



Report on asset quality
as of December 31, 2017
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, 2017, Caisse Française de Financement Local's cover pool is made of EUR 48.3 billion of loans, EUR 6.6 billion of bonds and EUR 0.9 billion of replacement assets, that correspond to the following exposures:

EUR thousands, as of 12/31/2017	Amount	Assets temporarily removed from the cover pool	TOTAL
Exposures on public sector	54,867,447		54,867,447
Asset-backed securities	-		-
Replacement assets	921,291		921,291
TOTAL	55,788,738	-	55,788,738

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, 2017. Moreover, Caisse Française de Financement Local can also pledge some of its assets for interbank repo transactions.

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 and litigious loans	Of which past due	Of which specific impairment (1)
	Loans	Bonds	Loans	Bonds				
France								
State								
- export refinancing			218 350		218 350			
- others (2)	5 033		112 773		117 806	257	257	-257
Banque de France(3)	1 706 542				1 706 542			
Regions	1 813 195	324 992	261 488		2 399 675	50 393	5 885	-5 767
Departments	6 833 825		184 172		7 017 997	23 331	23 517	
Municipalities	15 706 408	18 548	439 998		16 164 954	240 946	28 347	-18 310
Groups of municipalities(4)	10 934 695	83 391	153 646		11 171 732	114 072	7 309	-1 312
Public sector entities :								
- health	6 218 788				6 218 788	117 119	2 114	-698
- social housing	1 290 748				1 290 748		0	
- others	874 774	242 609	1 084		1 118 467	2 746	96	-12
Sub total	45 384 008	669 540	1 371 511	-	47 425 059	548 864	67 525	-26 356
Germany								
Länder		275 000			275 000			
Sub total	-	275 000	-	-	275 000	-	-	-
Austria								
Länder			187 491		187 491			
Sub total	-	-	187 491	-	187 491	-	-	-
Belgium								
Regions	7 768		21 987		29 755			
Public sector entities	54 360				54 360			
Sub total	62 128	-	21 987	-	84 115	-	-	-
Canada								
Municipalities	161 232				161 232			
Public sector entities	34 485				34 485			
Sub total	195 717	-	-	-	195 717	-	-	-
Spain								
State		200 000			200 000			
Regions		64 853			64 853			
Municipalities	80 307				80 307			
Sub total	80 307	264 853	-	-	345 160	-	-	-
United States								
Federated States		252 943			252 943			
Sub total	-	252 943	-	-	252 943	-	-	-

EUR thousands	Direct Exposure		Indirect Exposure		Total	Of which non-performing and litigious loans	Of which past due	Of which specific impairment (1)
	Loans	Bonds	Loans	Bonds				
Italy								
State		543 052			543 052			-29 893
Regions		1 975 253			1 975 253			
Provinces		522 115			522 115			
Municipalities	7 811	1 842 581			1 850 392			
Sub total	7 811	4 883 001	-	-	4 890 812	-	-	-29 893
Japon								
Municipalities		25 000			25 000			
Sub total	-	25 000	-	-	25 000	-	-	-
Portugal								
Municipalities	17 161				17 161			
Public sector entities	4 727				4 727			
Sub total	21 888	-	-	-	21 888	-	-	-
United Kingdom								
State				231 832	231 832			
Sub total	-	-	-	231 832	231 832	-	-	-
Sweden								
Municipalities	18 490				18 490			
Sub total	18 490	-	-	-	18 490	-	-	-
Switzerland								
Cantons	262 788		40 062		302 850			
Municipalities	492 579				492 579		89	
Public sector entities	90 525				90 525			
Sub total	845 892	-	40 062	-	885 954	-	89	-
Supranational								
International organizations	27 986				27 986			
Sub total	27 986	-	-	-	27 986	-	-	-
TOTAL	46 644 227	6 370 337	1 621 051	231 832	54 867 447	548 864	67 614	-56 249

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

- specific impairment on non performing loans : EUR 26,343 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 29 906 thousand.

(2) Of which EUR 112,448 thousand on operations linked to partnership agreement (PPP).

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

(4) Of which EUR 20,411 thousand on operations linked to partnership agreement (PPP).

2.2 RATINGS

Caisse Française de Financement Local has no exposure 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 12/31/2017

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	3,426	2,170,820	182,016	-	-	-	2,352,836
1	3,525	69,502	47,704	373,598	260,592	-	751,396
2	3,371	69,196	49,963	138,567	862,289	-	1,120,015
3	2,719	52,716	35,968	114,416	842,369	-	1,045,469
4	2,678	65,189	36,898	88,387	1,018,579	-	1,209,053
5	2,672	52,014	38,444	80,513	868,739	389,565	1,429,275
6	2,253	56,354	41,458	97,982	829,355	431,838	1,456,987
7	2,446	58,983	46,950	81,402	750,260	773,689	1,711,284
8	4,139	53,683	41,082	118,683	896,527	1,002,889	2,112,864
9	2,375	48,976	50,384	108,941	882,831	1,503,848	2,594,980
10	2,359	114,512	48,628	103,404	943,401	1,897,505	3,107,450
11	2,528	69,143	52,459	152,552	1,136,665	2,016,110	3,426,929
12	2,274	56,072	56,076	123,295	972,301	2,014,479	3,222,223
13	2,553	64,755	50,124	114,517	958,462	2,485,029	3,672,887
14	1,408	45,117	37,904	83,891	682,369	1,839,653	2,688,934
15	1,125	28,355	22,723	72,092	519,902	1,640,056	2,283,128
16	873	18,083	17,995	40,264	319,901	1,155,681	1,551,924
17	1,107	30,928	31,842	56,364	474,128	2,728,647	3,321,909
18	1,153	28,707	25,807	71,438	531,120	2,483,193	3,140,265
19	1,046	32,104	26,455	70,045	542,883	3,023,309	3,694,796
20	683	18,977	19,509	50,971	374,287	1,856,570	2,320,314
21	495	13,022	6,672	38,152	239,040	1,259,881	1,556,767
22	335	10,461	8,835	18,349	156,482	801,672	995,799
23	257	8,704	7,815	24,199	165,897	869,472	1,076,087
24	149	6,227	4,133	17,555	116,610	626,806	771,331
25	114	1,815	1,857	8,895	53,459	335,545	401,571
26	71	892	1,412	804	13,370	86,117	102,595
27	48	619	341	1,159	9,024	73,716	84,859
28	54	1,291	1,900	1,654	20,915	158,386	184,146
29	54	463	1,006	4,505	24,568	180,894	211,436
30	47	1,082	1,052	3,558	24,402	838,644	868,738
31	33	1,528	193	2,076	17,193	209,103	230,093
32	15	743	152	618	6,260	43,885	51,658
33	3	85	85	171	1,372	10,002	11,715
34	7	105	515	181	3,233	26,874	30,908
35	28	139	43	205	1,642	22,036	24,065
36	18	601	24	242	3,860	66,619	71,346
37	17	219	528	447	5,270	99,981	106,445
38	27	174	170	539	3,634	42,885	47,402
39	19	85	522	70	3,078	27,326	31,081
40	9	132	38	204	1,588	23,957	25,919
41	8	219	69	218	2,152	32,016	34,674
42	2	97	75	172	1,396	15,711	17,451
43	1	42	0	43	377	9,026	9,488
44	1	28	0	29	254	6,388	6,699
Total	48,525	3,252,959	997,826	2,265,367	15,542,036	33,109,003	55,167,191
TRANSLATION ADJUSTMENTS							-299,744
GLOBAL							54,867,447

(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 12/31/2017

Country	Early repayments during the year	Rate of early repayments
France		
Regions	657	0,03%
Departments	25 126	0,36%
Municipalities	23 883	0,14%
Group of municipalities	90 905	0,81%
Public sector entities :		
- health	8 273	0,13%
- social housing	8 821	0,65%
- others	5 564	0,53%
Sub total	163 229	0,35%
Spain		
Municipalities	5 122	5,85%
Sub total	5 122	1,37%
Italy		
Municipalities	1 903	0,10%
Sub total	1 903	0,04%
TOTAL exposures on public sector	170 254	0,31%

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 December 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 12/31/2017	Countries	Amount
Step 1 credit rating		
Covered Bonds		
	- France	175 991
	- Other countries ⁽¹⁾	127 351
Other Bank bonds		
	- France	147 600
	- Other countries ⁽¹⁾	99 888
Loans to SFIL	- France	360 000
Step 2 credit rating		
Bank bonds (Maturity < 100 days)		
	- France	-
	- Other countries ⁽¹⁾	-
Bank accounts balances	- France and Other countries ⁽¹⁾	10 461
TOTAL GÉNÉRAL		921 291

(1) Corresponds to other countries of the European Union and the European Economic Area, except for bank accounts, which can be held in non European countries.

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.

During the fourth quarter of 2017, Caisse Française de Financement Local has granted two loans to SFIL, its parent company, in order to invest its surplus cash.

No non performing or litigious loans are enumerated among replacement assets.

4.2 RATINGS

As of December 31, 2017, replacement assets were composed of bank bonds, of loans to SFIL and of bank accounts 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 12/31/2017

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	5	50 961	103 088	-	-	-	154 049
1	3	-	-	360 000	10 600	-	370 600
2	3	-	-	-	74 000	-	74 000
3	5	-	-	-	201 282	-	201 282
4	8	-	-	-	121 360	-	121 360
Total	24	50 961	103 088	360 000	407 242	-	921 291

(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 direction.
- 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 maximum in order to eliminate the basis risk generated by differences in Euribor fixing dates (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.

These hedges can be either directly realised on the market, or intermediated by SFIL which then hedges itself on the market.

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 needs no swapping, or with a Euribor index and thus finances assets also indexed on Euribor. In this case, short term debt owed to the Banque de France with a fixed rate is not hedged, but also finances fixed rate assets.

Limits on interest rate risk

The sensitivity of residual positions (for fix and fixed rates) after the two levels of hedging is monitored carefully and kept within strict limits. This sensitivity is managed within limits that guarantee a minimal impact on assets and liabilities in case of directional shift in rates or of slope risk. Limits on interest rate risk guarantee, with 99% probability, a maximum loss of 6% of equity (i.e. EUR 80 million) based on historical observed over the period 2007-2017.

A set of three limits makes it possible to have a grasp of 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

EUR millions	Limit	3/31/2017	6/30/2017	9/30/2017	12/31/2017
Sensitivity	25,0	-0,1	-1,6	1,0	1,5

Risk of slope between two distant points on the rate curve

Sum of sensitivities

EUR millions	Limit	3/31/2017	6/30/2017	9/30/2017	12/31/2017
Short term	10,0	0,1	0,4	-1,7	0,2
Medium term	10,0	2,0	-4,5	-2,4	-4,6
Long term	10,0	-2,6	1,5	3,8	3,1
Very long term	10,0	0,4	1,1	1,3	2,7

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

EUR millions	Limit	3/31/2017	6/30/2017	9/30/2017	12/31/2017
Short term	20,0	3,3	7,8	10,2	11,6
Medium term	20,0	5,1	12,4	10,9	14,8
Long term	20,0	4,9	3,5	7,1	3,6
Very long term	20,0	5,3	5,6	6,5	6,9

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 December 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.

