



Report on asset quality
as of September 30, 2018
Caisse Française de Financement Local
(Instruction n° 2011-I-07 of June 15, 2011)

C.I.B 14 388

The report on asset quality, compliant with Instruction No. 2011-I-07 of, June 15, 2011, aims at presenting all of the assets comprising the cover pool of Caisse Française de Financement Local and the management framework of its interest rate and liquidity risks.

As of September 30, 2018, Caisse Française de Financement Local's cover pool is made of EUR 47.6 billion of loans, EUR 6.8 billion of bonds and EUR 2.1 billion of replacement assets, that correspond to the following exposures:

EUR thousands, as of 09/30/2018	Total Cover pool	Assets removed from the Cover pool	Total Outstanding
Exposures on public sector	54,392,285	678	54,392,963
Asset-backed securities	-	-	-
Replacement assets	2,056,213	35,000	2,091,213
TOTAL	56,448,498	35,678	56,484,176

As a *société de crédit foncier*, Caisse Française de Financement Local can access the refinancing possibilities offered by the Banque de France to banks. Within the framework of the management of its cover pool and its cash, Caisse Française de Financement Local can thus remove some assets from its cover pool and pledge them to the central bank to obtain funding from tenders organized by the Banque de France. Caisse Française de Financement Local did not use this possibility over the course of the last three years (with the exception of operational access tests, regularly implemented) and no asset has been pledged to the Banque de France as of September 30, 2018.

The cover pool does not contain any asset-backed securities. The current and future *obligations foncières* issued by Caisse Française de Financement Local are in line with the eligibility criteria required by the European Central Bank for refinancing and are also compliant with regulations rules CRR / CRD IV.

1. MORTGAGE LOANS

Caisse Française de Financement Local has no mortgage loans in its cover pool.

2. EXPOSURES ON PUBLIC SECTOR

2.1 BREAKDOWN BY COUNTERPARTY

Direct exposures refer to exposures on public sector entities and indirect exposures to exposures fully guaranteed by public sector entities. Exposures in a foreign currency are converted into euro using the exchange rate of the hedging swap.

Loans and bonds are presented after specific impairments and are off premium / discount.

EUR thousands	Direct Exposure		Indirect Exposure		Total	Of which past due ⁽¹⁾
	Loans	Bonds	Loans	Bonds		
COUNTRY						
France						
State :						
- export refinancing	-	-	682,119	-	682,119	-
- others ⁽²⁾	5,036	-	112,612	-	117,648	-
Banque de France ⁽³⁾	1,052,677	-	-	-	1,052,677	-
Regions	1,913,254	523,908	255,555	-	2,692,717	33,442
Departments	6,800,755	206,458	180,789	-	7,188,002	
Municipalities	15,233,467	67,983	386,758	-	15,688,208	29,121
Groups of municipalities ⁽⁴⁾	11,418,024	82,756	139,811	-	11,640,591	3,141
Public sector entities :						
- health	6,125,365	58,290	-	-	6,183,655	153
- social housing	1,193,425	-	-	-	1,193,425	3
- others	873,838	162,620	1,085	-	1,037,543	109
Sub total	44,615,841	1,102,015	1,758,729	-	47,476,585	65,969
Germany						
Länder	-	275,000	-	-	275,000	-
Sub total	-	275,000	-	-	275,000	-
Austria						
Länder	-	-	183,179	-	183,179	-
Sub total	-	-	183,179	-	183,179	-
Belgium						
Regions	4,219	-	18,500	-	22,719	-
Public sector entities	49,476	-	-	-	49,476	-
Sub total	53,695	-	18,500	-	72,195	-
Canada						
Municipalities	100,287	-	-	-	100,287	-
Public sector entities	34,485	-	-	-	34,485	-
Sub total	134,772	-	-	-	134,772	-
Spain						
State	-	150,000	-	-	150,000	-
Regions	-	64,853	-	-	64,853	-
Municipalities	79,045	-	-	-	79,045	-
Sub total	79,045	214,853	-	-	293,898	-
United States						
Federated States	-	252,943	-	-	252,943	-
Sub total	-	252,943	-	-	252,943	-

EUR thousands	Direct Exposure		Indirect Exposure		Total	Of which past due
	Loans	Bonds	Loans	Bonds		
COUNTRY						
Italy						
State	-	535,414	-	-	535,414	-
Regions	-	1,942,080	-	-	1,942,080	-
Provinces	-	493,861	-	-	493,861	-
Municipalities	7,289	1,768,731	-	-	1,776,020	-
Sub total	7,289	4,740,086	-	-	4,747,375	-
Japon						
Municipalities	-	25,000	-	-	25,000	-
Sub total	-	25,000	-	-	25,000	-
Portugal						
State	-	10,000	-	-	10,000	-
Municipalities	15,453	-	-	-	15,453	-
Public sector entities	3,867	-	-	-	3,867	-
Sub total	19,320	10,000	-	-	29,320	-
United Kingdom						
State	-	-	-	162,327	162,327	-
Sub total	-	-	-	162,327	162,327	-
Sweden						
Municipalities	18,490	-	-	-	18,490	-
Sub total	18,490	-	-	-	18,490	-
Switzerland						
Cantons	256,699	-	25,399	-	282,098	-
Municipalities	354,853	-	-	-	354,853	2,297
Public sector entities	60,350	-	-	-	60,350	-
Sub total	671,902	-	25,399	-	697,301	2,297
Supranational						
International organizations	23,900	-	-	-	23,900	-
Sub total	23,900	-	-	-	23,900	-
TOTAL	45,624,254	6,619,897	1,985,807	162,327	54,392,285	68,266

(1) Caisse Française de Financement Local publishes annual and semi-annual accounts. Consequently, data relating to non-performing and litigious loans, and specific impairments as of September 30, 2018, are not disclosed in the table below. Nevertheless, non-performing loans and specific impairments are under regular monitoring and can lead to some adjustments of exposures presented in this table.

(2) Of which EUR 112,448 thousand on operations linked to partnership agreements.

(3) Caisse Française de Financement Local's Banque de France account as of September 30, 2018

(4) Of which EUR 19,203 thousand on operations linked to partnership agreements.

2.2 RATINGS

Caisse Française de Financement Local has no exposure (except replacement assets as described below) that would require a minimal rating from a rating agency recognized by the Autorité de contrôle prudentiel et de résolution (ACPR).

2.3 BREAKDOWN BY MATURITY DATE

EUR thousands, as of 09/30/2018

Residual maturity		Term to maturity					TOTAL
Maturity date in years	Number of deals ⁽¹⁾	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	
0	2,844	1,855,460	255,221	15,321	-	-	2,126,002
1	3,300	83,640	70,204	308,943	532,418	-	995,205
2	2,892	72,641	54,031	86,572	616,228	-	829,472
3	2,666	52,806	67,759	79,201	663,396	-	863,162
4	2,743	40,356	52,988	77,653	996,900	-	1,167,897
5	2,415	50,438	57,558	109,877	1,300,870	135,875	1,654,618
6	2,305	41,730	58,895	77,817	726,089	469,017	1,373,548
7	4,427	60,970	55,449	118,790	975,803	840,737	2,051,749
8	2,466	62,990	49,113	85,694	833,177	1,264,657	2,295,631
9	2,308	46,910	73,005	100,060	974,277	1,638,155	2,832,407
10	2,812	78,483	72,288	136,563	1,205,562	1,823,121	3,316,017
11	2,207	59,772	56,137	114,214	953,021	1,693,964	2,877,108
12	2,739	54,764	66,719	126,588	1,009,871	2,982,242	4,240,184
13	1,521	43,954	48,729	84,569	726,844	1,725,621	2,629,717
14	1,496	47,935	42,742	79,118	705,327	1,959,535	2,834,657
15	1,075	31,407	25,126	48,973	441,481	1,391,597	1,938,584
16	1,015	32,557	32,882	44,918	405,224	2,231,868	2,747,449
17	1,310	40,032	31,466	68,551	590,938	2,731,051	3,462,038
18	1,062	40,832	32,215	55,662	552,963	2,785,194	3,466,866
19	1,012	35,482	31,863	53,763	507,515	2,347,365	2,975,988
20	641	19,292	15,743	49,667	350,794	1,720,300	2,155,796
21	381	8,701	10,799	18,111	155,717	790,913	984,241
22	271	9,037	8,329	24,693	171,875	846,827	1,060,761
23	170	13,883	6,629	11,476	125,440	655,124	812,552
24	151	4,139	3,816	10,676	78,589	425,926	523,146
25	111	1,308	1,743	2,620	24,245	171,792	201,708
26	57	758	586	1,786	12,908	86,503	102,541
27	58	958	1,281	1,219	14,802	109,901	128,161
28	56	322	3,655	6,109	41,639	277,022	328,747
29	76	2,488	2,352	4,469	40,155	921,248	970,712
30	41	754	1,647	2,737	22,790	244,863	272,791
31	17	389	768	479	6,777	46,694	55,107
32	3	86	86	171	1,373	9,744	11,460
33	4	91	105	181	1,518	11,554	13,449
34	13	12	112	567	2,818	25,768	29,277
35	37	245	660	117	4,721	75,696	81,439
36	11	159	225	448	3,646	63,216	67,694
37	31	336	178	761	5,400	77,146	83,821
38	14	29	84	78	808	12,062	13,061
39	16	30	111	665	3,659	34,939	39,404
40	8	83	226	208	2,201	31,413	34,131
41	2	30	53	83	684	8,697	9,547
42	2	75	119	195	1,593	19,947	21,929
43	1	0	30	30	264	6,318	6,642
	46,787	2,896,364	1,293,727	2,010,393	15,792,320	32,693,612	54,686,416
TRANSLATION ADJUSTMENTS							-294,131
TOTAL							54,392,285

(1) Number of loans and bonds maturing during the period

The first period (maturity date in 0 year) includes the balance of Banque de France account.

2.4 EARLY REPAYMENTS

EUR thousands, as of 09/30/2018

COUNTRY	Early repayments during the year 2018	Rate of early repayments
France		
Departments	2,348	0.05%
Municipalities	27,338	0.23%
Groups of municipalities	7,948	0.09%
Public sector entities :		
- health	22,768	0.48%
- social housing	628	0.07%
- others	1,503	0.18%
Sub total	62,533	0.18%
Italy		
Municipalities	968	0.07%
Sub total	968	0.03%
GLOBAL exposures on public sector	63,501	0.16%

The annual rate of early repayments corresponds to the volume of early repayments occurred during the first nine months of 2018 divided by the average outstanding amount for the period (equal to the average amount of daily outstandings).

The rate of early repayments in 2017 was 0.31% for a total amount of repayments of EUR 170 million.

3. ASSET-BACKED SECURITIES AND SIMILAR STRUCTURES

3.1 BREAKDOWN BY COUNTERPART

As of September 30, 2018, Caisse Française de Financement Local did not hold any asset-backed securities or similar structures.

3.2 RATINGS

Not applicable

3.3 BREAKDOWN BY MATURITY DATE

Not applicable

3.4 EARLY REPAYMENTS

Not applicable

4. REPLACEMENT ASSETS

4.1. BREAKDOWN BY COUNTERPART

EUR thousands, as of 09/30/2018	Country	Amount
Step 1 credit rating		
Covered Bonds		
	France	154,712
	Other countries ⁽¹⁾	458,181
Other Bank bonds		
	France	183,093
	Other countries ⁽¹⁾	159,868
Loans to SFIL	France	800,000
Step 2 credit rating		
Bank bonds (Maturity < 100 days)		
	France	144,971
	Other countries ⁽¹⁾	149,980
Bank account's balances	France and other countries ⁽¹⁾	5,408
TOTAL		2,056,213

(1) Corresponds to other countries of the European Union and the European Economic Area, except for bank accounts, which can be held in non european countries.

Bank bonds correspond to cash investments made of certificates of deposit or bonds issued by credit institutions.

Bank bonds are presented after specific impairments and are off premium / discount.

Since the fourth quarter of 2017, Caisse Française de Financement Local grants loans to SFIL, its parent company, in order to invest its surplus cash.

No non-performing or litigious loans are enumerated among replacement assets.

4.2 RATINGS

As of September 30, 2018, replacement assets were composed of bank bonds, of loans to SFIL and of bank accounts balances, whose ratings correspond to a step 1, or step 2 credit rating when the maturity is under 100 days.

4.3 BREAKDOWN BY MATURITY DATE

EUR thousands, as of 09/30/2018

Maturity date in years	Residual maturity		Term to maturity				TOTAL
	Number of deals ⁽¹⁾	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	
0	20	810,270	150,599	-	-	-	960,869
1	11	-	-	329,956	100,476	-	430,432
2	11	-	-	-	255,048	-	255,048
3	28	-	-	-	318,694	-	318,694
4	6	-	-	-	61,170	-	61,170
5	1	-	-	-	30,000	-	30,000
Total	77	810,270	150,599	329,956	765,388	-	2,056,213

(1) Numbers of loans and bonds maturing during the period

Balances of bank current accounts are presented as a unique matured deal.

4.4 EARLY REPAYMENTS

No early repayment occurred on replacement assets in 2018.

5. MANAGEMENT OF THE INTEREST RATE RISK

To limit interest rate risk impact, this 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.

The sensitivity of residual positions in fixed rates and variable rates fixed for a determined period of time that remain after the two levels of hedging is monitored on a monthly basis. Limits provide a framework for this sensitivity and are designed to reduce the impact on the value of balance sheet items in the event of a shift in the yield curve or a move in sloping/rotation. They are calibrated so as not to lose more than 6% of equity (i.e. EUR 80 million) with a quantile of 99% calculated based on 2007-2017 historical data.

A set of three limits makes it possible to have a grasp of the slope risk, as well as the directional risk. These limits control the sensitivity of the fixed rate risk and together guarantee the respect of the maximum loss mentioned above.

The measurement of sensitivity for shifts in rates of 100 basis points at the end of each quarter is presented below:

Directional risk

Total sensitivity

EUR millions, end of quarter	Limit	4Q 2017	1Q 2018	2Q 2018	3Q 2018
Sensitivity	25.0	1.5	-1.5	1.7	-2.0

Risk of slope between two distant points on the rate curve

Sum of sensitivities

EUR millions, end of quarter	Limit	4Q 2017	1Q 2018	2Q 2018	3Q 2018
Short term	10.0	0.2	-7.1	-4.3	-5.5
Medium term	10.0	-4.6	-2.1	-1.0	-4.9
Long term	10.0	3.1	5.6	4.6	4.6
Very long term	10.0	2.7	2.0	2.4	3.8

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

EUR millions, end of quarter	Limit	4Q 2017	1Q 2018	2Q 2018	3Q 2018
Short term	20.0	11.6	11.5	8.8	10.3
Medium term	20.0	14.8	4.6	14.4	9.9
Long term	20.0	3.6	7.9	8.7	13.0
Very long term	20.0	6.9	10.5	10.8	14.1

6. MANAGEMENT OF THE LIQUIDITY RISK

Caisse Française de Financement Local's management makes it possible to provide a structural coverage of its liquidity needs by assets eligible for refinancing by the Banque de France, until the full amortization of the privileged liabilities.

Moreover, 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 credit operations with the Banque de France. Cash needs are defined as repayments of *obligations foncières* and Registered Covered Bonds (RCB), of debts that do not benefit from the legal privilege and forecasts of repayment of the cash collateral received, after deduction of amortization cash flows from assets.

As of September 2018, the liquidity situation showed a surplus over the next 180 days. The movements observed correspond to cash flows from amortization of *obligations foncières*, cash collateral, non privileged liabilities and assets.

