



Report on asset quality
as of December 31, 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 December 31, 2019, Caisse Française de Financement Local's cover pool is made of EUR 48.6 billion of loans, EUR 5.4 billion of bonds and EUR 2.5 billion of replacement assets, that correspond to the following exposures:

EUR thousands, as of 12/31/2019	Total cover pool	Assets removed from the cover pool	Total Outstanding
Exposures on public sector	53,928,388	616	53,929,004
Asset-backed securities	-	-	-
Replacement assets	2,523,199	-	2,523,199
TOTAL	56,451,587	616	56,452,203

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, 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	-	-	2,588,176	-	2,588,176	-	-	-
- others	13,262	-	125	-	13,387	-	-	-
Banque de France ⁽²⁾	473,094	-	-	-	473,094	-	-	-
Regions	1,879,671	99,503	247,188	-	2,226,362	82,894	43,954	-9,372
Departments	6,746,598	-	159,129	-	6,905,727	-	-	0
Municipalities	14,952,536	14,432	325,801	-	15,292,769	160,313	18,524	-11,090
Groups of municipalities ⁽³⁾	12,141,201	69,563	114,314	-	12,325,078	20,697	2,570	-538
Public sector entities :								
- health	6,085,213	8,370	-	-	6,093,583	79,491	312	-174
- social housing	1,052,941	-	-	-	1,052,941	-	-	-
- others	806,245	54,219	682	-	861,146	-	13	-1
Sub total	44,150,761	246,087	3,435,415	-	47,832,263	343,395	65,373	-21,175
Germany								
Länder	-	274,772	-	-	274,772	-	-	-228
Sub total	-	274,772	-	-	274,772	-	-	-228
Austria								
Länder	-	-	177,849	-	177,849	-	-	-
Sub total	-	-	177,849	-	177,849	-	-	-
Belgium								
Regions	1,840	-	9,500	-	11,340	-	-	-
Public sector entities	43,103	-	-	-	43,103	-	-	-
Sub total	44,943	-	9,500	-	54,443	-	-	-
Canada								
Municipalities	100,287	-	-	-	100,287	-	-	-
Public sector entities	34,485	-	-	-	34,485	-	-	-
Sub total	134,772	-	-	-	134,772	-	-	-
Spain								
State	-	25,000	-	-	25,000	-	-	-
Regions	-	50,000	-	-	50,000	-	-	-
Municipalities	69,130	-	-	-	69,130	-	-	-
Sub total	69,130	75,000	-	-	144,130	-	-	-
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	-	1,137,713	-	-	1,137,713	-	-	-30,232
Regions	-	1,862,071	-	-	1,862,071	-	-	-
Provinces	-	442,205	-	-	442,205	-	-	-
Municipalities	5,669	1,024,268	-	-	1,029,937	-	-	-
Sub total	5,669	4,466,257	-	-	4,471,926	-	-	-30,232
Japan								
Municipalities	-	25,000	-	-	25,000	-	-	-
Sub total	-	25,000	-	-	25,000	-	-	-
Portugal								
State	-	-	-	-	-	-	-	-
Municipalities	10,618	-	-	-	10,618	-	-	-
Public sector entities	3,008	-	-	-	3,008	-	-	-
Sub total	13,626	-	-	-	13,626	-	-	-
United Kingdom								
State	-	-	-	39,437	39,437	-	-	-
Sub total	-	-	-	39,437	39,437	-	-	-
Sweden								
Municipalities	18,490	-	-	-	18,490	-	-	-
Sub total	18,490	-	-	-	18,490	-	-	-
Switzerland								
Cantons	162,002	-	6,453	-	168,455	-	-	-
Municipalities	258,727	-	-	-	258,727	-	-	-
Public sector entities	60,350	-	-	-	60,350	-	-	-
Sub total	481,079	-	6,453	-	487,532	-	-	-
Supranational								
International organizations	19,660	-	-	-	19,660	-	-	-
Sub total	19,660	-	-	-	19,660	-	-	-
TOTAL	44,938,130	5,321,604	3,629,217	39,437	53,928,388	343,395	65,373	-51,635

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

- specific impairment on non performing loans : EUR 21,140 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 30,495 thousand

(2) Caisse Française de Financement Local's Banque de France account as of December 31, 2019

(3) Of which EUR 17,689 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 12/31/2019

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	2,690	623,512	97,801	-	-	-	721,313
1	2,694	52,260	36,975	279,078	228,638	-	596,951
2	2,640	69,411	38,696	94,188	609,702	-	811,997
3	2,638	54,237	64,032	83,048	838,039	-	1,039,356
4	2,284	59,279	42,894	100,546	832,256	-	1,034,975
5	2,545	62,229	46,373	82,947	949,576	248,880	1,390,005
6	4,195	52,789	42,347	123,210	925,206	481,887	1,625,439
7	2,447	51,797	63,646	126,691	1,024,606	1,030,670	2,297,410
8	2,499	78,427	53,194	112,113	1,066,835	1,383,019	2,693,588
9	2,778	80,563	58,288	173,034	1,282,710	1,511,747	3,106,342
10	2,463	60,183	137,634	211,138	1,667,033	1,846,695	3,922,683
11	2,596	66,790	72,233	141,454	1,144,860	2,119,439	3,544,776
12	1,494	46,967	51,601	106,850	873,441	1,828,086	2,906,945
13	1,555	46,459	37,821	95,827	795,790	1,936,732	2,912,629
14	1,594	49,614	39,198	87,881	717,139	1,873,616	2,767,448
15	1,542	40,948	40,652	79,253	713,088	2,989,156	3,863,097
16	1,190	30,134	26,538	74,935	552,842	2,171,660	2,856,109
17	1,100	33,327	27,195	73,856	576,884	2,738,519	3,449,781
18	966	32,347	28,953	69,000	547,798	2,116,263	2,794,361
19	1,033	30,091	21,397	69,660	493,741	2,051,685	2,666,574
20	622	18,004	15,384	38,886	295,134	1,233,933	1,601,341
21	238	8,417	8,243	25,275	168,722	788,539	999,196
22	156	6,623	4,368	18,628	123,273	577,564	730,456
23	168	4,317	3,455	11,910	81,779	434,856	536,317
24	248	8,037	5,128	9,682	92,831	500,221	615,899
25	139	2,191	1,869	5,388	38,377	220,823	268,648
26	56	1,351	2,030	1,758	22,237	146,636	174,012
27	61	3,593	1,047	4,593	37,679	240,076	286,988
28	64	2,478	1,818	5,313	40,319	913,081	963,009
29	94	3,431	1,947	5,373	45,543	379,403	435,697
30	52	1,187	664	3,067	20,443	161,700	187,061
31	3	86	86	171	1,376	9,313	11,032
32	7	106	519	181	3,257	25,239	29,302
33	30	144	48	213	1,724	21,153	23,282
34	19	660	25	259	4,206	64,425	69,575
35	17	235	576	479	5,708	97,013	104,011
36	27	178	173	540	3,764	40,967	45,622
37	19	91	577	72	3,326	25,237	29,303
38	8	140	38	195	1,583	22,867	24,823
39	8	234	70	227	2,264	30,855	33,650
40	2	99	75	174	1,412	15,000	16,760
41	1	46	0	47	408	8,813	9,314
42	1	31	0	31	275	6,245	6,582
	44,983	1,683,043	1,075,608	2,317,171	16,835,824	32,292,013	54,203,659
TRANSLATION ADJUSTMENTS							-275,271
TOTAL							53,928,388

(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 12/31/2019

COUNTRY	Early repayments during the year 2019	Rate of early repayments
France		
Departments	47,110	0.68%
Municipalities	33,737	0.22%
Groups of municipalities	22,772	0.19%
Public sector entities :		
- health	10,595	0.17%
- social housing	9,763	0.88%
- others	12,986	1.42%
State	112,448	6.08%
Sub total	249,411	0.53%
Spain		
Municipalities	1,379	1.91%
Sub total	1,379	0.72%
Switzerland		
Municipalities	4,603	0.98%
Sub total	4,603	0.51%
GLOBAL exposures on public sector	255,393	0.47%

The rate of early repayments as of December 31, 2019, corresponds to the volume of early repayments occurred during the year 2019 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 December 31, 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 12/31/2019	Country	Amount
Step 1 credit rating		
Covered Bonds		
	France	473,602
	Other countries	855,889
Other Bank bonds		
	France	381,382
	Other countries	508,535
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	3,791
TOTAL		2,523,199

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, 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 12/31/2019

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	17	408,264	446,950	-	-	-	855,214
1	23	-	-	237,924	634,970	-	872,894
2	15	-	-	-	421,601	-	421,601
3	8	-	-	-	219,911	-	219,911
4	4	-	-	-	153,579	-	153,579
Total	67	408,264	446,950	237,924	1,430,061	-	2,523,199

(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 12/31/2019

State	Early repayments during the year	Rate of early repayments
Step 1 credit rating		
Loan to SFIL	500,000	77.43%
Sub total	500,000	16.78%
GLOBAL	500,000	16.78%

The rate of early repayments as of December 31, 2019, corresponds to the volume of early repayments occurred during the year 2019 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	1Q 2019	2Q 2019	3Q 2019	4Q 2019
Sensitivity	25,0	-0,2	-0,1	3,2	-0,3

Risk of slope between two distant points on the rate curve

Sum of sensitivities

EUR millions, end of quarter	Limit	1Q 2019	2Q 2019	3Q 2019	4Q 2019
Short term	10,0	-5,5	-5,7	-0,1	-5,5
Medium term	10,0	-3,5	-5,6	-8,6	-9,2
Long term	10,0	5,3	6,7	5,7	8,4
Very long term	10,0	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, end of quarter	Limit*	1Q 2019	2Q 2019	3Q 2019	4Q 2019
Short term	40,0	15,0	9,3	5,9	10,8
Medium term	40,0	9,8	13,3	11,0	15,3
Long term	40,0	8,9	6,8	8,2	12,3
Very long term	40,0	12,8	8,0	10,5	9,0

* The limit applicable to points prior to 12/31/2019 was EUR 20 million. Since 12/31/2019, the limit applicable is now EUR 40 million.

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, 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.

