

Report on asset quality
as of June 30, 2015
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.

As of June 30, 2015, Caisse Française de Financement Local's cover pool is made of EUR 48.5 billion of loans, EUR 9.9 billion of bonds and EUR 2.6 billion of replacement assets, that correspond to the following exposures :

EUR thousands, as of 6/30/2015	Amount	Assets temporarily removed from the cover pool	TOTAL
Exposures on public sector	58,460,779		58,460,779
Asset-backed securities	-		-
Replacement assets	2,559,037		2,559,037
TOTAL	61,019,816	-	61,019,816

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 two 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, 2015.

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 new 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.

EUR thousands	Direct Exposure		Indirect Exposure		Total	Of which non-performing loans	Of which past due	Of which specific impairment (1)
	Loans	Bonds	Loans	Bonds				
France								
State (2)		1,749,962	180,168		1,930,130	257	262	295
Banque de France (3)	1,078,784				1,078,784			
Regions	1,618,361	104,551	278,253		2,001,165	783	58	86
Departments	6,134,758		242,559		6,377,317	7,319	5,140	
Municipalities	15,384,778	24,722	599,251		16,008,751	312,802	65,732	37,248
Groups of municipalities (4)	9,582,922	101,341	213,105		9,897,368	158,770	48,172	11,218
Public sector entities :								
- health	6,052,720				6,052,720	153,654	5,691	3,059
- social housing	1,601,431				1,601,431		4	
- others	916,202		3,576		919,778	496	93	26
Sub total	42,369,956	1,980,576	1,516,912	-	45,867,444	634,081	125,152	51,932
Germany								
Länder		514,513		102,500	617,013			487
Sub total	-	514,513	-	102,500	617,013	-	-	487
Austria								
Länder			195,504		195,504			
Sub total	-	-	195,504	-	195,504	-	-	-
Belgium								
Regions	22,437		50,071		72,508			
Communities		50,000			50,000			
Public sector entities	65,288				65,288			
Sub total	87,725	50,000	50,071	-	187,796	-	-	-
Canada								
Provinces		22,371			22,371			
Municipalities	181,865				181,865			
Public sector entities	128,676				128,676			
Sub total	310,541	22,371	-	-	332,912	-	-	-
Spain								
Municipalities	246,350				246,350			
Regions		232,194			232,194			159
Sub total	246,350	232,194	-	-	478,544	-	-	159
United States								
Federated States		252,730			252,730			213
Sub total	-	252,730	-	-	252,730	-	-	213
Finland								
Municipalities	900				900			
Sub total	900	-	-	-	900	-	-	-

EUR thousands	Direct Exposure		Indirect Exposure		Global	Of which non performing loans	Of which past due	Of which specific impairment (1)
	Loans	Bonds	Loans	Bonds				
Italy								
State		554,604			554,604			35,631
Regions		2,923,916			2,923,916			
Provinces		631,553			631,553			
Municipalities	10,281	2,156,375			2,166,656			
Sub total	10,281	6,266,448	-	-	6,276,729	-	-	35,631
Japon								
Municipalities		25,000			25,000			
Sub total	-	25,000	-	-	25,000	-	-	-
Portugal								
Municipalities	48,211				48,211			
Public sector entities	6,875				6,875			
Sub total	55,086	-	-	-	55,086	-	-	-
United Kingdom								
State				442,523	442,523			
County (5)			398,124		398,124			
District (5)			27,973		27,973			
Municipalities (5)			1,367,720		1,367,720			
Public sector entities (5)			56,183		56,183			
Sub total	-	-	1,850,000	442,523	2,292,523	-	-	-
Sweden								
Municipalities	22,898		11,231		34,129			
Sub total	22,898	-	11,231	-	34,129	-	-	-
Switzerland								
Cantons	705,548		372,732		1,078,280			
Municipalities	638,096				638,096		112	
Public sector entities	90,525				90,525			
Sub total	1,434,169	-	372,732	-	1,806,901	-	112	-
Supranational								
International organizations	37,568				37,568			
Sub total	37,568	-	-	-	37,568			
TOTAL	44,575,474	9,343,832	3,996,450	545,023	58,460,779	634,081	125,264	88,422

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

- specific impairment on non performing loans : EUR 51,894 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 36,528 thousand

(2) Of which EUR 78,857 thousand on operations linked to partnership agreement (PPP)

(3) Caisse Française de Financement Local's Banque de France account as of June 30, 2015

(4) Of which EUR 24,603 thousand on operations linked to partnership agreement (PPP)

(5) This concerns a loan granted to Dexia Credit Local for EUR 1,850 million guaranteed by United Kingdom's public entities

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 6/30/2015

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	1,580	3,569,815	415,507	-	-	-	3,985,322
1	3,074	34,814	45,828	346,711	2,298,369	-	2,725,723
2	3,548	30,577	44,810	84,103	1,164,576	-	1,324,065
3	3,990	59,390	44,975	117,660	1,024,165	-	1,246,189
4	3,314	51,631	49,739	121,539	1,553,585	-	1,776,494
5	3,293	40,846	72,912	108,437	962,601	-	1,184,796
6	2,581	35,278	49,549	83,812	708,388	1,078,332	1,955,358
7	2,664	35,971	37,175	93,854	707,908	805,869	1,680,778
8	2,762	41,155	46,336	97,898	843,925	1,373,511	2,402,824
9	2,062	33,181	37,600	82,419	664,905	1,007,143	1,825,249
10	4,102	45,200	49,241	124,743	900,583	1,590,414	2,710,182
11	2,460	39,809	57,971	92,160	828,967	2,451,365	3,470,271
12	1,825	35,297	33,385	66,409	574,818	1,651,241	2,361,149
13	2,620	63,690	58,324	118,093	1,052,317	2,664,292	3,956,716
14	2,058	53,977	57,796	105,214	899,724	2,440,590	3,557,300
15	2,147	30,261	29,869	82,917	614,010	2,103,426	2,860,483
16	956	14,192	20,134	35,292	294,820	995,279	1,359,716
17	886	23,238	22,336	32,141	324,502	1,408,031	1,810,247
18	960	11,169	21,022	34,402	285,476	1,356,380	1,708,449
19	785	15,690	19,211	34,417	298,714	2,142,006	2,510,038
20	1,004	15,788	20,981	44,287	343,505	2,334,931	2,759,493
21	571	8,271	15,502	19,362	186,073	1,706,361	1,935,569
22	652	7,882	17,196	28,581	233,882	1,569,016	1,856,557
23	572	17,376	13,916	24,362	236,119	1,614,693	1,906,466
24	360	6,752	6,302	14,996	118,405	800,354	946,808
25	266	5,927	5,110	14,625	106,917	648,301	780,881
26	106	4,501	3,946	6,680	63,482	407,617	486,226
27	85	2,708	1,233	4,615	36,446	265,427	310,429
28	70	915	1,167	2,097	17,807	147,778	169,765
29	62	352	760	3,317	17,692	95,763	117,883
30	61	382	768	1,294	10,631	113,272	126,347
31	43	706	536	2,023	14,991	147,618	165,876
32	48	1,057	336	1,178	11,196	149,592	163,358
33	46	723	442	1,342	11,858	839,983	854,348
34	26	352	392	1,559	9,389	83,727	95,419
35	5	79	64	183	1,412	20,564	22,301
36	2	84	84	168	1,340	10,386	12,061
37	9	189	68	559	3,297	30,497	34,610
38	36	55	271	215	2,338	32,094	34,973
39	10	662	51	632	5,915	72,023	79,282
40	24	159	300	593	4,609	103,512	109,173
41	20	166	164	365	2,830	32,415	35,940
42	23	89	113	259	2,140	35,867	38,468
43	7	113	68	171	1,462	22,999	24,813
44	4	62	13	154	1,018	21,361	22,608
45	1	38	-	39	342	9,268	9,688
46	1	26	-	26	230	6,551	6,833
Total	51,781	4,340,597	1,303,503	2,035,902	17,447,677	34,389,849	59,517,528
TRANSLATION ADJUSTMENTS							- 1,056,749
GLOBAL							58,460,779

(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 6/30/2015

State	Early repayments during the year	Rate of early repayments
France		
Departments	1,963	0.06%
Municipalities	13,264	0.17%
Group of municipalities	3,788	0.08%
Public sector entities :		
- health	1,053	0.03%
- social housing	2,282	0.28%
- others	1,860	0.41%
Sub total	24,210	0.11%
Finland		
Public sector entities :		
- others	41,160	N/A
Sub total	41,160	N/A
GLOBAL exposures on public sector	65,370	0.23%

The annual rate of early repayments corresponds to the volume of early repayments occurred during 2015 divided by the average of daily outstanding amount for the period (equal to the average amount of daily outstandings).

As a reminder, the rate of early repayments in 2014 was 0.12% for a total amount of repayments of EUR 72 million.

3. ASSET-BACKED SECURITIES AND SIMILAR STRUCTURES

3.1 BREAKDOWN BY COUNTERPART

As of June 30, 2015, 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 6/30/2015	Amount
Replacement assets	2,559,037
TOTAL	2,559,037

Replacement assets	Amount in EUR thousands
Step 1 credit rating	
Loans to SFIL	2,545,922
Step 2 credit rating	
Bank account's balances	13,115
Other assets	-
TOTAL	2,559,037
PREMIUMS AND DISCOUNTS	-
GLOBAL	2,559,037

4.2 RATINGS

As of June 30, 2015, replacement assets were composed of a loan to SFIL, which was rated AA- by Fitch, Aa2 by Moody's and AA by S&P, and bank account's balances, whose ratings correspond to a step 2 credit rating.

4.3 BREAKDOWN BY MATURITY DATE

EUR thousands, as of 6/30/2015

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	1	13,115	-	-	-	-	13,115
13	1	91,311	57,552	177,679	1,074,548	1,144,832	2,545,922
Total	2	104,426	57,552	177,679	1,074,548	1,144,832	2,559,037
PREMIUMS AND DISCOUNTS							-
GLOBAL							2,559,037

(1) Numbers of deals arrived at maturity during the period

Balances of bank current accounts are presented as a unique matured deal.

4.4 EARLY REPAYMENTS

There was one early repayment among the replacement assets in 2015.

EUR thousands, as of 6/30/2015

State	Early repayments during the year	Rate of early repayments
Step 1 credit rating		
Loans to SFIL	1,120,139	N/A
Sub total	1,120,139	N/A
GLOBAL	1,120,139	N/A

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 whereas loans granted individually or bond issues are micro-hedged. Hedging of assets is more often obtained in using interest rate swaps, but the same effect may be obtained whenever possible by the cancelation of liability swaps.
- In the second step, Euribor lending and borrowing flows (naturally or after hedges) are swapped against Eonia 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.

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 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 maximum losses mentioned above.

The measurement of sensitivity for shifts in rates of 100 bp at the end of each quarter is presented below.

Directional risk

global sensitivity

<i>EUR millions, end of quarter</i>	Limit	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Sensitivity	25.0	0.3	0.6	4.9	10.5

Risk of slope between two distant points on the rate curve

Sum of sensitivities

<i>EUR millions, end of quarter</i>	Limit	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Short term	10.0	-0.5	-1.6	0.3	2.0
Medium term	10.0	2.4	3.8	5.2	5.6
Long term	10.0	5.3	6.4	6.8	6.3
Very long term	10.0	-6.8	-8.0	-7.3	-3.4

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	Q3 2014	Q4 2014	Q1 2015	Q2 2015
Short term	20.0	2.3	4.2	1.0	7.6
Medium term	20.0	5.1	6.3	7.8	13.4
Long term	20.0	5.1	4.7	4.1	8.9
Very long term	20.0	6.8	8.0	7.3	7.6

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 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 2015, need for liquidity is recognized for the next 180 days as presented below. The movements observed correspond to cash flows from amortization of *obligations foncières*, cash collateral, non privileged liabilities and assets. Need for liquidity is recognized from September 15, 2015 with a EUR1.2 billion maximum amount. To meet this liquidity need, Caisse Française de Financement Local could issue new *obligations foncières* or RCB, make use of funds granted by SFIL, or pledge assets with the central bank.

