



Report on asset quality
as of March 31, 2017
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 March 31, 2017, Caisse Française de Financement Local's cover pool is made of EUR 49.7 billion of loans, EUR 6.8 billion of bonds and EUR 0.8 billion of replacement assets, that correspond to the following exposures:

EUR thousands, as of 3/31/2017	Amount	Assets temporarily removed from	TOTAL
Exposures on public sector	56,491,351		56,491,351
Asset-backed securities	-		-
Replacement assets	810,667		810,667
TOTAL	57,302,018	-	57,302,018

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 March 31, 2017.

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		Total	Of which past due (1)
	Loans	Bonds	Loans	Bonds		
Country						
France						
State ⁽²⁾	5,008		95,870		100,878	257
Banque de France ⁽³⁾	1,809,452				1,809,452	
Regions	1,800,861	95,006	268,378		2,164,245	2,964
Departments	7,065,996		196,437		7,262,433	17,412
Municipalities	16,261,624	20,606	469,478		16,751,708	41,369
Groups of municipalities ⁽⁴⁾	11,112,280	89,224	171,241		11,372,745	23,099
Public sector entities :						
- health	6,383,352				6,383,352	1,997
- social housing	1,396,718				1,396,718	34
- others	920,294	34,735	1,271		956,300	193
Sub total	46,755,585	239,571	1,202,675	-	48,197,831	87,325
Germany						
Länder		514,976			514,976	
Sub total	-	514,976	-	-	514,976	-
Austria						
Länder			189,944		189,944	
Sub total	-	-	189,944	-	189,944	-
Belgium						
Regions	13,298		31,349		44,647	
Communities		50,000			50,000	
Public sector entities	56,801				56,801	
Sub total	70,099	50,000	31,349	-	151,448	-
Canada						
Municipalities	171,554				171,554	
Public sector entities	128,676				128,676	
Sub total	300,230	-	-	-	300,230	-
Spain						
State		200,000			200,000	
Municipalities	88,355				88,355	
Regions		104,353			104,353	
Sub total	88,355	304,353	-	-	392,708	-
United States						
Federated States		251,083			251,083	
Sub total	-	251,083	-	-	251,083	-

EUR thousands	Direct Exposure		Indirect Exposure		Global	Of which past due ⁽¹⁾
	Loans	Bonds	Loans	Bonds		
Country						
Italy						
State		536,410			536,410	
Regions		2,041,310			2,041,310	
Provinces		560,254			560,254	
Municipalities	8,825	1,942,326			1,951,151	
Sub total	8,825	5,080,300	-	-	5,089,125	-
Japon						
Municipalities		25,000			25,000	
Sub total	-	25,000	-	-	25,000	-
Portugal						
Municipalities	20,281				20,281	
Public sector entities	5,156				5,156	
Sub total	25,437	-	-	-	25,437	-
United Kingdom						
State				298,330	298,330	
Sub total	-	-	-	298,330	298,330	-
Sweden						
Municipalities	18,490				18,490	
Sub total	18,490	-	-	-	18,490	-
Switzerland						
Cantons	293,147		93,002		386,149	
Municipalities	530,098				530,098	
Public sector entities	90,525				90,525	
Sub total	913,770	-	93,002	-	1,006,772	-
Supranational						
International organizations	29,977				29,977	
Sub total	29,977	-	-	-	29,977	-
TOTAL	48,210,768	6,465,283	1,516,970	298,330	56,491,351	87,325

(1) Caisse Française de Financement Local publishes annual and semi-annual accounts. Consequently, data relating to non-performing and litigious loans, and specific impairments as of March 31, 2017, are not available.

(2) Of which EUR 95,490 thousand on operations linked to partnership agreement (PPP)

(3) Caisse Française de Financement Local's Banque de France account as of March 31, 2017

(4) Of which EUR 21,589 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 3/31/2017

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	1,916	2,216,400	106,560	-	-	-	2,322,961
1	3,881	59,370	62,343	435,373	338,245	-	895,332
2	3,376	47,294	51,135	115,683	532,909	-	747,021
3	3,292	54,306	46,363	121,898	1,288,776	-	1,511,343
4	2,619	34,619	34,973	120,073	861,939	-	1,051,604
5	2,674	38,754	39,733	115,920	846,347	368,303	1,409,057
6	2,729	37,909	38,665	95,472	812,459	758,719	1,743,223
7	2,151	40,738	45,976	104,772	806,737	545,742	1,543,964
8	3,533	52,543	56,513	106,712	882,245	1,131,351	2,229,365
9	3,232	38,320	42,519	108,701	793,554	1,170,837	2,153,931
10	2,173	46,183	51,585	108,416	865,422	1,754,094	2,825,700
11	2,506	46,832	68,371	169,134	1,008,500	2,259,859	3,552,696
12	2,298	47,853	58,618	135,572	993,356	2,036,394	3,271,793
13	2,510	57,325	63,370	124,605	1,013,656	2,426,041	3,684,997
14	2,097	47,365	55,422	115,012	854,239	2,321,675	3,393,713
15	1,189	25,480	33,025	73,937	548,022	1,714,707	2,395,170
16	962	17,621	15,729	55,554	380,167	1,396,462	1,865,533
17	815	19,856	19,920	46,112	346,616	1,489,217	1,921,721
18	1,271	31,921	34,427	63,816	549,281	3,012,138	3,691,582
19	1,039	23,930	27,493	64,099	468,417	2,425,598	3,009,538
20	827	21,524	20,015	63,710	441,784	2,762,839	3,309,873
21	559	18,336	21,830	40,372	322,475	1,768,471	2,171,485
22	437	6,709	10,732	26,113	171,159	1,007,150	1,221,863
23	334	8,352	26,114	19,822	180,005	957,914	1,192,207
24	214	8,480	7,922	17,274	136,518	736,274	906,469
25	123	2,594	5,853	15,227	99,472	588,969	712,115
26	71	1,209	1,039	2,532	20,123	145,814	170,716
27	69	1,795	232	1,370	13,056	89,424	105,877
28	48	335	401	1,466	9,459	80,408	92,069
29	57	1,972	4,632	2,459	38,160	292,442	339,665
30	51	946	1,254	634	12,303	144,453	159,590
31	44	596	1,359	1,622	16,608	836,209	856,394
32	26	266	246	2,067	10,600	83,450	96,629
33	10	77	100	965	4,729	33,380	39,252
34	2	83	83	167	1,334	9,647	11,315
35	9	514	218	195	3,740	32,096	36,763
36	34	61	59	221	1,461	22,010	23,812
37	13	29	686	1,086	5,519	76,163	83,482
38	16	481	196	337	4,503	93,554	99,070
39	27	169	155	494	3,351	39,620	43,789
40	22	497	103	181	3,513	39,322	43,616
41	7	64	125	207	1,647	21,874	23,917
42	7	43	97	241	1,643	27,057	29,081
43	2	75	116	192	1,570	20,551	22,505
44	1	-	28	28	249	6,422	6,727
Total	49,273	3,059,826	1,056,335	2,479,843	15,695,868	34,726,650	57,018,525
TRANSLATION ADJUSTMENTS							- 527,174
GLOBAL							56,491,351

(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 3/31/2017

State	Early repayments during the year	Rate of early repayments
France		
Departments	197	0.01%
Municipalities	2,668	0.06%
Group of municipalities	3,659	0.13%
Public sector entities :		
- health	3,200	0.20%
- others	95	0.04%
Sub total	9,819	0.09%
GLOBAL exposures on public sector	9,819	0.07%

The annual rate of early repayments corresponds to the volume of early repayments occurred during 2017 divided by the average outstanding amount for the period (equal to the average amount of daily outstandings).

The rate of early repayments in 2016 was 0.58% for a total amount of repayments of EUR 320 million.

3. ASSET-BACKED SECURITIES AND SIMILAR STRUCTURES

3.1 BREAKDOWN BY COUNTERPART

As of March 31, 2017, 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 3/31/2017	Amount
Step 1 credit rating	
Covered Bonds	43,678
Other Bank bonds	182,790
Step 2 credit rating	
Bank bonds (Maturity < 100 days)	570,371
Bank account's balances	13,828
GLOBAL	810,667

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 March 31, 2017, replacement assets were composed of bank bonds and of bank account's balances, whose ratings correspond to a step 1 credit rating, or a step 2 credit rating when the maturity is under 100 days.

4.3 BREAKDOWN BY MATURITY DATE

EUR thousands, as of 3/31/2017

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	8	591,198	-	-	-	-	591,198
1	4	-	-	160,376	3,199	-	163,575
4	1	-	-	-	55,894	-	55,894
Total	13	591,198	-	160,376	59,093	-	810,667

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

Balances of bank current accounts are presented as a unique matured deal.

4.4 EARLY REPAYMENTS

No early repayment occurred on replacement assets in 2017.

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	2Q 2016	3Q 2016	4Q 2016	1Q 2017
Sensitivity	25.0	-3.7	-5.6	-0.5	-0.1

Risk of slope between two distant points on the rate curve

Sum of sensitivities

<i>EUR millions, end of quarter</i>	Limit	2Q 2016	3Q 2016	4Q 2016	1Q 2017
Short term	10.0	-1.5	-1.9	-0.9	0.1
Medium term	10.0	-1.8	-2.3	0.3	2.0
Long term	10.0	-0.5	-2.6	0.1	-2.6
Very long term	10.0	0.1	1.2	0.1	0.4

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	2Q 2016	3Q 2016	4Q 2016	1Q 2017
Short term	20.0	4.5	2.6	4.4	3.3
Medium term	20.0	14.5	12.1	4.3	5.1
Long term	20.0	10.7	11.0	8.1	4.9
Very long term	20.0	6.4	7.4	5.9	5.3

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 March 2017, 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.

