Report on asset quality
as of June 30, 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 June 30, 2018, Caisse Française de Financement Local's cover pool is made of EUR 49.4 billion of loans, EUR 6.8 billion of bonds and EUR 1.8 billion of replacement assets, that correspond to the following exposures:

EUR thousands, as of 06/30/2018	Amount	Assets temporarily removed from the cover pool	TOTAL
Exposures on public sector	56,160,825	917	56,161,742
Asset-backed securities	-	-	-
Replacement assets	1,840,543	-	1,840,543
TOTAL	**58,001,368**	**917**	**58,002,285**

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 June 30, 2018.

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					
COUNTRY	**Loans**	**Bonds**	**Loans**	**Bonds**	**Total**	**Of which non-performing loans**	**Of which past due**	**Of which specific impairment (1)**
France								
State :								
- export refinancing	-	-	422,378	-	422,378	-	-	-
- others (2)	6,685	-	112,669	-	119,354	-	-	-
Banque de France(3)	2,740,594	-	-	-	2,740,594	-	-	-
Regions	1,870,436	426,806	257,584	-	2,554,826	73,339	30,394	-7,061
Departments	6,872,291	279,000	184,861	-	7,336,152	342	1	-
Municipalities	15,374,750	18,548	401,850	-	15,795,148	225,643	29,161	-15,504
Groups of municipalities(4)	11,454,630	82,756	144,074	-	11,681,460	86,577	2,905	-97
Public sector entities :								-
- health	6,128,006	8,400	-	-	6,136,406	56,842	221	-119
- social housing	1,221,783	-	-	-	1,221,783	0	1	-
- others	881,948	162,620	1,085	-	1,045,653	2,648	368	-48
Sub total	**46,551,123**	**978,130**	**1,524,501**	**-**	**49,053,754**	**445,391**	**63,051**	**-22,829**
Germany								
Länder	-	275,000	-	-	275,000		-	
Sub total	**-**	**275,000**	**-**	**-**	**275,000**	**-**	**-**	**-**
Austria								
Länder	-	-	185,375	-	185,375		-	
Sub total	**-**	**-**	**185,375**	**-**	**185,375**	**-**	**-**	**-**
Belgium								
Regions	4,219	-	21,987	-	26,206		-	
Public sector entities	49,476	-	-	-	49,476		-	
Sub total	**53,695**	**-**	**21,987**	**-**	**75,682**	**-**	**-**	**-**
Canada								
Municipalities	100,287	-	-	-	100,287		-	
Public sector entities	34,485	-	-	-	34,485		-	
Sub total	**134,772**	**-**	**-**	**-**	**134,772**	**-**	**-**	**-**
Spain								
State	-	200,000	-	-	200,000		-	
Regions	-	64,853	-	-	64,853		-	
Municipalities	79,045	-	-	-	79,045		-	
Sub total	**79,045**	**264,853**	**-**	**-**	**343,898**	**-**	**-**	**-**
United States								
Federated States	-	252,943	-	-	252,943		-	
Sub total	**-**	**252,943**	**-**	**-**	**252,943**	**-**	**-**	**-**

EUR thousands	Direct Exposure		Indirect Exposure					
COUNTRY	**Loans**	**Bonds**	**Loans**	**Bonds**	**Total**	**Of which non-performing loans**	**Of which past due**	**Of which specific impairment (1)**
Italy								
State	-	535,419	-	-	535,419		-	-37,525
Regions	-	1,944,033	-	-	1,944,033		-	
Provinces	-	500,335	-	-	500,335		-	
Municipalities	7,289	1,801,014	-	-	1,808,303		-	
Sub total	**7,289**	**4,780,801**	**-**	**-**	**4,788,090**	**-**	**-**	**-37,525**
Japon								
Municipalities	-	25,000	-	-	25,000		-	
Sub total	**-**	**25,000**	**-**	**-**	**25,000**	**-**	**-**	**-**
Portugal								
State	-	10,000			10,000			
Municipalities	15,551	-	-	-	15,551		-	
Public sector entities	4,297	-	-	-	4,297		-	
Sub total	**19,848**	**10,000**	**-**	**-**	**29,848**	**-**	**-**	**-**
United Kingdom								
State	-	-	-	185,838	185,838		-	
Sub total	**-**	**-**	**-**	**185,838**	**185,838**	**-**	**-**	**-**
Sweden								
Municipalities	18,490	-	-	-	18,490		-	
Sub total	**18,490**	**-**	**-**	**-**	**18,490**	**-**	**-**	**-**
Switzerland								
Cantons	262,788	-	27,803	-	290,591		-	
Municipalities	415,229	-	-	-	415,229		-	
Public sector entities	60,350	-	-	-	60,350		-	
Sub total	**738,367**	**-**	**27,803**	**-**	**766,170**	**-**	**-**	**-**
Supranational								
International organizations	25,965	-	-	-	25,965		-	
Sub total	**25,965**	**-**	**-**	**-**	**25,965**	**-**	**-**	**-**
TOTAL	**47,628,594**	**6,586,727**	**1,759,666**	**185,838**	**56,160,825**	**445,391**	**63,051**	**-60,354**

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

- specific impairment on non performing loans : EUR 22,829 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 37,525 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 June 30, 2018

(4) Of which EUR 19,608 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 06/30/2018

Residual maturity		Term to maturity					
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	TOTAL
0	2,185	3,630,739	164,620	-	-	-	3,795,359
1	3,202	50,243	81,476	309,178	523,505	-	964,402
2	3,206	46,109	75,777	114,218	583,695	-	819,799
3	2,612	37,765	51,088	93,341	638,658	-	820,852
4	2,702	36,081	37,553	100,237	929,052	-	1,102,923
5	2,854	45,262	51,045	121,731	1,241,540	198,032	1,657,610
6	2,144	45,925	43,776	95,096	766,425	460,946	1,412,168
7	4,354	59,383	58,915	116,633	963,845	834,293	2,033,069
8	2,682	44,855	65,511	98,998	884,364	1,284,785	2,378,513
9	2,131	46,671	43,328	88,825	753,140	1,282,378	2,214,342
10	2,932	76,397	75,276	137,962	1,257,169	1,929,452	3,476,256
11	2,211	61,867	59,115	116,806	983,388	1,784,560	3,005,736
12	2,823	65,932	56,049	120,587	978,546	2,213,440	3,434,554
13	1,735	46,796	48,152	101,314	801,054	1,797,474	2,794,790
14	1,380	38,814	46,600	83,208	700,536	1,978,635	2,847,793
15	1,312	25,056	35,544	69,178	541,001	1,681,211	2,351,990
16	851	21,317	28,966	43,381	367,410	1,947,821	2,408,895
17	1,387	34,998	41,352	68,700	603,792	2,796,649	3,545,491
18	1,070	24,315	38,855	52,945	490,691	2,484,685	3,091,491
19	1,031	33,559	37,806	57,703	543,378	2,513,288	3,185,734
20	772	26,335	20,218	52,250	415,050	2,041,984	2,555,837
21	402	8,200	8,258	16,921	140,524	741,148	915,051
22	328	15,388	8,769	22,071	188,780	919,535	1,154,543
23	184	7,541	13,564	13,835	144,961	756,735	936,636
24	151	6,562	3,750	8,542	81,682	460,435	560,971
25	107	1,840	2,122	5,029	37,823	227,392	274,206
26	61	204	658	2,217	12,663	78,008	93,750
27	63	491	830	1,240	10,991	95,654	109,206
28	56	4,603	597	3,369	35,969	245,457	289,995
29	61	1,601	1,796	5,096	35,136	275,395	319,024
30	63	2,160	1,317	3,524	31,721	928,466	967,188
31	30	253	400	1,580	9,083	490,311	501,627
32	5	93	70	736	3,725	22,176	26,800
33	2	84	84	168	1,340	9,381	11,057
34	9	190	69	567	3,340	27,986	32,152
35	39	61	251	230	2,347	28,286	31,175
36	10	164	51	713	4,075	70,100	75,103
37	23	181	299	684	5,171	99,247	105,582
38	20	169	167	373	2,897	30,233	33,839
39	22	97	37	689	3,726	36,214	40,763
40	7	120	70	178	1,537	21,836	23,741
41	5	100	44	235	1,634	24,797	26,810
42	2	118	75	194	1,585	20,074	22,046
43	1	29	0	30	259	6,353	6,671
	47,227	**4,548,668**	**1,204,300**	**2,130,512**	**15,727,208**	**32,844,852**	**56,455,540**
TRANSLATION ADJUSTMENTS							-294,715
GLOBAL							**56,160,825**

(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 06/30/2018

Country	Early repayments during the year	Rate of early repayments
France		
Departments	97	0,00%
Municipalities	18,836	0,23%
Groups of municipalities	2,118	0,04%
Public sector entities :		
- health	22,570	0,70%
- social housing	628	0,10%
Sub total	**44,249**	**0,19%**
Italy		
Municipalities	513	0,05%
Sub total	**513**	**0,02%**
GLOBAL exposures on public sector	**44,762**	**0,17%**

The annual rate of early repayments corresponds to the volume of early repayments occurred during the first half 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 June 30, 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 06/30/2018	Countries	Amount
Step 1 credit rating		
Covered Bonds		
	France	132 300
	Other countries[1]	289 119
Other Bank bonds		
	France	167 559
	Other countries[1]	100 000
Loans to SFIL	France	800 000
Step 2 credit rating		
Bank bonds (Maturity < 100 days)		
	France	251 935
	Other countries[1]	94 977
Bank accounts balances	France and other countries [1]	4 653
TOTAL		**1 840 543**

(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 June 30, 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 06/30/2018

Residual maturity		Term to maturity					
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**	**TOTAL**
0	17	351,565	479,959	-	-	-	831,524
1	3	-	-	450,600	-	-	450,600
2	6	-	-	-	106,900	-	106,900
3	13	-	-	-	291,886	-	291,886
4	7	-	-	-	159,633	-	159,633
Total	**46**	**351,565**	**479,959**	**450,600**	**558,419**	**-**	**1,840,543**

(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 the tenor (Euribor 1, 3, 6 or 12 months) and the fixing risk due to refixing dates of reference indices that differ for the assets and the liabilities.
  The residual risk is managed using macro-hedges with a management horizon of one week.

These hedges can be entered into either directly on the market by Caisse Française de Financement Local, or through SFIL, which in turn hedges its resulting position in 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 Eonia 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 finances fixed rate assets.

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.

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

EUR millions, end of quarter	Limit	3Q 2017	4Q 2017	1Q 2018	2Q 2018
Sensitivity	**25.0**	**1.0**	**1.5**	**-1.5**	**1.7**

Risk of slope between two distant points on the rate curve

Sum of sensitivities

EUR millions, end of quarter	Limit	3Q 2017	4Q 2017	1Q 2018	2Q 2018
Short term	**10.0**	**-1.7**	**0.2**	**-7.1**	**-4.3**
Medium term	**10.0**	**-2.4**	**-4.6**	**-2.1**	**-1.0**
Long term	**10.0**	**3.8**	**3.1**	**5.6**	**4.6**
Very long term	**10.0**	**1.3**	**2.7**	**2.0**	**2.4**

Risk of slope between two close points on the rate curve

Sum of sensitivities in absolute value

EUR millions, end of quarter	Limit	3Q 2017	4Q 2017	1Q 2018	2Q 2018
Short term	**20.0**	**10.2**	**11.6**	**11.5**	**8.8**
Medium term	**20.0**	**10.9**	**14.8**	**4.6**	**14.4**
Long term	**20.0**	**7.1**	**3.6**	**7.9**	**8.7**
Very long term	**20.0**	**6.5**	**6.9**	**10.5**	**10.8**

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 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.