



**Report on asset quality
as of December 31, 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 December 31, 2018, Caisse Française de Financement Local's cover pool is made of EUR 48.0 billion of loans, EUR 6.1 billion of bonds and EUR 2.8 billion of replacement assets, that correspond to the following exposures:

EUR thousands, as of 31/12/2018	Total cover pool	Assets removed from the cover pool	Total Outstanding
Exposures on public sector	54,085,171	666	54,085,837
Asset-backed securities	-	-	-
Replacement assets	2,801,200	-	2,801,200
TOTAL	56,886,371	666	56,887,037

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 December 31, 2018.

Some assets held by Caisse Française de Financement Local may also be removed from the cover pool if they become non-eligible, before being sold or matured.

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 non-performing loans	Of which past due	Of which specific impairment (1)
	Loans	Bonds	Loans	Bonds				
France								
State :								
- export refinancing	-	-	1,100,948	-	1,100,948	-	-	-
- others (2)	6,705	-	112,612	-	119,317	-	-	-
Banque de France(3)	1,270,846	-	-	-	1,270,846	-	-	-
Regions	1,915,437	238,989	256,263	-	2,410,689	78,254	38,011	-7,696
Departments	6,782,561	19,917	177,411	-	6,979,889	-	-	-83
Municipalities	15,122,129	16,490	374,801	-	15,513,420	220,321	25,338	-12,139
Groups of municipalities(4)	11,433,516	76,631	135,517	-	11,645,664	25,973	2,421	-384
Public sector entities :								
- health	6,104,494	58,167	-	-	6,162,661	50,924	300	-383
- social housing	1,164,229	-	-	-	1,164,229	-	-	-
- others	850,802	154,205	888	-	1,005,895	1,864	108	-26
Sub total	44,650,719	564,399	2,158,440	-	47,373,558	377,336	66,178	-20,711
Germany								
Länder	-	275,000	-	-	275,000	-	-	-
Sub total	-	275,000	-	-	275,000	-	-	-
Austria								
Länder	-	-	182,842	-	182,842	-	-	-
Sub total	-	-	182,842	-	182,842	-	-	-
Belgium								
Regions	4,218	-	15,000	-	19,218	-	-	-
Public sector entities	48,857	-	-	-	48,857	-	-	-
Sub total	53,075	-	15,000	-	68,075	-	-	-
Canada								
Municipalities	100,287	-	-	-	100,287	-	-	-
Public sector entities	34,485	-	-	-	34,485	-	-	-
Sub total	134,772	-	-	-	134,772	-	-	-
Spain								
State	-	125,000	-	-	125,000	-	-	-
Regions	-	50,000	-	-	50,000	-	-	-
Municipalities	72,661	-	-	-	72,661	-	-	-
Sub total	72,661	175,000	-	-	247,661	-	-	-
United States								
Federated States	-	252,943	-	-	252,943	-	-	-
Sub total	-	252,943	-	-	252,943	-	-	-

EUR thousands	Direct Exposure		Indirect Exposure		Total	Of which non-performing loans	Of which past due	Of which specific impairment (1)
	Loans	Bonds	Loans	Bonds				
Italy								
State	-	535,064	-	-	535,064	-	-	-37,881
Regions	-	1,912,270	-	-	1,912,270	-	-	-
Provinces	-	478,887	-	-	478,887	-	-	-
Municipalities	6,759	1,725,532	-	-	1,732,291	-	-	-
Sub total	6,759	4,651,753	-	-	4,658,512	-	-	-37,881
Japan								
Municipalities	-	25,000	-	-	25,000	-	-	-
Sub total	-	25,000	-	-	25,000	-	-	-
Portugal								
State	-	10,000	-	-	10,000	-	-	-
Municipalities	13,842	-	-	-	13,842	-	-	-
Public sector entities	3,867	-	-	-	3,867	-	-	-
Sub total	17,709	10,000	-	-	27,709	-	-	-
United Kingdom								
State	-	-	-	138,468	138,468	-	-	-
Sub total	-	-	-	138,468	138,468	-	-	-
Sweden								
Municipalities	18,490	-	-	-	18,490	-	-	-
Sub total	18,490	-	-	-	18,490	-	-	-
Switzerland								
Cantons	256,700	-	6,453	-	263,153	-	-	-
Municipalities	334,738	-	-	-	334,738	-	-	-
Public sector entities	60,350	-	-	-	60,350	-	-	-
Sub total	651,788	-	6,453	-	658,241	-	-	-
Supranational								
International organizations	23,900	-	-	-	23,900	-	-	-
Sub total	23,900	-	-	-	23,900	-	-	-
TOTAL	45,629,873	5,954,095	2,362,735	138,468	54,085,171	377,336	66,178	-58,592

(1) Specific impairments on loans and bonds are composed as followed:

- specific impairment on non performing loans : EUR 20,363 thousand. In addition to these impairments, Caisse Française de Financement Local makes collective and sector specific provisions.
- provisions for unrealised losses on placement portfolio bonds : EUR 38,229 thousand

(2) Of which EUR 112,148 thousand on operations linked to partnership agreements.

(3) Caisse Française de Financement Local's Banque de France account as of December 31, 2018

(4) Of which EUR 18,793 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 31/12/2018

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	2,844	1,691,660	229,848	-	-	-	1,921,508
1	3,300	69,124	49,974	497,185	175,695	-	791,978
2	2,892	53,903	36,754	110,715	617,770	-	819,142
3	2,666	67,511	38,118	90,529	824,315	-	1,020,473
4	2,743	54,677	57,672	82,029	1,054,768	-	1,249,146
5	2,415	58,735	42,209	100,291	967,559	88,054	1,256,848
6	2,305	58,228	46,138	80,226	747,195	566,756	1,498,543
7	4,427	54,293	42,459	123,319	920,732	745,882	1,886,685
8	2,466	50,646	51,676	112,331	909,697	1,263,516	2,387,866
9	2,308	75,517	47,663	103,639	999,718	1,593,571	2,820,108
10	2,812	73,312	54,126	157,930	1,201,726	1,769,283	3,256,377
11	2,207	57,206	57,511	126,843	997,559	1,758,521	2,997,640
12	2,739	64,159	52,530	115,299	942,750	3,222,035	4,396,773
13	1,521	47,489	38,542	85,327	704,787	1,692,172	2,568,317
14	1,496	44,609	37,157	92,709	723,126	1,954,818	2,852,419
15	1,075	25,919	24,908	60,315	459,781	1,399,969	1,970,892
16	1,015	33,986	31,982	54,000	502,909	2,629,273	3,252,150
17	1,310	30,365	26,617	72,902	543,231	2,337,284	3,010,399
18	1,062	33,016	26,348	71,569	560,694	2,887,771	3,579,398
19	1,012	31,473	27,940	67,087	529,195	2,335,509	2,991,204
20	641	17,525	11,980	53,560	339,373	1,558,946	1,981,384
21	381	10,597	8,965	19,393	160,659	764,673	964,287
22	271	8,399	8,102	24,755	166,871	829,565	1,037,692
23	170	6,394	4,250	18,059	119,531	600,398	748,632
24	151	3,934	3,365	11,776	79,881	453,853	552,809
25	111	2,478	2,410	4,374	38,122	222,345	269,729
26	57	635	353	1,204	9,163	71,386	82,741
27	58	1,321	1,964	1,709	21,573	152,735	179,302
28	56	3,581	1,022	4,539	37,273	249,048	295,463
29	76	2,351	1,695	5,038	39,547	923,461	972,092
30	41	1,957	529	3,502	26,298	259,396	291,682
31	17	749	155	628	6,347	42,265	50,144
32	3	86	86	171	1,374	9,658	11,375
33	4	105	517	181	3,245	26,058	30,106
34	13	142	46	209	1,682	21,600	23,679
35	37	630	25	250	4,029	65,546	70,480
36	11	227	551	463	5,484	98,527	105,252
37	31	176	172	550	3,688	41,934	46,520
38	14	88	554	71	3,230	26,461	30,404
39	16	136	38	209	1,626	23,536	25,545
40	8	226	70	222	2,207	31,443	34,168
41	2	98	75	173	1,404	15,357	17,107
42	2	44	0	45	393	8,922	9,404
43	1	30	0	30	264	6,318	6,642
	46,787	2,737,737	1,067,096	2,355,356	15,456,471	32,747,845	54,364,505
TRANSLATION ADJUSTMENTS							-279,334
TOTAL							54,085,171

(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 31/12/2018

COUNTRY	Early repayments during the year 2018	Rate of early repayments
France		
Departments	14,028	0.20%
Municipalities	36,863	0.23%
Groups of municipalities	25,325	0.22%
Public sector entities :		
- health	22,768	0.37%
- social housing	728	0.06%
- others	15,633	1.47%
Sub total	115,345	0.25%
Spain		
Municipalities	5,122	6.43%
Sub total	5,122	1.60%
Italy		
Municipalities	2,382	0.13%
Sub total	2,382	0.05%
GLOBAL exposures on public sector	122,849	0.23%

The annual rate of early repayments corresponds to the volume of early repayments occurred in 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 December 31, 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 31/12/2018	Country	Amount
Step 1 credit rating		
Covered Bonds		
	France	278,065
	Other countries	677,443
Other Bank bonds		
	France	417,124
	Other countries	218,607
Loans to SFIL	France	800,000
Step 2 credit rating		
Bank bonds (Maturity < 100 days)		
	France	284,896
	Other countries	121,950
Bank account's balances	France and other countries	3,115
TOTAL		2,801,200

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.

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 December 31, 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 31/12/2018

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	560,559	414,911	-	-	-	975,470
1	11	-	-	716,058	216,245	-	932,303
2	11	-	-	-	429,407	-	429,407
3	28	-	-	-	326,714	-	326,714
4	6	-	-	-	137,306	-	137,306
Total	76	560,559	414,911	716,058	1,109,672	-	2,801,200

(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	Limit	3/31/2018	6/30/2018	9/30/2018	12/31/2018
Sensitivity	(25)/25	(1.5)	1.7	(2.0)	0.9

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	3/31/2018	6/30/2018	9/30/2018	12/31/2018
Short term	(10)/10	(7.1)	(4.3)	(5.5)	(5.8)
Medium term	(10)/10	(2.1)	(1.0)	(4.9)	-
Long term	(10)/10	5.6	4.6	4.6	2.5
Very long term	(10)/10	2.0	2.4	3.8	4.3

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

EUR millions	Limit	3/31/2018	6/30/2018	9/30/2018	12/31/2018
Short term	20	11.5	8.8	10.3	9.2
Medium term	20	4.6	14.4	9.9	10.0
Long term	20	7.9	8.7	13.0	12.9
Very long term	20	10.5	10.8	14.1	13.3

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 December 31, 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.

