



Report on asset quality
as of September 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 September 30, 2017, Caisse Française de Financement Local's cover pool is made of EUR 50.8 billion of loans, EUR 6.7 billion of bonds and EUR 0.6 billion of replacement assets, that correspond to the following exposures:

EUR thousands, as of 9/30/2017	Amount	Assets temporarily removed from the cover pool	TOTAL
Exposures on public sector	57,533,079		57,533,079
Asset-backed securities	-		-
Replacement assets	599,383		599,383
TOTAL	58,132,462	-	58,132,462

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, 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⁾	7,334		315,437		322,771	257
Banque de France ⁽³⁾	3,453,572				3,453,572	
Regions	1,863,226	324,784	263,783		2,451,793	5,304
Departments	7,025,777		187,793		7,213,570	20,997
Municipalities	15,906,272	20,058	451,220		16,377,550	40,787
Groups of municipalities ⁽⁴⁾	11,024,775	89,224	158,412		11,272,411	20,325
Public sector entities :						
- health	6,256,268				6,256,268	2,410
- social housing	1,324,303				1,324,303	2
- others	884,003	242,609	1,272		1,127,884	121
Sub total	47,745,530	676,675	1,377,917	-	49,800,122	90,203
Germany						
Länder		275,000			275,000	
Sub total	-	275,000	-	-	275,000	-
Austria						
Länder			187,826		187,826	
Sub total	-	-	187,826	-	187,826	-
Belgium						
Regions	7,768		25,488		33,256	
Communities					-	
Public sector entities	54,980				54,980	
Sub total	62,748	-	25,488	-	88,236	-
Canada						
Municipalities	161,232				161,232	
Public sector entities	128,676				128,676	
Sub total	289,908	-	-	-	289,908	-
Spain						
State		200,000			200,000	
Municipalities		64,853			64,853	
Regions	86,892				86,892	
Sub total	86,892	264,853	-	-	351,745	-
United States						
Federated States		251,452			251,452	
Sub total	-	251,452	-	-	251,452	-

EUR thousands	Direct Exposure		Indirect Exposure		Global	Of which past due ⁽¹⁾
	Loans	Bonds	Loans	Bonds		
Country						
Italy						
State		542 709			542 709	
Regions		2 007 630			2 007 630	
Provinces		537 994			537 994	
Municipalities	8 322	1 885 451			1 893 773	
Sub total	8 322	4 973 784	-	-	4 982 106	-
Japon						
Municipalities		25 000			25 000	
Sub total	-	25 000	-	-	25 000	-
Portugal						
Municipalities	18 672				18 672	
Public sector entities	4 726				4 726	
Sub total	23 398	-	-	-	23 398	-
United Kingdom						
State				254 325	254 325	
Sub total	-	-	-	254 325	254 325	-
Sweden						
Municipalities	18 490				18 490	
Sub total	18 490	-	-	-	18 490	-
Switzerland						
Cantons	293 147		71 725		364 872	
Municipalities	502 088				502 088	
Public sector entities	90 525				90 525	
Sub total	885 760	-	71 725	-	957 485	-
Supranational						
International organizations	27 986				27 986	
Sub total	27 986	-	-	-	27 986	-
TOTAL	49 149 034	6 466 764	1 662 956	254 325	57 533 079	90 203

(1) Caisse Française de Financement Local publishes annual and semi-annual accounts. Consequently, data relating to non-performing loans, and specific impairments as of September 30, 2017, are not disclosed in the table above. Nevertheless, non-performing loans and specific impairments are under regular monitoring and can lead to some adjustments of exposures presented in this table.

(2) Of which EUR 112,448 thousand on operations linked to partnership agreement (PPP) and EUR 202,664 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 Septembre 30, 2017.

(4) Of which EUR 20,808 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 9/30/2017

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	3,172	3,752,999	396,441	-	-	-	4,149,440
1	3,599	41,317	69,874	413,765	274,142	-	799,098
2	3,388	58,538	69,255	106,962	1,020,730	-	1,255,485
3	2,868	69,306	52,942	87,999	841,939	-	1,052,186
4	2,648	52,870	65,748	77,911	864,353	-	1,060,882
5	2,726	41,619	52,084	77,842	1,031,051	169,369	1,371,965
6	2,364	49,585	55,060	89,153	928,240	733,979	1,856,017
7	2,241	39,844	60,120	76,547	727,524	671,182	1,575,217
8	4,347	60,012	54,569	116,244	957,397	1,107,549	2,295,771
9	2,398	63,444	47,804	82,989	808,107	1,490,032	2,492,376
10	2,164	44,720	112,803	95,457	883,052	1,897,951	3,033,983
11	2,688	82,025	68,903	137,209	1,193,085	2,162,936	3,644,158
12	2,146	60,961	54,884	111,255	924,961	1,911,570	3,063,631
13	2,707	55,988	67,733	125,355	1,032,796	2,703,966	3,985,838
14	1,467	46,533	46,030	81,391	695,439	1,856,017	2,725,410
15	1,100	34,815	26,714	59,399	505,227	1,665,562	2,291,717
16	892	26,374	18,995	33,905	334,668	1,232,242	1,646,184
17	967	29,012	29,505	45,924	417,645	2,264,103	2,786,189
18	1,251	39,703	30,357	67,446	575,595	2,893,757	3,606,858
19	1,013	39,650	31,221	53,978	531,651	2,907,824	3,564,324
20	714	25,738	17,917	36,177	336,801	1,807,154	2,223,787
21	526	20,026	13,181	39,291	287,335	1,568,658	1,928,491
22	355	8,675	10,659	17,157	151,433	825,729	1,013,653
23	270	9,991	8,085	24,195	174,270	905,357	1,121,898
24	170	13,647	6,449	11,074	123,188	689,555	843,913
25	93	1,781	1,560	7,349	43,859	249,954	304,503
26	80	798	1,217	1,286	14,619	124,849	142,769
27	56	725	570	1,787	13,175	92,569	108,826
28	54	921	1,254	1,188	14,404	113,757	131,524
29	48	320	545	6,044	28,892	212,447	248,248
30	55	999	896	2,628	19,541	800,260	824,324
31	37	646	1,483	1,983	18,361	237,188	259,661
32	17	385	762	469	6,684	48,424	56,724
33	3	85	85	171	1,371	10,088	11,800
34	4	91	105	181	1,514	11,935	13,826
35	13	12	111	564	2,796	26,481	29,964
36	36	286	630	113	4,579	78,984	84,592
37	11	154	217	432	3,515	64,179	68,497
38	31	330	175	739	5,265	78,556	85,065
39	14	29	81	78	791	12,271	13,250
40	16	29	107	629	3,485	35,920	40,170
41	8	82	219	204	2,147	31,985	34,637
42	2	30	52	82	676	8,871	9,711
43	2	75	117	193	1,577	20,351	22,313
44	1	0	28	29	254	6,388	6,699
Total	48,762	4,775,170	1,477,547	2,094,774	15,808,134	33,729,949	57,885,574
TRANSLATION ADJUSTMENTS							-352,495
GLOBAL							57,533,079

(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 9/30/2017

Country	Early repayments during the year	Rate of early repayments
France		
Regions	657	0.04%
Departments	205	0.00%
Municipalities	15,331	0.12%
Group of municipalities	19,184	0.23%
Public sector entities :		
- health	8,273	0.18%
- social housing	6,242	0.61%
- others	4,730	0.59%
Sub total	54,622	0.16%
Italy		
Municipalities	1,291	0.09%
Sub total	1,291	0.03%
GLOBAL exposures on public sector	55,913	0.14%

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 September 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 9/30/2017	Amount
Step 1 credit rating	
Covered Bonds	225,888
Other Bank bonds	367,411
Step 2 credit rating	
Bank bonds (Maturity < 100 days)	-
Bank account's balances	6,084
GLOBAL	599,383

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 September 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 9/30/2017

Residual maturity		Term to maturity					TOTAL
Maturity date in years	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	4	126,084	40,500	-	-	-	166,584
1	3	-	-	103,011	10,600	-	113,611
2	2	-	-	-	57,996	-	57,996
3	3	-	-	-	154,300	-	154,300
4	9	-	-	-	106,892	-	106,892
Total	21	126,084	40,500	103,011	329,788	-	599,383

(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	4Q 2016	1Q 2017	2Q 2017	3Q 2017
Sensitivity	25.0	-0.5	-0.1	-1.6	1.0

Risk of slope between two distant points on the rate curve

Sum of sensitivities

<i>EUR millions, end of quarter</i>	Limit	4Q 2016	1Q 2017	2Q 2017	3Q 2017
Short term	10.0	-9.0	0.1	0.4	-1.7
Medium term	10.0	0.3	2.0	-4.5	-2.4
Long term	10.0	0.1	-2.6	1.5	3.8
Very long term	10.0	0.1	0.4	1.1	1.3

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 2016	1Q 2017	2Q 2017	3Q 2017
Short term	20.0	4.4	3.3	7.8	10.3
Medium term	20.0	4.3	5.1	12.4	10.9
Long term	20.0	8.1	4.9	3.5	7.1
Very long term	20.0	5.9	5.3	5.6	6.5

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 September 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.

