



**Report on asset quality
as of September 30, 2016**
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, 2016, Caisse Française de Financement Local's cover pool is made of EUR 51.1 billion of loans, EUR 6.9 billion of bonds and EUR 0.9 billion of replacement assets, that correspond to the following exposures:

EUR thousands, as of 9/30/2016	Amount	Assets temporarily removed from	TOTAL
Exposures on public sector	57,938,695		57,938,695
Asset-backed securities	-		-
Replacement assets	918,248		918,248
TOTAL	58,856,943	-	58,856,943

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, 2016.

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 new 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.

EUR thousands	Direct Exposure		Indirect Exposure		Total	Of which past due ⁽¹⁾
	Loans	Bonds	Loans	Bonds		
Country						
France						
State ⁽²⁾			185,260		185,260	257
Banque de France ⁽³⁾	3,501,320				3,501,320	
Regions	1,648,710	95,006	272,351		2,016,067	2,113
Departments	6,816,684		207,534		7,024,218	14,714
Municipalities	16,307,199	22,116	498,490		16,827,805	46,087
Groups of municipalities ⁽⁴⁾	10,713,548	95,415	182,956		10,991,919	16,328
Public sector entities :						
- health	6,287,642				6,287,642	5,352
- social housing	1,427,420				1,427,420	2
- others	945,630	25,000	1,449		972,079	0
Sub total	47,648,153	237,537	1,348,040	-	49,233,730	84,853
Germany						
Länder		514,974			514,974	
Sub total	-	514,974	-	-	514,974	-
Austria						
Länder			191,575		191,575	
Sub total	-	-	191,575	-	191,575	-
Belgium						
Regions	13,298		34,849		48,147	
Communities		50,000			50,000	
Public sector entities	60,247				60,247	
Sub total	73,545	50,000	34,849	-	158,394	-
Canada						
Provinces		22,371			22,371	
Municipalities	171,554				171,554	
Public sector entities	128,676				128,676	
Sub total	300,230	22,371	-	-	322,601	-
Spain						
State		99,973			99,973	
Municipalities	156,718				156,718	
Regions		104,353			104,353	
Sub total	156,718	204,326	-	-	361,044	-
United States						
Federated States		251,202			251,202	
Sub total	-	251,202	-	-	251,202	-
Finland						
Municipalities	50				50	
Sub total	50	-	-	-	50	-

EUR thousands	Direct Exposure		Indirect Exposure		Global	Of which past due ⁽¹⁾
	Loans	Bonds	Loans	Bonds		
Italy						
State		558 404			558 404	
Regions		2 085 922			2 085 922	
Provinces		582 056			582 056	
Municipalities	9 319	2 011 192			2 020 511	
Sub total	9 319	5 237 574	-	-	5 246 893	-
Japon						
Municipalities		25 000			25 000	
Sub total	-	25 000	-	-	25 000	-
Portugal						
Municipalities	41 494				41 494	
Public sector entities	5 586				5 586	
Sub total	47 080	-	-	-	47 080	-
United Kingdom						
State				341 057	341 057	
Sub total	-	-	-	341 057	341 057	-
Sweden						
Municipalities	18 490		6 424		24 914	
Sub total	18 490	-	6 424	-	24 914	-
Switzerland						
Cantons	293 147		236 846		529 993	
Municipalities	567 739				567 739	
Public sector entities	90 525				90 525	
Sub total	951 411	-	236 846	-	1 188 257	-
Supranational						
International organizations	31 924				31 924	
Sub total	31 924	-	-	-	31 924	-
TOTAL	49 236 920	6 542 984	1 817 734	341 057	57 938 695	84 853

(1) Caisse Française de Financement Local publishes annual and semi-annual accounts. Data relating to non-performing and litigious loans, and specific impairments as of September 30, 2016 are not available. For the record, as of September 30, 2016, non-performing and litigious loans amounted at EUR 596,829 thousand and specific impairments on loans and bonds were composed as followed:

- specific impairment on non performing loans: EUR 34,852 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 37,934 thousand

(2) Of which EUR 91,628 thousand on operations linked to partnership agreement (PPP)

(3) Caisse Française de Financement Local's Banque de France account as of Septembre 30, 2016

(4) Of which EUR 22,363 thousand on operations linked to partnership agreement (PPP)

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 9/30/2016

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	2,891	3,864,497	105,173	-	-	-	3,969,670
1	3,618	49,900	65,248	504,292	420,236	-	1,039,676
2	3,625	42,927	69,367	114,412	664,916	-	891,622
3	3,415	56,478	69,575	105,608	1,253,753	-	1,485,414
4	2,897	69,120	51,742	85,920	1,075,096	-	1,281,878
5	2,610	50,972	63,817	76,634	907,807	150,079	1,249,309
6	2,698	39,492	51,279	77,558	714,218	690,958	1,573,505
7	2,337	45,239	52,091	83,744	850,336	986,330	2,017,740
8	2,209	38,647	58,371	74,622	710,895	861,481	1,744,016
9	4,325	57,619	59,961	114,782	972,246	1,430,932	2,635,540
10	2,277	55,176	41,760	76,573	740,093	1,653,892	2,567,494
11	2,061	39,377	64,350	86,158	854,485	2,058,344	3,102,714
12	2,590	72,259	65,569	126,577	1,107,182	2,333,645	3,705,232
13	2,098	59,276	52,199	106,825	898,986	2,114,738	3,232,024
14	2,601	52,568	65,341	125,567	990,735	2,840,094	4,074,305
15	1,040	31,264	19,587	52,238	415,210	1,292,980	1,811,279
16	946	30,027	22,514	45,390	417,066	1,565,062	2,080,059
17	862	24,836	16,817	32,650	309,920	1,260,970	1,645,193
18	927	25,584	27,895	45,507	422,480	2,420,538	2,942,004
19	1,223	37,259	28,861	65,163	548,187	3,005,921	3,685,391
20	709	27,533	18,518	33,366	333,395	2,270,918	2,683,730
21	606	21,567	14,407	26,345	259,637	1,563,764	1,885,720
22	520	16,477	12,036	38,760	276,455	1,610,942	1,954,670
23	337	8,345	10,356	25,167	147,004	852,424	1,043,296
24	255	9,771	7,676	27,247	170,885	933,969	1,149,548
25	117	6,512	4,719	8,234	83,869	503,579	606,913
26	72	1,313	1,225	5,721	33,670	206,632	248,561
27	79	765	1,407	1,234	14,067	128,702	146,175
28	52	832	997	2,491	12,871	94,723	111,914
29	54	1,037	1,229	1,166	14,364	117,001	134,797
30	47	308	527	5,959	28,377	219,870	255,041
31	51	858	707	2,264	16,383	779,227	799,439
32	37	431	1,423	1,982	17,858	241,804	263,498
33	17	381	229	500	5,215	45,671	51,996
34	3	85	85	171	1,369	10,432	12,142
35	4	91	104	181	1,511	12,315	14,202
36	13	11	109	562	2,775	27,188	30,645
37	34	275	602	109	4,389	80,203	85,578
38	11	149	420	969	4,313	63,973	69,824
39	32	361	173	717	5,162	80,225	86,638
40	14	29	78	77	776	12,476	13,436
41	17	123	103	409	2,514	33,469	36,618
42	8	81	212	201	2,095	32,542	35,131
43	2	30	51	82	669	9,043	9,875
44	2	75	116	192	1,563	20,751	22,697
45	1	-	27	28	245	6,455	6,755
Total	50,344	4,839,957	1,129,053	2,184,354	15,715,278	34,624,262	58,492,904
TRANSLATION ADJUSTMENTS							- 554,209
GLOBAL							57,938,695

(1) Numbers of loans and bonds arrived at maturity 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 9/30/2016

State	Early repayments during the year	Rate of early repayments
France		
Departments	800	0,05%
Municipalities	6 312	0,12%
Group of municipalities	7 580	0,06%
Public sector entities :	4 774	
- health	26 338	0,56%
- social housing	60 285	5,58%
- others	8 721	1,21%
Sub total	114 810	0,34%
GLOBAL exposures on public sector	114 810	0,28%

The annual rate of early repayments corresponds to the volume of early repayments occurred during 2016 divided by the average outstanding amount for the period (equal to the average amount of daily outstandings).

The rate of early repayments in 2015 was 1.40% for a total amount of repayments of EUR 788 million. As a reminder, the early repayments rate was affected by tender offers sponsored by the Italian regions on December 2015, to which Caisse de Financement Local brought part of its bonds. Without taking into account this event, the rate of early repayments would have been 0.30%.

3. ASSET-BACKED SECURITIES AND SIMILAR STRUCTURES

3.1 BREAKDOWN BY COUNTERPART

As of September 30, 2016, 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 9/30/2016	Amount
Replacement assets	918,248
TOTAL	918,248

Replacement assets	Amount in EUR thousands
Step 1 credit rating	
Loan to SFIL	-
Step 2 credit rating	
Bank bonds (Maturity < 100 days)	899,572
Bank account's balances	18,676
Other assets	-
TOTAL	918,248
PREMIUMS AND DISCOUNTS	-
GLOBAL	918,248

4.2 RATINGS

As of September 30, 2016, replacement assets were composed of bank bonds and of bank account's balances, whose ratings correspond to a step 2 credit rating.

4.3 BREAKDOWN BY MATURITY DATE

EUR thousands, as of 9/30/2016

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	
0	5	418,676	499,572	-	-	-	918,248
Total	5	418,676	499,572	-	-	-	918,248
PREMIUMS AND DISCOUNTS							-
GLOBAL							918,248

(1) Numbers of deals arriving at maturity during the period

The maturity of each replacement asset is under 100 days.
Balances of bank current accounts are presented as a unique matured deal.

4.4 EARLY REPAYMENTS

An early significant repayment occurred on replacement assets in the third quarter 2016, on the loan to SFIL.

EUR thousands, as of 9/30/2016

State	Early repayments during the year	Rate of early repayments
Step 1 credit rating		
Loan to SFIL	2,128,764	N/A
Sub total	2,128,764	N/A
GLOBAL	2,128,764	N/A

5. MANAGEMENT OF THE INTEREST RATE RISK

The policy applied by Caisse Française de Financement Local makes it possible to be protected from interest rate risk because any acquisition of assets or issue of liabilities is systematically hedged in a variable rate from the beginning.

There are two steps in the hedging process of interest rate risk.

- 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 whereas loans granted individually or bond issues are micro-hedged. Hedging of assets is more often obtained in using interest rate swaps, but the same effect may be obtained whenever possible by the cancellation of liability swaps.
- In the second step, Euribor lending and borrowing flows (naturally or after hedges) are swapped against Eonia generally over a sliding period of two years 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 based on different reference indices in the assets and the liabilities.

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 monetary 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 also finances fixed rate assets.

The sensitivity of residual positions that remain after the first step and after the second level of hedges is monitored carefully and kept within strict limits.

Limits on interest rate risk guarantee, with 99% probability, a maximum one year loss of less than EUR 80 million in the event of a change in interest rates of 200 basis point (bp), equivalent to a maximum loss set at EUR 40 million (3% of equity) for a fluctuation in interest rates of 100 bp. This calibration is based on a directional shift in rates corresponding to a 1% probability at one-year decile observed over the period 2005-2013, which was approximately 200 bp.

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 maximum loss mentioned above.

The measurement of sensitivity for shifts in rates of 100 bp at the end of each quarter is presented below.

Directional risk

Total sensitivity

<i>EUR millions, end of quarter</i>	Limit	4Q 2015	1Q 2016	2Q 2016	3Q 2016
Sensitivity	25.0	0.1	0.6	-3.7	-5.6

Risk of slope between two distant points on the rate curve

Sum of sensitivities

<i>EUR millions, end of quarter</i>	Limit	4Q 2015	1Q 2016	2Q 2016	3Q 2016
Short term	10.0	0.6	0.0	-1.5	-1.9
Medium term	10.0	-0.4	1.0	-1.8	-2.3
Long term	10.0	1.9	-0.7	-0.5	-2.6
Very long term	10.0	-2.0	0.3	0.1	1.2

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	4Q 2015	1Q 2016	2Q 2016	3Q 2016
Short term	20.0	6.2	4.8	4.5	2.6
Medium term	20.0	4.5	10.7	14.5	12.1
Long term	20.0	3.7	5.8	10.7	11.0
Very long term	20.0	3.8	6.5	6.4	7.4

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 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 2016, 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.

