



Report on asset quality
as of June 30, 2019
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 June 30, 2019, Caisse Française de Financement Local's cover pool is made of EUR 49.1 billion of loans, EUR 5.7 billion of bonds and EUR 3.1 billion of replacement assets, that correspond to the following exposures:

EUR thousands, as of 06/30/2019	Total cover pool	Assets removed from the cover pool	Total Outstanding
Exposures on public sector	54,826,164	641	54,826,805
Asset-backed securities	-	-	-
Replacement assets	3,131,285	-	3,131,285
TOTAL	57,957,449	641	57,958,090

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 June 30, 2019.

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	-	-	1,811,583	-	1,811,583	-	-	-
- others	5,004	-	143	-	5,147	-	-	-
Banque de France ⁽²⁾	1,684,031	-	-	-	1,684,031	-	-	-
Regions	1,853,687	229,476	250,235	-	2,333,398	79,183	39,019	-9,368
Departments	6,876,054	-	166,386	-	7,042,440	-	-	-30
Municipalities	14,957,444	16,490	344,970	-	15,318,904	215,899	19,570	-12,228
Groups of municipalities ⁽³⁾	11,816,603	75,996	119,595	-	12,012,194	89,336	2,932	-588
Public sector entities :								
- health	6,110,963	23,368	-	-	6,134,331	49,417	250	-179
- social housing	1,113,623	-	-	-	1,113,623	-	-	-
- others	839,371	54,220	888	-	894,479	1,814	72	-12
Sub total	45,256,780	399,550	2,693,800	-	48,350,130	435,649	61,843	-22,405
Germany								
Länder	-	275,000	-	-	275,000	-	-	-
Sub total	-	275,000	-	-	275,000	-	-	-
Austria								
Länder	-	-	180,343	-	180,343	-	-	-
Sub total	-	-	180,343	-	180,343	-	-	-
Belgium								
Regions	1,840	-	15,000	-	16,840	-	-	-
Public sector entities	43,723	-	-	-	43,723	-	-	-
Sub total	45,563	-	15,000	-	60,563	-	-	-
Canada								
Municipalities	100,287	-	-	-	100,287	-	-	-
Public sector entities	34,485	-	-	-	34,485	-	-	-
Sub total	134,772	-	-	-	134,772	-	-	-
Spain								
State	-	75,000	-	-	75,000	-	-	-
Regions	-	50,000	-	-	50,000	-	-	-
Municipalities	72,878	-	-	-	72,878	-	1,293	-
Sub total	72,878	125,000	-	-	197,878	-	1,293	-
United States								
Federated States	-	234,488	-	-	234,488	-	-	-
Sub total	-	234,488	-	-	234,488	-	-	-

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	-	531,031	-	-	531,031	-	-	-41,914
Regions	-	1,887,391	-	-	1,887,391	-	-	-
Provinces	-	461,468	-	-	461,468	-	-	-
Municipalities	6,219	1,687,187	-	-	1,693,406	-	-	-
Sub total	6,219	4,567,077	-	-	4,573,296	-	-	-41,914
Japon								
Municipalities	-	25,000	-	-	25,000	-	-	-
Sub total	-	25,000	-	-	25,000	-	-	-
Portugal								
State	-	-	-	-	-	-	-	-
Municipalities	12,329	-	-	-	12,329	-	-	-
Public sector entities	3,437	-	-	-	3,437	-	-	-
Sub total	15,766	-	-	-	15,766	-	-	-
United Kingdom								
State	-	-	-	89,682	89,682	-	-	-
Sub total	-	-	-	89,682	89,682	-	-	-
Sweden								
Municipalities	18,490	-	-	-	18,490	-	-	-
Sub total	18,490	-	-	-	18,490	-	-	-
Switzerland								
Cantons	256,699	-	6,453	-	263,152	-	-	-
Municipalities	325,451	-	-	-	325,451	-	-	-
Public sector entities	60,350	-	-	-	60,350	-	-	-
Sub total	642,500	-	6,453	-	648,953	-	-	-
Supranational								
International organizations	21,803	-	-	-	21,803	-	-	-
Sub total	21,803	-	-	-	21,803	-	-	-
TOTAL	46,214,771	5,626,115	2,895,596	89,682	54,826,164	435,649	63,136	-64,319

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

- specific impairment on non performing loans : EUR 22,343 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 41,976 thousand

(2) Caisse Française de Financement Local's Banque de France account as of June 30, 2019

(3) Of which EUR 17,964 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 06/30/2019

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	1,792	1,975,974	373,312	-	-	-	2,349,286
1	3,118	44,326	70,783	199,744	267,844	-	582,697
2	2,602	38,647	52,033	93,539	447,471	-	631,690
3	2,640	36,408	37,724	102,815	741,149	-	918,096
4	2,824	45,954	50,492	128,916	1,183,972	-	1,409,334
5	2,166	46,650	43,415	98,835	793,742	269,778	1,252,420
6	4,350	61,448	59,281	116,651	983,157	570,849	1,791,386
7	2,673	46,725	169,291	99,410	906,802	1,044,977	2,267,205
8	2,166	48,426	45,308	92,563	785,908	1,094,497	2,066,702
9	3,061	79,442	82,298	148,476	1,363,463	1,690,642	3,364,321
10	2,304	63,894	776,844	128,933	1,051,835	1,595,875	3,617,381
11	2,837	68,498	109,838	139,621	1,118,580	2,149,931	3,586,468
12	1,789	47,162	228,726	103,287	828,013	1,620,206	2,827,394
13	1,408	38,934	47,514	198,836	756,320	1,809,633	2,851,237
14	1,699	35,779	49,554	89,285	749,350	1,953,523	2,877,491
15	1,149	26,558	34,259	66,705	531,499	2,223,297	2,882,318
16	1,393	35,213	41,711	71,276	773,411	2,629,528	3,551,139
17	1,077	25,051	39,996	54,219	505,630	2,366,190	2,991,086
18	1,053	35,530	38,805	59,482	565,020	2,397,149	3,095,986
19	1,042	38,133	27,850	65,482	544,414	2,268,436	2,944,315
20	627	14,793	14,121	34,704	263,185	1,158,309	1,485,112
21	327	15,475	10,341	22,018	192,970	885,359	1,126,163
22	178	7,781	13,827	14,339	149,522	727,288	912,757
23	155	7,188	4,102	8,991	83,804	445,155	549,240
24	190	3,915	4,532	8,658	70,573	398,052	485,730
25	147	2,314	2,687	9,317	57,297	303,328	374,943
26	63	800	862	1,268	11,283	92,433	106,646
27	59	4,647	627	3,493	36,848	236,846	282,461
28	57	1,663	1,820	5,122	35,633	266,293	310,531
29	83	3,355	1,726	4,721	42,799	980,125	1,032,726
30	56	989	1,084	3,444	22,307	150,877	178,701
31	5	96	72	743	3,781	21,209	25,901
32	2	84	84	168	1,340	9,046	10,722
33	9	191	69	569	3,356	27,141	31,326
34	39	64	260	235	2,424	27,649	30,632
35	11	169	51	743	4,231	68,981	74,175
36	23	189	311	717	5,403	97,797	104,417
37	22	170	168	377	2,921	29,493	33,129
38	22	100	38	728	3,903	35,172	39,941
39	7	123	71	181	1,565	21,435	23,375
40	5	103	45	243	1,684	24,357	26,432
41	2	120	75	196	1,600	19,668	21,659
42	1	30	0	31	269	6,282	6,612
	45,233	2,903,111	2,436,007	2,179,081	15,896,278	31,716,806	55,131,283
TRANSLATION ADJUSTMENTS							-305,119
TOTAL							54,826,164

(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 06/30/2019

COUNTRY	Early repayments during the year 2019	Rate of early repayments
France		
Departments	5,523	0.08%
Municipalities	25,854	0.17%
Groups of municipalities	446	0.00%
Public sector entities :		
- health	7,698	0.13%
- social housing	3,701	0.33%
- others	6,375	0.66%
State	112,448	7.66%
Sub total	162,045	0.35%
GLOBAL exposures on public sector	162,045	0.31%

The rate of early repayments as of June 30, 2019, corresponds to the volume of early repayments occurred over the first half-year divided by the arithmetic average outstanding amount for the period (equal to the average amount of daily outstandings).

In 2018, the rate of early repayments for this entire year was 0.23% for a total amount of repayments of EUR 123 million.

3. ASSET-BACKED SECURITIES AND SIMILAR STRUCTURES

3.1 BREAKDOWN BY COUNTERPART

As of June 30, 2019, 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 06/30/2019	Country	Amount
Step 1 credit rating		
Covered Bonds		
	France	473,632
	Other countries	765,008
Other Bank bonds		
	France	448,428
	Other countries	589,859
Loans to SFIL		
	France	800,000
Step 2 credit rating		
Bank bonds (Maturity < 100 days)		
	France	-
	Other countries	49,998
Bank accounts' balances		
	France and other countries	4,360
TOTAL		3,131,285

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 June 30, 2019, 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 06/30/2019

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	11	84,358	695,030	-	-	-	779,388
1	23	-	-	971,318	135,920	-	1,107,238
2	19	-	-	-	689,142	-	689,142
3	9	-	-	-	305,403	-	305,403
4	3	-	-	-	139,959	-	139,959
5	2	-	-	-	110,155	-	110,155
Total	67	79,358	695,030	971,318	1,385,579	-	3,131,285

(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 2019.

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 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 EUR 80 million with a quantile of 99% calculated based on ten years 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	3Q 2018	4Q 2018	1Q 2019	2Q 2019
Sensitivity	25.0	-2.0	0.9	-0.2	-0.1

Risk of slope between two distant points on the rate curve

Sum of sensitivities

EUR millions, end of quarter	Limit	3Q 2018	4Q 2018	1Q 2019	2Q 2019
Short term	10.0	-5.5	-5.8	-5.5	-5.7
Medium term	10.0	-4.9	0.0	-3.5	-5.6
Long term	10.0	4.6	2.5	5.3	6.7
Very long term	10.0	3.8	4.3	3.6	4.4

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

EUR millions, end of quarter	Limit	3Q 2018	4Q 2018	1Q 2019	2Q 2019
Short term	20.0	10.3	9.2	15.0	9.3
Medium term	20.0	9.9	10.0	9.8	13.3
Long term	20.0	13.0	12.9	8.9	6.8
Very long term	20.0	14.1	13.3	12.8	8.0

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 June 30, 2019, 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.

