



Report on asset quality
as of September 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 September 30, 2019, Caisse Française de Financement Local's cover pool is made of EUR 47.7 billion of loans, EUR 5.5 billion of bonds and EUR 2.9 billion of replacement assets, that correspond to the following exposures:

EUR thousands, as of 09/30/2019	Total cover pool	Assets removed from the cover pool	Total Outstanding
Exposures on public sector	53,261,962	628	53,262,590
Asset-backed securities	-	-	-
Replacement assets	2,859,054	-	2,859,054
TOTAL	56,121,016	628	56,121,644

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, 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 past due ⁽¹⁾
	Loans	Bonds	Loans	Bonds		
COUNTRY						
France						
State :						
- export refinancing	-	-	2,212,380	-	2,212,380	-
- others	5,040	-	125	-	5,165	-
Banque de France ⁽²⁾	142,496	-	-	-	142,496	-
Regions	1,887,017	109,505	249,018	-	2,245,540	41,407
Departments	6,772,987	-	163,477	-	6,936,464	-
Municipalities	14,882,767	15,942	334,366	-	15,233,075	19,229
Groups of municipalities ⁽³⁾	11,812,677	75,996	116,720	-	12,005,393	2,808
Public sector entities :						
- health	6,091,214	38,394	-	-	6,129,608	254
- social housing	1,086,484	-	-	-	1,086,484	-
- others	818,413	54,209	888	-	873,510	13
Sub total	43,499,095	294,046	3,076,974	-	46,870,115	63,711
Germany						
Länder	-	274,816	-	-	274,816	-
Sub total	-	274,816	-	-	274,816	-
Austria						
Länder	-	-	178,188	-	178,188	-
Sub total	-	-	178,188	-	178,188	-
Belgium						
Regions	1,840	-	13,000	-	14,840	-
Public sector entities	43,723	-	-	-	43,723	-
Sub total	45,563	-	13,000	-	58,563	-
Canada						
Municipalities	100,287	-	-	-	100,287	-
Public sector entities	34,485	-	-	-	34,485	-
Sub total	134,772	-	-	-	134,772	-
Spain						
State	-	50,000	-	-	50,000	-
Regions	-	50,000	-	-	50,000	-
Municipalities	71,585	-	-	-	71,585	-
Sub total	71,585	100,000	-	-	171,585	-
United States						
Federated States	-	234,488	-	-	234,488	-
Sub total	-	234,488	-	-	234,488	-

EUR thousands	Direct Exposure		Indirect Exposure		Total	Of which past due ⁽¹⁾
	Loans	Bonds	Loans	Bonds		
COUNTRY						
Italy						
State	-	543,426	-	-	543,426	-
Regions	-	1,885,366	-	-	1,885,366	-
Provinces	-	455,468	-	-	455,468	-
Municipalities	6,219	1,657,021	-	-	1,663,240	-
Sub total	6,219	4,541,281	-	-	4,547,500	-
Japon						
Municipalities	-	25,000	-	-	25,000	-
Sub total	-	25,000	-	-	25,000	-
Portugal						
State	-	-	-	-	-	-
Municipalities	12,230	-	-	-	12,230	-
Public sector entities	3,008	-	-	-	3,008	-
Sub total	15,238	-	-	-	15,238	-
United Kingdom						
State	-	-	-	64,744	64,744	-
Sub total	-	-	-	64,744	64,744	-
Sweden						
Municipalities	18,490	-	-	-	18,490	-
Sub total	18,490	-	-	-	18,490	-
Switzerland						
Cantons	256,699	-	6,453	-	263,152	-
Municipalities	325,301	-	-	-	325,301	-
Public sector entities	60,350	-	-	-	60,350	-
Sub total	642,350	-	6,453	-	648,803	-
Supranational						
International organizations	19,660	-	-	-	19,660	-
Sub total	19,660	-	-	-	19,660	-
TOTAL	44,452,972	5,469,631	3,274,615	64,744	53,261,962	63,711

(1) Caisse Française de Financement Local publishes annual and semi-annual accounts.

Consequently, data relating to nonperforming and litigious loans, and specific impairments as of September 30, 2019, are not disclosed in the table below. Nevertheless, non-performing and litigious loans and specific impairments are under regular monitoring and can lead to some adjustments of exposures presented in this table.

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

(3) Of which EUR 18,109 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 09/30/2019

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	2,577	602,860	82,746	-	-	-	685,606
1	2,842	67,529	53,617	286,542	199,467	-	607,155
2	2,648	54,066	69,776	79,967	455,244	-	659,053
3	2,675	40,421	53,639	79,138	803,420	-	976,618
4	2,411	49,325	58,098	117,550	1,193,298	-	1,418,271
5	2,326	41,503	62,513	80,098	763,511	301,170	1,248,795
6	4,420	61,772	54,386	118,342	982,448	568,711	1,785,659
7	2,483	167,314	50,610	88,273	862,384	1,041,253	2,209,834
8	2,341	49,156	76,021	104,492	1,015,420	1,410,481	2,655,570
9	2,935	84,556	80,741	153,375	1,313,217	1,601,230	3,233,119
10	2,287	969,138	58,314	119,424	992,661	1,472,808	3,612,345
11	2,772	137,504	69,610	146,839	1,159,671	2,245,678	3,759,302
12	1,562	318,180	219,027	85,128	732,710	1,538,460	2,893,505
13	1,529	49,392	44,826	80,456	770,509	1,799,377	2,744,560
14	1,587	49,823	48,892	78,864	785,090	1,935,579	2,898,248
15	1,219	33,677	36,068	56,023	684,266	2,273,979	3,084,013
16	1,290	41,383	31,709	70,987	601,809	2,550,218	3,296,106
17	1,072	42,095	32,556	57,090	568,679	2,634,867	3,335,287
18	1,035	36,319	32,597	55,701	522,672	2,236,557	2,883,846
19	1,002	29,283	29,479	70,783	530,600	2,166,686	2,826,831
20	545	12,048	14,264	28,438	224,447	1,012,872	1,292,069
21	266	10,591	8,470	24,819	177,156	820,758	1,041,794
22	164	12,157	6,906	11,919	129,304	628,935	789,221
23	152	4,563	4,233	10,971	81,120	412,575	513,462
24	240	4,983	7,981	8,632	88,730	501,693	612,019
25	108	1,507	1,513	4,244	29,350	177,591	214,205
26	56	992	1,308	1,246	15,191	105,671	124,408
27	55	344	3,683	6,220	42,347	267,094	319,688
28	74	2,515	2,478	4,732	40,928	910,750	961,403
29	82	1,638	3,199	4,904	41,576	357,258	408,575
30	46	729	1,110	1,958	15,661	112,917	132,375
31	3	86	86	171	1,375	9,400	11,118
32	4	91	106	181	1,521	11,173	13,072
33	13	13	113	570	2,840	25,049	28,585
34	38	254	691	121	4,756	74,595	80,417
35	11	164	233	465	3,783	62,217	66,862
36	31	343	180	784	5,541	75,698	82,546
37	16	30	87	79	826	11,849	12,871
38	15	13	122	706	3,801	33,599	38,241
39	8	84	234	212	2,258	30,827	33,615
40	2	30	54	84	692	8,520	9,380
41	2	75	121	197	1,608	19,538	21,539
42	1	0	31	31	275	6,245	6,582
	44,945	2,978,546	1,302,428	2,040,756	15,852,162	31,453,878	53,627,770
TRANSLATION ADJUSTMENTS							-365,808
TOTAL							53,261,962

(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 09/30/2019

COUNTRY	Early repayments during the year 2019	Rate of early repayments
France		
Departments	14,939	0.22%
Municipalities	31,259	0.20%
Groups of municipalities	17,575	0.15%
Public sector entities :		
- health	10,548	0.17%
- social housing	3,949	0.35%
- others	12,986	1.39%
State	112,448	6.75%
Sub total	203,704	0.43%
GLOBAL exposures on public sector	203,704	0.37%

The rate of early repayments as of September 30, 2019, corresponds to the volume of early repayments occurred during the first three quarters 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 September 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 09/30/2019	Country	Amount
Step 1 credit rating		
Covered Bonds		
	France	473,617
	Other countries	856,565
Other Bank bonds		
	France	527,340
	Other countries	697,602
Loans to SFIL	France	300,000
Step 2 credit rating		
Bank bonds (Maturity < 100 days)		
	France	-
	Other countries	-
Bank accounts' balances	France and other countries	3,930
TOTAL		2,859,054

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 September 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 09/30/2019

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	74	339,017	404,457	-	-	-	743,474
1	17	-	-	575,253	559,188	-	1,134,441
2	25	-	-	-	558,174	-	558,174
3	18	-	-	-	194,108	-	194,108
4	9	-	-	-	134,657	-	134,657
5	3	-	-	-	94,200	-	94,200
Total	146	339,017	404,457	575,253	1,540,327	-	2,859,054

(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

EUR thousands, as of 09/30/2019

State	Early repayments during the year	Rate of early repayments
Step 1 credit rating		
Loan to SFIL	500,000	65.59%
Sub total	500,000	16.22%
GLOBAL	500,000	16.22%

The rate of early repayments as of September 30, 2019, corresponds to the volume of early repayments occurred during the first three quarters divided by the arithmetic average outstanding amount for the period (equal to the average amount of daily outstandings).

In 2018, there were no early repayments concerning replacement assets.

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	4Q 2018	1Q 2019	2Q 2019	3Q 2019
Sensitivity	25,0	0,9	-0,2	-0,1	3,2

Risk of slope between two distant points on the rate curve

Sum of sensitivities

EUR millions, end of quarter	Limit	4Q 2018	1Q 2019	2Q 2019	3Q 2019
Short term	10,0	-5,8	-5,5	-5,7	-0,1
Medium term	10,0	0,0	-3,5	-5,6	-8,6
Long term	10,0	2,5	5,3	6,7	5,7
Very long term	10,0	4,3	3,6	4,4	6,2

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

EUR millions, end of quarter	Limit	4Q 2018	1Q 2019	2Q 2019	3Q 2019
Short term	20,0	9,2	15,0	9,3	5,9
Medium term	20,0	10,0	9,8	13,3	11,0
Long term	20,0	12,9	8,9	6,8	8,2
Very long term	20,0	13,3	12,8	8,0	10,5

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 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.

