



Report on asset quality
as of December 31, 2015
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 December 31, 2015, Caisse Française de Financement Local's cover pool is made of EUR 50.7 billion of loans, EUR 7.0 billion of bonds and EUR 2.3 billion of replacement assets, that correspond to the following exposures :

EUR thousands, as of 12/31/2015	Amount	Assets temporarily removed from the cover pool	TOTAL
Exposures on public sector	57,675,963		57,675,963
Asset-backed securities	-		-
Replacement assets	2,343,305		2,343,305
TOTAL	60,019,268	-	60,019,268

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, 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)			189,079		189,079	257	257	257
Banque de France (3)	2,496,267				2,496,267			
Regions	1,718,111	104,552	278,996		2,101,659	1,632	940	86
Departments	6,304,610		224,748		6,529,358	13,062	10,972	
Municipalities	15,855,201	22,664	558,473		16,436,338	362,908	63,119	41,511
Groups of municipalities (4)	10,140,697	96,049	204,395		10,441,141	143,670	48,152	4,149
Public sector entities :								
- health	6,118,787				6,118,787	136,554	9,081	5,521
- social housing	1,545,350				1,545,350		2	
- others	915,033		1,812		916,845	434	26	
Sub total	45,094,056	223,265	1,457,503	-	46,774,824	658,518	132,549	51,524
Germany								
Länder		513,020			513,020			1,980
Sub total	-	513,020	-	0	513,020	-	-	1,980
Austria								
Länder			194,245		194,245			
Sub total	-	-	194,245	-	194,245	-	-	-
Belgium								
Regions	22,437		40,710		63,147			
Communities		50,000			50,000			
Public sector entities	64,668				64,668			
Sub total	87,105	50,000	40,710	-	177,815	-	-	-
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	161,053				161,053			
Regions		104,353			104,353			
Sub total	161,053	104,353	-	-	265,406	-	-	-
United States								
Federated States		252,943			252,943			
Sub total	-	252,943	-	-	252,943	-	-	-
Finland								
Municipalities	150				150			
Sub total	150	-	-	-	150	-	-	-

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		567,862			567,862			22,373
Regions		2,131,009			2,131,009			
Provinces		610,111			610,111			
Municipalities	9,804	2,090,189			2,099,993			
Sub total	9,804	5,399,171	-	-	5,408,975	-	-	22,373
Japon								
Municipalities		25,000			25,000			
Sub total	-	25,000	-	-	25,000	-	-	-
Portugal								
Municipalities	45,300				45,300			
Public sector entities	6,445				6,445			
Sub total	51,745	-	-	-	51,745	-	-	-
United Kingdom								
State				402,831	402,831			
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	402,831	2,252,831	-	-	-
Sweden								
Municipalities	18,490		11,204		29,694			
Sub total	18,490	-	11,204	-	29,694	-	-	-
Switzerland								
Cantons	393,687		262,288		655,975			
Municipalities	614,187				614,187			
Public sector entities	90,525				90,525			
Sub total	1,098,399	-	262,288	-	1,360,687	-	-	-
Supranational								
International organizations	35,716				35,716			
Sub total	35,716	-	-	-	35,716	-	-	-
TOTAL	46,867,059	6,590,123	3,815,950	402,831	57,675,963	658,518	132,549	75,877

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

- specific impairment on non performing loans : EUR 51,524 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 24,353 thousand

(2) Of which EUR 88,064 thousand on operations linked to partnership agreement (PPP)

(3) Caisse Française de Financement Local's Banque de France account as of December 31, 2015

(4) Of which EUR 23,499 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 12/31/2015

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	2,678	2,919,716	50,576	-	-	-	2,970,292
1	3,031	52,905	29,811	2,231,442	466,542	-	2,780,700
2	3,872	56,767	56,971	91,625	789,117	-	994,480
3	3,589	66,796	45,846	99,792	823,952	-	1,036,386
4	3,442	66,911	48,857	107,267	1,527,378	-	1,750,413
5	2,757	45,840	34,704	111,516	1,032,292	233,840	1,458,192
6	2,654	62,606	37,232	86,033	788,267	644,547	1,618,685
7	2,662	50,322	37,252	80,874	759,855	892,730	1,821,033
8	2,220	50,957	37,731	89,426	767,470	866,263	1,811,847
9	2,413	54,964	50,596	70,668	719,002	1,170,848	2,066,078
10	4,042	55,291	36,441	99,451	822,797	1,486,696	2,500,676
11	2,206	40,578	41,708	94,386	767,025	1,861,014	2,804,711
12	2,152	63,312	35,652	84,751	825,235	2,184,766	3,193,716
13	2,375	63,096	48,373	134,947	1,024,160	2,445,559	3,716,135
14	2,199	53,261	54,427	120,388	936,964	2,502,741	3,667,781
15	1,948	35,047	29,413	78,698	592,690	1,946,148	2,681,996
16	846	14,135	15,920	35,618	276,052	1,070,329	1,412,054
17	939	21,813	16,995	48,899	371,784	1,498,197	1,957,688
18	830	21,937	17,452	35,846	285,874	1,261,080	1,622,189
19	1,048	26,418	28,370	46,892	442,225	2,957,424	3,501,329
20	893	15,607	14,664	51,858	342,802	2,095,004	2,519,935
21	637	14,689	12,572	34,113	268,304	2,173,048	2,502,726
22	555	14,175	11,370	31,152	239,695	1,475,059	1,771,451
23	491	11,674	6,197	33,208	212,328	1,331,513	1,594,920
24	307	10,069	7,143	14,986	134,239	800,687	967,124
25	191	5,123	4,836	19,684	122,771	706,877	859,291
26	96	3,984	1,873	9,611	65,381	405,225	486,074
27	81	1,259	1,362	6,212	37,137	259,224	305,194
28	70	550	915	745	9,598	84,084	95,892
29	49	630	454	1,742	12,130	94,977	109,933
30	51	580	1,363	1,089	14,096	134,964	152,092
31	54	441	975	1,049	10,349	104,735	117,549
32	41	675	650	1,680	13,454	789,308	805,767
33	33	1,375	286	1,640	15,106	213,151	231,558
34	15	241	147	751	4,838	50,977	56,954
35	3	85	85	171	1,368	10,689	12,398
36	7	103	512	181	3,211	28,496	32,503
37	28	134	40	197	1,568	22,876	24,815
38	17	548	23	274	3,756	70,596	75,197
39	17	204	485	942	7,254	100,891	109,776
40	28	170	168	559	3,557	45,039	49,493
41	19	80	139	68	1,348	23,950	25,585
42	10	125	38	280	1,891	26,454	28,788
43	8	235	98	270	2,530	32,519	35,652
44	2	95	75	171	1,381	16,413	18,135
45	1	39	-	40	349	9,222	9,650
46	1	26	-	27	235	6,520	6,808
Total	51,608	3,905,588	820,797	3,961,219	15,549,357	34,134,680	58,371,641
TRANSLATION ADJUSTMENTS							- 695,678
GLOBAL							57,675,963

(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 12/31/2015

State	Early repayments during the year	Rate of early repayments
France		
Departments	5,999	0.09%
Municipalities	24,524	0.15%
Group of municipalities	11,992	0.12%
Public sector entities :		
- health	1,053	0.02%
- social housing	2,591	0.16%
- others	1,860	0.20%
Sub total	48,019	0.11%
Finland		
Public sector entities :		
- others	41,160	N/A
Sub total	41,160	N/A
Spain		
Municipalities	78,113	31.29%
Sous Total	78,113	17.4%
Italy		
Regions	621,159	21.22%
Sous Total	621,159	21.15%
GLOBAL exposures on public sector	788,451	1.40%

The annual rate of early repayments corresponds to the volume of early repayments occurred during 2015 divided by the average outstanding amount for the period (equal to the average amount of daily outstandings). The early repayments rate is affected by tender offers sponsored by the Italian regions on December 2015, to which Caisse de Financement Local brought part of its bonds. Without taking into account this event, the rate of early repayments would be 0.30%.

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 December 31, 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 12/31/2015	Amount
Replacement assets	2,343,305
TOTAL	2,343,305

Replacement assets	Amount in EUR thousands
Step 1 credit rating	
Loan to SFIL	2,339,430
Step 2 credit rating	
Bank account's balances	3,875
Other assets	-
TOTAL	2,343,305
PREMIUMS AND DISCOUNTS	-
GLOBAL	2,343,305

4.2 RATINGS

As of December 31, 2015, replacement assets were composed of a loan to SFIL, which was rated AA- by Fitch, Aa3 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 12/31/2015

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	3,875	-	-	-	-	3,875
12	1	60,206	59,845	136,688	1,035,121	1,047,570	2,339,430
Total	2	64,081	59,845	136,688	1,035,121	1,047,570	2,343,305
PREMIUMS AND DISCOUNTS							-
GLOBAL							2,343,305

(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

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

EUR thousands, as of 12/31/2015

State	Early repayments during the year	Rate of early repayments
Step 1 credit rating		
Loan 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 cancellation of liability swaps.
- 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.

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 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

<i>EUR millions, end of quarter</i>	Limit	1Q 2015	2Q 2015	3Q 2015	4Q 2015
Sensitivity	25.0	4.9	10.5	0.0	0.1

Risk of slope between two distant points on the rate curve

Sum of sensitivities

<i>EUR millions, end of quarter</i>	Limit	1Q 2015	2Q 2015	3Q 2015	4Q 2015
Short term	10.0	0.3	2.0	3.5	0.6
Medium term	10.0	0.0	5.6	-0.8	-0.4
Long term	10.0	6.8	6.3	-0.5	1.9
Very long term	10.0	-7.3	-3.4	-2.2	-2.0

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 2015	2Q 2015	3Q 2015	4Q 2015
Short term	20.0	1.0	7.6	5.2	6.2
Medium term	20.0	7.8	13.4	8.4	4.5
Long term	20.0	4.1	8.9	4.9	3.7
Very long term	20.0	7.3	7.6	3.8	3.8

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 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 2015, the liquidity situation for the next 180 days showed a surplus. The movements observed correspond to cash flows from amortization of *obligations foncières*, cash collateral, non privileged liabilities and assets.

