



**Report on asset quality**  
as of June 30, 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 June 30, 2016, Caisse Française de Financement Local's cover pool is made of EUR 51.4 billion of loans, EUR 6.8 billion of bonds and EUR 2.7 billion of replacement assets, that correspond to the following exposures :

EUR thousands, as of 6/30/2016	Amount	Assets temporarily removed from the cover pool	TOTAL
Exposures on public sector	58,215,341		58,215,341
Asset-backed securities	-		-
Replacement assets	2,737,673		2,737,673
<b>TOTAL</b>	<b>60,953,014</b>	-	<b>60,953,014</b>

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, 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 non-performing loans	Of which past due	Of which specific impairment (1)
	Loans	Bonds	Loans	Bonds				
<b>France</b>								
State (2)			184,822		184,822	257	257	257
Banque de France (3)	2,209,528				2,209,528			
Regions	1,676,160	95,006	274,936		2,046,102	2,752	2,094	91
Departments	6,888,200		212,018		7,100,218	12,138	11,968	
Municipalities	16,278,790	22,664	515,823		16,817,277	351,830	44,130	28,218
Groups of municipalities (4)	10,383,419	95,415	187,467		10,666,301	73,039	38,804	1,377
Public sector entities :								
- health	6,246,511				6,246,511	156,387	8,476	4,909
- social housing	1,424,499				1,424,499		50	
- others	958,266	24,804	1,449		984,519	426	12	196
<b>Sub total</b>	<b>46,065,373</b>	<b>237,889</b>	<b>1,376,515</b>	<b>-</b>	<b>47,679,777</b>	<b>596,829</b>	<b>105,791</b>	<b>35,048</b>
<b>Germany</b>								
Länder		512,641			512,641			2,359
<b>Sub total</b>	<b>-</b>	<b>512,641</b>	<b>-</b>	<b>-</b>	<b>512,641</b>	<b>-</b>	<b>-</b>	<b>2,359</b>
<b>Austria</b>								
Länder			192,939		192,939			
<b>Sub total</b>	<b>-</b>	<b>-</b>	<b>192,939</b>	<b>-</b>	<b>192,939</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Belgium</b>								
Regions	13,298		40,710		54,008			
Communities		50,000			50,000			
Public sector entities	60,247				60,247			
<b>Sub total</b>	<b>73,545</b>	<b>50,000</b>	<b>40,710</b>	<b>-</b>	<b>164,255</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Canada</b>								
Provinces		22,371			22,371			
Municipalities	171,554				171,554			
Public sector entities	128,676				128,676			
<b>Sub total</b>	<b>300,230</b>	<b>22,371</b>	<b>-</b>	<b>-</b>	<b>322,601</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Spain</b>								
Municipalities	156,718				156,718			
Regions		104,353			104,353			
<b>Sub total</b>	<b>156,718</b>	<b>104,353</b>	<b>-</b>	<b>-</b>	<b>261,071</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>United States</b>								
Federated States		251,457			251,457			1,486
<b>Sub total</b>	<b>-</b>	<b>251,457</b>	<b>-</b>	<b>-</b>	<b>251,457</b>	<b>-</b>	<b>-</b>	<b>1,486</b>
<b>Finland</b>								
Municipalities	100				100			
<b>Sub total</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>100</b>	<b>-</b>	<b>-</b>	<b>-</b>

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				
<b>Italy</b>								
State		556,342			556,342			33,893
Regions		2,087,739			2,087,739			
Provinces		588,104			588,104			
Municipalities	9,319	2,034,064			2,043,383			
<b>Sub total</b>	<b>9,319</b>	<b>5,266,249</b>	<b>-</b>	<b>-</b>	<b>5,275,568</b>	<b>-</b>	<b>-</b>	<b>33,893</b>
<b>Japon</b>								
Municipalities		25,000			25,000			
<b>Sub total</b>	<b>-</b>	<b>25,000</b>	<b>-</b>	<b>-</b>	<b>25,000</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Portugal</b>								
Municipalities	42,371				42,371			
Public sector entities	6,015				6,015			
<b>Sub total</b>	<b>48,386</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,386</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>United Kingdom</b>								
State				361,952	361,952			
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			
<b>Sub total</b>	<b>-</b>	<b>-</b>	<b>1,850,000</b>	<b>361,952</b>	<b>2,211,952</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Sweden</b>								
Municipalities	18,490		6,424		24,914			
<b>Sub total</b>	<b>18,490</b>	<b>-</b>	<b>6,424</b>	<b>-</b>	<b>24,914</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Switzerland</b>								
Cantons	293,147		236,845		529,992			
Municipalities	590,323				590,323			
Public sector entities	90,525				90,525			
<b>Sub total</b>	<b>973,995</b>	<b>-</b>	<b>236,845</b>	<b>-</b>	<b>1,210,840</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Supranational</b>								
International organizations	33,840				33,840			
<b>Sub total</b>	<b>33,840</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>33,840</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL</b>	<b>47,679,996</b>	<b>6,469,960</b>	<b>3,703,433</b>	<b>361,952</b>	<b>58,215,341</b>	<b>596,829</b>	<b>105,791</b>	<b>72,786</b>

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

- specific impairment on non performing loans : EUR 34,852 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 37,934 thousand

(2) Of which EUR 90,886 thousand on operations linked to partnership agreement (PPP)

(3) Caisse Française de Financement Local's Banque de France account as of June 30, 2016

(4) Of which EUR 22,743 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 6/30/2016

Maturity date in years	Residual maturity		Term to maturity				TOTAL
	Number of deals <sup>(1)</sup>	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	
0	2,678	4,193,000	296,025	41	-	-	4,489,066
1	3,031	30,164	44,786	492,783	356,275	-	924,008
2	3,872	61,630	46,951	121,181	750,437	-	980,199
3	3,589	51,465	49,477	121,498	1,165,068	-	1,387,508
4	3,442	44,300	72,235	111,457	1,074,371	-	1,302,363
5	2,757	36,476	49,555	89,334	888,083	115,988	1,179,436
6	2,654	36,891	36,962	96,803	722,704	608,774	1,502,134
7	2,662	41,139	47,097	98,491	875,774	1,015,228	2,077,729
8	2,220	33,406	39,848	88,209	684,049	815,419	1,660,931
9	2,413	47,690	55,490	119,291	919,649	1,337,505	2,479,625
10	4,042	41,948	59,084	96,463	849,870	1,785,134	2,832,499
11	2,206	40,719	36,081	73,542	636,332	1,570,938	2,357,612
12	2,152	65,966	68,515	125,420	1,132,899	2,467,912	3,860,712
13	2,375	55,490	58,124	107,618	916,685	2,204,817	3,342,734
14	2,199	62,304	52,472	113,746	946,568	2,695,190	3,870,280
15	1,948	30,866	33,816	80,467	588,917	1,658,608	2,392,674
16	846	25,544	29,329	36,145	387,756	1,524,288	2,003,062
17	939	13,165	24,626	38,199	326,668	1,362,914	1,765,572
18	830	16,352	22,441	36,776	333,399	2,080,260	2,489,228
19	1,048	32,392	37,571	62,631	557,887	3,055,513	3,745,994
20	893	14,086	30,120	39,691	357,965	2,257,108	2,698,970
21	637	11,474	20,841	31,647	270,561	1,642,478	1,977,001
22	555	19,888	15,943	31,458	279,333	1,687,113	2,033,735
23	491	6,942	6,979	16,300	128,600	786,464	945,285
24	307	26,417	9,704	20,454	199,906	1,019,999	1,276,480
25	191	5,792	8,444	10,907	106,003	627,450	758,596
26	96	4,506	1,391	4,843	44,506	282,212	337,458
27	81	942	1,203	2,159	18,345	142,934	165,583
28	70	377	809	1,599	10,971	84,847	98,603
29	49	402	750	1,194	10,110	97,971	110,427
30	51	948	940	3,398	22,381	175,389	203,056
31	54	1,131	372	1,270	12,236	149,196	164,205
32	41	1,310	408	1,551	15,589	841,885	860,743
33	33	360	394	1,565	9,467	81,330	93,116
34	15	124	66	195	2,234	19,616	22,235
35	3	84	84	168	1,340	10,050	11,726
36	7	190	68	562	3,310	29,664	33,794
37	28	57	281	220	2,413	31,461	34,432
38	17	680	51	657	6,166	70,384	77,938
39	17	166	316	622	4,762	102,255	108,121
40	28	167	165	368	2,851	31,694	35,245
41	19	92	129	429	2,580	34,778	38,008
42	10	115	68	173	1,486	22,620	24,462
43	8	95	43	221	1,541	25,639	27,539
44	2	115	75	191	1,556	20,873	22,810
45	1	27	-	27	239	6,488	6,781
<b>Total</b>	<b>51,607</b>	<b>5,057,394</b>	<b>1,260,129</b>	<b>2,281,964</b>	<b>15,629,842</b>	<b>34,580,386</b>	<b>58,809,715</b>
TRANSLATION ADJUSTMENTS							- 594,374
<b>GLOBAL</b>							<b>58,215,341</b>

(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 6/30/2016

State	Early repayments during the year	Rate of early repayments
<b>France</b>		
Departments	6,284	0.20%
Municipalities	5,256	0.06%
Group of municipalities	4,231	0.09%
Public sector entities :		
- health	18,153	0.59%
- social housing	57,684	7.22%
- others	8,638	1.90%
<b>Sub total</b>	<b>100,246</b>	<b>0.46%</b>
<b>GLOBAL exposures on public sector</b>	<b>100,246</b>	<b>0.37%</b>

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 June 30, 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 6/30/2016	Amount
Replacement assets	2,737,673
<b>TOTAL</b>	<b>2,737,673</b>

Replacement assets	Amount in EUR thousands
<b>Step 1 credit rating</b>	
Loan to SFIL	2,128,764
<b>Step 2 credit rating</b>	
Bank account's balances	8,909
Bank bonds	600,000
<b>Other assets</b>	-
<b>TOTAL</b>	<b>2,737,673</b>
PREMIUMS AND DISCOUNTS	-
<b>GLOBAL</b>	<b>2,737,673</b>

### 4.2 RATINGS

As of June 30, 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, bank bonds and bank account's balances, whose ratings correspond to a step 2 credit rating.

### 4.3 BREAKDOWN BY MATURITY DATE

EUR thousands, as of 6/30/2016

Residual maturity		Term to maturity					TOTAL
Maturity date in years	Number of deals <sup>(1)</sup>	Less than 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	More than 5 years	
0	5	2,737,673	-	-	-	-	2,737,673
<b>Total</b>	<b>5</b>	<b>2,737,673</b>	-	-	-	-	<b>2,737,673</b>
PREMIUMS AND DISCOUNTS							-
<b>GLOBAL</b>							<b>2,737,673</b>

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

The maturity of each replacement asset is under 3 months. Indeed, balances of bank current accounts are presented as a unique matured deal. Moreover, the early repayment of the loan to SFIL has been notified and will occur on the third quarter of 2016.

### 4.4 EARLY REPAYMENTS

There was no early repayment among the replacement assets during the first half of 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	3Q 2015	4Q 2015	1Q 2016	2Q 2016
<b>Sensitivity</b>	<b>25.0</b>	<b>0.0</b>	<b>0.1</b>	<b>0.6</b>	<b>-3.7</b>

**Risk of slope between two distant points on the rate curve**

Sum of sensitivities

<i>EUR millions, end of quarter</i>	Limit	3Q 2015	4Q 2015	1Q 2016	2Q 2016
<b>Short term</b>	<b>10.0</b>	<b>3.5</b>	<b>0.6</b>	<b>0.0</b>	<b>-1.5</b>
<b>Medium term</b>	<b>10.0</b>	<b>-0.8</b>	<b>-0.4</b>	<b>1.0</b>	<b>-1.8</b>
<b>Long term</b>	<b>10.0</b>	<b>-0.5</b>	<b>1.9</b>	<b>-0.7</b>	<b>-0.5</b>
<b>Very long term</b>	<b>10.0</b>	<b>-2.2</b>	<b>-2.0</b>	<b>0.3</b>	<b>0.1</b>

**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	3Q 2015	4Q 2015	1Q 2016	2Q 2016
<b>Short term</b>	<b>20.0</b>	<b>5.2</b>	<b>6.2</b>	<b>4.8</b>	<b>4.5</b>
<b>Medium term</b>	<b>20.0</b>	<b>8.4</b>	<b>4.5</b>	<b>10.7</b>	<b>14.5</b>
<b>Long term</b>	<b>20.0</b>	<b>4.9</b>	<b>3.7</b>	<b>5.8</b>	<b>10.7</b>
<b>Very long term</b>	<b>20.0</b>	<b>3.8</b>	<b>3.8</b>	<b>6.5</b>	<b>6.4</b>

## 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 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.

