Report on asset quality
as of June 30, 2020
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, 2020, Caisse Française de Financement Local's cover pool is made of EUR 49.5 billion of loans, EUR 7.0 billion of bonds and EUR 1.2 billion of cash account deposit at Banque de France, that correspond to the following exposures, presented in this report :

EUR thousands, as of 06/30/2020	Total cover pool	Assets removed from the cover pool	Total Outstanding
Exposures on public sector	55,989,678	585	55,990,263
Asset-backed securities	-	-	-
Replacement assets	1,692,726	-	1,692,726
TOTAL	**57,682,404**	**585**	**57,682,989**

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, 2020.

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					
COUNTRY	Loans	Bonds	Loans	Bonds	Total	Of which non-performing loans	Of which past due	Of which specific impairment [1]
France								
State :								
- export refinancing	-	-	3,096,979	-	3,096,979	-	-	-
- others	20,028	-	103	155,000	175,131	-	-	-
Banque de France[2]	1,177,191	-	-	-	1,177,191	-	-	-
Regions	2,044,428	75,007	243,676	-	2,363,111	84,956	47,767	-12,060
Departments	7,018,942	-	150,521	-	7,169,463	-	100	-
Municipalities	14,796,648	14,432	302,167	-	15,113,247	137,626	30,143	-11,881
Groups of municipalities[2]	12,879,319	68,930	92,562	-	13,040,811	17,309	2,942	-752
Public sector entities :								
- health	6,089,551	8,380	-	-	6,097,931	56,741	7,818	-258
- social housing	1,011,547	-	-	-	1,011,547	-	14	-
- others	792,700	54,156	682	-	847,538	2,808	172	-70
Sub total	**45,830,354**	**220,905**	**3,886,690**	**155,000**	**50,092,949**	**299,440**	**88,956**	**-25,021**
Germany								
Länder	-	274,806	-	-	274,806	-	-	-194
Sub total	**-**	**274,806**	**-**	**-**	**274,806**	**-**	**-**	**-194**
Austria								
Länder	-	-	175,269	-	175,269	-	-	-
Sub total	**-**	**-**	**175,269**	**-**	**175,269**	**-**	**-**	**-**
Belgium								
Regions	1,166	-	9,500	-	10,666	-	-	-
Public sector entities	37,707	-	-	-	37,707	-	-	-
Sub total	**38,873**	**-**	**9,500**	**-**	**48,373**	**-**	**-**	**-**
Canada								
Municipalities	100,287	-	-	-	100,287	-	-	-
Public sector entities	34,485	-	-	-	34,485	-	-	-
Sub total	**134,772**	**-**	**-**	**- -**	**134,772**	**-**	**-**	**-**
Spain								
State	-	20,000	-	-	20,000	-	-	-
Regions	-	50,000	-	-	50,000	-	-	-
Municipalities	67,944	-	-	-	67,944	-	-	-
Sub total	**67,944**	**70,000**	**-**	**-**	**137,944**	**-**	**-**	**-**
United States								
Federated States	-	204,728	-	-	204,728	-	-	-6,033
Sub total	**-**	**204,728**	**-**	**-**	**204,728**	**-**	**-**	**-6,033**

EUR thousands	Direct Exposure		Indirect Exposure					
COUNTRY	Loans	Bonds	Loans	Bonds	Total	Of which non-performing loans	Of which past due	Of which specific impairment [1]
Italy								
State	-	1,133,127	-	-	1,133,127	-	-	-34,818
Regions	-	1,817,687	-	-	1,817,687	-	-	-
Provinces	-	424,019	-	-	424,019	-	-	-
Municipalities	5,109	975,140	-	-	980,249	-	-	-
Sub total	**5,109**	**4,349,973**	-	-	**4,355,082**	-	-	**-34,818**
Japan								
Municipalities	-	25,000	-	-	25,000		-	
Sub total	-	**25,000**	-	-	**25,000**	-	-	-
Portugal								
State	-	-	-	-	-	-	-	
Municipalities	9,103	-	-	-	9,103	-	-	
Public sector entities	2,578	-	-	-	2,578	-	-	
Sub total	**11,681**	-	-	-	**11,681**	-	-	-
United Kingdom								
State	-	-	-	23,662	23,662	-	-	
Sub total	-	-	-	**23,662**	**23,662**	-	-	-
Sweden								
Municipalities	18,490	-	-	-	18,490	-	-	
Sub total	**18,490**	-	-	-	**18,490**	-	-	-
Switzerland								
Cantons	162,002	-	6,453	-	168,455	-	-	
Municipalities	240,633	-	-	-	240,633	-	-	
Public sector entities	60,350	-	-	-	60,350	-	-	
Sub total	**462,985**	-	**6,453**	-	**469,438**	-	-	-
Supranational								
International organizations	17,484	-	-	-	17,484	-	-	
Sub total	**17,484**	-	-	-	**17,484**	-	-	-
TOTAL	**46,587,692**	**5,145,412**	**4,077,912**	**178,662**	**55,989,678**	**299,440**	**88,956**	**-66,066**

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

- specific impairment on non performing loans : EUR 24,937 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 41,129 thousand

(2) Caisse Française de Financement Local's Banque de France account as of June 30, 2020

(3) Of which EUR 16,273 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 06/30/2020

Residual maturity		Term to maturity					
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	TOTAL
0	1,756	1,456,028	82,462	-	-	-	1,538,490
1	2,575	39,342	54,808	227,586	97,359	-	419,095
2	2,620	37,094	38,000	100,924	553,921	-	729,939
3	2,797	46,814	51,145	137,004	929,920	-	1,164,883
4	2,173	47,272	43,946	103,207	841,973	-	1,036,398
5	4,349	62,681	57,915	117,024	1,115,592	196,045	1,549,257
6	2,677	47,723	80,619	112,793	1,004,994	783,058	2,029,187
7	2,195	50,402	48,098	95,348	811,856	887,214	1,892,918
8	3,075	88,065	84,667	152,627	1,392,535	1,347,351	3,065,245
9	2,464	69,089	143,481	212,473	1,799,202	1,750,313	3,974,558
10	2,928	74,481	75,009	151,450	1,230,583	1,990,941	3,522,464
11	1,820	48,424	63,044	118,518	940,327	1,579,398	2,749,711
12	1,438	52,022	49,974	106,768	895,191	1,925,317	3,029,272
13	1,731	37,413	51,717	91,470	833,784	2,010,480	3,024,864
14	1,695	44,008	52,809	94,350	794,882	2,674,938	3,660,987
15	1,692	48,273	52,134	108,971	911,557	3,137,829	4,258,764
16	1,060	25,500	41,027	55,603	514,757	2,231,408	2,868,295
17	1,067	36,226	39,275	63,221	581,484	2,262,037	2,982,243
18	1,053	37,970	28,672	68,957	555,190	2,145,961	2,836,750
19	1,039	29,820	30,291	57,667	481,981	1,892,506	2,492,265
20	604	24,880	19,452	51,437	384,804	1,555,076	2,035,649
21	177	7,944	14,197	14,507	152,466	690,299	879,413
22	152	7,326	4,166	9,275	86,414	427,573	534,754
23	189	3,944	4,604	8,723	71,330	379,114	467,715
24	270	5,350	4,906	13,678	95,525	495,047	614,506
25	138	2,012	2,389	5,702	40,794	244,439	295,336
26	55	4,684	649	3,604	37,612	227,145	273,694
27	56	1,729	1,844	5,135	36,105	256,776	301,589
28	83	3,530	1,848	4,864	44,036	968,645	1,022,923
29	117	2,766	2,792	5,769	46,486	347,694	405,507
30	35	1,060	1,038	3,788	24,217	174,230	204,333
31	2	84	84	168	1,340	8,711	10,387
32	9	191	69	572	3,373	26,291	30,496
33	39	66	270	241	2,505	26,991	30,073
34	11	174	51	774	4,395	67,819	73,213
35	23	197	304	752	5,667	96,281	103,201
36	22	172	170	380	2,947	28,747	32,416
37	19	103	20	758	3,924	33,553	38,358
38	7	126	71	184	1,593	21,025	22,999
39	5	106	45	251	1,736	23,903	26,041
40	2	122	75	198	1,617	19,258	21,270
41	1	31	0	32	280	6,208	6,551
	44,220	**2,445,243**	**1,228,137**	**2,306,753**	**17,336,254**	**32,939,621**	**56,256,009**
TRANSLATION ADJUSTMENTS							-266,331
TOTAL							**55,989,678**

(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 06/30/2020

COUNTRY	Early repayments during the year 2020	Rate of early repayments
France		
Departments	6,582	0.09%
Municipalities	24,338	0.16%
Groups of municipalities	3,500	0.03%
Public sector entities :		
- health		0.00%
- social housing		0.00%
- others	59	0.01%
State		0.00%
Sub total	**34,479**	**0.07%**
GLOBAL exposures on public sector	**34,479**	**0.06%**

The rate of early repayments as of June 30, 2020, 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). This rate is not annualised as the early repayments are not foreseeable considering that the cover pool is composed of exposures on public sector and replacement assets invested in credit institutions.

In 2019, the rate of early repayments for this entire year was 0.47% for a total amount of repayments of EUR 255 million.

3. ASSET-BACKED SECURITIES AND SIMILAR STRUCTURES

3.1 BREAKDOWN BY COUNTERPART

As of June 30, 2020, 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 06/30/2020	Country	Amount
Step 1 credit rating		
Covered Bonds		
	France	350,870
	Other countries	720,289
Other Bank bonds		
	France	295,092
	Other countries	318,906
Loans to SFIL	France	-
Step 2 credit rating		
Bank bonds (Maturity < 100 days)		
	France	-
	Other countries	-
Bank accounts' balances	France and other countries	7,569
TOTAL		**1,692,726**

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, 2020, replacement assets were composed of bank bonds and, to a lesser extent, of bank accounts balances. These exposures should benefit from ratings corresponding 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 06/30/2020

Residual maturity		Term to maturity					
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	TOTAL
0	11	135,965	109,580	-	-	-	245,545
1	20	-	-	635,120	148,605	-	783,725
2	11	-	-	-	322,105	-	322,105
3	7	-	-	-	202,641	-	202,641
4	3	-	-	-	138,710	-	138,710
Total	**52**	**135,965**	**109,580**	**635,120**	**812,061**	**-**	**1,692,726**

(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 during the first semester 2020.

5. MANAGEMENT OF THE INTEREST RATE RISK

To limit interest rate risk impact, interest rate 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 by entering into interest rate swaps, but also when this is possible, by the cancellation 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 Euribor (1, 3, 6 or 12 months) and the fixing risk due to the reset 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 an 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.

These different kinds of interest rate risks are monitored, analyzed and managed through:

- the production of gaps (fixed rate, basis and fixing respectively), calculated statically:

The fixed rate gap	Difference between balance sheet and off-balance sheet assets and liabilities for fixed-rate transactions or transactions for which the rate has been set. It is calculated every month until balance sheet run-off.
Index gaps	Difference between balance sheet and off-balance sheet assets and liabilities for a given index tenor that has not yet been fixed. This gap is calculated every month until balance sheet run-off.
Basis gaps	Gap resulting from the matching of two index gaps. There are therefore as many basis gaps as there are index pairs.
Fixing gap	corresponds, for a given tenor index, to the difference between adjustable rate balance sheet and off-balance sheet assets and liabilities, by fixing date.

- the monthly production of net present value (NPV) sensitivity indicators, calculated for a rate shock of 100bp, which aim to regulate the fixed or set rate residual positions of Caisse Française de Financement Local (after setting up hedges). These indicators are calculated for 4 predefined time buckets (short-term, medium-term, long-term, very long-term) regulated by limits which are calibrated to avoid losing more than 6% of equity (i.e. EUR 80 million) with a 99% quantile calculated on a 10-year history.

In the first half of 2020, the sensitivity limits to interest rate risk were adjusted, while keeping the overall value of interest rate risk appetite unchanged (EUR 80 million). The objective of this reallocation is to optimize the management of short-term interest rate risk by limiting the volume of swaps required. Thus, the sensitivity limit allocated to short-term positions has been increased from EUR 10 million to EUR 15 million, the limit allocated to very long-term positions has been reduced from EUR 10 million to

EUR 9 million and the limit, at each bucket maturity, in absolute value, has been reduced from EUR 40 million to EUR 30 million.

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	09/30/2019	12/31/2019	03/31/2020	06/30/2020
Sensitivity	25.0	3.2	-0.3	-2.7	-1.9

Risk of slope between two distant points on the rate curve

Sum of sensitivities

EUR millions, end of quarter	Limit*	09/30/2019	12/31/2019	03/31/2020	06/30/2020
Short term	15.0	-0.1	-5.5	-6.0	-4.0
Medium term	10.0	-8.6	-9.2	-2.1	-6.6
Long term	10.0	5.7	8.4	1.6	4.1
Very long term	9.0	6.2	6.0	3.8	4.6

* The limits applicable to points prior to 06/30/2020 were EUR 10 million for each time bucket. As of 06/30/2020, the limit is now EUR 15 million for the short-term time bucket, EUR 10 million for the medium-term and long-term time buckets and EUR 9 million for the very long-term time bucket.

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

EUR millions, end of quarter	Limit*	09/30/2019	12/31/2019	03/31/2020	06/30/2020
Short term	30.0	5.9	10.8	17.3	9.0
Medium term	30.0	11.0	15.3	12.7	13.0
Long term	30.0	8.2	12.3	12.3	10.4
Very long term	30.0	10.5	9.0	7.0	7.6

* The limit applicable to points prior to 12/31/2019 was EUR 20 million. As of 12/31/2019 and 03/31/2020, the limit applicable was EUR 40 million. As of 06/30/2020, the limit applicable is now EUR 30 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 June 30, 2020, over the next 180 days, the liquidity situation showed a maximum cash need of EUR 1 billion. The necessary management measures have been taken or will be taken to cover this gap.