

**Report on asset quality
as of December 31, 2014**
Caisse Française de Financement Local
(Instruction n° 2011-I-07 of June 15, 2011)

The report on cover pool quality, compliant with Instruction No. 2011-I-07, June 15, 2011, aims at presenting all of the assets comprising the cover pool of Caisse Française de Financement Local.

As of December 31, 2014, Caisse Française de Financement Local's cover pool is made of EUR 48.2 billion of loans, EUR 10.2 billion of bonds and EUR 3.9 billion of replacement assets, that correspond to the following exposures :

EUR thousands, as of 12/31/2014	Amount	Assets temporarily removed from the cover pool	TOTAL
Exposures on public sector	58,418,815		58,418,815
Asset-backed securities	-		-
Replacement assets	3,926,111		3,926,111
TOTAL	62,344,926	-	62,344,926

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 over-collateralization level, 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 December 31, 2014

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 (1)	Of which specific impairment (1)
	Loans	Bonds	Loans	Bonds				
France								
State (2)		1,549,944	172,101		1,722,045	257	257	313
Banque de France (3)	518,993				518,993			
Regions	1,634,400	114,095	282,219		2,030,714	777	20	80
Departments	6,125,817		273,625		6,399,442	6,162	3,980	7
Municipalities	15,360,804	99,722	648,909		16,109,435	219,255	55,692	26,453
Groups of municipalities (4)	9,056,980	101,976	211,636		9,370,592	114,301	41,203	9,612
Public sector entities :								
- health	6,102,433				6,102,433	112,003	2,940	1,118
- social housing	1,667,065				1,667,065		4	
- others	925,468		5,551		931,019	495	64	23
Sub total	41,391,960	1,865,737	1,594,041	-	44,851,738	453,250	104,160	37,606
Germany								
Länder		511,094		342,500	853,594			3,906
Sub total	-	511,094	-	342,500	853,594	-	-	3,906
Austria								
Länder	196,776				196,776			
Sub total	196,776	-	-	-	196,776	-	-	-
Belgium								
Regions	36,573		50,071		86,644			
Communities		50,000			50,000			
Public sector entities	69,494				69,494			
Sub total	106,067	50,000	50,071	-	206,138	-	-	-
Canada								
Provinces		22,371			22,371			
Municipalities	192,166				192,166			
Public sector entities	128,677				128,677			
Sub total	320,843	22,371	-	-	343,214	-	-	-
Spain								
Municipalities	253,534				253,534			
Regions		231,797			231,797			556
Sub total	253,534	231,797	-	-	485,331	-	-	556
United States								
Federated States		252,943			252,943			
Sub total	-	252,943	-	-	252,943	-	-	-
Finland								
Municipalities	1,550				1,550			
Public sector entities	41,160				41,160			
Sub total	42,710	-	-	-	42,710	-	-	-

EUR thousands	Direct Exposure		Indirect Exposure		Global	Of which non performing loans	Of which past due (1)	Of which specific impairment (1)
	Loans	Bonds	Loans	Bonds				
Italy								
State		575,629			575,629			40,641
Regions		2,966,865			2,966,865			
Provinces		653,436			653,436			
Municipalities	10,749	2,211,882			2,222,631			
Sub total	10,749	6,407,812	-	-	6,418,561	-	-	40,641
Japon								
Municipalities		25,000			25,000			
Sub total	-	25,000	-	-	25,000	-	-	-
Portugal								
Municipalities	51,177				51,177		102	
Public sector entities	7,305				7,305			
Sub total	58,482	-	-	-	58,482	-	102	-
United Kingdom								
State				481,062	481,062			
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	481,062	2,331,062	-	-	-
Sweden								
Municipalities	22,898		11,258		34,156			
Sub total	22,898	-	11,258	-	34,156	-	-	-
Switzerland								
Cantons	950,947		472,771		1,423,718			
Municipalities	765,493				765,493		72	
Public sector entities	90,525				90,525			
Sub total	1,806,965	-	472,771	-	2,279,736	-	72	-
Supranational								
International organizations	39,374				39,374			
Sub total	39,374	-	-	-	39,374			
TOTAL	44,250,358	9,366,754	3,978,141	823,562	58,418,815	453,250	104,334	82,709

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

- specific impairment on non performing loans : EUR 37,550 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 45,160 thousand

(2) Of which EUR 64,006 thousand on operations linked to partnership agreement (PPP)

(3) Caisse Française de Financement Local's Banque de France account as of December 31, 2014

(4) Of which EUR 24,970 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 12/31/2014

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	2,794	2,435,865	648,695	-	-	-	3,084,560
1	3,077	49,263	41,895	1,134,952	331,788	-	1,557,897
2	3,108	52,050	29,618	79,814	2,955,535	-	3,117,016
3	3,934	55,791	57,227	90,991	1,001,579	-	1,205,587
4	3,609	66,265	45,723	99,905	1,066,754	-	1,278,647
5	3,455	65,482	48,050	107,283	1,644,081	-	1,864,897
6	2,761	43,975	34,703	109,100	767,127	1,015,309	1,970,213
7	2,647	60,353	35,629	85,753	768,115	811,953	1,761,803
8	2,665	47,748	36,533	79,079	708,821	1,202,286	2,074,466
9	2,218	50,789	34,190	87,767	747,115	1,070,380	1,990,241
10	2,304	52,674	57,419	69,006	725,314	1,383,336	2,287,750
11	3,950	54,087	35,776	93,915	790,626	2,131,048	3,105,452
12	2,169	39,064	39,561	93,552	744,814	2,057,174	2,974,164
13	2,087	58,926	32,164	79,231	764,804	2,301,406	3,236,531
14	2,344	62,064	47,384	128,727	991,614	2,719,098	3,948,886
15	1,594	27,709	27,409	88,166	598,684	1,849,784	2,591,752
16	1,605	24,354	16,944	32,282	315,928	1,376,348	1,765,857
17	843	13,781	15,646	34,355	270,941	1,148,660	1,483,383
18	928	20,397	15,246	46,466	344,908	1,533,883	1,960,900
19	822	13,464	16,828	35,549	278,689	1,339,208	1,683,738
20	768	12,604	16,646	29,154	259,041	2,369,014	2,686,458
21	689	10,538	9,810	24,879	191,411	1,592,198	1,828,836
22	636	14,109	12,149	24,297	221,402	2,092,699	2,364,657
23	551	10,607	9,710	27,747	205,013	1,313,192	1,566,269
24	491	10,634	6,071	30,767	199,512	1,358,197	1,605,181
25	299	8,594	6,059	13,670	122,863	793,719	944,905
26	165	3,242	3,104	8,797	64,444	423,844	503,432
27	95	4,020	1,834	6,186	50,316	354,129	416,485
28	81	1,229	1,329	4,380	29,652	241,647	278,236
29	71	2,558	894	717	17,045	96,360	117,574
30	49	554	441	1,365	10,381	98,751	111,491
31	51	483	588	1,055	10,507	119,200	131,833
32	54	428	961	1,013	10,119	107,429	119,951
33	40	560	613	1,588	12,373	789,224	804,358
34	34	1,348	207	1,145	12,069	214,008	228,777
35	15	195	144	692	4,343	52,610	57,984
36	3	85	85	170	1,367	11,032	12,739
37	7	103	511	181	3,201	29,303	33,299
38	28	132	38	193	1,533	23,282	25,178
39	17	524	23	265	3,603	71,595	76,009
40	17	197	464	914	6,954	102,821	111,350
41	28	168	167	544	3,559	45,934	50,371
42	19	77	126	67	1,257	24,327	25,854
43	10	122	38	270	1,844	26,946	29,219
44	8	198	68	206	2,002	33,650	36,124
45	2	95	75	170	1,374	16,761	18,475
46	1	38	-	38	335	9,314	9,725
47	1	25	-	26	225	6,582	6,859
Total	53,144	3,377,567	1,388,796	2,756,386	17,264,979	34,357,639	59,145,367
TRANSLATION ADJUSTMENTS							- 726,552
GLOBAL							58,418,815

(1) Numbers of loans and bonds arrived at maturity during the period

The first period includes the balance of Banque de France account.

2.4 EARLY REPAYMENTS

EUR thousands, as of 12/31/2014

State	Early repayments during the year	Rate of early repayments
France		
Departments	51	0.00%
Municipalities	15,900	0.10%
Group of municipalities	16,373	0.17%
Public sector entities :		
- health	8,930	0.15%
- social housing	5,797	0.34%
- others	875	0.09%
Sub total	47,926	0.11%
Italy		
Provinces	19,776	2.53%
Municipalities	4,247	0.19%
Sub total	24,023	0.36%
GLOBAL exposures on public sector	71,949	0.12%

The annual rate of early repayments corresponds to the volume of early repayments occurred during 2014 divided by the average of daily outstanding amount.

As a reminder, the rate of early repayments in 2013 was 0.27% for a total amount of repayments of EUR 126 millions. Repayments by quarter are shown below:

	<u>2013</u>	<u>2014</u>
1Q :	31	14
2Q :	26	21
3Q :	10	14
4Q :	59	23
	<hr/> 126	<hr/> 72

3. ASSET-BACKED SECURITIES AND SIMILAR STRUCTURES

3.1 BREAKDOWN BY COUNTERPART

As of December 31, 2014, Caisse Française de Financement Local does 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 12/31/2014	Amount
Replacement assets	3,926,111
TOTAL	3,926,111

Replacement assets	Amount in EUR thousands
Step 1 credit rating	
Loans Société de Financement Local	3,912,440
Step 2 credit rating	
Bank account's balances	13,671
Other assets	-
TOTAL	3,926,111
PREMIUMS AND DISCOUNTS	-
GLOBAL	3,926,111

4.2 RATINGS

As of December 31, 2014, replacement assets were composed of loans to Société de Financement Local, which was rated AA- by Fitch, Aa2 by Moody's and AA by S&P, and bank account's balances, which rating correspond to a step 2 credit rating.

4.3 BREAKDOWN BY MATURITY DATE

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	13,671	-	-	-	-	13,671
13	1	155,496	62,569	146,310	1,123,150	1,273,910	2,761,435
21	1	30,866	29,808	10,781	286,787	792,763	1,151,005
Total	3	200,033	92,377	157,091	1,409,937	2,066,673	3,926,111
PREMIUMS AND DISCOUNTS							-
GLOBAL							3,926,111

(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 were no early repayments on the replacement assets in 2014.

5. MANAGEMENT OF THE INTEREST RATE RISK

The policy implemented by Caisse Française de financement Local consists in systematically hedging any asset or liability against floating rate in order to protect its balance sheet against the interest rate risk from inception until maturity.

The management of the interest rate risk involves two steps.

- at a first level, all the assets and the liabilities benefiting from the privilege which do not naturally have a floating rate are hedged against Euribor until their maturity as soon as they are recorded on the balance sheet. In practice, acquisitions of loan portfolios (which generally have a low individual value) are macro-hedged while loans granted individually or bond issues are micro-hedged. The hedge is realized most of the time by the conclusion of interest rate swaps, but the same effect can be also obtained, when it is possible, by the termination of swaps that were hedging liabilities.
- at a second level, lending and borrowing flows in Euribor (naturally or after first step hedge) are swapped against Eonia over a sliding period of two years in order to protect income from the basis risk generated by differences in Euribor index periods (1, 3, 6 or 12 months) and from the fixing risk due to differences in refixing dates of reference indexes in the assets and the liabilities.

In addition, any debt contracted with its shareholder to finance over-collateralization is directly borrowed either with a monetary index, and does not have to be swapped, or with a Euribor index and are fully part of the management of Euribor macro-hedging . If such is the case, debt vis-à-vis the Banque de France, which is short-term and at a fixed rate, is not hedged, but finances assets that also have a fixed rate.

The sensibility of the residual positions which remain after the first and the second level of hedging is monitored within strict limits which guarantee, with a 99 % probability, a maximal loss in one year lower than EUR 80 million in case of stress on interest rate curve of 200 bp (basis points).

The measures of sensibility at the end of quarters for a change of 100 bp in interest rates are presented below:

Directional risk

global sensitivity

<i>EUR millions, end of quarter</i>	Limit	1Q	2Q	3Q	4Q
Sensitivity	25.0	-2.0	-2.0	0.3	0.6

Risk of slope between two distant points on the rate curve

Sum of sensitivities

<i>EUR millions, end of quarter</i>	Limit	1Q	2Q	3Q	4Q
Short term	10.0	0.6	-2.6	-0.5	-1.6
Medium term	10.0	0.5	2.6	2.4	3.8
Long term	10.0	6.0	4.7	5.3	6.4
Very long term	10.0	-9.1	-6.7	-6.8	-8.0

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	1Q	2Q	3Q	4Q
Short term	20.0	3.9	5.2	2.3	4.2
Medium term	20.0	5.7	9.5	5.1	6.3
Long term	20.0	5.3	4.8	5.1	4.7
Very long term	20.0	9.1	6.7	6.8	8.0

Evolution of the interest rate risk policy in 2014 :

The possibility of hedging an acquisition of loan portfolio by unwinding swaps that were hedging liabilities and that have the adequate profile rather than entering into new swaps constitutes an evolution of the hedging policy. It was applied for the first time for the acquisitions of loans of the 2nd half of 2014. Leaning the new assets on liabilities, already registered on the balance sheet and up to there hedged by means of derivatives, allows to protect the balance sheet from the interest rate risk while limiting the use of derivatives which statutory and accounting cost significantly increased these last years.

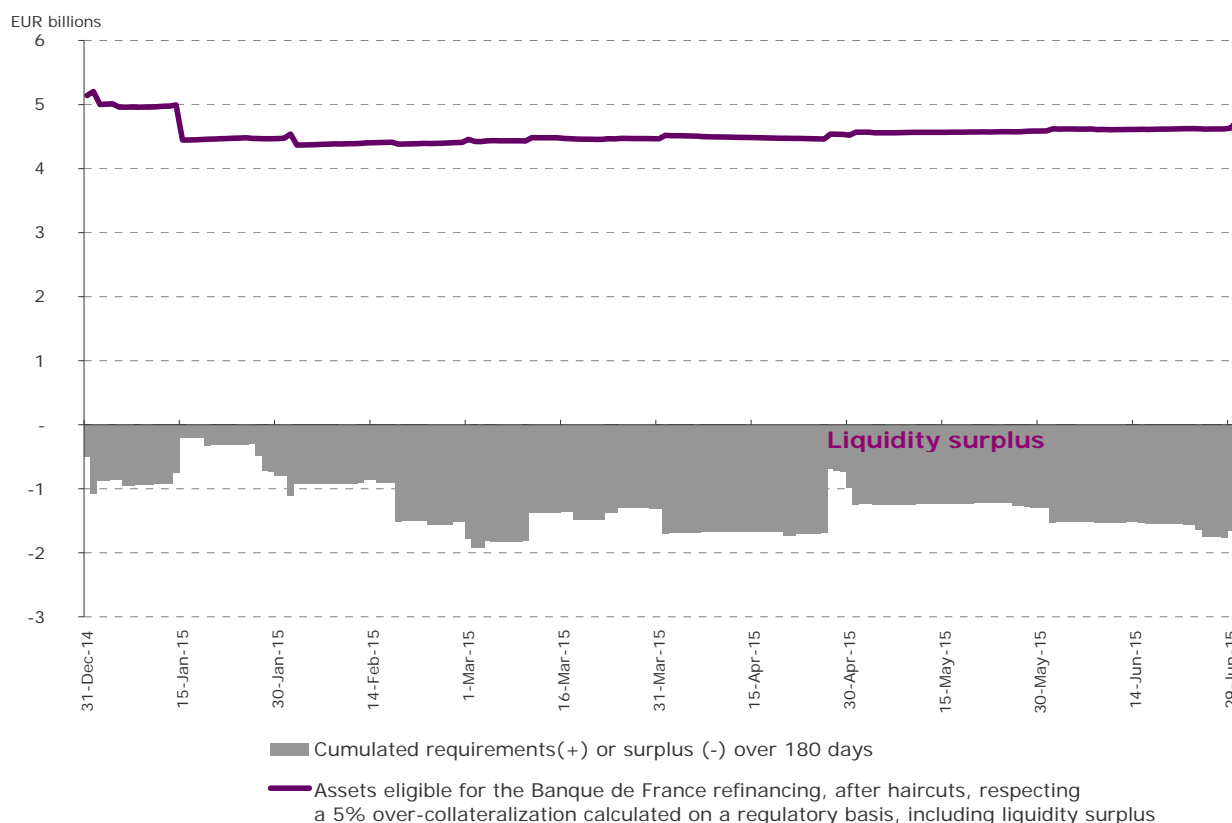
Evolution of the monitoring set in 2014:

Without modifying the risk appetite of the company, the follow-up of the risks was strengthened this year with, as a supplement to the monitoring of the directional risk which already existed, the implementation of a set of additional limits dedicated to the monitoring of the risk of slope for four buckets of maturity (short term, medium term, long term, very long term).

6. MANAGEMENT OF THE LIQUIDITY RISK

Caisse Française de Financement Local's management makes it possible to provide structural coverage for its liquidity needs up to the extinguishment of the privileged liabilities by assets eligible for refinancing by the Banque de France.

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, decreased by the amortization of assets.



At the end of December 2014, Caisse Française de Financement Local's cumulated liquidity forecast does not show any need for cash, but an excess over the whole period, as shown in the preceding graph.