



Report on asset quality
as of March 31, 2016
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, 2016, Caisse Française de Financement Local's cover pool is made of EUR 50.5 billion of loans, EUR 6.9 billion of bonds and EUR 2.2 billion of replacement assets, that correspond to the following exposures :

EUR thousands, as of 3/31/2016	Amount	Assets temporarily removed from the cover pool	TOTAL
Exposures on public sector	57,365,660		57,365,660
Asset-backed securities	-		-
Replacement assets	2,216,977		2,216,977
TOTAL	59,582,637	-	59,582,637

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, 2016.

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 past due (1)
	Loans	Bonds	Loans	Bonds		
France						
State (2)			182 301		182 301	261
Banque de France (3)	1 574 061				1 574 061	
Regions	1 691 302	100 005	276 593		2 067 900	959
Departments	6 641 154		216 326		6 857 480	10 970
Municipalities	16 193 579	22 664	535 470		16 751 713	53 120
Groups of municipalities (4)	10 316 036	95 415	196 099		10 607 550	48 686
Public sector entities :						
- health	6 222 420				6 222 420	8 432
- social housing	1 449 816				1 449 816	2
- others	955 455		1 450		956 905	140
Sub total	45 043 823	218 084	1 408 239	-	46 670 146	122 570
Germany						
Länder		513 044			513 044	
Sub total	-	513 044	-	-	513 044	-
Austria						
Länder			193 272		193 272	
Sub total	-	-	193 272	-	193 272	-
Belgium						
Regions	22 437		40 710		63 147	
Communities		50 000			50 000	
Public sector entities	61 973				61 973	
Sub total	84 410	50 000	40 710	-	175 120	-
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		249 417			249 417	
Sub total	-	249 417	-	-	249 417	-
Finland						
Municipalities	100				100	
Sub total	100	-	-	-	100	-

EUR thousands	Direct Exposure		Indirect Exposure		Global	Of which past due (1)
	Loans	Bonds	Loans	Bonds		
Country						
Italy						
State		562 181			562 181	
Regions		2 129 223			2 129 223	
Provinces		604 032			604 032	
Municipalities	9 804	2 068 597			2 078 401	
Sub total	9 804	5 364 033	-	-	5 373 837	-
Japon						
Municipalities		25 000			25 000	
Sub total	-	25 000	-	-	25 000	-
Portugal						
Municipalities	44 460				44 460	
Public sector entities	6 015				6 015	
Sub total	50 475	-	-	-	50 475	-
United Kingdom						
State				382 543	382 543	
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	382 543	2 232 543	-
Sweden						
Municipalities	18 490		6 424		24 914	
Sub total	18 490	-	6 424	-	24 914	-
Switzerland						
Cantons	293 147		236 845		529 992	
Municipalities	605 116				605 116	
Public sector entities	90 525				90 525	
Sub total	988 788	-	236 845	-	1 225 633	-
Supranational						
International organizations	33 841				33 841	
Sub total	33 841	-	-	-	33 841	
TOTAL	46 701 325	6 546 302	3 735 490	382 543	57 365 660	122 570

(1) Caisse Française de Financement Local publishes annual and semi-annual accounts. Data relating to non-performing and litigious loans, and specific impairments in this report as of March 31, 2016, correspond to the last annual report. For the record, as of December 31, 2015, non-performing and litigious loans amounted at EUR 658,518 thousand and specific impairments on loans and bonds were 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 88,361 thousand on operations linked to partnership agreement (PPP)

(3) Caisse Française de Financement Local's Banque de France account as of March 31, 2016

(4) Of which EUR 23,124 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 3/31/2016

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	1,649	1,714,357	1,905,593	-	-	-	3,619,950
1	3,179	27,660	29,569	423,269	475,188	-	955,686
2	4,003	59,241	61,122	116,884	844,257	-	1,081,504
3	3,408	46,929	50,343	113,736	680,213	-	891,221
4	3,350	48,274	46,611	120,215	1,560,478	-	1,775,578
5	2,647	33,037	34,116	118,408	923,886	155,627	1,265,074
6	2,661	38,181	39,905	113,680	810,469	616,279	1,618,514
7	2,710	37,451	37,532	93,011	763,123	963,982	1,895,099
8	2,125	37,660	35,083	100,010	740,375	731,051	1,644,179
9	3,500	54,626	46,121	106,750	845,277	1,337,867	2,390,641
10	3,168	35,418	39,388	105,405	789,071	1,427,056	2,396,338
11	2,056	41,138	45,776	96,259	769,981	1,861,065	2,814,219
12	2,432	40,326	60,799	114,992	966,072	2,406,918	3,589,107
13	2,206	45,022	54,715	127,113	941,612	2,212,304	3,380,766
14	2,445	57,946	62,071	120,541	993,416	2,680,586	3,914,560
15	1,755	30,461	34,699	89,473	626,217	1,936,432	2,717,282
16	877	15,713	23,024	37,549	322,684	1,244,897	1,643,867
17	936	15,058	12,814	44,434	314,472	1,296,441	1,683,219
18	786	19,072	16,061	40,504	329,277	1,550,175	1,955,089
19	1,242	31,131	32,381	59,819	521,472	3,123,108	3,767,911
20	819	14,532	14,642	51,693	341,322	2,033,336	2,455,525
21	640	13,096	9,867	41,113	279,610	2,243,570	2,587,256
22	547	12,971	19,760	37,658	292,029	1,717,337	2,079,755
23	433	6,488	7,279	24,706	161,712	1,032,168	1,232,353
24	322	7,865	19,448	17,856	169,486	938,035	1,152,690
25	164	5,800	6,894	14,874	113,270	622,046	762,884
26	93	1,315	4,637	8,882	63,384	408,181	486,399
27	71	1,178	1,014	2,817	20,711	153,478	179,198
28	67	897	439	1,020	9,973	81,057	93,386
29	47	312	314	1,608	9,688	85,618	97,540
30	56	1,708	997	2,379	22,935	210,121	238,140
31	53	934	1,197	834	12,693	150,593	166,251
32	44	598	1,280	1,125	14,204	833,386	850,593
33	27	347	353	1,777	10,658	89,823	102,958
34	10	75	97	429	2,555	30,897	34,053
35	2	83	83	167	1,334	9,981	11,648
36	9	512	218	195	3,727	33,036	37,688
37	34	59	57	216	1,421	22,391	24,144
38	12	29	655	831	6,764	76,718	84,997
39	16	460	189	324	4,318	94,751	100,042
40	27	168	154	519	3,318	40,471	44,630
41	22	139	100	180	2,171	35,010	37,600
42	8	64	123	294	2,037	23,935	26,453
43	7	43	95	233	1,595	27,486	29,452
44	2	75	115	191	1,556	20,949	22,886
45	1	-	27	27	239	6,488	6,781
Total	50,668	2,498,449	2,757,757	2,354,000	15,770,250	34,564,650	57,945,106
TRANSLATION ADJUSTMENTS							- 579,446
GLOBAL							57,365,660

(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 3/31/2016

State	Early repayments during the year	Rate of early repayments
France		
Departments	6,269	0.38%
Municipalities	3,544	0.09%
Group of municipalities	3,504	0.13%
Public sector entities :		
- health	215	0.01%
- social housing	56,987	15.61%
- others	8,624	3.69%
Sub total	79,143	0.71%
GLOBAL exposures on public sector	79,143	0.58%

The annual rate of early repayments corresponds to the volume of early repayments occurred during 2016 divided by the average outstanding amount for the period (equal to the average amount of daily outstandings).

The rate of early repayments in 2015 was 1.40% for a total amount of repayments of EUR 788 million. As a reminder, the early repayments rate was 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 have been 0.30%.

3. ASSET-BACKED SECURITIES AND SIMILAR STRUCTURES

3.1 BREAKDOWN BY COUNTERPART

As of March 31, 2016, 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 3/31/2016	Amount
Replacement assets	2,216,977
TOTAL	2,216,977

Replacement assets	Amount in EUR thousands
Step 1 credit rating	
Loan to SFIL	2,212,960
Step 2 credit rating	
Bank account's balances	4,017
Other assets	-
TOTAL	2,216,977
PREMIUMS AND DISCOUNTS	-
GLOBAL	2,216,977

4.2 RATINGS

As of March 31, 2016, 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 3/31/2016

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	4,017	-	-	-	-	4,017
12	1	85,815	80,156	159,795	975,433	911,761	2,212,960
Total	2	89,832	80,156	159,795	975,433	911,761	2,216,977
PREMIUMS AND DISCOUNTS							-
GLOBAL							2,216,977

(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 no early repayment among the replacement assets in 2016.

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 the tenor (Euribor 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 (if any) 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	2Q 2015	3Q 2015	4Q 2015	1Q 2016
Sensitivity	25.0	10.5	0.0	0.1	0.6

Risk of slope between two distant points on the rate curve

Sum of sensitivities

<i>EUR millions, end of quarter</i>	Limit	2Q 2015	3Q 2015	4Q 2015	1Q 2016
Short term	10.0	2.0	3.5	0.6	0.0
Medium term	10.0	5.6	-0.8	-0.4	1.0
Long term	10.0	6.3	-0.5	1.9	-0.7
Very long term	10.0	-3.4	-2.2	-2.0	0.3

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	2Q 2015	3Q 2015	4Q 2015	1Q 2016
Short term	20.0	7.6	5.2	6.2	4.8
Medium term	20.0	13.4	8.4	4.5	10.7
Long term	20.0	8.9	4.9	3.7	5.8
Very long term	20.0	7.6	3.8	3.8	6.5

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 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 2016, 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.

