



**Report on asset quality**  
as of June 30, 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 June 30, 2017, Caisse Française de Financement Local's cover pool is made of EUR 51.6 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 6/30/2017	<b>Amount</b>	<b>Assets temporarily removed from the cover pool</b>	<b>TOTAL</b>
Exposures on public sector	58,401,207	2,000	58,403,207
Asset-backed securities	-		-
Replacement assets	773,070		773,070
<b>TOTAL</b>	<b>59,174,277</b>	<b>2,000</b>	<b>59,176,277</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). As of June 30, 2017, as an operational access test, Caisse Française de Financement Local has pledged one security of a small amount of EUR 2 million to the Banque de France.

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 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>	7,405		212,089		219,494	257	257	-257
Banque de France <sup>(3)</sup>	3,884,744				3,884,744			
Regions	1,892,407	301,551	266,834		2,460,792	52,356	5,285	-7,312
Departments	7,041,884		192,234		7,234,118	67,798	18,286	-15,406
Municipalities	16,071,781	20,606	465,842		16,558,229	261,585	42,649	-25,056
Groups of municipalities <sup>(4)</sup>	11,078,881	89,224	162,565		11,330,670	127,914	20,394	-1,727
Public sector entities :								
- health	6,340,499				6,340,499	20,296	2,563	-1,093
- social housing	1,359,981				1,359,981		2	
- others	908,322	242,609	1,272		1,152,203	3,847	173	-12
<b>Sub total</b>	<b>48,585,904</b>	<b>653,990</b>	<b>1,300,836</b>	<b>-</b>	<b>50,540,730</b>	<b>534,053</b>	<b>89,609</b>	<b>-50,863</b>
<b>Germany</b>								
Länder		275,000			275,000			
<b>Sub total</b>	<b>-</b>	<b>275,000</b>	<b>-</b>	<b>-</b>	<b>275,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Austria</b>								
Länder			189,609		189,609			
<b>Sub total</b>	<b>-</b>	<b>-</b>	<b>189,609</b>	<b>-</b>	<b>189,609</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Belgium</b>								
Regions	7,768		31,349		39,117			
Communities		-			-			
Public sector entities	54,980				54,980			
<b>Sub total</b>	<b>62,748</b>	<b>-</b>	<b>31,349</b>	<b>-</b>	<b>94,097</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Canada</b>								
Municipalities	161,232				161,232			
Public sector entities	128,676				128,676			
<b>Sub total</b>	<b>289,908</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>289,908</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Spain</b>								
State		200,000			200,000			
Regions		104,353			104,353			
Municipalities	86,892				86,892			
<b>Sub total</b>	<b>86,892</b>	<b>304,353</b>	<b>-</b>	<b>-</b>	<b>391,245</b>	<b>-</b>	<b>-</b>	<b>0</b>
<b>United States</b>								
Federated States		249,685			249,685			-3,258
<b>Sub total</b>	<b>-</b>	<b>249,685</b>	<b>-</b>	<b>-</b>	<b>249,685</b>	<b>-</b>	<b>-</b>	<b>-3,258</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		541,266			541,266			-31,679
Regions		2,007,513			2,007,513			
Provinces		544,065			544,065			
Municipalities	8,322	1,907,864			1,916,186			
<b>Sub total</b>	<b>8,322</b>	<b>5,000,708</b>	<b>-</b>	<b>-</b>	<b>5,009,030</b>	<b>-</b>	<b>-</b>	<b>-31,679</b>
<b>Japon</b>								
Municipalities		25,000			25,000			
<b>Sub total</b>	<b>-</b>	<b>25,000</b>	<b>-</b>	<b>-</b>	<b>25,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Portugal</b>								
Municipalities	18,673				18,673			
Public sector entities	5,156				5,156			
<b>Sub total</b>	<b>23,829</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>23,829</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>United Kingdom</b>								
State				276,490	276,490			
<b>Sub total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>276,490</b>	<b>276,490</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Sweden</b>								
Municipalities	18,490				18,490			
<b>Sub total</b>	<b>18,490</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,490</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Switzerland</b>								
Cantons	293,147		93,002		386,149			
Municipalities	511,442				511,442			
Public sector entities	90,525				90,525			
<b>Sub total</b>	<b>895,114</b>	<b>-</b>	<b>93,002</b>	<b>-</b>	<b>988,116</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Supranational</b>								
International organizations	29,978				29,978			
<b>Sub total</b>	<b>29,978</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>29,978</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>50,001,185</b>	<b>6,508,736</b>	<b>1,614,796</b>	<b>276,490</b>	<b>58,401,207</b>	<b>534,053</b>	<b>0</b>	<b>89,609</b>
<b>Italy</b>								
Regions		2,000			2,000			
<b>Assets temporarily removed from the cover pool</b>	<b>-</b>	<b>2,000</b>	<b>-</b>	<b>-</b>	<b>2,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL PUBLIC EXPOSURES</b>	<b>50,001,185</b>	<b>6,510,736</b>	<b>1,614,796</b>	<b>276,490</b>	<b>58,403,207</b>	<b>534,053</b>	<b>89,609</b>	<b>-85,800</b>

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

- specific impairment on non performing loans : EUR 50,408 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 35,392 thousand

(2) Of which EUR 98,905 thousand on operations linked to partnership agreement (PPP) and EUR 112,804 thousand on refinancing to SFIL of large export credits, with unconditional and irrevocable guarantee issued by the French State.

(3) Caisse Française de Financement Local's Banque de France account as of June 30, 2017

(4) Of which EUR 21,200 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 6/30/2017

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	2,312	4,062,582	236,818	-	-	-	4,299,400
1	3,861	61,616	44,924	586,924	382,744	-	1,076,208
2	3,249	52,233	49,543	123,158	1,032,360	-	1,257,294
3	3,206	48,995	72,374	113,549	853,358	-	1,088,276
4	2,562	37,960	50,035	91,681	822,994	-	1,002,670
5	2,661	35,902	38,135	99,226	1,030,383	106,445	1,310,091
6	2,774	43,698	50,274	101,824	945,832	749,001	1,890,629
7	2,075	43,666	41,332	91,892	745,457	654,694	1,577,041
8	4,259	58,126	56,628	118,370	960,468	1,107,494	2,301,086
9	2,596	44,898	65,692	96,875	861,257	1,523,050	2,591,772
10	1,989	46,268	40,363	81,968	706,108	1,456,380	2,331,087
11	2,791	75,360	77,905	182,757	1,208,644	2,327,831	3,872,497
12	2,130	59,266	59,187	112,360	956,540	2,005,887	3,193,240
13	2,713	65,821	53,996	120,266	1,009,926	2,498,393	3,748,402
14	1,682	52,299	51,421	101,143	801,762	2,013,448	3,020,073
15	1,131	32,430	37,611	71,217	586,846	1,906,074	2,634,178
16	970	15,639	25,552	39,513	337,420	1,286,292	1,704,416
17	806	20,584	26,833	41,875	358,717	2,072,787	2,520,796
18	1,306	34,067	39,824	66,509	586,637	2,950,699	3,677,736
19	999	27,048	37,896	51,790	478,815	2,607,323	3,202,872
20	812	20,395	30,137	50,057	422,106	2,178,950	2,701,645
21	582	24,458	16,775	32,507	290,122	1,651,168	2,015,030
22	366	10,390	8,000	16,634	137,430	775,902	948,356
23	317	25,951	9,786	21,689	191,660	984,248	1,233,334
24	164	7,281	13,259	13,505	142,583	793,683	970,311
25	107	5,429	1,888	7,365	61,536	362,271	438,489
26	71	965	1,235	2,213	18,830	138,035	161,278
27	63	198	629	2,240	13,173	86,261	102,501
28	60	479	784	1,220	10,687	98,520	111,690
29	46	4,581	589	3,289	35,470	257,127	301,056
30	49	1,199	764	1,282	14,087	154,691	172,023
31	46	1,391	696	1,598	17,136	842,129	862,950
32	25	252	397	1,573	9,022	70,227	81,471
33	5	90	68	729	3,672	23,128	27,687
34	2	84	84	168	1,340	9,716	11,392
35	9	190	68	564	3,325	28,827	32,974
36	37	59	291	225	2,491	30,808	33,874
37	10	711	51	903	4,880	70,004	76,549
38	24	173	292	652	4,963	100,936	107,016
39	20	168	166	370	2,874	30,967	34,545
40	22	94	36	652	3,552	37,212	41,546
41	7	118	69	175	1,511	22,231	24,104
42	5	97	44	228	1,587	25,225	27,181
43	2	116	75	192	1,570	20,476	22,429
44	1	28	-	28	249	6,422	6,727
<b>Total</b>	<b>48,924</b>	<b>5,023,355</b>	<b>1,242,526</b>	<b>2,452,955</b>	<b>16,062,124</b>	<b>34,064,962</b>	<b>58,845,922</b>
TRANSLATION ADJUSTMENTS							- 444,715
<b>GLOBAL</b>							<b>58,401,207</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 6/30/2017

State	Early repayments during the year	Rate of early repayments
<b>France</b>		
Departments	197	0.01%
Municipalities	10,164	0.12%
Group of municipalities	5,398	0.10%
Public sector entities :		
- health	5,236	0.17%
- social housing	486	0.07%
- others	95	0.02%
<b>Sub total</b>	<b>21,576</b>	<b>0.09%</b>
<b>Italy</b>		
Municipalities	1,291	0.13%
<b>Sub total</b>	<b>1,291</b>	<b>0.05%</b>
<b>GLOBAL exposures on public sector</b>	<b>22,867</b>	<b>0.08%</b>

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 June 30, 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 6/30/2017	Amount
<b>Step 1 credit rating</b>	
Covered Bonds	165,710
Other Bank bonds	438,850
<b>Step 2 credit rating</b>	
Bank bonds (Maturity < 100 days)	160,000
Bank account's balances	8,510
<b>GLOBAL</b>	<b>773,070</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 June 30, 2017, 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 when the maturity is under 100 days.

### 4.3 BREAKDOWN BY MATURITY DATE

EUR thousands, as of 6/30/2017

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	3	168,510	119,992	-	-	-	288,502
1	5	-	-	143,368	10,590	-	153,959
2	4	-	-	-	65,891	-	65,891
3	8	-	-	-	213,433	-	213,433
4	6	-	-	-	51,286	-	51,286
<b>Total</b>	<b>26</b>	<b>168,510</b>	<b>119,992</b>	<b>143,368</b>	<b>341,200</b>	<b>-</b>	<b>773,070</b>

(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	3Q 2016	4Q 2016	1Q 2017	2Q 2017
<b>Sensitivity</b>	<b>25.0</b>	<b>-5.6</b>	<b>-0.5</b>	<b>-0.1</b>	<b>1.5</b>

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

Sum of sensitivities

<i>EUR millions, end of quarter</i>	Limit	3Q 2016	4Q 2016	1Q 2017	2Q 2017
<b>Short term</b>	<b>10.0</b>	<b>-1.9</b>	<b>-0.9</b>	<b>0.1</b>	<b>0.4</b>
<b>Medium term</b>	<b>10.0</b>	<b>-2.3</b>	<b>0.3</b>	<b>2.0</b>	<b>-4.5</b>
<b>Long term</b>	<b>10.0</b>	<b>-2.6</b>	<b>0.1</b>	<b>-2.6</b>	<b>1.5</b>
<b>Very long term</b>	<b>10.0</b>	<b>1.2</b>	<b>0.1</b>	<b>0.4</b>	<b>1.1</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	3Q 2016	4Q 2016	1Q 2017	2Q 2017
<b>Short term</b>	<b>20.0</b>	<b>2.6</b>	<b>4.4</b>	<b>3.3</b>	<b>7.8</b>
<b>Medium term</b>	<b>20.0</b>	<b>12.1</b>	<b>4.3</b>	<b>5.1</b>	<b>12.4</b>
<b>Long term</b>	<b>20.0</b>	<b>11.0</b>	<b>8.1</b>	<b>4.9</b>	<b>3.5</b>
<b>Very long term</b>	<b>20.0</b>	<b>7.4</b>	<b>5.9</b>	<b>5.3</b>	<b>5.6</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 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 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.

