

Annual Report 2008

Reference Document



COMPAGNIE DE
FINANCEMENT
FONCIER

CREDIT FONCIER GROUP

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(Pursuant to the provisions of Articles 117 and 120 of the Law on Financial Security)

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AUTORITÉ
DES MARCHÉS FINANCIERS

PROFILE OF COMPAGNIE DE FINANCEMENT FONCIER

Compagnie de Financement Foncier (AAA/Aaa/AAA) is a credit institution authorised as a financial company and a société de crédit foncier (by decision of the French Credit Institutions Committee [CECEI - *Comité des établissements de crédit et des entreprises d'investissement*] on July 23, 1999).

A wholly-owned subsidiary of Crédit Foncier de France (A/Aa3/A+), affiliated with Caisse Nationale des Caisses d'Epargne (A+/Aa3/A+), its purpose is to finance property loans and loans to the public sector originated by its parent company, Groupe Caisse d'Epargne and other credit institutions.

Firmly rooted within its parent company Crédit Foncier, issuer of obligations foncières since 1852, Compagnie de Financement Foncier remains a market leader to this day.

Its reputation for quality, the growth of its business and the expertise of its teams have allowed Compagnie, with issuance of obligations foncières reaching €8.5 billion in 2008, to confirm, in a particularly challenging environment, its position as a leading global issuer of covered bonds.

Message from the Chairman and Chief Executive Officer



Thierry DUFOUR
Chairman and Chief Executive Officer

Solid fundamentals and the continuity, regulation and transparency of its business model contributed to Compagnie de Financement Foncier's ability to withstand an unprecedented financial crisis.

Its robust legal framework combined with its quality asset portfolio have allowed Compagnie de Financement Foncier to maintain its relationship, built on trust, with its investors. This contributed to the success of its obligation foncière programme, which issued €8.5 billion in 2008.

The efficiency with which Compagnie carried out its mission of providing Crédit Foncier with the liquidity it needs to pursue its activity and diversifying Groupe Caisse d'Épargne's sources of financing came through the crisis intact.

With production reaching €3.4 billion in 2008, international public financing continued its development and profitability growth. The size of the market, the quality and creditworthiness of borrowers as well as increasing public infrastructure needs will continue to represent, in 2009, opportunities for Crédit Foncier and Compagnie de Financement Foncier in particular, to further develop their quality business activities and to extend their international reach.

In this context, the Crédit Foncier group will continue its strategic development by, notably, acquiring expertise in financing complex projects, seeking new partners and by opening a new Crédit Foncier office in Canada that will follow in the footsteps of offices in Switzerland and Japan.

In a constraining economic and financial environment, Compagnie will continue, in 2009, to select its assets rigorously and to strengthen its position as a leader in public sector financing and to allow Crédit Foncier to bolster its market position as the leading mortgage lender in France. Finally, it will reinforce the development of internal models measuring credit risk as part of the comprehensive and strict management of its underlying risks.

Thierry DUFOUR, Chairman and Chief Executive Officer

Message from the Executive Officers



Sandrine GUÉRIN
Deputy Chief Executive Officer

In 2008, Compagnie de Financement Foncier affirmed the transparency, growth and continuity of its business model.

The strengths of its business model - legal safeguards, quality assets, rigorous risk management - allowed Compagnie to calmly weather the crisis in 2008. It was able to rely on its financing capabilities and its sizeable liquidity reserves.

Compagnie de Financement Foncier, rated AAA/Aaa/AAA - outlook stable was able, in a challenging economic climate, to renew the interest of the most selective investors. Compagnie confirmed its status as a top issuer with €8.5 billion in obligations foncières raised in 2008, which represented 37% of the obligation foncière market. The cost of financing was in line with internal objectives.

The strict regulation of obligations foncières, its investor base and the return to more normal conditions in the banking sector should contribute to the success of Compagnie's issuance programme in 2009.

A robust asset selection process and its portfolio of quality assets combined to help Compagnie withstand the economic conditions of 2008.

Compagnie pursued its development in the area of French and international public sector exposures.

International Public Financing growth was driven by the dual objective of profitability and strict risk management. Compagnie provided €3.4 billion in financing to thirteen different countries bringing its portfolio to €20.3 billion at year-end 2008.

The development of business activity at Compagnie will continue to be guided by a conservative risk management strategy as part of a comprehensive framework ensuring profitability and sufficient capital reserves. Renewed, complementary commitments with regard to the market will allow Compagnie to confirm its AAA/Aaa/AAA rating following the rating agencies' methodology review.

Sandrine GUÉRIN, Deputy Chief Executive Officer

Key Figures

Issuer information

Issuer

Compagnie de Financement Foncier, affiliated with Caisse Nationale des Caisses d'Epargne (CNCE), the central entity of Groupe Caisse d'Epargne

Parent company

Crédit Foncier de France (100%), subsidiary of CNCE

Type of bonds issued

Obligations foncières

Rating Agency ^(*)	Long-term rating	Outlook
Standard & Poor's	AAA	Stable
Moody's	Aaa	Stable
Fitch Ratings	AAA	Stable

Programme volumes

EMTN: €125 billion

AMTN: AUD \$5 billion (approximately €3 billion)

Sole service provider

Crédit Foncier de France (A/Aa3/A+) ^(*)

^(*) Standard & Poor's/Moody's/Fitchratings - ratings updated as of filing date

Simplified economic balance sheet at December 31, 2008 and December 31, 2007

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

	At Dec. 31. 2008		At Dec. 31. 2007	
	€bn	% Balance sheet	€bn	% Balance sheet
Secured loans Articles L. 515-14 and 16	43.57	45.4%	45.02	47.7%
State subsidised mortgage loans	1.25	1.3	1.60	1.7
Mortgage loans guaranteed by FGAS*	6.71	7.0	6.98	7.4
Other mortgage loans	10.26	10.7	10.40	11
Senior mortgage-backed securities	15.67	16.3	17.43	18.5
Other loans with a real estate guarantee	0.58	0.6	1.03	1.1
Mortgage notes	9.10	9.5	7.59	8.0
Exposures to public authorities Articles L. 515-15 and 16	40.23	41.9%	33.53	35.5%
State subsidised public loans	0.29	0.3	0.35	0.4
Other public loans	21.22	22.1	17.23	18.2
Public entity securities	11.14	11.6	8.11	8.6
Senior securitisation units of public debt	7.58	7.9	7.85	8.3
Replacement securities Article L. 515-17	8.43	8.8%	11.12	11.8%
Other assets (interest on IFAT**, accruals, goodwill, etc.)	3.72	3.9%	4.73	5.0%
Total assets	95.94	100.0%	94.40	100.0%

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

** Forward Financial Instruments.

	At Dec. 31. 2008		At Dec. 31. 2007	
	€ bn	% Balance sheet	€ bn	% Balance sheet
Privileged resources	83.40	86.9%	82.54	87.4%
Obligations foncières	79.96	83.3	79.39	84.1
Other privileged resources	3.44	3.6	3.14	3.3
Non-privileged debt	12.54	13.1%	11.86	12.6%
Unsecured debt	6.91	7.2	6.13	6.5
Subordinated debt and similar debt	4.22	4.4	5.14	5.4
<i>of which redeemable subordinated notes (RSN)</i>	<i>2.10</i>	<i>2.2</i>	<i>2.90</i>	<i>3.1</i>
<i>of which participating loans</i>	<i>1.35</i>	<i>1.4</i>	<i>1.35</i>	<i>1.4</i>
Shareholders' equity. Provisions and FRBG*	1.42	1.5	0.58	0.6
Total liabilities	95.94	100.0%	94.40	100.0%
Shareholders' equity and related items	2.77	2.9	1.93	2.1

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

Performance indicators:

€62.2 million

Net income

110.8%

Overcollateralisation ratio

53.4%

Average LTV

Secured liabilities at December 31, 2008

Obligations foncières issued in 2008
€8.5 billion

Outstanding secured liabilities
€83.4 billion, including €80 billion
in obligations foncières

Positioning

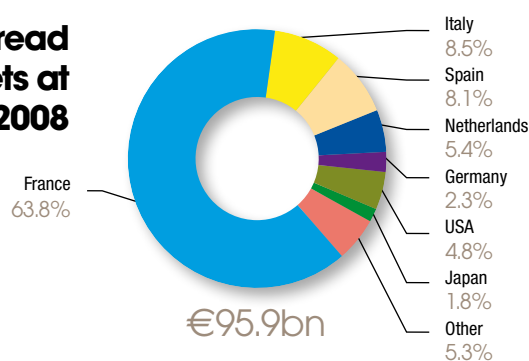
Leader in covered bonds in Europe

Breakdown of assets at December 31, 2007 and at December 31, 2008

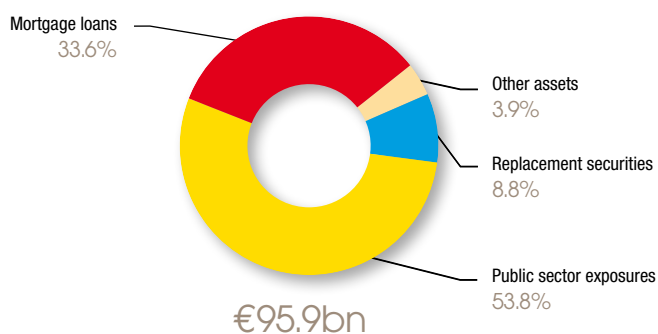
By taking into account the direct and indirect public guarantees on certain outstanding loans also backed by real estate collateral, especially loans secured by the FGAS guarantee fund, the assets secured by a public guarantee represented €51.6 billion at December 31, 2008, or 61.6% of all loans excluding replacement securities and 53.8% of all assets.

	at Dec. 31. 2008		at Dec. 31. 2007	
	€ bn	%	€ bn	%
Mortgage loans	32.20	33.6%	32.25	34.2%
Mortgage loans	16.54	17.2	14.82	15.7
Residential mortgage-backed securities (AAA)	15.67	16.3	17.43	18.5
Public sector exposures	51.59	53.8%	46.30	49.0%
Mortgage loans guaranteed by the French state or a European public institution	11.37	11.9	12.77	13.5
French public sector loans	19.89	20.7	15.82	16.8
International public sector loans	20.33	21.2	17.71	18.8
Other assets and replacement securities	12.15	12.7%	15.85	16.8%
Replacement securities	8.43	8.8	11.12	11.8
Other assets	3.72	3.9	4.73	5.0
Total assets	95.94	100.0%	94.40	100.0%

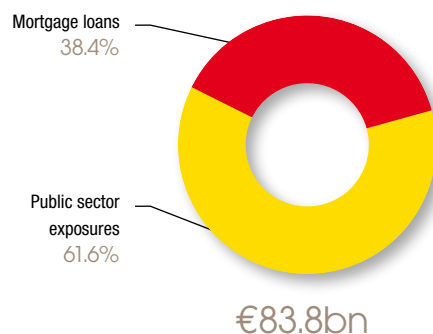
Geographic spread of assets at December 31, 2008



Breakdown total balance sheet



Breakdown total exposures



A REGULATED, STABLE and TRANSPARENT business model



Compagnie de Financement Foncier is a credit institution authorised by the French Credit Institutions Committee [CECEI - *Comité des Établissements de Crédit et des Entreprises d'Investissement*] as a société de crédit foncier (as defined by the French Savings and Financial Security Act. No. 99-532 of June 25, 1999 and set forth in the French Monetary and Financial Code).

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

As a société de crédit foncier, these transactions are specialised and have an exclusive purpose: to grant or acquire loans secured by a first-rank mortgage or exposures to public authorities or fully secured by them.

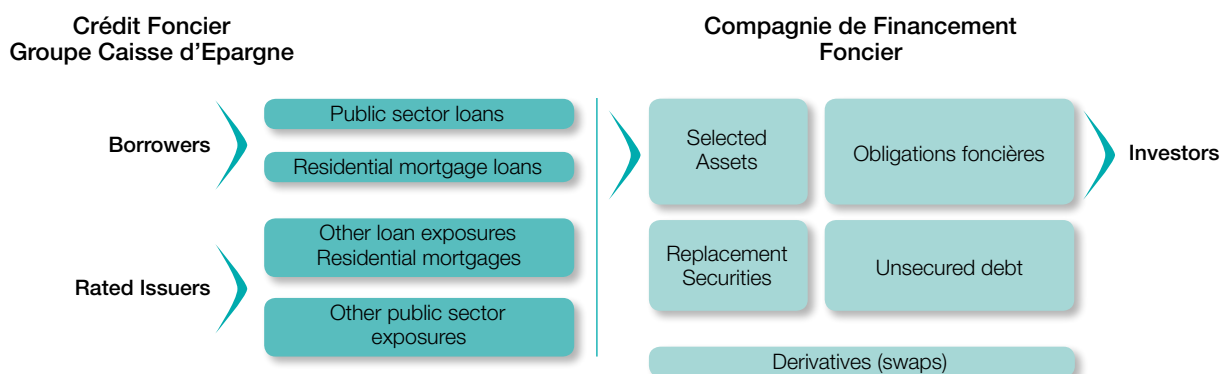
These loans are financed by issuing obligations foncières and other secured debt with a legal “privilege” that provides creditors with senior claims on asset cash flows. The difference between assets and privileged liabilities, known

as overcollateralisation, is financed by shareholders' equity, subordinated debt and unsecured debt contracted with its sole shareholder, Crédit Foncier.

All obligations foncières issued by Compagnie de Financement Foncier and other privileged debt, whether traded or not on regulated markets, benefit from this legal privilege.

Beyond the legal, economic and institutional security offered by French law, Compagnie also enforces very strict management rules: assets are thoroughly scrutinized before being selected, overcollateralisation is at an impressive level and ALM rules are highly stringent.

This business model, reinforced by the quality of assets, has been rewarded with a AAA/Aaa/AAA rating and is trusted by investors, as demonstrated by the quality placements of Compagnie de Financement Foncier.



Legal safeguards

Sociétés de crédit foncier are governed by French law No. 99-532 from June 25, 1999 and in particular by Articles L. 515-13 *et seq.* of the French Monetary and Financial Code.

The transposition of the European directive Basel II, which defines covered bonds, during the first half of 2007 amended these laws in order to improve the legal and financial competitiveness of sociétés de crédit foncier on global markets. As a result of the law modernizing the economy passed on August 4, 2008, eligibility conditions for loans have been extended geographically to countries with the highest credit ratings as well as to New Zealand and Switzerland.

This rigorous legal and regulatory framework provides maximum protection for investors.

Business transparency

Purpose

Sociétés de crédit foncier are credit institutions whose exclusive purpose is to grant or acquire secured loans or exposures to public authorities and to finance them by issuing obligations foncières which benefit from a priority right of payment as defined in Article L. 515-19 of the French Monetary and Financial Code.

The business activities of sociétés de crédit foncier are restricted by law. As a result, sociétés de crédit foncier may not hold equity interests or investment portfolios. Reading the accounts of a société de crédit foncier and having them audited by independent statutory auditors provides a transparent view of the equilibrium of its balance sheet:

- › assets consist of loans, and exposures;
- › liabilities consist of obligations foncières and other debts.

Earnings are not influenced by the performance of share portfolios or equity interests. They depend on the quality of assets, the interest margin and asset-liability management safeguards.

Eligible assets

The eligibility criteria for société de crédit foncier assets are defined by Articles L. 515-14 to L. 515-17.

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 countries with the highest credit ratings;
- › exposures to public authorities (public entities, local authorities, etc.) when they are guaranteed by public authorities within the European Economic Area or when either their beneficiary or their guarantor has received the highest credit ratings from independent rating agencies;
- › replacement securities: essentially short-term securities (less than 6 months).

The procedures and conditions for transferring eligible assets to a société de crédit foncier as well as the final balance sheet recognition date of such assets on the date of the acquisition are specified in Article L. 515-21. The financial transparency of sociétés de crédit foncier is thus facilitated by :

- › a balance sheet constituted exclusively of eligible assets
- › accounting data on outstanding loans that has been approved by the statutory auditors.

Overcollateralisation

Article L. 515-20 defines the coverage rule, known as “overcollateralisation”, according to which the total assets of a société de crédit foncier must be greater than the total liabilities that benefit from the privilege.

Specific Controller

Articles L. 515-30 and L. 515-31 establish and define the roles and obligations of the Specific Controller of a société de crédit foncier. This person is on the list of official statutory auditors and monitors compliance with regulatory requirements, certifies publications and is held accountable to third parties. The Specific Controller takes on, if necessary, the role of judicial liquidator, representing holders of obligations foncières and other senior secured debt benefiting from the privilege and has extensive investigative rights to carry out all of his assignments.

Banking Commission

Article L. 515-29 stipulates that the Banking Commission is responsible for ensuring that a société de crédit foncier complies with its obligations.

Investor protection

Holders of obligations foncières are well-protected thanks to the legal “privilege” on all assets, protection from bankruptcy of the parent company as well as support from the parent company.

Legal privilege on assets

The “privilege” constitutes the essential legal safeguard for holders of obligations foncières and cannot be contested even if the company defaults, declares bankruptcy or enters into receivership.

Article L. 515-19 defines this legal “privilege” and the terms of its guarantee.

Priority rank

Apart from holders of obligations foncières, no public or private creditor can claim cash flows generated by the assets as they are first allocated to servicing obligations foncières and other privileged liabilities.

Cash flows from assets are thus used to service privileged debt.

In other words, the repayment of debt that is not covered by the “privilege” only occurs after obligations foncières and other privileged debt has been repaid. In order to ensure repayment, the amount of outstanding eligible assets must always exceed outstanding privileged debt: this is known as overcollateralisation.

Maintaining the privileged debt schedule

The liquidation of a société de crédit foncier does not accelerate the repayment of obligations foncières and other privileged debt. Holders of privileged debt are paid interest and principal at their normal contractual due date with priority over all other debt.

The legal “privilege”

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 in respect of deposits made by the société de crédit foncier with credit institutions, shall first be allocated to the payment of obligations foncières and other privileged resources mentioned at 1.2 of article L. 515-13;

2. When an SCF (société de crédit foncier) is subject to judicial reorganisation or liquidation proceedings (redressement ou liquidation judiciaires) or conciliation proceedings, the debts duly deriving from the transactions referred to in item 2 of I of Article L. 515-13 are paid on their contractual due date and with priority over all other debts, regardless of whether the latter benefit from legal privilege or security interests, including interest resulting from contracts, of whatever duration. Until the holders of privileged debts within the meaning of the present article have been fully paid off, no other creditor of the SCF (société de crédit foncier) may exercise any right over the property and rights of such company;

3. The judicial liquidation of an SCF (société de crédit foncier) does not result in the acceleration of the bonds and other privileged debts referred to in 1 of this present 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 as well as sums due, if any, under the contract provided for in Article L. 515-22.

Protection against default of the parent company

Receivership or liquidation of a société de crédit foncier's shareholders cannot be extended to the société de crédit foncier pursuant to Article L. 515-27.

Articles L. 515-25 and L. 515-26, concerning assets that may be seized during liquidation proceedings, stipulate that the normal rules of the French Commercial Code do not apply to sociétés de crédit foncier.

Solvency support from the parent company

Compagnie de Financement Foncier's affiliation with Caisse Nationale des Caisses d'Epargne (central entity of the Groupe Caisse d'Epargne, one of the major French banking groups), strengthens obligations foncières holders' protection against the risk of default by the issuer. Indeed, Article L. 511-31 of the French Monetary and Financial Code stipulates that the central entity with which a distressed credit institution is affiliated has an obligation to provide the support needed to ensure its solvency.

Article L. 511-31

The central entities (...) 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 (...).

Management continuity

Article L. 515-28 stipulates that contracts for servicing and recovering loans of a société de crédit foncier can be immediately terminated in the event the company responsible for servicing such loans is placed in legal receivership or liquidation. A new credit institution can then be contracted to service the loans for the société de crédit foncier, thus ensuring its continuous operation.

Financial safeguards

Laws governing sociétés de crédit foncier also regulate their operations and management rules; the provisions of these laws namely pertain to the nature and quality of the assets they are allowed to hold.

Economic principles

The first safeguard that obligation foncière holders benefit from is the sole and exclusive purpose of a société de crédit foncier (Article L. 515-13) which is to acquire eligible assets and finance them by issuing obligations foncières and other privileged resources, or non-privileged debt.

Compagnie de Financement Foncier's bylaws specify this exclusive purpose and stress that Compagnie cannot hold equity investments. It therefore has no subsidiary whose quality could affect its own solidity.

The second safeguard offered to obligation foncière holders derives from the type and intrinsic quality of eligible assets on the balance sheet of a société de crédit foncier.

Compagnie de Financement Foncier reinforces this safeguard for obligation foncière holders by using selection criteria and management procedures that are more restrictive than those required by law.

Asset types and guarantees

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

Compagnie's asset acquisition rules are strictly defined and controlled:

- › assets must be eligible under the laws governing the activities of a société de crédit foncier;
- › their acquisition is subject to the additional rules that Compagnie de Financement Foncier is committed to respecting such as excluding commercial mortgage loans;
- › assets are purchased with a margin to ensure Compagnie de Financement Foncier's profitability, including in a run-off scenario.

Guarantees

The quality of Compagnie de Financement Foncier's assets lies not only in their careful selection and LTV limits but also in their intrinsic characteristics.

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

More precisely, these assets consist of:

- > loans to public sector entities or guaranteed by the public sector;
- > residential real estate loans backed by a first-rank mortgage (max LTV 80%);
- > senior RMBS or ABS tranches of public sector debt rated higher than or equal to AA-, secured by at least 90% residential mortgages or eligible public exposures.

Selection

Beyond their eligibility criteria and guarantees, the essential, distinguishing safeguard of Compagnie's business model is the rigorous selection of its assets based on a specialised expertise, which capitalizes on the savoir-faire of Crédit Foncier teams. This selection process is subject to ongoing controls to maintain the highest level of safety for obligation foncière holders.

The price at which the company acquires its assets is determined by its cost of funding, asset default and loss probabilities (cost of risk), loan servicing fees (coverage costs) and profitability targets.

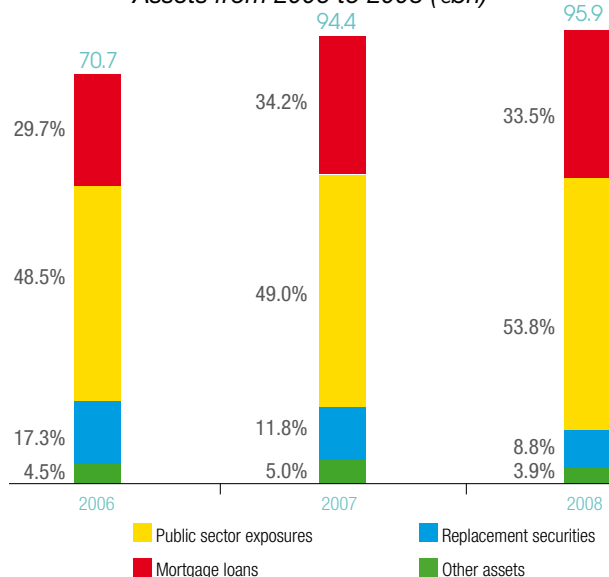
Summary

Loans with direct or indirect public guarantees make up 53.8% of Compagnie de Financement Foncier's total assets and loans with a mortgage guarantee represent 33.6% of its assets.

Compagnie's international growth strategy enjoyed a strong year with nearly €3.4 billion in loan financing for the public sector outside of France, mainly in Italy, Switzerland, Japan and North America.

Replacement securities (8.8% of assets) are mostly short-term interbank loans (less than 6 months) which meet criteria that guarantee both a minimal credit risk and high liquidity.

Assets from 2006 to 2008 (€bn)



Specific management rules for sociétés de crédit foncier

Overcollateralisation principle

Overcollateralisation, as defined by law (Article L. 515-20), stipulates that the total weighted assets of a société de crédit foncier must be greater than total privileged resources. One of the Specific Controller's duties is to monitor adherence to this principle of overcollateralisation.

Pursuant to CRBF Regulation No. 99-10, asset items have different weights depending on their quality. This, in effect, reduces the value of some assets when calculating the overcollateralisation ratio, especially those assets that carry a higher risk.

More precisely, these weights are as follows:

- > 0%, 50%, 100% for guaranteed loans and FCC units depending on their rating;
- > 50% for fixed assets resulting from the acquisition of foreclosed real estate;
- > 100% for secure and liquid securities (the weighting was changed in 2007 from 95% to 100%);
- > 100% for other eligible assets.

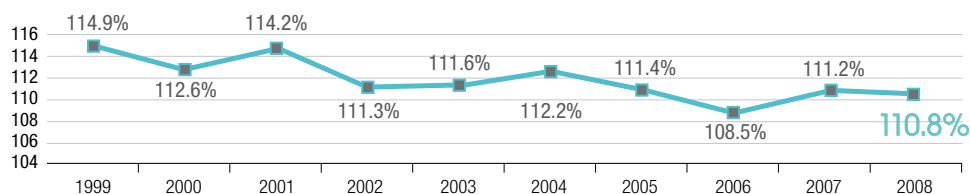
Compagnie de Financement Foncier constantly monitors its regulatory overcollateralisation ratio, thus ensuring obligation foncière holders that privileged resources are fully covered by assets.

With €1.4 billion in capital, €4.2 billion in subordinated debt and €6.9 billion in unsecured debt, overcollateralisation is well above the legal minimum of 100%. **This ratio stood at 110.8% at December 31, 2008 and has always surpassed 108.5% since Compagnie was created in 1999.**

LTV principle for residential mortgage loans

Regarding residential mortgage loans (€32.2 billion at year-end 2008), the LTV ratio corresponds to the relationship between the outstanding principal and the value of the underlying real estate. The value of the collateral is updated annually in order to monitor this ratio.

Overcollateralisation since 1999



The legally required 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

ALM Principles

In order to secure debt repayment, asset-liability management for sociétés de crédit foncier must ensure the congruence of asset and liability rates and maturities.

Accordingly, the financial management charter for the Crédit Foncier group still applies to Compagnie but takes into account the specificities and regulatory obligations of the société de crédit foncier.

Compagnie de Financement Foncier's ALM principles and processes thus ensure that the maturities and rates of its assets and liabilities are always congruent. Compagnie's ALM is managed in euros and at variable rates: all transactions in foreign currency, for example, are swapped into euros and at EURIBOR.

The liquidity available to Compagnie de Financement Foncier is always sufficient to cover one year's worth of contractual payments on its privileged debt. Differences between duration of assets and liabilities are less than 2 years at any given time and stood at 11 months at December 31, 2008. (6.8 years = asset duration, liability duration = 5.9 years)

Foncier Expertise, Crédit Foncier's wholly-owned, Veritas-certified subsidiary. Their experts, individually approved by the courts or qualified as Chartered Surveyors (MRICS), conducted nearly 15,500 appraisals in 2008. These evaluations are monitored each year by the Specific Controller who verifies that the real estate market parameters used in the valuation process, as described in the risk management report, are correctly applied. Based on these rules, at December 31, 2008, Compagnie had a stable LTV ratio on its mortgage portfolio of approximately 53.4% (51.6% in 2007).

Institutional safeguards

Regulatory controls

French regulatory framework

Compagnie de Financement Foncier is not only subject to specific regulatory provisions, but it must also comply, like any other credit institution, with the rules of the French Banking and Financial Regulations Committee (CRBF - *Comité de la Réglementation Bancaire et Financière*) and in particular amended Regulation No. 97-02 which outlines the internal control obligations of Compagnie de Financement Foncier.

Compliance with this regulation is an essential vanguard of safety; Compagnie de Financement Foncier must therefore establish an internal control system that:

- › is well organised and whose various players have clear and explicit mandates thus;
- › guaranteeing:
 - accounting information based on a complete set of standards, procedures and controls, and whose quality is routinely audited;
 - a system to assess the different types of risks;
- › is based on a written monitoring process using this assessment system, which routinely reviews these risks according to documented methods (Risk Committee);
- › is well-documented by procedure manuals and reports submitted to the external control entities and decision-making bodies (Audit Committee and the Board of Directors).

The main issues addressed by these regulations, to illustrate the importance of this safeguard, include:

- › consistency of the different levels of control;
- › risk oversight and assessment;
- › control of outsourced services;
- › documentation and disclosure.

Consistency of the levels of control

In particular, the regulation imposes:

- › organisation with regard to ongoing control (*i.e.* a group of designated participants, provided with adequate resources and who follow documented procedures);
- › organisation with regard to periodic control;
- › a specific post responsible for monitoring compliance.

It also imposes “strict independence” between the teams initiating transactions, recording them in the accounts and monitoring the risks associated with them.

Compagnie de Financement Foncier applies all internal control rules put in place at the Groupe Caisse d'Épargne (see Chairman's report).

Risk oversight and assessment

Institutions subject to these rules must develop assessment tools and methods in order to ensure effective risk management including selection measures (limits, delegations, analytical methods), tools and oversight procedures that allow them to routinely monitor the levels of risk being managed.

The regulations also call for a periodic review of these assessment methods and tools.

The different types of risks that are subject to these selection and oversight provisions include:

- › credit;
- › liquidity;
- › interest rate;
- › exchange rate;
- › compliance;
- › settlement and intermediation;
- › legal;
- › operational;
- › extraordinary events (cf. Business Contingency Planning).

Documentation and information

Each institution is required to document:

- › its organisation and the roles of various players;
- › rules that ensure the system's independence;
- › procedures relating to the security of information systems;
- › risk assessment systems and operational procedures (limits, selection rules, oversight, etc.).

Providing the control and oversight bodies with this information is also compulsory:

- › deliberative body: Board of Directors and its offshoot, the Audit Committee;
- › central entity or shareholder;
- › external controllers (Statutory Auditors, Specific Controller);
- › authorities (Banking Commission, French Financial Markets Authority).

The amended CRBF Regulation 97-02 sets forth minimum obligations (drawing up annual reports) in terms of information on risk monitoring and internal control mechanisms (Articles 42 and 43 of said regulation).

These articles stipulate that a report must be drafted and

sent to the Banking Commission in connection with its role of overseeing credit institutions.

Outsourced services

As for outsourced services, regulations stipulate that credit institutions must verify that their service providers comply with the same obligations. This obligation is imposed by amended CRBF Article 37-2, 97-02 in these terms: *"Outsourced services shall not absolve executive management of its responsibilities"*.

Extracts of 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 activity 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.

2. Reporting institutions and financial holding companies monitored on a consolidated basis shall also draw up, at least once a year, a report on the conditions under which internal control is 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 the measurement and monitoring of the risks to which they are exposed. 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.

With regard to the monitoring of the liquidity of investment services providers and the legal persons referred to in Article L. 442-2, items 3 and 4 of the French Monetary and Financial Code, the report shall state, inter alia, the assumptions used.

This report shall include:

- a) An annex 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 annex indicating the methods, including stress tests, used for identifying the risks resulting from the use of credit risk mitigation techniques recognised 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.

Banking Commission oversight

As authorised 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 the latter are required to provide, but is also authorised to conduct 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 No. 88-01).

In addition, as a société de crédit foncier, Compagnie is required to publish reports regarding:

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

A report on the quality of assets and its overcollateralisation ratio is sent once a year to the Banking Commission;

- > calculating the coverage ratio, in compliance with the limits on the composition of assets and on the calculation of amounts eligible for refinancing by privileged resources. A report on the coverage ratio and the status of “factors used to calculate the coverage ratio” are sent twice a year to the Banking Commission (Order No. 2008-05).

Finally, the Banking Commission must approve the appointment of the Specific Controller.

Control carried out by the AMF

In order to issue obligations foncières, Directive No. 2003/71 of November 4, 2003, known as the “Prospectus Directive”, requires that said bonds be registered either in the country the issuer is from or in the country the issuer wishes to list the securities from the issuance programme.

Compagnie de Financement Foncier has chosen Paris as the place of registration for its obligation foncière issues. As a result, before issuing obligations foncières, Compagnie de Financement Foncier must submit a prospectus containing information intended for the public to the AMF for its approval pursuant to Article L. 212-1 of the AMF’s General Code and Articles L. 412-1 and L. 621-8 *et seq.* of the French Monetary and Financial Code.

This prospectus is valid for one year and includes, in accordance with Article 16.1 of the Prospectus Directive, supplements when “any new material event, mistake or inaccuracy, relating to information in the prospectus and that is likely to influence the valuation of investment securities” occurs after the prospectus has been approved.

The French Financial Markets Authority (AMF) has the right to suspend or prohibit transactions if necessary.

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

Finally, in accordance with the provisions of the AMF General Regulations that transpose 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 regulated information as defined by Book II, Title II, Chapter 1 of said General Regulations.

Article 221-1 2° of the AMF General Regulations provides a list of regulated information that Compagnie has an obligation to publish “effectively and in full” (Article 221-3 I of the AMF General Regulations), which consists of filing the information with the AMF and posting the information 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 is subjected to audits by the Statutory Auditors. They are named by the Shareholders' meeting and not by Compagnie's directors, for a six-year term. Their term cannot end before the expiration of this period.

Compagnie, as a credit institution, must submit the nomination of the Statutory Auditors to the Banking Commission for preliminary consideration. Their permanent assignments are founded on a legal obligation to ensure the quality and reliability of financial and accounting information produced by companies and consists of:

Auditing and certification

The statutory auditors certify that the annual financial statements give a true and fair view of the financial situation and the company's assets as well as the results of its operations for the year ended in accordance with the accounting rules and principles applicable in France.

The article L.823-9 of the Commercial Code states that "the Statutory Auditors certify, with justification for their analyses that the annual financial statements give a true and fair view of the financial situation and of the company's assets as well as the results of its operations for the year ended".

They carry out an audit, in accordance with the professional standards set by the national entity, in compliance with international IFAC norms.

General report

The Statutory Auditors detail in their report the execution of their assignment, which is presented before the Ordinary shareholders' meeting. They express, by certifying the accounts, that they have obtained reasonable assurance about whether the financial statements are free of material misstatement.

They inform the Shareholders' meeting of irregularities and inexact information of which they became aware during their assignment.

Specific verifications

The Statutory Auditors verify the fairness and the congruence with annual financial statements:

- › the information provided in the management report;
- › the documents provided to shareholders on the financial situation and the annual financial statements.

They ensure the respect of the equality of shareholders and control the respect of measures relative to shares or capital shares held by the administrators.

They examine, if relevant, the conventions between the company and one of its administrators or between two companies who share the same administrator in order to present a special report to 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, carry out all verifications and controls that they deem appropriate and may be

heard on the premises and may request all documentation they consider necessary for their assignment and notably contracts, books, accounting documents and minutes.

These investigations may be executed either with the company or with the parent company or subsidiaries and with all the companies included in its consolidation.

The specific controller

As part of the system that guarantees obligation foncière holders complete control of sociétés de crédit foncier, the Specific Controller, chosen from the official list of Statutory Auditors and appointed with the approval of the Banking Commission, is responsible for verifying that operational mechanisms are functioning correctly and for ensuring strict compliance with the law.

His assignments, as defined by law (Article L. 515-30 and 31) and for which he has been granted extensive investigative rights, essentially aim to:

- › ensure compliance with all regulations and legislation applicable to sociétés de crédit foncier (Articles L. 515-13 to L. 515-33);
- › verify that the contributions made to Compagnie de Financement Foncier are in accordance with the purpose defined in Article L. 515-13 and meet the conditions provided for by 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 30th and December 31st of each year;
- › prepare an annual report for executives and deliberative bodies on the fulfilment of his assignment, a copy of which is submitted to the Banking Commission.

In accordance with the law and regulations, the Specific Controller must ensure that the société de crédit foncier is taking all necessary measures to secure repayment of obligations foncières and other privileged resources. In this respect, the Specific Controller needs to, either regularly or on specific occasions:

- › assess the quality of risk management and monitoring procedures that the société de crédit foncier has put in place to respect the principles outlined above;
- › assess the eligibility of loans and other assets held by the société de crédit foncier;
- › ensure an adequate coverage ratio of privileged resources by eligible assets, and compliance with regulatory limits and LTV ratios eligible for privileged refinancing;
- › certify these ratios, limits and LTV ratios twice a year for the Banking Commission, and issue coverage ratio certificates for quarterly bond issue programmes or issues

amounting to €500 million or equivalent in foreign currency;

- › review the procedure for the valuation and periodic review of assets underlying eligible loans, in accordance with CRBF Regulation No. 99-10 as amended by Regulations No. 2001-02 and 2002-02 and then by decree on May 7, 2007.

Verify the congruence of maturity and interest rates between the société de crédit foncier's assets and liabilities (Article 12 of CRBF Regulation No. 99-10), as well as the relevance of forward financial instruments to hedge secured loan management operations (Article L. 515-18 of the Code).

The controls performed by the Specific Controller supplement the standard internal controls carried out by the company and the Statutory Auditors.

In the event the société de crédit foncier is the subject of insolvency or liquidation proceeding, the Specific Controller shall become the legal representative of holders of obligations foncières and other privileged resources.

NB: to avoid a conflict of interest, the Specific Controller may not be a Statutory Auditor for the group to which the société de crédit foncier belongs.

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 assignment 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 errors and negligence committed by him in the performance of his duties.

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. 621-43 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.

AAA rating

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.

These three agencies' approach to rating covered bonds (among which obligations foncières) is based in part on the rating of the sponsor (here, Crédit Foncier de France) and in part on the asset portfolio securing privileged debts.

The intensity of the financial crisis that emerged in mid-2007 led all three agencies, each in its own way, to update and formalize their approach to the linkage existing between the rating of the covered bonds and that of the sponsor, notably because of the cash flow mismatches that may exist between assets and liabilities.

Standard & Poor's

Until now, S&P has delinked its rating of covered bonds from the rating of the sponsor if the legal or contractual framework made it possible to isolate the assets of the cover pool from the consequences of sponsor default. The ability to borrow against the pool assets to pay down a covered bond was quantified, however, in the cash flow approach and need for overcollateralisation; in principle however, it was deemed possible with no other restriction than the total amount of available assets.

Due to the crisis, this approach has been called into question and S&P proposed to the market (Covered Bond Rating Methodology, February 9, 2009) the creation of a linkage with the issuer's rating, because of the potential liquidity mismatch following default of the sponsor.

Subject to the market comments that it has requested, S&P is proposing to rank issuers in three categories:

- > category 1 remains decorrelated from the sponsor's rating. Issuers in this category exhibit zero liquidity risk (e.g. pass-through type structures);
- > category 2 includes countries (Denmark, Germany and France) in which the covered bonds (e.g. obligations foncières in France, according to the European Directive) are a systemically important funding instrument and benefit from major cultural and historical ties, and in these countries, the issuers for whom the post-default liquidity risk is moderate;

› category 3 includes issuers from all other countries or in the three countries of category 2, those issuers who have a greater liquidity risk, for example because they cannot access the repo market or because their maturity mismatch risk is higher.

This ranking results in a possible matching that may be more or less significant between the rating of the covered bonds and that of the sponsor: No ceiling for category 1, a difference limited to 5 or 6 notches in category 2 depending on whether the rating in question is AAA or not, and a maximum 3 or 4 notches in category 3.

Moody's

Moody's approach to the subject of linkage with the sponsor is outlined in the publication released 13 March, 2008 entitled: "Timely Payment in Covered Bonds following Sponsor Bank Default."

Similar to Fitch's D-Factor, Moody's created the concept of the Timely Payment Indicator (TPI), which limits the difference between the sponsor's rating and that of the covered bonds. The TPI is qualitative and varies from "Very Improbable" to "Very high." It estimates the probability of timely payment in the event of sponsor default.

The TPI is based on the legal or contractual framework used for a given programme. To establish the strength of the linkage between the sponsor and the covered bonds, the tools made available to the administrator of the asset portfolio in the event of sponsor default, as well as his freedom of action and legal protection available to him, are taken into consideration.

The analysis is based on:

- › the drafting of swap agreements (whether or not they survive a default of the sponsor and/or, at least temporarily, the default of the covered bond);
- › the potential liquidity of the assets of the cover pool in case of forced sale;
- › the characteristics of the issued debt (*in fine* vs. pass through).

Fitch Ratings

The Fitch methodology was reviewed in autumn 2008 (Covered Bond Rating Criteria, Oct 2008). The question of the linkage with the sponsor is now clearly codified and represented by the Discontinuity Factor or D-Factor. The lower this factor is, the more it reflects a large disconnect between the sponsor and the covered bonds, and thus the greater the potential differences in rating.

The D-Factor is calculated on the basis of the following elements, in decreasing order of importance:

- › legal ring-fencing of the assets in the cover pool with respect to the sponsor. The legal framework of the obligations foncières thus guarantees a total separation;
- › capacity to manage the cash flow imbalances following default of the sponsor;
- › or the operational risk related to a possible change in servicer if need be;
- › quality of the oversight and the probability of systemic support.

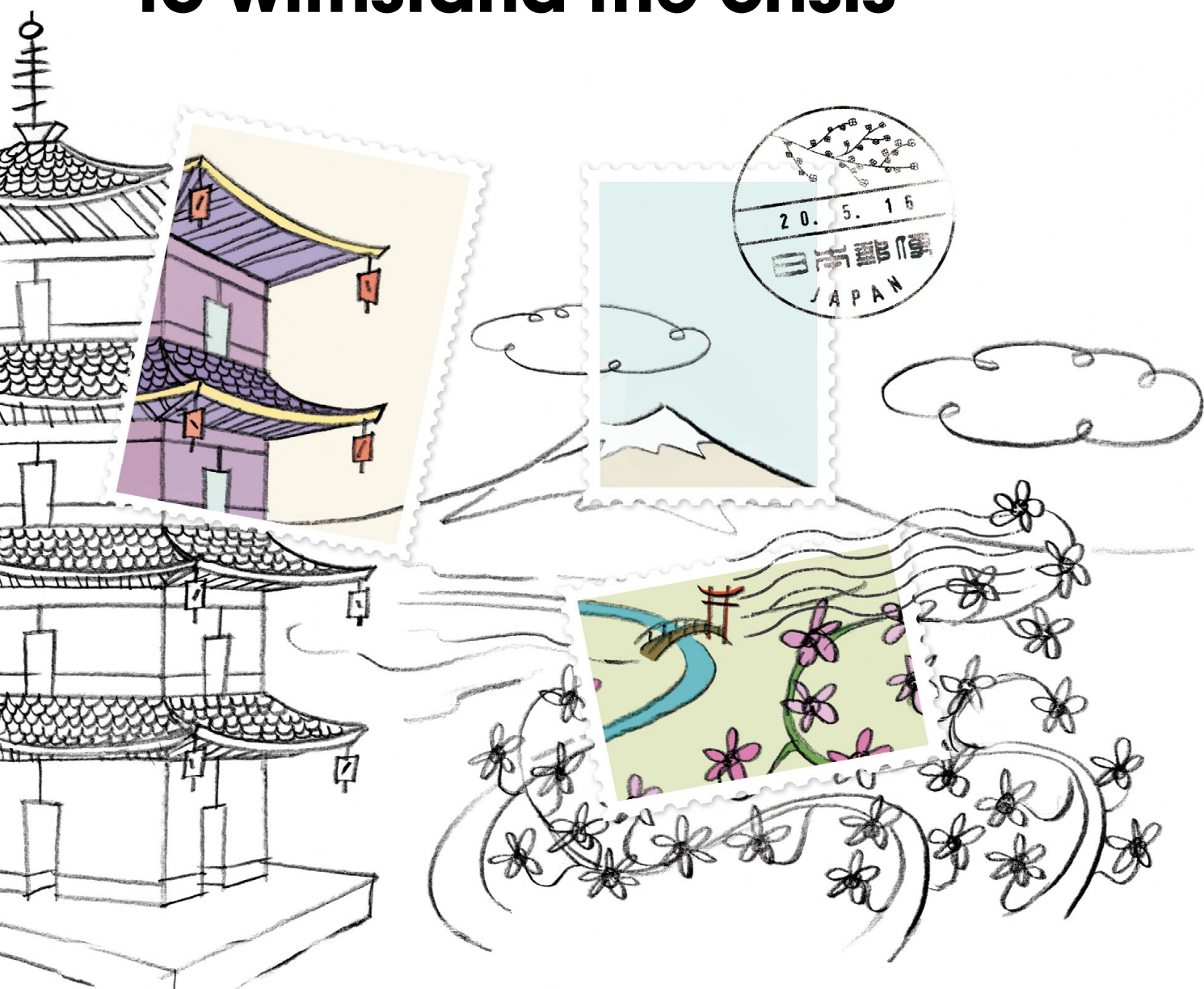
The weighting of these various elements is currently being reviewed by Fitch (Exposure Draft on Assessment of Liquidity Risks in Covered Bonds, March 11, 2009) to give greater weight to liquidity risk.

In light of the methodology changes of the rating agencies, Compagnie enjoys solid advantages allowing it to remain in the top rating echelon, such as:

- › the strength of the legal framework of the sociétés de crédit foncier including the total isolation from sponsor default for holders of obligations foncières;
- › the flexibility given explicitly in the law on liquidity-creation measures, even post-default: Daily law, repurchase agreement, new issues of obligations foncières, with transfer of the privilege;
- › the regulatory constraints derived from its status as a financial institution;
- › the credit quality and very liquid nature of a large part of its balance sheet;
- › the very strict body of asset/liability management rules that it imposes on itself and which are detailed in this report, which have the effect of sharply limiting the congruence mismatches in interest rates, exchange rates and maturity;
- › the size of its balance sheet and number of issues in circulation limits the size of cash flow mismatches.

SOLID FUNDAMENTALS

demonstrating its ability
to withstand the crisis



The regulation, continuity and transparency of its business model along with solid fundamentals allowed Compagnie de Financement Foncier to withstand the crisis in the covered bond market in 2008.

In addition to diversified and quality assets due to a strict selection process, Compagnie benefits from major liquidity reserves and a financing capacity rated AAA.

Strict selection of assets: quality and diversification

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

Compagnie's asset acquisition process is stringent and driven by the principles of prudence and *savoir faire*. In this respect, Compagnie uses purchasing filters by asset category and high-performance internal rating tools. Compagnie thus has quality assets that are diversified both geographically and by type of counterparty. Exposures to the public sector represent 53.8% of total exposures, with the rest consisting of mortgage loans.

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.

Exposures on the public sector

French public loans and securities

Public sector exposures in France may be on the following entities:

- › the State;
- › regions;
- › départements;
- › municipalities;
- › groups of local government entities:
 - EPCI (Communities of municipalities, agglomeration communities, urban community, local authority intermunicipal joint board, etc.);
 - public health bodies, national public establishments (EPIC, EPA, etc.);
 - local public entities: OPAC, OPHLM, CCI, SDIS, etc.

Compagnie de Financement Foncier uses the internal rating tool of the Groupe Caisse d'Épargne for selecting assets on this segment before their acquisition.

Furthermore, these are, intrinsically, quality assets since they benefit from the State's implicit borrowing guarantee. The State is indefinitely guarantor of the debts of public entities.

International loans and public 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;
- › and the other specific to local governments in the U.S.

Standard and Poor's first reviewed these models in December 2008. This review made it possible for Compagnie to compare its preliminary results and to have them reviewed by a third party.

To guarantee and maintain the quality of these models, they will undergo an audit as well as annual feedback from the rating agency.

The agency's positive conclusions illustrates Crédit Foncier's expertise in the financial rating of international local authorities. The implementation of a model for calculating the losses in case of default (Loss Given Default or LGD model) for the assets of international local authorities will be finalised in 2009.

Residential mortgage loans

Home mortgage loans

Mortgage loans are selected in two steps.

The loans are originated by Crédit Foncier using a score based on the characteristics of the property financed, the customer information, and the historic default probabilities.

Then Compagnie de Financement Foncier uses a purchase scoring tool for residential mortgage loans. Based on their default probability, and in some cases after an observation period, it selects those loans exhibiting a default risk below a certain threshold.

Residential mortgage loans are characterised both by their purpose (which is to finance real estate that will be used as the borrower or lessee's residence) and by their guarantees: a mortgage - meaning the security, or collateral, is provided by the real estate itself, thus allowing the lender to be paid from the proceeds of sale before other creditors in the event a borrower defaults on the loan used to finance the home.

This loan is granted by the lender based on the borrower's ability to repay the loan based on his current income and NOT on the value of the real estate being financed.

This value is only taken into account to estimate the risk of loss in the event of default and not to authorise the loan at the outset.

In practice, banks will not authorise a loan unless the debt ratio is below 33% of the borrower's income.

Beyond the individual (based on the ability to repay) and non-monetary approach (based on the value of the financed real estate) to mortgage loans in France, various provisions provide security for the market:

- The existence of a depreciation rate, set very close to average loan terms;
- Legislative and regulatory protection for the borrower, further strengthened by established legal precedents that consider the lender responsible if the borrower is indebted beyond his ability to repay and if it fails to warn him against the risks of taking out a loan;
- A lender's responsibility is clearly outlined *i.e.* the fact that the lender sells, or at least originates, the loan then services and finances it makes him fully responsible from one end of the chain to the other;
- Protective measures for borrowers in the event of over-indebtedness and in the case of loan collection procedures (real estate seizures).

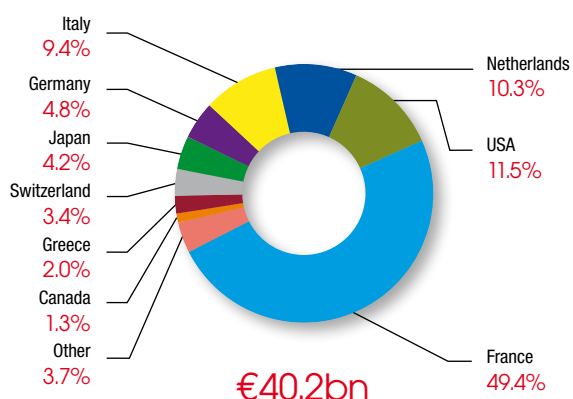
Residential mortgage loan securitization tranches

Compagnie only acquires senior tranches with at least two AAA ratings secured by residential mortgage loans with underwriting criteria that exhibit a similar quality to that found on the French market.

Direct public sector exposures

Direct public sector exposures consist of loans, commitments, liquidity guarantees and bonds financed by Compagnie de Financement Foncier under the most favourable lending conditions.

Total outstanding to public sector at Dec. 31, 2008



In France

Regarding loans to the French public sector, the Caisses d'Epargne and Crédit Foncier share, (according to intra-group rules) the commercial relationship with the borrower, while Crédit Foncier alone takes charge of the servicing.

In 2008, Crédit Foncier, via Compagnie de Financement Foncier, added to its strong market position as lender to local authorities in France.

At the public sector level, €3.7 billion in loans to the French public sector were refinanced either by direct sales or under the framework of a financial guarantee contract pursuant to law L. 431-7. Compagnie thus bought more than €1 billion in long-term loans and €1.4 billion of short-term loans originated on Crédit Foncier's balance sheet.

The public sector loan purchase transactions from the Caisses d'Epargne continued in 2008, for an amount of €192 million.

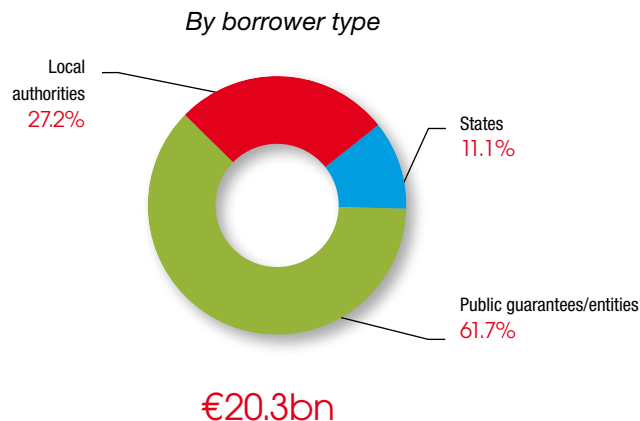
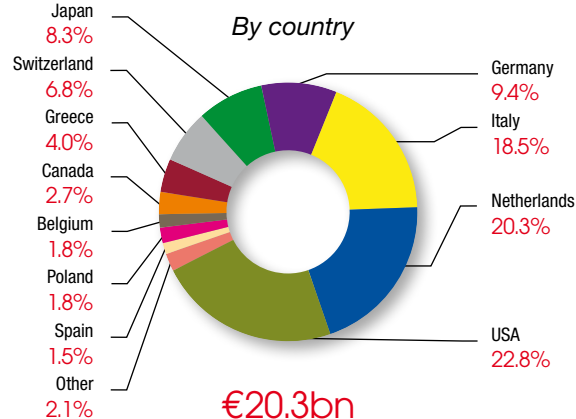
International

Crédit Foncier's international public finance department strives to provide custom financing solutions to their customers using the refinancing capacities of Compagnie de Financement Foncier. Crédit Foncier ensures the front-office commercial relationship for Groupe Caisse d'Epargne, as well as the servicing of the assets acquired by Compagnie.

This business continues to expand through the acquisitions of bonds issued by public or similar entities and financing granted to foreign local authorities.

With nearly €3.4 billion of production in 2008, financing foreign public authorities was carried out with the objective of optimizing yield/risk and controlling credit risks; the outstanding balance on this segment reached €20.3 billion at the end of 2008.

International Public Financing at Dec. 31, 2008



The international public finance business has not been spared by the crisis in the banking and financial markets. However, proactive management of liquidity levels as well as attentive surveillance to the environment and the target market have made it possible to meet the specific needs of select international authorities and public entities. Furthermore, the acquisition and implementation of an internal rating model and the expansion of eligible assets for Compagnie de Financement Foncier (Law modernising the economy passed on August 5, 2008) have helped maintain profitable growth objectives at an ambitious level. Thus, in a shrinking market, the production volume expected for 2008 had to be reduced while the profitability objective was maintained given the favourable context stemming from widening margins.

International public finance pursued its activity in North America.

Bolstered by its presence on this market and in order to meet the financing needs of the public sector, Crédit Foncier is considering opening a representation office in Canada before the end of 2009. 2008 was also marked by the tightening of available financing on the U.S. municipal bond market subsequent to the financial crisis and the closure of the interbank market. Under these market conditions, the international public finance department continued to accompany the strongest clients due in part to a selective strategy and a strong knowledge of the entities involved.

The outstanding debts held by Compagnie de Financement Foncier on U.S. public players are especially safe since most are rated a minimum of AA without recourse to mono-line credit enhancement. Exposures are concentrated on federal states or front-ranking cities like New York City.

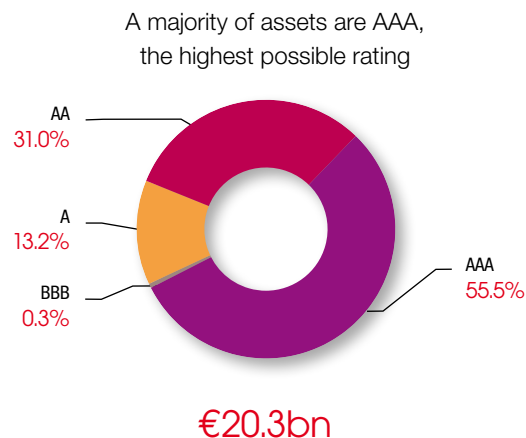
Among the operations financed in Western Europe, two were especially innovative:

- > in Switzerland, the financing of new tramways in Geneva in the form of fiscal leasing;
- > in Belgium, the issuance of a bond guaranteed by the Wallon region, for which Crédit Foncier was lead manager and investor.

Concerning the Japanese sector, Crédit Foncier de France focused on the most creditworthy names and on developing institutional relations. For this purpose, a Crédit Foncier representative office was opened in Tokyo in mid-December 2008.

In 2009, international public financing business could expand in this atypical environment insofar as its main competitors should be less present and/or banking market conditions will continue to impact production volumes. Management will continue its strategic development in this context, notably by pursuing the development of internal analytical tools, opening a Crédit Foncier office in North America, acquiring expertise in financing complex projects and looking for partners.

Rating of international public sector assets before any credit enhancement



Residential mortgage loans

In France

Compagnie's assets consist of residential mortgage loans granted by Crédit Foncier, or AAA senior residential mortgage loan securitization units (Mortgage-Backed Securities or similar entities).

Crédit Foncier ensures the servicing of loans when they are acquired by Compagnie.

During 2008, Compagnie pursued its policy of acquiring loans drawn from Crédit Foncier's residential mortgage origination in France while conserving its strict policy of filtering risks.

Compagnie de Financement Foncier acquired or refinanced by mobilisation €2.6 billion in mortgage loans granted by Crédit Foncier.

Among the notable events of the year, in the context of rising interest rates that prevailed at the beginning of the year, Crédit Foncier de France announced in a press release on 18 January that it would renegotiate with its customers with certain floating-interest-rate loans by capping rate variation and, or as the case may be, shore up their monthly payment by pegging its increase to inflation, or changing them to fixed-rate loans. Because part of these loans were sold to Compagnie beforehand, an agreement was signed between Crédit Foncier de France and Compagnie, totally protecting Compagnie from the financial consequences of these renegotiations.

International

The acquisition of international residential mortgage loans was strongly affected by the crisis in the credit markets in 2008. The primary RMBS market thus remained closed all year, at least regarding external transactions.

The 2008 activity was thus limited to a few additional lines acquired on the secondary market on operations already held in the portfolio in Italy, Portugal and the Netherlands for a nominal amount of €64 million. Moreover, the activity of direct purchases of mortgage debt portfolios was deliberately halted while awaiting more stable market conditions.

The violence of this crisis tends to overshadow the fundamentals, and it should be recalled that the credit rating of residential mortgage debts (€13.9 billion at year-end 2008 excluding operations with a State guarantee) of Compagnie has held up extremely well. In fact, the Basel II rating (based on external ratings) of the 82 lines remained AAA at 31 December 2008. Compagnie's exposures are exclusively "prime" rated granular portfolios whose intrinsic performance has remained solid despite the economic slowdown in the Euro zone, and particularly Spain.

It should be recalled that Compagnie's strategy in this segment is exclusively one of holding to maturity. These loans are viewed as a way to create origination channels in the neighbouring countries of Continental Europe, on a business line that is one of the historic strengths of Crédit Foncier.

In Continental Europe, lending standards have remained conservative and have never approached the characteristics of the "subprime" loans in the United States. Verification of the borrower's income based on documents is thus always present in the operations subscribed by Compagnie, and the ability of the borrower to pay back his loan has remained an essential lending criterion, beyond collateral value. Furthermore, the legal environment in these countries protects the lender insofar as the borrower cannot free himself from his loan obligations by simply walking away from his loan if the real estate market takes an unfavourable turn. The lender has certain recourse against the borrower, such as seizure of salary.

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.

The three main factors potentially influencing the decline in profitability of a residential debt portfolio are:

- › the prepayment rate of loans. The lower it is, the longer the debts remain exposed to the potential degradation of the macro-economic situation;
- › the cumulative foreclosure rate on the portfolio;
- › the extent of the downturn in the real estate market, which will directly affect the final loss rate in case of borrower default.

Compagnie has thus defined, in cooperation with its service provider Crédit Foncier de France, scenarios for these three parameters in each of the countries where it is present, of course considering the current situation which is already seriously degraded in certain countries like Spain.

At end December, the parameters used were the following:

	Estimated prepayment rate by country	Estimated forclosure rate by country	Expected drop in real estate prices by country
Germany	0%	10%	20%
Netherlands	1%	8%	30%
Spain	2%	10% ^(*)	40%

^(*) 15% pour Santander Hipotecario 3 and Madrid RMBS 3.

It must be emphasised that, given these parameter settings, the portfolio transactions all continue to pay the expected interest and capital at the due dates.

Over the past few years, Compagnie has also developed a tool monitoring RMBS management companies, or trustees, which is done on the basis of management reports that these entities publish periodically, and which leads to the attribution of an internal rating.

This is based on ten main characteristics, which are weighted by their pertinence and include:

- > regularity of the reports;
- > report content *i.e.* outstanding securitized debts at time “t”, the outstanding principal of RMBS tranches, the anticipated reimbursement rate, the level of arrears, the default rate, the reserve fund, the LTV at time “t”, the ratings of the tranches and the geographical distribution.

If timely reports are not received from the trustees, reminders are sent out.

The traditional investor base on residential mortgage risk has all but disappeared following the widening of spreads. This very sudden widening is related more to the evaporation of liquidity and the downward spiral generated by mark-to-market depreciations than the idiosyncratic credit risk of a given portfolio. One of the lessons of the crisis is to recognize the excesses of the originate and distribute¹ model. It is thus more than probable that the market will only recover once new rules are implemented regarding transparency and the responsibilities of players at all levels of the value chain.

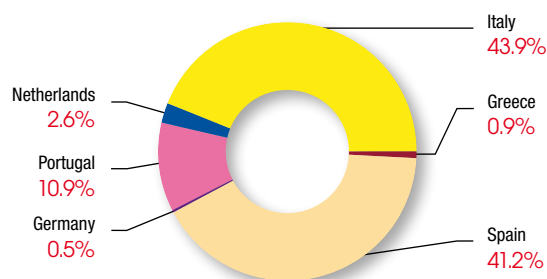
New activity in 2009 should thus remain at a low water mark, even though the strategic importance of diversifying exposures in home loans abroad remains intact.

¹ Model by which banks do not hold loans they originate until maturity, but distribute them to different types of investors by issuing structured financial products.

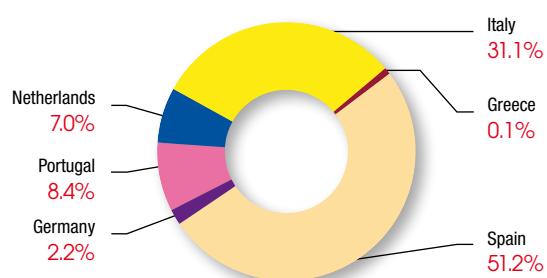
The breakdown of Compagnie's outstandings by country is the following:

Residential mortgage debt securitization units (securitized debts)

Exposures concentrated in Europe



€1.2 million loans



€13.9bn

Large liquidity reserves available for repo

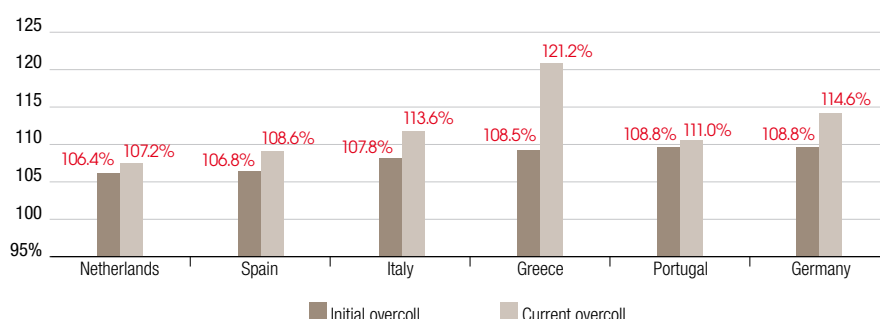
With the backdrop of an extremely tense market, Crédit Foncier group became aware, very early on, of the importance of shoring up its liquidity. It moved to institute a policy of strict management of negotiable outstandings back in 2007. The rating of its assets, and in particular that of the securities and eligible credits on the balance sheet of Compagnie de Financement Foncier, give it the ability to gain immediate access to refinancing from central banks like the ECB.

The group fully incorporated the ECB's new "Pool 3G" guarantee system as soon as it was set up in February 2008.

In fact, Crédit Foncier group had more than €32 billion, of which €23 billion in securities and €9 billion in loans, available for repo with central banks as of December 31, 2008.

With its liquidity thus ensured for several years, Crédit Foncier has been able to pursue its activity with serenity throughout 2008 and, in 2009, will be able to meet the needs of the various public and private operators.

Overcollateralisation of RMBS



All tranches Compagnie holds on its balance sheet show levels of overcollateralization greater than that observed at acquisition.

A renowned AAA issuance programme

2008: limited exposure to the crisis

The covered bond market was marked by two periods of highly contrasted volumes in 2008.

The bankruptcy of a major player on the banking market in September led to the complete closing of a sector that was already enduring an overall slowdown, in the context of the liquidity and confidence crises that began in June 2007.

Spreads on the primary and secondary markets also moved differently depending on the classes of covered bond and, within each type, on the issuer.

Although no default occurred, the insolvency or near-bankruptcy of certain groups shook the landscape and, by more pronounced hierarchisation of the spreads, revealed that investors favour certain structures and issuers.

A leader on the obligation foncière market

Compagnie de Financement Foncier has a transparent and regulated structure with regulatory controls guaranteeing security, a safe and, diversified portfolio of assets, strict and prudent risk management and a large reserve of liquidity.

With these advantages, Compagnie de Financement Foncier came through 2008 with a certain serenity in an environment hobbled by depreciations, bailout plans, nationalisations and buyouts. It proved its ability to resist the crisis due to its solid fundamentals.

Rising risk aversion led to tightening of the liquidity in the financial system and thus limited bond issuance capacity. In addition, 2008 was marked by the arrival of new competitors. First, the number of issuers of covered bonds increased 30%. Then a new class of assets, State-guaranteed bonds, made its appearance in support of the economic recovery plans.

In this difficult environment, Compagnie de Financement Foncier, rated AAA/Aaa/AAA - outlook stable was able to attract investors in search of the most solid investments and thus reaffirmed its leadership status as a top private issuer. Compagnie de Financement Foncier thus issued nearly €8.5 billion while maintaining a financing cost in line with

objectives. In 2008, this volume of issues came to 37% of the obligation foncière market. Furthermore, the volatility of the secondary levels was limited by the control of its supply. Regarding, public issues, which finished 2008 at €4.2 billion, Compagnie de Financement Foncier was able to take advantage of brief issuance windows to carry out its programme, notably with a benchmark issuance of €1.5 billion, maturity February 2011 and three other new benchmarks: €500 million, maturity January 2010, 350 million Swiss francs, maturity August 2016 and 200 million Swiss francs, maturity September 2012.

A programme tailored to investors' needs

51% of the annual issuance programme of Compagnie de Financement Foncier, or €4.3 billion, was carried out in the form of private placements under satisfactory conditions and in a volume equal to 2007 even as this market sank by 35%.

In an unfavourable context for structured products, the responsiveness and flexibility of Compagnie de Financement Foncier made it possible to meet the needs of private investors, both in terms of structures like the Ratchet Reverse Floater or different currencies and formats. Lastly, to innovate and diversify its product range, Compagnie de Financement Foncier continued to develop the Registered Covered Bonds format under German law.

Outlook

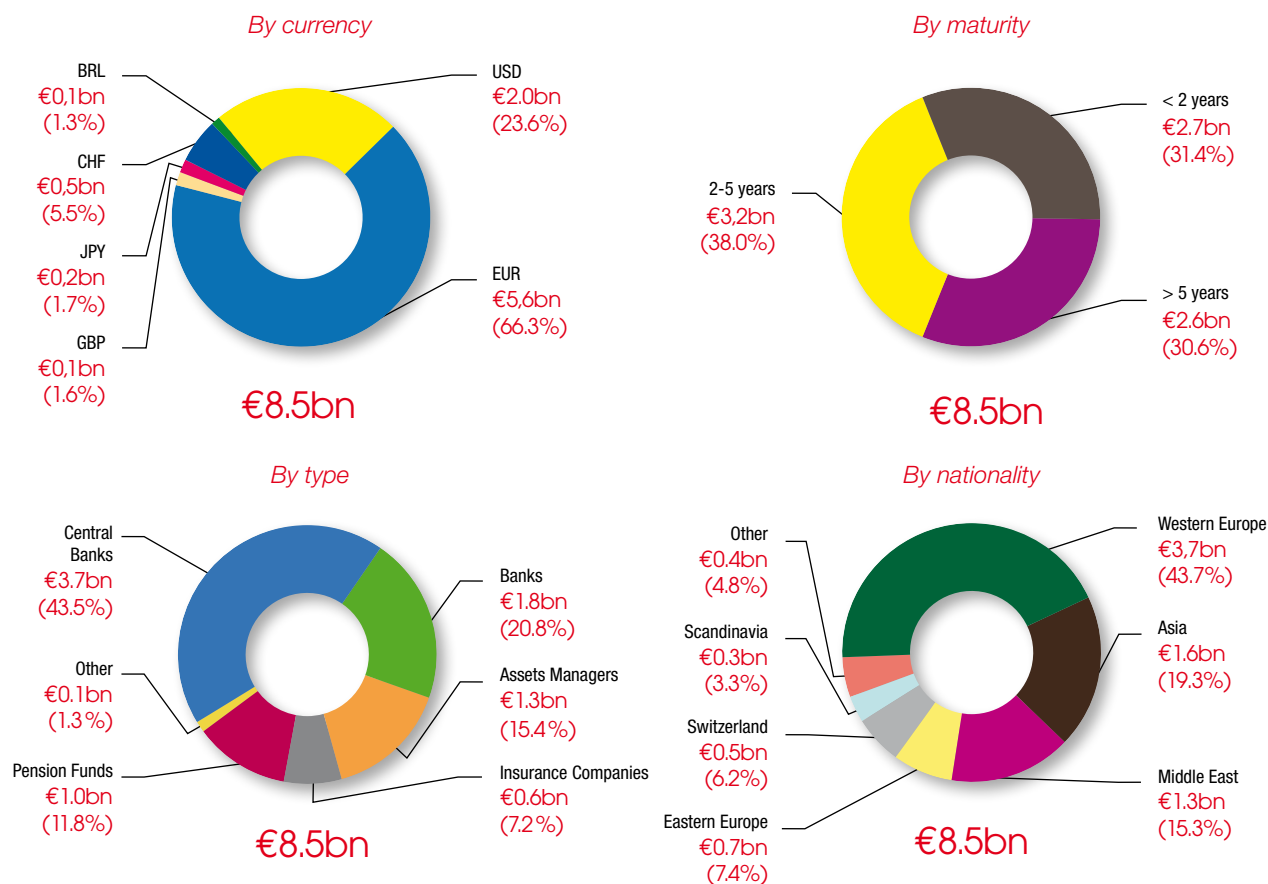
The abundance of state-guaranteed issues concentrated on short maturities appears set to continue to monopolise the attention of the most conservative investors in early 2009.

However, low interest rates and the need for insurers to extend the duration of their assets should quickly accelerate demand for obligations foncières, and for those of Compagnie in particular. This environment will favour the recovery of the market and that of benchmark issuance, as well. The demand will certainly be selective, with the most solid issuers benefiting the most, and Compagnie figures to be part of this recovery.

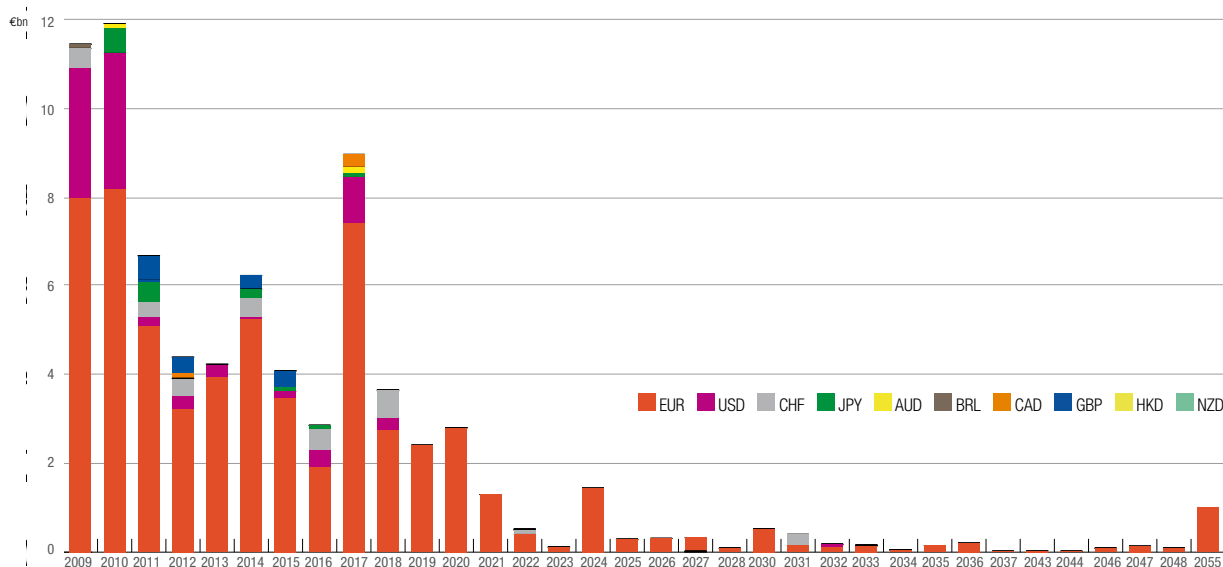
Given its stringent legal framework and deep investor base, activity should resume in 2009 and result in the success of the issuance programme. Enhanced interest by the clientele and a normalization of banking conditions should only bolster this idea.

Compagnie's liquidity has thus been maintained all through the year in accordance with its commitments.

Issuance in 2008

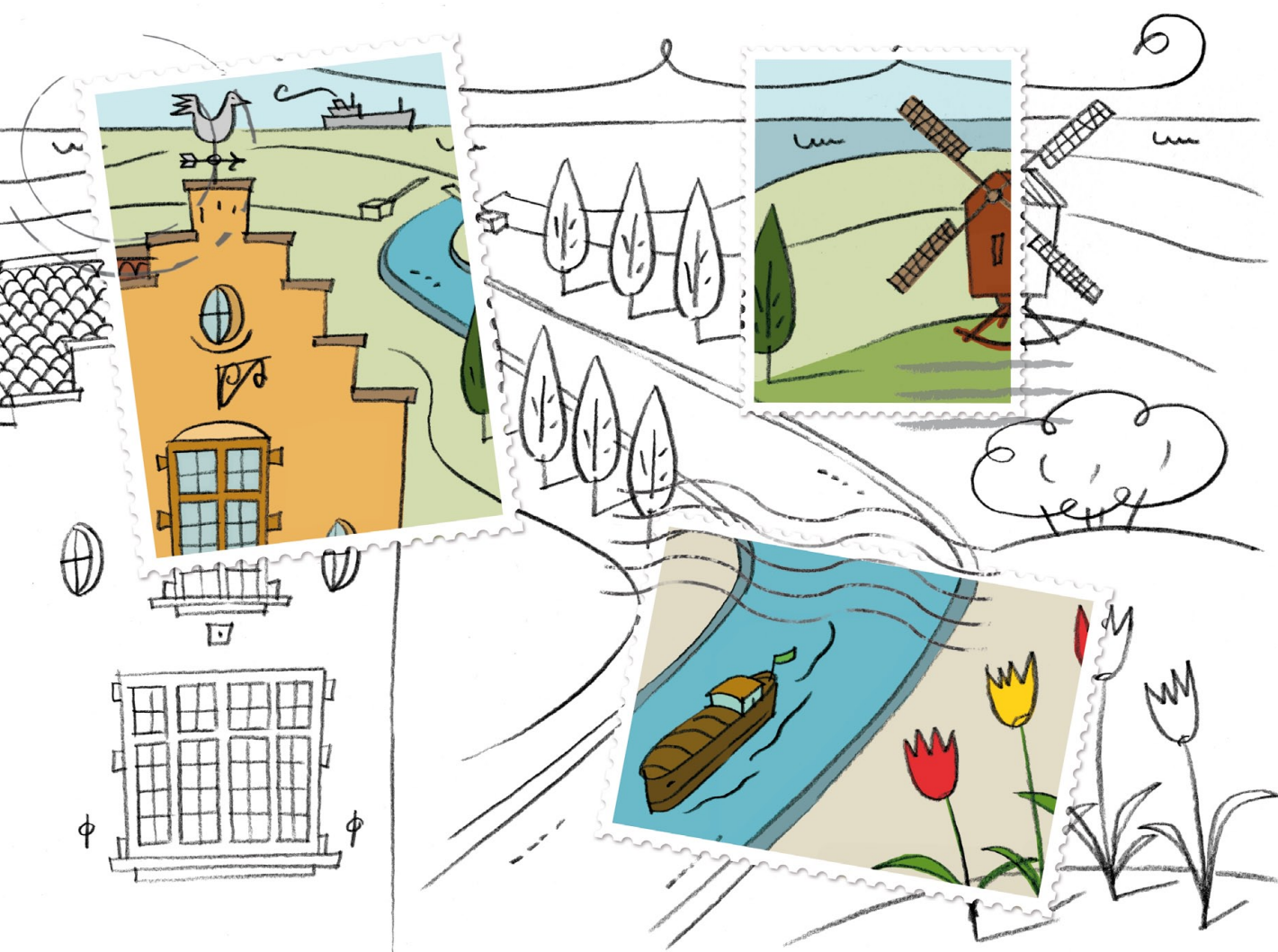


The diversity of the public issues of Compagnie de Financement Foncier results essentially in the following currency/maturities combination:



CONTROLLED AND TESTED

risk management



Monitoring entities in support of governance rules

The risks associated with Compagnie de Financement Foncier's activity are controlled by several monitoring entities and committees thus reinforcing governance rules.

A monitoring structure at the group level

The Crédit Foncier Risk Department controls and monitors risk for Compagnie within the framework of agreements between Crédit Foncier and Compagnie. It provides *ex ante* analysis of the risks in the framework of the delegation schemes, as well as their *ex post* analysis and monitoring. It is part of the Group risk department (DRG) of Groupe Caisse d'Epargne.

The Compliance department also works on the permanent monitoring mission and ensures compliance with laws and regulations, rules of ethics and good conduct, and compliance with Crédit Foncier group rules.

In addition to this monitoring structure at the group level, the Company has its own committees.

Committees specific to Compagnie

There are five committees specific to Compagnie.

The Risk committee meets at least once per quarter. 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 monthly 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. In 2008, this committee's role was enlarged, as the frequency of its meetings increased to weekly, in order to ensure the best possible response in matters of risk hedging strategies in the current financial context.

The management committee 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.

Strong commitments in the service of the AAA rating

The AAA/Aaa/AAA rating of Compagnie de Financement Foncier reflects both the rules set by law (guaranteeing the minimum security level offered to obligation foncières

holders) and Compagnie's additional public commitments:

Compagnie de Financement Foncier publishes internal rules with respect to the following areas of risk:

- › credit: purchasing filters;
- › counterparty: asymmetrical collateralisation agreements, overcollateralization greater than the required level, replacement values with a minimum rating level;
- › interest rate: systematic swap of exposures into floating rates;
- › liquidity: ability to meet the next 12 months of debt payments in a run-off scenario;
- › currency: all exposures swapped into euros.

Compliance with these commitments is reported to the agencies on a quarterly basis.

These management rules, specific to Compagnie, offer additional security to investors benefitting from the legal privilege.

Maintenance of a high overcollateralisation level specific to Compagnie in a sustainable format

Laws concerning sociétés de crédit foncier require Compagnie de Financement Foncier to keep on its balance sheet a ratio above 100% between weighted assets and preferred liabilities. This weighting of asset elements thus makes it possible to determine a first level of overcollateralisation corresponding to the required legal minimum to ensure the security of such structures.

Consisting of subordinate and unsecured resources, the overcollateralisation must allow the société de crédit foncier to withstand worst-case scenarios on credit, interest rate and liquidity risk, while still making payments on obligations foncières on a timely basis.

Beyond the security offered by the institutional framework, Compagnie de Financement Foncier has taken additional measures that consist:

- › not only of maintaining a minimum level of overcollateralisation greater than this prerequisite, thus allowing a high coverage of the risks it incurs;
- › but also of excluding all ballancing subsidies and subordinate resources of the subsidised sector from the unsecured or subordinate resources that are the part of the over-

collateralisation calculation.

Compagnie also benefits from a solid base of non-privileged resources, a participating loan for €1.35bn reaching maturity in 2040 and a redeemable subordinated note for €2.1bn with a maturity of 2043.

The current overcollateralisation is thus 110.8%. Its long-term components referred to above are a key differentiating factor in the covered bond market, as overcollateralisation in some cases can vary sharply from quarter to quarter, at least in theory.

Beyond those aspects related to the legal and accounting form taken by the overcollateralisation, Compagnie commits itself vis-à-vis the market to respecting a minimum level, which depends on its asset mix and residual interest rate risk at any given moment.

In this respect, two levels of overcollateralisation have been defined.

The first covers the credit risk on assets held by Compagnie de Financement Foncier, and the second covers the overall interest rate risk of its balance sheet. It is the sum of these two overcollateralisation levels that constitute the minimum overcollateralisation that Compagnie de Financement Foncier agrees to maintain.

Overcollateralisation related to credit risk

The assets held by Compagnie de Financement Foncier can be broken down into two broad classes: eligible loans not rated by the rating agencies and eligible assets rated by them. Each of these categories indicate a rather distinct credit risk level and thus calls for a different overcollateralisation calculation mode. The minimum overcollateralisation level needed for credit risk coverage is by definition the sum of these two intermediate levels.

On eligible loans not rated by the rating agencies

The portfolio of loans held by Compagnie de Financement Foncier is subdivided into eight sub-categories according to the type of borrower, the type of property being financed, and the collateral provided. Each sub-category corresponds to a varying overcollateralisation ratio depending on:

- › the credit risk represented;
- › and the acquisition date of the loans.

Two levels of overcollateralisation are then calculated, the first based on the portfolio of current loans and the second on the portfolio of loans estimated at two years, given a level of probable amortisation and new production. The higher amount of the two results obtained, once reduced by 5% - to account for the diversification of the loan portfolio - constitutes the minimum overcollateralisation needed to cover the credit risk of this class of assets.

The current overcollateralisation ratios follow:

Asset classes	Overcollateralisation of the existing portfolio	Overcollateralisation of new production
Subsidised sector	3%	No new production
PAS + PTZ	2.5%	3%
Residential/ Social access	3%	3.5%
Residential/ Rentals	25%	30%
Real estate professionals	50%	No new production
Local Authorities	3%	3%
Social housing	4.5%	4.5%
Financial establishments	4%	No new production

On eligible assets rated by the rating agencies

The overcollateralisation ratio applicable to rated eligible loans is based on a simulation that takes the probability of default of each asset into account as a function of its rating and maturity, its possible recovery rate in case of default, the amount of exposure on each of the assets, as well as the correlations between the various assets in the portfolio. The model is based on conservative working assumptions in accordance with the expectations of the agencies.

Overcollateralisation related to interest rate risk

The overcollateralisation needed to cover the overall Compagnie de Financement Foncier interest rate risk depends first on the size of its balance sheet and second on the estimate of its future income. It is equal to 0.5% of the amount of the Compagnie de Financement Foncier

balance sheet, reduced by the net present value (VAN) of the estimated earnings over the coming ten years.

In order to guarantee a high security level, several net present values are calculated by crossing the following various assumptions:

- > calculations made in a run-off scenario without new production;
- > under three prepayment assumptions: no prepayment, probable ratio and stressed ratio equal to three times the probable scenario;
- > and under three market rate assumptions: reference rate curve, stressed cash flow assuming unfavourable borrowing and lending conditions at EONIA +1% and EONIA -0.5%, respectively, a parallel upward shift of the rate curve of 200 basis points.

It is the most conservative net present value of the nine results obtained that is used in the overcollateralisation calculation.

Corrective measures in emergency

Corrective measures have been defined in case of emergency. If the overcollateralisation observed quarterly (consisting of unsecured or subordinate resources excluding balancing subsidies and subordinate resources of the subsidised sector) turns out to be less than the minimum level thus defined with the rating agencies (minimum overcollateralisation on non-rated loans + minimum overcollateralisation on rated assets + overcollateralisation related to interest rate risk), any new acquisition of assets is immediately suspended and non-privileged resources are implemented to return to the minimum required amount of overcollateralisation.

Considering the excellent credit rating of its assets and the very low interest rate and liquidity risks stemming from the asset/liability management rules detailed below, this overcollateralisation guarantees investors that Compagnie is able to respect its payment dates under all circumstances.

Controlling credit risk

Purchasing filters by asset category

While regulations ensure that the quality of eligible assets confer a high level of safety, Compagnie de Financement Foncier takes additional measures to limit its exposure to credit risk including additional purchase filters (acquisition scores, minimum ratings, etc.) on the specific assets being purchased.

Compagnie de Financement Foncier refrains, for example, from buying commercial real estate assets.

(for more information please see the asset selection chapter)

Furthermore, the replacement values held by Compagnie de Financement Foncier (with a maturity of less than one year) benefit from the best ratings attributed by the agencies. The minimum rating allowed for each asset (excluding intra-group) depends on the duration of the placement and corresponds to the top tranche of the investment grade on the agency rating scale, or:

	Standard & Poor's	Moody's	Fitch Ratings
From 0 to 1 month	CT A-1	CT P1	CT F1
From 1 to 3 months	CT A-1+	CT P1	CT F1+
From 3 to 6 months	CT A-1+	CT P1	CT F1+
Over 6 months	LT AAA	LT Aaa	LT AAA

Low level of doubtful loans

Compagnie de Financement Foncier's prudent selection procedures endow it with acquired assets of excellent quality. The ratio of doubtful loans in the competitive sector (excluding loans with State guarantee) comes to 0.3% at December 31, 2008 (including tranches of mortgage-backed securities). The complementary effect of the guarantees associated with the loans has allowed Compagnie de Financement Foncier to record a remarkably low loss ratio since 1999.

Since its creation in 1999, Compagnie has never recorded a risk charge greater than 0.5 basis points and on average the risk charge is zero or negative.

Reassuring stress scenarios

The stress scenarios regularly carried out and in particular those in 2008 using the assumption of a significant fall in the markets confirmed the quality of the RMBS portfolio as well as the strength of the model (for details see the risk management report).

Management of the counterparty risk

The risk policy of Crédit Foncier group defines the limits per counterparty; counterparty limits enter into the Company's decision-making process.

Compagnie de Financement Foncier, in the framework of its hedging operations or repurchase agreements, has concluded with each of its counterparts a framework agreement with a specific appendix that defines asymmetrical collateralisation agreements.

The counterparty agrees, if its rating is or is likely to be less than the F1+ or AA- at Fitch Ratings, P1 or Aa3 at Moody's, A-1+ or AA- at 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 his net debt position without reciprocity on Compagnie's part.

Management of balance sheet risks

Management of interest rate risk

Compagnie de Financement Foncier is committed to maintaining the level of its interest rate gaps within limits set each observation period and to correct any overruns, at the latest, during the following quarter:

Horizon	Limit of maximum interest rate gaps in % of balance sheet projected in expected scenario
Less than 2 years	2%
2-5 years	3%
5-10 years	5%
More than 10 years	10%

The Compagnie de Financement Foncier balance sheet is rigorously hedged against interest rate risks. Each asset acquisition or refinancing transaction is systematically swapped into floating rates, such that the rate fluctuations have the same impact on the assets and liabilities of the balance sheet.

Compagnie de Financement Foncier also limits the difference between the duration of its assets and that of its overall liabilities to 24 months at most. As of December 31, 2008, this difference came to 0.9 year.

Coverage of the liquidity risk

Compagnie de Financement Foncier assumes strict management rules ensuring it, at any point in time, sufficient liquidity to honour its preferred liability commitments for one year with no need for new resources in a run-off scenario. If necessary, it can access the monetary policy facility offered by the European Central Bank for its short-term loans, and in fact did so over the course of 2008 (for an amount of €2.5 billion as of December 31, 2008).

Thus, at any given time, Compagnie's cash position (with no new activity) ensures contractual reimbursements of its privileged debt over the coming twelve months.

The volume of the Compagnie's assets eligible for repo with the ECB facility would, in the present configuration, allow it to hold out much longer than the twelve months to which it is committed; such simulations were provided to the Banking Commission.

No currency risk

Compagnie de Financement Foncier refrains from any open currency position. Asset acquisition or refinancing operations not denominated in euros are always hedged against currency risk when concluded.

In practice, Compagnie limits its residual currency positions to a maximum 0.1% of its balance sheet.

Controlled management of the other risks

Operational risk

The operational risk is defined in the Crédit Foncier group as the loss risk related to a failure or malfunction of the processes, the information systems, people, or consequent to external events. It includes accounting, legal, regulatory, tax risks, as well as risks related to the safety of persons and property and of information systems.

The Crédit Foncier group has integrated the system dedicated to the "Operational risk" process of the Groupe Caisse d'Epargne. It has management and methodological tools based on:

- › mapping of operational risk events;
- › declaration of risk incidents in a specific database;
- › establishment of indicators on main risk zones.

A quarterly risk committee, the internal audit committee and the risk department track the management of these risks.

Settlement risk

Cash balance operations mostly concern ALM activity. Their processing is centralized in the Treasury Back Office.

This department provides:

- › management of cash flows;
- › 24-hour forecast of cash balance.

Ensuring proper separation of functions is respected as management of cash balance accounts and the monitoring of the accounts fall under the responsibility of a manager in charge of an independent unit.

Lastly, the settlement risk is tracked as part of specific procedures.

Other risks

Other risks concern:

- › intermediation;
- › settlement;
- › non-conformity;
- › insurance contracts.

Survey of exposures related to the crisis subsequent to G7 recommendations

- › As of December 31, 2008, Compagnie de Financement Foncier had no exposure on the following asset classes:
 - CDO;
 - CMBS;
 - ad-hoc vehicles (ABCP type or other);
 - leveraged debt operations or LBO;
 - subprimes and Alt-A (RMBS, prêts, etc);
- › As of December 31, 2008 Compagnie de Financement Foncier had no exposure to Lehman Brothers or Madoff Group;
- › Credit enhancements concern underlying public sector assets and take the form of financial guarantees. They represent a security ancillary to the enhanced asset. The enhanced securities have a good intrinsic rating: without enhancement, 34% of this portfolio is rated step 1 (≥AA-) and 82.9% is rated step 2 (≥A-).

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MANAGEMENT REPORT FOR 2008

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In 2008, Compagnie de Financement Foncier continued to develop its business activity, albeit at a slower pace than in previous years, in an extraordinary context marked by the financial and economic crises.

Compagnie's acquisitions of more than €8 billion were split evenly between the financing of loans issued by its parent company and the production or purchase of debt by the international public finance department.

As backing for its investments, Compagnie de Financement Foncier issued €8.5 billion in privileged resources thus confirming its position as one of the leading European issuers with the best credit ratings from the three main rating agencies.

Its status as a société de crédit foncier coupled with the additional safety measures it has committed to respecting enables Compagnie de Financement Foncier to maintain the quality of its assets and limit its already low volume of outstanding doubtful loans. As a result, a vast majority of its assets have obtained the highest credit quality rating by the Banking Commission (the French banking authority).

In terms of financial risk, its management rules have proved successful despite particularly adverse market conditions. Compagnie de Financement Foncier did not encounter any difficulty maintaining liquidity levels during this period. At year-end 2008, the balance sheet totalled €95.9 billion

and net income for the year stood at €62 million, which was in line with its balance sheet structure and the expected earnings from its business activity.

Regulatory environment

Following 2007's modifications to the legal and regulatory framework that governs sociétés de crédit foncier, the law was again amended - although to a much lesser extent - by the law modernising the economy passed on August 4, 2008.

Certain countries including the United States, Switzerland, Japan, Canada, Australia and New Zealand are now to be considered in the same light as Member States of the European Community or countries party to the agreement on the European Economic Area in terms of the eligibility of exposures held on their public entities. It should be noted that the first four countries on this list already had a specific regulatory statute up until December 31, 2007.

The law passed August 4, 2008 enabled the government to take, by ordinance, all measures necessary in order to modernize the legal framework of French financial markets.

The January 8, 2008 ordinance on financial instruments updates the terms and references outlined in Article L. 515-13

regarding the statute and purpose of sociétés de crédit foncier. The changes, although primarily concerning the form and not the intention of the law itself, require a vote from the extraordinary shareholders' meeting approving the revision of Compagnie de Financement Foncier's bylaws.

Activity in 2008

Compagnie de Financement Foncier's business expanded in its 3 main sectors:

Financing French public authorities

In this area, Compagnie de Financement Foncier purchased, for €1.6 billion, a portion of loans originated by Crédit Foncier and granted to French public authorities; Compagnie also acquired loans from this sector originated by the Caisses d'Epargne for nearly €200 million.

The volume of short-term credit line authorisations fell sharply at end 2008 and the facility granted to the Treasury for a maximum of €1 billion was renewed during the year.

Financing public authorities abroad

Compagnie de Financement Foncier continued to acquire public sector debt outside France, by subscription or purchase of securities for an amount of €3.3 billion in certain countries and by direct production of loans benefiting from guarantees by Swiss cantons for an amount of €0.3 billion. These securities were issued by public authorities mainly in North America (U.S. for €1.6 billion and Canada for €0.3 billion) and Europe.

These investments received the highest credit rating except for Greek transactions amounting to €255 million and two transactions in Canada for €86 million.

Acquisitions of mortgage loans

Private residential loans backed by first-rank mortgages or equivalent collateral granted by Crédit Foncier in France made up the majority of the €1.1 billion in purchases on the year.

Compagnie de Financement Foncier also financed new mortgage loans issued by its parent company by subscribing to Crédit Foncier mortgage notes guaranteed by a portfolio of residential mortgage loans. The volume of these mortgage notes grew by €1.5 billion in 2008.

Compagnie de Financement Foncier's activity in the mortgage securitisation market was limited to a few purchases on the secondary market of tranches in RMBS funds that are already held in the portfolio; these investments represented a mere €64 million for the year.

In addition, Compagnie de Financement Foncier completed two credit guarantee transactions with Crédit Foncier in 2008:

In the first instance, Crédit Foncier revised the guarantee it affords on a part of its securitisation portfolio having unwound a position contracted with a third party in 2007 to optimise equity management. In June of 2008, Crédit Foncier committed to shield Compagnie de Financement Foncier from any potential consequences resulting from a fall in rating below 2nd rank credit quality of certain securities on an internal list determined to be possibly more risky. As of December 31, 2008 the volume of securities subject to this special monitoring amounted to €1.9 billion.

Secondly, Crédit Foncier has moved to shield Compagnie de Financement Foncier from any financial consequences stemming from measures it took early 2008 in favour of a part of its customer base with variable rate mortgages. Crédit foncier has also offered its customers a series of measures designed to protect their monthly repayments in the event of a sharp rise in mortgage rates. It will indemnify Compagnie de Financement Foncier for any losses arising out of these renegotiations up to the volume of outstanding loans held by the subsidiary.

Assets

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 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 this last category, which corresponds to cash investments, eligible assets must consist of either:

- › loans purchased or originated by Compagnie;
- › senior securitisation tranches whose underlying assets include at least 90% of those assets authorised by law to be purchased and held directly by Compagnie;
- › debt securities issued or guaranteed by public authorities;

- › promissory notes issued by Crédit Foncier purchased by Compagnie with mortgage loans or other guaranteed loans as collateral.

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 social à la propriété, or Guarantee fund for social access to home ownership), or are loans to the subsidised sector.

The latter includes subsidised loans promoting access to homeownership that are guaranteed by the French government. This programme was terminated in 1995. Crédit Foncier, which had a virtual monopoly on subsidised sector loans, transferred its entire portfolio to Compagnie de Financement Foncier when it was founded in 1999. No new production has since occurred in this portfolio.

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

	December 31, 2008		December 31, 2007		December 31, 2006	
	€ million	%	€ million	%	€ million	%
Secured Loans Articles L. 515-14 and 16	43,574	45.4%	45,016	47.7%	31,668	44.8%
State subsidised mortgage loans	1,251	1.3	1,599	1.7	2,141	3.0
Loans secured by FGAS*	6,713	7.0	6,976	7.4	6,602	9.3
Other mortgages loans	10,262	10.7	10,398	11.0	8,410	11.9
Mortgages-backed securities	15,666	16.3	17,428	18.5	13,401	19.0
Other loans with real estate guarantee	584	0.6	1,028	1.1	1,114	1.6
Mortgages notes	9,097	9.5	7,586	8.0		
Public authority exposures Articles L. 515-15 and 16	40,225	41.9%	33,532	35.5%	23,636	33.4%
State subsidised public loans	285	0.3	350	0.4	369	0.5
Other public loans	21,217	22.1	17,227	18.2	8,897	12.6
Public entity securities	11,139	11.6	8,108	8.6	8,431	11.9
Senior securitisation tranches of public debt	7,584	7.9	7,847	8.3	5,938	8.4
Other assets (interests on IFAT, prepayments/deferred charges/accrued income, Goodwill, other)	3,718	3.9%	4,726	5.0%	3,204	4.5%
Replacement Securities Article L. 515-17	8,425	8.8%	11,123	11.8%	12,184	17.2%
Total assets	95,943	100.0%	94,397	100.0%	70,691	100.0%

* FGAS: Fonds de garantie de l'accès social à la propriété (Guarantee fund for social access to home ownership).

Compagnie de Financement Foncier's activities slowed in 2008 resulting in a modest increase in total balance sheet assets from €94.4 billion to €95.9 billion for the year with variations depending on asset type.

The main features were as follows:

- › a significant, €6.7 billion, increase in public sector assets. In fact, two-thirds of the year's acquisitions were in this category - spread over various types of loans and securities, with direct or indirect guarantees from public authorities. Furthermore, at end 2008, this item includes the overnight cash flow balance lodged with the Banque de France amounting to €1.1 billion;
- › a €1.4 billion slowdown in real estate mortgage loans. Purchases during the year were not enough to compensate for amortisation of outstandings. The residential mortgage-backed securities portfolio, in particular, saw no significant new acquisitions over the course of 2008. A few tranches were purchased, for €64 million, on the secondary market in RMBS funds that are already held on the balance sheet.

Outstandings actually decreased by €1.8 billion due solely to amortisation.

By the same token, the portfolio of loans to the subsidised sector, which by its very nature is in a runoff mode, lost more than 20%, or €0.3 billion, of its outstandings over the year, which stood at just €1.3 billion at year-end 2008.

The total volume of other loans increased in 2008 by €0.7 billion including a significant increase in active loan outstandings.

- › a marked reduction in the volume of replacement securities, which dropped €2.7 billion.

At end 2007, a significant volume of liquidities was lodged with financial institutions presenting optimum short-term ratings in order to provide for contractual reimbursement of privileged resources terminating in January 2008, in particular an issue dating back to January 2003 for a nominal €3.5 billion. One year later, by year-end 2008, liquidity management had been adapted taking into account the particular circumstances of the financial crisis at the time: liquidity was therefore ensured by contracting short-term loans with the ECB with regular renewals and by lodging the balance with the Banque de France and as a result recorded as public sector exposures and not as replacement securities.

In order to determine the real share of Compagnie de Financement Foncier's public sector activities, the portion of secured loans that come under Articles L. 515-14 and 16 and that are guaranteed by the French state need to

be restated. Including loans to the subsidised sector and loans guaranteed by the FGAS, the amount of exposures to public authorities is €48.2 billion at the end of 2008 compared to €42.1 billion at the end of 2007. Taking into account indirect guarantees granted by a public entity on certain mortgage loans as well, outstanding loans to the public sector amounted to €51.6 billion at year-end representing a €5 billion year-on-year increase representing 54% of total balance sheet assets at December 31, 2008.

Asset guarantees are also geographically diverse. Over the year, the percentage of assets located outside France remained stable and represented 36% of total balance sheet assets at December 31, 2008 i.e. outstandings of €34.7 billion.

The geographic split changed somewhat during the year as a reflection of business activities:

- › lower in countries where Compagnie de Financement Foncier holds debt in the form of securitised mortgages such as Italy, Spain and Portugal due to the natural decline in portfolio outstandings during the year;
- › higher in countries where Compagnie de Financement Foncier has purchased debt or loan products in 2008 such as the U.S., Japan and Switzerland.

Assets are located, at the end of 2008, excluding France, in the following countries:

- › Italy: 8.5% and €8.1 billion;
- › Spain: 8.1% and €7.7 billion;
- › Netherlands: 5.4% and €5.2 billion;
- › U.S.: 4.8% and €4.6 billion;
- › Germany: 2.3% and €2.3 billion.

The remainder of the geographic breakdown has changed from last year and there are three other countries with outstandings of over one billion euros:

- › Portugal: 1.3% and €1.2 billion;
- › Japan: 1.8% and €1.7 billion;
- › Switzerland: 1.4% and €1.4 billion.

Analysis of liabilities

Transactions in 2008

Compagnie de Financement Foncier's issuance programme was more restricted in 2008 compared to other years due to the financial crisis.

Transactions totalling €8.5 billion were mainly carried out during the first half-year. Given the uncertainty in the markets, the average duration of approximately 5 years was not as long as contracts in previous years. Private placements were buoyant and account for half of the year's programme.

Only 3 issues were subject to specific supervisory certification pursuant to regulations applying to sociétés de crédit foncier; an issue of €1.5 billion in February with a maturity of 3 years, an issue of €1 billion in April for 2 years and an issue of €0.5 billion in June for 1.6 years.

As part of its move to diversify its sources of financing, Compagnie de Financement Foncier entered into repurchase agreements for 2 bond lines on its balance sheet for a duration of 5 years, which resulted in subordinated assets of €0.6 billion.

Finally, Compagnie de Financement Foncier increased its capital stock, which rose from €154 million to €924 million as of June 30, 2008 following the issue of 48,125,000 new shares. These shares were acquired by Crédit Foncier as

partial compensation for the redeemable subordinated notes to which it subscribed in 2003.

Liabilities

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

- › Privileged resources that legally protect 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 made 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 these privileged resources since Compagnie's founding;
- › Other resources that help reinforce investor protection benefit from the privilege and demonstrate the highly prudent risk monitoring and management policies of Compagnie de Financement Foncier. These resources either come from Crédit Foncier, from schemes related to the subsidised sector and, to a lesser extent, from the Caisses d'Épargne. They also include collateral deposits made by banks, which are counterparty to derivative transactions.

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

	December 31, 2008		December 31, 2007		December 31, 2006	
	M€	%	M€	%	M€	%
Privileged resources	83,399	86.9%	82,539	87.4%	64,557	91.3%
Obligations foncières	79,960	83.3	79,395	84.1	61,680	87.3
Other preferred debt	3,439	3.6	3,144	3.3	2,877	4.1
Non-preferred debt	12,544	13.1%	11,859	12.6%	6,134	8.7%
Unsecured debt	6,905	7.2	6,130	6.5	2,322	3.3
Subordinated and related debt	4,224	4.4	5,144	5.4	3,282	4.6
of which redeemable subordinated notes	2,100	2.2	2,900	3.1	900	1.3
of which participating loan	1,350	1.4	1,350	1.4	1,350	1.9
Shareholders' equity, provisions and FRBG	1,415	1.5	585	0.6	530	0.7
Total liabilities	95,943	100.0%	94,397	100.0%	70,691	100.0%
Shareholders' equity and related items	2,765	2.9	1,935	2.1	1,880	2.7

The distribution of liabilities both privileged and non-privileged remained constant during 2008.

The amount of privileged resources increased by less than 1 billion euros in 2008 as the volume of obligations foncières issuance was only slightly higher than reimbursements under previous issue contracts.

Non-privileged resources continue to represent around 13% of the balance sheet thus providing a high level of overcollateralisation and enhanced protection for obligation foncière holders. In 2008, subordination levels of non-privileged resources were reinforced. The capital increase carried out at mid-year greatly increased shareholders' equity and similar items, which at end 2008 stood at 1.5% of the balance sheet or nearly 3% including the participating loan ranking as "Tier one".

The level of unsecured debt represented by asset repurchases remained at a level close to that of other years. Repurchases at year end 2008 amounted to €3.1 billion, up from €2.6 billion at end 2007.

Out of these bonds benefiting from the privilege, 24 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 €44.8 billion at December 31, 2008, 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 € million
CFF 2.375% January 2009	FR0010235440	29 01 2009	3,300
CFF 4.25% May 2009	FR0010474189	22 05 2009	1,825
CFF 4.25% October 2009	FR0000470544	25 10 2009	1,600
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 4% October 2012	FR0010422600	25 10 2012	1,000
CFF 4.50% January 2013	FR0010526988	09 01 2013	1,000
CFF 5.375% March 2013	FR0000485724	02 03 2013	1,400
CFF 4.25% January 2014	FR0010039149	29 01 2014	2,550
CFF 4.375% November 2014	FR0010541946	19 11 2014	1,000
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	1,350
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	1,000
CFF 4.50% May 2018	FR0000474652	16 05 2018	2,650
CFF 4.375% April 2019	FR0010464321	25 04 2019	1,250
CFF 5.75% October 2021	FR0000487225	04 10 2021	1,250
CFF 3.875% April 2055	FR0010292169	25 04 2055	1,000

Prudential ratios

In June 2008, the Banking Commission updated its instructions relating to the overcollateralisation ratio so as to reflect changes since April 2007 in legislation and regulations governing the activity of sociétés de crédit foncier.

A report must be submitted to the general secretariat of the Banking Commission after approval by the Specific Controller, as before, twice a year on the basis of figures as of June 30, and December 31. It has been modified to include changes in the Monetary and Financial Code and now has three sections; a calculation of the overcollateralisation ratio, demonstration of compliance with ALM limits and a calculation of the amounts eligible for refinancing by privileged resources.

The overcollateralisation ratio measures the ratio of weighted assets and privileged resources and must always be in excess of 100%. Weighting reduces the value of some assets that do not provide an optimum level of security. This is the case for tranches in securitised vehicles and guaranteed loans where the rating is below first rank.

For Compagnie de Financement Foncier, the ratio stood at 110.8% at December 31, 2008 and remains at a high level comparable to the figure of 111.2% posted on December 31, 2007 using the same calculation process. One single transaction has not been included in this result. This involved the subscription of shares in a securitisation fund weighted at 50% with an outstanding of €432 million at year end and carrying a 2nd rank rating since it is guaranteed by the Italian State.

Regulations define maximum holding amounts for certain assets as follows:

- › guaranteed loans are limited to 35% of assets; the percentage at Compagnie de Financement Foncier is well below this threshold at less than 2%;
- › promissory notes are limited to 10% of assets; Compagnie de Financement Foncier holds mortgage notes representing 9.5% of its total balance sheet assets at December 31, 2008 and 8.0% the previous year;
- › RMBS tranches or similar vehicles are limited depending on the nature of the underlying loans, their acquisition date and their rating; Compagnie de Financement Foncier to date holds no shares subject to these restrictions;
- › certain exposures to public sector entities outside of the European Economic Area or with 2nd rank rating are limited to 20% of the par value of senior holdings; Compagnie de

Financement Foncier to date holds no such assets;

- › replacement securities are limited to 15% of the par value of privileged resources; Compagnie de Financement Foncier complies, at all times, with this limit. At the end of 2008, the amount of its investments stood at 10.1% of privileged resources, this stood at 13.8% at December 31, 2007.

Finally, regulations require verification of the amounts not eligible for refinancing by privileged resources: it must be proven that liabilities are always higher than the overruns observed.

The June 2008 order extended the calculation to loans guaranteeing promissory notes and tranches in securitisation funds. Overruns are determined on the basis of LTV levels of assets used as collateral for loans. As regards the loan portfolio held directly or indirectly when mobilised by promissory notes, the percentage is 60%; this is increased to 80% for residential loans granted to private individuals and it stands at 100% when a loan is guaranteed by the FGAS. These percentages are determined annually after revaluation of the relevant collateral in compliance with regulations.

For Compagnie de Financement Foncier, overruns relating to this asset category stood, at December 31, 2008, at €121 million for acquired loans and €89 million for active loans.

For the securitisation portfolio, the respective LTV limits are the same except that they are verified against the loans making up the assets in the fund at the time of issuance or the acquisition of the shares by taking into account the liquidity contained in the fund. At December 31, 2008, Compagnie de Financement Foncier posted such an overrun of €15 million.

In total, the overrun was €225 million and was refinanced by non-privileged debt for the significantly higher figure of €12,544 million at December 31, 2008.

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 the collateral and the outstanding principal of the portfolio was 53.4% at December 31, 2008, up slightly compared to the December 31, 2007 figure of 51.6%, which is essentially due to a downwards

revision of valuations on certain properties. 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 amounted to nearly €19 billion at year-end 2008. 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 for a total of €8 billion; of the balance, an outstanding amount of €3 billion is indirectly covered by another European State.

Furthermore, over the course of 2008, Compagnie de Financement Foncier continued to maintain liquidity ratios and observation 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 for 2008 totalled €186.6 million, close to the previous year's figure of €187.7 million.

Net recurring banking income is up slightly from €183.4 million to €187.3 million for the year, which was in line with the balance sheet growth. Income is not significantly exposed to market fluctuations because of Compagnie de Financement Foncier's procedures to systematically hedge interest and exchange rates and its acquisition process that takes into account the real financing costs and a proper management of liquidity.

A reduction in the disappearing subsidised sector, where the net banking income margin is high, led to a €4.8 million fall in income, which was offset by income from loan portfolios on the open market and securities by virtue of their growth in volume.

Non-recurring items fell during the year and remain immaterial, amounting to a €0.7 million loss in 2008 and a €4.3 million gain in 2007 from the subsidised sector. The most significant item was €4.6 million in extraordinary income from the settlement of early repayment penalties relating to the previous year and a €7.5 million provision for invest-

ment portfolio securities, which demonstrates the severe pressure on spreads in the market at the end of 2008.

Interest charges relate, notably, to interest on subordinated debt amounting to €222.6 million for 2008 compared to €131.1 million in 2007. Despite the reimbursement of redeemable subordinated notes amounting to €800 million in mid year, the average outstandings on this debt in fact increased year on year from €900 million in 2007 to €2.5 billion in 2008. The balance on the participating loan remained unchanged this year at €1.35 billion, once again reaching its maximum limit *i.e.* 2.5 points above the annual money market interest rate observed during the period. For this and for the redeemable subordinated notes, the proportion of interest earned that corresponds to the surplus remuneration paid above money market rates amounted to €46.3 million for 2008.

With regard to commissions received, the amount of early repayment or customer loan renegotiation compensation increased slightly from €27.7 million (including €4.6 million recorded in 2008) to €29.9 million over the year.

Net 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 €4 million was recognised for this in 2008.

Gross operating income

Gross operating income in 2008 amounted to €80.6 million compared to €83.7 million in 2007.

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. Commission rates, based on volumes under management, differ depending on the type of market.

The subsidised sector, with no new production, posted a reduction in management expenses from €20.3 million to €16.8 million over the year and tracks the interest rate margins posted to net banking income NBI. Servicing commissions paid in the private sector rose from €65.6 million in 2007 to €71.2 million in 2008 (these

include the percentage of prepayment indemnities paid to Crédit Foncier for retail loans in accordance with the management agreements concluded between the two establishments).

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. The declining balance method used to amortise this goodwill was selected at the time of the transfer. It will be fully amortised in June 2009. The amortisation charge was €5.3 million in 2008, compared to €6.2 million in 2007.

Cost of risk

In 2008, the cost of risk was a gain of €4.0 million in 2008 while it was a loss of €3.0 million in 2007.

This income can be broken down as follows:

- › amortisation and provisions of €4.8 million;
- › reversals of provisions and amortisation of €13.7 million;
- › total losses of €7.0 million, €0.7 million of which were covered by provisions and amortisation;
- › gains of €2.0 million on amortised loans.

In 2008, a €5.5 million provision reversal was posted due to the accrual entry of a subsidised sector loan, which then was reclassified as performing. On the contrary, however, an extraordinary expense of €5.0 million was posted as a result of hedging swaps placed with Lehman Brothers. As soon as Lehman Brothers was declared insolvent, Compagnie de Financement Foncier terminated the 26 swaps that represented the totality of its exposure on this counterparty. At the same time, Compagnie de Financement Foncier contracted equivalent hedges on the market. In the end, in November 2008, Compagnie de Financement Foncier sold its receivable from Lehman. These different transactions all resulted in a net €5.0 million expense posted to cost of risk thereby negating the improvements recorded under net banking income.

In measuring the cost of risk it is also necessary to add the expense or income posted to net banking income on interest from doubtful loans. Thus, for 2008, the accumulated capital and interest risk generated net income of €4.3 million which is broken down in detail by asset type and related security in the next chapter. In 2007, the overall cost of risk resulted in income amounting to €3.0 million.

Earnings before taxes

Earnings before taxes amounted to €84.5 million for financial year 2008 against €80.6 million for the previous year. After adding back the €46.3 million interest rate increase paid to Crédit Foncier on subordinated debt, gross income for the year stood at €130.8 million. This amount can be compared to the potential risk of assets held, which is estimated as the value of doubtful loans net of provisions and depreciation in the private sector, which are not guaranteed by the state (*i.e.* excluding subsidised sector and loans guaranteed by the FGAS), or €155.7 million. Taking into account the full amount of income on the subordinated debt, and not just their interest margin, all of the theoretical risk is thus covered by this year's gain, without exercising other guarantees *e.g.* shareholders' equity and similar entities for €1.405 billion, subordinated debt for €4.224 billion or other subordinated liabilities for €6.905 billion.

Net income

The tax charge for 2008 amounts to €22.2 million. This is made up of current taxes on operating income plus tax adjustments from premiums and discounts upon acquiring loans as well as proceeds from terminations and returns.

After deducting income taxes, Compagnie de Financement Foncier's net income in 2008 amounted to €62.2 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 private sector real estate market. Starting in 2007, this category 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, in particular, 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 institutions with the highest short-term ratings.

Loans and related items

The loan portfolio held directly by Compagnie de Financement Foncier amounted to €39.1 billion at December 31, 2008 in addition to €9.1 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:

2008	Outstanding loans	Percentage of total outstanding loans	Of which doubtful loans	Doubtful loans (%)	Of which compromised doubtful	Compromised doubtful (%)	Provisions
Subsidised sector (run-off)	1,539.3	3.2%	78,0	5.1%	0,0	0.0%	0,1
Private Sector	46,669.0	96.8%	280,8	0.6%	22,6	0.0%	19,5
Loans to individuals and mortgage notes	25,368.1	52.6	247,6	1.0	13,0	0.1	12,3
<i>of which FGAS loans</i>	<i>6,713.0</i>	<i>14.9</i>	<i>105,6</i>	<i>1.6</i>	<i>0,0</i>	<i>0.0</i>	<i>0,0</i>
Loans to public authorities	18,284.4	40.5	5,2	0.0	0,0	0.0	0,1
Loans to social housing	2,923.5	6.5	16,3	0.6	0,9	0.0	0,5
Loans to commercial property (disappearing)	93.1	0.2	11,6	12.5	8,7	9.4	6,7
Total	48,208.3	100.0%	358,7	0.7%	22,6	0.0%	19,7

2007	Outstanding loans	Percentage of total outstanding loans	Of which doubtful loans	Doubtful loans (%)	Of which compromised doubtful	Compromised doubtful (%)	Provisions
Subsidised sector (run-off)	1,954.7	4.3%	235,8	12.1%	0,0	0.0%	5,9
Private Sector	43,226.2	95.7%	366,0	0.8%	15,9	0.0%	23,3
Loans to individuals and mortgage notes	24,382.8	54.0	333,0	1.4	14,7	0.1	15,0
<i>of which FGAS loans</i>	<i>6,976.3</i>	<i>15.4</i>	<i>183,0</i>	<i>2.6</i>	<i>0,0</i>	<i>0.0</i>	<i>0,0</i>
Loans to public authorities	15,897.0	35.2	5,1	0.0	0,0	0.0	0,3
Loans to social housing	2,842.0	6.3	14,2	0.5	0,0	0.0	1,6
Loans to commercial property (disappearing)	104.3	0.2	13,8	13.2	1,2	1.1	6,4
Total	45,180.8	100.0%	601,8	1.3%	15,9	0.0%	29,1

For 2008 taken as a whole, although loan outstandings rose to €3 billion, the amount of doubtful loans reduced sharply and now only represents 0.7% of the portfolio; total impairment and provisions for this also fell to less than €20 million.

There were two main reasons for this development.

Firstly, during the year, Compagnie de Financement Foncier revised its classification of residential loans to homeowners as doubtful loans so as to bring this into line with the ruling CRC 2002-03. Beginning in September 2008, a loan is recorded as doubtful as soon as there have been one or more unpaid instalments over the last 6 months instead of 3 previously. This change in procedure resulted in a €151 million reduction in doubtful outstandings, of which €10 million from the subsidised sector and €141 million from the private sector.

Secondly, the accrual entry on a subsidised sector transaction for €100 million reduced, by the same amount, the volume of doubtful loans in this sector. This loan was reclassified, at the end of the year, as a performing loan.

In reality, given the various guarantees of these outstanding loans, credit risk monitoring focuses particularly on the portfolio of loans held directly on the private sector and thus not guaranteed by the State through the FGAS. Risk indicators on this sub-category of loans remain at a very satisfactory level. Doubtful loans amount to €142 million on total outstandings of €9.6 billion at December 31, 2008; the figure was €150 million at December 31, 2007 for loan amounts of €9.8 billion.

The percentage of doubtful loans remains high for commercial real estate loans, but, nevertheless, this applies to

a low volume of outstandings (less than €100 million) of this subcategory, which is in runoff mode. Compromised doubtful loans follow the same pattern (for which the counterparty's solvability conditions are such that, after a reasonable time period of being classified as a doubtful loan, their reclassification as a performing loan is not foreseen) and this can also be seen in the level of provisions for this category.

If commercial real estate loans, which are not significant in volume and do not reflect core business activity, are excluded, compromised doubtful loans are at a low level of €14 million at year-end 2008. Total provisions on healthy loans and amortisation on doubtful loans remain also at a low level (€13 million), justified by the quality of the assets and their related guarantees.

In terms of the impact on Compagnie de Financement Foncier's income, the risk on these assets is included in the cost of risk (for the principal) and net banking income (for interest). In 2008, the overall cost of risk represented a net gain of €4.3 million, resulting from a principal charge of €4.0 million and interest income of €0.3 million on doubtful loans. This contribution was also positive in 2007, amounting to €3.0 million.

This overall income for 2008 is broken down as follows:

- › a net gain of €9.5 million on net provisions and amortisation;
- › losses of €7.5 million, €1.2 million of which was covered by amortisation;
- › gains on amortised loans of €2.4 million.

Income takes into account the exceptional loss recorded from the unwinding of positions on Lehman Brothers for a total of €5.0 million.

Risk charges in 2008, on the loan portfolio, translated into a gain in income of €9.3 million, spread by type of customer as follows:

	2008			2007		
	Outstanding loans (€ million)	Risk charge (€ million)	Risk charge (basis points)	Outstanding loans (€ million)	Risk charge (€ million)	Risk charge (basis points)
Subsidised sector (runoff)	1,593.3	-6,82	-44,3	1,954.7	-1,06	-5,4
Private Sector	46,669.0	-2,46	-0,5	43,226.2	-1,97	-0,5
Loans to individuals and mortgage notes	25,368.1	-1,23	-0,5	24,382.8	-3,03	-1,2
Loans to public authorities	18,284.4	-0,11	-0,1	15,897.0	0,25	0,2
Loans to social housing	2,923.5	-1,09	-3,7	2,842.0	1,22	4,3
Loans to commercial property (runoff)	93.1	-0,03	-3,5	104,3	-0,41	-38,8
Total	48,208.3	-9,28	-1,9	45,180.8	-3,03	-0,7

N B : a positive risk cost represents an expense.

The €6.8 million subsidised-sector income was mostly the result of a €100 million accrual entry on a transaction for €100 million. In the competitive sector, every category regardless of borrower type contributed to Compagnie de Financement Foncier's earnings.

Fixed Income securities and securitisation tranches

This portfolio consists of (i) securities issued by public authorities and (ii) public entity-guaranteed or 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.* 35% of the balance sheet. It amounted to €36.6 billion at December 31, 2008 compared to €33.4 billion at December 31, 2007.

No doubtful loans, provisions or amortisation were 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 credit rating agencies. The loans amounting to €124 million guaranteed by Swiss cantons are the only ones to be rated solely based on in-house procedures using an application developed by Standard & Poor's.

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. 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 collateral.

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:

› Residential mortgage backed securities (RMBS) for a total of €15.7 billion at December 31, 2008 where the properties offered as security are all located in Continental Europe, mainly in Spain (€7.2 billion), Italy (€4.4 billion), France (€1.7 billion) and Portugal (€1.2 billion);

› public authority backed securitisation tranches for a total of €7.6 billion, which together with securities and loans to public authorities or guaranteed by them, make up most of the public sector financing outside France. The total for this sector was €20.9 billion at December 31, 2008 and the main exposures were to the U.S. (€4.6 billion), the Netherlands (€4.1 billion), Italy (€3.8 billion), Germany (€1.9 billion), Japan (€1.7 billion) and Switzerland (€1.4 billion).

At the time of their acquisition, all mortgage-backed security tranches have at least one top rating (i.e. AAA or Aaa). As of December 31, 2008 the portfolio can be broken down as follows:

- › 37% or €5.8 billion have the highest rating from all 3 main rating agencies, AAA/Aaa/AAA;
- › 63% or €9.8 billion have the highest rating from 2 of the main rating agencies;
- › the remainder or €10 million (<0.1%) of the portfolio have at least one rating in the highest range.

As of December 31, 2008, the public sector portfolio outside France (€20.9 billion) had received:

- › the highest rating on 86% (€17.9 billion) of the portfolio;
- › and, more particularly, the highest rating from the 3 main agencies, AAA/Aaa/AAA, on 20% of the portfolio (€4.1 billion);
- › the highest rating from 2 of the main agencies on 10% of the portfolio (€2.1 billion);
- › a rating below tier 2 on just two lines amounting to €33 million.

Such excellent ratings are directly linked to the quality of the counterparty or its guarantor.

Certain assets are enhanced at the time of acquisition by monoline insurers. Difficulties encountered in 2008 by some of these monolines affected part of the portfolio held by Compagnie de Financement Foncier, which nevertheless continues to benefit from a satisfactory intrinsic rating.

Enhanced securities on the balance sheet as of December 31, 2008 amounted to €5.2 billion and include a:

- › 2.4 billion guarantee from CIFG (rated B-);
- › 1.7 billion guarantee from FSA (rated AAA);
- › 0.7 billion guarantee from AMBAC (rated BBB+);
- › 0.2 billion guarantee from MBIA (rated BBB+);
- › 0.1 billion guarantee from FGIC (rated CCC).

Before taking into account any enhancement by these monolines, 31% of the portfolio had received the highest rating (superior to AA- or Aa3) and 62% had received a tier 2 rating (superior to A- or A3). The remainder is mainly made up of a line with a guarantee by FSA amounting to €0.3 billion.

Consolidated analysis

Compagnie de Financement Foncier carries a credit risk on its private sector loan portfolio and its securities and securitisation portfolio. The table below summarises the main indicators of the quality of its assets for the last two years:

	2008			2007		
	Outstanding loans (€ million)	Risk charge (€ million)	Risk charge (basis points)	Outstanding loans (€ million)	Risk charge (€ million)	Risk charge (basis points)
Subsidised sector (runoff)	1,593.3	-6,82	-44,3	1,954.7	-1,06	-5,4
Private Sector	46,669.0	-2,46	-0,5	43,226.2	-1,97	-0,5
Loans to individuals and mortgage notes	25,368.1	-1,23	-0,5	24,382.8	-3,03	-1,2
Loans to public authorities	18,284.4	-0,11	-0,1	15,897.0	0,25	0,2
Loans to social housing	2,923.5	-1,09	-3,7	2,842.0	1,22	4,3
Loans to commercial property (runoff)	93.1	-0,03	-3,5	104,3	-0,41	-38,8
Total	48,208.3	-9,28	-1,9	45,180.8	-3,03	-0,7

N B : a positive risk cost represents an expense.

The percentage of doubtful outstandings remains very low (0.3%) and the risk charge in 2008 recorded a 0.3 basis point gain on a €81 billion outstanding.

Analysis of interest and exchange rate 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 with a fixed interest rate is recorded on the balance sheet, it is immediately swapped to a floating 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 is micro swapped at the outset thus all liabilities are also in floating interest rates.

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 for 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 that varies 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 Fitch Ratings, P1 or Aa3 with Moody's, A1+ or AA- with Standard & Poor's. If the opposite situation occurs, the agreements stipulate that Compagnie de Financement Foncier shall not deposit any collateral. At December 31, 2008, the amount of deposits received was €424 million.

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 loan repayments exceed the estimated amounts established at the time of their acquisition, the interest rate swap is terminated,

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 the Caisses d'Epargne, which has sold French public sector loans to Compagnie.

Hedging activity continued through 2008 for volumes that were consistent with acquisition and issuance transactions for the year. The notional values of forward financial instruments amounted to €117 billion at end 2008 compared to €126 billion the previous year, and foreign currency transactions rose from €38 billion to €46 billion over the same period.

The portfolio of interest rate swaps as of December 31, 2008 is broken down according to the hedge's objective:

- › macro-hedging swaps for €34.8 billion (compared to €29.4 billion at end 2007);
- › micro-hedging swaps on assets for €15.5 billion (compared to €12.5 billion at end 2007);
- › micro-hedging swaps on secured debt for €63.3 billion (compared to €83.1 billion at end 2007);
- › micro-hedging conditional transactions for €0.8 billion, negotiated to protect the portion of variable-rate loans whose repayment is capped, thus aiding borrowers (compared to €1.1 billion at the end of 2007).

Residual interest 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 ALM hedging due to unknown events at origination that could occur over its expected life. Since the securitisation tranches have variable rates upon origination and the maturity date of other investment securities is predetermined, the residual interest rate position is comprised of 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 from ALM hedging 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 €6.2 billion at December 31, 2008. 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 €1.9 billion and loans with non-zero but less than 6% interest rates totalled €4.0 billion. A potential interest rate risk, resulting from early repayment or imperfectly indemnified renegotiation, thus exists on an outstanding loan portfolio of €0.3 billion, *i.e.* 0.3% of the balance sheet.

Other indicators

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 revealed sensitivity to very low rates. At December 31, 2008, if market rates were to increase by two percentage points, the present value of future earnings would fall by €171 million, excluding new issues or acquisitions.

Analysis of liquidity risk

Like 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 wherein no early repayment would accelerate borrowers' repayments.

In any case, only a financing deficit limited to 10% of the current balance is allowed beyond the second year.

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, 2008, Compagnie de Financement Foncier held replacement securities amounting to €8.4 billion of which €8.1 billion consists of loans of less than 6 months to financial institutions with the highest short-term ratings and with a positive credit balance of €1.1 billion in their account with the Banque de France; one tenth of its balance sheet can therefore be deemed to be available at end 2008.

Compagnie de Financement Foncier holds a significant percentage of assets that are eligible for refinancing by the European Central Bank. Starting in April 2007, Compagnie de Financement Foncier began putting in place measures to mobilise its securities and participated in the European Central Bank's liquidity mechanism. During 2008, it expanded its scope to include residential loans. Repurchase agreements were also entered into with major French banks.

At December 31, 2008, total assets that could potentially be used as collateral with the ECB amounted to €32 billion, €23 billion in securities and €9 billion in loans. The outstanding assets used as collateral with the ECB stood at €2.5 billion 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, 2008, the duration of assets was 6.8 years and liabilities 5.9 years. The duration gap widened during the year under the cumulative effects of a lengthening of the duration of loans and securities on the asset side and a shortening of durations on obligations foncières issued in a much more difficult and hesitant market.

Outlook

Over the course of 2009, 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 rigorous risk management;
- › affirming its market position as a leading European issuer and maintain its top rating from the main rating agencies;
- › and insofar as the capital markets allow for it and depending on its issuance programme of obligation foncières:
 - continue its activity, both in terms of mortgage loans and exposures on public authorities;
 - refinance Groupe Caisse d'Épargne by acquiring loan portfolios granted by Crédit Foncier, the Caisses d'Épargne and the other entities of the group;
 - and develop its production and acquisition of loans and securities from the public sector outside of France.

Notes to the management report

Note 1. Information on corporate officers

For the year ending December 31, 2008, 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 2008.

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

Summary of remuneration of each non-executive designated company representatives

	2007	2008
Mr Thierry DUFOUR, Chairman and Chief Executive Officer, Administrator	558,211	467,208
Ms Sandrine GUÉRIN, Administrator, Deputy Chief Executive Officer	585,047	632,047
Annual remuneration due		
Value of options attributed over the course of the year		
Value of performance shares attributed		
Total	1,143,258	1,099,255

Summary of remuneration of each executive designated company representatives

Mr Thierry DUFOUR Chairman and Chief Executive Officer Administrator	2007		2008	
	Totals due	Total distributed	Totals due	Total distributed
Base salary		274,432		319,240
Variable pay		256,500		110,145
Exceptional remuneration		16,769		20,563
Directors' fees		4,750		11,500
Advantages in kind		5,760		5,760
Total		558,211		467,208

Summary of remuneration of each executive designated company representatives

Ms Sandrine GUÉRIN Deputy Chief Executive, administrator	2007		2008	
	Totals due	Total distributed	Totals due	Total distributed
Base salary		246,924		264,284
Variable pay		326,500		347,000
Exceptional remuneration		7,873		14,013
Directors' fees		3,750		3,750
Advantages in kind				3,000
Total		585,047		632,047

Summary of remuneration of each non-executive designated company representatives

Non-Executive Board Members	Amounts distributed in 2007	Amounts distributed in 2008
Mr François BLANCARD	455,608	595,768
Directors' fees 1		46,525
Other remuneration 1	455,608	549,243
Mr François CHEVEAU	306,763	281,654
Directors' fees 2		6,000
Other remuneration 2	306,763	275,654
Mr Pierre-Eric FUZIER	142,749	143,121
Directors' fees 3	3,750	3,750
Other remuneration 3	138,999	139,371
Mr Pierre NUYTS (since 06/16/2008)		181,601
Directors' fees 4		500
Other remuneration 4		181,101
Mr Djamel SEOUDI (since 06/16/2008)		216,706
Directors' fees 5		4,873
Other remuneration 5		211,833
Mr Didier PATAULT (since 06/16/2008)		
Directors' fees 6	N/A	N/A
Other remuneration 6		
Mr Stéphane CAMINATI (since 12/17/2008)		219,205
Directors' fees 7		
Other remuneration 7		219,205
Mr Alain DENIZOT (since 06/16/2008)		
Directors' fees 8	N/A	N/A
Other remuneration 8		
Total	905,120	1,638,055

Summary of remuneration of each executive designated company representatives	Job contract		Supplementary 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 Administrator Start of term: 12/18/1998		X		X	X			X
Ms Sandrine GUÉRIN Deputy Chief Executive Officer Start of term: 03/17/2002 Administrator Start of term: 03/25/2002		X		X		X		X

Other information on compensation and stock option or stock purchase plans

As of December 31, 2008, 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, 2008.

List of offices of corporate officers

Offices or positions held by Mr François BLANCARD

Company	Position
Management offices	
Crédit Foncier de France - SA	Chief Executive Officer
Offices as Director and Member of Supervisory Board	
CICOBAIL - 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
COMPAGNIE FONCIERE DE CREDIT - SA	Permanent Representative of Crédit Foncier, Director
FONCIER CONSULTANTS - SAS (SA until 12/12/2008)	Permanent Representative of Crédit Foncier Director until 12/12/2008
FONCIER EXPERTISE - SAS (SA until 12/12/2008)	Chairman of the Board of Directors
LAMY - SA	Director
LES ÉDITIONS DE L'EPARGNE - SA	Director
LOCINDUS - SA (SACS until 11/26/2008)	President of the Supervisory Board then Chairman of the Board of Directors
BANQUE PALATINE - SACS	Member of the Supervisory Board (since 07/01/2008)
FINANCIÈRE OCÉOR - SACS	Member of the Supervisory Board

LA COMPAGNIE 1818 - BANQUIERS PRIVÉS - SACS	Permanent Representative of Crédit Foncier, Member of the Supervisory Board (until 04/15/2008)
SERENA - SACS	Member of the Supervisory Board (until 04/3/2008)
SOCFIM - SACS	Vice-President and Member of the Supervisory Board (since 05/30/2008)
SAS CEMM	Member of the Supervisory Board (until 03/12/2008)
GCE FONCIER COINVEST - SAS	Member of the Supervisory Board
GIRCE STRATEGIE - GIE	Permanent Representative of Crédit Foncier, Director
ECUREUIL CRÉDIT - GIECS	Member of the Supervisory Board
GCE BUSINESS SERVICES - GIE	Permanent Representative of Crédit Foncier, Member of the Supervisory Board (since 12/17/2008)
Other offices and positions	
CFD - SAS	Legal Representative of Cofimab, Chairman
FONCIER EXPRESS 2008 - 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 STRUCTURE 2008 - SAS	Legal Representative of Crédit Foncier, Chairman
FONCIER VISION 2008 - SAS	Legal Representative of Crédit Foncier, Chairman
ECUFONCIER - SCA	Legal Representative of Crédit Foncier, General Partner
FONCIER PLAN 2008 - SARL	Manager
COFIMAB SAS (SNC until 12/18/2008)	Legal Representative of Crédit Foncier, General Partner until 12/18/2008
FONCIER PROJET 2008 - SNC	Legal Representative of Crédit Foncier, General Partner
SOCLIM - SNC	Legal Representative of CFD, Manager
SOFIPAR LOGEMENT - SNC	Legal Representative of Crédit Foncier, General Partner
SOFONEG - SNC	Legal Representative of Crédit Foncier, General Partner
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
FINANCIÈRE OCÉOR - SACS	Member of the Audit Committee

Offices or positions of Mr Thierry DUFOUR

Company	Position
Management Positions	
COMPAGNIE DE FINANCEMENT FONCIER - SA	Chairman and Chief Executive Officer
CRÉDIT FONCIER DE FRANCE - SA	Deputy Chief Executive Officer
COMPTOIR FINANCIER DE GARANTIE - SA	Chairman and Chief Executive Officer

Offices as Director and Member of the Supervisory Board	
CICOBAIL - SA	Permanent Representative of Crédit Foncier, Director
COMPAGNIE FONCIÈRE DE CRÉDIT - SA	Permanent Representative of Crédit Foncier, Director
FINANCIÈRE DESVIEUX - SA	Director
FONCIER EXPERTISE - SAS (SA until 12/12/2008)	Director until 12/12/2008
PICARDIE-BAIL - SA (FUSION-ABSORPTION)	Representative of Crédit Foncier, Director until 12/17/2008
SOCRELOG - SA (TUP)	Director until 12/17/2008
VAUBAN MOBILISATIONS GARANTIES - SACS	Permanent Representative of Crédit Foncier, Member of the Supervisory Board
Other offices	
SCI VALENCE	Legal Representative of Crédit Foncier, Manager until 12/31/2008

Offices and positions of Ms Sandrine GUÉRIN

Company	Position
Offices as Director	
COMPAGNIE DE FINANCEMENT FONCIER - SA	Deputy Chief Executive Officer
FINANCIÈRE DESVIEUX - SA	Chairman and Chief Executive Officer
VAUBAN MOBILISATIONS GARANTIES - SACS	Chairman of the Executive Board
Offices as Director and Member of the Supervisory Board	
FONCIER COURT TERME - SICAV	Director until 10/27/2008
FONCIER PARTICIPATIONS	Director
SWISS PUBLIC FINANCE SOLUTIONS - SA	Director
Other offices and positions	
CRÉDIT FONCIER DE FRANCE - SA	Director of Financial Activities
FHE	Representative of Crédit Foncier
ECBC	Deputy Chairman

Offices and positions of Mr Pierre NUYTS

Company	Position
Offices as Director and Members of the Supervisory Board	
CINERGIE - SA	Director
COMP FINANCEMENT FONCIER SCF	Director
ALLIANCE ENTREPRENDRE	Member of the Management Committee
EUROTITRISATION	Director
GCE COVERED BONDS	Director
GCE DOMAINE	Director
GCE PAIEMENTS	Director
GIE CSF - GCE	Member of the Supervisory Board
MASSERAN GESTION	Member of the Supervisory Board
NATIXIS SECURITIES	Director

Offices and positions of Mr Djamel SEOUDI

Company	Position
Management offices	
FONCIER PARTICIPATIONS - SA	Chief Executive Officer (non-Director)
Offices as Director and Member of the Supervisory Board	
ATOUT PIERRE HABITATION 2 - SCPI	Permanent Representative of Foncier Participations, Member of the Supervisory Board
BANCO PRIMUS - SA	Director
COMPAGNIE FONCIÈRE DE CRÉDIT - SA	Director
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director, Member of the Audit Committee
FINANCIERE DESVIEUX - SA	Director
GCE FONCIER COINVEST - SAS	Chairman of the Supervisory Board
GCE SEM - SAS	Member of the Supervisory Board
LOCINDUS - SA	Permanent Representative of Crédit Foncier, Director
SA PINJAB - SA	Director
SERGIC INVEST - SAS	Permanent Representative of Foncier Participations, Director
SOCFIM - SACS	Member of the Supervisory Board
Other offices and positions	
CRÉDIT FONCIER DE FRANCE - SA	Secretary-General

Offices and positions of Mr Didier PATAULT

Company	Position
Management Offices	
CAISSE D'ÉPARGNE ET DE PRÉVOYANCE BRETAGNE - PAYS DE LOIRE (CEBPL) - SA À DIRECTOIRE ET COS	Chairman of the Executive Board
SDR OUEST - SODERO - SDR	Chairman of the Board of Directors
Offices as Director and Member of the Supervisory Board	
BATIROC BRETAGNE - PAYS DE LOIRE - SA À DIRECTOIRE	Chairman of the Supervisory Board
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director, Member of the Audit Committee
NATIXIS - SA À DIRECTOIRE	Member of the Supervisory Board, 2 nd Co-Chairman of the Supervisory Board
NATIXIS GLOBAL ASSET MANAGEMENT - SA	Director
SODERO PARTICIPATIONS - SAS	Chairman of the Board of Directors
SODERO GESTION - SAS	Chairman of the Supervisory Board
PAYS DE LA LOIRE DÉVELOPPEMENT - SAS	Representative of the CEBPL Director
GCE CAPITAL - SAS	Member of the Supervisory Board
GRAND OUEST GESTION - SAS	Representative of Sodero Participations, Chairman of the Supervisory Board
SEMİTAN - SEM	Representative of CEBPL Director
SAMO - SA HLM	Chairman of the Board of Directors
LA MANCELLE D'HABITATION - SA HLM	Chairman of the Board of Directors
GCE BUSINESS SERVICES - GIE	Representative of CEBPL, Member of the Supervisory Board

Offices or positions of Mr Stéphane CAMINATI

Company	Position
Offices as Director and Member of the Supervisory Board	
SOCRAM BANQUE - SA A COS	Director
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director, Chairman of the Audit Committee
GCE DOMAINES - SA	CNCE's Permanent representative to the Board of Directors
GCE ACHATS - GIE	Director
GCE ASSURANCES PRODUCTION SERVICE - SAS	Member of the Supervisory Board
Other offices and positions	
CNCE - SACS	Director of the Group's Management Controls
GCE CGP - INSTITUTION DE PRÉVOYANCE	Director "alternate", Employer Delegation
GCE CGR - INSTITUTION DE RETRAITE SUPPLÉMENTAIRE	Director "alternate", Employer Delegation
GCE EPS - ASSOCIATION DE MOYENS	Director
TRADE EXPLOITATION - SOCIÉTÉ EN PARTICIPATION	Board Member

Offices or positions of Mr Alain DENIZOT

Company	Position
Management Offices	
CAISSE D'ÉPARGNE DE PICARDIE	Chairman of the Executive Board
Offices as Director and Member of the Supervisory Board	
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director, Member of the Audit Committee
GIRCE STRAGÉGIE - GIE	Permanent Representative of the CEP to the Board of Directors
ECUREUIL CRÉDIT - GIE	Member of the Supervisory Board
FÉDÉRATION NATIONALE DES CAISSES D'ÉPARGNE	Director
UNIVERSITÉ DU GROUPE CAISSE D'ÉPARGNE	Director and Treasurer

Offices held by Crédit Foncier de France en 2008

Company	Identification
Limited liability companies (sociétés anonymes)	
Directorships	
BTP CAPITAL INVESTISSEMENT - SA	302 527 734
CFCAL Banque - SA	568 501 282

CFCAL SCF - SA	424 184 737
CFCR - SA	352 727 960
CFG - Aomptoir 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
Compagnie Foncière de Construction - SA (until 12/12/2008)	308 383 058
Crédit Financier Lillois (since 06/28/2008)	455 500 868
Crédit Logement - SA	302 493 275
Foncier Consultants - SA (until 12/12/2008)	395 304 330
Foncier Expertise - SA (until 12/12/2008)	788 276 806
Foncier Participations - SA	319 893 815
Foncière d'Évreux - SA (until 12/12/2008)	399 293 067
Groupe VB - SA (until 11/13/2008)	572 112 589
H & T Conseil - SA	313 149 973
La Mondiale Partenaire - SA	313 689 713
LOCINDUS - SA (since 11/26/2008)	642 041 768
Mobilière Volney - SA	338 097 223
Picardie Bail - SA (until 12/17/2008)	331 542 126
SAF Environnement - SA	319 051 017
SEMERCLI - SAEM	632 052 809
SGFGAS - Société de Gestion du FGAS - SA	390 818 235
SIPARI - SA (until 12/12/2008)	305 097 446
SOCRELOG - SA (transfer of assets on 12/17/2008)	642 051 924
Office of member of the supervisory Board	
Eurosic - SACS	307 178 871
LOCINDUS - SACS (until 11/16/2008)	642 041 768
SCAFR Terres d'Europe - Société Centrale d'Aménagement Foncier et Rural	612 007 468
Union Européenne d'Assurance - SACS	347 642 183
La Compagnie 1818 - Banquiers Privés - SACS (until 04/15/2008)	306 063 355
La Compagnie 1818 - Gestion - SACS (until 04/21/2008)	353 690 514
SELECTINVEST 1 - SACS	784 852 261
SIA HABITAT - SACS HLM	045 550 258
SOCFIM - SACS	390 348 779
VMG - SACS	399 343 300
Offices of Chairman/Director	
ARTHUR COMMUNICATION - SAS	407 525 344
Cofimab - SAS (since 12/18/2008)	391 754 363
COMPAGNIE FONCIÈRE DE CONSTRUCTION - SAS (since 12/12/2008)	308 383 058
DOM 9 - SAS	389 724 246
ENTENIAL CONSEIL - SAS (until 07/29/2008)	449 755 586

FONCIER CONSULTANTS - SAS (since 12/12/2008)	395 304 330
FONCIER EXPERTISE - SAS (since 12/12/2008)	788 276 806
FONCIER FOREIGN 2008 - SAS (since 05/13/2008)	504 381 112
FONCIER LARGE 2008 - SAS (since 05/13/2008)	504 379 975
FONCIER PROJET 2008 - SAS (since 05/13/2008)	504 362 005
FONCIER STRUCTURE 2008 - SAS (since 05/13/2008)	504 381 153
FONCIER VISION 2008 - SAS (since 05/13/2008)	504 381 039
FONCIÈRE D'ÉVREUX - SAS (since 12/12/2008)	399 293 067
GRAMAT BALARD - SAS	389 699 471
SIPARI - SAS (since 12/12/2008)	305 097 446
Vendôme Investissement - SAS	349 019 414
General Partnership (SNC, SCI)	
Managing Partner	
Ecufoncier - SCA	480 107 846
Arion Conseil (liquidator)	390 466 498
Cofimab - SNC (until 12/18/2008)	391 754 363
Colomia 31	453 162 927
Comelia	451 226 963
Francilia	440 775 617
Mantelia	432 255 271
Sofipar Logement	331 786 723
Sofoneg	331 444 539
Valence - SCI (until 12/31/2008)	393 727 896
G.I.E.	
Ecolocale	381 095 785
GCE Technologie (ex-Girce Ingenierie) (until 10/30/2008)	469 600 050

Note 2. FCC (residential mortgage-backed securities) as of December 31, 2008

Securitisation tranches of residential mortgage loans: €15,591 million (in outstanding principal)

Countries	Standard & Poor's/Moody's/Fitch Ratings
Germany	
E-MAC 2005-5	AAA/Aa1/AAA
EMAC DE 2006-II	AAA/Aa1/AAA
Spain	
AYT GENOVA HIPOTECARIO 4	AAA/Aaa/AAA
AYT GENOVA HIPOTECARIO 7	AAA/Aaa/AAA
BANCAJA 10	AAA/Aaa/
BANCAJA 11	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
BANKINTER 10	AAA/Aaa/
BANKINTER 4	AAA/Aaa/
BANKINTER 5	AAA/Aaa/
BBVA 1	/Aaa/AAA
BBVA 2	AAA/Aaa/AAA
BBVA RMBS 3	/Aaa/AAA
GC SABADELL 1	AAA/Aaa/
HIPOTEBANSA VIII SERIE A	/Aaa/AAA
HIPOTEBANSA XI	AAA/Aaa/
IM CAJAMAR 3 Parts A	/Aaa/AAA
IM PASTOR 2	AAA/Aaa/
IM PASTOR 3	AAA/Aaa/
MADRID RMBS III	AAA/Aa2/AAA
Santander Hipotecario 3	AAA/Aa1/AAA
TDA 27	AAA/AAA
TDA 29	/Aaa/AAA
TDA CAJAMAR A2	AAA/ /AAA
TDA CAJAMAR A3	AAA/ /AAA
TDA CAM 5	/Aaa/AAA
TDA CAM 6 Parts A2	/Aaa/AAA
TDA CAM 6 Parts A3	/Aaa/AAA
TDA CAM 9	AAA/Aa1/AAA
TDA IBERCAJA 2	AAA/Aaa/
TDA PASTOR 1 - A2	/Aaa/AAA
UCI 14 CLASSE A 2043	AAA/ /AAA
UCI 5 class 5	/Aaa/
France	
Antilope 1	AAA/Aaa/
Antilope 2	AAA/Aaa/
Greece	
THEMELION 2	AAA/Aaa/AAA
Italy	
APULIA 3	AAA/Aaa/AAA
APULIA FINANCE 2	AAA/ /AAA
ARGO MORTGAGES 2	/Aaa/AAA
BERICA 3 PARTS A2	AAA/ /AAA
BERICA 6 A2	AAA/Aaa/AAA
BERICA PARTS A2	AAA/Aaa/AAA
BIPIELLE RESIDENTIAL	/Aaa/AAA
Capital Mortgage 2007-1	AAA/Aaa/AAA

CORDUSIO	AAA/Aaa/AAA
CORDUSIO 4	AAA/Aaa/AAA
CR FIRENZE MUTUI	AAA/Aaa/AAA
CREDICO FINANCE 5 A 2033	AAA/Aaa/
CREDICO FINANCE SPA	AAA/Aaa/AAA
F-E MORTGAGES	AAA/Aaa/AAA
GIOTTO FINANCE 2 SPA	AAA/Aaa/
GIOTTO FINANCE SPA	/Aaa/AAA
HELICONUS	AAA/Aaa/AAA
INTESABCI Sec 2	AAA/Aaa/AAA
INTRA MORTGAGE FINANCE SRL	AAA/Aaa/AAA
MANTEGNA FINANCE SRL	/Aaa/AAA
MARCHE MUTUI	AAA/Aaa/
sestante finance 2	AAA/Aaa/AAA
SESTANTE 3 A 2045	AAA/Aaa/AAA
SESTANTE 4	AAA/Aaa/AAA
Sestante Finance	AAA/Aaa/AAA
SIENA MORTGAGE 02-3	AAA/Aaa/AAA
VELA ABS	AAA/Aaa/
VELA HOME	AAA/Aaa/
VELA HOME 3 A 2040	AAA/Aaa/
VELA HOME 4	AAA/Aaa/
Netherlands	
BELUGA	AAA/Aaa/AAA
Beluga 2006-I A2	AAA/Aaa/AAA
EMAC NL 2005 III BV	AAA/Aaa/AAA
E-MAC NL 2007 III	AAA/Aaa/AAA
HOLLAND HOMES 3 PARTS A 2083	/Aaa/AAA
Portugal	
DOURO MORTGAGE1 A	AAA/Aaa/AAA
DOURO MORTGAGES 3	AAA/Aaa/AAA
LUSITANO 4	AAA/Aaa/AAA
LUSITANO 6	AAA/Aaa/AAA
LUSITANO MORTGAGE PLC 3	AAA/Aaa/AAA
MAGELLAN 3	AAA/Aaa/

Senior securitisation tranches of public debt: €7,532 million (in outstanding principal)

Countries	Standard & Poor's/Moody's/Fitch Ratings
Italy	
ADRIATICA	AAA/Aa3/AAA
ASTREA	A+/Aa2/AA-
POSILLIPO FINANCE SRL	A/A3/-
Netherlands	
DARTS FINANCE PARTS A 2064	/Aaa/AAA
E-MAC NL 2006-NHG 1	/Aaa/
E-MAC NL 2007-NHG II	/Aaa/
HOLLAND HOMES ORANJE	//AAA
PEARL 1 MBS	/Aaa/AAA
PEARL 2	/Aaa/AAA
SGML 1	//AAA
United States	
NELNET 2006-1 A6	AAA/Aaa/AAA
SALLIE MAE 2004-8-A5	AAA/Aaa/AAA
SALLIE MAE 2004-8-A6	AAA/Aaa/AAA
SALLIE MAE 2005 9 SENIOR A6A	AAA/Aaa/AAA
SALLIE MAE 2005-9 SENIOR A7A	AAA/Aaa/AAA
SALLIE MAE 2006-4 A6	AAA/Aaa/AAA
SALLIE MAE 2006-6 A4	AAA/Aaa/AAA
SALLIE MAE série 8 102004	AAA/Aaa/AAA

FINANCIAL STATEMENTS

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Balance sheet

(in thousands of euros)

As per notes	Assets	12/31/2008	12/31/2007	12/31/2006
	Cash due from central banks and post office accounts	20,024		4,725
	Treasury notes and similar securities			
1	Due from banks	9,806,259	9,827,024	6,049,202
	<i>On demand</i>	1,207,772	901,480	103,086
	<i>At maturity</i>	8,598,487	8,925,544	5,946,116
2	Customer loans	36,311,095	35,943,673	25,643,525
	<i>Other customer loans</i>	36,311,095	35,943,673	25,643,525
3	Bonds and other fixed income securities	46,107,121	43,904,351	35,794,541
4	Intangible fixed assets	2,480	7,816	14,070
5	Other	204,660	169,998	209,977
6	Prepayments, deferred charges and accrued income	3,490,979	4,544,432	2,974,849
	Total assets	95,942,618	94,397,294	70,690,889

(in thousands of euros)

As per notes	Liabilities and equity	12/31/2008	12/31/2007	12/31/2006
7	Due to banks	5,857,992	5,117,947	1,466,703
	<i>On demand</i>	25,817	559,126	10,161
	<i>At maturity</i>	5,832,175	4,558,821	1,456,542
8	Customer deposits	33,479	91,152	122,416
	<i>On demand</i>	33,479	91,152	122,416
9	Debt securities	80,148,265	79,591,962	61,930,552
	<i>Inter-bank market securities and negotiable debt securities</i>	188,204	197,080	250,329
	<i>Bonds (obligations foncières)</i>	79,960,061	79,394,882	61,680,223
10	Other liabilities	739,357	506,394	1,600,475
11	Accruals and deferred income	4,298,250	4,253,965	2,790,141
12	Provisions for liabilities and charges	9,628	12,383	10,377
13	Subordinated debt	3,450,589	4,250,665	2,250,550
14	Fund for general banking risks	20,000	20,000	20,000
14	Equity other than fund for general banking risks	1,385,058	552,826	499,675
	<i>Subscribed capital stock</i>	924,000	154,000	132,000
	<i>Share premiums</i>	271,067	271,067	209,742
	<i>Reserves</i>	70,917	70,917	68,717
	<i>Regulated provisions and investment subsidies</i>			
	<i>Retained earnings (+/-)</i>	56,843	3,691	26,874
	<i>Net income for the year (+/-)</i>	62,231	53,151	62,342
	Total liabilities & equity	95,942,618	94,397,294	70,690,889

Off-balance sheet

(in thousands of euros)

As per notes		12/31/2008	12/31/2007	12/31/2006
	Commitments given			
15	Financing commitments			
	- Commitments in favour of banks		114,824	
	- Commitments in favour of customers	2,950,005	8,684,579	1,714,692
	- Other values used as collateral	10,449,002		
	Guarantee commitments			
	- Commitments for customers			
	Commitments on securities			
	- Others commitments given ⁽¹⁾		150,000	
16	Commitments received			
	Financing commitments			
	- Commitments received from banks	7,912,874	573,407	631,472
	Guarantee commitments			
	- Commitments received from banks	14,800,048	27,139,798	5,019,768
	- Commitments received from customers	30,051,552	31,503,322	18,561,261
	Commitments on securities			
	- Others securities to receive	542,418		
	Reciprocal commitments			
17	Sale and purchase of foreign currencies	46,122,439	37,607,259	29,198,318
18	Non-unwound financial instruments	116,562,549	126,146,699	85,813,638

⁽¹⁾ The information relative to commitments given on securities to be paid were not included in the financial statements at December 31, 2007.

Income statement

(in thousands of euros)

As per notes		12/31/2008	12/31/2007	12/31/2006
19	Interest and similar income	4,384,956	3,494,965	3,091,113
20	Interest and similar expenses	-4,210,716	-3,311,611	-2,905,677
21	Commission and fee income	38,443	43,425	39,827
21	Commission and fee expenses	-7,895	-24,707	-15,565
22	Gains or losses on investment securities transactions	889	-1,501	-1,207
23	Gains or losses on investment securities transactions and similar instruments	-7,534	-911	-5
24	Other income from banking operations	2,350	2,258	1,260
25	Other expenses on banking operations	-13,906	-14,258	-14,002
	Net banking income	186,587	187,660	195,744
26	General operating expenses	-100,692	-97,752	-95,587
	Depreciation, amortisation and provisions on tangible and intangible fixed assets	-5,336	-6,250	-7,470
	Gross operating income	80,559	83,658	92,687
27	Cost of risk	3,990	-3,000	2,707
	Operating income	84,549	80,658	95,394
	Gains or losses on fixed assets	-71	-19	
	Ordinary income before tax	84,478	80,639	95,394
	Exceptional items			
	Income taxes	-22,247	-27,488	-33,052
28	Increases and decreases in fund for general banking risks and provisions			
	Net income	62,231	53,151	62,342
	Earnings per share ⁽¹⁾ (in euros)	1.08	5.52	7.56
	Diluted earnings per share (in euros)	1.08	5.52	7.56

⁽¹⁾ 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 Company'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 was authorised to operate as a société de crédit foncier by the savings and financial security act passed in France on June 25, 1999. It is therefore regulated by 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 French Credit Institutions and Investment Companies Committee ("CECEI"). For this reason, they are subject to the following accounting regulations:

› Regulation No. 2000-03 (modified) of the French National Accounting Committee ("CRC"), concerning the preparation and disclosure of annual corporate accounts of credit institutions;

› Regulation No. 99-10 of the CRBF, which relates only to sociétés de crédit foncier and refers to:

- the valuation of buildings financed by eligible loans recorded as assets of sociétés de crédit foncier;
- the valuation of the assets and liabilities of such companies;
- their specific management policies.

1.2. In 2008, Compagnie de Financement Foncier acquired loans from Crédit Foncier totalling €1,530 million (including €1,627 million in outstanding principal), in addition to the €1,105 million of loans not yet released, which are recorded as "Financing commitments given". The company also purchased the loan from a French public entity for €363 million (€637 million in unreleased principal). The company acquired loans to local authorities from Caisses d'Epargne for €193 million. The outstanding principal on these loans amounted to €192 million.

Compagnie de Financement Foncier also acquired tranches in external mortgage-backed securitisation (€64 million), public asset-backed securitisation units (€3,265 million) and granted loans to public authorities (€136 million).

The total value of these acquisitions for the financial year 2008 amounted to €5,415 million.

The company also granted a loan for €1,200 million to Crédit Foncier, with public sector loans as collateral, in ac-

cordance with Article L 431-7 of the French Monetary and Financial Code.

Replacement securities held by the company, as they are defined by Decree No. 2007-745 of May 9, 2007 relating to the solvency of credit institutions, investment companies and sociétés de crédit foncier and amending the French Monetary and Financial Code, total €8,425 million.

1.3. Compagnie de Financement Foncier issued obligations foncières for a total amount of €8,523 million in 2008. The company entered into repurchase agreements that reached €607 million at year-end 2008, for an average outstanding of €1.7bn. It also subscribed, for €2.5bn, to the refinancing vehicle of the Banque de France as part of its Overall collateral management program (*Gestion Globale des Garanties [3G]*).

1.4. At the end of June, the company increased its capital, fully subscribed by Crédit Foncier, by €770 million, and the purchase of redeemable subordinated notes, held by Crédit Foncier, for €800 million. With the redeemable subordinated notes operation, Crédit Foncier released these new shares by compensation.

1.5. When Lehman Brothers filed for bankruptcy protection on September 15, 2008, Compagnie de Financement Foncier terminated 26 micro-hedging swaps concluded with Lehman Brothers UK. Compagnie proceeded to contract new swaps in order to restore the hedging balance. The loan on Lehman Brothers, including the adjustment due and to be received was ceded to Crédit Foncier with a discount, which led to a net loss of €-5 million that was recorded as cost of risk.

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 €16.8 million in compensation from Crédit Foncier in accordance with a guarantee established in 2008.

2. Information about accounting rules and principles

The annual corporate accounts of Compagnie de Financement Foncier are prepared and presented in accordance with rules defined by the CNCE in compliance with the regulations of the French Accounting Regulation Committee (CRC) and the French Banking and Financial Regulation Committee (CRBF). In compliance with CRBF Regulation No. 91-01 amended by CRC Regulation

No. 2000-03, the financial statements are presented in the format specific to credit institutions.

The annual corporate accounts are presented in the same format as the preceding fiscal year. French generally accepted accounting principles are applied, respecting the necessary prudential principles and assumptions:

- › operational continuity;
- › consistency of accounting methods from one year to the next;
- › independence of financial years;
- › conformity with the general rules for establishing and presenting annual financial statements.

The method retained for evaluating accounting elements is that of historical cost. All balance sheet items are shown net of amortisation, provisions and applicable value corrections.

2.1. Due from banks

The category "Due from banks" includes all loans held as a result of banking operations with credit institutions, excluding operations in the form of issued securities. It includes repo securities and receivables related to repurchase agreements. They are broken down into the sub-categories "on demand" and "at maturity".

Due from banks appear on the balance sheet at their nominal value. Accrued interest not yet due is added and any depreciation is subtracted.

Commitments received are recorded in the accounts and are presented in note 16. They are periodically subject to a revaluation. The book value of all the guarantees for a single loan is limited to the outstanding portion of that loan.

2.2. Customer loans

Customer loans include loans granted to entities other than credit institutions, though excluding those in the form of a security, repossession securities and loans from pensions packaged as securities. They are broken down into commercial loans, debit accounts and other loans.

Customer loans appear as assets on the balance sheet for the portion actually paid, once the implementation procedures have been applied. Accrued interest is added and depreciation for credit risk subtracted. Amounts not yet paid are recognised as off-balance sheet items under "Financing commitments given".

Compagnie de Financement Foncier acquires loans at market value. The goodwill is then calculated by comparing this value to the net book value of the loans, known as a premium or discount depending on whether it is positive or negative and is booked in a sub-account of the customer loan account.

Premiums and discounts on acquisitions made up to December 31, 2008 are then transferred to income for the fiscal year on an actuarial basis over the term remaining to maturity of the loans acquired.

The amount of outstanding loan instalments appears under assets in each loan receivable heading, unless they are deemed doubtful, in which case they are included in doubtful loans. Interest accrued on loans is entered in the relevant customer loan account with a corresponding entry in the income statement.

Early repayment fees are recognised in full in the income statement for the financial year in which the transaction was booked.

Doubtful loans consist of all matured and unmatured payable loans from debtors, whether guaranteed or not, of which at least one commitment presents a known credit risk and has been individually identified.

A risk is identified as known as soon as it is probable that the institution will not receive all or part of the amounts due from the counterparty, notwithstanding the existence of guarantees or securities.

Beginning September 30, 2008, loans to homebuyers - in compliance with regulations - become classified as doubtful as soon as one or more payments are more than six months (as compared to the 3 months that had been in effect). This change in the estimation led to a €151.44 million decrease in doubtful loans. The rules guiding the classification of the other loan categories remain unchanged.

Doubtful loans are further classified as compromised doubtful loans when chances of recovering payments have significantly deteriorated and the loan will likely be written off as a loss. They include, in particular: loans with overdue payment dates.

Loans that have been deemed doubtful for over a year, unless an examination of guarantees suggests that the loan will be fully repaid.

Unrecoverable loans are written off and the corresponding bad debt depreciations are reversed.

Doubtful loans are reclassified as performing loans when repayments are made on a regular basis, in the amounts corresponding to the original contractual instalments and when the counterparty no longer presents a default risk.

Loans that are restructured under non-market conditions, due to the customer's financial situation, are identified in a specific sub-category until their final maturity. At the time of restructuring, the loan is subject to a discount that represents the difference between the present value of the original contractual cash flows and the newly renegotiated cash flows. The discount rate is the original effective interest rate for fixed-rate loans, or the last effective interest rate before restructuring for floating-rate loans. This discount is recorded in the income statement under cost of risk and in the balance sheet as a deduction from the corresponding loan. It is transferred to the income statement in the interest margin based on an actuarial method over the term of the loan. The outstanding of restructured loans in the accounts as of December 31, 2008 was insignificant.

For the presentation of note 2c, the loans are analysed according to the same method used by the Credit Foncier Group for its internal management requirements especially in the commercial, financial and risk areas.

Since 2003, in accordance with the standards of the Groupe Caisse d'Epargne, Compagnie de Financement Foncier has recognised guarantees that are explicitly or implicitly attached to certain types of customer loans recorded on the balance sheet, considering their material nature, such as mortgage values or counter-guarantees received from SGFGAS and taken over by the French government (cf. note 16 on Commitments Received). They are periodically revalued. The book value of all the guarantees for a single loan is limited to the outstanding portion of that loan.

2.3. Depreciations and provisions for counterparty risk

2.3.1. Depreciations

Depreciations for confirmed probable losses cover potential risks calculated as the difference between the principal outstanding and the discounted recoverable amounts. The risk is calculated for each individual loan taking into account the present value of the guarantees received. For loans to the subsidised sector and those guaranteed

by SGFGAS, in the name of the state, the portion of the risk assumed by the French government is also taken into account.

Since loans transferred or sold to Compagnie de Financement Foncier are recorded in the balance sheet at acquisition cost, the depreciation is calculated with respect to that cost.

Average loan amounts with similar characteristics are subject to a statistical estimation.

When credit risk concerns financing commitments or guarantees recorded on the off-balance sheet, the risk is taken into account in the form of risks and charge provisions. As of December 31, 2008, there are no provisions to record in the accounts.

Interest on doubtful loans is booked as income from banking operations and set aside as provisions for the full amount (excluding loans to the subsidised sector or those guaranteed by SGFGAS). Interest on compromised doubtful loans is booked in the same manner.

Increases and decreases to loan depreciations as well as charges covered by this depreciation appear in the income statement under items related to cost of risk for the principal portion of the loans. Interest received from these loans is reported under "Interest and similar income".

2.3.2. Provisions for counterparty risks

For a more economic calculation of counterparty risks, a provision is recorded on performing balance sheet and off-balance sheet commitments for which the data needed to calculate default probabilities is available.

The provision covers potential risks on performing loans to real estate professionals, credit institutions and public sector authorities.

Total provisions for counterparty risks on credit institutions and customers were €5 million at the end of 2007. These provisions amounted to €2.2 million at the end of 2008.

The provision on the Neiertz risks of €3.6 million at the end of 2007 remained unchanged at the end of 2008.

These provisions for counterparty risks totaled €5.8 million at the end of 2008.

These provisions are recorded as liabilities and any increases or reversals of the provisions appear under the “Cost of Risk” item.

2.4. Foreign exchange transactions

Balance sheet and off-balance sheet transactions are converted into euros at the end of each month at the prevailing exchange rate of the currency in which the transactions are denominated. Corresponding gains or losses are immediately converted into euros at the exchange rate in effect on the day they are recorded in the income statement.

Realised and unrealised foreign exchange gains and losses on proprietary transactions of Compagnie de Financement Foncier are booked as foreign exchange income under “Gains or Losses on Trading Securities Transactions”.

To date, Compagnie de Financement Foncier has not conducted any transaction in “non liquid” currencies. Furthermore, it is committed not to hold any open currency positions.

2.5. Securities transactions

“Securities” include interbank market instruments, treasury bills, other negotiable debt securities, fixed-income securities, equity shares and variable income securities.

Securities transactions are subject to accounting regulations laid out in two documents:

- › according to CRC Regulation No. 2005-01, modifying CRB Regulation No. 90-01 dated from February 23, 1990, which is the reference on the subject and has been completed by the Banking Commission’s order No. 94-07, which defines the general rules regarding the accounting and evaluation of securities.

- › CRBF Regulation No. 89-07, which completes the Banking Commission’s order No. 94-06, which deals with the rules relative to specific operations such as the temporary cession of securities.

Securities are classified in the following categories: equity investments, other long-term securities, long-term investment securities, operational portfolio securities, short-term investment securities and trading securities.

Compagnie de Financement Foncier does not hold trading securities, operational portfolio securities or other long-term securities.

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 is controlled by legislative authority.

2.5.1. Investment securities

Investment securities are securities that are not booked in the other categories.

Investment securities are entered in the balance sheet on the date of acquisition and at their acquisition cost net of expenses. Accrued interest related to fixed-income securities are booked in the appropriate assets item as a double entry of the income statement item “Interest and Similar Income”.

Premiums and discounts on investment securities correspond to the difference, if any, between the acquisition cost and the redemption value of fixed-income securities. They are amortised over their remaining term to maturity.

Investment securities are valued at the lower of acquisition cost or fair value. Unrealised losses are recognised by means of depreciations which may be evaluated within homogenous groups of securities. Unrealised gains recognised in other security categories do not offset these depreciations.

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

Gains and losses on sales of short-term investment securities as well as increases and reversals of depreciations appear under the item “Gains or Losses on Short-Term Investment Securities and Similar Instruments”.

2.5.2. Held-to-maturity securities

Held-to-maturity securities are fixed-income securities with a fixed redemption date, acquired or reclassified from short-term investment securities with the manifest intention of and the financial capacity for holding them until maturity. The securities must not be subject to any existing legal or other constraint that could put the ability to hold them until maturity in jeopardy. The inclusion as long-term investment securities does not affect their classification as items protected against interest rate risk.

Long-term investment securities are booked on the date of their acquisition based on the same rules as short-term investment securities. Securities transferred from the short-term investment portfolio to the long-term investment portfolio are booked at their acquisition price; the depreciations set aside at the beginning of the financial year are carried forward for the remaining term to maturity of the securities in question.

The difference between acquisition cost and redemption price, as well as accrued interest are booked according to the same methods as the ones used for short-term investment securities.

A depreciation may be booked against them if there is a strong probability that the bank will not keep the securities until maturity due to new developments. Unrealised gains are not recognised.

Long-term investment securities shall not be sold or transferred to another category of securities, except in the situations described by CRC Regulation No. 2005-01.

Any gain or loss on disposals or increases and reversals of depreciations appear under the heading "Gains or Losses on Fixed Assets".

2.5.3. Reclassifying financial assets

The *Conseil National de la Comptabilité*, with a view to harmonizing and complying with IFRS standards, published Regulation No. 2008-7 on December 17, 2008, which modified CRB Regulation No. 90-01 on the accounting of securities transactions. This regulation takes into account Opinion No. 2008-19 from December 8, 2008 concerning the transfer of securities from the categories "trading securities" and "available for sale securities".

Reclassifying "trading securities" as "held-to-maturity" and "available-for-sale securities" is now possible under the following conditions:

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

The effective date of transfer from "trading securities" and "available-for-sale securities" can not be before July 1,

2008 and must be the same date as that of the establishment of the consolidated accounts.

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

2.6. Fixed assets

Compagnie de Financement Foncier recorded as an intangible asset the difference between the market value and the net book value of the items transferred in 1999 by Crédit Foncier pursuant to the law of June 25, 1999, which stood at a gross amount of €119.4 million.

This intangible asset is amortised in the accounts according to a predetermined schedule, using annual amortisation rates calculated in 1999 on the basis of the expected decrease in the volume of the assets contributed, until they are fully eliminated in 2009.

The amortisation booked in 2008 amounted to €5.3 million.

2.7. Interbank loans and bonds

Debts to credit institutions and to customers are presented according to their initial term: "on demand" and "at maturity". Repurchase agreements involving securities are also included depending on their counterparty. Accrued interest is recorded in related payables.

The outstanding principal from bonds and loans is booked under liabilities on the balance sheet for the gross amount. 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 first booked for their full amount under "Commissions and Fees" in the years in which they are incurred. They are then amortised as follows:

- › recorded on the assets side of the balance sheet in accruals under "Deferred Expenses" as a double entry to the expense transfer account which appears under "Commissions and Fees - Income";
- › amortisation of the asset account over the term to maturity of the relevant loans, recorded as "Other Expenses from Banking Operations".

Issue and redemption premiums are amortised over the term of the loans to which they relate. They are booked

as deferred charges in assets under “Deferred Expenses”. They are amortised with the double entry being booked as “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 Directive No. 94-06 from the French Banking Commission. Securities related to repurchase agreements remain on the assignor’s balance sheet. The assignor records the amount received as a liability, representing its debt towards the assignee. The assignee records the amount deposited as an asset, representing its claim against the assignor. When the accounts are closed, the repo securities and the debt *vis-à-vis* the assignee are evaluated according to the rules applicable to each of these transactions.

2.9. Fund for General Banking Risks

This fund is intended to cover risks inherent in Compagnie de Financement Foncier’s business, pursuant to the requirements of Article 3 of CRBF Regulation No. 90-02 and the modified Directive No. 86-05 from the Banking Commission.

2.10. Forward financial instruments

Hedging and market transactions involving forward financial instruments for rates, currencies or shares are recorded pursuant to the provisions of CRBF Regulations No. 88-02 and 90-15. Commitments related to these transactions are posted in the off-balance sheet statements for the nominal value of the contracts. At December 31, the amount of these commitments represents the volume of unsettled transactions at the end of the accounting period.

Compagnie de Financement Foncier does not hold any option or firm forward contracts on regulated markets. Interest rate and foreign exchange rate swaps include hedging transactions and macro-hedging transactions.

2.10.1. Interest rate and currency swaps

Interest rate swaps and foreign exchange swaps include isolated open positions, micro-hedging and macro-hedging contracts.

All of the foregoing are considered over-the-counter transactions. They are recorded based on the following principles:

- › the commitments related to these transactions are posted in the off-balance sheet statements for the nominal value of unsettled contracts;
- › expenses and income relating to micro-hedging operations are posted in the income statement symmetrically to the hedged item and under the same item of the income statement;
- › expenses and income relating to macro-hedging operations are posted in the income statement on a proportional basis; estimated unrealised gains and losses compared to the market value are not recognised;
- › swap compensation receipts represent the market value, at the date of the transaction. The compensation receipts paid or received are amortised using the straight line method over the remaining term, for as long as the underlying agreement is maintained.

2.10.2. Caps and floors market rate contracts

All of the foregoing are considered over-the-counter transactions. They are recorded according to the following principals:

- › premiums are booked in accruals and amortised over the remaining term of the hedged item;
- › interest rate differentials, paid or received at each payment date, constitute realised gains or losses; they are recognised under the same conditions as the gains and losses generated when an option is unwound, symmetrically to the hedged item.

At December 31, 2008, Compagnie de Financement Foncier did not have any rate cap or floor contract as an isolated open position.

2.11. Provisions

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

It also covers provisions for liabilities and expenses related to banking transactions as defined by Article L. 311-1 of the French Monetary and Financial Code and related transactions defined under Article L. 311-2 of the same code, which are likely to occur in view of events that have occurred or are occurring. Their purpose is clearly identified whenever their amount or maturity is uncertain. They mainly comprise provisions for counterparty risks (cf. paragraph 2.3.2).

They are presented in detail in note 12.

2.12. Income taxes

Since January 1, 2008, Compagnie de Financement Foncier is included in the fiscal integration of Crédit Foncier. Indeed, Crédit Foncier created a new fiscal group with the subsidiaries in which it holds more than 95%.

In 2008, Compagnie de Financement Foncier reported taxable income in the income statement which resulted in an income tax charge at the full rate amounting to €24.7 million.

2.13. Consolidation

The company is part of the consolidation perimeter of Crédit Foncier Group.

Note 1a: Due from banks

(in thousands of euros)

	Performing loans			Doubtful loans			Provisions			Net amounts		
	2008	2007	2006	2008	2007	2006	2008	2007	2006	2008	2007	2006
Non-group loans												
On demand												
Customer accounts	12,874	35,541	1,859							12,874	35,541	1,859
Loans and accounts	1,123,000									1,123,000		
Related receivables	62									62		
Non-allocated securities	165	167								165	167	
Sub-total on demand	1,136,101	35,708	1,859							1,136,101	35,708	1,859
At maturity												
Loans and accounts	1,625,360	3,004,005	1,847,957							1,625,360	3,004,005	1,847,957
Related receivables	38,060	43,831	37,833							38,060	43,831	37,833
Sub-total at maturity	1,663,420	3,047,836	1,885,790							1,663,420	3,047,836	1,885,790
Total non-group loans	2,799,521	3,083,544	1,887,649							2,799,521	3,083,544	1,887,649
Group loans												
On demand	71,671	865,772	101,227							71,671	865,772	101,227
At maturity	6,935,067	5,877,708	4,060,326							6,935,067	5,877,708	4,060,326
Sub-total group loans	7,006,738	6,743,480	4,161,553							7,006,738	6,743,480	4,161,553
Total group loans	7,006,738	6,743,480	4,161,553							7,006,738	6,743,480	4,161,553
Grand total ⁽¹⁾	9,806,259	9,827,024	6,049,202							9,806,259	9,827,024	6,049,202
⁽¹⁾ of which subsidised sector	1,069	1,341	1,606									

Note 1b: Breakdown of loans at maturity to banks

(in thousands of euros)

	12/31/2008			12/31/2007	12/31/2006
	Gross	Provisions	Net		
Term loans					
Refinancing of subsidised residential property	1,069		1,069	1,341	1,606
Refinancing of unsubsidised residential property	3,108		3,108	4,066	5,073
Public authorities	1,659,243		1,659,243	1,629,029	1,659,043
Structured financing					
Other loans to banks	6,935,067		6,935,067	7,291,108	4,280,394
Doubtful term loans					
Total	8,598,487		8,598,487	8,925,544	5,946,116

Note 2a: Customer loans

(in thousands of euros)

	Performing loans			Doubtful loans			Provisions			Net amounts		
	2008	2007	2006	2008 ⁽³⁾	2007	2006	2008	2007	2006	2008	2007	2006
Customer loans												
Commercial loans												
Export credits												
Short-term loans ⁽²⁾	4,608,593	4,178,660	715,190							4,608,593	4,178,660	715,190
Equipment loans	9,702,324	8,986,224	4,700,364	3,599	4,354	10,602	563	537	3,637	9,705,360	8,990,041	4,707,329
Residential property loans	21,258,344	21,925,055	19,400,655	351,775	593,243	660,673	12,408	19,212	19,870	21,597,711	22,499,086	20,041,458
Other customer loans	108,543	27,797	18,738	1,682	1,255	1,391	903	827	771	109,322	28,225	19,358
Loans to financial customers												
Non-allocated securities	170	37	200							170	37	200
Subordinated loans												
Related receivables	288,288	244,665	156,859	1,651	2,959	3,131				289,939	247,624	159,990
Non-allocated securities												
Sub-total	35,966,262	35,362,438	24,992,006	358,707	601,811	675,797	13,874	20,576	24,278	36,311,095	35,943,673	25,643,525
Customer accounts												
Customer accounts												
Related receivables												
Sub-total												
Total loans	35,966,262	35,362,438	24,992,006	358,707	601,811	675,797	13,874	20,576	24,278	36,311,095	35,943,673	25,643,525
Grand total ⁽¹⁾	35,966,262	35,362,438	24,992,006	358,707	601,811	675,797	13,874	20,576	24,278	36,311,095	35,943,673	25,643,525
of which subsidised sector ⁽¹⁾	1,460,230	1,717,500	2,211,663	77,946	235,816	300,682	122	5,850	2,971	1,538,054	1,947,466	2,509,374
of which unsubsidised sector	34,506,032	33,644,938	22,780,343	280,761	365,995	375,115	13,752	14,726	21,307	34,773,041	33,996,207	23,134,151

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

⁽²⁾ In 2006, the company acquired the Crédit Foncier loan on the *Trésor* concerning the *Découvert sur Prime d'Epargne Logement*. This *découvert* reached €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 €3,581 million at year-end 2008.

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

Note 2b1: Depreciations and provisions for counterparty risks

(in thousands of euros)

	12/31/2006	Increases	Reversals	12/31/2007	Increases	Reversals	Misc. transaction	12/31/2008
Provisions recorded as a deduction from assets								
Customer loans and due from banks ⁽¹⁾	24,278	13,752	-17,454	20,576	12,775	-19,477		13,874
Provisions recorded in liabilities								
Customer loans and due from banks and from securities	6,374	4,223	-2,005	8,592	513	-3,268		5,837
Total	30,652	17,975	-19,459	29,168	13,288	-22,745		19,711

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

Note 2b2: Premiums/discounts on acquired loans

(in thousands of euros)

	12/31/2006	New entries	Amortisation	12/31/2007	New entries	Amortisation	12/31/2008
Due from banks							
Premiums	152,828		-18,262	134,566		-15,113	119,453
Discounts							
Net	152,828		-18,262	134,566		-15,113	119,453
Customer loans							
Premiums	375,875	75,670	-60,303	391,242	5,074	-62,889	333,427
Discounts	-201,284	-123,442	21,891	-302,835	-108,020	27,858	-382,997
Net	174,591	-47,772	-38,412	88,407	-102,946	-35,031	-49,570
Total	327,419	-47,772	-56,674	222,973	-102,946	-50,144	69,883

Note 2c: Breakdown of outstanding customer loans

(in thousands of euros)

	12/31/2008			12/31/2007	12/31/2006
	Gross	Provisions	Net		
Loans to households	16,965,201		16,965,201	17,717,637	15,765,988
- Individuals	16,052,999		16,052,999	16,803,375	15,008,163
Subsidised residential property	886,164		886,164	1,182,781	1,590,578
Unsubsidised residential property	15,166,105		15,166,105	15,619,828	13,416,374
Other	730		730	766	1,211
- Individual entrepreneurs	912,202		912,202	914,262	757,825
Subsidised residential property	55,506		55,506	71,224	92,820
Unsubsidised residential property	856,650		856,650	842,919	664,696
Other	46		46	119	309
Loans to companies	19,001,061		19,001,061	17,644,801	9,226,018
- Regional public sector (local governments)	15,161,221		15,161,221	13,962,132	5,904,081
- Social organisations	3,578,172		3,578,172	3,511,840	3,144,564
Subsidised residential property	268,646		268,646	293,029	333,166
Unsubsidised residential property	3,231,735		3,231,735	3,142,720	2,598,383
Other	77,791		77,791	76,091	213,015
- Real estate professionals					
Unsubsidised residential property					
Other					
- Real estate investors	200,892		200,892	114,728	133,643
Subsidised residential property	119,439		119,439	24,238	30,619
Unsubsidised residential property	79,989		79,989	88,079	98,765
Other	1,464		1,464	2,411	4,259
Structured financing	11,958		11,958	7,272	8,610
Transportation	4,804		4,804	6,436	7,425
Large projects	7,154		7,154	836	1,185
- Other	48,818		48,818	48,829	35,120
Sub-total customer loans	35,966,262		35,966,262	35,362,438	24,992,006
Doubtful loans	358,707	13,874	344,833	581,235	651,519
Of which subsidised sector	77,946	122	77,824	229,966	297,711
Of which unsubsidised sector	280,761	13,752	267,009	351,269	353,808
Total customer loans⁽¹⁾	36,324,969	13,874	36,311,095	35,943,673	25,643,525
⁽¹⁾ of which subsidised sector	1,538,176	122	1,538,054	1,947,466	2,509,374
of which unsubsidised sector	34,786,793	13,752	34,773,041	33,996,207	23,134,151

Note 2d: Breakdown of doubtful loans

(in thousands of euros)

December 31, 2008	Total doubtful loans			Of which compromised doubtful loans		
	Gross	Provisions	Net	Gross	Provisions	Net
Loans to households	315,673	7,392	308,281	12,948	4,850	8,098
- Individuals	289,819	5,474	284,345	9,576	3,215	6,361
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
- Individual entrepreneurs	25,854	1,918	23,936	3,372	1,635	1,737
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	
Loans to companies	43,034	6,482	36,552	9,603	5,879	3,724
- Regional public sector (local governments)	5,866	144	5,722	2	2	
- Social organisations	16,674	420	16,254	802	64	738
Subsidised residential property	1,245	14				
Unsubsidised residential property	15,354	337	15,017	775	37	738
Other	75	69	6	27	27	
- Real estate professionals						
Unsubsidised residential property						
Other						
- Real estate investors	19,435	5,881	13,554	8,712	5,792	2,920
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
- Structured financing						
Transportation						
Large projects						
- Other	1,059	37	1,022	87	21	66
Total ⁽¹⁾	358,707	13,874	344,833	22,551	10,729	11,822

⁽¹⁾ of which subsidised sector 77,946 122 77,824

of which unsubsidised sector ⁽²⁾ 280,761 13,752 267,009 22,551 10,729 11,822

⁽²⁾ 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 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)

December 31, 2007	Total doubtful loans			Of which compromised doubtful loans		
	Gross	Provisions	Net	Gross	Provisions	Net
Loans to households	438,873	9,114	429,759	14,709	1,165	13,544
- Individuals	399,456	5,645	393,811	11,582	509	11,073
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			
- Individual entrepreneurs	39,417	3,469	35,948	3,127	656	2,471
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			
Loans to companies	162,938	11,462	151,476	1,179	411	768
- Regional public sector (local governments)	5,858	250	5,608			
- Social organisations	16,402	513	15,889			
Subsidised residential property	3,149	7	3,142			
Unsubsidised residential property	13,228	481	12,747			
Other	25	25				
- Real estate professionals						
Unsubsidised residential property						
Other						
- Real estate investors	139,321	10,642	128,679	1,179	411	768
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
- Structured financing						
Transportation						
Large projects						
- Other	1,357	57	1,300			
Total ⁽¹⁾	601,811	20,576	581,235	15,888	1,576	14,312

⁽¹⁾ of which subsidised sector 235,816 5,850 229,966

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

⁽²⁾ 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.

(in thousands of euros)

December 31, 2006	Total doubtful loans			Of which compromised doubtful loans		
	Gross	Provisions	Net	Gross	Provisions	Net
Loans to households	461,653	11,072	450,581	29,789	7,010	22,779
- Individuals	413,880	7,961	405,919	22,809	4,365	18,444
Subsidised residential property	104,584	159	104,425			
Unsubsidised residential property	309,178	7,757	301,421	22,725	4,321	18,404
Other	118	45	73	84	44	40
- Individual entrepreneurs	47,773	3,111	44,662	6,980	2,645	4,335
Subsidised residential property	18,114		18,114			
Unsubsidised residential property	29,597	3,060	26,537	6,928	2,594	4,334
Other	62	51	11	52	51	1
Loans to companies	214,143	13,206	200,937	13,756	9,618	4,138
- Regional public sector (local governments)	3,007	60	2,947	9	3	6
- Social organisations	42,746	3,375	39,371	3,248	3,113	135
Subsidised residential property	27,815		27,815			
Unsubsidised residential property	11,715	287	11,428	32	25	7
Other	3,216	3,088	128	3,216	3,088	128
- Real estate professionals						
Unsubsidised residential property						
Other						
- Real estate investors	167,335	9,751	157,584	10,340	6,499	3,841
Subsidised residential property	149,071	2,811	146,260			
Unsubsidised residential property	16,146	5,774	10,372	8,535	5,335	3,200
Other	2,118	1,166	952	1,805	1,164	641
- Structured financing						
Transportation						
Large projects						
- Other	1,056	20	1,036	158	3	155
Total ⁽¹⁾	675,797	24,278	651,519	43,544	16,628	26,916

⁽¹⁾ of which subsidised sector 300,682 2,971 297,711

of which unsubsidised sector ⁽²⁾ 375,115 21,307 353,808 43,544 16,628 26,916

⁽²⁾ The amount of doubtful loans in the competitive sector includes €178.7 million of SGFGAS-guaranteed loans.

Note 3a: Bonds and other fixed-income securities

(in thousands of euros)

	12/31/2008			12/31/2007	12/31/2006
	Gross	Provisions	Net		
Bonds and other fixed income securities ^{(1) (2)}					
Short-term investment securities					
- Listed securities	316,777	8,449	308,328	319,218	319,798
- Unlisted securities	11,334,000		11,334,000	10,131,200	7,467,000
Long-term investment securities ⁽²⁾					
- Listed securities	30,797,929		30,797,929	29,430,211	21,879,281
- Unlisted securities	3,310,148		3,310,148	3,698,548	5,942,656
Related receivables	356,716		356,716	325,174	185,806
Total ⁽³⁾	46,115,570	8,449	46,107,121	43,904,351	35,794,541

⁽¹⁾ Shares of securitisation funds under this item represent €23,117,737k (excluding related receivables).

⁽²⁾ The market value of short-term investment securities reached €11,649,479k of which €8,449k of depreciated losses (after swaps) and €6,153k of unrealised gains (before swaps). There are no provisions for unrealised losses on short-term investment securities.

⁽³⁾ There are no doubtful loans in the securities portfolio.

Note 3b: Premiums/discounts

(in thousands of euros)

As of December 31, 2008	Gross Amount	Redemption Value	Difference +/-
Short-term investment securities			
Bonds	298,485	299,194	709
Other fixed income securities	11,352,292	11,352,292	
Long-term investment securities			
Bonds	10,935,341	10,918,771	-16,570
Other fixed income securities	23,172,736	23,179,343	6,607

Note 3c: Financial fixed assets

(in thousands of euros)

	Gross amount at 12/31/2006	Acquisitions	Disposals/ repayments	Reclassification	Change in premiums/ discounts	Currency differences	Gross amount at 12/31/2007	Acquisitions	Disposals/ repayments	Reclassification	Change in premiums/ discounts	Currency differences	Gross amount at 12/31/2008
Long-term investment securities	27,821,937	35,252,868	-29,852,464		1,126	-94,708	33,128,759	6,345,082	-5,983,405		1,080	616,562	34,108,078
Total	27,821,937	35,252,868	-29,852,464		1,126	-94,708	33,128,759	6,345,082	-5,983,405		1,080	616,562	34,108,078
Related receivables	172,484						254,750						280,954
Grand total	27,994,421	35,252,868	-29,852,464		1,126	-94,708	33,383,509	6,345,082	-5,983,405		1,080	616,562	34,389,032

Note 4a: Intangible and tangible fixed assets

(in thousands of euros)

	Gross amount at 12/31/2007	Acquisitions in 2008	Disposals in 2008	Gross amount at 12/31/2008	Amortisation and provisions	Net amount at 12/31/2008	Net amount at 12/31/2007	Net amount at 12/31/2006
Intangible fixed assets								
Difference intangible/ CFF equity contribution	119,408			119,408	116,928	2,480	7,816	14,066
Other intangible fixed assets								4
Total	119,408			119,408	116,928	2,480	7,816	14,070

Note 4b: Amortisation and depreciation of intangible and tangible fixed assets

(in thousands of euros)

	Amount at 12/31/2006	Increases in 2007	Reversals in 2007	Amount at 12/31/2007	Increases in 2008	Reversals in 2008	Amount at 12/31/2008
Intangible fixed assets	105,342	6,250		111,592	5,336		116,928
Total	105,342	6,250		111,592	5,336		116,928

Note 5: Other assets

(in thousands of euros)

	12/31/2008	12/31/2007	12/31/2006
Conditional instruments purchased	12,115	17,186	24,439
Miscellaneous receivables	66,612	15,732	38,930
Special bonus account	125,933	137,080	146,608
Total	204,660	169,998	209,977

Note 6a: Prepayments, deferred charges and accrued income

(in thousands of euros)

		12/31/2008	12/31/2007	12/31/2006
Deferred charges ⁽¹⁾				
Issue and redemption of premiums	} (See note 6 b)	370,256	391,601	277,668
Other deferred charges		47,689	55,644	45,537
Other prepayments, deferred charges and accrued income				
Prepayments		182,736	180,783	173,699
Accrued income ⁽²⁾		2,178,293	2,427,847	1,674,538
Other ⁽³⁾		712,005	1,488,557	803,407
Total		3,490,979	4,544,432	2,974,849

⁽¹⁾ 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.

⁽²⁾ Includes accrued income on swaps contracts for €2,171,919k as of December 31, 2008.

⁽³⁾ Includes borrower accounts (pending payments on loan accounts) and released loan funds on behalf of Crédit Foncier €672,965k as of December 31, 2008, compared to €1,277,970k as of December 31, 2007 and €503,185k as of December 31, 2006.

Note 6b: Deferred charges

(in thousands of euros)

	12/31/2008	12/31/2007	12/31/2006
Issue and redemption of premiums			
Debt securities			
Mortgage bonds (obligations foncières)			
Subsidised sector	3,306	4,099	5,044
Other sectors	366,830	387,205	272,144
Negotiable debt securities (B.M.T.N.)	120	297	480
Total issue and redemption of premiums	370,256	391,601	277,668
Other deferred charges			
Loan and bond issuance costs	47,689	55,644	45,537
Total other deferred charges	47,689	55,644	45,537
Total deferred charges	417,945	447,245	323,205

Note 7: Due to banks

(in thousands of euros)

	12/31/2008	12/31/2007	12/31/2006
Due to non group banks			
On demand			
Current accounts	9,730		
Other amounts due	8	50	317
Related payables			
Sub-total	9,738	50	317
At maturity			
At maturity BDF P003G	2,500,000		
Term loans ⁽¹⁾	130,278	154,148	175,970
Securities subject to repurchase agreements		1,603,611	
Related payables	38,228	10,025	4,832
Sub-total	2,668,506	1,767,784	180,802
Total due to non group banks	2,678,244	1,767,834	181,119
Due to group banks			
On demand	16,079	559,076	9,844
At maturity	3,163,669	2,791,037	1,275,740
Term loans	2,565,840	1,829,348	1,275,740
Securities subject to repurchase agreements	597,829	961,689	
Total due to group banks	3,179,748	3,350,113	1,285,584
Grand total	5,857,992	5,117,947	1,466,703

⁽¹⁾ of which subsidised sector

9,971

18,854

Note 8: Customer deposits

(in thousands of euros)

	12/31/2008	12/31/2007	12/31/2006
Other liabilities			
Non-group			
On demand			
Other amounts due to customers	33,479	91,152	122,416
Total	33,479	91,152	122,416

Note 9: Debt securities

(in thousands of euros)

	12/31/2008	12/31/2007	12/31/2006
Negotiable debt securities ⁽¹⁾	181,252	191,923	241,924
Related payables	6,952	5,157	
Negotiable debt securities and related payables	188,204	197,080	241,924
Mortgage Bonds ("obligations foncières") ⁽²⁾	78,002,661	77,329,972	60,167,293
Related payables	1,957,400	2,064,910	1,521,335
Mortgage Bonds and related payables	79,960,061	79,394,882	61,688,628
Grand total	80,148,265	79,591,962	61,930,552
⁽¹⁾ of which subsidised sector	31,252	41,923	41,923
⁽²⁾ of which subsidised sector *	804,987	1,194,225	1,668,777

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

* 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)

	12/31/2008	12/31/2007	12/31/2006
Other payables ⁽¹⁾	52,512	37,963	950,391
Related payables	2,116	2,598	133
Conditional instruments sold	119	200	305
Allocated public funds ⁽²⁾	260,470	281,333	317,616
Deposits received	424,140	184,300	332,030
Total	739,357	506,394	1,600,475
⁽²⁾ of which subsidised sector	200,078	116,631	254,152

⁽¹⁾ In 2006, this item included a €890,212k at maturity, due on December 30th, 2006 but whose settlement date was deferred until January 2, 2007 according to interbank settlement rules.

In 2008, it included €22,327k in corporate taxes due to CFF as stipulated by the taxation integration.

Note 11: Accruals and deferred income

(in thousands of euros)

	12/31/2008	12/31/2007	12/31/2006
Other liability adjustment accounts			
Prepaid FGAS subsidies	434,175	504,348	570,100
Other pre-payments	575,275	609,323	496,253
Accruals ⁽¹⁾	1,631,548	1,444,575	826,963
Adjustment accounts ⁽²⁾	1,492,713	1,307,375	701,421
Other ⁽³⁾	164,539	388,344	195,404
Total	4,298,250	4,253,965	2,790,141

⁽¹⁾ Including accrued expenses of swap contracts for €1,564,473k at 12/31/2008.

⁽²⁾ This account is the double entry to assets and liabilities after recognition in the income statement of gains and losses arising from the valuation of off-balance sheet transactions in foreign currencies (See Note 17).

⁽³⁾ Including borrower accounts of €1,627k at December 31, 2008 compared to €204,368k at December 31, 2007 and €114,347k at December 31, 2006 (See Note 6).

Note 12: Provisions

(in thousands of euros)

	12/31/2006	12/31/2007			12/31/2008			
	Balance	Increases	Reversals used	Balance not used	Increases	Reversals used	Reversals not used	Balance
Provisions for liabilities and charges on banking operations								
Provisions for litigation	111				111			111
Provisions for tax litigation ⁽¹⁾	3,892		212		3,680			3,680
Provisions for amortisation of loans								
- Subsidised sector								
- Unsubsidised sector								
Provisions for losses on commitments								
Provisions for liabilities and charges on financial instruments								
Provisions for liabilities and charges - cost of risk								
Provisions for potential risks on non-doubtful loans ⁽²⁾	6,374	4,223		2,005	8,592	513	3,268	5,837
Total	10,377	4,223	212	2,005	12,383	513	3,268	9,628

⁽¹⁾ In 2006, the tax litigation provision corresponded to accrued interest in FCC shares for the 2005 financial year (€3,628k) and V.A.T. and "taxe professionnelle" adjustments (€264k).
In 2007, it corresponded to accrued interest in FCC shares from 2005.

⁽²⁾ See paragraph 2.3.2 of the draft appendix.

In 2007, the provision of €4.2 million mainly concerned the dynamic provision "client" and the reversal of €2 million includes the reversal of €1,146k for the dynamic provision "credit institution" and the reversal of the Neiertz provision for €859k.

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 sectorial provision for €0.9 million.

Note 13: Subordinated debt

I - Amount in financial statements

(in thousands of euros)

Description	Amount at 12/31/2008	Amount at 12/31/2007	Amount at 12/31/2006
Redeemable subordinated notes "RSN"	2,100,000	2,900,000	900,000
Subordinated participating loan	1,350,000	1,350,000	1,350,000
Related payables	589	665	550
Total subordinated debt	3,450,589	4,250,665	2,250,550

II - Detailed information concerning subordinated debt

a) Financial characteristics

(in thousands of euros)

Category	Date of issue	Maturity date	Rate	Repayment terms	Amount at 12/31/2008
Redeemable subordinated notes "RSN" ⁽¹⁾	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

⁽¹⁾ 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 Credit 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 Authority [*Commission Bancaire*].

c) Conditions relating to interest rate payable

- On the subordinated participating loan

In order to ensure Compagnie'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 14a: Statement of changes in shareholders' equity

(in thousands of euros)

	Opening balance 01/01/2007	Allocations	Changes in capital and reserves		Balance at 12/31/2007	Allocations	Changes in capital and reserves		Balance at 12/31/2008
			Dividends paid in shares	Other change			Dividends paid in shares	Other change	
Capital stock ⁽¹⁾	132,000		22,000		154,000			770,000	924,000
Share premiums ⁽¹⁾	209,742		61,325		271,067				271,067
Reserves									
Legal reserve	13,200	2,200			15,400				15,400
General reserve	55,517				55,517				55,517
Regulated reserves									
of which									
Regulated revaluation reserves									
Special long-term capital gains reserves									
Retained earnings	26,874	-23,183			3,691	53,151		1	56,843
Net shareholders' equity before income for the year	437,333	-20,983	83,325		499,675	53,151		770,001	1,322,827
Income for the year before distribution	62,342				53,151	-53,151		62,231	62,231
Net shareholders' equity after income for the year	499,675	-20,983	83,325		552,826			832,232	1,385,058
Dividends distributed		83,325							
	Opening balance 01/01/2007	Allocations	Changes in provisions		Balance at 12/31/2007	Allocations	Changes in provisions		Balance at 12/31/2008
			Increases	Reversals			Increases	Reversals	
Regulated revaluation reserves									
Other regulated reserves									
Regulated reserves									
Amount of shareholders' equity before dividends	499,675	-20,983	83,325		552,826			832,232	1,385,058
	Opening balance 01/01/2007	Allocations	Changes in FRBG		Balance at 12/31/2007	Allocations	Changes in FRBG		Balance at 12/31/2008
			Increases	Reversals			Increases	Reversals	
Fund for general banking risks	20,000				20,000				20,000
Total	519,675	-20,983	83,325		572,826			832,232	1,405,058

⁽¹⁾ The capital stock consists of 57,750,000 ordinary shares with a par value of 16 euros, which all benefit from the same rights, in December 2008.

No revaluation has been carried out to date.

During the year, 48,125,000 new shares were issued, with a par value of €16.

Note 14b: Proposed allocation of income

(in thousands of euros)

Sources		
Retained earnings		56,843
Net income for the year		62,231
Drawing from reserves		
Allocation		
Allocation to reserves		
Legal reserve	3,112	
Special long-term capital gains reserves		
Other reserves		
Dividends	115,500	
Other distributions		
Retained earnings	462	
Total	119,074	119,074

Note 15: Commitments given

Financial Commitments

(in thousands of euros)

	2008		2007		2006	
	Net authorisations	Amounts not drawn down	Net authorisations	Amounts not drawn down	Net authorisations	Amounts not drawn down
Subsidised sector						
Non-Group commitments						
Banks						
Customers						8
Sub-total subsidised sector						8
Competitive sector						
Non-Group commitments						
Other values given as a guarantee ⁽¹⁾	10,449,002					
Banks				114,824		
Customers	127,012	2,822,993	364,346	8,320,233	498,927	1,215,757
Sub-total competitive sector	10,576,014	2,822,993	364,346	8,435,057	498,927	1,215,757
Total ⁽²⁾	13,399,007		8,799,403		1,714,692	

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.

⁽¹⁾ 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 €4,198 million in loans and in €6,251 million RMBS tranches.

⁽²⁾ At December 31, 2008, doubtful commitments came to €771k.

Financing commitments given to customers decreased in 2008 due to fewer cash lines transactions in the local authority public sector.

	2008	2007
Interactive cash-flow lines	€305 million	€3,421 million
Local authority public sector	-	€997 million
Revolving credit lines (outstandings purchased from Ixis CIB)	€2,012 million	€2,498 million
Treasury housing savings accounts (" <i>primes d'épargne logement</i> ")	€37 million	€157 million

Note 16: Commitments received

(in thousands of euros)

	2008	2007	2006
Financing commitments			
Non-Group commitments ⁽¹⁾			
Banks ⁽¹⁾	7,349,674		40,000
Sub-total	7,349,674		40,000
Group commitments ⁽²⁾	563,200	573,407	591,472
Total	7,912,874	573,407	631,472
Guarantee commitments			
Non-Group commitments			
Banks ⁽³⁾	3,384,497	2,033,029	1,102,765
Customers ⁽⁴⁾	30,051,552	31,503,322	18,561,261
Sub-total	33,436,049	33,536,351	19,664,026
Group commitments ⁽⁵⁾	11,415,551	25,106,769	3,917,003
Total	44,851,600	58,643,120	23,581,029
Commitments on securities			
Others securities to be received	542,418		
Total	45,394,018	58,643,120	23,581,029
Total commitments received	53,306,892	59,216,527	24,212,501

⁽¹⁾ At December 31, 2008, the non-group financing commitments represented the commitment received from the Banque de France as part of the Global Management guarantee pool.

⁽²⁾ Group commitments included a €500,000k line of credit granted by Crédit Foncier and FCC share repurchase agreements amounting to €63,200k.

⁽³⁾ Includes €583,110k rated AA/AA-

Guarantees received from Créserfi:

€28,649k

Security enhancement guarantees received from insurance companies:

€2,865,839k

⁽⁴⁾ 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.

In 2008, these guarantees are broken down as follows:

- State guarantees on subsidised sector loans:

€1,513,553k

- SFGAS guarantees on FGAS-eligible loans and repurchased by the state:

€6,785,428k

- Mortgage guarantees for mortgage loans benefiting from only one such guarantee:

€7,568,563k

- Guarantees granted by local authorities and other entities:

€3,427,769k

- Security enhancement guarantees granted by european states, identified since 2007:

€10,756,239k

⁽⁵⁾ Guarantee commitments received in connection with transactions to indirectly or directly transfer a credit risk to a AAA-rated European public entity totalling €3,321 million, €2,417 million with a European banking establishment benefiting from the highest possible credit rating as well as commitments received from a credit insurer CIFG. They also include a guarantee received from CNCE in connection with French local authority public sector loans purchased from IXIS CIB for €4,359 million.

Note 17: Foreign exchange transactions

(in thousands of euros)

	2008		2007		2006	
	Currency receivable	Currency payable	Currency receivable	Currency payable	Currency receivable	Currency payable
Forward transactions						
Transactions directly with counterparties ⁽¹⁾						
Hedging transactions						
Financial swaps						
Micro-hedging transactions						
Subsidised sector	104,987	161,891	136,361	161,891	223,380	249,780
Unsubsidised sector	21,922,494	23,330,649	18,013,606	19,295,401	14,025,118	14,700,040
Macro-hedging transactions						
Subsidised sector						
Unsubsidised sector						
Total hedging transactions	22,027,481	23,492,540	18,149,967	19,457,292	14,248,498	14,949,820
Forward transactions (nominal amounts)	22,027,481	23,492,540	18,149,967	19,457,292	14,248,498	14,949,820
Forward transactions (fair value) ⁽²⁾	-1,473,701		-1,457,834		-537,473	
Current cash transactions	287,418	315,000				
Total foreign currency transactions	22,314,899	23,807,540	18,149,967	19,457,292	14,248,498	14,949,820
Total	46,122,439		37,607,259		29,198,318	

⁽¹⁾ Compagnie de Financement Foncier does not transact any forward foreign currency contracts on regulated markets.

⁽²⁾ Data communicated pursuant to regulation CRC 2004-16 of Nov. 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)

	2008		2007		2006	
	Euros ⁽¹⁾	Other currencies ⁽²⁾	Euros ⁽¹⁾	Other currencies ⁽²⁾	Euros ⁽¹⁾	Other currencies ⁽²⁾
Transactions directly with counterparties ⁽³⁾						
Conditional transactions						
Micro-hedging transactions						
Purchases ⁽⁴⁾						
Sales	9,909		14,483		18,294	
Macro-hedging transactions						
Purchases ⁽⁴⁾	797,393		1,111,452		1,334,523	
Sales						
Other conditional transactions						
Purchases ⁽⁴⁾						
Sales						
Conditional transactions (nominal amounts)	807,302		1,125,935		1,352,817	
Conditional transactions (fair value) ⁽⁴⁾	7,667		8,934		5,452	
Firm transactions						
Micro-hedging transactions	78,768,347	277,314	95,242,727	333,155	63,555,478	360,072
Interest rate instruments	78,768,347	277,314	95,242,727	333,155	63,555,478	360,072
Exchange rate instruments						
Other instruments						
Macro-hedging transactions	34,764,781		29,444,882		20,545,271	
Interest rate instruments	34,764,781		29,444,882		20,545,271	
Exchange rate instruments						
Other instruments						
Other transactions	1,944,805					
Interest rate instruments						
Exchange rate instruments						
Other instruments ⁽⁵⁾	1,944,805					
Firm transactions (nominal amounts)	115,477,933	277,314	124,687,609	333,155	84,100,749	360,072
Firm transactions (fair value) ⁽⁶⁾	1,089,259	1,454	316,290	7,592	709,187	1,798
Firm and conditional transactions	116,285,235	277,314	125,813,544	333,155	85,453,566	360,072
Total ⁽⁷⁾ (nominal amounts)	116,562,549		126,146,699		85,813,638	
Total ⁽⁴⁾ (fair value)	1,098,380		332,816		716,437	

⁽¹⁾ Euro equivalent for non-euro currencies IN.⁽²⁾ Euro equivalent currencies that became the euro OUT.⁽³⁾ Compagnie de Financement Foncier does not transact any forward financial instruments on regulated markets.⁽⁴⁾ At the end of 2006, Compagnie de Financement Foncier reclassified cap rate contracts, they were previously classified as macro-hedging.⁽⁵⁾ The amount of €1,944,805k 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-.⁽⁶⁾ Data communicated pursuant to regulation CRC 2004-16 of Nov. 23, 2004 regarding information to be provided further to the transposition of the European directives, "Fair value" and "Modernisation".⁽⁷⁾ At December 31, 2008, there were no outstanding doubtful loans relating to transactions on financial instruments.

Note 19: Interest and similar income ^{(1) (2)}

(in thousands of euros)

	2008	2007	2006
On transactions with banks	500,523	280,421	204,329
On transactions with customers	1,621,353	1,361,388	1,195,288
On bonds and other fixed income securities	2,184,572	1,839,978	1,691,496
Other interest and similar income	78,508	13,178	
Total	4,384,956	3,494,965	3,091,113

⁽¹⁾ including income from the subsidised sector 168,723 198,380 321,119

⁽²⁾ including €6k as reversals of discounts on restructured loans under non-market conditions.

Note 20: Interest and similar expenses ⁽¹⁾

(in thousands of euros)

	2008	2007	2006
On transactions with banks	-235,375	-116,378	-75,494
On transactions with customers	-1	-5,416	
On bonds and other fixed income securities	-3,739,597	-3,043,014	-2,465,472
Related to subordinated debt	-222,611	-131,109	-104,527
Other interest and similar expenses	-13,132	-15,694	-260,184
Total	-4,210,716	-3,311,611	-2,905,677

⁽¹⁾ of which expenses from the subsidised sector -138,386 -161,091 -274,911

Note 21: Net commissions and fees

(in thousands of euros)

	2008	2007	2006
Income	38,443	43,425	39,827
On transactions with banks		2	2
On transactions with customers	34,420	22,088	25,402
Transfer of loan issuance costs/expenses	3,899	21,169	12,497
On securities transactions			
Other commissions and fees	124	166	1,926
Expenses	-7,895	-24,707	-15,565
On transactions with banks	-1,110	-607	-72
On transactions with customers	-10	-126	-512
On securities transactions ⁽¹⁾	-4,208	-21,416	-12,809
On payment method transactions			-18
Other commissions and fees	-2,567	-2,558	-2,154
Net balance	30,548	18,718	24,262

⁽¹⁾ of which loan issuance costs 4,208 21,416 12,809

Note 22: Gains and losses on trading portfolio transactions

(in thousands of euros)

	2008	2007	2006
Foreign exchange and arbitrage transactions	889	-1,501	-1,207
Gains on foreign exchange and arbitrage transactions ⁽¹⁾	70,302	476	326
Losses on foreign exchange and arbitrage transactions ⁽¹⁾	-69,413	-1,977	-1,533
Forward financial instrument transactions			
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			
Net balance	889	-1,501	-1,207

⁽¹⁾ 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 security transactions

(in thousands of euros)

	2008	2007	2006
Gains on disposal			
Losses on disposal			
Reversals of provisions for loss of value	737	179	22
Increases in provisions for loss of value ⁽¹⁾	-8,271	-1,090	-27
Net balance	-7,534	-911	-5

⁽¹⁾ 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)

	2008	2007	2006
Reversals of provisions relating to banking transactions			
Surplus of reversals over increases in provisions for amortisation of loans			822
Provision for claims and litigation on banking transactions			332
Other income from banking operations			
Transfer of operating expenses			
* Flat-rate commissions on PAS loans			
Other sundry income from banking operations ⁽¹⁾	2,350	2,258	106
Total	2,350	2,258	1,260

⁽¹⁾ of which dividends on PAS commissions received by FGAS

1,943 1,886

In 2007 and 2008, Compagnie de Financement Foncier received, from FGAS, dividends on PAS flat commissions for the periods 1993 to 2002 following the termination of the FGAS guarantee system.

Note 25: Other expenses from banking operations

(in thousands of euros)

	2008	2007	2006
Increases in provisions relating to banking operations			
Provision for claims and litigation on banking transactions			
Other expenses on banking operations			
Commissions on PAS and PTZ loans paid to FGAS			
Amortisation of loan issuance expenses	-11,854	-11,062	-9,406
Amortisation of flat-rate commissions on PAS loans			
Amortisation of the correcting account on PC and PAS loans	-1,680	-3,133	-4,486
Other sundry expenses from banking operations	-372	-63	-110
Total	-13,906	-14,258	-14,002

Note 26: General operating expenses

(in thousands of euros)

	2008	2007	2006
Personnel expenses	-200	-77	-196
Taxes and duties	-8,657	-8,222	-8,043
External services	-3,989	-3,604	-3,848
Expenses invoiced by Crédit Foncier de France	-87,846	-85,849	-83,500
Total	-100,692	-97,752	-95,587

Note: the total amount of compensation received by members of management entities in financial year 2008 was €137k.

Note 27a: Cost of risk

(in thousands of euros)

	2008	2007	2006
Provisions and losses on doubtful loans	1,972	-5,703	1,807
Increases in provisions (See Note 27b)	-4,774	-12,316	-35,589
Reversals of provisions	13,060	7,771	38,007
Losses not covered by provisions ⁽¹⁾ of which discounts on restructured loans	-6,314	-1,158	-611
Losses provisioned for unrecoverable loans			
Losses covered by provisions	-681	-1,256	-515
Reversals of provisions used	681	1,256	515
Recoveries on amortized loans ⁽²⁾	2,018	2,703	900
Net balance	3,990	-3,000	2,707

⁽²⁾ of which recoveries for correcting account

1,364 2,033 515

⁽¹⁾ 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 depreciations and provisions for loans

(in thousands of euros)

	2008	2007	2006
Provisions for doubtful loans			
Provisions for loans to customers	-4,261	-8,093	-35,517
Provisions cost of risk			
Provision for losses and charges on commitments			
Provision for counterparty risks ⁽¹⁾	-513	-4,223	-72
Total	-4,774	-12,316	-35,589

⁽¹⁾ In 2008, provision of €83k was made 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 of depreciation and provisions for loans

(in thousands of euros)

	2008	2007	2006
Provisions for doubtful loans			
Provisions for loans to banks			
Provisions for loans to customers	10,472	7,022	35,230
Provisions cost of risk			
Provision for losses and charges on commitments			
Provision for counterparty risks ⁽¹⁾	3,268	2,005	3,292
Total	13,740	9,027	38,522

⁽¹⁾ In 2006, reversal of €2,298k of the "client" dynamic provision.

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.

Note 28: Transactions with related enterprises and other investments

(in thousands of euros)

	Related enterprises		Other investments	Total
	Group ⁽¹⁾	Non-group		
Loans receivable from banks				
On demand	71,671			71,671
At maturity	6,935,067			6,935,067
Loans payable to banks				
On demand	16,079			16,079
At maturity	2,565,840			2,565,840
Securities subject to repurchase agreement	597,829			597,829
Commitments given				
Financing				
Guarantee				
Commitments received				
Financing	563,200			563,200
Guarantee	11,623,606			11,623,606
On securities transactions				
Bonds and other fixed income securities	13,051,836			13,051,836
Debt securities				
Subordinated debt	3,450,588			3,450,588

⁽¹⁾ 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 Caisse d'Epargne. As a result, the Group represents all of the fully and proportionally consolidated entities of the Groupe Caisse d'Epargne.

Note 29: Schedule of foreign exchange positions

C.O.B. Recommendation 89.01

(in thousands of euros)

	Australian \$	Canadian \$	US \$	Hong Kong \$	£ Sterling	Swiss franc	Yen	Hungarian Forint	New Zealand \$	Brazilian Real	Others ⁽¹⁾	Total
Balance sheet												
Financial assets	13,754	40,111	2,757,971	1,179	90,360	1,476,288	2,054,148	9,663	21,602	7,994	5,043	6,478,113
Financial liabilities	664,806	418,058	9,189,456	30,752	1,585,385	3,086,959	1,616,578	76	8,502	100,449	98	16,701,119
Balance sheet differential (I)	-651,052	-377,947	-6,431,485	-29,573	-1,495,025	-1,610,671	437,570	9,587	13,100	-92,455	4,945	-10,223,006
Off - balance sheet												
Commitments received	651,080	445,638	9,102,615	29,576	1,742,225	3,030,303	1,593,785		8,268	92,455		16,695,945
Commitments given		67,649	2,670,552		247,212	1,418,712	2,031,281	9,599	21,347		4,939	6,471,291
Off balance sheet differential (II)	651,080	377,989	6,432,063	29,576	1,495,013	1,611,591	-437,496	-9,599	-13,079	92,455	-4,939	10,224,654
Overall differential (I)+(II)	28	42	578	3	-12	920	74	-12	21	0	6	1,648

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.

⁽¹⁾ Mexican Peso, Danish krone.

Note 30: Schedule of positions: liquidity risk

C.O.B. Recommendation 89.01

(in thousands of euros)

	Remaining term to maturity					Total ⁽²⁾
	< 3 months	3M < T < 6M	6M < T < 1Y	1Y < T < 5Y	> 5 years	
Balance sheet						
Financial assets ⁽¹⁾	6,561,296	4,903,679	1,091,391	18,208,066	59,141,152	89,905,584
Due from banks	5,665,298	1,200,299	47,489	396,400	1,180,872	8,490,358
Customer loans	650,657	1,410,190	895,553	7,201,592	25,506,828	35,664,820
Bonds and other fixed income securities	245,341	2,293,190	148,349	10,610,074	32,453,452	45,750,406
Subordinate term loans						
Financial liabilities	7,037,168	5,603,237	2,016,346	28,598,817	44,133,362	87,388,930
Due to banks	638,185	2,503,112	29,706	679,516	1,904,497	5,755,016
Customer deposits						
Debt securities:	6,398,983	3,100,125	1,986,640	27,919,301	38,778,865	78,183,914
Liquid notes						
Inter-bank market securities						
Negotiable debt securities			31,252		150,000	181,252
Bonds	6,398,983	3,100,125	1,955,388	27,919,301	38,628,865	78,002,662
Other debt securities						
Subordinated term debt					3,450,000	3,450,000
Balance sheet differential (I)	-475,872	-699,558	-924,955	-10,390,751	15,007,790	2,516,654
Off - balance sheet						
Commitments given	282,556	343,595	659,916	344,264	1,318,902	2,949,233
Commitments received			7,349,673	500,000	63,200	7,912,873
Off balance sheet differential (II)	-282,556	-343,595	6,689,757	155,736	-1,255,702	4,963,640
Total differential (I)+(II)	-758,428	-1,043,153	5,764,802	-10,235,015	13,752,088	7,480,294
Conditional positions	25,671	24,392	54,882	470,196	232,161	807,302

⁽¹⁾ Among the financial assets of the Compagnie de Financement Foncier, we have identified €32bn euros of securities that conform to the refinancing criteria of the European Central Bank.

⁽²⁾ 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 financial years

(in euros)

	2004	2005	2006	2007	2008
I) Financial situation at the end of the financial year					
a) Capital stock	100,000,000	110,000,000	132,000,000	154,000,000	924,000,000
b) Number of shares in issue	6,250,000	6,875,000	8,250,000	9,625,000	57,750,000
c) Number of bonds convertible into shares	None	None	None	None	None
II) Overall results from operations					
a) Revenue excluding taxes	2,389,429,000	2,587,600,757	3,130,988,425	3,538,236,200	4,418,771,642
b) Profit for the financial year before tax, employee profit sharing and net increase/reversal in amortisation and provisions	125,017,146	145,122,712	97,226,016	87,143,909	90,537,323
c) Income taxes	40,666,904	58,377,265	29,434,298	28,416,863	24,784,463
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	72,867,183	85,935,735	62,342,078	53,151,105	62,231,116
f) Amount of profits distributed	35,687,500	87,518,750	83,325,000		
III) Results from operations per share					
a) Profit for the financial year after tax and employee profit sharing but before net increase/reversal in amortisation and provisions	13.50	12.62	8.22	6.10	1.14
b) Profit for the financial year after tax and employee profit sharing and net increase/reversal in amortisation and provisions	11.66	12.50	7.56	5.52	1.08
c) Dividend paid per share	5.71	12.73	10.10		
IV) Personnel					
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)

	12/31/2008	12/31/2007	12/31/2006	12/31/2005	12/31/2004
Assets					
Cash due from central banks and post office accounts	20,024		4,725	2,363	6,684
Treasury notes and similar securities					
Due from banks	9,806,259	9,827,024	6,049,202	4,581,545	8,857,377
Customer loans	36,311,095	35,943,673	25,643,525	23,032,980	20,533,958
Bonds and other fixed-income securities	46,107,121	43,904,351	35,794,541	27,646,424	17,119,338
Fixed assets	2,480	7,816	14,070	21,540	31,144
Other assets	204,660	169,998	209,977	168,528	212,296
Prepayments, deferred charges and accrued income	3,490,979	4,544,432	2,974,849	1,950,224	2,434,008
Total assets	95,942,618	94,397,294	70,690,889	57,403,604	49,194,805
Liabilities					
Central banks, post office accounts					
Due to banks	5,857,992	5,117,947	1,466,703	1,282,971	1,468,162
Customer deposits	33,479	91,152	122,416	29,914	307,323
"obligations foncières"	80,148,265	79,591,962	61,930,552	50,041,539	41,358,710
Other liabilities	739,357	506,394	1,600,475	1,069,712	467,551
Accruals and deferred income	4,298,250	4,253,965	2,790,141	2,260,244	2,959,086
Provisions for liabilities and charges	9,628	12,383	10,377	11,134	6,588
Subordinated debt	3,450,589	4,250,665	2,250,550	2,250,491	2,250,465
Fund for general banking risks	20,000	20,000	20,000	20,000	20,000
Regulated reserves and subsidies					
Capital, reserves and retained earnings	1,322,827	499,675	437,333	351,663	284,053
Net income for the year	62,231	53,151	62,342	85,936	72,867
Total liabilities	95,942,618	94,397,294	70,690,889	57,403,604	49,194,805
Off-balance sheet					
Commitments given					
Financing	2,950,005	8,799,403	1,714,692	614,870	293,803
Guarantee					
Total commitments given	2,950,005	8,799,403	1,714,692	614,870	293,803
Commitments received	53,306,892	59,216,527	24,067,501	21,993,659	21,650,950
Reciprocal commitments					
Sale and purchase of foreign currencies	46,122,439	37,607,259	29,198,318	23,889,538	15,281,596
Loans to be made or received in foreign currencies					
Non-unwound financial instruments	116,562,549	126,146,699	85,813,638	72,729,810	64,175,547
Total reciprocal commitments	162,684,988	163,753,958	115,011,956	96,619,348	79,457,143

Note 33: Privileged/non-privileged liabilities

(in thousands of euros)

	2008	2007	2006
Privileged debt	83,398,704	82,538,701	64,557,008
Due to banks	165,469	207,325	211,310
"obligations foncières"	80,148,265	79,591,962	61,930,551
Amounts due under forward financial instruments	3,026,085	2,681,430	1,497,824
Amounts due under the agreement covered by Article L. 515-22 of the French Monetary and Financial Code	58,885	57,984	27,110
Debt resulting from related expenses mentioned in the last paragraph of Article L. 515-19 of the French Monetary and Financial Code			890,213
Non-privileged debt	12,543,914	11,858,593	6,133,881
Unsecured debt	6,905,369	6,129,656	2,321,633
Subordinated and similar debt of which:	4,223,859	5,143,728	3,282,196
Redeemable subordinated notes "RSNs"	2,100,407	2,900,424	900,317
Participating loan	1,350,181	1,350,239	1,350,231
Shareholders' equity and provisions	1,414,686	585,209	530,052
Total liabilities	95,942,618	94,397,294	70,690,889

Note 34: Totals for the subsidised sector

(in thousands of euros)

Assets	2008	2007	2006	Liabilities	2008	2007	2006
Loans	1,539,123	1,948,807	2,510,980	Interbank loans		9,974	18,859
				Customer deposits	2,859	896	3,811
				Debt securities	861,113	1,273,311	1,780,293
Other assets	126,069	138,238	149,560	Other liabilities	31,533	36,880	788,739
<i>Special subsidy account</i>	<i>126,069</i>	<i>138,238</i>	<i>149,560</i>				
Prepayments, deferred charges and accrued income	24,073	17,576	33,381	Accruals and deferred income	112,741	128,429	140,319
<i>CSB Foreign exchange and rate differences</i>				<i>CSB - State guaranteed foreign exchange and rate differences</i>	72	87	99
<i>Other prepayments, deferred charges and accrued income</i>	<i>24,073</i>	<i>17,576</i>	<i>33,381</i>	<i>Other accruals and deferred income</i>	<i>112,669</i>	<i>128,342</i>	<i>140,220</i>
				Public funds allocated	200,076	218,982	254,152
				<i>Subsidies</i>	<i>75,037</i>	<i>94,593</i>	<i>119,609</i>
				<i>Guarantee fund</i>	<i>125,039</i>	<i>124,389</i>	<i>134,543</i>
Cash and cash equivalents			292,252	Cash and cash equivalents	480,943	436,149	
Total	1,689,265	2,104,621	2,986,173		1,689,265	2,104,621	2,986,173

(in thousands of euros)

	Off - balance sheet						
	2008	2007	2006		2008	2007	2006
Commitments received				Commitments given			
State guarantees	1,513,553	1,976,056	2,479,747	Loan amounts not drawn down			8

(in thousands of euros)

Reciprocal commitments			
	2008	2007	2006
Commitments on forward financial instruments			
Hedge rate instruments			
micro-hedging			
macro hedging	1,100,000	500,000	500,000
Exchange hedging instruments			
micro-hedging			
foreign exchange receivable	104,987	136,361	223,380
foreign exchange payable	-161,891	-161,891	-249,780

Note 35: Cash flow statement

1. Principles

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 Accounting Standards Board, concerning the format of financial statements for companies under the jurisdiction of the French Banking and Financial Regulation Committee.

It is prepared using the indirect method: 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 accrued income). 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, allocating a provision to 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 and securities from public entities;
- › the issuance of obligations foncières and other unsubordinated long-term resources.

Financing activities include:

- › dividends paid in cash;
- › the issuance and repayment 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)

	2008	2007	2006
Operating activities			
Net income for the year	62,231	53,151	62,342
Restatement of earnings, related to operating activities			
Tangible and intangible fixed assets, excluding goodwill	5,336	6,250	7,470
Net provisions/customers and banks	-6,703	-3,702	-1,378
Net provisions/short-term investment securities	7,534	911	-261
Net provisions for risks/loans	-2,755	2,007	-757
Net gain on sale of fixed assets			
Other transactions without cash payments	-345,608	725,427	795,357
Cash flow on loans to banks and customers	45,239	-13,163,823	-4,243,247
Cash flow on short-term investment securities	-1,199,443	-2,664,530	-1,946,165
Cash flow on long-term investment securities	-268,051	-5,328,654	-6,224,835
Cash flow on other assets	746,716	-645,166	-400,632
Cash flow on debts/banks and customers	639,399	3,603,427	273,947
Net borrowing	662,019	17,112,679	11,431,109
Cash flow on other liabilities	9,640	-903,607	83,064
Net cash flow used for operating activities	355,554	-1,205,630	-163,986
Investment activities			
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			
Net cash flow used for investment activities			
Financing activities			
Cash flow from share issues	770,000	83,325	85,936
Dividends paid		-83,325	-85,936
Net issue of subordinated debt	-800,000	2,000,000	
Other			
Net cash flow from financing activities	-30,000	2,000,000	
Net change in cash position	325,554	794,370	-163,986
Cash position at start of year	902,180	107,810	271,796
Cash position at end of year	1,227,734	902,180	107,810
Net	325,554	794,370	-163,986
Cash	20,024		4,725
Treasury notes			
Due to banks at maturity	1,207,710	902,180	103,085
Total	1,227,734	902,180	107,810

Note 36: Fees for the statutory auditors and the members of their networks

Financial years covered: 2007 and 2008

(in thousands of euros)

	Auditor : KPMG				Auditor : PricewaterhouseCoopers			
	Amount (TTCND)		%		Amount (TTCND)		%	
	2008	2007	2008	2007	2008	2007	2008	2007
Audit								
Statutory auditors, certification, review of individual and consolidated accounts								
Issuer	180	167	83%	60%	180	167	83%	60%
Fully consolidated subsidiaries								
Others duties and services directly related to the Statutory Auditor's mission								
Issuer	36	113	17%	40%	36	113	17%	40%
Fully consolidated subsidiaries								
Subtotal	216	280	100%	100%	216	280	100%	100%
Other services provided by the networks to fully consolidated subsidiaries								
Legal, tax, corporate								
Other (specify if > 10% of audit fees)								
Subtotal								
Total	216	280	100%	100%	216	280	100%	100%

Statutory auditors' report on the financial statements

This is a free translation into English of the statutory auditor's report issued in French and 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 captions or on information taken outside of the financial statements.

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: €924 000 000

Statutory auditor's report on the financial statements

Year ended December 31, 2008

Ladies and Gentlemen

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2008, 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.

Opinion on 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, on a test basis or by selection, to obtain audit evi-

dence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, 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 Company's financial position and its assets and liabilities, as of December 31, 2008, and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

Justification of our assessments

The financial crisis which was gradually accompanied by an economic crisis has many consequences on the companies, particularly as regards their activity and their financing. The extreme volatility of the financial markets remaining active, the rarity of transactions on financial markets which are no longer active and the lack of visibility on the future create specific conditions this year for the preparation of the financial statements, especially with respect to the accounting estimates which are required under the accounting principles. 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:

Accounting estimates

Your Company records impairments and provisions to cover the credit risks inherent in its business (notes 2.3.1 and 2.3.2 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 impairments recorded in assets for individually assessed loans; and provisions recorded in liabilities for unallocated borrower risks.

Accounting rules and principles

Your Company holds positions on securities and financial instruments. Notes 2.5 and 2.10 to the financial statements describe the accounting rules and principles applicable to securities and financial instruments.

As part of our assessment of the accounting rules and principles applied by your Company, we examined the

control procedures applicable to the related accounting classification and the determination of the criteria used for valuing these positions, and ensured that the related information provided in the notes to the financial statements were appropriate.

These 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.

Specific verifications and information

We have also performed the specific verifications required by law.

We have no matters to report regarding:

- › 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 the shareholders with respect to the financial position and the financial statements;
- › the fair presentation of the information given in the management report of the Board of Directors in respect of remunerations and benefits granted to the relevant directors and any commitments given to them in connection with, or after, their appointment, termination or change in function.

Paris La Défense and Neuilly-sur-Seine, March 30, 2009

KPMG Audit
Division of KPMG S.A.

Rémy TABUTEAU
Partner

PricewaterhouseCoopers
Audit

Jean-Baptiste DESCHRYVER
Partner

Details regarding calculation of coverage ratios (December 31, 2008)

(in thousands of euros)

Assets covering privileged resources	Item code	Net book values	Weighting as a %	Weighted amounts
I. Special asset items				
Guaranteed loans for which the issuer of the guarantee has a rating below the 2 nd highest grade of credit quality	201		0%	
Securitisation tranches with a credit rating below the 2 nd highest grade of credit quality	202		0%	
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 nd highest grade of credit quality	203		50%	
Securitisation tranches with the 2 nd highest grade of credit quality	204	431,688	50%	215,844
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	8,425,462	100%	8,425,462
Of which:				
due from banks with the highest grade of credit quality	2061	8,039,530		
due from banks in the European Economic Area that have the 2 nd highest grade of credit quality and whose remaining term to maturity does not exceed 100 days (cf. 3 rd paragraph of Article R. 515-7)	2062			
securities	2063	308,327		
receivables related to these items	2064	77,605		
Of which:				
Securities, amounts and receivables received as guarantees under the 2 nd paragraph of Article R515-7 for assets and liabilities	2065	424,140		
II. Other asset items				
Other 1 st category asset items	211	20,205	100%	20,205
2 nd category asset items:	212	40,312,912	100%	40,312,912
Of which:				
mortgage loans of which:	2121	18,226,178		
mortgage loans also guaranteed by the FGAS guarantee fund	2121a	6,713,038		
mortgage loans also guaranteed by a bank or an insurance company	2121b	5,205		
mortgage loans also guaranteed by a public authority	2121c	1,371,062		
guaranteed loans for which the issuer of the guarantee has the highest grade of credit quality	2122	580,623		
exposures to public authorities:	2123	21,502,489		
Of which:				
exposures described in item 5 of CMF Article L. 515-15	2123a			
Other 2 nd category assets	2124	3,622		

(cont'd)

3 rd category asset items:	213	46,749,872	100%	46,749,872
Of which:				
securitisation tranches with the 2 nd highest grade of credit quality :	2131	22,818,577		
securitisation tranches compliant with conditions of sections II and IV of CMF Article R. 515-4	2131a	15,163,272		
securitisation tranches compliant with conditions of sections III and IV of CMF Article R. 515-4	2131b	503,184		
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	7,152,121		
exposures to public authorities of which:	2132	11,138,767		
exposures described in item 5 of CMF Article L. 515-15	2132a			
promissory notes regulated by CMF Articles L. 313-42 et <i>seq.</i>	2133	9,096,889		
other 3 rd category asset items	2134	3,695,639		
4 th category asset items of which:	214		100%	
exposures to public authorities	2141			
other 4 th 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	-557,253	100%	-557,253
collateral operation : POOL 3G	217	-2,761,503	100%	-2,761,503
For information: assets deducted from shareholders' equity		2,480		

Total weighted assets (R) (230 = 201 + 202 + 203 + 204 + 205 + 206 + 211+ 212 + 213 + 214 + 215 + 216 + 217)	230			92,405,538
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Resources benefiting from the privilege as defined in Article L. 515-19 of the French Monetary and Financial Code: liabilities	Item code			Amounts
I - Priveleged funding from banks	101			165,469
Of which nominal amount	101a			160,278
II - Priveleged resources from customers				
Financial customers	102			
Non-financial customers	103			
Subtotal	104			
Of which nominal amount	104a			
Of which nominal of obligations foncières and other privileged resources being processed	104b			
III - Securities benefiting from the privilege				
Obligations foncières	115			78,002,661

Negotiable debt instruments	116		181,252
Other securities benefiting from the privilege	117		
Liabilities related to these securities	118		1,964,352
Subtotal	119		80,148,265
Of which nominal amount	119a		78,183,913
IV - Amounts due in respect to the contract provided for by Article L. 515-22 of the French Monetary and Financial Code	125		58,885
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	126		3,026,085
Of which impact on variations of exchange rate on the nominal amount of privileged resources	126a		1,011,480
VI - Liabilities resulting from the incidental expenses mentioned in the last paragraph of Article L. 515-19 of the French Monetary and Financial Code	127		
Privileged resources (T) (140 = 101 + 104 + 119 + 125 + 126 + 127)	140		83,398,704
Nominal amount of privileged resources (141 = 101A + 104A + 104B + 119A + 126A)	141		79,355,671
Coverage ratio (to 2 decimal points) (R/T*100)	240		110.80%

Details regarding calculation of coverage ratios

(in thousands of euros)

Respect of limits regarding composition of assets	Item code	Net accounting values	Regulatory threshold	Weighting as %
Total net assets	300	95,942,618		
Nominal amount of preferred	141	79,355,671		
Total loans guaranteed (201+ 203 + 2122) + guaranteed loans mobilized classified notes or in replacement value/net assets (300)	301	1,238,223	35%	1.29%
Promissory notes (2133)/net assets (300)	302	9,096,889	10%	9.48%
Total shares of meeting the FCC requirements of III art R. 515-4 of the 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	8,001,322	15%	10.08%

Details regarding calculation of liquidity eligible for refinancing (December 31, 2008)

(in thousands of euros)

Elements of calculating amounts eligible for refinancing by privileged resources	Item code	Outstanding (a)	Value of the property being financed or provided as collateral	Amounts eligible for refinancing by privileged resources	Overrun
Mortgages and guaranteed loans excluding loans transferred at Compagnie de Financement Foncier's founding in 1999	410	15,141,234		15,020,122	121,112
Loans whose outstanding capital represents the total amount eligible for refinancing by privileged resources.	411	12,951,815		12,951,815	
Loans whose product of the value of the property being financed or used as collateral and an LTV ratio defined in Article R. 515-2 of the French Monetary and Financial Code represents the total amount eligible for refinancing.	412	2,189,419	2,561,256	2,068,307	121,112
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	49,710	54,848	32,909	16,801
The amount of loans eligible for refinancing by privileged resources may not exceed 80% of the value of the property financed or provided as collateral	412b	1,978,670	2,355,046	1,884,036	94,634
The amount of loans eligible for refinancing may represent 100% of the value of the property financed or provided as collateral	412c	161,039	151,362	151,362	9,677
Promissory notes	420	9,026,301		8,937,362	88,939
Promissory notes of which the outstanding capital of collateralized loans represents the total amount eligible for refinancing by privileged resources	421	6 897 147		6 897 147	0
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	2,129,154	2,518,236	2,040,215	88,939
Of which:					
Promissory notes guaranteed by collateralized loans whose total amount eligible for refinancing is comprised 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 is comprised cannot exceed 80% of the value of the property being financed or provided as collateral	422b	1,996,550	2,390,107	1,912,086	84,464
Promissory notes guaranteed by collateralized loans whose total amount eligible for refinancing 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 cannot exceed 100% of the value of the property being financed or provided as collateral	422d	132,604	128,129	128,129	4,475

(in thousands of euros)

Elements of calculating amounts eligible for refinancing by privileged resources and cost overruns	Item code	Outstandings (a)	Average LTV at origination weighted by outstanding of tranches at the calculation date (b)	Amounts eligible for refinancing by privileged resources	Overrun
Tranches and debt securities issued by a securitisation fund or a similar entity acquired after May 11, 2007 whose loans meet the requirements defined in I of Article L. 515-14	430	3,564,442		3,549,259	15,183
Tranches of funds whose issued outstandings, excluding specific tranches, constitutes the amount being refinanced by privileged resources.	431	2,822,842		2,822,842	
Shares of funds whose sum of outstanding capital of the loans in the fund plus liquidities constitutes the amount refinanced by privileged resources.	432				
Tranches of funds whose total refinanced by privileged resources is equal to the product of the property being financed or provided as collateral for the loans are part of the fund's property multiplied by the LTVs defined in Article R. 515-2 of the French Monetary and Financial Code plus liquidity from FCCs or similar entities.	433	741,600	81.66%	726,417	15,183
Of which :					
Privileged resources cannot exceed 60% of the value of the property being financed or provided as collateral.	4331				
Privileged resources cannot exceed 80% of the value of the property being financed or provided as collateral.	4332	741,600	81.66%	726 417	15,183
Privileged resources cannot exceed 100% of the value of the property being financed or provided as collateral.	4333				
Total amounts in excess (440 = 410 + 420 + 430)	440				225,234

a) Outstanding principal for ceded loans, collateralized loans for promissory notes and the amount of securitisation fund tranches at the calculation date.

b) Average LTVs 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.

RISK MANAGEMENT

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152	6	Securitisation
156	7	G7 reporting
158	8	Asset & liability Management Risk
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1. Foreward

The information disclosed in the Risk Management Report is not part of Compagnie de Financement Foncier's (Compagnie) regulatory disclosure obligations. However, influenced by IFRS and Basel II, Compagnie's governing bodies have decided to provide this detailed report on Risk Management in order to promote financial transparency.

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 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 a few key provisions, 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 overcollateralisation rule (Article L. 515-20) requiring that the total amount of assets must exceed privileged liabilities;
- › Compagnie'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 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 à 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 rigorous methods:

- › additional rules for asset selection and acquisition in every line of business (retail lending, loans to public authori-

ties or loans guaranteed by them);

- › prudential standards are always superior to the threshold dictated by law or regulations, which provides an additional safeguard. For example, the overcollateralisation ratio reached 110.8%. This prudential approach covers both Compagnie's 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 with the means to fulfil its responsibilities. Compagnie is thus assisted by the newly reorganised Risk Department put in place by Crédit Foncier, and benefits from this thoroughly modernised operational framework (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.

Compagnie is potentially exposed to three major types of risks:

- › credit and counterparty risk;
- › liquidity risk and interest rate risk (ALM);
- › operational risks inherent in its loan acquisition and refinancing businesses as well as the sizeable gross value of its balance sheet and off-balance sheet movements (hedging).

Crédit Foncier's "Risk Policy" acts as a reference for selecting, monitoring, controlling and overseeing risks, and provides a framework within which Compagnie 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 ultimately the risk of default and non-repayment of part of the principal and interest.

Compagnie's credit risk profile (particularly low) is tied to:

- › the intrinsic quality of the counterparties: the French or

international public sectors and retail lending (private individuals);

- › the performance of the lending system which is based on expert procedures and increasingly sophisticated loan rating and selection systems;
- › the type of financing (asset-backed financing) as well as the number and diversity of guarantee mechanisms;
- › an extremely rigorous selection process when acquiring debt.

Retail customers

Compagnie acquires retail debt in two distinct markets:

- › french mortgage market (loans originated by CFF);
- › mortgage market outside of France (debt acquired via securitisation funds).

Crédit Foncier has a long history of retail mortgage financing, 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 conditions criteria. Compagnie's acquisition process for debt securitisation units also respects strict quality and profitability rules.

Public sector clientele

French public sector exposures acquired by Compagnie's public sector business are originated by Groupe Caisse d'Epargne, regional Caisses or Crédit Foncier de France.

Crédit Foncier serves the French Local Authorities (FLA) market, which consists of municipalities and institutions in France, including health facilities and low-income housing organisations and institutions.

This business has grown considerably ever since Groupe Caisse d'Epargne entrusted CFF with increasing sales to its key accounts.

Compagnie de Financement Foncier also acquires public sector exposures with minimal counterparty risk. For example, low-income housing that Compagnie finances is guaranteed by local authorities.

Compagnie is also active outside of France via its direct lending business or purchases of securities or loans to the International Public Financing Sector (IPF). This business essentially concerns direct sovereign counterparties or transactions with foreign local authorities that are guaranteed by the former.

2.2.2. Financial risks (ALM)

The law prohibits Compagnie 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's Asset and Liability Management Committee in order to maintain its net interest margin.

Section 8 in this document provides more details about these risks.

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 Groupe Caisse d'Epargne's rules, that covers Compagnie via a series of 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 and 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

Under the terms of agreements signed by CFF and Compagnie, Compagnie's risk and compliance functions are performed by CFF's Risk Department (RD) and their Compliance and Ongoing Audit & Control Department (COACD), and placed directly under the authority of Crédit Foncier's Chief Executive Officer in accordance with the principles set forth by regulations, including CRBF Regulation No. 97-02 as amended.

The missions of CFF's Risk Department fall into two major categories:

- › define and implement risk control, monitoring and management measures within the Risk Department;
- › develop and integrate into the risk monitoring and management system new requirements imposed by Basel II that are set forth in the European Directive and corresponding French legislation.

The tasks of the COACD complement those of the RD in terms of the scope of operational risks as well as the implementation of the risk management system (RMS) and ongoing controls; however, they focus on non-compliance risk.

Risk and compliance are monitored by two CFF Group entities placed under the authority of its Executive Board: the Risk Committee and the Internal Control Committee. Within this system, Compagnie de Financement Foncier has a stand-alone Risk Committee and a specific role as part of CFF's 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/transformational risk, settlement risk;
- › risk management and monitoring, as defined by French Banking and Financial Regulation Committee (CRBF) and Basel Committee regulations, including *ex ante* counter-appraisal, analysis 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 RD.

The RD is positioned within the organisation to guarantee its independence from all operational activities that generate net banking income. It has approximately 65 staff members.

The three areas covered by the RD are:

- › commitments cross-checking and monitoring with specialised units for each line of business to ensure close ties with commitment units: individuals, commercial and institutional, international and domestic public sectors and banking transactions;
- › risk consolidation and controls for risk reporting and recovery monitoring;
- › implementation of standards, risk policy and risk management including the monitoring of capital and balance sheet risks.

These measures have been supplemented by establishing a new unit in charge of ongoing control and operational risks.

2.3.2. Missions of the Compliance Department

An essential part of the ongoing 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.

Reporting directly to CFF's Chief Executive Officer, the Compliance and Ongoing Audit & Control Department (COACD) is responsible for organising and monitoring 1st and 2nd level controls relative to non-compliance and general business risks.

It is also in charge of specific control for investment services compliance, ethics and anti-money laundering and terrorist financing prevention.

The COACD also oversees compliance and ongoing controllers in their various operational departments.

According to service agreements between CFF and Compagnie, the COACD oversees, among its various other functions, Compagnie de Financement Foncier.

2.4. Organisation of the CFF Risk Department

Crédit Foncier's Risk Department reports to Groupe Caisse d'Epargne's Risk Department (GRD). Its scope covers all subsidiaries (including Compagnie) that are controlled by Crédit Foncier.

In 2008, the RD updated Crédit Foncier's general risk policy via a document that formalises its various missions and organisation and provides a framework for developing its activities, including those that affect Compagnie, and overseeing CFF Group equity and subsidiaries.

In the specific case of Compagnie, the RD operates according to agreements signed between CFF and its société de crédit foncier. The RD 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 RD ensures risk management by creating several different committees and/or sitting on them. Risk governance was restated in early 2008. The Risk Committee is the umbrella committee for all risks along with the Internal Control Committee (ICC).

Compagnie is included in Crédit Foncier's overall organisation. Compagnie has its own risk committees and asset & liability Management Committee and is specifically dealt with by other CFF committees when necessary.

Compagnie'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 dedicated committee (CFF Coméfi);
- › 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.

Risk monitoring and policy: developments in 2008

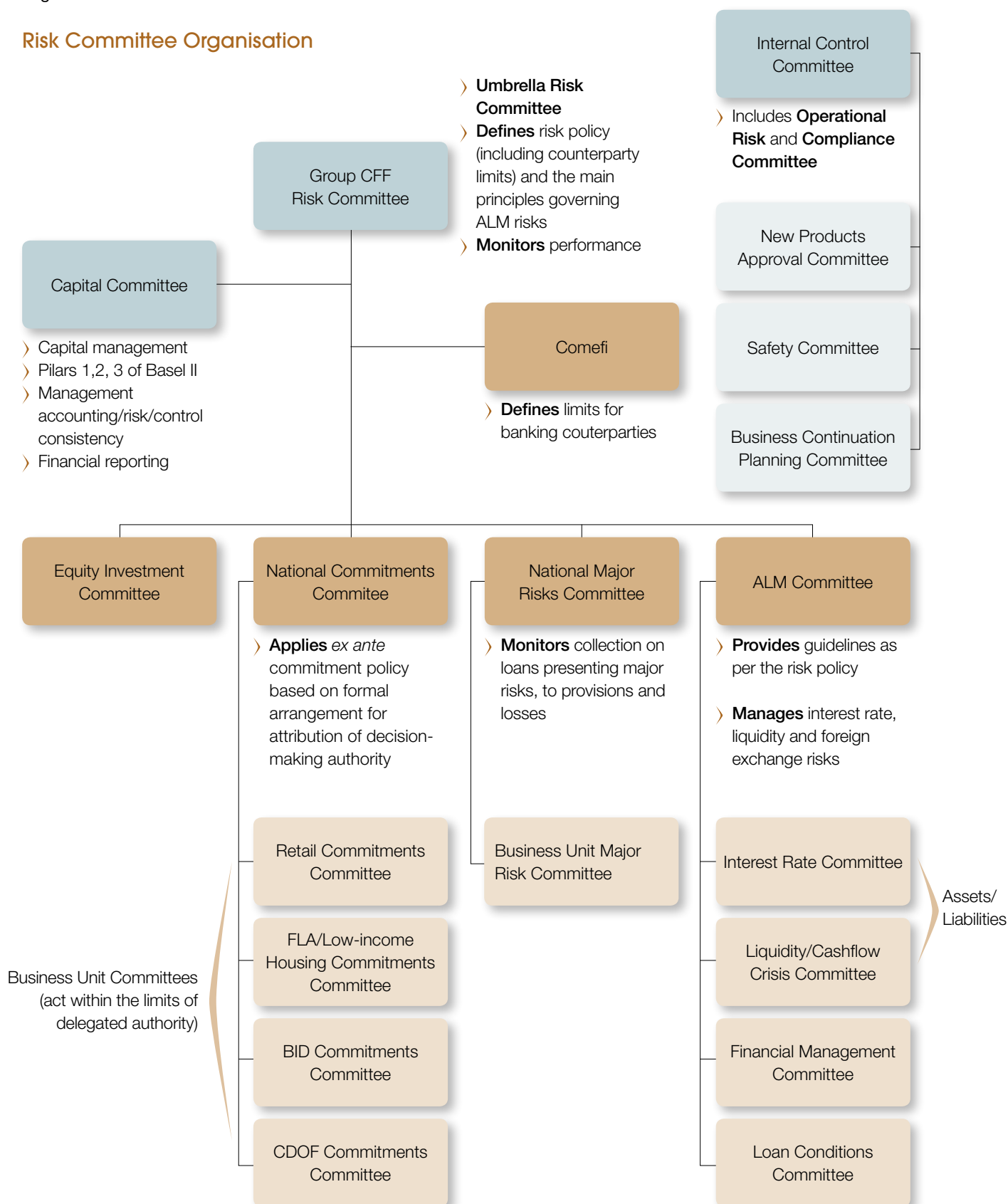
A formalised risk policy makes it possible to:

- › distinguish clear commitment selection principles compared to the detailed rules outlined in separate commitment guides, broken down by business unit and approved by the RD;
- › match principles with the desired risk profile;
- › emphasise more clearly the RD's role of control;
- › add to the list of business monitoring indicators.

In terms of financial risk, the RD has an expert team that is dedicated to its role of second level control: controlling new commitments, monitoring portfolios (monitoring financial compartments, indicators and ALM limits) and transaction valuation controls.

Organisation of Crédit Foncier committees

Risk Committee Organisation



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 oversight is consistent with that used for accounting.

Compagnie's exposures are included in this consistency scheme.

2.6. Highlights 2008

2.6.1. Economy

Two major trends impacted the world economy in 2008:

- › the downturn in the real estate sector, which started in late 2007 and early 2008, continued to worsen throughout 2008, especially in the last six months of the year. This deterioration in the real estate market (downturn for both new and old residential as well as commercial real estate) could affect the solvency of certain categories of borrowers or accelerate the negative trends in some professional sectors;
- › the financial crisis continued to sour and began to gradually affect all segments of the credit market. Initially, the effects were limited to certain assets categories (subprime assets in the United States, CDO of ABS), and then difficulties began to surface with monoline insurers. All of the latter entities have since lost their AAA rating. The crisis then spread throughout the financial and banking sectors at large (bankruptcy of Lehman Brothers on September 15th, implementation of a rescue plan for Dexia on September 29th). In the last quarter of 2008, some institutions were facing acute liquidity and even solvency problems that led the majority of sovereign states in Europe and the U.S. to take action to recapitalise banks and provide support for the interbank market.

2.6.2. Highlights of 2008 for credit risk

The worsening economic and financial situation in 2008 has not jeopardised the overall quality of Compagnie's loan portfolio and risk profile (very low).

Mortgage loans

It should be pointed out that Compagnie has never owned nor has any exposure (direct or indirect) to the U.S. mortgage market.

Its asset portfolio stood up particularly well to the economic fallout in 2008 (financial, real estate and banking crisis).

Stress tests, conducted in 2008, have confirmed the

strength of Compagnie de Financement Foncier's mortgage portfolio. It stood up extremely well to "disaster" scenarios that involved an explosion of the default rate, a sharp decline in real estate prices and fewer prepayments.

French Public Sector

Financing for local authorities experienced a slowdown in 2008 due in part to the election season at the beginning of the year as well as to the financial crisis in the second half of the year.

Another highlight: start of operations in line with Basel II

In 2008, Crédit Foncier continued preparations for regulatory approval with the internal rating based advanced approach (IRBA) of retail banking asset classes (Individuals) and securitisation positions that are tied to the same underlying assets.

Compagnie de Financement Foncier is fully integrated with the introduction of this new set of rules.

Significant milestones in 2008 were reached, including:

- › implementation of a new segmentation engine and ratings for outstanding retail loans;
- › introduction of new oversight components, including backtesting to control the system's performance;
- › operational integration at business line levels of Basel standards and adaptation of business procedures to the Basel II environment.

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 compliance with regulatory ratios, to optimise the allocation of capital and to secure its overcollateralisation ratio and therefore its AAA rating.

Capital management

Even though Compagnie de Financement Foncier is not concerned by the capital adequacy ratio, its parent company, CFF, is.

Compagnie's capital management is carried out jointly by the Finance Department, Risk Department and Management Control Department of CFF. These measures are

namely directed at:

- › the capital adequacy ratio and COREP reporting (prudential reporting, common to all European Banking Supervisors, relating to the future 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.

In order to continue monitoring capital effectively in 2009, a Capital Committee was created at the CFF level, which will incorporate the equivalent calculations for Compagnie.

3.2. Breakdown of capital

Compagnie de Financement Foncier is not subject to Basel II capital requirements. However, for internal management purposes, *ad hoc* calculations were made to simulate results according to the Basel standards.

Prudential capital is determined in accordance with CRBF Regulation No. 90-02 as amended and consists of two 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 abovementioned 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

Compagnie de Financement Foncier calculates its weighted exposures in accordance with the standard approach for credit risk and operational risk. Moreover, Compagnie is

not concerned by market risk.

The weighted average portfolio of Compagnie de Financement Foncier's exposures, calculated for credit risk, is 13.34%. This weighting reflects the excellent quality of its assets in terms of both ratings and guarantees.

3.4. Management of regulatory ratios

The simulation technique of the solvability ratio of Compagnie as of 12/31/2008 led to the following results:

- › 12.16% on (Tier 1 + Tier 2);
- › 8.11% on Tier 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.

Overcollateralisation 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. Compliance with this ratio and approval of the figures that go into it are assessed every six months and certified by the Specific Controller.

Compagnie's overcollateralisation ratio remained stable between 2007 and 2008 and stands at 110.8%. This ratio has never fallen below 108% since Compagnie was created in 1999 and has never fallen below the regulatory limit of 100%.

Asset composition ratio

The replacement securities ratio is determined by comparing non-eligible assets with privileged liabilities. These replacement securities are defined by law (pursuant to Article L. 515-17 of the FMFC) as being "sufficiently, secure and liquid" and make up Compagnie's cash position. Compagnie always complies with this ratio's regulatory limit of 15%.

Other assets including promissory notes and guaranteed loans are also limited by regulations.

Replacement securities ratio	December 2007	June 2008	December 2008	Limit
Replacement securities (L. 515-7)	13.78%	12.30%	10.08%	15%
Promissory notes (L. 515-16-1)	8.03%	8.63%	9.48%	10%
Guaranteed loans (L. 515-6)	0.73%	1.34%	1.29%	35%

LTV overrun ratio

French Banking Commission Order No. 2008-05 amends the overrun ratio calculation for sociétés de crédit foncier in that it is now necessary to specify the assets that cover privileged resources and elements used to control limits for different asset classes.

By calculating the amounts eligible for refinancing by privileged resources and comparing them to asset valuations at December 31, 2008, overruns in respect of non-privileged resources can be determined and calculated.

The maximum amount of financing via privileged resources is assigned to each asset class based on criteria set forth in Article R. 515-2 for mortgage loans and guaranteed loans, in Article R. 313-20 and R. 313-21 for debt instruments and R. 514-4 for securitisation fund units.

For mortgage and guaranteed loans assigned to Compagnie, as well as securitised loans, by updating the loan-to-value percentage on debt at December 31, 2008 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 following elements:

- › mortgage and guaranteed loans that are assigned and/or securitised (excluding loans from the original transfer);
- › residential housing financing;
- › excluding the subsidised sector;
- › excluding loans to local authorities.

The overruns at December 31, 2008 amounted to €225 million, which is negligible compared to the amount of non-privileged resources (€12,554 million at the same date).

Ratio controls

Crédit Foncier's Risk Department is scheduling semi-annual controls for Compagnie de Financement Foncier's various specific ratios, which provides a second level of control for these indicators.

Compagnie's Specific Controller controls the processes used to calculate these various ratios and their results and routinely certifies them.

3.6. Stress tests

Since 2008, the RD has been running semi-annual stress-testing for Compagnie's specific regulatory ratios (overcollateralisation and overruns).

Every quarter, the ratio of overruns is re-estimated after applying a collateral devaluation factor to simulate the current state of the economy and its effects on real estate values.

These tests have confirmed the portfolio's quality and solidity even if the overall economic situation were to deteriorate significantly.

Overruns, as of December 31, 2008, on mobilized and purchased loans increased from €210 million to nearly €1 billion assuming that the real estate assets used as collateral lose 10% of their value. To cover these overruns, non-privileged resources reach €12,544 million.

4. Credit and counterparty risk management

Compagnie acquires assets by following a closely controlled selection process that involves, in addition to eligibility criteria (in strict compliance with the law) and Compagnie's specific criteria (strict definition of public sector, exclusion of commercial real estate), a "filter" for origination and outstanding principal ratings provided by the loan originator, CFF.

Compagnie also finances the production of mortgage loans to retail customers by purchasing mortgage notes issued by Crédit Foncier. 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 for the CFF Group are based on five key pillars:

- › a tool to assess a borrower's creditworthiness and the transaction quality ratings play an important role for assessing risk;
- › a cross-checking procedure carried out by a department that is independent from sales;
- › formal arrangements for attribution of decision-making authority and commitment committees;
- › established limits for mutual counterparties at the CFF and GCE Group level;
- › risk monitoring based on an overall consolidation of indicators and controls.

4.1.1.2. External credit ratings

At December 31, 2008, 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, Fitch Ratings.

As concerns fixed income securities (bonds), the issue's external ratings take precedence over the issuer's external ratings. These issuance credit ratings are then used to determine how to weight the position on the bond, with short-term ratings taking precedence over long-term ratings. If no external ratings are available for the issuance, the issuer's long-term external rating is used for senior securities only, except in the specific case of exposure to institutions (credit institutions and French Local Authorities) for which the weighting is derived from the creditworthiness ratings of the country in which they are established. In the very specific case where no external credit ratings are directly applicable to an exposure, but there is a general credit rating for the issuer or for a specific issuance programme, the methods for determining the weighting are applied within Groupe Caisse d'Épargne in accordance with Article 37-2 of French Regulations (decree concerning capital requirements applicable to credit institutions and investment companies).

4.1.1.3. Internal ratings

4.1.1.3.1. Private individuals

Assessment of the creditworthiness of private individuals at the time of origination is based on a rating system that supports decision-making and dictates who has the authority to make decisions.

The rating relies on eligibility rules that are differentiated by the type of client and financing, as well as a probability of default score based on historical data collected by the Crédit Foncier Group. Revised in early 2007, this system incorporates the specificities of individual projects, the type of financing and the customer profile.

Under Basel II, an additional rating system was put in place to monitor outstanding loan risk on a monthly basis.

Origination rating for private individuals (score at origination)

The lending rating system used a statistical score and an expert system based on formal commitment rules configured according to the risk and product policy. A combined score is derived based on these two components (10 risk classes from 0 to 9, where 9 represents the highest risk). This score makes it possible to assess the probability of default for the loan and determine the appropriate decision-making authority.

Under no circumstances does the origination rating replace an individual assessment: it determines the correct decision-making authority but does not prevent acceptance of a loan application.

The origination score for each loan is one of the selection criteria in Compagnie de Financement Foncier's purchasing process.

The Risk Department regularly measures the effectiveness of the origination score.

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 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. Public Sector

Assessment of the borrower's solvency (local authorities and institutions, etc.) is based on a counterparty analysis, combined with a rating that evaluates borrowers' quantitative and qualitative characteristics (budget, debt, management quality, etc.).

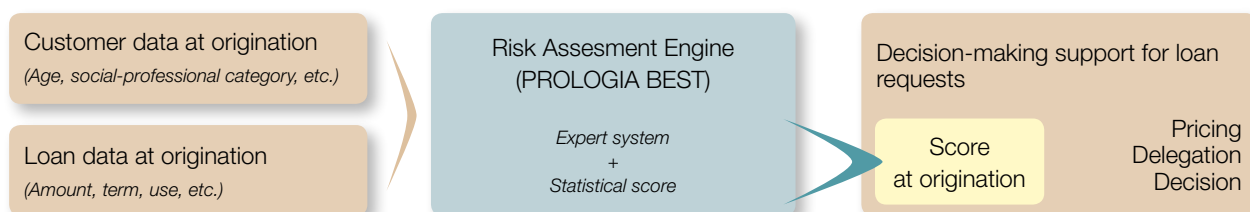
Formal arrangements for loan granting decision-making call for certain individual delegations under very well-defined and restrictive conditions; *ad hoc* committees examine loans that don't meet these conditions.

Compagnie's debt acquisition criteria are mainly based on ratings.

4.1.1.3.3. International Public Sector

The commitment system put in place by Crédit Foncier for Compagnie de Financement Foncier adheres to several key principles:

- › the transaction must not exceed country-specific limits as defined by GCE;
- › an internal rating is required;
- › prior authorisation (unfilled quota or special approval by a committee) is required for any transaction that involves a counterparty risk;
- › a dual analysis (business unit and Risk Department) of all the transaction's characteristics;
- › formal arrangements for the attribution of decision-making authority based on the type of transaction, the amount and the rating;
- › prior approval must be obtained from the *ad hoc* committee for any transaction with new characteristics.



4.1.2. Eligibility criteria for the société de crédit foncier and the acquisition filter

4.1.2.1. Private individuals

Compagnie may acquire loans:

- › whose purpose is for homeownership and, marginally, rental housing;

- › that are backed by a mortgage security.

Loans whose outstanding loan score - available one month after the loan has been committed and updated every month thereafter - is insufficient (8 or 9), is doubtful (X) or in arrears (D) are systematically rejected from Compagnie's selection.

- › for outstanding loans that pass (i.e. score between 0 and 7), a loan is eligible for transfer if it meets the following criteria:

Eligibility criteria for Compagnie de Financement Foncier and acquisition filter						
		Monthly loan score			8, 9, X or D ^(*)	Not scored
		0 to 7				
		Origination score				
Rate of default at origination ^(†)		0 to 3	4 to 6	7 to 9		
Homebuyers	Rental properties	Transferable	Transferable	Transferable	Non-transferable	Non-transferable
< 1.4%	< 1.3%			Non-transferable		
< 1.8%	< 1.6%		Non-transferable			
> = 1.8%	> = 1.6%		Non-transferable			

^(†) Or rate of default depending on the loan's age.

^(*) Monthly outstanding loan score X for doubtful commitments and D for commitments in arrears.

In addition, eligible guarantees are first-rank mortgages or similar securities and FGAS or *Crédit Logement* guarantees.

Weights are applied to values of the guarantees to determine the loan portfolio that Compagnie can acquire:

- › 100% for FGAS guarantees;
- › 80% for first-rank mortgages;
- › 60% for *Crédit Logement* guarantees.

Compagnie did not acquire any loans with *Crédit Logement* guarantees in 2008.

4.1.2.2. French Local Authorities

Compagnie's acquisition criteria for French local 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. The rating includes five significant credit factors for the medium-term creditworthiness 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 major criteria are assessed using multiple scores (mainly quantitative but also leaving room for several qualitative parameters), and each score is weighted using a specific methodology.

4.1.3. Assigning credit limits

Compagnie's credit limit system includes the same levels as those of GCE, broken down at CFF and notably with country limits and individual limits.

Country limits

GCE 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 (public sector, mortgage loan acquisitions, banks), country limits are assigned to the Crédit Foncier Group. 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 Groupe CFF's international exposures.

Individual limits

In addition to the regulatory limits related to major risk management, individual limits (excluding Individuals and French Local Authorities) are defined for counterparties and banking institutions.

These limits are approved by Compagnie's Risk Committee and are reported to its Audit Committee.

In 2008, particular attention was paid to the banking sector, and limits were adjusted downwards to factor in updated analyses.

Compagnie's exposure to Crédit Foncier is limited as well. This limit is set at 20% of Compagnie's balance sheet total.

4.1.4. Overlending management and alert procedures

General principles

Compliance with lending limits is verified during the systematic counter-analysis prior to examination by the commitments committees.

International Public Financing and banking counterparties

In accordance with provisions defined in the service agreements between both institutions, Crédit Foncier operating units (the middle office of the Financial Operations Department and the Risk Department) verify compliance with limits for counterparties to Compagnie de Financement Foncier financial transactions.

These limits are mainly set up for large Compagnie de Financement Foncier banking counterparties (limits specific to Compagnie) and are reviewed regularly in committees.

In 2008, due to the financial crisis, the Risk Department took measures to curb, reduce, or freeze limits on certain banking counterparties to secure its exposures (signature of collateralisation agreements, redefinition of margin call thresholds, limitation of the counterparties eligible for short-term investments). Transactions involving purchases of International Public Financing debt are systematically subject to specific agreements in committees.

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 and CFF's executive management.

4.1.5. Risk monitoring

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;
- › collection oversight.

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's outstanding loans are clearly identified and segregated in this centralised database.

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 in accordance with the underlying agreements.

This strict identification in the systems of loans held by Compagnie makes it possible to manage Compagnie's risks and to track the ratios and rules it is subject to.

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's watch list includes French Local Authorities, International Public Financing, and RMBS, due to their amount but not 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

Balance sheet positions (cash and investments) are marked to market.

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 margin call triggers that reduce the actual exposure. For Compagnie de Financement Foncier, these agreements are asymmetrical, meaning that only the counterparties provide collateral if need be.

4.2. Breakdown of commitments at December 31, 2008

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; they were valued at €92.24 billion at the end of December 2008, with total assets amounting to €95.94 billion.

Compagnie de Financement Foncier's risk coverage - summary at the end of December 2008

(in millions of euros)

Risk exposure ⁽¹⁾ at December 31, 2008	Balance sheet	Off-balance sheet	Total	Rate of doubtful loans	Rate of doubtful loans (excl. subsidised sector)
Private individuals	42,340	105	42,444	0.7%	0.6%
French mortgage loans	17,441	105	17,545	1.8%	1.5%
French mortgage notes	9,043		9,043	ns	
Mortgage total	26,484	105	26,588	1.2%	1.0%
Securitised French mortgages	1,798		1,798	ns	
Securitised international mortgages	14,058		14,058	ns	
Securitised mortgages total	15,856		15,856	ns	ns
Public sector	36,739	2,444	39,258		
French local authorities and low-income housing	12,365	2,436	14,801		
Low-income housing	3,495	9	3,504	0.3%	0.3%
FLA via L. 341.7	1,198		1,198	ns	ns
Sovereign debt (France)	1,086	75	1,161	ns	ns
French public debt	18,145	2,444	20,664		
International Public Sector	14,873		14,873	ns	ns
Sovereign debt (international)	3,721		3,721	ns	ns
Commercial mortgages	451	4	455	5.1%	5.8%
Banking sector exposures	10,428		10,428		
BCTG (CFF exposures secured by collateral assets)	2,287		2,287		
Total risk exposure	92,245	2,627	94,872	0.4%	0.4%
Miscellaneous adjustments and other assets	3,698		3,698		
Total	95,943	2,627	98,570	0.4%	0.4%

⁽¹⁾ 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.

ns : not significant

An analysis by business segments reveals the following:

- › the rate of doubtful loans to total outstanding loans for the French retail segment and mortgage notes (excluding subsidised sector) fell from 1.3% in 2007 to 1.0% at the end of 2008. This improvement is largely due to the fact that the rule for recognising a residential loan (homebuyers) as doubtful was changed in the second half of 2008 (recognised as doubtful after 180 days in arrears compared with 90 days previously) in order to comply with Basel II rules;
- › the same ratio in the French Public Sector segment remains unchanged at 0%. Loan downgrades to doubtful in the low-income housing or French Local Authorities segments are very rare;
- › finally, the ratio for international public financing, residential mortgage loan securitisation and other financial portfolios is zero since there are no outstanding doubtful loans in these segments.

Exposure to credit risk by category

The data displayed below only shows balance sheet commitments. The breakdown of exposures by Basel counterparty types, excluding guarantees received and other factors to reduce credit risk.

The breakdown of Compagnie de Financement Foncier's balance sheet commitments (loans, securities and financial transactions, as defined by Basel II) at December 31, 2008, shows concentrations in the retail segment (28%) and the securitisation segment (external [23%] and internal [2%]) as well as the public authority segment (25% France and International) and banking segment (11%).

The external securitisation segment consists of securitisation transactions whose underlying assets are either European retail mortgage loans with very high granularity (65%), or highly rated loans to public authorities or loans that are guaranteed by them (35%). The breakdown by underlying asset type at December 31, 2008 is similar to that of December 2007.

The Antilope securitisation segment corresponds to Crédit Foncier's internal securitisations of mortgage loans to private individuals.

The banking segment (11%) reflects the banking counterparties to Compagnie de Financement Foncier's cash-flow and hedging transactions. It also includes customer transactions when the counterparty is a public banking entity.

Exposure percentages according to Basel classifications

At December 31, 2008, Compagnie de Financement Foncier's assets amounted to €95.9 billion. The relative weight of percentages according to Basel classifications is overall stable. Exposures to credit risk are analysed in terms of geographical and industry diversification (figures expressed in percentages). A breakdown of exposures according to Basel classifications, follow:

Breakdown of Compagnie de Financement Foncier exposures by Basel classification at December 31, 2008.

(in millions of euros)

Basel classification	% of total	Total
Local associations	0	160
Private individuals	28	26,484
Professional (professional banking relationship)	0	19
Retail subtotal	28%	26,663
SME	0	72
Social economy	0	385
Low-income housing institutions	2	2,380
Government-owned corporations	1	730
French local authorities	14	13,563
Private real estate professionals	0	155
PPP	0	7
Regional development bank subtotal	18%	17,292
Large corporations		
Banks	11	10,428
Sovereign states	5	4,807
Securitisation	23	21,642
Private finance initiatives	0	37
IPS	8	7,289
Regulated and unregulated funds		
Major counterparties subtotal	46%	44,204
Pending segmentation		
Miscellaneous		
Antilope securitisation	2%	1,798
BCTG	2%	2,287
Adjustments and other assets	4%	3,698
Total	100%	95,943

4.2.2. Breakdown of exposures to credit risk

a) Geographic breakdown of material exposures^(*), by exposure category

As in 2007, the portfolio at the end of December 2008 remained concentrated in the European Economic Area (90%) and in France in particular (60%).

Commitments in the United States solely consist of loans to states or highly rated local authorities, or loans backed by the federal government, and are not exposed either directly or indirectly to real estate risks.

Counterparties to commitments in Japan are either prefectures or cities.

Breakdown of exposures by geographic area at December 31, 2008

(in millions of euros)

	Balance sheet	
France	57,181	59.6%
Other countries within the European Economic Area	28,761	30.0%
Other European countries	3,142	3.3%
North America (USA & Canada)	5,165	5.4%
Africa/Middle East	-	
Central and Latin America (including Mexico)	-	
Asia excluding Japan	-	
Japan	1,694	1.8%
Oceania	-	
Other	-	
Total	95,943	100.0%

^(*) 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.

b) 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, 2008, shows a *de facto* concentration on loans (52%) and mortgage loan acquisitions (25%).

(in millions of euros)

Product families ^(*) at December 31, 2008	Breakdown by %
Shares/Funds	
Other balance sheet products	
Short-term credit facilities	10.0%
Loans ^(**)	52.2%
Bonds (Banking)	12.4%
Bonds (Trading ^(***))	
Mortgage loan acquisitions (Securitisation)	25.4%
Balance sheet total	100.0%
Balance sheet assets ^(*)	92,244

^(*) 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.

^(**) Loans to customers, excluding credit facilities.

^(***) Compagnie does not hold trading securities. It holds bonds for credit transactions.

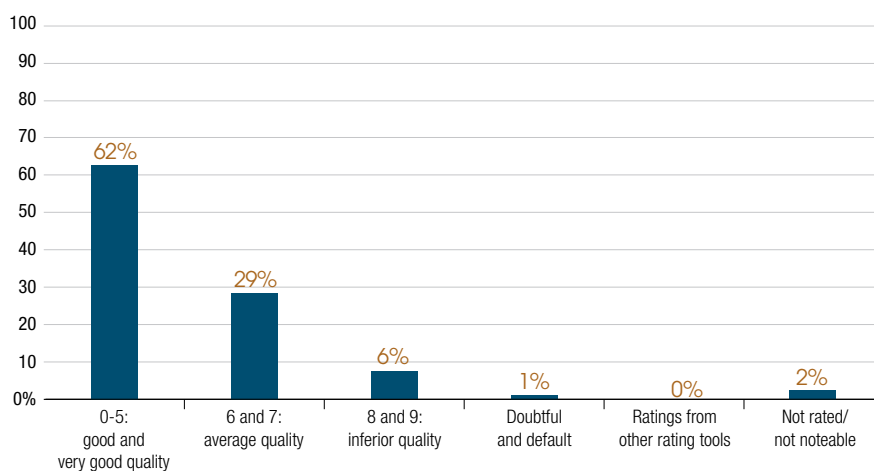
4.2.3. Quality of the portfolio exposed to credit risk

a) Breakdown of exposures by credit quality

The breakdown below shows the quality of Compagnie outstanding retail loans: 62% 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%.

Internal rating of outstanding loans to private individuals

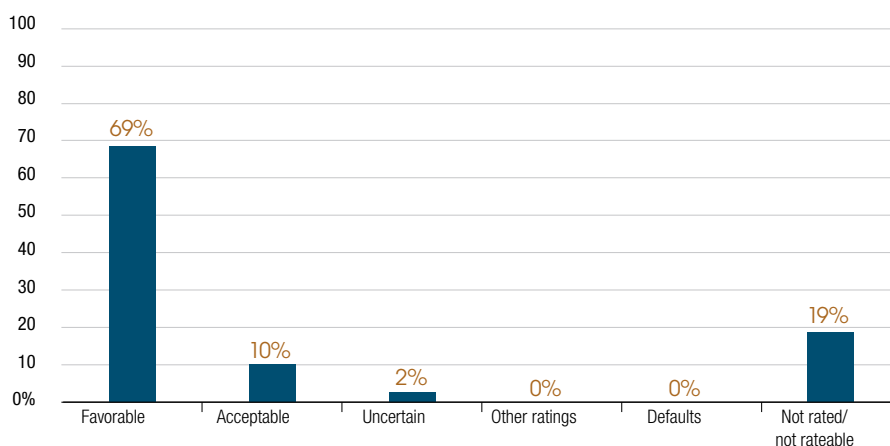


French Public Sector portfolio - Breakdown by Basel II rating

85% of the outstanding loans to French local authorities that were rated received a “favourable” (i.e. 0-5) rating. This

percentage increases to 98% if loans rated as “acceptable” (6 and 7) are included, illustrating once again the excellent quality and rigorous selection of outstanding loans.

French Public Sector - Breakdown by Basel II rating



International Public Financing - Financial operations

Names of external credit rating agencies

The GCE rating is the GCE's internal rating assigned to each counterparty.

Each GCE rating is assigned by the pilot entity within the group for this business segment. For the IPF, Crédit Foncier is the pilot within the group on behalf of Compagnie

de Financement Foncier. Thus the GCE ratings correspond to the results from the internal rating model approved by the group for this asset class.

As concerns securitisation, the GCE rating resembles the external ratings published by the rating agencies. For securitisation, and pursuant to the Basel II standards, Compagnie de Financement Foncier uses external ratings and the GCE rating, which is based on the following rules:

Agency ratings available	Rating selected by CFF pursuant to GCE guidelines
2 public ratings	Lower of the 2
3 public ratings	Lower of the 2 best

External ratings are public long-term ratings assigned by one of the three main rating agencies: Standard & Poor's, Moody's and Fitch Ratings.

Fitch Ratings. If there is no external rating for the tranche, a weighting of 1250% of the exposure is applied, pursuant to the standardised approach.

Procedure to assess issuers in the banking portfolio if no external ratings are available.

Matching external ratings with defined levels of creditworthiness.

At December 31, 2008, the weighting of securitisation positions is determined by the external ratings of the tranche, based on the ratings published by the three major rating agencies: Moody's, Standard & Poor's, and

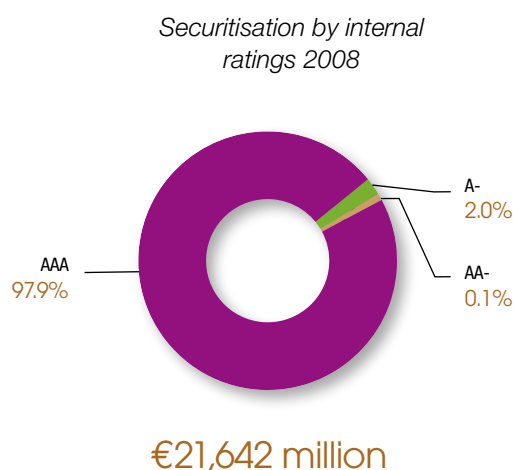
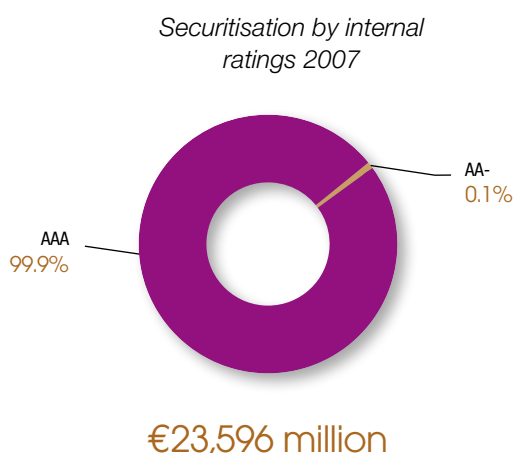
The table below compares the creditworthiness levels defined by Basel II regulations with the ratings of the three rating agencies used by Compagnie de Financement Foncier:

	Level	Fitch	Moody's	Standard & Poor's	Securitisation
Long-term exposures	E1	AAA to AA-	Aaa to Aa3	AAA to AA-	20%
	E2	A+ to A-	A1 to A3	A+ to A-	50%
	E3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	100%
	E4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-	350%
	E5	B+ to B-	B1 to B3	B+ to B-	1250%
	E6	<= CCC+	<= Caa1	<= CCC+	1250%

The pie charts below show the breakdown of the most important portfolios by internal rating and by order of relative importance.

Breakdown of securitisation exposures ⁽¹⁾ by internal rating

Approximately 98% of securitisations are rated AAA. The AA- position is held on public sector debt that is backed by the Italian government (hence the rating is aligned with that of the country). The A- position is a healthcare securitisation in Italy and the A- rating is a direct reflection of the local authority's credit rating.



Breakdown of exposures to securitised mortgage loans to individuals by internal rating

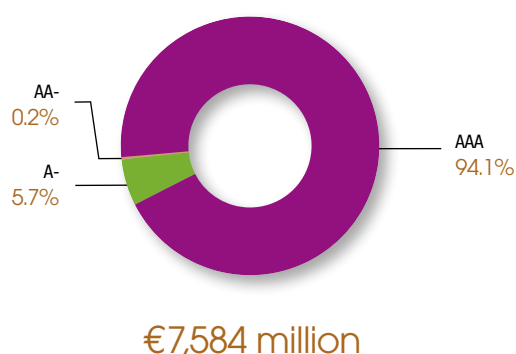
Compagnie de Financement Foncier's RMBS portfolio comprises securitised residential mortgage loans that were essentially granted to individuals. These are prime assets with high granularity and that are located in Europe. All securities acquired are from senior granular tranches with a AAA rating from one or more agencies.

Breakdown of exposures to French Public Sector securitisations by internal rating

Compagnie de Financement Foncier's portfolio of French Public Sector securitisations is comprised of three different types of debt:

- > securitisations of Dutch mortgage loans backed by an NHG guarantee (€4,122 million). NHG is a Dutch public entity in the Netherlands that is very similar to the FGAS in France. This debt is secured by the Dutch government and is rated AAA;
- > securitisations of American FFELP student loans (€2,962 million) that are guaranteed by the United States federal government for at least 97% of the loan principal and are rated AAA;
- > three positions involving transactions on Italian Public Sector debt (€500 million), one of which is guaranteed by the Italian government (rated AA-). The A- position is securitised healthcare debt in Italy and the A- rating is a direct reflection of the local authority's credit rating.

Securisation (underlying) IPF 2008



⁽¹⁾ 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.

Breakdown of exposures^(*) to the International Public Financing ^(**) by internal rating

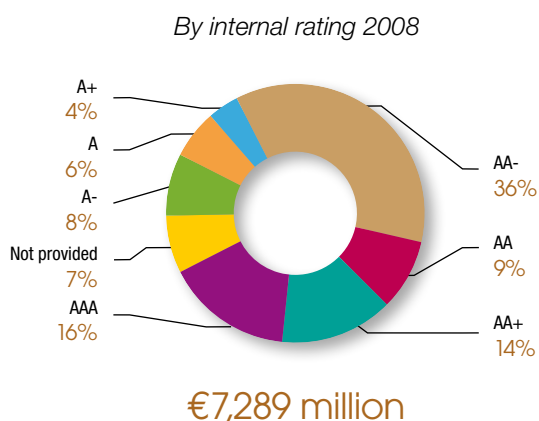
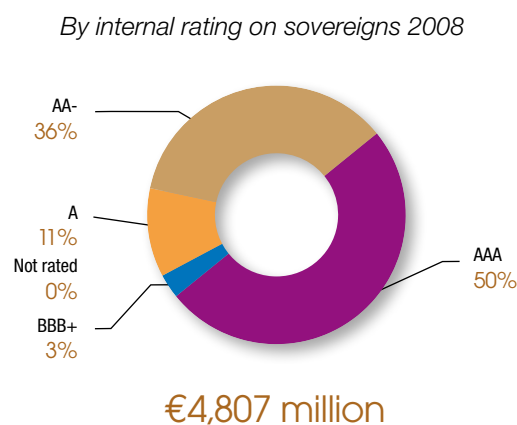
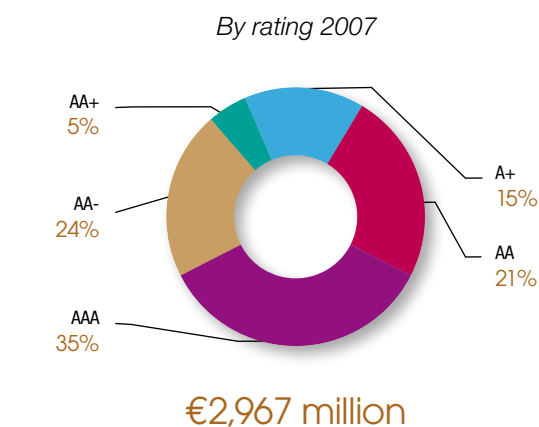
The figures show that the portfolio's holdings are concentrated in the highest rating categories. The "not provided" values (7%) are due to the lack of public ratings for certain assets. On an internal rating scale, the underlying assets have been rated A or better. Compared to the end of 2007, the percentage of AAA holdings fell due to the downgrade of monolines. Monoline-enhanced holdings are now assigned their intrinsic rating (A or AA).

Exposures to sovereign states

Breakdown of exposures to sovereign states by internal rating

The sovereign portfolio is in the highest rating category, with a significant concentration of AAA ratings because investments are in sovereign debt, especially French sovereign debt. Exposures to A and BBB categories are mostly from government securities issued by sovereign states belonging to the European Union.

International Public Financing Exposures



b) Risk charge

Compagnie's risk cost resulted in a net reversal of +€3.99 million. The cost of risk has two components:

› an individual risk charge of +€1.23 million. This consists of:

- net reversals of provisions amounting to +€5.53 million (mainly due to restating an entry whose risk is ultimately borne by CFF);
- losses not covered by capital amounting to -€6.32 million (mainly due to a loss on Lehman Brothers debt of -€4.96 million);
- recoveries of loans and receivables previously written off amounting to +€2.02 million.

› a net reversal of collective provisions of +€2.76 million (after allocating -€2.22 million in 2007), mainly after unwinding a few segmented transactions with structured financing vehicles.

^(*) 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.

^(**) Loans or bonds issued by local authorities; classification by "Basel" segments.

The impact of the risk charge recognised in net banking income concerns provisions and losses from interest on doubtful loans, including regulatory provisions that require 100% of doubtful loan interest be provisioned as a prudential precaution. The impact on Compagnie's net banking income was a net reversal of +€0.33 million.

Overall, Compagnie's risk charge is a reversal of +€4.32 million.

4.3. Risk diversification and risk concentration

Portfolio concentration indicator

Mortgage loan acquisitions represent a significant part of the major counterparty portfolio, and over 80% of the risks are concentrated in the top 50 exposures. This concentration is due to Compagnie's strategy to acquire sizeable as-

sets in the primary market, after thoroughly analysing them. In terms of credit risk, this concentration is superficial since the underlying loans are predominantly residential housing loans that are, consequently, highly granular.

Large corporations and the French local authorities/low-income housing sector have much lower concentrations, which reflects 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 82% 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 has exposures to European, Japanese and North American local authorities.

Summary of major counterparty concentration for Compagnie at December 31, 2008

(in millions of euros)

	Top 10	Top 20	Top 50	Top 100	Total
Private finance initiatives	n.s.				
Large corporations	n.s.				
Sovereign states	4,739 (100%)	4,739 (100%)	4,739 (100%)	4,739 (100%)	4,739
Mortgage loan acquisitions (Securitisation)	7,115 (33%)	11,212 (52%)	18,143 (84%)	21,642 (100%)	21,642
French local authorities and low-income housing	3,037 (19%)	4,470 (27%)	6,914 (42%)	9,065 (56%)	16,307
IPS	4,452 (61%)	5,963 (82%)	7,289 (100%)	7,289 (100%)	7,289

4.4. Comments on commitments at December 31, 2008

4.4.1. Comments on the private individuals (residential) market

Overall, doubtful loans for Compagnie in this business line are down significantly from 1.3% at the end of 2007 to a rate of 1.2% (1.0% excluding government-subsidised loans). However, this decline is mainly due to rule changes for recognising defaults on home acquisition transactions at 180 days compared to 90 days previously. Without that change, the doubtful loan rate would have slightly risen.

All loans are covered by mortgages and over 69% of outstanding loans have various additional guarantees (see section 5.3 - effect of the credit risk mitigation techniques). In all, nearly 98% of outstanding debt has eligible guarantees according to Basel II standards.

Acquisition of loans to individuals by Compagnie in 2008

In 2008, Compagnie continued its acquisitions of CFF mortgage loans for a total of €1,079 million in addition to an increase in outstanding mortgage notes for a total of €1.5 billion.

Losses in the private individuals market in France

Insofar as Compagnie makes its acquisitions according to a purchasing score which factors in the CFF origination score, it only selects the best loans and its loss rate (in arrears for more than 6 months) is well below that of CFF.

Variable-rate loans to individuals

From August 2007 until the end of the summer 2008, in the context of the financial crisis, the sharp rise in interest rates for a period of several months led to concern among borrowers who had taken out an uncapped variable-rate loan from their bank to finance their home acquisition project. Faced with this particularly difficult and sudden situation, which affected financial markets everywhere, Crédit Foncier Group set up an action plan designed to offer a range of solutions adapted to the needs of different customer segments. Some of these variable-rate loans, originated by CFF (which continues to service them) had been assigned to Compagnie (all the corresponding assignments were made prior to January 1, 2008). As part of the measures taken by CFF for its clients, an agreement was signed between CFF and Compagnie, according to which CFF will bear

all the financial impact of the measures it has taken. Thus fully shielding Compagnie from any losses related to the measures applied unilaterally to this loan portfolio by CFF, in its role as servicer.

Securitisation - Mortgage loan acquisitions

The securitisation/acquisition activities of mortgage loans are discussed in another section of this report.

4.4.2. Comments on the French and International Public Sectors

French local authorities

The Crédit Foncier Group is Groupe Caisse d'Épargne's short and long-term financing arm for French local authorities and institutions. The Crédit Foncier Group plays a key role for GCE in this segment.

The sector experienced a slowdown due to the French election season and the financial crisis.

CFF services the loans it originates for this sector acquired by Compagnie.

International Public Financing - IPF

The IPF business unit finances regional or local authorities outside of France via loans or bond acquisitions. The credit rating of these counterparties is usually very good and closely linked to the rating of the countries they are located in.

Compagnie de Financement Foncier conducts almost all of its IPF business in low risk countries: Member States of the EU, Switzerland, Japan, Canada and the United States.

When assessing the credit quality, Compagnie de Financement Foncier uses Crédit Foncier's internal rating model that is based on the probability of a change in rating as well as the probabilities by rating provided by the Rating Agencies. These ratings are reviewed annually. Each new transaction is approved by an IPF-specific process used to determine decision-making authority, established in collaboration with CNCE. IPF activities are also regulated by a system of country quotas approved by CNCE.

Exchange or interest rate swaps are used as micro-hedging instruments against foreign exchange risk on assets denominated in foreign currencies.

The 2008 production was concentrated with counterparties rated in the Step 1 category (AA-to AAA) located in Japan, Switzerland and North America (United States but also in Canada).

5. Risk mitigation techniques

5.1. Valuation and management of collateral instruments

Specific Controller's report on the valuation and periodic review methods for real estate at December 31, 2008

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, 2008 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 stan-

dards 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, the procedure describing 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, 2008, respects the provisions set out in Regulation 99-10 of the CRBF as amended by the Decree of May 9, 2007.

It should however be noted that, based on the tests we carried out, the operational implementation of this procedure could be improved in terms of:

- › respecting the rules for the initial valuation of assets, for which an appraisal must be conducted;
- › reinforcing internal controls related to valuation procedures and periodic reviews of real estate.

Paris, March 31, 2009
Specific Controller

CAILLIAU DEDOUIT et Associés
Laurent BRUN

Procedure for the valuation and periodic review of the assets underlying loans at December 31, 2008

I. Method for the valuation of assets underlying loans

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 May 7, 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.

Derogation used by Compagnie de Financement Foncier

For loans originated between January 1, 2006 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.

Synthesis

The foregoing rules are applicable as of May 7, 2007 and are summarised in the table below:

Appraisals apply to all collateral underlying loans authorised (i.e. the signature between the parties) during the year, regardless of whether or not they were committed. Other collateral (underlying loans authorised before 2008 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 2008.

Two periodic review methods are used to determine the value of collateral depending on the following circumstances:

- › the S1 statistical method for residential properties for private individuals;
- › the S1 statistical method 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 S2 method 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 is greater than €360,000.

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 ⁽¹⁾	Appraisal	Appraisal

⁽¹⁾ Commercial property includes all properties other than residential property and mixed-use properties whose residential component represents less than 75% of the overall value.

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 3 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 specific indices.

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 2 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 30th.

The revaluation cycle is thus managed on a one year rolling period from September 30th of year “n-1” to September 30th 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.

B - S2 periodic review method

For 2008, the S2 revaluation method entailed applying the annual change in the rent index for residential property to 2007 values, *i.e.* +2.1% (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.

Every 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 2008					
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	

Market value indices for 2007/2008

Agglomerations > 200,000 inhabitants

Region	Department	Urban unit	Index apartments 2007-2008	Index houses 2007-2008
Alsace	67 Bas Rhin	Strasbourg	1.0043	1.0089
Alsace	68 Haut Rhin	Mulhouse	0.9819	0.9886
Aquitaine	33 Gironde	Bordeaux	0.9608	1.0000
Auvergne	63 Puy-de-Dôme	Clermont-Ferrand	0.9565	0.9767
Bourgogne	21 Côte d'Or	Dijon	1.0213	1.0000
Bretagne	29 Finistère	Brest	1.0267	1.0286
Bretagne	35 Ile-et-Vilaine	Rennes	0.9894	1.0000
Centre	37 Indre-et-Loire	Tours	0.9670	0.9604
Centre	45 Loiret	Orléans	0.9713	1.0000
Champagne	51 Marne	Reims	1.0104	1.0000
Haute Normandie	76 Seine-Maritime	Le Havre	1.0349	1.0380
Haute Normandie	76 Seine-Maritime	Rouen	1.0349	1.0250
Languedoc-Roussillon	34 Hérault	Montpellier	1.0192	0.9914
Lorraine	54 Meurthe-et-Moselle	Nancy	1.0000	0.9891
Lorraine	57 Moselle	Metz	1.0000	1.0000
Midi-Pyrénées	31 Haute Garonne	Toulouse	0.9364	0.9412
Nord	59 Nord	Lille	1.0093	1.0241
Nord	59 Nord	Valenciennes	0.9753	0.9969
Nord	62 Pas-de-Calais	Béthune	0.9737	1.0062
Nord	62 Pas-de-Calais	Douai - Lens	0.9548	0.9940
PACA	06 Alpes Maritimes	Nice	0.9841	0.9955
PACA	13 Bouches-du-Rhône	Marseille - Aix-en-Provence	1.0366	1.0375
PACA	83 Var	Toulon	1.0108	1.0123
PACA	84 Vaucluse	Avignon	0.9905	1.0000
Pays de Loire	44 Loire Atlantique	Nantes	1.0004	1.0000
Pays de Loire	49 Maine-et-Loire	Angers	0.9802	1.0000
Rhône-Alpes	38 Isère	Grenoble	0.9825	0.9846
Rhône-Alpes	42 Loire	Saint-Étienne	1.0556	0.9767
Rhône-Alpes	69 Rhône	Lyon	1.0455	1.0714
Average			0.997	1.002

Agglomerations with 100,000 to 199,999 inhabitants

Region	Department	Urban unit	Index apartments 2007-2008	Index houses 2007-2008
Aquitaine	64 Pyrénées Atlantiques	Pau	0.9314	0.9400
Aquitaine	64 Pyrénées Atlantiques	Bayonne	0.9667	0.9740
Basse Normandie	14 Calvados	Caen	1.0165	1.0000
Bretagne	56 Morbihan	Lorient	1.0122	0.9867
Champagne	10 Aube	Troyes	1.0274	1.0154
Franche-Comté	25 Doubs	Montbéliard	1.0424	0.9848
Franche-Comté	25 Doubs	Besançon	1.0181	1.0658
Languedoc-Roussillon	30 Gard	Nîmes	1.0000	0.9894
Languedoc-Roussillon	66 Pyrénées Orientales	Perpignan	1.0000	1.0000
Limousin	87 Haute Vienne	Limoges	0.9286	0.9231
Lorraine	57 Moselle	Thionville	1.0267	1.0235
Nord	59 Nord	Dunkerque	0.9778	1.0286
Nord	62 Pas-de-Calais	Calais	0.9759	1.0000
Pays de Loire	44 Loire Atlantique	Saint-Nazaire	0.9901	1.0000
Pays de Loire	72 Sarthe	Le Mans	0.9858	1.0000
Picardie	80 Somme	Amiens	0.9889	0.9722
Poitou-Charentes	16 Charente	Angoulême	0.9577	0.9516
Poitou-Charentes	17 Charente-Maritime	La Rochelle	0.9846	0.9597
Poitou-Charentes	86 Vienne	Poitiers	1.0000	0.9737
Rhône-Alpes	26 Drôme	Valence	0.9535	1.0380
Rhône-Alpes	73 Savoie	Chambéry	0.9455	1.0000
Rhône-Alpes	74 Haute Savoie	Genève-Annemasse	1.0250	0.9880
Rhône-Alpes	74 Haute Savoie	Annecy	0.9846	0.9868
Average			0.989	0.991

Agglomerations with 50,000 to 99,999 inhabitants

Region	Department	Urban unit	Index apartments 2007-2008	Index houses 2007-2008
Alsace	67 Bas Rhin	Haguenau	1.0128	1.0119
Alsace	68 Haut Rhin	Colmar	1.0000	1.0109
Aquitaine	24 Dordogne	Périgueux	1.0000	1.0270
Aquitaine	24 Dordogne	Bergerac	0.9750	0.9737
Aquitaine	33 Gironde	Arcachon	0.9506	0.9667
Aquitaine	47 Lot-et-Garonne	Agen	1.0658	1.0143
Auvergne	03 Allier	Montluçon	0.9429	1.0000
Auvergne	03 Allier	Vichy	0.9744	1.0333
Basse Normandie	50 Manche	Cherbourg	1.0000	1.0000
Bourgogne	58 Nièvre	Nevers	1.0000	1.0000
Bourgogne	71 Saône-et-Loire	Chalon-sur-Saône	1.0029	1.0000
Bretagne	22 Côtes-d'Armor	Saint-Brieuc	1.0260	0.9706
Bretagne	29 Finistère	Quimper	1.0282	1.0143
Bretagne	35 Ile-et-Vilaine	Saint-Malo	1.0256	1.0220
Bretagne	56 Morbihan	Vannes	1.0297	1.0119
Centre	18 Cher	Bourges	1.0263	1.0167
Centre	28 Eure-et-Loir	Chartres	0.9495	0.9391
Centre	36 Indre	Châteauroux	0.9789	0.9355
Centre	41 Loir-et-Cher	Blois	0.9717	0.9665
Centre	45 Loiret	Montargis	1.0896	1.1058
Champagne	08 Ardennes	Charleville-Mézières	0.9760	0.9697
Champagne	51 Marne	Châlons-en-Champagne	0.9904	0.9877
Franche-Comté	90 Territoire de Belfort	Belfort	1.0221	0.9722
Haute Normandie	27 Eure	Évreux	1.0380	1.0441
Haute Normandie	76 Seine-Maritime	Elbeuf	1.0141	1.0294
Languedoc-Roussillon	30 Gard	Alès	1.0000	0.9870
Languedoc-Roussillon	34 Hérault	Sète	1.0204	0.9904
Languedoc-Roussillon	34 Hérault	Béziers	1.0000	0.9897
Limousin	19 Corrèze	Brive-la-Gaillarde	0.9877	0.9211
Lorraine	57 Moselle	Forbach	1.0107	1.0000
Lorraine	88 Vosges	Épinal	0.9746	0.9556
Midi-Pyrénées	65 Hautes Pyrénées	Tarbes	0.9429	0.9143
Midi-Pyrénées	81 Tarn	Castres	0.9221	0.9254
Midi-Pyrénées	81 Tarn	Albi	0.9211	0.9189
Midi-Pyrénées	82 Tarn-et-Garonne	Montauban	0.9178	0.9200
Nord	59 Nord	Maubeuge	0.9831	1.0126
Nord	59 Nord	Armentières	1.0250	1.0156
Nord	62 Pas-de-Calais	Arras	0.9659	1.0000
Nord	62 Pas-de-Calais	Saint-Omer	1.0132	1.0317

Nord	62 Pas-de-Calais	Boulogne-sur-Mer	1.0118	0.9600
PACA	06 Alpes Maritimes	Menton - Monaco	0.9573	0.9839
PACA	13 Bouches-du-Rhône	Arles	1.0068	1.0000
PACA	13 Bouches-du-Rhône	Salon-de-Provence	1.0188	1.0167
PACA	83 Var	Fréjus	1.0357	1.0230
Pays de Loire	49 Maine-et-Loire	Cholet	1.0000	1.0000
Pays de Loire	53 Mayenne	Laval	0.9897	1.0000
Picardie	02 Aisne	Saint-Quentin	0.9855	0.9831
Picardie	60 Oise	Beauvais	1.0581	1.0313
Picardie	60 Oise	Creil	1.0602	1.0476
Picardie	60 Oise	Compiègne	1.0769	1.0417
Poitou-Charentes	79 Deux Sèvres	Niort	1.0000	0.9677
Rhône-Alpes	01 Ain	Bourg-en-Bresse	0.9767	1.0115
Rhône-Alpes	26 Drôme	Romans-sur-Isère	0.9870	1.0405
Rhône-Alpes	42 Loire	Roanne	1.0000	0.9846
Rhône-Alpes	42 Loire	Saint-Chamond	1.0000	1.0000
Rhône-Alpes	69 Rhône	Villefranche-sur-Saône	1.0000	1.0444
Rhône-Alpes	74 Haute Savoie	Thonon-les-Bains	0.9649	0.9714
Rhône-Alpes	74 Haute Savoie	Cluses	0.9884	0.9758
Average			0.998	0.995

Non-agglomeration:

Region	Index houses 2007-2008
Alsace	0.9706
Aquitaine	0.9375
Auvergne	0.9600
Basse Normandie	0.9740
Bourgogne	0.9688
Bretagne	0.9732
Centre	0.9368
Champagne	0.9615
Franche-Comté	1.0000
Haute Normandie	1.0161
Languedoc-Roussillon	1.0000
Limousin	0.8929
Lorraine	0.9655
Midi-Pyrénées	0.9063
Nord	0.9929
PACA	1.0316
Pays de Loire	0.9310

Non-agglomeration

Picardie	0.9758
Poitou Charentes	0.9667
Rhône-Alpes	0.9737
Average	0.967

Paris and Ile-de-France

Region	Department	Index apartments 2007-2008	Index houses 2007-2008
Ile-de-France	91 Essonne	0.9860	1.0000
	92 Hauts-de-Seine	1.0000	1.0290
	75 Paris	1.0500	
	77 Seine-et-Marne	0.9600	1.0080
	93 Seine-Saint-Denis	0.9900	1.0000
	94 Val-de-Marne	0.9700	0.9720
	95 Val d'Oise	1.0030	1.0030
	78 Yvelines	1.0020	1.0400
Average		0.995	1.008

5.2. Insurers

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 main suppliers of personal guarantees on mortgage loans to individuals are the FGAS as well as other credit institutions (mainly *Crédit Logement* and intragroup bank guarantees):

- › the *Fonds de garantie de l'accession sociale à la propriété* (FGAS) 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, 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 creditworthiness ratings of the country where the underlying collateral is located (France to be specific);

- › intragroup guarantees (the insurers being mainly the various Caisses d'Epargne or Crédit Foncier de France) whose applicability methods vary according to whether regulatory calculations are performed at the corporate level or are consolidated at the Groupe Caisse d'Epargne 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.

5.3. Effect of credit risk mitigation techniques

In connection with COREP production at December 31, 2008, 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 by €28,917 million. This

amount is broken down as follows:

- › €5,077 million in “pure” mortgages (*i.e.* no other guarantees). Note that this amount is capped at the outstanding principal of the underlying loans;
- › €23,840 million in personal guarantees eligible for regulatory reduction of capital requirements;
- › the table below (source: COREP December 31, 2008;

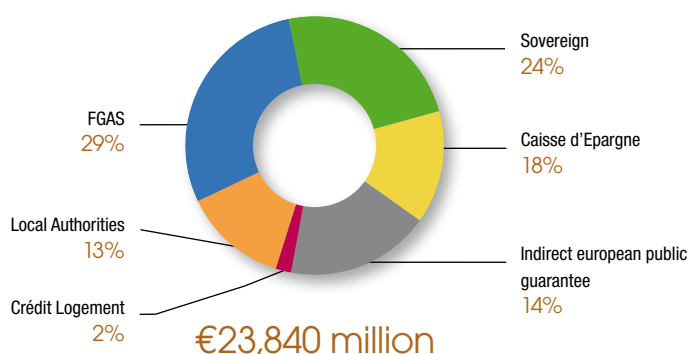
limited to Compagnie de Financement Foncier) summarises the breakdown of personal guarantees by Basel classification (excluding mortgages).

(in millions of euros)

At December 31, 2008	Loan insurer			
	National governments or central banks	Institutions	Other insurers	Total
National governments and central banks				
Institutions	8,949			8,949
Companies		2,876		2,876
Retail clientele	8,083	612	3,320	12,015
Shares				
Securitisation positions				
Total				23,840

Source COREP.

The figure below shows the breakdown as a percentage of guarantees by surety provider:



Source COREP
December 31, 2008.

For individuals, all loans have mortgages whose value has continuously increased over the past few years, given the rise in real estate prices up until 2008.

98% of outstanding loans are covered either by first-rank mortgages or by Basel II-eligible personal guarantees (mortgage insurance companies, bank guarantees, etc.).

The table below shows the COREP report breakdown of the various protections for the individuals' portfolio (December 31, 2008).

(in millions of euros)		
Schemes		
Regulated schemes	FGAS (100% - State guarantee)	6,785
	Subsidised sector (State guarantee)	1,211
Mortgage insurance companies	<i>Crédit Logement</i> ^(*)	583
	CRESERFI ^(**)	29
International financial organisations	Provide	3,320
Total		11,928
First-rank mortgage		5,077
Outstanding loans total		17,368
Percentage of guarantees (Basel II-eligible) compared to total outstanding loans		98%

^(*) *Crédit Logement*: Aa2/AA-rated institution by Moody's and AA by Standard & Poor's.

^(**) CRESERFI: Civil servant mortgage guarantee institution. *Source: COREP at December 31, 2008.*

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 collateralisation 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. Securitisations

6.1. Objectives, activities and level of involvement

6.1.1. Objectives

Compagnie de Financement Foncier buys into securitisation 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 securitisation is to create and manage a diversified mortgage loan portfolio of excellent quality, outside of France, in known asset classes that are well-managed by the institution: home loans and loans to local authorities. In the form of securitisations, these positions have a par-

ticularly 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 securitisation units representing its senior claims on Crédit Foncier's portfolio of mortgage loans granted to individuals.

6.1.2. Compagnie de Financement Foncier's business

Compagnie de Financement Foncier's securitisation transactions involve acquiring mortgage loan portfolios in the form of bonds 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 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, which has the necessary expertise for such a task. The ap-

proval 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 CNCE. 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;
- › residential or mixed-use mortgage debt (10% maximum 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 securitisations 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;
- › regulatory compliance specific 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.

6.2. Compagnie de Financement Foncier's exposures to securitisation transactions

6.2.1. Exposure to securitisation units held by Compagnie de Financement Foncier

Compagnie de Financement Foncier does not originate securitisation transactions.

In terms of shares in securitisation funds that do not belong to Crédit Foncier Group, Compagnie de Financement Foncier's portfolio amounts to €21,642 million. These consist of standard securitisations (cash securities). Compagnie de Financement Foncier, as with the rest of Crédit Foncier Group, does not hold any synthetic exposures except for those with its own clients in its private individuals segment.

Compagnie de Financement Foncier's standard securitisation exposures at December 31, 2008:

Type	Underlying guarantees	Total
MIX	First-rank mortgage on mixed housing (private/commercial)	247
RMBS	First-rank mortgage on private individual assets	13,811
	First-rank mortgage on private individual assets + guarantee from the Dutch state	4,122
Public Sector	Italian state	17
	Local authorities	483
FFELP Student Loans	FFELP (US federal government guarantee)	2,962
Total		21,642

Final risk	Total
Private individuals	14,059 (65%)
Public Sector	7,584 (35%)

No arrears or losses were recognised in 2008 on Compagnie de Financement Foncier's securitisation portfolio.

6.2.2. Retained or acquired securitisation positions

Securitisation positions that meet the criteria set by the Financial Stability Forum are explained in detail in Chapter 7 (G7 reporting).

Breakdown by rating

(in millions of euros)

Type	Underlying guarantees	AAA	AA+	AA	AA-	A+	A	A-	Total
MIX	First-rank mortgage on mixed housing (private/commercial)	247 (100%)							247
RMBS	First-rank mortgage residential homes	13,811 (100%)							13,811
	First-rank mortgage on private individual assets + guarantee from the Dutch state	4,122 (100%)							4,122
Public Sector	Italian state				17 (100%)				17
	Local authorities	51 (10%)						432 (90%)	483
FFELP Student Loans	FFELP (US federal government guarantee)	2,962 (100%)							2,962
Total		21,193			17			432	21,642

MIX: Housing mortgage-backed securities (private individual/professional).

RMBS: Residential mortgage-backed securities.

Public Sector: Public sector securitised debt.

FFELP Student Loans: Securitisations of U.S. student loans, at least 97% of the principal is guaranteed by the US federal government.

Final risk	Total
Private individuals	14,059 (65%)
Public Sector	7,584 (35%)

Outstanding debt is analysed below in terms of the nature of securitised assets, the breakdown by rating, geographical distribution and quality (breakdown by weight):

Securitisation positions acquired by Compagnie de Financement Foncier are broken down in the table below by exposure category and rating.

Approximately 98% of securitisations are rated AAA. The AA- position is with public sector debt that is backed by

the Italian government (hence the rating is aligned with that of the country); the A- position involves a healthcare securitisation in Italy and the A- rating is a direct reflection of the local authority's credit quality.

Monoline-insured portfolio

Only two transactions for a total of €483 million were enhanced by monoline financial guarantees. To date and following the massive downgrade of most of these monolines' credit ratings, only one security (€51 million) is still enhanced to the AAA level. This is a public sector

Securitisation portfolio - Breakdown by country and asset class

(In millions of euros)

Type	Underlying guarantees	Germany	Spain	Greece	Italy	Netherlands	Portugal	USA	Total
MIX	First-rank mortgage on mixed assets (private/commercial)				247 (100%)				247
RMBS	First-rank mortgage on private individual assets	306 (2%)	7,220 (53%)	13 (NS)	4,127 (30%)	973 (7%)	1,172 (8%)		13,811
	First-rank mortgage on private individual assets + NHG (Mortgage Guarantee Scheme - Dutch government)					4,122 (100%)			4,122
Public Sector	Italian government				17 (100%)				17
	Local authorities				483 (100%)				483
FFELP Student Loans	FFELP (US federal government guarantee)							2,962 (100%)	2,962
Total		306	7,220	13	4,875	5,095	1,172	2,962	21,642

MIX: Housing mortgage-backed securities (private individual/professional).

RMBS: Residential mortgage-backed securities.

Public Sector: Public sector securitised debt.

FFELP Student Loans: Securitisations of U.S. student loans, at least 97% of the principal is guaranteed by the US federal government.

Final risk	Total
Private individuals	14,059 (65%)
Public Sector	7,584 (35%)

securitisation backed by a local authority with a public category A rating. In the event that the rating of this enhancer is lowered, the security's rating would be revised to A. This same process was previously observed on the other historically enhanced security (€432 million) currently with an A- rating based solely on its intrinsic credit quality.

All the RMBS positions held by Compagnie in Europe have retained their AAA ratings and are particularly resistant to

stress test scenarios combining an explosion of default rates, falling real estate prices, and the drastic reduction in the prepayment rate.

Only the most damaging scenarios are likely to generate ultimate cashflow deficits on our RMBS positions. These assume a combination of events of such a magnitude that they appear highly unlikely: an explosion of default rates in various European markets starting in 2009 and culminating at 5% per year, or in total more than 13% over the dura-

tion of these transactions, a significant and brutal drop in real estate prices of at least 50% (35% in Germany), and a drastic reduction in prepayment rates.

For instance, a simulation was run for the Spanish RMBS sector combining:

- › an immediate 60% drop in real estate prices;
- › an explosion of default rates (13% to 15% of the underlying portfolios go into default and the real estate is then foreclosed, while the current level of arrears at an average of 90 days in the Spanish market is less than 2%);
- › a reduction in prepayments of around 5% (versus 10%

currently).

In such a “catastrophic” scenario, an ultimate cash-flow deficit may occur at the transactions’ maturity date, representing 1.52% of the outstanding principal (€110 million compared to €7,220 million in outstanding loans shown in the table above). The discounted loss of revenue would represent 0.55% of the outstanding principal, or a 0.15% drop in the portfolio’s return. Note that according to this catastrophic scenario, the return would still be higher than the EURIBOR and than the cost of the resources financing it.

Basel II weighting using the standardised approach	Outstanding loans at December 31, 2008 (in millions of euros)	% of portfolio
20%	21,211	98%
50%	432	2%
Total	21,643	100%

Breakdown by weighting

The very strong proportion of good quality securities, rated AAA in the securitisation portfolio, puts 98% of the portfolio in a 20% weighting category (using the standard approach):

The activity involving acquisitions of external securitisation units slowed significantly in 2008, and employees were assigned to monitoring and managing the existing portfolio. Nevertheless, a few acquisitions were made in the secondary market corresponding to additional purchases of securities that are already in the portfolio and have been performing well. The amount of these acquisitions was very limited (less than €70 million in 2008 for Compagnie de Financement Foncier).

7. G7 Reporting

In its report of April 7, 2008, the Financial Stability Forum (G7) issued a series of recommendations in response to the crisis, particularly in terms of financial transparency, valuation, risk management and rating agencies.

In the conclusions of the Senior Supervisors Group report, the FSF called for improved financial communication in the following five areas:

- › 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.

These points were rediscussed by a working group involving the FBF, the SGCB and the AMF in order to adapt

the FSF recommendations for France. Financial information tables have since been drawn up for these five themes.

This information is presented for Compagnie de Financement Foncier below, although the latter is not subject to this financial reporting requirement.

7.1. CDOs and exposures to monoline insurers and other credit enhancers

(in millions of euros)

Monoline	Monoline rating	Intrinsic Basel II rating (before enhancement)				Total	%
		AA+ to AA -	A+ to A -	BBB+ to BBB -	Unavailable		
AMBAC	BBB+	11	656			667	12.90
CIFG	B-	994	1,138	238	70	2,440	47.30
FGIC	CCC				100	100	1.90
FSA	AAA	679	729	247	51	1,707	33.10
MBIA	BBB+	69			178	246	4.80
	Total	1,753	2,523	485	399	5,160	100%
	%	34.00%	48.90%	9.40%	7.70%	100.00%	

7.1.1. CDOs

Compagnie de Financement Foncier has no exposure to CDOs.

7.1.2. Enhancers

The book value of credit enhanced assets in the table below does 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) that are already highly rated and either granted directly to a sovereign state or to a local authority (see healthcare securitisation transaction described in section 6.3.2 above) or public institution. The overall breakdown of the rating-enhanced underlying asset portfolio is displayed below in millions of euros at December 31, 2008.

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 recognised on Compagnie de Financement Foncier's balance sheet (only the enhancement premium is recognised as an expense when the enhancement is not settled at the same time as the security or loan).

The monoline rating is the worse of the two best ratings from Standard & Poor's, Moody's and Fitch Ratings at December 31, 2008. The intrinsic rating of the underlying asset is its Basel II rating before enhancement at the same date. Since December 31, 2008, CIFG's rating has been upgraded from B- to BB- after implementation of the restructuring plan.

The enhanced securities have good intrinsic quality: without accounting for the enhancement, 34.0% of this portfolio is rated step 1 (\geq AA-) and 82.9% is rated step 2 (\geq A-).

Exposures in the BBB category correspond to commitments with the Polish and Hungarian governments for €485 million.

Exposures identified as intrinsically unrated (7.7% of "unavailable") largely correspond to commitments with international public sector entities (€348 million). They have not been rated publicly but are subject to an internal estimate of credit quality that puts them easily in the category of investment grade (\geq BBB-). The remaining €51 million of exposures corresponds to International Public Financing ABS in the healthcare sector (the final risk resides with an Italian region publicly rated in the A category).

7.2. Exposures to CMBS (commercial mortgage-backed securities)

Compagnie de Financement Foncier does not hold any CMBS.

7.3. Other subprime and Alt-A exposures (RMBS, loans, etc.)

Compagnie de Financement Foncier has no exposure to subprime or Alt-A assets, either directly or indirectly. Compagnie de Financement Foncier has no exposure to the US mortgage market.

In general, Compagnie de Financement Foncier has no securitisation exposures that are considered at risk.

7.4. Special purpose entities

General information related to exposures to SPEs

At December 31, 2008, Compagnie de Financement Foncier did not have any exposure to SPEs (ABCP or other).

7.5. Leveraged buyouts

At December 31, 2008, Compagnie de Financement Foncier was not implicated in any leveraged buyout.

7.6. Other major risk exposures (Lehman Brothers, Madoff)

Madoff

As Compagnie de Financement Foncier cannot legally hold a trading portfolio, it has no direct or indirect exposure to the Madoff group.

Lehman Brothers

At December 31, 2008, Compagnie de Financement Foncier did not have any exposures to Lehman Brothers.

8. Asset & liability management risks and market risks

Compagnie de Financement Foncier's business is limited to a banking portfolio and financial compartments related to asset/liability hedges and middle to long-term investments. It does not do any 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 the agreement of December 28, 2006. The management rules are grouped under the Compagnie's Financial Charter.

Compagnie's business practices protect it against the exchange rate and interest rate risk: any non-euro denominated asset acquisition or debt issue is systematically converted to adjustable rates and swapped into euros if necessary.

8.1. Organisation of ALM risk monitoring

Interest rate, liquidity and foreign exchange risk manage-

ment relies on decision-making bodies, organised into three committees:

Compagnie's Asset and Liability Management Committee: the decision-making body responsible for managing financial risks within the limits set by Compagnie's general management, after consultation with the Risk Committee, and according to CFF Group rules. It meets on a quarterly basis and is chaired by Compagnie's Chief Executive Officer. Its members include the CFF Chief Risk Officer and other important executives.

Operational monitoring of the various risks related to Asset and Liability Management is performed by the CFF's ALM Department, an independent section of the CFF Financial Operations Department. This organisation ensures a strict separation between the reporting function and the order execution function, which is under the sole responsibility of the 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. There is:

- › 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 (prepayments) or to renegotiate the terms of the loan (RE). The models applied assign RA or RE rates for each loan type.

The prepayment and RE rates thus modelled are reconciled at each closing date with the actual rates in order to assess the pertinence of the models chosen.

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'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

Compagnie de Financement Foncier's refinancing organisation

The bulk of Compagnie de Financement Foncier's resources come from medium- and long-term obligation foncière issues.

Its additional resources consist of a significant securities and loan portfolio (approximately €32 billion), that can be refinanced by the ECB or via the banking market: during the 4th quarter of 2008, Compagnie was able to refinance securities worth €2.5 billion with the ECB.

Monitoring liquidity risk

Liquidity risk is the risk that Compagnie is not able to pay its short-term liabilities.

Compagnie'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, 2008, Compagnie de Financement Foncier had €8.4 billion in replacement securities, representing 8.8% of its assets, as well as €32 billion in securities 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's ALM Committee.

With the static approach, the aim is to ensure that medium-term liquidity management does not concentrate liquidity needs too highly 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. ALM also provides a

report that explains changes to static liquidity gaps from one quarter to the next.

Compliance with the limits

At the regulatory level, Compagnie de Financement Foncier's current ratio for the year 2008 was 776%.

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, 2008, this rule was

respected, as the average asset duration was 6.8 years and 5.9 years for liabilities.

8.4. Overall interest rate risk oversight

Management methods

Interest rate risk represents the potential risk of instability in Compagnie's income or asset values caused by unfavourable balance sheet and off-balance sheet exposures to interest rate fluctuations.

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%

Taking into account 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 (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 that convert funds raised with fixed rates to floating rates.

Macro-hedging strategies are decided by Compagnie's ALM Committee (CGB), 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 onto the market. Between two ALM Committee meetings, the Treasury Committee manages these hedging strategies operationally.

Monitoring interest rate risk

Compagnie de Financement Foncier has adopted a static approach for measuring risk and the resulting sensitivity levels.

The two main indicators are the gaps in rates fixed globally and by bracket, with risks being limited on average to one year rate gaps.

The fixed interest rate gap is calculated from total outstanding loans both on and off the balance sheet at the closing date while taking into account predefined assumptions and rules for asset and liability flows.

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. All of these indicators are monitored quarterly by the ALM Committee (CGB).

Compliance with the 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:

All the limits have been respected throughout the year 2008.

Exposure within each rate bracket is also monitored by a system of alert thresholds; all exposures remained below these thresholds in 2008.

8.5. Foreign exchange risk monitoring

Foreign exchange risk arises from exchange rate movements in currencies that Compagnie de Financement Foncier's assets and liabilities are denominated in 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.

This policy 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. Exchange rate swaps, term loans or currency swaps are used to do this.

Residual spreads from the adjustment of balance sheet positions, particularly those created by margins, are hedged monthly.

They are monitored by the Financial Operations Department's middle office, which centralises foreign exchange positions at the end of the month, by currency and by total amounts of foreign exchange.

The maximum 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 MO, quarterly information is sent to the ALM Committee about compliance with these position limits.

These limits were respected throughout 2008.

9. Operational risk

Compagnie's operational risk management is performed by CFF according to the terms of service agreements signed between the two institutions.

Operational risk notably includes accounting, legal, regulatory and tax risks, as well as risks relating to staff, property and information system safety.

The guidelines and rules of governance for operational risk management have been broken down as follows:

9.1. General approach

All of Crédit Foncier Group's "Operational Risk" processes are managed by its Risk Department, which relies on directives, methods and tools employed by the GCE 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's executive bodies and those responsible for controlling Compagnie.

9.3. Management environment

Management network

Operational risk monitoring and management is delegated to managers of different departments. Each manager relies on a network of exclusive agents run by a manager, in close contact with the Risk Department, and self-evaluates his system annually.

At the end of 2008, 282 employees were involved with operational risk monitoring and management.

Methods and tools

The method relies on three key elements that are part of a repetitive, interactive approach:

- › a map 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;
- › risk-related incidents are logged in a specialised database as risks occur and develop which allows for follow-up on corrective action plans and analysis of risk exposure developments and the resulting losses over time;
- › 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.

Compagnie de Financement Foncier logged 10 incidents

in 2008 for a total of €5,730 and a net economic loss of €4,800.

10. Other risks

10.1. Settlement risk

Most cash transactions for Compagnie are conducted 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 line with the policy to separate duties.

Compagnie de Financement Foncier can settle purchases directly with its own accounts; it is also a direct participant of the European settlement system.

Daily procedures for settlement risk monitoring include:

- › preparation of forecasted financial flow profiles;
- › daily reconciliation individual flows in comparison with forecasted flows.

If a settlement counterparty permanently defaults and Compagnie's cashflow position with the Banque de France becomes negative as a result, hedging mechanisms are put in place (interbank loan or end-of-day loan facility provided by the European Central Bank).

CFF Group and Compagnie regularly carry out Settlement System Contingency Plan tests on its payment means.

10.2. Non-compliance risk

Compliance at Compagnie is ensured by CFF in accordance with the terms of agreements (Framework Convention and internal control and compliance convention) 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 CNCE 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:

- › results from first level controls are analysed for non-compliance themes listed in compliance with standards or resulting from thematic approaches;
- › operational risk reports.

Non-compliance risk oversight

Non-compliance risk audits carried out in 2008 mainly concerned compliance with measures regarding the homebuyers' code, and the market knowledge of the customer of the companies' business segment.

Malfunction monitoring

Specific action plans from operational units are drawn up to address malfunctions identified during audits or from operational risk incidents that occur frequently. The operational units' compliance agents monitor these action plans.

Reports on these malfunctions and the resulting action plans are monitored by the Compliance and Ongoing Audit & Control Department. These reports are then sent to the CFF Internal Control Committee and Compagnie's Audit Committee.

Approval of new products or services

The risk of non-compliance is perfectly integrated into the approval process for new products and services.

Ethics – Market abuse - Conflicts of interest

The Financial Ethical Standards approach was updated in 2008, with the particular aim of incorporating the Market Abuse Directive regulations.

Money laundering and terrorist financing prevention

CFF Group works to prevent 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's loan servicer, Crédit Foncier de France is insured against the risks it is exposed to. According to service agreements signed with Compagnie de Financement Foncier, CFF covers Compagnie by taking out the following insurance policies:

- › "Comprehensive Business" property, plant and equipment insurance;
- › all IT risks;
- › banking activity protection;
- › fraud and malicious acts;
- › third party operating risks;
- › professional liability;
- › Directors and Executive Officer liability.

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.

IT risks

Compagnie de Financement Foncier's information system makes extensive use of human and technical resources provided by Crédit Foncier. Accordingly, Compagnie fully benefits from the enhancements to the Crédit Foncier IT system.

It should be noted that significant IT investments have been made to control banking risks in order to meet Basel II certification requirements and to consolidate the overall information system: a new accounting architecture has been implemented to accelerate the time required to produce regulatory reports, infocentre risk reports, and to improve the reliability and standardisation of client and credit data.

Organisation of Business Continuity Planning (BCP)

The Crédit Foncier Group Business Continuity Plan is fully operational and was tested in 2008, in accordance with regulations.

It has all the means necessary to ensure the continuity of the services rendered to Compagnie de Financement Foncier.

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)

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Conditions for preparing and organising the tasks of the board of directors

Members of the Board

At December 31, 2008, 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 172). 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 Legal Department 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;
- › attribute 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

monitoring pursuant to Articles 42 and 43 of CRB Regulation No. 97-02;

- › 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.

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 2008, the Board of Directors of Compagnie de Financement Foncier met ten times.

Since fiscal year 2005, Directors and Advisors have benefited from directors' fees in accordance with the rules recommended by Groupe Caisse d'Épargne. The amount of the directors' fees is set based on a predetermined amount for each meeting. These fees are weighted for each Director depending on the percentage of meetings attended during the course of the year; there is an annual ceiling.

Committees and audits

The company 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, 2008, the Audit Committee had four members:

- › Mr Stéphane CAMINATI, Group Director of Management Control for the Caisse Nationale des Caisses d'Epargne who presides the Audit Committee;
- › Mr Pierre NUYTS, Group Chief Financial Officer for Crédit Foncier de France;
- › Mr Alain DENIZOT, Chairman of the Executive Board of Caisse d'Epargne 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 Executive 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 legislation.

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 Caisse d'Epargne's 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 Caisse d'Epargne

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 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 revised 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 liquidity 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 responsi-

ble 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).

As the central entity, CNCE determines ongoing and periodic control requirements for other entities of the Groupe Caisse d'Epargne.

Since CNCE holds a 100% stake in Crédit Foncier de France (76.6% at December 31, 2008), the latter is subject to the former's system of controls, including its resources, organisation and guidelines to follow.

Crédit Foncier is also periodically audited by CNCE'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 and dealing with its operational concerns. 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.

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.

For example, the Accounting Control Unit ("Service Contrôles Comptables") of the Accounting Department is responsible for reviewing accounts. It provides both internal and cross-functional ongoing controls for business activities.

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; its responsibility for ongoing control was added in 2007. It also covers ethical activities (ethics and money laundering);
- › Head of Information Systems Security: in 2004, the Crédit Foncier Group created the position of Head of Information Systems Security, a post that reports directly to management.

The responsibilities of the Head of Information Systems Security are threefold:

- define a policy for the security of information systems;
- supervise a network of contacts within the various entities of the Company;
- provide assistance and advice to the IT Department with respect to security issues.

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.

The Ongoing Control Committee 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 at least five times per year 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, ongoing control and ethics;
 - 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 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 2008.

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 (CNCE) and the Banking Commission.

An annual audit plan for Crédit Foncier is prepared by the General Inspection Department, together with the CNCE 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 four years. The major 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 2008

Most assignments were included in the annual audit plan approved by Crédit Foncier's Audit Committee on December 5, 2007, and concerned various sectors of the Crédit Foncier Group and the oversight of regulatory projects:

- › Network of branches;
- › public sector loans;
- › financial management;
- › development and commitments;
- › logistics;
- › subsidiaries.

Assignments carried out in 2008 that specifically concerned Compagnie de Financement Foncier focused on:

- › handling of early repayments and renegotiations;
- › labor aspects of Compagnie de Financement Foncier.

In addition, several assignments were carried out by CNCE's General Inspection Department, notably on the "Private corporate activity" and the Basel II approval of securitisation tranches held on the balance sheet. The Banking Commission's (Commission Bancaire) controls concerned, notably, adjustable rate loans and RMBS.

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 CNCE and the Statutory Audi-

tors) recommendations are administered in a central database. The follow-up, carried out on a quarterly basis by the Inspection General, 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.

This summary includes comments when delays in the implementation have been recorded.

These follow-up measures, which were unchanged compared to 2007, were applied during the first three quarters of 2008.

A new measure was applied during the last quarter 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 (in place).
- › 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 follow-up 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 Internal Control Committee, who can intervene in the event the implementation of a recommendation is significantly behind schedule, is 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.

Audit of accounting and financial statements

Role of CNCE

The CNCE Group 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, which is responsible for preparing balance sheets, income statements, notes to the financial statements and statutory reports concerning the different companies in the Group.

Pursuant to the agreement concerning accounting and administrative management, Crédit Foncier's General Accounting Department is in charge of Compagnie de Financement Foncier's accounting.

The entire process is coordinated by the Crédit Foncier's General Accounting Department, which in turn is divided into main units, the responsibilities of which have been assigned as follows:

Units	Principal responsibilities in accounting system operations	Principal responsibilities in compiling and summarising data
General Accounting Unit	Financial statements: - Accounting for Compagnie de Financement Foncier - Tax returns	Balance sheets, income statements and their notes Monthly profit statements Reports on the cost of risk
Loan accounting	Oversight and control of interface operations between loan management departments, accounting software packages and reporting databases	Reports on outstanding loans and loan flows
Accounting Standards Unit	Definition and monitoring of accounting standards, verification that they comply with those of the CNCE Group Maintenance of the chart of accounts and implementation of audit trails	Procedural manuals
Accounting Control Unit	Ongoing accounting controls	Accounting audit reports
Regulatory Reporting Unit	Prudential reporting to the Banking Commission (via CNCE, central entity) Calculation of regulatory ratios (liquidity, ESR, etc.) and specific ratios Compagnie de Financement Foncier Monitoring the Group's position in terms of regulatory requirements	Reporting to the Banking Commission (via CNCE, central entity)
Database Support Unit	Parameters for daily income accounting forms and management of accounting parameters of loan systems Follow-up on technical problems related to production Management of accounting software packages	

The Chief Accounting Officer reports to the Executive Committee member who is in charge of finances.

Accounting controls

Crédit Foncier's accounting system is largely based on accounting data supplied by business systems. After decentralising most of the tasks, the organisational principles of accounting control were formalised by the new Accounting Charter. Operational accounting controls are the responsibility of the decentralised accountants (book-keepers and operations managers). Standardised financial statements are substantiated and certified every quarter in a single centralised computer system, managed by the accounting control unit. Activity reports track the progress made in substantiating the accounts (in terms of quantity and quality). These reports are used to verify the quality of

the supporting documentation and to guide on-site audits. These auditing assignments are part of an annual programme approved by the Head of the General Accounting Department and result in auditing reports. A summary is presented to all business lines and is sent to the external auditors if necessary.

Recommendations from the statutory auditors and the General Inspection Department are presented to the management of the appropriate companies. These recommendations are summarised and submitted to the Audit Committee. Periodic verifications are performed to ensure that recommendations are acted upon.

All of these prudential and regulatory reports are cleared by CNCE, 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, Risk Department, Financial Operations Department, and the SCF and VMG Oversight Department).

For the Compagnie de Financement Foncier, 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 Board of Directors at December 31, 2008

Range of the possible number of members: 3 to 18

Actual number of members: 8

Number of Board meetings: 10

Average attendance rate: 75%

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	Replacing Mr Alain PREVOT
Mr Thierry DUFOUR	Director - Chairman and CEO	Director since December 18, 1998 Chairman since July 31, 2007 Chairman and CEO since December 14, 2007	AGO 2013	Replacing Mr François DROUIN, who resigned Following the resignation of Mr Francis VEVERKA, Chief Executive Officer and non-Director
Ms Sandrine GUÉRIN	Director and Deputy CEO	Director since March 25, 2002 Deputy Chief Executive Officer since May 17, 2002	AGO 2012	Following the separation of the offices of Chairman and CEO
Mr Pierre NUYS	Director	June 16, 2008	AGO 2013	Replacing Mr Pierre-Eric FUZIER, who resigned
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	September 17, 2008	AGO 2011	Replacing Mr François CHAUVEAU, 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

Year ended 31 December 2008.

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 December 31, 2008.

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 Articles 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 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 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 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 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 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, March 30, 2009

The Statutory Auditors

KPMG Audit

Division of KPMG S.A.

Rémy TABUTEAU

PricewaterhouseCoopers Audit

Jean-Baptiste DESCHRYVER

LEGAL INFORMATION

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Corporate governance

Members of the Board of Directors in 2008 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 François CHAUVEAU

Director from December 16, 2004 to October 23, 2008
 CNCE
 50, avenue Pierre Mendès France - 75013 Paris

Mr Pierre-Éric FUZIER

Director from December 18, 1998 to June 9, 2008
 Crédit Foncier de France
 4, quai de Bercy - 94220 Charenton-le-Pont

Mr Pierre NUYTS

Director since June 16, 2008, replacing Mr Pierre-Éric FUZIER who retired
 CNCE
 50, avenue Pierre Mendès France - 75013 Paris

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
 Crédit Foncier de France
 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 replacing Mr François CHAUVEAU who retired
 CNCE
 50, avenue Pierre Mendès France - 75013 Paris

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 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 grant 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 *privilège*, 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

New production by Crédit Foncier may be financed by Compagnie de Financement Foncier as long as it meets the eligibility criteria stipulated by law contained in the provisions of Articles L. 515-13 to L. 515-33 of the French Monetary and Financial code.

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 Articles L. 225-38 and L. 225-86 of the French Commercial Code (previously Articles 101 and 143 of Law No. 66-537 of July 24, 1966), 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 and its subsidiary Compagnie de Financement Foncier.

Seventeen agreements have been entered into by Crédit Foncier 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 paying 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 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 law, 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 may refinance, 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. 432-6 to L. 432-19 of the French Monetary and Financial Code. The loans or securities thus securitised or transferred shall not be booked as assets 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 any real or personal property 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 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 B 421 263 047.

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, 94224 Charenton Cedex.

Financial year

The financial year begins on January 1, and ends on December 31.

Provisions of the bylaws governing the allocation 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, 2008, the company's subscribed capital amounted to €924,000,000. It is divided into 57,750,000 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, 2008

Shareholders	Number of shares	%
Crédit Foncier de France	57,749,993	100.00
Directors and other individuals	7	
Total	57,500,000	100.00

Changes in shareholders 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.

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 to €22,000,000 due to the creation of 1,375,000 new shares with a par value €16, fully subscribed by Crédit Foncier.

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 to €22,000,000 due to the creation of 1,375,000 new shares with a par value €16, fully subscribed by Crédit Foncier.

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.

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 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 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 1990s 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'Épargne.

In the context of legislation governing this acquisition, Parliament created a specific new status for property lending companies. The Compagnie de Financement Foncier was then formed and authorised as a *société de crédit foncier* by the CECEI. The Crédit Foncier transferred all its property commitments and pledged assets to the CECEI pursuant to Article 110 of Law 99-532 of June 25, 1999.

Since then a member of the Groupe Caisse d'Épargne, Crédit Foncier has been able to resume its role as a major player in real estate and local government financing.

Key events of the Crédit Foncier Group:

The years 2004 to 2007 were marked by the following events:

- › the acquisition of Entenial, a direct competitor in specialised real estate financing;
 - › a 66% investment in the capital of Crédit Foncier et Communal d'Alsace and Lorraine-Banque (CFCAL-Banque), a French *société anonyme* with a banking licence, which owned in addition a wholly-owned subsidiary with the status of a *société de crédit foncier* with the name "Crédit Foncier et Communal d'Alsace et de Lorraine - Société de crédit foncier" (CFCAL-SCF);
 - › buyout transactions involving Crédit Foncier shares resulted in Caisse Nationale des Caisses d'Épargne (CNCE) acquiring 100% of the capital and voting rights of Crédit Foncier;
 - › the creation of the real estate leasing subsidiary of the Groupe Caisse d'Épargne: the grouping of various specialised Crédit Foncier subsidiaries (Foncier Bail and Investimur, Cicobail, Mur Ecureuil, Cinergie). These companies were merged under the aegis of Cicobail to constitute the real estate leasing division of the Groupe Caisse d'Épargne;
 - › the creation, in Portugal, of Banco Primus, specialised in mortgage lending, drawing on the skills of the Crédit Foncier Group and Communal d'Alsace et de Lorraine;
 - › the finalisation of the project announced in 2006 with Nexity; in the context of the agreement reached with CNCE, Nexity acquired 25% of the capital of Crédit Foncier;
 - › Crédit Foncier's investment in Locindus in the context of consolidation of its leasing business resulted in Crédit Foncier holding 67.95% of the capital of Locindus;
 - › internal restructurings enabled the capital structure of the Crédit Foncier Group to be simplified;
 - › the acquisition of the IXIS-CIB's local authority loan portfolio, a subsidiary of Natixis for an amount of €8.4 billion and the acquisition of Groupe Caisse d'Épargne's public sector loan origination activity for major French public authorities accounts;
 - › implementation of the Fontec solution, between Foncier Expertise, a Crédit Foncier subsidiary, and Socotec;
 - › the modifications to the governance of Crédit Foncier, which required changes to Crédit Foncier bylaws, which adopted the legal form of a *société anonyme* with a Board of Directors.
- 2008 was marked by:
- › 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 inauguration of a Crédit Foncier representative office in Geneva, operated by Swiss Public Finance Solutions (SPFS), which was created September 18, 2007 by Crédit Foncier, the Caisse d'Epargne Rhône Alpes and the Banque Cantonale de Genève;
- › 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 was signed January 21, 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 Groupe Caisse d'Epargne's "Real estate leasing" activities.

Specialised subsidiary within a large group

Supported by its subsidiary, the Compagnie de Financement Foncier, a société de crédit foncier, Crédit Foncier has been able to obtain, both for itself and the Groupe Caisse d'Epargne, particularly advantageous financing conditions (AAA) and top-notch financial engineering. It is now positioned within the Groupe Caisse d'Epargne as a specialised real estate lending entity.

Resolutions submitted to the Shareholders' Meeting

Shareholders' General Meeting of May 18, 2009

Proposed resolutions

Ordinary resolutions

First resolution

The shareholders, having heard the reports of the Board of Directors and the Statutory Auditors for the financial period ending December 31, 2008, approve the accounts as presented.

Second resolution

The shareholders, having noted the existence of distributable earnings of 119,073,628.20 euros corresponding to the net income for the financial period of 62,231,116.62 euros plus the retained earnings of 56,842,511.58 euros, allocates said distributable earnings in the following manner:

Legal reserve: 3,111,600.00 euros

Dividend: 115,500,000.00 euros

Retained earnings: 462,028.20 euros

The dividend applicable to each of the 57,750,000 shares comprising capital stock is set at 2.00 euros.

Pursuant to Article 243 bis of the *Code Général des Impôts* (French General Tax Code), dividends distributed to individuals whose domicile is in France are wholly eligible for the 40% reduction provided for in Article 158-3 of the *Code Général des Impôts*.

The date of payment of the dividend has been set for June 30, 2009.

Pursuant to Article 24 of the Bylaws, the Shareholders' Meeting decided to allow each shareholder the possibility to receive their payment of dividends in shares. The new shares will have the same characteristics and benefit from the same rights as the shares that gave rise to the dividend payment. Their entitlement date is set at January 1, 2009.

The issue price of the new shares will be equal to the amount of shareholders' equity before distribution as indicated in the balance sheet at December 31, 2008 approved by the Shareholders' Meeting in the first resolution above, divided

by the number of existing shares. It has been set by default at 21.98 euros per share.

The number of shares that can be allocated to shareholders that have opted for payment of the dividend in shares therefore amounts to 1 new share for 11 existing shares, it being understood that an individual shareholder cannot receive the dividend to which they are entitled in a combination of shares and cash.

If the dividends so determined do not give a right to a whole number of shares, the shareholder who has opted for the payment in shares can receive the next lowest whole number of shares and receive the rest in cash or the next highest whole number of shares by paying the difference in cash.

The option period will begin on June 1, 2009 and end on June 15, 2009.

Any shareholder who has not exercised the option to receive payment in shares by June 15, 2009 will receive his dividend in cash on the payment date, June 30, 2009.

The Shareholders' Meeting grants all necessary powers to the Board of Directors to determine the number of shares issued and the resulting capital increase, and consequently to modify Article 6 of the Bylaws.

Pursuant to reporting regulations outlined in Article 47 of the law of July 12, 1965 and Article 243 bis of the French General Tax Code, the dividend and the overall remuneration per share have changed over the last three financial periods as follows:

Financial year	Number of shares	Overall remuneration per share	Dividend distributed ^(*)
2005	6,875,000	€12.73	€12.73
2006	8,250,000	€10.10	€10.10
2007	9,625,000	-	-

^(*) eligible for a 40% discount pursuant to Article 158-3 of the General Tax Code (CGI).

Third resolution

The Shareholders' Meeting, having heard the special report of the Statutory Auditors on the transactions described in Article L. 225-38 of the French Commercial Code, notes 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 17, 2008, of Mr Stéphane CAMINATI as Director, replacing Mr François CHAUVEAU 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, 2010.

Extraordinary resolutions

Fifth resolution

The Shareholders' Meeting, having reviewed the Board of Directors' report, decides to amend the second to last paragraph of Article 2 (1°) of the Bylaws as follows:

"Notwithstanding any other provisions or stipulations to the contrary, the Company can mobilise, in accordance with Articles L. 313-23 to L. 313-34 of the French Monetary and Financial Code, all or some of the loans that it holds, regardless of the nature of such loans. The Company may also temporarily transfer its securities under the conditions set forth in Articles L.211-22 to L. 211-34 of the French Monetary and Financial Code and may mobilise them pursuant to Article L. 211-20 of said code. The loans or securities thus refinanced or transferred are not recognised pursuant to Article L. 515-20 of the abovementioned Code."

Joint resolution

Sixth resolution

The Shareholders' Meeting grants all necessary powers to the holder of a copy or an extract of the minutes of this Shareholders' Meeting to carry out any submission or 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 provisions 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.432-6 to L. 432-19 of the French Monetary and Financial Code. The loans or securities thus refinanced 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 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 real on personal property 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 office

The registered office is 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 €924,000,000 (nine hundred and twenty-four million euros).

It is divided into 57,750,000 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 of-

ten 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 by-laws are published does not constitute sufficient proof.

Article 15 - Remuneration of the Board of Directors

An Ordinary 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 General 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 Ordinary 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. The Shareholders' Meeting on May 26, 2008 renewed PWC's mandate for a period of six years ending at the Shareholders' Meeting that will approve the accounts for the 2013 financial years.

During the Shareholders' Meeting on May 26, 2008, Mr Pierre COLL, certified accountant and statutory auditor, was replaced by Mr Étienne BORIS who was nominated for a 6-year period ending at the Shareholders' Meeting that will approve the financial statements of the 2013 financial year.

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 office 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 - Allocation 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 - Allocation 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 settled as required by law and shall be subject to the jurisdiction of the competent courts.

General information

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

on section "B" 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, 2009

Chief Executive Officer of Compagnie de Financement Foncier
Thierry DUFOUR

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 significantly influence the company's outlook.

Audit Control

To the company's knowledge, no agreement exists of which the implementation at a later date could lead to a change of its control.

Material events

No significant changes in the financial or commercial situation have occurred between March 27, 2009, the date at which the Board of Directors closed the accounts and the filing date 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, 2008 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, results or assets.

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 Philippe SAINT-PIERRE and
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 Etienne BORIS

Address: 63, rue de Villiers - 92200 Neuilly-sur-Seine

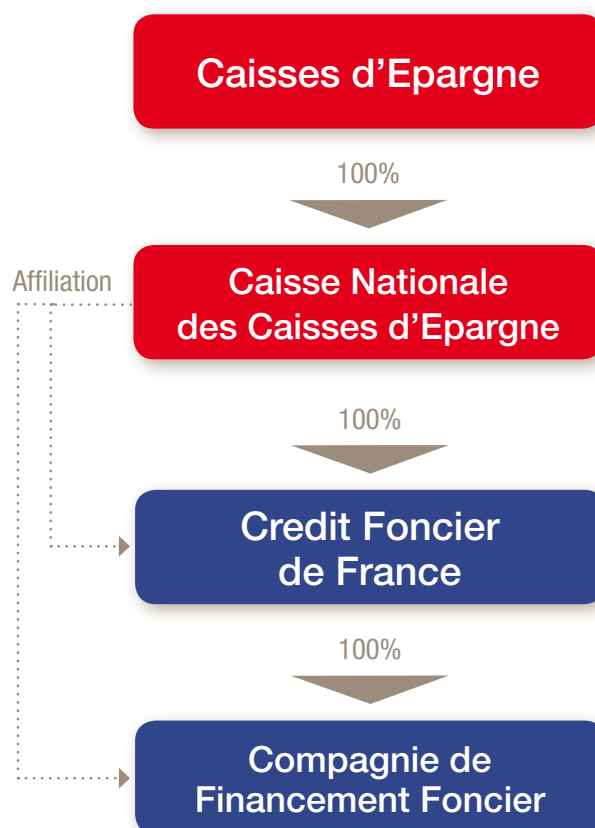
Start of term: May 26, 2008

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.

Appendix: Focus on Compagnie de Financement Foncier within the Groupe Caisse d'Epargne

At March 31, 2009



As of December 31, 2008, NEXITY held 23.4% of Crédit Foncier de France. The CNCE acquired Nexity's entire stake on January 29, 2009.

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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, 2007 and the Statutory Auditors' report on the corporate financial statements, included in reference document No. D. 08-0233 filed with the Autorité des marchés financiers (AMF - French financial markets authority) on April 11, 2008, are incorporated by reference in this document.

The sections of reference document No. D. 08-0233 not referred to above are either of no consequence to investors or covered by another section of this reference document.

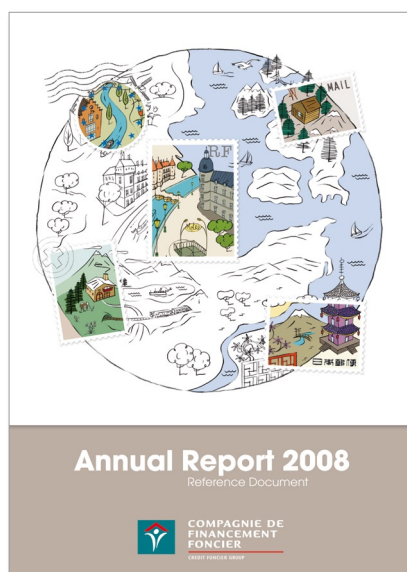
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