

**Report on asset quality**  
as of December 31, 2016  
Caisse Française de Financement Local  
(Instruction n° 2011-I-07 of June 15, 2011)

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, 2016, Caisse Française de Financement Local's cover pool is made of EUR 50.7 billion of loans, EUR 6.8 billion of bonds and EUR 0.7 billion of replacement assets, that correspond to the following exposures:

EUR thousands, as of 12/31/2016	Amount	Assets temporarily removed from	TOTAL
Exposures on public sector	57,551,691		57,551,691
Asset-backed securities	-		-
Replacement assets	649,675		649,675
<b>TOTAL</b>	<b>58,201,366</b>	-	<b>58,201,366</b>

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, 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.

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 <sup>(1)</sup>
	Loans	Bonds	Loans	Bonds				
<b>France</b>								
State <sup>(2)</sup>	5,077		92,703		97,780	257	257	-257
Banque de France <sup>(3)</sup>	3,685,012				3,685,012			
Regions	1,686,210	95,006	269,876		2,051,092	51,887	2,945	-4,626
Departments	6,782,347		203,718		6,986,065	67,697	17,412	-14,954
Municipalities	16,139,434	20,606	487,639		16,647,679	275,160	41,050	-24,881
Groups of municipalities <sup>(4)</sup>	10,735,495	89,859	178,889		11,004,243	129,487	17,889	-1,689
Public sector entities :								
- health	6,309,924				6,309,924	19,865	2,013	-1,277
- social housing	1,420,624				1,420,624		2	
- others	919,237	25,000	1,271		945,508	49	1	
<b>Sub total</b>	<b>47,683,360</b>	<b>230,471</b>	<b>1,234,096</b>	<b>-</b>	<b>49,147,927</b>	<b>544,402</b>	<b>81,569</b>	<b>-47,684</b>
<b>Germany</b>								
Länder		514,947			514,947			-53
<b>Sub total</b>	<b>-</b>	<b>514,947</b>	<b>-</b>	<b>-</b>	<b>514,947</b>	<b>-</b>	<b>-</b>	<b>-53</b>
<b>Austria</b>								
Länder			191,241		191,241			
<b>Sub total</b>	<b>-</b>	<b>-</b>	<b>191,241</b>	<b>-</b>	<b>191,241</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Belgium</b>								
Regions	13,298		31,349		44,647			
Communities		50,000			50,000			
Public sector entities	59,627				59,627			
<b>Sub total</b>	<b>72,925</b>	<b>50,000</b>	<b>31,349</b>	<b>-</b>	<b>154,274</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Canada</b>								
Provinces		22,371			22,371			
Municipalities	171,554				171,554			
Public sector entities	128,676				128,676			
<b>Sub total</b>	<b>300,230</b>	<b>22,371</b>	<b>-</b>	<b>-</b>	<b>322,601</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Spain</b>								
State		199,936			199,936			-64
Municipalities	88,355				88,355			
Regions		104,353			104,353			
<b>Sub total</b>	<b>88,355</b>	<b>304,289</b>	<b>-</b>	<b>-</b>	<b>392,644</b>	<b>-</b>	<b>-</b>	<b>-64</b>
<b>United States</b>								
Federated States		251,945			251,945			-998
<b>Sub total</b>	<b>-</b>	<b>251,945</b>	<b>-</b>	<b>-</b>	<b>251,945</b>	<b>-</b>	<b>-</b>	<b>-998</b>
<b>Finland</b>								
Municipalities	50				50			
<b>Sub total</b>	<b>50</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>50</b>	<b>-</b>	<b>-</b>	<b>-</b>

EUR thousands	Direct Exposure		Indirect Exposure		Global	Of which non performing loans	Of which past due	Of which specific impairment <sup>(1)</sup>
	Loans	Bonds	Loans	Bonds				
<b>Italy</b>								
State		540,752			540,752			-32,193
Regions		2,043,160			2,043,160			
Provinces		566,359			566,359			
Municipalities	8,825	1,963,594			1,972,419			
<b>Sub total</b>	<b>8,825</b>	<b>5,113,865</b>	-	-	<b>5,122,690</b>	-	-	<b>-32,193</b>
<b>Japan</b>								
Municipalities		25,000			25,000			
<b>Sub total</b>	-	<b>25,000</b>	-	-	<b>25,000</b>	-	-	-
<b>Portugal</b>								
Municipalities	20,281				20,281			
Public sector entities	5,586				5,586			
<b>Sub total</b>	<b>25,867</b>	-	-	-	<b>25,867</b>	-	-	-
<b>United Kingdom</b>								
State				319,851	319,851			
<b>Sub total</b>	-	-	-	<b>319,851</b>	<b>319,851</b>	-	-	-
<b>Sweden</b>								
Municipalities	18,490				18,490			
<b>Sub total</b>	<b>18,490</b>	-	-	-	<b>18,490</b>	-	-	-
<b>Switzerland</b>								
Cantons	293,147		93,002		386,149			
Municipalities	555,566				555,566			
Public sector entities	90,525				90,525			
<b>Sub total</b>	<b>939,238</b>	-	<b>93,002</b>	-	<b>1,032,240</b>	-	-	-
<b>Supranational</b>								
International organizations	31,924				31,924			
<b>Sub total</b>	<b>31,924</b>	-	-	-	<b>31,924</b>	-	-	-
<b>TOTAL</b>	<b>49,169,264</b>	<b>6,512,888</b>	<b>1,549,688</b>	<b>319,851</b>	<b>57,551,691</b>	<b>544,402</b>	<b>81,569</b>	<b>-80,992</b>

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

- specific impairment on non performing loans : EUR 47,684 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 33,308 thousand

(2) Of which EUR 92,223 thousand on operations linked to partnership agreement (PPP)

(3) Caisse Française de Financement Local's Banque de France account as of December 31, 2016

(4) Of which EUR 21,978 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 12/31/2016

Maturity date in years	Residual maturity		Term to maturity				TOTAL
	Number of deals <sup>(1)</sup>	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	
0	2,604	3,827,960	362,553	-	-	-	4,190,513
1	3,749	58,867	59,614	379,875	285,613	-	783,969
2	3,549	68,426	46,327	101,702	698,678	-	915,133
3	3,407	72,313	49,650	107,868	1,241,556	-	1,471,387
4	2,744	51,642	35,694	111,559	1,053,309	-	1,252,204
5	2,647	62,622	37,297	86,472	827,130	399,957	1,413,478
6	2,682	51,681	37,706	82,194	802,633	689,396	1,663,610
7	2,234	52,916	38,867	90,294	772,035	640,992	1,595,104
8	2,428	58,217	48,605	78,001	747,308	987,807	1,919,938
9	4,141	52,207	40,942	114,766	875,459	1,259,324	2,342,698
10	2,253	43,371	45,691	104,158	813,188	1,683,670	2,690,078
11	2,241	66,491	41,204	89,026	876,700	2,031,368	3,104,789
12	2,476	66,962	50,326	150,273	1,110,961	2,295,623	3,674,145
13	2,239	53,351	55,315	122,570	957,671	2,268,847	3,457,754
14	2,470	62,296	49,407	117,070	931,650	2,587,231	3,747,654
15	1,012	19,625	21,310	66,886	427,058	1,349,732	1,884,611
16	955	23,742	18,531	60,902	438,992	1,587,013	2,129,180
17	844	15,635	18,210	39,940	307,972	1,212,132	1,593,889
18	1,088	29,005	29,596	54,741	473,147	2,890,235	3,476,724
19	1,130	26,620	24,946	69,926	506,531	2,590,658	3,218,681
20	759	19,531	16,127	49,854	354,047	2,418,475	2,858,034
21	563	15,103	16,551	36,006	283,478	1,580,695	1,931,833
22	494	14,523	6,543	37,611	228,651	1,309,023	1,596,351
23	321	10,176	8,102	26,552	153,172	834,742	1,032,744
24	252	8,318	7,730	27,855	164,699	913,241	1,121,843
25	112	4,311	2,304	14,257	87,704	511,231	619,807
26	80	1,174	1,276	5,878	34,808	242,043	285,179
27	74	1,144	1,838	781	13,602	94,821	112,186
28	47	609	330	1,116	8,843	76,016	86,914
29	54	1,263	1,840	1,596	20,287	163,859	188,845
30	53	461	1,004	4,898	25,135	186,493	217,991
31	41	709	679	2,121	15,595	792,435	811,539
32	33	1,431	205	2,002	16,056	214,036	233,730
33	14	211	149	649	4,796	41,024	46,829
34	3	85	85	171	1,370	10,346	12,057
35	7	104	514	181	3,222	27,687	31,708
36	28	137	41	201	1,604	22,461	24,444
37	18	574	24	283	3,917	69,554	74,352
38	17	422	506	983	5,989	100,245	108,145
39	28	172	169	534	3,597	44,124	48,596
40	19	82	497	68	2,930	28,150	31,727
41	9	129	38	199	1,552	24,369	26,287
42	8	212	69	293	2,458	32,138	35,170
43	2	96	75	172	1,389	16,063	17,795
44	1	41	-	41	363	9,126	9,571
45	1	27	-	28	244	6,455	6,754
<b>Total</b>	<b>49,931</b>	<b>4,844,994</b>	<b>1,178,487</b>	<b>2,242,553</b>	<b>15,587,099</b>	<b>34,242,837</b>	<b>58,095,970</b>
TRANSLATION ADJUSTMENTS							- 544,279
<b>GLOBAL</b>							<b>57,551,691</b>

(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 12/31/2016

State	Early repayments during the year	Rate of early repayments
<b>France</b>		
State	93,151	50.37%
Regions	800	0.04%
Departments	9,645	0.14%
Municipalities	14,411	0.09%
Group of municipalities	6,313	0.06%
Public sector entities :		
- health	29,339	0.47%
- social housing	61,236	4.26%
- others	16,624	1.73%
<b>Sub total</b>	<b>231,519</b>	<b>0.51%</b>
<b>Portugal</b>		
Municipalities	19,112	45.86%
<b>Sub total</b>	<b>19,112</b>	<b>40.22%</b>
<b>Spain</b>		
Municipalities	64,027	40.40%
<b>Sub total</b>	<b>64,027</b>	<b>20.0%</b>
<b>Italy</b>		
Municipalities	4,971	0.24%
<b>Sub total</b>	<b>4,971</b>	<b>0.09%</b>
<b>GLOBAL exposures on public sector</b>	<b>319,629</b>	<b>0.58%</b>

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 December 31, 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 12/31/2016	Amount
Replacement assets	649,675
<b>TOTAL</b>	<b>649,675</b>

Replacement assets	Amount in EUR thousands
<b>Step 1 credit rating</b>	
Loan to SFIL	-
Bank bonds	145,863
<b>Step 2 credit rating</b>	
Bank bonds (Maturity < 100 days)	499,986
Bank account's balances	3,826
<b>GLOBAL</b>	<b>649,675</b>

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.

### 4.2 RATINGS

As of December 31, 2016, replacement assets were composed of bank bonds and of bank account's balances, whose ratings correspond to a step 1 or step 2 credit rating.

### 4.3 BREAKDOWN BY MATURITY DATE

EUR thousands, as of 12/31/2016

Residual maturity		Term to maturity					TOTAL
Maturity date in years	Number of deals <sup>(1)</sup>	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	
0	6	503,812	-	119,906	25,957	-	649,675
<b>Total</b>	<b>6</b>	<b>503,812</b>	<b>-</b>	<b>119,906</b>	<b>25,957</b>	<b>-</b>	<b>649,675</b>

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

The maturity of each "step2" 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 12/31/2016

<b>State</b>	<b>Early repayments during the year</b>	<b>Rate of early repayments</b>
<b>Step 1 credit rating</b>		
Loan to SFIL	2,128,764	100.00%
<b>Sub total</b>	<b>2,128,764</b>	<b>N/A</b>
<b>GLOBAL</b>	<b>2,128,764</b>	<b>N/A</b>

## 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. Loans granted individually or bond issues can be either micro- or macro-hedged. Hedging of assets and liabilities is more often obtained in using interest rate swaps, but the same effect may be obtained whenever possible by the cancellation of swaps of opposite sign.
- 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 respect of 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	1Q 2016	2Q 2016	3Q 2016	4Q 2016
<b>Sensitivity</b>	<b>25.0</b>	<b>0.6</b>	<b>-3.7</b>	<b>-5.6</b>	<b>-0.5</b>

**Risk of slope between two distant points on the rate curve**

Sum of sensitivities

<i>EUR millions, end of quarter</i>	Limit	1Q 2016	2Q 2016	3Q 2016	4Q 2016
<b>Short term</b>	<b>10.0</b>	<b>0.0</b>	<b>-1.5</b>	<b>-1.9</b>	<b>-0.9</b>
<b>Medium term</b>	<b>10.0</b>	<b>1.0</b>	<b>-1.8</b>	<b>-2.3</b>	<b>0.3</b>
<b>Long term</b>	<b>10.0</b>	<b>-0.7</b>	<b>-0.5</b>	<b>-2.6</b>	<b>0.1</b>
<b>Very long term</b>	<b>10.0</b>	<b>0.3</b>	<b>0.1</b>	<b>1.2</b>	<b>0.1</b>

**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	1Q 2016	2Q 2016	3Q 2016	4Q 2016
<b>Short term</b>	<b>20.0</b>	<b>4.8</b>	<b>4.5</b>	<b>2.6</b>	<b>4.4</b>
<b>Medium term</b>	<b>20.0</b>	<b>10.7</b>	<b>14.5</b>	<b>12.1</b>	<b>4.3</b>
<b>Long term</b>	<b>20.0</b>	<b>5.8</b>	<b>10.7</b>	<b>11.0</b>	<b>8.1</b>
<b>Very long term</b>	<b>20.0</b>	<b>6.5</b>	<b>6.4</b>	<b>7.4</b>	<b>5.9</b>

## 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 December 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.

