



# Annual report 2009

Reference Document



COMPAGNIE DE  
FINANCEMENT  
FONCIER

CREDIT FONCIER GROUP

## Volume 1

# Activity report 2009 of Compagnie de Financement Foncier

### Overview

A transparent and secure legal framework  
in favor of investors

A strong business model and a rigorous risk management

High-quality and diversified assets

A top-tier AAA/Aaa/AAA rated  
obligations foncières program

## Volume 2

# Financial report

Management report

Financial statements

Statement from the person who assumes responsibility  
for the reference document

## Volume 3

# Risk management report, Chairman's report & Legal information

Risk management report

Chairman's report on the conditions under which the Board prepares  
and organises the internal control procedures established by the Company  
(Pursuant to the provisions of Articles 117 and 120 of the Law on Financial Security)

Legal information

The Compagnie de Financement Foncier 2009 Reference  
Document comprises three separate volumes:

- VOLUME 1** Activity report
- VOLUME 2** Financial report
- VOLUME 3** Risk management report, Chairman's report  
& Legal information

This is a free translation into English of Compagnie de Financement Foncier 2009 Annual Report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails.

The original document was filed with the *Autorité des marchés financiers* (French Financial Market's Authority) on April 1st, 2010, in accordance with Article 212-13 of its general regulation and represents the French "Document de Référence" of the Compagnie de Financement Foncier. As such, it may be used in support of a financial transaction when accompanied by a prospectus duly approved by the AMF.



AUTORITÉ  
DES MARCHÉS FINANCIERS

# Volume 1

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# Profile of Compagnie de Financement Foncier

Compagnie de Financement Foncier (AAA/Aaa/AAA) is a credit institution that was licensed by the French Credit Institutions and Investment Firms Committee (CECEI - Comité des Établissements de Crédit et des Entreprises d'Investissement) on July 23, 1999, as a finance company and a *société de crédit foncier* (a specific type of company authorized to issue French legal covered bonds).

A fully-owned subsidiary of Crédit Foncier (A/Aa3/A+) and an affiliate of BPCE (A+/Aa3/A+), the company's sole business is to finance the housing and public-sector lending activities of its parent company, of the Groupe BPCE and of other credit institutions.

Firmly underpinned by its parent Crédit Foncier, which has been issuing French *obligations foncières* since 1852, Compagnie de Financement Foncier continued to be a major force in its market in 2009.

The Compagnie's excellent credit rating, its dynamic business model and the expertise of its staff enabled it to issue €15.8 billion of *obligations foncières* (French legal covered bonds) in 2009, thus confirming its position, in a particularly challenging environment, as one of the world's leading issuers of covered bonds.

# Message from the Chairman and Chief Executive Officer



**Thierry DUFOUR**  
Chairman and Chief Executive Officer

2009 saw the 10<sup>th</sup> anniversary of both Compagnie de Financement and *obligations foncières*, also known as French legal covered bonds.

Thanks to its ability to respond and adapt to an uncertain economic and financial environment, the Compagnie de Financement Foncier once again demonstrated the robustness, effectiveness and flexibility of its business model.

By capitalizing on the expertise and know-how of the staff, the continuously monitored asset selection process ensures that holders of our bonds continue to enjoy the highest level of investment security.

The transparency and sustainability of its highly-regulated business model and its rigorous risk management have won the confidence of many institutional investors, who appreciate the exceptionally high quality of Compagnie de Financement Foncier's credit standing. In 2009, it showed that it was once again able to adapt to their needs, by proposing new structures, currencies and formats.

With its emblematic image in the financial markets and the exceptional security of *obligations foncières*, €15.8 billion of *obligations foncières* have been issued in 2009, which places it in this year among the best issuers since its creation.

In light of the recent liquidity crisis, credit-rating agencies have revised their rating methodologies for *obligations foncières* programs, to establish a stronger link between issuers and their parent company. This has highlighted Compagnie de Financement Foncier's strengths, which include a very small funding gap and a substantial €33 billion liquidity reserve available from the ECB.

In 2010, Compagnie de Financement Foncier will keep on consolidating its position as a leading lender to the residential and public sector, in both France and abroad. Its credit standing can only be strengthened as it meets the substantial commitments it has made to the investors and sustain the exceptional credit rating of AAA/Aaa/AAA, which was once again re-affirmed at the beginning of 2010.

**Thierry DUFOUR**, Chairman and Chief Executive Officer

# Message from the Executive Officer



**Sandrine GUÉRIN**  
Deputy Chief Executive Officer

Despite unfavorable economic and financial conditions, the dynamic, transparent and sustainable business model of the Compagnie de Financement Foncier enabled it to fulfill its business objectives, which are to provide a secure source of refinancing for Crédit Foncier and additional sources of refinancing for the Groupe BPCE.

The stability of the fundamentals, security for the holders of our *obligations foncières* and a rigorous management framework are central to its strategy. The Compagnie de Financement Foncier has also shown that it is willing and able to leverage our strengths. With €15.8 billion of *obligations foncières* issued in 2009, its ability to seize market opportunities under volatile conditions is clear.

Although the regulatory framework and asset selection and risk management processes are already demanding, the Compagnie de Financement Foncier has further strengthened its commitment to investors by adopting a minimum overcollateralization ratio of 5%, which is in line with the average overcollateralization rate since 1999.

Compagnie de Financement Foncier has held an AAA/Aaa/AAA rating since its formation, thus reflecting the stringent legal and regulatory framework within which it operates, and that guarantees a high level of security for *obligations foncières* investors, combined with the additional and strong commitments it has made to this market.

As the economic and financial recovery began to take shape in 2009, the Compagnie de Financement Foncier was able to further consolidate its refinancing model, which demonstrated its robustness during the crisis. It will continue to leverage its expertise in risk management and in its market activities over the coming years.

**Sandrine GUÉRIN**, Deputy Chief Executive Officer

# Key figures

## Issuer information

### Issuer

Compagnie de Financement Foncier, affiliated with BPCE

### Parent company

Crédit Foncier de France (100%), subsidiary of CE Participations, affiliated with BPCE

### Type of bonds issued

Obligations foncières

### Issuance programmes

EMTN & AMTN

### Sole service provider

Crédit Foncier de France (A/Aa3/A+) <sup>(\*)</sup>

Rating agency <sup>(*)</sup>	Long-term rating	Outlook
Standard & Poor's	AAA	Stable
Moody's	Aaa	Stable
Fitch Ratings	AAA	Stable

<sup>(\*)</sup> Standard & Poor's/Moody's/Fitch ratings - ratings updated as of filing date.

## Simplified economic balance sheet at December 31, 2009 and December 31, 2008

(From the regulatory report of elements for calculating the coverage ratio, certified by the Specific Controller)

	At Dec. 31, 2009		At Dec. 31, 2008	
	€ bn	% Balance sheet	€ bn	% Balance sheet
<b>Secured loans</b>	<b>43.85</b>	<b>44.6%</b>	<b>43.57</b>	<b>45.4%</b>
Articles L. 515-14 and 16				
State subsidised mortgage loans	0.96	1.0%	1.25	1.3%
Mortgage loans guaranteed by FGAS*	7.32	7.4%	6.71	7.0%
Other mortgage loans	11.69	11.9%	10.26	10.7%
Senior mortgage-backed securities	14.31	14.6%	15.67	16.3%
Other loans with real estate guarantee	0.52	0.5%	0.58	0.6%
Mortgage notes	9.05	9.2%	9.10	9.5%
<b>Exposure to public authorities</b>	<b>41.74</b>	<b>42.5%</b>	<b>40.23</b>	<b>41.9%</b>
Articles L. 515-15 and 16				
State subsidised public loans	0.25	0.3%	0.29	0.3%
Other public loans	20.08	20.4%	21.22	22.1%
Public entities securities	13.95	14.2%	11.14	11.6%
Senior securitisation of public debt	7.46	7.6%	7.58	7.9%
<b>Replacement securities</b>	<b>9.45</b>	<b>9.6%</b>	<b>8.43</b>	<b>8.8%</b>
Article L. 515-17				
<b>Other assets (interests on IFAT**, accruals, goodwill, etc.)</b>	<b>3.21</b>	<b>3.3%</b>	<b>3.72</b>	<b>3.9%</b>
<b>Total Assets</b>	<b>98.25</b>	<b>100.0%</b>	<b>95.94</b>	<b>100.0%</b>

\* Fonds de garantie de l'accès social à la propriété (Government fund promoting access to home ownership).

\*\* Forward Financial Instruments.

	At Dec. 31, 2009		At Dec. 31, 2008	
	€ bn	% Balance sheet	€ bn	% Balance sheet
<b>Privileged resources</b>	<b>83.95</b>	<b>85.4%</b>	<b>83.40</b>	<b>86.9%</b>
Obligations foncières	81.96	83.4%	79.96	83.3%
Other privileged resources	1.99	2.0%	3.44	3.6%
<b>Non-privileged debt</b>	<b>14.3</b>	<b>14.6%</b>	<b>12.54</b>	<b>13.1%</b>
Unsecured debt	8.54	8.7%	6.91	7.2%
Subordinated debt and similar debt	4.18	4.3%	4.22	4.4%
of which redeemable subordinated notes (RSN)	2.1	2.1%	2.1	2.2%
of which participating loans	1.35	1.4%	1.35	1.4%
Shareholder's equity, Provisions and FRBG*	1.59	1.6%	1.42	1.5%
<b>Total liabilities</b>	<b>98.25</b>	<b>100.0%</b>	<b>95.94</b>	<b>100.0%</b>

Shareholder's equity and related items

\* Fonds pour risques bancaires généraux (Fund for General Banking Risks).

## Performance indicators:

€15.8 billion

Obligations foncières issued in 2009

€175.5 million

Net income

110.5%

Overcollateralisation ratio

59.5%

Average LTV

### Outstanding preferred liabilities at December 31, 2009

€84 billion, including €82 billion in obligations foncières

### Positioning

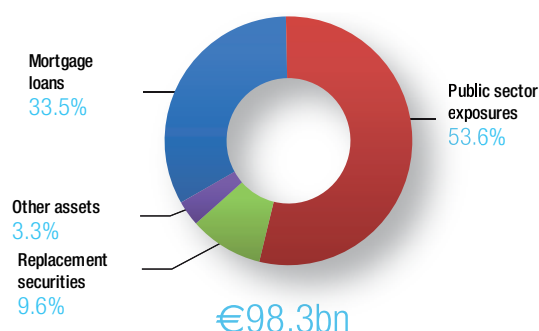
Leader in covered bonds in Europe

## Breakdown of assets at December 31, 2009 and at December 31, 2008

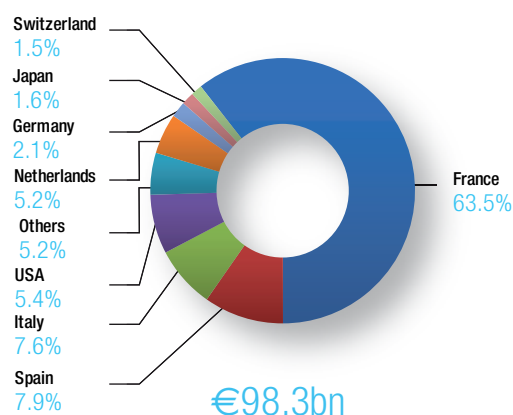
By taking into account the direct and indirect public guarantees on certain outstanding loans also backed by real estate collateral, especially loans secured by the FGAS guarantee fund, the assets secured by a public guarantee represented €52.6 billion at December 31, 2009, and 53.6% of all assets.

	At Dec. 31, 2009		At Dec. 31, 2008	
	€ bn	% Balance sheet	€ bn	% Balance sheet
<b>Mortgage loans</b>	<b>32.97</b>	<b>33.5%</b>	<b>32.20</b>	<b>33.6%</b>
Mortgage loans and related items	18.66	19.0%	16.54	17.2%
European residential mortgage-backed securities	14.31	14.5%	15.67	16.3%
<b>Public sector exposures</b>	<b>52.62</b>	<b>53.6%</b>	<b>51.59</b>	<b>53.8%</b>
Mortgage loans guaranteed by the French state or a European public institution	10.88	11.1%	11.37	11.9%
French public sector loans	19.09	19.4%	19.89	20.7%
International public sector loans	22.65	23.1%	20.33	21.2%
<b>Other assets and replacement securities</b>	<b>12.66</b>	<b>12.9%</b>	<b>12.15</b>	<b>12.7%</b>
Replacement securities	9.45	9.6%	8.43	8.8%
Other assets	3.21	3.3%	3.72	3.9%
<b>Total assets</b>	<b>98.25</b>	<b>100.0%</b>	<b>95.94</b>	<b>100.0 %</b>

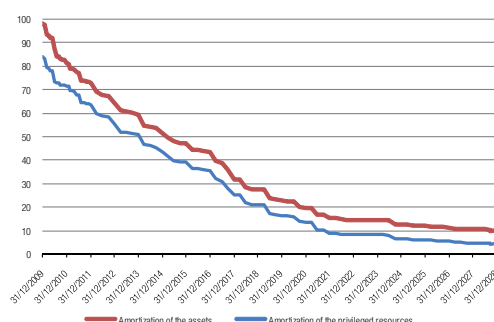
### Breakdown total balance sheet



### Geographic spread of assets at December 31, 2009



### Amortization of assets and privileged resources



A transparent  
and secure legal  
framework in favor  
of investors



**C**ompagnie de Financement Foncier (AAA/Aaa/AAA) is a credit institution licensed by the French Credit Institutions and Investment Firms Committee (CECEI - Comité des Établissements de Crédit et des Entreprises d'Investissement) to operate as a *société de crédit foncier* (SCF - a specific type of company authorized to issue French legal covered bonds) as defined by the French Savings and Financial Security Act (*Loi épargne et sécurité financière*) No. 99-532 of June 25, 1999, codified in the French Monetary and Financial Code (CMF - *Code Monétaire et Financier*).

As a credit institution, Compagnie de Financement Foncier regularly performs banking transactions.

As an SCF, these transactions are specialized and consist exclusively of granting and acquiring loans secured by a first-rank mortgage, or granting and acquiring exposures to public authorities or that are fully guaranteed by them.

These loans are financed by issuing debt secured by a statutory privileged claim to asset cash flows. The positive difference, or overcollateralization, between these assets and the privileged liabilities is financed by shareholders' equity, subordinated debt and unsecured debt contracted with the company's sole shareholder, Crédit Foncier.

All of the *obligations foncières* and other privileged debt that Compagnie de Financement Foncier issues, whether traded on regulated markets or not, benefit from this privileged claim.

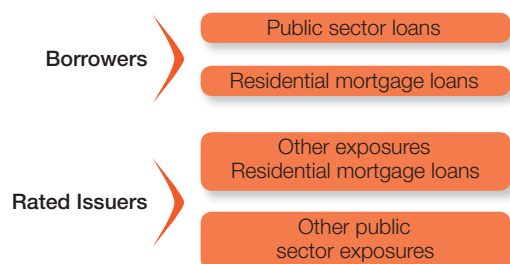
In addition to the legal, financial and institutional safeguards provided by French law, Compagnie de Financement Foncier observes stringent risk-management rules. Its rigorous asset selection process and its strict asset/liability management rules include an additional safeguard, of at least 105% overcollateralization.

The strength of its business model and the quality of its assets have earned Compagnie de Financement Foncier an AAA/Aaa/AAA rating and the trust of investors, as may be seen by the success of its *obligations foncières* issues.

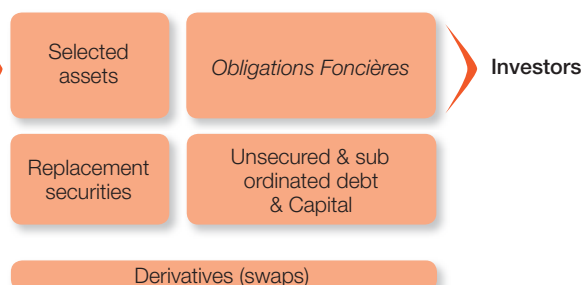
Of particular interest to investors is that a UCITS-compliant fund can invest a higher proportion of its assets in legal covered bonds. These limits are set in Article 22(4) of the UCITS Directive at 25% for banks and 40% for insurance companies.

Lastly, under the capital-adequacy requirements of the EU's Capital Requirements Directive, investors benefit from a 10% risk-weighting on *obligations foncières* under the standardized method, roughly 4% under the IRBF approach and less than 7% under the IRBA approach.

#### Crédit Foncier BPCE



#### Compagnie de Financement Foncier





# Legal safeguards

Summary

## Transparency and security - the French legal framework

A stringent legal and regulatory framework that ensures maximum protection for investors.

### Transparency

- › Borrowing and lending activities are precisely defined and limited to a specific corporate purpose
- › Only specified assets may be acquired: mortgage loans, loans to local authorities and public-sector exposures

### Investor protection

- › Investors enjoy a privileged claim:
  - assets must first be used to repay *obligations foncières* and other privileged debt,
  - the repayment schedule is maintained in case of bankruptcy of the SCF; debt repayment is not accelerated.
- › The parent company's bankruptcy or court-ordered liquidation cannot be extended to the *société de crédit foncier*
- › Overcollateralization is maintained at all times
- › Asset and liability interest rates and maturities are matched
- › All assets and liabilities are swapped into euros
- › Affiliation with BPCE requires the latter to ensure the *société de crédit foncier's* solvency

French *société de crédit foncier* are subject to Act No. 99-532 of June 25, 1999 and, in particular, Articles L. 515-13 and subsequent of the Monetary and Financial Code.

The transposition, in the first half of 2007, of the European Basel II Directive, which defines legal covered bonds, into French law amended the above to improve the legal and financial competitiveness of *société de crédit foncier* in globalized markets, and extended asset eligibility conditions to countries with the highest credit ratings; and to New Zealand and Switzerland with the adoption to the French Economic and Financial Modernization (LME - *Loi de Modernisation Sociale de l'Économie*) act of August 4, 2008.

Furthermore, a bill brought before the National Assembly in December 2009 is expected to further strengthen the stringent regulatory requirements for *obligations foncières* and the high degree of security they provide investors.

## Business transparency

### Purpose

*Sociétés de crédit foncier* are credit institutions whose exclusive purpose is to grant or acquire guaranteed loans or exposures to public authorities and to finance these loans or exposures by issuing *obligations foncières*. These bonds benefit from a statutory privileged claim to payment, pursuant to Article L. 515-19 of the French Monetary and Financial Code.

The business activities of an *société de crédit foncier* are restricted by law and they may not hold equity interests or share portfolios. Their financial statements, which are audited by independent statutory auditors, must provide a clear view of major balance sheet items, including:

- › assets: loans and exposures;
- › liabilities: *obligations foncières* and other debts.

Earnings are not affected by the performance of the evolution of share portfolios or equity interests, but depend solely on the quality of the assets held, the interest margin and asset-liability management safeguards.

## Eligible assets

The eligibility criteria for SCF assets are defined in Articles L. 515-14 to L. 515-17 of the Monetary and Financial Code.

The following assets are eligible:

- › loans secured by a first-rank mortgage or equivalent guarantee, when the underlying property is located in the European Economic Area or in a country with the highest credit rating;
- › exposures to or guaranteed by public authorities (public entities, local authorities, etc.) in the European Economic Area, or located in Switzerland, the United States of America, Canada, Japan, Australia and New Zealand, and, if accurate, when the borrower or the guarantor has a top credit rating;
- › replacement securities: securities, instruments and deposits deemed to be sufficiently secured and liquid.

The procedures and conditions for transferring eligible assets to an SCF and their recognition on the balance sheet as of the acquisition date are specified in Article L. 515-21.

The financial transparency of SCFs is thus ensured by:

- › a balance sheet consisting solely of eligible assets;
- › accounting data on outstanding loans that has been checked by the statutory auditors.

## Overcollateralization

Article L. 515-20 sets forth the so-called “overcollateralization” rule, which requires that an SCF’s total assets exceed the amount of its liabilities that are secured with a privileged claim.

## Specific Controller

Articles L. 515-30 and L. 515-31 establish and define the roles and obligations of the SCF’s Specific Controller. The Specific Controller is a qualified statutory auditor who monitors compliance with regulatory requirements, certifies publications and is accountable to third parties. If necessary, the Specific Controller represents the interests of those who hold *obligations foncières* or other debt secured with a privileged claim, and has extensive investigative rights to carry out all of his assignments.

## Banking Commission

Article L. 515-29 stipulates that the French Banking Commission (*Commission Bancaire*) is responsible for monitoring compliance with SCFs’ obligations.

## Investor protection

### Special measures to protect bond investors as regards bankruptcy

- › Holders of *obligations foncières* are protected by the privileged claim under Article L. 515-19
- › The SCF is protected from its parent’s bankruptcy, which cannot be extended to include the SCF
- › Asset transfers prior to a declaration of insolvency remain valid and cannot be disputed

In addition to an absolute privileged claim to all assets, holders of *obligations foncières* are protected by the SCF’s parent company and from its bankruptcy.

Under French law, SCFs offer the unique advantage of being totally immune from any risk of the parent company’s bankruptcy, while holders of *obligations foncières* are fully protected against the risk of the SCF’s bankruptcy.

## Privileged claim to assets

The privileged claim is the cornerstone of legal security for holders of *obligations foncières*. It remains valid even if the SCF goes bankrupt or enters receivership.

The terms of this privileged claim and of the guarantee it provides are specified under Article L. 515-19.

### Priority rank

The holders of *obligations foncières* and the manager are privileged creditors and therefore have a priority claim on the cash flows from the SCF's assets.

These cash flows therefore are first used to service the privileged debt.

Accordingly, debt that is not covered by the privileged claim is only repaid after the *obligations foncières* and other privileged debt has been repaid. To ensure repayment, outstanding eligible assets must always exceed outstanding privileged debt, in accordance with the principle of overcollateralization.

### Protection of obligations foncières holders from SCF bankruptcy

It should be noted that a bankruptcy procedure cannot be initiated until an SCF has stopped making payments, a situation that is totally independent of any difficulties its main shareholder may be having.

The following rules ensure *obligations foncières* holders full protection in the event of bankruptcy:

› Scheduled privileged debt repayments are maintained  
An SCF's liquidation does not accelerate the repayment of *obligations foncières* or other privileged debt. Holders of privileged debt are paid interest and principal at the contractually specified dates and have priority over all other debt holders.

All other creditors (including the government) are not paid until all *obligations foncières* holders' claims have been satisfied. In contrast with the general law that transactions made when companies are in financial difficulty may be invalidated, SCF asset transfers made prior to a declaration of insolvency remain valid.

› Continuity of management

Depending on the situation, a provisional administrator may be appointed to oversee or advise management, or be given full managerial authority.

The provisional administrator can use the same asset liability management (ALM) tools that are normally available to an SCF, which include:

- selling assets,
- assigning receivables,
- issuing new *obligations foncières*,
- issuing unsecured debt.

It also of course continues to observe the rules that apply to SCFs.

› The Specific Controller

In the event of receivership, the SCF's Specific Controller must file claim statements on behalf of *senior* creditors. This person also continues to inform and notify the Banking Commission, just as he or she must do when the SCF is operating normally.

### The privileged claim Article L. 515-19

Notwithstanding any legislative provisions to the contrary, including those of Book VI of the French Commercial Code:

1. sums deriving from the loans or similar debts, securities and instruments referred to in Articles L. 515-14 to L. 515-17, financial instruments referred to in Article L. 515-18, after netting, if applicable, as well as claims made in respect of deposits by the *société de crédit foncier* with credit institutions, shall first be allocated to the payment of *obligations foncières* and the other privileged resources mentioned at I.2 of article L. 515-13.

2. when a *société de crédit foncier* is subject to court-ordered reorganization or liquidation proceedings, the debts duly deriving from the transactions referred to in item 2 of I of Article L. 515-13 shall be paid on their contractual due date and in priority over all other claims, regardless of whether the latter benefit from the privileged claim or security interests, including interest resulting from contracts, of whatever duration. Until the holders of privileged claims within the meaning of the present article have been fully paid off, no other creditor of the *société de crédit foncier* may exercise any right over the company's property or rights.

3. a *société de crédit foncier's* court-ordered liquidation does not accelerate the repayment of its bonds or the other privileged claims referred to in part 1 of this article.

The rules set out in 1 and 2 above apply to the expenses relating to the transactions referred to in items 1 and 2 of I of Article L. 515-13, and also to any sums due, under the contract provided for in Article L. 515-22.

## Protection of the SCF against bankruptcy of its parent

The following rules ensure that SCFs are fully protected from bankruptcy proceedings against their parent company:

- › parent's court-ordered receivership or liquidation cannot be extended to the SCF ( L. 515-27);
- › management continuity: management functions at the sponsor bank are shared between the provisional administrator and the court-appointed receiver. The SCF's management continues as before, unless it is shown that the SCF has put itself in a bankruptcy situation, independently of its parent;
- › SCF's right to terminate service contracts (expressly granted under Article L. 515-28);
- › right to sell shares held by the parent in the SCF, subject to the Banking Commission's approval. This change in share ownership does not affect the governance of the SCF, which continues its normal operation.

Articles L. 515-25 and L. 515-26, which concern assets that may be seized and liquidation proceedings, stipulate that the normal rules of the Commercial Code do not apply to SCFs.

### Article L. 515-27

Notwithstanding any provisions to the contrary, including those set out in titles II to IV of Book VI of the Commercial Code (*Code de commerce*), the receivership or court-ordered liquidation of a company holding shares in a *société de crédit foncier* cannot be extended to the *société de crédit foncier*.

## Support from the parent company

Compagnie de Financement Foncier's affiliation with BPCE (the "central body" of Groupe BPCE, one of France's largest banking groups), affords additional protection to holders of *obligations foncières* against the risk of issuer bankruptcy. Pursuant to Article L. 511-31 of the Monetary and Financial Code, central bodies are obligated to provide a credit institution affiliate that is in difficulty with all of the support necessary to ensure its solvency.

### Article L. 511-31

The central bodies (...) are responsible for the solidity of their network and for ensuring that the institutions affiliated with them function normally. To that end, they take all necessary measures to guarantee the liquidity and solvency of each of those institutions and of the entire network (...).

## SCF Bill

On December 16, 2009, a bill was brought before the French National Assembly in view of establishing a legal framework for bonds secured by residential property under ordinary law and to strengthen the rules that apply to *obligations foncières*.

If approved by the National Assembly and the Senate, the new rules applying to SCFs will mainly strengthen the minimum overcollateralization requirement and liquidity management over a sliding six month period (thus bringing them in line with German *Pfandbriefe*) and enable the use of new liquidity management instruments:

- › a minimum overcollateralization ratio of 102%;
- › obligation to extend coverage of issuer cash requirements at all times.

Issuers would be required, at any time, to ensure that they have enough cash to cover all forecast principal and interest payments on their liabilities for 180 days;

- › new instruments for managing liquidity

SCFs would be able to:

- issue promissory notes,
- sell their securities under repurchase agreements,
- pledge securities accounts,
- assign receivables, pursuant to the Dailly law.

It should be noted that any receivables or securities that are used to obtain liquidity would not be counted among the privileged resources;

- › *obligations foncières* issues may be self-subscribed and used as collateral with the Banque de France, as the lender of last resort and within specified limits.

# Financial safeguards

Summary

## Financial safeguards

A strict legal and regulatory framework gives investors maximum protection.

### A secure business with a strictly defined and exclusive purpose

- › *Société de crédit foncier* have a strictly defined and exclusive business activity
- › They must finance the purchase of eligible assets by issuing *obligations foncières* and other resources secured with a privileged claim, or non-privileged debt

### Stringent and highly selective rules for asset selection and guarantees

- › Eligible assets are clearly specified and consist exclusively of mortgage loans, loans to local authorities and public-sector exposures
- › Assets must be secured with a public or equivalent guarantee, or a first-rank mortgage
- › Asset selection is subject to a control process
- › A margin is applied to the purchase price of assets to ensure a profit in consideration of the cost of funding and management expenses

## A secure and highly specific business

French law also governs the operating principles and management rules that apply to SCFs. These requirements mainly have to do with the type and quality of the assets they may hold.

### Financial principles

**The first principle that serves to safeguard** the interests of *obligations foncières* holders is the unique and exclusive nature of the SCF's business (see Art. L. 515-13), which consists in acquiring eligible assets and financing these purchases by issuing *obligations foncières* and other resources secured by a privileged claim, or non-privileged debt.

Compagnie de Financement Foncier's bylaws specify this exclusive business object and stipulate that it cannot hold equity investments. It therefore has no subsidiary that could adversely affect its own activity.

**The second safeguard** for *obligations foncières* holders is the type and the intrinsic quality of the assets that SCFs are allowed to hold.

Compagnie de Financement Foncier strengthens this safeguard for *obligations foncières* holders by observing asset selection and management procedures that are more stringent than those required by law.

### Asset types and guarantees

Most of Compagnie de Financement Foncier's assets consist of residential mortgage loans and exposures to the French and international public sectors.

The rules that Compagnie de Financement Foncier observes when selecting assets are strictly defined and closely monitored:

- › these assets must meet the statutory requirements for acquisition by SCFs;
- › their acquisition is subject to Compagnie de Financement Foncier's own additional requirements, such as excluding commercial mortgage loans called "corporated";
- › assets are purchased with a margin to ensure that they will be profitable for Compagnie de Financement Foncier, even in a runoff scenario.

## Guarantees

The quality of Compagnie de Financement Foncier's assets is assured not only through careful selection and loan-to-value limits, but also by their intrinsic characteristics.

These assets are secured by either a first-rank mortgage or a public or equivalent guarantee.

More precisely, these assets include:

- › loans to public sector entities or guaranteed by the public sector;
- › residential real estate loans backed by a first-rank mortgage (with a maximum LTV ratio of 80%);
- › senior RMBS or ABS tranches of public sector debt preponderantly rated at least AA-, and secured by at least 90% residential mortgages or eligible public exposures.

## Asset selection

In addition to regulatory eligibility criteria and guarantees, another distinguishing feature of the company's business model is its rigorous asset selection process, which is underpinned by the expertise of its highly experienced staff. This selection process is subject to ongoing controls to ensure that *obligations foncières* holders enjoy the highest level of security.

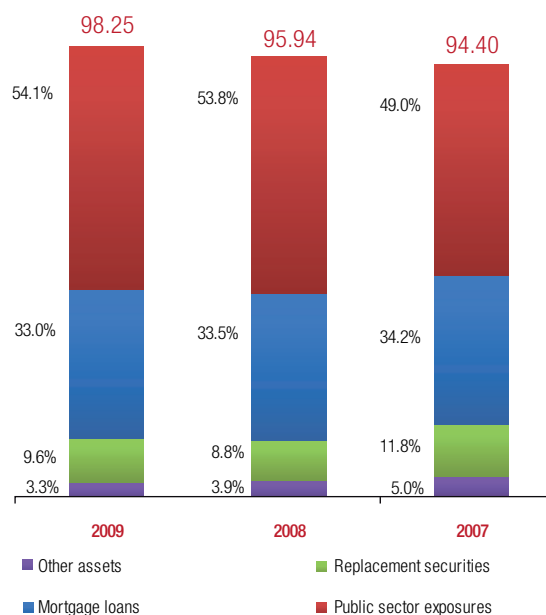
The price that the Compagnie de Financement Foncier pays for its assets is determined on the basis of its cost of funding, default and loss probabilities (cost of risk), management expenses (cost of coverage) and its targeted return.

## Synthesis

Loans with direct or indirect public guarantees make up 54.1% of Compagnie de Financement Foncier's total assets with mortgage-based assets accounting for 33%.

Replacement securities (9.6% of assets) are mostly short-term interbank loans of less than six months, which meet criteria that ensure minimal credit risk and high liquidity.

Assets from 2007 to 2009 (€bn)



## Management obligations applying specifically to SCF

### Overcollateralization rule

Article L. 515-20 requires that total SCF eligible assets always exceed the total amount of liabilities secured with a privileged claim. One of the Specific Controller's duties is to monitor compliance with this overcollateralization rule.

Pursuant to the French Banking and Financial Regulatory Committee (CRBF - Comité de la Réglementation Bancaire et Financière) Regulation No. 99-10, assets must be weighted in accordance with their quality, such that the value of assets that carry a relatively higher risk is reduced when calculating the overcollateralization ratio.

According to this rule assets are weighted as follows:

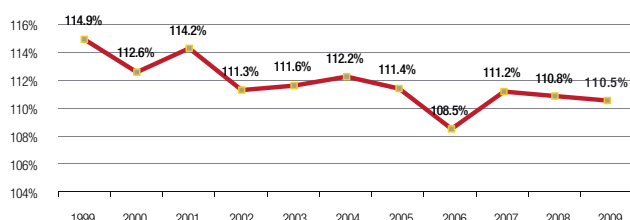
- › 0%, 50%, 100% for guaranteed loans and debt securitization fund (FCT - *Fonds commun de titrisations*) units depending on their rating;
- › 50% for real-estate assets acquired under foreclosure proceedings;
- › 100% for secure and liquid securities (this weighting was increased from 95% in 2007);
- › 100% for the other eligible assets.

Compagnie de Financement Foncier permanently monitors its regulatory overcollateralization ratio to ensure that its assets are sufficient to fully cover all of its *obligations foncières*.

With €1.6 billion in capital, €4.2 billion in subordinated debt and €8.5 billion in unsecured debt, overcollateralization is well above the legal minimum of 100%.

**Since the company's formation in 1999, this regulatory ratio has always been above 108%. On December 31, 2009 it was 110.5%.**

*Overcollateralization since 1999*



In 2009, Compagnie de Financement Foncier made a commitment to investors to maintain its overcollateralization ratio (non-privileged debt/privileged resources) above 5% at all times. Thus, without weighting the assets, the rate stands out at 17%.

### **ALM Principles**

To sustain debt servicing, SCFs must ensure that the interest rates and maturities of their assets and liabilities are properly matched.

Accordingly, the financial management charter for the Crédit Foncier group imposes special requirements on Compagnie de Financement Foncier, to account for its specific constraints and regulatory obligations as an SCF.

The company's ALM principles and processes thus ensure that asset and liability maturities and interest rates are constantly matched. These assets and liabilities are managed on a euro and variable-rate basis. All foreign currency transactions are swapped into euros at EURIBOR as soon as initiation.

It should also be noted that Compagnie de Financement Foncier always maintains sufficient liquidity to cover one year's worth of contractual repayments on its privileged debt. The asset/liability duration gap is maintained at less than 2 years at any times as of December 31, 2009. Asset duration is 6.44 years, while liability duration is 6.45 years.

### **LTV principle for residential mortgage loans**

The loan-to-value ratio on residential mortgage loans (€32.4 billion at end-2009) is the ratio of the outstanding principal over the value of the underlying real estate. Collateral is revalued annually to monitor compliance with this ratio.

The regulatory annual valuation of underlying assets is based on a prudent assessment of the property's long-term characteristics, local market conditions, the current use of the property and other possible uses. All of this information is provided by Foncier Expertise, Crédit Foncier's wholly-owned, Veritas-certified subsidiary. Their experts, who are either certified by a court or qualified as chartered surveyors (MRICS), conducted nearly 13,100 appraisals in 2009. The Compagnie's Specific Controller monitors these appraisals each year to verify compliance with the real-estate market parameters used in the valuation process, as described in the risk report section of this document.

On the basis of these rules, at December, 31, 2009, the company's LTV ratio on its mortgage portfolio was stable at 59.5% (vs. 53.4% in 2008).



# Institutional safeguards

Summary

## Institutional safeguards

### Regulatory controls

- › Compliance with the regulations of the CRBF, which considerably increases the security of the business model
- › An internal control system that ensures high-quality and verified accounting information, and a system for measuring the various types of risks
- › A formal monitoring process

### The Specific Controller's role

- › Monitors issuance programs and overcollateralization
- › Validates controls and loan characteristics
- › Monitors ALM compliance in terms of interest rate and foreign exchange risk
- › Legal compliance
- › Valuation of assets backing mortgage loans

## Regulatory controls

### *The French regulatory framework*

Not only must Compagnie de Financement Foncier observe specific regulations as an SCF, it must also, like any other credit institution, comply with the rules of the French Banking and Financial Regulatory Committee (CRBF) and most notably its amended Regulation No. 97-02, which specifies internal control obligations.

Compliance with this regulation is a key pillar of investment security, since it requires Compagnie de Financement Foncier to implement an internal control system that:

- › is well organized, with clearly defined responsibilities for staff members;
- › ensures:
  - that accounting information is based on high-quality standards, procedures and controls that are regularly audited,
  - the operation of a system for assessing the various types of risk;
- › includes a formal process that is linked to the risk-assessment system, for regularly monitoring risks using a

formal methodology (Risk Committee);

- › is well-documented: the primary documents being the procedure manuals and reports submitted to external control entities and to the decision-making body (Audit Committee and the Board of Directors).

These regulations enable optimum investment security. Their main objectives are to:

- › ensure consistency between control levels;
- › measure and monitor risks;
- › monitor outsourced services;
- › ensure high-quality documentation and information.

### Consistency between control levels

Regulations require:

- › an ongoing control organization, consisting of a designated group of people, provided with adequate resources and observing documented procedures;
- › a periodic control organization;
- › a person specifically responsible for monitoring compliance.

*Compagnie de Financement  
Foncier complies with all Groupe  
BPCE internal control rules  
(see the Chairman  
of the Board's report).*

It also imposes “strict independence” between staff members who originate transactions, those who record transactions in accounts, and those who settle transactions and monitor the associated risks.

#### Risk assessment and monitoring

Credit institutions subject to these rules must implement risk assessment tools and methods that are capable of ensuring effective management of their risks, including for loan approval (lending limits, approval delegations and analytical methods), and also tools and procedures for regularly monitoring and assessing risk levels.

Regulations also require a periodic review of these assessment methods and tools.

These tools and procedures are used to assess, select and monitor the following types of risks:

- > credit;
- > liquidity;
- > interest rate;
- > currency;
- > compliance;
- > settlement and intermediation;
- > legal;
- > operational;
- > extreme events (see the business continuity plan).

#### Documentation and information

Credit institutions are required to document the following:

- > their control organization and the responsibilities of control staff;
- > the rules that ensure the control system's independence;
- > IT systems security procedures;
- > risk assessment systems and their operational characteristics (lending limits, approval rules, monitoring, etc).

The following supervisory and control entities must also be kept informed:

- > decision-making body: the Board of Directors and its Audit Committee;
- > the company's central body or its shareholder;
- > external auditors (Statutory Auditors and the Specific Controller);
- > regulatory authorities (Banking Commission and the French securities regulator (AMF - Autorité des marchés financiers)).

In its Articles 42 and 43, the amended CRBF Regulation 97-02 sets forth minimum requirements for reporting on risks and for internal control systems.

These articles stipulate that a report must be submitted at least once a year to the Banking Commission, to enable it to exercise its ongoing control of credit institutions.

#### Outsourced services

Pursuant to CRBF Article 37-2, 97-02, as amended, which stipulates: “Outsourced services shall not absolve executive management of its responsibilities”; credit institutions must ensure that their service providers comply with the same obligations that apply to credit institutions.

#### **CRBF Regulation No. 97-02, as amended Article 42**

At least once a year, reporting institutions shall draw up a report on the conditions under which internal control is conducted.

1. This report covers the different categories of risk mentioned in this regulation, namely:

a) a description of the main actions carried out in relation to internal control, pursuant to Article 6, and the lessons drawn from these actions;

b) an inventory of enquiries carried out pursuant to section b of Article 6 and the main lessons to be drawn, especially the main shortcomings identified and follow-up on any corrective action taken;

c) a description of significant changes made in relation to ongoing and periodic controls during the period under review, in particular to take into account changes in the business and risks;

d) a description of the conditions under which procedures are put in place for new activities;

e) a section relating to the internal control of foreign branches;

f) a description of the main initiatives planned in relation to internal control;

g) an annex listing agreements and transactions concluded with executive directors and major shareholders as defined by Article 6.3. of Regulation No. 90-02 mentioned above;

h) an up-to-date description of the classification of money laundering and terrorism financing risks, and justification of this classification.

2. Reporting institutions and financial holding companies monitored on a consolidated basis shall also draw up, at least once a year, a report on internal control procedures and conditions carried out at the group level. Reporting institutions shall include this group report in the report referred to in the first paragraph of this Article.

3. When the reporting institution is an investment firm, the report drawn up as set forth in this Article may recapitulate the information contained in the report provided for in the General Regulations of the Autorité des Marchés Financiers (AMF), if the investment firm deems such information to be significant with regard to the matters referred to in the first paragraph of this Article.

### Article 43

At least once a year, reporting institutions and financial holding companies supervised on a consolidated basis shall draw up a report on risk assessment and monitoring that provides an overall picture of all of the risks to which they are exposed, including the risks associated with banking and non-banking activities. When the institution is itself responsible for the supervision on a consolidated basis of other reporting institutions, the report shall cover the risks to which the group is exposed. The report shall include the information provided to the decision-making body in accordance with Article 39 of this Regulation.

For reporting institutions and financial holding companies, this report shall include an annex relating to the security of means of payment to be transmitted by the General Secretariat of the Banking Commission to the Banque de France as part of its mission defined by Article L. 141-4 of the above-mentioned French Monetary and Financial Code. In the annex, reporting institutions and financial holding companies shall describe the assessment, measurement and monitoring of the security of the means of payment they issue or manage with regard to their internal standards, if any, and to the recommendations that the Banque de France or the European System of Central Banks bring to their attention.

\*For the institutions that are subject to the French ministerial order concerning the identification, assessment, management and control of liquidity risk, this report must include changes in cost-of-liquidity indicators over the period.

\*For the standardized approach to assessing liquidity risk, as specified under section II of the aforementioned ministerial order, this report must include:

- an appendix that presents the assumptions used to prepare the liquidity statement specified in Article 17 of Chapter 2 of Section II of the ministerial order, and, if necessary, any material modifications made during the period;
- an analysis of the change in the calculated liquidity gaps in the liquidity statements prepared during the period.

With regard to the monitoring of the liquidity of investment services providers and the legal persons referred to in Article L. 440-2, items 3 and 4 of the Monetary and Financial Code, the report shall indicate the assumptions used.

This report shall include:

- a) an appendix containing the assumptions and methodological principles used as well as the results of stress tests performed by reporting institutions in accordance with Articles 116 and 349 of the Ministerial Order of February 20, 2007;
- b) an appendix indicating the methods, including stress tests, used for identifying the risks resulting from the use of credit risk mitigation techniques recognized for the application of the Ministerial Order of February 20, 2007, in particular the risk of concentration and residual risk.

This report may be included in the report provided for in Article 42 of this Regulation.

\*These amendments set by decree dated May 5, 2009 will be enforceable from June 30, 2010.

### Banking Commission oversight

As authorized credit institutions, *sociétés de crédit foncier* are placed under the authority of the Banking Commission.

The Banking Commission monitors these companies by examining reports and financial statements that they are required to provide and by conducting on-site investigations.

As a credit institution, Compagnie de Financement Foncier also provides information about:

- › internal control (Articles 42 and 43 of CRBF 97-02);
- › liquidity, via the liquidity ratio and observation ratios (amended Regulation 88-01).

In addition to this, as an SCF, the Company is required to report to the Banking Commission on the following:

- › the quality of its assets and, in particular, the characteristics and breakdown of loans and guarantees, the amount of arrears, the breakdown of receivables by amount and type of debtor, the percentage of advance repayments, as well as the level and sensitivity of interest rate positions (Instruction No. 2008-06).

This report on the quality of assets and the over-collateralization ratio must be submitted annually to the Banking Commission.

- › the calculation of the coverage ratio, which includes limits on the composition of assets, and the calculation of

amounts eligible for refinancing using privileged resources. This report on the coverage ratio must be submitted twice a year to the Banking Commission (Instruction No. 2008-05).

Finally, the Banking Commission must approve the Specific Controller's appointment.

### **The AMF's oversight**

Directive No. 2003/71 of November 4, 2003, known as the "Prospectus Directive", requires that legal covered bonds be registered either in the issuer's country or the country where the issuer wishes to list the bonds to be issued.

Compagnie de Financement Foncier has chosen Paris as the place of registration for its *obligations foncières* issues.

Before it issues *obligations foncières*, Compagnie de Financement Foncier must therefore submit to the approval of the AMF (the Regulatory Authority for French Financial Markets) a prospectus that contains information intended for the public, pursuant to Article L. 212-1 of the AMF's General Regulations and Articles L. 412-1 and L. 621-8 *et seq.* of the Monetary and Financial Code.

This prospectus is valid for one year and must be supplemented with addenda, if, in accordance with Article 16.1 of the Prospectus Directive, "any new material event, mistake or inaccuracy in relation to the information in the prospectus may have a material effect on the valuation of investment securities".

The AMF has the right to suspend or prohibit transactions if necessary.

Article L. 213-1 of the General Regulations also stipulates that the issuer, Compagnie de Financement Foncier, must provide a reference document.

Lastly, in accordance with the AMF's General Regulations, which transpose into French law the provisions of Directive No. 2004/109 of December 15, 2004, also known as the "Transparency Directive", as an issuer of debt securities admitted to trading on a regulated market, Compagnie de Financement Foncier is required to provide the ongoing and periodic information specified in Book II, Title II, Chapter 1 of said General Regulations.

Article 221-1 2° of the AMF General Regulations provides a list of the information that the company is required to

disclose "effectively and in full" (Article 221-3 I of the AMF General Regulations). This disclosure consists in filing this information with the AMF and posting it on the issuer's website as soon as it has been disseminated (Article 221-3 II of the AMF General Regulations).

### **Article L. 621-8-1**

I. - The Financial Markets Authority verifies that the document is complete and comprehensible, and that the information it contains is correctly presented before delivering the visa referred to in Article L. 621-8. The Financial Markets Authority indicates any statements to be altered or additional information to be inserted.

The Financial Markets Authority may also request any explanation or proof, particularly in regard to the issuer's situation, business and results and concerning any guarantors of the financial instruments to which the transaction relates.

II. - The Financial Markets Authority may suspend the transaction for a period which shall not exceed a limit set by its General Regulations when it has reasonable grounds for suspecting that it is contrary to the laws or regulations applicable to it.

The Financial Markets Authority may prohibit the transaction:

1. when it has reasonable grounds for suspecting that an issue or assignment is contrary to the laws or regulations applicable to it;
2. when it notes that a proposed admission to trading on a regulated market is contrary to the laws or regulations applicable to it.

## The Statutory Auditors

As a *société anonyme* (limited liability company) under French law, Compagnie de Financement Foncier's financial statements must be audited by Statutory Auditors. Article L. 511-38 of the Monetary and Financial Code requires that credit institutions be audited by at least two statutory auditors, employed by independent auditing firms, whereas other countries require only one. The statutory auditors must be appointed for a six-year term, by shareholders at the general meeting and not by the company's executive directors. Their appointment cannot be terminated until this period ends.

As a credit institution, Compagnie de Financement Foncier must first have its statutory auditors approved by the Banking Commission.

The Statutory Auditors have a legal obligation to ensure the quality and reliability of the financial and accounting information provided by their clients. Their duties include:

### Auditing and certification

Pursuant to Article L. 823-9 of the Commercial Code, the Statutory Auditors must certify, while justifying their opinion, whether or not the annual financial statements give a true and fair view of the company's results for the accounting period concerned, and of its financial situation and assets and liabilities at the end of said period.

For this purpose they carry out an audit, in accordance with the professional standards of the National Association of Statutory Auditors (CNCC - *Compagnie Nationale des Commissaires aux Comptes*).

### General report

In their report to the Shareholders' Ordinary Meeting, the Statutory Auditors must report on the execution of their assignment.

By certifying the Company's financial statements, they express that during the course of their assignment they have obtained reasonable assurance that the financial statements are free of material misstatement.

They must inform the Shareholders' Meeting of any irregularities or inaccurate information they may have observed during their assignment.

### Specific verifications

The Statutory Auditors must verify the fairness of the following information and its consistency with the annual financial statements:

- › the information provided in the management report;
- › the documents provided to shareholders concerning the Company's financial situation and its annual financial statements.

The Statutory Auditors must ensure that all shareholders are treated equally and verify that the directors observe the rules concerning their ownership of the Company's shares or ownership rights.

They must also review any agreements between the Company and its directors, or between two companies that have the same director, and present a special report on this at the Shareholders' Meeting.

To carry out their assignment, the Statutory Auditors hold investigative powers.

Pursuant to the law, at any time of year, the Statutory Auditors, together or individually, may carry out all verifications and controls they deem appropriate and may go to the Company and request any documents they feel are necessary for their assignment, including contracts, accounting records and documents, and minutes of meetings.

These investigations may be conducted at the Company or at its parent, or if necessary at any subsidiary or at any entity included in the consolidation scope.

## The Specific Controller

The Specific Controller is part of the system that ensures that the highest level of control is exercised over SCFs on behalf of *obligations foncières* holders. Specific Controllers are selected from the official list of statutory auditors and are appointed with the approval of the Banking Commission. They are responsible for verifying that operational mechanisms are functioning correctly and for ensuring strict compliance with laws and regulations.

Their responsibilities, as defined by law under Articles L. 515-30 and 31, and for which they have extensive investigative rights, are essentially to:

- › ensure compliance with all regulations and legislation applicable to SCFs (Articles L. 515-13 to L. 515-33);
- › verify that any assets contributed to Compagnie de

Financement Foncier are consistent with its business object, as defined in Article L. 515-13 and comply with the provisions of Articles L. 515-14 to L. 515-17;

- > certify documents submitted to the Banking Commission, in particular the ratios, regulatory limits and guarantee percentages at June 30, and December 31, of each year;
- > prepare an annual report for executives and deliberative bodies on the results of their assignment, of which a copy must be submitted to the Banking Commission.

In accordance with the law and regulations, the Specific Controller must ensure that the SCF is taking all necessary steps to secure the redemption of *obligations foncières* and the repayment of other privileged resources. For this purpose, the Specific Controller must, either on an ongoing basis, or in response to specific events:

- > assess the quality of the risk management and monitoring procedures that the SCF has implemented to comply with the basic principles presented above;
- > assess the eligibility of the SCF's loans and other assets;
- > ensure that the coverage ratio of eligible assets to privileged resources is sufficient and that the regulatory limits and LTV ratios that apply to privileged refinancing are complied with;
- > certify these ratios, limits and LTV ratios twice a year for the Banking Commission, and issue coverage ratio certificates for quarterly bond issue programs or issues that are equivalent to €500 million or more;
- > assess the procedure for the periodic valuation and review of the assets backing eligible loans, in accordance with CRBF Regulation No. 99-10 as amended by Regulations No. 2001-02 and 2002-02 and then by the Decree of May 7, 2007;
- > verify that the maturities and interest rates of the SCF's assets and liabilities match (Article 12 of CRBF Regulation No. 99-10), and that the financial instruments used to hedge guaranteed loans are appropriate (Article L. 515-18 of the Code).

The Specific Controller's controls supplement the Company's standard internal controls and those conducted by the Statutory Auditors.

In the event the SCF enters receivership or bankruptcy proceedings, the Specific Controller shall become the legal representative of the holders of *obligations foncières* and other privileged resources.

N.B.: to avoid a conflict of interest, the Specific Controller may not be a Statutory Auditor for the group that consolidates the SCF on its balance sheet.

*Cabinet Cailliau Dedouit et Associés (represented by Laurent Brun), Specific Controller of Compagnie de Financement Foncier, works with his teams to carry out his monitoring tasks. In particular, he ensures compliance between the information system and actual contractual loans (contracts signed).*

## Article L. 515-30

In each *société de crédit foncier*, a Specific Controller and an alternative Specific Controller, chosen among the persons on the official list of auditors, shall be appointed by its executives for a term of four years, with the approval of the Banking Commission.

The Specific Controller shall supervise compliance by the *société de crédit foncier* with Articles L. 515-13 to L. 515-20. He shall verify that the contributions made to a *société de crédit foncier* are in accordance with the purpose defined in Article L. 515-13 and meet the conditions provided for by Article L. 515-14 to L. 515-17.

The Specific Controller shall certify the documents sent to the Banking Commission in compliance with the foregoing provisions. He shall prepare an annual report on the fulfilment of his mission for the attention of the executives and deliberative bodies of the *société de crédit foncier*, a copy of which shall be sent to the Banking Commission.

He shall attend all shareholder meetings and at his request shall be heard by the Board of Directors or the Executive Board. (...) The Specific Controller must immediately notify the Banking Commission of any event or ruling brought to his attention during the course of his work that may jeopardise the conditions or business continuity of the *société de crédit foncier*. (...) The Specific Controller shall be responsible, as regards both the *société de crédit foncier* and third parties, for damage caused by faults and negligence committed by him in the performance of his office.

## Article L. 515-31

When a *société de crédit foncier* is the subject of legal receivership or liquidation proceedings, the Specific Controller makes the declaration stipulated in Article L. 622-24 of the Commercial Code for and on behalf of the holders of the privileged debt referred to in Article L. 515-19. (...) the Specific Controller's right to information may extend to communication of the contracts and other documents held by the company responsible for administering or recovering the loans, exposures, similar debts, securities and instruments, bonds and other resources, pursuant to Article L. 515-22, provided that those contracts and other documents are directly related to the tasks performed by that company on behalf of the *société de crédit foncier*.



# A strong business model and a rigorous risk management



## Stringent risk management rules

Compagnie de Financement Foncier's additional commitments ensure maximum investment security.

### Credit risk control

- › Commitment to maintain at least 5% overcollateralization
- › Careful screening of all purchases (e.g. purchase scoring and minimum credit rating)
- › Only the highest rated replacement securities are selected

### Interest rate risk control

- › Rate gaps are limited to a specified percentage of the balance sheet
- › Adjustable-rate swaps on asset purchase and refinancing transactions

### Liquidity risk control

- › Sufficient liquidity is maintained to honor privileged debt obligations for a year without using new funding sources and excluding advance repayments on loans
- › The duration gap between assets and liabilities is limited to two years

## Strong and additional commitments to financial markets

In addition to its stringent legal and regulatory framework, which ensures that *obligations foncières* holders enjoy a guaranteed minimum level of security, Compagnie de Financement Foncier's AAA/Aaa/AAA rating may also be attributed to the additional commitments it has made to investors.

For example, Compagnie de Financement Foncier requires overcollateralization above the minimum required ratio, and has adopted rules to minimize the following risks:

- › credit and counterparty risk;
- › interest rate risk; by systematically hedging variable-rate assets and liabilities;
- › liquidity risk: by maintaining enough cash to meet

12 months of privileged debt obligations in a runoff scenario.

Compliance with these commitments is reported to credit rating agencies quarterly.

These additional risk management rules provide extra security for investors in the company's privileged debt.

### A particularly high and sustainable overcollateralization ratio

In compliance with SCF regulations, Compagnie de Financement Foncier's weighted assets must be equivalent to at least 100% of its privileged liabilities at all times.

This minimum legal requirement, under which some assets may be weighted less than 100%, is the first level of collateralization.

But Compagnie de Financement Foncier has gone further than this to cover its risks and has chosen to maintain a volume of non-privileged liabilities at least equal to 5% of the liabilities that benefit from the privilege.

A second calculation of the minimum overcollateralization requirement, which is explained below and is based on

Compagnie de Financement Foncier's estimation of asset quality and interest rate risk, is also regularly conducted.

Compagnie de Financement Foncier's overcollateralization ratio at December 31, 2009 is 110.5%, and therefore above both of the above minimum levels and the non-privileged resources represents 17% of the privileged resources.

Overcollateralization - which in Compagnie de Financement Foncier's case consists of equity and long-term subordinated and unsecured resources - must enable an SCF to withstand stress test scenarios on credit, interest rate and liquidity risk.

If some or all of these risk scenarios are realized, this high level of overcollateralization will enable the company to maintain payments on its *obligations foncières*.

#### Two criteria for determining the minimum overcollateralization ratio

Compagnie de Financement Foncier's minimum overcollateralization ratio is calculated to cover the credit risk on its assets, and also to ensure that the overall interest rate risk on its balance sheet is covered. The sum of these two calculations determines the minimum overcollateralization that the company has decided to maintain. This rate cannot be less than 5%.

#### Overcollateralization of credit risk

Compagnie de Financement Foncier's loan portfolio is divided into six sub-categories, by type of borrower, type of property being financed and type of collateral provided. The overcollateralization ratio for each sub-category depends on:

- › the estimated credit risk;
- › the date the loan was acquired.

The following overcollateralization ratios are currently applied:

Asset class	Minimum required overcollateralization
Subsidized sector	3%
PAS + PTZ	2.5%
Residential/Social access	3%
Residential/Rentals	25%
Public sector	3%
Low-cost housing	4.5%

#### Overcollateralization of interest rate risk

The overcollateralization required to cover Compagnie de Financement Foncier's overall interest rate risk depends on the size of its balance sheet and on its estimated future earnings. It is 0.5% of Compagnie de Financement Foncier's assets, minus the net present value of estimated earnings over the next 10 years.

To ensure a high security level, several net present values are calculated a run-off scenario without new lending and by combining the following assumptions:

- › three advance repayment assumptions: no advance repayment, likely advance repayment ratio and a stressed advance repayment ratio that is three times greater than the likely ratio;
- › three market interest rate assumptions: benchmark yield curve, stressed cash flow assuming unfavorable borrowing and lending conditions, a 200 bp upward shift in the yield curve.

The lowest net present value among the nine calculated is used to determine the overcollateralization ratio.

#### Continuous monitoring of overcollateralization

To ensure that compliance with the overcollateralization requirement is maintained at all times, it is monitored on an ongoing basis.

If the overcollateralization observed quarterly turns out to be less than one of the specified minimum levels, all asset purchases are immediately suspended and non-privileged resources are used to increase overcollateralization above the minimum required amount.

## Controlling credit risk

### Asset purchasing criteria by category

Although regulations require that SCF invest only in high quality assets, to limit its exposure to credit risk, Compagnie de Financement Foncier implements additional asset purchasing criteria that include purchasing scores and minimum credit ratings. Compagnie de Financement Foncier will not, for example, buy commercial real estate assets. For more information about this see the section on asset selection.

Furthermore, Compagnie de Financement Foncier replacement securities have the highest external credit ratings. The minimum acceptable credit rating for each asset (except for intragroup assets<sup>(1)</sup>) depends on the investment horizon and must meet the minimum rating criteria of each of the three main agencies, as shown below:

	Standard & Poor's	Moody's	Fitch Ratings
From 0 to 1 month	ST A-1	ST P1	ST F1
From 1 to 3 months	ST A-1	ST P1	ST F1+
From 3 to 12 months	ST A-1+	ST P1	ST F1+
More than 1 year	LT AAA	LT Aaa	LT AAA

### Limiting counterparty risk

The Crédit Foncier Group's risk policy specifies per-counterparty limits and Compagnie de Financement Foncier observes these limits in its decision process.

For its hedging transactions and repurchasing agreements the company executes a framework agreement with each of its counterparties, with asymmetrical collateralization and other specific terms set forth in an appendix to this agreement.

The counterparty agrees that if its rating is or is likely to fall below one of the lowest ratings of one of the credit rating agencies [F1+ or AA- (Fitch Ratings), P1 or Aa3 (Moody's) and A-1+ or AA- (Standard & Poor's)] to pay Compagnie de Financement Foncier (on a daily or weekly basis depending on the counterparty's rating) a security deposit equal to its net debt position, with no compensation for this.

## Management of balance sheet risks

### Management of interest rate risk

Compagnie de Financement Foncier is committed to keeping its interest rate gaps within the specific limits set for each period and to correct any excess observed by the following quarter.

Horizon	Maximum rate gap as a % of projected assets
Less than 2 years	2%
2-5 years	3%
5-10 years	5%
Over 10 years	10%

Compagnie de Financement Foncier's balance sheet is structurally protected against interest rate risk, since assets and liabilities are systematically hedged with adjustable-rate swaps.

### Covering liquidity risk

Compagnie de Financement Foncier observes strict management rules that ensure that it always maintains enough liquidity to honor its privileged liability commitments for one year, with no need for new resources in a run-off scenario.

Thus, the Company's cash position (with no new activity) is sufficient at any given time to meet the contractual payments on its privileged debt over the coming twelve months.

Since €33 billion of the Company's assets are eligible for the ECB's liquidity facility, it could service its payments and comfort its liquidity for much longer than the 12 months she committed to.

Long aware of the importance of maintaining liquidity, as early as 2007 the CFF group implemented a rigorous policy for managing its liquid assets. The high quality of Compagnie de Financement Foncier's assets, and in particular of its eligible securities and receivables, give it immediate access to funding from central banks, such as the ECB for important amounts.

With its liquidity thus assured for several years, Crédit Foncier was able to pursue its business serenely in 2009, and in 2010 will be able to meet the needs of its customers in both the public and private sectors.

(1) Intragroup accounting currently monitors these constraints. Otherwise the corresponding exposures would be collateralized.

Compagnie de Financement Foncier also limits the duration gap between its assets and its overall liabilities to two years at most. At December 31, 2009, the duration gap was insignificant (asset duration being 6.44 years and liabilities duration being 6.45 years).

### **No currency risk**

Compagnie de Financement Foncier maintains no open currency positions. Asset purchase or refinancing transactions that are not denominated in euros are systematically hedged against currency risk.

In practice, Compagnie de Financement Foncier limits its residual currency positions to 0.1% of its balance sheet.

## Monitoring entities supporting governance rules

The various departments and committees that monitor Compagnie de Financement Foncier's risks also help ensure compliance with governance rules.

### **A monitoring structure at the CFF group level**

Compagnie de Financement Foncier's risks are monitored by Crédit Foncier's Risk department, under formal agreements between the two. The Risk Department performs *ex-ante* risk analyses based on exposure and delegation limits, and *ex-post* analyses and controls. It reports functionally to BPCE central body's Risk Department.

Ongoing risk monitoring is also supported by the Compliance Department, which verifies compliance with laws and regulations, codes of conduct and the CFF group's internal rules.

In addition to this group-level monitoring, the following Compagnie de Financement Foncier committees also support risk monitoring and control.

## Committees Specific to Compagnie

Compagnie de Financement Foncier has five committees with specific responsibilities.

**The Risk Committee** meets at least quarterly. Presided over by the Chairman and Chief Executive Officer, its responsibilities include the comprehensive risk strategy based on risk analysis, control of the defined risk limits for each activity and measuring the quality of commitments.

**The Balance Sheet Management Committee (CGB)** represents the ALM function for Compagnie. It is the decision-making body in charge of managing financial risk within the boundaries set by Compagnie's Executive Board upon recommendations put forth by Compagnie's Risk Committee and within the parameters of Crédit Foncier rules. The Committee meets quarterly and is presided over by the Chairman of the Board of Directors. It includes, notably, the Crédit Foncier's Risk Department as well as representatives from the main departments.

**The Financial Committee** presided over by the Chairman and CEO meets once a month and ensures the operational application of CGB decisions relative to group refinancing procedures.

**The Interest Rate Committee**, which meets at least on a weekly basis under the authority of the Finance Director, translates the interest rate hedging strategy defined by the CGB into market transactions for which it takes operational responsibility. It defines the strategy of margins coverage for the new production.

**The Management Committee** meets bi-monthly. It follows up on Compagnie's management operations and proposes solutions, if the need should arise, in order to resolve difficult problems relating to the respect of agreements concluded with its servicer, Crédit Foncier.

## Rated AAA/Aaa/AAA by the three main rating agencies since formation

### Rating agencies adopt new criteria

The three main rating agencies, Standard & Poor's, Moody's and Fitch Ratings have rated Compagnie de Financement Foncier AAA/Aaa/AAA since its founding.

Their approach to rating covered bonds, of which *obligations foncières* are a specific type, takes into account their rating of the bond issuer (in the Company's case, Crédit Foncier de France) as well as their rating on the assets that cover the repayment of privileged liabilities.

The severe financial crisis that hit in mid-2007 prompted all three rating agencies to revise and formalize their assessment of the link between covered bond ratings and issuer ratings, mainly in consideration of potential cash flow mismatches between assets and liabilities. After much uncertainty as to the nature of these revisions, the rating methodologies of the three major rating agencies are likely to stabilize in 2010.

#### Standard & Poor's

Standard & Poor's new methodology for rating covered bonds, its "Revised Methodology and Assumptions for Assessing ALM Mismatch Risk in Covered Bonds", released on December 16, 2009, gives greater weight to the maturity gap that can be found in almost all covered bond programs, since it believes this has a significant impact on the link between the covered bond rating and the issuer rating.

This new approach takes the following factors into account when determining the credit rating of a new covered bond program:

- › cover pool asset credit risk;
- › asset-liability maturity gap risk;
- › the legal impact of issuer bankruptcy on cover pool assets;
- › operational and administrative risk;
- › counterparty risk.

This new approach categorizes bond programs into three types in accordance with the issuer's jurisdiction and its refinancing risk. These categories and the estimated ALM risk determine to what extent the covered bond rating may exceed the issuer rating. It then remains to be seen whether the credit enhancement provided (typically overcollateralization) is sufficient to justify the uplifting of the rating, after stress testing the risk of an asset sale to meet repayments and credit risk.

#### Moody's

Moody's rating methodology for covered bond programs is explained in its publication "Moody's Rating Approach to Covered Bonds", released on March 4, 2010. Their approach involves two steps.

Moody's first determines a target rating using its Expected Loss model, which assumes joint default of the issuer and the cover portfolio, each considered separately. The asset valuation takes into account asset credit risk, refinancing risk if the assets are sold because of a maturity gap, interest rate risk and currency risk.

The rating thus obtained may then be capped by Moody's estimation of the maximum uplift of the covered bond rating relative to the issuer rating. The difference between the two depends on the Timely Payment Indicator (TPI), which in turn depends on refinancing risk (i.e. the relative matching of expected asset and liability payments) and other factors, such as the operational risk of a change in the asset manager, swap termination risk, legal risk, and the issuer's flexibility in modifying the program.



## Fitch Ratings

Fitch's most recent publication on its rating methodology ("Covered Bonds Rating Criteria") was released on December 18, 2009. Fitch's ratings on covered bonds are mainly based on their probability of default but also take debt recovery factors into account. Since covered bonds can survive an issuer's bankruptcy, Fitch feels that the rating on a covered bond, based on its probability of default, can exceed the Issuer Default Rating.

To determine the disconnection between the program rating and the issuer rating, Fitch uses its "discontinuity factor", which expresses the probability that covered bond payments will be suspended or discontinued as a direct consequence of the issuer's bankruptcy.

The "D-Factor" has four weighted components:

- › the segregation of portfolio assets from the issuer (weighted at 45%);
- › the liquidity risk in the event of issuer default (35%);
- › alternative asset management opportunities (15%);
- › covered bond oversight, auditing and reporting (5%).

When estimating the probability of a covered bond default, Fitch checks whether the credit enhancement available after accounting for credit, liquidity, interest rate and currency risks is sufficient to justify the maximum rating uplift indicated by the "D-Factor".

Lastly, when Fitch has completed its assessment of default probability, it may increase its rating a notch or two depending on its estimation of the likelihood of debt recovery in the event of default.

## The AAA/Aaa/AAA ratings of Compagnie de Financement Foncier

### Rating agency methodology

#### Rated AAA/Aaa/AAA by the three main rating agencies since formation

- › The highly favorable legal framework for *obligations foncières*
- › The quality of cover pool assets
- › A prudent liquidity policy
- › A rigorous asset-liability management

Summary

In response to the financial crisis and issuer liquidity risk in 2008 and 2009, the three leading credit rating agencies have all modified their approach to rating covered bonds. All three have confirmed Compagnie de Financement Foncier's AAA/Aaa/AAA rating, even though the Company has made no change to its procedures, which already offered a very high level of security with respect to liquidity and ALM risk.

#### › S&P confirms its AAA/Stable rating of Compagnie de Financement Foncier's *obligations foncières* on January 18, 2010.

After releasing its new rating criteria last December 16, and putting almost the entire covered bond sector

on negative credit watch including, Compagnie de Financement Foncier's *obligations foncières*, S&P confirmed its AAA/Stable rating on the company's legal covered bonds on January 18, and moreover in Category 1 with 'low' ALM risk, thus giving its rating the greatest potential for upgrading relative to the rating on its parent company. This means that the *obligations foncières* rating could possibly be raised 7 notches above the rating of the parent company, Crédit Foncier, which is currently rated A. (see table hereafter).



Compagnie de Financement Foncier	ALMM * risk	Program category	Potential rating uplift	Parent company's rating	Obligations foncières rating
	Low	1	7	A/Stable /A-1	AAA/Stable

\* ALMM: Asset Liability Management Mismatch.

#### › Moody's article of January 21, 2010.

Moody's has re-affirmed its Aaa rating on Compagnie de Financement Foncier's *obligations foncières*, in light of:

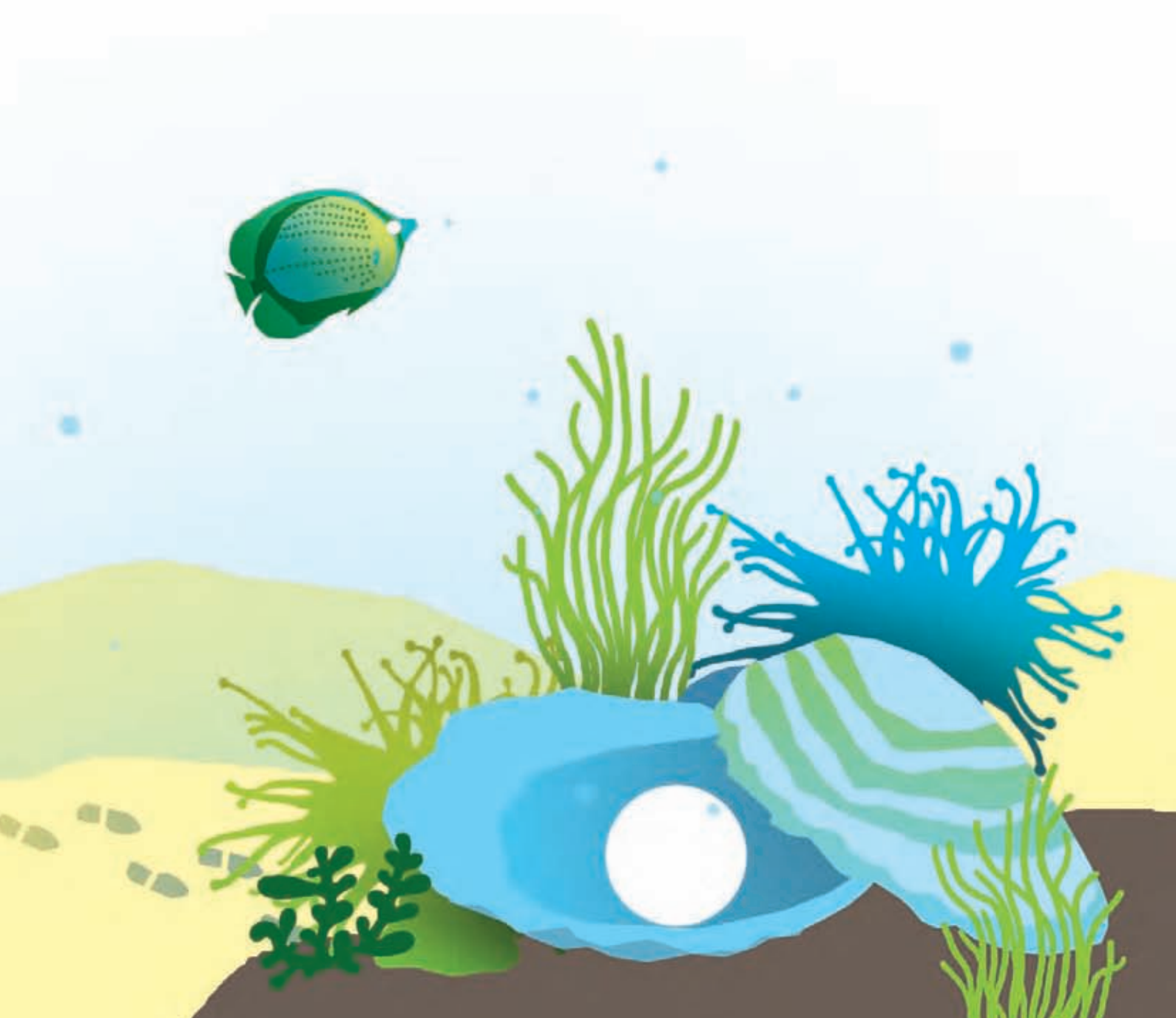
- the credit strength of the Company's parent and program sponsor, Crédit Foncier (Aa3),
- the high quality of Société de Crédit Foncier's cover pool,
- the Company's commitment to maintain an over-collateralization ratio of 105%,
- France's legal framework for SCFs and its protection from sponsor bankruptcy.

#### › Publication of a study by Fitch Ratings of March 17, 2010.

Fitch re-affirmed its AAA rating on Compagnie de Financement Foncier's *obligations foncières* program on March 17, 2010 mentioning:

- the probability of default of the Company as such;
- a D-Factor 12,9% allocated to the program, based on the legal framework for SCF, Fitch's assessment of risk to unpredictable funding situation of bankruptcy of the issuer, taking into account the size of the portfolio of liquid assets that the Company may challenge to the Central Bank and the management rules, and finally Compagnie de Financement Foncier quality of computer systems and the supervisory role given out by the Commission Banking.

# High quality and diversified assets



## A rigorous asset selection process

- › Strict asset eligibility criteria
- › Purchasing criteria that limit credit risk exposure
- › Internal credit rating tools for each type of risk

In addition to a transparent legal framework, a rock-solid business model and stringent risk management, Compagnie de Financement Foncier has a carefully selected and diversified portfolio of high quality assets.

## A rigorous asset selection process

Crédit Foncier has been a leading lender to individuals and local authorities since 1852.

Compagnie de Financement Foncier's observes a rigorous and prudent asset acquisition process. By implementing specific purchasing criteria for each asset class and powerful internal rating tools, it has built up a top quality portfolio of assets that are diversified both geographically and by type of counterparty. The public sector accounts for 53.6% of total exposures, with mortgage loans accounting for the remainder and replacement values.

### A strict selection process

While regulations ensure that the quality of eligible assets confer a high level of safety, Compagnie de Financement Foncier also uses additional filters on assets that limit its exposure to credit risk such as internal rating tools relevant to the specific assets being purchased.

Compagnie de Financement Foncier notably refrains from buying commercial property assets.

### *Public sector exposures*

#### French public loans and securities

The Company may be exposed to the following French public sector entities:

- › national government;
- › regions;
- › departments;
- › municipalities;
- › local government groups:
  - EPCI (municipality, agglomeration and urban communities, intermunicipal associations, etc.),
  - public health bodies, national public establishments (EPIC, EPA, etc.),
  - local public institutions (OPAC, OPHLM, CCI, SDIS, etc.).

Compagnie de Financement Foncier uses Groupe BPCE internal rating tool to select assets in the public sector segment.

Furthermore, these assets are intrinsically of high quality since they are implicitly guaranteed by the French Government and indefinitely.

### International public loans and securities

The international public financing activity consists of financing foreign local or regional authorities, notably by way of loans or subscribing to bond securities.

These counterparts benefit from a high credit quality due to the very strong rating of the countries in which these local governments are located, *i.e.* the euro area, Switzerland, Japan, Canada and the United States.

Acquisition of eligible international assets is subject to the internal rules of Compagnie de Financement Foncier, and approved by the executive bodies.

In the framework of the new Basel II regulations, Crédit Foncier has acquired internal rating tools for the international public sector assets in order to integrate the best practices proposed by these new risk standards. Development of its credit risk rating models was finalized in 2008 in collaboration with Crédit Foncier's Risk Department, Caisse Nationale des Caisses d'Epargne's Risk Department, and Standard and Poor's.

Crédit Foncier currently uses two default risk analysis models:

- › one for international local authorities outside the United States;
- › the other specific to local governments in the United States.

Standard & Poor's audit of the Company's internal credit rating model has confirmed Crédit Foncier's expertise in the financial analysis of foreign local authorities.

A model for estimating the Loss Given Default (LGD) on international local authority assets is in the final stages of development.

## ***Residential mortgage loans***

### Residential mortgage loans

Compagnie de Financement Foncier does not permit itself to buy loans on commercial real estate.

The process for selecting and purchasing mortgage loans involves two steps.

Loans are first originated by Crédit Foncier using a scoring method that considers the characteristics of the property to be financed, customer information and the historic probability of default.

A tool is then used to score residential mortgage loans and select those whose probability of default is below a certain threshold, and in some cases after an observation period.

Residential mortgage loans have two distinctive features:

- 1) their purpose, which is to finance a housing purchase;
- 2) the mortgage, which enables the loan to be secured with the underlying property. The mortgage enables the lender to be paid from the sale of the property before other creditors if the borrower defaults. Mortgage loans are approved in view of the ability to repay the loan, based on the borrower's salary and other ordinary income, and not on the property's current or estimated future value. Property valuations are only used to estimate the risk of loss in the event of default, and not to approve the initial loan. As a general rule, French banks must not approve a loan if the monthly installment exceeds 33% to 36% of the borrower's income.

In addition to the requirement that French mortgage loans must be approved on the basis of the borrower's ability to repay, and not on the value of the underlying property, the French market also offers other features that increase investor security. For example:

- the maximum allowable interest rate is hardly above the average historic rate on mortgage loans.
- the legislative and regulatory framework offers maximum protection for borrowers that is further strengthened by legal precedents that make lenders responsible when borrowers cannot repay because they are over-indebted and were not informed of borrowing risk when taking out the loan.
- the lender's responsibility is clearly specified. Granting a loan entails approving it, managing it and financing it, making the lender responsible for the entire lending process until repayment.

- measures to protect over-indebted borrowers when legal procedures are undertaken to collect on the loan or seize property.

One of the distinctive features of the French housing market has historically been the government's strong support. Some of its measures to facilitate housing purchases include interest-free loans, subsidized PAS loans to low-income households (which are guaranteed by the government and offer a low interest rate), PEL property savings plans, the Scellier Act and the tax deductibility of interest on home loans.

### Residential mortgage loan securitization tranches

Compagnie de Financement Foncier purchases only *senior* tranches with at least two AAA ratings and backed by residential mortgage loans whose quality is equivalent to French mortgage loans.

## Public sector exposures

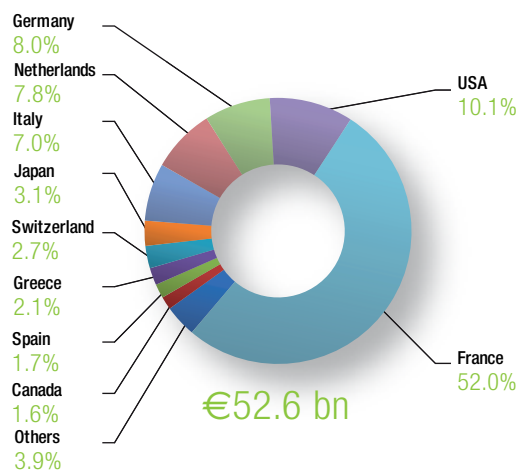
### Public sector exposures

- › Public authority exposures offer the highest credit ratings
- › 53.6% of all exposures, excluding replacement securities, are secured by a direct or indirect public guarantee
- › International diversification of exposure to 15 countries
- › Ongoing exposure diversification in other eligible countries

Summary

Public sector exposures consist of loans, commitments, liquidity guarantees and bonds that Compagnie de Financement Foncier finances at the best possible terms.

*Total outstanding to public sector at Dec. 31, 2009*



### In France

Regarding loans to the French public sector, the Caisses d'Épargne and Crédit Foncier share the business relationship with the borrower, in accordance with intragroup rules, while Crédit Foncier services the loans that Compagnie de Financement Foncier acquires. In 2009, Compagnie de Financement Foncier enabled Crédit Foncier to strengthen its leading position as a lender to local authorities in France.

During the year, Compagnie de Financement Foncier directly purchased €1.2 billion of French public sector receivables from Crédit Foncier.

### ***International exposures***

Crédit Foncier's international public finance department strives to provide tailor-made financing solutions for its international customers, by leveraging Compagnie de Financement Foncier's refinancing capacity.

This business continues to expand through the financing granted to foreign local authorities in the form of loans or bond issues.

SCF are allowed to invest in public sector entities within the European Community and the European Economic Area, and in Switzerland, the United States, Canada, Japan, Australia and New Zealand. Exposure to public authorities outside of the EEC must offer the highest credit rating to be eligible for SCF investment.

Compagnie de Financement Foncier funded almost €2.6 billion of new loans in 2009. Efforts to expand funding activities in foreign markets, in view of higher risk-adjusted returns, mainly targeted the Spanish and US markets (43%). To ensure the quality of these assets a minimum rating of AA was required. Crédit Foncier is now seen as a serious player in these markets and it intends to use this recognition to its advantage over the next few years. In the United States, Crédit Foncier was one of the first European credit institutions to support the government's new Build America Bonds, which were launched in 2009 to alleviate difficulties in municipal bond markets. These new bonds offer the highest level of seniority.

To take advantage of the opportunities offered by the financial and economic crisis and Compagnie de Financement Foncier's low cost of financing, the International public sector portfolio was diversified into new markets (Ireland, Czech Republic and Slovakia) and its presence was strengthened in the leading public financing markets of Continental Europe, North America and Japan.

At the end of 2009, outstanding exposure in this market totaled €22.6 billion.

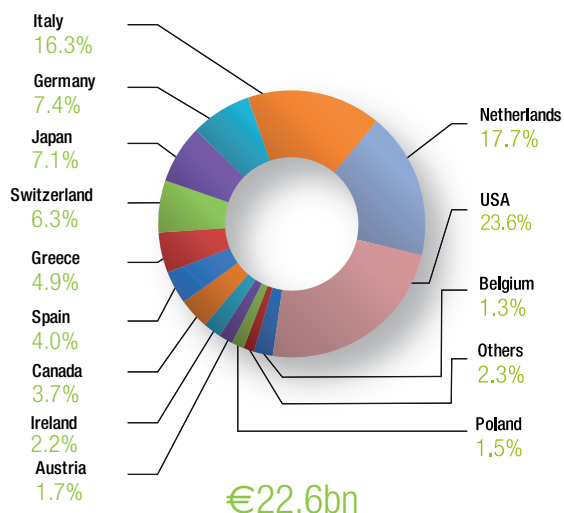
The organic growth of the International public sector also accelerated, with the opening of a new sales office for Crédit Foncier Group in Montreal in 2009, after one in Tokyo in December 2008 and in Geneva in 2007. To support this expanding international presence research is being conducted in local public sector markets and information is being gathered for the head office in Paris. Crédit Foncier and Compagnie de Financement Foncier are also working to build brand recognition by organizing road shows and developing partnerships with local banks and institutions.

Supported by Compagnie de Financement Foncier's refinancing capability, volume and profit targets for international public sector business will be pursued in 2010, to ensure the long-term success of this business.

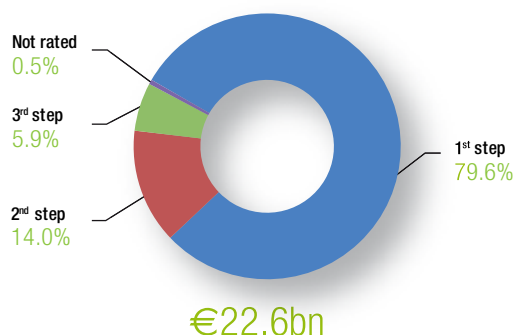
Crédit Foncier and Compagnie de Financement Foncier will continue to promote their presence in international markets by setting up new sales offices in 2010 and 2011.

Ongoing at 12/31/2009

by country



Breakdown of international public sector exposures  
by step rating



## Residential mortgage loans

### Residential mortgage loans

- > France: loans are purchased or refinanced with CFF
- > International:
  - senior tranches of exclusively European RMBS,
  - 94% of these are at least AAA rated,
  - Regularly stress tested.

### In France

The Company's assets consist of residential mortgage loans granted by Crédit Foncier and the AAA senior residential mortgage loan securitization units of FCC or similar securitization entities. Compagnie de Financement Foncier does not permit itself to buy loans on commercial real estate.

Crédit Foncier services the loans that Compagnie de Financement Foncier acquires.

In 2009, the Company pursued its policy of purchasing the residential mortgage loans originated by Crédit Foncier in France, while maintaining its strict risk management and asset selection criteria.

Compagnie de Financement Foncier acquired or refinanced €3.9 billion in Crédit Foncier residential loans granted to individuals.



## International

In international markets, residential loan financing activity involves purchasing and holding the most *senior* tranches of RMBS, which offer a much lower credit risk than directly issued mortgage loans.

In this market the Company holds all securities until maturity, since they are seen from a strategic perspective as being loans originated in neighboring continental European countries that offer a culture and legal environment and that is very similar to that in which Crédit Foncier has historically operated its mortgage lending business.

Securitization tranches offer the following advantages:

- › legal security, as a true sale of securities;
- › the credit enhancement provided to holders of the most *senior* tranches;
- › the “outsourcing” of loan servicing in foreign countries, in accordance with a branchless business model, unlike individual mortgage loans in France.

Lending standards have remained conservative in Continental Europe and are far removed from the “subprime” lending found in the US market. Compagnie de Financement Foncier only acquires loans when the borrower’s income is documented and his or her capacity to repay the loan is the main lending criterion, as opposed to the value of the mortgage property. The continental European market also offers high security to lenders, since borrowers cannot “walk away” from their loan obligations if housing prices fall and lenders also have various recourse against borrowers, such as attachment of wages.

Despite the economic downturn throughout the euro area in 2008, the loan portfolio has been resilient, with almost all ratings still in the Step 1 zone and 94% of these rated at least AAA and 74% still having a Basel II AAA rating. The Compagnie de Financement Foncier’s exposures are exclusively prime quality granular portfolios.

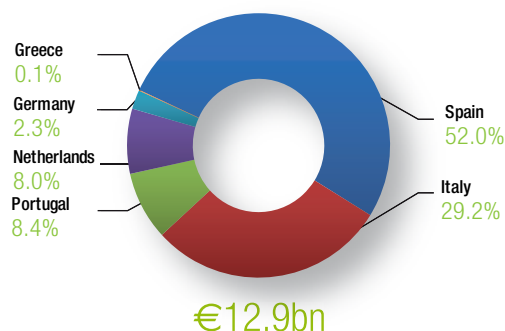
Beyond their external rating that held up very well on the international residential portfolio, Compagnie regularly submits all its lines to a battery of stress tests intended to measure its probability of yield loss or final loss in case of an unfavourable turn in the credit quality of the underlying loans. Under these assumptions, the portfolio transactions all continue to pay the expected interest and capital at the due dates.

This performance testifies to the quality of the CFF group’s asset selection process.

Given market conditions (with the primary market practically at a standstill since mid-2007), activity in this segment in 2009 consisted of €0.2 billion in secondary market purchases, in Dutch, Italian and Portuguese issues.

A similar volume of business is expected in 2010, as the market continues to restructure to regain investor confidence.

*Residential mortgage debt securitization  
units France excluded (securitized loans)*





A top-tier

**AAA/Aaa/AAA** rated

*obligations foncières* program



## Three pillars of development

### Benchmark and supplemental issues

- › In EUR or USD
- › Markets for each benchmark issue are made by at least five major banks
- › Supplements to existing benchmark issues add liquidity to the secondary market

### Private placements

- › Investor demand is met through currency, structure and format diversification

### Currency diversification

- › Liquid non-euro benchmark issues in AUD, CHF, GBP, JPY, CAD, USD

## Market environment

The global market for covered bonds is dominated by European issuers, which have historically been the leaders in this market, unlike the situation in the United States where a comprehensive legal framework would be necessary for a covered bond market to immerge.

The global market for euro-denominated covered bonds reached almost €1.4 trillion at the end of 2009.

In 2009, euro-denominated benchmark issues grew 27%, to €119 billion. Issuances were launched by an increasing number of players as there were 18 inaugural issuers in the covered bond market last year, bringing the total number to 59.

From January to May, the market saw mostly bank debt issues backed by government guarantees, with volume reaching €345 billion, with the French SFEF accounting for €35 billion of this. These issues, which offer short maturities, pushed up spreads and discouraged other issuers from entering the market. From January to April, only €14.7 billion of euro-denominated benchmark covered bonds were issued, compared to €60.1 billion over the same period in 2008.

In the second part of the year, from May to December, the ECB's covered bond purchase program, which began on May 7, gave the market a substantial boost. Under this program the euro system's central banks will purchase €60 billion of covered bonds in the primary and secondary markets until June 30, 2010. At the end of 2009 these bond purchases reached €28.7 billion and on February 26, 2010 totaled €38.1 billion.

This program has opened primary markets in various jurisdictions and for all maturities. A highly favorable narrowing of spreads accompanied the rush of new issues, as reflected in the narrowing of Compagnie de Financement Foncier's spread over French OAT (see chart on next page).

From May to September, €78.5 billion of covered bonds were issued. This period was followed by some consolidation and a return toward normalcy in the secondary market that was good for liquidity, which continues to be a key consideration for investors.

Spreads evolution



## The leader in the French *obligations foncières* market

Volatile market conditions and the arrival of new issuers in 2009 failed to perturb Compagnie de Financement Foncier, which was successful in implementing its selective issuance strategy, targeting pools of liquidity and confirming its position as a leading issuer of covered bonds and more specifically of *obligations foncières*. In addition to French and German investors, who historically account for 60% of the Compagnie de Financement Foncier's investor base, Japanese and Swiss investors were also very responsive to offerings throughout the year 2009, taking up almost 20% of issuance.

By the end of 2009, Compagnie de Financement Foncier had issued €15.8 billion of *obligations foncières*, which is 31% more than its target of €12 billion. The Compagnie de Financement Foncier's long standing presence in the primary market enabled it to meet its cost of funding and

duration targets and issue over 50% of French *obligations foncières*.

Public investors purchased 78% of Compagnie de Financement Foncier's issues (€12.3 bn), while private placements accounted for the remaining 22% (€3.5 bn).

The year saw two new euro benchmark issues, one for €1.25 billion and another for €1.5 billion, maturing in May 2021 and February 2012 respectively. The Company also maintained competitive spreads as it supplemented its euro benchmark issues with additional issuance under existing programs and a 1.8 billion CHF issue that makes Compagnie de Financement Foncier the first issuer of *obligations foncières* in this currency.

## An issuance program tailored to investors' needs

The private placement segment was marked in 2009 by a sharp narrowing of spreads, which fell by about 80 bp since January, and by strong demand from German investors.

Compagnie de Financement Foncier's agility and flexibility in this environment enabled it to meet the needs of private investors, and especially in terms of restructuring operations.

Lastly, to diversify the offering, the Compagnie de Financement Foncier also continued to expand Registered Covered Bond issuance for the German market.

Not satisfied with just providing issuance programs that meet investor needs, the Compagnie de Financement Foncier pursued proactive marketing efforts, despite the financial crisis's disruption of the market. In addition to road shows, conferences and other standard promotional actions, it also contacted more investors directly.

Its sales offices in Japan, North America and Switzerland are strengthening brand recognition in international markets, and in some cases have enabled direct syndication.

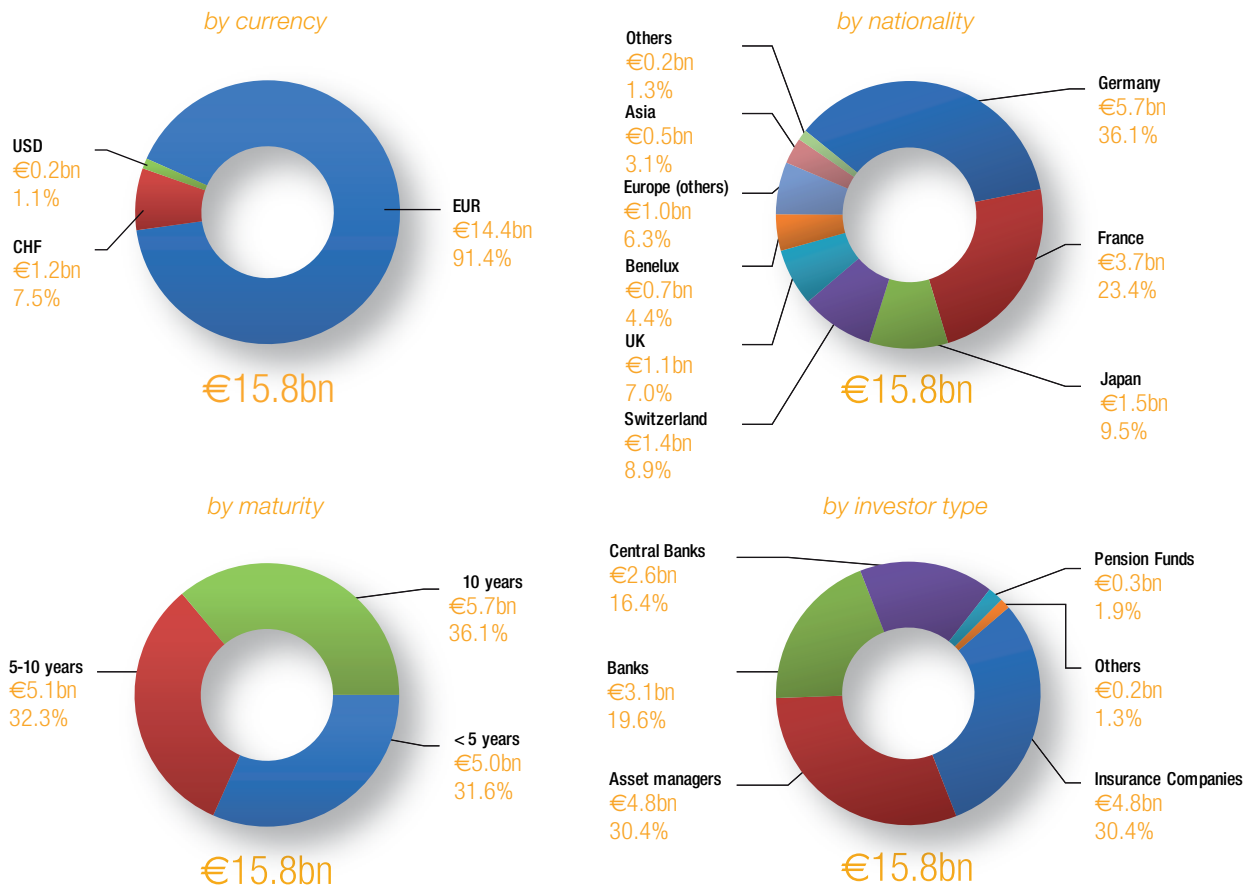
## Outlook for 2010

We expect covered bond issuance to grow substantially this year, as new issuers come into the market, spreads become more competitive and bonds maturing in 2010 increase the need for refinancing.

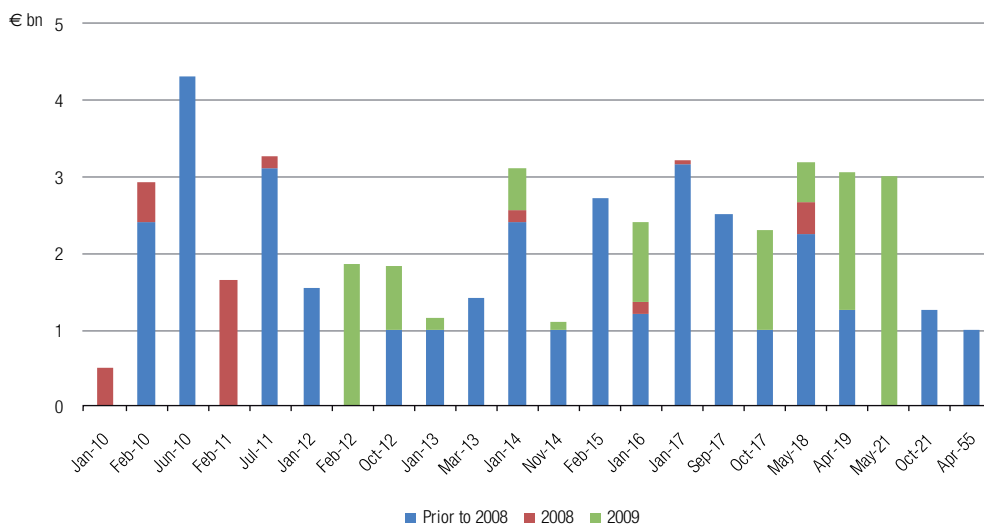
Under these conditions investors will be increasingly selective and will tend to prefer issuers with the strongest credit standing, such as Compagnie de Financement Foncier.

To further diversify our investor base and enter new markets, we have developed new formats for foreign jurisdictions. One example of this is the 6c exemption we were granted by the SEC in the United States on August 12 of 2009 that will enable us to issue in the U.S. market under Rule 144A. In this market, where the potential of covered bonds is just emerging, Compagnie de Financement Foncier 144A-compliant bonds will enable American investors to diversify their portfolios with high quality *obligations foncières*.

## Breakdown of issuance in 2009



## Euro bond issues







Design, creation, production:



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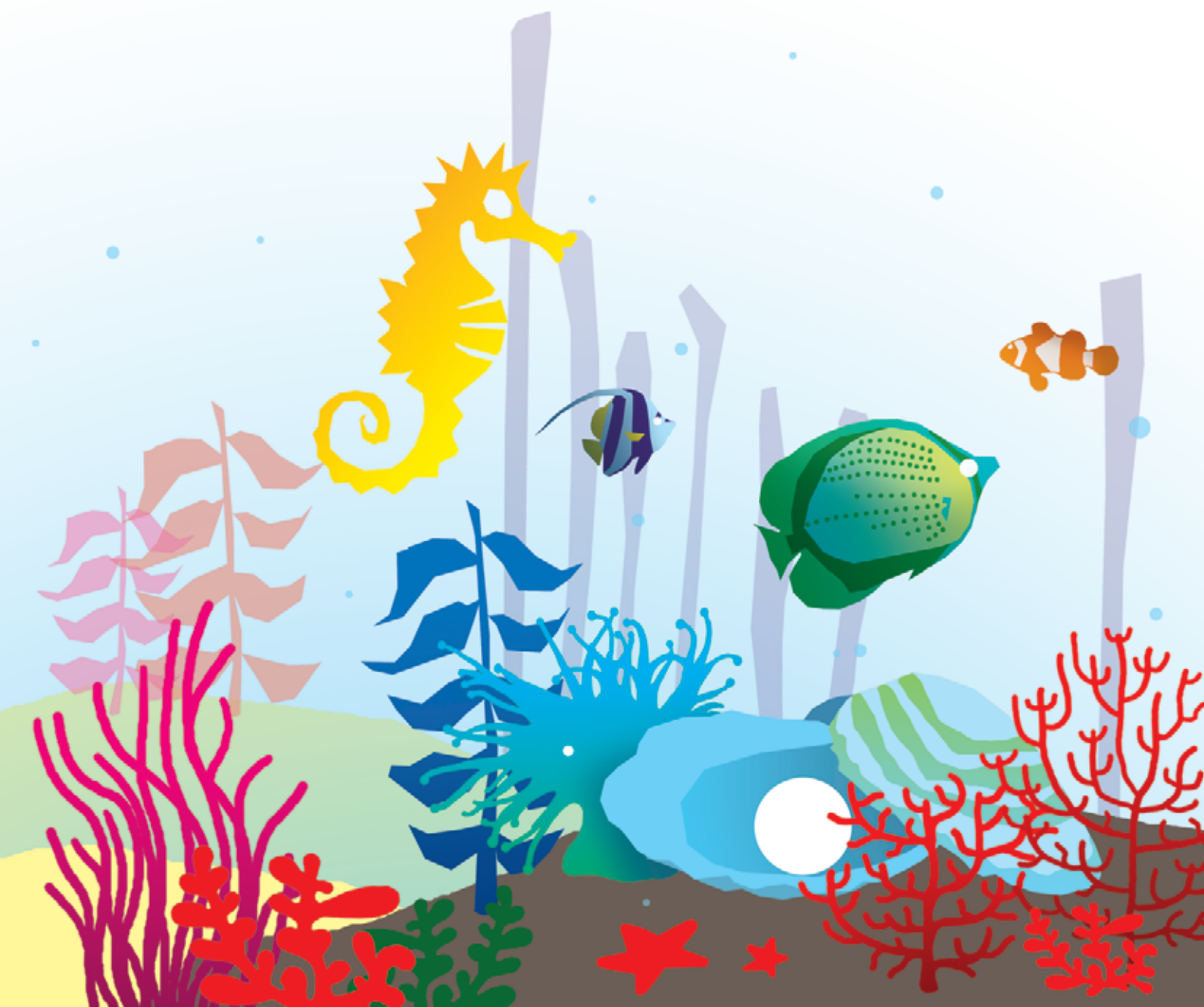
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**COMPAGNIE DE  
FINANCEMENT  
FONCIER**

**CREDIT FONCIER GROUP**

4, quai de Bercy  
94224 Charenton-le-Pont Cedex - France  
Tel.: + 33 (0)1 57 44 92 05



# Annual report 2009

Reference document



COMPAGNIE DE  
FINANCEMENT  
FONCIER

CREDIT FONCIER GROUP

The Compagnie de Financement Foncier 2009 Reference Document comprises three separate volumes:

- VOLUME 1** Activity report
- VOLUME 2** Financial report
- VOLUME 3** Risk management report, Chairman's report & Legal information

This is a free translation into English of Compagnie de Financement Foncier 2009 Annual Report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails.

The original document was filed with the *Autorité des marchés financiers* (French Financial Market's Authority) on April 1<sup>st</sup>, 2010, in accordance with Article 212-13 of its general regulation and registered under the number D.10-0207 and represents the French "Document de Référence" of the Compagnie de Financement Foncier. As such, it may be used in support of a financial transaction when accompanied by a prospectus duly approved by the AMF.



AUTORITÉ  
DES MARCHÉS FINANCIERS

# Volume**2**

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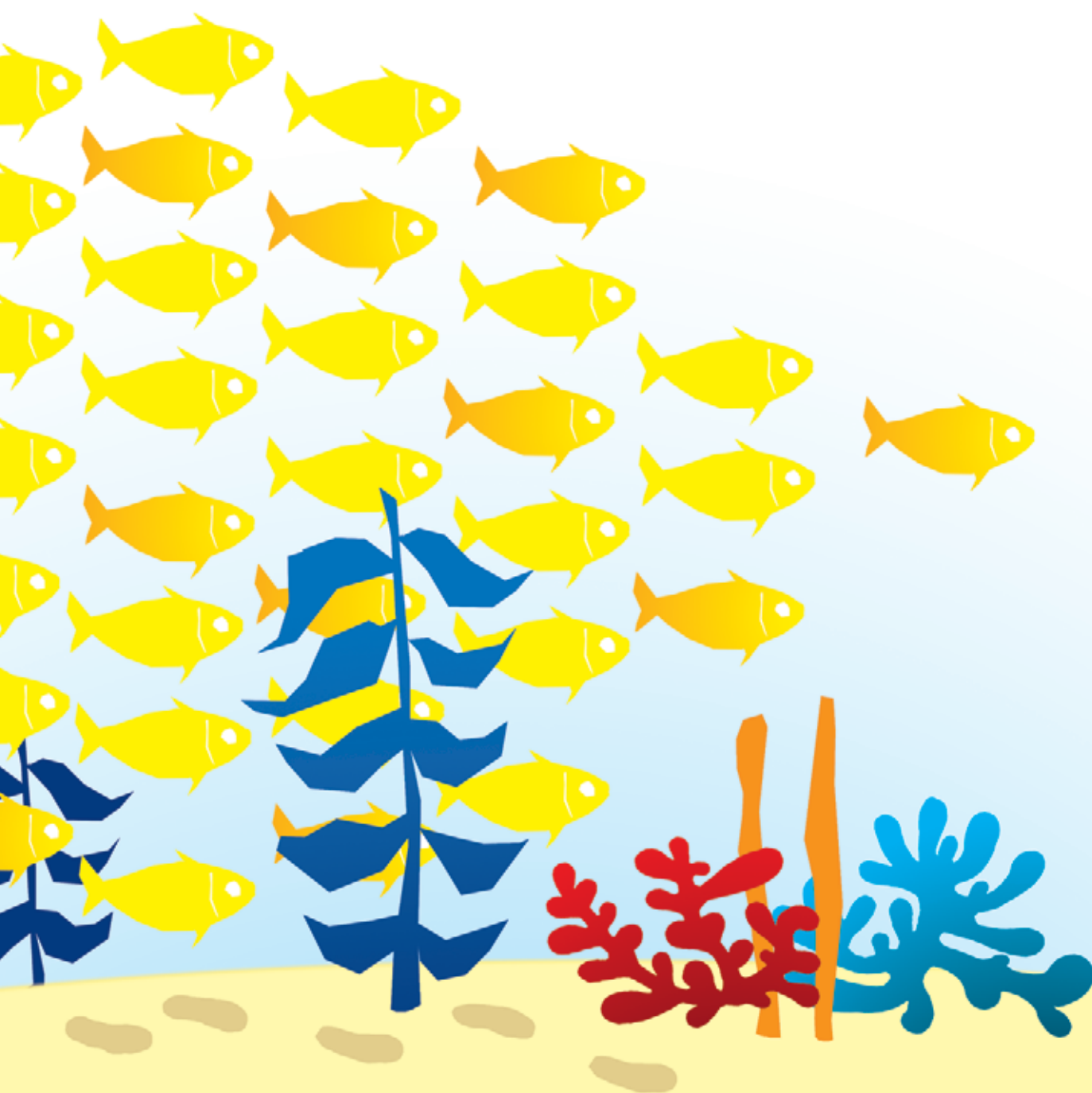
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# Management Report for 2009



In 2009, Compagnie de Financement Foncier adapted its management policy to the still difficult economic and financial conditions while conserving its main objectives:

- › maintaining liquidity to ensure at all times the servicing of privileged debt;
- › preserving the high quality of its assets and managing risk, and;
- › financing its parent company's activity.

Acquisitions related mainly to residential mortgage loans in France for €3.6 billion and exposures to public entities abroad for €2.6 billion.

Compagnie de Financement Foncier continued to be a major issuer of secured debt in 2009, issuing a total of nearly €16 billion in *obligations foncières*.

This activity resulted in an increase in total balance sheet, from €95.9 billion at end-2008 to €98.2 billion at end-2009. Net income grew strongly, due in particular to a non-recurring gain (of €61 million after tax) generated by a debts restructuring operation. Net income for 2009 came to €175 million compared with €62 million in 2008.

Compagnie de Financement Foncier's financial management rules, which proved their effectiveness in a particularly high risk environment, and its conformity with its status as a *société de crédit foncier* (French real property company) enabled it to obtain confirmation of the top credit quality ratings assigned to it by the three main independent ratings agencies for the totality of its privileged debt.

## Analysis of assets

### Transactions in 2009

#### **Acquisitions of mortgage debt**

In 2009, Compagnie de Financement Foncier continued to acquire retail loans produced by Crédit Foncier in an amount of around €0.9 billion each quarter. One third of these acquisitions, *i.e.* €1.2 billion out of a total of €3.6 billion, concerned subsidised first-time home buyer loans and interest-free loans as Crédit Foncier significantly increased its lending activity in the low-income retail segment in 2009.

Mortgage notes guaranteed by first-rate mortgage loans or equivalent collateral subscribed from Crédit Foncier remained stable at €9 billion, through renewal of the notes that matured in 2009.

Indirect acquisitions of mortgage debt outside France were limited, as in 2008, to a few secondary market transactions for an aggregate total of €0.2 billion. This activity is carried out through preferred units in residential mortgage securitisation funds in continental Europe.



## Public sector financing

Public sector financing concerned mainly foreign public entities. €2.6 billion were indeed extended to international public counterparties mainly via subscription to securities issues. These issuers or their public guarantors are located in various countries within the European Economic Area (transactions totalling €1.9 billion) and in North America (€0.5 billion in the United States and €0.1 billion in Canada).

A limited amount of €0.4bn allowed the Compagnie de Financement Foncier to refinance the loans granted by the Crédit Foncier to local authorities and to the French State.

## Cash transactions

To ensure at all times sufficient liquidity to meet its privileged debt repayment commitments, particularly over a twelve-month horizon, Compagnie de Financement Foncier took advantage throughout the year of the refinancing opportunities offered by the European Central Bank (ECB). Thus, Compagnie de Financement Foncier took part in three refinancing operations for amounts of respectively between €2 billion and €3 billion in the first half of 2009.

## Asset evolution

Pursuant to its status as a *société de crédit foncier*, Compagnie de Financement Foncier's assets are divided into three main categories:

- › secured loans as defined in Articles L. 515-14 and L. 515-16 of Monetary and Financial Code backed by a first-rank mortgage (or equivalent real estate security or guarantee);
- › exposures to public authorities as defined in Articles L. 515-15 and L. 515-16;
- › replacement securities as defined in Article L. 515-17, limited to 15% of the nominal value of the privileged resources.

With the exception of the last category, which corresponds to cash investments to credit institutions, eligible assets must consist of either:

- › loans purchased or originated by the Compagnie, in accordance to the Articles L. 515-14 and L. 515-15;
- › senior securitisation tranches whose underlying assets include at least 90% of those assets authorised by law to be purchased and held directly by the Compagnie in accordance to the Article L. 515-16;
- › debt securities issued or guaranteed by public authorities in accordance to the Article L. 515-15;
- › promissory notes that can first-ranked securitised mortgage or other guaranteed loans in accordance to the Article L. 515-16-1.

In Compagnie de Financement Foncier's case, certain secured loans are also guaranteed by the French government: they were granted either using the FGAS mechanism (*Fonds de garantie de l'accès sociale à la propriété*, or Guarantee Fund for Social Access Ownership Loans), or are loans to the subsidised sector.

The latter includes subsidised social access loans guaranteed by the French government until 1995, when the scheme was abolished. Crédit Foncier, which had a virtual monopoly on their distribution, transferred its entire production of subsidised loans to Compagnie de Financement Foncier when it was founded in 1999. No new production has occurred in this portfolio.

In addition, a part of the pure mortgage loans is covered against credit risk by an indirect financial guarantee from a European public body.

Broken down into these three categories, Compagnie de Financement Foncier balance sheet for the last three years are as follows:

	as of December 31, 2009		as of December 31, 2008		as of December 31, 2007	
	€ million	% balance sheet	€ million	% balance sheet	€ million	% balance sheet
<b>Secured loans - Articles L. 515-14 and 16</b>	<b>43,841</b>	<b>44.6%</b>	<b>43,574</b>	<b>45.4%</b>	<b>45,016</b>	<b>47.7%</b>
State-subsidised mortgage loans	957	1.0%	1,251	1.3%	1,599	1.7%
Mortgage loans guaranteed by the FGAS	7,320	7.5%	6,713	7.0%	6,976	7.4%
Other mortgage loans	11,693	11.9%	10,262	10.7%	10,398	11.0%
Senior mortgage-backed securitisation tranches	14,310	14.6%	15,666	16.3%	17,428	18.5%
Other loans with real estate guarantee	516	0.5%	584	0.6%	1,028	1.1%
Mortgage notes	9,046	9.2%	9,097	9.5%	7,586	8.0%
<b>Exposures to public authorities - Articles L. 515-15 and 16</b>	<b>41,741</b>	<b>42.5%</b>	<b>40,225</b>	<b>41.9%</b>	<b>33,532</b>	<b>35.5%</b>
State-subsidised public loans	253	0.3%	285	0.3%	350	0.4%
Other public loans	20,077	20.4%	21,217	22.1%	17,227	18.2%
Public entity securities	13,946	14.2%	11,139	11.6%	8,108	8.6%
Securitisation units of public debt	7,465	7.6%	7,584	7.9%	7,847	8.3%
<b>Other assets (interest on IFAT, adjustment accounts, goodwill, etc.)</b>	<b>3,209</b>	<b>3.3%</b>	<b>3,718</b>	<b>3.9%</b>	<b>4,726</b>	<b>5.0%</b>
<b>Replacement securities - Article L. 515-17</b>	<b>9,454</b>	<b>9.6%</b>	<b>8,425</b>	<b>8.8%</b>	<b>11,123</b>	<b>11.8%</b>
<b>Total assets</b>	<b>98,245</b>	<b>100.0%</b>	<b>95,943</b>	<b>100.0%</b>	<b>94,397</b>	<b>100.0%</b>

Taking into account the acquisitions for the year and debt amortisation recorded during the year, the main changes in the assets base were as follows:

- › a good balance between residential mortgage and public sector assets, with a slight increase in the weight of the public sector, which accounted for 42% of assets at December 31, 2009.

If mortgage loans benefiting from an explicit guarantee from the French state are taken into account, outstanding public sector debt came to €50 billion at the end of 2009, up by €2 billion during the year. Mortgage debt remained stable at €35.5 billion.

If debt with an indirect guarantee from another European state is also taken into account, public sector debt totalled €52.6 billion at end-December 2009, *i.e.* 54% of the total assets;

- › a €0.6 billion increase in subsidised first-time homebuyer loans with a guarantee from FGAS;
- › a strong decrease in the senior RMBS portfolio due to amortisation of the debt. This portfolio accounted for less than 15% of total assets at end-2009;
- › within the public sector segment, the weight of financing in the form of securities rather than loans increased at international level, as Compagnie de Financement Foncier conducted its business mainly in this form during the year;
- › the extinguishing subsidised sector continued to decline,

totalling €1.2 billion at end-2009 compared with €1.5 billion at end-2008;

- › a €1 billion increase in replacement securities which for the most part represent financing with a maturity of less than six months extended to Crédit Foncier part of which is guaranteed by a portfolio of loans in application of Article L. 211-38 of the French Monetary and Financial Code. At December 31, 2009, 71% of the loans granted to Crédit Foncier were collateralised.

The diversification in terms of type of guarantee attached to the assets (first-rate mortgage loans, counterparties consisting of government bodies, public entities and local authorities) is echoed at geographic level. More than one third of the assets, corresponding to a total of €36 billion at December 31, 2009, are located outside France. The weight of international assets has remained stable over the past few years (36.5% in 2009, 36.2% in 2008 and 35.0% in 2007).

The geographic breakdown changed slightly in 2009, mainly due to:

- › acquisitions of securities of public entities, which in 2009 concerned a larger number of European countries and the United States;
- › the natural run off of debt, particularly units of RMBS

securitisation funds whose assets are located mainly in Spain, Italy, Portugal and the Netherlands.

At the end of 2009, the main positions by country remained unchanged, with debt outside France breaking down as follows:

- › Spain (€7.8 billion) and Italy (€7.5 billion), each representing close to 8% of total assets;
- › United States (€5.3 billion) and Netherlands (€5.1 billion), each representing 5% of total assets;
- › Germany, which represented 2% of total assets;
- › Japan (€1.6 billion), Switzerland (€1.4 billion), Portugal (€1.2 billion), Greece (€1.1 billion) and Canada (€0.8 billion), with amounts representing between 0.5% and 2% of total assets;
- › lastly, in smaller amounts representing less than 1% of total assets, nine other European countries with financing in amounts of between €9 million and €0.5 billion.

## Analysis of liabilities

### Transactions in 2009

In 2009, Compagnie de Financement Foncier remained active in the secured debt market with total issuance of €15.8 billion, with a more sustained pace of issuance in the second half.

Activity in the first half was more moderate, with new issues amounting to €5.1 billion, in line with the 2008 issuance programme which had totalled €8.5 billion for the year.

The financing programme was carried out mainly (78%) in the form of public issues, for the most part in euro. In particular, Compagnie de Financement Foncier issued two new benchmark bonds, a €1.25 billion issue in May with a 12-year maturity and a €1.5 billion issue in November maturing in February 2012. As these amounts exceeded €500 million, these commitments were approved by the Specific Controller in accordance with the regulations applicable to *sociétés de crédit foncier*.

At the counterparty's request, Compagnie de Financement Foncier restructured debt amounting to \$1.8 billion, which resulted in repayment of 11 lines, the unwinding of the related swaps and the issue of new securities for an equivalent amount and maturity. These operations generated a profit before tax of €92 million.

In 2009, Compagnie de Financement Foncier also confirmed its position as a leading issuer of covered bonds in Swiss francs, with CHF1.8 billion issued in the primary market. It also strengthened its presence in the German market by issuing registered covered bonds for €2.4 billion.

Lastly, to maintain the high level of security offered to holders of *obligations foncières*, Compagnie de Financement Foncier took out an 8-year loan of €1 billion with no privilege, which means that repayment cannot be made until the interests of the holders of secured debt have been settled in full; this loan has been placed with Crédit Foncier.

In the middle of the year, Compagnie de Financement Foncier increased its share capital as the result of its shareholders' decision to reinvest the totality of its dividends. Crédit Foncier subscribed to 5,250,000 new shares, thereby raising the share capital of its subsidiary from €924,000 to €1,008,000.

### Changes in liabilities

Pursuant to regulations concerning *sociétés de crédit foncier*, Compagnie de Financement Foncier's balance sheet can be divided into two main classes:

- › Privileged resources that legally protects bondholders by guaranteeing priority repayment and compliance with payment schedules, even in the event of issuer default or default of its parent company. Due to this highly secure legal framework and the commitments taken by Compagnie de Financement Foncier concerning, in particular, the quality of its assets and its ALM management, the three leading credit rating agencies have consistently granted their highest ratings to this privileged resources since the company's incorporation;
- › Other non-privileged debt helps reinforce the security of privileged debt holders. These liabilities that come - in terms of debt-ranking - after the privileged liabilities present different level of risks in the event of payment difficulties for the company. They consist of unsecured debt, subordinated debt and of shareholders' equity, liabilities essentially provided by the Crédit Foncier.

Based on these categories, Compagnie de Financement Foncier's liabilities are broken down as follows for the last three years:

	as of December 31, 2009		as of December 31, 2008		as of December 31, 2007	
	€ million	% balance sheet	€ million	% balance sheet	€ million	% balance sheet
<b>Privileged resources</b>	<b>83,946</b>	<b>85.4%</b>	<b>83,399</b>	<b>86.9%</b>	<b>82,539</b>	<b>87.4%</b>
<i>Obligations foncières</i>	81,957	83.4%	79,960	83.3%	79,395	84.1%
Other privileged resources	1,989	2.0%	3,439	3.6%	3,144	3.3%
<b>Non-privileged resources</b>	<b>14,299</b>	<b>14.6%</b>	<b>12,544</b>	<b>13.1%</b>	<b>11,859</b>	<b>12.6%</b>
Unsecured debt	8,537	8.7%	6,905	7.2%	6,130	6.5%
Subordinated debt and similar debt	4,176	4.3%	4,224	4.4%	5,144	5.4%
of which redeemable subordinated notes (RSN)	2,100	2.1%	2,100	2.2%	2,900	3.1%
of which participating loans	1,350	1.4%	1,350	1.4%	1,350	1.4%
Shareholders' equity, provisions and FRBG	1,586	1.6%	1,415	1.5%	585	0.6%
<b>Total passif</b>	<b>98,245</b>	<b>100.0%</b>	<b>95,943</b>	<b>100.0%</b>	<b>94,397</b>	<b>100.0%</b>
Shareholders equity and related items	2,936	3.0%	2,765	2.9%	1,935	2.1%

During 2009, the amount of privileged resources has slightly increased despite the significant volume of new issues. Privileged resources totalled €83.9 billion at December 31, 2009 compared with €83.4 billion at the end of 2008.

Debt repayment reached a high level due to the maturing of previous *obligations foncières* issues and the exercise by investors of the prepayment option offered on some lines. In 2009, exercise of these options concerned debt amounting to €1.1 billion.

The weight of non-privileged debt, representative of the security enjoyed by *obligations foncières* bondholders, increased to almost 15% of total liabilities at December 31, 2009.

This rise in the level of overcollateralization resulted mainly from an increase in unsecured debt, caused by three main factors: a new issue of €1 billion in 2009, an increase in securities pledged with the ECB under repurchase agreements, up from €2.5 billion at end-2008 to €3 billion at end-2009 and, lastly, an increase of €0.8 billion in deposits received from financial counterparties as guarantees for derivatives transactions.

Out of the bonds benefitting from the privilege, 23 lines are particularly liquid as their original amounts were over €500 million and because of the market making agreement signed with over 20 banks to organise their secondary market. These bonds, whose outstanding amounts totalled €49.2 billion at December 31, 2009, represent the benchmark yield curve for Compagnie de Financement Foncier's privileged resources.

Bonds	SICOVAM or ISIN code	Repayment date (day/month/year)	Outstanding issued in M€
CFF 5.25% January 2010	FR0010633784	20 01 2010	500
CFF 3.75% February 2010	FR0010391029	26 02 2010	2,925
CFF 5.625% June 2010	FR0000497398	25 06 2010	4,300
CFF 3.875% February 2011	FR0010582312	11 02 2011	1,650
CFF 4% July 2011	FR0010101824	21 07 2011	3,250
CFF 3.625% January 2012	FR0010379248	16 01 2012	1,550
CFF 2% February 2012	FR0010821298	17 02 2012	1,850
CFF 4% October 2012	FR0010422600	25 10 2012	1,820
CFF 4.50% January 2013	FR0010526988	09 01 2013	1,150
CFF 5.375% March 2013	FR0000485724	02 03 2013	1,400
CFF 4.25% January 2014	FR0010039149	29 01 2014	3,100
CFF 4.375% November 2014	FR0010541946	19 11 2014	1,100
CFF 6.125% February 2015	FR0000499113	23 02 2015	1,500
CFF 4.75% June 2015	FR0010489831	25 06 2015	1,200
CFF 3.375% January 2016	FR0010271148	18 01 2016	2,395
CFF 3.75% January 2017	FR0010157297	24 01 2017	3,200
CFF 4.625% September 2017	FR0010532762	23 09 2017	2,500
CFF 4.125% October 2017	FR0010422618	25 10 2017	2,305
CFF 4.50% May 2018	FR0000474652	16 05 2018	3,175
CFF 4.375% April 2019	FR0010464321	25 04 2019	3,045
CFF 4.875% May 2021	FR0010758599	25 05 2021	3,000
CFF 5.75% October 2021	FR0000487225	04 10 2021	1,250
CFF 3.875% April 2055	FR0010292169	25 04 2055	1,000

## Prudential ratios

As a *société de crédit foncier*, Compagnie de Financement Foncier is required to comply with specific prudential ratios that measure the level of security of its privileged debt issues; these ratios are validated twice a year by the Specific Controller and communicated to the French Banking Commission (Commission bancaire).

First of all, Compagnie de Financement Foncier measures the coverage ratio which corresponds to the ratio of risk-weighted assets to privileged debt and must at all times exceed 100%. Risk-weighting reduces the value of some assets that do not provide an optimum level of security. This is the case of securitization units and guaranteed loans rated lower than step-1 credit quality. Securities or loans pledged with the ECB or placed under repurchase agreements with other credit institutions and the portion

of loans whose loan-to-value exceeds the regulatory threshold of eligibility for financing by privileged debt are also deducted from the assets.

At December 31, 2009, after these deductions, the assets retained for coverage purposes amounted to €92.7 billion out of a total of €98.2 billion; given total privileged debt amounting to €83.9 billion, the coverage ratio stood at 110.5% at end-2009, in line with the 110.8% ratio recorded at end-2008.

Compagnie de Financement Foncier also measures compliance with the limits on holdings of certain assets. These were as follows at December 31, 2009:

- › guaranteed loans accounted for less than 2% of assets, very far below the 35% regulatory limit;
- › mortgage notes accounted for 9.2% of assets, which is close to the regulatory limit of 10%;

› the value of replacement securities equalled 10.1% of the nominal value of privileged resources, well below the 15% limit.

Lastly, the regulations require that the amount not eligible for refinancing by privileged resources be compared with the amount of non-privileged liabilities, which must always be higher. The aim is to determine the portion of the loan, mortgage or guaranteed loan, corresponding to the loan-to-value overrun relative to 80% for housing loans to individuals, 100% for loans with an SGFGAS guarantee and 60% for all other loans. These percentages, calculated by dividing the value of the collateral by the principal still outstanding, are determined after the annual revaluation of pledges provided for in the regulations.

LTV overruns must be measured on all loans, whether held directly following acquisition or production by Compagnie de Financement Foncier, or indirectly, when these loans are the underlying assets for securitisation units, mortgage notes and loans contributed as collateral.

At December 31, 2009, loans for which a loan-to-value overrun was observed amounted to €471 million, of which €19 million on securitisation units, €215 million on pledged loans and €237 million relating to directly held loans. This amount remains very far below total non-privileged debt which amounted to €14.3 billion. At the end of 2008, loan-to-value overruns amounted to €225 million compared with non-privileged liabilities totalling €12.5 billion.

Based on its rules for monitoring and managing risk, Compagnie de Financement Foncier determines the average LTV on acquired mortgage loans, which provides information on changes in invested capital and the annual revaluation of assets provided as collateral.

The ratio between the value of collateral and the outstanding principal of the portfolio was 59.5% at 31 December 2009, up slightly compared to the end December 2008 figure of 53.4%, which is essentially due to a downwards revision of valuations on certain properties of 5% in average. The procedures for reviewing and revaluing the properties underlying loans and their results are set out fully in the Risk Report and are subject to an annual report from the Specific Controller.

The loan outstandings used for this calculation amount to

more than €20 billion at end 2009. A major part of this portfolio benefits from guarantees from the French State in addition to property collateral, and consists of loans from the subsidised sector and those guaranteed by the FGAS, making a total of €8.3 billion; of the balance, an outstanding amount of €3 billion is indirectly covered by another European State.

Furthermore, in the course of 2009, Compagnie de Financement Foncier continued to maintain liquidity ratios well above the minimum requirements set by banking regulations because of its cash commitments one year out. Other prudential ratios applicable to financial institutions are monitored by Crédit Foncier Group on a consolidated basis.

## Analysis of net income

### *Net banking income*

Net banking income came to €362 million in 2009, up significantly compared with €187 million in 2008.

The interest margin increased very substantially due, in equal parts, to a non-recurring gain of €92 million recorded on a debt restructuring operation carried out at an investor's request, and increased profitability of loans and flows over the year.

These more recurrent elements are due to various factors:

- › recent production in the international public sector, whose weight in the balance sheet has risen significantly and which generate substantially higher net margins, given the crisis, than those on the acquisition of loans produced by Crédit Foncier;
- › the cost of financing, which although it rose in 2009 as the result of the financial crisis, benefited from the favourable refinancing conditions for debt pledged with the ECB;
- › adjustments in the interest rates applied to loans entered into with Crédit Foncier enabling Compagnie de Financement Foncier to adapt immediately to negative trends in refinancing rates.

Interest expense includes interest on subordinated debt which came to €87.8 million in 2009 compared with €222.6 million in 2008. This change reflects the fall during the year in the money market rates used as the reference for interest paid and, to a lesser extent, the reduction in outstanding subordinated debt resulting from the conversion into capital in mid-2008 of €0.8 billion of redeemable subordinated debt securities. The outstanding amount remained stable in 2009 at €3.5 billion and the participating loan, which remained unchanged at €1,350 million, once again reached its ceiling rate, *i.e.* 2.5 points above the TAM<sup>(1)</sup> for the period. For this security and the redeemable subordinated securities, the portion of interest corresponding to excess remuneration paid above the money market rates came to €44.3 million in 2009.

Commission income decreased due to a lower level of penalties paid on prepayments and loan renegotiations, which were less frequent in 2009. Commission income came to €19 million in 2009 compared with €30 million in 2008. The decrease in net commissions is also attributable, for €3 million, to changes in the calculation rules for custody fees, which are now recognised as accrued expenses whereas they were previously recognised as expenses due.

An unrealised gain of €1.6 million was recorded on the investment portfolio following an increase in the value of some long-term securities in the portfolio. In 2008, an unrealised loss of €7.5 million had been recorded on this portfolio and banking income also takes into account the cost of hedging a number of assets with Crédit Foncier.

This charge corresponds to an asset repurchase guarantee in the event of a credit rating downgrade and to a credit risk hedge on more than €3 billion of mortgage loans whose risk, beyond a certain threshold, was indirectly transferred to a AAA-rated public entity. A charge of €2.3 million was recognised for this in 2009.

### **Gross operating income**

Gross operating income also increased in 2009, at €262 million compared with €81 million in 2008.

Operating expenses mainly account for commissions

paid to Crédit Foncier for its role as a service provider to Compagnie de Financement Foncier, in particular for ALM management and for the administrative, accounting and financial management of the company.

The subsidised sector, which by nature is extinctive, posted a reduction in management expenses from €16.8 million to €13.7 million over the year and tracks the interest rate margins posted to net banking income (NBI).

Management fees paid in respect of the competitive sector were revised downward in 2009 thanks to application, from 2009, of the new service fees agreement between Compagnie de Financement Foncier and Crédit Foncier. Despite the increase in outstanding debt during the year, management fees came to €59 million in 2008 versus €57 million in 2009.

Furthermore, one should note that Compagnie de Financement Foncier does not use the Crédit Fournisseur to finance working capital requirement of the activity; the provider bills are timely paid in accordance with the deadlines inherent to the budgeting process which subordinates any rule to the validation of the empowered Budget Administrator.

The amortisation expense corresponds exclusively to amortisation of the goodwill arising from the difference between the fair market value and the net book value of the items transferred to Compagnie de Financement Foncier in October 1999, fully amortised in June 2009. Amortisation thus came to €2.5 million in the first half of 2009. It amounted to €5.3 million for the full year in 2008.

### **Cost of risk**

In 2009, Compagnie de Financement Foncier recognised a charge of €4 million for cost of risk compared with a net reversal of €4 million in 2008. The cost of risk nonetheless remains very low compared with the size of the outstanding debt held.

The cost of risk comprises various elements:

- › allowance to provisions and impairment of €6.4 million;
- › reversals of provision and impairment of €2.6 million;
- › total losses of €3.3 million, of which €1.7 million is covered by impairment provisions;
- › gains amounting to €1.2 million on amortised loans.

<sup>(1)</sup> TAM (*Taux Annuel Monétaire*): a French floating benchmark rate calculated by annualising the latest twelve monthly overnight average rates



To measure the overall risk charge, the income or expense charged to net banking income in respect of interest on doubtful loans must be taken into account as well as the cost of risk on capital flows.

In 2009, an identical trend was recorded in interest income and expense. An expense of €1.7 million for allowances to provisions and net losses was charged to net banking income in 2009 compared with income of €0.3 million in 2008.

Therefore in 2009, the global cost of risk on capital and interest came to €5.8 million compared with income of €4.3 million in 2008. This change is described in more detail in the section on credit risk below.

### ***Pre-tax income on ordinary activities***

Earnings before taxes amounted to €258 million for financial year 2009 against €85 million for the previous year. After adding back the €44.3 million interest rate mark-up paid to Crédit Foncier on subordinated debt, gross income for the year stood at €302.6 million. This amount can be compared to the potential risk attaching to assets held, which is estimated as the value of doubtful loans net of provisions and depreciation in the private sector and not guaranteed by the state (ex subsidised sector and ex loans guaranteed by the FGAS), i.e. €156.8 million. All of the theoretical risk is thus covered by this year's gain, without exercising other guarantees: own funds of €1.580 billion, subordinated debt of €4.176 billion or other subordinated assets of €8.537 billion.

### ***Net income***

The tax expense for 2009 came to €83 million, consisting of current income tax amounting to €87 million, a tax credit of €1.6 million on securities in Japanese yen and reversal of a provision for a tax dispute amounting to €3.7 million. After tax, Compagnie de Financement Foncier's net income came to €175 million for 2009, including a non-recurring gain of €61 million.

## **Credit risk analysis**

Credit risk is analysed differently depending on the type of asset. Compagnie de Financement Foncier's assets can be divided into three major categories with different approaches to assess their credit-worthiness:

- › subsidised sector and private sector loans, granted to individuals or professionals in the public sector or in a lesser measure private sector real estate market. Starting in 2007, the category of guaranteed loans was grouped with mortgage notes whose underlying collateral consists of private sector housing loans granted to private individuals;
- › securities comprising securitisation tranches that are rated by independent, internationally renowned credit rating agencies and approved by the Banking Commission;
- › replacement securities comprised of safe and liquid securities and deposits. At Compagnie de Financement Foncier, the vast majority of these securities consist of interbank loans with a six month term from credit institutions with the highest short-term ratings, mainly to this parent company, the Crédit Foncier.

### ***Loans and similar items***

The loan portfolio held directly by Compagnie de Financement Foncier amounted to €40.82 billion at December 31, 2009 in addition to €9.0 billion of mortgage notes. The credit risk on the portfolio can be determined by evaluating changes in doubtful loans and their provisions. In the last two years, these risk indicators changed as follows:

(in thousands of euros)

2009	Outstanding loans	Percentage of total outstanding loans	of which doubtful loans	Doubtful loans (%)	of which compromised doubtful	Compromised doubtful (%)	Provisions
<b>Subsidised sector (run-off)</b>	<b>1,209.7</b>	<b>2.4%</b>	<b>68.9</b>	<b>5.7%</b>			<b>0.1</b>
<b>Private sector</b>	<b>48,667.0</b>	<b>97.6%</b>	<b>341.8</b>	<b>0.7%</b>	<b>36.5</b>	<b>0.1%</b>	<b>21.6</b>
Loans to individuals and mortgage notes	27,459.1	55.1%	328.0	1.2%	33.3	0.1%	19.2
<i>of which loans guaranteed by FGAS</i>	<i>7,319.6</i>	<i>14.7%</i>	<i>163.4</i>	<i>2.2%</i>			
Loans to public authorities	18,474.1	37.0%	5.2				0.1
Loans to social housing	2,708.2	5.4%	6.6	0.2%	1.7	0.1%	1.1
Loans to commercial property (run-off)	25.6	0.1%	2.0	7.9%	1.5	5.8%	1.1
<b>Total</b>	<b>49,876.7</b>	<b>100.0%</b>	<b>410.8</b>	<b>0.8%</b>	<b>36.5</b>	<b>0.1%</b>	<b>21.7</b>

2008	Outstanding loans	Percentage of total outstanding loans	of which doubtful loans	Doubtful loans (%)	of which compromised doubtful	Compromised doubtful (%)	Provisions
<b>Subsidised sector (run-off)</b>	<b>1,539.3</b>	<b>3.2%</b>	<b>78.0</b>	<b>5.1%</b>			<b>0.1</b>
<b>Private sector</b>	<b>46,669.0</b>	<b>96.8%</b>	<b>280.8</b>	<b>0.6%</b>	<b>22.6</b>		<b>19.5</b>
Loans to individuals and mortgage notes	25,368.1	52.6%	247.6	1.0%	13.0	0.1%	12.3
<i>of which loans guaranteed by FGAS</i>	<i>6,713.0</i>	<i>14.9%</i>	<i>105.6</i>	<i>1.6%</i>			
Loans to public authorities	18,284.4	40.5%	5.2	0.0%			0.1
Loans to social housing	2,923.5	6.5%	16.3	0.6%	0.9		0.5
Loans to commercial property (run-off)	93.1	0.2%	11.6	12.5%	8.7	9.4%	6.7
<b>Total</b>	<b>48,208.3</b>	<b>100.0%</b>	<b>358.7</b>	<b>0.7%</b>	<b>22.6</b>		<b>19.7</b>

Outstanding loans increased by €1.7 billion in 2009, with growth relating to retail loans in the competitive sector. An increase in doubtful loans and consequently in provisions was also recorded for this segment.

Doubtful loans for the unsubsidised retail segment increased from €248 million to €328 million, which nonetheless continued to represent a very small percentage of total loans, at 1.2% at end-2009 versus 1.0% at end-2008.

In the retail loans portfolio, the largest potential risk for Compagnie de Financement Foncier relates to loans that do not benefit from a double guarantee, *i.e.* excluding the loans covered by FGAS and the mortgage notes subscribed from Crédit Foncier. In this more risky category, the doubtful loan ratio nonetheless remained low at 1.5%, unchanged relative to 2008 on a substantial portfolio of €11.1 billion representing one of Compagnie de Financement Foncier's two core

businesses. The level of provisions allocated to this sub-portfolio also increased in 2009, totalling €19.2 million at the end of 2009 compared with €12.3 million at the end of the previous year.

Credit risk on Public sector loans, Compagnie de Financement Foncier's second core business, continued to be immaterial in 2009, as in 2008, with doubtful loans amounting to around €5 million on a total portfolio of more than €18 billion in both years.

The level of doubtful loans in the low-income housing loan portfolio, comprised of mortgage loans and/or loans guaranteed by a public entity, was in between the levels recorded for the two preceding categories. The doubtful loan ratio was particularly low in 2009 at 0.2%, of which a significant proportion had already been provisioned.

Commercial real estate loans, which relate mainly to the legal transfer of portfolio to Compagnie de Financement Foncier on its creation in 1999 and which are not subject to any acquisition since 2001, are structurally declining with residual outstanding loans amounting to €26 million at December 31, 2009. The doubtful loan ratio was relatively high given that this portfolio is gradually being extinguished.

With regard to the entire loan portfolio, the amount of compromised doubtful loans is very low, at €36.5 million at end-2009. These loans are concentrated in the portfolio of retail loans and represent 0.1% of the total amount.

In terms of impact on Compagnie de Financement Foncier's results, the risk arising on these assets is recognised in the cost of risk with respect to capital and in net banking

income with respect to interest. For 2009, the global cost of risk came to €5.8 million, resulting for €4.1 million from risk on capital and for €1.7 million from loss of interest on doubtful loans. In 2008, the cost of risk had been an income of €4.3 million.

The expense for 2009 was comprised of:

- › €2.0 million of net allowances for provisions and impairment;
- › €1.5 million of losses uncovered by impairment provisions and €3.5 million of losses covered by provisions;
- › gains of €1.2 million on amortised debt.

It splits into an individual risk amounting to €6.4 million and a net reversal of collective provisions amounting to €0.6 million.

	2009			2008		
	Outstanding loans (€ million)	Risk charge (€ million)	Risk charge (basis points)	Outstanding loans (€ million)	Risk charge (€ million)	Risk charge (basis points)
<b>Subsidised sector (run-off)</b>	<b>1,209.7</b>	<b>0.14</b>	<b>1.2</b>	<b>1,539.3</b>	<b>-6.82</b>	<b>-44.3</b>
<b>Private sector</b>	<b>48,667.0</b>	<b>5.74</b>	<b>1.2</b>	<b>46,669.0</b>	<b>-2.46</b>	<b>-0.5</b>
Loans to individuals and mortgage notes	27,459.1	6.21	2.3	25,368.1	-1.23	-0.5
Loans to public authorities	18,474.1			18,284.4	-0.11	-0.1
Loans to social housing	2,708.2	-0.21	-0.8	2,923.5	-1.09	-3.7
Loans to commercial property (run-off)	25.6	-0.26	-102.1	93.1	-0.03	-3.5
<b>Total</b>	<b>49,876.7</b>	<b>5.88</b>	<b>1.2</b>	<b>48,208.3</b>	<b>-9.28</b>	<b>-1.9</b>

NB: by convention, the risk charge is an expense when positive and revenue when negative.

In 2009, the risk charge was extremely low for all the loan categories, and is established at 1.2 basis point of the total amount. It represents at most 2.3 basis points for loans to private individuals. In this segment, the charge related mainly to a net allowance for provisions and impairment of €5.4 million booked for the year.

### Securities and securitisation tranches

This portfolio consists of (i) securities issued by public authorities and (ii) public entity-guaranteed or first-rank mortgage-backed securitisation tranches and this category represents a large majority of the loans from outside France held by Compagnie de Financement Foncier, i.e. 38.5% of the balance sheet. It amounted to €37.8 billion at December

31, 2009 (€35.6 billion of which are international) compared to €36.6 billion at 31 December 2008.

No doubtful loans, provisions or amortisation has been posted for this portfolio. Various indicators are monitored by Compagnie de Financement Foncier on an ongoing basis in order to assess its credit risk on this portfolio. A large majority of the portfolio is rated by independent outside credit rating agencies. The loans amounting to €124 million guaranteed by Swiss cantons are the only ones to be rated solely on in-house procedures using an application developed by Standard & Poor's. An analysis of these internal ratings is detailed in the risk management report.

As regards the securitisation portfolio and in accordance with its regulatory framework, Compagnie de Financement Foncier can only hold senior securitisation tranches or similar securities, of which at least 90% comply with the eligibility criteria for a *société de crédit foncier*.

Analysis of the overcollateralisation level, which depends on fund structuring rules, reflects the changes to underlying assets; all of the securitisation funds held by Compagnie de Financement Foncier today have a higher overcollateralisation rate than when they were purchased, except for a Spanish mortgage fund with outstandings of €0.5 billion, which recorded only a very slight deterioration.

For residential mortgage-backed securities, Compagnie de Financement Foncier also calculates the ratio of the present value of the collateral securing the assets to the outstanding underlying loans each year and verifies the effectiveness of guarantees. On these bases, simulations were carried out applying different stress scenarios the results of which are described in the risk management report.

In addition, Compagnie de Financement Foncier monitors the quality of information provided by the fund management companies including the timeliness, completeness and accuracy of data.

The securitisation portfolio breaks down as follows at December 31, 2009:

- › residential mortgage backed securities (RMBS) for a total of €14.3 billion at December 31, 2009 where the properties offered as security are all situated in continental Europe, mainly in Spain (€6.7 billion), Italy (€3.8 billion), France (€1.4 billion), Portugal (€1.1 billion), and Netherlands (€1.0 billion);
- › public authority backed securitisation tranches for a total of €7.5 billion, which together with securities and loans to public authorities or guaranteed by them (€16bn), make up most of the public sector financing outside France. This last segment totalled €23.5 billion at December 31, 2009 with the main exposures concerning the United States (€5.4 billion), the Netherlands (€4.0 billion), Italy (€3.7 billion), Germany (€1.7 billion), Japan (€1.6 billion) and Switzerland (€1.4 billion).

In terms of external ratings, the mortgage securitisation units acquired with top ratings of AAA or Aaa, were rated as follows at December 31, 2009:

- › the highest rating from three of the main independent agencies, AAA/Aaa/AAA, for 34% of the portfolio, i.e.

€4.9 billion;

- › step-1 credit quality rating for 94% of the portfolio, i.e. €13.5 billion which has an AAA or Aaa rating from at least one of the three agencies. The remaining €0.8 billion has a credit quality rating which is above the step-2.

In 2009, the majority of the ratings of the RMBS portfolio remained unchanged. 26% of the portfolio had only one rating downgrade, mainly arising from the change of valuation method implemented by Moody's. These downgrades resulted in a one-step deterioration for two lines, i.e. €0.8 billion.

At December 31, 2009, the public sector portfolio outside France amounting to €23.5 billion had received:

- › the highest rating on 80% of the total amount (€18.8 billion);
- › and, more particularly, the highest rating from the 3 main agencies, AAA/Aaa/AAA, on 18% of the portfolio (€4.2 billion);
- › a step-2 rating for €3.2 billion 13% of the portfolio, the balance, i.e. €1.5 billion essentially having a step-3 credit quality rating. Only an amount of €0.1bn is not rated by the agencies (exposures on the Swiss cantonal banks).

Of these securities, which nonetheless preserve a good level of credit quality, one third of the portfolio underwent rating downgrades in 2009, resulting in a change of notch for €2.3 billion of the portfolio.

The strongest impact concerned the securities enhanced by FSA whose rating dropped from AAA/Aa3/AAA to AAA/Aa3/AA during the year (ratings of Assured Guaranty Municipal Corp as of December 31, 2009). These securities amounted to €1.6 billion at end-December 2009. The other assets enhanced by monoline insurers are now rated according to the counterparty's intrinsic ratings, as the ratings of the other monoliners deteriorated far more significantly in 2009.

In addition, since June 2008, Crédit Foncier has undertaken to cover the consequences for Compagnie de Financement Foncier of a rating downgrade to below step-2 credit quality, for the securitisation units listed on the internal watch list because they are considered to present potentially higher risk. At December 31, 2009 the securities thus monitored represented €3.1 billion.

## Overall analysis

The risk indicators for Compagnie de Financement Foncier's core business portfolio, comprising loans to

the competitive sector and securities and securitisation tranches, remained under control, recording only a very slight deterioration in 2009, as is shown by the table below:

	2009				2008			
	Outstanding loans (€ million)	Doubtful loans (€ million)	Doubtful loans (%)	Risk (basis points)	Outstanding loans (€ million)	Doubtful loans (€ million)	Doubtful loans (%)	Risk (basis points)
Loans to individuals and related (of which securitisation tranches and mortgage notes)	41,769 (23,355)	328	0.8%	1.5	41,035 (24,763)	248	0.6%	-0.3
Exposures on public entities (of which securities and securitisation tranches)	39,886 (21,412)	5			37,007 (18,723)	5		
Loans to social housing	2,708	7	0.2%	-2.9	2,924	16	0.6%	-3.7
Loans to commercial property	26	2	7.9%	-102.1	93	12	12.5%	-3.5
<b>Total</b>	<b>84,388</b>	<b>342</b>	<b>0.4%</b>	<b>0.1</b>	<b>81,058</b>	<b>281</b>	<b>0.3%</b>	<b>-0.3</b>

NB: the risk charge is an expense when positive and revenue when negative.

Doubtful debt and risk charge were recorded mainly on the portfolio of retail loans. They nonetheless remain very low relative to the overall volume of loans:

- › doubtful loans ratio of 0.8% on a €42bn portfolio;
- › 1.5 basis points of risk charge.

## Analysis of interest rate and foreign exchange risks

Compagnie de Financement Foncier has no open currency positions except for very small ones inherent in any hedging transaction. Transactions initiated in foreign currencies, primarily those negotiated for issues of *obligations foncières*, are converted into euros upon execution.

Compagnie de Financement Foncier is only very marginally exposed to interest rate risks thanks to the implementation of a series of hedging mechanisms.

### Hedging transactions

As soon as an asset is recorded on the balance sheet, it is swapped to a variable interest rate. Macro-hedging swaps are entered into when acquiring loan portfolios, micro-hedging swaps are made for single transactions. Similarly, the debt issued by Compagnie de Financement Foncier are micro swapped at the outset to ensure variable rate liabilities in euros.

Crédit Foncier is counterparty to these hedging transactions when it acquires and transfers loans to Compagnie de Financement Foncier. Other banks also act as counterparty in the case of market transactions or loans originated abroad. All of the counterparties to these currency or interest rate swaps have concluded collateralisation agreements with Compagnie de Financement Foncier that require them to provide Compagnie de Financement Foncier with a security deposit depending on their debt position and rating. These deposits are drawn on daily or weekly if the counterparty's credit rating slips below F1+ or AA- with Fitchratings, P1 or Aa3 with Moody's, A1+ or AA- with Standard and Poor's. If the opposite situation occurs, the agreements stipulate that Compagnie de Financement Foncier shall not deposit any collateral. At December 31, 2009, the amount of deposits received was €1.3 billion.

Interest rates are also reviewed each quarter and macro-hedging transactions are concluded in the event that the position deteriorates to the point that could lead to non-compliance with the limits that Compagnie de Financement Foncier is committed to respecting. If early repayments exceed budgeted amounts at the beginning, the interest rate swap is closed, thereby reducing the value of open positions to a small percentage of the balance sheet.

Special interest rate risk reduction mechanisms for Compagnie de Financement Foncier have also been implemented with the French state for subsidised sector loans and with Caisses d'Epargne, which has sold its French public sector loans to them.

Hedging activity continued through 2009 for volumes that were consistent with acquisition and issuance transactions for the year. The notional values of forward financial instruments amounted to €116 billion at end 2008 compared to €117 billion the previous year, and foreign currency transactions rose from €46 billion to €39 billion over the same period.

These outstanding interest rate swaps at December 31, 2009 are broken down according to the hedge's objective:

- › macro-hedging swaps for €32.1 billion (compared to €34.8 billion at end 2008);
- › micro-hedging swaps on assets for €17.2 billion (compared to €15.5 billion at end 2008);
- › micro-hedging swaps on secured debt for €65.1 billion (compared to €63.3 billion at end 2008);
- › micro-hedging conditional transactions for €1.1 billion, negotiated to protect the portion of variable-rate loans with income capped to the benefit of their borrowers (compared to €0.8 billion at the end of 2008).

### ***Residual rate position***

Considering the different hedging mechanisms negotiated by Compagnie de Financement Foncier when transactions are settled, exposure to interest rate risk is limited to the possible distortion of the hedging transaction due to unknown events at origination and occurring over its expected life.

Since the securitisation tranches have variable rates from origination and the maturity date of other investment securities is predetermined, the residual rate position is constituted by fixed-rate loans whose early repayment is not covered by indemnities equivalent to the risk incurred nor by a third party *i.e.* the State for the subsidised sector. Interest rate risk is therefore limited to outstanding fixed-rate loans in the private sector granted to individuals, due to the cap on the indemnity stipulated in the contract in the event of early repayment, which is limited to 6 months interest with a maximum of 3% of the outstanding principal.

For Compagnie de Financement Foncier, these loans amounted to €8.8 billion at December 31, 2009. Moreover, the low nominal rate of these loans constitutes an additional protection against the risk of early repayment and renegotiation. Interest free loans amounted to €2.1 billion and loans with non-zero but less than 6% interest rates totalled €6.4 billion. A risk, resulting from early repayment or imperfectly indemnified renegotiation, thus is concentrated on the loans whose interest rates are superior to 6%, or an amount of €0.3 billion, *i.e.* 0.3% of the balance sheet.

In 2009, the prepayment rate on the retail loans portfolio was very low at an annual average of 4.8% compared with 6.7% the previous year.

### ***Other indicator***

Every quarter, Compagnie de Financement Foncier analyses changes in the net present value of estimated results over the next 10 years under different stress scenarios. The results showed sensitivity to very low rates. At December 31, 2009, if market rates were to increase by two percentage points, the present value of future earnings would fall by €116 million, excluding new issues or acquisitions.

## Liquidity risk analysis

As for interest rate risks, the asset/liability management rules of Compagnie de Financement Foncier ensure a very limited exposure to liquidity risk.

Accordingly, Compagnie de Financement Foncier is committed to maintaining sufficient short-term liquidity to cover its privileged debt commitments for a period of one year under the unlikely situation where no early repayment will accelerate borrowers' repayments.

Moreover, a significant portion of its assets are inherently easily negotiable, such as replacement securities comprised of risk-free, liquid investments, as required by laws governing sociétés de crédit foncier, or its investment portfolio. At December 31, 2009, Compagnie de Financement Foncier held replacement securities amounting to €9.5 billion of which €9.1 billion consists of loans of less than 6 months to financial institutions with the highest short-term ratings (less than six months) and with a credit balance of €0.8 billion in their account with the Banque de France.

Above all, Compagnie de Financement Foncier holds a significant percentage of assets eligible for refinancing by the European Central Bank ECB. From April 2007, Compagnie de Financement Foncier began using measures to realize its securities and participated in the European Central Bank's call for funds. During 2008, it expanded its realization of private debt. Some repurchase agreements were therefore entered into with major French banks.

At 31 December 2009, total assets in nominal value realizable with the ECB amounted to €33.4 billion, €24.2 billion in securities and €9.2 billion in loans. The outstanding assets realized are €3 billion with the central bank and €0.6 billion with a banking institution.

Compagnie de Financement Foncier also determines the durations of its assets and liabilities to ensure that their maturities are properly matched and is committed to a maximum spread of 2 years. At December 31, 2009, the duration of assets was virtually unchanged relative to the previous year, 6.44 years versus 6.45 years. The difference of nearly one year recorded in 2008, which resulted from the difficulties encountered in obtaining long-term resources, was therefore smoothed out during 2009.

## Outlook

Over the course of 2010, Compagnie de Financement Foncier intends to pursue its development along the same broad lines as in years past including:

- › preserving the quality of its assets through its stringent process for selecting assets and direct production combined with a rigorous risk management;
- › continue its activity, both in terms of mortgage loans and exposures on public authorities;
- › refinance Groupe BPCE by acquiring loan portfolios granted by Crédit Foncier and by the other entities of the group;
- › develop its production and acquisition of loans and securities from the public sector outside of France;
- › affirming its market position as leading European issuer and maintain its top rating from the main rating agencies.



# Notes to the management report

## Note 1. Information on corporate officers

For the year ending December 31, 2009, pursuant to Article L. 225-102-01 of the French Commercial Code, the list below shows the total compensation as well as all benefits paid by the company to each of the corporate officers during the year Article L. 233-16 of the French Commercial Code.

### Statement of the total compensation of Compagnie de Financement Foncier corporate officers in 2009

Information regarding remuneration received are in euros and limited to the following perimeters : the Crédit Foncier and its subsidiaries and Groupe BPCE as monitoring company.

#### Summary of remuneration of each executive designated company representatives

	2008	2009
Mr Thierry DUFOUR, Chairman and Chief Executive Officer, Director	467,208	482,223
Ms Sandrine GUÉRIN, Deputy Chief Executive Officer, Director	632,047	561,687
Annual remuneration due (outlined in table below)		
Value of options attributed over the course of the year		
Value of performance shares attributed		
<b>Total</b>	<b>1,099,255</b>	<b>1,043,910</b>

#### Summaries of remuneration of each executive designated company representatives

Mr Thierry DUFOUR Chairman and Chief Executive Officer Director	2008		2009	
	Totals due	Total distributed	Totals due	Total distributed
Base salary		319,240		319,260
Variable pay		110,145		128,750
Exceptional remuneration		20,563		19,473
Directors' fees		11,500		9,000
Advantages in kind		5,760		5,740
<b>Total</b>		<b>467,208</b>		<b>482,223</b>

Ms Sandrine GUÉRIN Deputy Chief Executive Officer Director	2008		2009	
	Totals due	Total distributed	Totals due	Total distributed
Base salary		264,284		277,096
Variable pay		347,000		263,993
Exceptional remuneration		14,013		13,848
Directors' fees		3,750		3,750
Advantages in kind		3,000		3,000
<b>Total</b>		<b>632,047</b>		<b>561,687</b>

*Summary of remuneration of each non-executive designated company representatives*

Non-executive Board members	Amounts distributed in 2008	Amounts distributed in 2009
Mr François BLANCARD	595,768	538,568
Directors' fees 1	46,525	39,768
Other remuneration 1	549,243	498,800
Mr Nicolas DARBO (since 12/15/2009) replacing Mr Pierre NUYTS who resigned on 09/30/2009	Non-executive designated company representatives	212,829
Directors' fees 2		11,302
Other remuneration 2		201,527
Mr Didier PATAULT	N/A	N/A
Directors' fees 3		
Other remuneration 3		
Mr Djamel SEOUDI	216,706	269,087
Directors' fees 4	4,873	14,175
Other remuneration 4	211,833	254,912
Mr Alain DENIZOT	N/A	N/A
Directors' fees 5		
Other remuneration 5		
Mr Stéphane CAMINATI	219,205	229,952
Directors' fees 6		
Other remuneration 6	219,205	229,952
Mr Pierre NUYTS who retired on September 30, 2009	181,601	282,769
Directors' fees 7	500	8,000
Other remuneration 7	181,101	274,769
<b>For the record</b>		
Mr François CHAUVEAU	281,654	Non-executive designated company representatives
Directors' fees	6,000	
Other remuneration	275,654	
Mr Pierre-Éric FUZIER	143,121	Non-executive designated company representatives
Directors' fees	3,750	
Other remuneration	139,371	
<b>Total</b>	<b>1,638,055</b>	<b>1,533,205</b>

Summary of remuneration of each executive designated company representatives	Job contract		Supplemental retirement programme		Indemnities or advantages due or potentially due resulting from the termination or change in position		Indemnity relative to an exclusivity clause	
	Yes	No	Yes	No	Yes	No	Yes	No
Mr Thierry DUFOUR Chairman and Chief Executive Officer Start of term: 12/14/2007 Director Start of term: 12/18/1998		X		X	X			X
Ms Sandrine GUÉRIN Deputy Chief Executive Officer Start of term: 05/17/2002 Director Start of term: 03/25/2002		X		X		X		X

### ***Other information on compensation and stock option and stock purchase plans***

As of December 31, 2009, Compagnie de Financement Foncier did not have its own staff, with the exception of its corporate officers. There was no incentive scheme or profit-sharing plan in the company. In addition, there were no stock option or stock purchase plans as of December 31, 2009.

### ***List of offices of corporate officers***

*Offices or positions held by Mr François BLANCARD*

Company	Position
<b>Management offices</b>	
CRÉDIT FONCIER DE FRANCE - SA	Chief Executive Officer
<b>Offices as Director</b>	
CICOBAIL- SA	Chairman of the Board of Directors
LOCINDUS - SA	Chairman of the Board of Directors
CINERGIE - SA	Permanent Representative of Crédit Foncier, Director
COMPAGNIE DE FINANCEMENT FONCIER - SA	Permanent Representative of Crédit Foncier, Director
BANCO PRIMUS	Chairman
CFD - SAS	Legal Representative of COFIMAB, Chairman
ENFI (EX FONCIER STRUCTURE) - SAS	Legal Representative of Crédit Foncier, Chairman
FONCIER EXPERTISE - SAS	Legal Representative of Crédit Foncier, Chairman
FONCIER PRO - SAS	Legal Representative of Crédit Foncier, Chairman
FONCIER FOREIGN 2008 - SAS	Legal Representative of Crédit Foncier, Chairman
FONCIER LARGE 2008 - SAS	Legal Representative of Crédit Foncier, Chairman
FONCIER VISION 2008 - SAS	Legal Representative of Crédit Foncier, Chairman
GCEI CONSEIL IMMOBILIER - SAS	Legal Representative of Foncier Consultants, Chairman

<b>Offices as Member of Supervisory Board</b>	
SOCFIM - SACS	Vice-President of the Supervisory Board
BANQUE PALATINE - SACS	Member of the Supervisory Board
ECUREUIL CRÉDIT - SACS	Member of the Supervisory Board
GESTRIM - SACS (until 12/31/2009)	Member of the Supervisory Board
GCE FONCIER COINVEST - SAS	Member of the Supervisory Board
GCE BUSINESS SERVICES - GIE	Permanent Representative of Crédit Foncier, Member of the Supervisory Board
FINANCIÈRE OCEOR - SACS (until 07/16/2009)	Member of the Supervisory Board
<b>Offices as Manager</b>	
FONCIER PLAN 2008 - SARL	Manager
COLOMIA 31 - SCI	Legal representative of Crédit Foncier, Manager
COMELIA - SCI	Legal representative of Crédit Foncier, Manager
FRANCILIA - SCI	Legal representative of Crédit Foncier, Manager
IMMOBILIÈRE MADELEINE DUPHOT - SCI	Legal representative of CFD, Manager
MANTELIA - SCI	Legal representative of Crédit Foncier, Manager
SOCLIM - SNC	Legal representative of CFD, Manager
FONCIER PROJET 2008 - SNC	Legal representative of Crédit Foncier, Managing Partner
SOFIPAR LOGEMENT - SNC	Legal representative of Crédit Foncier, Managing Partner
SOFONEG - SNC	Legal representative of Crédit Foncier, Managing Partner
ECUFONCIER - SCA	Legal representative of Crédit Foncier, Managing Partner
<b>Other offices and positions</b>	
ECUFONCIER - SCA	Legal representative of Crédit Foncier, General Partner
TANIS - SARL	Legal representative of CFD, Liquidator
ARION CONSEIL - SA (until 02/14/2009)	Legal representative of Crédit Foncier, Liquidator
CFCr - SA (until 03/28/2009)	Permanent representative of Crédit Foncier, Director

*Offices or positions of Mr Thierry DUFOUR*

<b>Company</b>	<b>Position</b>
<b>Management offices</b>	
COMPAGNIE DE FINANCEMENT FONCIER - SA	Chairman and Chief Executive Officer
CRÉDIT FONCIER - SA	Deputy Chief Executive Officer
<b>Offices as Director</b>	
FINANCIÈRE DESVIEUX	Director
CICOBAIL - SA	Permanent Representative of Crédit Foncier, Director
CFCr - SA	Permanent Representative of Crédit Foncier, Director
<b>Supervisory Board</b>	
VMG - SACS	Permanent Representative of Crédit Foncier, Member of the Supervisory Board

*Offices or positions of Ms Sandrine GUÉRIN*

Company	Position
<b>Management offices</b>	
COMPAGNIE DE FINANCEMENT FONCIER - SA	Deputy Chief Executive Officer, Director
FINANCIÈRE DESVIEUX - SA	Chairman and Chief Executive Officer
VMG - SACS	Chairman of the Executive Board
<b>Offices as Director</b>	
SWISS PUBLIC FINANCE SOLUTIONS - SA	Director
<b>Other offices and positions</b>	
CRÉDIT FONCIER DE FRANCE - SA	Director of Financial Activities
ECBC	Representative of France

*Offices or positions of Mr Djamel SEOUDI*

Company	Position
<b>Management offices</b>	
FONCIER PARTICIPATIONS - SA	Chief Executive Officer
<b>Offices as Director</b>	
GCE COURTAGE - SA	Director
BANCO PRIMUS - SA	Director
CFCr - SA (until 04/17/2009)	Director
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director
GCE FONCIER COINVEST - SAS	Director
SA SINJAB - SA	Director
FINANCIÈRE DESVIEUX - SA	Director
CFCAL BANQUE - SA	Director
FONCIER PARTICIPATIONS - SA	Director
SERGIC INVEST - SA	Permanent Representative of Foncier Participations, Director
FONCIER TITRISATION - SA	Permanent Representative of Foncier Participations, Director
LOCINDUS - SA	Permanent Representative of Crédit Foncier, Director
MFCG - SAS	Permanent Representative of CFCo, Chairman
<b>Supervisory Board</b>	
GCE SEM - SAS	Member of the Supervisory Board
SOCFIM - SACS	Member of the Supervisory Board
ATOUT PIERRE HABITATION 2 - SCPI	Permanent Representative of Foncier Participations, Member of the Supervisory Board
<b>Other offices and positions</b>	
EURO-MARNE PARTICIPATIONS - SAS (until 06/30/2009)	Member of the Audit Committee
CRÉDIT FONCIER DE FRANCE - SA	Secretary-General

*Offices or positions of Mr Didier PATAULT*

Company	Position
<b>Management offices</b>	
CAISSE D'EPARGNE ET DE PRÉVOYANCE BRETAGNE - PAYS DE LOIRE (CEBPL) - SACS	Chairman of the Executive Board
SDR OUEST - SODERO - SA	Chairman and Chief Executive Officer
<b>Offices as Director</b>	
CE PARTICIPATIONS - SA	Director
SAMO (SA DES MARCHES DE L'OUEST) - SA HLM	Chairman of the Board of Directors
NATIXIS GLOBAL ASSET MANAGEMENT - SA	Director
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director
LA MANCELLE D'HABITATION - SA HLM	Chairman of the Board of Directors
SEMITAN - SEM DES TRANSPORTS EN COMMUN DE L'AGGLOMERATION NANTAISE	Representative of the CEBPL, Director
SODERO PARTICIPATIONS - SAS	Chairman of the Board of Directors
SODERO GESTION - SAS	Chairman of the Supervisory Board
PAYS DE LA LOIRE DEVELOPPEMENT - SAS	Representative of the CEBPL, Director
<b>Supervisory Board</b>	
BPCE - SACS	Member of the Supervisory Board
NATIXIS - SACS	Member of the Supervisory Board, 2 <sup>nd</sup> Co-Chairman of the Supervisory Board
BATIROC BRETAGNE - PAYS DE LOIRE - SACS	Chairman of the Supervisory Board
CNCE - SACS	Member of the Supervisory Board (until 07/31/2009)
GRAND OUEST GESTION - SAS	Representative of Sodero Participations, Chairman of the Supervisory Board
GCE BUSINESS SERVICES - GIE	Representative of the CEBPL, Member of the Supervisory Board
GCE TECHNOLOGIES - GIE	Member of the Supervisory Board
GCE CAPITAL - SAS	Member of the Supervisory Board
<b>Other offices and positions</b>	
COMPAGNIE DE FINANCEMENT FONCIER - SA	Member of the Audit Committee
NANTES ATLANTIQUE PLACE FINANCIÈRE (NAPF) - ASSOCIATION	Representative of the CEBPL, Director

*Offices or positions of Mr Stéphane CAMINATI*

Company	Position
<b>Management offices</b>	
SOCRAM BANQUE - SA	Director
CAISSE GÉNÉRALE DE PRÉVOYANCE DU PERSONNEL DES CAISSES D'EPARGNE - SA	Director
GCE DOMAINES - SA	Permanent Representative of CE Participations, Director
<b>Offices as Director</b>	
CAISSE GÉNÉRALE DE RETRAITES DU PERSONNEL DES CAISSES D'EPARGNE - INSTITUTION DE RETRAITE	Director

ECUREUIL PROTECTION SOCIALE - ASSOCIATION LOI 1901	Director
<b>Supervisory Board</b>	
GCE ASSURANCES PRODUCTION SERVICES - SAS	Member of the Supervisory Board
GCE ACHATS - GIE	Member of the Supervisory Board
<b>Other offices and positions</b>	
GCE DOMAINES - SA	Chairman of the Audit Committee
GCE DOMAINES - SA	Member of the Remuneration Committee
GCE DOMAINES - SA	Permanent Representative of CE Participations, Member of the Audit Committee
GCE ACHATS - GIE	Member of the Audit Committee
TRADE EXPLOITATION - SOCIÉTÉ EN PARTICIPATION	Member

*Offices or positions of Mr Alain DENIZOT*

Company	Position
<b>Management offices</b>	
CAISSE D'ÉPARGNE DE PICARDIE - SA	Chairman of the Board of Directors
CEPICINVESTISSEMENT - SAS	Chairman of the Committee of Management (since 10/05/2009)
NSAVAL - SAS	Chairman of the Committee of Management (since 11/04/2009)
<b>Offices as Director</b>	
CAISSE GÉNÉRALE DE RETRAITES DU PERSONNEL DES CAISSES D'ÉPARGNE - INSTITUTION DE RETRAITE	Director
ECUREUIL PROTECTION SOCIALE - ASSOCIATION LOI 1901	Director
CE PARTICIPATIONS - SA	Director (since 07/31/2009)
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director
<b>Supervisory Board</b>	
CNCE - SA	Member of the Supervisory Board (until 07/31/2009)
ECUREUIL CRÉDIT - GIE	Member of the Supervisory Board
GCE BUSINESS SERVICES - GIE	Permanent Representative of CE PICARDIE, Member of the Supervisory Board
<b>Other offices and positions</b>	
CNCE - SA	Member of the Audit Committee (until 07/31/2009)
CE PARTICIPATIONS - SA	Member of Audit Committee (until 07/31/2009)
COMPAGNIE DE FINANCEMENT FONCIER - SA	Member of the Audit Committee
FÉDÉRATION NATIONALE DES CAISSES D'ÉPARGNE ASSOCIATION LOI 1901	Director
UNIVERSITÉ DU GROUPE CAISSE D'ÉPARGNE ASSOCIATION LOI 1901	Director and Treasurer



### Offices or positions of Mr Nicolas DARBO

Company	Position
<b>Offices as Director</b>	
LOCINDUS - SA	Director
FONCIER PARTICIPATIONS - SA	Chairman of the Board of Directors
BANCO PRIMUS - SA	Director
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director
<b>Supervisory Board</b>	
VMG - SACS	Vice-President of the Supervisory Board

### Offices held by Crédit Foncier de France in 2009

Company	Identification
<b>Limited Liability Companies (<i>sociétés anonymes</i>)</b>	
<b>Directorships</b>	
ARTHUR COMMUNICATION - SA	407 525 344
BTP CAPITAL INVESTISSEMENT - SA	302 527 734
CFCAL BANQUE - SA (until 12/31/2009)	568 501 282
CFCAL SCF - SA (until 12/31/2009)	424 184 737
CFG - COMPTOIR FINANCIER DE GARANTIE - SA	330 316 316
CICOBAIL - SA	722 004 355
CINERGIE - SA	322 214 883
COMPAGNIE DE FINANCEMENT FONCIER - SA	421 263 047
CRÉDIT FINANCIER LILLOIS - SA	455 500 868
CRÉDIT LOGEMENT - SA (until 12/31/2009)	302 493 275
FONCIER ASSURANCE - SA (until 12/31/2009)	349 004 341
FONCIER TITRISATION - SA	350 057 907
H&T CONSEIL - SA	313 149 973
LA MONDIALE PARTENAIRE - SA	313 689 713
LOCINDUS - SA	642 041 768
MOBILIÈRE VOLNEY - SA	338 097 223
SAF ENVIRONNEMENT - SA	319 051 017
SEMERCLI - SA	632 052 809
SGFGAS - SA	390 818 235
ECOLOCALE - GIE	381 095 785
<b>Offices of member of the supervisory Board</b>	
SCAFR - TERRES D'EUROPE - SACS	612 007 468
SELECTINVEST 1 - SACS	784 852 261
SIA HABITAT - SACS	045 550 258
SOCFIM - SACS	390 348 779
UEA - SACS (until 12/31/2009)	347 642 183

VMG - SACS	399 343 300
GCE BUSINESS SERVICES - GIE	500 513 429
<b>Offices of Chairman/Director</b>	
CFCo - SAS	308 383 058
COFIMAB - SAS	391 754 363
ENFI (EX FONCIER STRUCTURE) - SAS	504 381 153
EURO-MARNE PARTICIPATIONS - SAS	399 294 164
FONCIER CONSULTANTS - SAS	395 304 330
FONCIER EXPERTISE - SAS	788 276 806
FONCIER PRO - SAS	504 381 088
FONCIER FOREIGN 2008 - SAS	504 381 112
FONCIER LARGE 2008 - SAS	504 379 975
FONCIER PARTICIPATIONS - SAS	318 893 815
FONCIER VISION 2008 - SAS	504 381 039
FONCIÈRE D'EVREUX - SAS	399 293 067
SIPARI - SAS	305 097 446
GRAMAT-BALARD - SAS	389 699 471
VENDÔME INVESTISSEMENTS - SAS	349 019 414
<b>General Partnership</b>	
<b>Manager</b>	
COLOMIA 31 - SCI	453 162 927
COMELIA - SCI	451 226 963
FRANCILIA - SCI	440 775 617
MANTELIA - SCI	432 255 271
<b>Managing Partner</b>	
FONCIER PROJET 2008 - SNC	504 362 005
SOFIPAR LOGEMENT - SNC	331 786 723
SOFONEG - SNC	331 444 539
<b>Managing general Partner</b>	
ECUFONCIER - SCA	480 107 846

## Note 2. FCC (residential mortgage-backed securities) as of December 31, 2009

Securitisation tranches of residential mortgage loans: €14,31billion (in outstanding principal)

Countries	Standard & Poor's/Moody's/Fitch Ratings
<b>Germany</b>	
E-MAC DE 2005-1	AAA/Baa1/AAA
E-MAC DE 2006-2 A2	AAA/Baa1/AAA
<b>Spain</b>	
AYT GH IV	AAA/Aaa/AAA
AYT GH VII A2	AAA/Aaa/AAA
BANCAJA 4	/Aaa/AAA
BANCAJA 5	AAA/Aaa/AAA
BANCAJA 6	AAA/Aaa/AAA
BANCAJA 7	AAA/Aaa/AAA
BANCAJA 8	/Aaa/AAA
BANCAJA 9 A2	/Aaa/AAA
BANCAJA 10 A3	AAA/Aa1/
BANCAJA 11 A3	AAA/Aa2/
BANKINTER 4	AAA/Aaa/
BANKINTER 5	AAA/Aaa/
BANKINTER 10	AAA/Aaa/
BBVA RMBS 1 A3	/Aaa/AAA
BBVA RMBS 2 A4	AAA/Aaa/AAA
BBVA RMBS III A3	/Aa1/AAA
GC SABADELL 1	AAA/Aaa/
HIPOTEBANSA VIII SÉRIE A	/Aaa/AAA
HIPOTEBANSA XI	AAA/Aaa/
IM CAJAMAR 3	/Aaa/AAA
IM PASTOR 2	AAA/Aaa/
IM PASTOR 3 FTH	AAA/Aaa/
MADRID RMBS III A3	AA/Aa2/A+
SANTANDER HIPOTECARIO 3 A3	AAA/Aa1/A+
TDA CAJAMAR 2 - A2	AAA/AAA
TDA CAJAMAR 2 - A3	AAA/AAA
TDA CAM 5	/Aaa/AAA
TDA CAM 6 A2	/Aaa/AAA
TDA CAM 6 A3	/Aaa/AAA
TDA CAM 9 A2	AAA/Aa1/AA
TDA IBERCAJA 2	AAA/Aaa/
TDA PASTOR 1 - A2	/Aaa/AAA
UCI 5 CLASS 5	/Aaa/
UCI 14	AAA/AA

TDA 27 A3	AAA//AAA
TDA 29 A2	/Aaa/AAA
<b>Greece</b>	
THEMELEION II	AAA/Aaa/AAA
<b>Italy</b>	
APULIA FINANCE 2	AAA/ /AAA
APULIA 3	AAA/Aaa/AAA
ARGO MORTGAGES 2	/Aaa/AAA
BERICA PARTS A2	AAA/Aaa/AAA
BERICA 3 PARTS A2	AAA/ /AAA
BERICA 6	AAA/Aaa/AAA
BIPIELLE RESIDENTIAL	/Aaa/AAA
BPM 2 A2	AAA/Aaa/AAA
CAPITAL MORTGAGE 2007-1 A2	AAA/Aaa/AAA
CORDUSIO	AAA/Aaa/AAA
CORDUSIO RMBS 4 A3	AAA/Aaa/AAA
CREDICO FINANCE SPA	AAA/Aaa/AAA
CREDICO FINANCE 5	AAA/Aaa/
CR FIRENZE MUTUI	AAA/Aaa/AAA
F-E MORTGAGES 2005	AAA/Aaa/AAA
GIOTTO FINANCE 2 SPA	AAA/Aaa/
HELICONUS SRL	AAA/Aaa/AAA
INTESABCI SEC 2	AAA/Aaa/AAA
INTRA MORTGAGE SPA	AAA/Aaa/AAA
MANTEGNA FINANCE SRL	/Aaa/AAA
MARCHE MUTUI	AAA/Aaa/
MARCHE MUTUI 2 A2	AAA/Aaa/
SESTANTE FINANCE	AAA/Aaa/AAA
SESTANTE FINANCE 2	AAA/Aaa/AAA
SESTANTE FINANCE 3	AAA/Aaa/AAA
SESTANTE FINANCE 4 A2	AAA/Aaa/AAA
SIENA MORTGAGE 02-3	AAA/Aaa/AAA
VELA HOME	AAA/Aaa
VELA HOME 3	AAA/Aaa
VELA ABS	AAA/Aaa
VELA HOME 4	AAA/Aaa
<b>Netherlands</b>	
E-MAC NL 2005-III	AAA/Aaa/AAA
E-MAC NL 2007-III A2	AAA/Aaa/AAA
HOLLAND HOMES 3	/Aaa/AAA
BELUGA 2006-1 A1	AAA/Aaa/AAA
BELUGA 2006-1 A2	AAA/Aaa/AAA
BELUGA 2006-1 A3	AAA/Aaa/AAA

<b>Portugal</b>	
DOURO MORTGAGES 1	AAA/Aaa/AAA
DOURO MORTGAGE 3 A	AAA/Aaa/AAA
LUSITANO 2 A	AAA/Aaa/AAA
LUSITANO 3	AAA/Aaa/AAA
LUSITANO 4	AAA/Aaa/AAA
LUSITANO 5 A	AAA/Aaa/AAA
LUSITANO 6 A	AAA/Aaa/AAA
MAGELLAN MORTGAGES 3	AAA/Aaa/

Senior securitisation tranches of public debt: € 7,46 billion (in outstanding principal)

<b>United States</b>	
NELNET 2006-1 A-6	AAA/Aaa/AAA
SALLIE MAE 2003-2 A5	AAA/Aaa/AAA
SALLIE MAE 2003-5 A5	AAA/Aaa/AAA
SALLIE MAE 2004-5 A-6	AAA/Aaa/AAA
SALLIE MAE 2004-8 A-5	AAA/Aaa/AAA
SALLIE MAE 2004-8 A-6	AAA/Aaa/AAA
SALLIE MAE 2004-10 A-8	AAA/Aaa/AAA
SALLIE MAE 2005-9 A-6	AAA/Aaa/AAA
SALLIE MAE 2005-9 A-7A	AAA/Aaa/AAA
SALLIE MAE 2006-4 A-6	AAA/Aaa/AAA
SALLIE MAE 2006-6 A-4	AAA/Aaa/AAA
<b>France</b>	
ANTILOPE 1	
ANTILOPE 2	
<b>Italy</b>	
ADRIATICA FINANCE	AAA/Aa3/AA+
ASTREA	A+/Aa2/AA-
POSILLIPO FINANCE	BBB+/A3/-
<b>Netherlands</b>	
DARTS FINANCE	/Aaa/AAA
E-MAC NL 2006-NHG 1	/Aaa/
EMAC NL 2007-NHG 2 A	/Aaa/
HOLLAND HOMES ORANJE	//AAA
PEARL MBS 1	/Aaa/AAA
SGML 1	//AAA
PEARL MBS 2 A	/Aaa/AAA

# Financial Statements

## Balance sheet

(in thousands of euros)

As per notes	Assets	12/31/2009	12/31/2008	12/31/2007
	Cash due from central banks and post office accounts	4,421	20,024	
	Treasury notes and similar securities			
1	Due from banks	12,745,566	9,806,259	9,827,024
	<i>On demand</i>	971,601	1,207,772	901,480
	<i>At maturity</i>	11,773,965	8,598,487	8,925,544
2	Customer loans	37,183,708	36,311,095	35,943,673
	<i>Other customer loans</i>	37,183,708	36,311,095	35,943,673
3	Bonds and other fixed income securities	45,106,631	46,107,121	43,904,351
4	Intangible fixed assets		2,480	7,816
5	Other	108,248	204,660	169,998
6	Prepayments, deferred charges and accrued income	3,095,950	3,490,979	4,544,432
	<b>Total assets</b>	<b>98,244,524</b>	<b>95,942,618</b>	<b>94,397,294</b>

(in thousands of euros)

As per notes	Liabilities and equity	12/31/2009	12/31/2008	12/31/2007
7	Due to banks	6,687,428	5,857,992	5,117,947
	<i>On demand</i>	65,938	25,817	559,126
	<i>At maturity</i>	6,621,490	5,832,175	4,558,821
8	Customer deposits	5,297	33,479	91,152
	<i>On demand</i>	5,297	33,479	91,152
9	Debt securities	82,198,672	80,148,265	79,591,962
	<i>Inter-bank market securities and negotiable debt securities</i>	241,986	188,204	197,080
	<i>Bonds (obligations foncières)</i>	81,956,686	79,960,061	79,394,882
10	Other liabilities	1,552,849	739,357	506,394
11	Accruals and deferred income	2,764,267	4,298,250	4,253,965
12	Provisions	5,339	9,628	12,383
13	Subordinated debt	3,450,250	3,450,589	4,250,665
14	Fund for general banking risks	20,000	20,000	20,000
14	Equity other than fund for general banking risks	1,560,422	1,385,058	552,826
	- <i>Subscribed capital stock</i>	1,008,000	924,000	154,000
	- <i>Share premiums</i>	302,462	271,067	271,067
	- <i>Reserves</i>	74,029	70,917	70,917
	- <i>Regulated provisions and investment subsidies</i>			
	- <i>Retained earnings (+/-)</i>	462	56,843	3,691
	- <i>Net income for the year (+/-)</i>	175,469	62,231	53,151
	<b>Total liabilities &amp; equity</b>	<b>98,244,524</b>	<b>95,942,618</b>	<b>94,397,294</b>



## Off-balance sheet

(in thousands of euros)

As per notes		12/31/2009	12/31/2008	12/31/2007
	<b>Commitments given</b>			
15	Financing commitments			
	- Commitments in favour of banks			114,824
	- Commitments in favour of customers	2,174,598	2,950,005	8,684,579
	- Other values used as collateral	7,020,087	10,449,002	
	Guarantee commitments			
	- Commitments for customers			
	Commitments on securities			
	- Others commitments given <sup>(1)</sup>			150,000
16	<b>Commitments received</b>			
	Financing commitments			
	- Commitments received from banks	3,497,498	7,912,874	573,407
	- Other values received as collateral <sup>(2)</sup>	7,691,797	1,200,284	
	Guarantee commitments			
	- Commitments received from banks	12,814,146	14,800,048	27,139,798
	- Commitments received from customers	32,674,266	30,051,552	31,503,322
	Commitments on securities			
	- Others securities to receive		542,418	
	<b>Reciprocal commitments</b>			
17	- Sale and purchase of foreign currencies	39,326,106	46,122,439	37,607,259
18	- Non-unwound financial instruments	118,929,668	116,562,549	126,146,699

<sup>(1)</sup> The information relative to commitments given on securities to be paid were not included in the financial statements at 12/31/2007.

<sup>(2)</sup> The information relative to other values received as collateral were not included in the financial statements at 12/31/2008.

## Income statement

(in thousands of euros)

As per notes		12/31/2009	12/31/2008	12/31/2007
19	Interest and similar income	4,450,520	4,384,956	3,494,965
20	Interest and similar expenses	-4,092,210	-4,210,716	-3,311,611
21	Commission and fee income	41,447	38,443	43,425
21	Commission and fee expenses	-26,350	-7,895	-24,707
22	Gains or losses on investment securities transactions	-223	889	-1,501
23	Gains or losses on investment securities transactions and similar instruments	1,591	-7,534	-911
24	Other income from banking operations	2,917	2,350	2,258
25	Other expenses on banking operations	-15,660	-13,906	-14,258
	<b>Net banking income</b>	<b>362,032</b>	<b>186,587</b>	<b>187,660</b>
26	General operating expenses	-97,320	-100,692	-97,752
	Depreciation, amortisation and provisions on tangible and intangible fixed assets	-2,480	-5,336	-6,250
	<b>Gross operating income</b>	<b>262,232</b>	<b>80,559</b>	<b>83,658</b>
27	Cost of risk	-4,127	3,990	-3,000
	<b>Operating income</b>	<b>258,105</b>	<b>84,549</b>	<b>80,658</b>
	Gains or losses on fixed assets	225	-71	-19
	<b>Ordinary income before tax</b>	<b>258,330</b>	<b>84,478</b>	<b>80,639</b>
	Exceptional items			
	Income taxes	-82,861	-22,247	-27,488
	Increases and decreases in fund for general banking risks and provisions			
	<b>Net income</b>	<b>175,469</b>	<b>62,231</b>	<b>53,151</b>
	Earnings per share <sup>(1)</sup> (in euros)	2.78	1.08	5.52
	Diluted earnings per share (in euros)	2.78	1.08	5.52

<sup>(1)</sup> Earnings per share is calculated by dividing the net income by the number of shares in issue at the end of the fiscal year. The notes set out in the following pages form an integral part of the Compagnie's financial statements.

## Notes to the financial statements of Compagnie de Financement Foncier

### 1. Legal and financial framework - Major events of the financial year

**1.1.** Compagnie de Financement Foncier is approved to operate as a *société de crédit foncier* under the Act of June 25, 1999, which deals with savings and financial security. As such it is subject to Articles L. 515-13 to L. 515-33 of the French Monetary and Financial Code.

*Sociétés de crédit foncier* are credit institutions accredited as financial companies by the *Comité des établissements de crédit et des entreprises d'investissement* (CECEI). As such, they must comply with the following regulations:

› Regulation No. 2000-03, as amended, of the *Comité de la réglementation comptable* (CRC), concerning the preparation and presentation of the annual financial statements of credit institutions;

› Regulation No. 99-10 of the CRBF, which specifically concerns *sociétés de crédit foncier* and:

- the valuation of real property that is financed by loans that can be held as assets by *sociétés de crédit foncier*,
- the valuation of the assets and liabilities of such companies,
- their specific management policies.

**1.2.** In 2009, Compagnie de Financement Foncier acquired, for €3,831.3 million, loans from Crédit Foncier de France, with an outstanding principal of €3,937.8 million and €242.3 million of loans not yet released and which were recorded as "Financing commitments given". The company also purchased a loan to a French public entity for €167.2 million (of which €832.7 million has yet to be released).

Purchases of residential mortgage loan securitization units were limited to €203.9 million while those in the foreign public sector totaled €2,551.7 million including €2,426.1 million of securities, €66.5 million of long-term loans to public entities plus €59.1 million of securitization units.

These purchases totaled €6,754.1 million in fiscal 2009.

In December 2009, under a financial guarantee agreement subject to Article L. 211-38 of the French Monetary and Financial Code, Compagnie de Financement Foncier set up several credit lines with its parent company, Crédit Foncier

de France, for a total amount of €6,340 million, excluding related receivables, to renew previous credit lines; thus bringing total secured refinancing to €7,540 million at end 2009, excluding related receivables.

"Replacement securities" - as defined under Decree No. 2007-745 of May 9, 2007 relating to the solvency of credit institutions, investment companies and *sociétés de crédit foncier* and which amends the French Monetary and Financial Code - totaled €9,454 million.

**1.3.** Compagnie de Financement Foncier issued €15,704.8 million of *obligations foncières* in 2009. It also applied to the Banque de France for new funding, under the *Gestion globale des garanties* (3G) program. This funding totaled €3 billion at end 2009.

**1.4.** In June, the company issued €84 million in shares to Crédit Foncier, in payment of its stock dividend for fiscal 2008.

**1.5.** At the request of a foreign government agency to restructure a 1.75 billion loan contracted in USD, in late July 2009 the company redeemed this debt and issued a new loan in euros by participating in existing government bond issues. The discount recorded upon the restructuring of this debt and the cancellation of hedges resulted in a gain of €92 million that was recognized entirely during the fiscal year.

**1.6.** Following the restructuring of adjustable rate loans, which Crédit Foncier proposed to its clients in order to secure their monthly payments, Compagnie de Financement Foncier received €14 million in compensation from Crédit Foncier, under the guarantee provided in 2008.

**1.7.** Subsequent to the merger of Caisse Nationale des Caisses d'Épargne with Fédération des Banques Populaires, the term "group" used in the notes to the annual report refers to the entire Groupe BPCE.

## 2. Information about accounting rules and principles

The annual corporate accounts of Compagnie de Financement Foncier are prepared and presented in accordance with the rules set forth by CNCE, in compliance with the regulations of the CRC (the French accounting regulations committee) and the CRBF (the French banking and financial regulations committee). In compliance with CRBF Regulation No. 91-01 amended by CRC Regulation No. 2000-03, primary financial statements are presented in the format required for credit institutions.

The financial statements for the fiscal year are presented in an identical format as that used for the previous fiscal year. Generally accepted accounting principles have been applied on a prudent basis and in accordance with the following underlying assumptions:

- › going concern basis;
- › permanence of accounting methods over time;
- › independence of fiscal years;

and in conformity with the general rules for establishing and presenting annual financial statements.

The historical cost method is used to value accounting items and all balance sheet items are shown net of impairment, amortization, provisions and allowances.

No change was made to the accounting methods used to prepare fiscal 2009 financial statements.

The rules adopted by the CRC and which were mandatory in 2009 had no significant impact on the Compagnie de Financement Foncier's financial statements.

Unless otherwise indicated, Compagnie de Financement Foncier does not anticipate the implementation of the adopted CRC's rules when such compliance is optional.

### 2.1. Loans and advances to credit institutions

Loans and advances to credit institutions comprise all loans and advances arising out of banking transactions with credit institutions, with the exception of debt securities. It includes repo securities and receivables related to repurchase agreements. Loans and advances are broken down into the sub-categories "on demand" and "at maturity".

Loans and advances to credit institutions appear on the balance sheet at their nominal value and include accrued

interest that is not yet due but are net of any impairment for credit risk.

Guarantees received are recorded in accounts and are presented in note 16. They are revalued on a regular basis. The total carrying amount of all guarantees received for a single loan is limited to the outstanding amount of this loan.

### 2.2. Customer loans

Amounts due from customers include loans to entities other than credit institutions, with the exception of repo securities, assets purchased under resale agreements, and receivables corresponding to securities sold under repurchase agreements. They are broken down between commercial loans, customer accounts in debit and other loans.

Once a loan has been committed, it is recorded as an asset on the balance sheet in proportion to the amount released, including accrued interest and net of any impairment charges recognized for credit risk. Amounts not yet paid are recognized as off-balance sheet items under "Financing commitments given".

Compagnie de Financement Foncier acquires loans and other receivables at market value. The difference between the market value and the net book value of the loans, known as a premium or discount depending on whether it is positive or negative, is recorded in a sub-account of the customer loans account.

Premiums and discounts on receivables acquired as at December 31, 2009 are then taken to the year's income on an actuarial basis over the remaining term of the receivables.

Past due payments are recorded as assets in each receivables category, unless they are deemed doubtful, in which case they are included in doubtful loans. Interest accrued on receivables is recorded in the relevant customer loan account with a corresponding entry in the income statement.

Early repayment and renegotiation fees or commissions are recognized in full in the income statement for the year in which the transaction was booked.

The segmentation used to break down customer loans

in notes 2c and d is that used within the Credit Foncier Group for its internal management purposes, and mainly in commercial, financial and risk-related areas.

In compliance with the standards of the Caisse d'Epargne Group since 2003, and of BPCE since 2009, Compagnie de Financement Foncier has recognized since 2003 guarantees that are explicitly or implicitly attached to certain types of customer loans recorded on the balance sheet and which are of a sufficiently material nature, such as the value of mortgages or counter-guarantees received from SGFGAS and assumed by the French government (see note 16 on commitments received). They are revalued on a regular basis. The total carrying amount of all guarantees received for a single loan is limited to the outstanding amount of this loan.

### **Doubtful loans**

Doubtful loans and receivables consist of all outstanding amounts, whether due or not and guaranteed or otherwise, where at least one commitment made by the debtor has involved a known credit risk, classified as such on an individual basis.

A risk is considered to be "known" when the Group is not likely to collect all of the amount owed under the terms of the commitments made by the counterparty, notwithstanding any guarantees provided.

Doubtful loans are identified in compliance with CRC Regulation No. 2002-03, which deals with the accounting treatment of credit risk, as amended by CRC Regulation No. 2005-03 of November 25, 2005 to include loans past due for over three months, over six months for property loans, and over nine months for loans to local authorities.

In compliance with regulations, as of September 30, 2008 loans to homebuyers are classified as doubtful if one or more payments are over six months past due, compared to three months previously. This change reduced doubtful loans by €151.44 million. The rules for downgrading other types of loans have not been changed.

Within the doubtful category, loans and receivables are considered to be irrecoverable when full or partial collection is deemed to be highly unlikely and a write-off is considered. Loans for which payments have ceased beyond the specified time are assumed to be recorded as irrecoverable. The decision to reclassify a doubtful loan as irrecoverable

and the amount of impairment determined must take into account the guarantees provided and the recent loan repayment history. A debt that has been classified as doubtful for one year is assumed to be irrecoverable, unless a write-off is not foreseen. Reclassification of a debt from doubtful to irrecoverable does not automatically entail the reclassification of the counterparty's other doubtful loans and commitments to irrecoverable.

Accrued interest on doubtful loans is recognized under income from banking operations and impaired accordingly.

Irrecoverable loans and receivables are written off as losses and the corresponding impairment allowances are reversed.

Doubtful loans and receivables are reclassified as performing once the debtor resumes regular payments in accordance with the original repayment schedule, provided that the counterparty is no longer considered to be at risk of default.

### **Restructured loans**

Restructured loans are those whose initial characteristics (term and interest rate) are modified to facilitate repayment by the counterparty, which is encountering financial difficulty.

A discount is taken on restructured loans to reflect the difference between the present value of the contractual cash flows at inception and the present value of expected principal and interest repayments after restructuring. The discount rate used for fixed-rate loans is the initial effective interest rate and the discount rate used for variable-rate loans is the most recent effective interest rate at the restructuring date. The effective rate is the contractual rate. This discount is expensed to "Cost of risk" in the income statement and offset against the corresponding outstanding in the balance sheet. It is written back to net interest income in the income statement over the life of the loan using an actuarial method.

A doubtful restructured loan may be reclassified as performing when the terms of the loan are complied with. These reclassified loans are identified. When a loan that has been reclassified becomes overdue, regardless of the restructuring terms agreed, the loan is downgraded to doubtful.

## 2.3. Depreciations for counterparty risk

### 2.3.1. Depreciations

When the collection of loans or other receivables is considered to be uncertain, impairment is deducted from the asset to account for the risk of loss. Impairment charges are calculated separately for each loan, while taking into account the present value of the guarantees received. They are determined at least quarterly, on the basis of the estimated credit risk and the guarantees provided. Impairment on doubtful loans must at least cover the accrued interest.

Impairment for probable losses includes all impairment charges, calculated on the basis of the present value as the difference between the capital remaining due and the forecast cash flows.

For loans to the subsidized sector and those guaranteed by SGFGAS, in the name of the French government, the share of the risk assumed by the latter is also taken into account.

Since loans transferred or sold to Compagnie de Financement Foncier are recorded on the balance sheet at cost, it is with respect to this initial cost that impairment is calculated.

The average amounts of loans with similar characteristics are calculated using a statistical method.

Credit risk on financing commitments and guarantees off the balance sheet is recorded as a provision for contingencies and charges. There was no provision for this at December 31, 2009.

The principal component of loan impairment provisions and reversals, and the corresponding impairment charges, are taken to income under “Cost of risk”, while the interest component is recorded as “Interest and similar income”.

### 2.3.2. Counterparty risk provisions

When credit risk is not determined separately, for each counterparty, but for a portfolio of securities having a similar risk profile, a provision is made for this on the balance sheet.

This provision covers the counterparty risk of performing loans to real estate professionals, credit institutions and public sector authorities.

Counterparty risk provisions totaled €2.2 million at end-2008. These provisions totaled €1.8 million at end-2009. Neiertz risk provisions declined from €3.6 million at end-2008, to €3.4 million at end-2009.

Total provisions for counterparty risk totaled €5.2 million at end-2009.

These provisions are recorded as liabilities and any increases or reversals are recorded under “Cost of risk”.

## 2.4. Foreign Exchange Transactions

Income and capital gains or losses on foreign exchange transactions are recorded in compliance with CRBF Regulation No. 89-01, amended by Regulations No. 90-01 and No. 95-04.

Receivables, liabilities and off-balance sheet commitments denominated in a foreign currency are valued at the exchange rate at the balance sheet date. Realized and unrealized exchange gains and losses are taken to income. Related income and expenses are recorded at the prevailing rate at the date of the transaction.

Premiums and discounts on foreign exchange forward and futures contracts used for hedging purposes are recognized in income on a pro rata basis. Other foreign exchange contracts and forward and futures instruments denominated in foreign currencies are valued at market price. Outright foreign exchange forward and futures contracts, and those hedged by forward and futures instruments, are revalued over the remaining term. Foreign exchange swaps are recognized as coupled buy/sell forward transactions. Foreign exchange swaps are subject to CRBF regulation 90-15 as amended.

Realized and unrealized foreign exchange gains and losses on Compagnie de Financement Foncier's proprietary transactions are booked as foreign exchange income under “Gains or Losses on trading securities transactions”.

Compagnie de Financement Foncier currently has no transaction in a “non-liquid” currency. It has also committed to hold no open currency position.

## 2.5. Securities Transactions

"Securities" include interbank market instruments, treasury bills, other negotiable debt securities, fixed-income securities, equities and variable-income instruments.

Securities transactions are subject to the accounting regulations set forth in:

- › CRC Regulation No. 2005-01, amending CRB Regulation No. 90-01 of February 23, 1990, which is the reference text on this subject, and supplemented by the Banking Commission's order No. 94-07, which defines the general rules regarding the accounting and valuation of securities;
- › CRBF Regulation No. 89-07, which is supplemented by the Banking Commission's order No. 94-06, which deals with the rules concerning various specific transactions, such as repurchase agreements.

Securities are classified into the following categories: equity interests and investments in affiliated undertakings, long-term investments, equity securities available for sale in the medium term securities, short-term investments, and trading account securities.

Compagnie de Financement Foncier does not hold trading account securities or equity securities available for sale in the medium term.

Moreover, as a *société de crédit foncier*, Compagnie de Financement Foncier cannot hold equity investments, even as a minority interest. It holds only one share in SGFGAS, which enables it to acquire loans guaranteed by the French government, by virtue of SGFGAS. This investment was approved by the regulatory authority.

Income on bonds and other negotiable debt securities is recognized as it accrues during the year.

### 2.5.1. Short-term investment securities

Short-term investment securities are all securities that do not fall into any of the other categories.

They are recorded on their acquisition date and at cost excluding associated expenses. Accrued interest on fixed-income securities is taken to income under "Interest and similar income".

Premiums and discounts on short-term investment securities correspond to the positive or negative difference between the acquisition cost and the redemption value of fixed-income securities. They are amortized over the remaining term of the security using the actuarial method. Short-term investment securities are valued at the lower of cost or market price. Impairment is recognized for any unrealized capital losses, which may be measured on the basis of portfolios of similar securities, without offsetting against capital gains recognized for the other categories of securities.

In accordance with Article 4 of CRB Regulation No. 88-02, gains from hedging instruments are taken into account when calculating impairment. Unrealized gains are not recognized.

Gains and losses on sales of short-term investment securities, impairments and impairment reversals appear under the item "Gains or Losses on short-term investment securities and similar instruments".

### 2.5.2. Long-term investment securities

Long-term investment securities are fixed-income securities with a fixed redemption date, acquired or reclassified from the category "securities available for sale", with the clear intention of holding them until maturity and the capacity to do so. These securities must not be subject to any existing legal or other constraint that could compromise the capacity to hold them until maturity. Classification as long-term investment securities does not prevent them from being considered items hedged against interest rate risk.

Long-term investment securities are recorded on their acquisition date, at cost excluding associated expenses. Securities transferred from the securities short-term portfolio to the long-term portfolio are booked at cost and previous impairments are reversed over the residual life of the securities.

The difference between the acquisition cost and the redemption value of these securities, and their accrued



interest, are subject to the same rules that apply to short-term investment securities.

An impairment may be booked against these securities if there is a strong probability that the bank will not keep them until maturity due to new developments. Unrealized capital gains are not recognized.

Long-term investment securities cannot be sold or reclassified to another category of securities, except under the circumstances described in CRC Regulation No. 2005-01.

Impairment and reversals of impairment are recognized as "Gains or losses on fixed assets".

### 2.5.3. Reclassification of financial assets

The Conseil national de la comptabilité, in order to harmonize accounting practices and achieve compliance with IFRS standards, issued Regulation 2008-7 of December 17, 2008, which amended CRB Regulation 90-01 on the recognition of securities transactions. This regulation is based on Opinion 2008-19 of December 8, 2008, which dealt with the reclassification of securities from the "trading account securities" and the "securities available for sale" categories.

Reclassification from "trading account securities" to "long-term investment securities" or to "short-term investment securities" is now allowed under either of the following conditions:

- a) under exceptional market conditions that require a change in strategy;
- b) when fixed-income securities are no longer, after their acquisition, negotiable on active markets, and provided that the company has the intention and the capacity to hold them in the foreseeable future or until they reach maturity.

The effective date of reclassification from the "trading account securities" or "short-term investment securities" categories cannot be earlier than July 1, 2008 and must coincide with the consolidated balance sheet date.

Compagnie de Financement Foncier did not reclassify any securities in the financial statements in 2009.

## 2.6. Fixed assets

Compagnie de Financement Foncier recorded the difference between the market value and the net book value of the items received in 1999 from Crédit Foncier, representing a gross amount of €119.4 million, as an intangible asset, pursuant to the Act of June 25, 1999.

These intangible assets are amortized according to a predetermined schedule, using annual amortization rates calculated in 1999 that were based on the expected decrease in the value of these assets, down to zero in 2009.

Amortization expense of €2.5 million was recorded in 2009 for this purpose, bringing the balance of "Intangible assets" to zero at end 2009.

## 2.7. Interbank loans and bonds

Amounts owed to credit institutions and to customers are presented according to their initial term, whether "on demand" or "at maturity". Depending on the counterparty involved, these items include securities and other assets sold under repurchase agreements. Interest accrued on these liabilities is entered in the relevant customer loan account with a corresponding entry in the income statement.

The gross amount of outstanding principal on bonds and loans is booked under liabilities on the balance sheet. Bonds and loans in foreign currencies are translated into euros at the prevailing exchange rate at the end of the financial year.

Issuing expenses, less any issuance premiums, are initially booked at their full amount under "Commissions and Fees" in the year in which they are incurred and are:

- recorded on the balance sheet as accruals under "Deferred Expenses" and charged against "Commissions and Fees - Income",
- amortized on the balance sheet over the term of the bond or loan, with amortization expenses recorded as "Other expenses from banking operations".

Issue and redemption premiums are amortized on a straight-line basis over the term of the underlying bond or loan and are booked on the balance sheet as "Deferred Expenses". Amortization expense is recorded under "Interest and similar expenses on bonds and other fixed-income securities".

## 2.8. Repurchase agreements

Repurchase agreements are recorded pursuant to CRBF Regulation No. 89-07, supplemented by *Commission bancaire* Directive No. 94-06.

Securities under repurchase agreements remain on the assignor's balance sheet. The assignor records the amount received, and consequently owed to the assignee, as a liability. The assignee records the amount paid, representing its claim against the assignor, as an asset. At the balance sheet date, the repo securities and the amount owed the assignee are valued according to the rules that apply to each.

## 2.9. General Banking Risks Fund

This fund is intended to cover risks inherent to Compagnie de Financement Foncier's business activities, pursuant to the requirements of Article 3 of CRBF Regulation No. 90-02 and *Commission bancaire* Instruction No. 86-05, as amended. No change was made to this fund in fiscal 2009.

## 2.10. Forward financial instruments

Trading and hedging transactions in interest rate, currency or equity futures are recognized in accordance with the provisions of CRBF Regulations 88-02 and 90-15, as amended and *Commission bancaire* Instruction No. 94-04, as amended by Instruction No. 2003-03. Commitments on these instruments are recorded as off-balance sheet items at the notional value of the contract. At December 31, 2007, the amount recognized for these commitments represents the volume of the open forward transactions at the balance sheet date.

Compagnie de Financement Foncier does not hold any option or futures contracts on an organized market.

The accounting policies applied vary depending on the type of instrument and the original purpose of the transaction.

### 2.10.1. Interest rate and foreign exchange swaps

Interest rate swaps and foreign exchange swaps are used for both micro- and macro-hedging transactions.

These swaps are considered to be over-the-counter transactions and are subject to the following accounting treatment:

- › the commitments on these transactions are recorded off

the balance sheet at the notional value of the open contract;

- › micro-hedging expenses and income are recorded symmetrically with the expenses and income of the hedged item under the same item on the income statement;
- › macro-hedging expenses and income are recognized in income on a prorated basis and unrealized gains and losses relative to market value are not recognized;
- › swap compensation receipts represent the market value at the date of the transaction. The compensation receipts paid or received are amortized over the remaining term on a straight-line basis, for as long as the underlying agreement is maintained.

### 2.10.2. Interest rate caps and floors

Cap and floor rate contracts may be classified as micro- or macro-hedges.

These contracts are considered to be over-the-counter transactions and are subject to the following accounting treatment:

- › premiums are booked in accruals and amortized on a straight-line basis over the remaining term of the hedged item;
- › interest rate differentials, paid or received at each payment date, constitute a realized gain or loss and are recognized symmetrically with gains or losses on the hedged item.

At December 31, 2009, Compagnie de Financement Foncier had no isolated open position on a rate cap or floor contract.

## 2.11. Provisions

This item covers provisions for liabilities and expenses that are not directly related to banking transactions as defined under Article L. 311-1 of the French Monetary and Financial Code or to related transactions as defined under Article L. 311-2 of this same code, and which are clearly identifiable but uncertain as to their amount and occurrence. According to CRC Regulation No. 2000-06, such provisions can only be made if an obligation towards a third party exists at the end of the accounting period and is not offset by a receivable from this third party.

Provisions are also set up to cover contingencies and losses arising from banking transactions as defined under Article L. 311-1 of the French Monetary and Financial Code and from related transactions as defined under Article L. 311-2 of the code, which are considered likely as a result of events that have occurred or are in progress and which

are clearly identifiable but uncertain as to their occurrence. They provisions are mainly made to counterparty risks (see section 2.3.2.).

They are presented in detail in note 12.

## 2.12. Interest and similar income - Commissions

Interest and similar fee or commission income is recognized on a prorated basis.

Other fee income is recognized according to the type of service provided as follows:

- › commissions received for an ad hoc service are recognized upon completion of the service;
- › commissions received for an ongoing or discontinued service paid for in installments are recognized over the period that the service is provided.

## 2.13. Income taxes

Since January 1, 2008, Compagnie de Financement Foncier is part of the tax group that Crédit Foncier formed

with the subsidiaries in which it has over a 95% stake.

In 2009, Compagnie de Financement Foncier reported taxable income resulting in an income tax expense of €87.8 million at the full rate.

The Company has adjusted its taxable income for 2008 to account for provisions on securities available for sale, which are not considered to be tax deductible. This adjustment resulted in additional corporate income tax of €300K and was recorded in the 2009 accounts.

## 2.14. Consolidation

The Company is consolidated by the Groupe BCPE.

## 2.15. Implantation in the non-cooperative countries and territories

As of December 31, 2009, Compagnie de Financement Foncier does not operate and did not list any implantation in the fiscally non-cooperative countries and territories.

## Note 1a: due from banks

(in thousands of euros)

	Performing loans			Doubtful loans			Provisions			Net amounts		
	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
<b>Non-Group loans</b>												
On demand												
Customer accounts	1,986	12,874	35,541							1,986	12,874	35,541
Loans and accounts	800,000	1,123,000								800,000	1,123,000	
Related receivables	5	62								5	62	
Non-allocated securities	220	165	167							220	165	167
<b>Sub-total on demand</b>	<b>802,211</b>	<b>1,136,101</b>	<b>35,708</b>							<b>802,211</b>	<b>1,136,101</b>	<b>35,708</b>
At maturity												
Loans and accounts	1,599,387	1,625,360	3,004,005							1,599,387	1,625,360	3,004,005
Related receivables	30,528	38,060	43,831							30,528	38,060	43,831
<b>Sub-total at maturity</b>	<b>1,629,915</b>	<b>1,663,420</b>	<b>3,047,836</b>							<b>1,629,915</b>	<b>1,663,420</b>	<b>3,047,836</b>
<b>Total non-Group loans</b>	<b>2,432,126</b>	<b>2,799,521</b>	<b>3,083,544</b>							<b>2,432,126</b>	<b>2,799,521</b>	<b>3,083,544</b>
<b>Group loans</b>												
On demand	169,390	71,671	865,772							169,390	71,671	865,772
At maturity	2,601,197	6,935,067	5,877,708							2,601,197	6,935,067	5,877,708
Values received as long-term pension <sup>(2)</sup>	7,542,853									7,542,853		
<b>Sub-total Group loans</b>	<b>10,313,440</b>	<b>7,006,738</b>	<b>6,743,480</b>							<b>10,313,440</b>	<b>7,006,738</b>	<b>6,743,480</b>
<b>Total Group loans</b>	<b>10,313,440</b>	<b>7,006,738</b>	<b>6,743,480</b>							<b>10,313,440</b>	<b>7,006,738</b>	<b>6,743,480</b>
<b>Grand total <sup>(1)</sup></b>	<b>12,745,566</b>	<b>9,806,259</b>	<b>9,827,024</b>							<b>12,745,566</b>	<b>9,806,259</b>	<b>9,827,024</b>

<sup>(1)</sup> of which subsidised sector 891 1,069 1,341 891 1,069 1,341

<sup>(2)</sup> In 2008, values received as long-term pension, excluding related receivables, amounted to €1,200 million and were included in receivables at maturity.

## Note 1b: breakdown of loans at maturity to banks

(in thousands of euros)

	12/31/2009			12/31/2008	12/31/2007
	Gross	Provisions	Net		
<b>Term loans</b>					
Refinancing of subsidised residential property	891		891	1,069	1,341
Refinancing of unsubsidised residential property	2,172		2,172	3,108	4,066
Public authorities	1,626,852		1,626,852	1,659,243	1,629,029
Structured financing					
Other loans to banks	10,144,050		10,144,050	6,935,067	7,291,108
Doubtful term loans					
<b>Total</b>	<b>11,773,965</b>		<b>11,773,965</b>	<b>8,598,487</b>	<b>8,925,544</b>

## Note 2a: customer loans

(in thousands of euros)

	Performing loans			Doubtful loans			Provisions			Net amounts		
	2009	2008	2007	2009	2008 <sup>(3)</sup>	2007	2009	2008	2007	2009	2008	2007
<b>Customer loans</b>												
Commercial loans												
Export credits												
Short-term loans <sup>(2)</sup>	4,089,999	4,608,593	4,178,660							4,089,999	4,608,593	4,178,660
Equipment loans	9,664,896	9,702,324	8,986,224	3,373	3,599	4,354	439	563	537	9,667,830	9,705,360	8,990,041
Residential property loans	22,693,251	21,258,344	21,925,055	404,172	351,775	593,243	15,124	12,408	19,212	23,082,299	21,597,711	22,499,086
Other customer loans	61,137	108,543	27,797	1,656	1,682	1,255	959	903	827	61,834	109,322	28,225
Loans to financial customers												
Non-allocated securities		170	37								170	37
Subordinated loans												
Related receivables	280,172	288,288	244,665	1,574	1,651	2,959				281,746	289,939	247,624
Non-allocated securities												
<b>Sub-total</b>	<b>36,789,455</b>	<b>35,966,262</b>	<b>35,362,438</b>	<b>410,775</b>	<b>358,707</b>	<b>601,811</b>	<b>16,522</b>	<b>13,874</b>	<b>20,576</b>	<b>37,183,708</b>	<b>36,311,095</b>	<b>35,943,673</b>
<b>Customer accounts</b>												
Customer accounts												
Related receivables												
<b>Sub-total</b>												
<b>Total loans</b>	<b>36,789,455</b>	<b>35,966,262</b>	<b>35,362,438</b>	<b>410,775</b>	<b>358,707</b>	<b>601,811</b>	<b>16,522</b>	<b>13,874</b>	<b>20,576</b>	<b>37,183,708</b>	<b>36,311,095</b>	<b>35,943,673</b>
<b>Grand total <sup>(1)</sup></b>	<b>36,789,455</b>	<b>35,966,262</b>	<b>35,362,438</b>	<b>410,775</b>	<b>358,707</b>	<b>601,811</b>	<b>16,522</b>	<b>13,874</b>	<b>20,576</b>	<b>37,183,708</b>	<b>36,311,095</b>	<b>35,943,673</b>
of which subsidised sector <sup>(1)</sup>	1,139,888	1,460,230	1,717,500	68,939	77,946	235,816	138	122	5,850	1,208,689	1,538,054	1,947,466
of which unsubsidised sector	35,649,567	34,506,032	33,644,938	341,836	280,761	365,995	16,384	13,752	14,726	35,975,019	34,773,041	33,996,207

Note: Compagnie de Financement Foncier does not include any intra Group loans in customer loans.

<sup>(2)</sup> In 2006, the Company acquired the Crédit Foncier loan on the *Trésor* concerning the *Découvert sur Prime d'Epargne Logement*. This *découvert* reached €724 million as of December 31, 2009 compared to €963 million as of December 31, 2008.

In 2007, it purchased Ixis CIB loans, which include revolving credit lines amounting to €3,213 million at the end of December 2007.

Revolving credit lines rose to €3,371 million at year-end 2009 compared to €3,581 million at year-end 2008.

<sup>(3)</sup> Doubtful loans decreased significantly in 2008 because loans are now categorized as doubtful after 6 months instead of 3.

## Note 2 bis a: depreciations and provisions for counterparty risks

(in thousands of euros)

	12/31/2007	Increases	Reversals	12/31/2008	Increases	Reversals	Misc. transaction	12/31/2009
<b>Provisions recorded as a deduction from assets</b>								
Customer loans and due from banks <sup>(1)</sup>	20,576	12,775	-19,477	13,874	11,730	-9,082		16,522
<b>Provisions recorded in liabilities</b>								
Customer loans and due from banks and from securities	8,592	513	-3,268	5,837	536	-1,157		5,216
<b>Total</b>	<b>29,168</b>	<b>13,288</b>	<b>-22,745</b>	<b>19,711</b>	<b>12,266</b>	<b>-10,239</b>		<b>21,738</b>

<sup>(1)</sup> Provisions for depreciation of loans are booked at their present value, as per CRB 2002-03.

## Note 2 bis b: premiums/discounts on acquired loans

(in thousands of euros)

	12/31/2007	New entries	Amortisation	12/31/2008	New entries	Amortisation	12/31/2009
<b>Due from banks</b>							
Premiums	134,566		-15,113	119,453		-9,847	109,606
Discounts							
<b>Net</b>	<b>134,566</b>		<b>-15,113</b>	<b>119,453</b>		<b>-9,847</b>	<b>109,606</b>
<b>Customer loans</b>							
Premiums	391,242	5,074	-62,889	333,427	77,132	-50,430	360,129
Discounts	-302,835	-108,020	27,858	-382,997	-191,282	39,265	-535,014
<b>Net</b>	<b>88,407</b>	<b>-102,946</b>	<b>-35,031</b>	<b>-49,570</b>	<b>-114,150</b>	<b>-11,165</b>	<b>-174,885</b>
<b>Total</b>	<b>222,973</b>	<b>-102,946</b>	<b>-50,144</b>	<b>69,883</b>	<b>-114,150</b>	<b>-21,012</b>	<b>-65,279</b>

## Note 2c: breakdown of outstanding customer loans

(in thousands of euros)

	12/31/2009			12/31/08	12/31/07
	Gross	Provisions	Net		
<b>Individuals</b>	<b>17,702,190</b>		<b>17,702,190</b>	<b>16,052,999</b>	<b>16,803,375</b>
Subsidised residential property	642,055		642,055	886,164	1,182,781
Unsubsidised residential property	17,059,837		17,059,837	15,166,105	15,619,828
Other	298		298	730	766
<b>Individual entrepreneurs</b>	<b>1,056,960</b>		<b>1,056,960</b>	<b>912,202</b>	<b>914,262</b>
Subsidised residential property	31,607		31,607	55,506	71,224
Unsubsidised residential property	1,025,070		1,025,070	856,650	842,919
Other	283		283	46	119
<b>Regional public sector (local communities)</b>	<b>14,189,065</b>		<b>14,189,065</b>	<b>15,161,221</b>	<b>13,962,132</b>
Subsidised residential property	114,065		114,065		
Unsubsidised residential property	393,003		393,003		
Other	13,681,997		13,681,997		
<b>Social organisations</b>	<b>3,355,371</b>		<b>3,355,371</b>	<b>3,578,172</b>	<b>3,511,840</b>
Subsidised residential property	240,177		240,177	268,646	293,029
Unsubsidised residential property	3,028,541		3,028,541	3,231,735	3,142,720
Other	86,653		86,653	77,791	76,091
<b>Real estate investors</b>	<b>124,837</b>		<b>124,837</b>	<b>200,892</b>	<b>114,728</b>
Subsidised residential property	101,306		101,306	119,439	24,238
Unsubsidised residential property	22,642		22,642	79,989	88,079
Other	889		889	1,464	2,411
<b>Structured financing</b>	<b>356,373</b>		<b>356,373</b>	<b>11,958</b>	<b>7,272</b>
Subsidised residential property	10,678		10,678		
Transportation	182		182	4,804	6,436
Large projects	299,022		299,022	7,154	836
Other	46,491		46,491		
<b>Other</b>	<b>4,659</b>		<b>4,659</b>	<b>48,818</b>	<b>48,829</b>
<b>Sub-total customer loans</b>	<b>36,789,455</b>		<b>36,789,455</b>	<b>35,966,262</b>	<b>35,362,438</b>
<b>Doubtful loans</b>	<b>410,775</b>	<b>16,522</b>	<b>394,253</b>	<b>344,833</b>	<b>581,235</b>
- Of which subsidised sector	68,939	38	68,801	77,824	229,966
- Of which unsubsidised sector	341,836	16,384	325,452	267,009	351,269
<b>Total customer loans <sup>(1)</sup></b>	<b>37,200,230</b>	<b>16,522</b>	<b>37,183,708</b>	<b>36,311,095</b>	<b>35,943,673</b>
<sup>(1)</sup> of which subsidised sector	1,208,827	138	1,208,689	1,538,054	1,947,466
of which unsubsidised sector	35,991,403	16,384	35,975,019	34,773,041	33,996,207

<sup>(1)</sup> The breakdown of the outstanding customer loans is based upon Risk's segmentation. This approach allows a much finer understanding. The breakdowns of 2007 and 2008 has not been adjusted.



## Note 2d: breakdown of doubtful loans

(in thousands of euros)

12/31/2009	Total doubtful loans			Of which compromised doubtful loans		
	Gross	Provisions	Net	Gross	Provisions	Net
<b>Individuals</b>	<b>347,725</b>	<b>11,172</b>	<b>336,553</b>	<b>26,818</b>	<b>5,250</b>	<b>21,568</b>
Subsidised residential property	49,229	63	49,166			
Unsubsidised residential property	297,148	10,125	287,023	25,470	4,266	21,204
Other	1,348	984	364	1,348	984	364
<b>Individual entrepreneurs</b>	<b>40,182</b>	<b>3,580</b>	<b>36,602</b>	<b>6,476</b>	<b>2,808</b>	<b>3,668</b>
Subsidised residential property	10,643	43	10,600			
Unsubsidised residential property	29,501	3,513	25,988	6,453	2,785	3,668
Other	38	24	14	23	23	
<b>Regional public sector and sovereigns</b>	<b>5,834</b>	<b>136</b>	<b>5,698</b>			
Subsidised residential property	664		664			
Unsubsidised residential property	1,429	100	1,329			
Other	3,741	36	3,705			
<b>Social organisations</b>	<b>5,535</b>	<b>104</b>	<b>5,431</b>	<b>113</b>	<b>66</b>	<b>47</b>
Subsidised residential property	587		587			
Unsubsidised residential property	4,467	72	4,395	85	38	47
Other	481	32	449	28	28	
<b>Real estate investors</b>	<b>6,906</b>	<b>558</b>	<b>6,348</b>	<b>1,491</b>	<b>391</b>	<b>1,100</b>
Subsidised residential property	4,878	32	4,846			
Unsubsidised residential property	1,582	404	1,178	1,491	391	1,100
Other	446	122	324			
<b>Structured financing</b>	<b>4,593</b>	<b>972</b>	<b>3,621</b>	<b>1,605</b>	<b>969</b>	<b>636</b>
Subsidised residential property	2,938		2,938			
Unsubsidised residential property	1,383	768	615	1,216	765	451
Other	272	204	68	389	204	185
<b>Other</b>						
<b>Total <sup>(1)</sup></b>	<b>410,775</b>	<b>16,522</b>	<b>394,253</b>	<b>36,503</b>	<b>9,484</b>	<b>27,019</b>

<sup>(1)</sup> of which subsidised sector 68,939 138 68,801

of which unsubsidised sector <sup>(2)</sup> 341,836 16,384 325,452 36,503 9,484 27,019

<sup>(2)</sup> The amount of doubtful loans in the competitive sector includes €163.39 million of SGFGAS-guaranteed loans.

In accordance with CRC Regulation No. 2005-03, compromised doubtful loans do not include, as of 2005, loans that benefit from a guarantee covering almost all risks, such as loans of the subsidised sector and French State-guaranteed PAS loans.

The breakdown of the outstanding customer loans of 2009 is based upon Risks' segmentation. This approach allows a much finer understanding. The breakdowns of 2007 and 2008 has not been adjusted.

The breakdown of the outstanding customer loans of 2009 is based upon Risk's segmentation. This approach allows a much finer understanding. The breakdown of 2007 and 2008 has not been adjusted.

(in thousands of euros)

12/31/2008	Total doubtful loans			Of which compromised doubtful loans		
	Gross	Provisions	Net	Gross	Provisions	Net
<b>Individuals</b>	<b>289,819</b>	<b>5,474</b>	<b>284,345</b>	<b>9,576</b>	<b>3,215</b>	<b>6,361</b>
Subsidised residential property	59,734	75	59,659			
Unsubsidised residential property	229,974	5,326	224,648	9,465	3,143	6,322
Other	111	73	38	111	72	39
<b>Individual entrepreneurs</b>	<b>25,854</b>	<b>1,918</b>	<b>23,936</b>	<b>3,372</b>	<b>1,635</b>	<b>1,737</b>
Subsidised residential property	8,301		8,301			
Unsubsidised residential property	17,523	1,890	15,633	3,344	1,607	1,737
Other	30	28	2	28	28	
<b>Regional public sector (local communities)</b>	<b>5,866</b>	<b>144</b>	<b>5,722</b>	<b>2</b>	<b>2</b>	
<b>Social organizations</b>	<b>16,674</b>	<b>420</b>	<b>16,254</b>	<b>802</b>	<b>64</b>	<b>738</b>
Subsidised residential property	1,245	14				
Unsubsidised residential property	15,354	337	15,017	775	37	738
Other	75	69	6	27	27	
<b>Real estate professionals</b>						
Unsubsidised residential property						
Other						
<b>Real estate investors</b>	<b>19,435</b>	<b>5,881</b>	<b>13,554</b>	<b>8,712</b>	<b>5,792</b>	<b>2,920</b>
Subsidised residential property	7,816	33	7,783			
Unsubsidised residential property	9,813	4,678	5,135	6,967	4,622	2,345
Other	1,806	1,170	636	1,745	1,170	575
<b>Structured financing</b>						
Transportation						
Large projects						
<b>Other</b>	<b>1,059</b>	<b>37</b>	<b>1,022</b>	<b>87</b>	<b>21</b>	<b>66</b>
<b>Total <sup>(1)</sup></b>	<b>358,707</b>	<b>13,874</b>	<b>344,833</b>	<b>22,551</b>	<b>10,729</b>	<b>11,822</b>
<sup>(1)</sup> of which subsidised sector	77,946	122	77,824			
of which unsubsidised sector <sup>(2)</sup>	280,761	13,752	267,009	22,551	10,729	11,822

<sup>(2)</sup> The amount of doubtful loans in the competitive sector includes €105.56 million of SGFGAS-guaranteed loans.

In accordance with CRC Regulation No. 2005-03, compromised doubtful loans do not include, as of 2005, loans that benefit from a guarantee covering almost all risks, such as loans of the subsidised sector and French State-guaranteed PAS loans.

(in thousands of euros)

12/31/2007	Total doubtful loans			Of which compromised doubtful loans		
	Gross	Provisions	Net	Gross	Provisions	Net
<b>Individuals</b>	<b>399,456</b>	<b>5,645</b>	<b>393,811</b>	<b>11,582</b>	<b>509</b>	<b>11,073</b>
Subsidised residential property	93,147	43	93,104			
Unsubsidised residential property	306,162	5,538	300,624	11,582	509	11,073
Other	147	64	83			
<b>Individual entrepreneurs</b>	<b>39,417</b>	<b>3,469</b>	<b>35,948</b>	<b>3,127</b>	<b>656</b>	<b>2,471</b>
Subsidised residential property	12,728	3	12,725			
Unsubsidised residential property	26,636	3,466	23,170	3,127	656	2,471
Other	53		53			
<b>Regional public sector (local communities)</b>	<b>5,858</b>	<b>250</b>	<b>5,608</b>			
<b>Social organisations</b>	<b>16,402</b>	<b>513</b>	<b>15,889</b>			
Subsidised residential property	3,149	7	3,142			
Unsubsidised residential property	13,228	481	12,747			
Other	25	25				
<b>Real estate professionals</b>						
Unsubsidised residential property						
Other						
<b>Real estate investors</b>	<b>139,321</b>	<b>10,642</b>	<b>128,679</b>	<b>1,179</b>	<b>411</b>	<b>768</b>
Subsidised residential property	125,534	5,798	119,736			
Unsubsidised residential property	11,954	4,534	7,420	1,153	411	742
Other	1,833	310	1,523	26		26
<b>Structured financing</b>						
Transportation						
Large projects						
<b>Other</b>	<b>1,357</b>	<b>57</b>	<b>1,300</b>			
<b>Total <sup>(1)</sup></b>	<b>601,811</b>	<b>20,576</b>	<b>581,235</b>	<b>15,888</b>	<b>1,576</b>	<b>14,312</b>

<sup>(1)</sup> of which subsidised sector 235,816 5,850 229,966

of which unsubsidised sector <sup>(2)</sup> 365,995 14,726 351,269 15,888 1,576 14,312

<sup>(2)</sup> The amount of doubtful loans in the competitive sector includes €182.95 million of SGFGAS-guaranteed loans.

In accordance with CRC Regulation No 2005-03, compromised doubtful loans do not include, loans that benefit from a guarantee covering almost all risks, such as loans of the subsidised sector and French State-guaranteed PAS loans.

### Note 3a: bonds and other fixed income securities

(in thousands of euros)

	12/31/2009			12/31/2008	12/31/2007
	Gross	Provisions	Net		
<b>Bonds and other fixed income securities</b>					
<b>Short-term investment securities <sup>(2)</sup></b>					
Listed securities	189,188	-6,859	182,329	308,328	319,218
Unlisted securities	9,492,000		9,492,000	11,334,000	10,131,200
<b>Long-term investment securities <sup>(1)(2)</sup></b>					
Listed securities	32,006,419		32,006,419	30,797,929	29,430,211
Unlisted securities	3,211,263		3,211,263	3,310,148	3,698,548
<b>Related receivables</b>	<b>214,620</b>		<b>214,620</b>	<b>356,716</b>	<b>325,174</b>
<b>Total <sup>(3)</sup></b>	<b>45,113,490</b>	<b>-6,859</b>	<b>45,106,631</b>	<b>46,107,121</b>	<b>43,904,351</b>

<sup>(1)</sup> Shares of securitisation funds under this item represent €21,752,157 K (excluding related receivables).

<sup>(2)</sup> The market value of the listed bonds represents a total of €9,677,922 K including €6,859 K of depreciated unrealized capital loss (after swaps) and €2,225 K of depreciated unrealized capital gain (before swaps). Moreover, no unrealized capital loss on long-term investment securities was recorded at December 31, 2009 (data communicated pursuant to regulation CRC 2004-16 of 11/23/2004 regarding information to be provided further to the transposition of the European Directives, "Fair value" and "Modernisation").

<sup>(3)</sup> There are no doubtful loans in the securities portfolio.

### Note 3 bis: premiums/discounts

(in thousands of euros)

12/31/2009	Gross amount	Redemption value	Difference +/-
<b>Short-term investment securities</b>			
Bonds	189,188	189,194	-6
Other fixed income securities	9,492,000	9,492,000	
<b>Long-term investment securities</b>			
Bonds	13,410,525	13,383,608	26,917
Other fixed income securities	21,807,157	21,839,586	-32,429

### Note 3 ter: financial fixed assets

(in thousands of euros)

	Gross amount at 12/31/2007	Acquisitions	Disposals/repayments	Reclassification	Change in premiums/discounts	Currency differences	Gross amount at 12/31/2008	Acquisitions	Disposals/repayments	Reclassification	Change in premiums/discounts	Currency differences	Gross amount at 12/31/2009
Long-term investment securities	33,128,759	6,345,082	-5,983,405		1,080	616,562	34,108,078	3,248,761	-1,939,736		2,697	-202,119	35,217,681
<b>Total</b>	<b>33,128,759</b>	<b>6,345,082</b>	<b>-5,983,405</b>		<b>1,080</b>	<b>616,562</b>	<b>34,108,078</b>	<b>3,248,761</b>	<b>-1,939,736</b>		<b>2,697</b>	<b>-202,119</b>	<b>35,217,681</b>
Related receivables	254,750						280,954						203,328
<b>Grand total</b>	<b>33,383,509</b>	<b>6,345,082</b>	<b>-5,983,405</b>		<b>1,080</b>	<b>616,562</b>	<b>34,389,032</b>	<b>3,248,761</b>	<b>-1,939,736</b>		<b>2,697</b>	<b>-202,119</b>	<b>35,421,009</b>

## Note 4a: tangible and intangible fixed assets

(in thousands of euros)

	Gross amount at 12/31/2008	Acquisitions in 2009	Disposals in 2009	Gross amount at 12/31/2009	Amortisation and provisions	Net amount at 12/31/2009	Net amount at 12/31/2008	Net amount at 12/31/2007
<b>Intangible fixed assets</b>								
Difference intangible/ CFF equity contribution	119,408			119,408	119,408	0	2,480	7,816
Other intangible fixed assets								
<b>Total</b>	<b>119,408</b>			<b>119,408</b>	<b>119,408</b>	<b>0</b>	<b>2,480</b>	<b>7,816</b>

## Note 4b: amortisation and depreciation of tangible and intangible fixed assets

(in thousands of euros)

	Amount at 12/31/2007	Increases in 2008	Reversals in 2008	Amount at 12/31/2008	Increases in 2009	Reversals in 2009	Amount at 12/31/2009
Intangible fixed assets	111,592	5,336		116,928	2,480		119,408
<b>TOTAL</b>	<b>111,592</b>	<b>5,336</b>		<b>116,928</b>	<b>2,480</b>		<b>119,408</b>

## Note 5: other assets

(in thousands of euros)

	12/31/2009	12/31/2008	12/31/2007
Conditional instruments purchased	8,200	12,115	17,186
Miscellaneous receivables	7,222	66,612	15,732
Special bonus account	92,826	125,933	137,080
<b>Total</b>	<b>108,248</b>	<b>204,660</b>	<b>169,998</b>

## Note 6a: prepayments, deferred charges and accrued income

(in thousands of euros)

	12/31/2009	12/31/2008	12/31/2007
<b>Deferred charges <sup>(1)</sup></b>			
Issue and redemption of premiums	411,133	370,256	391,601
Other deferred charges } (see note 6b)	55,219	47,689	55,644
<b>Other prepayments, deferred charges and accrued income</b>			
Prepayments	247,944	182,736	180,783
Accrued income <sup>(2)</sup>	1,984,015	2,178,293	2,427,847
Other <sup>(3)</sup>	397,639	712,005	1,488,557
<b>Total</b>	<b>3,095,950</b>	<b>3,490,979</b>	<b>4,544,432</b>

<sup>(1)</sup> Deferred charges consist of issue premiums on long-term loans and debt securities. See following table entitled "Deferred charges". Other deferred charges correspond to the loan issue fees to be amortised over the remaining term to maturity of the bonds and loans.

<sup>(2)</sup> Includes accrued income on swaps contracts for €1,978,521K as of 12/31/2009.

<sup>(3)</sup> Includes borrower accounts (pending payments on loan accounts) and released loan funds on behalf of Crédit Foncier €218,613K as of 12/31/2009, compared to €672,965K in 2008 and €1,277,970K in 2007.

## Note 6b: deferred charges

(in thousands of euros)

	12/31/2009	12/31/2008	12/31/2007
<b>Issue and redemption of premiums</b>			
<b>Debt securities</b>			
Mortgage bonds ( <i>obligations foncières</i> )			
Subsidised sector	2,719	3,306	4,099
Other sectors	408,414	366,830	387,205
Negotiable debt securities (B.M.T.N.)		120	297
<b>Total issue and redemption of premiums</b>	<b>411,133</b>	<b>370,256</b>	<b>391,601</b>
<b>Other deferred charges</b>			
Loan and bond issuance costs	55,219	47,689	55,644
<b>Total other deferred charges</b>	<b>55,219</b>	<b>47,689</b>	<b>55,644</b>
<b>Total deferred charges</b>	<b>466,352</b>	<b>417,945</b>	<b>447,245</b>

## Note 7: due to banks

(in thousands of euros)

	12/31/2009	12/31/2008	12/31/2007
<b>Due to non group banks</b>			
On demand			
Current accounts		9,730	
Other amounts due	64,505	8	50
Related payables			
<b>Sub-total</b>	<b>64,505</b>	<b>9,738</b>	<b>50</b>
At maturity			
At maturity BDF P003G	3,000,000	2,500,000	
Term loans <sup>(1)</sup>	144,660	130,278	154,148
Securities subject to repurchase agreements			1,603,611
Related payables	20,718	38,228	10,025
<b>Sub-total</b>	<b>3,165,378</b>	<b>2,668,506</b>	<b>1,767,784</b>
<b>Total due to non group banks</b>	<b>3,229,883</b>	<b>2,678,244</b>	<b>1,767,834</b>
<b>Due to group banks</b>			
On demand	1,433	16,079	559,076
At maturity	3,456,112	3,163,669	2,791,037
Term loans	2,856,687	2,565,840	1,829,348
Securities subject to repurchase agreements	599,425	597,829	961,689
<b>Total due to group banks</b>	<b>3,457,545</b>	<b>3,179,748</b>	<b>3,350,113</b>
<b>Grand total</b>	<b>6,687,428</b>	<b>5,857,992</b>	<b>5,117,947</b>

<sup>(1)</sup> Of which subsidised sector

9,971

## Note 8: customer deposits

(in thousands of euros)

	12/31/2009	12/31/2008	12/31/2007
<b>Other liabilities</b>			
<b>Non-group</b>			
On demand			
Other amounts due to customers	5,297	33,479	91,152
<b>Total</b>	<b>5,297</b>	<b>33,479</b>	<b>91,152</b>



## Note 9: debt securities

(in thousands of euros)

	12/31/2009	12/31/2008	12/31/2007
Negotiable debt securities <sup>(1)</sup>	238,000	181,252	191,923
Related payables	3,986	6,952	5,157
<b>Negotiable debt securities and related payables</b>	<b>241,986</b>	<b>188,204</b>	<b>197,080</b>
Mortgage Bonds (" <i>obligations foncières</i> ") <sup>(2)</sup>	79,887,330	78,002,661	77,329,972
Related payables	2,069,356	1,957,400	2,064,910
<b>Mortgage Bonds and related payables</b>	<b>81,956,686</b>	<b>79,960,061</b>	<b>79,394,882</b>
<b>Grand total</b>	<b>82,198,672</b>	<b>80,148,265</b>	<b>79,591,962</b>

<sup>(1)</sup> of which subsidised sector 31,252 41,923

<sup>(2)</sup> of which subsidised sector <sup>(1)</sup> 812,600 804,987 1,194,225

All of these debt securities benefit from a priority right of payment.

<sup>(1)</sup> Borrowings from the subsidised sector include a total of 100 million pounds sterling explicitly guaranteed by the French State.

## Note 10: other liabilities

(in thousands of euros)

	12/31/2009	12/31/2008	12/31/2007
Other payables <sup>(1)</sup>	43,088	52,512	37,963
Related payables	1,732	2,116	2,598
Conditional instruments sold	58	119	200
Allocated public funds <sup>(2)</sup>	256,071	260,470	281,333
Deposits received	1,251,900	424,140	184,300
<b>Total</b>	<b>1,552,849</b>	<b>739,357</b>	<b>506,394</b>

<sup>(2)</sup> of which subsidised sector 198,641 200,078 116,631

<sup>(1)</sup> In 2009, it included €18,238K in corporate taxes due to CFF as stipulated by the taxation integration.

## Note 11: accruals and deferred income

(in thousands of euros)

	12/31/2009	12/31/2008	12/31/2007
<b>Other liability adjustment accounts</b>			
Prepaid FGAS subsidies	388,385	434,175	504,348
Other pre-payments	698,609	575,275	609,323
Accruals <sup>(1)</sup>	774,693	1,631,548	1,444,575
Adjustment accounts <sup>(2)</sup>	834,977	1,492,713	1,307,375
Other <sup>(3)</sup>	67,603	164,539	388,344
<b>Total</b>	<b>2,764,267</b>	<b>4,298,250</b>	<b>4,253,965</b>

<sup>(1)</sup> including accrued expenses of swap contracts for €762,121K at 12/31/2009.

<sup>(2)</sup> This account is the double entry to assets and liabilities after recognition in the income statement of gains and losses arising on the valuation of off balance sheet transactions in foreign currencies (see note 17).

<sup>(3)</sup> including borrower accounts of €1,245K at 12/31/2009 compared to €1,627K at 12/31/2008 and €204,368K at 12/31/2007 (see note 6).

## Note 12: provisions

(in thousands of euros)

	12/31/2007	12/31/2008				12/31/2009			
	Balance	Increases	Reversals used	Reversals not used	Balance	Increases	Reversals used	Reversals not used	Balance
<b>Provisions for liabilities and charges on banking operations</b>									
Provisions for litigation	111				111				111
Provisions for tax litigation <sup>(1)</sup>	3,680				3,680	12		3,680	12
Provisions for amortisation of loans									
Subsidised sector									
Unsubsidised sector									
Provisions for losses on commitments									
Provisions for liabilities and charges on financial instruments									
<b>Provisions for liabilities and charges - cost of risk</b>									
Provisions for potential risks on non-doubtful loans <sup>(2)</sup>	8,592	513	3,268		5,837	536	1,109	48	5,216
<b>Total</b>	<b>12,383</b>	<b>513</b>	<b>3,268</b>		<b>9,628</b>	<b>548</b>	<b>1,109</b>	<b>3,728</b>	<b>5,339</b>

<sup>(1)</sup> In 2007, the tax litigation provision corresponded to accrued interest in FCC shares from 2005. This provision was reversed at December 31, 2009, following the prescription of the fiscal year.

<sup>(2)</sup> See paragraph 2.3.2 of the draft appendix.

In 2008, the provision of €0.5 million mainly concerned the Neiertz provision. The reversal of €3.3 million includes the dynamic provision for €1.9 million, the Neiertz provision for €0.5 million and the sectorial provision for €0.9 million.

In 2009, the provision of €0.5 million mainly concerned the Neiertz provision. The reversal of €1.1 million includes the dynamic provision for €0.6 million, the Neiertz provision for €0.5 million.

## Note 13: subordinated debt

### I - Amount in financial statements

	(in thousands of euros)		
	12/31/2009	12/31/2008	12/31/2007
Redeemable subordinated notes "RSN"	2,100,000	2,100,000	2,900,000
Subordinated participating loan	1,350,000	1,350,000	1,350,000
Related payables	250	589	665
<b>Total subordinated debt</b>	<b>3,450,250</b>	<b>3,450,589</b>	<b>4,250,665</b>

### II - Detailed information concerning subordinated debt

#### a) Financial characteristics

	(in thousands of euros)				
	Issue date	Maturity date	Rate	Repayment terms	12/31/2009
Redeemable subordinated notes "RSN" <sup>(1)</sup>	12/30/2003	12/30/2043	Euribor 3 months + 0.5%	At maturity	2,100,000
Subordinated participating loan from Crédit Foncier de France <i>rescheduled on June 28, 2002</i>	10/22/1999	10/21/2040	TAM + 2,5%	At maturity	1,350,000

<sup>(1)</sup> including €2bn issued December 28, 2007, similar to the issue carried out December 30, 2003.

In 2008, the company purchased €800 million in reimbursable subordinated instruments as a counterparty to a capital increase of €770 million, subscribed to by Crédit Foncier.

#### b) Possibility and conditions for early repayment

##### › On the subordinated participating loan

Compagnie de Financement Foncier has the right to reimburse all or part of the loan before maturity without penalty.

##### › On the redeemable subordinated notes "RSN"

The RSNs were placed privately with Crédit Foncier and therefore, for reasons of prudence, are not deemed to represent shareholders' equity of the Crédit Foncier Group. Compagnie de Financement Foncier has undertaken not to repay RSNs early for the entire duration of the loan. However, it reserves the right to redeem these instruments prior to maturity, as these transactions have no impact on the normal repayment schedule of outstanding securities. Redeemed RSNs are cancelled. Nevertheless, if Crédit Foncier were to sell these securities to entities outside the Group, they would become representative of shareholders' equity and their purchase would require the prior agreement of the French Banking Commission [*Commission bancaire*].

#### c) Conditions relating to interest rate payable

##### › On the subordinated participating loan

In order to ensure the Company's profitability, interest is only due if the net income for the year in respect of which the interest is due, after payment of that interest, is at least 10 million euros. As a consequence, if net income before payment of the interest were to be less than 10 million euros, no interest would be due and it would not be carried over to subsequent years. If net income, before payment of the interest, were greater than 10 million euros but would become less than this amount after payment of the interest, this interest is reduced by a corresponding amount, and the amount of interest greater than the interest thus reduced would not be carried forward to subsequent years.

##### › On the redeemable subordinated notes "RSN"

Any interest not paid is carried over as unsecured debt.

## Note 14: change in shareholders' equity

(in thousands of euros)

	Opening balance 01/01/2008	Allocations	Changes in capital and reserves		12/31/2008	Allocations	Changes in capital and reserves		12/31/2009
			Dividends paid in shares	Other change			Dividends paid in shares	Other change	
Capital stock <sup>(1)</sup>	154,000			770,000	924,000		84,000		1,008,000
Share premiums <sup>(1)</sup>	271,067				271,067		31,395		302,462
Reserves									
Legal reserve	15,400				15,400	3,112			18,512
General reserve	55,517				55,517				55,517
Regulated reserves									
of which									
Regulated revaluation reserves									
Special long-term capital gains reserves									
Retained earnings	3,691	53,151		1	56,843	-56,381			462
Net shareholders' equity before income for the year	499,675	53,151		770,001	1,322,827	-53,269			1,384,953
Income for the year before distribution	53,151	-53,151		62,231	62,231	-62,231			175,469
Net shareholders' equity after income for the year	552,826			832,232	1,385,058				1,560,422
Dividends distributed						-115,500	115,395	105	
	Opening balance 01/01/2008	Allocations	Changes in provisions		12/31/2008	Allocations	Changes in provisions		12/31/2009
			Increases	Reversals			Increases	Reversals	
Regulated revaluation reserves									
Other regulated reserves									
Regulated reserves									
Amount of shareholders' equity before dividends	552,826			832,232	1,385,058				1,560,422
	Opening balance 01/01/2008	Allocations	Changes in provisions		12/31/2008	Allocations	Changes in provisions		12/31/2009
			Increases	Reversals			Increases	Reversals	
Fund for general banking risks	20,000				20,000				20,000
<b>Total</b>	<b>572,826</b>			<b>832,232</b>	<b>1,405,058</b>				<b>1,580,422</b>

<sup>(1)</sup> The capital stock consists of 63,000,000 ordinary shares with a par value of 16 euros, which all benefit from the same rights, in December 2009. No revaluation has been carried out to date.

During the year, 5,250,000 new shares were issued, with a par value of €16.

## Note 14b: proposed allocation of income

12/31/2009

(In thousands of euros)

Sources		
Retained earnings		462
Net income for the year		175,469
Drawing from reserves		
Allocation		
Allocation to reserves		
Legal reserve	8,773	
Special long-term capital gains reserves		
Other reserves		
Dividends		
Other distributions		
Retained earnings	167,158	
<b>Total</b>	<b>175,931</b>	<b>175,931</b>

## Note 15: commitments given

### Financial commitments

(in thousands of euros)

	2009		2008		2007	
	Net authorisations	Amounts not drawn down	Net authorisations	Amounts not drawn down	Net authorisations	Amounts not drawn down
<b>Subsidised sector</b>						
Non-Group commitments						
Banks						
Customers		313				
<b>Sub-total subsidised sector</b>		<b>313</b>				
<b>Competitive sector</b>						
Non-Group commitments						
Other values given as a guarantee <sup>(1)</sup>	7,020,087		10,449,002			
Banks						114,824
Customers	110,158	2,064,127	127,012	2,822,993	364,346	8,320,233
<b>Sub-total competitive sector</b>	<b>7,130,245</b>	<b>2,064,127</b>	<b>10,576,014</b>	<b>2,822,993</b>	<b>364,346</b>	<b>8,435,057</b>
<b>Total <sup>(2)</sup></b>	<b>9,194,685</b>		<b>13,399,007</b>		<b>8,799,403</b>	

**Amounts not drawn down** represent the fractions that remain to be drawn on loans already partially put in place.

**Net authorisations** represent the amount of loans authorised but which have not yet been put in place.

<sup>(1)</sup> This line represents assets and securities given as collateral to the Banque de France, in the framework of the pool of the Overall collateral management program or *Gestion globale des garanties* (3G), of which €3,660 million in loans and in €3,360 million RMBS tranches.

<sup>(2)</sup> At December 31, 2009, doubtful commitments came to €1,702K. Financing commitments given to customers decreased in 2009, mainly due to fewer openings of revolving credit.

	2009	2008
Interactive cash-flow lines	-	€305 million
Local authority public sector	-	-
Revolving credit lines (outstandings purchased from Ixis CIB)	€1,315 million	€2,012 million
Treasury housing savings accounts (" <i>primes d'épargne logement</i> ")	€281 million	€37 million

## Note 16: commitments received

(in thousands of euros)

	2009	2008	2007
<b>Financing commitments</b>			
NON-GROUP COMMITMENTS <sup>(1)</sup>			
<i>Banks <sup>(1)</sup></i>	3,442,050	7,349,674	
<b>Sub-total</b>	<b>3,442,050</b>	<b>7,349,674</b>	
GROUP COMMITMENTS <sup>(2)</sup>	55,448	563,200	573,407
<i>Other values received as collateral from the Group <sup>(6)</sup></i>	7,691,797	1,200,284	
<b>Total</b>	<b>11,189,295</b>	<b>9,113,158</b>	<b>573,407</b>
<b>Guarantee commitments</b>			
NON-GROUP COMMITMENTS			
<i>Banks <sup>(3)</sup></i>	3,286,211	3,384,497	2,033,029
<i>Customers <sup>(4)</sup></i>	32,674,266	30,051,552	31,503,322
<b>Sub-total</b>	<b>35,960,477</b>	<b>33,436,049</b>	<b>33,536,351</b>
GROUP COMMITMENTS <sup>(5)</sup>	9,527,935	11,415,551	25,106,769
<b>Total</b>	<b>45,488,412</b>	<b>44,851,600</b>	<b>58,643,120</b>
<b>Commitments on securities</b>			
<i>Others securities to be received</i>		542,418	
<b>Total</b>	<b>45,488,412</b>	<b>45,394,018</b>	<b>58,643,120</b>
<b>Total commitments received</b>	<b>56,677,707</b>	<b>54,507,176</b>	<b>59,216,527</b>

<sup>(1)</sup> At December 31, 2009, the non-Group financing commitments represented the commitment received from the Banque de France as part of the Global management guarantee pool which amounted to €3,442 million, compared to €7,349.6 million at December 31, 2008.

<sup>(2)</sup> Group commitments included FCC share repurchase agreements amounting to €55,448K.

(in thousands of euros)

	12/31/2008	12/31/2009
<sup>(3)</sup> Includes €500,805K rated AA/AA-		
Includes guarantees received from Créserfi:	28,649	26,720
Includes security enhancement guarantees received from insurance companies:	2,865,839	2,758,783

<sup>(4)</sup> Compagnie de Financement Foncier posts guarantees to the balance sheet that are explicitly or implicitly related to certain types of customer loans on the balance sheet, in view of their materiality.

These guarantees are broken down as follows:	(in thousands of euros)	12/31/2008	12/31/2009
State guarantees on subsidised sector loans:		1,513,553	1,179,966
SFGAS guarantees on FGAS-eligible loans and repurchased by the state:		6,875,428	7,417,570
Mortgage guarantees for mortgage loans benefiting from only one such guarantee:		7,568,563	8,421,825
Guarantees granted by local authorities and other entities:		3,427,769	2,335,822
Security enhancement guarantees granted by european states, identified since 2007:		10,756,239	13,319,083

<sup>(5)</sup> Guarantee commitments received include transactions of credit risk transfer, directly or indirectly, totalling €3,074 million predominantly to a AAA rated European public entity, as well as commitments received from a credit insurer CIFG of €2,389 million. They also include a guarantee received from BPCE in connection with French local authority public sector loans purchased from IXIS CIB for €4,010 million.

<sup>(6)</sup> The information related to the other values received as collateral were not included in the financial statements at December 31, 2008.

## Note 17: foreign exchange transactions

(in thousands of euros)

	2009		2008		2007	
	Currency receivable	Currency payable	Currency receivable	Currency payable	Currency receivable	Currency payable
<b>Forward transactions</b>						
Transactions directly with counterparties <sup>(1)</sup>						
Hedging transactions						
Financial swaps						
Micro-hedging transactions						
Subsidised sector	112,600	161,891	104,987	161,891	136,361	161,891
Unsubsidised sector	19,132,965	19,918,650	21,922,494	23,330,649	18,013,606	19,295,401
Macro-hedging transactions						
Subsidised sector						
Unsubsidised sector						
<b>Total hedging transactions</b>	<b>19,245,565</b>	<b>20,080,541</b>	<b>22,027,481</b>	<b>23,492,540</b>	<b>18,149,967</b>	<b>19,457,292</b>
<b>Forward transactions (nominal amounts)</b>	<b>19,245,565</b>	<b>20,080,541</b>	<b>22,027,481</b>	<b>23,492,540</b>	<b>18,149,967</b>	<b>19,457,292</b>
<b>Forward transactions (fair value) <sup>(2)</sup></b>	<b>-721,838</b>		<b>-1,473,701</b>		<b>-1,457,834</b>	
<b>Current cash transactions</b>			<b>287,418</b>	<b>315,000</b>		
<b>Total foreign currency transactions</b>	<b>19,245,565</b>	<b>20,080,541</b>	<b>22,314,899</b>	<b>23,807,540</b>	<b>18,149,967</b>	<b>19,457,292</b>
<b>Total</b>	<b>39,326,106</b>		<b>46,122,439</b>		<b>37,607,259</b>	

<sup>(1)</sup> Compagnie de Financement Foncier does not transact any forward foreign currency contracts on regulated markets.

<sup>(2)</sup> Data communicated pursuant to regulation CRC 2004-16 of 11/23/2004 regarding information to be provided further to the transposition of the European directives, "Fair value" and "Modernisation".

## Note 18: forward financial instruments

(in thousands of euros)

	2009		2008		2007	
	Euros <sup>(1)</sup>	Other currencies <sup>(2)</sup>	Euros <sup>(1)</sup>	Other currencies <sup>(2)</sup>	Euros <sup>(1)</sup>	Other currencies <sup>(2)</sup>
<b>Transactions directly with counterparties <sup>(3)</sup></b>						
<b>Conditional transactions</b>						
Micro-hedging transactions						
Purchases						
Sales	6,860		9,909		14,483	
Macro-hedging transactions						
Purchases	1,131,021		797,393		1,111,452	
Sales						
Other conditional transactions						
Purchases						
Sales						
<b>Conditional transactions (nominal amounts)</b>	<b>1,137,881</b>		<b>807,302</b>		<b>1,125,935</b>	
<b>Conditional transactions (fair value)</b>	<b>14,833</b>		<b>7,667</b>		<b>8,934</b>	
<b>Firm transactions</b>						
Micro-hedging transactions						
Interest rate instruments	82,273,050	292,603	78,768,347	277,314	95,242,727	333,155
Exchange rate instruments						
Other instruments						
Macro-hedging transactions						
Interest rate instruments	32,127,103		34,764,781		29,444,882	
Exchange rate instruments						
Other instruments						
Other transactions						
Interest rate instruments						
Exchange rate instruments						
Other instruments <sup>(4)</sup>	3,099,031		1,944,805			
<b>Firm transactions (nominal amounts)</b>	<b>117,499,184</b>	<b>292,603</b>	<b>115,477,933</b>	<b>277,314</b>	<b>124,687,609</b>	<b>333,155</b>
<b>Firm transactions (fair value) <sup>(5)</sup></b>	<b>2,593,080</b>	<b>1,218</b>	<b>1,089,259</b>	<b>1,454</b>	<b>316,290</b>	<b>7,592</b>
<b>Firm and conditional transactions</b>	<b>118,637,065</b>	<b>292,603</b>	<b>116,285,235</b>	<b>277,314</b>	<b>125,813,544</b>	<b>333,155</b>
<b>Total <sup>(6)</sup> (nominal amounts)</b>	<b>118,929,668</b>		<b>116,562,549</b>		<b>126,146,699</b>	
<b>Total (fair value)</b>	<b>2,609,131</b>		<b>1,098,380</b>		<b>332,816</b>	

<sup>(1)</sup> Euro equivalent for non-euro currencies IN.

<sup>(2)</sup> Euro equivalent currencies that became the euro OUT.

<sup>(3)</sup> Compagnie de Financement Foncier does not transact any forward financial instruments on regulated markets.

<sup>(4)</sup> The amount of €3,099,031 K at December 31, 2009 represents a guarantee from Crédit Foncier on the RMBS tranches held on Compagnie de Financement Foncier's balance sheet. This portfolio was protected against credit risk following Crédit Foncier's implementation of a mirror operation of a Credit Default Swap. Because this guarantee ended during the first half of 2008, Crédit Foncier accorded an equivalent protection June 15, 2008 on a portion of the portfolio by committing to compensate for a drop in the weighting if the rating agencies downgrade the rating to under A-/A3/A-.

<sup>(5)</sup> Data communicated pursuant to regulation CRC 2004-16 of 11/23/2004 regarding information to be provided further to the transposition of the European directives, "Fair value" and "Modernisation".

<sup>(6)</sup> At 12/31/2009, there were no outstanding doubtful loans relating to transactions on financial instruments.



**Note 19: interest and similar income <sup>(1)(2)</sup>**

(in thousands of euros)

	2009	2008	2007
On transactions with banks	157,774	500,523	280,421
On transactions with customers	1,415,662	1,621,353	1,361,388
On bonds and other fixed income securities	2,849,901	2,184,572	1,839,978
Other interest and similar income	27,183	78,508	13,178
<b>Total</b>	<b>4,450,520</b>	<b>4,384,956</b>	<b>3,494,965</b>

<sup>(1)</sup> including income from the subsidised sector 121,359 168,723 198,380

<sup>(2)</sup> including €6K as reversals of discounts on restructured loans under non-market conditions.

**Note 20: interest and similar expenses <sup>(1)</sup>**

(in thousands of euros)

	2009	2008	2007
On transactions with banks	-217,743	-235,375	-116,378
On transactions with customers	-83,793	-1	-5,416
On bonds and other fixed income securities	-3,263,368	-3,739,597	-3,043,014
Related to subordinated debt	-87,797	-222,611	-131,109
Other interest and similar expenses	-439,509	-13,132	-15,694
<b>Total</b>	<b>-4,092,210</b>	<b>-4,210,716</b>	<b>-3,311,611</b>

<sup>(1)</sup> of which expenses from the subsidised sector 103,652 -138,386 -161,091

**Note 21: net commissions and fees**

(in thousands of euros)

	2009	2008	2007
<b>Income</b>	<b>41,447</b>	<b>38,443</b>	<b>43,425</b>
On transactions with banks			2
On transactions with customers	21,881	34,420	22,088
Transfer of loan issuance costs/expenses	19,465	3,899	21,169
On securities transactions	101		
Other commissions and fees		124	166
<b>Expenses</b>	<b>-26,350</b>	<b>-7,895</b>	<b>-24,707</b>
On transactions with banks	-868	-1,110	-607
On transactions with customers		-10	-126
On securities transactions <sup>(1)</sup>	-22,050	-4,208	-21,416
On payment method transactions			
Other commissions and fees	-3,432	-2,567	-2,558
<b>Net balance</b>	<b>15,097</b>	<b>30,548</b>	<b>18,718</b>

<sup>(1)</sup> of which loan issuance costs 19,465 4,208 21,416

## Note 22: gains and losses on trading portfolio transactions

(in thousands of euros)

	2009	2008	2007
<b>Foreign exchange and arbitrage transactions</b>	<b>-223</b>	<b>889</b>	<b>-1,501</b>
Gains on foreign exchange and arbitrage transactions <sup>(1)</sup>	2,259	70,302	476
Losses on foreign exchange and arbitrage transactions <sup>(1)</sup>	-2,482	-69,413	-1,977
<b>Forward financial instrument transactions</b>			
Income from forward financial instruments			
Expenses on forward financial instruments			
Reversals in provisions for unrealised losses on interest-rate instruments			
Increases in provisions for unrealised losses on interest-rate instruments			
<b>Net balance</b>	<b>-223</b>	<b>889</b>	<b>-1,501</b>

<sup>(1)</sup> In 2008, exchange rate profits resulted from a €67,198K adjustment due to the termination of currency swaps with Lehman Brothers. It was offset by a currency loss of the same amount.

## Note 23: gains and losses on investment securities transactions

(in thousands of euros)

	2009	2008	2007
Gains on disposal			
Losses on disposal			
Reversals of provisions for loss of value	3,571	737	179
Increases in provisions for loss of value <sup>(1)</sup>	-1,980	-8,271	-1,090
<b>Net balance</b>	<b>1,591</b>	<b>-7,534</b>	<b>-911</b>

<sup>(1)</sup> In 2008, depreciation provisions concerned the AYT CEDULA 4% and CRH 5% bonds. Depreciation of securities reached €8,450K of which €7,798K for AYT CEDULA 4% bonds.

## Note 24: other income from banking operations

(in thousands of euros)

	2009	2008	2007
<b>Reversals of provisions relating to banking transactions</b>			
Surplus of reversals over increases in provisions for amortisation of loans			
Provision for claims and litigation on banking transactions			
<b>Other income from banking operations</b>			
Transfer of operating expenses			
* Flat-rate commissions on PAS loans			
Other sundry income from banking operations <sup>(1)</sup>	2,917	2,350	2,258
<b>Total</b>	<b>2,917</b>	<b>2,350</b>	<b>2,258</b>

<sup>(1)</sup> of which dividends on PAS commissions received by FGAS 2,003 1,943 1,886

Following the termination of the FGAS guarantee system, Compagnie de Financement Foncier received, from FGAS, dividends on PAS flat commissions for the periods 1993 to 2002.

## Note 25: other expenses from banking operations

(in thousands of euros)

	2009	2008	2007
<b>Increases in provisions relating to banking operations</b>			
Provision for claims and litigation on banking transactions			
<b>Other expenses on banking operations</b>			
Commissions on PAS and PTZ loans paid to FGAS			
Amortisation of loan issuance expenses	-11,934	-11,854	-11,062
Amortisation of flat-rate commissions on PAS loans			
Amortisation of the correcting account on PC and PAS loans	-772	-1,680	-3,133
Other sundry expenses from banking operations	-2,954	-372	-63
<b>Total</b>	<b>-15,660</b>	<b>-13,906</b>	<b>-14,258</b>

## Note 26: general operating expenses

(in thousands of euros)

	2009	2008	2007
Personnel expenses	-495	-200	-77
Taxes and duties	-12,847	-8,657	-8,222
External services	-4,412	-3,989	-3,604
Expenses invoiced by Crédit Foncier de France	-79,566	-87,846	-85,849
<b>Total</b>	<b>-97,320</b>	<b>-100,692</b>	<b>-97,752</b>

Note: the total amount of compensation received by members of management entities in financial year 2009 was €315K compared to €137K in 2008.

## Note 27a: cost of risk

(in thousands of euros)

	2009	2008	2007
<b>Provisions and losses on doubtful loans</b>	<b>-5,316</b>	<b>1,972</b>	<b>-5,703</b>
Increases in provisions (See note 27b)	-6,407	-4,774	-12,316
Reversals of provisions	2,642	13,060	7,771
Losses not covered by provisions <sup>(1)</sup>	-1,551	-6,314	-1,158
<i>of which discounts on restructured loans</i>			
<b>Losses provisioned for unrecoverable loans</b>			
Losses covered by provisions	-1,707	-681	-1,256
Reversals of provisions used	1,707	681	1,256
<b>Recoveries on amortized loans <sup>(2)</sup></b>	<b>1,189</b>	<b>2,018</b>	<b>2,703</b>
<b>Net balance</b>	<b>-4,127</b>	<b>3,990</b>	<b>-3,000</b>

<sup>(2)</sup> of which recoveries for correcting account

10 1,364 2,033

<sup>(1)</sup> In 2008, non-swapped losses include a net loss of €-4,959K linked to the ceding of a loan to Lehman Brothers to Crédit Foncier via swap adjustments.

## Note 27b: increases in provisions for doubtful loans

(in thousands of euros)

	2009	2008	2007
<b>Provisions for doubtful loans</b>	<b>-5,871</b>	<b>-4,261</b>	<b>-8,093</b>
Provisions for loans to customers	-5,871	-4,261	-8,093
<b>Provisions for liabilities and charges - cost of risk</b>	<b>-536</b>	<b>-513</b>	<b>-4,223</b>
Provision for losses and charges on commitments			
Provision for counterparty risks <sup>(1)</sup>	-536	-513	-4,223
<b>Total</b>	<b>-6,407</b>	<b>-4,774</b>	<b>-12,316</b>

<sup>(1)</sup> In 2009, provision of €112K was made for client dynamic provision and €424K for Neiertz provision.

In 2008, provision of €83K was made for client dynamic provision and €430K for Neiertz provision.

In 2007 a provision of €3,035K was made for "client" dynamic provisions and €988K for sectoral risks.

## Note 27c: reversals in provisions for doubtful loans

(in thousands of euros)

	2009	2008	2007
<b>Provisions for doubtful loans</b>	<b>3,193</b>	<b>10,472</b>	<b>7,022</b>
Provisions for loans to banks			
Provisions for loans to customers	3,193	10,472	7,022
<b>Provisions for liabilities and charges - cost of risk</b>	<b>1,157</b>	<b>3,268</b>	<b>2,005</b>
Provision for losses and charges on commitments			
Provision for counterparty risks <sup>(1)</sup>	1,157	3,268	2,005
<b>Total</b>	<b>4,350</b>	<b>13,740</b>	<b>9,027</b>

<sup>(1)</sup> In 2007, reversal of €1,146K for dynamic provision "credit institutions" and reversal for Neiertz provision of €859K.

In 2008, reversal of €1,854K of the "client" dynamic provision, a reversal of €459K of the Neiertz provision and reversal of €955K of sectoral provision.

In 2009, reversal of €488K of the "client" dynamic provision, reversal of €609K of the Neiertz provision, reversal of €12K of sectorial provision and reversal of €48K of securities dynamic provision.

**Note 28: transactions with related enterprises and other investments**

(in thousands of euros)

12/31/2009	Related enterprises		Other investments	Total
	Group <sup>(1)</sup>	Non-Group		
<b>Loans receivable from banks</b>				
On demand	169,390			169,390
At maturity	10,144,050			10,144,050
<b>Loans payable to banks</b>				
On demand	1,433			1,433
At maturity	2,856,687			2,856,687
Securities subject to repurchase agreement	599,425			599,425
<b>Commitments given</b>				
Financing				
Guarantee				
<b>Commitments received</b>				
Financing	55,448			55,448
Guarantee	9,527,935			9,527,935
<b>On securities transactions</b>				
Bonds and other fixed income securities	10,429,900			10,429,900
Debt securities				
Subordinated debt	3,450,250			3,450,250

<sup>(1)</sup> The definition of Group refers to the consolidated group to which Compagnie de Financement Foncier belongs. The Company is fully consolidated within the consolidated financial statements of Crédit Foncier de France, itself a part of the Groupe BPCE. As a result, the Group represents all of the fully and proportionally consolidated entities of the Groupe BPCE.

## Note 29: schedule of foreign exchange positions

### C.O.B. recommendation 89.01

(in thousands of euros)

12/31/2009	Australian \$	Canadian \$	US \$	Hong Kong \$	£ Sterling	Swiss franc	Yen	Hungarian Forint	Others <sup>(1)</sup>	Total
<b>Balance sheet</b>										
Financial assets	17,479	97,020	3,355,797	1,131	160,526	1,538,274	1,935,007	9,534	34	7,114,802
Financial liabilities	841,949	471,774	4,274,108	29,689	1,706,268	3,865,795	1,347,695	75		12,537,353
<b>Balance sheet differential (I)</b>	<b>-824,470</b>	<b>-374,754</b>	<b>-918,311</b>	<b>-28,558</b>	<b>-1,545,742</b>	<b>-2,327,521</b>	<b>587,312</b>	<b>9,459</b>	<b>34</b>	<b>-5,422,551</b>
<b>Off-balance sheet</b>										
Commitments received	824,588	511,634	5,660,546	28,556	1,869,918	5,136,816	2,100,616			16,132,674
Commitments given		136,832	4,741,588		324,146	2,808,422	2,687,881	9,467		10,708,336
<b>Off-balance sheet differential (II)</b>	<b>824,588</b>	<b>374,802</b>	<b>918,958</b>	<b>28,556</b>	<b>1,545,772</b>	<b>2,328,394</b>	<b>-587,265</b>	<b>-9,467</b>		<b>5,424,338</b>
<b>Overall differential (I)+(II)</b>	<b>118</b>	<b>48</b>	<b>647</b>	<b>-2</b>	<b>30</b>	<b>873</b>	<b>47</b>	<b>-8</b>	<b>34</b>	<b>1,787</b>

Financial assets are comprised of amounts due from banks and customers.

Financial liabilities are comprised of amounts due to banks, customer deposits, and debt securities.

Foreign Exchange Position: the table above only shows the amount of transactions carried out by Compagnie de Financement Foncier on its own behalf and thus excludes transactions carried out on behalf of the French State for the subsidised sector.

<sup>(1)</sup> Danish krone and New Zealand dollar.

## Note 30: schedule of positions: liquidity risk

### C.O.B. Recommendation 89.01

(in thousands of euros)

12/31/2009	Remaining term to maturity					
	< 3 months	3M < T < 6M	6M < T < 1Y	1Y < T < 5Y	> 5 years	Total <sup>(2)</sup>
<b>Balance sheet</b>						
<b>Financial assets <sup>(1)</sup></b>	<b>4,536,187</b>	<b>7,735,634</b>	<b>1,060,948</b>	<b>10,202,409</b>	<b>67,591,683</b>	<b>91,126,861</b>
Due from banks	2,600,265	6,340,266	397	413,991	2,384,421	11,739,340
Customer loans	1,242,383	1,219,027	1,054,622	7,656,205	23,323,273	34,495,510
Bonds and other fixed income securities	693,539	176,341	5,929	2,132,213	41,883,989	44,892,011
Subordinate term loans						
<b>Financial liabilities</b>	<b>4,770,231</b>	<b>5,485,980</b>	<b>4,566,837</b>	<b>27,411,788</b>	<b>47,916,579</b>	<b>90,151,415</b>
Due to banks	53,650	45,245	3,004,984	713,835	2,758,371	6,576,085
Customer deposits						
Debt securities:	4,716,581	5,440,735	1,561,853	26,697,953	41,708,208	80,125,330
Liquidity notes						
Inter-bank market securities						
Negotiable debt securities				88,000	150,000	238,000
Bonds	4,716,581	5,440,735	1,561,853	26,609,953	41,558,208	79,887,330
Other debt securities						
Subordinated term debt					3,450,000	3,450,000
<b>Balance sheet differential (I)</b>	<b>-234,044</b>	<b>2,249,654</b>	<b>-3,505,889</b>	<b>-17,209,379</b>	<b>19,675,104</b>	<b>975,446</b>
<b>Off-balance sheet</b>						
Commitments given		530,757	1,642,139			2,172,896
Commitments received	3,442,050				55,448	3,497,498
<b>Off-balance sheet differential (II)</b>	<b>3,442,050</b>	<b>-530,757</b>	<b>-1,642,139</b>		<b>55,448</b>	<b>1,324,602</b>
<b>Total differential (I)+(II)</b>	<b>3,208,006</b>	<b>1,718,897</b>	<b>-5,148,028</b>	<b>-17,209,379</b>	<b>19,730,552</b>	<b>2,300,048</b>
Conditional positions	7,598		33,049	432,888	664,346	1,137,881

<sup>(1)</sup> Among the financial assets of the Compagnie de Financement Foncier, we have identified €33,41bn of securities that conform to the refinancing criteria of the European Central Bank.

<sup>(2)</sup> The difference with the amounts shown on the balance sheet is principally explained by unpaid loans, doubtful loans and related receivables.

## Note 31: financial results of the company over the last five years

(amounts in euros)

Description	2005	2006	2007	2008	2009
<b>I) Financial situation at the end of the financial year</b>					
a) Capital stock	110,000,000	132,000,000	154,000,000	924,000,000	1,008,000,000
b) Number of shares in issue	6,875,000	8,250,000	9,625,000	57,750,000	63,000,000
c) Number of bonds convertible into shares	None	None	None	None	None
<b>II) Overall results from operations</b>					
a) Revenue excluding taxes	2,587,600,757	3,130,988,425	3,538,236,200	4,418,771,642	4,496,251,634
b) Profit for the financial year before tax, employee profit sharing and net increase/reversal in amortisation and provisions	145,122,712	97,226,016	87,143,909	90,537,323	262,947,662
c) Income taxes	58,377,265	29,434,298	28,416,863	24,784,463	87,771,828
d) Employee profit sharing for the financial year	None	None	None	None	None
e) Profit for the financial year after tax, employee profit sharing and net increase/reversal in amortisation and provisions	85,935,735	62,342,078	53,151,105	62,231,116	175,469,326
f) Amount of profits distributed	87,518,750	83,325,000	None	115,500,000	
<b>III) Results from operations per share</b>					
a) Profit for the financial year after tax and employee profit sharing but before net increase/reversal in amortisation and provisions	12.62	8.22	6.10	1.14	2.77
b) Profit for the financial year after tax and employee profit sharing and net increase/reversal in amortisation and provisions	12.50	7.56	5.52	1.08	2.79
c) Dividend paid per share	12.73	10.10	None	2.00	
<b>IV) Personnel</b>					
a) Number of employees	Not significant	Not significant	Not significant	Not significant	Not significant
Management category	Not significant	Not significant	Not significant	Not significant	Not significant
Employee and technician category	None	None	None	None	None
b) Total employee salaries	Not significant	Not significant	Not significant	Not significant	Not significant
c) Amount paid for social contributions and benefits (social security, other staff benefits, etc.)	Not significant	Not significant	Not significant	Not significant	Not significant



## Note 32: simplified company balance sheets for the last five years

(in thousands of euros)

	12/31/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2005
<b>Assets</b>					
Cash due from central banks and post office accounts	4,421	20,024		4,725	2,363
Treasury notes and similar securities					
Due from banks	12,745,566	9,806,259	9,827,024	6,049,202	4,581,545
Customer loans	37,183,708	36,311,095	35,943,673	25,643,525	23,032,980
Bonds and other fixed-income securities	45,106,631	46,107,121	43,904,351	35,794,541	27,646,424
Fixed assets		2,480	7,816	14,070	21,540
Other assets	108,248	204,660	169,998	209,977	168,528
Prepayments, deferred charges and accrued income	3,095,950	3,490,979	4,544,432	2,974,849	1,950,224
<b>Total assets</b>	<b>98,244,524</b>	<b>95,942,618</b>	<b>94,397,294</b>	<b>70,690,889</b>	<b>57,403,604</b>
<b>Liabilities</b>					
Central banks, post office accounts					
Due to banks	6,687,428	5,857,992	5,117,947	1,466,703	1,282,971
Customer deposits	5,297	33,479	91,152	122,416	29,914
<i>"Obligations foncières"</i>	82,198,672	80,148,265	79,591,962	61,930,552	50,041,539
Other liabilities	1,552,849	739,357	506,394	1,600,475	1,069,712
Accruals and deferred income	2,764,267	4,298,250	4,253,965	2,790,141	2,260,244
Provisions for liabilities and charges	5,339	9,628	12,383	10,377	11,134
Subordinated debt	3,450,250	3,450,589	4,250,665	2,250,550	2,250,491
Fund for general banking risks	20,000	20,000	20,000	20,000	20,000
Regulated reserves and subsidies					
Capital, reserves and retained earnings	1,384,953	1,322,827	499,675	437,333	351,663
Net income for the year	175,469	62,231	53,151	62,342	85,936
<b>Total liabilities</b>	<b>98,244,524</b>	<b>95,942,618</b>	<b>94,397,294</b>	<b>70,690,889</b>	<b>57,403,604</b>
<b>Off-balance sheet</b>					
<b>Commitments given</b>					
Financing	2,174,598	2,950,005	8,799,403	1,714,692	614,870
Guarantee					
<b>Total commitments given</b>	<b>2,174,598</b>	<b>2,950,005</b>	<b>8,799,403</b>	<b>1,714,692</b>	<b>614,870</b>
<b>Commitments received <sup>(1)</sup></b>	<b>56,677,707</b>	<b>54,507,176</b>	<b>59,216,527</b>	<b>24,067,501</b>	<b>21,993,659</b>
<b>Reciprocal commitments</b>					
Sale and purchase of foreign currencies	39,326,106	46,122,439	37,607,259	29,198,318	23,889,538
Loans to be made or received in foreign currencies					
Non-unwound financial instruments	118,929,668	116,562,549	126,146,699	85,813,638	72,729,810
<b>Total reciprocal commitments</b>	<b>158,255,774</b>	<b>162,684,988</b>	<b>163,753,958</b>	<b>115,011,956</b>	<b>96,619,348</b>

<sup>(1)</sup> The information related to the other values received as collateral were not included in the financial statements at December 31, 2008.

## Note 33: privileged/non-privileged liabilities

(in thousands of euros)

	2009	2008	2007
<b>Privileged debt</b>	<b>83,945,847</b>	<b>83,398,704</b>	<b>82,538,701</b>
Due to banks	149,545	165,469	207,325
<i>"Obligations foncières"</i>	82,198,672	80,148,265	79,591,962
Amounts due under forward financial instruments	1,596,367	3,026,085	2,681,430
Amounts due under the agreement covered by Article L. 515-22 of the French Monetary and Financial Code	1,263	58,885	57,984
Debt resulting from related expenses mentioned in the last paragraph of Article L. 515-19 of the French Monetary and Financial Code			
<b>Non-privileged debt</b>	<b>14,298,677</b>	<b>12,543,914</b>	<b>11,858,593</b>
Unsecured debt	8,537,336	6,905,369	6,129,656
Subordinated and similar debt of which:	4,175,580	4,223,859	5,143,728
Redeemable subordinated notes "RSNs"	2,100,141	2,100,407	2,900,424
Participating loan	1,350,108	1,350,181	1,350,239
Shareholders' equity and provisions	1,585,761	1,414,686	585,209
<b>Total liabilities</b>	<b>98,244,524</b>	<b>95,942,618</b>	<b>94,397,294</b>

## Note 34: totals for the subsidised sector

### Balance sheet

(in thousands of euros)

Assets	2009	2008	2007	Liabilities	2009	2008	2007
Loans	1,209,580	1,539,123	1,948,807	Interbank loans			9,974
				Customer deposits	203	2,859	896
				Debt securities	837,360	861,113	1,273,311
Other assets	92,826	126,069	138,238	Other liabilities	25,836	31,533	36,880
<i>Special subsidy account</i>	<i>92,826</i>	<i>126,069</i>	<i>138,238</i>				
Prepayments, deferred charges and accrued income	26,538	24,073	17,576	Accruals and deferred income	59,168	112,741	128,429
<i>CSB Foreign exchange and rate differences</i>				<i>CSB - State guaranteed foreign exchange and rate differences</i>	<i>72</i>	<i>72</i>	<i>87</i>
<i>Other prepayments, deferred charges and accrued income</i>	<i>26,538</i>	<i>24,073</i>	<i>17,576</i>	<i>Other accruals and deferred income</i>	<i>59,096</i>	<i>112,669</i>	<i>128,342</i>
				Public funds allocated	198,640	200,076	218,982
				Subsidies	59,120	75,037	94,593
				Guarantee fund	139,520	125,039	124,389
Cash and cash equivalents				Cash and cash equivalents	207,737	480,943	436,149
<b>Total</b>	<b>1,328,944</b>	<b>1,689,265</b>	<b>2,104,621</b>		<b>1,328,944</b>	<b>1,689,265</b>	<b>2,104,621</b>

(in thousands of euros)

Off-balance sheet							
	2009	2008	2007		2009	2008	2007
Commitments received				Commitments given			
State guarantees	1,179,966	1,513,553	1,976,056	Loan amounts not drawn down	313		8

(in thousands of euros)

Reciprocal commitments			
	2009	2008	2007
Commitments on forward financial instruments			
Hedge rate instruments			
micro-hedging			
macro-hedging	1,100,000	1,100,000	500,000
Exchange hedging instruments			
micro-hedging			
foreign exchange receivable	112,600	104,987	136,361
foreign exchange payable	-161,891	-161,891	-161,891

## Note 35: cash flow statement

### 1. Principes

The cash flow statement analyses the changes in cash positions due to operating, investment, and financing activities between two financial years.

The Compagnie de Financement Foncier cash flow statement is presented according to recommendation 2004-R-03 of the French *Conseil national de la comptabilité*, concerning the format of company financial summary as part of the Finance and Banking Regulatory.

It is prepared using the indirect method: the net income for the year is restated for non-monetary items: depreciation allowances for tangible and intangible assets, net provisions, other transactions without cash payments (such as expenses payable and cash flow related to operating, investment, and financing activities is determined by the difference between items in the financial statements of the previous year and those of the current year. Transactions concerning capital that do not generate

cash flow or have no impact on income are neutral: payment of dividends in shares, increase in a provision by allocation on retained earnings.

The breakdown of Compagnie de Financement Foncier activities between operating, investment, and financing activities reflects its status as a *société de crédit foncier*.

Operating activities include:

- › the acquisition of eligible loans;
- › the acquisition of eligible securitisation tranches;
- › the issue of *obligations foncières* and other unsubordinated long-term resources.

Financing activities include:

- › dividends paid in cash;
- › the issue and reimbursement of subordinated loans.

The cash position is defined using the standards of the French *Conseil national de la comptabilité*. It includes cash on hand and on-demand deposits at the Banque de France, in post office accounts and with banks.

## 2. Cash flow statement

(in thousands of euros)

	2009	2008	2007
<b>Operating activities</b>			
Net income for the year	175,469	62,231	53,151
Restatement of earnings, related to operating activities			
Tangible and intangible fixed assets, excluding goodwill	2,479	5,336	6,250
Net provisions/customers and banks	2,649	-6,703	-3,702
Net provisions/short-term investment securities	-1,591	7,534	911
Net provisions for risks/loans	-4,289	-2,755	2,007
Net gain on sale of fixed assets			
Other transactions without cash payments	-232,400	-345,608	725,427
Cash flow on loans to banks and customers	-4,134,181	45,239	-13,163,823
Cash flow on short-term investment securities	1,969,589	-1,199,443	-2,664,530
Cash flow on long-term investment securities	-1,928,285	-268,051	-5,328,654
Cash flow on other assets	405,953	746,716	-645,166
Cash flow on debts/banks and customers	833,009	639,399	3,603,427
Net borrowing	1,941,416	662,019	17,112,679
Cash flow on other liabilities	716,868	9,640	-903,607
<b>Net cash flow used for operating activities</b>	<b>-253,314</b>	<b>355,554</b>	<b>-1,205,630</b>
<b>Investment activities</b>			
Cash flow related to the sale of:			
Financial assets			
Tangible and intangible fixed assets			
Disbursements for the acquisition of:			
Financial assets			
Tangible and intangible fixed assets			
Net cash flow from other investment activities			
<b>Net cash flow used for investment activities</b>			
<b>Financing activities</b>			
Cash flow from share issues	115,395	770,000	83,325
Dividends paid	-115,500		-83,325
Net issue of subordinated debt		-800,000	2,000,000
Other			
<b>Net cash flow from financing activities</b>	<b>-105</b>	<b>-30,000</b>	<b>2,000,000</b>
<b>Net change in cash position</b>	<b>-253,419</b>	<b>325,554</b>	<b>794,370</b>
Cash position at start of year	1,227,734	902,180	107,810
Cash position at end of year	974,315	1,227,734	902,180
Net	-253,419	325,554	794,370
Cash	4,421	20,024	
Treasury notes			
Due to banks at maturity	969,894	1,207,710	902,180
	<b>974,315</b>	<b>1,227,734</b>	<b>902,180</b>

## Note 36: fees for the statutory auditor and the members of their networks

Financial years covered: 2008 et 2009

(in thousands of euros)

	Auditor: KPMG				Auditor: PricewaterhouseCoopers			
	Amount (TTCND)		%		Amount (TTCND)		%	
	2009	2008	2009	2008	2009	2008	2009	2008
<b>Audit</b>								
Statutory auditors, certification, review of individual and consolidated accounts								
Issuer	191	180	83%	83%	191	180	87%	83%
Fully consolidated subsidiaries								
Others duties and services directly related to the Statutory Auditor's mission								
Issuer	38	36	17%	17%	29	36	13%	17%
Fully consolidated subsidiaries								
<b>Subtotal</b>	<b>229</b>	<b>216</b>	<b>100%</b>	<b>100%</b>	<b>220</b>	<b>216</b>	<b>100%</b>	<b>100%</b>
<b>Other services provided by the networks to fully consolidated subsidiaries</b>								
Legal, tax, corporate								
Other (specify if > 10% of audit fees)								
<b>Subtotal</b>								
<b>Total</b>	<b>229</b>	<b>216</b>	<b>100%</b>	<b>100%</b>	<b>220</b>	<b>216</b>	<b>100%</b>	<b>100%</b>

## Statutory auditors' report on the financial statements

*This is a free translation into English of the statutory auditor's report on the financial statements issued in French and it is provided solely for the convenience of English-speaking users. The statutory auditor's report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the auditor's assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account balances, transactions, or disclosures.*

*This report also includes information relating to the specific verification of information given in the management report and in the documents addressed to shareholders.*

*This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

### Compagnie de Financement Foncier S.A.

Registered office: 19, rue des Capucines - 75001 Paris  
Share capital: €1 008 000 000

### Statutory auditor's report on the financial statements

Year ended 31 December 2009

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 December 2009, on:

- › the audit of the accompanying financial statements of Compagnie de Financement Foncier S.A.;
- › the justification of our assessments;
- › the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

## 1 Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France; those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as at 31 December 2009 and of the results of its operations for the year then ended in accordance with French accounting principles.

## 2 Justification of our assessments

The accounting estimates used in the preparation of the financial statements as at 31 December 2009 were made in a context of a financial and economic crisis which last since 2008. Such is the context in which we made our own assessments that we bring to your attention in accordance with the requirements of article L. 823-9 of the French Commercial Code (« Code de commerce »).

### Accounting estimates

Your Company records impairments and provisions to cover the credit risks inherent in its business (notes II-3.1 and II-3.2 to the financial statements). Our work consisted in examining the control procedures put in place by management to monitor these credit risks, the assessment of the risks of non-recovery as well as the (i) impairments recorded in assets for individually assessed loans; and (ii) provisions recorded in liabilities for unallocated counterparty risks. As part of our assessments, we also obtained assurance that these estimates were reasonable.

### Accounting rules and principles

Your Company holds positions on securities and financial instruments. Notes II-5 and II-10 to the financial statements describe the accounting rules and principles applicable to securities and financial instruments held. We examined the

control procedures applicable to the related accounting classification and the determination of the criteria used for valuing these positions. As part of our assessment of the accounting rules and principles applied by your Company, we verified that the above-mentioned accounting methods and the related information provided in the notes to the financial statements were appropriate, and ensured that these methods were properly applied. The assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the formation of the opinion expressed in the first part of this report.

These assessments were made as part of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### 3 Specific verifications and information

We have also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of

Directors, and in the documents addressed to shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L. 225-102-1 of the French Commercial Code ("Code de commerce") relating to remunerations and benefits received by the directors and any other commitments made in their favour, we have verified its consistency with the financial statements or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling your Company or controlled by it. Based on this work, we attest the accuracy and fair presentation of this information.

Paris La Défense and Neuilly-sur-Seine, March 30, 2010

**KPMG Audit**  
***Division of KPMG S.A.***

Rémy TABUTEAU  
*Partner*

**PricewaterhouseCoopers**  
**Audit**

Jean-Baptiste DESCHRYVER  
*Partner*



## Details of the calculation of the overcollateralisation ratio as of December 31, 2009

(In thousands of euros)

Assets covering privileged resources	Item code	Net book values	Weighting as a %	Weighted amounts
<b>I. Special asset items</b>				
Guaranteed loans for which the issuer of the guarantee has a rating below the 2 <sup>nd</sup> highest grade of credit quality	201			
Securitisation tranches with a credit rating below the 2 <sup>nd</sup> highest grade of credit quality	202	408,549		
Of which:				
Securitisation tranches compliant with conditions of section II of CMF Article R. 515-4	2021			
Securitisation tranches compliant with conditions of section III of CMF Article R. 515-4	2022			
Guaranteed loans for which the issuer of the guarantee has the 2 <sup>nd</sup> highest grade of credit quality	203		50%	
Securitisation tranches with the 2 <sup>nd</sup> highest grade of credit quality	204	1,327,393	50%	663,697
Of which:				
Securitisation tranches conform with conditions of section II of CMF Article R. 515-4	2041			
Securitisation tranches conform with conditions of section III of CMF Article R. 515-4	2042			
Fixed assets resulting from the acquisition of real estate under implementation of guarantees	205		50%	
Safe and liquid securities	206	9,454,353	100%	9,454,353
Of which:				
Due from banks with the highest grade of credit quality	2061	9,111,598		
Due from banks in the European Economic Area that have the 2 <sup>nd</sup> highest grade of credit quality and whose remaining term to maturity does not exceed 100 days (cf. 3 <sup>rd</sup> paragraph of Article R. 515-7)	2062			
Securities	2063	332,338		
Receivables related to these items	2064	10,417		
Of which:				
Securities, amounts and receivables received as guarantees under the 2 <sup>nd</sup> paragraph of Article R. 515-7 for assets and liabilities	2065	1,251,900		
<b>II. Other asset items</b>				
Other 1 <sup>st</sup> category asset items	211	4,421	100%	4,421
2 <sup>nd</sup> category asset items:	212	40,814,557	100%	40,814,557
Of which:				
Mortgage loans of which:	2121	19,969,763		
mortgage loans also guaranteed by the FGAS guarantee fund	2121a	7,319,550		
mortgage loans also guaranteed by a bank or an insurance company	2121b	5,190		
mortgage loans also guaranteed by a public authority	2121c	1,074,668		
Guaranteed loans for which the issuer of the guarantee has the highest grade of credit quality	2122	497,653		
Exposures to public authorities:	2123	20,329,122		
Of which exposures described in item 5 of CMF Article L. 515-15	2123a			
Other 2 <sup>nd</sup> category assets	2124	18,020		

(Continuation of table p. 77)

3 <sup>rd</sup> category asset items:	213	46,235,251	100%	46,235,251
Of which:				
Securitisation tranches with the 2nd highest grade of credit quality :	2131	20,039,335		
Securitisation tranches compliant with conditions of sections II and IV of CMF Article R/ 515-4	2131a	13,142,252		
Securitisation tranches compliant with conditions of sections III and IV of CMF Article R. 515-4	2131b	374,032		
Securitisation tranches compliant with conditions of section II of CMF Article R. 515-4 but not compliant with conditions of section IV of CMF Article R. 515-4	2131c			
Securitisation tranches compliant with conditions of section III of CMF Article R. 515-4 but not compliant with conditions of section IV of CMF Article R. 515-4	2131d			
Securitisation tranches made up of at least 90% as stipulated in Article L. 515-15	2131e	6,523,052		
Exposures to public authorities	2132	13,946,092		
Of which: Exposures described in item 5 of CMF Article L. 515-15	2132a			
Promissory notes regulated by CMF Articles L. 313-42 et seq.	2133	9,045,626		
Other 3 <sup>rd</sup> category asset items	2134	3,204,197		
4 <sup>th</sup> category asset items:	214		100%	
Of which:				
Exposures to public authorities	2141			
Other 4 <sup>th</sup> category asset items	2142			
Transactions deducted from assets:				
Amounts received from clients awaiting allocation, recorded as liabilities	215		100%	
Repurchase agreement transactions: repurchase securities	216	-551,469	100%	-551,469
Collateral operation: POOL 3G	217	-3,434,955	100%	-3,434,955
LTV overrun amount	218	-452,140	100%	-452,140
For information: assets deducted from shareholders' equity				
<b>Total weighted assets</b> <b>(230=201+202+203+204+205+206+211+212+213+214+215+216+218) R</b>	<b>230</b>			<b>92,733,715</b>
<b>Resources benefiting from the privilege as defined in article L. 515-19 of the French Monetary and Financial Code: liabilities</b>	<b>Item code</b>			<b>Amounts</b>
<b>I. Privileged funding from banks</b>	<b>101</b>			<b>149,545</b>
Of which nominal amount	101a			144,659
<b>II. Privileged resources from customers</b>				
Financial customers	102			
Non-financial customers	103			
<b>Subtotal</b>	<b>104</b>			
Of which nominal amount	104a			
Of which nominal of <i>obligations foncières</i> and other privileged resources being processed	104b			

<b>III. Securities benefiting from the privilege</b>			
<i>Obligations foncières</i>	115		79,887,330
Negotiable debt instruments	116		238,000
Other securities benefiting from the privilege	117		
Liabilities related to these securities	118		2,073,342
<b>Subtotal</b>	<b>119</b>		<b>82,198,672</b>
Of which nominal amount	119a		80,125,329
<b>IV. Amounts due in respect to the contract provided for by article L. 515-22 of the French Monetary and Financial Code</b>	<b>125</b>		<b>1,263</b>
<b>V. Amounts due in respect to the forward financial instruments benefiting from the privilege defined under article L. 515-19 of the French Monetary and Financial Code</b>	<b>126</b>		<b>1,596,366</b>
Of which impact on variations of exchange rate on the nominal amount of privileged resources	126a		560,580
<b>VI. Liabilities resulting from the incidental expenses mentioned in the last paragraph of article L. 515-19 of the French Monetary and Financial Code</b>	<b>127</b>		
Privileged resources (T) (140 = 101+104+119+125+126+127)	140		83,945,846
Nominal amount of privileged resources (141 = 101A+104A+104B+119A+126A)	141		80,830,569
<b>Coverage ratio (to 2 decimal points) (R/T*100)</b>	<b>240</b>		<b>110.47%</b>

### Detail of the calculation of ratio of coverage

(In thousands of euros)

Respect of limits regarding composition of assets	Item code	Net accounting values	Regulatory threshold	Weighting as %
Total net assets	300	98,244,524		
Nominal amount of preferred	141	80,830,569		
Total loans guaranteed (201 + 203 + 2122) + guaranteed loans mobilized classified notes or in replacement value / net assets (300)	301	1,510,453	35%	1.54%
Promissory notes (2133)/net assets (300)	302	9,045,626	10%	9.21%
Total shares of meeting the FCC requirements of III art R. 515-4 du CMF and do not respond to IV of Article R. 515-4 of the CMF (2022 + 2042 + 2131d)/nominal amount of preferred (141)	303		20%	
Total shares of FCC meeting the requirements of Article II R. 515-4 of the MFC and do not respond to IV of Article R. 515-4 of the CMF (2021 + 2041 + 2131c)/nominal amount of preferred (141)	304		20%	
Total exposures specified in 5° of Article L. 515-15 of the CMF (2123a+2132a)/nominal amount of preferred (141)	305		20%	
Safe and liquid assets (206 - 2065)/nominal amount of preferred (141)	306	8,202,453	15%	10.15%

## Details regarding calculation of liquidity eligible for refinancing as of December 31, 2009

(In thousands of euros)

Elements of calculating amounts eligible for refinancing by privileged resources	Item code	Outstandings (a)	Value of the property being financed or provided as collateral	Amounts eligible for refinancing by privileged resources	Overrun
<b>Mortgages and guaranteed loans transferred at Compagnie de Financement Foncier's founding in 1999</b>	<b>410</b>	<b>17,480,732</b>		<b>17,243,851</b>	<b>236,881</b>
Loans whose outstanding capital represents the total amount eligible for refinancing by privileged resources.	411	13,553,005		13,553,005	
Loans whose product of the value of the property being financed or used as collateral and an LTV ratio defined in art R. 515-2 of the Monetary and Financial Code represents the total amount eligible for refinancing.	412	3,927,727	4 498 838	3,690,846	236,881
Of which:					
The amount of loans eligible for refinancing by privileged resources may not exceed 60% of the value of property financed or provided as collateral	412a	14,088	15,211	9,127	4,961
The amount of loans eligible for refinancing by privileged resources may not exceed 80% of the value of the property financed or provided pledge	412b	3,414,669	4,009,537	3,207,629	207,039
The amount of loans eligible for refinancing may represent 100% of the value of the property financed or provided as collateral	412c	498,970	474,090	474,090	24,880
<b>Promissory notes</b>	<b>420</b>	<b>9,029,890</b>		<b>8,814,631</b>	<b>215,259</b>
Promissory notes of which the outstanding capital of collateralized loans represents the total amount eligible for refinancing by privileged resources	421	5,086,744		5,086,744	
Promissory notes guaranteed by collateralized loans whose product of the value of the property being financed or used as collateral and an LTV defined in Article R. 313-20 et al. of the French Monetary and Financial Code represents the total amount eligible for refinancing by privileged resources.	422	3,943,147	4,542,151	3,727,888	215,259
Of which:					
Promissory notes guaranteed by collateralized loans whose total amount eligible for refinancing by privileged resources cannot exceed 60% of the value of the property being financed or provided as collateral	422a				
Promissory notes guaranteed by collateralized loans whose total amount eligible for refinancing by privileged resources cannot exceed 80% of the value of the property being financed or provided as collateral	422b	3,450,849	4,071,318	3,257,054	193,795
Promissory notes guaranteed by collateralized loans whose total amount eligible for refinancing by privileged resources cannot exceed 90% of the value of the property being financed or provided as collateral	422c				
Promissory notes guaranteed by collateralized loans whose total amount eligible for refinancing by privileged resources may represent 100% of the value of the property financed or provided as collateral	422d	492,298	470,833	470,833	21,465

(In thousands of euros)

Elements of calculating amounts eligible for refinancing by privileged resources and cost overruns	Item code	Net book values (a)	Average LTV at origination weighted by the outstanding of tranches at the calculation date (b)	Amounts eligible for refinancing with resources preferred	Overrun
<b>Tranches and debt securities issued by a securitisation fund or a similar entity acquired after 11 May, 2007 whose loans meet the requirements defined in I of Article L. 515-14</b>	<b>430</b>	<b>3,653,511</b>		<b>3,634,738</b>	<b>18,773</b>
Tranches of funds whose issued outstanding excluding specific tranches constitute the amount being financed by privileged resources.	431	2,890,264		2,890,264	
Tranches of funds whose sum of outstanding capital of the loans in the fund plus liquidities constitutes the amount being refinanced by the amount of preferred.	432				
Tranches of funds whose total amount refinanced by privileged resources is equal to the product of the value of the property being for the loans are part of the fund's property multiplied by the LTVs defined in Article R. 515-2 of French Monetary and Financial Code plus liquidity from FCCs or similar entities.	433	835,400	81.82%	816,627	18,773
Of which:					
Tranches of funds whose assets consist of loans that the amount eligible for refinancing by privileged resources may not exceed 60% of the value of the property financed or provided as collateral.	4331				
Mutual fund whose assets consist of loans that the amount eligible for refinancing by privileged resources may not exceed 80% of the value of the property financed or provided as collateral.	4332	835,400	81.82%	818,627	18,773
Mutual fund whose assets consist of loans that the amount eligible for refinancing by privileged resources may represent 100% of the value of the property financed or provided as collateral.	4333				
<b>Total amounts in excess (440 = 410+ 420+ 430)</b>	<b>440</b>				<b>470,913</b>

(a) Outstanding principal for ceded loans, collateralized loans for permissory notes and the amount of securitisation fund tranches at the calculation date.

(b) Average LTV of securitisation fund tranches are recorded at the inauguration of the fund, or during a future date or when the tranches are recorded as assets on the balance sheet of the *société de crédit foncier*.

Statement  
from the person  
who assumes  
responsibility  
for the reference  
document

**Person responsible for financial information**

Mr Thierry DUFOUR  
Chief Executive Officer

Compagnie de Financement Foncier  
Address: 4, quai de Bercy - 94220 Charenton-le-Pont  
Telephone: 01 57 44 92 12  
Fax: 01 57 44 92 88

**Statement from the person who assumes responsibility  
for the reference document**

I certify, after having taken every reasonable measure to this purpose, that the information provided in this reference document is, to my knowledge, true to fact and that no information has been omitted that would change the interpretation of the information provided.

I certify, to the best of my knowledge, that the financial statements have been prepared in compliance with applicable accounting standards and accurately represent the company's assets, financial situation and its earnings and that the information contained in the management report in volume 2 depicts an accurate representation of company trends, earnings, its financial situation as well as a description of the primary risks and uncertainties the company faces.

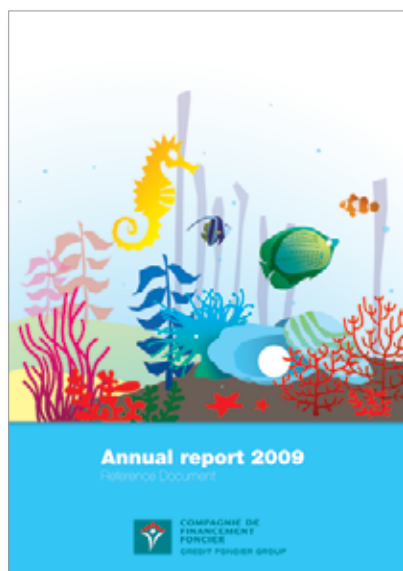
I received a letter from the Statutory Auditors indicating that they have completed their work which consisted of verifying the information on the financial position and the financial statements provided in this reference document as well as a reading of the entire document.

Signed in Charenton-le-Pont, on March 31, 2010

Chief Executive Officer of Compagnie de Financement  
Foncier  
Thierry DUFOUR







Design, creation, production:



Illustrations: Studio Impresarios/Caroline Matter  
Photos Credit: Stéphane Lavoué



This annual report was printed on partially-recycled paper using vegetable-based inks.  
The paper is fabricated at an ISO 14001 certified site and the printing press is certified by Imprim'Vert. The entire report can be recycled.



**COMPAGNIE DE  
FINANCEMENT  
FONCIER**

**CREDIT FONCIER GROUP**

4, quai de Bercy  
94224 Charenton-le-Pont Cedex - France  
Tel.: + 33 (0)1 57 44 92 05



# Annual report 2009

reference document



**COMPAGNIE DE  
FINANCEMENT  
FONCIER**

CREDIT FONCIER GROUP

The Compagnie de Financement Foncier 2009 Reference Document comprises three separate volumes:

- VOLUME 1** Activity report
- VOLUME 2** Financial report
- VOLUME 3** Risk management report, Chairman's report & Legal information

This is a free translation into English of Compagnie de Financement Foncier 2009 Annual Report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails.

The original document was filed with the *Autorité des marchés financiers* (French Financial Market's Authority) on April 1<sup>st</sup>, 2010, in accordance with Article 212-13 of its general regulation and registered under the number D.10-0207 and represents the French "Document de Référence" of the Compagnie de Financement Foncier. As such, it may be used in support of a financial transaction when accompanied by a prospectus duly approved by the AMF.



**AUTORITÉ**  
DES MARCHÉS FINANCIERS

# Volume**3**

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### › **Chairman's report on the conditions under which the Board prepares and organises the internal control procedures established by the Company**

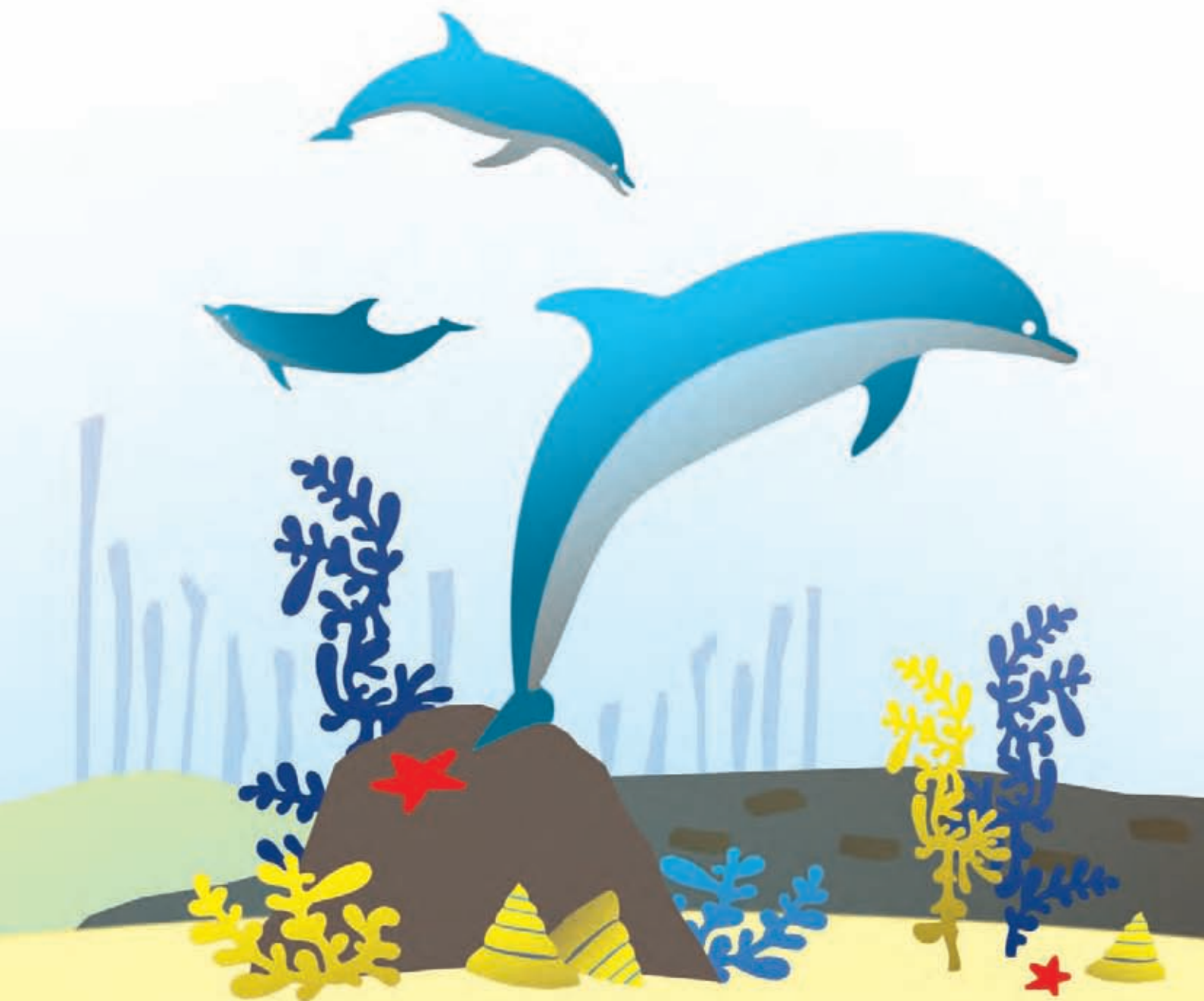
(Pursuant to the provisions of Articles 117 and 120 of the Law on Financial Security)

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# Risk management report



## 1. Foreword

With a view to transparent financial disclosure, and above and beyond its regulatory obligations, Compagnie de Financement Foncier, since 2008, has included in its shelf registration document a detailed Risk Management report based on IFRS (not applicable for Compagnie de Financement Foncier) and Basel II rules. The report is established using the data feeding the overseeing risk tool. The Risk Department ensures the accountancy coherence.

## 2. Organisational overview: information relating to risk management

### 2.1. Implementation of prudential regulations applicable to sociétés de crédit foncier

As a credit institution authorised to act as a financial company/*société de crédit foncier*, Compagnie de Financement Foncier performs specialised operations in connection with its exclusive purpose: granting or acquiring assets secured by a first-rank mortgage or assets from public authorities or those that are fully secured by them.

Beyond the security provided by the legal framework, Compagnie de Financement Foncier observes strict management rules to optimise the quality of the assets on its balance sheet and improve its risk profile (triple AAA rating). The security of the legal framework relies on the following key provisions of the French Monetary and Financial Code, in addition to its issue privilege:

- › an exclusive purpose as well as eligibility rules (Articles L. 515-13 to L. 515-17) that limit granting or acquisition to assets that are highly secure;
- › loan assignment conditions that stipulate a binding asset transfer (Article L. 515-21);
- › the overcollateralization rule (Article L. 515-20) requiring

that the total amount of assets must exceed privileged liabilities;

- › Compagnie de Financement Foncier's protection against the consequences arising from the bankruptcy of its shareholders and the continuity of contracts with the Company in charge of servicing or recovering the loan (Articles L. 515-27 and L. 515-28);
- › additional auditing and management control measures, in particular on account of the Specific Controller whose appointment must be approved by banking authorities (Articles L. 515-29 to L. 515-31).

Beyond the strict application of these general obligations, Compagnie de Financement Foncier applies additional measures to enhance the overall security of its business model. These measures are based on the following rigorous principles:

- › additional rules for asset selection and acquisition in every line of business (retail lending, loans to public authorities or loans guaranteed by them);
- › prudential standards are always superior to the threshold dictated by law or regulations, which provides an additional safeguard. This prudential approach covers specific ratios and those related to its status as a credit institution;
- › a framework for mapping out relations between Compagnie de Financement Foncier and Crédit Foncier, Compagnie's sole servicer, in strict compliance with the provisions set forth in CRBF Regulation No. 97-02 as amended. These relations are governed by a set of agreements that provide Compagnie de Financement Foncier with the means to fulfil its responsibilities. Compagnie de Financement Foncier is thus assisted by the Risk Department of Crédit Foncier, whose operational framework organization has been thoroughly modernised (continued urbanisation of central information systems, progress with Basel II implementation, improved teams and expertise).

## 2.2. General risks of Compagnie de Financement Foncier

Compagnie de Financement Foncier's economic model is built on solid foundations whose ultimate goal is to ensure security. The legislative framework prohibits it from holding a trading portfolio, which protects it against market risks associated with proprietary trading, and from holding shares in any company whatsoever, which protects it against any difficulties originating outside its own asset base.

Compagnie de Financement Foncier is potentially exposed to two major types of risks:

- › credit and counterparty risk;
- › liquidity risk and interest rate risk (ALM).

Crédit Foncier's "Risk Policy" provides the guidelines for selecting, monitoring, controlling and overseeing risks, and provides a framework within which Compagnie de Financement Foncier can develop its activities while safeguarding profitability and equity.

### 2.2.1. Credit risks

The credit risk on outstanding customer loans corresponds to the risk of a borrower's deteriorating financial situation and the attendant risk of default and non-repayment of part of the principal and interest.

Compagnie's de Financement Foncier particularly low credit risk profile is due to:

- › the intrinsic quality of the counterparties: the French or international public sectors and retail lending (private individuals) for mortgage loans;
- › the performance of the lending system which is based on expert procedures and increasingly sophisticated loan rating and selection systems;
- › the type of financing as well as the number and diversity of guarantee mechanisms;
- › an extremely rigorous selection process when acquiring debt.

#### Private individuals

Compagnie de Financement Foncier acquires debt on private individuals in two distinct markets:

- › the French mortgage market (loans originated by Crédit Foncier);

- › the mortgage market outside France (debt acquired in almost all cases in the form of *senior* units in securitisation funds).

Crédit Foncier has a long history of retail mortgage financing in France, in particular with low-income households via regulated loans (interest-free loans and state-subsidised loans guaranteed by the FGAS). Financing for private homes has grown in recent years. Individuals in the market for new and older homes, for home ownership or rental investments, can now choose from a range of products that are guaranteed by mortgages.

Besides its retail financing business in France, Crédit Foncier has diversified internationally by purchasing senior tranches of secured debt backed by prime residential mortgages.

Compagnie de Financement Foncier acquires retail loans originated by Crédit Foncier that meet very strict guarantee (first-rank mortgage) and selection criteria. Compagnie de Financement Foncier acquisition process for debt securitisation units also respects strict quality and profitability rules.

#### Public sector clientele

French public sector exposures acquired by Compagnie de Financement Foncier are originated by the Groupe BPCE, either by the Caisses d'Epargne or by Crédit Foncier.

Crédit Foncier serves the French Local Authorities (FLA) market, which consists of regional, departmental and local bodies and institutions in France, including health facilities and low-income housing organisations and institutions.

Compagnie de Financement Foncier also acquires public sector exposures with minimal counterparty risk. The low-income housing financed by Compagnie de Financement Foncier is guaranteed directly by the local authorities and/or by mortgage guarantees.



Compagnie de Financement Foncier is also active outside France via its direct lending business and through purchases of securities in the International Public Financing Sector (IPF), or tranches of securitization benefiting from public guarantee. This business, which has been developed gradually since 2005 to support the group and complement its business in France, concerns:

- › the financing of sovereign states in Europe, either directly or through state-guaranteed institutions. The credit analysis of these entities is carried out by BPCE's analysts;
- › the financing of international public bodies in Europe, the United States, Canada and Japan. In this segment, Crédit Foncier has developed proprietary methods with an internal rating model that enables it to operate with three levels of counterparties:

- Federal States, *Länder*, *cantons*, *provinces* and local authorities with real fiscal autonomy, according to the jurisdiction,
- regions, departments, counties, police districts,
- municipalities.

Purchases of IPF debt are systematically the subject of specific approval at *ad hoc* Committee Meetings.

### 2.2.2. Financial risks (ALM)

The law prohibits Compagnie de Financement Foncier from investing its financial resources in volatile markets. Interest and exchange rate risks are managed by systematically hedging production against both types of risk. The residual risk is controlled by Compagnie de Financement Foncier Asset and Liability Management Committee in order to maintain its net interest margin.

Further details about these risks are provided in section 8 of this document.

### 2.2.3. Operational risk

Operational risk is inherent in any type of banking activity. It can be defined as the risk of loss resulting from inadequate or faulty procedures, personnel and internal systems or external events, including improbable events that could lead to significant material losses. Legal risk is in part tied to operational risks, whereas strategic and reputation risks are not.

Crédit Foncier Group has a group-wide operational risk management system, based on BPCE's rules, that covers Compagnie de Financement Foncier via a series of service agreements.

The main operational risks are linked to services outsourced to the parent company under service agreements.

Section 9 provides more details about operational risk oversight.

### 2.2.4. Other risks

Compagnie de Financement Foncier's other risks, explained in detail in chapter 10, include:

- › settlement-delivery risks;
- › non-compliance risk;
- › other risks (insurance, information technology, legal, strategy, reputation, etc.).

## 2.3. Missions assigned to the Risk and Compliance Departments

At the beginning of 2010, the Groupe BPCE issued charters relating to the functioning of its Risk and Compliance Departments. Under the terms of agreements signed by CFF and Compagnie de Financement Foncier, Compagnie de Financement Foncier risk and compliance functions are performed by CFF's Risk Department and their Compliance and Audit & Permanent Control Department, and placed directly under the authority of Crédit Foncier's Chief Executive Officer in accordance with the principles set forth by the French banking regulations, including CRBF Regulation No. 97-02 as amended. The missions of CFF's Risk Department fall into two major categories:

- › to define and implement risk control, monitoring and management measures;
- › to develop and integrate into this system the new requirements imposed by Basel II that are set forth in the European Directive and corresponding French legislation. Risk and Compliance are monitored by two CFF Group executive committees placed under the authority of its Executive Board: the Risk Committee and the Internal Control Committee.

### 2.3.1. Missions of the Risk Department

The Risk Department's mission is to ensure that risks taken by the institution are compatible with the Risk Policy. It operates at all levels of risk taking and monitoring:

- › analysis and monitoring of all risks: credit and counterparty risk, market and financial risk, operational risk, interest rate risk arising from asset-liability management as well as exchange rate risk, liquidity/transformation

tional risk, settlement-delivery risk;

- › risk management and monitoring, as defined by French Banking and Financial Regulation Committee (CRBF) and Basel Committee regulations, including *ex-ante* counter appraisal and *ex-post* control, in addition to adopting Basel II standards and ensuring compliance with them;
- › risk management, monitoring and control, essentially via the Risk Committee and Commitment Committees, whose organisation and secretariat is ensured by the Risk Department.

The Risk Department is positioned within the organisation to guarantee its independence from all operational activities that generate net banking income. It has approximately 70 staff members.

The three areas covered by the Risk Department are:

- › implementation of standards, risk policy and risk management including the monitoring of capital and balance sheet risks;
- › commitments cross-checking and monitoring with specialised units for each line of business to ensure close ties with commitment units: private individuals and public sector, whether French or not;
- › risk consolidation and controls for risk reporting and debt collection monitoring.

These measures have been supplemented by establishing, within the Risk Department, a new unit in charge of ongoing control and operational risks.

### 2.3.2. Missions of the Compliance Department

An essential part of the permanent control introduced by the CRBF, compliance controls have been put in place to ensure compliance with laws and regulations, ethical and good conduct rules as well as compliance with internal rules.

The Compliance and Ongoing Audit & Control Department is responsible at the level of the entire CFF group for organising and monitoring controls relative to non-compliance and general business risks. It is also in charge of control for investment services compliance, general and financial ethics and anti-money laundering and terrorist financing prevention. To this end, it also oversees compliance and ongoing controllers in their various operational departments and at subsidiaries.

More specifically, the Compliance and Ongoing Audit & Control Department checks the existence and exhaustiveness of the controls carried out by CFF on behalf of Compagnie de Financement Foncier. To improve

efficiency, the system of ongoing audit and control of Compagnie de Financement Foncier's activities has been integrated into CFF's system.

The Compliance and Ongoing Audit & Control Department also ensures that the ongoing audit and control requirements for Compagnie de Financement Foncier are properly taken into account in Crédit Foncier's risk management system, procedures and processes. In particular, it checks that the audit and control plans of the departments involved under the agreements concluded between CFF and Compagnie de Financement Foncier include the specific controls relating to the latter and that it receives the appropriate audit reports.

Lastly, the Compliance and Ongoing Audit & Control Department fulfils the functions of Investment Services Compliance Officer and TRACFIN correspondent for Compagnie de Financement Foncier.

### 2.4. Organisation of the CFF Risk Department

Crédit Foncier's Risk Department reports to the Groupe BPCE's Risk Department. Its scope covers all subsidiaries (including Compagnie de Financement Foncier) that are controlled by Crédit Foncier.

In 2009, the Risk Department updated Crédit Foncier's general risk policy, as set forth in a document that formalises its various missions and organisation and provides a framework for developing its activities, including those that affect Compagnie de Financement Foncier, and for overseeing the equity of CFF Group entities.

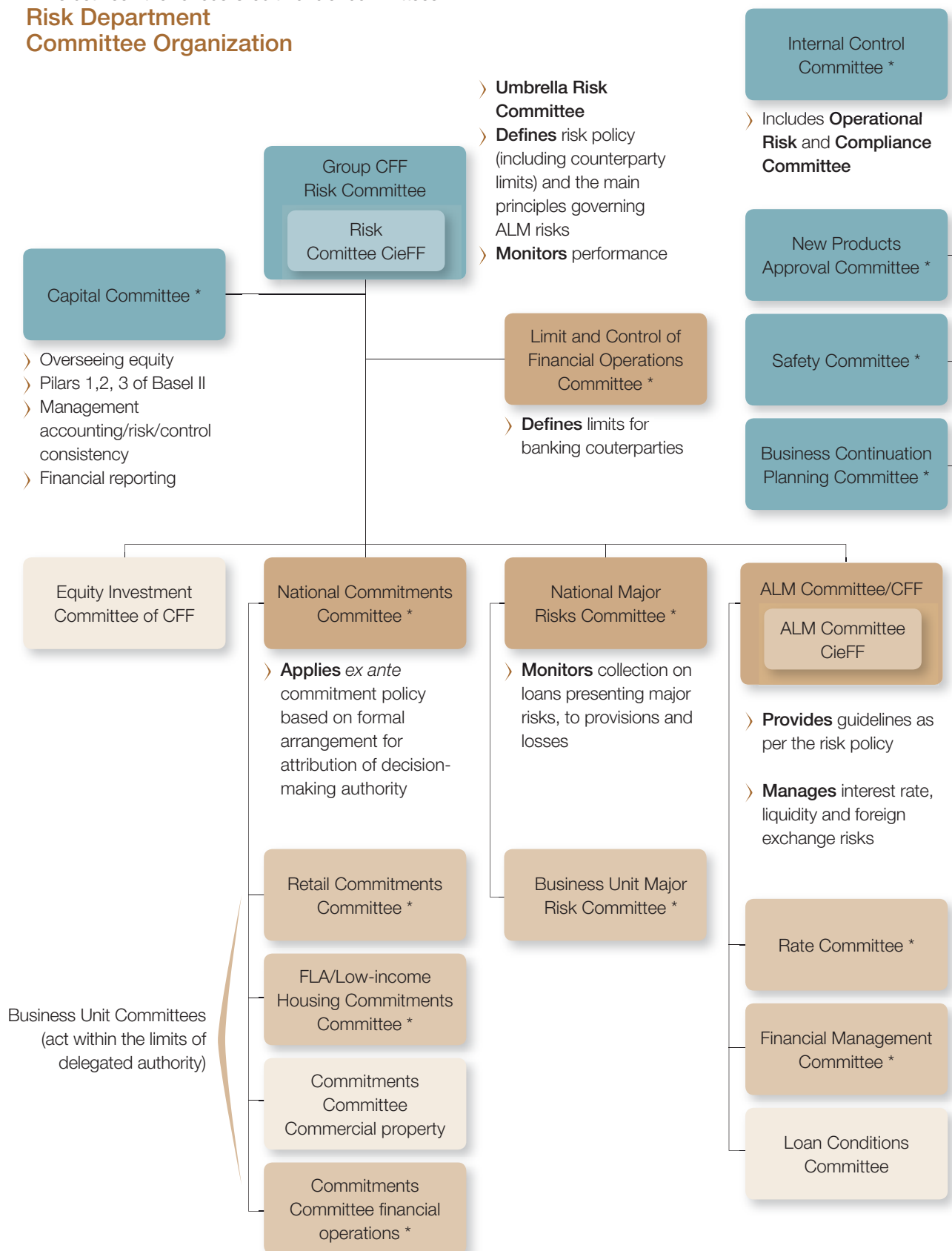
In the specific case of Compagnie de Financement Foncier, the Risk Department operates according to agreements signed between CFF and its *société de crédit foncier*. The Risk Department reports on its controls to the Audit Committee and the Executive Board of Compagnie de Financement Foncier.

#### *Key tasks of committees responsible for Risk Management*

The Risk Department ensures risk management by creating several different committees and/or sitting on them. Risk governance was restated in 2009. The Risk Committee and the Internal Control Committee (ICC) are the umbrella committees of this organisation.

Links between the various Crédit Foncier committees

## Risk Department Committee Organization



\* Committees that include Compagnie de Financement Foncier (CieFF).

Compagnie de Financement Foncier is included in Cr dit Foncier's overall organisation. Compagnie de Financement Foncier has its own Risk Committees and Asset & Liability Management Committee and is specifically dealt with whenever necessary by other committees that include Compagnie de Financement Foncier.

Compagnie de Financement Foncier's Risk Committee is chaired by its Chief Executive Officer. It meets at least once every quarter, and its main tasks are to:

- › oversee the general risk policy;
- › review limits for all activities and ensure that they are respected. Note that for banking counterparties, a review of limits is carried out on a monthly basis by a specific committee, CFF's Financial Transactions Limits Monitoring Committee;
- › analyse and monitor the Company's overall risk profile, based on its main exposures and results from risk rating, measurement and assessment systems (stress scenarios, etc.);
- › measure the quality of commitments and recovery based on summary reports;
- › ensure that different risk procedures and systems are controlled and managed appropriately;
- › oversee risks: review regulatory and specific ratios, design and analyse stress scenarios and monitor equity.

## **2.5. Information system and data quality**

As part of the implementation of the Basel II reform, the Risk Department ensures that data used for risk overseeing is consistent with that used for accounting. Compagnie's de Financement Foncier exposures are included in this consistency scheme.

## **2.6. Highlights of 2009**

The downturn in the real estate sector that began in 2008 worsened in 2009, particularly in some European markets (Spain, particularly Madrid and some coastal regions, Ireland, the United Kingdom and, to a lesser extent, France). This deterioration in the real estate sector, against the backdrop of a general economic downturn (the European economy contracted by -4.1% in 2009 with unemployment rising to 10%) has begun to affect some categories of borrowers and accelerate the negative trends seen since 2008, in property development and the hotel trade for instance. Despite the still difficult conditions for the real economy, conditions in the refinancing and credit market improved considerably

from the middle of 2009 thanks to a policy of stable interest rates at low levels.

In the first half of 2009, a number of financial institutions encountered severe liquidity, and even solvency, problems. These difficulties prompted the majority of European governments and the US government to take measures to recapitalise the banks and shore up the interbank market. Many of these institutions subsequently repaid the government aid received, taking advantage of the reopening of the market to raise funds and thereby stigmatising the institutions still reliant on government aid (whether in the form of liabilities guarantees, the taking of shareholdings through debt instruments or capital injections).

In the credit markets (particularly the International Public Financing and Securitisation segments), the first months of 2009 were marked by a slump in volumes with transaction levels at a record low and very high spreads, which was offset in the International Public Financing segment by a significant tightening in prices in the second half of 2009. The end of 2009 and beginning of 2010 featured growing distrust of the sovereign debt of certain countries, particularly Southern European countries, exacerbated by the combined effects of worsening public deficits, growing government debt and very negative economic performance indicators for the euro zone in 2009. These difficulties were reflected by ratings adjustments (external and internal) and by an even more selective loan approval policy for CFF (global exposure frozen for certain countries).

In the securitisation market, a few relatively small secondary transactions were carried out. The primary market, however, remained totally closed throughout the year although there are currently signs of a gradual reopening of the primary market to finance part of the operations wholly retained by the originators, often for ECB refinancing, over the 2008-2009 period.

In 2009, the financial crisis led the Risk Department to implement measures to suppress some banking counterparties or reduce or freeze limits for them and secure its exposures (redefinition of margin call thresholds, limitation of eligible counterparties for cash investment activities).

### 2.6.1. Highlights of 2009 for credit risk

The morose economic conditions in 2009 did not jeopardise Compagnie de Financement Foncier's low risk profile nor the overall quality of its loan portfolio.

Management of resources and risks, at the Crédit Foncier group level, resulted in a voluntary slowing of business in some market segments (public financing and international business) in order to focus on lending to individuals. The slowdown in lending volumes was nonetheless offset by a significant increase in margins on new transactions.

In the private individuals market, thanks to the French government's support measures for the real estate market (subsidised loans), there was an increase in loans to first-time home buyers and some momentum in investment in rental property, stimulated by the Scellier scheme, in an overall climate still marked by slowing demand. It should be pointed out that Compagnie de Financement Foncier has never held US mortgage loans nor has any exposure (direct or indirect) to the US mortgage market.

Its asset portfolio stood up particularly well to the economic conditions in 2009 (financial, real estate and banking crisis).

In the French public sector, demand for financing from local authorities was moderate. In the subsidised housing sector, it is worth noting the involvement of low-income housing bodies in the government's stimulus package in 2009, drawing on regulated loans (mainly social housing construction incentive loans - PLS) to finance them.

### 2.6.2. Operating in a Basel II environment

In 2009, Crédit Foncier continued preparations for Basel II IRBA approval of retail banking asset classes (private individuals) and the related securitisation positions.

Compagnie de Financement Foncier is fully integrated into the introduction of this new set of rules.

2009 featured ongoing preparations for Basel II approval:

- › approval process for rating models;
- › pre-approval audit of securitisations and retail carried out by BPCE's Internal Audit Department.

As from the autumn of 2009, CFF's Basel II program was harmonised with that of BPCE, which in particular meant adopting a common definition of default (switch from frozen arrears to sliding arrears) and the convergence of Basel II default with doubtful debt, as these changes better reflect the economic reality of the risks linked to property loans.

This change will involve new validation of CFF's models by the Groupe BPCE and will result in a supplementary audit to be carried out by Internal Audit to review the whole.

The work schedule for these changes will be approved first by Crédit Foncier and then by BPCE to set the new pre-approval timetable.

## 3. Internal capital adequacy and equity requirements

### 3.1. Capital management

Compagnie de Financement Foncier's capital management is directly supervised by its Executive Board. Its oversight aims to ensure constant compliance with regulatory ratios, to optimise the allocation of capital and to secure its overcollateralization ratio. It therefore contributes directly to its AAA/Aaa/AAA ratings.

#### *Capital management*

The capital adequacy ratio is calculated at the consolidated Crédit Foncier level. Compagnie de Financement Foncier is not subject to Basel II capital adequacy requirements. However, for internal management purposes, *ad hoc* calculations have been carried out to simulate the result according to Basel standards.

The capital management system implemented for Compagnie de Financement Foncier concerns in particular:

- › the capital adequacy ratio and COREP reporting (prudential reporting, common to all European Banking Supervisors, relating to the European capital adequacy ratio) each quarter based on accounting data;
- › simulations/projected capital needs according to different Basel II approaches;
- › integrating projections of capital requirements with forecasted results and the definition of the risk policy;
- › fee-setting approach incorporating a risk adjusted return measurement, especially for the commercial & institutional businesses.

### 3.2. Breakdown of capital

Prudential capital is determined in accordance with CRBF Regulation No. 90-02 as amended and consists of three broad categories:

#### Core capital (Tier 1)

Core capital is calculated from consolidated equity, resulting from the consolidation of the Crédit Foncier Group.

#### Supplementary capital (Tier 2)

Supplementary capital consists of redeemable subordinated debt that meet the requirements set forth in Article 4d of the above mentioned regulation.

#### Deductions

Since Compagnie de Financement Foncier is not legally allowed to hold equity interests, it is not subject to any capital deductions.

### 3.3. Capital requirements

The capital requirement, calculated using the simulation technique of the capital adequacy ratio as at December 31, 2009 according to the standard method, came to €1,508 million, up by €123 million relative to the calculation at December 31, 2008 following the reclassification of intra-group guarantees as external guarantees.

### 3.4. Management of regulatory ratios

The technical simulation of Compagnie de Financement

Foncier's solvency ratio at 12/31/2009 was established according to the standard method, with the following calculation options, voluntarily conservator:

- › the loan participating in the character of capital was not included in core capital, but in additional capital;
- › Intra group guarantees made to Compagnie de Financement Foncier by the credit institutions of the group remain weighted at 20% instead of 0% for eligible members.

Furthermore, in case of partial cession of loan and in connection with cession and recovery provisions, the calculation considers that the mortgage guarantees related to the loan are totally affected to the Compagnie de Financement Foncier. This allows to adjust the weighting level in the standard approach, to signify the priority in affectation of the recoveries for the Compagnie de Financement Foncier and the lower loss rate which results from it.

This simulation led to the following result :

	12/31/2009	12/31/2008
Tier 1 + Tier 2	12.6%	12.2%
Tier 1	8.4%	8.1%

### 3.5. Management of specific ratios

In addition to their obligations as a credit institution, *sociétés de crédit foncier* are required to comply with specific ratios and limits described in Articles L. 515-13 *et seq.* of the French Monetary and Financial Code.

The specific controller of Compagnie de Financement Foncier also controls the calculation of these ratios and certifies them every semester.

The Risk Management of Credit Foncier supervises these specific indicators on a second level every semester.

#### Overcollateralization ratio

French law (Article L. 515-20) requires all *sociétés de crédit foncier* to maintain a volume of weighted assets that exceeds its privileged debt. The legal prescriptions on weighting reduce the value of some assets when calculating the ratio, especially those assets that carry a higher risk. Compagnie de Financement Foncier's overcollateralization ratio remained stable between December 2008 and December 2009 and stands at 110.5%. This ratio has always been superior to 108% since Compagnie de Financement Foncier was created in 1999 and has therefore remained well above the regulatory limit of 100%.



### Asset composition ratio

The replacement securities ratio is determined by comparing replacement values with nominal value of privileged liabilities. These replacement securities are defined by law (pursuant to Article L. 515-17 of the MFC) as being “sufficiently, secure and liquid” and make up Compagnie de Financement Foncier cash position.

Compagnie de Financement Foncier's strict management rules have always enabled it to comply with this ratio's regulatory limit of 15%.

Other assets including promissory notes and guaranteed loans are also limited by regulations.

Asset composition	Limit	12/31/2009	12/31/2008
Replacement securities (R. 515-7)	15.0%	10.1%	10.1%
Promissory notes (L. 515-16-1)	10.0%	9.2%	9.5%
Guaranteed loans (R. 515-6)	35.0%	1.5%	1.3%

### LTV overrun ratio

French Banking Commission order No. 2008-05, which points out the assets that cover privileged liabilities and the elements used to control limits for different asset classes, changed the overrun ratio calculation for *sociétés de crédit foncier*.

By calculating the amounts eligible for refinancing by privileged resources and comparing them to asset valuations at the period closing date, overruns in respect of non-privileged resources can be determined and calculated.

For mortgage and guaranteed loans assigned to Compagnie de Financement Foncier, as well as securitised loans, by updating the loan-to-value percentage on debt and revaluing collateral on the same date, the overrun amount for each class can be determined.

In accordance with the Banking Commission order, this calculation relies on the mortgage and guaranteed loans that are assigned and/or securitised (excluding loans from the original transfer).

At December 31, 2009, the overruns on loans acquired and mobilised came to €452 million (comprised of €237 million for loans assigned and €215 million for loans mobilised) in addition to €19 million in overruns on debt securities and units of securitisation funds. The total amount of overruns

was €471 million at December 31, 2009 compared with €225 million at December 31, 2008. The increase resulted mainly from the impact of the revaluation of assets deposited as guarantees. The total remained very significantly lower than the amount of non-privileged resources, which amounted to €14,299 million at the same date.

In the event that conditions in the real estate market were to result in an instantaneous 10% fall in the value of all the real estate assets pledged as guarantee, the estimated stressed value of overruns on loans purchased and mobilised (€26,511 million) amounts to €1,544 million, which is still well below the threshold of non-privileged resources. These tests therefore confirm the excellent quality and solidity of Compagnie de Financement Foncier's loan portfolio.

## 4. Credit and counterparty risk management

The system used by Compagnie de Financement Foncier to select and monitor commitments is that applied by its parent company combined with a specific purchasing filter.

Compagnie de Financement Foncier acquires assets by following a very strict selection process that involves, in addition to eligibility criteria (as defined by the law) and Compagnie's de Financement Foncier specific criteria (definition of public sector, exclusion of commercial real estate), a “filter” that takes into account the origination and outstanding principal ratings provided by the loan originator, CFF.

Compagnie de Financement Foncier also finances CFF's production of mortgage loans to retail customers by purchasing mortgage notes issued by the latter. These promissory notes have been grouped with secured loans since April 2007 as they meet the strict eligibility criteria applied to *sociétés de crédit foncier*.

## 4.1. Procedures for selecting and measuring risks

### 4.1.1. Crédit Foncier's debt selection system

#### 4.1.1.1. Commitment selection and monitoring system at the CFF level

Commitment selection and monitoring are based on four main pillars:

- › definition and implementation of a risk policy including the framework for delegating decision-making authority and the limits established at Crédit Foncier and BPCE for shared counterparties;
- › a system for assessing the borrowers' creditworthiness and the quality of the transactions, in particular through rating systems taken into account along cross-checking procedures carried out by a department (business line or Risk Department) that is independent from sales. The performance of the rating models is followed up annually ("back-testing");
- › risk monitoring based on a consolidation of indicators and controls;
- › a risk steering system based on forward-looking risk measurement and management.

#### 4.1.1.2. External credit ratings

At December 31, 2009, the following rating agencies were selected to provide credit valuations used for regulatory calculations (among the organisations approved by the Banking Commission): Standard & Poor's, Moody's, and Fitch Ratings.

In application of Basel II methodology based on external ratings, CFF continues to monitor and use in its reports agency ratings of securitisation (using the lower of the two best ratings issued by the three agencies). Crédit Foncier's specific risk monitoring system for this business segment is based above all on a quarterly review procedure that includes in particular a detailed analysis of the management reports, stress testing on a transaction by transaction basis, monitoring limits and updating the Migration and Watch Lists.

With regard to other commitments arising from international business, Compagnie de Financement Foncier also monitors external agency ratings as well as the internal ratings produced by Crédit Foncier and the Groupe BPCE, in order to analyse and check their consistency. In addition, as long as Crédit Foncier uses a standard

approach for credit risk, these external ratings will also be used to calculate capital adequacy requirements.

#### 4.1.1.3. Internal ratings

Each counterparty must be rated using an internal rating method adapted to the asset class to which it belongs and unique for the entire BPCE group - even if the customer is shared by several group entities:

- › scoring-based methods for retail and FLA customers;
- › mixed methods (statistic and qualitative) for Corporate customers, or based on expert appraisal for some specific sectors and large counterparties. The ratings of Corporate asset classes must be reviewed annually at the level of the entities and at the level of the Group Risk Department.

In the case of loans monitored by Watch List and Doubtful and Provisions committees, the rating is reviewed quarterly and confirmed or revised.

The rating system for the Retail segment is specific to Crédit Foncier (property loans without deposit accounts).

BPCE's rating systems are used for the other segments.

##### 4.1.1.3.1. Private individuals

Assessment of the credit worthiness of private individuals is based on a systematic rating system that comprises:

- › a set of detailed solvency rules adapted to the loan applicants' profile and the risks concerned;
- › an origination score based on an expert system and on a predictive statistical module;
- › a system of delegation of decision-making authority that provides for the crosschecking of the largest loan applications.

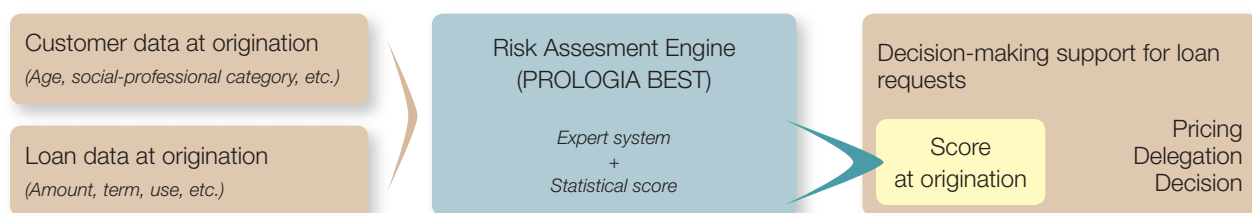
##### *Origination rating for private individuals (score at origination)*

The lending rating system put in place combines a statistical score with an expert system based on formal commitment rules that are in keeping with the risk policy. These rules are jointly defined by the Retail Division's Commitments Department and the Risk Department. They are updated regularly to keep in line with the risk policy and the new products put on the market.



A combined score and the appropriate delegation level according to the level of risk estimated by the tool are derived based on these two components.

Under no circumstances may the origination rating replace an individual assessment by a professional. It determines the appropriate decision-making level but is not the sole basis for acceptance or rejection of a loan application.



#### *Monthly rating for private individuals (outstanding loan rating)*

The Crédit Foncier monthly rating system for the private individuals market combines typical information about real estate transactions and the borrower at the time when the loan is granted, as well as information about any payment incidents observed over the loan period. Statistical models are applied to assign a risk class to each loan and, where appropriate, to record doubtful commitments or defaults.

##### **4.1.1.3.2. French public sector**

Assessment of the borrower's solvency is based on a counterparty analysis carried out by the CFF business line and, when necessary, by its Risk Department, combined with a system of origination rating and annual re-rating.

For public sector borrowers (local authorities and institutions, etc.) the delegation framework provides for certain individual delegations at various levels under clearly defined conditions regarding the type of counterparty (large accounts and other accounts) and/or type of operation, amount of the new commitments, the existing exposure and the rating. Loan applications not covered by these delegation levels are submitted to the following committees:

- › for the largest loan applications: CFF's National Commitments Committee;
- › for the other loan applications, the decision is taken by a specific Business Line Committee set up at CFF at the end of 2008.

#### *Origination rating*

The rating at origination is produced using the Ecolocale tool developed by BPCE and is overseen by the Caisses d'Epargne or by Crédit Foncier depending on the type of entity concerned.

Compagnie de Financement Foncier debt acquisition criteria are based mainly on ratings obtained using this tool.

#### *Annual re-rating*

A re-rating is carried out at least once a year based on the most recent financial data published by the public sector customer.

##### **4.1.1.3.3. International Public Financing (IPF)**

The commitment system complies with the framework defined by BPCE. Decision-making is based on several main principles:

- › prior approval by the New Products Committee for any transaction with new characteristics;
- › the transaction must not exceed country-specific limits as defined annually by BPCE;
- › prior authorisation (specific approval from an authorised Commitments Committee) is required for any transaction that involves a counterparty risk;
- › eligible transactions undergo a double analysis (Business Line and Risk Department);
- › the decision-making level is defined based on the formal arrangements for the delegation of decision-making authority based on type of transaction, amount and counterparty rating. For amounts in excess of certain thresholds, the Group Risk Department must approve the transaction. The risk/return profile is one of the key criteria for selecting commitments.

For International Public Financing (IPF), the Crédit Foncier rating model used by Compagnie de Financement Foncier very closely follows the criteria used by external agencies for their public ratings, enabling a direct correlation between the model's results and the agency rating scales. The rating includes five significant credit factors for the medium-term credit worthiness of a local authority:

- › economy and demography;
- › institutional system;
- › creditworthiness of the national government;
- › indebtedness and off-balance sheet risks;
- › performance, management and financial flexibility.

Each of these criteria is assessed using a multi-score system (mainly quantitative but including several qualitative assessment factors), and each score is weighted using a specific methodology.

In 2009 the internal ratings of IPF counterparties were compared with the public ratings assigned by the three independent agencies, Moody's, Standard & Poor's and Fitch. The ratings of nearly 80 counterparties were compared, of which around 50 had been assigned ratings by S&P or Moody's (37 for Fitch).

This comparison showed that the internal rating model is on average more conservative than that of the independent agencies (0.4 notches below the S&P ratings, 0.7 notches below Fitch's ratings and 0.9 notches below Moody's ratings).

#### Origination rating

Before each investment decision, the IPF counterparty undergoes a double rating (by the business line and by the Risk Department) using the internal rating model. The rating is then presented to the appropriate committee together with a detailed credit analysis of the counterparty.

#### Annual re-rating

All IPS counterparties undergo an annual re-rating by the Risk Department.

### 4.1.2. Eligibility criteria for the *société de crédit foncier* and the acquisition filter

#### 4.1.2.1. Private individuals

Compagnie de Financement Foncier may acquire loans:

- › whose purpose is for homeownership and, more marginally, rental housing;
- › that are backed by a first-rank or equivalent mortgage security.

Loans whose outstanding loan score - available one month after the loan has been committed and updated monthly thereafter - is insufficient (score 8 and 9), is doubtful (score X) or in arrears (score D) are systematically rejected from Compagnie de Financement Foncier selection.

For acceptable outstanding loans (*i.e.* score between 0 and 7), a loan is eligible for assignment based on the following grid:

Eligibility criteria for Compagnie de Financement Foncier and acquisition filter							
		Monthly loan score			Not scored		
		0 to 7		8, 9, X or D (**)			
		Origination score					
Rate of default at origination (*)		0 to 3	4 to 6	7 to 9	Non-transferable		
Homebuyers	Rental properties	Transferable	Transferable	Transferable			Non-transferable
<1.4%	<1.3%		Non-transferable				
<1.8%	<1.6%		Non-transferable				
≥1.8%	≥1.6%						

<sup>(\*)</sup> Or discounted default rate according to the age of the loan.

<sup>(\*\*)</sup> Monthly outstanding loan score X for doubtful loans and D for past due loans.

In addition to the rating filter, the eligible guarantees are:

- › prime mortgages or similar;
- › Société de Gestion du Fonds de Garantie à l'Accession Sociale à la propriété (or SGFGAS) guarantees, which enables to bring a guarantee of the French State to the low-income household, regulated by the regulation of the conventioned loans and guaranteed by a first-rank surety (mortgage or privilege of money lender). As such, it benefits from the external rates of the French State (AAA);
- › a guarantee from Crédit Logement, a financial company rated AA- by the rating agencies.

Weights are applied to values of the guarantees to determine the loan portfolio that Compagnie de Financement Foncier can acquire:

- › 100% for SGFGAS guarantees;
- › 80% for residential mortgage loans granted to physical individuals;
- › 60% for others (essentially assigned to social housing).

#### 4.1.2.2. French public sector

Compagnie de Financement Foncier acquisition criteria for French Public Sector authority debt are based on the Ecolocale credit rating. This rating reflects the borrower's intrinsic characteristics (budget, level of debt, credit quality, etc.).

Those with the poorest ratings (8 and 9) are systematically rejected from the selection.

#### 4.1.2.3. International Public Financing

For International Public Financing (IPF), the Crédit Foncier rating model used by Compagnie de Financement Foncier very closely follows the criteria used by external agencies for their public ratings, enabling a direct correlation between the model results and the agency rating scales. IPF production focuses on counterparties whose internal rating is AAA, AA or at the upper end of the A rated category.

#### 4.1.3. Assigning credit limits

Compagnie de Financement Foncier credit limit system uses the same levels as those of BPCE, as adapted to CFF, notably with country limits and individual limits.

#### Country limits

BPCE sets the geographical "country risk" limits. A "country risk" is defined as the combination of a sovereign risk (the inability of a country to honour its payments), political risk (risk of not transferring assets), and an economic risk (increase in the credit risk).

In connection with its international activities, country limits are assigned to the Crédit Foncier Group, which then manages them at its level. These limits are authorised by the Country Committee based on recommendations from the Group Risk Department (GRD).

These limits naturally apply to Compagnie de Financement Foncier commitments, as it holds the great majority of CFF's international exposures.

Outstandings can be frozen or restricted for some countries (such as Spain where it was decided to maintain exposure at the December 31, 2008 level).

#### Individual limits

In addition to the regulatory limits related to major risk management, individual limits (excluding private individuals and French local authorities) are defined for counterparties and banking institutions.

These limits are approved by Compagnie de Financement Foncier Risk Committee and are reported to its Audit Committee.

In 2009, particular attention was paid to the banking sector, and limits were adjusted downwards to factor in updated analyses. Similarly, Compagnie de Financement Foncier exposure to several countries was managed restrictively, reflecting the close attention paid to the deterioration in the public finances of certain countries.

Compagnie de Financement Foncier also has a limit on exposure to its parent company, Crédit Foncier, which may not exceed 20% of Compagnie's total assets.

#### 4.1.4. Managing overruns and alert procedures

##### General principles

Compliance with lending limits is verified during the systematic counter-analysis prior to examination by the commitments committees.

## Banking counterparties

In accordance with provisions defined in the service agreements between both institutions, the Ongoing control of the Financial Operations Department and, at a second level, the Risk Department verify compliance with limits for counterparties to Compagnie de Financement Foncier financial transactions.

These limits are mainly established for large Compagnie de Financement Foncier banking counterparties (limits specific to Compagnie) and are reviewed regularly in *ad-hoc* committee meetings (essentially for the hedging needs and cashflow management).

Compliance with authorised limits at D+1 is monitored and controlled on a daily basis. Limits and capacity are updated in real time by the front office.

All overruns are reported in real time to Compagnie de Financement Foncier and CFF's executive management.

## **Other (international public sector and securitisation)**

The long-term commitments are subject to a systematic shift in commitment committee (this is the case for the international public sector and acquisitions of portfolios of mortgages or debts on the public sector in the form of bonds benefiting from the best rating possible agency (AAA) in particular). A check is then made by the Ongoing Control of Financial Operations Department and at a second level by the Risk Department to verify compliance with the decisions of the Committee.

### **4.1.5. Risk monitoring**

#### Crédit Foncier's general approach

The risk monitoring system comprises:

- › the measurement, identification, and analysis of major exposures, notably as part of the commitment tracking set up between the Risk Department and the business units, or in reports and indicator analyses by the Risk Committee;
- › the tracking of client risks or counterparty risks as part of risk consolidation;
- › the monitoring of major exposures as part of the Watch List procedure;
- › supervision of debt collection.

## Risk consolidation

A centralised database at CFF provides data for risk centralisation tools and enables consistent accounting. It is used to prepare regulatory reports and to prepare activity reports showing the breakdown of outstanding loans. Compagnie de Financement Foncier outstanding loans are clearly identified and segregated in this database.

This strict identification in the systems of loans held by Compagnie de Financement Foncier makes it possible to manage Compagnie de Financement Foncier risks and to track the ratios and rules it is subject to.

As soon as a loan becomes non-performing, the provisioning procedure reflects this information and the recoverable amounts are allocated on a priority basis to Compagnie de Financement Foncier in accordance with the agreements signed.

## Watch List

Monitoring of risk degradation is implemented notably through a procedure for monitoring certain counterparties (Watch List) requiring special attention due to the size of their outstanding loans and/or the high risk they represent. By monitoring these counterparties, it is possible to track how the risk evolves and to anticipate a default risk.

Compagnie de Financement Foncier Watch List includes French local authorities, International Public Financing, and RMBS, due to their amount rather than their credit risk.

## Review of risks

The Risk Department reviews its credit risks on a regular basis. The aim of this regulatory review is to assess the quality of loan commitments. Its half-year scope covers non-performing or disputed loans on the Watch List and, for events, certain other commitments in the event of extraordinary assessing the potential risk and its coverage.

### Major Risks Committee

The Major Risks Committee examines non-performing or disputed loans whose servicing strategy may impact collection. It also examines loans transferred to disputed claims and Watch Lists.

### Procedure for international and banking operations

Control and oversight of the risks posed by these transactions have been improved with new tools applied to the various underlying assets.

Crédit Foncier's Risk Department monitors Compagnie de Financement Foncier's compliance with limits (counterparties and countries) and procedures on an independent, continuous and daily basis. It is also responsible for:

- › the counter-analysis for all of Compagnie de Financement Foncier's international transactions and acquisitions;
- › the annual review of counterparties and new ratings, including the international public sector;
- › monitoring risks, analysing them and breaking them down into their component parts (reports, Watch List updates, stress tests).

### System for measuring risk ("risk exposures") - International and banking transactions

The group measures exposures tied to off-balance sheet derivatives by applying an add-on (BIS weightings) to current exposures. Compagnie de Financement Foncier has a policy of systematically signing framework agreements with its banking counterparties. These collateralisation agreements have asymmetrical margin call triggers that reduce the actual exposure - only Compagnie de Financement Foncier's counterparties provide collateral if need be.

## **4.2. Breakdown of commitments at December 31, 2009**

### **4.2.1. Exposure to credit risk**

The following tables break down gross customer loans (performing + doubtful), excluding off-balance sheet commitments and financial guarantees, which came to a total of €98,245 million at end-December 2009.

Risk Coverage of Compagnie de Financement Foncier - synthesis at end-December 2009

(in million euros)

	31/12/09			31/12/08		
	Balance Sheet	Doubtful loans	Rate of doubtful loans	Balance Sheet	Doubtful loans	Rate of doubtful loans
<b>Private individuals</b>	<b>42,508</b>	<b>0.9%</b>	<b>0.8 %</b>	<b>42,340</b>	<b>0.7%</b>	<b>0.6%</b>
French mortgage loans	19,111	2.0%	1.8 %	17,441	1.8%	1.5%
French mortgage notes	9,042	n/a	n/a	9,043	n/a	n/a
<b>Mortgage total</b>	<b>28,153</b>	<b>1.4%</b>	<b>1.2 %</b>	<b>26,484</b>	<b>1.2%</b>	<b>1.0%</b>
Securitized French mortgage (originated by Crédit Foncier)	1,384	n/a	n/a	1,798	n/a	n/a
Securitized European mortgage (RMBS)	12,971			14,058		
<b>Securitized mortgages total</b>	<b>14,355</b>	<b>ns</b>	<b>ns</b>	<b>15,856</b>	<b>ns</b>	<b>ns</b>
<b>Public sector</b>	<b>38,044</b>			<b>36,745</b>		
Low-income housing	3,361	0.2%	0.2 %	3,495	0.3%	0.3%
French Local Authorities (FLA)	11,919			12,365		
FLA via L. 431-7 now become L. 211-38	1,202	n/a	n/a	1,198	n/a	n/a
Sovereign debt (France)	1,848			1,086		
<b>French Public Debt</b>	<b>18,330</b>	<b>0.1%</b>	<b>0.1 %</b>	<b>18,144</b>	<b>0.1%</b>	<b>0.1%</b>
<b>Private-Public-Partnership</b>	<b>318</b>			<b>7</b>		
International Public Sector	8,836	ns	ns	7,289	ns	ns
International Sovereign <sup>(*)</sup>	3,094	ns	ns	3,721	ns	ns
Securizations backed by mortgage loans benefiting from State safeguards	7,465	ns	ns	7,584	ns	ns
<b>International Operators</b>	<b>19,395</b>			<b>18,594</b>		
<b>Commercial mortgages disappearing (resulting from the legal transfer in October 1999)</b>	<b>179</b>	<b>6.4%</b>	<b>6.3 %</b>	<b>444</b>	<b>5.2%</b>	<b>6.0%</b>
<b>Banking sector exposures</b>	<b>14,271</b>			<b>12,715</b>		
Of which Banque de France and CDC <sup>(**)</sup>	1,520			1,123		
Of which other banks with public guarantees excluding France	3,201			3,179		
Of which Other banks	3,208			6,126		
Of which BCTG (Crédit Foncier's exposures guaranteed by asset collateral)	6,342			2,287		
<b>Total risk exposure</b>	<b>95,001</b>	<b>0.4%</b>	<b>0.4 %</b>	<b>92,245</b>	<b>0.4%</b>	<b>0.4%</b>
<b>Miscellaneous adjustments and other assets</b>	<b>3,243</b>			<b>3,698</b>		
<b>Total</b>	<b>98,245</b>	<b>0.4%</b>	<b>0.4 %</b>	<b>95,943</b>	<b>0.4%</b>	<b>0.4%</b>

<sup>(1)</sup> Balance sheet commitments (excluding off-balance sheet commitments and liabilities) representing overall exposure to credit risk, gross figures (performing and doubtful) according to French accounting standards from management data.

<sup>(2)</sup> The amounts of *Caisse des Dépôts et Consignations* were in the category Sovereigns for €683 million in 2008; as of December 31, 2009, they appear in the category Bank at €720 million.

The analysis by business segment is as follows:

› the French retail lending segment grew by 9%. The ratio of doubtful loans to total outstanding loans (excluding subsidised sector) for this segment rose slightly to 1.8% compared with 1.5% at end-December 2008. This reflects the rise in non-performing loans in previous months but does not call into question the loan portfolio's intrinsic quality;

› for the French Public Sector, for which outstanding loans remained stable in 2009, this ratio remains very low at 0.1%, which includes the low-income housing sector, (down to 0.2% versus 0.3% in 2008). Loan downgrades to doubtful in the low-income housing or French local authorities segments are very rare;

› for the Private Corporate mortgage segment, the ratio dropped from 5.1% in 2008 to 2.3% in 2009, reflecting the

gradual extinction of the outstanding loans resulting from the legal transfer in October 1999;

› lastly, the International Public Financing segment (IPF, Sovereign, securities backed by mortgage loans to retail, benefiting from the safeguards of State and other financial portfolios) has no doubtful outstanding loans. In terms of outstanding loans, only IPF grew in 2009, up by 21%. securities backed by mortgage loans to retail, benefiting from the safeguards of State declined by 2% due to repayment of these loans. The 17% decline in the segment "International Sovereign" is attributable to the reclassification of outstanding loans to *Caisse des Dépôts et Consignation* under bank exposure at December 31, 2009.

#### Exposure to credit risk by category

The data displayed below only shows balance sheet commitments. The breakdown of exposures by Basel counterparty type, excluding guarantees received and other risk mitigation factors.

#### Exposure percentages according to Basel classifications

At December 31 2009, Compagnie de Financement Foncier's assets amounted to €98.2 billion. The relative weight of percentages according to Basel classifications remained globally stable. The breakdown of exposures according to Basel classifications was as follows:

#### *Breakdown of Compagnie de Financement Foncier exposures by Basel classification (Groupe BPCE format)*

Basel classification	12/31/2009		12/31/2008	
	Total amount	% of total	Total amount	% of total
Local associations	4		160	
Private individuals	28,153	29%	26,484	28%
Professional (professional banking relationship)	9		19	
<b>Retail subtotal</b>	<b>28,166</b>	<b>29%</b>	<b>26,663</b>	<b>28%</b>
SME <sup>(1)</sup>	21		72	
Social economy	488		385	
Low-income housing institutions	2,146	2%	2,380	2%
Government-owned corporations	727	1%	730	1%
French local authorities	13,121	14%	13,563	14%
Private real estate professionals <sup>(1)</sup>	109		155	
PPP	318		7	
<b>Regional development bank subtotal</b>	<b>16,930</b>	<b>17%</b>	<b>17,292</b>	<b>17%</b>
Large corporations	2		0	
Banks <sup>(2)</sup>	14,271	14%	12,715	13%
Sovereign states	4,942	5%	4,807	5%
Securitisation (external) <sup>(3)</sup>	20,436	21%	21,642	23%
Private finance initiatives	33		37	
IPS	8,836	9%	7,289	8%
Regulated and unregulated funds	0	0	0	0
<b>Major counterparties subtotal</b>	<b>48,521</b>	<b>49%</b>	<b>46,491</b>	<b>49%</b>
<b>Domestic mortgage backed securities (originated by Crédit Foncier)</b>	<b>1,384</b>	<b>1%</b>	<b>1,798</b>	<b>2%</b>
<b>Adjustments and other assets</b>	<b>3,243</b>	<b>4%</b>	<b>3,698</b>	<b>4%</b>
<b>Total</b>	<b>98,245</b>	<b>100.0%</b>	<b>95,943</b>	<b>100.0%</b>

<sup>(1)</sup> disappearing amounts.

<sup>(2)</sup> - of which Sovereign guarantees, Banque de France and CDC;

- the total amount for Banks 2008 are presented proforma with BCTG (Crédit Foncier's exposures guaranteed by asset collateral).

<sup>(3)</sup> of which

	2008	2009
RMBS	14,058	12,971
ABS public sector	7,584	7,465

Exposure to credit risk is analysed below in terms of geographical and sector diversification.

#### 4.2.2. Breakdown of exposure to credit risk

##### 4.2.2.1. Geographic breakdown of material exposures <sup>(\*)</sup>, by exposure category

As at the end of 2008, the portfolio at end-December 2009 remained concentrated in the European Union (91%) and more particularly in France (64%).

It should be noted that commitments in the United States consist solely of securities to states or highly rated local authorities, or securitised loans backed by the Federal government, and do not include any direct or indirect exposure to real estate risks. Commitments in Japan concern solely prefectures or cities.

##### *Breakdown of exposures by geographical area <sup>(\*)</sup>*

	12/31/2009		12/31/2008
	Balance Sheet (M€)	%	%
France	62,424	63.5%	59.6%
Other countries within the European Economic Area	26,610	27.1%	30.0%
Other European countries	1,432	1.5%	3.3%
North America (USA & Canada)	6,173	6.3%	5.4%
Africa/Middle east			
Central and Latin America (including Mexico)			
Asia excluding Japan			
Japan	1,605	1.6%	1.8%
Oceania			
Other			
<b>Total</b>	<b>98,245 M€</b>	<b>100.0%</b>	<b>100.0%</b> <b>95,943 M€</b>

<sup>(\*)</sup> Accounting management data: 'Balance sheet' commitments portion (excluding off balance sheet commitments and financial guarantees) of the overall exposure to credit risk, based on gross customer loans (performing and doubtful) according to French accounting standards.



#### 4.2.2.2 - Breakdown by exposure product family

Compagnie de Financement Foncier is not legally allowed to hold equity interests or trading portfolios. Its balance

sheet commitments by product family (loans, securities and financial transactions) at December 31, 2009, shows a *de facto* concentration on loans, 65%, including cash loans and securitizations (22%).

(in millions of euros)

Product families <sup>(*)</sup> - Breakdown by %	12/31/2009	12/21/2008
Shares/Funds	0	0
Other balance sheet products	0	0
Short term credit facilities	12%	10%
Loans <sup>(**)</sup>	53%	52%
Bonds ("Banking" <sup>(***)</sup> )	13%	13%
Bonds ("Trading" <sup>(****)</sup> )	0	0
Mortgage loan acquisitions (Securitization)	22%	25%
<b>Balance sheet total</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Balance sheet assets <sup>(*)</sup> € millions</b>	<b>98,245</b>	<b>95,943</b>

<sup>(\*)</sup> Accounting management data: "Balance sheet" commitments portion (excluding off balance sheet commitments and financial guarantees) of the overall exposure to credit risk, based on gross customer loans (performing and doubtful) according to French accounting standards.

<sup>(\*\*)</sup> Customer loans excluding cash loans.

<sup>(\*\*\*)</sup> The bonds it holds are held in the context of lending transactions with a view to being held until maturity.

<sup>(\*\*\*\*)</sup> Compagnie de Financement Foncier does not hold securities for trading purposes.

#### 4.2.3. Quality of the portfolio exposed to credit risk

##### *Rating (internal) and quality of outstanding <sup>(\*)</sup> retail mortgage loans*

##### 4.2.3.1. Breakdown of exposures by credit quality

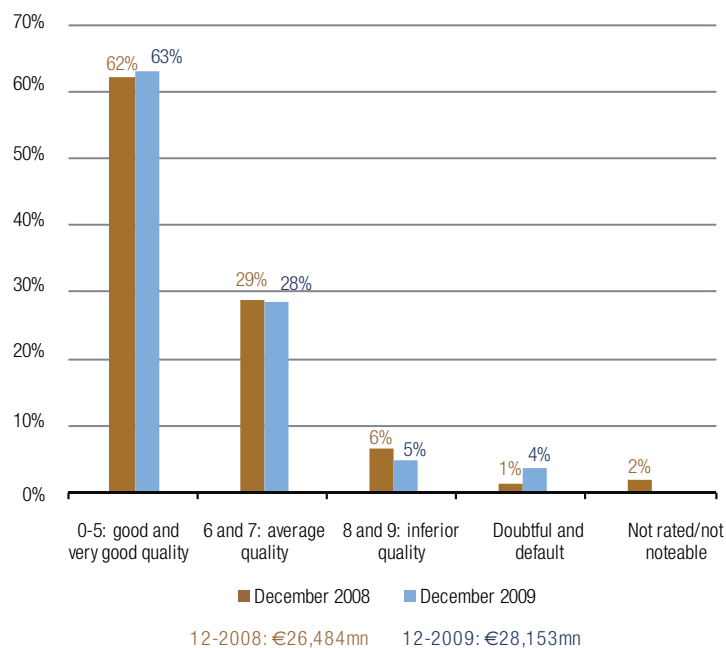
###### a) Individuals (end risk)

The internal rating system for retail loans is described in section 4.1.1.3.1.

The breakdown of outstanding loans by rating at December 31, 2009 presented below is established using this system.

The breakdown below confirms the quality of Compagnie de Financement Foncier's outstanding retail loans portfolio: 63% are good or very good quality loans (score between 0 and 5). After integrating average quality loans (scores 6 and 7), the percentage rises to 91%. The proportion of doubtful loans increased (4% at end-2009 compared with 1% at end-2008) in line with the rise in past due loans recorded during 2009. The risk profile nonetheless remains similar to that at the end of 2008 as the proportion of positive ratings was higher than in the previous year.

### International rating of outstanding mortgage loans to individuals



The base includes mortgage loans and mortgage notes in France.

(\*) Basel II ratings established using the methodology described in section 4.1.1.3.1.

### *Breakdown by internal rating of exposure to securitised mortgage loans in France (internal securitization)*

In accordance with its policy, Compagnie de Financement Foncier has endorsed the AAA senior units for \$1.4 billion as of 12/31/2009. Of the total fund, the ratings of the underlyings are very good (87%).

**Breakdown by internal rating of exposure to securitizations backed by retail residential mortgage loans in Europe (excluding France)**

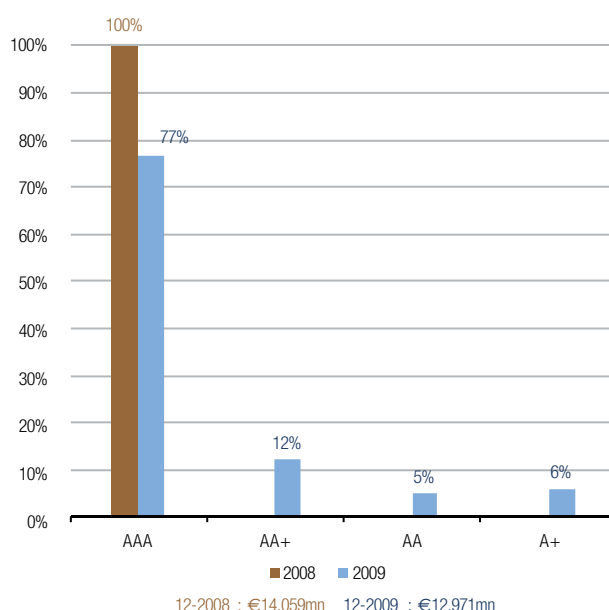
Compagnie de Financement Foncier's RMBS portfolio comprises the *senior* portions of securitised residential mortgage loans that were essentially granted to individuals. These are prime assets with high granularity located in Europe (excluding France).

At December 31, 2009, this portfolio came to €12,971 million, of which 76.5% rated AAA. One should notice that €3.1bn benefit from the coverage by Crédit Foncier for the consequences of a downgrade rating, below the second step credit rating.

The transactions downgraded during the year concerned Spanish RMBS, which are currently rated AA or AA+ for 17.4% and A+ for 6.1%. Despite the many rating downgrades issued by the agencies for the RMBS market in 2009, all the positions are investment grade with a minimum Basel II rating of A+. The Spanish positions currently amount to €6,759 million and are the object of specific monitoring procedures put in place by Crédit Foncier since the beginning of 2008, and which include regular stress tests.

The Basel II rating for securitizations uses the lower of the two best ratings (among S&P, Moody's and Fitch). While 76.5% of Compagnie's RMBS had a Basel II AAA rating at December 31, 2009, 93.9% had AAA ratings from one of the three independent agencies.

**Breakdown by internal rating of exposure to securitised mortgage loans to individuals in Europe (excluding France)**



In 2009, 100% of AA+ and AA rated RMBS had a AAA rating from one of the three agencies. Those rated A+ had none.

**b) Public sector loan portfolio**

**French public sector loan portfolio**

For all its French local authority and Low-Income Housing financing activities Crédit Foncier uses BPCE's internal rating tools which are based on scoring functions

and specific criteria for each customer segment (regions, departments, municipalities, social economy, low-income housing, healthcare institutions, etc). The scores assigned are on a scale of 0 to 9: 0 to 5 for the favourable category, 6 to 7 for the acceptable category, and 8 to 9 for the doubtful category. Unrated counterparties are analysed on an individual basis and in great detail.

### French Local Authorities (FLA) portfolio - breakdown by Basel II rating

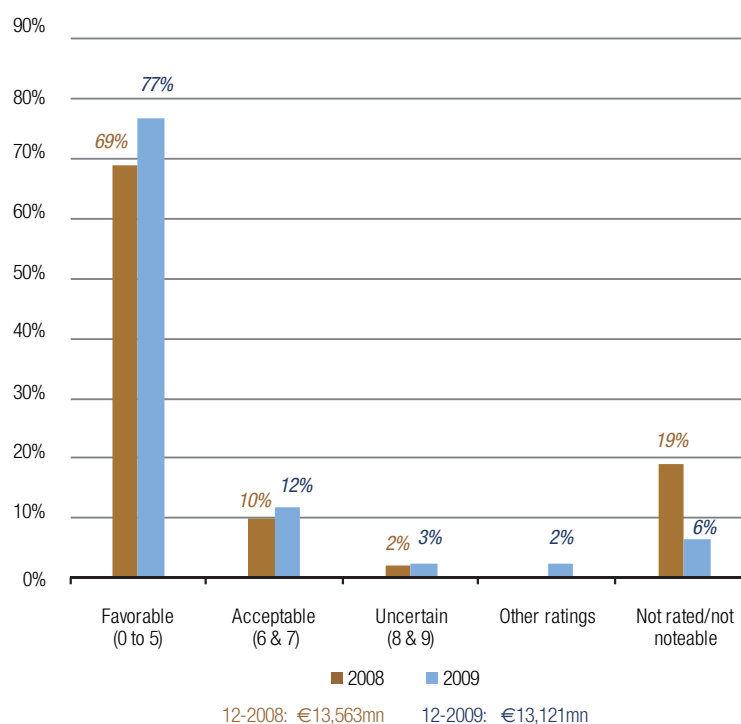
77% of the outstanding loans to French local authorities have a “favourable” (i.e. 0-5) rating. This percentage increases to 88% if loans rated as “acceptable” (6 and 7) are included.

In 2009, the portion of outstanding FLA loans with a favourable rating increased significantly (77% versus 69% at the end of 2008); the relative weights of loans with an acceptable rating and with a doubtful rating also increased.

The changes relative to 2008 reflect mainly the increase in the rated portion of the portfolio relative to the unrated portion, which represented 6.6% at end-2009. The lack of rating is due to technical factors unrelated to the quality of the counterparties and in particular comprises an exposure to cities and municipalities in France. The ratio of non-performing/doubtful loans in this portfolio is zero.

One should note that this analysis is established without taking into account the additional guarantees on the amounts, of which BPCE's one at €4bn.

*French public sector portfolio  
Breakdown by Basel II rating*

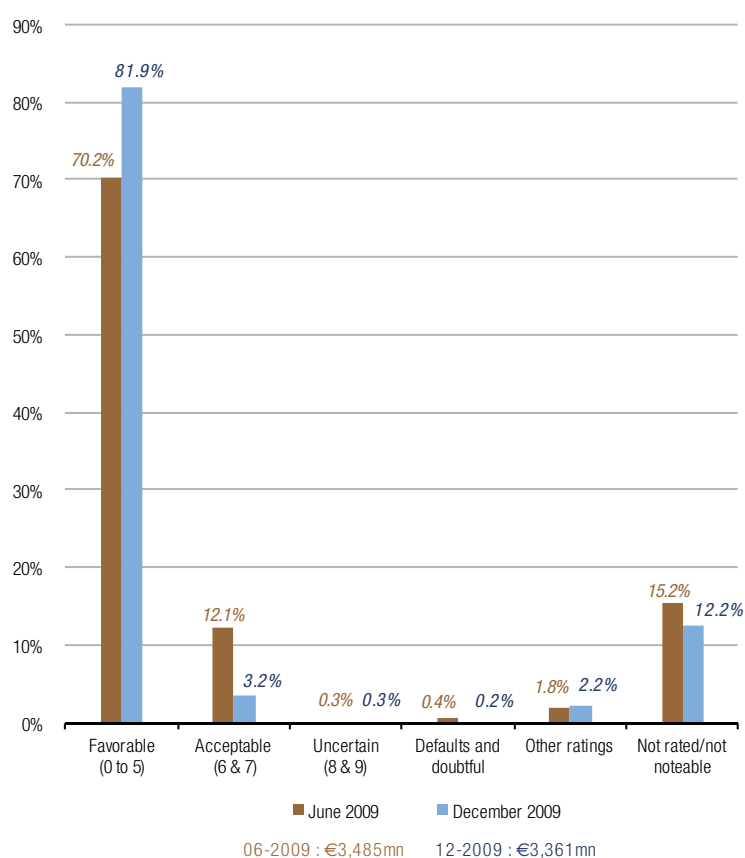


### Low-income housing portfolio - breakdown by Basel II rating

Of the loans in Compagnie de Financement Foncier's Low-Income Housing portfolio, 86% have a "favourable" rating. This percentage rises to 89% if loans with "acceptable" ratings are included, which demonstrates the quality of the portfolio and the rigorous selection of loans. The percentage of counterparties rated "doubtful" or nonperforming is insignificant, at 0.3% and 0.2%, respectively.

Unrated outstandings (8.3% of the portfolio) concern essentially bodies involved in collecting employers' contributions to the construction effort (*Participation des Employeurs à l'Effort de Construction* - PEEC)<sup>(1)</sup> and their subsidiaries which are not covered by BPCE's rating tools. Prior to any commitment decision, these counterparties undergo an in-depth analysis on a case by case basis. Also, the PEEC sector is closely overseen and supervised by the French State.

*Social housing portfolio  
Breakdown by Basel II rating*



<sup>(1)</sup> The PEEC is a contribution to the construction of new housing levied on non-agricultural private sector companies with more than 20 employees (10 employees up to 2006).

### *Breakdown of exposures to public sector securitizations by internal rating*

Compagnie de Financement Foncier's portfolio of Public Sector securitizations is comprised of three different types of debt:

- › securitizations of Dutch mortgage loans backed by an NHG guarantee (€3,998 million). NHG is a Dutch public entity that is very similar to the FGAS in France. This debt is secured by the Dutch government and was traditionally rated AAA. In 2009 Moody's decided to change its rating methodology and approach for NHG transactions following a change in assumptions with regard to correlation and compensation risk. This resulted in part of the NHG transactions being downgraded to AA and even A+. Rated by only one or two independent agencies, the NHG outstandings saw their Basel II rating (lower of two best agency ratings) drop to between A+ and AA. 72.5%

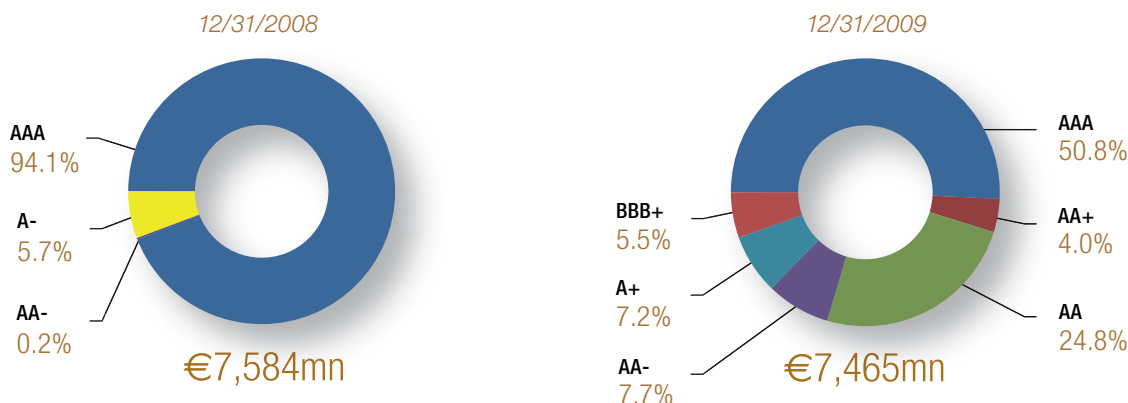
of Compagnie's NHG RMBS still have an AAA rating from one of the three agencies.

- › securitizations of American FFELP student loans (€3,000 million) that are guaranteed by the United States Federal government for at least 98% of the loan principal and are rated AAA;

- › two positions involving transactions on Italian public sector debt (€467 million), one of which is guaranteed by the Italian government (rated AA-). The second position, rated BBB+, concerns securitised healthcare debt in Italy (€457 million). The BBB+ rating is a direct reflection of the credit rating of the local authority concerned.

At December 31, 2009, 100% of public sector securitizations with AA+ and AA ratings still had a AAA rating from one of the three independent agencies. Of those rated AA- to BB+, none did.

### *Breakdown by internal rating of exposures to public sector securitization Securities backed by retail loans with step 1 State guarantees*



### *Breakdown by internal rating of exposures<sup>(\*)</sup> to international public financing (IPF) ("")*

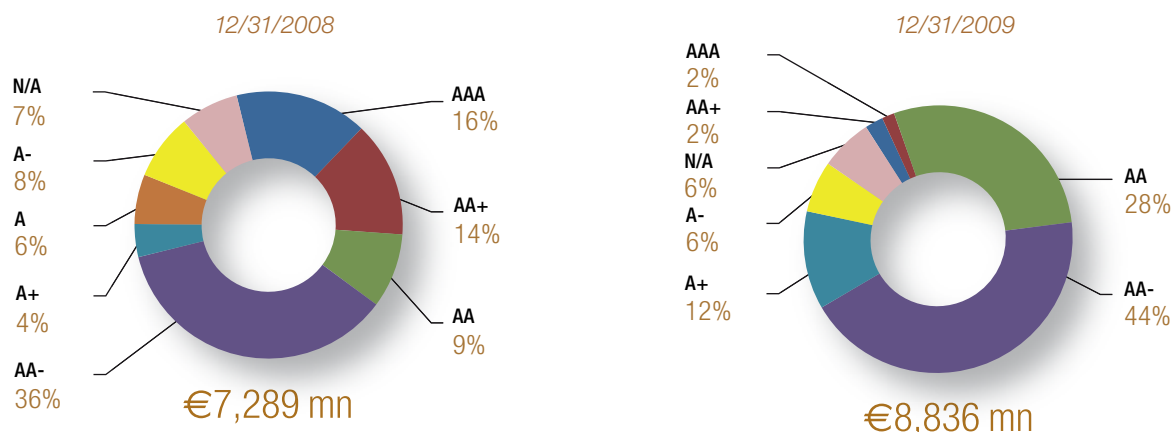
The accompanying charts show that the portfolio's holdings are concentrated in the highest rating categories. The "not provided" values (6.3%) correspond to a few counterparties that have not yet been subjected to an internal rating. The corresponding underlying assets are nonetheless assessed as A or higher.

The drop in the AAA portion from 16% at end-2008 to around 2% at end-2009 reflects above all the widespread downgrading of monoliners' ratings. These securities are currently assessed at their intrinsic rating (AA or A). In the IPF segment, the only speculative grade asset held by Compagnie de Financement Foncier is a BB+ debt of

€15 million representing an indirect debt on the Icelandic government linked to the energy and electricity production sector and in no way linked to the country's banking or financial sectors.

The annual re-rating of the portfolio resulted in some downgrades (usually of one notch) reflecting increased pressure on the public finances of local authorities and increased recourse to debt to finance their deficits. More than 80% of the portfolio is concentrated on three rating levels: AA, AA- and A+.

Breakdown of exposures <sup>(\*)</sup> to the international public financing sector <sup>(\*\*)</sup> by internal rating



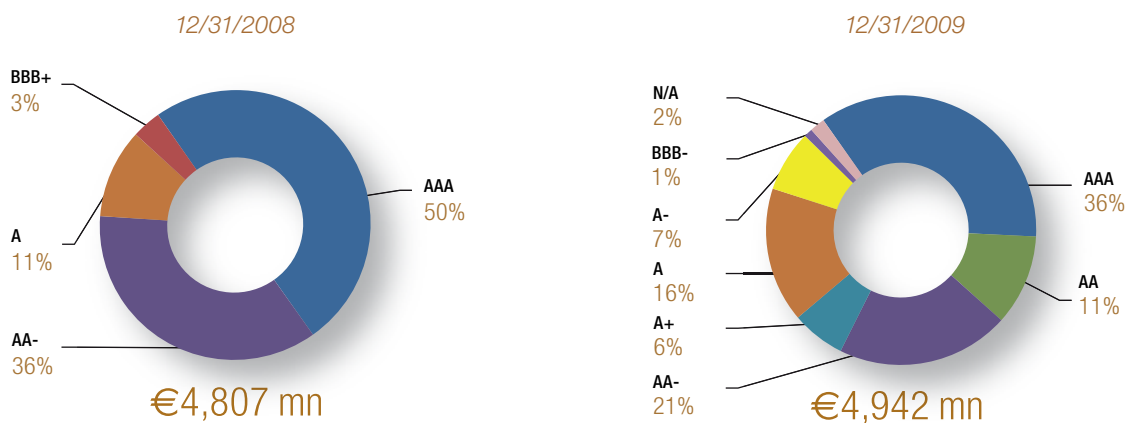
Breakdown by internal rating of exposures to sovereign debt

The sovereign portfolio is in the highest rating category, with a significant concentration of Basel II step 1 ratings (AA- or higher) as the investments concern sovereign debt issued by the 15 long-standing EU member States (EU 15), including France. Exposures to A and BBB categories relate mainly to government securities issued by sovereign states that have joined the EU more recently.

The relative weight of AAA-rated debt dropped from 50% at end-2008 to 36% at end-2009, due to:

- › the downgrade of FSA, the monoliner that guarantees the European sovereign debt in the portfolio, with the corresponding ratings downgraded from AAA to AA+;
- › the transfer of the outstandings relating to *Caisse des Dépôts et Consignations* from the Sovereign category (€683 million in 2008) to the Banks category (€720 million at end-2009).

Breakdown of sovereign exposures by internal rating



<sup>(\*)</sup> "Balance sheet" commitments portion (excluding off balance sheet commitments and financial guarantees) of the overall exposure to credit risk, based on gross customer loans (performing and doubtful) according to French accounting standards.

<sup>(\*\*)</sup> Loans and bonds of local authorities; scope determined based on Basel segments.

#### 4.2.3.2. Risk charge

Compagnie de Financement Foncier's risk charge came to €5.83 million in 2009 compared with a net reversal of €4.32 million in 2008. The risk charge is the sum of the following two components:

- › cost of risk amounting to €4.12 million;
- › a charge recognised in net banking income of €1.71 million relating to provisions and interest losses on doubtful loans, including the regulatory provisions that require 100% of interest on doubtful loans to be provisioned.

The risk charge comprises the following two elements:

- › an individual risk charge of €6.45 million that comprises:
  - provisions net of reversals and covered losses amounting to €6.13 million (consisting mainly of provisions in respect of retail loans),
  - €0.32 million of losses not covered by capital net of recoveries on loans written off.
- › a net reversal of collective provisions of €0.62 million.

#### 4.3. Risk diversification and concentration risk

The following table represents the weight of the first counterparties in the exposure of a given category, respectively

the 10, 20, 50 or 100 most important. It must be put into perspective with the relative weight of the latter, in amount. The counterparty groups and the on- and off-balance sheet are subject to this classification.

Mortgage loan acquisitions represent a significant part of the major counterparty portfolio, and over 85% of the risks are concentrated in the top 50 exposures. This concentration is due to Compagnie's strategy of acquiring, after in-depth analysis, sizeable assets in the primary market. In terms of credit risk, this concentration is superficial since the underlying loans are predominantly residential housing loans that are, consequently, highly granular.

Concentration levels are much lower in the large corporate and French local authorities/low-income housing sectors, thereby contributing to the group's risk diversification policy.

Direct exposures to sovereign states are relatively concentrated (less than ten counterparties) since they cover only a few European countries.

The IPF portfolio however is more diversified (the top 20 account for 71% of exposures). The concentration of risk in this portfolio should continue to decline as Compagnie pursues its strategy to develop and diversify into this sector. Compagnie de Financement Foncier has exposures to European, Japanese and North American local authorities.

#### Summary of counterparty groups concentration for Compagnie de Financement Foncier at 12/31/09 - Direct exposures

(in millions of euros)

	Top 10	Top 20	Top 50	Top 100	Total
Private finance initiatives	n.s.				
Large corporations	n.s.				
Sovereign States	4,942 (100%)	4,942 (100%)	4,942 (100%)	4,942 (100%)	4,942
Mortgage loan acquisitions (securitization)	6,970 (34%)	10,929 (54%)	17,276 (85%)	20,409 (100%)	20,436
French local authorities and low-income housing	3,936 (20%)	5,494 (29%)	8,271 (43%)	10,961 (57%)	19,275
IPF (International Public Financing)	4,398 (50%)	6,248 (71%)	8,540 (97%)	8,836 (100%)	8,836

(<sup>(1)</sup>) Source: management data. Gross commitments (performing and doubtful) at year end (including off balance sheet commitments and financial guarantee).

(<sup>(2)</sup>) The French Local Authorities and low-income housing segment is as defined for Crédit Foncier, i.e. it includes the central public administration.



#### **4.4. Comments on commitments at December 31, 2009**

##### **4.4.1. Private individuals market**

The overall quality of the retail loan portfolio has been maintained, in particular for the foreign mortgage debt acquired in the form of debt securities.

##### *Direct loans*

##### *Portfolio of direct mortgage loans in France*

The portfolio of direct retail mortgage loans in France increased by 6.3% relative to 2008. The doubtful loan ratio came to 1.4% at end-2009 compared with 1.2% at end-2008. The doubtful loan ratio excluding subsidised loans was limited to 1.2% (see table of risk coverage in section 4.2.1.). This very slight deterioration relates mainly to adjustable rate loans.

All the loans have Basel II eligible guarantees (mortgages and various additional guarantees - see section 5.3. - impact of credit risk mitigation techniques). Risk measurement using the Basel II advanced method confirms the quality of Compagnie de Financement Foncier's portfolio, originated by Crédit Foncier.

A part of the adjustable rate loans that benefited from the so-called PTR measures proposed unilaterally by Crédit Foncier to its customers via riders were assigned, before January 1, 2008, to Compagnie de Financement Foncier by Crédit Foncier, which continues to manage the loans. Note that the immunisation agreement signed in 2008 between Crédit Foncier and Compagnie de Financement Foncier stipulates that the full financial impact of the measures taken by Crédit Foncier shall be borne by the same.

Under the terms of the draft mediation agreement signed on November 12, 2009, Crédit Foncier has undertaken (i) to offer its customers the option of switching to a preferential fixed rate, and (ii) to allocate a financial budget to settling individual situations in personalised conditions.

##### *Acquisition of loans to individuals by Compagnie de Financement Foncier in 2009*

In 2009, Compagnie de Financement Foncier continued its acquisitions of CFF mortgage loans for a total of €3,625 million, comprising €1,775 million of first-home buyer loans, €637 million of loans to the Rental sector, €1,213 million in subsidised loans (first-home buyer and interest free loans), demand for which was boosted by government measures

implemented since 2008 to encourage first-time home purchases (doubling of ceiling for interest-free loans, local interest-free loans and aid from local authorities), which also secure these transactions.

##### *Losses in the private individuals market in France*

Insofar as Compagnie de Financement Foncier makes its acquisitions based on a purchasing score that factors in the Crédit Foncier origination score, it selects only the best loans and its loss ratio (in arrears for more than 6 months) is well below that of Crédit Foncier.

##### *Mortgage notes*

The portfolio of mortgage notes remained stable at €9 billion. They are guaranteed by a portfolio of mortgage loans granted by Crédit Foncier to private individuals to finance home purchases.

##### *Securitised mortgage loans in France*

This portfolio totalled €1,384 million at December 31, 2009. Its risk profile is similar to that of the rest of the portfolio of loans to private individuals.

##### *Securitization - acquisition of mortgage loans in Europe*

The securitization/acquisition of mortgage loans activities are discussed in another section of this report (see section 6).

#### **4.4.2. Comments on the French and international public sectors**

##### *French local authorities*

The portfolio of loans to French local authorities diminished in 2009. New commitments were deliberately limited while the existing loan portfolio continued to run off.

In a general environment marked by increased budgetary restrictions for local authorities, the risk profile of Compagnie de Financement Foncier FLA portfolio remained low in 2009 with a stable loss ratio.

The portfolio of structured-rate FLA loans is monitored in time by CFF's staff in collaboration with BPCE. The Group is a signatory of the Gissler Charter which defines the obligations of lending establishments with regard to local authorities in terms of the marketing of structured products and the information provided about the changes in the value of these instruments over time.

### *Low-income housing*

The portfolio of low-income housing loans remained stable at €3,361 million in 2009 versus €3,495 million in 2008. No new transfer to doubtful loans was recorded in the first half for this sector, confirming the solidity of its risk profile with a stable default ratio of 0.2%.

### *International public financing - IPF*

Production in 2009 amounted to a little under €2 billion and was concentrated essentially on local authorities in:

- › North America (financing of some states and large cities);
- › Spain (financing of autonomous regional governments

with the limit of the run off of the existing Spanish portfolio, taking into account the restrictive management of loans for this country);

- › Canada (financing of provinces and large cities).

### *Sovereign*

Production in 2009 exceeded €800 million and concerned solely European countries (EU-25 countries). The ratings of some of the government securities in the portfolio guaranteed by FSA dropped from AAA to AA following the downgrade of the monoliner's rating (see section 4.2.3. - Quality of the portfolio).

## 5. Risk mitigation techniques

### 5.1. Valuation methods and periodic review of the value of real estate assets

#### *Specific Controller's report on the valuation and periodic review methods for real estate at December 31, 2009*

To the Directors of Compagnie de Financement Foncier,

In our capacity as the Specific Controller of your Company, and pursuant to the provisions of Article L. 515-30 of the French Monetary and Financial Code, as well as those set out in Article 5 of Regulation 99-10 of the CRBF (French Banking and Financial Regulations Committee) and amended by the Decree of May 9, 2007, we hereby present you with our report relating to the assessment of the procedure describing the methods used to value the real estate underlying loans and the methods for periodically reviewing their value, published at the same time as the annual financial statements on December 31, 2009 and appended herewith.

The procedure relating to the valuation methods for real estate and the methods for periodically reviewing their value was defined and implemented under the responsibility of your company's management. It is our responsibility to assess the validity of this procedure in terms of its compliance with current regulations.

We have examined the valuation methods and the methods for periodically reviewing the value of real estate

underlying loans in accordance with the procedures that we considered necessary in view of the professional standards of the *Compagnie Nationale des Commissaires aux Comptes* applicable to this assignment. These procedures are necessary to ascertain that the valuation methods and periodic review methods comply, in their design and their application, with current regulations, and that we check the presentation of the information that is then disclosed in the annual financial statements.

Based on our work, we have no observation to make on the conformity to the provisions set out in Regulation 99-10 of the CRBF as amended by the Decree of May 7, 2007 about the valuation methods for the real estate underlying the loans and the periodic review methods of their value, disclosed simultaneously in the financial statements at December 31, 2009

Paris, March 29, 2010

Specific Controller

CAILLIAU DEDOIT ET ASSOCIES Laurent BRUN

19, rue Clément Marot

75008 Paris

#### **Procedure for the valuation and periodic review of the value of the assets underlying the loans at December 31, 2009**

##### *I. Method for the valuation of assets underlying loans*

###### **A. General asset valuation principles**

The procedure described below has been determined pursuant to Articles 1 and 2 of CRBF Regulation No. 99-10,

as amended by Regulation No. 2002-02, then by the decree of 7 May 2007, effectively transposing European Directive 2006/48/CE into French law.

Real estate financed by eligible loans or provided as security for these loans is subject to prudent valuation rules.

The valuation is based on the real estate's long term characteristics, normal and local market conditions, the current use of the asset and other possible uses.

## B. Derogation rule used by Compagnie de Financement Foncier

For loans originated between January 1, 2003 and December 31, 2006, in accordance with the provisions of CRBF Regulation No. 99-10 and a decision by the Chairman of Crédit Foncier de France's Executive Board dated July 28, 2003, the cost of the transaction including VAT without discount is taken as the estimated value of the asset for all transactions involving residential property whose transaction cost including VAT is less than €350,000. Pursuant to the amended CRBF

Regulation No. 99-10, this principle was extended to all residential property transactions whose transaction cost is less than €450,000, or when the outstanding principal of the acquired loan is less than €360,000.

Beyond these thresholds, the appraised value is considered as the value of the property.

## C. Synthesis

The foregoing rules are applicable as of May 7, 2007 and are summarised in the table below:

(in millions of euros)

Asset type	Cost of transaction is less than €450,000 or acquired loan less than €360,000	Cost of transaction is greater than €450,000 or acquired loan greater than €360,000
Residential property for private individuals	Transaction cost	Appraisal
Residential property for commercial use	Appraisal	Appraisal
Commercial property <sup>(1)</sup>	Appraisal	Appraisal

<sup>(1)</sup> Building for commercial use is taken to mean all real estate other than residential property and multiple-use property whose value allocated to the residential part is less than 75% of the total value of the property.

Appraisals apply to all collateral underlying loans authorised (*i.e.* signed by the parties) during the year, regardless of whether or not they were committed.

Other collateral (underlying loans authorised before 2009 that have already been appraised or reappraised) is necessarily subject to a periodic review of its value as presented hereafter (cf. Sections II, III and IV).

## II. Periodic review methods for residential property for private and commercial use

The rules detailed below apply to collateral underlying loans implemented before 2009.

Two periodic review methods are used to determine the value of collateral depending on the following:

- › the S1 statistical method:
  - for residential properties for private individuals,
  - for all residential properties for professionals valued at less than €450,000 or for which the outstanding principal on the loan that the property is securing is less than €360,000.
- › the statistic method S2 for all residential properties for professionals valued at more than €450,000 or for which the outstanding principal on the loan that the property is securing exceeds €360,000

## A. S1 periodic review method

### Principles

The principle of the collateral revaluation method is based on the application of indices obtained by observing annual variations of market values and conservative property values (which are then revalued by applying the indices) in accordance with law.

The indices reflect four distinct geographical categories:

- i) There are 110 agglomerations as defined by postal code groups established by the INSEE. They are defined as urban areas with more than 50,000 inhabitants, broken down into three categories. The list of agglomerations and their composition change as the urban fabric and real estate markets evolve.
- ii) Outside of these agglomerations, the “non-agglomeration” real estate market is segmented by administrative regions (20, excluding Corsica and the Île-de-France - Paris metropolitan area).
- iii) The Île-de-France region surrounding Paris is valued separately using specific indices for each of the seven departments.
- iv) Paris is also valued separately using a specific index.

Indices for each of these four categories (agglomeration, region, Paris and Île-de-France), are grouped according to postal codes, and broken down as follows:

- › agglomeration: 110 apartment indices/110 house indices;
- › non-agglomeration: 20 house indices;
- › Île-de-France (excluding Paris): 7 apartment indices/7 house indices;
- › Paris: 1 apartment index.

When the distinction apartment/house is not available for collateral, the smaller of the two indices, for the corresponding postal code, is used.

When the collateral is located in Corsica, the French overseas departments or territories or if its location is unclear, the annual trend indices used for the corresponding type of housing are:

- › for apartments: average of agglomeration apartment indices;
- › for houses: the smaller of the two average agglomeration or regional indices.

#### Revaluation cycle management

Real estate value indices are updated annually. During the month of November, new indices are established based on the period ending September 30.

The revaluation cycle is thus managed on a one year rolling period from September 30, of year “n-1” to September 30 of year “n”.

#### Sources

These indices are based on an “*ad hoc*, expert” survey carried out each year by the real estate research division in collaboration with the network of regional real estate appraisers and their gross quarterly statistics about real estate markets as well as regional indicators from [www.marche-immo.com](http://www.marche-immo.com).

#### **B. S2 periodic review method**

For 2009, the S2 revaluation method entailed applying the annual change in the rent index for residential property to 2008 values, *i.e.* +2% (source INSEE).

### **III. Methods for periodic review of commercial real estate (non residential)**

In accordance with the provisions of CRBF Regulation No. 99-10, all of the following three valuation methods are applied to commercial use property depending on their characteristics.

#### **A. E1 Method**

This category covers commercial buildings whose value is less than €450,000 or for which the outstanding principal on the loan that the property is securing is less than €360,000.

Assets in this category are appraised individually every three years, then statistically in-between years using the S1 method.

#### **B. E2 Method**

This category covers commercial buildings whose value exceeds €450,000 and for which the outstanding principal on the loan that the property is securing is greater than €360,000.

Each property in this category is revalued each year by an expert, on an asset-by-asset basis. The appraiser determines a prudential mortgage value based on an in-depth analysis of the type of asset and its specific characteristics and on a prudent and long-term outlook of the market.

#### **C. S1 Statistical Method**

This category covers commercial buildings whose outstanding principal on the loan the property is securing falls below 30% of the initial loan amount.

For real estate in this category, the S1 statistical revaluation method (see section II. A above) is applied to the most recent appraisal value.

#### IV. Summary of methods - Revaluation methods - rules 2009

Type of asset	Cost of the transaction ≤ €450k or total authorised amount ≤ €360k	Cost of the transaction > €450k and total authorised amount > €360k	Cost of the transaction ≤ €450k or total authorised amount ≤ €360k	Cost of the transaction > €450k and total authorised amount > €360k	Disputed cases
Residential	If private individual: S1 method				Specific individual appraisal
	If professional: S1 method	If professional: S2 method	If professional: S1 method	If professional: S2 method	
Non-residential	Ratio of outstanding principal to initial amount ≤ 30%		Ratio of outstanding principal to initial amount > 30%		
	S1 method		E1 method	E2 method	

Change 2008/2009

Agglomerations > 200,000 inhabitants

Region	Department	Urban unit	Index apartments 2008-2009	Index houses 2008-2009
Alsace	67 Bas Rhin	Strasbourg	1.028	0.965
Alsace	68 Haut Rhin	Mulhouse	0.987	0.943
Aquitaine	33 Gironde	Bordeaux	1.051	0.980
Auvergne	63 Puy-de-Dôme	Clermont-Ferrand	0.932	0.976
Bourgogne	21 Côte d'Or	Dijon	0.990	0.977
Bretagne	29 Finistère	Brest	0.987	0.958
Bretagne	35 Ille et Vilaine	Rennes	1.000	0.968
Centre	37 Indre-et-Loire	Tours	0.977	0.973
Centre	45 Loiret	Orléans	1.000	0.959
Champagne	51 Marne	Reims	0.928	0.915
Haute Normandie	76 Seine-Maritime	Le Havre	1.056	1.024
Haute Normandie	76 Seine-Maritime	Rouen	1.067	1.037
Languedoc-Roussillon	34 Hérault	Montpellier	1.000	0.974
Lorraine	54 Meurthe et Moselle	Nancy	0.945	0.901
Lorraine	57 Moselle	Metz	0.933	0.904
Midi-Pyrénées	31 Haute Garonne	Toulouse	0.951	0.965
Nord	59 Nord	Lille	0.991	0.953
Nord	59 Nord	Valenciennes	1.025	0.991
Nord	62 Pas-de-Calais	Béthune	1.000	0.985
Nord	62 Pas-de-Calais	Douai - Lens	0.974	0.970
PACA	06 Alpes Maritimes	Nice	0.926	0.961
PACA	13 Bouches-du-Rhône	Marseille - Aix-en-Provence	0.926	0.940
PACA	83 Var	Toulon	0.949	0.939
PACA	84 Vaucluse	Avignon	0.960	0.923
Pays de la Loire	44 Loire Atlantique	Nantes	0.983	0.982
Pays de la Loire	49 Maine et Loire	Angers	0.955	0.962
Rhône-Alpes	38 Isère	Grenoble	0.977	0.953
Rhône-Alpes	42 Loire	Saint-Étienne	1.000	0.929
Rhône-Alpes	69 Rhône	Lyon	0.974	0.983
<b>Moyenne</b>			<b>0.982</b>	<b>0.962</b>

# Agglomerations with 100,000 to 199,999 inhabitants

Region	Department	Urban unit	Index apartments 2008-2009	Index houses 2008-2009
Aquitaine	64 Pyrénées Atlantiques	Pau	0.968	0.979
Aquitaine	64 Pyrénées Atlantiques	Bayonne	0.914	0.941
Basse Normandie	14 Calvados	Caen	0.994	0.979
Bretagne	56 Morbihan	Lorient	0.964	0.959
Champagne	10 Aube	Troyes	0.987	1.015
Franche-Comté	25 Doubs	Montbéliard	1.008	0.969
Franche-Comté	25 Doubs	Besançon	1.018	0.975
Languedoc-Roussillon	30 Gard	Nîmes	1.023	1.000
Languedoc-Roussillon	66 Pyrénées Orientales	Perpignan	0.966	0.978
Limousin	87 Haute Vienne	Limoges	0.974	0.917
Lorraine	57 Moselle	Thionville	0.961	0.931
Nord	59 Nord	Dunkerque	0.977	0.986
Nord	62 Pas-de-Calais	Calais	0.963	0.984
Pays de la Loire	44 Loire Atlantique	Saint-Nazaire	0.969	0.981
Pays de la Loire	72 Sarthe	Le Mans	0.972	0.948
Picardie	80 Somme	Amiens	1.045	0.971
Poitou-Charentes	16 Charente	Angoulême	1.029	0.983
Poitou-Charentes	17 Charente-Maritime	La Rochelle	0.938	0.941
Poitou-Charentes	86 Vienne	Poitiers	1.000	0.946
Rhône-Alpes	26 Drôme	Valence	0.988	0.939
Rhône-Alpes	73 Savoie	Chambéry	1.000	0.985
Rhône-Alpes	74 Haute Savoie	Genève-Annemasse	0.992	0.945
Rhône-Alpes	74 Haute Savoie	Annecy	0.984	1.000
<b>Average</b>			<b>0.984</b>	<b>0.968</b>



## Agglomerations with 50,000 to 99,999 inhabitants

Region	Department	Urban unit	Index apartments 2008-2009	Index houses 2008-2009
Alsace	67 Bas Rhin	Haguenau	1.018	0.965
Alsace	68 Haut Rhin	Colmar	0.960	0.968
Aquitaine	24 Dordogne	Périgueux	1.025	0.868
Aquitaine	24 Dordogne	Bergerac	1.000	0.892
Aquitaine	33 Gironde	Arcachon	1.000	0.977
Aquitaine	47 Lot-et-Garonne	Agen	0.988	0.901
Auvergne	03 Allier	Montluçon	0.909	0.946
Auvergne	03 Allier	Vichy	0.921	0.968
Basse Normandie	50 Manche	Cherbourg	0.987	0.968
Bourgogne	58 Nièvre	Nevers	1.015	0.982
Bourgogne	71 Saône-et-Loire	Chalon-sur-Saône	0.978	0.967
Bretagne	22 Côtes d'Armor	Saint-Brieuc	0.987	0.970
Bretagne	29 Finistère	Quimper	0.959	0.958
Bretagne	35 Ille-et-Vilaine	Saint-Malo	0.992	0.968
Bretagne	56 Morbihan	Vannes	0.990	0.965
Centre	18 Cher	Bourges	1.006	1.000
Centre	28 Eure-et-Loir	Chartres	1.013	0.986
Centre	36 Indre	Châteauroux	0.954	0.972
Centre	41 Loir-et-Cher	Blois	0.987	0.987
Centre	45 Loiret	Montargis	0.973	0.980
Champagne	08 Ardennes	Charleville-Mézières	0.923	0.906
Champagne	51 Marne	Châlons-en-Champagne	0.932	0.925
Franche-Comté	90 Territoire de Belfort	Belfort	1.000	0.957
Haute Normandie	27 Eure	Évreux	1.012	1.014
Haute Normandie	76 Seine-Maritime	Elbeuf	1.014	1.029
Languedoc-Roussillon	30 Gard	Alès	1.000	0.961
Languedoc-Roussillon	34 Hérault	Sète	0.982	1.000
Languedoc-Roussillon	34 Hérault	Béziers	0.966	0.969
Limousin	19 Corrèze	Brive-la-Gaillarde	0.925	0.871
Lorraine	57 Moselle	Forbach	0.913	0.900
Lorraine	88 Vosges	Épinal	0.935	0.897
Midi-Pyrénées	65 Hautes Pyrénées	Tarbes	0.939	0.953
Midi-Pyrénées	81 Tarn	Castres	0.930	0.955
Midi-Pyrénées	81 Tarn	Albi	0.929	0.956
Midi-Pyrénées	82 Tarn-et-Garonne	Montauban	0.940	0.957
Nord	59 Nord	Maubeuge	1.034	1.012
Nord	59 Nord	Armentières	0.988	1.000
Nord	62 Pas-de-Calais	Arras	1.000	0.985
Nord	62 Pas-de-Calais	Saint-Omer	0.974	0.985

Nord	62 Pas-de-Calais	Boulogne-sur-Mer	0.988	0.986
PACA	06 Alpes-Maritimes	Menton - Monaco	1.044	0.951
PACA	13 Bouches-du-Rhône	Arles	0.949	0.941
PACA	13 Bouches-du-Rhône	Salon-de-Provence	0.903	0.951
PACA	83 Var	Fréjus	1.055	1.000
Pays de la Loire	49 Maine-et-Loire	Cholet	0.973	0.962
Pays de la Loire	53 Mayenne	Laval	0.957	0.921
Picardie	02 Aisne	Saint-Quentin	1.015	1.017
Picardie	60 Oise	Beauvais	0.989	0.951
Picardie	60 Oise	Creil	1.011	0.977
Picardie	60 Oise	Compiègne	0.982	0.971
Poitou-Charentes	79 Deux Sèvres	Niort	1.028	1.000
Rhône-Alpes	01 Ain	Bourg-en-Bresse	0.976	0.955
Rhône-Alpes	26 Drôme	Romans-sur-Isère	0.947	0.922
Rhône-Alpes	42 Loire	Roanne	0.970	0.891
Rhône-Alpes	42 Loire	Saint-Chamond	0.986	0.930
Rhône-Alpes	69 Rhône	Villefranche-sur-Saône	0.967	0.947
Rhône-Alpes	74 Haute Savoie	Thonon-les-Bains	1.000	0.985
Rhône-Alpes	74 Haute Savoie	Cluses	0.976	0.975
<b>Average</b>			<b>0.978</b>	<b>0.960</b>

#### Non-agglomerations:

Region	Index houses 2008-2009
Alsace	0.939
Aquitaine	0.967
Auvergne	0.917
Basse Normandie	0.947
Bourgogne	0.968
Bretagne	0.931
Centre	0.927
Champagne	0.880
Franche-Comté	0.966
Haute Normandie	0.952
Languedoc-Roussillon	0.918
Limousin	0.880
Lorraine	0.893
Midi-Pyrénées	0.952
Nord	0.917
PACA	0.918
Pays de la Loire	0.926
Picardie	0.932
Poitou-Charentes	0.931
Rhône-Alpes	0.919
<b>Average</b>	<b>0.929</b>

Paris and île-de-France region:

REGION	Department	Index apartments 2008-2009	Index houses 2008-2009
Île-de-France	91 Essonne	0.930	0.890
	92 Hauts-de-Seine	0.940	0.930
	75 Paris	0.950	
	77 Seine-et-Marne	0.950	0.920
	93 Seine-Saint-Denis	0.980	0.930
	94 Val de Marne	0.940	0.890
	95 Val d'Oise	0.920	0.890
	78 Yvelines	0.920	0.850
Average		0.941	0.900

## 5.2. Guarantee providers

Part of Compagnie de Financement Foncier's loan portfolio is guaranteed by credit institutions, local authorities (notably for loans concerning public-private partnerships), and insurance companies. The guarantees are additional to the ones imposed by law, such as the first-rank mortgage.

The main suppliers of personal guarantees on mortgage loans to individuals are the SGFGAS as well as other credit institutions (mainly *Crédit Logement* and intragroup bank guarantees):

- › the *Société de Gestion du Fonds de Garantie à l'Accession Sociale à la propriété* (SGFGAS) provides a guarantee by the French state for home ownership loans controlled by regulated loan agreements and guaranteed by first-rank collateral (mortgage or lender's lien). For this reason, it benefits from the French state's external ratings (AAA), and allows a 0% weighting for loans for which FGAS coverage was signed prior to December 31, 2006. Due to a change in the FGAS coverage methods, protections granted thereafter have a 15% weighting for the loans in question;
- › *Crédit Logement* is a financial institution, subsidiary of most large French Banking networks, whose long-term rating is Aa2 at Moody's and AA at Standard & Poor's. Both agencies assign it a stable outlook. Loans covered by *Crédit Logement* receive a 20% weighting in the standardised approach, related to the regulatory weighting applicable to credit institutions and deducted from the credit worthiness ratings of the country where the underlying collateral is located (France to be specific);
- › intragroup guarantees (the insurers being mainly Crédit Foncier de France, BPCE and the various Caisses

d'Epargne) whose applicability methods vary according to whether regulatory calculations are performed at the company level or are consolidated at BPCE level.

Excluding loans to individuals, the main insurers are the main credit institutions and, in the case of the public sector authorities, the local authorities themselves. The resumption of the loans of the activity "French local authorities" to IXIS CIB is guaranteed by BPCE at €4,010 million.

## 5.3. Effect of credit risk mitigation techniques

In connection with COREP production at December 31, 2009, the application of credit risk mitigators (*i.e.* collateral received, personal guarantees, and credit risk protection derivatives) allows Compagnie de Financement Foncier to reduce its exposure to credit risk as follows:

- › €21,396 million of debt guaranteed by personal guarantees eligible for regulatory reduction of capital requirements which usually supplement mortgages or similar guarantees;
- › €19,976 million of debt covered by mortgages or equivalent surety (first charge on property or *Privilège de prêteur de deniers*).

The table below summarises the breakdown of debt covered by personal guarantees by Basel classification (excluding mortgages).

(in millions of euros)

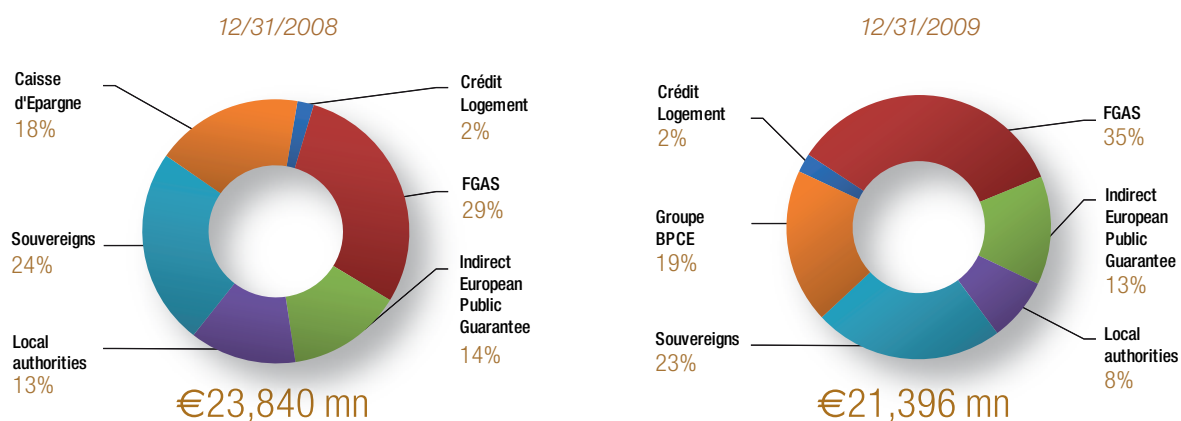
	Loan insurer (excluding residential mortgage)			
12/31/2009	National governments or central banks	Institutions <sup>(*)</sup>	Other insurers	Total
Basel classification				
National governments and central banks				
Institutions	3,675	4,011 <sup>(**)</sup>		7,686
Companies	495	1,687		2,182
Retail clientele	8,161	524	2,843	11,528
Shares				
Securitization positions				
<b>Total</b>	<b>12,330</b>	<b>6,223</b>	<b>2,843</b>	<b>21,396</b>

Source Corep 12/31/2009 - balance sheet and off balance sheet data.

<sup>(\*)</sup> Credit institutions and local authorities sector.

<sup>(\*\*)</sup> This amount does not take into account the guarantees provided by the public sector on exposure to the same sector.  
The resumption of the loans of the activity "French local authorities" to IXIS CIB is guaranteed by BPCE at €4,010 million.

The charts below show the breakdown as a percentage of the amounts of loans guaranteed by surety provider:



Source Corep - 12/31/2008 and 12/31/2009 (balance sheet and off balance sheet).

The table below shows the breakdown of the various guarantees attached to the private individuals portfolio in the context of COREP reporting (12/31/2009 compared with 12/31/2008).

The totality of Compagnie de Financement Foncier's portfolio of direct loans to private individuals (€19,230 million at December 31, 2009, including off-balance sheet commitments) is covered by mortgage or personal guarantees that mitigate the credit risk.

In the context of the Basel II system, 100% of direct loans to Private Individuals in France are covered by:

- › personal guarantees eligible for reducing Basel II regulatory capital requirements (mutual guarantee bodies, bank guarantees, etc.), which usually supplement mortgage or similar guarantees;
- › by prime mortgages or equivalent guarantees (first charge on property or *Privège de prêteur de deniers*).

(in millions of euros)

Schemes		Individuals	
		12/31/2009	12/31/2008
Regulated schemes	FGAS (100% - State guarantee)	7,371	6,785
	Subsidised sector (State guarantee)	709	1,211
Mortgage insurance companies	<i>Credit logement</i> <sup>(*)</sup>	498	583
	<i>CRESERFI</i> <sup>(**)</sup>	27	29
International financial organizations	<i>Garantie publique européenne indirecte</i> <sup>(***)</sup>	2,923	3,320
<b>A - Loans guaranteed by a personal surety complementing mortgage or equivalent guarantee</b>		<b>11,527</b>	<b>11,928</b>
<b>B - First-rank mortgage</b>		<b>7,694</b>	<b>5,077</b>
<b>(A + B) guarantees + 1<sup>st</sup> rank mortgage</b>		<b>19,222</b>	<b>17,005</b>
<b>C - Outstanding french mortgage loans</b>		<b>19,230</b>	<b>17,441</b>
<b>Percentage of the amount of loans with guarantees (Basel II-eligible) compared to total outstanding loans [(A+B)/C]</b>		<b>100%</b>	<b>98%</b>

Source COREP - at December 31, 2009, including off balance sheet commitments and source COREP - at December 31, 2008, excluding off balance sheet commitments.

<sup>(\*)</sup> *Crédit logement*: rated Aa2/AA by Moody's and AA by Standard & Poor's.

<sup>(\*\*)</sup> *CRESERFI*: public employees mutual guarantee fund.

<sup>(\*\*\*)</sup> of which, as of Dec. 31, 2009: €2,522 million of guarantee PROVIDE 1 and PROVIDE 2 (indirect guarantee from KfW), €321 million of indirect guarantee from the European institution PMI and €80 million of guarantee from NHG (Dutch State) on the GMAC portfolio.

#### 5.4. Balance sheet and off-balance sheet netting

The group measures exposures tied to off-balance sheet derivatives by applying an add-on (BIS weightings) to current exposures. Compagnie de Financement Foncier has a policy of systematically signing master netting agreements with its banking counterparties. The vast majority of the time, these are collateralization agreements with margin call triggers that reduce the actual exposure. Compagnie de Financement Foncier signs systematically asymmetrical agreements, meaning that only the counterparties provide collateral if need be.

## 6. Securitizations

This section does not give a detailed description of internal securitizations (mortgage loans securitised in France, i.e. €1,384 million at December 31, 2009).

### 6.1. Objectives, activities and level of involvement

#### 6.1.1. Objectives

Compagnie de Financement Foncier buys into securitization transactions carried out by third parties, mainly European financial institutions that sell mortgage loan portfolios via such transactions.

Compagnie de Financement Foncier's main objective concerning securitization is to create and manage a diversified mortgage loan portfolio of excellent quality, outside France, in known asset classes that are well-managed by the institution: home loans and loans to local authorities. In the form of securitizations, these positions have a particularly high protection level due to the structuring of the transactions and the seniority of the lines held. Extreme risk simulations confirm that these lines are appreciably less exposed to underlying asset market developments than directly-held exposures.

Compagnie de Financement Foncier also holds internal Crédit Foncier Group securitization units representing its senior claims on Crédit Foncier's portfolio of mortgage loans granted to individuals.

### 6.1.2. Compagnie de Financement Foncier's activity

Compagnie de Financement Foncier's securitization transactions involve acquiring mortgage loan portfolios in the form of bonds or public sector debts that have received the best possible agency rating (AAA).

These assets must meet regulatory requirements that apply to *sociétés de crédit foncier*. These *senior* securities and their underlying assets are either backed by a mortgage or at least 90% public sector guarantee. All of these transactions have inherent protections (subordination of *junior* tranches, reserve funds, credit spread, and protection against exchange and interest rate risks).

In terms of the credit quality assessment, each new investment proposal is cross-checked for Compagnie de Financement Foncier by Crédit Foncier's Risk Department. The approval process for each new transaction follows a specific process to determine decision-making authority, whether for mortgage or public sector debt, established in collaboration with BPCE. This business is also regulated by quotas to ensure the credit portfolio's geographic diversity and quality.

Compagnie de Financement Foncier's business targets underlying assets with a particularly limited risk profile:

- › publicly rated senior securities (AAA on acquisition);
- › residential or mixed-use mortgage debt (10% limit for certain transactions involving underlying Italian assets);
- › public sector debt backed by a sovereign state (FFELP student loans in the United States, NHG debt in the Netherlands) or local authority debt (healthcare securitizations in Italy).

The acquisition process is based on:

- › a selection of countries and an analysis of local legal

conditions to ensure the binding nature of assignments and security guarantees *vis-à-vis* third-parties;

- › a predefined risk policy that maps out the transaction by sector, type (assignment, cash nature of portfolio transactions) and quality of the debt;
- › compliance with the specific regulatory restrictions that apply to *sociétés de crédit foncier*;
- › an analysis of each transaction with strict criteria that ultimately leads to a retention rate of only 20% of the transactions examined;
- › a systematic and independent counter analysis by the Risk Department and regular stress testing of the RMBS portfolio.

## 6.2. Compagnie de Financement Foncier's exposures to securitization transactions

### 6.2.1. Exposure to securitization units held by Compagnie de Financement Foncier

In terms of shares in securitization funds that do not belong to Crédit Foncier Group, Compagnie de Financement Foncier held a portfolio of senior securities amounting to €20,436 million at December 31, 2009.

## Compagnie de Financement Foncier's standard securitization exposures at 12/31/2009

(in millions of euros)

Type	Underlying guarantees	Total	Final risk	Total
MIX	First-rank mortgage on mixed housing (private/commercial)	374	Private individuals	12,971
RMBS	First-rank mortgage on private individual assets	12,596		
	First-rank mortgage on private individual assets + guarantee from the Dutch State	3,998	Public sector	7,465
Public sector	Italian State	10		
	Local authorities	457		
FFELP Student Loans	FFELP (US Federal government guarantee)	3,000		
<b>Total</b>		<b>20,436</b>		<b>20,436</b>

No arrears or losses were recorded in 2009 on Compagnie de Financement Foncier's securitizations portfolio.

### 6.2.2. Retained or acquired securitization positions

Securitization positions that meet the criteria set by the Financial Stability Forum are explained in detail in section 7 (G7 reporting).

Outstanding debt is analysed below in terms of the nature of securitised assets, the breakdown by rating, geographical distribution and quality (breakdown by weight).

#### Breakdown by rating

Securitization positions acquired by Compagnie de Financement Foncier are broken down in the table below by exposure category and rating.

The portion of AAA-rated securitizations dropped from 97.9% at end-2008 to 67.1% at end-2009. The downgraded transactions are still publicly rated AA and in some cases

A+, following the rating review of several Spanish RMBS and the change of Method used by Moody's for rating NHG transactions. The Spanish transactions have been the subject of close monitoring by Crédit Foncier since mid-2008, which in particular includes regular stress tests. The positions in Spain are senior tranches of RMBS securitizations that are rated AAA for 55% (€3,710 million), AA+ for 24% (€1,599 million) AA for 10% (€656 million) and A+ for 12% (€794 million).

91.5% of the overall portfolio nonetheless continues to be publicly rated in Basel II Step 1 category (AA- or higher) and is accordingly subject to an unchanged Basel II standard weighting. 100% of the portfolio is investment grade. Although only 67.1% of Compagnie's RMBS retained a Basel II AAA rating at end-2009, 88.7% still had AAA ratings from one of the three independent agencies. The A+ positions correspond to two Spanish RMBS and an NHG RMBS in the Netherlands. The BBB+ position corresponds to a healthcare securitization operation in Italy and the rating is the direct reflection of the local authority's credit quality.

(in millions of euros)

		12/31/2009	Retained or acquired securitization positions - Breakdown by rating					
Category FCT	Type FCT	AAA	AA+	AA	AA-	A+	BBB+	Total
Residential mortgage	MIX	374						374
	RMBS	9,548	1,599	656		794		12,596
<b>Total residential mortgage</b>		<b>9,922</b>	<b>1,599</b>	<b>656</b>		<b>794</b>		<b>12,971</b>
Public sector	Healthcare			49			409	457
	RMBS NHG	796	300	1,801	567	534		3,998
	Sovereign				10			10
	Student Loans FFELP	3,000						3,000
<b>Public Sector Total</b>		<b>3,796</b>	<b>300</b>	<b>1,849</b>	<b>577</b>	<b>534</b>	<b>409</b>	<b>7,465</b>
<b>Total</b>		<b>13,718</b>	<b>1,899</b>	<b>2,506</b>	<b>577</b>	<b>1,327</b>	<b>409</b>	<b>20,436</b>

MIX: securitizations of residential mortgage loans (private individuals/ professionals, more than 80% private individuals).

RMBS: securitizations of residential mortgage loans.

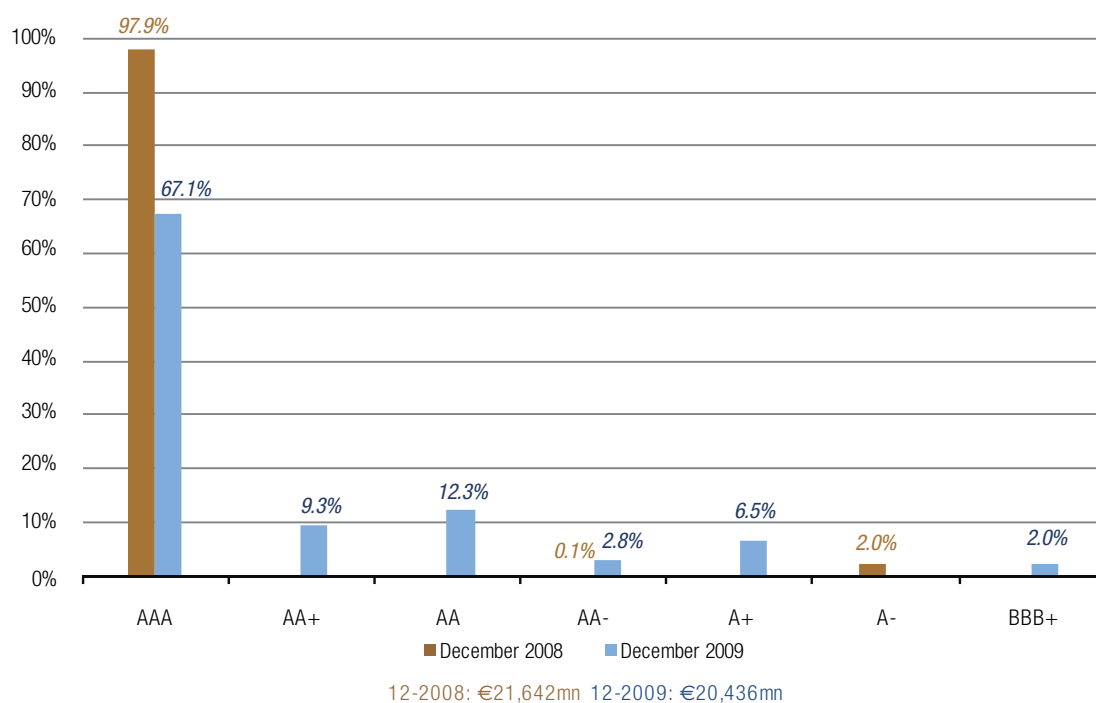
RMBS NHG: securitizations of residential mortgage loans guaranteed by NHG in the Netherlands.

Sovereign: securitization of debt explicitly guaranteed by the Italian State.

Healthcare: securitization of healthcare debt; the end risk is borne by the Italian regional authorities.

FFELP Student Loans: *senior* tranches of securitization of American student loans with a guarantee from the Federal government for at least 97% of the capital.

### Securitizations by internal rating





### Monoline enhancement of the securitizations portfolio

Only two transactions for a total of €457 million were enhanced by monoline financial guarantees. At December 31, 2009, only one security (€49 million) was still enhanced to the AA level. The other historically enhanced security (€409 million) is currently rated BBB+ based solely on its intrinsic credit quality.

### Securitizations portfolio - Breakdown by country and asset class

The Securitizations portfolio is exposed mainly to Europe (RMBS in the Netherlands, Italy and Spain) but also has exposure to the United States (only the FFELP Student Loans).

(in millions of euros)

(in millions of euros)

12/31/2009	Retained or acquired securitization positions - Breakdown by country and asset class								
Category FCT	Type FCT	Germany	Spain	USA	Greece	Italy	Netherlands	Portugal	Total
Residential mortgage	MIX					374			374
	RMBS	302	6,759		10	3,398	1,038	1,090	12,596
Total residential mortgage		302	6,759		10	3,772	1,038	1,090	12,971
Public sector	Healthcare					457			457
	RMBS NHG						3,998		3,998
	Sovereign					10			10
	Student loans FFELP			3,000					3,000
Public Sector Total				3,000		468	3,998		7,465
Total		302	6,759	3,000	10	4,239	5,035	1,090	20,436

### Stress scenario for the RMBS portfolio

All the RMBS positions held by Compagnie de Financement Foncier in Europe remain in the step one ( $\geq$ AA-) rating category, except for two Spanish securities which are rated A+. All these transactions show particularly good resistance to stress test scenarios combining a severe deterioration in default rates, a sharp fall in real estate prices, and a drastic decrease in the prepayment rate.

Only the most damaging scenarios are likely to generate ultimate cash flow deficits on some of Compagnie de Financement Foncier's RMBS positions. These assume a combination of events of such a magnitude that they appear highly unlikely: an explosion in default rates in various European markets culminating at 6% per year, or cumulatively more than 20% over the duration of these transactions, a dramatic and lasting drop in real estate prices (45% to 50% depending on the country, 37.5% for Germany) and a drastic reduction in prepayment rates (halved). These stress scenarios are applied to the most recent official indices which means that the stress applied comes on top of the fall in the real estate markets already recorded in the preceding months.

In such a "catastrophe" scenario, an ultimate cash flow deficit may occur at the transactions' maturity date, representing 0.8% of the outstanding principal of the stressed transactions. As this cash flow deficit occurs at a distant time horizon, the discounted loss of revenue represented only 0.3% at the end of 2009. Note that even after this "catastrophe" scenario, the return would still be higher than the EURIBOR and than the cost of refinancing.

### Breakdown by weighting

The very strong proportion of good quality securities, rated AAA or AA in the securitization portfolio, puts 92% of the portfolio in a 20% weighting category (using the standard approach).

(in millions of euros)

Basel II weighting using the standardised approach and ratings Basel II	Breakdown by weighting - Retained or acquired securitization positions			
	12/31/2009		12/31/2008	
	Outstanding loans	% of portfolio	Outstanding loans	% of portfolio
20% (from AA- to AAA)	18,700	92%	21,211	98%
50% (from A to A+)	1,327	6%	432	2%
100% (BBB- to BBB+)	409	2%		
<b>Total</b>	<b>20,436</b>	<b>100%</b>	<b>21,643</b>	<b>100%</b>

## 7. G7 reporting

At December 31, 2009, and in conformity with the recommendations issued by the Financial Stability Forum, Compagnie de Financement Foncier had no exposure to the following asset classes:

- › CDO and exposures to monoline insurers and other credit enhancers;
- › exposures to CMBS (Commercial mortgage-backed securities);
- › other subprime and Alt-A exposures (RMBS, loans, etc.);
- › special purpose entities;
- › leveraged buyouts.

The carrying amount of assets guaranteed by monoline insurers is provided in the table below.

These assets do not correspond to direct exposures to monoline insurers but to credit enhancements acquired from them for assets in the portfolio. Compagnie de Financement Foncier therefore has an initial claim with a counterparty other than the monoline. All of these enhancements are on underlying assets in the public sector (loans or securities) either granted directly to a sovereign state or to a local authority (see healthcare securitization transaction described in section 6.2.2.) or public institution. The overall breakdown at December 31, 2009, of the rating-enhanced underlying asset portfolio is provided below.

(in millions of euros)

12/31/2009	Intrinsic Basel II rating (before enhancement)					Total	%
Monoline	Monoline rating	AA+ to AA-	A+ to A-	BBB+ to BBB-	Not Avail.		
AMBAC	CC	11	216	409		636	12.7%
CIFG	CC	861	1,356	119	67	2,404	47.9%
FGIC	Not avail.				97	97	1.9%
FSA	AA <sup>(1)</sup>	589	1,010		49	1,648	32.9%
MBIA	BBB+ <sup>(2)</sup>	66	11		153	230	4.6%
	<b>Total</b>	<b>1,528</b>	<b>2,593</b>	<b>528</b>	<b>366</b>	<b>5,014</b>	<b>100%</b>
	%	30.5%	51.7%	10.5%	7.3%	100%	

<sup>(1)</sup> Rating of Assured Guaranty Municipal Corp (for FSA).

<sup>(2)</sup> Rating of National Public Finance Guarantee Corp (for MBIA).

These enhancing commitments are all backed by financial guarantees (and not CDS) that constitute an additional security for the enhanced asset. These guarantees are not valued and are not recognized on Compagnie de Financement Foncier's balance sheet (only the enhancement premium is recognized as an expense when the enhancement is not settled at the same time as the security or loan).

The monoline rating is the lower of the two best ratings from Standard & Poor's, Moody's and Fitch Ratings at December 31, 2009. The intrinsic rating of the underlying asset is its Basel II rating before enhancement at the same date.

The enhanced securities have good intrinsic quality: before enhancement, 30.5% of this portfolio is rated step 1 ( $\geq$ AA-) and 82.2% is rated step 2 ( $\geq$ A-).

Taking into account the restructuring undergone by the monoline sector, the rating retained for securities initially enhanced by FSA is now that of Assured Guaranty Municipal Corp. This monoline was rated Aa3 (Moody's), AAA (S&P) and AA (Fitch) as of December 31, 2009. Let us note that Fitch's rating was then deleted on February 24, 2010. In the same way, those enhanced by MBIA are now assigned the rating of National Public Finance Guarantee Corporation, the entity that now guarantees North American local authorities.

Exposures in the BBB category correspond to commitments with the Hungarian government, a securitizations position in Italy (security backed by healthcare receivables) and a transaction in the French local authorities sector. The score of 6 obtained by the Ecolocale internal model used for French local authorities is considered equivalent to a BBB rating.

The 7.3% classified as "Unavailable" do not have a Basel II intrinsic rating but are assessed by Crédit Foncier as being investment grade (*i.e.*  $\geq$  BBB-). These essentially concern direct commitments on public sector entities in Switzerland and the United States (€317 million) and a healthcare ABS on an Italian regional authority (€49 million).

## 8. Asset & liability management risks and market risks

Compagnie de Financement Foncier's business in the markets is limited to a banking portfolio and financial compartments related to asset/liability hedges and medium to long-term investments. It does not engage in proprietary trading and does not have any positions in a trading portfolio. As a result, Compagnie de Financement Foncier is not subject to market risk.

Crédit Foncier provides Compagnie de Financement

Foncier with risk monitoring and management and ALM services, pursuant to an agreement. The management rules are set forth in Compagnie de Financement Foncier's Financial Charter.

Compagnie de Financement Foncier's business practices protect it against exchange rate and interest rate risk: any non-euro denominated asset acquisition or debt issue is systematically converted to variable rates and swapped into euros if necessary.

### 8.1. Organisation of ALM risk monitoring

Interest rate, liquidity and foreign exchange risk management relies on decision-making bodies, based on three committees:

Compagnie de Financement Foncier's **Asset and Liability Management Committee** is the decision-making body responsible for managing financial risks within the limits set by Compagnie de Financement Foncier's general management, after consultation with the **Risk Committee**, and according to Group CFF rules. It meets on a quarterly basis and is chaired by Compagnie de Financement Foncier's Chief Executive Officer. Its members include the CFF Chief Risk Officer and other senior executives.

Operational monitoring of the various risks related to Asset and Liability Management is performed through the **Interest Rate Committee** by the CFF's ALM Department, an independent section of CFF's Financial Operations Department. This organization ensures a strict separation between the reporting function and the order execution function, which is under the sole responsibility of the trading desk of CFF's Financial Markets Department.

### 8.2. Methodology used for assessing liquidity, interest rate, and exchange rate risks

Interest rate, liquidity, and exchange rate risks are measured using different, complementary methods according to the scope of analysis. These consist of:

- › a static approach that covers on- and off-balance sheet transactions existing at the closing date. Static processing factors in the stock of transactions and all flows from contracted commitments;
- › a dynamic approach taking into account business forecasts. Dynamic processing takes into account likely events resulting from the firm or optional underwriting of commitments and uncertain events resulting from future activities.

Within the scope of these two approaches, the main assumptions retained are the propensity of clients to repay before maturity (prepayment) or to renegotiate the terms of the loan (RE). Prepayment and RE assumptions are applied to each type of loan, according to:

- › the sectors concerned (subsidised or private), the type of loan (direct or through securitization funds), the type of customer (private individuals, professional or local authorities) and the type of interest rate (fixed, adjustable or variable);
- › different principles for each type of client for the behaviour to be modelled.

The prepayment and RE assumptions are reconciled with the actual rates at each closing date to assess their appropriateness.

Balance sheet items without a contractual due date, such as items on the top of the balance sheet (shareholders' equity, reserves) are subject to specific maturity rules proposed by the ALM Department and approved by Compagnie de Financement Foncier's ALM Committee. Asset & Liability Management has also set up back testing procedures for a *posteriori* verification of the actual flow of this data to confirm the adopted agreements.

### 8.3. Liquidity risk monitoring

#### *Organisation of Compagnie de Financement Foncier's refinancing*

The bulk of Compagnie de Financement Foncier's resources come from medium - and long-term issues of covered bonds (*obligations foncières*).

Its additional resources consist of a significant securities and loan portfolio (approximately €33 billion in nominal), that can be refinanced by the ECB or by guaranteed loans on the banking market.

In the fourth quarter of 2009, Compagnie de Financement Foncier was able to refinance assets with the ECB for an amount of €3 billion.

#### *Monitoring liquidity risk*

Liquidity risk is the risk that Compagnie de Financement Foncier may not be able to pay its short-term liabilities.

Compagnie de Financement Foncier's ALM rules ensure that its exposure to liquidity risk remains very limited. Compagnie de Financement Foncier is committed

to maintaining sufficient short-term liquidity to cover its privileged debt commitments for a period of one year.

In addition, some of its assets, known as replacement securities, consist of safe and liquid investments, as required by law for *sociétés de crédit foncier*, and are very short-term, easily tradable or eligible for refinancing with the ECB.

In addition, a large part of its investment portfolio is negotiable or directly eligible for refinancing with the ECB. At December 31, 2009, Compagnie de Financement Foncier had €9.4 billion in replacement securities and holds €33 billion in securities and loans eligible for refinancing with central banks.

Liquidity needs are analysed using the dual static and dynamic approach. They are managed by a system of internal limits, approved annually by Compagnie de Financement Foncier's ALM Committee.

With the static approach, liquidity monitoring ensures that medium-term liquidity management does not concentrate liquidity requirements excessively over certain periods. The main indicator used is the static liquidity gap that takes into account Compagnie de Financement Foncier's capacity to raise liquidity over the next 20 years. CFF's ALM also provides a report that explains changes to Compagnie de Financement Foncier's static liquidity gaps from one quarter to the next.

#### *Compliance with limits*

Compagnie de Financement Foncier's regulatory liquidity ratio<sup>(2)</sup> averaged 1898% in 2009.

Compagnie de Financement Foncier also determines the terms of its assets and liabilities to ensure that their maturities are properly matched and is committed to a maximum spread of two years. At December 31, 2009, this rule was still complied with, as the average asset duration was 6.44 years and 6.45 years for liabilities.

<sup>(2)</sup> BAFI 4005 statement.

## 8.4. Monitoring overall interest rate risk

### Management methods

Interest rate risk represents the potential risk of instability in Compagnie de Financement Foncier's income or asset values caused by unfavourable balance sheet and off-balance sheet exposures to interest rate fluctuations.

Taking into account the various hedging mechanisms put in place by Compagnie de Financement Foncier when transactions are entered into, exposure to interest rate risk is limited to the possible distortion of the hedging transaction due to unknown events at origination and occurring over its expected life (mainly prepayments).

Compagnie de Financement Foncier's strict interest rate risk management rules require that its asset acquisitions and transactions with customers be systematically covered by hedges in euro that convert funds raised with fixed rates to floating rates.

Macro-hedging strategies are decided by Compagnie de Financement Foncier's ALM Committee, implemented by CFF's ALM Department and executed by CFF's Financial Operations Department's Treasury, which is Compagnie de Financement Foncier's sole point of entry to the market. Between two ALM Committee meetings, *ad hoc* committees manage these hedging strategies operationally.

### Monitoring of interest rate risk

Compagnie de Financement Foncier has adopted a static approach for measuring risk and the sensitivity of results. The two main indicators are the gaps in rates fixed globally and by bracket, with risks being managed by limits on fixed interest rates and alert thresholds for adjustable interest rates.

The fixed interest rate gap is calculated from total outstanding loans both on and off the balance sheet at the closing date taking into account predefined assumptions and rules for asset and liability flows.

Each quarter, Compagnie de Financement Foncier analyses changes in the net present value of estimated results over the next 10 years under different stress scenarios. All of these indicators are monitored quarterly by the ALM Committee.

### Compliance with limits

Compagnie de Financement Foncier strives to maintain the level of its rate gaps within the limits defined by period of observation. These gaps measure the difference between expenditures and resources at fixed rates over time without new asset acquisitions or new issues. The current limits for rate gaps are:

Horizon	Limits as a percentage of the balance sheet
Less than 2 years	2%
2 to 5 years	3%
5 to 10 years	5%
More than 10 years	10%

As in previous years, all the limits were respected throughout 2009.

Exposure within each rate bracket is also monitored by a system of alert thresholds.

## 8.5. Monitoring of foreign exchange risk

Foreign exchange risk arises from exchange rate movements in currencies in which Compagnie de Financement Foncier's assets and liabilities are denominated that negatively affect the value of assets or commitments denominated in foreign currencies.

Compagnie de Financement Foncier does not maintain any open foreign exchange positions.

Its policy in this area remains unchanged and consists of not assuming any foreign exchange risk. This means that all assets and liabilities denominated in currencies other than the euro are systematically swapped as soon as they are recognised on the balance sheet. This hedging can be achieved using exchange rate swaps, term loans or currency swaps.

Residual differences arising from the adjustment of balance sheet positions, particularly those created by margins, are hedged monthly.

They are monitored by the Financial Operations Department's Ongoing Control, which centralises foreign exchange positions at the end of the month, by currency and by total amounts of foreign currencies.

The exposure limit for Compagnie de Financement Foncier has been set at €5 million for any combination of different currencies and €3 million for any single currency.

Based on data provided by the middle office, a quarterly report on compliance with these limits is presented to the ALM Committee.

As in previous years, all these limits were complied with throughout 2009.

## 9. Operational risk

Compagnie de Financement Foncier's operational risk management is performed by Crédit Foncier under service agreements signed between the two institutions. The greater part of operational risk is linked to the services outsourced to the parent company. Compagnie de Financement Foncier's operational risks are limited to those inherent in its debt acquisition and refinancing activities and to the size in terms of gross value of the balance sheet and off balance sheet movements (hedged, etc.) linked to its business model.

Operational risk notably includes accounting, legal, regulatory and tax risks, as well as risks relating to staff, property and information system security.

The guidelines and rules of governance for operational risk management are as follows:

### 9.1. General approach

All Crédit Foncier Group's "Operational Risk" processes are managed by its Risk Department, which relies on directives, methods and tools employed by BPCE's Risk Department.

### 9.2. Governance

Operational risk management is part of Crédit Foncier Group's risk structure. It is managed by a specialised unit that is separate from operating activities and attached to the Risk Department. This unit reports to Compagnie de Financement Foncier's executive bodies and those responsible for controlling Compagnie de Financement Foncier.

### 9.3. Management environment

#### *Management network*

Operational risk monitoring and management is delegated to the managers of the various departments. Each manager relies on a network of correspondents coordinated by a manager, in close contact with the Risk Department, and carries out an annual self-assessment of the system.

At the end of 2009, 332 employees were involved in operational risk monitoring and management.

#### *Methods and tools*

The method relies on three key elements that are part of a repetitive, interactive approach:

- › mapping of operational risk events: each business line identifies and assesses the main operational risks it is vulnerable to, as well as the preventive and corrective measures that exist or need to be taken. The map is updated whenever processes or the organisational structure changes and in any case at least once a year;
- › recording of risk events in a dedicated software application as soon as they occur; monitoring of corrective action plans; analysis of changes in risk exposure and the resulting losses;
- › setting up indicators in the main risk zones that warn when likely to enter a critical phase.

This approach to operational risk is supplemented by a periodic review of insurance coverage in comparison with incident maps and reports.

Lastly, for calculating capital adequacy requirements, Crédit Foncier currently applies the Basel II standard method. At December 31, 2009, the consolidated capital requirement (i.e. including Compagnie de Financement Foncier) in respect of operational risk coverage was €131 million, virtually unchanged relative to 2008.

## 10. Other risks

### 10.1. Settlement risk

Most cash transactions for Compagnie de Financement Foncier are carried out in connection with ALM activities. Transactions are centralised and processed by the CFF Treasury back office.

This unit provides:

- › cash flow management (inflows and outflows);
- › daily cash flow forecasting.

A manager in charge of an independent unit oversees cash account management and auditing, in keeping with the principle of segregation of duties.

Compagnie de Financement Foncier has direct access to the market settlement systems for large transactions in euro; it is a member of the European Target system. For transactions in foreign currencies and small transactions in euro, it has accounts with BPCE.

Daily procedures for settlement risk monitoring include:

- › preparation of forecast financial flow profiles;
- › daily reconciliation of individual flows with forecast flows.

In the event of the definitive default of a settlement counterparty and a potentially negative position with Banque de France, hedging mechanisms are put in place (interbank loan or end-of-day loan facility provided by the European Central Bank).

Compagnie de Financement Foncier has a cash flow continuity plan under an agreement with BPCE (see section on BCP in section 10.3 - other risks).

### 10.2. Non-compliance risk

Compliance at Compagnie de Financement Foncier is ensured by CFF in accordance with the terms of agreements (framework agreement and internal control and compliance agreement) signed by the two entities, and by the delegation of powers of Compagnie de Financement Foncier's Chief Executive Officer to the Chief Compliance Officer of Crédit Foncier de France.

Non-compliance risks are monitored by the Compliance and Ongoing Audit & Control Department, which is divided into four separate units: compliance, financial security, mediation and ongoing control.

#### *Non-compliance risk monitoring and measurement*

Non-compliance risk monitoring and control is based on the approach used by BPCE and covers all of Crédit Foncier's business lines. It is supplemented by the risk management system that covers all business lines and the major risks they are exposed to.

#### *Non-compliance risk identification and monitoring*

Non-compliance risks are identified using a dual approach:

- › analysis of the results of first level controls focusing on the non-compliance issues listed in the compliance guidelines or resulting from thematic approaches;
- › operational risk reports.

#### *Supervision of non-compliance risk*

Non-compliance risk audits carried out in 2009 mainly concerned compliance with the provisions of the French Consumer Code relating to retail property loans and KYC issues in the corporate segment. The Specific Compliance Controls carried out at Compagnie de Financement Foncier related in particular to compliance with the regulations applicable to the acquisition of debt and the updating of the value of guarantees. At the end of 2009, compliance checks on Compagnie de Financement Foncier's financial transactions were integrated into BPCE's permanent control tool. This system will be fully operational as from the first quarter of 2010.

#### *Monitoring of dysfunctions*

Specific action plans are drawn up by the operational units to address dysfunctions identified during audits or revealed by repeated operational risk incidents. These action plans are monitored by the compliance officers of the departments concerned. These dysfunctions and the progress of the corresponding action plans are monitored by the Compliance and Ongoing Audit & Control Department, which reports on them to CFF's Internal Control Committee and Compagnie de Financement Foncier's Audit Committee.



### *Approval of new products or services*

The risk of non-compliance is integrated into the approval process for new products and services.

### *Ethics - Market abuse - Conflicts of interest*

The Financial ethical standards approach was updated in 2009 in collaboration with BPCE's Compliance and financial security Department, in particular to incorporate the regulations arising from the Market abuse Directive.

### *Prevention of money laundering and terrorist financing*

The CFF Group fights against money laundering and terrorist financing via group-wide control measures at every level of the banking and lending process.

## **10.3. Other risks**

### *Insurance*

As Compagnie de Financement Foncier's loan servicer, Crédit Foncier de France is insured against the risks it is exposed to. Under service agreements signed with Compagnie de Financement Foncier, CFF takes out insurance to cover Compagnie de Financement Foncier against the following risks:

- › Banking business losses;
- › IT fraud and malicious acts;
- › Professional civil liability;
- › Civil liability of senior executives and corporate officers.

### *Outsourced operations*

The essential outsourced services, as defined by Article 37 of CRBF Regulation No. 97-02 as modified, are all those defined in agreements signed between CFF and Compagnie de Financement Foncier.

### *Information technology risk*

Given the provisions ruling its business, the Compagnie de Financement Foncier makes extensive use of human and technical resources provided by Crédit Foncier. Accordingly, Compagnie de Financement Foncier fully benefits from the enhancements to the Crédit Foncier IT system.

### *Organisation of Business Continuity Plan (BCP)*

Under the service agreements between Crédit Foncier and Compagnie de Financement Foncier, business continuity at Compagnie de Financement Foncier is covered by Crédit Foncier's business continuity plan. All aspects of this plan are maintained in operating conditions as required by the regulations. Its capacity to enable Compagnie de Financement Foncier to fulfil the obligations stipulated in Article 37-2 of CRBF 97-02 regulation as amended is certified by a letter from Crédit Foncier's BCP manager to Compagnie de Financement Foncier's BCP manager.

### *Legal risks*

The business characteristics and management rules specific to Compagnie de Financement Foncier do not expose it to major legal risks.





Chairman's report  
on the conditions under which  
the Board prepares and organises  
the internal control procedures  
established by the company

(Pursuant to the provisions of Articles 117 and 120  
of the Financial Security law)

## Conditions for preparing and organising the tasks of the Board of Directors

### Members of the Board

At December 31, 2009, the Board of Directors of Compagnie de Financement Foncier consists of eight members, including the Chairman of the Board (who also assumed the office of Chief Executive Officer on December 14, 2007) and the Deputy Chief Executive Officer. Members of the Board are listed in an attached table (page 63). Two Statutory Auditors and the company's Specific Controller also attend Board meetings, depending on the items on the agenda.

### Board meetings

The legal secretary to the Board of Directors is provided by the General Secretariat of Crédit Foncier de France and establishes, in consultation with the Executive Officers, the agenda for the meetings as well as the information files distributed to the members documenting the various issues to be discussed. This department also drafts the minutes and keeps the legal registers. Internal regulations defining operational procedures for the Board have not been adopted.

Compagnie de Financement Foncier's Board of Directors meets at least once every three months with a set agenda. Special items can be added to the agenda depending on the period. Items discussed include:

- › approval of the accounts for the previous year;
- › management forecasts;
- › quarterly report of bond issues and analysis of the performance of *obligations foncières* issued by Compagnie de Financement Foncier on the primary and secondary markets;
- › determining, at the end of each quarter, for the following quarter, the program for issuing *obligations foncières* and other preferred debt which requires certification by the Specific Controller;
- › delegations of the powers necessary to contract these issues;
- › half-year accounts;
- › authorisation of any major transaction involving the company or any significant event affecting the company (governance, changes to bylaws, agreements with the parent company, update of EMTN programs, debt issues that exceed limits of delegated powers, etc.);
- › reports on internal control and risk measurement and

assessment of monitoring pursuant to Articles 42 and 43 of CRB Regulation No. 97-02 and of Annual Report of Specific Controller;

- › information intended for publication concerning the quality of the assets as well as the congruence of maturity and rates for the company's assets and liabilities in accordance with Article 13 of CRB Regulation No. 99-10.;
- › presentation of the results from the ongoing, periodic and compliance controls.

The records and documents submitted to the Board provide it with clear, comprehensive and accurate information about the company and its evolution.

The Board of Directors has not limited the powers of the Chief Executive Officer in any way. The Chief Executive Officer is vested with the broadest powers to act in all circumstances on behalf of the company, within the limits of the corporate purpose, and subject to the powers expressly attributed by law to Shareholders' Meetings and the special powers of the Board of Directors. He represents the company in its relationships with third parties. The Deputy CEO is vested with the same powers as the Chief Executive Officer.

In 2009, the Board of Directors of Compagnie de Financement Foncier met five times.

Since fiscal year 2005, Directors have benefited from directors' fees in accordance with the rules recommended by CE Participations, (formerly named CNCE).

The amount of the Directors' fees is predetermined for each meeting and their overturn depends on their physical attendance at the Board. The amount is annually capped.

### Committees and audits

Compagnie de Financement Foncier has an Audit Committee. The internal regulations governing the operating procedures of this Audit Committee were approved by the Board of Directors in its meeting on June 29, 2004.

The Audit Committee's primary missions are to:

- › check the relevance and consistency of the accounting methods used to prepare the company's financial statements;
- › assess internal controls;
- › monitor risk levels;
- › monitor the quality of the information system.

To carry out its missions, the Audit Committee:

- › examines drafts of the annual and half-year financial statements and any other accounting information, if need be, that will be published or disclosed in connection with a specific transaction;
- › examines the Specific Controller's annual report;
- › analyses the results of the ALM system and management control.

As of December 31, 2009, the Audit Committee had four members:

- › Mr Stéphane CAMINATI, Group Director of Management Control for BPCE who presides the Audit Committee;
- › Mr Nicolas DARBO, Director of Planning & Development of Crédit Foncier de France;
- › Mr Alain DENIZOT, Chairman of the Executive Board of Caisse d'Épargne de Picardie;
- › Mr Djamel SEOUDI, Secretary General of Crédit Foncier de France.

Mr Thierry DUFOUR, Chairman and Chief Executive Officer, is in charge of ongoing and periodic controls and of compliance at Compagnie de Financement Foncier.

This appointment is a result of requirements set out in Article 7.1. of CRBF Regulation No. 97-02 as modified and the principle retained by the Board of Crédit Foncier de France according to which the executive bodies of credit institution subsidiaries fulfil their ongoing and periodic controls and compliance responsibilities by drawing on the resources of their parent company.

### **Participation of shareholders at the Shareholders' Meeting**

The Shareholders' Meeting is organised in accordance with French legislative and regulatory measures.

Prior to the convening of the Shareholders' Meeting, the company publishes a meeting notice in BALO at least thirty-five days before the date of the meeting.

Shareholders, whose securities are all registered, are convened by individual correspondence, to the Shareholders' Meeting.

All shareholders may attend the Shareholders' Meeting under the conditions set out by law.

There is no measure attributing a right to vote more than once.

### **Principals and rules determined by the Board of Directors for establishing the remuneration of Corporate Officers**

The remuneration of the Chief Executive Officer and the Deputy Chief Executive Officer is comprised of a fixed part and a variable part, which is equal to that of the fixed part. The amount of the variable part allocated to the Chief Executive Officer depends on Groupe BPCE profits and for the Deputy Chief Executive Officer the variable part depends on the extent to which his objectives have been attained.

### **Internal control procedures**

#### **Regulatory framework in connection with the Groupe BPCE**

As both a credit institution and a *société de crédit foncier*, Compagnie de Financement Foncier is subject to a legislative and regulatory framework that comprehensively governs its operations and controls its activities.

- › As a credit institution, this framework primarily stems from the French Monetary and Financial Code (CMF) and the regulations set forth by the Banking and Finance Regulatory Committee (CRBF), and in particular, with regards to internal controls, by CRBF Regulation No. 97-02, last amended by the decree of March 31, 2005, July 2, 2007, September 11, 2008 and January 14, 2009.

- › As a *société de crédit foncier*, Compagnie de Financement Foncier is subject to specific provisions in Articles L. 515-13 to L. 515-33 in particular of the CMF and in secondary legislation (Articles R. 515-2 to 14 of the CMF, CRBF Regulation No. 99-10, etc.). This legislative and regulatory framework governing *sociétés de crédit foncier* was modernised in 2007.

This framework requires the company to appoint a Specific Controller approved by the Banking Commission. This person is in charge of monitoring compliance with legal requirements: asset eligibility, overcollateralisation, the congruence of rates and maturity and the valuation of assets or underlying securities. The Controller drafts an annual report which is then submitted to the Banking Commission and executive officers.

In accordance with the regulations, Compagnie de Financement Foncier's executive management is responsible for establishing internal controls and implementing them. The internal controls encompass all procedures, systems and controls required to achieve Company objectives, comply with laws, regulations and general or the CFF Group rules and ensure that all risks are properly managed.

In accordance with the legal framework that provides a privilege for holders of *obligations foncières*, the law stipulates that *sociétés de crédit foncier* may not have their own resources.

The company thus relies on the resources of its parent company to carry out its activities. Crédit Foncier de France provides the company with a number of services, as described in a set of agreements that were updated in 2006 and early 2007, including internal controls and compliance services.

These services must be subjected to controls according to the amended Regulation 97-02 of Article 37-2 (1), which requires that the service provider's internal control system be adequate. Executive management is responsible for ensuring that controls be adequate as stated in Regulation 97-02: "outsourced services shall not dispense executive management of its responsibilities".

These outsourced activities are performed in accordance with ongoing and periodic controls implemented by the Crédit Foncier. These controls comply with the rules and standards validated by Caisse Nationale des Caisses d'Epargne (CNCE) at their time, and by BPCE today.

As the central entity, BPCE determines ongoing and periodic control requirements for its entities. Crédit Foncier de France affiliated with BPCE is subject to the BPCE's system of controls, including its resources, organisation and guidelines to follow.

Crédit Foncier is also periodically audited by BPCE's General Inspection Department in order to assess its control systems.

### ***Organisation of internal controls: connections and coherence of roles among different actors***

The effectiveness of internal controls depends on a clear division of the roles and responsibilities of different governance structures as well as on that of ongoing operational control entities and finally on the arrangements made for periodic controls.

#### ***Corporate Governance***

Compagnie de Financement Foncier's executive management is responsible for managing the company. It is in charge of managing risks and internal controls including ongoing controls. The Board of Directors exercises control over the company's management and orients its strategy. It is involved in the most important decisions and is kept regularly informed of indicator developments. Its work is prepared by the Audit Committee, which carries out the essential tasks of ensuring that relevant and consistent accounting methods are used to prepare the company's financial statements and assessing the quality of internal controls, including the consistency of measurement, monitoring and risk management systems, and, if necessary, propose an appropriate course of action.

#### ***Ongoing control***

Ongoing controls depend on:

- › first level operational controls which are the responsibility of the Departments in charge of processing operations;
- › controls performed by dedicated units within the structures, or even by specialised structures.

The ongoing control system of the Crédit Foncier Group is highly structured: a formal system, known as the Risk Control System (RCS) "Dispositif de Maîtrise des Risques", was created in each unit.

They also rely on the organisational separation of functions and powers.

Internal controls within the Crédit Foncier Group are divided into different levels:

First level ongoing operational control is the job of the operating units' staff or managers as well as designated units. They are listed in procedural and operating manuals. Unit heads are responsible for producing and updating these manuals.

The largest departments have dedicated control units that are responsible for implementing and performing first level ongoing controls and qualifying control levels for operational processes.

According to this aspect, the main directions or specific entities are :

- › “Account Auditing” Department: in the Accounting Department, it is in charge (excluding any operational activity) of realizing audits and controls on the accounting and regulatory data produced by Crédit Foncier and its subsidiaries;
- › responsible for security of information systems: the role of Chief Security Information Systems (CSIS) of the Groupe Crédit Foncier is directly attached to a member of the Board of Executive Officers.

Its tasks are threefold:

- definition of security policy information systems,
- animation of a network of entities within the company,
- assistance and advice from the Branch computer security.

- › responsible of the Plan Business Continuity: reporting directly to a member of the Board, its mission is to ensure the updating and maintenance in operational conditions of the plan developed to allow the continued activity of the Credit Foncier land after sustaining a major risk.

Crédit Foncier departments have designated positions dedicated to Compagnie de Financement Foncier.

Second level ongoing controls are the responsibility of non-operating units:

- › Risk Department: this entity is responsible for measuring, managing and monitoring credit and counterparty risks as well as financial and operational risk;
- › Compliance and Ongoing Control Department: this department is responsible for controlling non-compliance risks and investment services. It is the Tracfin correspondent for the Compagnie de Financement Foncier. It also covers

ethical activities (ethics, money laundering and financing terrorist activities).

The Internal Control Committee, which is the upper Committee of the Risk and Compliance Departments, was created in late 2007.

Its main missions are to:

- › ensure that ongoing controls for business activities are comprehensive and well-organised and that monitoring and risk management systems are effective (including RCS oversight);
- › coordinate actions to manage risks, ensure compliance of internal procedures and transactions, and ensure the quality and availability of information processed by the IT as well as the security of such systems;
- › oversee the resolution of malfunctions identified by the General Inspection Department and the implementation of its recommendations.

Chaired by the Chief Executive Officer of Crédit Foncier, it meets every month and comprises representatives of control functions. The minutes of its meetings are submitted to Crédit Foncier's Audit Committee.

#### The specific role of the “SCF and VMG Oversight Department”

For Compagnie de Financement Foncier: the “SCF and VMG Oversight” Department, part of the Financial Operations Department, is responsible for the oversight and ongoing control of outsourced services and for verifying that the agreements between the two establishments are properly enforced.

#### Organisational principles for delegations and the separation of functions

##### **Principle of the separation of functions**

- › The units in charge of transactional commitments and the units in charge of their accounting approval, settlement as well as oversight and control of related risks are independent from one another;
- › the independence of the control units *vis-à-vis* the operating units is ensured by:
  - oversight of counterparty, financial and transactional risks by the Risk Department;
  - accounting controls by the General Accounting Department and its dedicated unit;
  - ethics and compliance functions of the Department of Compliance and ongoing control;

- periodic control functions of the General Inspection Department.

#### Delegation system for initiating and monitoring transactions

The delegation system at Crédit Foncier ensures that decisions, based on the magnitude of the risks they present, are made at an appropriate level within the company (involvement of the competent decision-making committees or internal delegation systems).

Specialised committees are responsible for decisions that are not made by the executive board and that exceed the delegations granted to transaction managers. Among these committees, the most important are:

- › National Commitment Committee who authorises commitments exceeding the powers delegated to the operating units and Business Committees;
- › Risk Committee who monitors overall changes in counterparty, financial and transactional risks and the ensuing decisions (delegations, limits and scoring rules); in 2008, a stand-alone Risk Committee for Compagnie de Financement Foncier was created. Its mission is to monitor all of Compagnie de Financement Foncier's risks;
- › National Committee of Sensitive Operations who manages strategy and decisions regarding substantial debts that are either in difficulty or exposed to risk;
- › Asset and Liability Management Committee who analyses ALM indicators and ensuing decisions; a stand-alone Asset and Liability Management Committee for Compagnie de Financement Foncier also meets quarterly to review liquidity and rate positions as well as compliance with limits set with the rating agencies;
- › Agreement Oversight Committee who oversees the interpretation and application of agreements, verifies that the outcome is fair and suggests any necessary changes;
- › The Management Committee of Compagnie is an offshoot of the Agreements Monitoring Committee, and provides operational oversight of Compagnie de Financement Foncier management and proposes solutions to problems, if any, related to compliance with the agreements.

#### Risk oversight measurement

Risk assessments, submitted to Compagnie de Financement Foncier's Executive Board through periodic activity reports and to committees, are regularly reported to the Audit Committee as well as to the Board of Directors of Compagnie de Financement Foncier.

#### *Periodic control carried out by the General Inspection Department*

#### *Organisation and resources of the General Inspection Department*

Evaluating ongoing control systems is the responsibility of the General Inspection Department's management team, which had 24 staff members at year-end 2009. The Head of the General Inspection Department reports on its missions to the Chief Executive Officer of Compagnie de Financement Foncier and to its Audit Committee. Information on its activities is made available to the Network Head (BPCE) and the Banking Commission. An annual audit plan for Crédit Foncier is prepared by the General Inspection Department, together with the BPCE General Inspection Department. In a similar fashion, an annual audit plan specific to Compagnie is prepared and approved by the Compagnie de Financement Foncier's Executive Board upon approval by the Audit Committee.

The plan falls under the responsibility of the General Inspection Department, and is covered by a multi-annual plan that takes into account a maximum audit cycle of three years. The shareholder's auditing unit helps draft the audit plan.

During the year, special investigations or missions may be conducted at the behest of the Chief Executive Officer.

The missions and follow-up on their recommendations are reported to the Executive Board, Audit Committee and if necessary Compagnie de Financement Foncier's Board of Directors if they are called for in the company's annual audit plan or Crédit Foncier's annual audit plan and may have an impact on Compagnie de Financement Foncier's activities.

Compagnie de Financement Foncier's service provider, Crédit Foncier, carries out its missions as stipulated by the various agreements signed between the two companies. Most of the missions are reported to the executive and deliberative bodies.

#### *Inspection assignments conducted in 2009*

Most assignments were included in the annual audit plan approved by Crédit Foncier's Audit Committee on December 2, 2008, and concerned various sectors of the Crédit Foncier Group: mortgage loans, corporate financing, support activities and subsidiaries.

Assignments carried out in 2009 that specifically concerned Compagnie de Financement Foncier focused mainly on process and regulatory ratios.

In addition, several assignments were carried out by Central body's General Inspection Department, notably on the Basel II pre-approval in the field of individual loans and compliance.

#### *Follow-up on recommendations from previous assignments*

The General Inspection's and other control entities' (Commission bancaire, Autorité des Marchés Financiers, General Inspection of the Central body and the Statutory Auditors) recommendations are administered in a central database.

The follow-up, carried out on a quarterly basis by the General Inspection, shows the audited item and a percentage of the recommendation's completion or a new deadline with an action plan. The responses must be backed up by documentation justifying the reported state of advancement.

These actions taken by audited units are also subject to consistency controls by the General Inspection Department. A summary is then forwarded to the Executive Management and the Audit Committee.

A new measure was applied during the last quarter of 2008 in order to significantly bolster the overall efficiency of the process for implementing recommendations.

This change has come as part of a framework measure approved by the Executive Management and includes:

› on a "technical and resources" level:

- publishing on a regular basis complete statistics (in place since September 2008),
- implementing a new, central database management application (Spring 2009) on the Intranet, after having first consolidated the data in the database,
- reinforcing resources dedicated to following-up on recommendations.

› on a "follow-up" level:

- continuing to apply the principal whereby a follow-up is ensured, on a declarative basis by Departments and Business Lines (*Directions et Métiers*), of the rate of implementation of the recommendations and the setting of new deadlines when needed,

- a more precise nomenclature for rating the recommendation by creating the idea of a "key recommendations" classification grouping essential 4 and 3-star recommendations, which are subject to a reinforced follow-up and fall under the direct responsibility of the functional and operational directors,
- a report is established in association with the audited unit six months after the responses to the report with the audited unit have been submitted,
- when a recommendation deadline is reached a followup is ensured, in practice by monthly exchanges, on specific dates,
- a review, every 4 months, with the *Direction de Pôle* and the General Inspection on the state of progress of the implementation of the recommendations by the Departments and Business Lines (*Directions et Métiers*),
- the Audit Committee of Compagnie de Financement Foncier and the Internal Control Committee of Crédit Foncier, who can intervene in the event the implementation of a recommendation is significantly behind schedule, are informed of progress on a monthly basis,
- quarterly information of the Audit Committee (unchanged).

At the time of the assignments, the auditors carry out an on-site follow-up of past recommendations and reiterate them if necessary.

The recommendations concerning the Compagnie de Financement Foncier are also subject to a specific follow-up by Compagnie de Financement Foncier's Management Committee.

#### ***Procedures of Audit of accounting and financial statements***

##### ***Role of BPCE***

The ex-CNCE, now Groupe BPCE Regulations and Consolidation Department is responsible for standardisation, supervision, appraisals, oversight, forecasting, regulatory monitoring and representation of the Group for prudential, accounting and fiscal matters.

In this capacity, it defines and updates the Group's accounting indicators through accounting rules and methods applicable to all Group institutions. These rules and methods include accounting and generic operating forms and are summarised in a manual used by all the Group's institutions, which is updated regularly based on



changes in accounting regulations. Furthermore, the rules for preparing half-year and annual financial statements are communicated in a specific announcement in order to harmonise accounting procedures and statements among the different companies in the Group.

#### *Compagnie de Financement Foncier Audit Committee*

Accounting and financial statements (annual and half-year financial statements and notes) are presented to the Audit Committee. This committee analyses the statements, receives the conclusions of the auditors and submits a report on its work to the Board of Directors.

#### *Organisation of the accounting function at the Crédit Foncier Group*

Accounting at the Crédit Foncier Group is performed by the General Accounting Department. It is responsible for preparing balance sheets, income statements, notes to the financial statements and statutory reports of Compagnie de Financement Foncier, as an entity of the Group which does not have an Accounting Department on its own. concerning the different companies in the Group.

The Crédit Foncier's General Accounting Department, assigned to the Deputy Chief Executive Officer, is organized as follows:

Sections	Main responsibilities within the accounting system	Main responsibilities in the preparation of synthetic data
Reporting and synthesis	<b>Company financial statements:</b> <ul style="list-style-type: none"> <li>- keeping the accounts of Crédit Foncier, Compagnie de Financement and Vauban Mobilisations Garanties and preparation of company financial statements</li> <li>- tax returns</li> <li>- Regulatory disclosures at company level (BAFI, Statistiques Monétaires, etc.)</li> <li>- Calculation of regulatory ratios at company level (liquidity) and of specific ratios for Compagnie de Financement Foncier</li> </ul>	<ul style="list-style-type: none"> <li>- Balance sheets, income statements and notes to the financial statements of these entities</li> <li>- Monthly synthetic income statements of the Group's two main entities (CFF, Compagnie de Financement Foncier)</li> </ul>
	<b>Consolidated financial statements:</b> <ul style="list-style-type: none"> <li>- centralisation of consolidation packages</li> <li>- preparation of the consolidated financial statements</li> <li>- definition and implementation of consolidation procedures (use of BPCE's Magnitude software application)</li> <li>- Prudential disclosure at consolidated level to Commission Bancaire (via BPCE, central body)</li> </ul>	<ul style="list-style-type: none"> <li>- Balance sheets, income statements and notes to the financial statements of the Crédit Foncier group</li> <li>- Group's quarterly consolidated results</li> <li>- Consolidated monthly results under French GAAP</li> <li>- Reporting to the Commission Bancaire (via BPCE, the central body)</li> </ul>
Operational accounting	<ul style="list-style-type: none"> <li>- Supervision and control of the functioning of interfaces between the loan management chains, the accounting software and the reporting databases</li> <li>- Configuration of accounting charts</li> <li>- Documentation of detailed accounting charts</li> </ul>	<ul style="list-style-type: none"> <li>- Reports on outstanding loans and flows</li> </ul>
Accounting Audit Section	<ul style="list-style-type: none"> <li>- Ongoing accounting controls</li> </ul>	Accounting audit reports

### *Accounting audit*

The principles of the organisation of accounting control, in the framework of the decentralisation of tasks, are set out in the "Accounting Charter". The Accounting Audit section reports hierarchically to the Head of the Accounting Department and functionally to the Head of Compliance and Ongoing Control, who is the recipient of all the audit work carried out. Operational accounting controls are the responsibility of the departments directly involved in producing accounting data.

The audits performed by the Accounting Audit section are set out in an annual work schedule, proposed by the Accounting Department, presented to the Department of Compliance and Ongoing Control and approved by the Internal Control Committee.

These audits include:

- › In-depth controls at the quarterly accounts closing dates, in particular of the evidence supporting the accounts (banking reconciliation, consistency between accounting and management systems, suspense accounts, etc.);
- › Occasional controls of certain management processes and/or systems (their accounting aspects).

These controls give rise to synthetic reports, circulated to the Compliance Department, the Risk Department and the Statutory Auditors.

The consolidation packages, prepared by the subsidiaries and certified by their Statutory Auditors, are reviewed in detail and checked for consistency by the Consolidation unit.

All regulatory and prudential disclosures are centralised at BPCE which performs automated consistency checks before forwarding them to the Commission Bancaire.

All of these prudential and regulatory reports are cleared by BPCE, which runs automated consistency controls before sending them to the Banking Commission.

### *Audit of financial data*

The financial data disclosed to third parties (annual reports for shareholders, regulatory restitutions intended specifically for the Banking Commission and reference documents submitted to the Autorité des marchés financiers) are carefully audited by the competent departments (Management Control, ALM, General Accounting).

For the Compagnie de Financement Foncier more particularly, the SCF and VMG Oversight Department is in charge of auditing documents sent to the Specific Controller and the rating agencies.

## Appendix

### *Compagnie de Financement Foncier*

#### *Composition of the Board of Directors at December 31, 2009*

Range of the possible number of members: 3 to 18

Actual number of members: 8

Number of Board meetings: 5

Average attendance rate: 67.5%

Directors' fees: yes

First and last names Company name and permanent representative	Function at the company and on the Board	Date of appointment	Date term of office expires	Comments
Crédit Foncier de France Represented by Mr François BLANCARD	Director	June 25, 1999	AGO 2011	
Mr Thierry DUFOR	Director Chairman and CEO	Director since December 18, 1998 Chairman since July 31, 2007 Chairman and CEO since December 14, 2007	AGO 2013	
Ms Sandrine GUÉRIN	Director and Deputy CEO	Director since March 25, 2002 Deputy Chief Executive Officer since May 17, 2002	AGO 2012	
Mr Djamel SEOUDI	Director	September 26, 2008	AGO 2014	
Mr Didier PATAULT	Director	September 26, 2008	AGO 2014	
Mr Alain DENIZOT	Director	September 26, 2008	AGO 2014	
Mr Stéphane CAMINATI	Director	December 17, 2008	AGO 2011	
Mr Nicolas DARBO	Director	December 15, 2009	AGO 2013	Replacing Mr Pierre NUYTS, who resigned

*This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

**Statutory Auditors' report, prepared in accordance with article L. 225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors of Compagnie de Financement Foncier**

To the Shareholders,

In our capacity as Statutory Auditors of Compagnie de Financement Foncier, and in accordance with article L. 225-235 of the French Commercial Code (Code de commerce), we hereby report to you on the report prepared by the Chairman of your company in accordance with article L. 225-37 of the French Commercial Code for the year ended 31 December 2009.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by article L. 225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

- › to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and
- › to attest that the report sets out the other information required by article L. 225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

**Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information.**

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report.

These procedures mainly consisted of:

- › obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- › obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- › determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with article L. 225-37 of the French Commercial Code.

**Other information**

We attest that the Chairman's report sets out the other information required by article L. 225-37 of the French Commercial Code.

Paris La Défense et Neuilly-sur-Seine, 30 March 2010

**The Statutory Auditors**

**KPMG Audit**  
Division of KPMG S.A.

Rémy TABUTEAU

**PricewaterhouseCoopers Audit**

Jean-Baptiste DESCHRYVER



# Legal information

## Corporate governance

Members of the Board of Directors in 2009 and their professional addresses.

### Mr Thierry DUFOUR

Director since December 18, 1998  
 Chairman from December 18, 1998 to June 25, 1999  
 Chief Executive Officer from June 25, 1999 to May 16, 2001  
 Deputy Chief Executive Officer from May 16, 2001 (following the promulgation of the New Economic Regulations Act) to May 17, 2002  
 Chief Executive Officer since May 17, 2002 (following the separation of the offices of Chairman of the Board and Chief Executive Officer)  
 Resignation from the office of Chief Executive on September 4, 2006  
 Chairman of the Board of Directors since July 31, 2007  
 Chairman & Chief Executive Officer since December 14, 2007  
 Crédit Foncier de France  
 4, quai de Bercy - 94220 Charenton-le-Pont

### Ms Sandrine GUÉRIN

Deputy Chief Executive Officer (non-Director) since October 15, 2001  
 Director since March 25, 2002  
 Deputy Chief Executive Officer since May 17, 2002 (following the separation of the offices of Chairman of the Board and Chief Executive Officer)  
 Crédit Foncier de France  
 4, quai de Bercy - 94220 Charenton-le-Pont

### Mr Pierre NUYTS

Director since June 16, 2008  
 Crédit Foncier de France  
 4, quai de Bercy - 94220 Charenton-le-Pont  
 Resigned on September 30, 2009

### Mr Didier PATAULT

Director since September 26, 2008  
 Caisse d'Épargne Bretagne Pays de Loire  
 4, Place Graslin - 44000 Nantes

### Mr Djamel SEOUDI

Director since September 26, 2008  
 4, quai de Bercy - 94220 Charenton-le-Pont

### Mr Alain DENIZOT

Director since September 26, 2008  
 Caisse d'Épargne Picardie  
 2 Boulevard Jules Verne - 80000 Amiens

### Mr Stéphane CAMINATI

Director since December 17, 2008  
 BPCE - 50, avenue Pierre Mendès France - 75013 Paris

### Mr Nicolas DARBO

Director since December 15, 2009,  
 replacing Mr Pierre NUYTS who resigned  
 Crédit Foncier de France  
 4, quai de Bercy - 94220 Charenton-le-Pont

### Crédit Foncier de France

Director since June 25, 1999  
 Represented by Mr François BLANCARD  
 4, quai de Bercy - 94220 Charenton-le-Pont

## General information concerning the company

### Registered office

The registered office of Compagnie de Financement Foncier is located at 19, rue des Capucines, 75001 Paris.

### Activity

Compagnie de Financement Foncier is the *société de crédit foncier* of the Crédit Foncier de France Group, specifically governed by the provisions of section IV of the second part of French law 99-532 of June 25, 1999 governing savings and financial security, which has been incorporated into Articles L. 515-13 to L. 515-33 of the French Monetary and Financial Code.

Pursuant to Article 110 of this law, Crédit Foncier de France transferred to Compagnie de Financement Foncier, on October 21, 1999, assets and liabilities covered by the specific legislative and regulatory requirements that applied to it before its transfer.

The purpose of Compagnie de Financement Foncier is to granting or purchase secured loans and exposures to public authorities financed by the issuance of *obligations foncières*, or by other resources which may or may not benefit from the preferred status, or "privilege", as defined by Article L. 515-19 of the French Monetary and Financial Code.

### **Structure of the relationship between Compagnie de Financement Foncier and Crédit Foncier de France**

As stipulated by law, Compagnie de Financement Foncier draws on the technical and human resources of its parent company under agreements binding the two companies. These agreements, which are regulated as defined by Article L. 225-38 of the French Commercial Code, cover all of the company's activities.

The general principles applied in preparing these agreements are described below.

The texts as drafted take into account the special nature of the relationship between Crédit Foncier de France and its subsidiary Compagnie de Financement Foncier.

17 agreements have been entered into by Crédit Foncier de France and Compagnie de Financement Foncier, namely:

- › a framework agreement, setting forth the general principles;
- › an agreement for loan assignments;
- › an agreement for loan servicing and recovery;
- › an agreement governing financial services;
- › an ALM agreement;
- › an administrative and accounting management agreement;
- › a service agreement on internal control and compliance;
- › an agreement related to the implementation of information technology services;
- › an agreement concerning human resources;
- › an agreement concerning compensation for services;
- › an agreement related to settlement bank services;
- › a guarantee agreement for adjustable-rate loans;
- › a guarantee and compensation agreement;
- › an agreement concerning disbursing agent agreement;
- › an agreement relating to management and collection of loans subsidised by the French State;
- › an agreement regarding participation loans;
- › an agreement related to redeemable subordinated notes.

As a result, with the exception of Directors and Officers, Compagnie de Financement Foncier does not have directly any salaried employees.

### **Legal form and applicable legislation**

Compagnie de Financement Foncier is a credit institution authorised as a financial company and a *société de crédit foncier* by a decision of the French Credit Institutions and Investment Companies Committee (CECEI - *Comité des Établissements de Crédit et des Entreprises d'Investissement*) on July 23, 1999. It is thus subject to

all regulations and legislation applicable to credit institutions and, as a *société de crédit foncier*, it is also subject to Articles L. 515-13 to L. 515-33 of the French Monetary and Financial Code.

It was formed as a French *société anonyme* and, for this reason is also subject, apart from certain exemptions, to the requirements applicable to commercial companies under the French Commercial Code.

A *société de crédit foncier* benefits from a certain number of exemptions from ordinary laws, of which:

- › Article L. 515-19 of the French Monetary and Financial Code, which establishes a “privilege” for bondholders of *obligations foncières*;
- › Article L. 515-27 of the French Monetary and Financial Code, which stipulates that the legal receivership or liquidation of a company holding shares of a *société de crédit foncier* cannot be extended to the *société de crédit foncier*;
- › furthermore, Article L. 515-28 of the French Monetary and Financial Code stipulates that, notwithstanding any legal or regulatory requirements to the contrary, notably those of Section II of Volume VI of the Commercial Code, contracts for servicing and recovering loans of a *société de crédit foncier* can be immediately terminated in the event that a company responsible for the servicing of such loans is placed in legal receivership or liquidation.

### **Period**

The company was incorporated on December 22, 1998 for a period of 99 years.

### **Corporate purpose (Article 2 of the bylaws)**

#### **Article 2 - Purpose**

The purpose of the company, in the context of the laws and regulations applicable to *sociétés de crédit foncier*, is to:

- 1° Carry out all transactions referred to in Articles L. 515-13 *et seq.* of the French Monetary and Financial Code and without any restriction as to the countries in which it can operate other than those set out in such laws and regulations.

According to the legislation that went into effect April 21, 2007, these transactions include:

- › granting or acquiring secured loans, exposures to public authorities and securities as defined in Articles L. 515-14 to L. 515-17 of the French Monetary and Financial Code;
- › financing these types of loans, exposures, investments



and securities by issuing *obligations foncières* benefiting from the “privilege” defined in Article L. 515-19 of the French Monetary and Financial Code and by raising other resources whose issuance or subscription contract mentions this “privilege”.

The company may also finance the activities mentioned above by issuing bonds or resources that do not benefit from the “privilege”. It can not issue promissory notes referred to in Articles L. 313-42 to L. 313-48 of the French Monetary and Financial Code.

Notwithstanding any other provisions or stipulations to the contrary, the company can securitise, in accordance with Articles L. 313-23 to L. 313-34 of the Monetary and Financial Code, all or some of the loans that it holds, regardless of the nature of such loans. The company may also carry out temporary transfers of its securities under the conditions set forth in Articles L. 211-22 to L. 211-34 of the French Monetary and Financial Code may mobilise them pursuant to Article L. 211-20 of said Code. The loans or securities thus securitised or transferred are not booked pursuant to Article L. 515-20 of the abovementioned Code.

The company cannot hold equity investments.

**2°** Contract with any credit institution all needed agreements:

- › to service and recover loans, exposures and securities;
- › to manage bonds and other financing;
- › more generally, to provide all services necessary to manage the assets, liabilities and the financial stability of the company;
- › as well as all agreements concerning the distribution and refinancing of loans.

**3°** Acquire and own all property and equipment necessary to fulfil its purpose or arising from the recovery of its loans.

- › Contract with any third party any agreement related to the acquisition, ownership, management, maintenance and disposal of such assets.

**4°** Contract with any insurance company any agreement, which serves the company purpose, notably to cover risks related to borrowers, risks related to both assets securing the loans and assets owned by the company, and the liability risks of the company or its Directors and Officers.

**5°** In connection with its own activity, or on behalf of other companies, provide customers with and manage payment processes, in particular:

- › for issuing payment of funds or the receipt of all sums arising from loan activities;
- › for managing any accounts for financial transactions with other credit institutions or public entities;
- › for the management of technical accounts in respect to expenses and receipts.

**6°** Participate in any system for interbank settlements, settlement-delivery of securities, as well as in any transaction within the framework of the monetary policy of the European Central Bank, which contribute to the development of the company’s activities.

**7°** More generally:

- › carry out all operations contributing to the fulfilment of its corporate purpose as long as such transactions comply with the purpose of *sociétés de crédit foncier* as defined in the legislation and regulations that regulate their activity;
- › enter into any agreement allowing the company to use outsourcing services.

#### **Trade Register Number**

Compagnie de Financement Foncier is registered in the Paris Trade Register under number RCS B421 263 047.

#### **Location where legal documents concerning the company may be consulted**

Legal documents concerning Compagnie de Financement Foncier may be consulted at 4, quai de Bercy, 94220 Charenton-le-Pont.

### *Financial year*

The financial year begins on January 1, and ends on December 31.

### *Provisions of the bylaws governing appropriation of earnings*

If the financial statements for a given financial year, as approved by the Shareholders' Meeting, show distributable earnings as defined by law, shareholders shall decide either to attribute them to one or more reserve accounts, the allocation and use of which it determines, to retained earnings or to distribute them.

After ascertaining the existence of the reserves at its disposal, the Shareholders' Meeting may decide to distribute amounts drawn from those reserves. In such a case, the decision shall specify the reserve accounts from which the distributed amounts are to be drawn.

However, dividends shall be withdrawn first from the distributable earnings for the financial year.

Shareholders also have the right to grant each shareholder, for all or part of the dividend or interim dividend to be distributed, an option to receive payment either in the form of cash or in shares.

### *Shareholders' Meetings*

Shareholders' Meetings shall be called and shall deliberate under the conditions stipulated by law. An Ordinary Meeting must be held each financial year within five months of the closing date of the preceding financial year. Meetings shall be held at the corporate offices or at another location stated in the notice of meeting. Any shareholder may participate personally, or by proxy, in Shareholders' Meetings with proof of identity and ownership of shares in the form of a record in his name on the company's books five days before the date of the Shareholders' Meeting.

He may also vote by mail under the conditions stipulated by law. Meetings are chaired by the Chairman of the Board of Directors or, in his absence, by a Director specially designated to do so by the Board. Otherwise, the Shareholders' Meeting shall appoint a Chairman. An attendance sheet shall be kept under the conditions stipulated by law. Minutes of General Shareholders' Meetings shall be drawn up and copies shall be certified and issued pursuant to law.

## **General information concerning the capital stock**

### *Capital stock*

At December 31, 2009, the company's subscribed capital amounted to €1,008,000,000. It is divided into 63,000,000 fully paid up shares with a par value of €16 each.

### *Share capital authorised but not subscribed*

By a decision on May 26, 2008, the Compagnie de Financement Foncier Shareholders' meeting, acting on an exceptional basis, delegated its competence to the Board of Directors to increase the capital stock to a maximum €800,000,000. The delegation was granted for the duration of twenty-six months commencing on the date of the assembly. The Board of Directors used this delegation during the month of June 2008 to the amount of €770,000,000.

### *Ownership of capital and voting rights*

Principal shareholders at December 31, 2009

Shareholders	Number of shares	%
Crédit Foncier de France	62,999,993	100.00
Directors	7	
<b>Total</b>	<b>63,000,000</b>	<b>100.00</b>

### *Changes in capital over the last five years*

The Board of Directors, in its meeting on June 29, 2005, noted that, following payment of the dividend in shares, the capital was increased by €10,000,000 due to the creation of 625,000 new shares with a par value €16, fully subscribed by Crédit Foncier de France.

The Board of Directors, in its meeting on June 22, 2006, noted that, following payment of the dividend in shares for the 2005 financial year, the capital was increased by €22,000,000 due to the creation of 1,375,000 new shares with a par value €16, fully subscribed by Crédit Foncier de France.

The Board of Directors, in its meeting on June 26, 2007, noted that, following payment of the dividend in shares for the 2006 financial year, the capital was increased by €22,000,000 due to the creation of 1,375,000 new shares

with a par value €16, fully subscribed by Crédit Foncier de France.

Following the use of the delegation of competency granted by the Shareholders' Meeting on May 26, 2008, the Board of Directors, in its meeting on June 30, 2008, noted the increase in capital from €154,000,000 to €924,000,000, which was definitively carried out on June 27, 2008.

The Board of Directors, in its meeting on June 30, 2009, noted that, following payment of the dividend in shares, the capital was increased by €84,000,000 due to the creation of 5,250,000 new shares with a par value €16, fully subscribed by Crédit Foncier de France.

***Individuals or companies that exercise control over the company***

Crédit Foncier de France  
19, rue des Capucines - 75001 Paris  
542 029 848 RCS Paris

***Information on the Crédit Foncier de France Group, to which Compagnie de Financement Foncier belongs***

The principal business of Crédit Foncier de France is to grant mortgage loans to individuals and real estate professionals, grant loans to local authorities, provide structured financing and to issue bonds to finance these loans.

From its creation in 1852 and until 1999, Crédit Foncier de France held the special status as a *société de crédit foncier*.

A key player in the specialised real estate financing market responsible for distributing French state subsidised loans, following the real estate crisis in the 1990's and the government's elimination of subsidised loans, in 1999 Crédit Foncier joined the private sector after its 90% acquisition by the Groupe Caisse d'Epargne.

In the context of legislation governing this acquisition, parliament created a specific new status for property lending companies. The Compagnie de Crédit Foncier was then formed and authorised as a *société de crédit foncier* by the CECEI. The Crédit Foncier de France transferred all its property commitments and pledged assets to the CECEI pursuant to Article 110 of law 99-532 of June, 25, 1999.

After having been affiliated with the Groupe Caisse d'Epargne between 1999 and 2009, Crédit Foncier became affiliated in 2009 to Groupe BPCE, which resulted from the alliance between Groupe Caisse d'Epargne and Groupe Banque Populaire. The continuous expansion of its activities led it to become a major player in real estate and local government financing.

**Key events of Crédit Foncier Group**

The year 2008 was marked by the following events:

- › Crédit Foncier took a 5% stake in GCE Covered Bonds, the branch of the GCE real estate lending arm that refinances loans via covered bonds. Subscription to the April 10, 2008, capital increase;
- › the signing of a refinancing €1 billion contract between the Ile-de-France region, the Caisse d'Epargne d'Ile-de-France and Crédit Foncier: a first in France;
- › The opening of a representative office of Crédit Foncier in Geneva, held by Swiss Public Finance Solutions (SPFS), set up on September 18, 2007 by Crédit Foncier, Caisse d'Epargne Rhône Alpes and Geneva Cantonal Bank;
- › Crédit Foncier's subscription to the €770 million capital increase of Compagnie de Financement Foncier, which was executed via debt compensation for 99.99%;
- › Crédit Foncier's acquisition of securities to bring its investment from 37% to 85% in Banco Primus, its Portuguese subsidiary specialised in retail lending;
- › the transfer, to the Banque Palatine, of Crédit Foncier's retail and commercial activities. This transfer took the form of a partial contribution of assets with 8.33% investment;
- › Caisse Nationale des Caisses d'Epargne (CNCE) and Nexity announced that they had begun negotiations regarding CNCE's cash acquisition of Nexity's 23.4% stake in Crédit Foncier. The contract finalising the deal, under reserve of the execution of certain conditions, these negotiations were signed January 31, 2009. The price was fixed at € 539.6 million. The conditions were lifted on February 19, 2009 thus sealing the deal;
- › the opening of a representative office in Tokyo as part of its international development strategy;
- › Cicobail's merger-takeover of Picardie-Bail as part of the restructuring of the Groupe Caisse d'Epargne's "Real estate leasing" activities.

2009 marked by:

- › The Crédit Foncier group was merged into the real-estate division of BPCE, the new banking group formed, in July 2009, from the merger of Groupe Caisse d'Épargne and Groupe Banque Populaire;
- › International expansion was pursued with the opening of a sales office in Montreal, Canada in August 2009;
- › Compagnie de Financement Foncier increased share capital by 115.4 million euros;
- › The company celebrated its 10th birthday in September 2009;
- › A mediation agreement on adjustable-rate loans was signed in November. It completed the negotiation process that began on January 18, 2008, when Crédit Foncier announced that it would negotiate with borrowers who had taken out specific types of adjustable-rate loans to enable them to meet their monthly installments. Regarding the loans that the Compagnie de Financement Foncier purchased prior to this date, an amendment to the 2008 agreement with Crédit Foncier de France was signed, making it protected from the financial consequences of this mediation;
- › Crédit Foncier increased its stake in Banco Primus, from 85% to 91.18%, by subscribing to three rights issues during the year, for a total investment of 21 million euros.
- › The equity interest in CFCAL-Banque was increased from 67.02% to 68.87%;
- › Equity interests were also raised in Cicobail (from 65.85% to 68.33%), Locindus (67.8% to 70.43%) and Foncier Diagnostics (55% to 99%).

### Specialised subsidiary within a large group

Thanks to its subsidiary, the Compagnie de Financement Foncier, a *société de crédit foncier*, Crédit Foncier has been able to obtain, particularly advantageous financing conditions (AAA/Aaa/AAA) and top-notch financial engineering. It is now positioned within the Groupe BPCE as a specialised real estate lending entity.

## Resolutions submitted to the Shareholders' Meeting

Ordinary Shareholders' General Meeting of May 18, 2010

### Proposed resolutions

#### First resolution

The Shareholders' Meeting, after having heard the reports of the Board of Directors and the Auditors for the financial period ending December 31, 2009, approves the accounts as presented.

#### Second resolution

The shareholders, having noted the existence of distributable earnings of 175,931,354.91 euros corresponding to the net income for the financial period of €175,469,326.71 euros plus the retained earnings of 462,028.20 euros, allocates said distributable earnings in the following manner:

Legal reserve: 8,773, 500.00 euros

Retained earnings: 167,157,854.91 euros

Pursuant to Articles 47 of the law of July 12, 1965 and 243b of the General tax code, it is recalled that the dividend and the overall remuneration per share have evolved as follows over the last three financial periods:

Financial year	Number of shares	Overall remuneration per share	Dividend distributed <sup>(*)</sup>
2006	8,250,000	€10.10	€10.10
2007	9,625,000	-	-
2008	57,750,000	€2.00	€2.00

<sup>(\*)</sup> eligible for a 40% discount pursuant to Article 158-3 of the General Tax Code (CGI).

#### Third resolution

The shareholders' meeting, after hearing the special report of the auditors on the transactions described in Article L. 225-38 of the French Commercial Code, note the terms of the report and approve the transactions entered into during the financial period.

#### Fourth resolution

The Shareholders' Meeting, having considered the report of the Board of Directors, ratifies the appointment, made on a provisional basis by the Board of Directors on December 15, 2009 of Mr Nicolas DARBO as Director, replacing Mr Pierre NUYTS, who resigned, for the remaining term of his predecessor which is due to end at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2012.

#### Fifth resolution

The Shareholders' Meeting gives all necessary powers to the holder of a copy or an extract of the minutes of this Meeting to carry out any submission and publication formalities.

### Bylaws

#### **Title I: Form - Purpose - Corporate name - Registered offices - Term of the company**

##### Article 1 - Form

The company is a French *société anonyme* (limited liability company).

It is governed by the terms of current legislation and regulations applicable to *sociétés anonymes*, credit institutions, and in particular *sociétés de crédit foncier*, and by these bylaws.

##### Article 2 - Purpose

The purpose of the company, in the context of the laws and regulations applicable to *sociétés de crédit foncier*, is to:

**1°** Carry out all transactions referred to in Articles L. 515-13 *et seq.* of the French Monetary and Financial Code and without any restriction as to the countries in which it can operate other than those set out in such laws and regulations.

According to the legislation in force as of April 21, 2007, these transactions include:

- › granting or acquiring secured loans, exposures to public authorities and securities as defined in Articles L. 515-14 to L. 515-17 of the French Monetary and Financial Code;
- › financing these categories of loans, exposures, investments and securities by issuing *obligations foncières*

benefiting from the "privilege" defined in Article L. 515-19 of the French Monetary and Financial Code and by raising other resources whose issuance or subscription contract mentions this "privilege".

The company may also finance the activities mentioned above by issuing bonds or resources that do not benefit from the "privilege". It cannot issue promissory notes referred to in Articles L. 313-42 to L. 313-48 of the French Monetary and Financial Code.

Notwithstanding any other provisions or stipulations to the contrary, the company can securitise, in accordance with Articles L. 313-23 to L. 313-34 of the Monetary and Financial Code, all or some of the loans that it holds, regardless of the nature of such loans. The company may also carry out temporary transfers of its securities under the conditions set forth in Articles L. 211-22 to L. 211-34 of the French Monetary and Financial Code may mobilise them pursuant to Article L. 211-20 of said code. The loans or securities thus securitised or transferred are not booked pursuant to Article L. 515-20 of the above mentioned Code.

The company cannot hold equity investments.

**2°** contract with any credit institution all agreements necessary:

- › to service and recover loans, exposures and securities;
- › to manage bonds and other financing;
- › more generally, to provide all services necessary to manage the assets, liabilities and the financial balances of the company;
- › as well as all agreements concerning the distribution and refinancing of loans.

**3°** acquire and own all property and equipment necessary to fulfil its corporate purpose or arising from the recovery of its loans;

- › contract with any third party any agreement related to the acquisition, ownership, management, maintenance and disposal of such assets.

**4°** contract with any insurance company any agreement, which serves the company purpose, notably to cover risks related to borrowers, risks in respect of both assets securing the loans and assets owned by the Company, and the liability risks of the company or its Directors and Officers.

5° in connection with its own activity, or on behalf of other companies, provide customers with and manage payment processes, in particular:

- › for the payment of funds or the receipt of all sums arising from loan activities;
- › for holding any account of financial relations with any other credit institution or public entity;
- › for the management of technical accounts in respect of expenses and receipts.

6° participate in any system for interbank settlements, settlement-delivery of securities, as well as in any transactions within the framework of the monetary policy of the European Central Bank, which contribute to the development of the Company's activities.

7° More generally:

- › carry out all operations contributing to the fulfilment of its corporate purpose as long as such transactions comply with the purpose of *sociétés de crédit foncier* as defined in the legislation and regulations that regulate their activity;
- › contract any agreement allowing the company to use outsourcing services.

### **Article 3 - Corporate name**

The company's name is: "Compagnie de Financement Foncier".

### **Article 4 - Registered offices**

The registered offices are located at 19, rue des Capucines, in Paris (75001).

If the location of the head office is moved by the Board of Directors in accordance with the conditions set out in the applicable legislation, the new location shall be automatically substituted for the previous one in this Article, provided the move is ratified by an Ordinary Shareholders' Meeting.

### **Article 5 - Term**

The duration of the company is ninety-nine years from its registration in the Trade Register, unless the period is extended or the company is liquidated, in accordance with the legislation in force or these bylaws.

## ***Title II: Capital stock - Shares***

### **Article 6 - Capital stock**

The capital stock is set at €1,008,000,000 (one billion and eight million euros).

It is divided into 63,000,000 shares with a par value of €16 (sixteen euros) each, all of which belong to the same category and are fully paid up in cash.

### **Article 7 - Form of the shares**

The shares are in registered form.

They are registered in accordance with the terms and conditions set forth by law.

### **Article 8 - Rights and obligations attached to shares**

Each share confers a right to ownership of the company's assets and a share in its profits proportional to the fraction of the company's capital that it represents.

All shares which comprise or will comprise the company's capital, as long as they are of the same type and the same par value, are strictly equivalent to each other so long as they have the same dividend-bearing date; both during the company's existence and its liquidation, they provide payment of the same net amount on all allocations or redemptions, so that, if applicable, all shares are aggregated without distinction with respect to all tax savings or charges resulting from such allocations or redemptions.

The rights and duties follow the ownership of the share, regardless of holder.

Ownership of a share legally implies acceptance of the bylaws and the decisions of Shareholders' Meetings.

The beneficiaries, creditors, successors or other representatives of a shareholder cannot cause legal seals to be placed on the assets and securities of the company or request the distribution or division of such assets and securities or interfere in any manner in the company's administration.

They must refer to the financial statements and to the decisions of Shareholders' Meetings to exercise their rights. Each time ownership of several shares is needed to exercise a given right, in cases of exchange, grouping or allotment of shares, or as a result of an increase or decrease in capital stocks, splits or reverse splits of shares, or any



other operation on the company's capital, the owners of single shares or of less than the required number of shares, may exercise their rights only if they undertake to combine, sell or purchase the necessary number of shares.

#### **Article 9 - Transfer of shares**

Shares can be traded freely.

Shares can be transferred, with respect to third parties and the company by an order to transfer them from one account to another.

#### **Article 10 - Indivisibility of shares**

Shares are indivisible *vis-à-vis* the company, which only recognises one owner for each share. Joint owners of a share are required to be represented within the company by one of the joint owners or by a single agent.

The beneficial owner shall represent the bare owner in Ordinary Meetings; however, the bare owner is the only one entitled to vote in Extraordinary Meetings.

### ***Title III: Administration of the company***

#### **Article 11 - Board of Directors**

The company is administered by a Board of Directors comprised of at least three and at most eighteen members, selected from among the shareholders and appointed by the Ordinary Meeting.

Each Director must own at least one share during his or her term of office.

#### **Article 12 - Term of office of Directors**

The term of office of Directors is six years.

Each Director reaching the end of his or her term of office may be re-elected; however, the number of Directors over 70 years of age may not be greater than three.

When more than three of the Directors are past the age limit, the terms of office of the eldest Directors expire at the end of the Annual Meeting following the date on which this occurs, whatever the initial term of office of these Directors.

#### **Article 13 - Meetings and proceedings of the Board - Minutes**

The Board of Directors is called by its Chairman, as often as the interest of the company requires, either at the registered offices, or at any other location indicated on the notice. Meetings may be called by all means, even verbally.

If no meeting has been held for more than two months, at least one third of the members of the Board can request that the Chairman call a Board Meeting with a specific agenda.

The Chief Executive Officer can also request that the Chairman call a Board meeting with a specific agenda.

The Chairman must comply with requests that have been made to him in accordance with the two previous paragraphs.

Resolutions are adopted with the quorum and majority required by law. In the event of a tie vote, the Chairman shall cast the deciding vote.

The internal regulations may stipulate that, for the purposes of calculating a quorum and majority, Directors participating in the meeting through videoconferencing or other means of telecommunications that allow them to identify themselves and effectively participate shall be considered present.

This rule is not applicable for the adoption of resolutions that require, in accordance with current legislation, the physical presence of Directors.

Sufficient proof of the number of Directors in office and of their presence at a meeting of the Board is provided by the production of a copy or an excerpt of the minutes of the Board Meeting.

The minutes of the meeting are prepared, and the copies or excerpts are delivered and certified as required by law.

#### **Article 14 - Powers of the Board**

The Board of Directors determines the strategic direction of the company's activities and supervises the implementation of such strategies. Subject to the powers expressly attributed to Shareholders' Meetings, and within the limits of the company's purpose, the Board deals with any issue affecting the company's operations and settles, through its decisions, all matters concerning the company.

The Board carries out such controls and verifications that it considers appropriate.

Each Director receives all the information necessary to perform his or her duties and can request all documents that he considers pertinent.

In its relations with third parties, the company is responsible for the acts of the Board of Directors which are not in accordance with the company's purpose, unless it can prove that the third party knew that the act in question was not in accordance with the company's purpose or that the third party could not have been unaware of this fact given the circumstances. The sole fact that the company's bylaws are published does not constitute sufficient proof.

#### **Article 15 - Remuneration of the Board of Directors**

A Shareholders' Meeting can allocate to the Board of Directors a fixed annual remuneration in the form of directors' fees, the amount of which it shall determine. This remuneration remains applicable until a Shareholders' Meeting decides otherwise.

The Board of Directors shall allocate this remuneration in the proportions that it considers appropriate.

#### **Article 16 - Chairman of the Board of Directors**

The Board of Directors elects, from among its non-corporate members, a Chairman and determines his remuneration. It determines his term of office as Chairman, which may not exceed his term as Director. The individual can be re-elected.

The term of the Chairman must end no later than the end of the Ordinary Meeting that follows the date on which the Chairman reaches the age of sixty-five.

The Chairman represents the Board of Directors. He organises and directs the work of the Board, and reports to

the Shareholders' Meetings on such work. He verifies that the company's decision-making bodies function properly and ensures, in particular, that the Directors are able to fulfil their responsibilities.

The Board may confer on one or more of its members or on third parties, whether or not they are shareholders, special mandates for one or more specific purposes.

It may also appoint one or more committees, the structure and roles of which it shall determine. These committees, which can include both Directors and third parties chosen for their expertise, study the questions that the Board or the Chairman submits for their review.

In these various cases, the Board may allocate special compensation to the appointed Directors.

#### **Article 17 - Management**

Management of the company is directed, under his/her responsibility, either by the Chairman of the Board, or by another individual appointed by the Board of Directors with the title of Chief Executive Officer. The selection of the individual for this position, which may be changed at any time, is made by the Board of Directors voting with a majority of three quarters of the members present or represented. The Board of Directors reports, in its annual report, on the choice that it has made and explains the reasons for this choice.

The Board of Directors determines the period for which the Chief Executive Officer is appointed.

The Chief Executive Officer has the broadest powers to act in all circumstances in the name of the company, within the limits of its purpose, and subject to the specific powers expressly attributed to Shareholders' Meetings by law and to the specific powers of the Board of Directors. The Chief Executive Officer represents the company in its relationships with third parties. The company is responsible for the acts of the Chief Executive Officer which are not in accordance with the company's purpose, unless it can prove that the third party knew that the act in question was not in accordance with the company's purpose, or that the third party could not have been unaware of this fact in light of the circumstances. The sole fact that the company's bylaws are published does not constitute sufficient proof.

On the recommendation of the Chief Executive Officer, the Board of Directors can appoint one or more individuals,



whether Directors or not, to assist the Chief Executive Officer, with the title of Deputy Chief Executive Officer. The number of Deputy Chief Executive Officers may not exceed five. The scope and duration of the powers of the Deputy Chief Executive Officers shall be determined by the Board of Directors with the consent of the Chief Executive Officer.

With respect to third parties, Deputy Chief Executive Officers have the same powers as the Chief Executive Officer.

The Board of Directors determines the compensation of the Chief Executive Officer and the Deputy Chief Executive Officers.

The Chief Executive Officer and, if they have been appointed, Deputy Chief Executive Officers, even if not members of the Board, are invited to the meetings of the Board of Directors.

The duties of the Chief Executive Officer and Deputy Chief Executive Officer must cease no later than the end of the Shareholders' Meeting, which follows the date at which the person reaches the age of sixty-five.

The Chief Executive Officer may be removed at any time by the Board of Directors. The same applies, on the recommendation of the Chief Executive Officer, to the Deputy Chief Executive Officers. If the removal is decided without just cause, it may result in legal damages, unless the Chief Executive Officer is appointed Chairman of the Board of Directors.

If the Chief Executive Officer resigns, or cannot carry out his duties, the Deputy Chief Executive Officers retain, unless the Board decides otherwise, their positions and the responsibilities assigned to them until a new Chief Executive Officer is appointed.

#### **Article 18 - Advisors**

An Ordinary Meeting may, on the recommendation of the Board of Directors, appoint one or more Advisors. The term of office of an Advisor is three years. They may be re-appointed.

The Advisors attend meetings of the Board of Directors and have an advisory role.

The Board of Directors determines their compensation in the context of the allocation of the directors' fees allocated by the Shareholders' Meeting.

### ***Title IV: Company audit***

#### **Article 19 - Statutory Auditors**

The Shareholders' Meeting shall designate one or more Statutory Auditors and one or more alternate Auditors, under the conditions stipulated by law.

#### **Article 20 - Specific Controller**

Under the conditions stipulated by law and by the regulations applicable to a *société de crédit foncier*, and after obtaining the opinion of the Board of Directors, the Chief Executive Officer shall appoint one Specific Controller and an alternate.

The Specific Controller and, if applicable, the alternate shall perform the duties assigned to them by the laws governing a *société de crédit foncier*.

### ***Title V: Shareholders' Meeting***

#### **Article 21 - Shareholders' Meeting**

Shareholders' Meeting shall be called and shall deliberate under the conditions stipulated by law.

Each year, an Ordinary Shareholders' Meeting must be convened within five months following the financial year-end.

Meetings shall be held at the corporate offices or at another location stated in the notice of meeting.

Any shareholder may participate personally, or by proxy, in Shareholders' Meetings with proof of identity and ownership of shares in the form of a record in his name on the company's books five days before the date of the Shareholders' Meeting.

He may also vote by mail under the conditions stipulated by law.

Shareholders who participate in the Shareholders' Meeting by videoconference or telecommunications that enable them to be identified shall be considered present for calculating the quorum and the majority.

Shareholders' Meetings shall be chaired by the Chairman of the Board of Directors or, in his absence, by a Director

specially authorised for that purpose by the Board. Otherwise, the Shareholders' Meeting shall appoint a Chairman.

An attendance sheet shall be kept under the conditions stipulated by law.

Minutes of General Shareholders' Meetings shall be drawn up and copies shall be certified and issued pursuant to law.

#### **Article 22 - Deliberations of the Shareholders' Meeting**

Ordinary and Extraordinary Shareholders' Meetings ruling with the quorum and majority set by law shall exercise the powers that are vested in them by law.

#### ***Title VI: Annual financial statements - Appropriation of earnings***

##### **Article 23 - Financial year**

The financial year shall begin on January, 1, and shall end on December 31.

The Board of Directors shall be authorised to change the closing date of the financial year if it determines such a change to be in the company's best interest.

As an exception, the first financial year ran from the date of registration to December 31, 1998.

##### **Article 24 - Appropriation of earnings**

If the financial statements for the financial year, as approved by the Shareholders' Meeting, show distributable earnings as defined by law, the Shareholders' Meeting shall decide either to allocate them to one or more reserve accounts, the allocation and use of which it determines, to retain earnings or to distribute them.

After ascertaining the existence of the reserves at its disposal, the Shareholders' Meeting may decide to distribute amounts drawn from those reserves. In such a case, the decision shall specify the reserve accounts from which the distributed amounts are to be drawn.

However, dividends shall be withdrawn first from the distributable earnings for the financial year.

The above provisions shall apply if non-voting preferred shares are created.

Shareholders also have the right to grant each shareholder, for all or part of the dividend or interim dividend to be distributed, an option to receive payment either in the form of cash or in shares.

#### ***Title VII: Dissolution - Liquidation - Disputes***

##### **Article 25 - Dissolution and liquidation**

At the expiration of the company or in the event of early dissolution, the Shareholders' Meeting shall determine the method of liquidation and shall appoint one or more liquidators, whose powers it shall determine and who shall perform their duties pursuant to law.

##### **Article 26 - Disputes**

All disputes that might arise during the term of the company or at the time of liquidation, either among the shareholders, the Directors and the company, or among the shareholders themselves, concerning the company's business shall be adjudicated as required by law and shall be subject to the jurisdiction of the competent courts.

### **General information**

#### **Outlook for Compagnie de Financement Foncier**

##### **Current events**

The company did not record any current events that significantly impact the evaluation of its solvency.

##### **Trends**

No significant deterioration has affected the outlook of the company since its last financial report was audited and published.

No known trend, uncertainty, claim, commitment or event is reasonably susceptible to influence the company's outlook.

##### **Audit**

To the company's knowledge, no agreement exists of which the implementation at a later date could lead to a change of its audit.

## Material events

No significant changes in the financial or commercial situation have occurred between March 30, 2010, the date at which the Board of Directors closed the accounts and the filing data of this reference document.

## Complementary information

- › no potential conflicts of interest exist between the duties with regard to Compagnie de Financement Foncier and the private interests and/or other duties of members of the board;
- › at December 31, 2009 there were no exceptional events or legal disputes (government procedures, legal or arbitration) likely to have or to have had a material impact on Compagnie de Financement Foncier's activity, financial position or results;
- › Compagnie de Financement Foncier conducts itself and its corporate entities with respect to the corporate governance framework in practice in France.

## Persons responsible for auditing the financial statements

### Statutory

#### KPMG Audit - Department of KPMG SA

Represented by Mr Rémy TABUTEAU

Address: 1, cours Valmy - 92923 La Défense cedex  
775 726 417 RCS Paris

Member of Compagnie régionale des commissaires aux comptes de Versailles

Start of term: May 25, 2005.

Length of term: six financial years.

Expiration of term: at the end of the Shareholder's Meeting called to approve the financial statements for the financial year 2010.

#### PricewaterhouseCoopers Audit

Represented by Mr Jean-Baptiste DESCHRYVER

Address: 63, rue de Villiers - 92200 Neuilly-sur-Seine  
302 474 572 RCS Paris

Member of Compagnie régionale des commissaires aux comptes de Versailles

Start of term: May 26, 2008.

Length of term: six financial years.

Expiration of term: at the end of the Shareholder's Meeting called to approve the financial statements for the financial year ending December 31, 2013.

### Alternate

#### Ms Marie-Christine FERRON-JOLYS

Address: 1, cours Valmy - 92923 La Défense cedex

Start of term: May 25, 2005.

Length of term: six financial years.

Expiration of term: at the end of the Shareholder's Meeting called to approve the financial statements for the financial year ending December 31, 2010.

#### Mr Étienne BORIS

Address: 63, rue de Villiers - 92200 Neuilly-sur-Seine

Start of term: May 26, 2008.

Length of term: six financial years.

Expiration of term: at the end of the Shareholder's Meeting called to approve the financial statements for the financial year ending December 31, 2013.

## The Specific Controller

### Statutory

#### Cailliau Dedouit & Associés

represented by Mr. Laurent BRUN

Address: 19, rue Clément Marot - 75008 Paris

Date of approval from the Banking Commission: June 23, 2004

Start of term: June 29, 2004.

Length of term: period remaining in predecessor's term, then renewed for a term of four years.

Expiration of term: after submission of the report and certified statements for the financial year ending December 31, 2010.

### Alternate

#### Monsieur Didier CARDON

Address: 19, rue Clément Marot - 75008 Paris

Date of approval from the Banking Commission: June 23, 2004

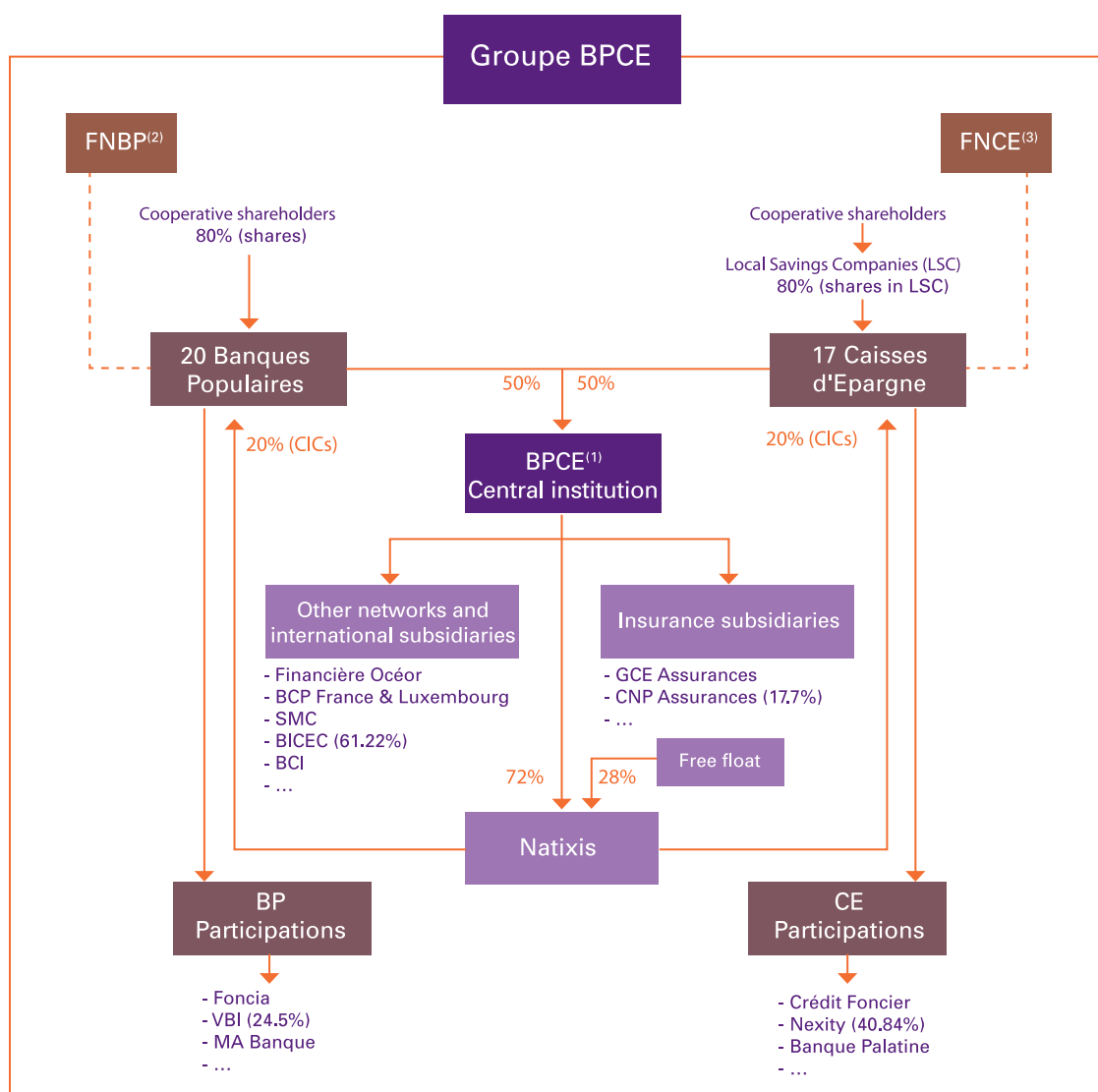
Start of term: June 29, 2004.

Length of term: period remaining in predecessor's term, then renewed for a term of four years.

Expiration of term: after submission of the report and certified statements for the financial year ending December 31, 2010.

## Appendix: Focus on Compagnie de Financement Foncier in the Groupe BPCE

At March 31, 2010



<sup>(1)</sup> €3 bn in preference shares, without voting rights, held by the French state.

<sup>(2)</sup> Fédération Nationale des Banques Populaires.

<sup>(3)</sup> Fédération Nationale des Caisses d'Epargne.



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(\*) In application of Article 28 of regulation No. 809-2004 on prospectuses, the corporate financial statements for the accounting period ended December 31, 2008 and the Statutory Auditors' report on the corporate financial statements, included in reference document No. D. 09-0176 filed with the Autorité des marchés financiers (AMF - French financial markets authority) on April 1, 2009, are incorporated by reference in this document.

The sections of reference document No. D. 09-0176 not referred to above are either of no consequence to investors or covered by another section of this reference document.

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## Contacts

Compagnie de Financement Foncier  
4, quai de Bercy  
94224 Charenton cedex  
Tel.: + 33 1 57 44 92 05

Financial Information:  
Daphné HEINZ  
Tel.: +33 1 57 44 94 20

The annual reports of the Compagnie de Financement Foncier can be downloaded at [www.foncier.fr](http://www.foncier.fr)





Design, creation, production:



Illustrations: Studio Impresarios/Caroline Matter  
Photos Credit: Stéphane Lavoué



This annual report was printed on partially-recycled paper using vegetable-based inks.  
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**COMPAGNIE DE  
FINANCEMENT  
FONCIER**

**CREDIT FONCIER GROUP**

4, quai de Bercy  
94224 Charenton-le-Pont Cedex - France  
Tel.: + 33 (0)1 57 44 92 05