0)	(0)	-	-	(0)
BONDS AT AMORTIZED COST	(27)	(2)	13	-	(16)
Stage 1	(0)	(0)	0	-	(0)
Stage 2	(0)	-	0	-	-
Stage 3	-	-	-	-	-
OFF-BALANCE SHEET COMMITMENTS AT AMORTIZED COST	(0)	(0)	0	-	(0)
TOTAL	(60)	(19)	27	-	(52)

5.8 Corporate income tax

5.8.1 Breakdown of tax expense

	2018	2019
Current taxes	(12)	(9)
Deferred taxes	(6)	(5)
Tax adjustment effects	14	3
TOTAL	(4)	(11)

5.8.2 Effective tax expense

The difference between the actual corporate income tax rate and the French tax rate can be analyzed as follow:

	2018	2019
INCOME BEFORE INCOME TAXES	66	51
TAX BASE	66	51
Applicable tax rate at end of the period	34.43%	34.43%
THEORETICAL CORPORATE INCOME TAX AT THE STANDARD RATE	(23)	(18)
Tax effect of non-deductible expenses	(1)	(1)
Tax effect of non-taxable income	-	-
Impact of items taxed at a reduced rate	-	-
Tax audit effects ⁽¹⁾	14	3
Use of corporate income tax rate applicable to the future fiscal years ⁽²⁾	6	5
CORPORATE INCOME TAX RECORDED IN THE INCOME STATEMENT	(4)	(11)

(1) As of the end of 2018, the tax authority had levied adjustments relating to the 2012 and 2013 inspections. It nevertheless reduced the amount of the adjustment relating to the reintegration of the results of the former branch in Ireland, but maintained the principle of taxation of these results in France. Caisse Française de Financement Local settled this adjustment, assessed related deferred taxes and reversed the relevant provisions. It kept in its accounts the amount of the provision set aside in respect of sums not yet called. Following the conclusion of this issue, Caisse Française de Financement Local also took into account the effects of the adjustment on the income tax base for the years 2014 to 2018.

(2) Caisse Française de Financement Local has taken into account the legislative measures designed to reduce the corporate income tax rate to 25.85% as of 2022.

5.8.3 Tax consolidation

Since January 1, 2014, Caisse Française de Financement Local has been a member of the SFIL tax group.

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

6.1 Regular way trade

	12/31/2018	12/31/2019
Assets to be delivered	-	-
Liabilities to be received	-	-

6.2 Guarantees

	12/31/2018	12/31/2019
Guarantees received from credit institutions	8	-
Enhanced guarantees ⁽¹⁾	7,383	8,051
Guarantees received from customers ⁽²⁾	2,232	2,352

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

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

6.3 Financing commitments

	12/31/2018	12/31/2019
Loan commitments granted to credit institutions ⁽¹⁾	6,284	5,460
Loan commitments granted to customers ⁽²⁾	28	4
Loan commitments received from credit institutions ⁽³⁾	270	50
Loan commitments received from customers	-	-

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

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

(3) As of December 31, 2019, this item concerned the amount of the overdraft authorized on the current account with SFIL, which totaled EUR 50 million.

6.4 Other commitments

	12/31/2018	12/31/2019
Commitments given ⁽¹⁾	4	4
Commitments received ⁽²⁾	223	216

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

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

6.5 Financing commitments and other commitments granted

12/31/2018										
Off-balance sheet commitments and financial guarantees under IFRS 9									Commitments and financial guarantees measured at fair value	
Gross amount				Impairment				Net amount	Nominal amount	Accumulated negative changes in fair value due to credit risk on non-performing commitments
Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3				
Granted to credit institutions	6,284	-	-	6,284	-	-	-	6,284	-	-
Granted to customers	5	23	-	28	(0)	(0)	-	28	-	-
TOTAL	6,289	23	-	6,312	(0)	(0)	-	6,312	-	-

12/31/2019										
Off-balance sheet commitments and financial guarantees under IFRS 9									Commitments and financial guarantees measured at fair value	
Gross amount				Impairment				Net amount	Nominal amount	Accumulated negative changes in fair value due to credit risk on non-performing commitments
Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3				
Granted to credit institutions	5,460	-	-	5,460	(0)	-	-	5,460	-	-
Granted to customers	4	-	-	4	(0)	-	(0)	4	-	-
TOTAL	5,464	-	-	5,464	(0)	-	(0)	5,464	-	-

Note 7 Notes on risk exposure (EUR millions)**7.1 Fair value**

This note presents the fair value adjustments that are not recognized, in income or in equity, because they correspond to assets or liabilities valued at amortized cost in the IFRS accounts.

These fair value adjustments take into account the features of the relevant assets and liabilities (maturity, hedging of interest rate risk, amortization profile, and, for assets, their rating); they also take into account current market conditions in terms of price or spread of these same operations, or operations to which they could be assimilated. The breakdown of assets and liabilities as a function of the method used to determine their fair value is shown in Note 7.1.3. below; it can be seen that most assets are valued

according to a technique that takes into account the fact that significant parameters are not observable for the assets since the exposure primarily consists of loans, a form of debt that is not listed on liquid markets. For the valuation of liabilities, certain observable parameters have been used.

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

7.1.1 Composition of the fair value of the assets

	12/31/2018		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	1,271	1,271	-
Loans and advances due from banks at amortized cost	5,584	5,584	-
Hedging derivatives	4,134	4,134	-
Financial assets at fair value through equity	124	124	-
Loans and receivables from credit institutions at amortized cost	2,132	2,150	18
Loans and advances to customers at amortized cost	43,781	43,166	(615)
Securities at amortized cost	9,384	8,165	(1,219)
TOTAL	66,410	64,594	(1,816)

	12/31/2019		
	Book value	Fair value	Unrecognized fair value adjustment
Central banks	473	473	-
Loans and advances due from banks at amortized cost	4,899	4,899	-
Hedging derivatives	4,902	4,902	-
Financial assets at fair value through equity	91	91	-
Loans and receivables from credit institutions at amortized cost	3,109	3,168	59
Loans and advances to customers at amortized cost	44,801	44,374	(427)
Securities at amortized cost	9,090	7,934	(1,156)
TOTAL	67,365	65,841	(1,524)

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

12/31/2018			
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	1,195	1,195	-
Hedging derivatives	5,994	5,994	-
Due to banks at amortized cost	4,941	4,897	(44)
Debt securities at amortized cost	54,442	54,381	(61)
TOTAL	66,572	66,467	(105)

12/31/2019			
	Book value	Fair value	Unrecognized fair value adjustment
Financial liabilities at fair value through profit or loss	1,119	1,119	-
Hedging derivatives	6,813	6,813	-
Due to banks at amortized cost	5,206	5,195	(11)
Debt securities at amortized cost	54,604	55,188	584
TOTAL	67,742	68,315	573

7.1.3 Methods used to determine the fair value of financial instruments

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

- level 1 corresponds to the instruments considered to be liquid, i.e. that their valuation is based on the price observed in a liquid market, for which Caisse Française de Financement Local assured itself of the existence of a large number of contributors. Level 1 securities include in particular certain government bonds.
- level 2 uses another method to determine the value of instruments for which Caisse Française de Financement Local can not observe market prices, but observes such for similar instruments by the same issuer or guarantor listed in the market. In this case, observable prices and other data observable in the market are used and an adjustment is made to account for the degree of the security's lack of liquidity.

- in level 3, when there is no active market or observable market data, the fair value of instruments is determined by using a valuation spread developed from an internal model. Derivatives are valued using these internal models.

The measurement of derivatives is based on an analysis combining the observability of the market data used in the assessment and the robustness of the valuation models measured in terms of efficiency to provide a valuation in market consensus. The result of this application is that the derivatives used by Caisse Française de Financement Local in hedging its activities are primarily of level 2. For the derivatives in level 3, this classification mainly involves hybrid, structured products (interest rate - foreign exchange), spread (correlation) products and options on interest rates. This classification is mainly due to the fact that these products present complex payoffs which require an advanced statistical model with variable parameters which are sometimes unable to be seen in the market.

12/31/2018				
Fair value of financial assets	Level 1	Level 2	Level 3	Total
Central banks	1,271	-	-	1,271
Financial assets at fair value through profit or loss	-	2	5,582	5,584
Hedging derivatives	-	3,391	743	4,134
Financial assets at fair value through equity	-	114	10	124
Loans and advances due from banks at amortized cost	3	1,900	247	2,150
Loans and advances to customers at amortized cost	-	-	43,166	43,166
Bonds at amortized cost	2,488	3,782	1,895	8,165
TOTAL	3,762	9,189	51,643	64,594

	12/31/2019			
Fair value of financial assets	Level 1	Level 2	Level 3	Total
Central banks	473	-	-	473
Financial assets at fair value through profit or loss	-	4	4,895	4,899
Hedging derivatives	-	4,424	477	4,902
Financial assets at fair value through equity	31	60	-	91
Loans and advances due from banks at amortized cost	4	2,900	264	3,168
Loans and advances to customers at amortized cost	-	-	44,374	44,374
Bonds at amortized cost	2,751	3,375	1,808	7,934
TOTAL	3,259	10,763	51,818	65,841

	12/31/2018			
Fair value of financial liabilities	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	823	372	1,195
Hedging derivatives	-	5,683	311	5,994
Debt due to the banks at amortized cost	-	4,897	-	4,897
Debt securities at amortized cost	-	54,381	-	54,381
TOTAL	-	65,784	683	66,467

	12/31/2019			
Fair value of financial liabilities	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss	-	925	194	1,119
Hedging derivatives	-	6,631	183	6,814
Debt due to the banks at amortized cost	-	5,195	-	5,195
Debt securities at amortized cost	-	55,188	-	55,188
TOTAL	-	67,939	377	68,315

Sensitivity of the market value of level 3 financial instruments to changes in reasonably possible hypotheses

The following table gives a synthetic view of financial instruments in level 3 for which changes in hypotheses concerning one or more non observable parameter would cause a significant change in market value. These amounts illustrate the interval of uncertainty inherent in the recourse to judgment in estimating parameters of level 3 or in the choice of valuation techniques and models. They reflect the

uncertainty of valuation which is effective at the date of valuation. Although this uncertainty essentially results from the sensitivity of the portfolio at the date of valuation, it does not make it possible to foresee or to deduct future variations in the market value any more than they represent the effect of extreme market conditions on the value of the portfolio. To estimate sensitivity, Caisse Française de Financement Local either values financial instruments using reasonably possible parameters or applies hypotheses based on its policy of additional valuation adjustments.

	12/31/2018	12/31/2019
Uncertainty inherent in level 3 market parameters	8	4
Uncertainty inherent in level 3 derivatives valuation models	37	34
SENSITIVITY OF THE MARKET VALUE OF LEVEL 3 FINANCIAL INSTRUMENTS	45	38

7.1.4 Transfer between level 1 and 2

	12/31/2018	12/31/2019
Level 1 to level 2	-	-
TOTAL	-	-

7.1.5 Level 3: flow analysis

	Financial assets at fair value through net income	Financial assets at fair value through OCI	Derivatives	Total financial assets
12/31/2018	5,582	10	743	6,335
Total gains and losses through profit and loss	-	-	-	-
Total unrealized or deferred gains and losses	(49)	-	(115)	(164)
Total OCI unrealized or deferred gains and losses	-	-	-	-
Purchase	-	-	-	-
Sale	-	-	-	-
Direct origination	-	-	-	-
Settlement	(638)	(10)	(89)	(737)
Transfer in activities destined to be sold	-	-	-	-
Transfer to level 3	-	-	0	0
Transfer out of level 3	-	-	(63)	(63)
Other variations	-	-	-	-
12/31/2019	4,895	-	477	5,372

Fair value of financial liabilities	Financial liabilities at fair value through profit or loss	Hedging derivatives	Total financial liabilities
12/31/2018	372	311	683
Total gains and losses through profit and loss	-	-	-
Total unrealized or deferred gains and losses profit or loss through	(1)	(73)	(74)
Total unrealized or deferred gains and losses equity through	-	-	-
Purchase	-	-	-
Sale	-	-	-
Direct origination	-	-	-
Settlement	(176)	61	115
Transfer in activities destined to be sold	-	-	-
Transfer to level 3	-	0	0
Transfer out of level 3	-	(116)	(116)
Translation adjustments	-	-	-
12/31/2019	194	183	377

7.2 Off-setting financial assets and liabilities

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

12/31/2018						
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	4,146	-	4,146	(3,629)	(471)	46
Loans and advances at fair value through profit or loss	5,572	-	5,572	-	-	5,572
Loans and advances due from banks at amortized cost	2,132	-	2,132	-	-	2,132
Loans and advances to customers at amortized cost	43,781	-	43,781	-	-	43,781
TOTAL	55,631	-	55,631	(3,629)	(471)	51,531

12/31/2019						
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	4,906	-	4,906	(4,083)	(543)	280
Loans and advances at fair value through profit or loss	4,894	-	4,894	-	-	4,894
Loans and advances due from banks at amortized cost	3,109	-	3,109	-	-	3,109
Loans and advances to customers at amortized cost	44,801	-	44,801	-	-	44,801
TOTAL	57,710	-	57,710	(4,083)	(543)	53,084

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

12/31/2018						
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	7,188	-	7,188	(3,629)	-	3,559
Due to banks	4,941	-	4,941	-	-	4,941
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	12,129	-	12,129	(3,629)	-	8,500

12/31/2019						
	Gross amounts before off-setting	Gross amounts off-set according to IAS 32	Net amounts presented in the balance sheet	Other amounts in the application scope but not offset		Net amounts according to IFRS 7 and 13
				Effect of master netting arrangements	Financial instruments received as collateral	
Derivatives (including hedging instruments)	7,932	-	7,932	(4,083)	-	3,849
Due to banks	5,206	-	5,206	-	-	5,206
Customer borrowings and deposits	-	-	-	-	-	-
TOTAL	13,138	-	13,138	(4,083)	-	9,055

7.3 Exposure to credit risk

In 2019, exposure to credit risks, as presented to management, includes the following:

- for assets other than derivatives: the amount on the balance sheet;
- for derivatives: the derivative's market value (marked-to-market), the amount of collateral exchanged and a flat-rate add-on, depending on the derivative's maturity and the nature of the underlying;
- for off-balance sheet commitments: the undrawn amount of financing commitments, which is stated in the notes to the financial statements.

The metric used is exposure at default (EAD).

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

7.3.1 Breakdown of exposure to credit risks

Analysis of exposure by geographic region

	12/31/2018	12/31/2019
France	61,996	61,977
Italy	6,097	5,989
Germany	374	448
Spain	307	187
United Kingdom	436	171
Belgium	281	257
Other European Union countries	634	926
Norway	255	239
Switzerland	1,025	797
United States and Canada	673	845
Japan	38	41
TOTAL EXPOSURE	72,116	71,877

Analysis of exposure by category of counterparty

	12/31/2018	12/31/2019
States	9,917	10,808
Local public sector	58,197	57,310
Other assets guaranteed by public sector entities	12	26
Financial institutions	3,990	3,724
Other exposures	-	9
TOTAL EXPOSURE	72,116	71,877

Exposure on financial institutions is primarily comprised of counterparties in hedging derivatives and replacement assets. As of December 31, 2019, Caisse Française de Financement Local had no asset-backed securities.

Analysis of exposure by category of instrument

	12/31/2018	12/31/2019
Banks	1,271	473
Fair value loans through profit or loss	5,839	4,937
Hedging derivatives	977	1,124
Securities at fair value through equity	124	209
Loans to credit institutions amortized cost	798	303
Loans to customers at amortized cost	46,964	50,135
Securities at amortized cost	9,816	9,199
Accruals and other assets	15	33
Financing commitments	6,312	5,464
TOTAL EXPOSURE	72,116	71,877

7.3.2 Evaluation of asset credit quality

Caisse Française de Financement Local decided to use the advanced method recommended by the regulators in relation to the Basel III reforms on the capital adequacy ratio and capital requirements. Caisse Française de Financement Local has developed internal rating models covering the main client segments. These models were validated by the banking supervisors who authorized the Group to use these advanced internal models for the calculation and reporting of equity requirements for credit risk as of January 1, 2008.

This enables Caisse Française de Financement Local to present on December 31, 2019, an analysis of its exposures, broken down by risk weighting, as used to calculate equity requirements. Credit weighting is mainly calculated on the basis of the probability of default of the counterparty and of the loss incurred in the event of default.

This analysis confirms the excellent quality of the assets in Caisse Française de Financement Local's portfolio. Almost 78% of the portfolio has a weighting of less than 5% and more than 95% of the portfolio has a weighting that is less than or equal to 20%.

	Risk weighting (Basel III)					Total
	from 0 to 2%	from 2 to 5%	from 5% to 20%	from 20% to 50%	more than 50%	
Banks	473					473
Fair value loans through profit or loss	3,799	438	539		161	4,937
Hedging derivatives	575		109	407	33	1,124
Securities at fair value through equity			209			209
Loans to credit institutions amortized cost		299	4	0	-	303
Loans to customers at amortized cost	38,782	4,164	6,644	0	546	50,135
Securities at amortized cost	1,186	648	5,176	11	2,179	9,199
Accruals and other assets	23	0	0		9	33
Financing commitments	5,464	1	-			5,464
TOTAL EXPOSURE	50,302	5,550	12,681	418	2,927	71,877
QUOTE-PART DE L'EXPOSITION TOTALE	70.0%	7.7%	17.6%	0.6%	4.1%	100.0%

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

7.4 Liquidity risk: analysis by term to maturity

7.4.1 Breakdown of assets

	12/31/2019						Total broken down
	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	
Central banks	473	-	-	-	-	-	473
Financial assets at fair value through profit or loss	-	154	296	1,271	2,427	-	4,149
Hedging derivatives	-	-	-	-	-	-	-
Financial assets at fair value through equity	-	30	60	-	-	-	90
Loans and advances due from banks at amortized cost	4	6	565	1,210	1,323	-	3,108
Loans and advances to customers at amortized cost	13	1,095	2,911	14,123	24,767	-	42,909
Bonds at amortized cost	-	440	685	3,233	3,422	-	7,780
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax assets	-	-	-	-	-	79	79
Accruals and other assets	-	-	6	-	9	-	15
TOTAL	490	1,725	4,524	19,839	31,948	79	58,604

12/31/2019

	Total broken down	Accrued interest	Fair value adjustment	Impairment	Total
Central banks	473	(0)	-	-	473
Financial assets at fair value through profit or loss	4,149	70	680	-	4,899
Hedging derivatives	-	637	4,264	-	4,901
Financial assets at fair value through equity	90	1	0	-	91
Hedging derivatives	3,108	1	-	(0)	3,109
Loans and advances to customers at amortized cost	42,909	388	1,540	(36)	44,801
Bonds at amortized cost	7,780	83	1,243	(16)	9,090
Fair value revaluation of portfolio hedge	-	-	2,774	-	2,774
Tax assets	79	-	-	-	79
Accruals and other assets	15	-	-	-	15
TOTAL	58,604	1,179	10,502	(53)	70,233

7.4.2 Breakdown of liabilities, excluding equity

12/31/2019

	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total broken down
Central banks	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	-	-	-	-	-
Hedging derivatives	-	-	-	-	-	-	-
Due to banks at amortized cost	-	100	718	3,378	1,014	-	5,210
Customer borrowing and deposits at amortized cost	-	-	-	-	-	-	-
Debt securities at amortized cost	-	634	4,206	16,718	28,399	-	49,957
Fair value revaluation of portfolio hedge	-	-	-	-	-	-	-
Tax liabilities	-	-	8	-	-	-	8
Accruals and other liabilities	-	605	10	40	40	-	695
Provisions	-	-	-	6	0	-	6
Subordinated debt	-	-	-	-	-	-	-
TOTAL	-	1,339	4,942	20,142	29,453	-	55,876

12/31/2019

	Total broken down	Accrued interest	Fair value adjustment	Total
Central banks	-	-	-	-
Financial assets at fair value through profit or loss	-	62	1,057	1,119
Hedging derivatives	-	433	6,380	6,813
Due to banks at amortized cost	5,210	(4)	-	5,206
Customer borrowing and deposits at amortized cost	-	-	-	-
Debt securities at amortized cost	49,957	722	3,924	54,604
Fair value revaluation of portfolio hedge	-	-	338	338
Tax liabilities	8	-	-	8
Accruals and other liabilities	695	(0)	-	695
Provisions	6	-	-	6
Subordinated debt	-	-	-	-
TOTAL	55,876	1,213	11,699	68,789

7.4.3 Net liquidity gap

12/31/2019

	Sight	Less than 3 months	3 months to 1 year	1 to 5 years	More than 5 years	No fixed maturity	Total not broken down	Total
AMOUNT	490	386	(418)	(303)	2,495	79	(1,284)	1,444

This table presents the balance sheet at the closing date; it does not take into account the management decisions that will make it possible to manage differences in maturity or the future production of assets and liabilities. Caisse Française de Financement Local's liquidity is provided by its refinancing agreement with SFIL. In addition, the Company may obtain funding from the Banque de France, by giving

certain of these assets in guarantee. In addition to access to the central bank in its own name, Caisse Française de Financement Local can also mobilize certain of these eligible assets by using interbank financing in the form of repurchase agreements. If necessary, these transactions would easily cover its cash flow requirements.

7.5 Currency risk

12/31/2018

Classification by original currency	EUR	Other EU currencies	USD	Other currencies	Total
Total assets	67,364	978	173	541	69,056
Total liabilities	67,364	978	173	541	69,056
NET BALANCE SHEET POSITION	-	-	-	-	-

12/31/2019

Classification by original currency	EUR	Other EU currencies	USD	Other currencies	Total
Total assets	68,950	543	167	572	70,233
Total liabilities	68,950	543	167	572	70,233
NET BALANCE SHEET POSITION	-	-	-	-	-

Caisse Française de Financement Local takes no foreign exchange risk. Assets and liabilities originally in non-euro currencies are swapped against Euribor as soon as they are recognized on the balance sheet.

7.6 Sensitivity to interest rate risk

To limit its impact, interest rate risk is hedged in two stages by Caisse Française de Financement Local:

- in the first stage, all the assets and the liabilities benefiting from the privilege which do not naturally have a floating rate are hedged against Euribor until maturity as soon as they are recorded on the balance sheet. In practice, acquisitions of loan portfolios (in which the unit amount is generally small) are usually macro-hedged. Loans granted individually or bond issues can be micro- or macro-hedged. Hedging of assets and liabilities is more often obtained in using new interest rate swaps, but the same effect can also be obtained whenever possible by the cancelation of swaps of opposite direction;
- in the second stage, Euribor lending and borrowing flows (naturally or after hedges) are swapped against EONIA over a sliding period of maximum two years in order to eliminate the basis risk generated by differences in the tenor (EURIBOR 1, 3, 6 or 12 months) and the fixing risk due to refixing dates of reference indices that differ for the assets and the liabilities. The residual risk is managed using macro-hedges with a management horizon of one week.

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

Non-privileged debt is not concerned by these hedging operations. In fact, debt contracted by Caisse Française de Financement Local with its shareholder to finance over-collateralization is borrowed either directly with a EONIA 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 the Banque de France with a fixed rate (if any) is not hedged, but finances fixed rate assets.

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

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

Fixed rate gap	Difference between balance sheet and off-balance sheet assets and liabilities for fixed-rate transactions or transactions for which the rate has been set. It is calculated every month until balance sheet run-off.
Index gaps	Difference between balance sheet and off-balance sheet assets and liabilities for a given index tenor that has not yet been fixed. This gap is calculated every month until balance sheet run-off.
Basis gaps	Gaps resulting from matching two index gaps. There are therefore as many basis gaps as there are index pairs.
Fixing gap	For a given index tenor: difference between floating rate balance sheet and off-balance sheet assets and liabilities, by fixing.

- the monthly production of net present value (NPV) sensitivity indicators for a rate shock of 100 basis points aims to regulate the residual positions of CAFFIL's fixed rates (after hedging). These indicators are calculated on 4 predefined time buckets (1 year, ST, MT, LT), and regulated by calibrated limits to avoid losing more than 6% of equity (i.e. EUR 80 million) with a 99% quantile calculated on a 10-year history:

Translation of the rate curve	Limit of EUR 25 million
Sloping/rotation of the interest rate curve on the furthest point of the curve	Limit of EUR 10 million for each of the 4 time buckets
Sloping/rotation of the interest rate curve inside a time bucket	Limit of EUR 40 million on the absolute value of the sensitivities inside a time bucket

Limiting directional risk

The measurement of sensitivity at the end of each quarter is presented below.

Directional risk

Total sensitivity

(EUR millions)	Limit	03/31/2019	06/30/2019	09/30/2019	12/31/2019
Sensitivity	(25/25)	(0.2)	(0.1)	3.2	(0.3)

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	03/31/2019	06/30/2019	09/30/2019	12/31/2019
Short term	10/(10)	(5.5)	(5.7)	(0.1)	(5.5)
Medium term	10/(10)	(3.5)	(5.6)	(8.6)	(9.2)
Long term	10/(10)	5.3	6.7	5.7	8.4
Very long term	10/(10)	3.6	4.4	6.2	6.0

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value					
(EUR millions)	Limit ⁽¹⁾	03/31/2019	06/30/2019	09/30/2019	12/31/2019
Short term	40	15.0	9.3	5.9	10.8
Medium term	40	9.8	13.3	11.0	15.3
Long term	40	8.9	6.8	8.2	12.3
Very long term	40	12.8	8.0	10.5	9.0

(1) The limit which applied to points prior to December 31, 2019 was EUR 20 million. As at December 31, 2019, this was EUR 40 million.

Note 8 Post-closing events

No event impacting the Company's financial situation has occurred between the closing date and the management report date. Concerning the Coronavirus (COVID-19) pandemic, the SFIL Group is following the recommendations of the World Health Organization and the French government and has implemented the measures necessary to maintain operational continuity in all its business activities, in particular, almost all of its workers are working remotely and a crisis cell has been meeting daily to adapt the working methods used. The SFIL Group's teams have been very closely monitoring the disruptions to the financial markets since the crisis began. The impact on current and planned future operations for SFIL and CAFFIL, and on their counterparties (customers, banks, partners) are being reassessed regularly. On the date this report was published, no impact was identified that may have significant

consequences on the group's financial situation and its capacity to honor its commitments. Time lags in the collection of income from some of its assets (consisting entirely of exposures to public sector borrowers) may be considered, as well as the postponement of certain bond issues in the event of unfavorable market conditions. Nevertheless, the liquidity risk is limited by the good matching of the maturity profiles of assets and liabilities and the ability to benefit from the financing proposed by the European Central Bank through high-quality assets in the portfolio. Moreover, the quality of SFIL's shareholding structure, its status as a public development bank, the quality of CAFFIL's and SFIL's standings, the very rigorous risk management and the solid solvency ratio are all advantages within the current context.

3.3 Statutory auditors' report on the financial statements established under IFRS standards

Year ended December 31, 2019

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

To the President of the Executive Board,

In our capacity as statutory auditors of Caisse Française de Financement Local (the "Company") and pursuant to your request, in the context of the wish of your Company to provide more extensive financial information to investors, we have audited the accompanying financial statements of Caisse Française de Financement Local for the year ended December 31, 2019 established in accordance with IFRS as adopted by the European Union.

These financial statements have been established by your Executive Board and approved on March 16, 2020 based on the available information at that time related to the evolving Covid-19 health crisis. Our role is to express an opinion on these financial statements, based on our audit. Regarding the events that took place after the audit year-end closing and related to the Covid-19 crisis impact, we have been informed by the management that a communication will be provided at the general meeting called to approve the financial statements.

We conducted our audit in accordance with professional standards applicable in France and the professional guidance issued by the French Institute of statutory auditors (*Compagnie nationale des commissaires aux comptes*) relating to this engagement. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the annual financial statements, established in accordance with IFRS as adopted by the European Union, are free of material misstatement. An audit includes examining, using sample testing techniques or other selection methods, evidence supporting the amounts and disclosures in the annual financial statements. An audit also includes evaluating the appropriateness of accounting policies used and significant accounting estimates made, as well as evaluating the overall financial statement presentation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements present fairly, in all material respects, the assets and liabilities and the financial position of the Company as of year-end, and the results of its operations for the year then ended in accordance with IFRS as adopted by the European Union.

Without qualifying the opinion expressed above, we draw your attention to the application of IFRS 16 "Leases" standard and IFRIC 23 "uncertainty related to the treatment of income taxes" starting from January 1, 2019 and set out in Note 1 "Accounting policies and valuation methods".

This report is governed by French law. The courts of France shall have exclusive jurisdiction over any claim, dispute or difference resulting from our engagement letter or the present report, or any related matters. Each party irrevocably waives its right to oppose any action brought before French courts, to claim that the action is being brought before an illegitimate court or that the courts have no jurisdiction.

Paris-La-Défense, March 31, 2020

The Statutory Auditors

French original signed by

DELOITTE & ASSOCIES

Sylvie Bourguignon

ERNST & YOUNG et Autres

Vincent Roty



Financial statements according to French GAAP

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French GAAP financial statements

4.1 Financial statements

4.1.1 Assets

<i>EUR millions</i>	Notes	31/12/2018	31/12/2019
Central banks	2.1	1,271	473
Government and public securities	2.2	3,160	3,340
Loans and advances due from banks	2.3	2,157	3,133
Loans and advances to customers	2.4	46,114	45,950
Bonds and other fixed income securities	2.5	5,299	4,601
Equities and other variable income securities		-	-
Investments in non-consolidated companies and other long-term investments		-	-
Investments in consolidated companies		-	-
Intangible assets		-	-
Property and equipment		-	-
Unpaid capital		-	-
Uncalled subscribed capital		-	-
Treasury stock		-	-
Other assets	2.6	7	13
Accruals and other assets	2.7	2,576	2,522
TOTAL ASSETS	2.8	60,584	60,032

4.1.2 Liabilities

<i>EUR millions</i>	Notes	31/12/2018	31/12/2019
Central banks		-	-
Due to banks	3.1	4,941	5,206
Customer borrowings and deposits		-	-
Debt securities	3.2	51,052	50,395
Other liabilities	3.3	635	691
Accruals and other liabilities	3.4	2,418	2,222
Provisions	3.5	92	66
Subordinated debt		-	-
EQUITY		1,446	1,452
Share capital	3.6	1,350	1,350
Additional paid-in capital	3.6	-	-
Reserves and retained earnings	3.6	52	56
Net income	3.6	44	46
TOTAL LIABILITIES	3.7	60,584	60,032

4.1.3 Off-balance sheet items

<i>EUR millions</i>	Notes	31/12/2018	31/12/2019
COMMITMENTS GRANTED	4.1	6,316	5,468
Financing commitments		6,312	5,464
Guarantees granted		-	-
Commitments on securities		-	-
Other commitments granted		4	4
COMMITMENTS RECEIVED	4.2	10,117	10,669
Financing commitments		270	50
Guarantees received		9,847	10,619
Commitments on securities		-	-
Forward commitments		-	-
Other commitments received		-	-
OTHER COMMITMENTS	4.3	119,774	114,760
Foreign currency transactions		12,449	13,091
Interest currency derivatives		107,325	101,669
Engagements on bonds		-	-

4.1.4 Income statement

<i>EUR millions</i>	Notes	2018	2019
Interest income	5.1	1,013	1,018
Interest expense	5.1	(863)	(885)
Income from variable income securities		-	-
Commission income	5.2	1	3
Commission expense	5.2	(8)	(6)
Net gains (losses) on held for trading portfolio		-	(0)
Net gains (losses) on placement portfolio	5.3	(9)	8
Other banking income		-	0
Other banking expense		-	(0)
NET BANKING INCOME		134	138
General operating expenses	5.4	(101)	(98)
Depreciation and amortization		-	-
GROSS OPERATING INCOME		33	41
Cost of risk	5.5	(16)	11
INCOME FROM OPERATIONS		17	52
Gains or losses on fixed assets		-	-
INCOME BEFORE NON-RECURRING ITEMS AND TAXES		17	52
Non-recurring items		-	-
Income tax	5.6	27	(6)
NET INCOME		44	46
Basic earnings per share		3.23	3.40
Diluted earnings per share		3.23	3.40

4.1.5 Equity

<i>EUR millions</i>	Amount
AS OF 12/31/2018	
Share capital	1,350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	52
Net income for the year	44
Interim dividends	-
EQUITY AS OF 12/31/2018	1,446
MOVEMENTS FOR THE PERIOD	
Changes in share capital	-
Changes in additional paid-in capital	-
Changes in commitments to increase share capital and additional paid-in capital	-
Changes in reserves and retained earnings	45
Dividends paid (-)	(41)
Changes in net income for the period	2
Other movements	-
AS OF 12/31/2019	
Share capital	1,350
Additional paid-in capital	-
Commitments to increase share capital and additional paid-in capital	-
Reserves and retained earnings	56
Net income for the period	46
EQUITY AS OF 12/31/2019	1,452

4.1.6 Cash flow statement

<i>EUR millions</i>	2018	2019
NET INCOME BEFORE TAXES	17	52
+/- Depreciation and write-downs	(98)	(19)
+/- Expense/income from operating activities	(19)	40
+/- Expense/income from financing activities	(13)	(36)
+/- Other items	165	(142)
= NON-MONETARY ELEMENTS INCLUDED IN NET INCOME BEFORE TAX AND OTHER ADJUSTMENTS	35	(157)
+/- Cash from interbank operations	(1,151)	(714)
+/- Cash from customer operations (loans)	679	98
+/- Cash from customer financing assets	(934)	547
+/- Cash from hedging financial instruments	(286)	(18)
- Income tax paid	4	(21)
= DECREASE/(INCREASE) IN CASH FROM OPERATING ACTIVITIES	(1,688)	(108)
CASH FLOW FROM OPERATING ACTIVITIES (A)	(1,636)	(213)
CASH FLOW FROM INVESTING ACTIVITIES (B)	-	-
+/- Cash from or for shareholders	(50)	(41)
+/- Other cash from financing activities	1,246	(537)
CASH FLOW FROM FINANCING ACTIVITIES (C)	1,196	(578)
EFFECT OF EXCHANGE RATES CHANGES ON CASH (D)	-	-
INCREASE/(DECREASE) IN CASH EQUIVALENTS (A + B+ C + D)	(440)	(791)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	1,721	1,281
Central banks (assets and liabilities)	1,706	1,271
Interbank accounts (assets and liabilities) and loans/deposits at sight	15	10
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	1,281	490
Central banks (assets and liabilities)	1,271	473
Interbank accounts (assets and liabilities) and loans/deposits at sight	10	17
NET CHANGE IN CASH	(440)	(791)

4.2 Notes to the French GAAP financial statements

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Note 1 Accounting and valuation policies

1.1 Applicable accounting standards: rules adopted by the French accounting standards Board (*Autorité des Normes Comptables - ANC*)

The financial statements as of December 31, 2019, were examined by the Executive Board on March 16, 2020.

Caisse Française de Financement Local prepares its financial statements in compliance with ANC Regulation n° 2014-07 issued on November 26, 2014 and related to the accounts for the reporting entities of the banking sector, and in particular credit institutions. As stated in its article 3 and subject to the provisions of the latter regulation, these reporting entities prepare their financial statements in compliance with ANC Regulation n° 2014-03 issued on June 5, 2014 and related to general accounting plan. The financial statements are furthermore in accordance with the indications of Directive 86/635/EEC of the Council of European Communities.

The financial statements as of December 31, 2019, were prepared using the same accounting policies as those used in the financial statements as of December 31, 2018. Between these two dates, the applicable regulation has in particular been amended as such:

- **ANC regulation n° 2019-06 issued on November 8, 2019 (amending ANC Regulation n° 2014-03):** this regulation amends the general accounting plan and, more specifically, its Title VII as regards the way to account for and evaluate mergers and similar operations. This regulation introduces the concept of “demerger without a share exchange” and extends the one of “simplified merger”, renamed “merger without a share exchange”, to the case of two subsidiaries completely held by the same parent company. Moreover, it specifies how mergers and demergers without a share exchange shall be recognized in the accounts of the merging company and in the ones of the parent company.

This regulation has no impact on Caisse Française de Financement Local financial statements given that the latter has been involved in no merger or demerger operation without a share exchange in the reporting period.

Furthermore, for the record, the following regulation, issued in 2018, is applicable from January 1, 2019.

- **ANC regulation n° 2018-02 issued on July 6, 2018 (amending ANC Regulation n° 2014-03):** this regulation amends the general accounting plan so as to adapt it to the entry into force of the income tax at source on January 1, 2019. Applicable from this date, the regulation clarifies the principles of recognition of the income tax at source and introduces the new accounts created in that purpose.

This regulation has no impact on Caisse Française de Financement Local financial statements, given that the latter has no salaried employees in accordance with the provisions of article L.513-15 of the Monetary and Financial Code, the general management of its operations having been entrusted by a contract to its parent company, SFIL, a credit institution.

1.2 Accounting principles applied to the financial statements

The financial statements have been prepared in accordance with French generally accepted accounting principles, respecting the principles of prudence, sincerity and true and faithful image, on the basis of the following assumptions:

- going concern principle;
- segregation of accounting periods;
- consistency of methods;
- historical costs;
- no netting principle;
- intangibility of the opening balance sheet.

1.2.1 Loans and advances to banks and to customers

Loans and advances to banks include all loans connected to banking transactions with credit institutions, except securities. They are broken down into sight accounts and term loans. They include in particular loans granted to SFIL refinancing export credit transactions.

Loans and advances to customers comprise loans granted to local governments.

Loans and advances to customers are recognized in the balance sheet net of impairment for possible losses. The undrawn portion of signed loan contracts is recognized as an off-balance sheet item.

Interest on loans is recognized as Interest income, *prorata temporis* for accrued amounts due and not yet due, as is interest on past-dues.

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

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

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

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

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

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

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

1.2.2 Securities

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

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

The item Bonds and other fixed income securities includes:

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

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

1.2.2.1 Investment securities

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

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

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

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

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

1.2.2.2 Placement securities

Securities that do not fit in investment securities are recognized as placement securities.

Placement securities are recognized on the date of purchase at acquisition clean price, excluding fees. Accrued interest at the date of acquisition and subsequently accrued interest at each closing date is recognized on the balance sheet in the

same categories as the corresponding security. Interest on these securities is recognized as Interest income.

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

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

If the market for a financial instrument is not active, valuation techniques are used to calculate its selling price. The valuation model should take into account all the factors that market players would consider to value the asset. Within this framework, Caisse Française de Financement Local relies on its own valuation models, making every effort to take into account the market conditions at the date of the valuation as well as any changes in the credit quality of these financial instruments and market liquidity.

When the decrease in the value of the security exceeds the unrealized gain on the micro-hedge, the decrease in net value is recognized as asset impairment in Net gains (losses) on placement portfolio transactions, as well as subsequent impairment reversals and capital gains and losses on sales.

Placement securities transferred to investment securities are recognized at their acquisition cost and previously recognized impairment is reversed over the residual maturity of the securities concerned.

1.2.3 Debt due to banks

Debt due to banks is broken down according to the type of debt (sight accounts, current accounts, long-term loans or non-allocated receivables) and the initial maturity (sight or term debt).

Interest accrued on this debt is recognized in liabilities, offsetting income statement.

1.2.4 Debt securities

Debt securities comprise *obligations foncières* and other resources benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code (Registered covered bonds).

Debt securities are recognized at nominal value.

Redemption and issue premiums are amortized according to a quasi-actuarial method over the maturity of the securities concerned *pro rata temporis*. They are recognized on the balance sheet in the same categories as the corresponding debt. Amortization of these premiums is recognized in the income statement as Interest expense. If securities are issued above par, amortization of issue premiums is deducted from Interest expense.

Interest is recognized in the net interest margin for accrued amounts calculated *pro rata temporis*.

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

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

1.2.5 Provisions

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

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

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

1.2.6 Derivative transactions

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

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

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

1.2.6.1 Micro-hedge transactions

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

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

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

1.2.6.2 Macro-hedge transactions

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

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

If the prepayment of a loan leads to the cancellation of macro-hedge swaps, the swaps termination fee is recognized in the income statement at the termination date.

1.2.7 Foreign currency transactions

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

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

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

1.2.8 Foreign exchange transactions

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

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

1.2.9 Guarantees

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

1.2.10 Non-recurring income and expense

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

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

1.2.11 Tax consolidation

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

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

1.2.12 Offices and activities in uncooperative States and territories

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

1.2.13 Identity of the parent company consolidating the accounts of Caisse Française de Financement Local as of December 31, 2019

SFIL

1-3 rue du Passeur de Boulogne

92130 Issy-les-Moulineaux

Note 2 Notes to the assets (EUR millions)

2.1 Central banks

	12/31/2018	12/31/2019
Mandatory reserves	-	-
Other deposits	1,271	473
TOTAL	1,271	473

2.2 Government and public entity securities eligible for central bank refinancing

2.2.1 Accrued interest included in this item: 49

2.2.2 Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
25	72	758	2,436	3,291

2.2.3 Breakdown of listed securities and other securities excluding accrued interest

	Net amount as of 12/31/2018	Gross amount as of 12/31/2019	Impairment as of 12/31/2019	Net amount as of 12/31/2019	Net amount as of 12/31/2018 ⁽²⁾
Listed securities ⁽¹⁾	2,858	3,291	-	3,291	279
Other securities	280	-	-	-	-
TOTAL	3,138	3,291	-	3,291	279

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

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

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

Portfolio	Net amount as of 12/31/2018	Gross amount as of 12/31/2018	Acquisitions	Amortization, redemption or disposals	Others movements	Gross amount as of 12/31/2019
Trading	-	-	-	-	-	-
Placement	891	891	-	(386)	(3)	502
Investment	2,247	2,247	553	-	(11)	2,789
TOTAL	3,138	3,138	553	(386)	(14)	3,291

Portfolio	Gross amount as of 12/31/2019	Impairment as of 12/31/2019	Net amount as of 12/31/2019 ⁽¹⁾	Unrealized capital gain or loss as of 12/31/2019 ⁽²⁾
Trading	-	-	-	-
Placement	502	(0)	502	60
Investment	2,789	-	2,789	219
TOTAL	3,291	(0)	3,291	279

(1) This amount includes a premium/discount of EUR 13 million for the placement portfolio and of EUR 110 million for the investment portfolio.

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

2.2.5 Impairment breakdown by country

See note 2.9

2.3 Loans and advances due from banks

2.3.1 Sight loans and advances due from banks

	12/31/2018	12/31/2019
Sight accounts	3	4
Unallocated sums	-	-
TOTAL	3	4
<i>of which replacement assets</i>	3	4

2.3.2 Term loans and advances due from banks

2.3.2.1 Accrued interest included in this item: 1

2.3.2.2 Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
6	565	1,211	1,346	3,128

2.3.2.3 Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2018	Gross amount as of 12/31/2019	Decrease in value as of 12/31/2019	Net amount as of 12/31/2019
Loans of less than 1 year	110	300	-	300
Loans of more than 1 year	2,043	2,828	-	2,828
TOTAL	2,153	3,128	-	3,128

2.3.2.4 Breakdown by counterparty

	12/31/2018	12/31/2019
SFIL – Export credits refinancing loans guaranteed by the French State ⁽¹⁾	1,097	2,589
SFIL – Others loans ⁽²⁾	800	300
Banks guaranteed by a local government, <i>crédits municipaux</i>	8	0
Other credit institutions: loans benefiting from the assignment in guarantee of refinanced public debt	248	239
TOTAL	2,153	3,128
<i>of which replacement assets</i>	800	300

(1) The Caisse Française de Financement Local grants loans to its parent company, SFIL, to refinance major export contracts granted by the latter. These loans benefit from an irrevocable and unconditional 100% guarantee from the French State, known as an enhanced guarantee.

(2) The Caisse Française de Financement Local grants loans to its parent company, SFIL, as part of the investment of its cash surpluses. These loans are eligible for replacement securities.

2.4 Customer loans and advances

2.4.1 Accrued interest included in this item: 457

2.4.2 Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
1,339	3,167	15,181	25,806	45,493

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

Economic sector	12/31/2018	12/31/2019
Public sector	43,681	43,860
Other sectors	1,944	1,633
TOTAL	45,625	45,493

2.4.4 Analysis by initial maturity excluding accrued interest

	Net amount as of 12/31/2018	Gross amount as of 12/31/2019	Impairment as of 12/31/2019	Net amount as of 12/31/2019
Loans of less than 1 year	7	13	-	13
Loans of more than 1 year	45,618	45,507	(27)	45,480
TOTAL	45,625	45,520	(27)	45,493

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

	Net amount as of 12/31/2018	Gross amount as of 12/31/2019	Impairment as of 12/31/2019	Net amount as of 12/31/2019
Performing commitments	45,275	45,177	-	45,177
Non-performing loans	194	164	(2)	162
Compromised non-performing loans	156	179	(25)	154
TOTAL	45,625	45,520	(27)	45,493

Assets considered as forborne by Caisse Française de Financement Local concern exposures to loan contracts for which concessions have been granted in light of the borrower's financial difficulties (recognized or to come) that would not have been granted in other circumstances. These concessions may either be a waiver of a part of the debt, a rescheduling of the loan repayment, restructuring measures

through an amendment to the loan contract, or a partial or full refinancing of the loan with a new contract, including for transactions targeting the reduction of the sensitivity of the loan.

There were 131 forborne contracts as of December 31, 2019, with 68 borrowers, for a total of EUR 630 million.

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

	12/31/2018	Allocations	Reversals	Transfers	12/31/2019
FOR NON-PERFORMING LOANS					
On loans	-	-	-	-	-
On interest	(3)	(1)	2	-	(2)
FOR COMPROMISED NON-PERFORMING LOANS					
On loans	-	-	-	-	-
On interest	(24)	(4)	3	-	(25)
TOTAL	(27)	(5)	5	-	(27)

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

2.4.7 Impairment breakdown by country

See note 2.9.

2.5 Bonds and other fixed income securities

2.5.1 Accrued interest included in this item: 35

2.5.2 Analysis by residual maturity excluding accrued interest

Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
406	399	1,845	1,916	4,566

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

	31/12/2018	31/12/2019
Public sector	3,039	2,229
Other sectors (guaranteed by a State or by a local government)	171	92
Credit institutions	2,030	2,245
TOTAL	5,240	4,566
<i>of which replacement assets</i>	<i>2,030</i>	<i>2,245</i>

2.5.4 Analysis by listed securities and other securities excluding accrued interest

	Gross amount as of 12/31/2019	Impairment as of 12/31/2019	Net amount as of 12/31/2019	Unrealized capital gain or loss as of 12/31/2019 ⁽²⁾
Listed securities ⁽¹⁾	2,806	(1)	2,805	116
Other securities	1,761	(0)	1,761	(67)
TOTAL	4,567	(1)	4,566	49

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

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

2.5.5 Analysis by type of portfolio excluding accrued interest and changes during the year

Portfolio	Net amount as of 12/31/2018	Gross amount as of 12/31/2018	Acquisitions	Amortization, redemption or disposals	Others movements	Gross amount as of 12/31/2019
Trading	-	-	-	-	-	-
Placement	2,330	2,331	116	-	(7)	2,440
Investment	2,910	2,910	-	(775)	(8)	2,127
TOTAL	5,240	5,241	116	(775)	(15)	4,567

Portfolio	Gross amount as of 12/31/2019	Impairment as of 12/31/2019	Net amount as of 12/31/2019 ⁽¹⁾	Unrealized capital gain or loss as of 12/31/2019 ⁽²⁾
Trading	-	-	-	-
Placement	2,440	(1)	2,439	59
Investment	2,127	-	2,127	(9)
TOTAL	4,567	(1)	4,566	50

(1) This amount includes a premium/discount of EUR 25 million for the placement portfolio and of EUR 68 million for the investment portfolio.

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

2.5.6 Breakdown of impairment by country

See note 2.9.

2.6 Other assets

	12/31/2018	12/31/2019
Taxes	-	7
Other receivables	7	6
TOTAL	7	13

2.7 Accruals and other assets

	31/12/2018	31/12/2019
Deferred losses on hedging transactions	1,310	1,165
Deferred charges on bond issues	51	51
Prepaid charges on hedging transactions	154	148
Premiums on acquisition of loans	304	464
Other prepaid charges	-	0
Accrued interest not yet due on hedging transactions	752	689
Translation adjustments	-	-
Other deferred income	1	1
Other accruals	4	4
TOTAL	2,576	2,522

2.8 Total assets

Analysis by original currency	Amount in original currency as of 12/31/2018	Amount in euros as of 12/31/2018	Amount in original currency as of 12/31/2019	Amount in euros as of 12/31/2019
EUR	59,188	59,188	59,140	59,140
AUD	20	12	20	13
CAD	510	327	510	350
CHF	609	540	134	123
GBP	129	144	128	151
JPY	16,115	128	16,115	132
NOK	1,039	105	1,039	106
PLN	45	10	47	11
SEK	0	0	0	0
USD	148	130	7	6
TOTAL		60,584		60,032

2.9 Breakdown of impairment by country

	Net amount as of 12/31/2018	Amount as of 12/31/2019
GOVERNMENT AND PUBLIC ENTITY - PLACEMENT SECURITIES	(0)	(0)
France	(0)	(0)
BONDS AND OTHER FIXED INCOME - PLACEMENT SECURITIES	(1)	(1)
France	(1)	(0)
Germany	-	(0)
Belgium	(0)	-
Canada	-	(0)
Denmark	(0)	-
Finland	-	(0)
Norway	(0)	-
Netherlands	(0)	(0)
United Kingdom	(0)	-
Sweden	(0)	(0)
BONDS AND OTHER FIXED INCOME - INVESTMENT SECURITIES	-	-
LOANS AND ADVANCES TO CUSTOMERS	(27)	(27)
France	(27)	(27)

Note 3 Notes to the liabilities (EUR millions)

3.1 Due from banks

At the end of December 31, 2019, funding obtained from SFIL, within the framework of the financing agreement, was comprised of different loans with maturities initially between one day and ten years, indexed on Euribor or Eonia.

3.1.1 Accrued interest included in this item: (4)

3.1.2 Due from banks excluding accrued interest

	12/31/2018	12/31/2019
Sight accounts	-	-
Current account - parent company	4,943	5,210
Term borrowing - parent company	-	-
Unallocated sums	-	-
TOTAL	4,943	5,210

3.1.3 Analysis by residual maturity excluding accrued interest

	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Sight	-	-	-	-	-
Term	100	718	3,378	1,014	5,210
TOTAL	100	718	3,378	1,014	5,210

3.2 Debt securities

3.2.1 Debt securities (*obligations foncières*)

3.2.1.1 Accrued interest included in this item: 574

3.2.1.2 Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
<i>Obligations foncières</i>	634	4,145	15,689	22,844	43,312
<i>of which net issue premiums⁽¹⁾</i>	(0)	(4)	(3)	(51)	(58)

(1) The gross amount of positive and negative issue premiums totaled EUR -139 million before amortization.

3.2.1.3 Changes during the year excluding accrued interest

Type of securities	Amount as of 12/31/2018	Increases	Decreases	Translation adjustments	Amount as of 12/31/2019
<i>Obligations foncières</i>	43,871	3,940	(4,447)	(52)	43,312

3.2.2 Other bonds (registered covered bonds)

3.2.2.1 Accrued interest included in this item: 149

3.2.2.2 Analysis by residual maturity excluding accrued interest

Type of securities	Less than 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	Total
Registered covered bonds	-	48	873	5,440	6,360
<i>of which net issue premiums⁽¹⁾</i>	-	-	(0)	39	39

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

3.2.2.3 Changes during the year excluding accrued interest

Type of securities	Amount as of 12/31/2018	Increases	Decreases	Translation adjustments	Amount as of 12/31/2019
Registered covered bonds	6,391	100	(131)	-	6,360

3.3 Other liabilities

	12/31/2018	12/31/2019
Cash collateral received	514	580
Accrued interest not yet due on cash collateral received	(0)	(0)
Taxes	8	8
Balances to pay on unwound hedging contracts	-	-
Contribution to the support fund ⁽¹⁾	100	90
Other creditors	13	13
TOTAL	635	691

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

3.4 Accruals and other liabilities

	12/31/2018	12/31/2019
Deferred gains on hedging transactions	-	-
Deferred income on hedging transactions	1,399	1,231
Deferred income on loans	157	144
Accrued interest not yet due on hedging transactions	585	546
Other accrued charges	54	12
Translation adjustments	223	289
Other accruals	0	0
TOTAL	2,418	2,222

3.5 Provisions for risks and charges

	Amount as of 12/31/2018	Increases	Decreases	Translation adjustments	Amount as of 12/31/2019
Loans and commitments ⁽¹⁾	47	4	(15)	-	35
Financial instruments ⁽²⁾	38	0	(8)	-	30
Other provisions ⁽³⁾	7	-	(7)	-	-
TOTAL	92	4	(30)	-	66

(1) The change in provisions for loans and commitments is mainly due to additions and removals from the customer credit watchlist approved during 2019.

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

(3) In 2019, Caisse Française de Financement Local received notice of the tax adjustments for fiscal years 2014 to 2016. The sums due were equal to the sums provisioned in previous years, so it was possible to use these.

3.6 Equity

	Amount as of 12/31/2018	Amount as of 12/31/2019
Share capital	1,350	1,350
Legal reserve	50	53
Retained earnings (+/-)	2	3
Net income (+/-)	44	46
TOTAL	1,446	1,452

On May 28, 2019, the Ordinary and Extraordinary Shareholders' Meeting decided to allocate the 2018 net profit, is EUR 43 millions after taking into account of positive retained earnings, to payment of a dividend in the amount of EUR 40.5 million, the difference EUR 2 million has been allocated to the retained earnings.

Caisse Française de Financement Local's share capital totaled EUR 1,350 million, comprising 13,500,000 shares.

3.7 Total liabilities

Analysis by original currency	Amount in original currency as of 12/31/2018	Amount in euros as of 12/31/2018	Amount in original currency as of 12/31/2019	Amount in euros as of 12/31/2019
EUR	59,188	59,188	59,140	59,140
AUD	20	12	20	13
CAD	510	327	510	350
CHF	609	540	134	123
GBP	129	144	128	151
JPY	16,115	128	16,115	132
NOK	1,039	105	1,039	106
PLN	45	10	47	11
SEK	0	-	0	0
USD	148	130	7	6
TOTAL		60,584		60,032

3.8 Transactions with related parties

Analysis by nature	Parent company ⁽¹⁾		Other related parties ⁽²⁾	
	12/31/2018	12/31/2019	12/31/2018	12/31/2019
ASSETS				
Loans and advances due from banks – sight	-	-	-	-
Loans and advances due from banks – term	1,897	2,890	-	-
Bonds and other fixed income securities	-	-	145	-
LIABILITIES				
Due to banks – sight	-	-	-	-
Due to banks – term	4,941	5,206	-	-
INCOME STATEMENT				
Interest income on loans and advances	2	12	(10)	(2)
Interest income on debt securities	-	-	(0)	(0)
Interest expense on borrowings	2	4	-	-
Net commissions	(5)	2	(0)	(0)
OFF-BALANCE SHEET				
Interest rate derivatives	14,313	15,484	-	-
Foreign exchange derivatives	1,022	692	-	-
Commitments and guarantees received	270	50	-	-
Commitments and guarantees given	6,284	5,460	-	-

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

(2) This item may include transactions with Caisse des Dépôts and La Banque Postale, shareholders of SFIL.

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

4.1 Commitments granted

	12/31/2018	12/31/2019
Financing commitments granted to credit institutions ⁽¹⁾	6,284	5,460
Financing commitments granted to customers ⁽²⁾	28	4
Other commitments given, assets assigned in guarantee ⁽³⁾	4	4
TOTAL	6,316	5,468

(1) Within the framework of the export credit business, this amount corresponds to a commitment by Caisse Française de Financement Local to refinance its parent company, SFIL.

(2) Financing commitments granted to customers correspond to contracts signed for loans not yet paid out to customers at year-end.

(3) It means the irrevocable payment commitment to the Fonds de garantie et de résolution.

4.2 Commitments received

	12/31/2018	12/31/2019
Financing commitments received from credit institutions ⁽¹⁾	270	50
Currencies borrowed	-	-
Guarantees received from credit institutions	8	-
Enhanced guarantees ⁽²⁾	7,383	8,051
Guarantees received from local governments and asset transfers as guarantees of commitments on local governments	2,456	2,568
Other commitments received	-	-
TOTAL	10,117	10,669

(1) At the end of December 2019, this item corresponded to the amount of the overdraft, authorized in the current account agreement set up with SFIL, totaling EUR 50 million.

(2) The financing and financing commitments granted to SFIL by Caisse de Financement Local to refinance the former's large export credits benefit from a 100% unconditional and irrevocable guarantee of the French State, referred to as an enhanced guarantee.

4.3 Foreign currency transactions

Cash and forward foreign exchange transactions are recorded at their value in foreign currencies translated at the exchange rate at the end of the period.

The items Currencies to receive and Currencies to deliver are composed of long currency swaps with intermediate payment flows corresponding to hedging transactions.

	12/31/2018	12/31/2019	Fair value as of 12/31/2019
Currencies to receive	6,002	6,256	(305)
Currencies to deliver	6,225	6,546	227
TOTAL	12,227	12,802	(78)

4.4 Commitments on interest rate derivatives

Commitments on interest rate derivatives are recorded in accordance with CRB standards 88-02 and 90-15: amounts related to unconditional operations are recorded at the contractual notional value.

4.4.1 Analysis of over-the-counter interest rate transactions by residual maturity

Type of transaction	Amount as of 12/31/2018	Less than 1 year	1 year to 5 years	More than 5 years	12/31/2019
Notional amount	107,325	21,234	37,978	42,456	101,669
of which deferred start	2,636	2,000	250	786	3,036

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

4.4.2 Analysis of interest rate transactions by product type

	12/31/2018	12/31/2019
Interest rate swaps	107,325	101,669
Term contracts	-	-
Interest rate options	-	-
TOTAL	107,325	101,669

4.4.3 Analysis of interest rate swap transactions

	12/31/2018	12/31/2019	Fair value as of 12/31/2019
Micro-hedge	61,760	58,427	(149)
Macro-hedge	45,565	43,242	(2,510)
TOTAL	107,325	101,669	(2,659)

4.4.4 Analysis of interest rate transactions by counterparty

	12/31/2018	12/31/2019
Related parties	14,313	15,484
Other counterparties	93,012	86,185
TOTAL	107,325	101,669

Note 5 Notes to the statement of income (EUR millions)

5.1 Interest and related income/expense

	2018	2019
INCOME	1,013	1,018
Due from banks	5	8
Due from customers	879	742
Bonds and other fixed income securities	73	76
Macro-hedge transactions	56	193
Other commitments	-	-
EXPENSE	(863)	(885)
Due to banks	(4)	(2)
Due to customers	(190)	(98)
Bonds and other fixed income securities	(197)	(187)
Macro-hedge transactions	(472)	(598)
Other commitments	-	-
INTEREST MARGIN	150	134

5.2 Commissions

	2018	2019
Commissions received from or paid to SFIL	(5)	2
Other commissions	(2)	(5)
TOTAL	(7)	(3)

5.3 Analysis of gains and losses on portfolio transactions

	2018	2019
Transactions on placement securities ⁽¹⁾	(9)	8
Transactions on investment securities	0	-
Transactions on interest rate derivatives	0	-
Foreign exchange transactions	(0)	(0)
TOTAL	(9)	8

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

5.4 General expenses

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

General operating expense can be broken down as follows:

	2018	2019
Payroll costs	-	-
Other general operating expense	(96)	(92)
Taxes	(5)	(6)
TOTAL	(101)	(98)
<i>of which re-invoiced costs by SFIL</i>	<i>(93)</i>	<i>(91)</i>

5.5 Cost of risk

	2018	2019
Collective and specific impairments	(16)	11
TOTAL	(16)	11

5.6 Corporate income tax

	2018	2019
Income tax for the year ⁽¹⁾	(12)	(9)
Provisions for tax litigation ⁽²⁾	39	3
TOTAL	27	(6)

(1) The corporate tax rate in France is 34.43%.

(2) Following the conclusion of the tax audit and in light of the notice received from the authorities of the effects of this audit on the tax base for previous years, Caisse Française de Financement Local has taken these effects into account and recorded an income of EUR 3 million in its 2019 financial statements.

Note 6 Post-closing events

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

Concerning the Coronavirus (COVID-19) pandemic, the SFIL Group is following the recommendations of the World Health Organization and the French government and has implemented the measures necessary to maintain operational continuity in all its business activities, in particular, almost all of its workers are working remotely and a crisis cell has been meeting daily to adapt the working methods used. The SFIL Group's teams have been very closely monitoring the disruptions to the financial markets since the crisis began. The impact on current and planned future operations for SFIL and CAFFIL, and on their counterparties (customers, banks, partners) are being reassessed regularly. On the date this report was published,

no impact was identified that may have significant consequences on the group's financial situation and its capacity to honor its commitments. Time lags in the collection of income from some of its assets (consisting entirely of exposures to public sector borrowers) may be considered, as well as the postponement of certain bond issues in the event of unfavorable market conditions. Nevertheless, the liquidity risk is limited by the good matching of the maturity profiles of assets and liabilities and the ability to benefit from the financing proposed by the European Central Bank through high-quality assets in the portfolio. Moreover, the quality of SFIL's shareholding structure, its status as a public development bank, the quality of CAFFIL's and SFIL's standings, the very rigorous risk management and the solid solvency ratio are all advantages within the current context.

4.3 Statutory Auditors' report on the financial statements

For the year ended December 31, 2019

This is a translation into English of the Statutory Auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This Statutory Auditors' report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

To the Shareholders' Meeting of Caisse Française de Financement Local,

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying financial statements of Caisse Française de Financement Local for the year ended December 31, 2019. These financial statements were approved by the Executive Board of March 16, 2020 based on the available information at that time related to the evolving Covid-19 health crisis.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as of December 31, 2019 and of the results of its operations for the year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Financial Statements Committee of SFIL, the parent company of Caisse Française de Financement Local and also acting as the Audit Committee of the latter.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Statutory Auditors' Responsibilities for the Audit of the Financial Statements" section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2019 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 or in the French Code of Ethics (*code de déontologie*) for statutory auditors.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Credit risk relating to customer loans

Considerations	Summary of planned audit procedure
<p>In connection with its activities, CAFFIL is mainly exposed to customer credit risk. At 31 December 2019, total outstanding customer loans amounted EUR 45,95 billion. CAFFIL is exposed to a credit risk, hence is in need of separating its individual impairments from its collective provisions.</p> <p>Individual impairment charges are recognized for non-performing loans. Interest is fully impaired, and the fraction of principal impaired is determined by Risk Management in function of incurred losses. As of December 31, 2019, these individual impairments amounted to EUR 27 million.</p> <p>Collective provision estimate is performed with a risk model based on an approach derived from Basel approach. Because CAFFIL exercises judgment and makes accounting estimates to value the individual impairments of non-performing loans and the collective provision, we considered these estimates to be a key audit matter. The individual impairments and collective provisions are set forth in Notes 2.4 and 3.5 to the financial statements.</p>	<p>Our audit approach consisted in familiarizing ourselves with the process for valuing individual impairments and collective provisions. We tested the key controls set up by management to determine the assumptions and parameters used as a basis for this valuation.</p> <p>Concerning performing loans that have deteriorated and for which provisions are determined on a collective basis, our procedures, with the support of our experts, consisted in:</p> <ul style="list-style-type: none"> analyzing the assumptions and the documentation to identify counterparties under watchlist and those which have a significant increase of credit risk; reviewing, with the support of our Public-Sector experts, the rating system for French local governments and public healthcare facilities; examining the main parameters adopted to value collective provisions; recalculation, with the support of our Credit Risk experts, of collective provision by type of counterparty. <p>For non-performing loans, our procedures consisted in testing as of December 31, 2019, from a selection of the most significant loans, the main assumptions adopted to estimate individual impairments.</p> <p>We have also examined the qualitative and quantitative disclosures described in Notes 2.4 « Advances to customers » and 3.5 « Provisions for contingencies and losses » to the financial statements.</p>

Verification of the Management Report and of the other documents provided to Shareholders

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information given in the Management Report and in the other documents provided to the Shareholders with respect to the financial position and the financial statements

We have verified the fair presentation and the consistency with the financial statements of the information given in the management report approved by the Executive Board on March 16, 2020 and in the other documents provided to Shareholders with respect to the financial position and the financial statements. Regarding the events that took place after the audit year-end closing and related to the Covid-19 crisis impact, we have been informed by the management that a communication will be provided at the general meeting called to approve the financial statements.

Based on this work, the fair presentation and the consistency with the financial statements of the information relating to payment deadlines mentioned in Article D.441-4 of the French Commercial Code lead us to make the following remark: as stated in the management report, the information does not include bank transactions and related transactions, as your company considers that they do not fall within the scope of the information to be provided.

Report on corporate governance

We attest that the Supervisory Board's Report on corporate governance sets out the information required by Article L.225-37-4 of the French Commercial Code (Code de commerce).

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Caisse Française de Financement Local by the annual general meeting held on May 26, 2008 for DELOITTE & ASSOCIES and on May 31, 2017 for ERNST & YOUNG et Autres.

As of December 31, 2019, DELOITTE & ASSOCIES was in the 12th year of total uninterrupted engagement and ERNST & YOUNG et Autres in the 3rd year.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Financial Statements Committee of SFIL entity, acting as the Audit Committee of the Caisse Française de Financement Local, is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The financial statements were approved by the Executive Board.

Statutory Auditors' responsibilities for the audit of the financial statements

Objectives and audit approach

Our role is to issue a report on the financial statements. Our objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L.823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation

Report to the Financial Statements Committee of SFIL entity, acting as the Audit Committee of the Caisse Française de Financement Local

We submit a report to the Financial Statements Committee of SFIL entity, acting as the Audit Committee of the Caisse Française de Financement Local, which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Financial Statements Committee of SFIL entity, acting as the Audit Committee of the Caisse Française de Financement Local includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Financial Statements Committee of SFIL entity, acting as the Audit Committee of the Caisse Française de Financement Local with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French Commercial Code and in the French Code of Ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the Financial Statements Committee of SFIL entity, acting as the Audit Committee of the Caisse Française de Financement Local, the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Paris-La Défense, March 31, 2020

The Statutory Auditors
French original signed by

DELOITTE & ASSOCIÉS

Sylvie Bourguignon

ERNST & YOUNG et Autres

Vincent Roty



Supplemental disclosures

5.1 Over-collateralization ratio

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5.2 Breakdown of the fees
of the Statutory Auditors

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5.1 Over-collateralization ratio

Pursuant to articles L.513-12 and R.513-8 of the Monetary and Financial Code, the total of the assets of *sociétés de crédit foncier* must at all times be greater than 105% of the liabilities benefiting from the privilege referred to in article L.513-11 of the Monetary and Financial Code.

Assets covering liabilities benefiting from the privilege (Weighted amounts in EUR millions)		12/31/2019
Exposures on public sector entities		53,801
Interests in securitization funds or similar entities which satisfy the conditions of article L.513-5 of the Monetary and Financial Code		-
Replacement assets		2,538
Other assets		1,614
Operations deducted from the assets		-
TOTAL ASSETS		57,953
Liabilities benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code (Weighted amounts in EUR millions)		12/31/2019
<i>Obligations foncières</i>		43,370
Other bonds benefiting from the privilege		6,321
Liabilities related to these securities		722
Amounts owed under the contract stipulated in article L.513-15 of the Monetary and Financial Code		11
Amounts owed for derivatives benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code		1,416
Debt attributable to miscellaneous expenses mentioned in the last section of article L.513-11 of the Monetary and Financial Code		0
TOTAL LIABILITIES		51,841
OVER-COLLATERALIZATION RATIO		111.8%

5.2 Breakdown of the fees of the Statutory Auditors

	Deloitte & Associés				Ernst & Young et Autres			
	Amount including VAT		%		Amount including VAT		%	
	2018	2019	2018	2019	2018	2019	2018	2019
(In EUR thousands)								
Statutory audit	413	259	86%	78%	413	216	87%	77%
Services other than statutory audit	68	74	14%	22%	64	64	13%	23%
TOTAL	481	333	100%	100%	477	280	100%	100%

Services other than statutory audit principally cover expenses related to the review of issue programs and comfort letters to public issues, and audit or review of IFRS financial statements.



Combined Shareholders' Meeting of May 27, 2020

**6.1 Observations of the Supervisory
Board**

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6.1 Observations of the Supervisory Board

Dear Sirs,

Pursuant to the provisions of article L.225-68 of the Commercial Code, we hereby state that we have no comment to make on the management report of the Executive Board or on the financial statements for the year ended December 31, 2019.

The Supervisory Board wishes to thank the Executive Board for the initiatives taken and the results achieved during the year ended December 31, 2019.

The Supervisory Board



General information

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7.1 Legal and administrative information

Corporate name

Caisse Française de Financement Local

Acronym

CAFFIL

Headquarters

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

Legal structure

Société anonyme à directoire et conseil de surveillance, a joint-stock corporation with an Executive Board and a Supervisory Board.

Official approval

The Company was approved by the Comité des Établissements de Crédit et des Entreprises d'Investissement (CECEI) on July 23, 1999, as a *société financière – société de crédit foncier*. This approval became definitive on October 1, 1999. *Ordonnance* 2013-544 of June 27, 2013, modified the legal status of *sociétés de crédit foncier* (article L.513-2 of the Monetary and Financial Code). Since January 1, 2014, *sociétés de crédit foncier* are no longer financial companies (*sociétés financières*), but specialized credit institutions (*établissements de crédit spécialisés*).

Applicable legislation

A corporation under the provisions of articles L.210-1 *et seq.* of the Code of Commerce, articles L.511-1 *et seq.* of the Monetary and Financial Code and articles L.513-2 *et seq.* of the Monetary and Financial Code.

Incorporation date

The Company was created on December 29, 1998, for a period of 99 years.

Corporate purpose (article 2 of the by-laws)

The Company's exclusive purpose is:

- to grant or to acquire exposures on public sector entities as defined in article L.513-4 of the 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 Monetary and Financial Code;
- to hold assets, securities and deposits according to the conditions defined by decree to be considered replacement assets;
- in order to finance the above-mentioned exposures, to issue *obligations foncières* benefiting from the privilege defined in article L.513-11 of the Monetary and Financial Code and finance and raise other funds, for which the contract or document intended for the general public within the meaning of article L.412-1 of the Monetary and Financial Code, or any equivalent document required for admission to foreign regulated markets mentions this privilege.

The Company may also fund the above-mentioned activities by issuing bonds or other sources of financing that do not benefit from the privilege defined in article L.513-11 of the Monetary and Financial Code.

The Company may mobilize, in accordance with articles L.211-36 to L.211-40 of the Monetary and Financial Code or in accordance with articles L.313-23 to L.313-35 of the Monetary and Financial Code, all or part of the assets it holds, regardless of whether or not they are trade receivables.

Within the framework of the achievement of the exclusive purpose mentioned above, the Company may conduct all related operations directly or indirectly associated with its activities or contributing to this exclusive purpose, as long as these operations are carried out in accordance with the terms of articles L.513-2 *et seq.* and R.513-1 *et seq.* of the Monetary and Financial Code related to *sociétés de crédit foncier*.

Company registration and APE business identification code

Caisse Française de Financement Local is registered as a corporate entity under the designation NANTERRE 421 318 064 (Registre du Commerce et des Sociétés). Its APE code is 6492Z.

Availability of information

Legal documents concerning Caisse Française de Financement Local may be consulted at the Company's registered office:

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

Fiscal year (article 38 of the by-laws)

The Company's fiscal year begins on January 1 and ends on December 31.

Exceptional events and lawsuits

See the section on litigation in part 1.12.2.5. of the management report of this annual financial report.

Allocation of income (article 39 of the by-laws)

Income available for distribution comprises net income for the year minus any prior year losses and any allocations to reserves pursuant to current legislation, plus any retained earnings carried forward from previous years.

From the available surplus, the Ordinary Shareholders' Meeting, voting on a recommendation of the Executive Board, may allocate all or a part of the remaining income to retained earnings.

There are no priority shares or priority dividends.

Annual Shareholders' Meetings

Calling of meetings (article 27 of the by-laws)

Annual Shareholders' Meetings are called as required by current legislation. They are held at the Company's registered office or any other location specified in the notice of meeting.

All shareholders have the right to obtain copies of the documents required to make an informed decision concerning the overall management and control of the Company.

The types of documents concerned and the terms of their availability and dispatch are determined by applicable legislation and regulations.

Right to attend annual Shareholders' Meetings

Legal rights apply.

Voting rights (article 31 of the by-laws)

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

Information about the capital and shares

Amount of the capital

Share capital currently stands at EUR 1,350,000,000 represented by 13,500,000 nominative shares with a face value of EUR 100.

There are no other securities that grant rights to shares in the capital of Caisse Française de Financement Local.

Capital in the last five years

Date of the Shareholders' Meeting	Date of the capital increase	Amount of the capital increase (EUR)	Cumulated capital (EUR)
5/26/2015			1,315,000,000
5/25/2016			1,315,000,000
5/30/2017	6/8/2017	35,000,000	1,350,000,000
5/28/2018			1,350,000,000
5/28/2019			1,350,000,000

Breakdown of capital	2015	2016	2017	2018	2019
SFIL	99.99%	99.99%	99.99%	99.99%	99.99%
Individual investors	0.01%	0.01%	0.01%	0.01%	0.01%

From January 31, 2013 to May 18, 2016, Caisse Française de Financement Local was 99.99%-owned by SFIL (previously denominated Société de Financement Local), and 0.01% of its capital was in the hands of private investors (individuals, members of the Supervisory Board, to whom SFIL had lent shares).

Since May 18, 2016, only one individual, a member of the Supervisory Board, has kept a share of the Company (lent by SFIL as a *prêt de consommation d'action*).

7.2 Declaration of financial support

On January 31, 2013, SFIL (previously denominated Société de Financement Local) formalized a declaration of financial support for its subsidiary Caisse Française de Financement Local.

"Société de Financement Local acquired Caisse Française de Financement Local, previously called Dexia Municipal Agency, a société de crédit foncier, governed by articles L.515-13⁽¹⁾ et seq. of the Monetary and Financial Code."

"Société de Financement Local will hold more than 99% of the capital of Caisse Française de Financement Local on a long-term basis."

"Société de Financement Local and the French State, its reference shareholder, will ensure that Caisse Française de Financement Local will always be able to pursue its activity in an ongoing manner and to honor its financial commitments in compliance with the obligations imposed by banking regulations in effect."

(1) Now article L.513-2 of the Monetary and Financial Code in application of ordonnance No. 2013-544 of June 27, 2013.

7.3 Statement by the person responsible

I, Gilles Gallerne, Chairman of the Executive Board of Caisse Française de Financement Local, hereby affirm that to the best of my knowledge, the financial statements have been prepared in conformity with applicable accounting standards and present fairly, in all material aspects, the assets and liabilities, financial position and results of Caisse Française de Financement Local, and that the management report presents a fair image of trends in the Company's business, results and financial position, as well as a description of the main risks and uncertainties it faces.

Signed in Issy-les-Moulineaux, March 31, 2020

Gilles GALLERNE
Chairman of the Executive Board







Caisse Française de Financement Local

Société anonyme à directoire et conseil de surveillance
A French joint-stock corporation with an Executive Board and a Supervisory Board
Capital of EUR 1,350,000,000
R.C.S. NANTERRE 421 318 064

Headquarters

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