



Report on asset quality
as of March 31, 2018
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, 2018, Caisse Française de Financement Local's cover pool is made of EUR 48.0 billion of loans, EUR 6.4 billion of bonds and EUR 1.4 billion of replacement assets, that correspond to the following exposures:

EUR thousands, as of 03/31/2018	Amount	Assets temporarily removed from the cover pool	TOTAL
Exposures on public sector	54,363,724	703	54,364,427
Asset-backed securities	-	-	-
Replacement assets	1,437,855	-	1,437,855
TOTAL	55,801,579	703	55,802,282

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, 2018. 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 past due ⁽¹⁾
	Loans	Bonds	Loans	Bonds		
France						
State :						
- export refinancing	-	-	281 581	-	281 581	-
- others ⁽²⁾	5 314	-	112 669	-	117 983	-
Banque de France ⁽³⁾	1 021 880	-	-	-	1 021 880	-
Regions	1 822 661	90 006	259 272	-	2 171 939	5 630
Departments	6 975 529	-	189 139	-	7 164 668	23 332
Municipalities	15 593 568	18 548	419 445	-	16 031 561	27 022
Groups of municipalities ⁽⁴⁾	11 463 093	82 756	146 268	-	11 692 117	4 356
Public sector entities :						
- health	6 214 398	8 320	-	-	6 222 718	2 146
- social housing	1 252 347	-	-	-	1 252 347	12
- others	885 383	242 609	1 085	-	1 129 077	491
Subtotal	45 234 173	442 239	1 409 459	-	47 085 871	62 989
Germany						
Länder	-	275 000	-	-	275 000	-
Subtotal	-	275 000	-	-	275 000	-
Austria						
Länder	-	-	185 712	-	185 712	-
Subtotal	-	-	185 712	-	185 712	-
Belgium						
Regions	7 768	-	21 987	-	29 755	-
Public sector entities	51 397	-	-	-	51 397	-
Subtotal	59 165	-	21 987	-	81 152	-
Canada						
Municipalities	161 232	-	-	-	161 232	-
Public sector entities	34 485	-	-	-	34 485	-
Subtotal	195 717	-	-	-	195 717	-
Spain						
State	-	200 000	-	-	200 000	-
Regions	-	64 853	-	-	64 853	-
Municipalities	80 307	-	-	-	80 307	-
Subtotal	80 307	264 853	-	-	345 160	-
United States						
Federated States	-	252 128	-	-	252 128	-
Subtotal	-	252 128	-	-	252 128	-

EUR thousands	Direct Exposure		Indirect Exposure		Total	Of which past due ⁽¹⁾
	Loans	Bonds	Loans	Bonds		
COUNTRY						
Italy						
State	-	550 048	-	-	550 048	-
Regions	-	1 973 335	-	-	1 973 335	-
Provinces	-	515 916	-	-	515 916	-
Municipalities	7 811	1 822 165	-	-	1 829 976	-
Subtotal	7 811	4 861 464	-	-	4 869 275	-
Japon						
Municipalities	-	25 000	-	-	25 000	-
Subtotal	-	25 000	-	-	25 000	-
Portugal						
Municipalities	17 063	-	-	-	17 063	-
Public sector entities	4 297	-	-	-	4 297	-
Subtotal	21 360	-	-	-	21 360	-
United Kingdom						
State	-	-	-	209 004	209 004	-
Subtotal	-	-	-	209 004	209 004	-
Sweden						
Municipalities	18 490	-	-	-	18 490	-
Subtotal	18 490	-	-	-	18 490	-
Switzerland						
Cantons	262 789	-	27 803	-	290 592	-
Municipalities	422 948	-	-	-	422 948	-
Public sector entities	60 350	-	-	-	60 350	-
Subtotal	746 087	-	27 803	-	773 890	-
Supranational						
International organizations	25 965	-	-	-	25 965	-
Subtotal	25 965	-	-	-	25 965	-
TOTAL	46 389 075	6 120 684	1 644 961	209 004	54 363 724	62 989

(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, 2018, are not disclosed in the table below. Nevertheless, non-performing and litigious 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) .

(3) Caisse Française de Financement Local's Banque de France account as of March 31, 2018.

(4) Of which EUR 20,009 thousand on operations linked to partnership agreement (PPP).

2.2 RATINGS

Caisse Française de Financement Local has no exposure on public sector 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 03/31/2018

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	2,395	1,331,835	202,495	-	-	-	1,534,330
1	3,361	45,338	51,209	294,692	226,038	-	617,277
2	3,270	49,112	43,271	151,336	913,529	-	1,157,248
3	2,651	33,540	33,866	115,711	680,793	-	863,910
4	2,719	37,071	38,050	116,539	1,003,634	-	1,195,294
5	2,774	37,393	38,624	92,966	889,397	456,404	1,514,784
6	2,194	39,140	36,101	103,226	754,214	421,326	1,354,007
7	3,615	48,823	51,754	103,876	830,929	910,215	1,945,597
8	3,287	37,138	39,433	103,841	759,948	1,003,778	1,944,138
9	2,294	42,098	42,286	93,385	756,491	1,721,026	2,655,286
10	2,641	46,478	62,502	117,854	1,011,715	2,161,017	3,399,566
11	2,378	44,378	54,492	127,439	922,988	1,929,101	3,078,398
12	2,600	41,277	45,283	151,717	756,826	2,479,810	3,474,913
13	2,143	22,270	25,178	54,466	418,474	2,743,219	3,263,607
14	1,461	16,851	22,859	44,549	359,165	2,265,634	2,709,058
15	1,260	18,057	15,788	59,242	398,224	1,855,136	2,346,447
16	850	19,936	18,038	46,639	349,486	1,534,248	1,968,347
17	1,340	27,360	25,451	54,637	452,137	3,018,030	3,577,615
18	1,098	16,138	13,092	45,630	322,646	2,496,059	2,893,565
19	1,045	26,843	13,918	49,924	342,134	3,340,152	3,772,971
20	755	16,177	21,892	45,619	354,617	2,287,790	2,726,095
21	466	6,772	8,470	26,380	173,556	957,123	1,172,301
22	345	8,767	8,985	19,056	152,713	944,333	1,133,854
23	223	5,946	5,974	11,997	97,555	728,208	849,680
24	164	1,585	5,022	13,497	83,987	663,863	767,954
25	109	1,286	1,213	3,343	24,497	334,457	364,796
26	67	1,373	240	1,384	12,813	80,925	96,735
27	51	347	412	1,516	9,643	77,950	89,868
28	66	2,039	1,168	2,541	24,969	299,884	330,601
29	64	947	1,302	631	12,520	267,601	283,001
30	63	623	1,352	2,359	19,563	953,838	977,735
31	26	254	248	2,081	10,788	80,680	94,051
32	10	80	104	974	4,797	32,154	38,109
33	2	83	83	167	1,334	9,313	10,980
34	9	515	219	196	3,753	31,152	35,835
35	36	63	61	226	1,503	21,618	23,471
36	13	30	139	853	4,528	74,226	79,776
37	16	503	203	350	4,697	92,303	98,056
38	26	170	156	498	3,382	38,447	42,653
39	22	522	106	187	3,682	38,338	42,835
40	7	64	128	210	1,672	21,446	23,520
41	7	44	100	249	1,694	26,614	28,701
42	2	75	118	194	1,585	20,149	22,121
43	1	0	29	30	259	6,353	6,671
	47,926	2,029,341	931,414	2,062,207	13,158,875	36,423,920	54,605,757
TRANSLATION ADJUSTMENTS							-242,033
GLOBAL							54,363,724

(1) Numbers of loans and bonds maturing 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 03/31/2018

Country	Early repayments during the year	Rate of early repayments
France		
Departments	97	0.01%
Municipalities	4,344	0.11%
Groups of municipalities	1,510	0.05%
Public sector entities :		
- health	20,944	1.34%
- social housing	615	0.20%
Sub total	27,510	0.24%
Italy		
Municipalities	513	0.11%
Sub total	513	0.04%
GLOBAL exposures on public sector	28,023	0.21%

The annual rate of early repayments corresponds to the volume of early repayments occurred during the first quarter of 2018 divided by the average outstanding amount for the period (equal to the average amount of daily outstandings).

The rate of early repayments in 2017 was 0.31% for a total amount of repayments of EUR 170 million.

3. ASSET-BACKED SECURITIES AND SIMILAR STRUCTURES

3.1 BREAKDOWN BY COUNTERPART

As of March 31, 2018, 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 03/31/2018	Countries	Amount
Step 1 credit rating		
Covered Bonds		
	France	135 491
	Other countries ⁽¹⁾	251 508
Other Bank bonds		
	France	167 523
	Other countries ⁽¹⁾	199 938
Loans to SFIL	France	500 000
Step 2 credit rating		
Bank bonds (Maturity < 100 days)		
	France	84 974
	Other countries ⁽¹⁾	94 930
Bank account's balances	France and other countries ⁽¹⁾	3 491
TOTAL		1 437 855

(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.

Since the fourth quarter of 2017, Caisse Française de Financement Local grants 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 March 31, 2018, 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 03/31/2018

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	286,588	-	-	-	-	286,588
1	8	-	-	630,466	-	-	630,466
2	4	-	-	-	74,000	-	74,000
3	12	-	-	-	266,569	-	266,569
4	10	-	-	-	180,232	-	180,232
Total	42	286,588	-	630,466	520,801	-	1,437,855

(1) Numbers of loans and bonds maturing 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 2018.

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 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 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 in fixed rates and variable rates fixed for a determined period of time that remain after the two levels of hedging is monitored on a monthly basis. Limits provide a framework for this sensitivity and are designed to reduce the impact on the value of balance sheet items in the event of a shift in the yield curve or a move in sloping/rotation. They are calibrated so as not to lose more than 6% of equity (i.e. EUR 80 million) with a quantile of 99% calculated based on 2007-2017 historical data.

The net present value (NPV) sensitivity indicators are calculated for a rate shock of 100 x +1 basis point (bp), aiming to limit losses in value in the event of:

- a parallel yield curve shift (limit of EUR 25 million for a shock of 100 x 1bp) to limit the fixed rate or directional rate risk;
- sloping/rotation of the interest rate curve:
 - net present value sensitivity calculation and limiting by time bucket, using four buckets of distinct risks on the yield curve in order to limit risk between distant points on the curve (limit per bucket of EUR 10 million for a shock of 100 x 1bp);
 - net present value sensitivity in terms of absolute value calculation and limiting by time bucket, using four buckets of distinct risks on the yield curve in order to limit risk between near points on the curve, within each bucket (limit per bucket of EUR 20 million for a shock of 100 x 1bp).

Limiting directional risk

The measurement of sensitivity 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	12/31/2017
Sensitivity	(25)/25	(0,1)	(1,6)	1,0	1,5	(1,5)

Measurement of the slope/rotation risk

The quarter-end sensitivity measurements are presented below

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	12/31/2017
Short term	(10)/10	0,1	0,4	(1,7)	0,2	(7,1)
Medium term	(10)/10	2,0	(4,5)	(2,4)	(4,6)	(2,1)
Long term	(10)/10	(2,6)	1,5	3,8	3,1	5,6
Very long term	(10)/10	0,4	1,1	1,3	2,7	2,0

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

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 march 2018, 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.

