



Report on asset quality
as of June 30, 2021
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, 2021, Caisse Française de Financement Local's cover pool is made of EUR 51.6 billion of loans, EUR 5.4 billion of bonds and EUR 0.9 billion of replacement assets, that correspond to the following exposures:

EUR thousands, as of 6/30/2021	Total cover pool	Assets removed from the cover pool	Total Outstanding
Exposures on public sector	56,969,787	523	56,970,310
Asset-backed securities	-	-	-
Replacement assets	913,689	-	913,689
TOTAL	57,883,476	523	57,883,999

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, 2021.

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 *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	-	-	4,040,409	-	4,040,409	-	-	-
- others	20,052	-	84	230,000	250,136	-	-	-
Banque de France ⁽²⁾	383,503	-	-	-	383,503	-	-	-
Regions	2,347,346	70,007	236,045	-	2,653,398	48,396	14,410	-14,400
Departments	7,494,255	-	138,676	-	7,632,931	999	32	-17
Municipalities	14,531,820	13,884	304,451	-	14,850,155	121,599	13,615	-9,569
Groups of municipalities ⁽³⁾	13,508,306	61,542	78,821	-	13,648,669	17,591	2,253	-768
Public sector entities :								
- health	6,094,791	8,397	-	-	6,103,188	42,927	174	-104
- social housing	894,857	-	-	-	894,857	-	20	-
- others	746,696	149,966	466	-	897,128	17,317	2,483	-34
Sub total	46,021,626	303,796	4,798,952	230,000	51,354,374	248,829	32,987	-24,892
Germany								
Länder	-	275,000	-	-	275,000	-	-	-
Sub total	-	275,000	-	-	275,000	-	-	-
Austria								
Länder	-	-	169,888	-	169,888	-	-	-
Sub total	-	-	169,888	-	169,888	-	-	-
Belgium								
Regions	708	-	4,000	-	4,708	-	-	-
Public sector entities	31,416	-	-	-	31,416	-	-	-
Sub total	32,124	-	4,000	-	36,124	-	-	-
Canada								
Municipalities	100,287	-	-	-	100,287	-	-	-
Public sector entities	34,485	-	-	-	34,485	-	-	-
Sub total	134,772	-	-	-	134,772	-	-	-
Spain								
State	-	180,000	-	-	180,000	-	-	-
Regions	-	50,000	-	-	50,000	-	-	-
Municipalities	65,443	-	-	-	65,443	-	-	-
Sub total	65,443	230,000	-	-	295,443	-	-	-
United States								
Federated States	-	181,761	-	-	181,761	-	-	-
Sub total	-	181,761	-	-	181,761	-	-	-

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				
COUNTRY								
Italy								
State	-	1,150,050	-	-	1,150,050	-	-	-17,895
Regions	-	1,685,250	-	-	1,685,250	-	-	-
Provinces	-	388,124	-	-	388,124	-	-	-
Municipalities	3,959	875,547	-	-	879,506	-	-	-
Sub total	3,959	4,098,971	-	-	4,102,930	-	-	-17,895
Japan								
Municipalities	-	25,000	-	-	25,000	-	-	-
Sub total	-	25,000	-	-	25,000	-	-	-
Portugal								
State	-	-	-	-	-	-	-	-
Municipalities	5,426	-	-	-	5,426	-	-	-
Public sector entities	1,719	-	-	-	1,719	-	-	-
Sub total	7,145	-	-	-	7,145	-	-	-
United Kingdom								
State	-	-	-	-	-	-	-	-
Sub total	-	-	-	-	-	-	-	-
Sweden								
Municipalities	18,490	-	-	-	18,490	-	-	-
Sub total	18,490	-	-	-	18,490	-	-	-
Switzerland								
Cantons	65,253	-	-	-	65,253	-	-	-
Municipalities	230,252	-	-	-	230,252	-	-	-
Public sector entities	60,350	-	-	-	60,350	-	-	-
Sub total	355,855	-	-	-	355,855	-	-	-
Supranational								
International organizations	13,005	-	-	-	13,005	-	-	-
Sub total	13,005	-	-	-	13,005	-	-	-
TOTAL	46,652,419	5,114,528	4,972,840	230,000	56,969,787	248,829	32,987	-42,787

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

- specific impairment on non performing loans : EUR 24,855 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 17,932 thousand

(2) Caisse Française de Financement Local's Banque de France account as of June 30, 2021

(3) Of which EUR 14,517 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 6/30/2021

Residual maturity		
Maturity date in years	Number of deals ⁽¹⁾	Total outstanding
0	1,252	539,804
1	2,564	542,705
2	2,721	892,693
3	2,102	836,935
4	4,228	1,338,645
5	2,620	1,822,084
6	2,129	1,788,097
7	3,008	2,709,140
8	2,433	3,665,633
9	2,933	3,368,102
10	1,848	2,543,953
11	1,418	2,679,921
12	1,707	3,165,848
13	1,669	4,357,488
14	1,955	4,852,339
15	1,312	3,508,877
16	1,017	2,894,629
17	1,040	2,784,505
18	1,045	2,426,859
19	876	3,011,700
20	456	2,126,686
21	151	515,595
22	193	459,197
23	271	597,725
24	201	494,399
25	131	542,043
26	58	296,939
27	81	1,012,681
28	120	405,180
29	63	433,789
30	26	132,913
31	9	29,664
32	37	29,497
33	11	72,214
34	23	101,949
35	20	31,694
36	19	37,720
37	7	22,618
38	5	25,639
39	2	20,875
40	1	6,488
	41,762	57,125,462
	TRANSLATION ADJUSTMENTS	- 155,675
	TOTAL	56,969,787

(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 6/30/2021

COUNTRY	Early repayments during the year 2021	Rate of early repayments
France		
State	-	-
Departments	22,902	0.31%
Municipalities	10,387	0.07%
Groups of municipalities	4,412	0.03%
Public sector entities :		
- health	318	0.01%
- social housing	1,420	0.16%
- others	73	0.01%
Sub total	39,512	0.08%
GLOBAL exposures on public sector	39,512	0.07%

The rate of early repayments at the end of at the end of the first half of 2021 corresponds to the volume of early repayments occurred over the year divided by the arithmetic average outstanding amount for the period (equal to the average amount of daily outstandings). This rate is not annualized as the early repayments are not foreseeable considering that the cover pool is composed of exposures on public sector.

In 2020, the rate of early repayments for this entire year was 0.08% for a total amount of repayments of EUR 47 million.

3. ASSET-BACKED SECURITIES AND SIMILAR STRUCTURES

3.1 BREAKDOWN BY COUNTERPART

As of June 30, 2021, Caisse Française de Financement Local did not hold any asset-backed securities or similar structures on its balance sheet.

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 6/30/2021	Country	Amount
Step 1 credit rating		
Covered Bonds		
	France	197,900
	Other countries	604,081
Other Bank bonds		
	France	12,199
	Other countries	94,922
Loans to SFIL	France	-
Step 2 credit rating		
Bank bonds (Maturity < 100 days)		
	France	-
	Other countries	-
Bank accounts' balances	France and other countries	4,587
TOTAL		913,689

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 can grant 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, 2021, 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

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	8	115,209	38,199	-	-	-	153,408
1	13	-	-	272,940	49,500	-	322,440
2	15	-	-	-	252,841	-	252,841
3	3	-	-	-	138,900	-	138,900
4	1	-	-	-	46,100	-	46,100
Total	40	115,209	38,199	272,940	487,341	-	913,689

(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 neither during the first semester of the year 2021 neither during the whole year 2020.

5. MANAGEMENT OF THE INTEREST RATE RISK

To limit its impact, Caisse Française de Financement Local implements an interest rate risk hedging strategy consisting of:

- micro-hedging balance sheet items denominated in a currency other than the euro or indexed to a complex rate structure. Certain euro-denominated vanilla transactions may also be micro-hedged if their notional value or duration could lead to a sensitivity limit being exceeded. Micro-hedging is carried out exclusively by swap;
- macro-hedging all transactions that are not micro-hedged. The transactions concerned are mainly (i) loans to the local public sector and (ii) issues of *obligations foncières* denominated in euros. This macro-hedging is obtained as far as possible by matching fixed-rate assets and liabilities via the termination of swaps and, for the rest, by setting up new swaps against Euribor or €Str;
- this fixed-rate risk management is supplemented by monitoring of the fixings of operations at adjustable rates in order to ensure that they do not lead to the short-term sensitivity limit being exceeded. Where appropriate, swaps against €Str may be entered into to hedge the fixing risk.

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 or €Str 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.

As of June 30, 2021, the sensitivity limits to interest rate risk are the following :

Translation of the rate curve	Limit of EUR 25 million
Sloping/rotation of the interest rate curve on distant points on the curve	EUR 15 million limit over Short term time buckets EUR 10 million limit over Medium term time buckets EUR 10 million limit over Long term time buckets EUR 9 million limit over Very long term time buckets
Sloping/rotation of the interest rate curve inside a time bucket	EUR 30 million limit on the absolute value of the sensitivities inside each time bucket

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

<i>EUR millions, end of quarter</i>	Limit	9/30/2020	12/31/2020	3/31/2020	6/30/2021
Sensitivity	25.0	-1.0	-6.8	-10.1	-5.3

Risk of slope between two distant points on the rate curve

Sum of sensitivities

<i>EUR millions, end of quarter</i>	Limit*	9/30/2020	12/31/2020	3/31/2020	6/30/2021
Short term	15.0	-5.3	-9.5	-4.4	-5.8
Medium term	10.0	-6.1	3.1	-6.5	1.0
Long term	10.0	5.1	-2.5	0.7	-1.4
Very long term	9.0	5.3	2.2	0.1	0.9

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

<i>EUR millions, end of quarter</i>	Limit*	9/30/2020	12/31/2020	3/31/2020	6/30/2021
Short term	30.0	12.6	10.9	12.4	7.7
Medium term	30.0	13.9	22.3	21.4	24.5
Long term	30.0	3.7	11.3	16.7	26.0
Very long term	30.0	8.2	8.8	8.3	5.7

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 refinancing by 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, 2021, the 180-day liquidity position is in excess over the entire period and did not present any liquidity need. The movements observed correspond to cash flows from amortization of *obligations foncières*, cash collateral, non-privileged liabilities and assets.

