



# CRH – Caisse de Refinancement de l'Habitat

**Presentation – December 2019**



## **1. Executive Summary**

2. Overview

3. Credit Strengths

4. Cover Pool

5. CRH Issuance Program

6. Conclusion

Appendix

# Executive Summary

1

## CRH in a nutshell

- A **unique market place issuer** in Europe, dedicated to the refinancing of the French Home Loan market
- A **bullet-proof entity** benefiting from a dedicated legal framework and a solidarity mechanism of its shareholders, the largest banks in France
- An **independent credit institution** with a pure pass-through role between the market and the CRH borrowers/shareholders
- A **non-profit institution** benefiting from a solid 18,19% CET1 ratio as of December 31<sup>st</sup> 2019, i.e. 1071bps CET1 buffer

2

## Cover pool

- Home loan assets located in **France only**, with up to 35% of insured loans (“crédits cautionnés”)
- **Strong collateralization requirements** (min. 125%), with a current OC of 144% as of December 31<sup>st</sup>, 2019
- **Additional investor-friendly internal rules** restricting each individual home loan size to a EUR 1m with a remaining life of 25 years, as a maximum
- **No derivatives, no RMBS, no substitution assets**

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## Funding program

- As **adverse impacts of regulation have cleared**, CRH intends to become again a key refinancing tool at the disposal of its borrowers/shareholders
- Aiming to be a regular/repeat issuer, CRH has launched 2 benchmark transactions in 2019 (€1bn 10-year & €1bn 7-year) and targets an indicative **funding plan of €3-4bn for 2020**, subject to confirmation by CRH shareholders of their funding interests

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## CRH Covered Bonds: high-quality secured instruments

- Expected to be rated **Aaa** by Moody's and **AAA** by Fitch
- Expected to be **UCITS/CRR Compliant & LCR Level 1B**
- Issued under CRH's **newly established € 25bn EMTN program** (French law), in **soft or hard bullet** format





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# CRH Overview

## A French government initiative

CRH was set-up in 1985 by the French Government, as an agency to play a central role in the reform of the mortgage refinancing program

### Purpose

- To help French Banks raise long term liquidity funding
- To develop home ownership across the country by lowering the cost of financing

### Implementation

- For the first three years, the CRH developed this market with the French State guarantee, then on a stand-alone basis
- CRH is a French société anonyme (public limited company) duly licensed in France as a specialized credit institution

### Tools

- CRH has been fitted with a strong dedicated legal framework, protecting investors
- A clear roadmap for its organization

### Legal Features

- Non-for-profit nature
- Pure pass-through role
- All borrowers must be shareholders and commit capital and liquidity
- An additional cover pool monitoring supervised by the national regulator, the Autorité de Contrôle Prudentiel et de Résolution (“ACPR”)

# History and context

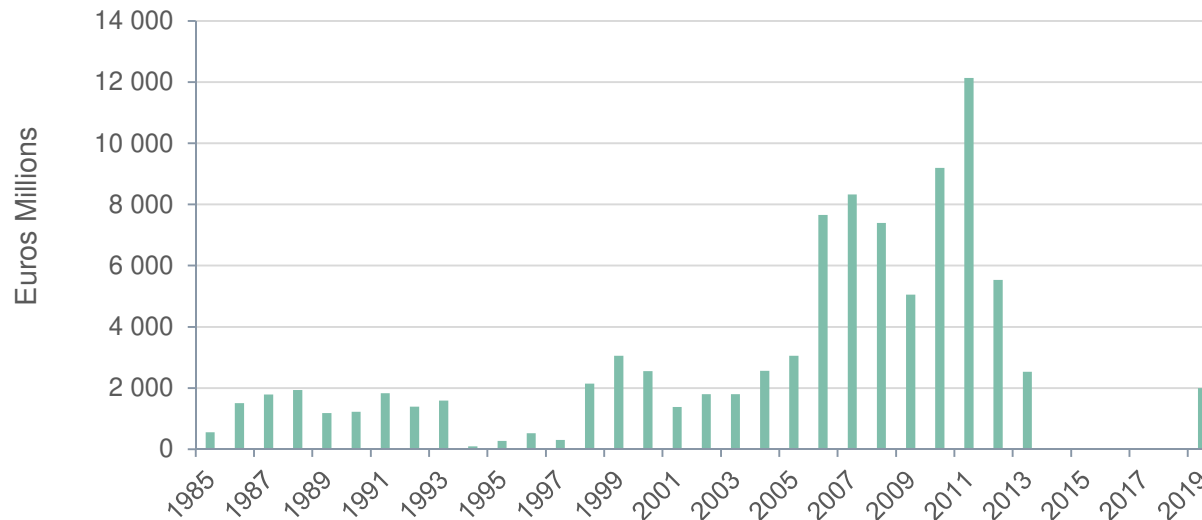
## CRH has fulfilled its mission

- € 92.5bn cumulated loans granted to banks since inception of which:
  - € 39bn in the wake of Lehman's default (2008-2012)
  - Up to € 12bn raised in a single year (2011)
- 239 bond issues have been launched by CRH since it was created
  - 25 issues with the French state guarantee
  - 214 on a stand-alone basis

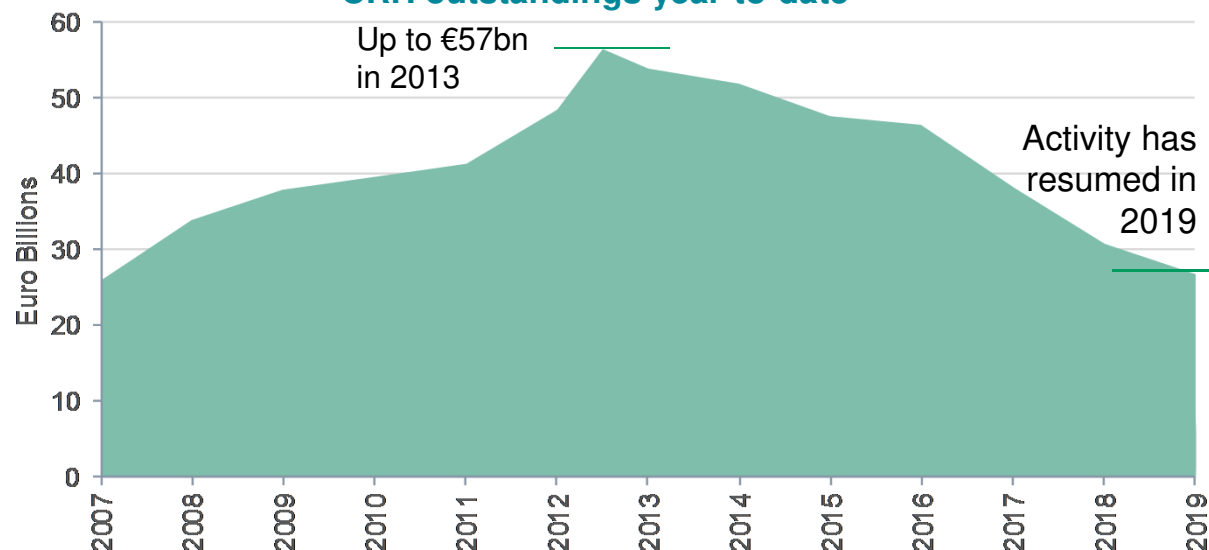
**CRH had successfully been the main refinancing tool of Home Loans to individuals and proven to be a contra-cyclical and resilient platform.**

**Since the release of CRR2 in May 2019 CRH activity has resumed issuance in October (2 issues of €1bn), with the intention to be again a large and regular issuer**

### CRH historical issuance



### CRH outstandings year-to-date



# CRH Overview

## Shareholders' support and solidarity mechanism

### CRH is held by the five major French banking groups

- Representing 78% of the French Home Loan market
- Shareholders stake is proportionated to their relative capital requirements
- Capital stake is adjusted once a year after Q1 release

### Alignment of stakeholders' interest and management

- CRH is an independent credit institution in charge of its own credit decisions and collateral monitoring
- No majority shareholder controls CRH, a dilution of voting rights attached to its shares being organized as to maintain its independence
- Neutrality of CRH management as a result of the implied solidarity mechanism on CRH capital among shareholders

### Solidarity mechanism

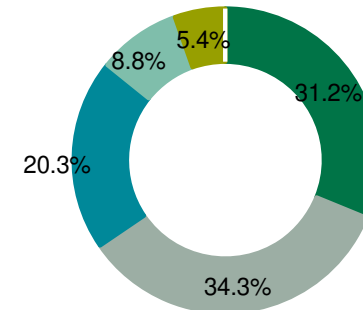
- Shareholders ultimately jointly callable to fulfill CRH regulatory capital needs
- Fosters commitment to the general interest

### Shareholders' support

- Liquidity commitment of shareholders

### Shareholders

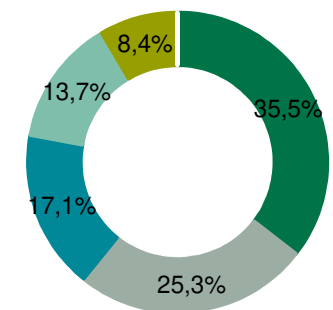
as of December 31<sup>st</sup> 2019



■ Crédit Mutuel  
■ Société Générale  
■ BPCE

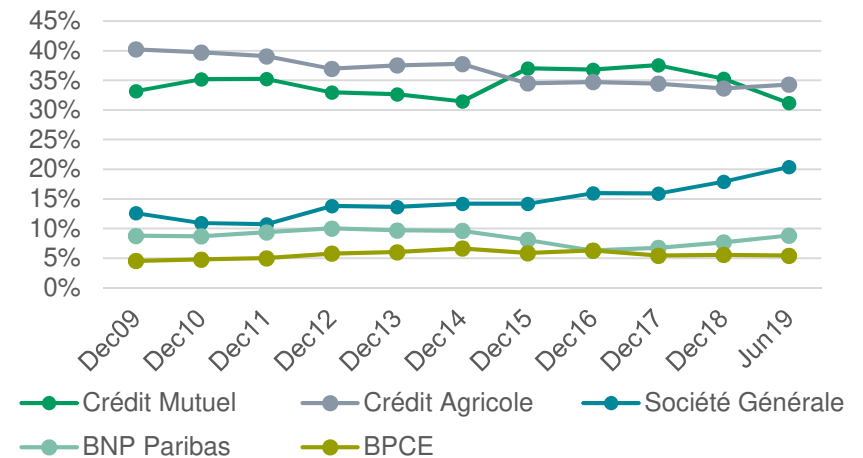
### Voting Rights

as of December 31<sup>st</sup>, 2019



■ Crédit Agricole  
■ BNP Paribas

### A stable shareholder group overtime





### Corporate governance

#### 1. Risk committee

- Effectiveness of internal control and risk management systems
- Issues opinions to the Board on all risk related matters
- Review of portfolio monitoring, ICAAP/ILAAP, Recovery Plan

#### 2. Audit committee

- Review of CRH activity, performance and financial situation
- Review assumptions for financial statements drafting
- Follow-up of auditor's work and reports

#### 3. Compensation committee

#### 4. Appointments committee



### Supervision

1. CRH independent monitoring of portfolios is supervised by ACPR (Art. L 313-49 of Monetary and Financial French Code "CMF")

2. Direct supervision of CRH as a banking institution by the ECB

- Stress tests
- ICAAP/ILAAP
- Liquidity
- Recovery plan

3. National supervision as a Covered Bond (CB) issuer under upcoming EU CB Directive



# CRH Overview

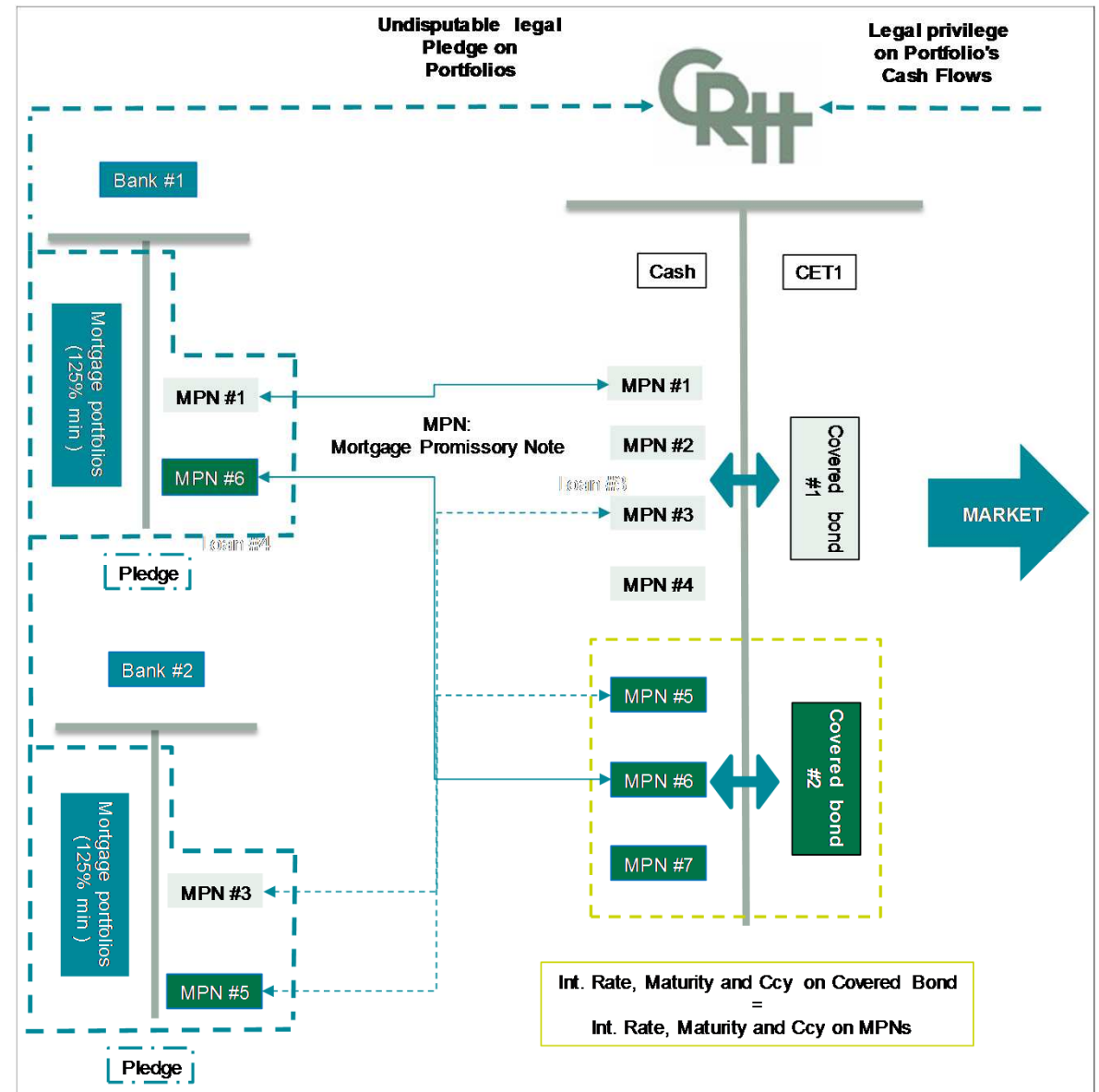
## Structure overlook

### Structural features

- Each Bank borrows from CRH in the form of a Mortgage Promissory Note (« MPN »)
- An MPN is “credit-risk equivalent” to a Covered Bond with double recourse to banks & collateral
- CRH has a Legal-specific pledge enabling undisputable ownership of the portfolio by default
- Investors have a legal privilege over collateral cash flows deriving from the MPN created by Law N°2006-872 of 13 July 2006

### Financial features

- Each Covered Bond is the sum of MPNs
- Identical financial conditions between MPNs & CBs with Asset Liability Management done at each bank’s level
  - Same interest rate
  - Same maturity
  - Same currency

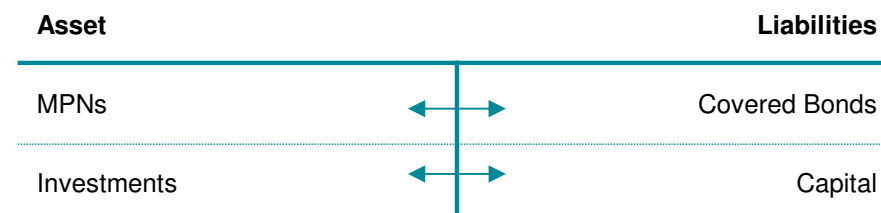


# CRH Overview

## Balance sheet consideration

### CRH is a pure pass-through with a simple balance sheet structure

- The amount of Covered Bonds is equivalent to the amount of Mortgage Promissory Notes
- Capital (core equity only) is invested in bank deposits/EMTNs
- No off Balance Sheet items
- No derivatives



Asset	31/12/2018	31/12/2019	Liabilities	31/12/2018	31/12/2019
<b>MPNs</b>	27,539.2	25,726.8	<b>Covered Bonds</b>	27,539.2	25,726.8
<b>Investments</b>	556.0	555.7	<b>Capital</b>	562.6	562.6
<i>Cash</i>	0.1	0.0	<i>Central Banks</i>	0.0	0.0
<i>Other Assets</i>	7.3	7.6	<i>Other Liabilities</i>	0.4	0.2
<i>Prep/Acc. Income</i>	0.1	0.1	<i>Accrued</i>	0.3	0.4
			<i>Provisions</i>	0.2	0.2
<b>Total</b>	28,102.7	26,290.2	<b>Total</b>	28,102.7	26,290.2

All figures in EUR million

# CRH Overview

## P&L consideration

### CRH is a non-profit institution

- No ROE nor any P&L target: not relevant as charges / profits are to be shared amongst the same parties
- CRH model is economically similar to a cooperative organization
- Due to the negative impact of QE, the P&L account is balanced at the end of each year, showing shareholders commitment to CRH

	31/12/2016	31/12/2017	30/06/2018	31/12/2018	31/12/2019
<b>Net banking income</b>	2.301	0.109	-0.072	1.857	2.001
<b>Gross operating income</b>	3.318	1.418	2.654	3.704	3.292
<b>Net income</b>	0.057	0.006	-0.686	0.018	0.000

- No margin between covered bonds and secured loans to banks
- Revenues are driven by interest rate levels
- Highly stable operational expenses

All figures in EUR million

# CRH Overview

## Regulatory capital considerations

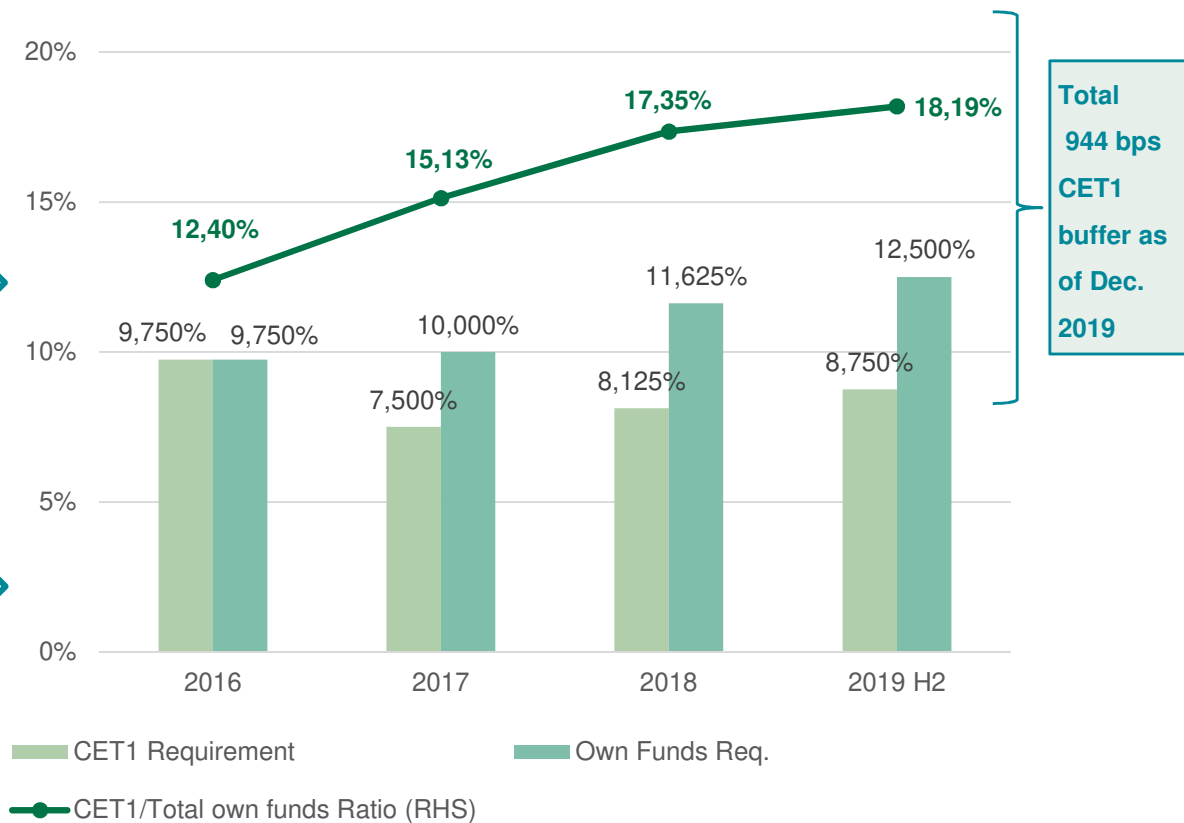
CRH has only core equity (€556.1mn as of 31/12/2019) with its CET1 ratio being equivalent to own funds ratio

Substantial buffer to cover its exposures. As of December 2019 :

- 569bps buffer on own funds
- 375bps additional buffer on CET1
- Total 944 bps CET1 buffer

Strong credit risk with a low RWA density

CRH capital strength  
(as of Q4 2019)



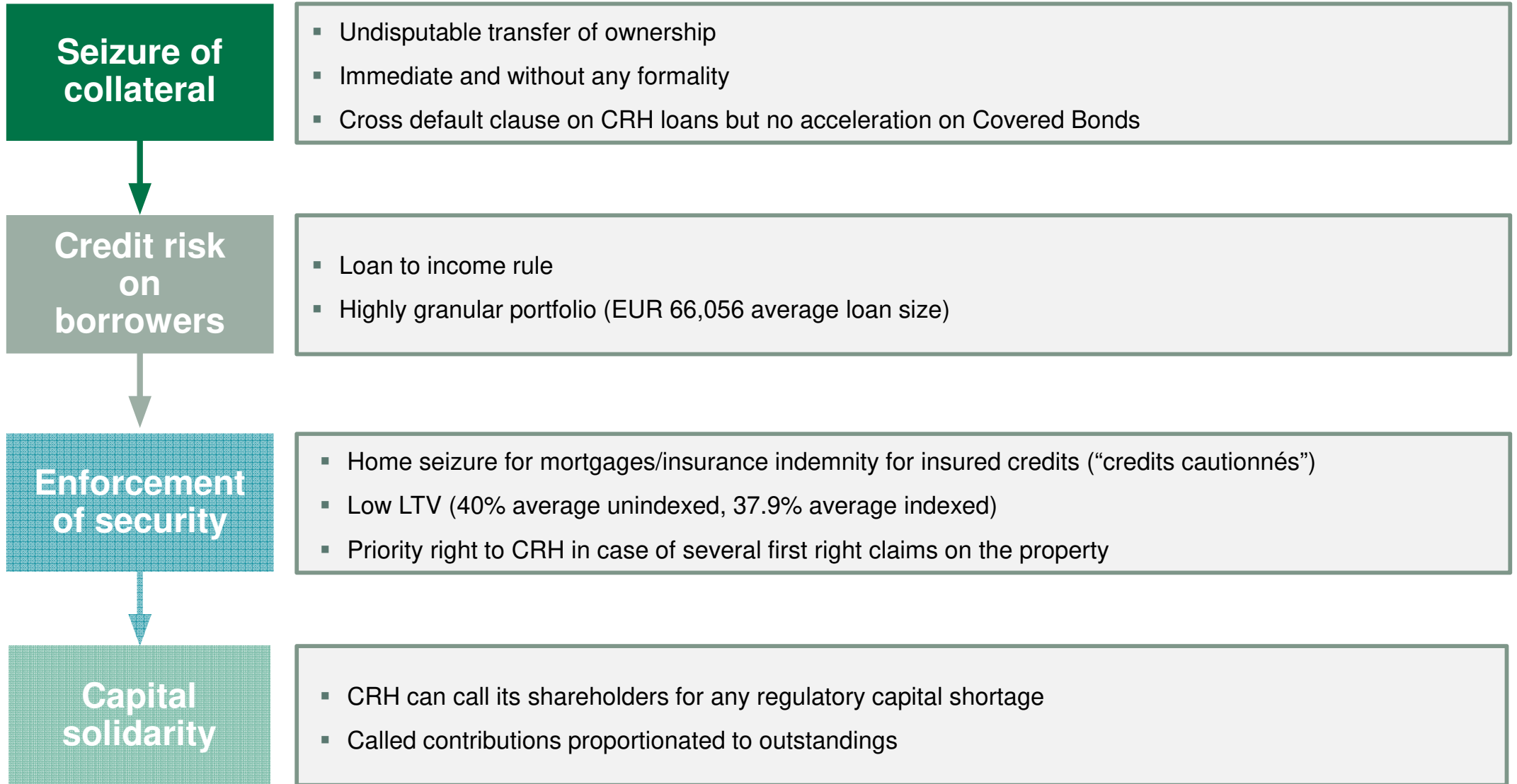


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# CRH Credit Strengths

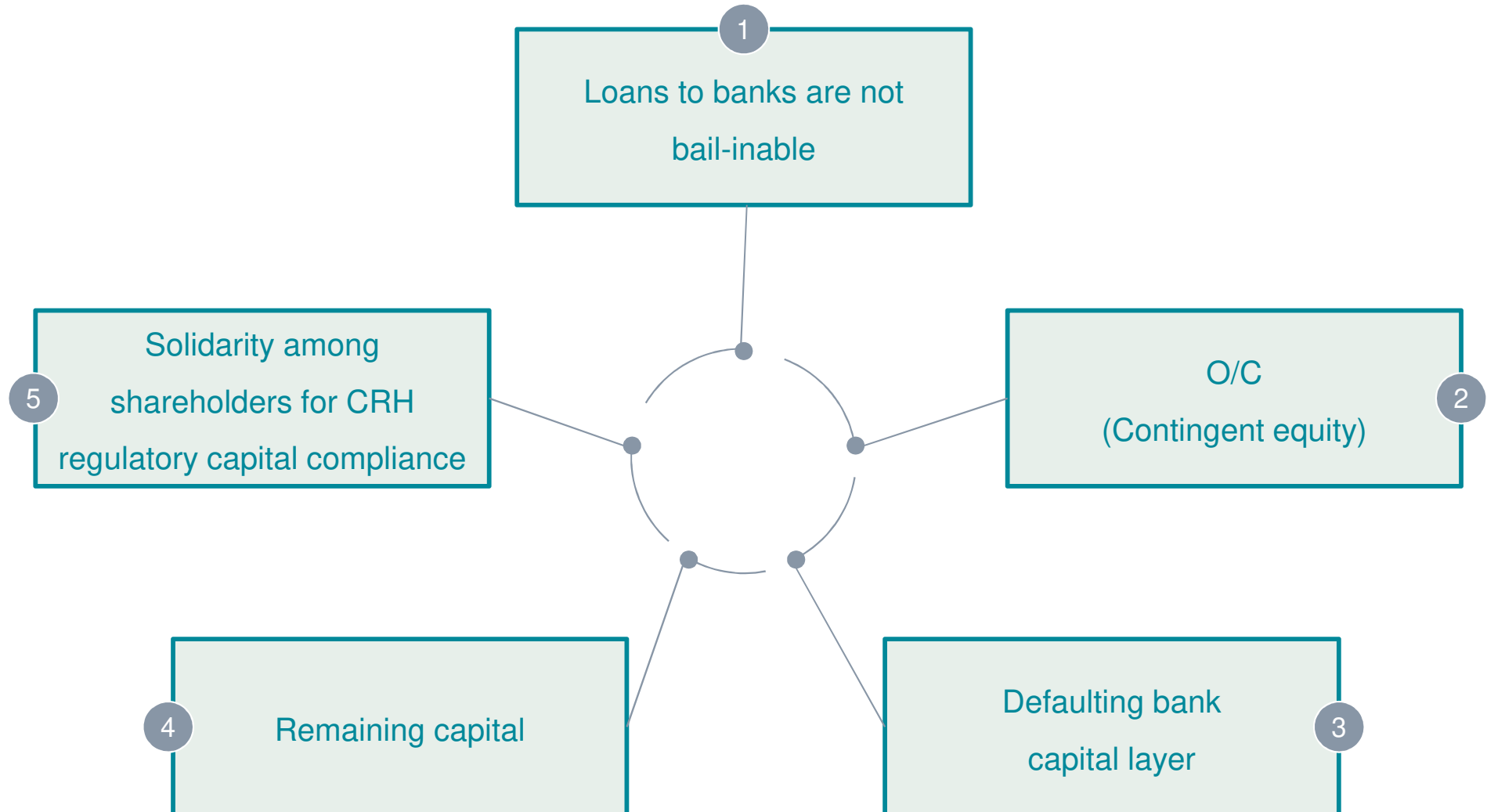
## Consequences of a bank's default



Source ECBC CRH reporting as of 31/082019

# CRH Credit Strengths

## Credit protection chain for investors



# CRH Credit Strengths

## CRH legal framework compared to Obligations Foncières / A l'Habitat

	CRH	OBLIGATIONS FONCIERES	OBLIGATIONS A L'HABITAT
<b>STRUCTURE</b>			
<b>Who owns the cover assets?</b>	CRH member banks, but pledged to CRH (with transfer to the issuer upon trigger event)	The issuer directly or alternatively the sponsor in case assets are pledged to the issuer (with transfer to the issuer upon trigger event)	
<b>COVER ASSETS AND VALUATION</b>			
<b>Eligible cover assets</b>	Mortgage loans, up to 35% guaranteed home loans	Exposures to public sector entities, mortgage loans, guaranteed home loans, group originated Senior MBS, senior MBS issued by third parties, mortgage promissory notes, exposures to credit institutions	Mortgage loans, guaranteed home loans, group originated Senior MBS, senior MBS issued by third parties, exposures to credit institutions
<b>Geographical scope</b>	France	Public sector: Domestic, EEA, AU, CA, CH, JP, NZ, US Home loans: Domestic, EEA, other (as long as AAA rated and recognised by ACPR)	Home loans: Domestic, EEA, other (as long as AAA rated and recognised by ACPR)
<b>Mixed pools possible?</b>	No	Yes	No
<b>Limit on substitute assets</b>	0%		15%
<b>COVERAGE AND RISK MITIGATION REQUIREMENTS</b>			
<b>Minimum OC</b>	25%	5%	
<b>Mitigation of interest rate / FX risk</b>	Pass through at the level of CRH	Natural matching, stress testing, use of derivatives	
<b>Mitigation of liquidity risk</b>	Pass through at the level of CRH, non-defaulting member banks grant CRH liquidity in the amount of 5% of loans refinanced via CRH	Issuers have to hold 180 days worth of liquidity, natural matching (weighted average life of assets should not exceed that of covered bonds by more than 18 months), substitute assets	
<b>SEGREGATION OF ASSETS IN AN INSOLVENCY SCENARIO</b>			
<b>How can liquidity be generated post sponsor insolvency?</b>	CRH is still an operating entity in case one member bank defaults. Also, non-defaulting member banks grant CRH liquidity in the case of 5% of loans refinanced via CRH	Cash flows from the pool, sale of cover assets, issuance of bonds / loans, repo transactions	
<b>Recourse to the sponsor's / issuer's insolvency estate?</b>	Yes, senior to unsecured creditors at the level of CRH, pari passu at the level of the member banks	Senior to unsecured creditors at the issuer level. At the sponsor level no recourse in case of true sale of the assets, in case of pledge of the assets pari passu to senior unsecured	
<b>How do derivatives counterparties rank vs. covered bond holders?</b>	No derivatives used	Pari passu to covered bond holders	

Source: ECBC, National Laws, EBA





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# CRH Cover Pool

## Eligibility and monitoring

### Eligibility rules

#### Two types of loans

- ✓ Mortgage loans
- ✓ Insured loans (“crédits cautionnés”), currently limited to 35% of the cover pool

#### Underlying Assets

- ✓ Residential Real Estate only
- ✗ No mixed buildings (commercial / residential)
- ✗ No specialised buildings (healthcare)
- ✗ Securitization positions forbidden

#### Regulatory Aspects

- UCITS compliance
- CRR compliance

#### Additional CRH Request

- Loans in France only
- Loan max EUR 1,000,000
- Max. remaining life 25 years
- Congruence rule

### Collateral monitoring

#### CRH has an independent monitoring team

- Reporting directly to CRH Management
- Supervised by the ACPR (Art. 313-49 of the CMF)
- 50% of its headcount dedicated to monitoring activity
- In addition to the own bank’s collateral monitoring
- CRH is a member of ECBC and posts HTT reporting

#### On-site monitoring

- Physical examination of all file components
- Statistical approach
- CRH findings, recommendations, needed actions sent to borrower
- Follow-up

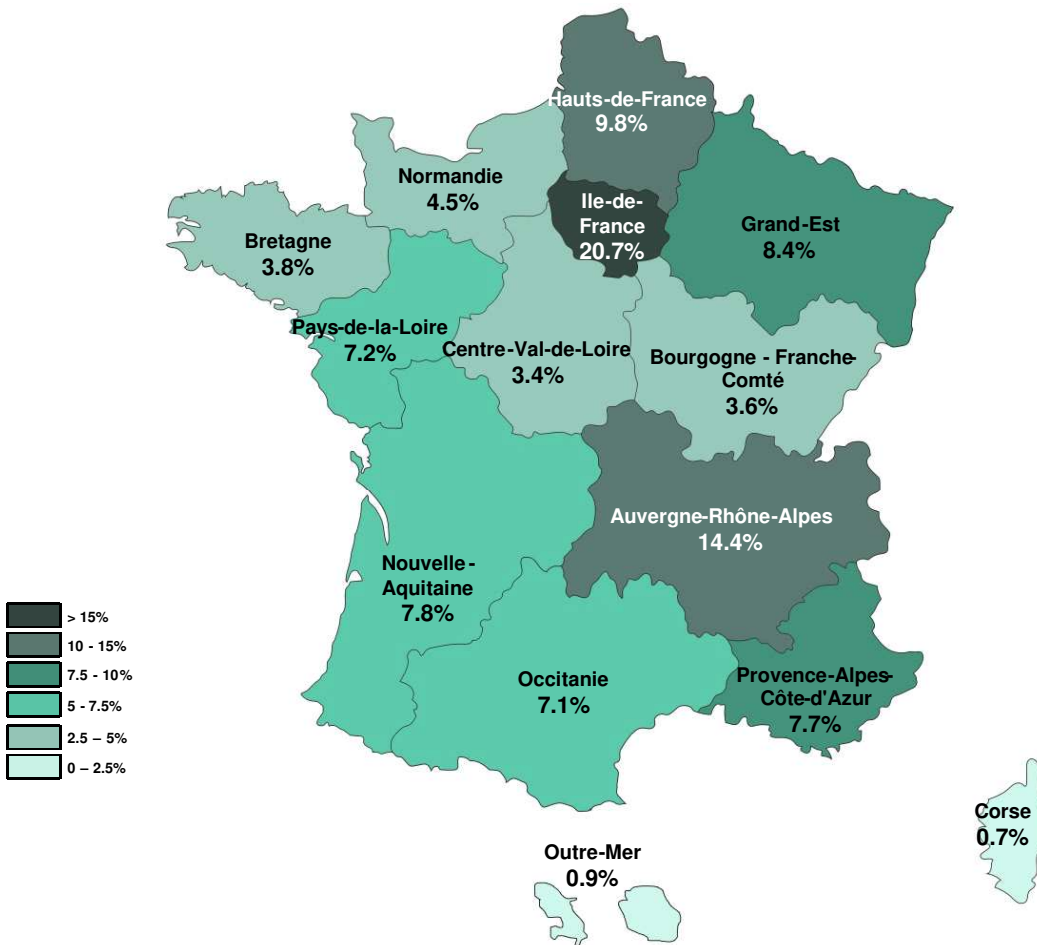
#### At distance

- Monthly monitoring on loan-by-loan basis
- Quarterly reporting and dialogue with rating agencies (Fitch ratings and Moody’s)

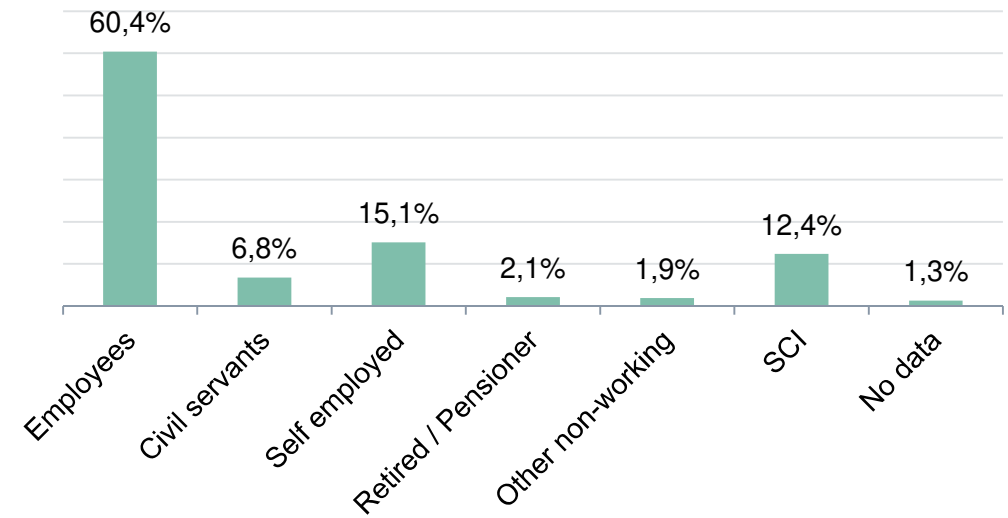
# CRH Cover Pool

## Cover pool characteristics (1/2)

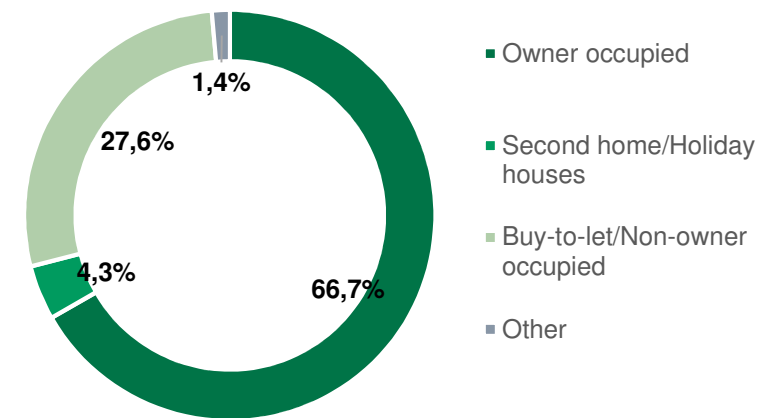
### Geographical distribution



### Borrower Profile



### Occupancy

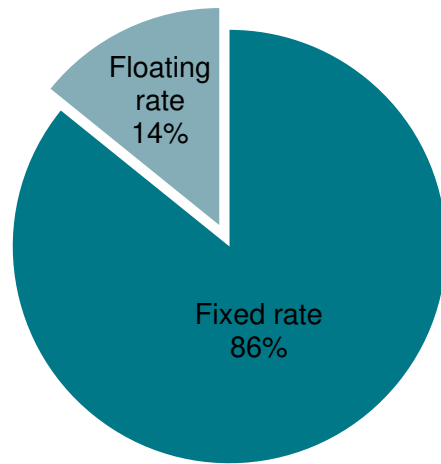


Source ECBC HTT reporting as of December 31<sup>st</sup>, 2019

# CRH Cover Pool

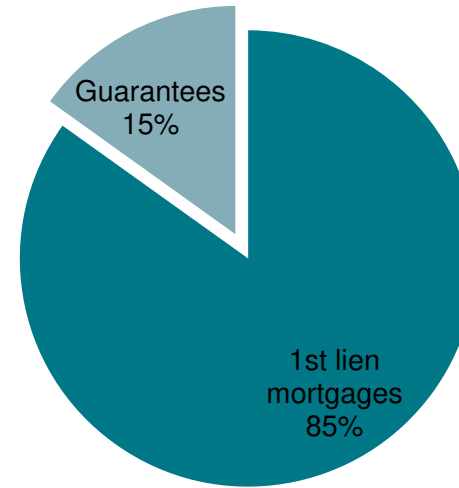
## Cover pool characteristics (2/2)

### Types of rate



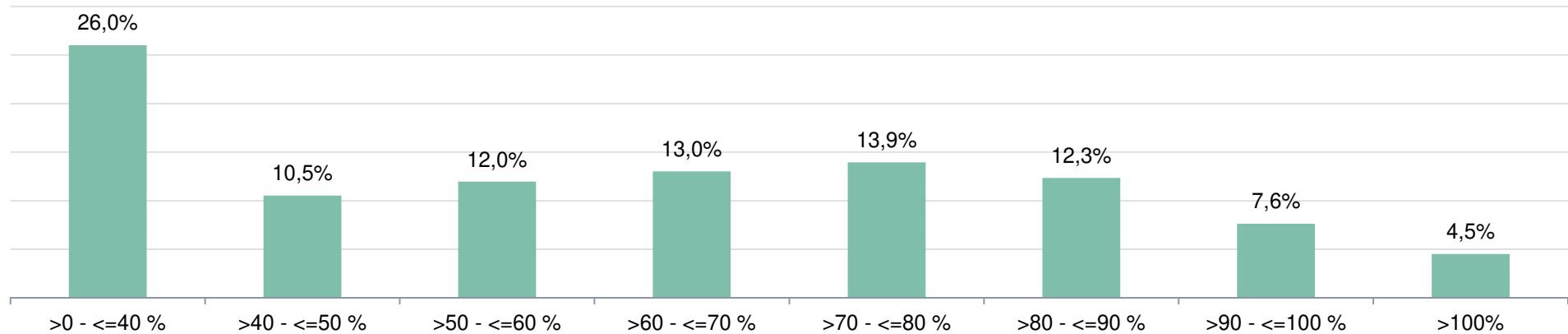
Floating Rate	
Capped for life	11.8%
Floating (1y or less)	2.3%
Mixed (1y+)	0.1%

### Loan Type



Guarantees	
Crédit Logement	14.9%
CNP Caution	0.1%
Generali	0.1%

### Indexed LTVs



Source ECBC HTT reporting as of December 31<sup>st</sup>, 2019





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# CRH Issuance Program

## Key Terms of CRH EMTN program

Programme Size	€ 25bn
Funding Plan	Indicative € 3-4bn issuance programme in 2020 through issuance of benchmark covered bonds
Ratings	Aaa by Moody's / AAA by Fitch
Governing Laws	French law
Overcollateralization	Contractual average 144% (by internal regulation 125% minimum, legal minimum 105%)
Currency	EUR
Type of Issuance	Possibility to issue hard or soft bullets
Type of Rate	Fixed, Floating, Fixed/Floating, zero coupon
Listing	Euronext Paris
Clearing	Euroclear France if dematerialised notes



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# Key takeaways

1

✓ CRH is a **unique market place entity in Europe**

2

✓ Representing ultimately a **credit risk on the French banking system**

3

✓ Benefiting from a **strong, legal-specific Framework**

4

✓ Secured by **high quality residential real-estate loans**

5

✓ Fitted with **strong built-in protections**

- 44% Over-collateralization
- 40% average unindexed LTV (37.9% average indexed)
- Large excess Total Own-funds / CET1
- Shareholders Solidarity over capital





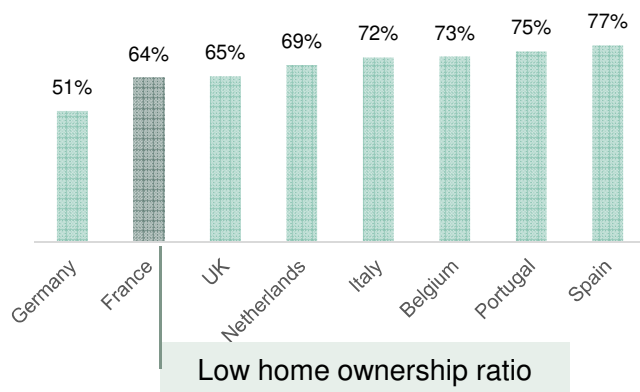
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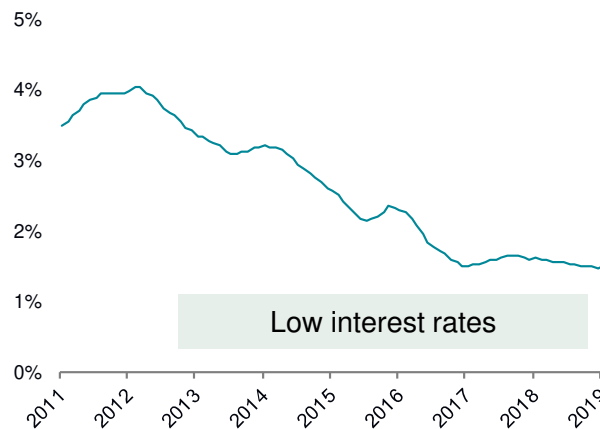
# Review of the French housing market

## A dynamic and resilient market

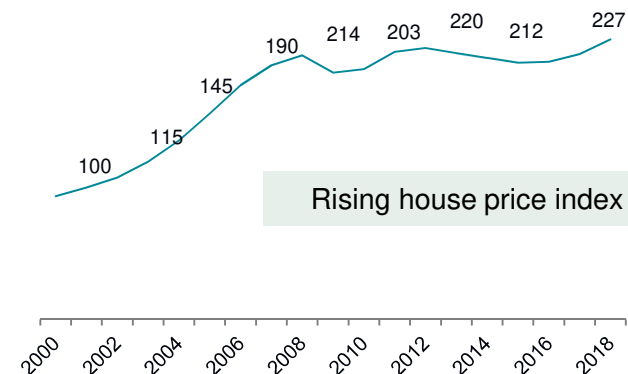
**Home ownership ratio in Europe**  
(in % of total households)



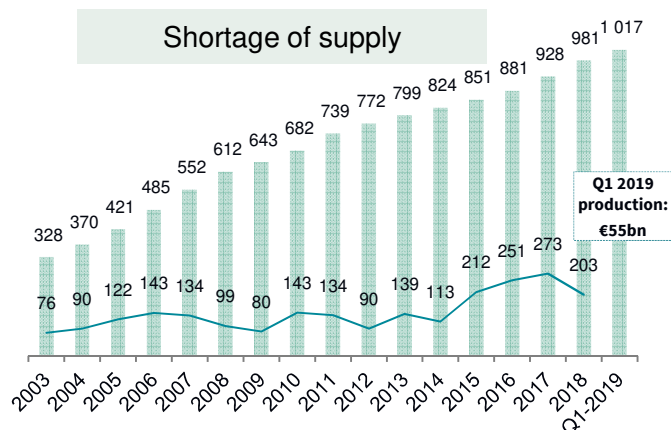
**French home loan interest rates**



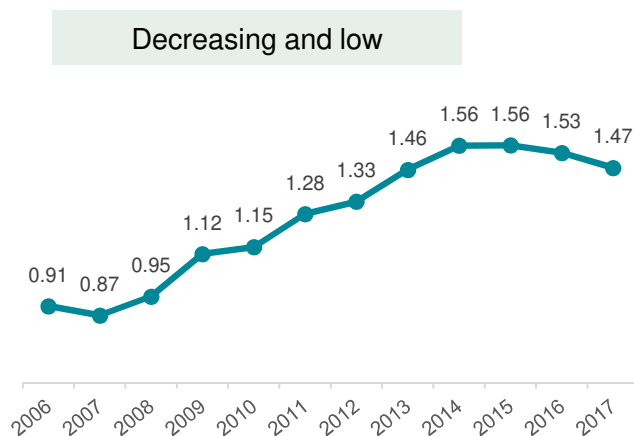
**Housing price index (new and old dwellings)**  
Base 100 in 2000 annual average



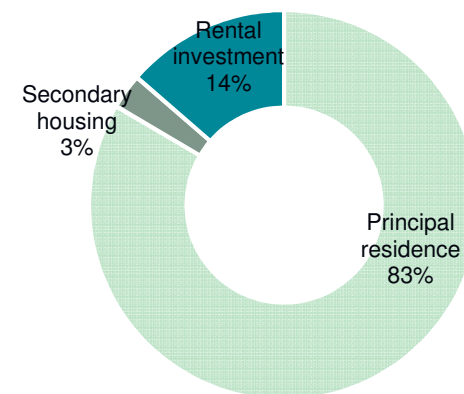
**Average outstanding amounts and gross production of French home loans**  
(in €bn)



**French doubtful home loans**  
(in %)



**French home loan purpose**  
(as of Q1 2019)



Sources: Eurostat, Banque de France, INSEE

# Review of the French housing market

## A cautious and healthy origination process

The French market presents a healthy picture when combining the different aspects of its housing loans origination process



### Capability to repay is fundamental

- A consistent housing origination approach shared amongst French banks
- A scoring technique focusing on the most creditworthy buyers (hence a decreasing doubtful loan ratio observed since 2015)
- A process based upon the Loan to Income (LTI) ratio instead of the Loan to Value (LTV): borrower creditworthiness via the Debt to Income ratio, the employment type, regular and justified revenues
- Low interest rates transferring purchase power to individuals and first time borrowers

### Consistent and solid demand

- Supported by a lower rate of home ownership compared to European countries
- A growing population thanks to a more dynamic demography combining a higher birth rate and a positive immigration net inflow
- Historically, a strong French appetite for Real Estate assets, which is also seen as a protection against volatility observed on other alternative investments (Equity)

### Weak Supply

- A structural housing deficit measured by the difference between housing starts and building permits
- A cautious attitude from developers, sticking to the actual demand. This avoids any extra stock that could weigh upon the market dynamic

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