

# volume 1



## Activity report 2011



COMPAGNIE DE  
FINANCEMENT  
FONCIER

CREDIT FONCIER GROUP



## Volume 1

### Activity report

Overview

Legal and regulatory framework for issuers of covered bonds

Security of outstandings and management rules

Issues of *obligations foncières*

## Volume 2

### Financial report

Management report 2011

Financial statements

Statement from the person who assumes responsibility for the registration document

## Volume 3

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

Risk management report

Report of the Chairman of the Board of Directors

Legal information



AUTORITÉ  
DES MARCHÉS FINANCIERS

*This is a free translation into English of Compagnie de Financement Foncier 2011 annual report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails. Only the French version of the Registration document has been submitted to the AMF. It is therefore the only version that is binding in law.*

*The original document was filed with the Autorité des marchés financiers (French Financial Market's Authority) on April 3<sup>rd</sup>, 2012, in accordance with Article 212-13 of its general regulation and registered under the number D.12-0265 and represents the French "Document de référence" of the Compagnie de Financement Foncier. As such, it may be used in support of a financial transaction when accompanied by a prospectus duly approved by the AMF. It was prepared by the Issuer and its signatories assume responsibility for it.*

# volume 1

## Overview

Profile	3
Message from Thierry Dufour – Chairman and Chief Executive Officer	4
Message from Sandrine Guérin – Deputy Chief Executive Officer	6
History	8
Key figures	10

## Legal and regulatory framework for issuers of covered bonds

European legal supervision	13
Obligations foncières: French legal covered bonds	14
Investor protection	15
The monitoring entities of French issuing credit institutions	16
Management of <i>sociétés de crédit foncier</i>	22

## Security of outstandings and management rules of Compagnie de Financement Foncier

The real estate market and the public sector in France	25
Selection process and outstandings	28
Stringent risk management rules and commitments to the market	28
Organisation of controls at Crédit Foncier Group level and committees specific to Compagnie de Financement Foncier	31

## Issues of obligations foncières

Market and context	35
Issues of Compagnie de Financement Foncier in 2011	35
Investor Relations	36



# Overview

# Profile

*Compagnie de Financement Foncier (AAA/Aaa/AAA) is a credit institution company and a société de crédit foncier (a French legal covered bonds issuer).*

*A fully-owned subsidiary of Crédit Foncier (A-/Aa3/A+) and an affiliate of BPCE (A/Aa3/A+), the company's sole purpose is to finance the mortgage and public-sector lending activities of both its parent company and the Group as a whole, issuing AAA/Aaa/AAA rated obligations foncières, in different formats and currencies.*

*The obligations foncières of Compagnie de Financement Foncier are French legal covered bonds that comply with European Directives UCITS 52-4 and CRD.*

*Firmly supported by its parent Crédit Foncier, which has been issuing French obligations foncières since 1852, Compagnie de Financement Foncier continued to be a major actor in its market in 2011.*



## Message from Thierry DUFOUR Chairman and Chief Executive Officer

Two thousand eleven was partially marked by the change in the law regulating the obligations foncières activity, thereby creating a new milestone in the history of *sociétés de crédit foncier*. What were the contributions of this new law and, in your opinion, what were the consequences on the management rules of the Compagnie de Financement Foncier?

Over a year ago, the discussions on the need for a change in European regulation on covered bonds emerged and have been building inexorably. The result was a movement whose aim was to harmonise and strengthen the different legal frameworks dedicated to covered bonds. These amendments, born of the review and analysis by market actors, are ensuring higher asset quality, guaranteeing more security to all investors and further reinforcing transparency on behalf of *sociétés de crédit foncier*.

It is in this context that the French legislative framework specific to *obligations foncières* has evolved. In concrete terms, the major contributions of this news are numerous - with consequences both on the limits of exposure of certain asset types, and the methods for evaluating and re-evaluating pledges. I could not name them all there, but I will point out two major developments for *sociétés de crédit foncier*.

First, the minimum required for the hedge ratio of eligible assets to privileged resources - overcollateralisation - increased from 100% to 102%. Since the Compagnie de Financement Foncier's inception in 1999, this regulatory ratio has always been above 108%. On December 31, 2011 it was 110.6%.

Second, its cash requirements must be hedged for 180 days.

As such, Compagnie de Financement Foncier has, for several years, taken a more conservative position, because its cash requirements are hedged at 12 months.

All of the new legislative provisions support Compagnie de Financement Foncier in its position, because it was already implementing even more rigorous management rules than those that had been imposed. The next developments in Europe, specifically under Basel III, will make it possible to consolidate the security and quality associated with credit institutions, and in particular *sociétés de crédit foncier*, and to harmonise their legal framework.

**Amid continued European concerns, how has Compagnie de Financement Foncier dealt with the turbulent sovereign-debt market in Europe?**

As we mentioned in the half-year report, Compagnie de Financement Foncier has decided to reduce its exposures to sovereign risk by selling off those whose credit profiles were the most downgraded, as of the first half-year.

Finally, in keeping with the 2012-2016 development plan of its parent company Crédit Foncier, Compagnie de Financement Foncier will focus on refinancing mortgage loans and public sector loans in France.

**Today, transparent communication seems absolutely critical, especially to investors.**

Yes, and the law is reflecting that in its new provisions. In the new laws - I did not mention this earlier, but it is one of the

principal changes in terms of financial communications - the law calls for quarterly reports to be published within 45 days after the quarter ends, specifically on asset quality and maturity. In this context, and since the start of FY 2011, Compagnie de Financement Foncier has filed this report with the French Banking Authority and made it available to investors on its website. It is also committed to greater transparency in relation to its investors and in accordance with the law.

Investors and all actors in the financial community should have information on the safety and quality of our economic model through greater transparency, in order to reinforce their investment decision.

In our meetings with investors during roadshows, our attendance at conventions, and the various meetings organised throughout the year, Crédit Foncier's teams work toward the transparency that Compagnie de Financement Foncier has been leading since its creation.

*“All of the new legislative provisions support Compagnie de Financement Foncier in its position, because it was already implementing even more rigorous management rules than those that had been imposed.”*



## Message from Sandrine GUÉRIN Deputy Chief Executive Officer

### How well did Compagnie de Financement Foncier make it through 2011?

Like most of the financial community, Compagnie de Financement Foncier made it through 2011 in a context marked by significant troubles on the sovereign debt market and a difficult economic and financial situation. Still, it must be said: Compagnie de Financement Foncier showed great adaptability in a very turbulent environment, specifically in terms of managing exposures on its balance sheet. In fact, its strategy was guided by the desire to implement measures to protect investors.

In this regard, I feel the following point should be repeated: the strength of Compagnie de Financement Foncier's model is having a mixed exposure on the assets side of its balance sheet, made up of mortgage loans and public-sector loans and securities. This feature gives it an approach that is based on diversified risk management. Paired with a demanding and drastic selection of assets entering the balance sheet, this approach results in a quality balance sheet.

With the troubles over sovereign debt, the Compagnie de Financement Foncier took precautions in terms of its exposures, and the commitment policy demonstrated increased vigilance over the choice of its exposures. The freeze on high-risk countries, and certain sales, enabled Compagnie de Financement

Foncier to maintain the overall quality and performance of its assets. In terms of privileged liabilities, the Compagnie de Financement Foncier has met its targets in terms of issues of *obligations foncières*, in line with the BPCE Group's refinancing policy. This year, it issued €8.7 billion in *obligations foncières*.

**The covered bonds market is rapidly growing internationally, with the adoption of legislative frameworks in Australia and Canada for example, and they are used as a privileged refinancing tool in a crisis. What is Compagnie de Financement Foncier's positioning on the covered bonds market on a global scale?**

The international covered bonds market is, indeed, in a growth phase. We see it in many countries, particularly the United States, where the law is about to be voted on by Congress. Governments are getting a better sense of its relevance and advantages in terms of asset-liability management. But it is also a relatively low-cost refinancing tool, which is highly prized in a difficult economy.

In this environment, Compagnie de Financement Foncier relies on the strong expertise of Crédit Foncier's teams. Its positioning around the world results in more than 70% of its *obligations foncières* issues being placed abroad, but also the successful launch of its *obligations foncières* on the US domestic market, thanks to the 144A/RegS programme. This year, issues in that format amounted to \$2 billion.



**What are the next strategic guidelines for Compagnie de Financement Foncier?**

With regard to the new banking and financial regulations set by the European bodies, Compagnie de Financement Foncier's strategy will gradually move toward even more rigorous risk management that is focused on fundamental activities.

Compagnie de Financement Foncier will continue to practice a conservative risk-management policy in order to keep its asset quality at its highest, in the interest of the protection its bondholders.

*“Compagnie de Financement Foncier will continue to practice a conservative risk-management policy in order to keep its asset quality at its highest, in the interest of protecting its bondholders.”*

# History

Created in 1852, Crédit Foncier de France, whose main business is to grant property loans backed by prime mortgages, became the leading lender to local authorities in France and maintained that position until World War II. From the 1950s onward, Crédit Foncier was entrusted with numerous public interest assignments and has continued to play a key role in the real estate sector, becoming one of the State's main partners in this area.

## 1860s

*Crédit Foncier becomes the first lender to local authorities in France.*

## 1984

*Banking Act of January 24: Crédit Foncier acquires the status of Specialised Financial Institution with a public-interest assignment.*

## 2004

*Leading French private issuer and leading issuer in France of obligations foncières.*

## 1852

*Creation by decree of the first French mortgage bank, Crédit Foncier. First issues of obligations foncières.*

## 1950s

*After the end of World War II, Crédit Foncier becomes the main bank of state subsidised mortgage loans and plays a major role in post-war reconstruction in France.*

## 1999

*Crédit Foncier is bought by Groupe Caisse d'Epargne (GCE) on June 25. The French Savings and Financial Security Act of June 25, 1999 introduces a new legal framework for obligations foncières. Compagnie de Financement Foncier is created as a "société de crédit foncier" and a wholly-owned subsidiary of Crédit Foncier. Inaugural issue of €1.5 billion with an 11-year maturity on November 15, 1999.*

## 2010

*Inaugural issue of USD 2 billion with a 3-year maturity in 144A/RegS format. Compagnie de Financement Foncier receives the 2010 “Best Issuer of the Year” award from The Cover - Euroweek.*

## 2008

*Compagnie de Financement Foncier receives the 2008 IFR Award in the “Covered Bond of the Year” category for its €2.5 billion 10-year issue.*

## 2006

*Launch of the first 50-year obligations foncières: the first non-sovereign issuer to issue with such a long maturity.*



## 2005

*Access to the Australian domestic market via setup of the AMTN programme for the issue of obligations foncières in AUD.*

## 2007

*Issue of first “MAPLE”, obligations foncières in Canadian dollars in domestic format. First issue on the German domestic market. A record year in terms of issuances of obligations foncières with €23.5 billion.*

## 2009

*Access to the US domestic market obtained after the SEC grants authorisation to issue in the new 144A/RegS format in the United States. Creation of BPCE by merging the central bodies of the Caisses d'Epargne and the Banques Populaires, and de facto consolidation of Crédit Foncier and Compagnie de Financement Foncier.*

## 2011

*First private issue in CAD. Continuation of the USMTS programme with the first private placement in 144A format and with a public issue of \$1.5 billion.*

# Key figures

## Issuer information

*Issuer:* Compagnie de Financement Foncier, part of Groupe BPCE

*Parent company:* Crédit Foncier de France (100%), a subsidiary of BPCE (100%)

*Type of bonds issued:* Obligations foncières

*Issue programmes:* EMTN, AMTN & USMTS

*Sole service provider:* Crédit Foncier (A-/Aa3/A+) <sup>(\*)</sup> a subsidiary of BPCE (A/Aa3/A+) <sup>(\*)</sup>

<sup>(\*)</sup> Standard & Poor's/Moody's/Fitch Ratings.

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

<sup>(\*\*)</sup> Ratings updated as of the Registration document's filing date.

## Simplified economic balance sheet at December 31, 2011 and December 31, 2010

(from the regulatory report on the calculation components of the coverage ratio, certified by the Specific Controller)

Including the direct and indirect public guarantees on certain outstanding loans also backed by real estate collateral, in particular loans secured by the FGAS <sup>(\*)</sup>, the assets secured by a public guarantee represented €51.71 billion at December 31, 2011, and 48.9% of total assets.

<sup>(\*)</sup> FGAS: Fonds de garantie de l'accès social à la propriété (Government fund promoting access to home ownership).

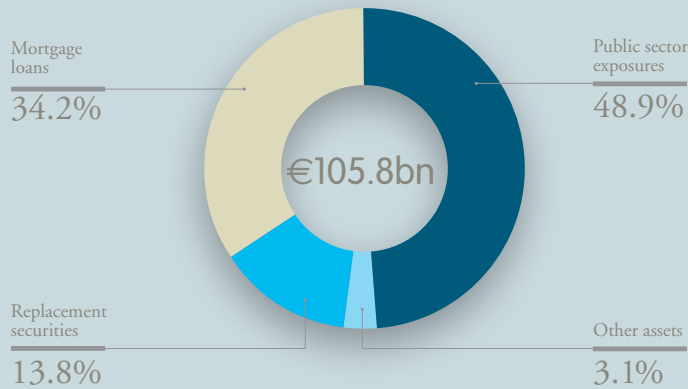
	At Dec. 31, 2011		At Dec. 31, 2010	
	€ bn	% balance sheet	€ bn	% balance sheet
Mortgage loans	36.21	34.2%	34.83	33.6%
Mortgage loans and related items	26.03	24.6%	20.73	20.0%
European <i>senior</i> residential mortgage-backed securities	10.18	9.6%	14.10	13.6%
Public sector exposures	51.71	48.9%	54.05	52.0%
Mortgage loans guaranteed by the French state or a European public institution	9.99	9.4%	10.09	9.7%
French public sector loans	18.06	17.1%	18.79	18.1%
International public sector securities	23.66	22.4%	25.17	24.2%
Other assets and replacement securities	17.86	16.9%	14.95	14.4%
Replacement securities	14.58	13.8%	11.82	11.4%
Other assets	3.28	3.1%	3.13	3.0%
Total assets	105.78	100.0%	103.83	100.0%

	At Dec. 31, 2011		At Dec. 31, 2010	
	€ bn	% balance sheet	€ bn	% balance sheet
Privileged ressources	91.08	86.1%	89.76	86.5%
<i>Obligations foncières</i>	89.77	84.9%	88.13	84.9%
Other privileged ressources	1.31	1.2%	1.63	1.6%
Non-privileged ressources	14.7	13.9%	14.07	13.5%
Unsecured debt	8.83	8.4%	8.31	8.0%
Subordinated debt and similar debt	4.03	3.8%	4.12	4.0%
- of which <i>redeemable subordinated notes (RSN)</i>	2.10	2.0%	2.10	2.0%
- of which <i>Perpetual super-subordinated notes</i>	1.35	1.3%	1.35	1.3%
Shareholder's equity, provisions and FRBG*	1.84	1.7%	1.64	1.6%
Total liabilities	105.78	100.0%	103.83	100.0%
Regulatory capital	4.00	3.8%	n/a <sup>(**)</sup>	n/a <sup>(**)</sup>

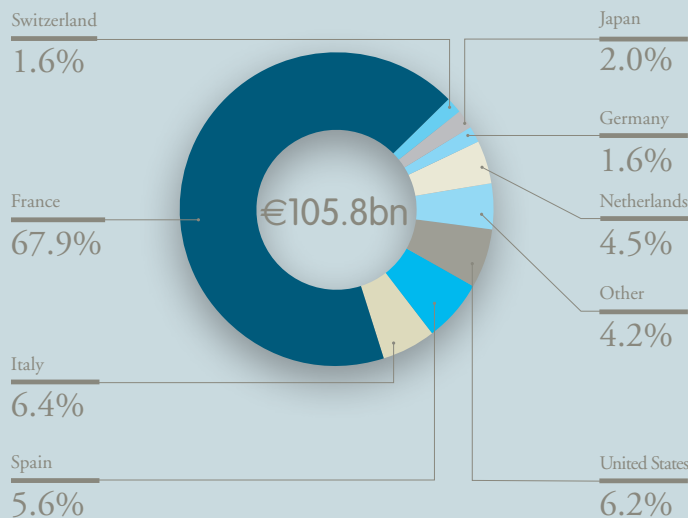
<sup>(\*)</sup> Fonds pour risques bancaires généraux (Fund for General Banking Risks).

<sup>(\*\*)</sup> non applicable

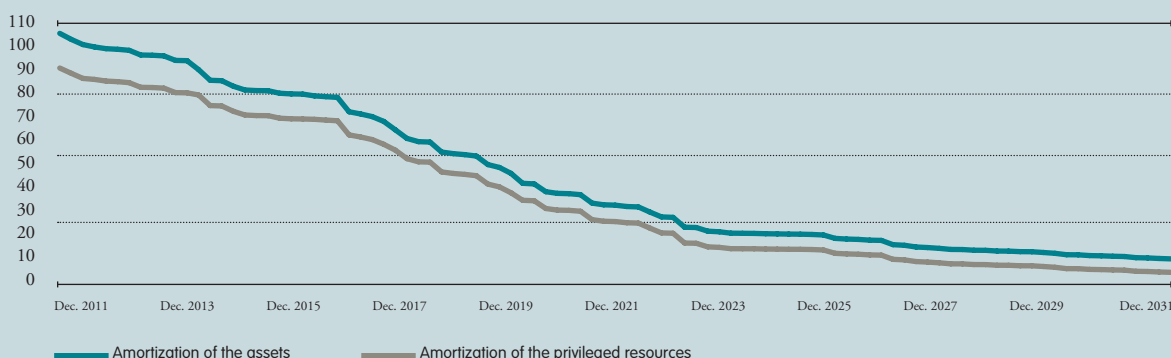
## Breakdown by type of assets



## Geographic distribution assets



## Amortization of assets and privileged resources



## Performance indicators

**€8.7 billion**  
 Obligations foncières issued in 2011

**€108.1 million**  
 Net income

**110.6%**  
 Regulatory overcollateralisation ratio

**13.8%**  
 Non-privileged resources/privileged resources ratio  
 (excluding BCE refinancing and repurchase agreements).

**61.6%**  
 Average LTV of mortgage loans

**Outstanding privileged liabilities at December 31, 2011**  
 €91 billion, including €88 billion of obligations foncières

**Positioning**  
 One of the leaders in the European covered bond market.

## Highlights of 2011

- **€1bn 5 year** issue launched on January 14;
- **\$1.5bn 3 year** 144A/RegS issue on March 8;
- **€1bn 10 year** issue launched on April 15.



# Legal and regulatory framework for issuers of covered bonds

Two European texts cover covered bonds: the UCITS and CRD Directives. French law retranscribes those European texts into French law in the French Monetary and Financial Code (CMF). Thus, *sociétés de crédit foncier* are the issuers of *obligations foncières*, French legal covered bonds.

## European legal supervision

Article 52-4 of the amended UCITS European Directive gives a legal definition of covered bonds. They must fulfil the following obligations:

- their issuer must be a credit institution having its registered office in a European Union Member State;
- it is subject to specific legal supervision protecting holders of those bonds;
- the bondholder must be protected by assets that allow the reimbursement of the bonds. He has priority recourse in case the issuer defaults (preferential claim).

### Article 52 (4)

of the UCITS Directive

[...]

4. Member States may carry the 5% limit as set out in paragraph 1, subparagraph 1, up to a maximum of 25% for bonds issued by a credit institution whose registered office is in a Member State and which is legally subject to special oversight by the public authorities in the interest of protecting bondholders. In particular, funds resulting from the issue of these bonds are invested, in keeping with the law, in assets which, during the entire valid period of the bonds, may hedge the receivables resulting from the bonds and which, should the issuer fail, would be used on a priority basis for repaying principal and paying accrued interest.

The UCITS Directive, a legislative framework for investment funds, also defines the investment ceilings that are dedicated to covered bonds. It has been transposed into French law and introduces an exception to regulations applicable to UCITS by providing the option of holding up to 25% of their assets in securities from a single issuer if those securities are covered bonds.

The second European text that provides a definition of covered bonds is the Capital Requirements Directive (CRD), transposed into French law in 2007. It provides the holders of covered bonds, particularly European banks, with a favourable regulatory framework. Under the CRD/EU CAD scheme, banks and insurers have a more attractive risk weighting on covered bonds complying with this Directive with the best rating.

Covered bonds are eligible to the tender operations of the European Central Bank, and can be part of the securities eligible to the liquidity reserve used for the LCR ratio management.

### Article 124

of the CRD Directive

*Exposures in covered bond form*

1. To receive preferential treatment, the “covered bonds” must be bonds within the meaning of Article 52, paragraph 4, of Directive 2009/65/EC of the European Parliament and the Council of July 13, 2009 on coordination of legislative, regulatory and administrative provisions concerning certain undertakings for collective investment in transferable securities (UCITS), and their safety must be created by one of the following eligible assets:

(a) exposures to, or guaranteed by, central administrations, central governments, public sector entities, or regional or local administrations of the Union;

(b) exposures to, or guaranteed by, central administrations or central banks of third-party countries, multilateral development banks or international organisations [per certain terms];

(c) exposures on institutions that belong to the first tier of credit quality set out in this chapter. Total exposures of this type do not exceed 15% of the nominal outstandings of covered bonds from the issuing institution [...].

(d) loans guaranteed by a residential property [...] or by privileged shares issued by French securitisation funds or by equivalent securitisation bodies governed by the law of a Member State that cover exposures on residential properties [per certain terms]

[...]



## Continuation article 124

of the CRD Directive

[...]

3. Covered bonds for which there is a credit evaluation by a designated ECAI are assigned a risk weighting in keeping with Table 6a, which corresponds to the credit evaluation prepared by the eligible ECAI per Article 131.

Table 6a

Credit quality step rating	1	2	3	4	5	6
Risk weighting	10%	20%	20%	50%	50%	100%

The French law on *obligations foncières* is the transposition of both European texts into French law. Thus, *obligations foncières* are compliant with the UCITS and CRD directives. Consequently, Compagnie de Financement Foncier's *obligations foncières* are eligible as collateral for Eurosystem transactions (ECB tenders) and eligible to the liquidity reserve used in the LCR ratio management.

### Obligations foncières: French legal covered bonds

#### French law and compliance with European regulatory texts

In 1999, the French government decided to open up the option of issuing *obligations foncières* to French banks. Until then, the texts of 1852 allowed only Crédit Foncier de France or Crédit Foncier Communal d'Alsace et de Lorraine to issue *obligations foncières*. Their activity is governed by the French Monetary and Financial Code, in particular by Articles L. 515-13 et seq. French law is the transposition of the the European regulations. Thus, *sociétés de crédit foncier*:

- are credit institutions having their registered office in a European Union Member State, France;
- are subject under the law to specific oversight protecting the holders of those bonds: the specific controller, whose subject to the assent of the **French Banking Authority**<sup>(1)</sup> (ACP, administrative authority supervising the activity of financial institutions).

Bondholders are protected by the asset cover pool eligible underlying assets (whose eligibility criteria are defined by Articles L. 515-14 to 515-17) toward which it has priority recourse in case of the issuer's default: this is the **preferential claim** granted to bondholders, instituted by Article L. 515-19 of the CMF.

The French legal framework, which has transposed the CRD directive since 2007, was strengthened in 2010 with regard to additional liquidity commitments and an obligation to do reporting to investors.

#### Definition of sociétés de crédit foncier

*Sociétés de crédit foncier* are credit institutions whose sole purpose is defined in Article L. 515-13 of the CMF: granting or acquiring secured loans, i.e. loans that are backed by prime mortgages or real property collateral conferring a at least an equivalent guarantee, or exposures on public authorities, and financing them by issuing *obligations foncières*.

## Article L. 515-13

I.- Sociétés de crédit foncier are credit institutions approved as financial companies by the French Banking Authority, whose exclusive purpose is:

1° To grant or acquire guaranteed loans, or exposures to public authorities and securities as defined in Articles L. 515-14 to L. 515-17;

2° For the financing of these categories of loans, exposures, or securities, to issue bonds known as *obligations foncières* benefiting from the privilege defined in Article L. 515-19 and by raising other resources whose contract or document intended for public information [...] or any equivalent document required for admission on the foreign regulated markets mentions this privilege.

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

- **assets:** secured loans, i.e. loans that are backed by prime mortgages or real property collateral conferring a at least an equivalent guarantee, exposures on public authorities and replacement securities;
  - **liabilities:** privileged resources among which obligations foncières on landed property and non-privileged resources, among which unsecured debts, subordinate and assimilated debts and stockholders' equities (own capital) and reserves.
- Obligations foncières* which finance eligible assets are secured debts that have a preferential claim that confers a priority right on assets to their holders.

(1) For more information, please refer to page 16 of this document.



The eligibility criteria for *société de crédit foncier*'s assets are defined in Articles L. 515-14 to L. 515-17 of the French Monetary and Financial Code.

The following assets are eligible:

- loans secured by a first-rank mortgage or equivalent guarantee, when the underlying property is located in the European Economic Area or in a country with the highest credit rating;
- exposures to or guaranteed by public authorities (public entities, local authorities, *etc.*) in the European Economic Area, or located in Switzerland, the United States of America, Canada, Japan, Australia and New Zealand, and, if accurate, when the borrower or the guarantor has a top credit rating;
- replacement securities (limited to 15% of the nominal amount of obligations foncières and other resources benefiting from the privilege): securities and deposits that are sufficiently safe and liquid.

All eligible assets are carried by the *société de crédit foncier* in a dedicated balance sheet separate from the parent company's.

The duties of the specific controller are to ensure that the law is strictly complied with.

## Investor protection

### Preferential claim and immunity of holders of obligations foncières in case of parent company's bankruptcy

#### Preferential claim to assets cash flows

The terms of this preferential claim and of the guarantee it provides are specified under Article L. 515-19 of the CMF. Assets cash flows shall first be allocated to the payment of obligations foncières.

The preferential claim is the fundamental principle of legal security for obligations foncières' holders. It remains valid even if the SCF or its parent company goes bankrupt or enters receivership. It thus affords investors with the maximum protection.

### The SCF is protected from its parent's preservation procedure, recovery procedure or judicial liquidation

In France, in the event of bankruptcy of a company, its subsidiaries' assets are generally seized to repay the parent's creditors. Therefore, the subsidiary's investors are only repaid after its parent company's.

For *sociétés de crédit foncier*, the law prohibits this practice: no bankruptcy procedure can be extended to the *société de crédit foncier* in case of bankruptcy of the parent company. In any situation, asset flows remain allocated to repayment of privileged debts. Should a procedure of bankruptcy be opened for its parent company, the *société de crédit foncier* and therefore the

holders of obligations foncières are completely immune thanks to the law protecting them.

## Article L. 515-27

[...]

*The bailout, legal receivership or liquidation proceedings of a company holding shares in a société de crédit foncier cannot be extended to the société de crédit foncier.*

### Immunity of obligations foncières holders from société de crédit foncier's bankruptcy

#### Repayment schedule of privileged debt is maintained

The law states that in the event of their bankruptcy, debt payment is not accelerated: repayment of debts that do not have the preferential claim will only take place after repayment of obligations foncières and other privileged debts. All other creditors (including the government) are not paid until all obligations foncières holders' claims have been satisfied, as set out in the initial timetable.

#### Continuity of management

Depending on the situation, a provisional administrator may oversee or advise management, or be given full managerial authority. The provisional administrator can use the same asset-liability management (ALM) tools that are normally available to a *société de crédit foncier*.

- selling assets;
- assigning receivables;
- issuing new obligations foncières;
- issuing non privileged liabilities.

The rules applicable to a *société de crédit foncier* continue to be followed, regardless of its situation.

Thus, the *société de crédit foncier* does business as usual, because the provisional administrator has the same duties as managers did previously. All activities are carried on to ensure the company is well managed, and all privileged debts are repaid in compliance with existing commitments.

### Role of the Specific Controller in the event of société de crédit foncier's bankruptcy

In the event of bankruptcy, the Specific Controller must file claim statements on behalf of privileged creditors. Thus, he or she also takes on the role of court-ordered liquidator, and has extensive investigative rights to carry out all assignments.

This person also continues to inform and notify the French Banking Authority, just as he or she must do when the *société de crédit foncier* is operating normally.

## Article L. 515-19

[...]

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

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

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

All of these legislative provisions protect the *obligations foncières*' holders. In case of a *société de crédit foncier*'s bankruptcy, they benefit from absolute privilege on cash flows from assets and the activities continue in the usual way until all secured debts are repaid.

### Affiliation

In the event of bankruptcy, beyond the immunity conferred on holders of obligations foncières, they also benefit from the *société de crédit foncier*'s affiliation with the central body.

## Article L. 511-31

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

Compagnie de Financement Foncier is part of Groupe BPCE. With 19 Banques Populaires and 17 Caisses d'Épargne, BPCE is the central body of the cooperative and mutualist banking group and is one of the leading French banking groups.

Thanks to the affiliation of Compagnie de Financement Foncier to BPCE, the protection of holders of its obligations foncières faced with the issuer's risk of bankruptcy is strengthened. The solvency and liquidity of Compagnie de Financement Foncier are settled by BPCE at all times.

## The monitoring entities of French issuing credit institutions

### The Specific Controller

The Specific Controller is selected from the official list of Statutory Auditors (Compagnie nationale des commissaires aux comptes, CNCC) and is appointed with the approval of the French Banking Authority for a four-year mandate. He is responsible for verifying that transactions are functioning correctly and for ensuring strict compliance with laws and regulations. To avoid a conflict of interest, the Specific Controller may not be a Statutory Auditor for the group that consolidates the *société de crédit foncier* on its balance sheet.

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

- ensure compliance with the legislative and regulatory provisions specific to *sociétés de crédit foncier* (Articles L. 515-13 to L. 515-33);
- verify that the repurchases made by 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.
- certify the documents sent to the French Banking Authority, in particular, regulatory ratios, limits and LTV at June 30 and December 31 of each year;

- prepare, for management and decision-making entities, an annual report on the achievement of its assignment, a copy of which is sent to the French Banking Authority.

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

- assess the quality of the risk management and monitoring procedures that the *société de crédit foncier* has implemented in order to respect the principles above;
- control the eligibility of loans and other assets held by the *société de crédit foncier*;
- ensure the appropriate overcollateralization of the privileged resources by eligible assets, the compliance with regulatory limits and the LTV eligible for privileged refinancing;
- certify previous ratios, limits and LTV twice a year for the French Banking Authority and issue certifications of quarterly bond issue programmes or issues in euro equivalent of 500 million or more;
- verify the matching of maturities and interest rates of the *société de crédit foncier*'s assets and liabilities (Article 12 of French Banking and Financial Regulatory Committee Regulation No. 99-10);
- appraise the valuation and periodic review procedures of the assets underlying the eligible loans, per CRBF No. 99-10;

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

In the event the *société de crédit foncier* enters recovery procedure on judicial liquidation proceedings, the Specific Controller shall become the legal representative of the holders of *obligations foncières* and other privileged resources.

## Article L. 515-30

### The Specific Controller

*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 French Banking Authority.*

*(...) 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 French Banking Authority in compliance with the foregoing provisions. He shall prepare an annual report on the fulfilment of his mission for the attention of the executives and deliberative bodies of the société de crédit foncier, a copy of which shall be sent to the French Banking Authority. 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 French Banking Authority of any event or ruling brought to his attention during the course of his work that may jeopardise the conditions or business continuity of the société de crédit foncier. (...) The Specific Controller shall be responsible, as regards both the société de crédit foncier and third parties, for damage caused by faults and negligence committed by him in the performance of his office.*

## Article L. 515-31

### The Specific Controller

*When a société de crédit foncier is the subject of preservation procedure, recovery procedure or judicial liquidation, the Specific Controller makes the declaration stipulated in Article L. 622-24 of the Commercial Code for and on behalf of the holders of the privileged debt referred to in Article L. 515-19. (...) By exception to Article L. 823-14 of the French Commercial Code, 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.*

## Internal control

Not only must *sociétés de crédit foncier* observe specific regulations, they must also, like any other credit institution, comply with the rules of the French Banking and Financial Regulatory Committee (CRBF) and most notably its amended Regulation No. 97-02, which specifies internal control obligations.

Compagnie de Financement Foncier has an internal control system that is well organised, with clearly defined responsibilities for staff members.

This system ensures that accounting information is based on high-quality standards, procedures and controls that are regularly audited, and the availability of a system for assessing the various types of risk.

It is based on a formal process that is linked to the risk-assessment system, for regularly monitoring risks using a formal methodology (Risk Committee).

It is also well-documented: the essential elements being the procedure manuals and reports submitted to external control entities and to the decision-making body (Audit Committee and the Board of Directors).

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

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

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

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

### Consistency between control levels

For those institutions subject to it, including *sociétés de crédit foncier*, the amended Regulation 97-02 requires:

- an ongoing control organisation, consisting of a designated group of people, provided with adequate resources and observing documented procedures;
- a periodic control organisation;
- a person specifically responsible for monitoring compliance;
- “strict independence” between staff members who originate transactions, those who record transactions in accounts, and those who settle transactions and monitor the associated risks.

### Risk assessment and monitoring

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

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

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

- credit;
- liquidity;
- interest rate;
- currency;

- compliance;
- settlement and intermediation;
- legal;
- operational;
- extreme events (e.g. business continuity plan).

### Documentation and information

Credit institutions are required to document the following:

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

The following supervisory and control entities must be kept informed:

- decision-making body: the Board of Directors and its Audit Committee;
- the company's central body or its shareholder;
- external auditors (Statutory Auditors and the Specific Controller);
- regulatory authorities (French Banking Authority, French Financial Markets Authority).

## Article 42

CRBF Regulation No. 97-02, as amended

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

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

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

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

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

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

*[...]*

*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;*



## Article 43

CRBF Regulation No. 97-02, as amended

*At least once a year, reporting institutions and financial holding companies supervised on a consolidated basis shall draw up a report on risk assessment and monitoring that provides an overall picture of all of the risks to which they are exposed, including the risks associated with banking and non-banking activities. [...]*

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

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

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

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

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

*This report shall also include:*

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

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

## Supervision by the French Banking Authority (ACP)

As authorised credit institutions, *sociétés de crédit foncier* are placed under French Banking Authority.

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

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

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

In addition to this, *sociétés de crédit foncier* must publish reports about:

- the quality of its financed assets and, in particular, the characteristics and breakdown of loans and guarantees, the amount of arrears, the breakdown of receivables by amount and type of debtor, the percentage of prepayments, liquidity at 180 days in a run-off scenario, as well as the level and sensitivity of interest rate positions (Instruction No. 2011-I-07).

This report on these points is published and submitted to the French Banking Authority four times a year, within 45 days after the end of each quarter;

- the calculation of the overcollateralisation ratio, which includes limits on the composition of assets, and the calculation of amounts eligible for refinancing using privileged resources. This report on these informations certified by the Specific Controller must be submitted twice a year to the French Banking Authority (Instruction No. 2011-I-06).

These audits performed by the French Banking Authority are an additional guarantee for the holders of *obligations foncières*.

It is with the aim of transparency in relation to investors that Compagnie de Financement Foncier distributes this report, and publishes it at [www.foncier.fr](http://www.foncier.fr)

## The Statutory Auditors

### Appointment of Statutory Auditors

As a French public limited company, so Compagnie de Financement Foncier's financial statements must be audited by Statutory Auditors. Article L. 511-38 of the French Monetary and Financial Code requires that credit institutions be audited by at least two statutory auditors, employed by independent auditing firms (whereas other countries require only one). The statutory auditors must be appointed for a six-year term, by shareholders at the General Meeting and not by the Company's Executive Directors.

As credit institutions, *sociétés de crédit foncier* must first have their statutory auditors approved by the French Banking Authority.

For fiscal year 2011, Compagnie de Financement Foncier retained the firms of Price waterhouse Cooper and KPMG for the audit of its accounts.

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

### Auditing and certification

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

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

### General report

In their report to the Shareholders' Ordinary Meeting, the Statutory Auditors must report on the execution of their assignment. By certifying the Company's financial statements, they express that during the course of their assignment they have obtained reasonable assurance that the financial statements are free of material misstatement.

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

### Specific verifications

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

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

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

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

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

### Liability of Statutory Auditors and Specific Controller

*The statutory auditors and the Specific Controller can be held liable as follows:*

- *civilly liable, per Article L. 515-30 of the French Monetary and Financial Code regarding the Specific Controller and Article L. 822-17 of the Commercial Code regarding any statutory auditors, stating that they are liable, toward both the company and third parties, for any harmful consequences of any torts or negligences of which they are guilty in the exercise of their duties.*
- *disciplinarily liable, per Article R. 822-32 of the French Commercial Code, because the Specific Controller is a registered statutory auditor;*
- *criminally liable, under Articles L. 820-6 and L. 820-7 of the Commercial Code.*

### The Autorité des Marchés financiers (AMF) oversight

The purpose of the European directive known as Directive Prospectus inaugurated in 2003 is to harmonise the format of bonds issued by all European issuers. It was transposed into French law in 2005.

Specifically, it requires choosing a place for registering securities from the issuing programme that matches either the issuer's home country or the country in which the issuer wants to have them listed.

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

*Sociétés de crédit foncier* who choose Paris as the place of registration must submit to the approval of the AMF (the Regulatory Authority for French Financial Markets) as regulation authority for issuers who register their program in Paris, a prospectus that contains information intended for the public pursuant to Article L. 212-1 of the AMF's General Regulation and Articles L. 412-1 and L. 621-8 et seq. of the French Monetary and Financial Code.

This prospectus is valid for 12 months and must be supplemented with addenda, if "any new material event, mistake or inaccuracy in relation to the information in the prospectus may have a material effect on the valuation of investment securities".

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

Article L. 212-13 of the General Regulation also stipulates that, as issuers, *sociétés de crédit foncier* must provide a Registration Document as well as the biannual update of the document.

In addition, the Transparency Directive of 2004 - transposed into French law by the Act of July 26, 2005 and the changes to the General Regulation of the AMF by a decree of January 4, 2007 - introduces minimum transparency requirements for the information that companies listed on the stock exchange must publish. The purpose of the directive is to improve the quality of the information investors have on the company's performance and financial situation as well as any important changes in its shareholding. Thus, it helps to guarantee better protection of investors, deepen their trust and improve the operation of European capital markets. Specifically, it harmonises the content and frequency of the publication of information incumbent on listed companies. By the same token, as issuers of debt securities admitted to trading on a regulated market, *sociétés de crédit foncier*, are required to comply with the ongoing and periodic disclosure requirement as defined in the AMF General Regulation.

Thus, Article 221-1 1° of the AMF General Regulation provides a list of the information that the company is required to disclose "effectively and in full" (Article 221-3 I of the AMF General Regulation). This disclosure consists in filing this information with the AMF and posting it on the issuer's website as soon as it has been disseminated (Article 221-3 II of the AMF General Regulation). This list includes the annual financial report, the half-year financial report, the quarterly information and the statement of statutory auditors' fees.

## Article L. 621-8-1

The AMF

*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 Regulation when it has reasonable grounds for suspecting that it is contrary to the laws or regulations applicable to it.*

Harmonising formats in this way permits better understanding by investors and guarantees them complete and uniform information. The monitoring done by the Financial Markets Authority (AMF), an independent public body that is financially autonomous, provides additional security for investors.

## Article 212-1

of AMF General Regulation

*Before conducting a public offer [Decree of April 2, 2009] of securities or seeking admission of securities to trading on a regulated market within the European Economic Area (EEA), persons or entities referred to in Article 211-1 shall prepare a draft prospectus and submit it for approval by the AMF or the competent supervisory authority of another Member State of the European Community or a State party to the EEA agreement.*

## Article L. 412-1

of the French Monetary and Financial Code

*As amended by Order n°2009-80 of January 22, 2009 - Article 1*

*I. - Without prejudice to the other provisions applicable thereto, persons or entities making a public offering shall, prior to doing so, publish and make available to any interested party a document designed to inform the public concerning the content and terms and conditions of the process which is the subject thereof and the issuer's organisation, financial situation and business prospects and those of any guarantor of the financial instruments included in that process, as determined in the General Regulations of the Financial Markets Authority.*

[...]

To be complete, the document must include at least the sections named and detailed in Regulation n°809/2004 of the European Commission, which are included in the AMF concordance table in this document.

### Management of *sociétés de crédit foncier*

In order to ensure the repayment of the amount due to *obligations foncières* holders, *sociétés de crédit foncier* must respect a minimum overcollateralization ratio, a conservative asset & liabilities management and a positive liquidity for 180 days.

#### Overcollateralisation

The principle of legal overcollateralization is defined in Article L.515-20.

The total amount of the *société de crédit foncier*'s assets must be greater than the amount of their liabilities elements having preferential claim as indicated in Article L. 515-19, in order to ensure that privileged debts are repaid.

The Act of October 22, 2010 sets the minimum legal overcollateralisation at 102%.

At December 31, 2011, Compagnie de Financement Foncier has an overcollateralization ratio of 110.6%.

### Matching of maturity and rates

Regulation 99-10 of the CRBF requires that matching of maturity and rates of assets and liabilities be respected in the *société de crédit foncier* balance sheet management.

Regulation 99-10 of the CRBF

*The degree of matching of rate and maturity between the assets and the liabilities is examined by the specific inspector [sic] who draws the attention of the French Banking Authority's management if he or she finds that the degree of matching of rate and maturity would pose an excessive risk to privileged creditors. (Decree of February 23, 2011) [...]*

### 180-day liquidity buffer

At all times, *sociétés de crédit foncier* must ensure that all cash requirements are covered for a period of 180 days. Therefore, *sociétés de crédit foncier* hold replacement securities, assets eligible for credit transactions by Banque de France or other assets defined by Article R. 515-7-1 that permanently cover all identified cash requirements for the next 180 days.

## Article R. 515-7-1

*At all times, the société de crédit foncier hedges its cash requirements over a period of 180 days, recognising the hedging of forecast cash flows of principal and interest on its assets as well as net cash flows relating to forward financial instruments mentioned in Article L. 515-18. Cash requirements are covered by replacement securities, assets eligible for credit transactions by Banque de France, in keeping with the procedures and conditions determined by Banque de France for its monetary policy and intra-day credit transactions, and by the refinancing agreements entered into with credit institutions that have top-tier short-term credit quality as established by an external credit-rating organisation recognised by the French Banking Authority pursuant to Article L. 511-44 or that are guaranteed by other legal persons with the same credit quality.*







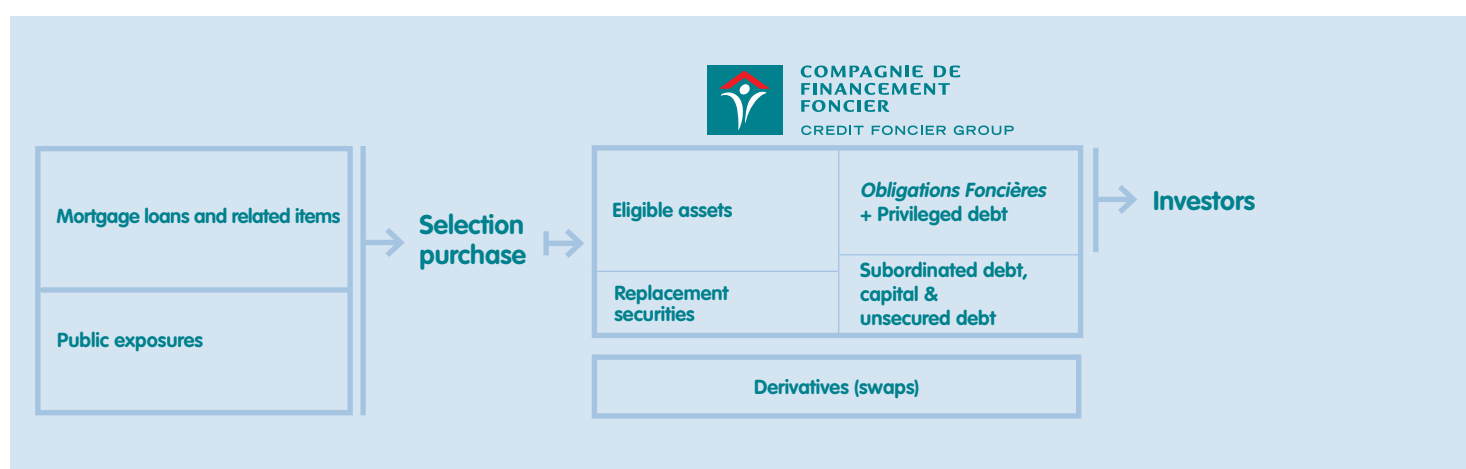
Security of outstandings  
and management  
rules of Compagnie  
de Financement Foncier

Compagnie de Financement Foncier's economic model is based on the selection and purchase of eligible receivables originated by its parent company Crédit Foncier, or by the BPCE Group. These latter are financed by the issue of covered bonds benefiting from the legal privilege.

The selection and purchase of assets is based on precise criteria. Indeed, only loans to private individuals plus paired with a prime mortgage with a maximum loan to value of 80% or guaranteed by FGAS<sup>(2)</sup> as well as exposures to the public sector may be included on Compagnie de Financement Foncier's

balance sheet. Next, eligible assets are filtered according to the type of receivables and data supplied by Crédit Foncier's Risk Department such as the Basel II rating and the probability of default. Crédit Foncier's teams also verify that the receivable does not present any dispute that might influence the issuer's capacity to meet its commitments. Receivables with arrears are not acquired by Compagnie de Financement Foncier.

This systematic process of selecting assets means Compagnie de Financement Foncier only buys the quality loans, in line with its risk policy.



## The real estate market and the public sector in France

### The French mortgage market

In France, loans are made after the study of situation of the borrowers, which concerns both the amount of his income and his non-entry on the negative file of Banque de France (a file that groups payment incidents on loans to individuals) and so whether he has enough to live on<sup>(3)</sup>. In practice, institutions agree to set the individuals' share of debt at one-third of their disposable income for the borrower not to be in a difficult situation when he has to pay his financial commitments.

The French mortgage loan is defined by its purpose - financing a piece of property to be used as the residence of the borrower or his tenant - and by its guarantee - a mortgage, a guarantee taken out on the property itself. This mortgage allows the lender to be paid, with preference over other creditors, for the sale price of the building, in case the borrower defaults. Also, the lending establishment benefits from additional means of recourse against borrowers beyond the mortgage guarantee, such as garnishment of wages.

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

- the existence of an attrition rate, which is the maximum total effective rate at which a loan may be made. That rate is set by Banque de France and capped at 133% of the average effective rate paid by credit institutions during the previous quarter (for financing transactions of the same kind that carry comparable risks). It prevents the borrower from being faced with a too high borrowing rate, which would put him in difficulty when repaying his receivables, which limits arrears.
- a clearly-identified role of lender, and therefore a liability: the fact that the lender has made a loan, i.e. processed it, then managed it and financed it, makes that lender fully liable throughout the life of the loan. This motivates the lender to study well the situation of each borrower and therefore to grant loans only to people who have the strongest records.

Thus lenders' distribution policy is very prudent: the default rate by French households is quite low.

<sup>(2)</sup> FGAS: Fonds de Garantie à l'Accession Sociale (Government fund promoting access to home ownership). A financial body funded primarily by the French government, FGAS guarantees any loans in default for the lowest-income households. Thus, it provides maximum surety for the loan and therefore the lending body.  
<sup>(3)</sup> i.e. the amount remaining available to the borrower after he has made all his monthly payments on loans.

### The structural features of the French mortgage market

Conditions for granting real estate loans in France: a highly secure system

In France, loans are made according to the borrower's solvency, based on supporting documentation, not according to the current or future value of the financed building. Property valuations are only used to estimate the risk of loss in the event of default, and not to approve the initial loan.

Mortgages are mostly redeemable. Thus, the portion funded diminishes over time as the monthly payments consist of a capital share and a share of interest calculated on the basis of the shortfall. At the end of the loan, the borrower shall have full ownership of the asset.

### Trend data of the French mortgage market

In 2011, the volume of housing loans remained high and represents €161 billion, a number that is down from 2010 (€169 billion). More than 1,000,000 transactions took place in 2011 on residential real estate markets.

The French housing market is supported by a demographic growth (the estimated natural rate of increase in 2011 was 0.42%), resulting in higher housing demand.

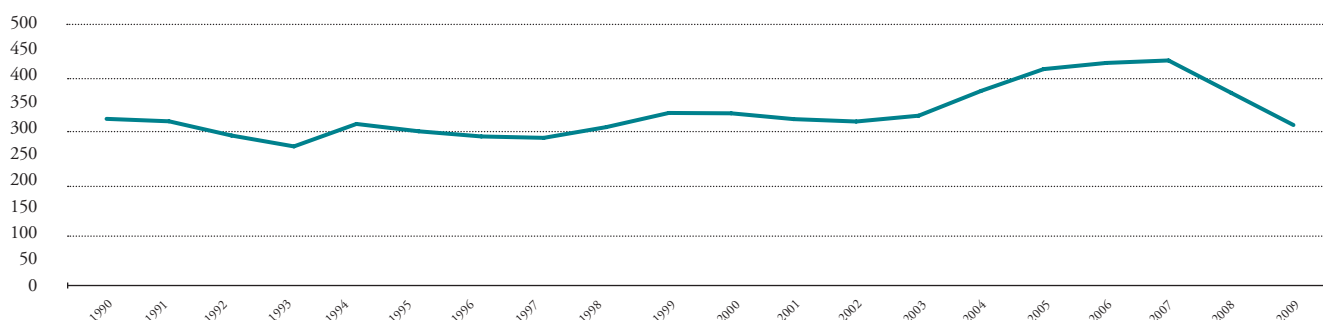
Housing supply, composed of housing starts and renovations of existing houses, does not cover this growing demand.

The potential demand for housing, which represents the construction flow of new housing compatible with expected growth in the number of households, is on the order of 350-500,000 housing units per year, according to reasonable assumptions of vacancy and renewal of existing houses. It is clear on the graph below that the number of housing starts only rarely reaches that number.

At Crédit Foncier, loan agreements are made on the basis of scoring that combines the following criteria:

- revenue, patrimony and capacity to spend of the borrower;
- indebtedness ratio;
- financed LTV and value of the property;
- term of the loan, which must be appropriate to the transaction type and client's solvency;
- family situation of the borrower.

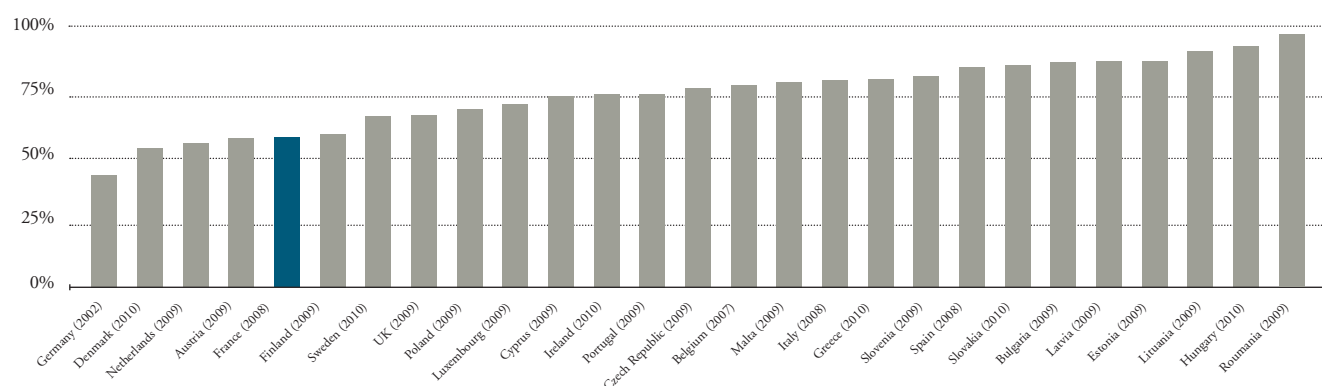
### Housing starts in France (in thousands of units)



These parameters have supported rising real estate prices for several years. Demand is structurally higher than supply.

The credit market is sustained by the fact that rate of home ownership in France is very low (57.8% compared to an average of 68.9% in the European Union).

## Owner occupation rate in European



This strong demand supports the house prices. The value of the financed asset is therefore always higher than the amount borrowed.

If the borrower defaults, the property is sold and the lender, who has the priority because of the implemented mortgage, is assured of full repayment of outstanding amounts.

It is therefore the high demand related to the low rate of home ownership and the population growth that supports the real estate market and secures the mortgage market.

### The public sector in France

CFF's exposure to the French public sector regarding the French government and regional and local authorities that are French administrative structures separate from the State.

A regional and local authority supports the interests of the population of a precise region and is defined by three criteria:

- contrary to State administration, it is endowed with legal personality. As it is decentralised, it has administrative autonomy. Thus, it has its own personnel and its own budget;
- it has its own powers entrusted to it by Parliament, therefore by the legislative authority;
- it has regulatory decision-making power that is exercised by deliberation within a council of elected representatives. The decisions are then applied by local executive powers.

The French public sector has nearly 40,000 public structures, more than the rest of Europe. The main ones are:

- regions (27 in France) and departments (101) managed by regional councils and general councils, respectively;
- communities, including cities, parts of cities and groupings of towns. Communities are the source of more than 75% of public investments.

The French legislative framework makes the public sector a highly controlled sector.

The Act of December 1983<sup>(4)</sup> endowed public structures with management autonomy. As they are responsible for investment decisions to which they commit, they are bound to repay all of their debts at any time.

In the budget estimates proposed for approval by the Prefect<sup>(5)</sup> and the Public Accountant<sup>(6)</sup>, revenues must be equal to or greater than expenditures to ensure debts are payable at any time. Borrowings are the number-three resource for French regional and local authorities after taxes and transfers and support from the State. Regional and local authorities must follow a budgetary "golden rule", according to which the borrowing can only be used to finance investments. This virtuous behaviour is the result of the application of the balanced-budget rule and, specifically, the obligation they are under to hedge the principal repayments on the borrowings with its own resources.

Repayment of borrowings is considered a mandatory expenditure for the authorities. Thus, should an authority fail to make a payment, the Prefect is referred the matter and enters this mandatory expenditure in the corrected budget. In this way, the expenditure must enter into the budget, and is thereby paid to the creditor.

Given its fundamentals, the French public sector is a stable sector: the rules for managing budgets cause elected officials to practice rigorous management. This system is protective for bodies who lend to authorities because local authorities have a very low probability of default.

<sup>(4)</sup> Act n° 83-1179 of December 29, 1983 on finances for 1984.

<sup>(5)</sup> A senior official, a member of the French civil service, in charge of State administration on a territorial scale.

<sup>(6)</sup> Government Agent in charge of keeping public accounts, reporting to the Minister for the Budget. The Public Treasury network has locations all over the nation.

## Selection process and outstandings

### Asset types and guarantees

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

- these assets must meet the legal requirements for acquisition by *sociétés de crédit foncier*;
- their acquisition is subject to Compagnie de Financement Foncier's own additional requirements, such as excluding commercial mortgage loans called and corporate mortgage loans without any complementary guarantee;
- assets are purchased with a margin to ensure the profitability of the Compagnie de Financement Foncier at any time.

The quality of Compagnie de Financement Foncier's assets is also assured by their intrinsic characteristics.

These assets are secured by either a public or equivalent guarantee, a first rank mortgage or of an equivalent security.

More precisely, these assets include:

- loans to public sector entities or guaranteed by the public sector;
- residential prime mortgage loans;
- senior RMBS or ABS tranches or secured by at least 90% residential mortgages or eligible public exposures.

### Asset selection

In addition to regulatory eligibility criteria and guarantees, another distinguishing feature of Compagnie de Financement Foncier's business model is its rigorous asset selection process based on specific know-how, building on the expertise of its Crédit Foncier's expert teams dedicated to these activities.

Asset selection is based on a combination of criteria studying the borrower's typology (private individual or regional or local public sector) and the guarantee associated with the loan. The share of the loan refinanced by the Compagnie de Financement Foncier is then calculated using these same criteria.

In addition to the law, additional purchasing filters are set up to reject loans that have too high risk profile.

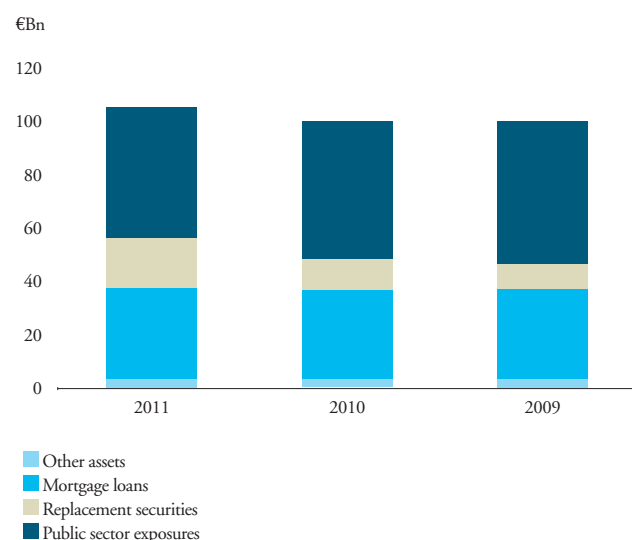
This selection process is subject to an ongoing audit process to ensure that *obligations foncières* provide holders with the highest level of security.

The price that the Compagnie de Financement Foncier pays for its assets is determined on the basis of its funding costs, hedging costs, default and loss probabilities, servicing costs and its targeted return.

## Assets from 2009 to 2011

Loans with direct or indirect public guarantees make up 48.9% of Compagnie de Financement Foncier's total assets with mortgage-based assets accounting for 34.2%.

Replacement securities (13.8% of assets) are mostly short-term interbank loans of less than six months, which meet criteria that ensure minimal credit risk.



## Stringent risk management rules and commitments to the market

### Overcollateralisation

Overcollateralisation, defined by law (Article L. 515-20) requires that total *société de crédit foncier* eligible assets are always at least 102% of the total amount of liabilities secured with a privileged claim. One of the Specific Controller's duties is to monitor compliance with this overcollateralisation rule.

When calculating overcollateralisation, as stated in CRBF Regulation No. 99-10 as amended, assets must be weighted in accordance with their quality.

According to this rule, for 2011, assets are weighted as follows:

- 0%, 50%, 80%, 100% for guaranteed loans and debt securitisation fund units depending on their rating;
- 100% for sure and liquid securities, loans backed by a prime mortgage or equivalent guarantee, exposures on public entities, transactions reducing assets, and other eligible assets;
- 50% for real-estate assets acquired under foreclosure proceedings;

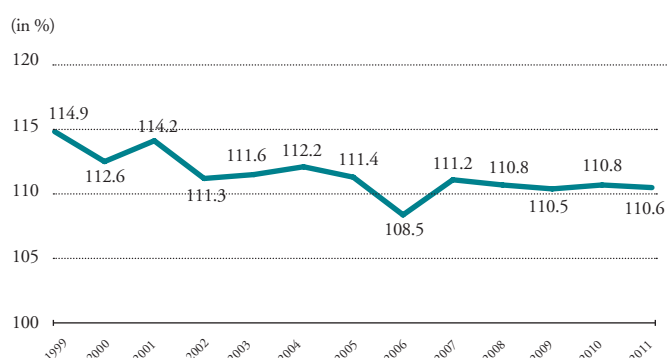
Rating agencies, depending on their own methodologies, calculate an overcollateralisation level needed to get AAA/Aaa/AAA.

Compagnie de Financement Foncier permanently manages its operations to respect at any time its legal ratio and the overcollateralisation levels defined by the rating agencies.

With €1.8 billion in capital, €4.0 billion in subordinated debt and €8.8 billion in unsecured debt, regulatory overcollateralisation is well above the legal minimum of 102%.

Since the company's formation in 1999, this regulatory ratio has always been above 108%. On December 31, 2011 it was 110.6%.

### Overcollateralisation since 1999



### Additional commitment of Compagnie de Financement Foncier

Since 2009, Compagnie de Financement Foncier has, moreover, made a commitment to investors to maintain, at all times, its ratio of non-preferential resources to preferential resources above 5%. As of December 31, 2011, the ratio amounted 13.8% (excluding BCE refinancing and repurchase agreements).

### A particularly high and sustainable overcollateralisation ratio specific to Compagnie de Financement Foncier.

This level of overcollateralisation corresponds to the minimum legal requirement. As of December 31, 2011, the CFF's regulatory overcollateralisation was 110.6% (110.8% as of December 31, 2010), far above the required legal minimum (102%).

But Compagnie de Financement Foncier has gone further than this to cover its risks and has chosen to maintain a volume of non-privileged liabilities at least equal to 5% of the liabilities that benefit from the privilege. This level of non-preferential resources protects investors in the company's privileged debt, such as the holders of *obligations foncières*.

As part of its internal rules, two levels of minimum overcollateralisation requirement, which of asset quality and interest rate risk, are regularly calculated. Compagnie de Financement overcollateralisation ratio is calculated to cover the credit risk on its assets, while the second ensures that the overall interest rate risk on its balance sheet is covered.

The sum of these two ratios must of course meet Compagnie de Financement Foncier minimum overcollateralisation commitment of 5%.

Compagnie de Financement Foncier's overcollateralisation ratio at December 31, 2011 is 110.6%.

Overcollateralisation - which in Compagnie de Financement Foncier's case consists of equity and long-term subordinated and unsecured resources - must enable *a société de crédit foncier* to withstand stress test scenarios on credit, interest rate and liquidity risk.

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

### Overcollateralisation of credit risk

Compagnie de Financement Foncier's loan portfolio is divided into six sub-categories, by type of borrower, type of property being financed and type of collateral provided. Each sub-category has its own overcollateralisation ratio.

The following overcollateralisation ratios are currently applied:

Asset classes	Minimum overcollateralisation ratio
Subsidised sector	3%
PAS + PTZ	2.5%
Residential/Social access	3%
Residential/Rentals	25%
Public Sector	3%
Low-cost housing	4.5%



## Overcollateralisation of interest-rate risk

The overcollateralisation required to cover Compagnie de Financement Foncier's overall interest rate risk depends on the size of its balance sheet and on its estimated future earnings. It is 0.5% of Compagnie de Financement Foncier's assets, minus the net present value of estimated earnings over the next 10 years. To ensure a high security level, several net present values are calculated in a run-off scenario without new lending and by combining the following assumptions:

- three advance repayment assumptions: no advance repayment, likely advance repayment rate and a stressed advance repayment rate that is three times greater than the likely rate;
- three market interest rate assumptions: benchmark yield curve, stressed cash flow assuming unfavourable borrowing and lending conditions at EONIA +1% and EONIA -0.5% respectively, and a 200 bp upward shift in the yield curve.

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

### Continuous monitoring of overcollateralisation

To ensure that compliance with the overcollateralisation requirement is maintained at all times, it is monitored on an on-going basis. If the overcollateralisation quarterly observed turns out to be less than one of the specified minimum levels, all asset purchases are immediately suspended and non-privileged resources are used to increase overcollateralisation above the minimum required amount.

## Financed LTV for residential mortgage loans

### Principle of financed LTV for residential mortgage loans

The loan-to-value ratio on residential mortgage loans (€36.21 billion at end-2011) is the ratio of the outstanding principal over the value of the underlying real estate. Collateral is revalued annually to monitor compliance with this ratio.

The regulatory annual valuation of underlying assets is based on a prudent assessment of the property's long-term characteristics, local market conditions, the current use of the property and other possible uses. All of this information is provided by Foncier Expertise, Crédit Foncier's wholly-owned, Veritas-certified subsidiary. Their experts, who are either certified by a court or qualified as chartered surveyors (MRICS<sup>(7)</sup>), conducted nearly 10,000 appraisals in 2011. The Specific Controller monitors these appraisals each year to verify compliance with the real-estate market parameters used in the valuation process, as described in the risk report section of the Registration Document.

On the basis of these rules, at December, 31, 2011, the company's LTV ratio on its mortgage portfolio was relatively stable at 61.6% (vs. 62.3% at December 31, 2010).

## Credit risk

### Asset purchasing criteria by category

Although regulations require that a *société de crédit foncier* invest only in high quality assets, to limit its exposure to credit risk, Compagnie de Financement Foncier implements additional asset purchasing criteria that include purchasing scores and minimum credit ratings. Compagnie de Financement Foncier will not, for example, buy commercial real estate assets and corporate mortgage loans without complementary guarantees.

Compagnie de Financement Foncier selects the assets that it wishes to acquire based on their rating, probability of default, score at origination, expected loss and any hedging of assets, as well as yield curves. The assets that meet the Compagnie de Financement Foncier's criteria are then purchased at a price determined by the previous study.

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

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

### Limiting counterparty risk

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

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

The counterparty agrees to pay Compagnie de Financement Foncier on a daily or weekly basis depending on the counterparty's rating a security deposit equal to its net debt position, with no compensation for this.

<sup>(7)</sup> MRICS: Members accredited par la Royal Institution of Chartered Surveyors (RICS). The RICS is a professional organisation in whose la mission is to regulate and promote the real estate profession.



## Management of balance sheet risks

### Management of interest rate risk

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

Liquidity gap observation periods	Maximum liquidity gap limit as a % of projected budget
Less than 2 years	2%
2-5 years	3%
5-10 years	5%
More than 10 years	10%

### Covering liquidity risk

Beyond the legislative constraints requiring that *sociétés de crédit foncier* ensure that, at all times, all of their cash flow requirements are hedged for a period of 180 days, Compagnie de Financement Foncier has its own additional strict management rules. These guarantee that, it always maintains enough liquidity to honour its privileged liability commitments with no need for new resources for one year, with no need for new resources in a run-off scenario (i.e. with no new activity).

Thus, the Company's cash position is sufficient at any given time to meet the contractual payments on its privileged debt over the coming twelve months.

With the volume of Compagnie de Financement Foncier's assets eligible for the liquidity facility of the European Central Bank (€27 billion), it could service its payments and build up its liquidity for much longer than the 12 months to which it is committed.

Long aware of the importance of maintaining liquidity, as early as 1995, Crédit Foncier Group implemented a rigorous policy for managing its liquid assets through disposals of loan portfolios to the public sector, and then, in 2011, by the use of other refinancing channels. The high quality of Compagnie de Financement Foncier's assets, and in particular of its eligible securities and receivables, give it immediate access to funding from central banks, such as the ECB for important amounts.

Compagnie de Financement Foncier also limits the duration gap between its assets and its overall liabilities to two years at most. At December 31, 2011, the duration gap was insignificant (asset duration being 6.2 years and liabilities duration being 6.4 years).

### No currency risk

Compagnie de Financement Foncier prohibits any open foreign exchange positions. As such, all asset purchase or refinancing transactions that are not denominated in euros are systematically hedged against currency risk.

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

## Organisation of controls at Crédit Foncier Group level and specific committees of Compagnie de Financement Foncier

### A monitoring structure at the Crédit Foncier Group level

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

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

The Audit Committee is responsible for advising the Board of Directors on:

- the clarity of the information provided and the relevance of the accounting methods used to prepare the company's financial statements;
- the quality of internal control, in particular the consistency of risk measurement, oversight and management, and is responsible for proposing, when appropriate, additional measures in this respect.

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.

Compagnie de Financement Foncier draws on the resources of its parent company, Crédit Foncier, to carry out its activities. Crédit Foncier provides the company with a number of services, under a series of agreements that were updated in 2006 and early 2007, particularly with regard to internal control and compliance services.

## **Committees Specific to Compagnie de Financement Foncier**

Compagnie de Financement Foncier has five committees with specific responsibilities.

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

The Balance Sheet Management Committee represents the ALM<sup>(8)</sup> function for Compagnie de Financement Foncier. It is the decision-making body in charge of managing financial risk within the boundaries set by Compagnie de Financement Foncier's Executive Board upon recommendations put forth by Compagnie de Financement Foncier'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 and CEO. It includes, notably, the Crédit Foncier Group's Risk Department as well as representatives from the main departments.

The Financial Committee, which is chaired by the company's Deputy CEO, meets once a month and is responsible for the operational implementation of the ALM Committee's group re-financing strategy.

The Interest Rate Committee, which meets on a weekly basis, translates the interest rate hedging strategy defined by the Balance Sheet Management Committee into market transactions for which it takes operational responsibility. It defines the strategy of margins coverage for the new production.

The Management Committee meets every term. It follows up on Compagnie de Financement Foncier's management operations and proposes solutions, if the need should arise, in order to resolve difficult problems relating to the respect of agreements reached with its manager, Crédit Foncier. This Committee is managed by the Deputy Chief Executive Officer.

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<sup>(8)</sup> ALM : Asset/Liability Management.





# Issues of *obligations foncières*

## Market and context

The European sovereign debt crisis left its mark on 2011, resulting in wide swings on the market and several downgrades of sovereign ratings by Standard & Poor's, Moody's and Fitch Ratings.

Due to the uncertain macroeconomic environment and a sharply slowing economy, liquidity has been scarce on the markets and the spreads have been volatile.

Enjoying a positive economic and regulatory context, covered bonds became a preferred investment and refinancing instrument. Volumes issued jumped to a total of more than €180 billion in Jumbo issues as of December 31, 2011. France was the most active country, with more than 27% of issues in 2011. Issues in 144A format reached a total volume of \$36 billion, from eight different jurisdictions. Compagnie de Financement Foncier was one of the two French issuers in this format in 2011, with more than \$2 billion in issues.

The ECB's covered bond purchase programme announced in October began in November and will continue in 2012, with the majority of purchases planned for 2012. This programme, known as CBPP2<sup>(9)</sup>, sets out, over one year, a covered bond purchase programme on the primary and secondary markets in the form of direct purchases, for €40 billion.

The ECB reintroduced refinancing operations at 6, 12 and 36 months in December 2011.

This constitutes a strong message of support to the actors in the financial sector and helped to introduce more than €1,000 billion in the market. A second operation of the same type was performed in February 2012.

## Issues of Compagnie de Financement Foncier in 2011

Compagnie de Financement Foncier enjoyed sustained activity in the covered bonds segment, specifically in the first half of 2011, successfully completing its annual financing programme. Thus it issued €8.7 billion in *obligations foncières* in 2011.

In a tightened environment, Compagnie de Financement Foncier was able to adapt and offer investors maturity/currency pairs that met their expectations.

In euros, Compagnie de Financement Foncier launched two benchmark issues, for €1 billion each: one in January, with five-year maturity, and the other in April with 10-year maturity. These transactions confirm Compagnie de Financement Foncier's capacity to borrow on long maturities.

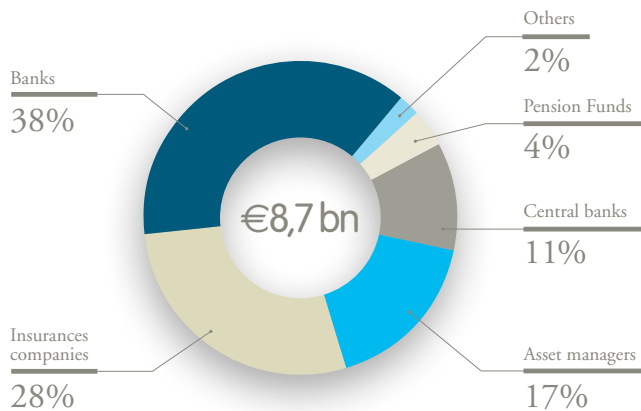
On the US dollar market, Compagnie de Financement Foncier continued to develop its USMTS programme established in 2010. Thus, a three-year issue of \$1.5 billion was made in the first half-year. The positive response of US investors to Compagnie de Financement Foncier's issue confirmed their interest in the signature of the top European issuer of covered bonds in USD.

Finally, on the other currencies, Compagnie de Financement Foncier pursued its policy of diversifying its financing sources by carrying out over-the-counter transactions in CAD, NOK and CHF.

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<sup>(9)</sup> CBPP2: Covered Bond Purchase Programme N°2.

by investor type

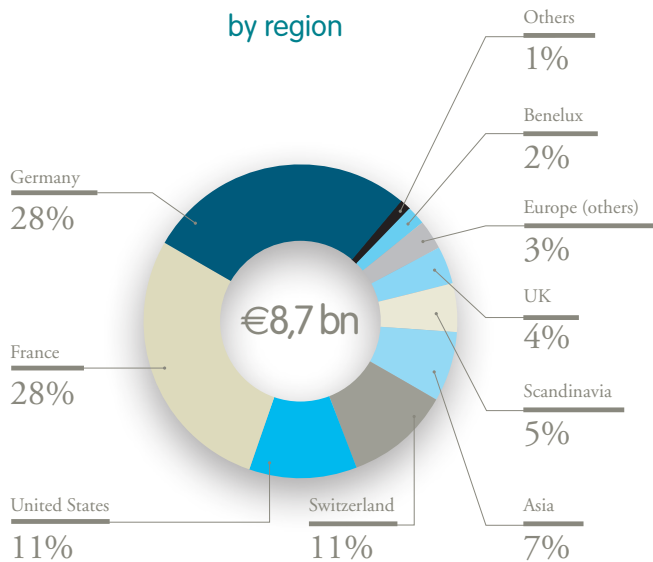


## Investor Relations

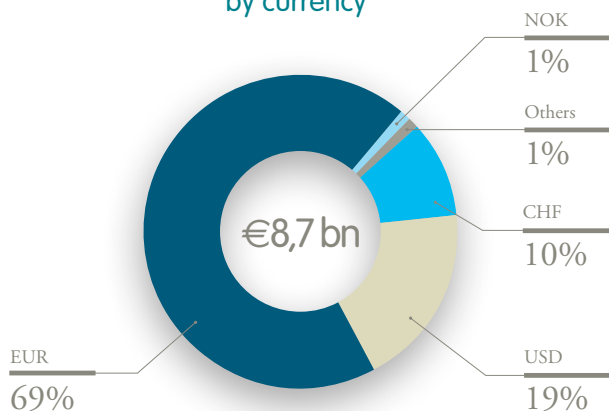
To ensure the promotion of the Compagnie de Financement Foncier's signature, and the development of the investor base, Crédit Foncier's teams increased their private meetings with investors.

They have promoted travel into countries that invest heavily on its signature such as European countries, but also gave special attention to the American and Asian countries which have strong growth potential.

by region



by currency





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# volume 2

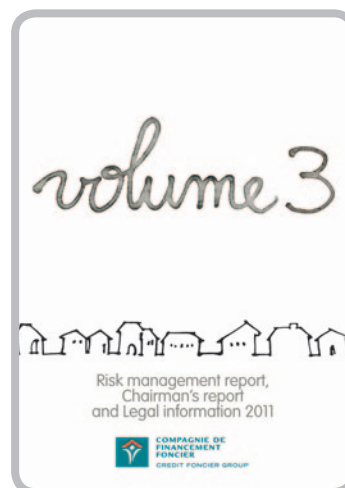


Financial report 2011



COMPAGNIE DE  
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CREDIT FONCIER GROUP



## Volume 1

### Activity report

Overview

Legal and regulatory framework for issuers of *obligations foncières*

Security of outstandings and management rules

Issues of *obligations foncières*

## Volume 2

### Financial report

Management report 2011

Financial statements

Statement from the person who assumes responsibility for the registration document

## Volume 3

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

Risk management report

Report of the Chairman of the Board of Directors

Legal information en application de l'article L. 225-37 du Code du commerce



AUTORITÉ  
DES MARCHÉS FINANCIERS

*This is a free translation into English of Compagnie de Financement Foncier 2011 annual report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails. Only the French version of the Registration document has been submitted to the AMF. It is therefore the only version that is binding in law.*

*The original document was filed with the Autorité des marchés financiers (French Financial Market's Authority) on April 3<sup>rd</sup>, 2012, in accordance with Article 212-13 of its general regulation and registered under the number D.12-0265 and represents the French "Document de référence" of the Compagnie de Financement Foncier. As such, it may be used in support of a financial transaction when accompanied by a prospectus duly approved by the AMF. It was prepared by the Issuer and its signatories assume responsibility for it.*

# volume 2

## Management report 2011

Changes to the legislative and regulatory framework .....	3
Analysis of assets .....	4
Analysis of liabilities .....	6
Prudential ratios .....	9
Analysis of net income .....	10
Credit risk analysis .....	13
Analysis of interest rate and foreign exchange risks .....	17
Liquidity risk analysis .....	18
Outlook .....	19
Notes to the management report .....	20

## Financial statements

Balance sheet .....	33
Off-balance sheet .....	34
Income statement .....	35
Notes to the financial statement of Compagnie de Financement Foncier .....	36
Statutory auditors' report on the financial statements .....	77
Details of the calculation of the overcollateralization ratio as of December 31, 2011 .....	79

## Statement from the person who assumes responsibility for the registration document

Statement from the person who assumes responsibility for the registration document .....	85
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# Management report 2011

In 2011, Compagnie de Financement Foncier was confronted with the euro-zone debt crisis, compelling it to adapt its business to the difficulties in raising capital faced by European banking-sector issuers, as well as to the new regulatory constraints in its sector.

Its primary acquisitions were of mortgage loans for private individuals originated by its parent company Crédit Foncier for close to €9 billion. From the second half of the year onwards, Compagnie de Financement Foncier proceeded with the sale of its loans abroad for an amount of close to €5 billion.

To secure its financing and preserve enough liquidity to service its debts, Compagnie de Financement Foncier issued close to €9 billion in *obligations foncières*, which have the highest credit rating (AAA/Aaa/AAA) from the three main rating agencies.

Its status as a *société de crédit foncier* and its ongoing commitment to financial management and risk control have earned the company these top credit ratings for all of its senior debts.

As such, in 2011 the balance sheet total grew by €2 billion, totalling €106 billion at December 31, 2011. Net income for the year stood at €108 million.

## Changes to the legislative and regulatory framework

The legislative and regulatory framework governing the activities of French *sociétés de crédit foncier* was reviewed following the creation of the *société de financement à l'habitat* status by the regulatory and financial law of October 22, 2010. Consequently, the entire regulatory system was adapted during the first half of 2011 with the addition of decrees 2011-205 of February 23 and 2011-244 of March 4, as well as that of February 23 amending Regulation 99-10 of the French Banking and Financial Regulatory Committee (CRBF), directives 2011-1-06 and 2011-1-07 of the French Prudential Supervisory Authority (ACP), published on July 1<sup>st</sup>.

These new texts offer more security to holders of *obligations foncières* by introducing new management rules and imposing greater transparency of published information. The main changes are:

- compulsory quarterly reporting, published within 45 days following the end of each quarter, addressing in particular asset quality and duration;
- 102% as the minimum ratio to ensure assets are sufficient to fully cover all of its senior liabilities, taking into account assets for their transparency and no longer for their balance-sheet values (with the exception of replacement instruments);
- the need to ensure sufficient cash coverage for 180 days by leveraging on its capacity to raise liquidity from the ECB while adopting the same approach with transparency for financial assets, such as mortgage notes or transactions with a financial guarantee pursuant to Article L211-38;
- the double limitation of residential mortgage-back securities which can be financed by privileged resources at 10% of the *obligations foncières* par value for securities of the RMBS variety, and by other types of mortgage-backed securities, with an exception for internal securitisation until end-2013;
- raising the application threshold of various mortgage assessment and re-assessment methods (€420,000 raised to €600,000 and €360,000 raised to €480,000);
- the review of weightings applied to guaranteed loans in the calculation of the overcollateralisation ratio, according to the guarantee's rating and its inclusion in the scope of consolidation which the *société de crédit foncier* belongs to;
- the review of weightings applied to securitisation funds in the calculation of the overcollateralisation ratio, according to the funds' rating, whether they are internal or external, and the acquisition date;
- the option of subscribing to its own *obligations foncières*, without cancelling them, in order to use them as a guarantee for ECB funding of up to 10% of privileged liabilities;
- various changes to Public-Private Partnership (PPP) transactions and to liquidity-raising techniques.

# Analysis of assets

## Transactions in 2011

### Acquisitions

Almost all acquisitions over the year were of mortgage loans originated by Crédit Foncier. This strong activity amounted to an overall volume of €8.8 billion, divided on a regular monthly basis through direct purchases for a total of €6.5 billion for the year, and liquidity raising via mortgage notes for a total of €2.3 billion for the year.

These loans are mainly granted to individuals residing in France, with the exception of a mortgage loan transaction that was syndicated by Crédit Foncier's Belgian office for an amount of €0.4 billion.

Some of these acquisitions concerned loans which included the assets of two internal securitisation funds, the senior tranches of which are wholly-owned by Compagnie de Financement Foncier for an amount of €1.1 billion. Crédit Foncier Group decided to simplify the financing approach to these outstanding loans by reimbursing the units of the funds early, before selling the vast majority of the underlying loans to Compagnie de Financement Foncier, as they met the company's acquisition criteria.

To a lesser extent, Compagnie de Financement Foncier increased its exposure to the French Regional Government and Local Authorities to €0.4 billion, in the form of loans granted to Crédit Foncier (for €0.3 billion) and to three Caisses d'Épargne (for €0.1 billion), guaranteed by a loan portfolio to local authorities in France, which were granted by each of these institutions.

Internationally, a few securities purchases totalling €0.3 billion were made in the public sector during the first half of the year.

These transactions bring total acquisitions in 2011 to €9.5 billion.

### Disposals

From the summer, Compagnie de Financement Foncier had to sell a large part of its assets outside France due to the heightening of risks incurred on certain sovereign debts, coupled with the group's implementation of a strategic plan to significantly reduce international investment over four years in reaction to new Basel III regulatory capital constraints.

Affected by these disposals were mainly:

- all Greek Government-issued securities with a book value of €1.1 billion sold to Crédit Foncier;
- all Portuguese Government-issued securities with a book value of €0.1 billion sold to Crédit Foncier;
- part of the sovereign debt issued by Ireland, the Czech Republic, Slovenia and Cyprus for a total of €0.3 billion;
- a portion of shares from the north-american public sector for €0.2 billion;
- shares of the only loan securitisation fund in the United Kingdom for €0.2 billion;
- certain securitisation tranches of mortgage loans in the Netherlands for €0.4 billion.

Furthermore, Compagnie de Financement Foncier exercised its right to sell to Crédit Foncier RMBS tranches whose rating had fallen below the second credit-rating level. In 2008, Compagnie de Financement Foncier obtained a financial guarantee from its parent company to protect it in the event that the credit ratings of some of its mortgage-backed securities were excessively downgraded. As such, Compagnie de Financement Foncier sold, at book value, the tranches of seven funds for a total of €1.4 billion: three Spanish funds for €1.3 billion, three Portuguese funds for €0.1 billion, and the only Greek fund in its portfolio, representing only €7 million. All the capital losses due to these disposals were subsidised by Crédit Foncier for an equivalent amount.

In its portfolio of securitisation tranches, Compagnie de Financement Foncier performed two major restructuring operations:

- the first operation consisted of buying back the loans underlying the internal securitisation tranches after Crédit Foncier reimbursed all the funds early for a total amount of €1.1 billion;



- the second operation consisted in participating in restructuring two funds guaranteed by NHG for a total amount of €1.8 billion, in order to avoid their credit rating from being downgraded due to amortisation differences between the underlying loans and the guarantee. Compagnie de Financement Foncier thus sold the tranches that lost their first-rank guarantee rating following this transaction. The outstandings of the preserved units stand at €1.7 billion and maintain their rating of Aa2/AAA.

As such, in 2011, Compagnie de Financement Foncier divested a total of €4.9 billion in exposure, exclusively outside France.

## Changes in assets

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

- secured loans, as defined under Articles L. 515-14 and L. 515-16 of the French Monetary and Financial Code, backed by a first-rank mortgage (or equivalent real-estate security or, to a lesser extent, a guarantee);
- exposure to public authorities, as defined under Articles L. 151-15 and L. 515-16;
- replacement securities as defined in Article L. 515-17, limited to 15% of the nominal value of the senior liabilities.

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

- loans purchased or originated by the company, in accordance with Articles L. 515-14 and L. 515-15;
- senior securitisation tranches or similar securities, of which at least 90% must be of the same nature as those authorised by law for loans held directly by the company under Article L. 515-16;
- debt securities issued or guaranteed by public authorities in compliance with Article L. 515-15;
- promissory notes backed by first-ranking mortgages or secured loans that comply with Article L. 515-16-1.

In Compagnie de Financement Foncier's case, nearly 40% of directly-held mortgage loans also benefit from a French government guarantee. These are either loans granted through the FGAS (*Fonds de garantie de l'accession sociale à la propriété*), or are loans to the subsidised sector.

The latter includes subsidised first-time homebuyer loans guaranteed by the French government under the *prêts aidés à l'accession sociale* scheme until 1995, when the scheme was abolished. Credit Foncier, which had a virtual monopoly on their distribution, transferred its entire origination of subsidised loans to Compagnie de Financement Foncier when it was founded in 1999. This portfolio is being run off and no new loans have been granted.

In addition, 5% of the other mortgage loans portfolio is covered against credit risk by an indirect financial guarantee from a European public body.

## Breakdown of assets by guarantee category

	12/31/11		12/31/10		12/31/09	
	€ million	% balance sheet	€ million	% balance sheet	€ million	% balance sheet
<b>SECURED LOANS - ARTICLES L. 515-14 AND 16</b>	<b>46,203</b>	<b>43.7</b>	<b>44,909</b>	<b>43.3</b>	<b>43,841</b>	<b>44.6</b>
State-subsidised mortgage loans	509	0.5	698	0.7	957	1.0
Mortgage loans guaranteed by the FGAS	9,483	9.0	8,365	8.1	7,320	7.5
Other mortgage loans	16,438	15.5	14,364	13.8	11,711	11.9
Senior mortgage-backed securitisation tranches	10,183	9.6	14,104	13.6	14,310	14.6
Other loans with real estate guarantee	325	0.3	402	0.4	498	0.5
Mortgage loans	9,264	8.8	6,976	6.7	9,046	9.2
<b>EXPOSURES TO PUBLIC AUTHORITIES - ARTICLES L. 515-15 AND 16</b>	<b>41,717</b>	<b>39.4</b>	<b>43,964</b>	<b>42.3</b>	<b>41,741</b>	<b>42.5</b>
State-subsidised public loans	196	0.2	224	0.2	253	0.3
Other public loans	19,797	18.7	20,394	19.6	20,077	20.4
Public entity securities	14,371	13.6	15,750	15.2	13,946	14.2
Securitisation units of public debt	7,354	7.0	7,596	7.3	7,465	7.6
Other assets (interests on IFAT, adjustment accounts, goodwill, etc.)	3,280	3.1	3,135	3.0	3,209	3.3
<b>REPLACEMENT SECURITIES - ARTICLE L. 515-17</b>	<b>14,579</b>	<b>13.8</b>	<b>11,820</b>	<b>11.4</b>	<b>9,454</b>	<b>9.6</b>
<b>TOTALS ASSETS</b>	<b>105,778</b>	<b>100.0</b>	<b>103,827</b>	<b>100.0</b>	<b>98,245</b>	<b>100.0</b>

Taking into account the transactions performed and amortisations recorded over the year, the main changes to the composition of the assets are:

- the €1.3 billion growth of the mortgage portfolio's portion in the balance sheet:
  - the acquisitions of loans originated by Cr dit Foncier, through direct purchase or liquidity raising via mortgage notes, more than offset the large-scale disposal of €3 billion in residential mortgage-backed securities and the amortisation of outstandings;
  - the portion of loans also guaranteed by the French government through FGAS therefore increased, making up 9% of the balance sheet total for directly-held loans, and nearly 3% of the balance sheet total for loans used to guarantee mortgage notes;
- the decrease in public sector outstandings by €2.2 billion:
  - this decrease is essentially the result of the disposal of outstandings in the international public sector for an amount of €1.8 billion, with the balance corresponding to the amortisation of this item, which is a relatively small amount given the duration of these loans;
- the ongoing decrease of subsidised sector outstandings which totalled €0.7 billion at the end of 2011 compared to €0.9 billion at the end of 2010;
- the increase of replacement instruments for an amount of €2.8 billion:
  - these assets representing liquidity investments consist of loans with a maturity of less than six months, 80% of which are secured by a portfolio of loans, pursuant to Article L. 211-38 of the French Monetary and Financial Code.

This variety of guarantees as collateral for assets (first-rank mortgages, State guarantees, counterparties such as national governments, public institutions and local authorities) also affects their geographical distribution.

The breakdown of investments by country was altered as a result of the various operations concluded over the year. The suspension of the business abroad, together with specific job cuts outside France, increased the share of assets in France by five points, which now represents 68% of the balance sheet, i.e. a total of €72 billion, compared to 63% at the end of 2010.

Merging all the types of assets, mortgage and public, also altered the breakdown of exposures by country over the year:

- due to the reduction of outstandings in Italy and Spain, the US joined these two countries which each have a total between €6 billion and €7 billion;
- the Netherlands, country ranking fourth in terms of outstandings falls closely behind with €5 billion;
- out of the countries with average outstandings of between €0.8 billion and €2.1 billion, €1.1 billion in exposure to Greece was eliminated, and exposure to the remaining five countries (Japan, Germany, Switzerland, Portugal and Canada) remained unchanged or was slightly reduced;
- lastly, the positions in the 10 remaining countries, all on the European continent and with outstandings of €0.5 billion or less, have evolved but the effects are low-key given the level of financing. Also noteworthy is the €0.2 billion decrease in Ireland, the disposal of all exposure to the United Kingdom, and the €0.2 billion increase of loans in Belgium.

# Analysis of liabilities

## Transactions in 2011

### Debt issuance

As secured debt, *obligations fonci res* were less affected in 2011 by the difficult conditions in financial markets experienced by European issuers. Compagnie de Financement Foncier was consequently able to raise €8.7 billion of privileged debt, mainly in the first half of the year.

Three new benchmark lines were created:

- in January, a €1 billion issue with a 5 year maturity;
- in March, a \$1.5 billion issue with a 3 year maturity;
- in April, a €1 billion issue with a 10 year maturity.

Because of their size, these operations had to be approved by the Specific Controller, whose duty is to ensure, in accordance with the rules applicable to a *soci t  de cr dit foncier*, that any new issues of over €500 million (or the equivalent amount in other currencies) do not pose a risk to compliance with prudential ratios.

Compagnie de Financement Foncier's issuance remains diversified:

- in terms of currencies:  
as in 2010, almost 70% of issues were denominated in euros. The second most handled currency was the US dollar, which represented 19% of issues, followed by the Swiss franc, which represented 10% of volumes in 2011 versus 6% in 2010. More marginally, a few operations were conducted in Norwegian krona, yen and Canadian dollars;
- in terms of format:  
public issues remained in the majority at €5.6 billion, or 65% of the annual volume. Private placements amounted to €3.1 billion, including 38 operations for an amount of €1.2 billion in the form of Registered Covered Bonds, which are still highly sought after by German investors;
- in terms of maturity:  
the average maturity of issues in 2011 was around 8.5 years. Maturities were longer for private issues at 12.4 years (or 9.0 years assuming the repayment option granted on certain lines is exercised) versus 6.2 years for public issues;
- in terms of the investor base:  
in 2011, the share of French subscribers matched that of German issuers, each of which represented 28% of the annual programme. Switzerland and the US each represented 11% and Asia doubled its share from a year earlier to reach 8%;  
the principal investors continued to be banks, which accounted for almost half of issuers, with central banks alone representing 11%. Insurance companies came in second position with 28% of the annual programme.

Activity in the non-privileged debt segment was more limited.

Above all, Compagnie de Financement Foncier:

- continued to deposit a modest amount of assets with the ECB, for an amount averaging approximately €1 billion throughout the year,
- strengthened its capital base by €220 million through Crédit Foncier's €94 million subscription to the capital increase and the reinvestment of the dividend for €126 million.

## Debt management operations

During the final quarter of the year, Compagnie de Financement Foncier helped to boost liquidity in the secondary market for its bonds by buying and then reselling a total volume of €1 billion spread over 9 lines of *obligations foncières*. These operations were governed by Article L. 213-1-A modified by the banking and financial regulatory act of October 2010, which authorises any issuer to acquire part of its own bonds to improve their liquidity, subject to maturity limits.

Compagnie de Financement Foncier also revised the general conditions of its subordinated debt fully subscribed by Crédit Foncier. Compagnie de Financement Foncier pre-paid the €1.35 billion, 29-year participating loan and immediately replaced it with undated redeemable subordinated notes for the same amount. Likewise, the redeemable subordinated notes for an amount of €2.1 billion and a residual maturity of 32 years were subject to an amendment stipulating their amortisation terms and ranking.

Thanks to these contractual modifications, the Prudential Control Authority ruled at year-end 2011 that deeply-subordinated notes qualify as core capital and that redeemable subordinated notes qualify as complementary capital until the new Basel III regulation is up and running.

At December 31, 2011, the solvency ratio (Tier 1) is thus 13.3%.

## Change in liabilities

Under the regulations governing *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 repayment schedules, even in the event of issuer default or default of its parent company. This highly secure legal framework and the commitments given by Compagnie de Financement Foncier concerning, in particular, the quality of its assets and ALM management, have consistently ensured the highest ratings for these privileged resources from the three main rating agencies since the company's incorporation;
- other resources that help reinforce the security of privileged debt holders. These liabilities, which come after the privileged liabilities in terms of debt-ranking, present different levels of risk in the event of payment difficulties for the company. They consist of unsecured debt, subordinated debt and shareholders' equity, resources provided mainly by Crédit Foncier.

## Breakdown of liabilities by guarantee rank

	12/31/11		12/31/10		12/31/09	
	€ million	% balance sheet	€ million	% balance sheet	€ million	% balance sheet
<b>PRIVILEGED RESSOURCES</b>	<b>91,074</b>	<b>86.1</b>	<b>89,762</b>	<b>86.5</b>	<b>83,946</b>	<b>85.4</b>
<i>Obligations foncières</i>	89,769	84.9	88,128	84.9	81,957	83.4
Other privileged ressources	1,305	1.2	1,633	1.6	1,989	2.0
<b>NON-PRIVILEGED RESSOURCES</b>	<b>14,705</b>	<b>13.9</b>	<b>14,065</b>	<b>13.5</b>	<b>14,299</b>	<b>14.6</b>
Unsecured debt	8,836	8.4	8,308	8.0	8,537	8.7
Subordinated debt and similar debt	4,027	3.8	4,116	4.0	4,176	4.3
- Of which redeemable subordinated notes (RSN)	2,100	2.0	2,100	2.0	2,100	2.1
- Of which participating loans	1,350	1.3	1,350	1.3	1,350	1.4
Shareholders' equity, provisions and FRBG	1,842	1.7	1,641	1.6	1,586	1.6
(Shareholders' equity and related items)	(3,192)	(3.0)	(2,991)	(2.9)	(2,936)	(3.0)
<b>TOTAL LIABILITIES</b>	<b>105,778</b>	<b>100.0</b>	<b>103 827</b>	<b>100.0</b>	<b>98 245</b>	<b>100.0</b>

The breakdown of liabilities changed little during 2011. The volume of non-privileged debt gives holders of *obligations foncières* a high degree of security: almost 14% of the balance sheet has a non-priority guarantee rank.

Outstanding *obligations foncières* increased only slightly from €88 billion to €90 billion in one year, since contractual debt repayments were in large part neutralised by new issues totalling almost €9 billion in 2011.

The amount of non-privileged debt edged up by €0.6 billion. This increase broke down as:

- €0.5 billion on unsecured debt as a result of a sharp rise in deposits received from counterparties to swap transactions, half of which was offset by a decrease in assets deposited with the ECB;
- €0.2 billion on shareholders' equity as a result of the capital injection by Crédit Foncier.

Out of the privileged debt, 24 euro lines and 5 US dollar lines are particularly liquid due to their size of over 1 billion euros or dollars at origin and thanks to the market-making agreement signed with over 20 banks to organise their Eurobonds secondary market. These bonds, which totalled €53 billion at December 31, 2011, represent the benchmark yield curves in euro and US dollars of Compagnie de Financement Foncier's secured debt.

## Main issues by maturity

Bonds	ISIN code	Currency	Maturity date	Outstanding issued in € millions
Bonds in EUR				47,555
CFF 3.625% january 2012	FR0010379248	EUR	01/16/12	1,550
CFF 2% february 2012	FR0010821298	EUR	02/17/12	2,100
CFF 4% october 2012	FR0010422600	EUR	10/25/12	1,820
CFF 4.50% january 2013	FR0010526988	EUR	01/09/13	1,230
CFF 2.25% january 2013	FR0010849117	EUR	01/25/13	2,950
CFF 5.375% march 2013	FR0000485724	EUR	03/02/13	1,400
CFF 4.25% january 2014	FR0010039149	EUR	01/29/14	3,520
CFF 4.375% november 2014	FR0010541946	EUR	11/19/14	1,100
CFF 6.125% february 2015	FR0000499113	EUR	02/23/15	1,500
CFF 2.625% april 2015	FR0010885871	EUR	04/16/15	1,600
CFF 4.75% june 2015	FR0010489831	EUR	06/25/15	1,435
CFF 3.375% january 2016	FR0010271148	EUR	01/18/16	2,595
CFF 2.875% january 2016	FR0010989152	EUR	01/14/16	1,200
CFF 3.75% january 2017	FR0010157297	EUR	01/24/17	3,200
CFF 4.625% september 2017	FR0010532762	EUR	09/23/17	2,500
CFF 4.125% october 2017	FR0010422618	EUR	10/25/17	2,305
CFF 4.50% may 2018	FR0000474652	EUR	05/16/18	3,205
CFF 4.375% april 2019	FR0010464321	EUR	04/25/19	3,045

CFF 3.50% november 2020	FR0010960070	EUR	11/05/20	1,300
CFF 4.375% april 2021	FR0011035575	EUR	04/15/21	1,000
CFF 4.875% may 2021	FR0010758599	EUR	05/25/21	3,065
CFF 5.75% october 2021	FR0000487225	EUR	10/04/21	1,250
CFF 4% october 2025	FR0010913749	EUR	10/24/25	1,685
CFF 3.875% april 2055	FR0010292169	EUR	04/25/55	1,000
Bonds in USD				7,000
CFF 1.625% july 2012	XS0527923550/S20428AAA79	USD	07/23/12	1,500
CFF 2.125% april 2013	XS0504189449/US204279AA18	USD	04/22/13	2,000
CFF 2.25% march 2014	XS0602335191/US20428AAE91	USD	03/07/14	1,500
CFF 2.5% september 2015	XS0542722862/US20428AAC36	USD	09/16/15	1,000
CFF 5,625% june 2017	FR0010485185	USD	06/19/17	1,000

Moreover, it should be noted that Compagnie de Financement Foncier complies with the regulations on payment terms to suppliers, according to the LME law of August 4, 2008 which provides for the payment of suppliers within the maximum period of 45 days end of month or 60 days from the invoice issue date. The majority of the management of Compagnie de Financement Foncier is contracted to Crédit Foncier, and charged by the latter. Other payables represent at December 31, 2011, insignificant amounts with maturities generally less than every 30 days.

## Prudential ratios

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

The framework governing the activities of sociétés de crédit foncier, which requires them to respect certain prudential ratios at all times, was revised and strengthened through the rewriting of legal and regulatory texts in late 2010 and early 2011, with the creation of a new housing finance company status (*société de financement à l'habitat*, pursuant to the French Banking and Financial Regulatory Act of October 22, 2010, the decrees of February 23 and March 4, 2011 and the act of February 23, 2011). The results obtained by Compagnie de Financement Foncier under these new rules confirm the high level of security provided to holders of its privileged bonds.

First of all, Compagnie de Financement Foncier measures the coverage ratio which corresponds to the ratio of risk-weighted assets to privileged debt and must at all times exceed 100%. Since January 1, 2011, this ratio has had to be permanently above 102%, compared with a minimum of just 100% before this date.

Risk-weighting limits the inclusion of some assets that do not provide an optimum level of security. The numerator of the ratio corresponds to the total value of assets, from which are deducted:

- external securitisation units (the seller of securitised loans does not fall within the scope of consolidation which the *société de crédit foncier* belongs to), housing loans whose outstanding amount exceeds 10% of the nominal amount of privileged resources and external securitisation units of other mortgages exceeding this same limit of 10%;
- certain securitisation tranches whose weighting varies from 0% to 100% depending on their rating;
- securities or loans pledged with the ECB or placed under repurchase agreements with other credit institutions, and;
- the portion of loans whose loan-to-value ratio exceeds the regulatory limit, making them ineligible for financing by privileged debt.

After these deductions, the assets retained for coverage purposes at December 31, 2011 amounted to €100.8 billion out of total assets of €105.8 billion. Taking into account total privileged debt of €91.1 billion, the coverage ratio stood at 110.6%, a level that remains well above the minimum regulatory threshold, even now that it has been raised to 102%, and the additional restrictions placed on securitisation tranches from 2011. At year-end 2010, this ratio stood at 110.8% on the calculation basis applicable at that time.

In addition to this legal minimum requirement, Compagnie de Financement Foncier has undertaken to maintain a volume of non-privileged liabilities equal to at least 5% of the privileged liabilities, thereby constituting a safety reserve to guarantee full and timely repayment of its *obligations foncières* at maturity.

At December 31, 2011, this ratio stood at 13.8%, well above the minimum committed to by the company, as it was a year earlier. It is calculated by deducting assets pledged as collateral from non-privileged liabilities.



Compagnie de Financement Foncier also checks compliance with the limits on holdings of certain assets. At December 31, 2011:

- secured loans represented only 2.1% of assets (after taking into account secured loans pledged as collateral for mortgage notes), well below the 35% regulatory limit;
- mortgage notes accounted for 8.8% of assets, below the 10% limit;
- replacement securities were equivalent to 13.5% of the nominal value of privileged resources and therefore below the 15% limit.

Lastly, the regulations require that the amount of non-privileged liabilities is always higher than the amount eligible for refinancing by privileged resources. The aim is to determine both the portion of securitisation tranches that exceeds the new limit of 10% and the portion of directly-held mortgages, loans guaranteeing promissory notes and the underlying assets for securitisation funds that exceeds the loan-to-value limit.

In this last case, it is the portion of the loan in excess of the loan-to-value (LTV) limit of 80% for residential mortgage loans, 100% for loans with an FGAS guarantee and 60% for all other loans. These percentages, calculated by dividing the value of the collateral by the principal still outstanding, are determined after the annual revaluation of the collateral required under the regulations.

At December 31, 2011, loans not refinanced by privileged debt amounted to €1.5 billion, including €1.3 billion of securitisation tranches exceeding the 10% limit and €0.1 billion of loans exceeding the loan-to-value limit. This amount remains well below total non-privileged debt which amounted to €14.7 billion and could therefore be financed without difficulty. A year earlier, when the limit on securitisation units was not yet applicable, LTV overruns on loans alone totalled €0.3 billion.

As part of its risk management and supervision rules, Compagnie de Financement Foncier measures the average LTV of acquired mortgage loans, which reflects changes in invested capital, and the annual reappraisal of assets pledged as collateral.

The ratio of the value of pledged assets to outstanding principal stood at 61.6% at December 31, 2011, down slightly from 62.3% a year earlier. This change resulted from two opposing trends: an increase in average LTVs linked to the replacement of existing loans by the recent acquisition of loans with higher LTVs, and a decline in LTVs owing to a reappraisal of pledged property, which more than offset the first effect.

The reappraisal of property values in 2011 led to a more than 4% increase in the value of guarantees. There were contrasting trends between the Paris region, where property values rose by 10%, including an even sharper increase in the centre of Paris, and large cities, medium-sized towns and rural areas, where property values rose by 4%, 3% and 2% respectively. Almost 400,000 properties with a total value of €70 billion were reappraised by Compagnie de Financement Foncier. The valuation methods and reappraisal procedures and results for 2011 are described in more detail in the risk management report herein and are validated by the Specific Controller.

Furthermore, Compagnie de Financement Foncier kept liquidity ratios well above the minimum requirements set by banking regulations throughout 2011 due to its commitment to maintain enough liquid assets to cover a period of one year. The other prudential ratios applicable to credit institutions are monitored by Crédit Foncier at the consolidated level.

# Analysis of net income

## Net banking income

Net banking income came to €339 million in 2011, up slightly from €314 million in 2010.

The change in net banking income broke down as follows:

- an increase in net interest income of €47.7 million, of which €12.4 million stemmed from an exceptional loss recorded in 2010 following the termination of hedging agreements with CIFG before their term. The €35.4 million improvement in the adjusted net margin in 2011 mainly resulted from a small improvement in the average profitability of assets, since outstandings were relatively stable over the period;
- an increase in prepayment indemnities on loans to €55.9 million from €44.5 million a year earlier, a result of the increase of prepayment rates among retail customers. Part of this income was retroceded to Crédit Foncier, for an amount of €12 million and €17 million respectively, and recorded as operating charges;
- charges on the investment portfolio that were €34.8 million higher than those recorded in 2010.

Those charges mainly stemmed from purchases and sales by Compagnie de Financement Foncier of its own *obligations foncières* in the secondary market to improve their liquidity.

These transactions, which had no impact on the year-end balance sheet, represented a nominal amount of €1bn and lowered net income by €26.8 million.

Compagnie de Financement Foncier also sold securities as a result of the restructuring of two securitisation funds to maintain their rating. This sale generated a loss of €9.3 million.

Lastly, an impairment provision of €5.8 million was taken on a single line of an A-rated investment portfolio; in 2010, this line had already given rise to a provision of €7.2 million.

Interest expense includes interest on subordinated debt, which came to €84.4 million in 2011 compared with €66.2 million in 2010. This change solely reflects the increase during the year in money-market rates used as the benchmark for interest payments. The outstanding amount was unchanged in 2011 at €3.5 billion and the participating loan, which was also unchanged at €1,350 million, once again reached its ceiling rate, i.e. 2.5 points above the annual money-market rate for the period. For these very long term subordinated resources provided by Credit Foncier, the portion of interest corresponding to remuneration paid in excess of the money market rates came to €44.3 million in 2011.

Net banking income also takes into account the cost of credit risk hedges entered into with Credit Foncier in respect of some assets, consisting of a repurchase guarantee in respect of certain securitisation tranches in the event of a severe rating downgrade and to a credit risk hedge on around €0.8 billion of mortgage loans whose risk, beyond a certain threshold, was indirectly transferred to an AAA-rated European public entity. An expense of €2 million was recorded in this respect in 2011.

## Gross operating income

Gross operating income grew in line in line with net banking income in 2011. It came to €235 million in 2011, compared with €217 million a year earlier.

Operating expenses comprise mainly fees and commissions paid to Credit Foncier in its capacity as services provider to Compagnie de Financement Foncier, particularly in respect of asset and liability management and the company's administrative, legal, accounting and financial management.

These expenses were flat in both years and totalled €66.1 million in 2011. The subsidised sector portfolio, which is being run off, recorded a corresponding decrease in management expenses, which was offset by a small increase in the competitive sector.

Other expenses experienced less favourable trends, in particular:

- the item taxes and duties, which increased by €3.7 million over the course of the year because of the contribution paid by Compagnie de Financement Foncier in the systemic tax, which is levied on BPCE group;
- the payment of a portion of prepayment indemnities recorded under net banking income lowered gross operating income by €5 million.

In contrast, other sundry expenses (notably litigation costs, fees due to auditors, to the Specific Controller and to lawyers, rating costs...) fell other the year to €6.8 million in 2011, compared with €8.5 million in 2010.

## Cost of risk

The cost of risk came to €4.9 million in 2011, still very low relative to the size of Compagnie de Financement Foncier's loan portfolio. It amounted to €3.3 million in 2010.

The cost of risk comprises various elements:

- allowance to provisions and impairment of €11.7 million, of which €9.4 million on doubtful loans and €2.2 million relating to collective provisions;
- reversals of provisions and impairment amounting to €7.7 million, of which €4.6 million on doubtful loans and €3.2 million relating to the Neiertz provision;
- total losses amounting to €2.5 million, of which €0.1 million was covered by impairment provisions;
- gains amounting to €1.6 million on amortised loans.



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

In 2011, an expense of €1.3 million for net losses and allowances to provisions was charged to net banking income, compared with €0.9 million in 2010

The overall cost of risk on capital and interest therefore came to €6.1 million in 2011 and is analysed in greater detail in the section on credit risk.

### Pre-tax income from ordinary activities

The pre-tax income trend in 2011 was the reverse of that of net banking income or gross operating income because of substantial gains on disposals of tangible assets.

In 2010, Compagnie de Financement Foncier recorded a gain of €2 million arising from exercise of a clean-up call on two securitisation funds, with early termination resulting in recognition in income of part of the price difference recorded on purchase of the outstanding units still to be amortised.

In 2011, a €57.7 million loss was recorded on sales of certain international public sector securities over the last quarter of the year.

Pre-tax income from ordinary activities came to €171 million in 2011 compared with €217 million the previous year.

After adding back the €44.3 million interest-rate mark-up paid to Credit Foncier on subordinated debt, gross income for the year came to €279 million. This amount should be set against the potential risk attaching to the assets held, which can be estimated as the value of doubtful loans not guaranteed by the French state i.e. excluding subsidised loans and loans guaranteed by FGAS) net of provisions and impairment, which amounted to €256 million. The income from ordinary activities for the year therefore covers the entire potential risk, without calling on other guarantees (such as shareholders' equity excluding provisions) of €1,834 million, subordinated debt amounting to €4,027 million and other non-privileged resources totalling €8,836 million.

### Net income

In 2010, with a view to convergence with international financial reporting standards (IFRS) and to improve the quality of its financial disclosure, Compagnie de Financement Foncier has opted to account for deferred taxes. This option has been enforced for all of the deferred taxes resulting from temporary differences in the individual accounts.

In 2011, this option led to the recognition of a deferred tax gain of €37.1 million, mainly due to the unwinding of hedging positions in 2010 when derivatives were restructured and in 2011 following repurchases of *obligations foncières* issued by Compagnie de Financement Foncier to improve their liquidity. As a result, the total tax charge came to €63.1 million.

After taking tax into account, net income came to €108 million in 2011, in keeping with the nature of the company's activities and earnings targets.

# 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 used to assess and monitor their creditworthiness:

- loans granted to individuals and professionals mainly in the public sector. Since April 2007, the category of secured loans includes mortgage notes whose underlying assets consist of mortgage loans to individuals;
- securities comprising senior securitisation tranches that are rated by independent, internationally recognised credit rating agencies and approved by the French Prudential Control Authority;
- replacement securities, consisting of investments with credit institutions with the highest external short-term ratings. For Compagnie de Financement Foncier, these for the most part correspond to loans with a maturity of less than six months extended to its parent company, Crédit Foncier, a large part of which are secured by a portfolio of loans.

Credit risk analysis is described in greater detail in the risk management section of this document, with customer segmentation and a breakdown of exposure by Basel II rating.

## Overall analysis

The main risk indicators for Compagnie de Financement Foncier's core business portfolio, comprising loans to the competitive sector and securities and securitisation tranches, showed a slight deterioration in 2011 but remain at very low levels in absolute terms.

## Analysis of the competitive sector

	12/31/11				12/31/10			
	Outstanding loans (€ million)	Doubtful loans (€ million)	Doubtful loans (%)	Risk (basis points)	Outstanding loans (€ million)	Doubtful loans (€ million)	Doubtful loans (%)	Risk (basis points)
Loans to individuals and related	44,802	518	1.2%	1.3	43,478	411	0.9%	0.9
- Of which securitisation tranches and mortgage notes	19,447				21,080			
Exposures on public entities	40,169	1			41,964	6		
- Of which securities and securitisation tranches	21,725				23,346			
Loans to social housing	2,256	6	0.2%	1.4	2,511	6	0.2%	8.0
Loans to commercial property (run-off)	12	2	16.8%	54.1	14	2	14.9%	56.1
<b>TOTAL</b>	<b>87,238</b>	<b>527</b>	<b>0.6%</b>	<b>0.7</b>	<b>87,968</b>	<b>425</b>	<b>0.5%</b>	<b>0.5</b>

NB: as a rule, the risk charge is positive when it represents a cost and negative when it is a gain on income.

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

- doubtful loan ratio of 1.2% on an almost €45 billion portfolio;
- a risk charge of 1.3 basis points.

These results are available in every major sector according to their nature: a portfolio of loans and related items located in France, and an international loan portfolio mainly consisting of securities and securitization tranches.

## Loans and similar items

Credit risk on the loan portfolio is measured by analysing the changes in doubtful loans and the related provisions and impairment allowances. These loans, which represent half of Compagnie de Financement Foncier's balance sheet, broke down at December 31, 2011 as €46.8 billion of directly-held loans and €9.3 billion of mortgage notes.

## Analysis of loans and related items

12/31/11	Outstanding loans (€ million)	Percentage of total outstanding loans	Of which doubtful loans	Doubtful loans (%)	Of which compromised doubtful	Compromised doubtful (%)	Provisions (€ million)
<b>SUBSIDISED SECTOR (RUN-OFF)</b>	<b>706.4</b>	<b>1.3%</b>	<b>52.1</b>	<b>7.4</b>		<b>0.0</b>	<b>0.1</b>
<b>PRIVATE SECTOR</b>	<b>55,330.3</b>	<b>98.7%</b>	<b>527.1</b>	<b>1.0</b>	<b>88.8</b>	<b>0.2</b>	<b>30.5</b>
Loans to individuals and mortgage notes	34,618.6	61.8%	518.4	1.5	85.6	0.2	28.4
- Of which mortgage notes	9,263.7	16.5%					
- Of which loans guaranteed by FGAS	9,483.0	16.9%	241.1	2.5			
- Of which other mortgage loans	15,871.9	28.3%	277.3	1.7	85.6	0.5	28.4
Loans to public authorities	18,443.6	32.9%	1.1				
Loans to social housing	2,255.9	4.0%	5.6	0.2	1.3	0.1	1.0
Loans to commercial property (run-off)	12.2		2.1	16.8	2.0	16.1	1.1
<b>TOTAL</b>	<b>56,036.7</b>	<b>100.0%</b>	<b>579.3</b>	<b>1.0</b>	<b>88.8</b>	<b>0.2</b>	<b>30.6</b>

12/31/10	Outstanding loans (€ million)	Percentage of total outstanding loans	Of which doubtful loans	Doubtful loans (%)	Of which compromised doubtful	Compromised doubtful (%)	Provisions (€ million)
<b>SUBSIDISED SECTOR (RUN-OFF)</b>	<b>922.9</b>	<b>1.8%</b>	<b>62.4</b>	<b>6.8</b>			<b>0.1</b>
<b>PRIVATE SECTOR</b>	<b>50,517.7</b>	<b>98.2%</b>	<b>425.0</b>	<b>0.8</b>	<b>60.7</b>	<b>0.1</b>	<b>25.3</b>
Loans to individuals and mortgage notes	29,374.1	57.1%	410.8	1.4	56.4	0.2	22.8
- Of which mortgage notes	6,975.9	13.6%					
- Of which loans guaranteed by FGAS	8,364.7	16.3%	186.7	2.2			
- Of which other mortgage loans	14,033.5	27.3%	224.1	1.6	56.4	0.4	22.8
Loans to public authorities	18,618.6	36.2%	5.9				0.1
Loans to social housing	2,511.1	4.9%	6.2	0.2	2.3	0.1	1.2
Loans to commercial property (run-off)	13.9		2.1	14.9	2.0	14.0	1.2
<b>TOTAL</b>	<b>51,440.6</b>	<b>100.0%</b>	<b>487.4</b>	<b>0.9</b>	<b>60.7</b>	<b>0.1</b>	<b>25.4</b>

Outstanding loans increased by €4.6 billion in 2011, with loans to individuals alone rising by €5.2 billion thanks to substantial acquisitions of loan originated by Crédit Foncier throughout the year.

The percentage of doubtful loans on the retail loans portfolio increased slightly to 1.5% from 1.4% a year earlier but remains very low and tightly controlled.

Among these loans, those covered by an FGAS guarantee had the highest doubtful ratio loan ratio at 2.5% compared with 2.2% in 2010, but the final loss is covered by the French state.

The €15.9 billion of outstanding mortgages, which are more risky since they do not benefit from a double guarantee, recorded the same trend, with doubtful loans edging up in percentage terms from 1.6% to 1.7% but remaining at low levels. This segment is covered by provisions equal to 10% of doubtful loans in 2011, as in 2010.

Credit risk on public sector loans, Compagnie de Financement Foncier's second core business, continued to be negligible, with €1.1 million of doubtful loans out of a total portfolio of €18.4 billion at the end of 2011.

The percentage of doubtful loans in the low-income housing loan portfolio, comprised of mortgage loans and/or loans guaranteed by a public entity, was in between the levels recorded for the two preceding categories. In 2011, this ratio remained particularly low at 0.2%, with a €1 million provision taken on the €5.6 million of doubtful loans.

Commercial property loans, which relate mainly to the portfolio transferred to Compagnie de Financement Foncier on its creation in 1999 and with regard to which no loan has been acquired since 2001, are structurally declining with a residual portfolio of only €12 million at December 31, 2011. The doubtful loan ratio seems relatively high when expressed as a percentage, as the portfolio is being run off.

For the loan portfolio as a whole, compromised doubtful loans slightly increased at 17% of the doubtful loans. They are mainly observed on mortgage loans that don't benefit from a double guaranty (€86 billion on a total amount of €89 billion). These loans are provided for a total of €28 million.

In terms of impact on Compagnie de Financement Foncier's results, the risk arising on these assets is recognised in cost of risk with respect to capital and in net banking income with respect to interest. For 2011, the total risk charge remained very low at €6.1 million, resulting from €4.9 million of risk on capital and €1.3 million of loss of interest on doubtful loans. In 2010, the risk charge had amounted to €4.2 million, which is still very small when set against a loan portfolio of almost €50 billion.

The expense for 2011 was comprised of:

- €5.2 million of net allowances for provisions and impairment;
- €2.4 million of losses not covered by impairment provisions and €0.2 million of losses covered by provisions;
- €1.6 million of gains on amortised debt.

## Analysis of the risk charge

	12/31/11			12/31/10		
	Outstanding loans (€ million)	Risk charge (€ million)	Risk charge (basis points)	Outstanding loans (€ million)	Risk charge (€ million)	Risk charge (basis points)
<b>SUBSIDISED SECTOR</b>	<b>706.4</b>	<b>0.25</b>	<b>3.6</b>	<b>922.9</b>	<b>0.03</b>	<b>0.3</b>
<b>PRIVATE SECTOR</b>	<b>55,330.3</b>	<b>5.89</b>	<b>1.1</b>	<b>50,517.7</b>	<b>4.18</b>	<b>0.8</b>
- Loans to individuals and mortgage notes	34,618.6	5.61	1.6	29,374.1	3.89	1.3
- Loans to public authorities	18,443.6	-0.10	-0.1	18,618.6		
- Loans to social housing	2,255.9	0.32	1.4	2,511.1	0.21	0.8
- Loans to commercial property (run-off)	12.2	0.07	54.1	13.9	0.08	56.1
<b>TOTAL</b>	<b>56,036.7</b>	<b>6.14</b>	<b>1.1</b>	<b>51,440.6</b>	<b>4.20</b>	<b>0.8</b>

NB: as a rule, the risk charge is positive when it represents a cost and negative when it is a gain on income.

In 2011, the risk charge was extremely low, corresponding to 1.1 basis points of the total portfolio. It related mainly to loans granted to individuals, principally because of the increase in impairments recorded on the portion of these loans considered doubtful.

## International securities and securitisation tranches

This portfolio of assets held by Compagnie de Financement Foncier outside France amounts to €33.8 billion, or 32% of total balance-sheet assets. In 2011, it decreased by almost 11% in volume following Crédit Foncier's decision to halt origination in this sector and subsequently to reduce significantly its exposure to tranches of RMBS and to European sovereign bonds.

This portfolio specifically consists of:

- €10.2 billion of senior tranches of mortgage-backed securities, such as RMBS;
- €7.4 billion of securities issued or guaranteed by public bodies (mainly the US government and NHG, a Dutch public body that plays the same role in the Netherlands as the FGAS does in France);
- €14 billion of securities issued or guaranteed by international public bodies;
- €2.3 billion of public sector loans whose beneficiaries are predominantly Swiss entities.

As Compagnie de Financement Foncier didn't notice any known risk, no doubtful loans, provisions or impairment have been recognised on this portfolio. To assess its credit quality, Compagnie de Financement Foncier constantly monitors a number of different indicators (quality of the counterparty or guarantor, structure of the operation and geographical breakdown), which are notably reflected in the ratings. The greater part of the portfolio is rated by independent credit rating agencies and only some loans amounting to €113 million guaranteed by the Swiss Cantonal authorities are rated solely in-house using an application developed by Standard & Poor's. An analysis of these internal ratings is provided in the risk management report herein.

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

For residential mortgage-backed securities, Compagnie de Financement Foncier calculates each year the present value of the collateral securing the assets as a ratio of the outstanding underlying loans to verify the effectiveness of the guarantees.

On these bases, simulations are performed applying different stress scenarios, whose results are described in the risk management report and which reveal a very small cash flow deficit of €20 million (0.14% of outstandings, or just 0.08% after discounting lost income) in the most catastrophic scenario.

Moreover impairment tests confirm that there is no need to depreciate this portfolio.

Compagnie de Financement Foncier also monitors the quality of the data provided by the fund management companies, particularly in terms of timeliness, completeness and accuracy.

The portfolio of mortgage-backed securities decreased sharply over the course of the year and represented just 9.6% of total balance-sheet assets at December 31, 2011.

This decrease principally resulted from a €1.4 billion asset repurchase by Crédit Foncier in 2011 at the net book value under an agreement signed in 2008 to cover the consequences for Compagnie de Financement Foncier of a rating downgrade to below step-2 credit quality of securitisation tranches listed on the internal watch list because they are considered to present potentially higher risk. After these transfer operations, the amount still covered by this guarantee stood at €2.9 billion, or 29% of the portfolio, as at December 31, 2011.

Assets were sold over the course of the year on the secondary market for an amount of €0.7 billion.

The high quality of the RMBS portfolio was maintained, despite some significant rating downgrades after a review by the agencies of both sovereign ratings and the link between a country's rating and that of an asset securitisation originated in the country.

At December 31, 2011, the main features of this portfolio were:

- no exposure to "subprime" risk;
- no direct or indirect exposure to US real estate;
- 18% of the portfolio received the highest rating from the three agencies (AAA/Aaa/AAA) and 63% received the highest rating from at least one agency;
- 75% of the portfolio, or €7.7 billion, had the highest rating scale.

The loans underlying these tranches are spread across five countries in the European Economic Area, namely:

- €4.9 billion in Spain;
- €3.1 billion in Italy;
- €1.1 billion in the Netherlands;
- €0.8 billion in Portugal;
- €0.3 billion in Germany.

The international public sector portfolio, consisting of securities, loans or securitisation tranches and other assets issued or guaranteed by public entities (mainly governments, public bodies and local authorities) amounted to €23.7 billion at December 31, 2011, down €1.5 billion from a year earlier, mainly because of sales of European sovereign debt, which totalled €1.5 billion, of which the entire exposure to Greece for a total of €1.1 billion. It represented 22% of Compagnie de Financement Foncier's total assets.

Geographically, exposure is diversified over a number of countries, with strong exposure to the American continent (€6.6 billion to the US and €0.8 billion to Canada), a significant presence in Japan (€2.1 billion), substantial investments in five European countries the Netherlands (€3.6 billion), Italy (€3.7 billion), Switzerland (€1.7 billion), Germany (€1.4 billion) and Spain (€1.0 billion) - and smaller investments in 11 other countries on the European continent.

At December 31, 2011, the ratings profile of the international public sector portfolio was as follows:

- 70% of the outstanding amount had a step-1 credit rating, with €3.8 billion assigned the top rating by the three principal agencies (AAA/Aaa/AAA);
- 22% of the outstanding amount had a step-2 credit rating.

Part of the securities and securitisation portfolio is counter-guaranteed by monoline insurers. At year-end 2011, the guaranteed portion totalled €2.7 billion.

However, the very significant downgrading of these companies in the recent past means that their guarantee is ineffective as the transaction's intrinsic credit rating is higher than that of the credit enhancer; only Assured Guaranty Municipal Corp (formerly FSA) rated Aa3/AA- continues to provide effective protection against credit risk on a portfolio amounting to €1.6 billion.

# Analysis of interest rate and foreign exchange risks

Compagnie de Financement Foncier has no open currency positions except for the very small ones inherent in any hedging transaction. Transactions initiated in foreign currencies are converted into euro upon execution. Compagnie de Financement Foncier is only very marginally exposed to interest rate risks thanks to the hedging mechanisms implemented.

## Hedging transactions

As soon as an asset is recorded on the balance sheet, it is transformed, if necessary, into a variable-rate asset in euro. 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 to transform it into variable rate liabilities in euro.

Credit Foncier is counterparty to these hedging transactions when it acquires and transfers loans to Compagnie de Financement Foncier. Other banks also act as counterparty in the case of market transactions or loans originated abroad. Compagnie de Financement Foncier has hedging arrangements with around 30 major international banks and Credit Foncier represents only one-fifth of the notional amount of the derivatives portfolio.

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 a security deposit depending on their debt position and rating. These deposits are drawn on daily 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 and Poor's. If the opposite situation occurs, the agreements stipulate that Compagnie de Financement Foncier shall not deposit any collateral. At December 31, 2011, the amount of deposits received was €2.9 billion.

Interest rate positions are also reviewed each quarter and macro-hedging transactions are entered into if the position deteriorates to a point that might result in non-compliance with the strict limits that Compagnie de Financement Foncier has committed to. Whenever early repayments exceed the amounts initially budgeted, an interest rate swap is entered into to reduce open positions to a small percentage of the balance sheet.

The basic risks, resulting from different reference rates on positions already transformed into variable rates by swaps, are also managed through macro hedges.

Special interest-rate risk-reduction mechanisms have been put in place for Compagnie de Financement Foncier with the French state for the subsidised sector loans and with Caisses d'Epargne, which assigned it French public sector loans.

Hedging activity continued in 2011 in line with acquisition and issuance volumes. The notional amount of forward financial instruments remained stable and amount to €107 billion at December 31, 2011. Foreign-currency transactions also increased in volume to €49 billion from €47 billion a year earlier.

By hedging purpose, notional amounts of interest-rate swaps broke down as follows at December 31, 2011:

- €24 billion of macro-hedging swaps, most of which cover fixed-rate loan portfolios at their acquisition of adjustable-rate loan portfolios when their interest rates are reset;
- €83 billion of micro-hedging swaps, of which around 80% relate to liabilities;
- €3.1 billion in conditional micro-hedging transactions to cover variable-rate loans with an interest-rate cap in favour of the borrower.

## Residual interest-rate position

Given the various hedging mechanisms implemented by Compagnie de Financement Foncier when transactions are entered into, exposure to interest rate risk is limited to the possible distortion of the hedging transaction arising from events not known when the transaction was entered into and which occurred during the term of the contract.

Since the securitisation tranches have variable rates from the start and the other investment securities have set maturity dates, the residual interest-rate position consists of fixed-rate loans whose early repayment is not covered by indemnities equivalent to the risk incurred or by a third party, such as the French state for the subsidised sector.

The interest rate risk arising from distortion over time of the underlying is therefore limited to fixed-rate loans to individuals in the competitive sector, due to the regulatory ceiling set on the indemnity due 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 €14.1 billion at December 31, 2011, up significantly during the year and Credit Foncier's recent mortgage loan production is mainly fixed-rate loans. Moreover, the low nominal rate of these loans constitutes an additional protection against the risk of early repayment and renegotiation. Three-quarters of these loans, or an amount of €10.5 billion, have an interest rate of below 5%, including €2.6 billion of zero-rate loans, and the vast majority of the remaining loans have an interest rate of between 5% and 6%.

In 2011, the average prepayment rate on the portfolio of loans to individuals remained very high at 10%, exceeding that a year earlier. Prepayments were particularly high in the first half of the year, spread evenly between fixed-rate and adjustable-rate loans. This resulted in an increase in perceived benefits, from €44.5 million in 2010 to €55.9 million in 2011.

# Liquidity risk analysis

As for interest-rate risks, Compagnie de Financement Foncier's asset/liability management rules ensure very limited exposure to liquidity risk.

Since its creation in 1999, Compagnie de Financement Foncier has also undertaken to maintain adequate liquidity at all times to enable it to fulfil all the contractual obligations of its privileged liabilities over a 12-month period with no new activity.

Its cash requirements are analysed on a quarterly basis for the entire term of the assets on its balance sheet. They are then compared with its capacity to raise funds.

Without even envisaging asset sales, Compagnie de Financement Foncier has substantial liquidity reserves, as a significant percentage of its public sector securities and loans are eligible for ECB refinancing.

At December 31, 2011, the total nominal amount of assets immediately available for ECB refinancing came to €27 billion, comprising €18.8 billion in securities and €8.2 billion in private loans. These amounts were lower than a year earlier, mainly because of sales from the international securities portfolio. At the same time, assets pledged with the central bank amounted to €1.5 billion with another €0.6 billion pledged to a banking entity.

Moreover, its portfolio of replacement securities, which represented 13.8% of total assets at the end of 2011, mainly consists of loans with maturities of less than six months to financial institutions with the highest short-term ratings.

Compagnie de Financement Foncier also analyses the duration of its assets and liabilities to ensure they are properly matched and is committed to keeping the duration gap to less than 2 years. At December 31, 2011, as at the end of the previous year, there was virtually no difference between the average duration of assets and liabilities at 6.2 years and 6.4 years respectively, corresponding to a duration gap of two-and-a-half months.



# Outlook

In 2012, Compagnie de Financement Foncier intends to pursue its development along the same strategic lines as in the past by:

- preserving the quality of its assets through stringent asset selection procedures, combined with rigorous and efficient risk management;
- continuing its activities in mortgage loans and public sector financing;
- refinancing BPCE group by acquiring and realizing loan portfolios from Crédit Foncier and other Group entities;
- consolidating its position as a benchmark European issuer and maintaining its top rating from the main rating agencies.

# Notes to the management report

## Note 1. Information on corporate officers

For the year ending December 31, 2011, 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.

Statement of the total compensation of Compagnie de Financement Foncier corporate officers in 2011.

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

### Summary of remuneration, shares and options of each executive designated company representatives

(in euros)

Mr Thierry DUFOUR, Chairman and Chief Executive Officer	2010	2011
Annual remuneration due (outlined in table below)	465,175	452,294
Value of options attributed over the course of the year	-	-
Value of performance shares attributed over the course of the year	-	-
<b>TOTAL</b>	<b>465,175</b>	<b>452,294</b>

(in euros)

Ms Sandrine GUÉRIN, Director, Deputy Chief Executive Officer	2010	2011
Annual remuneration due (outlined in table below)	542,029	590,746
Value of options attributed over the course of the year	-	-
Value of performance shares attributed over the course of the year	-	-
<b>TOTAL</b>	<b>542,029</b>	<b>590,746</b>

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

(in euros)

Mr Thierry DUFOUR, Chairman and Chief Executive Officer, Director	2010		2011	
	Total due	Total distributed	Total due	Total distributed
Base salary	319,360	319,360	334,360	334,360
Variable pay	138,125 <sup>(1)</sup>	110,500	-	69,062
Exceptional remuneration	-	20,675	n.d. <sup>(2)</sup>	27,732
Directors' fees	n.d.	9,000	-	15,500
Advantages in kind	5,640	5,640	5,640	5,640
<b>TOTAL</b>	<b>463,125</b>	<b>465,175</b>	<b>340,000</b>	<b>452,294</b>

<sup>(1)</sup> Application of the Directive III for the variable remuneration superior to 100,000 (payment of 50% of the variable pay the first year and 50% to split on the next three years).

<sup>(2)</sup> n.d. (not determined): when the document was released, the amount of the fee had not been determined.

(in euros)

Ms Sandrine GUÉRIN, Deputy Chief Executive Officer, Director	2010		2011	
	Total due	Total distributed	Total due	Total distributed
Base salary	278,563	278,563	288,564	288,564
Variable pay	n.d. <sup>(1)</sup>	240,907	n.d.	259,064
Exceptional remuneration	n.d.	15,809	n.d.	35,329
Directors' fees	n.d.	3,750	-	3,750
Advantages in kind	3,000	3,000	4,039	4,039
<b>TOTAL</b>	<b>281,563</b>	<b>542,029</b>	<b>292,603</b>	<b>590,746</b>

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

(in euros)

Mr François BLANCARD Legal representative of Crédit Foncier (until July 4, 2011)	2010		2011	
	Total due	Total distributed	Total due	Total distributed
Base salary	344,960	344,960	196,424	196,424
Variable pay	222,750	160,500	-	344,250
Exceptional remuneration	-	17,235	-	19,423
Directors' fees	n.d.	53,071	-	48,500
Advantages in kind	5,040	5,040	2,940	2,940
<b>TOTAL</b>	<b>572,750</b>	<b>580,806</b>	<b>199,364</b>	<b>611,537</b>

(in euros)

Mr Roland CHARBONNEL Legal representative of BPCE (since March 28, 2011)	2010		2011	
	Total due	Total distributed	Total due	Total distributed
Base salary	N/A <sup>(2)</sup>	N/A	N/A	N/A
Variable pay	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees	N/A	N/A	n.d.	N/A
Advantages in kind	N/A	N/A	N/A	N/A
<b>TOTAL</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

(in euros)

Mr Nicolas DARBO	2010		2011	
	Total due	Total distributed	Total due	Total distributed
Base salary	172,027	172,027	192,814	192,814
Variable pay	-	38,224	n.d.	86,725
Exceptional remuneration	-	11,321	n.d.	22,678
Directors' fees	n.d.	43,750	-	52,500
Advantages in kind	3,660	3,660	3,660	3,660
<b>TOTAL</b>	<b>174,687</b>	<b>268,982</b>	<b>196,474</b>	<b>358,377</b>

(in euros)

Mr Alain DENIZOT (until June 30, 2011)	2010		2011	
	Total due	Total distributed	Total due	Total distributed
Base salary	N/A	N/A	N/A	N/A
Variable pay	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees	-	3,000	n.d.	3,750
Advantages in kind	N/A	N/A	N/A	N/A
<b>TOTAL</b>	<b>-</b>	<b>3,000</b>	<b>-</b>	<b>3,750</b>

<sup>(1)</sup> n.d. (not determined): when the document was released, the amount of the fee had not been determined.

<sup>(2)</sup> N/A (not applicable): this person is not affected by this type of remuneration.

(in euros)

Mr Bruno DELETRÉ Legal representative of Crédit Foncier (since August 29, 2011)	2010		2011	
	Total due	Total distributed	Total due	Total distributed
Base salary	N/A <sup>(1)</sup>	N/A	229,778	229,778
Variable pay	N/A	N/A	-	N/A
Exceptional remuneration	N/A	N/A	N/A	7,741
Directors' fees	-	N/A	-	-
Advantages in kind	N/A	N/A	2,671	2,671
<b>TOTAL</b>	-	-	<b>232,449</b>	<b>240,190</b>

(in euros)

Mr Philippe DRUART (until July 28, 2011)	2010		2011	
	Total due	Total distributed	Total due	Total distributed
Base salary	185,086	185,086	205,086	205,086
Variable pay	-	79,953	-	86,065
Exceptional remuneration	-	16,776	-	50,094
Directors' fees	-	38,750	-	50,125
Advantages in kind	4,770	4,770	4,620	4,620
<b>TOTAL</b>	<b>189,856</b>	<b>325,335</b>	<b>205,706</b>	<b>395,990</b>

(in euros)

Ms Christine JACGLIN (since September 29, 2011)	2010		2011	
	Total due	Total distributed	Total due	Total distributed
Base salary	N/A	N/A	N/A	N/A
Variable pay	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees	N/A	N/A	n.d. <sup>(2)</sup>	N/A
Advantages in kind	N/A	N/A	N/A	N/A
<b>TOTAL</b>	-	-	-	-

(in euros)

Ms Pascale PARQUET (since September 29, 2011)	2010		2011	
	Total due	Total distributed	Total due	Total distributed
Base salary	N/A	N/A	N/A	N/A
Variable pay	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees	N/A	N/A	n.d.	N/A
Advantages in kind	N/A	N/A	N/A	N/A
<b>TOTAL</b>	-	-	-	-

(in euros)

Mr Didier PATAULT	2010		2011	
	Total due	Total distributed	Total due	Total distributed
Base salary	N/A	N/A	N/A	N/A
Variable pay	N/A	N/A	N/A	N/A
Exceptional remuneration	N/A	N/A	N/A	N/A
Directors' fees	-	-	n.d.	-
Advantages in kind	N/A	N/A	N/A	N/A
<b>TOTAL</b>	-	-	-	-

<sup>(1)</sup> N/A (not applicable): this person is not affected by this type of remuneration.

<sup>(2)</sup> n.d. (not determined): when the document was released, the amount of the fee had not been determined.

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

The compensation scheme for the CEO of the company applies for non re-election, revocation or withdrawal of licensing, not related to serious misconduct, and resulting in leaving the BPCE Group. The amount of compensation is a percentage applied to three of fixed gross monthly salary or the average of three years of gross fixed and variable compensation. This percentage is linked to the realization of the budgeted income or planned issuance.

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

As of December 31, 2011, 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, 2011.

## List of offices of corporate officers at December 31, 2011

### Mr Thierry DUFOUR, Chairman and Chief Executive Officer

Company	Position
BANCO PRIMUS (PORTUGAL)	Director, Chairman of the Board of Directors (since September 30, 2011)
COMPAGNIE DE FINANCEMENT FONCIER - SA	Chairman, Chief Executive Officer
CRÉDIT FONCIER DE FRANCE - SA	Deputy Chief Executive Officer
CRÉDIT FONCIER IMMOBILIER - SA	Director
FINANCIÈRE DESVIEUX - SA	Director
FONCIER PROJECT SOLUTIONS (SAUDI ARABIA)	Director
VAUBAN MOBILISATIONS GARANTIES (VMG) - SACS	Permanent Representative of Crédit Foncier, Member of The Supervisory Board

### Ms Sandrine GUÉRIN, Deputy Chief Executive Officer

Company	Position
COMPAGNIE DE FINANCEMENT FONCIER - SA	Deputy Chief Executive Officer, Director
CRÉDIT FONCIER DE FRANCE - SA	Executive Vice-President in charge of the Financial Activities and International Department
FINANCIÈRE DESVIEUX - SA	Chairman, Chief Executive Officer (until June 28, 2011), Chairman of the Board of Directors
SWISS PUBLIC FINANCE SOLUTIONS - SA (SWITZERLAND)	Director
VMG - SACS	Chairman of the Executive Board

## Mr. Bruno DELETRE

Company	Position
BANCA CARIGE - SPA (GENOA)	Director
COFACE - SA	Director
COMPAGNIE DE FINANCEMENT FONCIER - SA	Permanent Representative of Crédit Foncier, Director (since August 29, 2011), Chairman of the Audit committee (since September 29, 2011)
CRÉDIT FONCIER DE FRANCE - SA	Chief Executive Officer (since July 4, 2011)
CRÉDIT FONCIER IMMOBILIER - SA	Chairman of the Board of Directors (since July 28, 2011)
ENFI - SAS	Chairman (since September 30, 2011)
GCE BUSINESS SERVICES - GIE	Permanent representative of Crédit Foncier, Member of the Supervisory Board (since October 10, 2011)

## CRÉDIT FONCIER DE FRANCE

Company	Position
ARTHUR COMMUNICATION - SA	Director
BTP CAPITAL INVESTISSEMENT - SA	Director
CFCO - SAS	Chairman
CFG - COMPTOIR FINANCIER DE GARANTIE	Director
CINERGIE - SA	Director
COFIMAB - SAS	Chairman
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director
CRÉDIT FINANCIER LILLOIS - SA	Director
CRÉDIT LOGEMENT - SA	Director
ECOLOCALE - GIE	Director
ECUFONCIER - SCA	Managing general Partner
EURO-MARNE PARTICIPATIONS - SAS	Chairman
FONCIER ANTICIPATION 2010 - SAS	Chairman (until December 31, 2011)
FONCIER AVENIR 2010 - SAS	Chairman (until December 31, 2011)
FONCIER EXPERTISE 2010 - SAS	Chairman (until February 23, 2011)
FONCIER LARGE 2008 - SAS	Chairman (until December 31, 2011)
FONCIER PRÉVISION 2010 - SAS	Chairman (until December 31, 2011)
FONCIER PROJET 2008 - SNC	Managing partner (until December 31, 2011)
FONCIER VISION 2008 - SAS	Chairman (until December 31, 2011)
FONCIER FOREIGN 2008 - SAS	Chairman
FONCIER PARTICIPATIONS - SAS	Chairman
FONCIER TITRISATION - SA	Director
FONCIÈRE D'ÉVREUX - SAS	Chairman
GCE BUSINESS SERVICES - GIE	Member of the Supervisory Board
GRAMAT-BALARD - SAS	Chairman
H&T CONSEIL - SA	Director
LA MONDIALE PARTENAIRE - SA	Director
LOCINDUS - SA	Director
MOBILIÈRE VOLNEY - SA	Director
SAF ENVIRONNEMENT - SA	Director
SCAFR - TERRES D'EUROPE - SACS	Member of the Supervisory Board
SELECTINVEST 1 - SACS	Member of the Supervisory Board
SEM YVELINES AMÉNAGEMENT - SEM	Director
SGFGAS - SA	Director
SIA HABITAT - SACS	Member of the Supervisory Board
SIPARI - SAS	Chairman
SOCFIM - SACS	Member of the Supervisory Board
SOFIPAR LOGEMENT - SNC	Managing partner
SOFONEG - SNC	Managing partner
VENDOME INVESTISSEMENTS - SAS	Chairman
VMG - SACS	Member of the Supervisory Board

## Mr Roland CHARBONNEL

Company	Position
BANQUES POPULAIRES COVERED BONDS - SACS	Member of the Supervisory Board
BPCE - SACS	Director Group Funding & Investor Relations
BPCE SFH - SACS	Chief Executive Officer
COMPAGNIE DE FINANCEMENT FONCIER - SA	Permanent representative of BPCE, Director, Member of the Audit committee (since March 28, 2011)
CRH - SA	Permanent representative of BPCE, Director (since June 8, 2011)
EUROTITRISATION - SA	Permanent representative of BPCE, Director
GCE COVERED BONDS - SA	Chief Executive Officer and Director
SOCIÉTÉ DE FINANCEMENT DE L'ÉCONOMIE FRANÇAISE (SFEF) - SA	Director, Member of the Audit committee

## BPCE

Company	Position
ACTIF IMMO EXPLOITATION - SA	Director
AEWEUROPE - SA	Director (until January 21, 2011)
ALBIANT-IT - SA	Director
ALLIANCE ENTREPRENDRE - SA	Member of the Management Board
ALPHA DEMETER - SA	Director
ALYSE PARTICIPATIONS - SA	Member of the Board
ANUBIS - SNC	Manager (since December 6, 2011)
ARSES - SNC	Manager (since December 6, 2011)
AXELTIS EX NGAMP 4 - NATIXIS GLOBAL AM PARTICIPATIONS 4 - SA	Director
BANQUE DES ANTILLES FRANCAISES - BDAF - SA	Director
BANQUE PALATINE - SACS	Member of the Supervisory Board
BANQUE POPULAIRE IMAGES 10 - BPI 10 - SA	Director
BANQUE POPULAIRE IMAGES 11 - BPI 11 - SA	Director
BANQUE POPULAIRE IMAGES 7 - BPI 7 - SA	Director
BANQUE POPULAIRE IMAGES 8 - BPI 8 - SA	Director
BANQUE POPULAIRE IMAGES 9 - BPI 9 - SA	Director
BANQUE PRIVÉE 1818 EX LA COMPAGNIE 1818 - SA	Director
BANQUES POPULAIRES COVERED BONDS - SACS	Member of the Supervisory Board
BASAK 1 - SASU	Chairman (since December 6, 2011)
BCI-BANQUE COMMERCIALE INTERNATIONALE - SA	Director
BICEC - SA	Director
BPCE ASSURANCES - SA	Director
BPCE DOMAINES - SA	Chairman, Director
CAPE 1158 GIE	Director
CAPE 1159 GIE	Director
CE HOLDING PROMOTION - SA	Director
CE SYNDICATION RISQUE - SACS	Chairman of the Supervisory Board
CILOGER - SACS	Member of the Supervisory Board
CINERGIE - SA	Director
CIRRA - SA	Director
CLICK AND TRUST - SA	Director
COFACE - SA	Director
COMPAGNIE DES ALPES - SA	Director
CRÉDIT FONCIER DE FRANCE - SA	Director
CRÉDIT LOGEMENT - SA	Director
CRH - CAISSE DE REFINANCEMENT DE L'HABITAT - SA	Director
DRENNEC GIE	Director
DV HOLDING - SACS	Member of the Supervisory Board
ÉCOLOCALE - SA	Director



ÉCUREUIL IMMO + - SA	Director
ÉCUREUIL VIE DÉVELOPPEMENT - SA	Director
EUROSIC - SA	Director
EUROTITRISATION - SA	Director
EAG - FRANCE ACTIVE GARANTIE - SA	Director
FONCIA GROUPE - SACS	Member of the Supervisory Board (until June 15, 2011)
FONGEPAR - SA	Director
GCE BUSINESS SERVICES - SACS	Chairman, Member of the Supervisory Board
GCE COVERED BONDS - SA	Director
GCE MOBILIZ - SA	Director
GCE ODE 007 - SA	Director
GCE PARTICIPATIONS - SA	Chairman
GCE TECHNOLOGIES - SACS	Chairman of the Supervisory Board
HORUS - SASU	Chairman (since December 6, 2011)
HOUNI - SASU	Chairman (since December 6, 2011)
HUBWOO - SA	Director (until January 31, 2011)
IDES INVESTISSEMENTS - SA	Director
INFORMATIQUE BANQUES POPULAIRES - SA	Director
INGEPAR - SA	Director
ISIS - SASU	Chairman (since December 6, 2011)
ISSORIA - SA	Chairman
ISSORIA INTERNATIONAL TRADING - SA	Chairman
LBPAM OBLI REVENUS SICAV - SA	Director
LE LIVRET BOURSE INVESTISSEMENT SICAV	Director
LE LIVRET PORTEFEUILLE SICAV	Director
LES ÉDITIONS DE L'ÉPARGNE - SA	Director
LOTUS 1 - SA	Chairman
M.A BANQUE - MULTI ACCES BANQUE - SACS	Member of the Supervisory Board
MAEA GIE - SA	Director
MASSERAN GESTION - SA	Member of the Supervisory Board
MENES - SNC	Manager (since December 6, 2011)
MIHOS - SASU	Chairman (since December 6, 2011)
MUGE 2 - SA	Chairman
MUGE 3 - SA	Chairman
MURACEF - SA	Director
NAMI AEW EUROPE - A	Director
NATIXIS EURO AGGRAGATE SICAV - SA	Director
NATIXIS - SA	Director
NATIXIS ALTAIR IT SHARED SERVICES - SA	Director
NATIXIS ASSURANCES - SA	Director
NATIXIS CONSUMER FINANCE - SA	Director
NATIXIS FINANCEMENT - SA	Director
NATIXIS GLOBAL ASSET MANAGEMENT - SA	Director
NATIXIS IMPACT NORD SUD DEVELOPPEMENT SICAV	Director
NATIXIS INTERÉPARGNE - SA	Director
NATIXIS LEASE - SA	Director
NATIXIS PAIEMENTS - SA	Director
NATIXIS PRAMEX INTERNATIONAL - SA	Director
NEFER - SASU	Chairman (since December 6, 2011)
OSIRIS - SASU	Chairman (since December 6, 2011)
OUNAS - SASU	Chairman (since December 6, 2011)
PANDA 1 - SASU	Chairman
PANDA 2 - SASU	Chairman
PANDA 3 - SASU	Chairman
PANDA 4 - SASU	Chairman
PANDA 5 - SASU	Chairman (since December 6, 2011)
PANDA 6 - SASU	Chairman (since December 6, 2011)
PANDA 7 - SASU	Chairman (since December 6, 2011)

PANDA 8 - SASU	Chairman (since December 6, 2011)
PANDA 9 - SASU	Chairman (since December 6, 2011)
PANDA 10 - SASU	Chairman (since December 6, 2011)
PERLE 1 - SA	Chairman
PERLE 2 - SA	Chairman
PERLE 3 - SA	Chairman
PERLE 4 - SA	Chairman
PETREL 1 - SNC	Manager (since December 6, 2011)
PETREL 2 - SNC	Manager (since December 6, 2011)
PONANT PLUS SCI	Managing partner
PROPARCO - SA	Director
RAMSES - SASU	Chairman (since December 6, 2011)
SALITIS - SASI	Chairman (since December 6, 2011)
SATIS - SASU	Chairman (since December 6, 2011)
SEA 1 GIE	Director
SETH - SASU	Chairman (since December 6, 2011)
SGF GAS - SA	Director
SIAMON - SASU	Chairman (since December 6, 2011)
SIBP - SA	Chairman (until September 10, 2011)
SIFA - SA	Director
SOCFIM - SACS	Member of the Supervisory Board (until April 28, 2011)
SOCRAN BANQUE - SA	Director
STET - SACS	Member of the Supervisory Board
SURASSUR - SA	Director
T2S AFRICA - SA	Director
T2S OUTRE-MER - SA	Director
TADORNE AVIATION GIE	Director
TEOS - SASU	Chairman (since December 6, 2011)
TEVEA INTERNATIONAL - SA	Director
TREVIGNON GIE	Director
TURBO SA - SA	Director
VICTOIRE GIE	Director
VIGEO - SA	Director
VISA EUROPE LTD - SA	Director

**Mr. Nicolas DARBO**

<b>Company</b>	<b>Position</b>
BANCO PRIMUS (PORTUGAL)	Director (until December 31, 2011)
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director, Member of the Audit Committee (until December 31, 2012)
CRÉDIT FONCIER DE FRANCE - SA	Executive Vice-President in charge of the Finance and Organizational Department, member of the General Management Committee
CRÉDIT FONCIER IMMOBILIER - SA	Director (until December 31, 2015)
FINANCIÈRE DESVIEUX - SA	Director (nominated on April 14, 2011)
FONCIER PARTICIPATIONS - SAS	Permanent representative of CREDIT FONCIER, Chairman of SAS
FONCIER TITRISATION - SA	Permanent representative of Foncier Participations, Director (nominated on March 15, 2011)
LOCINDUS - SA	Director, Member of the Audit Committee (until December 31, 2013)
MFCG (ex MFC Gestion) - SAS	Permanent representative of CFCo, Chairman, of SAS (nominated on February 4, 2011)
SOCFIM - SACS	Member of the Supervisory Board (until December 31, 2016)
VMG - SACS	Vice-Chairman of the Supervisory Board (until December 31, 2011)

**Ms Christine JACGLIN**

Company	Position
ALBIANT-IT - SA	Director (since December 1, 2011)
ALSACE COURT TERME - SICAV	Director (since May 27, 2011)
BANQUE POPULAIRE D'ALSACE - SA	Chief Executive Officer
COMITÉ DES BANQUES D'ALSACE	Chairman (since December 12, 2011)
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director, Member of the Audit Committee (since September 29, 2011)
INFORMATIQUE BANQUE POPULAIRE - SA	Director (since May 2, 2011)
NATIXIS CONSUMER FINANCE - SA	Director (since July 8, 2011)
NATIXIS FINANCEMENT - SA	Director (since July 8, 2011)
NATIXIS LEASE - SA	Director (since June 30, 2011)
STRASBOURG PLACE FINANCIERE - SA	Member of the Board (since May 17, 2011)

**Ms Pascale PARQUET**

Company	Position
AEW FONCIÈRE ÉCUREUIL - SPPICAV	Permanent representative of CEIDF, Director
BPCE ACHATS - GIE	Member of the Purchasing Strategic Committee
BPCE SFH - SA	Director
CAISSE D'ÉPARGNE ÎLE-DE-FRANCE (CEIDF) - SACS	Member of the Board of Directors
CAISSE GÉNÉRALE DE PRÉVOYANCE DES CAISSES D'ÉPARGNE - ASSOCIATION 1901	Director
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director, Member of the Audit Committee (since September 29, 2011)
CSF GCE - GIE	Member of the Supervisory Board
ÉCUREUIL PROTECTION SOCIALE - ASSOCIATION	Permanent representative of MNCE, Director
FONCIÈRE ÉCUREUIL - SAS	Permanent representative of CEIDF, Member of the Supervisory Board
GCE COVERED BONDS - SA	Director
GIE CAISSE D'ÉPARGNE SYNDICATION RISQUES	Permanent representative of CEIDF, Member of the Supervisory Board
OGIM - SA	Director

**Mr Didier PATAULT**

Company	Position
BATIROC BRETAGNE PAYS DE LA LOIRE - SACS	Chairman of the Supervisory Board
BPCE - SACS	Member of the Supervisory Board
CAISSE D'ÉPARGNE ET DE PRÉVOYANCE BRETAGNE PAYS DE LA LOIRE (CEBPL) - SACS	Chairman of the Board of Directors
CE HOLDINF PROMOTION - SAS	Director
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director
FNCE - ASSOCIATION	Permanent representative of CEBPL, Director
GCE BUSINESS SERVICES - GIE	Permanent representative of CEBPL, Member of the Supervisory Board (until December 31, 2011)
GCE CAPITAL - SAS	Member of the Supervisory Board
IT-CE (EX GIE GCE TECHNOLOGIES) - GIE	Member of the Supervisory Board, Member of the Supervisory Board (since January 1, 2011)
LA MANCELLE D'HABITATION - SAHLM	Director
NANTES ATLANTIQUE PLACE FINANCIÈRE - ASSOCIATION	Permanent representative of CEBPL, Director
NATIXIS - SACS	Vice-Chairman of the Board, Member of the Remuneration Committee
NATIXIS COFICINÉ - SACS	Director
PAYS DE LA LOIRE DÉVELOPPEMENT - SAS	Permanent representative of CEBPL, Director
SAMO - SAHLM	Chairman of the Board of Directors
SDR OUEST - SODERO - SA	Chairman and Chief Executive Officer
SEMITAN - SEM	Permanent representative of CEBPL, Director
SODERO GESTION - SAS	Chairman of the Supervisory Board
SODERO PARTICIPATION - SAS	Chairman of the Board of Directors

## Note 2. Residential mortgage-backed securities as of December 31, 2011

Securitisation tranches of residential mortgage loans: €10.17 billion (outstanding principal)

Countries	Standard & Poor's/Moody's/Fitch Ratings
<b>Germany</b>	
E-MAC DE 2005-1	AA-/Baa1/AA
E-MAC DE 2006-II A2	AA-/Baa1/A+
<b>Spain</b>	
AYT GENOVA HIPOTECARIO 7	AAA/Aaa/AAA
AYT GENOVA IV	AAA/Aaa/AAA
BANCAJA 10	AA/Aa3/-
BANCAJA 11 FTA	AA/A2/-
BANCAJA 5 PARTS A	AAA/Aaa/AAA
BANCAJA 7 A2 SENIOR	AAA/Aa1/AAA
BANCAJA 8 PART A	-/Aaa/AAA
BANCAJA FCC 4 FTH PARTS A SENIOR	-/Aaa/AAA
BANCAJA FCC 6 FTA PART A2 SENIOR	AAA/Aaa/AAA
BANKINTER 10 SENIOR A2	AAA/Aaa/-
BANKINTER 4 PART A FCC	AAA/Aaa/-
BANKINTER 5 PART A FCC	AAA/Aaa/-
BBVA RMBS 1 FTA	-/Aaa/AA-
BBVA RMBS 2 FTA	AA/Aa1/AA
FCC BANCAJA 9 SENIOR A2	-/Aa1/AAA
GC SABADELL 1 A2 SENIOR	A+/Aaa/-
HIPOTEBANSA XI FCC	AAA/Aaa/-
IM CAJAMAR 3	-/Aaa/AAA
IM PASTOR 2 FDO DE TIT HIPOTEC A	A+/Aa1/-
IM PASTOR 3 PART A	A/A1/-
MADRID RMBS III	AA/A3/BBB
SANTANDER HIPOTECARIO 3	A/A3/BB
TDA 29 A2	-/Aa1/AA
TDA CAJAMAR 2 PART A2	AAA/-/AAA
TDA CAJAMAR 2 PART A3	AAA/-/AAA
TDA CAM 5	-/Aa2/AAA
TDA CAM 6 PART A2	-/Aa3/A
TDA CAM 6 PART A3	-/Aa3/A
TDA CAM 9 A2	AA-/Aa3/A
TDA IBERCAJA 2 CL A	AA+/Aa1/-
TDA PASTOR A2 FCC	-/Aaa/AAA
UCI 5 CL A TITULIZ HIPOT	-/Aaa/-
<b>Italy</b>	
APULIA FINANCE 2 SRL FCC	AAA/-/AAA
APULIA FINANCE 3 FCC	AAA/Aaa/AAA
ARGO MORTGAGES 2 SEN A	-/Aaa/AAA
BERICA 6 FCC PARTS A2	AAA/Aaa/AAA
BIPIELLE A2 2040	-/Aa1/AAA
BPM SECURITISATION SRL 2	AAA/Aaa/AAA
BPMO 2007-1 A2	AA-/Aaa/AAA
CAPITAL MORTGAGE 2007-1	AAA/Aaa/AAA
CARIFIRENZE MUTUI FCC	AAA/Aaa/AAA
CORDUSIO A2	AAA/Aaa/AAA
CORDUSIO RMBS 3 A2	AAA/Aaa/AAA
CORDUSIO RMBS A3	AAA/Aaa/AAA
CREDICO FINANCE 5 A	AAA/Aa1/-
F-E MORTGAGES 2005 - 10BP	AAA/Aaa/AAA
HELICONUS A CLASS A	AAA/Aaa/AAA
INTESA BCI CL A2	AAA/Aaa/AAA
INTESA SEC3 A3	AAA/Aaa/-

INTRA MORTGAGE FINANCE 1 SRL	AAA/Aaa/AAA
MANTEGNA FINANCE FCC A2	-/Aaa/AAA
MARCHE MUTUI 2A2	AA-/Aaa/-
MARCHE MUTUI A2	AA-/Aaa/-
SESTANTE 3 A	A+/Aa1/AAA
SESTANTE 4 A2	A+/Aa2/AA
SESTANTE FINANCE A1 FCC	A+/Aaa/AAA
SESTANTE FINANCE S R L 2 FCC	A+/Aa1/AAA
SIENA 2010-7	-/Aaa/AAA
VELA ABS PARTS A SENIOR	AAA/Aaa/-
VELA HOME 3 A	AAA/Aaa/-
VELA HOME 4 CLASS A2	AAA/Aaa/-
VELA HOME SRL PARTS A2	AAA/Aaa/-
VELA HOME 2	AAA/Aaa/-
Netherlands	
BELUGA MASTER 2006-1	AAA/Aaa/AAA
CANDIDE 2006-1 PARTS A3	AAA/Aaa/AAA
ELEVEN CITIES PARTS A	-/Aaa/AAA
EMAC NL 2005 III BV	A+/Aaa/AAA
FCC E-MAC NL 2007-III CLASS A2	AA-/Aaa/AAA
HOLLAND HOMES 3 PARTS A	-/Aaa/AAA
Portugal	
DOURO MORTGAGES 1 A	AA-/Baa1/A
DOURO MORTGAGES 3A	AA-/Baa1/A
LUSITANO 2	A+/A3/A
LUSITANO 3	AA-/Baa2/A
LUSITANO 6	AA-/A3/A

Senior securitisation tranches of public debt: 7.36 billion (in outstanding capital)

United States	
FCC SLM 2004-8-A5	AAA/Aaa/AAA
FCC SLM 2004-8-A6	AAA/Aaa/AAA
NELNET 2006-2 A7	AA-/Aaa/AAA
NELNET STUDENT LOAN TRUST 2006-1	AA-/Aaa/AAA
SALLIE MAE 2006-6 A4	AAA/Aaa/AAA
SALLIE MAE STUDENT LOAN A8	AAA/A1/AAA
SALLY MAE 2005 9 SENIOR A6A	AAA/Aaa/AAA
SALLY MAE 2005-9 SENIOR A7A	AAA/Aaa/AAA
SALLY MAE 2006-4 A6	AAA/Aaa/AAA
SLM 2003-10 parts A3	AAA/Aaa/AAA
SLM 2003-7 parts A5B	AAA/Baa1/AAA
SLM 2004-2 parts A6	AAA/Aaa/AAA
SLM 2004-5X A6	AAA/Aaa/AAA
SLM 2004-5X parts A5	AAA/Aaa/AAA
SLMA 2003-2 A5	AAA/Aaa/AAA
SLMA 2003-5	AAA/Aaa/AAA
Italy	
ADRIATICA	AA-/Aa3/-
ASTREA FCC PARTS A SENIORS	-/A2/A+
POSILLIPO 2007-1 A1	BBB+/Baa2/-
Netherlands	
DARTS FINANCE PARTS A	-/Aa1/AAA
E-MAC NL 2006	-/A1/-
EMAC NL 2007-NHG II	-/Aa3/-
HOLLAND HOMES ORANJE A	-/-/AAA
PEARL MBS 2 - A	-/Aa2/AAA
PEARL MBS CLASS A	-/Aa2/AAA
SECURITIZED GUARANTEED CLASS A	-/-/AAA





# Financial statements



## Balance sheet

(in thousands of euros)

As per notes	ASSETS	12/31/11	12/31/10	12/31/09
	Cash due from central banks and post office accounts	14,697	5,413	4,421
	Treasury notes and similar securities			
1	Due from banks	20,609,849	16,493,215	12,745,566
	- <i>On demand</i>	1,409,394	318,007	971,601
	- <i>At maturity</i>	19,200,455	16,175,208	11,773,965
2	Customer loans	40,660,039	39,709,142	37,183,708
	- <i>Other customer loans</i>	40,660,039	39,709,142	37,183,708
3	Bonds and other fixed income securities	41,228,820	44,489,773	45,106,631
4	Intangible fixed assets			
5	Other assets	72,965	93,517	108,248
6	Prepayments, deferred charges and accrued income	3,191,907	3,035,765	3,095,950
	<b>TOTAL ASSETS</b>	<b>105,778,277</b>	<b>103,826,825</b>	<b>98,244,524</b>

As per notes	LIABILITIES AND EQUITY	12/31/11	12/31/10	12/31/09
7	Due to banks	4,903,513	5,553,791	6,687,428
	- <i>On demand</i>	3,931	69,022	65,938
	- <i>At maturity</i>	4,899,582	5,484,769	6,621,490
8	Customer deposits	7,008	14,867	5,297
	- <i>On demand</i>	7,008	14,867	5,297
9	Debt securities	89,923,945	88,372,278	82,198,672
	- <i>Inter-bank market securities and negotiable debt securities</i>	155,313	243,780	241,986
	- <i>Bonds (obligations foncières)</i>	89,768,632	88,128,498	81,956,686
10	Other liabilities	3,184,632	2,157,642	1,552,849
11	Accruals and deferred income	2,466,759	2,636,729	2,764,267
12	Provisions for liabilities and charges	7,775	9,119	5,339
13	Subordinated debt	3,450,452	3,450,270	3,450,250
14	Fund for general banking risks	20,000	20,000	20,000
14	Equity other than fund for general banking risks	1,814,193	1,612,129	1,560,422
	- <i>Subscribed capital stock</i>	1,187,460	1,008,000	1,008,000
	- <i>Share premiums</i>	343,002	302,462	302,462
	- <i>Reserves</i>	89,963	82,802	74,029
	- <i>Regulated provisions and investment subsidies</i>			
	- <i>Retained earnings (+/-)</i>	85,704	75,654	462
	- <i>Net income for the year (+/-)</i>	108,064	143,211	175,469
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>105,778,277</b>	<b>103,826,825</b>	<b>98,244,524</b>

## Off-balance sheet

(in thousands of euros)

As per notes		12/31/11	12/31/10	12/31/09
	<b>COMMITMENTS GIVEN</b>			
15	Financing commitments			
	- Commitments in favour of banks		15,995	
	- Commitments in favour of customers	2,459,785	2,283,034	2,174,598
	- Other values used as collateral	5,325,312	5,581,713	7,020,087
	Guarantee commitments			
	- Commitments for customers			
	Commitments on securities			
	- Others commitments given	25,000	45,000	
16	<b>COMMITMENTS RECEIVED</b>			
	Financing commitments			
	- Commitments received from banks	3,958,140	3,212,060	3,497,498
	- Other values received as collateral	14,754,439	12,278,584	7,691,797
	Guarantee commitments			
	- Commitments received from banks	7,484,911	7,976,870	12,814,146
	- Commitments received from customers	39,756,337	38,707,948	32,674,266
	Commitments on securities			
	- Other securities to receive		15,000	
	<b>RECIPROCAL COMMITMENTS</b>			
17	- Sale and purchase of foreign currencies	48,629,166	46,663,767	39,326,106
18	- Non-unwound financial instruments	110,351,059	109,707,924	118,929,668

## Income statement

(in thousands of euros)

As per notes	12/31/11	12/31/10	12/31/09
19 Interest and similar income	4,516,761	4,712,249	4,450,520
20 Interest and similar expenses	-4,189,665	-4,432,860	-4,092,210
21 Commission and fee income	56,410	44,779	41,447
21 Commission and fee expenses	-4,455	-4,293	-26,350
22 Gains or losses on trading portfolio transactions	712	1,338	-223
23 Gains or losses on available for sale investment portfolio transactions and similar instruments	-41,921	-7,083	1,591
24 Other income from banking operations	2,798	2,252	2,917
25 Other expenses on banking operations	-1,815	-2,159	-15,660
<b>NET BANKING INCOME</b>	<b>338,825</b>	<b>314,223</b>	<b>362,032</b>
26 General operating expenses	-104,193	-97,065	-97,320
Increases for amortisation and depreciations on tangible and intangible fixed assets			-2,480
<b>GROSS OPERATING INCOME</b>	<b>234,632</b>	<b>217,158</b>	<b>262,232</b>
27 Cost of risk	-4,869	-3,316	-4,127
<b>OPERATING INCOME</b>	<b>229,763</b>	<b>213,842</b>	<b>258,105</b>
Gains or losses on fixed assets	-58,599	2,980	225
<b>ORDINARY INCOME BEFORE TAX</b>	<b>171,164</b>	<b>216,822</b>	<b>258,330</b>
Exceptional items			
28 Income taxes	-63,100	-73,611	-82,861
Increases and reversals in fund for general banking risks and regulated provisions			
<b>NET INCOME</b>	<b>108,064</b>	<b>143,211</b>	<b>175,469</b>
Earnings per share <sup>(1)</sup> (in euros)	1.57	2.27	2.78
Diluted earnings per share (in euros)	1.57	2.27	2.78

<sup>(1)</sup> Earnings per share is calculated by dividing the net income by the average number of shares during the fiscal year 2011.  
The appendix on the following pages is part of the financial statements.

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

### 1. General framework

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

*Sociétés de crédit foncier* are credit institutions accredited as financial companies by the French Credit Institutions and Investment Firms Committee (CECEI - *Comité des établissements de crédit et des entreprises d'investissement*). As such, they must comply with the following regulation:

Regulation No. 99-10 of the CRBF as amended, which specifically concerns sociétés de crédit foncier and notably:

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

Compagnie de Financement Foncier is affiliated with BPCE.

### 2. Significant events - 2011

#### 2.1. Share capital changes

In June 2011, Crédit Foncier opted to pay the dividend in shares and subscribed to a capital increase. As a result of these transactions, Compagnie de Financement Foncier's capital increased to €1,187.5 million.

#### 2.2. Participating loan converted into undated deeply-subordinated notes

In June 2002, Compagnie de Financement Foncier issued a deeply-subordinated participating loan to its parent company in the amount of €1,350 million, maturing in 2040.

To build on the core equity of Compagnie de Financement Foncier, the participating loan was prepaid in December 2011 and immediately replaced with an issue of undated deeply-subordinated notes in the identical amount. Those securities were fully subscribed for by Crédit Foncier.

The transaction was approved by the French Prudential Control Authority (ACP).

#### 2.3. Commercial Activity

During the year 2011, Compagnie de Financement Foncier acquired €6,210.2 million in receivables from Crédit Foncier, including related receivables, plus €414.7 million in loans not yet released, entered as "Financing commitments given". It also purchased a €33.4 million receivable from a French public institution (€966.6 million in unreleased funds).

In addition, its public-sector activity amounted to €329.5 million of purchases of securities.

These acquisitions totalled €6,573.1 million (released funds) for the year 2011.

Under the financial guarantee agreements pursuant to Article L.211-38 of the French Monetary and Financial Code, Compagnie de Financement Foncier established several credit lines with its parent company, Crédit Foncier, bringing total guaranteed refinancing to €14,600 million at end 2011, not including related receivables.

Similar agreements were entered into over the period with companies in the group, for total guaranteed refinancing of €114.4 million at end 2011.

Compagnie de Financement Foncier's replacement values, defined according to Decree 2007-745 dated May 9, 2007 relating to solvency of credit institutions, investment firms and sociétés de crédit foncier and amending the French Monetary and Financial Code, are €14,578.8 million.

## 2.4. Refinancing

Compagnie de Financement Foncier issued €8,719.5 million worth of *obligations foncières* during the year 2011, within the limit of the annual issuance program. It also subscribed for lines of financing from the Banque de France, according to the *Gestion Globale des Garanties* [comprehensive guarantee management] (3G pool) mechanism. Total outstandings for this financing were €1.5 billion at end 2011.

## 2.5. Dissolution of securitization funds (FCC)

During the first half of 2011, two securitization funds were dissolved. Priority shares held by Compagnie de Financement Foncier, classified as “Investment securities held to maturity”, were fully repaid for €1,071.8 million, including related receivables.

## 2.6. Disposal of securitization funds (FCC)

In 2008, Crédit Foncier put an agreement in place with its subsidiary to offset the impact of a drop in their weighting, within the meaning of Article 9 of Regulation 99-10 on *sociétés de crédit foncier*, of a portfolio of securitization funds (FCC) in the event they were downgraded below a certain level.

In this context, Compagnie de Financement Foncier disposed of several lines of securitization tranches originally classified as “Investment securities held to maturity”, at their book value, to its parent company. These disposals amounted to €1,395.6 million, including related receivables.

## 2.7. Sovereign risk on countries that were the subject of a support plan by the European Union

In the context of credit activity in the International Public Sector developed within the Crédit Foncier group, Compagnie de Financement Foncier had acquired bonds issued by eurozone states; those bonds were eligible assets in public sector exposures within the meaning of Article L 515-15 of the French Monetary and Financial Code.

The quality of the assets acquired and the rules resulting from the status as a *société de crédit foncier* looking to protect privileged holders of *obligations foncières* enable Compagnie de Financement Foncier to raise the resources required for the Crédit Foncier group's lending activity and, moreover, to obtain the best credit rating with the top three rating agencies (AAA/aaa/AAA), and therefore an optimised cost of those borrowing resources, while several eurozone States are faced with economic difficulties and a crisis of confidence over their debt.

In this context, in cooperation with the International Monetary Fund, the European Union has prepared support structures for Greece (May 2010, July 2011 and October 2011), Ireland (November 2010) and Portugal (May 2011).

Compagnie de Financement Foncier's exposures to those three countries' sovereign risks, were represented as at December 31, 2010 by bonds classified as investment securities held to maturity for the following amounts, at face value:

- Greece: €1,080 million;
- Ireland: €315 million;
- Portugal: €120 million.

After taking into consideration the different aspects of the support structures of those three countries (public funds, private-sector participation, debt profile after rescheduling), to preserve the best credit rating for the company, Compagnie de Financement Foncier sold off all outstandings on Greece and Portugal to its parent company, Crédit Foncier. These disposals were made at market value, as assessed on the date of the disposal, and generated capital losses on both the disposal of securities and the neutralisation of associated hedging transactions. These capital losses are posted in the income statement as “Profit or loss on fixed assets”. All of these capital losses were subsidised by Crédit Foncier for an equivalent amount, €968.4 million. These subsidies are also posted in the financial statements as “Profit or loss on fixed assets”.

Irish securities were also partially disposed of. The disposals, as well as the cancellation of the associated hedge swaps, generated capital losses totalling €55.5 million. The capital losses are posted in the financial statements under “Profit or loss on fixed assets” and were not subsidised by Crédit Foncier.

At December 31, 2011, there was still exposure on Ireland with a face value of €135 million, maturing in 2025.

After factoring in the different aspects of the support structures for that country, there is, to date, no evidence that the recovery of future cash flows for the securities held is compromised. Consequently, they do not have to be depreciated in light of counterparty risk.

## 2.8. Investment securities available for sale Portfolio Transactions

- Compagnie de Financement Foncier further depreciated investment securities available for sale totalling €5.8 million at December 31, 2011. This depreciation is part of a widening of credit spreads, specifically in Spain.
- Investment securities available for sale obtained under the restructuring of both securitization funds were disposed of, generating a capital loss of €9.3 million.
- As part of the French Banking and Financial Regulatory Act (October 2010) and its implementing decree that became effective in March 2011, Compagnie de Financement Foncier bought up a portion of its own bonds issued on the market. These purchases on the secondary market, totalling €998 million in face value, were entered as “Investment securities available for sale”. At the same time, a portion of the hedges associated with these issues were cancelled. Cancellation profits of €120.8 million were spread over the life of the underlying bonds issued. Those securities were subsequently disposed of to Crédit Foncier, at market price, generating a capital loss of €26.8 million posted in the financial statements under “Gains and losses on available for sale investment portfolio”.

After this disposal, new cover have been set up.

## 3. Accounting principles and methods

### 3.1. Accounting and valuation methods

The financial statements of Compagnie de Financement Foncier are prepared and presented in compliance with the rules defined by BPCE in respect of the French Accounting Standards Authority (ANC). In accordance with Regulation No. 91-01 of the French Banking and Financial Regulations Committee (CRBF), the presentation of the financial statements complies with the provisions of Regulations 2000-03 and 2005-04 of the French Accounting Regulations Committee (CRC) relating to the individual discussion papers.

### 3.2. Changes in accounting methods

No changes were made to the accounting methods used to prepare the annual financial statements for 2011.

The texts adopted by the ANC that became compulsory as of 2011 had no significant impact on the Group's financial statements.

The Group does not opt for early application of texts adopted by the ANC, where such application is optional, unless specifically mentioned.

### 3.3. Accounting principles and valuation methods

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

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

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

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

The main methods used are the following:

#### 3.3.1. Foreign exchange transactions

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

Receivables, liabilities and off-balance-sheet commitments denominated in a foreign currency are valued at the exchange rate at the balance sheet date. Realised and unrealised exchange gains and losses are taken to income. Income and expenses paid or perceived are recorded at the date of the transaction.

Unsettled spot foreign exchange transactions in cash are valued at the exchange rate on the balance sheet date.

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

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

### 3.3.2. Transactions with credit institutions and customers

Loans to credit institutions comprise all loans and advances arising out of banking transactions, with the exception of debt securities. It includes repo securities, regardless of the support, and receivables related to repurchase agreements. Loans and advances are broken down into the sub-categories “on demand” and “at maturity”. Loans and advances to credit institutions appear on the balance sheet at their nominal value or acquisition cost and include accrued interest that is not yet due but are net of any impairment for credit risk. Amounts due from customers include loans to entities other than credit institutions, with the exception of repo securities, assets purchased under resale agreements, and receivables corresponding to securities sold under repurchase agreements. They are broken down into trade receivables, overdrafts and other loans.

Once a loan has been committed it is recorded as an asset on the balance sheet in proportion to the amount released, including accrued interest and net of any impairment charges recognised for credit risk. Commissions and marginal costs of transaction that have been spreading are integrated into the stock relevant credit. Amounts not yet paid are recognised as off-balance sheet items under “Financing commitments given”.

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

Premiums and discounts on receivables acquired as at December 31, 2011 are then taken to the year’s income on an actuarial basis over the remaining term of the receivables.

Past due payments are recorded as assets in each receivables category, unless they are deemed doubtful, in which case they are included in doubtful loans. The commissions and marginal transaction costs that are staggered are integrated into the outstanding loan concerned. Early repayment and renegotiation fees or commissions are recognised in full in the income statement for the year in which the transaction was booked.

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

Amounts due to credit institutions are classified on the basis of their duration on inception (demand or term), while amounts due to customers are classified by type, as either regulated savings accounts or other customer deposits. Depending on the counterparty involved, these items may include repurchase agreements involving securities and other assets. Accrued interest is recorded on related debts.

#### Restructured loans

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

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

A doubtful restructured loan may be reclassified as performing when the terms of the loan are complied with. These reclassified loans



are identified. When a loan that has been reclassified becomes overdue, regardless of the restructuring terms agreed, the loan is downgraded to doubtful.

### Doubtful loans

Doubtful loans and receivables consist of all outstanding amounts, whether due or not and guaranteed or otherwise, where at least one commitment made by the debtors has involved a known credit risk, classified as such on an individual basis. A risk is considered to be “known” when the Group is not likely to collect the entire amount owed under the terms of the commitments made by the counterparty, notwithstanding any guarantees provided.

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

Within the doubtful category, loans and receivables are considered to be irrecoverable when full or partial collection is deemed to be highly unlikely and a write-off is considered. Loans for which payments have ceased beyond the specified time are assumed to be recorded as irrecoverable. The decision to reclassify a doubtful loan as irrecoverable and the amount of impairment determined must take into account the guarantees provided and the recent loan repayment history. A debt that has been classified as doubtful for one year is assumed to be irrecoverable, unless a write-off is not foreseen. Reclassification of a debt from doubtful to irrecoverable does not automatically entail the reclassification of the counterparty's other doubtful loans and commitments to irrecoverable.

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

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

### Impairment

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

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

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

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

A statistical estimate is used for receivables in low unit amounts, with similar characteristics.

Credit risk on financing commitments and guarantees off the balance sheet is recorded as a provision for contingencies and charges. The principal component of loan impairment provisions and reversals, and the corresponding impairment charges, are taken to income under “Cost of risk”, while the interest component is recorded as “Interest and similar income”.

When the credit risk is identified, not on an individual basis but on the basis of a loan portfolio with similar risk characteristics and for which available information indicates a risk of default and losses at maturity, a provision is made for counterparty risk on the liabilities side of the balance sheet.

Non-recoverable receivables are recorded as losses and the corresponding impairment is reversed.

### 3.3.3. Securities

“Securities” include interbank market securities, treasury bills, other negotiable debt securities, bonds and other fixed-income securities, equities and other variable-income securities.

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

- CRC Regulation No. 2008-17, amending CRBF Regulation No. 90-01 of February 23, 1990, supplemented by Instruction No. 94-07 issued by the French Banking Commission, defining general rules governing the accounting and valuation of securities;
- CRBF Regulation No. 89-07, supplemented by Instruction No. 94-06 issued by the French Banking Commission, defining rules concerning certain specific transactions such as repurchase agreements.

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

For trading account securities, short-term investments, long-term investments and equity securities available for sale in the medium term, any known counterparty default risk whose impact can be separately identified results in the recognition of an impairment loss. Depreciation movements are recorded under cost of risk.

Compagnie de Financement Foncier does not hold trading account securities or equity securities available for sale in the medium term. Moreover, as a *société de crédit foncier*, Compagnie de Financement Foncier cannot hold equity investments, even as a minority interest. It holds only one share in SGFGAS, which enables it to acquire loans guaranteed by the French Government, by virtue of SGFGAS. This investment was approved by the regulatory authority.

#### Investment securities available for sale

Investment securities available for sale are all securities that do not fall into any of the other categories.

They are recorded on acquisition at cost excluding associated expenses.

Accrued interest on fixed-income securities is taken to income under “Interest and similar income”.

Any difference between the acquisition cost and the redemption price (premium or discount) of fixed-income securities is taken to the income statement over the remaining life of the relevant securities using the yield-to-maturity method.

Short-term investment securities are valued at the lower of cost or market price. Impairment is recognised for any unrealised capital losses, which may be measured on the basis of portfolios of similar securities, without offsetting against capital gains recognised for the other categories of securities.

In accordance with Article 4 of CRB Regulation No. 88-02, gains and losses from hedging instruments are taken into account when calculating impairment. Provisions are made to cover unrealised losses. Unrealised gains are not recognised.

Gains and losses on sales of investment securities available for sale, impairments and impairment reversals appear under the item “Gains or Losses on Short-term investment securities and similar instruments”.

#### Investment securities held to maturity

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

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

The difference between the acquisition cost and the redemption value of these securities, and their accrued interest, are subject to the same rules that apply to investment securities available for sale.

An impairment may be booked against these securities if there is a strong probability that the bank will not keep them until maturity due to new developments or if there is a risk that the issuer of the securities will default. Unrealised capital gains are not recognised. Investment securities held to maturity cannot be sold or transferred into another category except as set out in Article 7 bis of CRC 90-01.

Trading account securities or investment available for sale fixed-income securities, reclassified in the investment securities held to maturity category, in the context of market illiquidity, per CRC Regulation No. 2008-17, may still be disposed of when the market on which they are traded becomes active again.

### Reclassification of financial assets

In order to harmonise accounting practices and achieve compliance with IFRS, the CNC published Regulation No. 2008-17 on December 10, 2008 amending regulation 90-01 issued by the CRBF (Banking & Financial Regulations Committee) concerning the recognition of securities transactions. This regulation incorporates the provisions of notice 2008-19 of December 8, 2008 governing the reclassification of securities from the “trading account securities” and the “investment available for sale securities” categories. Reclassification from “trading account securities” to “investment securities held to maturity” or to “investment securities available for sale” is now allowed under either of the following conditions:

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

Transfers from “short-term investment securities” to “investment securities held to maturity” are applicable on the transfer date under either of the following conditions:

- under exceptional market circumstances that require a change of strategy;
- when fixed-income securities are no longer tradable on an active market.

### Repurchase agreements

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

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

### **3.3.4. Debt securities**

Debt securities appear according to their form: retail certificates of deposit, interbank securities and negotiable debt securities, bonds and similar, with the exception of subordinated notes, which are recorded in a separate line under liabilities.

Interest accrued but not due relating to these securities is recorded in a related liabilities account with a corresponding entry in the income statement.

Issue costs are spread over the life of the corresponding loans. Bond issuance or redemption premiums are spread over the life of the loan via a deferred expenses account.

### **3.3.5. Subordinated debt**

This item includes funds arising from the issue of dated or undated subordinated securities or loans. In the event of liquidation of the borrower, the debt shall only be repaid after all other creditors have been paid.

Interest payable on subordinated debt is recorded in an accrued interest account with a corresponding entry in the income statement.

### **3.3.6. Provisions**

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

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

This item notably includes provisions made to counterparty risks.

### 3.3.7. General Banking Risks Fund

This fund is intended to cover risks inherent to the entity's business activities, pursuant to the requirements of Article 3 of CRBF Regulation No. 90-02 and French Banking Commission Instruction No. 86-05, as amended.

### 3.3.8. Forward financial instruments

Trading and hedging transactions in interest rate, currency or equity futures are recognised in accordance with the provisions of CRBF Regulations 88-02 and 90-15, as amended and French Banking Commission Instruction No. 94-04, as amended by Instruction No. 2003-03.

Commitments on these instruments are recorded as off-balance-sheet items at the notional value of the contract.

At December 31, 2011, the amount recognised for these commitments represented the volume of the open forward transactions at the balance sheet date.

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

#### Futures

Interest rate swaps and similar contracts (future rate agreements, caps and floors) are classified according to the initial intention, in the following categories:

- micro-hedging (specific transactions);
- macro-hedging (overall asset and liability management);
- speculative positions/isolated open positions;
- specialised management of a trading portfolio.

Income and expenses on the first two categories are recognised in the income statement on a prorata basis.

Income and expenses on instruments used to hedge an item or a set of uniform items are recorded as profit or loss, symmetrically with the recognition of income and expenses on hedged items. Comprehensive income items of the hedging instrument are entered on the same line as income and expenses for hedged items, under "Interest and similar income" and "Interest and similar expenses". The "gains/losses on trading portfolio transactions" line is used when the hedged items are included in the trading book.

Income and expenses on forward financial instruments used to hedge and manage the company's overall interest rate exposure are recognised in the income statement on a prorata basis as "Interest and similar income" and "Interest and similar expenses". Unrealised gains and losses are not recognised.

Income and expenses on certain contracts representing separate open positions are recorded in the income statement when the contracts are unwound or on a prorata basis depending on the nature of the instrument. A provision is recognised in liabilities for any unrealised losses with respect to market value. Market value is determined based on the nature of the market in question (organised markets and similar exchanges or over-the-counter). In organised markets, instruments are traded continuously and are sufficiently liquid to justify valuation at market price. Unrealised gains are not recognised.

Compagnie de Financement Foncier does not have any trading portfolio or isolated open position management contracts.

Final balances are amortised over the life of the hedged item.

Termination or assignment balances are entered as follows:

- for transactions classified as specialised management transactions or isolated open positions, the amounts remaining are immediately booked to the income statement;
- for micro-hedging and macro-hedging transactions, the remaining amounts are amortised over the remaining term of the previously-hedged item when the underlying is maintained.

## Options

The notional amount of the underlying instrument on which the option or forward contract is based is recorded by distinguishing between hedging contracts and contracts traded on the markets.

Guaranteed interest rate caps and floors are classified as micro-hedging and macro-hedging.

All such transactions are considered over-the-counter. The procedures for their accounting follow these principles:

- premiums are entered in accruals and spread on a straight-line basis over the life of the hedged item;
- interest rate differentials, paid or received at each payment date are taken as realised gains or losses, recognised symmetrically to those appertaining to the hedged item.

At December 31, 2011, Compagnie de Financement Foncier had not booked any isolated open-position interest-rate guarantees.

### **3.3.9. Interest and similar income - Commissions**

Interest and similar fee and commission income is recognised in the income statement on a prorata basis.

Fees and costs for granting or acquiring a loan are similar to additional interest and spread over the actual life of the loan, prorated to the outstanding capital.

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

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

### **3.3.10. Income taxes**

The tax charge recorded in the income statement corresponds to corporate tax payable for the fiscal year, deferred tax liabilities and tax reserves.

Compagnie de Financement Foncier is included in BPCE's tax consolidation group, in the Crédit Foncier subgroup. Pursuant to the tax consolidation agreement, the tax charge payable is calculated and accounted as if there were no consolidation.

Compagnie de Financement Foncier has opted for accounting of deferred taxes on an unconsolidated basis. According to the principle of universality, this option applies to all deferred taxes resulting from temporary differences in the corporate financial statements.

## **4. Post balance sheet events**

No other event that is likely to have a significant impact on the financial statements at December 31, 2011, had occurred between the closing date and March 28, 2012, the date of the Board of Directors' meeting which approved the financial statements.

## **5. Other disclosures**

### **5.1. Consolidation**

Compagnie de Financement Foncier's individual financial statements are integrated into BPCE Group's consolidated financial statements.

The company is consolidated by Crédit Foncier Group and BPCE Group.

### **5.2. Remuneration, advances**

Remuneration paid in 2011 to management offices amounted to 120 thousand Euros, excluding social charges.

### 5.3. Related parties transactions

In compliance with ANC 2010-04 Regulation, any related parties transactions are not significant and are conducted at normal market conditions.

### 5.4. Operations in non-cooperative countries

Article L. 511-45 of the French Monetary and Financial Code and the French Minister for the Economy's Decree of October 6, 2009 require credit institutions to include as an appendix to their annual financial statements information on their offices and activities in States and territories that have not signed an agreement with France containing a mutual assistance clause to fight against tax evasion and fraud, allowing access to banking information.

These requirements are part of global endeavours arising from OECD work and summits to prevent non-cooperative jurisdictions as well as forming part of the fight against money laundering and terrorist financing.

At December 31, 2011, Compagnie de Financement Foncier had no activities or offices in non-cooperative countries.

## Note 1a: due from banks

(in thousands of euros)

	Performing loans			Doubtful loans			Provisions			Net amounts		
	12/31/11	12/31/10	12/31/09	12/31/11	12/31/10	12/31/09	12/31/11	12/31/10	12/31/09	12/31/11	12/31/10	12/31/09
<b>NON-GROUP LOANS</b>												
On demand												
Customer accounts	7,359	728	1,986							7,359	728	1,986
Loans and accounts	1,170,000		800,000							1,170,000		800,000
Related receivables	16		5							16		5
Non-allocated securities		291	220								291	220
<b>Sub-total</b>	<b>1,177,375</b>	<b>1,019</b>	<b>802,211</b>							<b>1,177,375</b>	<b>1,019</b>	<b>802,211</b>
At maturity												
Loans and accounts	1,666,405	1,750,084	1,599,387							1,666,405	1,750,084	1,599,387
Related receivables	28,748	30,933	30,528							28,748	30,933	30,528
<b>Sub-total</b>	<b>1,695,153</b>	<b>1,781,017</b>	<b>1,629,915</b>							<b>1,695,153</b>	<b>1,781,017</b>	<b>1,629,915</b>
<b>Total non-Group loans</b>	<b>2,872,528</b>	<b>1,782,036</b>	<b>2,432,126</b>							<b>2,872,528</b>	<b>1,782,036</b>	<b>2,432,126</b>
<b>GROUP LOANS</b>												
On demand	232,019	316,988	169,390							232,019	316,988	169,390
At maturity	2,756,533	2,121,364	2,601,197							2,756,533	2,121,364	2,601,197
Values received as long-term pension	14,748,769	12,272,827	7,542,853							14,748,769	12,272,827	7,542,853
<b>Sub-total</b>	<b>17,737,321</b>	<b>14,711,179</b>	<b>10,313,440</b>							<b>17,737,321</b>	<b>14,711,179</b>	<b>10,313,440</b>
<b>Total Group loans</b>	<b>17,737,321</b>	<b>14,711,179</b>	<b>10,313,440</b>							<b>17,737,321</b>	<b>14,711,179</b>	<b>10,313,440</b>
<b>GRAND TOTAL <sup>(1)</sup></b>	<b>20,609,849</b>	<b>16,493,215</b>	<b>12,745,566</b>							<b>20,609,849</b>	<b>16,493,215</b>	<b>12,745,566</b>
<sup>(1)</sup> of which subsidised sector	472	617	891							472	617	891

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

(in thousands of euros)

	12/31/11			12/31/10	12/31/09
	GROSS	PROVISIONS	NET		
TERM LOANS					
Refinancing of subsidised residential property	472		472	617	891
Refinancing of unsubsidised residential property	984		984	1,403	2,172
Public authorities	1,693,697		1,693,697	1,778,997	1,626,852
Structured financing					
Other loans to banks	17,505,302		17,505,302	14,394,191	10,144,050
Doubtful term loans					
TOTAL	19,200,455		19,200,455	16,175,208	11,773,965



## Note 2a: customer loans

(in thousands of euros)

	Performing loans			Doubtful loans			Depreciations			Net amounts		
	12/31/11	12/31/10	12/31/09	12/31/11	12/31/10	12/31/09	12/31/11	12/31/10	12/31/09	12/31/11	12/31/10	12/31/09
<b>CUSTOMER LOANS</b>												
Commercial loans												
Export credits												
Short-term loans <sup>(2)</sup>	2,676,687	3,561,328	4,089,999							2,676,687	3,561,328	4,089,999
Equipment loans <sup>(3)</sup>	8,754,660	9,453,366	9,664,896	1,035	3,127	3,373	210	404	439	8,755,485	9,456,089	9,667,830
Residential property loans	28,430,432	25,860,784	22,693,251	574,696	480,543	404,172	22,698	16,449	15,124	28,982,430	26,324,878	23,082,299
Other customer loans	48,535	54,566	61,137	1,548	1,826	1,656	1,093	1,035	959	48,990	55,357	61,834
Loans to financial customers												
Non-allocated securities	404	6,393								404	6,393	
Subordinated loans												
Related receivables	194,071	303,232	280,172	1,972	1,865	1,574				196,043	305,097	281,746
Non-allocated securities												
<b>Sub-total</b>	<b>40,104,789</b>	<b>39,239,669</b>	<b>36,789,455</b>	<b>579,251</b>	<b>487,361</b>	<b>410,775</b>	<b>24,001</b>	<b>17,888</b>	<b>16,522</b>	<b>40,660,039</b>	<b>39,709,142</b>	<b>37,183,708</b>
<b>CUSTOMER ACCOUNTS</b>												
Customer accounts												
Related receivables												
<b>Sub-total</b>												
<b>Total loans</b>	<b>40,104,789</b>	<b>39,239,669</b>	<b>36,789,455</b>	<b>579,251</b>	<b>487,361</b>	<b>410,775</b>	<b>24,001</b>	<b>17,888</b>	<b>16,522</b>	<b>40,660,039</b>	<b>39,709,142</b>	<b>37,183,708</b>
<b>GRAND TOTAL <sup>(1) (4)</sup></b>	<b>40,104,789</b>	<b>39,239,669</b>	<b>36,789,455</b>	<b>579,251</b>	<b>487,361</b>	<b>410,775</b>	<b>24,001</b>	<b>17,888</b>	<b>16,522</b>	<b>40,660,039</b>	<b>39,709,142</b>	<b>37,183,708</b>
<sup>(1)</sup> of which subsidised sector	653,841	859,825	1,139,888	52,118	62,408	68,939	81	107	138	705,878	922,126	1,208,689
of which unsubsidised sector	39,450,948	38,379,844	35,649,567	527,133	424,953	341,836	23,920	17,781	16,384	39,954,161	38,787,016	35,975,019

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

<sup>(2)</sup> The Company had acquired the Crédit Foncier loan on the *Trésor* concerning the *Découvert sur Prime d'Epargne Logement*. This *découvert* reached €100 million as of December 31, 2010 and it has been fully uncovered as of December 31, 2011.

In 2007, it purchased Ixis CIB loans, which include revolving credit lines amounting to €2,677 million at the end of December 2011 and €3,462 million at the end of December 2010 and €3,371 million at the end of December 2009.

<sup>(3)</sup> Equipments loans are loans to public entities.

<sup>(4)</sup> Customer loans eligible for refinancing with the Central Bank amount €8,251 million at December 31, 2011.

## Note 2b1: depreciations and provisions for counterparty risks

(in thousands of euros)

	12/31/09	Increases	Reversals	12/31/10	Increases	Reversals	Misc. transactions	12/31/11
<b>PROVISIONS RECORDED AS A DEDUCTION FROM ASSETS</b>								
Customer loans and due from banks <sup>(1)</sup>	16,522	12,097	-10,731	17,888	13,770	-7,657		24,001
<b>PROVISIONS RECORDED IN LIABILITIES</b>								
Customer loans and due from banks and from securities	5,216	2,382	-83	7,515	2,239	-3,182		6,572
<b>TOTAL</b>	<b>21,738</b>	<b>14,479</b>	<b>-10,814</b>	<b>25,403</b>	<b>16,009</b>	<b>-10,839</b>		<b>30,573</b>

<sup>(1)</sup> 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)

	12/31/09	New entries	Amortisation	12/31/10	New entries	Amortisation	12/31/11
<b>DUE FROM BANKS</b>							
Premiums	109,606		-10,035	99,571		-10,137	89,434
Discounts							
Net	109,606		-10,035	99,571		-10,137	89,434
<b>CUSTOMER LOANS</b>							
Premiums	360,129	188,702	-75,543	473,288	114,197	-101,232	486,253
Discounts	-535,014	-228,748	52,251	-711,511	-249,878	72,525	-888,864
Net	-174,885	-40,046	-23,292	-238,223	-135,681	-28,707	-402,611
<b>TOTAL</b>	<b>-65,279</b>	<b>-40,046</b>	<b>-33,327</b>	<b>-138,652</b>	<b>-135,681</b>	<b>-38,844</b>	<b>-313,177</b>

**Note 2c: breakdown of outstanding customer loans**

(in thousands of euros)

	12/31/11			12/31/10	12/31/09
	GROSS	PROVISIONS	NET		
Individuals	23,576,699		23,576,699	21,075,388	17,702,190
- Subsidised sector	286,801		286,801	434,809	642,055
- Unsubsidised residential property	23,289,589		23,289,589	20,640,396	17,059,837
- Other	309		309	183	298
Individual entrepreneurs	1,560,889		1,560,889	1,368,369	1,056,960
- Subsidised sector	14,309		14,309	21,501	31,607
- Unsubsidised residential property	1,546,418		1,546,418	1,346,657	1,025,070
- Other	162		162	211	283
Regional public sector and sovereigns	11,351,941		11,351,941	13,101,434	14,189,065
- Subsidised sector	80,646		80,646	91,124	114,065
- Unsubsidised residential property	344,578		344,578	376,527	393,003
- Other	10,926,717		10,926,717	12,633,783	13,681,997
Social organisations	2,804,880		2,804,880	3,096,147	3,355,371
- Subsidised sector	179,670		179,670	207,922	240,177
- Unsubsidised residential property	2,551,067		2,551,067	2,809,616	3,028,541
- Other	74,143		74,143	78,609	86,653
Real estate investors	103,247		103,247	105,648	124,837
- Subsidised sector	84,813		84,813	93,812	101,306
- Unsubsidised residential property	10,145		10,145	11,827	22,642
- Other	8,289		8,289	9	889
Structured financing	702,381		702,381	483,324	356,373
- Subsidised sector	7,120		7,120	10,030	10,678
- Transportation	182		182	182	182
- Large projects	676,376		676,376	437,052	299,022
- Other	18,703		18,703	36,060	46,491
Other	4,752		4,752	9,359	4,659
- Subsidised sector	482		482	627	10
- Unsubsidised residential property	3,288		3,288	7,330	4,649
- Other	982		982	1,403	
<b>Sub-total customer loans</b>	<b>40,104,789</b>		<b>40,104,789</b>	<b>39,239,669</b>	<b>36,789,455</b>
DOUBTFUL LOANS	579,251	24,001	555,250	469,473	394,253
- Of which subsidised sector	52,118	81	52,037	62,301	68,801
- Of which unsubsidised sector	527,133	23,920	503,213	407,172	325,452
<b>TOTAL CUSTOMER LOANS <sup>(1)</sup></b>	<b>40,684,040</b>	<b>24,001</b>	<b>40,660,039</b>	<b>39,709,142</b>	<b>37,183,708</b>
<sup>(1)</sup> of which subsidised sector	705,959	81	705,878	922,126	1,208,689
of which unsubsidised sector	39,978,081	23,920	39,954,161	38,787,016	35,975,019

## Note 2d: breakdown of doubtful loans

(in thousands of euros)

12/31/11	Total doubtful loans			Of which compromised doubtful loans		
	GROSS	PROVISIONS	NET	GROSS	PROVISIONS	NET
Individuals	517,766	17,598	500,168	72,983	11,687	61,296
- Subsidised sector	35,572	42	35,530			
- Unsubsidised residential property	480,662	16,455	464,207	71,593	10,638	60,955
- Other	1,532	1,101	431	1,390	1,049	341
Individual entrepreneurs	44,825	4,571	40,254	12,571	3,990	8,581
- Subsidised sector	8,631		8,631			
- Unsubsidised residential property	36,027	4,527	31,500	12,504	3,988	8,516
- Other	167	44	123	67	2	65
Regional public sector and sovereigns	1,629	35	1,594			
- Subsidised sector	535		535			
- Unsubsidised residential property						
- Other	1,094	35	1,059			
Social organisations	4,879	95	4,784	81	45	36
- Subsidised sector	679		679			
- Unsubsidised residential property	3,914	92	3,822	81	45	36
- Other	286	3	283			
Real estate investors	5,704	837	4,867	1,968	693	1,275
- Subsidised sector	3,653	39	3,614			
- Unsubsidised residential property	1,547	676	871	1,464	571	893
- Other	504	122	382	504	122	382
Structured financing	4,448	865	3,583	1,222	764	458
- Subsidised sector	3,048		3,048			
- Unsubsidised residential property						
- Other	1,400	865	535	1,222	764	458
Other						
<b>TOTAL <sup>(1)</sup></b>	<b>579,251</b>	<b>24,001</b>	<b>555,250</b>	<b>88,825</b>	<b>17,179</b>	<b>71,646</b>
<sup>(1)</sup> of which subsidised sector	52,118	81	52,037			
of which unsubsidised sector <sup>(2)</sup>	527,133	23,920	503,213	88,825	17,179	71,646

<sup>(2)</sup> The amount of doubtful loans in the competitive sector includes €241.1 million of SGFGAS-guaranteed loans.

In accordance with CRC Regulation n°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.

12/31/10	Total doubtful loans			Of which compromised doubtful loans		
	GROSS	PROVISIONS	NET	GROSS	PROVISIONS	NET
Individuals	423,361	12,122	411,239	45,783	7,703	38,080
- Subsidised sector	45,673	62	45,611			
- Unsubsidised residential property	376,258	10,994	365,264	44,353	6,637	37,716
- Other	1,430	1,066	364	1,430	1,066	364
Individual entrepreneurs	41,806	3,843	37,963	10,592	3,171	7,421
- Subsidised sector	8,719	11	8,708			
- Unsubsidised residential property	32,920	3,793	29,127	10,538	3,171	7,367
- Other	167	39	128	54		54
Regional public sector and sovereigns	6,722	139	6,583			
- Subsidised sector	794		794			
- Unsubsidised residential property	2,463	86	2,377			
- Other	3,465	53	3,412			
Social organisations	5,376	269	5,107	1,013	240	773
- Subsidised sector	633		633			
- Unsubsidised residential property	4,267	171	4,096	537	142	395
- Other	476	98	378	476	98	378
Real estate investors	5,997	630	5,367	1,952	569	1,383
- Subsidised sector	3,925	34	3,891			
- Unsubsidised residential property	1,594	474	1,120	1,474	447	1,027
- Other	478	122	356	478	122	356
Structured financing	4,099	885	3,214	1,321	875	446
- Subsidised sector	2,664		2,664			
- Unsubsidised residential property						
- Other	1,435	885	550	1,321	875	446
Other						
<b>TOTAL <sup>(1)</sup></b>	<b>487,361</b>	<b>17,888</b>	<b>469,473</b>	<b>60,661</b>	<b>12,558</b>	<b>48,103</b>
<sup>(1)</sup> of which subsidised sector	62,408	107	62,301			
of which unsubsidised sector <sup>(2)</sup>	424,953	17,781	407,172	60,661	12,558	48,103

<sup>(2)</sup> The amount of doubtful loans in the competitive sector includes €186.68 million of SGFGAS-guaranteed loans.

In accordance with CRC Regulation n°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)

12/31/09	Total doubtful loans			Of which compromised doubtful loans		
	GROSS	PROVISIONS	NET	GROSS	PROVISIONS	NET
Individuals	347,725	11,172	336,553	26,818	5,250	21,568
- Subsidised sector	49,229	63	49,166			
- Unsubsidised residential property	297,148	10,125	287,023	25,470	4,266	21,204
- Other	1,348	984	364	1,348	984	364
Individual entrepreneurs	40,182	3,580	36,602	6,476	2,808	3,668
- Subsidised sector	10,643	43	10,600			
- Unsubsidised residential property	29,501	3,513	25,988	6,453	2,785	3,668
- Other	38	24	14	23	23	
Regional public sector and sovereigns	5,834	136	5,698			
- Subsidised sector	664		664			
- Unsubsidised residential property	1,429	100	1,329			
- Other	3,741	36	3,705			
Social organisations	5,535	104	5,431	113	66	47
- Subsidised sector	587		587			
- Unsubsidised residential property	4,467	72	4,395	85	38	47
- Other	481	32	449	28	28	
Real estate investors	6,906	558	6,348	1,491	391	1,100
- Subsidised sector	4,878	32	4,846			
- Unsubsidised residential property	1,582	404	1,178	1,491	391	1,100
- Other	446	122	324			
Structured financing	4,593	972	3,621	1,605	969	636
- Subsidised sector	2,938		2,938			
- Unsubsidised residential property	1,383	768	615	1,216	765	451
- Other	272	204	68	389	204	185
Other						
<b>TOTAL <sup>(1)</sup></b>	<b>410,775</b>	<b>16,522</b>	<b>394,253</b>	<b>36,503</b>	<b>9,484</b>	<b>27,019</b>
<sup>(1)</sup> of which subsidised sector	68,939	138	68,801			
of which unsubsidised sector <sup>(2)</sup>	341,836	16,384	325,452	36,503	9,484	27,019

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

In accordance with CRC Regulation n°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 FGAS-guaranteed loans.

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

(in thousands of euros)

	12/31/2011			12/31/10	12/31/09
	GROSS	PROVISIONS	NET		
BONDS AND OTHER FIXED INCOME SECURITIES					
Investment securities available for sale <sup>(1)</sup>	9,313,905	-19,762	9,294,143	7,022,217	9,674,329
- Listed securities	75,905	-19,762	56,143	62,217	182,329
- Unlisted securities	9,238,000		9,238,000	6,960,000	9,492,000
Investment securities held to maturity <sup>(2)</sup>	31,666,236		31,666,236	37,193,760	35,217,682
- Listed securities	25,584,803		25,584,803	33,329,117	32,006,419
- Unlisted securities	6,081,433		6,081,433	3,864,643	3,211,263
Related receivables	268,441		268,441	273,796	214,620
TOTAL <sup>(3)</sup>	41,248,582	-19,762	41,228,820	44,489,773	45,106,631

<sup>(1)</sup> At December 31, 2011, the market value of short-term investment securities amounted to €64,707 K including €19,762 K of depreciated unrealized capital loss (after swaps) and €1,420 K of unrealized capital gain before swaps.

<sup>(2)</sup> At December 31, 2011, shares of securitisation funds under this item represent €17,497,705 K (excluding related receivables).

Moreover, no unrealized capital loss on long-term investment securities was recorded at December 31, 2011 (data communicated pursuant to regulation CRC 2004-16 of November 23, 2004 regarding information to be provided further to the transposition of the European Directives, "Fair value" and "Modernisation").

Under the instruction CB 94-07, the aggregate fair value of the investment portfolio amounts to €30,074,472 K, excluding accrued interest.

In 2011, no reclassification on investment assets occurs.

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

## Note 3b: premiums - discounts

(in thousands of euros)

As of December 31, 2011	Gross amount	Redemption value	Difference +/-
<b>INVESTMENT SECURITIES AVAILABLE FOR SALE</b>			
Bonds	75,905	75,903	-2
Other fixed income securities	9,238,000	9,238,000	
<b>INVESTMENT SECURITIES HELD TO MATURITY</b>			
Bonds	14,168,518	14,131,447	-37,071
Other fixed income securities	17,497,718	17,529,249	31,531

## Note 3c: financial fixed assets

(in thousands of euros)

	Gross amount at 12/31/09	Acquisitions	Disposals/ repayments	Reclas- sifica- tions	Change in premiums/ discounts	Currency differences	Gross amount at 12/31/10	Acquisi- tions	Disposals/ repayments <sup>(1)</sup>	Reclas- sifica- tions	Change in premiums/ discounts	Currency differences	Gross amount at 12/31/11
Investment securities held to maturity	35,217,681	3,151,866	-1,879,062		1,993	701,282	37,193,760	329,537	-6,187,657		7,599	322,997	31,666,236
<b>TOTAL</b>	<b>35,217,681</b>	<b>3,151,866</b>	<b>-1,879,062</b>		<b>1,993</b>	<b>701,282</b>	<b>37,193,760</b>	<b>329,537</b>	<b>-6,187,657</b>		<b>7,599</b>	<b>322,997</b>	<b>31,666,236</b>
Related receivables	203,328						256,138						240,970
<b>GRAND TOTAL</b>	<b>35,421,009</b>	<b>3,151,866</b>	<b>-1,879,062</b>		<b>1,993</b>	<b>701,282</b>	<b>37,449,898</b>	<b>329,537</b>	<b>-6,187,657</b>		<b>7,599</b>	<b>322,997</b>	<b>31,907,206</b>

<sup>(1)</sup> During fiscal 2011, sales were conducted in accordance with the possibilities offered by the regulations (CRBF 90-01) and can be achieved without penalty of tainting, especially in cases of deterioration of credit quality issuer or regulatory constraints.

## Note 4a: tangible and intangible fixed assets

(in thousands of euros)

	Gross amount at 12/31/10	Acquisitions in 2011	Disposals in 2011	Gross amount at 12/31/11	Amortisation and provisions at 12/31/11	Net amount at 12/31/11	Net amount at 12/31/10	Net amount at 12/31/09
<b>Intangible fixed assets</b>								
Difference intangible/CFF equity contribution	119,408			119,408				
Other intangible fixed assets								
<b>TOTAL</b>	<b>119,408</b>			<b>119,408</b>				

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

(in thousands of euros)

	Amount at 12/31/09	Increases in 2010	Reversals in 2010	Amount at 12/31/10	Increases in 2011	Reversals in 2011	Amount at 12/31/11
Intangible fixed assets	119,408			119,408			119,408
<b>TOTAL</b>	<b>119,408</b>			<b>119,408</b>			<b>119,408</b>

## Note 5: other assets

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
Conditional instruments purchased	2,852	5,270	8,200
Miscellaneous receivables	2,607	8,428	7,222
Special bonus account	67,506	79,819	92,826
<b>TOTAL</b>	<b>72,965</b>	<b>93,517</b>	<b>108,248</b>



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

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
<b>DEFERRED CHARGES <sup>(1)</sup></b>			
Issue and redemption of premiums	427,176	439,619	411,133
Other deferred charges	(See note 6b)		55,219
<b>OTHER PREPAYMENTS, DEFERRED CHARGES AND ACCRUED INCOME</b>			
Prepayments	223,249	231,270	247,944
Accrued income <sup>(2)</sup>	1,900,876	1,931,435	1,984,015
Deferred tax <sup>(4)</sup>	68,701	31,611	
Other <sup>(3)</sup>	571,905	401,830	397,639
<b>TOTAL</b>	<b>3,191,907</b>	<b>3,035,765</b>	<b>3,095,950</b>

<sup>(1)</sup> Deferred charges consist of issue premiums on long-term loans and debt securities. See following table entitled "Deferred charges". Other deferred charges correspond to the loan issue fees to be amortised over the remaining term to maturity of the bonds and loans. The 2010 change in accounting presentation had no impact on the result. It no longer considers these costs as commissions and fees, but as accessories directly related to issues and are also to be amortised until maturity of the loans.

<sup>(2)</sup> Includes accrued income on swap contracts for €1,896,372K as of December 31, 2011.

<sup>(3)</sup> Includes borrower accounts (pending payments on loan accounts) and released loan funds on behalf of Crédit Foncier: €96,058K as of December 31, 2011 compared to €236,051K as of December 31, 2010 and €218,613K as of December 31, 2009.

<sup>(4)</sup> Deferred tax assets mainly consist of temporary differences and does not suggest uncertainty about their use. Refer also to notes to the corporate financial statements - paragraph 3.3.10.

## Note 6b: deferred charges

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
<b>ISSUE AND REDEMPTION OF PREMIUMS</b>			
Debt securities			
<i>Obligations foncières</i>			
- Subsidised sector	1,545	2,132	2,719
- Other sectors	425,631	437,487	408,414
Negotiable debt securities (B.M.T.N.)			
<b>Total issue and redemption of premiums</b>	<b>427,176</b>	<b>439,619</b>	<b>411,133</b>
<b>OTHER DEFERRED CHARGES</b>			
Loan and bond issuance costs <sup>(1)</sup>			55,219
<b>Total other deferred charges</b>			<b>55,219</b>
<b>TOTAL DEFERRED CHARGES</b>	<b>427,176</b>	<b>439,619</b>	<b>466,352</b>

<sup>(1)</sup> The cost of issuing bonds were pre-paid in commission accounts and amortized over the maturity of the loans. The change in presentation of the financial statements took place in 2010, with no impact on the outcome. It was to no longer consider these costs as commissions but as accessories directly related to issuances and also to be amortized over the maturity of the loan.

## Note 7: due to banks

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
<b>DUE TO NON GROUP BANKS</b>			
On demand			
- Current accounts			
- Other amounts due	2,907	68,754	64,505
- Related payables			
<b>Sub-total</b>	<b>2,907</b>	<b>68,754</b>	<b>64,505</b>
At maturity			
- At maturity BDF POO3G	1,500,000	2,000,000	3,000,000
- Term loans	78,584	98,169	144,660
- Securities subject to repurchase agreements			
- Related payables	5,008	2,924	20,718
<b>Sub-total</b>	<b>1,583,592</b>	<b>2,101,093</b>	<b>3,165,378</b>
<b>TOTAL DUE TO NON GROUP BANKS</b>	<b>1,586,499</b>	<b>2,169,847</b>	<b>3,229,883</b>
<b>DUE TO GROUP BANKS</b>			
On demand	1,024	268	1,433
At maturity	3,315,990	3,383,676	3,456,112
- Term loans <sup>(1)</sup>	2,715,544	2,783,998	2,856,687
- Securities subject to repurchase agreements	600,446	599,678	599,425
<b>TOTAL DUE TO GROUP BANKS</b>	<b>3,317,014</b>	<b>3,383,944</b>	<b>3,457,545</b>
<b>GRAND TOTAL</b>	<b>4,903,513</b>	<b>5,553,791</b>	<b>6,687,428</b>
<sup>(1)</sup> of which subsidised sector	20,887	20,978	14,921

## Note 8: customer deposits

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
<b>OTHER LIABILITIES</b>			
<b>Non-group</b>			
On demand			
- Other amounts due to customers	7,008	14,867	5,297
<b>TOTAL</b>	<b>7,008</b>	<b>14,867</b>	<b>5,297</b>

## Note 9: debt securities

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
Negotiable debt securities	150,000	238,000	238,000
Related payables	5,313	5,780	3,986
Negotiable debt securities and related payables	155,313	243,780	241,986
<i>Obligations foncières</i> <sup>(1)</sup>	87,765,796	86,098,034	79,887,330
Related payables	2,002,836	2,030,464	2,069,356
Bonds and related payables	89,768,632	88,128,498	81,956,686
<b>GRAND TOTAL</b>	<b>89,923,945</b>	<b>88,372,278</b>	<b>82,198,672</b>
<sup>(1)</sup> of which subsidised sector	89,788	116,178	812,600

Including a total of 100 million pounds sterling explicitly guaranteed by the French State.  
All of these debt securities benefit from a priority right of payment.

## Note 10: other liabilities

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
Other payables <sup>(1)</sup>	62,148	167,217	43,088
Related payables	1,034	1,335	1,732
Conditional instruments sold		41	58
Allocated public funds <sup>(2)</sup>	237,270	245,019	256,071
Deposits received	2,884,180	1,744,030	1,251,900
<b>TOTAL</b>	<b>3,184,632</b>	<b>2,157,642</b>	<b>1,552,849</b>
<sup>(2)</sup> of which subsidised sector	189,530	191,737	198,641
<sup>(1)</sup> including, corporate taxes due to Crédit Foncier de France	14,180	9,788	18,238

## Note 11: accruals and deferred income

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
<b>OTHER LIABILITY ADJUSTMENT ACCOUNTS</b>			
Prepaid FGAS subsidies	281,227	340,457	388,385
Other pre-payments	883,808	816,554	698,609
Accruals <sup>(1)</sup>	951,445	877,698	774,693
Adjustment accounts <sup>(2)</sup>	127,905	419,896	834,977
Other	222,375	182,125	67,603
<b>TOTAL</b>	<b>2,466,760</b>	<b>2,636,730</b>	<b>2,764,267</b>

<sup>(1)</sup> Including accrued expenses of swap contracts for € 940,488K at December 31, 2011 compared to € 864,681K at December 31, 2010 and € 762,121K at December 31, 2009.

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

## Note 12: provisions

(in thousands of euros)

	12/31/09		12/31/10		12/31/11				
	Balance	Increases	Reversals used	Reversals no used	Balance	Increases	Reversals used	Reversals no used	Balance
PROVISIONS FOR LIABILITIES AND CHARGES ON BANKING OPERATIONS									
Provisions for litigation	111	1,203		111	1,203				1,203
Provisions for tax litigation <sup>(1)</sup>	12	401	12		401		401		
Ordinary 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 <sup>(2)</sup>	5,216	2,382	83		7,515	2,238	3,181		6,572
TOTAL	5,339	3,986	95	111	9,119	2,238	3,582		7,775

<sup>(1)</sup> The provision in 2010 FY of €0.4 million is related to the fiscal risk provisionned after a fiscal control intervened in FY 2010, for the 2007, 2008 and 2009 fiscal years. The payment having been done in early January, the provision that was initially constituted was reversed during the first half of 2011.

<sup>(2)</sup> In 2010, the provision of €2.4 million mainly concerned the Neiertz provision for €1.4 million and the provision for counterparty risk on customers for €1 million. In 2011, the provision of €2.2 million mainly concerned the provision for counterparty risk on customers and the reversal of €3.2 million is related to the Neiertz provision.

## Note 13: subordinated debt

(in thousands of euros)

### I - Amount in financial statements

	Amount at 12/31/11	Amount at 12/31/10	Amount at 12/31/09
Redeemable subordinated notes	2,100,000	2,100,000	2,100,000
Perpetual super-subordinated notes	1,350,000		
Subordinated participating loan		1,350,000	1,350,000
Related payables	452	270	250
<b>TOTAL SUBORDINATED DEBT</b>	<b>3,450,452</b>	<b>3,450,270</b>	<b>3,450,250</b>

### II - Detailed informations concerning subordinated debt

#### a) Financial characteristics

	Date of issue	Maturity date	Rate	Repayment terms	Amount at 12/31/11
Redeemable subordinated notes <sup>(1)</sup>	12/30/2003	12/30/2043	Euribor 3 months +0.5%	AT MATURITY	2,100,000
Perpetual super-subordinated notes	12/30/2011		EONIA + 2.5%		1,350,000

<sup>(1)</sup> of which € 2bn issued on December 28, 2007, related to the issue of December 30, 2003.

## 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. This option was exercised on December 30, 2011, and the subordinated participating loan amounting to €1,350 million was repaid on that date.

- On the redeemable subordinated notes “RSN”

The RSNs were placed privately with Crédit Foncier and therefore, for reasons of prudence, are not deemed to represent shareholders’ equity of the Crédit Foncier Group. Compagnie de Financement Foncier has undertaken not to repay RSNs early for the entire duration of the loan. However, it reserves the right to redeem these instruments prior to maturity, as these transactions have no impact on the normal repayment schedule of outstanding securities. Redeemed RSNs are cancelled. Nevertheless, if Crédit Foncier were to sell these securities to entities outside the Group, they would become representative of shareholders’ equity and their purchase would require the prior agreement of the French Banking Authority [*Autorité de contrôle prudentiel*].

- On the perpetual super-subordinated notes “PSSN”

Compagnie de Financement Foncier has an option to redeem securities early, following authorisation by the ACP, either as part of an early redemption option exercisable five years after the securities issue date and on each subsequent interest payment date in the event of any fiscal or regulatory changes, or by repurchasing the securities issued. The repurchased securities are cancelled.

## c) Conditions relating to interest rate payable

- On the subordinated participating loan

In order to ensure the Company’s profitability, interest is only due if the net income for the year in respect of which the interest is due, after payment of that interest, is at least €10 million. As a consequence, if net income before payment of the interest were to be less than €10 million, 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 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. The interests of FY 2011 have all been paid.

- On the redeemable subordinated notes “RSN”

Any interest not paid is carried over as unsecured debt.

- On the perpetual super-subordinated notes “PSSN”

In order to ensure balanced company income and respect prudential ratios, interest will only be due when net income for the year in which interest is due, after payment of said interest, is at least €10 million. As a result, in cases where income before the interest payment is less than €10 million, interest shall not be due and shall not be deferred to subsequent years. In cases where income before the interest payment is above €10 million, but would fall below €10 million following the interest payment, the interest due shall be reduced by the appropriate amount and the interest over and above the resulting reduced amount shall not be deferred to subsequent years.

This reduction is required in order to respect prudential ratios, with no possibility of deferring unpaid interest on a given payment date to subsequent years.

## Note 14a: change in shareholder's equity

(in thousands of euros)

	Opening balance 01/01/10	Allocations	Changes in capital and reserves		Balance at 12/31/10	Allocations	Changes in capital and reserves		Balance at 12/31/11
			Dividends paid in shares	Other change			Dividends paid in shares	Other change	
Capital stock <sup>(1)</sup>	1,008,000				1,008,000		85,460	94,000	1,187,460
Share premiums <sup>(1)</sup>	302,462				302,462		40,540		343,002
Reserves									
- Legal reserve	18,512	8,773			27,285	7,161			34,446
- General reserve	55,517				55,517				55,517
- Regulated reserves									
of which									
Regulated revaluation reserves									
Special long-term capital gains reserves									
Retained earnings <sup>(2)</sup>	462	166,696		-91,504	75,654	10,050			85,704
Net shareholders' equity before income for the year	1,384,953				1,468,918				1,706,129
Income for the year before distribution	175,469	-175,469			143,211	-143,211			108,064
Net shareholders' equity after income for the year	1,560,422				1,612,129				1,814,193
Dividends distributed						126,000	-126,000		
	Opening balance 01/01/10	Allocations	Changes in provisions		Balance at 12/31/10	Allocations	Changes in provisions		Balance at 12/31/11
			Increases	Reversals			Increases	Reversals	
Regulated revaluation reserves									
Other regulated reserves									
Regulated reserves									
Amount of shareholders equity before dividends	1,560,422				1,612,129				1,814,193
	Opening balance 01/01/10	Allocations	Changes in FRBG		Balance at 12/31/10	Allocations	Changes in FRBG		Balance at 12/31/11
			Increases	Reversals			Increases	Reversals	
Fund for general banking risks	20,000				20,000				20,000
<b>TOTAL</b>	<b>1,580,422</b>				<b>1,632,129</b>				<b>1,834,193</b>

<sup>(1)</sup> The capital stock consists of 74,216,246 ordinary shares with a per value of €16, which all benefit from the same rights. No revaluation has been carried out to date. A capital increase amounting €94 million has been decided by a extraordinary general meeting on June 27, 2011, fully subscribed and liberated on June 29, 2011.

<sup>(2)</sup> A deposit on dividends amounting €94.5 million has been voted by the Board of Directors on December 17, 2010. It has been deducted on retained earnings. Moreover, the choice of accounting for deferred tax on social basis has a €2,996K positive impact on shareholders' equity at the beginning of the year. This amount was allocated to retained earnings.

## Note 14b: proposed allocation of income

(in thousands of euros)

As of 12/31/2011

SOURCES		
Retained earnings		85,704
Net income for the year		108,064
Drawing from reserves		
ALLOCATION		
Allocation to reserves		
- Legal reserve	5,403	
- Special long-term capital gains reserves		
- Other reserves		
Dividends	102,419	
Other distributions		
Retained earnings	85,946	
<b>TOTAL</b>	<b>193,768</b>	<b>193,768</b>

## Note 15: commitments given

(in thousands of euros)

Financial commitments

	12/31/11		12/31/10		12/31/09	
	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						313
<b>Sub-total subsidised sector</b>						<b>313</b>
COMPETITIVE SECTOR						
Non-Group commitments						
Other values given as a guarantee <sup>(1)</sup>	5,325,312		5,581,713		7,020,087	
Banks				15,995		
Customers <sup>(2)</sup>	147,789	2,311,996	158,416	2,124,618	110,158	2,064,127
<b>Sub-total competitive sector</b>	<b>5,473,101</b>	<b>2,311,996</b>	<b>5,740,129</b>	<b>2,140,613</b>	<b>7,130,245</b>	<b>2,064,127</b>
<b>TOTAL <sup>(3)</sup></b>	<b>7,785,097</b>		<b>7,880,742</b>		<b>9,194,685</b>	

Amounts not drawn down represent the fractions that remain to be drawn on loans already partially put in place.

Net authorisations represent the amount of loans authorised but which have not yet been put in place.

<sup>(1)</sup> This line represents assets and securities given as collateral to the Banque de France, in the framework of the pool of the Overall collateral management program or Gestion Globale des Garanties (3G) of which:

In millions of €

- Securities	1,675	2,249	3,360
- Loans	3,650	3,333	3,660

<sup>(2)</sup> Main changes concerning financing commitments given to customers are:

In millions of €

- Revolving credit lines	1 311	1 115	1 315
- Treasury housing savings accounts ( <i>"primes d'épargne logement"</i> )	1 000	900	281

<sup>(3)</sup> Of which, doubtful:

€1,250 K	€1,569 K	€1,702 K
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## Note 16: commitments receive

(in thousands of euros)

	31/12/11	31/12/10	31/12/09
<b>FINANCING COMMITMENTS</b>			
<b>NON-GROUP COMMITMENTS</b>			
Banks <sup>(1)</sup>	3,907,641	3,161,561	3,442,050
<b>Sub-total</b>	<b>3,907,641</b>	<b>3,161,561</b>	<b>3,442,050</b>
<b>GROUP COMMITMENTS <sup>(2)</sup></b>	<b>50,499</b>	<b>50,499</b>	<b>55,448</b>
Other values received as collateral from the Group <sup>(6)</sup>	14,754,439	12,278,584	7,691,797
<b>TOTAL</b>	<b>18,712,579</b>	<b>15,490,644</b>	<b>11,189,295</b>
<b>GUARANTEE COMMITMENTS</b>			
<b>NON-GROUP COMMITMENTS</b>			
Banks <sup>(3)</sup>	3,337,955	3,283,785	3,286,211
Customers <sup>(4)</sup>	39,756,337	38,707,948	32,674,266
<b>Sub-total</b>	<b>43,094,292</b>	<b>41,991,733</b>	<b>35,960,477</b>
<b>GROUP COMMITMENTS <sup>(5)</sup></b>	<b>4,146,956</b>	<b>4,693,085</b>	<b>9,527,935</b>
<b>TOTAL</b>	<b>47,241,248</b>	<b>46,684,818</b>	<b>45,488,412</b>
<b>COMMITMENTS ON SECURITIES</b>			
Others securities to be received		15,000	
<b>TOTAL</b>	<b>47,241,248</b>	<b>46,699,818</b>	<b>45,488,412</b>
<b>TOTAL COMMITMENTS RECEIVED</b>	<b>65,953,827</b>	<b>62,190,462</b>	<b>56,677,707</b>

<sup>(1)</sup> At December 31, 2011, the non-group financing commitments represented the commitment received from the Banque de France as part of the Global Management guarantee pool which amounted to €3,151.6 million compared to €3,161.6 million at December 31, 2010, and the engagement of FCC repurchases an amount of €756 million.

<sup>(2)</sup> Group commitments included FCC share repurchase agreements amounting to: 50,499 50,499 55,448

<sup>(3)</sup> Includes rated AA/AA- 325,804 400,072 500,805  
- Guarantees received from Cr  serfi 340,167 167,172 26,720  
- Security enhancement guarantees received from insurance companie: 2,671,984 2,716,541 2,758,783

<sup>(4)</sup> Compagnie de Financement Foncier posts guarantees to the balance sheet that are explicitly or implicitly related to certain types of customer loans on the balance sheet, in view of their materiality.

These guarantees are broken down as follows:

- State guarantees on subsidised sector loans	883,179	1,093,584	1,179,966
- SFGAS guarantees on FGAS-eligible loans and repurchased by the state	9,558,980	8,458,945	7,417,570
- Mortgage guarantees for mortgage loans benefiting from only one such guarantee	15,581,447	13,311,239	8,421,825
- Guarantees granted by local authorities and other entities	2,417,943	2,507,650	2,335,822
- Security enhancement guarantees granted by european states	11,314,788	13,336,530	13,319,083

<sup>(5)</sup> At December 31, 2011, guarantee commitments received include transactions of credit risk transfer, directly or indirectly, totalling €761 million to a AAA rated European public entity. They also include a guarantee received from BPCE in connection with French local authority public sector loans purchased from Ixis CIB for €3,249 million.

<sup>(6)</sup> Guarantees related to loans hold by Cr  dit Foncier and put in place within the framework of loans authorized outline article L 211-38.

- Guarantees received from Cr��dit Foncier:	14,640,825	12,278,584	7,691,797
- Guarantees received from other institutions:	113,614		

## Note 17: foreign exchange transactions

(in thousands of euros)

	12/31/11		12/31/10		12/31/09	
	Currency receivable	Currency payable	Currency receivable	Currency payable	Currency receivable	Currency payable
<b>FORWARD TRANSACTIONS <sup>(1)</sup></b>						
Transactions directly with counterparties						
Hedging transactions						
Financial swaps						
Micro-hedging transactions						
- Subsidised sector	89,788	121,418	116,178	161,891	112,600	161,891
- Unsubsidised sector	24,160,843	24,257,117	22,990,471	23,364,654	19,132,965	19,918,650
Macro-hedging transactions						
- Subsidised sector						
- Unsubsidised sector						
Total hedging transactions	24,250,631	24,378,535	23,106,649	23,526,545	19,245,565	20,080,541
<b>FORWARD TRANSACTIONS (nominal amounts)</b>	24,250,631	24,378,535	23,106,649	23,526,545	19,245,565	20,080,541
<b>FORWARD TRANSACTIONS (fair value) <sup>(2)</sup></b>	-846,204		-646,442		-721,838	
<b>CURRENT CASH TRANSACTIONS</b>			15,995	14,578		
<b>TOTAL FOREIGN CURRENCY TRANSACTIONS</b>	24,250,631	24,378,535	23,122,644	23,541,123	19,245,565	20,080,541
<b>TOTAL</b>	48,629,166		46,663,767		39,326,106	

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

<sup>(2)</sup> Data communicated pursuant to regulation CRC 2004-16 of November 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)

	12/31/11		12/31/10		12/31/09	
	Euros <sup>(1)</sup>	Other Currencies <sup>(2)</sup>	Euros <sup>(1)</sup>	Other Currencies <sup>(2)</sup>	Euros <sup>(1)</sup>	Other Currencies <sup>(2)</sup>
TRANSACTIONS DIRECTLY WITH COUNTERPARTIES						
CONDITIONAL TRANSACTIONS						
Micro-hedging transactions						
- Purchases						
- Sales			3,049		6,860	
Macro-hedging transactions						
- Purchases	3,059,936		2,167,448		1,131,021	
- Sales						
Other conditional transactions						
- Purchases						
- Sales						
CONDITIONAL TRANSACTIONS (nominal amounts)	3,059,936		2,170,497		1,137,881	
CONDITIONAL TRANSACTIONS (fair value)	37,666		42,638		14,833	
FIRM TRANSACTIONS						
Micro-hedging transactions	80,015,754	321,699	80,303,342	312,330	82,273,050	292,603
- Interest rate instruments	80,015,754	321,699	80,303,342	312,330	82,273,050	292,603
- Exchange rate instruments						
- Other instruments						
Macro-hedging transactions	24,039,213		23,864,019		32,127,103	
- Interest rate instruments	24,039,213		23,864,019		32,127,103	
- Exchange rate instruments						
- Other instruments						
Other transactions	2,914,457		3,057,737		3,099,031	
- Interest rate instruments						
- Exchange rate instruments						
- Other instruments <sup>(3)</sup>	2,914,457		3,057,737		3,099,031	
FIRM TRANSACTIONS (nominal amounts)	106,969,424	321,699	107,225,098	312,330	117,499,184	292,603
FIRM TRANSACTIONS (fair value) <sup>(4)</sup>	3,345,533	86,497	2,614,597	38,028	2,593,080	1,218
FIRM AND CONDITIONAL TRANSACTIONS	110,029,360	321,699	109,395,595	312,330	118,637,065	292,603
TOTAL <sup>(5)</sup> (nominal amounts)	110,351,059		109,707,924		118,929,668	
TOTAL (fair value)	3,469,696		2,695,263		2,609,131	

<sup>(1)</sup> Euro equivalent for non-euro currencies IN.

<sup>(2)</sup> Euro equivalent currencies that became the euro OUT.

<sup>(3)</sup> This amount 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. As this guarantee ended during the first half of 2008, Crédit Foncier granted an equivalent protection on June 15, 2008 on a portion of the portfolio by committing to compensate for a drop of the weighting if the rating agencies downgraded the rating to under A-/A3/A-.

<sup>(4)</sup> Data communicated pursuant to regulation CRC 2004-16 of November 23, 2004 regarding information to be provided further to the transposition of the European directives, "Fair value" and "Modernisation".

<sup>(5)</sup> At December 31, 2011, there were no outstanding doubtful loans relating to transactions on financial instruments.

## Note 19: interest and similar income <sup>(1)</sup>

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
On transactions with banks	308,461	178,006	157,774
On transactions with customers	1,405,740	1,316,174	1,415,662
On bonds and other fixed income securities	2,802,096	3,217,697	2,849,901
Other interest and similar income	464	372	27,183
<b>TOTAL</b>	<b>4,516,761</b>	<b>4,712,249</b>	<b>4,450,520</b>
<sup>(1)</sup> including income from the subsidised sector	69,499	90,722	121,359

## Note 20: interest and similar expenses <sup>(1)</sup>

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
On transactions with banks	-155,765	-155,584	-217,743
On transactions with customers	-370,276	-358,304	-83,793
On bonds and other fixed income securities	-3,226,059	-3,371,122	-3,263,368
Related to subordinated debt	-84,419	-66,164	-87,797
Other interest and similar expenses	-353,146	-481,686	-439,509
<b>TOTAL</b>	<b>-4,189,665</b>	<b>-4,432,860</b>	<b>-4,092,210</b>
<sup>(1)</sup> of which expenses from the subsidised sector	61,000	77,704	103,652

## Note 21: net commissions

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
<b>INCOME</b>	<b>56,410</b>	<b>44,779</b>	<b>41,447</b>
On transactions with banks			
On transactions with customers <sup>(1)</sup>	55,930	44,494	21,881
Transfer of loan issuance costs/expenses			19,465
On securities transactions			101
Other commissions and fees	480	285	
<b>EXPENSES</b>	<b>-4,455</b>	<b>-4,293</b>	<b>-26,350</b>
On transactions with banks	-73	-608	-868
On transactions with customers			
On securities transactions	-4,117	-3,386	-22,050
On payment method transactions			
Other commissions and fees	-265	-299	-3,432
<b>NET BALANCE</b>	<b>51,955</b>	<b>40,486</b>	<b>15,097</b>

<sup>(1)</sup> The increase in net commissions on transactions with customers is related to an increase in prepayments and therefore the allowances paid.

## Note 22: gains and losses on trading portfolio transactions

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
<b>FOREIGN EXCHANGE AND ARBITRAGE TRANSACTIONS</b>	712	1,338	-223
Gains on foreign exchange and arbitrage transactions	712	1,338	2,259
Losses on foreign exchange and arbitrage transactions			-2,482
<b>FORWARD FINANCIAL INSTRUMENT TRANSACTIONS</b>			
Income from forward financial instruments			
Expenses on forward financial instruments			
Reversals in provisions for unrealised losses on interest-rate instruments			
Increases in provisions for unrealised losses on interest-rate instruments			
<b>NET BALANCE</b>	712	1,338	-223

## Note 23: gains and losses on investment securities transactions

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
Gains on disposal			
Losses on disposal <sup>(1)</sup>	-36,101		
Reversals of provisions for loss of value		89	3,571
Increases in provisions for loss of value <sup>(2)</sup>	-5,820	-7,172	-1,980
<b>NET BALANCE</b>	-41,921	-7,083	1,591

<sup>(1)</sup> Including €26,8 million on sales related to the repurchase by Compagnie de Financement Foncier of part of its own bonds. Refer also to Notes to the financial statements - section 2.8.

<sup>(2)</sup> At December 31, 2011, the stock of bonds depreciation was amounted to €19,762 K including €19,506 K for AYT CEDULA 4% bonds.

## Note 24: other income from banking operations

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
Reversals of provisions relating to banking transactions			
Surplus of reversals over increases in provisions for amortisation of loans			
Provision for claims and litigation on banking transactions		111	
Other income from banking operations			
Transfer of operating expenses			
Other sundry income from banking operations <sup>(1)</sup>	2,798	2,141	2,917
<b>TOTAL</b>	2,798	2,252	2,917
<sup>(1)</sup> of which dividends on PAS commissions received by FGAS	2,127	2,064	2,003

Following the termination of the FGAS guarantee system, Compagnie de Financement Foncier received in June 2011, from FGAS, dividends on PAS flat commissions for the periods 1993 to 2005. It was the last reimbursement to be made.

## Note 25: other expenses from banking operations

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
<b>INCREASES IN PROVISIONS RELATING TO BANKING OPERATIONS</b>			
Provision for claims and litigation on banking transactions		-1,203	
<b>OTHER EXPENSES ON BANKING OPERATIONS</b>			
Commissions on PAS and PTZ loans paid to FGAS			
Amortisation of loan issuance expenses		-149	-11,934
Amortisation of flat-rate commissions on PAS loans			
Amortisation of the correcting account on PC and PAS loans	-168	-385	-772
Other sundry expenses from banking operations	-1,647	-422	-2,954
<b>TOTAL</b>	<b>-1,815</b>	<b>-2,159</b>	<b>-15,660</b>

## Note 26: general operating expenses

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
Personnel expenses	-191	-267	-495
Taxes and duties	-14,172	-10,427	-12,847
External services	-4,053	-5,206	-4,412
Expenses invoiced by Crédit Foncier de France	-85,777	-81,165	-79,566
<b>TOTAL</b>	<b>-104,193</b>	<b>-97,065</b>	<b>-97,320</b>

Note: the total amount of compensation received by members of management entities during the year 2011 amounted €120K.

## Note 27a: cost of risk

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
<b>PROVISIONS AND LOSSES ON DOUBTFUL LOANS</b>	<b>-6,430</b>	<b>-5,083</b>	<b>-5,316</b>
Increases in provisions (See note 27b)	-11,660	-8,207	-6,407
Reversals of provisions	7,598	5,012	2,642
Losses not covered by provisions	-2,368	-1,888	-1,551
<b>LOSSES PROVISIONED FOR UNRECOVERABLE LOANS</b>			
Losses covered by provisions	-143	-246	-1,707
Reversals of provisions used	143	246	1,707
<b>RECOVERIES ON AMORTIZED LOANS<sup>(1)</sup></b>	<b>1,561</b>	<b>1,767</b>	<b>1,189</b>
<b>NET BALANCE</b>	<b>-4,869</b>	<b>-3,316</b>	<b>-4,127</b>
<sup>(1)</sup> of which recoveries for correcting account	19	20	10

## Note 27b: increases in provisions for doubtful loans

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
PROVISIONS FOR DOUBTFUL LOANS	-9,421	-5,825	-5,871
Provisions for loans to customers	-9,421	-5,825	-5,871
PROVISIONS - COST OF RISK	-2,239	-2,382	-536
Provision for losses and charges on commitments			
Provision for counterparty risks <sup>(1)</sup>	-2,239	-2,382	-536
<b>TOTAL</b>	<b>-11,660</b>	<b>-8,207</b>	<b>-6,407</b>

<sup>(1)</sup> In 2010, provision of €1,049K was made for client dynamic provision and €1,333K for Neiertz provision.  
 In 2011, provision of €1,950K was made for client dynamic provision and € 289K for the sector provision.

## Note 27c: reversals in provisions for doubtful loans

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
PROVISIONS FOR DOUBTFUL LOANS	4,560	5,176	3,193
Provisions for loans to banks			
Provisions for loans to customers	4,560	5,176	3,193
PROVISIONS FOR LIABILITIES AND CHARGES - COST OF RISK	3,181	83	1,157
Provision for losses and charges on commitments			
Provision for counterparty risks <sup>(1)</sup>	3,181	83	1,157
<b>TOTAL</b>	<b>7,741</b>	<b>5,259</b>	<b>4,350</b>

<sup>(1)</sup> At December 31, 2010, reversal of €62K of the Neiertz provision and of €21K of the sector provision.  
 At December 31, 2011, reversal of €3,167K of the Neiertz provision and of €14K of the sector provision.

## Note 28: income taxes

(in thousands of euros)

COMPOSITIONS OF TAX EXPENSES	12/31/11	12/31/10
Current taxes	-100,592	-101,837
Deferred taxes	37,091	28,614
Provisions for risks or for tax litigations	401	-388
<b>TOTAL</b>	<b>-63,100</b>	<b>-73,611</b>

BREAKDOWN OF DEFERRED TAXES OF THE YEAR	12/31/11	12/31/10
Non-deductible provisions	1,727	1,597
Other temporal differences	35,364	27,017
<b>TOTAL</b>	<b>37,091</b>	<b>28,614</b>

The option of accounting for deferred taxes in the financial statements has been taken for the fiscal year which ended on December 31, 2010.  
 Consequently, data for fiscal year 2009 are not available.



## Note 29: transactions with related companies and other investments

(in thousands of euros)

As of 12/31/2011	Related enterprises		Other Investments	TOTAL
	Group <sup>(1)</sup>	Non-group		
LOANS RECEIVABLE FROM BANKS				
On demand	232,019			232,019
At maturity	2,756,533			2,756,533
Values received as long-term pension	14,748,769			14,748,769
LOANS PAYABLE TO BANKS				
On demand	1,024			1,024
At maturity	2,715,544			2,715,544
Securities subject to repurchase agreement	600,446			600,446
COMMITMENTS GIVEN				
Financing				
Guarantee				
COMMITMENTS RECEIVED				
Financing	50,499			50,499
Guarantee	4,146,956			4,146,956
Other values received as collateral	14,754,439			14,754,439
ON SECURITIES TRANSACTIONS				
Bonds and other fixed income securities	9,332,628			9,332,628
Debt securities				
Subordinated debt	3,450,452			3,450,452

<sup>(1)</sup> The definition of Group refers to the consolidated group to which Compagnie de Financement Foncier belongs.

The Company is fully consolidated within the consolidated financial statements of Crédit Foncier de France, itself a part of the BPCE Group. As a result, the Group represents all of the fully and proportionally consolidated entities of the BPCE Group.

## Note 30: schedule of foreign exchange positions

(in thousands of euros)

C.O.B recommendation 89.01

As of 12/31/2011	\$ Australian	\$ Canadian	US \$	Hong Kong \$	£ Sterling	Swiss franc	Yen	Hungar- ian Forint	New Zealand \$	Norwegian Krone	Danish Krone	TOTAL
<b>BALANCE SHEET</b>												
Financial assets	22,012	87,566	4,254,386	852	153,830	1,836,910	2,547,351	10	33	4,592	7	8,907,549
Financial liabilities	807,871	562,016	7,301,710	38,361	1,168,809	6,340,590	690,382			333,455		17,243,194
Balance sheet differential (I)	-785,859	-474,450	-3,047,324	-37,509	-1,014,979	-4,503,680	1,856,969	10	33	-328,863	7	-8,335,645
<b>OFF - BALANCE SHEET</b>												
Commitments received	785,978	608,400	8,565,869	37,509	1,561,489	7,611,840	1,581,474			328,863		21,081,422
Commitments given		133,939	5,518,045		546,524	3,107,791	3,438,398					12,744,697
Off-balance sheet differential (II)	785,978	474,461	3,047,824	37,509	1,014,965	4,504,049	-1,856,924			328,863		8,336,725
Overall differential (I)+(II)	119	11	500		-14	369	45	10	33		7	1,080

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.

## Note 31: schedule of positions - liquidity risk

(in thousands of euros)

C.O.B. Recommendation 89.01

As of 12/31/2011	Remaining term to maturity					TOTAL <sup>(2)</sup>
	< 3 months	3M<T<6M	6M<T<1Y	1Y<T<5Y	>5 years	
BALANCE SHEET						
Financial assets <sup>(1)</sup>	8,597,183	8,056,991	2,291,907	18,602,650	62,461,756	100,010,487
Due from banks	7,163,539	7,109,572	18,659	1,779,548	3,064,383	19,135,701
Customer loans	938,667	613,605	1,312,849	8,125,393	28,904,131	39,894,645
Bonds and other fixed income securities	494,977	333,814	960,399	8,697,709	30,493,242	40,980,141
Subordinate term loans						
Financial liabilities	5,052,000	1,541,357	5,135,693	35,550,007	47,607,237	94,886,294
Due to banks	536,868	58,385	44,919	1,895,063	2,335,263	4,870,498
Customer deposits						
Debt securities:	4,515,132	1,482,972	5,090,774	33,654,944	43,171,974	87,915,796
- Liquid notes						
- Inter-bank market securities						
- Negotiable debt securities					150,000	150,000
- Bonds	4,515,132	1,482,972	5,090,774	33,654,944	43,021,974	87,765,796
- Other debt securities						
Subordinated term debt					2,100,000	2,100,000
Balance sheet differential (I)	3,545,183	6,515,634	-2,843,786	-16,947,357	14,854,519	5,124,193
OFF-BALANCE SHEET						
Commitments given			2,458,534			2,458,534
Commitments received	3,151,641				806,499	3,958,140
Off balance sheet differential (II)	3,151,641		-2,458,534		806,499	1,499,606
Total differential (I)+(II)	6,696,824	6,515,634	-5,302,320	-16,947,357	15,661,018	6,623,799
Conditional positions	66,315	60,980	123,459	144,496	2,664,686	3,059,936

<sup>(1)</sup> Among the financial assets of the Compagnie de Financement Foncier, we have identified €27bn euros of securities that conform to the refinancing criteria of the European Central Bank.

<sup>(2)</sup> The difference with the amounts shown on the balance sheet is principally explained by unpaid loans, doubtful loans and related receivables.

## Note 32: financial results of the company over the last five years

(in euros)

Description	2007	2008	2009	2010	2011
<b>I) FINANCIAL SITUATION AT THE END OF THE FINANCIAL YEAR</b>					
a) Capital stock	154,000,000	924,000,000	1,008,000,000	1,008,000,000	1,187,459,936
b) Number of shares in issue	9,625,000	57,750,000	63,000,000	63,000,000	74,216,246
c) Number of bonds convertible into shares	None	None	None	None	None
<b>II) OVERALL RESULTS FROM OPERATIONS</b>					
a) Revenue excluding taxes	3,538,236,200	4,418,771,642	4,496,251,634	4,753,535,071	4,534,760,577
b) Profit for the financial year before tax, employee profit sharing and net increase/reversal in amortisation and provisions	87,143,909	90,537,323	262,947,662	257,386,324	219,755,553
c) Income taxes	28,416,863	24,784,463	87,771,828	101,825,013	100,591,419
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	53,151,105	62,231,116	175,469,326	143,210,812	108,063,919
f) Amount of profits distributed	None	115,500,00	None	94,500,000	126,000,000
<b>III) RESULTS FROM OPERATIONS PER SHARE <sup>(1)</sup></b>					
a) Profit for the financial year after tax and employee profit sharing but before net increase/reversal in amortisation and provisions	6.10	1.14	2.77	2.47	1.72
b) Profit for the financial year after tax and employee profit sharing and net increase/reversal in amortisation and provisions	5.52	1.08	2.79	2.27	1.57
c) Dividend paid per share	None	2.00	None	1.50	2.00
<b>IV) PERSONNEL</b>					
a) Number of employees	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant
- Management category	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant
- Employee and Technician category	None	None	None	None	None
b) Total employee salaries	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant
c) Amount paid for social contributions and benefits (social security, other staff benefits, etc.)	Not Significant	Not Significant	Not Significant	Not Significant	Not Significant

(1) From fiscal year 2011, earnings per share is determined by the average number of shares for the year concerned. Without this change in presentation, results would have been (a) €1.60 and (b) €1.46.

## Note 33: simplified company balance sheets for the last five years

(in thousands of euros)

	12/31/11	12/31/10	12/31/09	12/31/08	12/31/07
<b>ASSETS</b>					
Cash due from central banks and post office accounts	14,697	5,413	4,421	20,024	
Treasury notes and similar securities					
Due from banks	20,609,849	16,493,215	12,745,566	9,806,259	9,827,024
Customer loans	40,660,039	39,709,142	37,183,708	36,311,095	35,943,673
Bonds and other fixed-income securities	41,228,820	44,489,773	45,106,631	46,107,121	43,904,351
Fixed assets				2,480	7,816
Other assets	72,965	93,517	108,248	204,660	169,998
Prepayments, deferred charges and accrued income	3,191,907	3,035,765	3,095,950	3,490,979	4,544,432
<b>TOTAL ASSETS</b>	<b>105,778,277</b>	<b>103,826,825</b>	<b>98,244,524</b>	<b>95,942,618</b>	<b>94,397,294</b>
<b>LIABILITIES</b>					
Central banks, post office accounts					
Due to banks	4,903,513	5,553,791	6,687,428	5,857,992	5,117,947
Customer deposits	7,008	14,867	5,297	33,479	91,152
Debt securities	89,923,945	88,372,278	82,198,672	80,148,265	79,591,962
Other liabilities	3,184,632	2,157,642	1,552,849	739,357	506,394
Accruals and deferred income	2,466,759	2,636,729	2,764,267	4,298,250	4,253,965
Provisions for liabilities and charges	7,775	9,119	5,339	9,628	12,383
Subordinated debt	3,450,452	3,450,270	3,450,250	3,450,589	4,250,665
Fund for general banking risks	20,000	20,000	20,000	20,000	20,000
Regulated reserves and subsidies					
Capital, reserves and retained earnings	1,706,129	1,468,918	1,384,953	1,322,827	499,675
Net income for the year	108,064	143,211	175,469	62,231	53,151
<b>TOTAL LIABILITIES</b>	<b>105,778,277</b>	<b>103,826,825</b>	<b>98,244,524</b>	<b>95,942,618</b>	<b>94,397,294</b>
<b>OFF-BALANCE SHEET</b>					
<b>Commitments given <sup>(1)</sup></b>					
- Financing	2,459,785	2,299,029	2,174,598	2,950,005	8,799,403
- Guarantee	5,325,312	5,581,713	7,020,087	10,449,002	
<b>TOTAL COMMITMENTS GIVEN</b>	<b>7,785,097</b>	<b>7,880,742</b>	<b>9,194,685</b>	<b>13,399,007</b>	<b>8,799,403</b>
<b>Commitments received <sup>(1)</sup></b>	<b>65,953,827</b>	<b>62,190,462</b>	<b>56,677,707</b>	<b>54,507,176</b>	<b>59,216,527</b>
<b>Reciprocal commitments</b>					
- Sale and purchase of foreign currencies	48,629,166	46,663,767	39,326,106	46,122,439	37,607,259
- Loans to be made or received in foreign currencies					
- Non-unwound financial instruments	110,351,059	109,707,924	118,929,668	116,562,549	126,146,699
<b>TOTAL RECIPROCAL COMMITMENTS</b>	<b>158,980,225</b>	<b>156,371,691</b>	<b>158,255,774</b>	<b>162,684,988</b>	<b>163,753,958</b>

<sup>(1)</sup> The information related to the other values received as collateral were not included in the financial statements at December 31, 2008.

## Note 34: privileged/non-privileged liabilities

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
<b>PRIVILEGED DEBT</b>	<b>91,073,675</b>	<b>89,761,796</b>	<b>83,945,847</b>
Due to banks	79,567	99,573	149,545
French covered bond <i>obligations foncières</i>	89,923,945	88,372,278	82,198,672
Amounts due under forward financial instruments	1,068,392	1,284,576	1,596,367
Amounts due under the agreement covered by Article L515-22 of the French Monetary and Financial Code	1,771	5,369	1,263
Debt resulting from related expenses mentioned in the last paragraph of Article L515-19 of the French Monetary and Financial Code			
<b>NON-PRIVILEGED DEBT</b>	<b>14,704,602</b>	<b>14,065,029</b>	<b>14,298,677</b>
Unsecured debt	8,835,585	8,307,872	8,537,336
Subordinated and similar debt of which:	4,027,049	4,115,909	4,175,580
- Redeemable subordinated notes "RSNs"	2,100,221	2,100,177	2,100,141
- Perpetual subordinated notes	1,350,231		
- Participating loan		1,350,094	1,350,108
Shareholders' equity and provisions	1,841,968	1,641,248	1,585,761
<b>TOTAL LIABILITIES</b>	<b>105,778,277</b>	<b>103,826,825</b>	<b>98,244,524</b>

## Note 35: totals for the subsidised sector

(in thousands of euros)

### Balance sheet

ASSETS	2011	2010	2009	LIABILITIES	2011	2010	2009
<b>Loans</b>	<b>705,878</b>	<b>922,126</b>	<b>1,209,580</b>	<b>Interbank loans</b>			
				Customer deposits	284	181	203
				Debt securities	93,188	120,577	837,360
				Other liabilities	16,065	20,392	25,836
<b>Other assets</b>	<b>67,506</b>	<b>79,819</b>	<b>92,826</b>				
<i>Special bonus account</i>	<i>67,506</i>	<i>79,819</i>	<i>92,826</i>				
<b>Prepayments, deferred charges and accrued income</b>	<b>87,768</b>	<b>39,625</b>	<b>26,538</b>	<b>Accruals and deferred income</b>	<b>60,711</b>	<b>54,241</b>	<b>59,168</b>
<i>CSB - Foreign exchange and rate differences</i>				<i>CSB - State guaranteed foreign exchange and rate differences</i>	<i>70</i>	<i>70</i>	<i>72</i>
<i>Other prepayments, deferred charges and accrued income</i>	<i>87,768</i>	<i>39,625</i>	<i>26,538</i>	<i>Other accruals and deferred income</i>	<i>60,641</i>	<i>54,171</i>	<i>59,096</i>
				<b>Public funds allocated</b>	<b>189,530</b>	<b>192,037</b>	<b>198,640</b>
				<i>Subsidies</i>	<i>35,405</i>	<i>45,910</i>	<i>59,120</i>
				<i>Guarantee fund</i>	<i>154,125</i>	<i>146,127</i>	<i>139,520</i>
<b>Cash and cash equivalents</b>				<b>Cash and cash equivalents</b>	<b>501,374</b>	<b>654,142</b>	<b>207,737</b>
<b>TOTAL</b>	<b>861,152</b>	<b>1,041,570</b>	<b>1,328,944</b>	<b>TOTAL</b>	<b>861,152</b>	<b>1,041,570</b>	<b>1,328,944</b>

### Off-balance sheet

	2011	2010	2009		2011	2010	2009
<b>COMMITMENTS RECEIVED</b>				<b>COMMITMENTS GIVEN</b>			
State guarantees	883,179	912,404	1,179,966	Loan amounts not drawn down			313

### Reciprocal commitments

	2011	2010	2009
<b>COMMITMENTS ON FORWARD FINANCIAL INSTRUMENTS</b>			
Hedge rate instruments			
- Micro-hedging			
- Macro-hedging	800,000	700,000	1,100,000
Exchange hedging instruments			
- Micro-hedging			
- Foreign exchange receivable	89,788	116,178	112,600
- Foreign exchange payable	-121,418	-161,891	-161,891

## Note 36: cash flow statement

### I - 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 *Conseil national de la comptabilité*, concerning the format of company financial summary as part of the Finance and Banking Regulatory.

It is prepared using the indirect method: the net income for the year is restated for non-monetary items: depreciation allowances for tangible and intangible assets, net provisions, other transactions without cash payments (such as expenses payable and 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, increase in a provision by allocation on retained earnings.

The breakdown of Compagnie de Financement Foncier activities between operating, investment, and financing activities reflects its status as a société de credit foncier.

Operating activities include:

- the acquisition of eligible loans;
- the acquisition of eligible securitisation tranches;
- the issue of *obligations foncières* and other unsubordinated long-term resources.

Financing activities include:

- dividends paid in cash;
- the issue and reimbursement of subordinated loans.

The cash position is defined using the standards of the French *Conseil national de la comptabilité*. It includes cash on hand and on-demand deposits at the Banque de France, in post office accounts and with banks.



## II - Cash flow statement

(in thousands of euros)

	12/31/11	12/31/10	12/31/09
<b>OPERATING ACTIVITIES</b>			
Net income for the year	108,064	143,211	175,469
Restatement of earnings, related to operating activities			
Tangible and intangible fixed assets, excluding goodwill			2,479
Net provisions/customers and banks	6,113	1,365	2,649
Net provisions/short-term investment securities	5,820	7,083	-1,591
Net provisions for risks/loans	-1,343	2,687	-4,289
Net gain on sale of fixed assets			
Other transactions without cash payments	947,360	-1,211,430	-232,400
Cash flow on loans to banks and customers	-4,081,022	-6,883,147	-4,134,181
Cash flow on short-term investment securities	-2,277,746	2,645,028	1,969,589
Cash flow on long-term investment securities	4,503,245	-1,072,677	-1,928,285
Cash flow on other assets	-189,229	-15,020	405,953
Cash flow on debts/banks and customers	-664,737	-1,101,147	833,009
Net borrowing	1,579,762	6,210,704	1,941,416
Cash flow on other liabilities	1,164,659	622,157	716,868
<b>Net cash flow used for operating activities</b>	<b>1,100,946</b>	<b>-651,186</b>	<b>-253,314</b>
<b>INVESTMENT ACTIVITIES</b>			
Cash flow related to the sale of:			
- Financial assets			
- Tangible and intangible fixed assets			
Disbursements for the acquisition of:			
- Financial assets			
- Tangible and intangible fixed assets			
Net cash flow from other investment activities			
<b>Net cash flow used for investment activities</b>			
<b>FINANCING ACTIVITIES</b>			
Cash flow from share issues			115,395
Dividends paid			-115,500
Net issue of subordinated debt			
Other			
<b>Net cash flow from financing activities</b>			<b>-105</b>
<b>Net change in cash position</b>	<b>1,100,946</b>	<b>-651,186</b>	<b>-253,419</b>
Cash position at start of year	323,129	974,315	1,227,734
Cash position at end of year	1,424,075	323,129	974,315
- Net	1,100,946	-651,186	-253,419
Cash	14,697	5,413	4,421
Due to banks at maturity	1,409,378	317,716	969,894
<b>TOTAL</b>	<b>1,424,075</b>	<b>323,129</b>	<b>974,315</b>

## Note 37: fees for the statutory auditors and for the members of their networks

(in thousands of euros)

Financial years covered: 2010 and 2011

	Auditor: KPMG				Auditor: PricewaterhouseCoopers			
	Amount (TTCND)		%		Amount (TTCND)		%	
	2011	2010	2011	2010	2011	2010	2011	2010
<b>Audit</b>								
Statutory auditors, certification, review of individual and consolidated accounts								
- Issuer	195	203	71%	57%	195	203	71%	56%
- Fully consolidated subsidiaries								
Other duties and services directly related to the Statutory Auditor's mission <sup>(1)</sup>								
- Issuer	79	156	29%	43%	79	162	29%	44%
- Fully consolidated subsidiaries								
<b>Subtotal</b>	<b>274</b>	<b>359</b>	<b>100%</b>	<b>100%</b>	<b>274</b>	<b>365</b>	<b>100%</b>	<b>100%</b>
Other services provided by the networks to fully consolidated subsidiaries								
- Legal, tax, corporate								
- Other (specify if > 10% of audit fees)								
<b>Subtotal</b>								
<b>TOTAL</b>	<b>274</b>	<b>359</b>	<b>100%</b>	<b>100%</b>	<b>274</b>	<b>365</b>	<b>100%</b>	<b>100%</b>

<sup>(1)</sup> Fees relating to the issuance of the comfort letter.

## Statutory auditors' report on the financial statements

For the year ended December 31, 2011

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' 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 Auditors' 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

19, rue des Capucines - 75001 Paris - France

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended December 31, 2011 on:

- the audit of the accompanying financial statements of Compagnie de Financement Foncier;
- 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.

## I. Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at December 31, 2011 and of the results of its operations for the year then ended in accordance with French accounting principles.

## II. Justification of our assessments

The accounting estimates used in the preparation of the financial statements for the year ended December 31, 2011 were made in an uncertain environment resulting from the public finance crisis in certain eurozone countries, in particular in Greece, as well as a liquidity and economic crisis, which makes it difficult to assess the economic outlook. It is in this context that, in accordance with the requirement of Article L.823-9 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we bring to your attention the following matters:

### Provisions for credit risks and for securities risks

As indicated in Notes 3.3.2 and 3.3.3 to the financial statements, your Company records impairments and provisions to cover the credit risks inherent in its business. We examined the control procedures put in place by management in relation to the monitoring of credit and counterparty risks, the assessment of the risks of non-recovery as well as the coverage of these risks through impairments and provisions on an individual and collective basis.

### Valuation of securities and financial instruments

Your Company holds positions on securities and financial instruments. Notes 3.3.3 and 3.3.8 to the financial statements describe the accounting rules and principles applicable to securities and financial instruments. We examined the control procedures applicable to the related accounting classification and the determination of the criteria used for valuing these positions. As part of our assessment of the accounting rules and principles applied by your Company, we verified that the above-mentioned accounting methods and the related information provided in the notes to the financial statements were appropriate, and ensured that these methods were properly applied.

### Deferred tax assets

Your Company recognized deferred tax assets, particularly in respect of tax loss carryforwards (Notes 3.3.10 to the financial statements). We reviewed the main estimates and assumptions that led to the recognition of these deferred tax assets.

These assessments were made as part of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

### **III. Specific verifications and information**

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L.225-102-1 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

Paris La Défense and Neuilly-sur-Seine, March 29, 2012

The Statutory Auditors

**KPMG Audit**  
**Division of KPMG SA**  
Jean-François DANDÉ

**PricewaterhouseCoopers Audit**  
Jean-Baptiste DESCHRYVER

## Details of the calculation of the overcollateralization ratio as of December 31, 2011

Assets used to cover privileged resources		Net book values or amounts eligible for refinancing	Weighting (%)	Weighted amounts
1	MORTGAGE-BACKED LOANS - PRIME MORTGAGES OR EQUIVALENT COLLATERAL	26,564,005	100	26,564,005
2	PROMISSORY NOTES (ARTICLES TO L. 313-42 TO L. 313-49 OF THE FRENCH MONETARY & FINANCIAL CODE)	9,225,154		9,225,154
	Of which:			
2.1	Mortgage-backed loans - prime mortgages or equivalent collateral	7,408,091	100	7,408,091
2.2	Secured loans	1,817,064	100	1,817,064
2.2.1	- Satisfying the conditions of 1-a) in the Appendix to Regulation no. 99-10: the surety company external to the consolidation scope of the SCF or housing finance company has at least the second-best credit quality step	1,817,064		
2.2.2	- Satisfying the conditions of 1-a) in the Appendix to Regulation no. 99-10: the surety company external to the consolidation scope of the SCF or housing finance company has the third-best credit quality step		80	
2.2.3	- Satisfying the conditions of 1-b) in the Appendix to Regulation no. 99-10: the surety company that is within the consolidation scope of the SCF or housing finance company has at least the second-best credit quality step		80	
2.2.4	- Satisfying the conditions of 1-b) in the Appendix to Regulation no. 99-10: the surety company that is within the consolidation scope of the SCF or housing finance company has the third-best credit quality step		60	
3	EXPOSURES ON PUBLIC ENTITIES	34,251,317	100	34,251,317
	Of which:			
3.1	- Exposures set out in 5) of Article L. 515-15 I of the French Monetary & Financial Code			
3.2	- Exposures set out in 5) of Article L. 515-15 I of the French Monetary & Financial Code entered in the balance sheet prior to December 31, 2007			
4	FIXED ASSETS RESULTING FROM THE ACQUISITION OF PROPERTY UNDER THE APPLICATION OF A GUARANTEE		50	
5	SAFE SECURITIES AND DEPOSITS, AND LIQUIDITIES COMING UNDER ARTICLE R. 515-7	14,546,754	100	14,546,754
5.1	Receivables and securities from credit institutions and investment firms corresponding to subparagraph 1 of Article R. 515-7	11,662,574	100	11,662,574
5.2	Receivables and securities from the management of forward financial instruments corresponding to subparagraph 2 of Article R. 515-7	2,884,180	100	2,884,180
5.3	Receivables and securities from credit institutions and investment firms corresponding to subparagraph 3 of Article R. 515-7		100	
6	SECURED LOANS	316,780		316,780
6.1	Satisfying the conditions of 1-a) in the Appendix to Regulation no. 99-10: the surety company external to the consolidation scope of the SCF or housing finance company has at least the second-best credit quality step	316,780	100	316,780
6.2	Satisfying the conditions of 1-a) in the Appendix to Regulation no. 99-10: the surety company external to the consolidation scope of the SCF or housing finance company has the third-best credit quality step		80	
6.3	Satisfying the conditions of 1-b) in the Appendix to Regulation no. 99-10: the surety company that is within the consolidation scope of the SCF or housing finance company has at least the second-best credit quality step		80	
6.4	Satisfying the conditions of 1-b) in the Appendix to Regulation no. 99-10: the surety company that is within the consolidation scope of the SCF or housing finance company has at least the third-best credit quality step		60	
7	SHARES, EQUITIES AND DEBT SECURITIES ISSUED BY A SECURITISATION ENTITY	15,809,498		14,980,620
7.1	Shares, equities and debt securities issued by a securitisation or similar entity whose assets have been disposed of exclusively by entities belonging to the same consolidation scope as the SCF or housing finance company and satisfying the conditions of 2-a) of the Appendix to Regulation 99-10: shares, equities and debt securities acquired or financed by the SCF or housing finance company before December 31, 2011 that have the best credit quality step (until December 31, 2014).		100	
	Of which:			
7.1.1	- Assets are at least 90% composed of loans to natural persons to finance housing			
7.1.2	- Assets are at least 90% composed of loans mentioned in Article L. 515-14 that do not come under R.515-4 II			

7.1.3	- Assets are 90% composed of exposures defined in Article L. 515-15			
7.2	Shares, equities and debt securities issued by a securitisation or similar entity whose assets have been disposed of exclusively by entities belonging to the same consolidation scope as the SCF or housing finance company and satisfying the conditions of 2-a) of the Appendix to Regulation 99-10: shares, equities and debt securities acquired or financed by the SCF or housing finance company before December 31, 2011 that have the second-best credit quality step (until December 31, 2014).		80	
	Of which:			
7.2.1	- Assets are at least 90% composed of loans to natural persons to finance housing			
7.2.2	- Assets are at least 90% composed of loans mentioned in Article L. 515-14 that do not come under R. 515-4 II			
7.2.3	- Assets are 90% composed of exposures defined in Article L. 515-15			
7.3	Shares, equities and debt securities issued by a securitisation or similar entity whose assets have been disposed of exclusively by entities belonging to the same consolidation scope as the SCF or housing finance company and satisfying the conditions of 2-b) of the Appendix to Regulation 99-10: shares, equities and debt securities acquired or financed by the SCF or housing finance company after December 31, 2011 and shares or equities and debt securities that have the best credit quality step beginning on January 1 <sup>st</sup> , 2015.		100	
	Of which:			
7.3.1	- Assets are at least 90% composed of loans to natural persons to finance housing			
7.3.2	- Assets are at least 90% composed of loans mentioned in Article L. 515-14 that do not come under R. 515-4 II			
7.3.3	- Assets are 90% composed of exposures defined in Article L. 515-15			
7.4	Shares, equities and debt securities issued by a securitization or similar entity whose assets have been disposed of exclusively by entities belonging to the same consolidation scope as the SCF or the housing finance company satisfying the conditions of 2-b) of the Appendix to Regulation 99-10: shares, equities and debt securities acquired or financed by the SCF or housing finance company after December 31, 2011 and shares or equities and debt securities acquired or financed prior to that date that have the second-best credit quality step beginning on January 1 <sup>st</sup> , 2015.		50	
	Of which:			
7.4.1	- Assets are at least 90% composed of loans to natural persons to finance housing			
7.4.2	- Assets are at least 90% composed of loans mentioned in Article L. 515-14 that do not come under R. 515-4 II			
7.4.3	- Assets are 90% composed of exposures defined in Article L. 515-15			
7.5	Shares, equities and debt securities issued by a securitisation or similar entity, some of whose assets have been disposed of by an entity that does not belong to the same consolidation scope as the SCF or housing finance company, satisfying the conditions of 3-a) of the Appendix to Regulation 99-10: shares, equities and debt securities acquired or financed by the SCF or housing finance company before December 31, 2011 that have the best credit quality step (until December 31, 2014).	14,151,743	100	14,151,743
	Of which:			
7.5.1	- Assets are at least 90% composed of loans to natural persons to finance housing	7,468,348		
7.5.2	- Assets are at least 90% composed of loans mentioned in Article L. 515-14 that do not come under R. 515-4 II	206,584		
7.5.3	- Assets are 90% composed of exposures defined in Article L. 515-15	6,476,811		
7.6	Shares, equities and debt securities issued by a securitisation or similar entity, some of whose assets have been disposed of by an entity not belonging to the same consolidation scope as the SCF or the housing finance company, satisfying the conditions of 3-a) of the Appendix to Regulation 99-10: shares, equities and debt securities acquired or financed by the SCF or housing finance company before December 31, 2011 that have the second-best credit quality step (until December 31, 2014).	1,657,755	50	828,877
	Of which:			
7.6.1	- Assets are at least 90% composed of loans to natural persons to finance housing	1,174,412		
7.6.2	- Assets are at least 90% composed of loans mentioned in Article L. 515-14 that do not come under R. 515-4 II			
7.6.3	- Assets are 90% composed of exposures defined in Article L. 515-15	483,343		
7.7	Shares, equities and debt securities issued by a securitisation or similar entity, some of whose assets have been disposed of exclusively by an entity not belonging to the same consolidation scope as the SCF or housing finance company, satisfying the conditions of 3-b) of the Appendix to Regulation 99-10: shares, equities and debt securities acquired or financed by the SCF or housing finance company after December 31, 2011 and shares or equities and debt securities acquired or financed prior to that date that have the best credit quality step beginning on January 1 <sup>st</sup> , 2015.		100	

	Of which:			
7.7.1	- Assets are at least 90% composed of loans to natural persons to finance housing			
7.7.2	- Assets are at least 90% composed of loans mentioned in Article L. 515-14 that do not come under R. 515-4 II			
7.7.3	- Assets are 90% composed of exposures defined in Article L. 515-15			
8	OTHER ASSETS	3,202,993	100	3,202,993
8.1	Other class 1 items	14,697	100	14,697
8.2	Other class 2 items	- 102,290	100	- 102,290
8.3	Other class 3 items	3,290,586	100	3,290,586
8.4	Other class 4 items		100	
9	TRANSACTIONS DEDUCTED FROM ASSETS	2,320,052	100	2,320,052
9.1	Funds received from clients awaiting charging, recorded under liabilities on the balance sheet	7,008	100	7,008
9.2	Security repurchase agreements: securities sold	552,412	100	552,412
9.3	Receivables funded in the conditions set by Articles L. 313-23 to L. 313-34 of the French Monetary & Financial Code	1,760,632	100	1,760,632
10	TOTAL WEIGHTED AMOUNTS OF ASSETS	103,916,502		100,767,572
	COVERAGE RATIO (WITH 2 DECIMALS) (A/L X 100)			110,64

**Resources having the privilege defined in Article L. 515-19 of the French Monetary & Financial Code: liabilities**

**Amounts**

1	PRIVILEGED RESOURCES FROM CREDIT INSTITUTIONS	79,567
1.1	- Of which nominal amount	77,565
2	PRIVILEGED RESOURCES FROM CLIENTS	
2.1	Financial clients	
2.2	Non-financial clients	
2.3	- Of which nominal amount	
3	SECURITIES WITH PRIVILEGE	89,923,945
3.1	Obligations foncières or housing finance bonds	87,765,796
3.2	Negotiable debt securities	150,000
3.3	Other securities with privilege	
3.4	Debts related to these securities	2,008,149
3.5	To be deducted: obligations foncières or housing finance bonds issued and subscribed for by the credit institution when they are not used as collateral for credit transactions by Banque de France	
3.6	Subtotal	89,923,945
3.7	- Of which nominal amount	87,915,796
4	AMOUNTS DUE IN RESPECT OF THE CONTRACT PROVIDED FOR BY ARTICLE L. 515-22 OF THE FRENCH MONETARY AND FINANCIAL CODE	1,771
5	AMOUNTS DUE IN RESPECT OF THE FORWARD FINANCIAL INSTRUMENTS HAVING THE PRIVILEGE DEFINED UNDER ARTICLE L. 515-19 OF THE FRENCH MONETARY AND FINANCIAL CODE	1,068,393
5.1	- Of which impact on variations of exchange rate on the nominal amount of privileged resources	-1,458,207
6	LIABILITIES RESULTING FROM THE INCIDENTAL EXPENSES MENTIONED IN THE LAST PARAGRAPH OF ARTICLE L. 515-19 OF THE FRENCH MONETARY AND FINANCIAL CODE	
7	PRIVILEGED RESOURCES (1 + 2 + 3 + 4 + 5 + 6)	91,073,676
	NOMINAL AMOUNT OF PRIVILEGED RESOURCES ("1.1" + "2.3" + "3.7" + "5.1")	86,535,154



Control of limits applicable to asset classes (ratio with 2 decimals)	Ratios/ Amounts
Total assets	105,778,277
Secured loans included as assets of securitisation or similar entities, or assigned by promissory notes	1,821,459
Total secured loans ()/asset () ( $\leq 35\%$ except for housing finance companies)	2.11%
Promissory notes included as assets of securitisation or similar entities	
Promissory notes ()/assets (L98) ( $\leq 10\%$ )	8.76%
Total shares, equities and debt securities of securitisation or similar entities satisfying the conditions of Section II of Article R. 515-4 of the French Monetary & Financial Code () and not satisfying section IV of Article R. 515-4/nominal amount of privileged resources (141) ( $\leq 10\%$ )	10.00%
Total shares, equities and debt securities of securitisation or similar entities held satisfying the conditions of Section II of Article R. 515-4 of the French Monetary & Financial Code () and not satisfying Section IV of Article R. 515-4/nominal amount of privileged resources () that cannot be refinanced by privileged resources ( $> 10\%$ )	1.53%
Total shares, equities and debt securities of securitisation or similar entities satisfying the conditions of Section III of Article R. 515-4 of the French Monetary & Financial Code () and not satisfying Section IV of Article R. 515-4/nominal amount of privileged resources (141) ( $\leq 10\%$ )	0.24%
Total shares, equities and debt securities of securitisation or similar entities held satisfying the conditions of Section III of Article R. 515-4 of the French Monetary & Financial Code () and not satisfying section IV of Article R. 515-4/nominal amount of privileged resources () that cannot be refinanced by privileged resources ( $> 10\%$ )	
Total exposures covered under 5 of Section I in Article L. 515-15 of the French Monetary & Financial Code ( + )/nominal amount of privileged resources () ( $\leq 20\%$ )	
Safe and liquid assets ()/nominal amount of privileged resources () ( $\leq 15\%$ )	13.48%





Statement from the person  
who assumes responsibility  
for the registration document

Person responsible for financial information

Ms Sandrine GUÉRIN  
Deputy Chief Executive Officer

Compagnie de Financement Foncier  
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Statement from the person who assumes responsibility for the registration document

I certify, after having taken every reasonable measure to this purpose, that the information provided in this registration document is, to my knowledge, true to fact and that no information has been omitted that would change the interpretation of the information provided.

I certify, to the best of my knowledge, that the financial statements have been prepared in compliance with applicable accounting standards and accurately represent the company's assets, financial situation and its earnings and that the information contained in the management report in volume 2 depicts an accurate representation of company trends, earnings, its financial situation as well as a description of the primary risks and uncertainties the company faces.

I received a letter from the Statutory Auditors indicating that they have completed their work which consisted of verifying the information on the financial position and the financial statements provided in this registration document as well as a reading of the entire document.

The historical financial information presented in the 2010 registration document filed with the AMF under the number D11-0214 were the subject of statutory auditors' reports, which contain observations related to changes in accounting methods listed in Volume 2 - page 79.

Signed in Charenton-le-Pont, on April 3, 2012

Deputy Chief Executive Officer of Compagnie de Financement Foncier  
Sandrine GUÉRIN











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**COMPAGNIE DE  
FINANCEMENT  
FONCIER**

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# volume 3



Risk management report,  
Chairman's report  
and Legal information 2011



COMPAGNIE DE  
FINANCEMENT  
FONCIER

CREDIT FONCIER GROUP



## Volume 1

### Activity report

Overview

Legal and regulatory framework for issuers of *obligations foncières*

Security of outstandings and management rules

Issues of *obligations foncières*

## Volume 2

### Financial report

Management report 2011

Financial statements

Statement from the person who assumes responsibility for the registration document

## Volume 3

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

Risk management report

Report of the Chairman of the Board of Directors

Legal information



AUTORITÉ  
DES MARCHÉS FINANCIERS

*This is a free translation into English of Compagnie de Financement Foncier 2011 annual report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails. Only the French version of the Registration document has been submitted to the AMF. It is therefore the only version that is binding in law.*

*The original document was filed with the Autorité des marchés financiers (French Financial Market's Authority) on April 3<sup>rd</sup>, 2012, in accordance with Article 212-13 of its general regulation and registered under the number D.12-0265 and represents the French "Document de référence" of the Compagnie de Financement Foncier. As such, it may be used in support of a financial transaction when accompanied by a prospectus duly approved by the AMF. It was prepared by the Issuer and its signatories assume responsibility for it.*

# volume 3

## Risk management report

Foreword	3
Organisational overview: risk management	3
Internal capital adequacy and equity requirements	12
Management of credit risk and counterparty risk	15
Risk mitigation techniques	28
G7 Reporting	34
Asset & liability management risks and market risks	34
Operational risks	37
Other risks	38

## Report of the Chairman of the Board of Directors

Conditions Surrounding the Preparation and Organisation of the Board's Work	47
Internal control procedures	48
Appendix	56
Statutory Auditors' and the report of the Chairman	57

## Legal information

Corporate governance	59
General information concerning the company	60
General information concerning the capital stock	63
Resolutions submitted to the Shareholders' Meeting	65
Bylaws	67
General information	74
Appendix: Focus on Compagnie de Financement Foncier within Groupe BPCE	77
Reference from the diagram	78



# Risk management report

## 1. Foreword

With a view to transparent financial disclosure, and above and beyond its regulatory obligations, Compagnie de Financement Foncier includes in its shelf registration document a detailed Risk Management report based on IFRS (not applicable to Compagnie de Financement Foncier) and Basel II rules. The report is prepared using the information fed into the risk management tool whose accounting consistency is assured by the Risk department of Crédit Foncier (CFF).

## 2. Organisational overview: Risk management

Compagnie de Financement Foncier's business model is, by its very nature, highly secured. The legislative framework prohibits it from holding a trading portfolio, which protects it against market risks associated with proprietary trading, and from holding shares in any company and, as a result, against any difficulties originating outside its own asset base.

Compagnie de Financement Foncier is potentially exposed to two main types of risks:

- credit risks;
- financial risks (ALM).

Operational Risks are borne by Crédit Foncier (see Section 8).

Groupe Crédit Foncier's risk policy constitutes the frame of reference for the selection, monitoring, oversight and management of risks. It also provides the framework for the development of Compagnie de Financement Foncier's activities in accordance with a model aimed at securing its profitability, its capital and its creditors, first and foremost among whom are the holders of its *obligations foncières*, a form of French legal covered bond.

### 2.1. Implementation of prudential regulations applicable to *sociétés de crédit foncier*

As a credit institution approved as a financial company and *société de crédit foncier*, Compagnie de Financement Foncier performs specialised transactions with the sole purpose of granting or acquiring assets backed by prime mortgages or on public entities or fully guaranteed by them. Beyond the security provided by law, Compagnie de Financement Foncier observes stringent management rules to optimise the quality of its assets and improve its risk profile (AAA/Aaa/AAA).

The security of the legal framework relies on the following provisions of the French Monetary and Financial Code which define:

- an exclusive purpose as well as assets eligibility criteria (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, after weighting if necessary, should exceed privileged liabilities;
- *sociétés de crédit foncier*'s protection against the consequences arising from the bankruptcy of its shareholders and the continuity of contracts with the Company in charge of servicing or recovering the loan (Articles L. 515-27 and L. 515-28);
- additional auditing and management control measures, in particular on account of a Specific Controller whose appointment must be approved by banking authorities (Articles L. 515-29 to L. 515-31);
- a *privilège* for investors on the flows coming from assets for the repayment of *obligations foncières*.

As well as compliance with the regulatory obligations, Compagnie de Financement Foncier applies additional rules to enhance the overall security of its business model. These measures are based on the following rigorous principles:

- additional rules for asset selection and acquisition in every line of business (retail lending, exposure to public authorities or loans guaranteed by them);
- prudential standards that are always superior to the threshold dictated by law or regulations, which provides an additional safeguard. This prudential approach covers specific ratios and those related to its status as a credit institution;
- an organisational framework for relations between Compagnie de Financement Foncier and Crédit Foncier, Compagnie de Financement Foncier's servicer, in strict compliance with the provisions set forth in CRBF Regulation No. 97-02 as amended. These relations are governed by a set of agreements that provide Compagnie de Financement Foncier with the means to fulfil its responsibilities and its controls.



## 2.2. Organisation of the Risk, Compliance and Permanent Control Coordination Divisions

During 2011, the «Risk and Compliance» unit, composed of the Risk Division (DRI), the Compliance Division and the Permanent Control Coordination integrated both Information System Security (SSI) and the Business Continuity Plan (PCA). The unit remains under the authority of a single Deputy CEO of Crédit Foncier.

The Risk and Compliance Division of Crédit Foncier forms part of the Risk system of Groupe BPCE. Compagnie de Financement Foncier relays on the system and organisation of the Divisions set up at Crédit Foncier level.

### 2.2.1. Organisation of Crédit Foncier Group Risk Division

The Risk Division of Crédit Foncier, reporting functionally to the Risk Division of Groupe BPCE, covers all subsidiaries controlled by Crédit Foncier, including Compagnie de Financement Foncier. In 2011 the Risk Division updated the Company's general risk policy, which has been formally set out in a document describing its various responsibilities and its organisation and which serves as a framework for the development of its activities, including those carried out for Compagnie de Financement Foncier and the management of the equity of Crédit Foncier Group entities.

In the specific case of Compagnie de Financement Foncier, the Risk Division carries on its activities in the framework of the agreements entered into between Crédit Foncier and its *société de crédit foncier*. The Risk Division reports on its tasks to the Risk Committee, the Audit Committee and to the General Management of Compagnie de Financement Foncier.

The General Secretariat of Compagnie de Financement Foncier, which is in charge of controlling the services outsourced and therefore the right implementation of the agreements that link Compagnie de Financement Foncier with Crédit Foncier, integrates in the permanent control procedures of Crédit Foncier Group.

The Risk Division had a workforce of 61 full-time equivalent employees as of December 31, 2011.

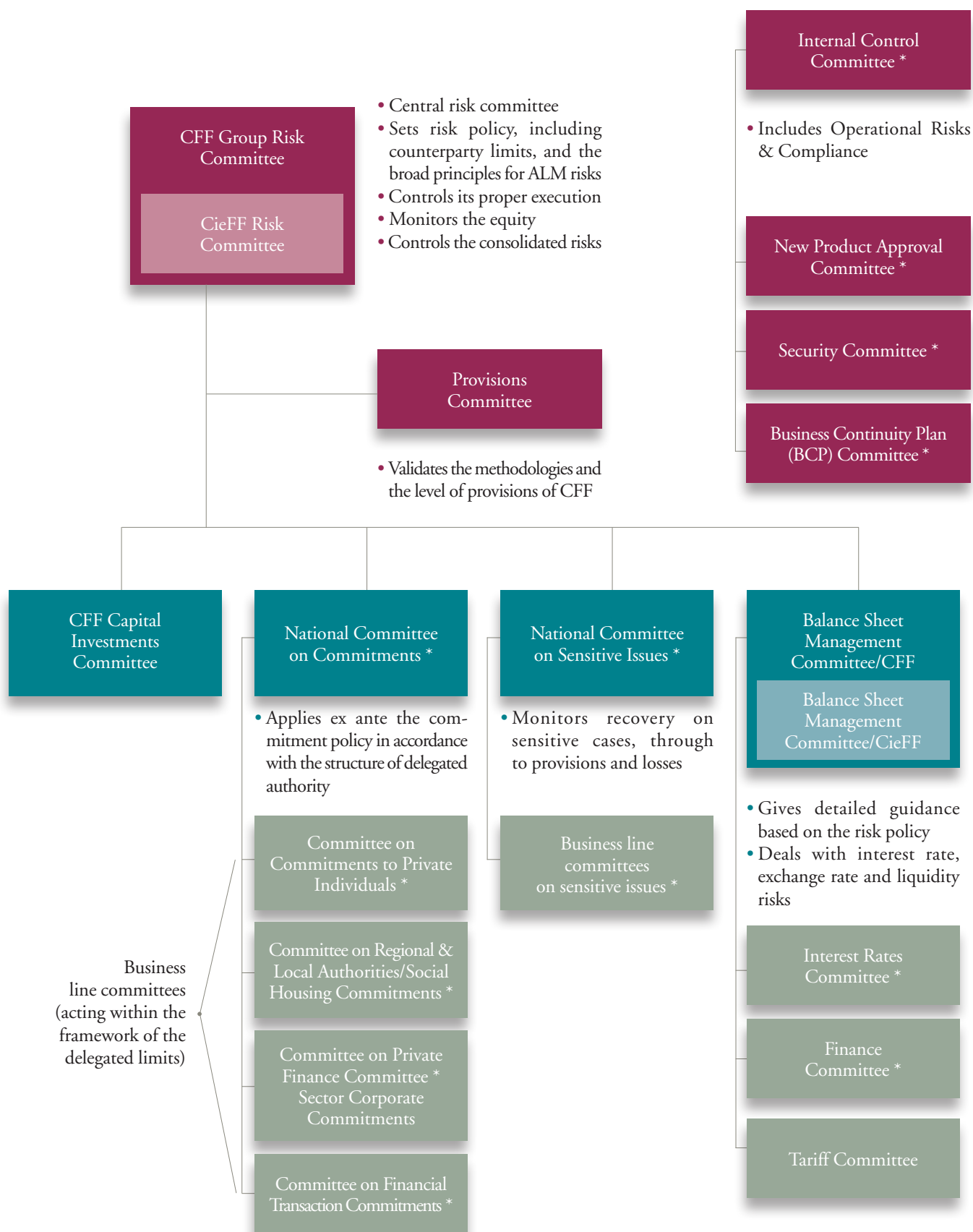
#### Main responsibilities of the committees dealing with risk

The Risk Division performs the risk management function by means of several committee meetings that it holds and/or which it attends. The Risk Committee and the Internal Control Committee (ICC) are the central committees of this organisation.

Compagnie de Financement Foncier forms part of the overall organisation of Crédit Foncier and has its own Risk and Balance Sheet Management Committees. It is dealt with specifically and to the necessary extent in the other Committees of Crédit Foncier on which it is represented.

A Provisioning/Risk Charge Committee, chaired by a Corporate Officer, covers all individual and collective provisions. This committee meets quarterly.

## Risk Division – structure of committees



\* Committees including Compagnie de Financement Foncier (CieFF).

The Compagnie de Financement Foncier Risk Committee is chaired by its Chairman and CEO. Meeting at least quarterly, its main responsibilities are to deal with:

- general risk policy;
- analysing and monitoring the overall risk profile of the institution based on the results of the rating, measuring and risk assessment systems (stress scenarios) and primary exposures;
- measuring the quality of commitments and recovery on the basis of summary reports;
- monitoring the proper control of the different risk procedures or systems;
- risk steering: reviewing regulatory and specific ratios, drawing up and analysing stress scenarios and monitoring of equity.

#### 2.2.2. Organisation of Crédit Foncier Group Compliance Division

The Compliance Division of Crédit Foncier, which is part of the Risk and Compliance Department, reports functionally to the Compliance and Security Division (DCSG) of Groupe BPCE.

The Compliance Division independent of all the other functions of the institution, in accordance with banking regulations. In the framework of the Compliance Charter and the area coordinated by the DCSG, it is responsible for the implementation of procedures and permanent controls relating to compliance and banking and financial ethics as well as the prevention of risks of money laundering and the financing of terrorism.

The Division had a workforce of seven people as of December 31, 2011. It is backed by the Permanent Control unit, led by the Permanent Control Coordination Division.

#### 2.2.3. Organisation of Crédit Foncier Group Permanent Control Coordination Division

The Permanent Control Coordination Division, which ensures and vouches for the existence and effectiveness of the permanent control mechanisms, works closely with the teams of first level permanent controllers reporting hierarchically to the deputy general managers and to the General Secretariat of Compagnie de Financement Foncier.

The Division had a workforce of four people as of December 31, 2011.

#### 2.2.4. Organisation of the Business Continuity Plan (BCP)

The Head of the Business Continuity Plan was assigned to report to the Deputy General Manager of the Risks and Compliance Division in 2011.

In a major crisis situation, the Business Continuity Plan allows Compagnie de Financement Foncier to operate in downgraded mode for at least one month. Its purpose is to minimise the impacts of a natural, technological or social disaster on the company's critical activities (and thus its sustainability).

Crédit Foncier's BCP depends essentially on a network of BCP Correspondents, three contingency locations including an IT back-up site including more than 80% of IS and nearly 560 deployable personnel.

#### 2.2.5. Organisation of the Information System Security structure

Crédit Foncier Group including Compagnie de Financement Foncier has its own Head of Information Systems Security, who reports since 2011 to the Deputy General Manager in charge of Risks and Compliance. He has his own budget and a dedicated team (six FTE - full-time equivalent - as of December 31, 2011) that responds to all issues related to Information Systems Security.

Governance in matters of Information Systems Security at Crédit Foncier is organised around:

- an Information Systems Security Policy (PSSI) unique to Crédit Foncier and its various topics;
- authorities such as the Information Systems Security Internal Committee (CISSI) chaired by a member of senior management and biannual plenary meetings on Information Systems Security;
- a permanent control structure for Information Systems Security, combined with a Security Report (security indicators).

The major actions taken in 2011 were the following:

- Crédit Foncier's Information System compliance with the recommendations and norms of Groupe BPCE's was evaluated;
- intrusion testing on business lines infrastructures;
- the strengthening of the security on certain infrastructures or computing processes.

In 2012 the following will continue:

- all ratings of major risks will be prepared using BPCE's new method;
- a campaign to raise awareness in the business lines;
- intrusion testing on risky infrastructures.

## **2.3. Information System and consistency of data**

In the context of the implementation of the Basel II reforms, the Risk Division ensures the accounting consistency of the information feeding the risk management application.

Exposures of Compagnie de Financement Foncier are fully integrated with these consistency mechanisms.

Groupe BPCE establishments must ensure that all information sent to Group regulatory production systems are given accounting consistency treatment at least quarterly. With the connection to BPCE, a new national structure was deployed for all commercial transactions and will be enriched by financial transactions in 2012 *via* trends that will continue in the context of Crédit Foncier strategic projects (Basel II, decision-making IS).

## **2.4. Risk selection, measurement and monitoring procedure**

### **2.4.1. Crédit Foncier's debt selection system**

#### **2.4.1.1. General selection and monitoring mechanism for commitments at Crédit Foncier level**

Selection and monitoring of commitments is based on:

- the definition of delegations and the implementation of a risk policy including the establishment of limits set at Crédit Foncier and Groupe BPCE level for common counterparties;
- a system for assessing borrowers' solvency and the quality of transactions, in particular by means of analyses carried out by the Risk Division. Ratings play an important role as a risk-assessment tool;
- risk supervision based on an overall consolidation of the relevant indicators and controls;
- risk management geared to the measurement and prospective handling of risks.

#### **2.4.1.2. External credit assessment**

Crédit Foncier's risk-monitoring system is based both on the calculation of in-house ratings and the use of external ratings provided by the international rating agencies (Standard & Poor's, Moody's and Fitch Ratings - bodies validated by the French Prudential Control Authority). It should be noted that for as long as Crédit Foncier continues to use the standard approach for evaluating credit risk, external ratings will be used for the calculation of capital requirements, notably for international exposures.

As regards securitisation, in accordance with Basel II methodology, Crédit Foncier analyses and monitors risks using the second best external rating.

In the case of international public sector commitments, Compagnie de Financement Foncier also uses external agency ratings, in addition to in-house ratings provided by Crédit Foncier or Groupe BPCE, for purposes of analysis and indeed to ensure consistency.

### 2.4.1.3. Internal ratings

#### 2.4.1.3.1. Private individuals

For private individuals, the mechanism for assessing borrowers' solvency relies on a decisional system comprising:

- a detailed set of solvency rules adapted to applicants' profiles and the risks contemplated;
- an approval score, based on an expert system and a predictive statistical module;
- a decision-making delegation structure which provides for a counter-analysis by the Risk Division for new business proposals in very large amounts.

Additionally, monitoring of the risk on the loan portfolio is carried out by means of a monthly score on seven positions, using information characteristic of property transactions and of the borrower at the time of approval, as well as information on possible payment incidents.

The scores thus calculated for each loan (commitment) are assigned the value "X" for doubtful debts or "D" for debts that are in default but not considered doubtful.

#### 2.4.1.3.2. Public and international operators

The commitment mechanism is based on a number of broad principles:

- adherence to country, sector or individual limits in force;
- a system of rating on approval followed by annual re-rating, using Groupe BPCE's tools for the French public sector and sovereign states and the Crédit Foncier's tools for the International Public Sector (IPS);
- authorisation in accordance with a delegation structure providing for various levels of delegated authority depending on the nature of the transaction, the amount and the rating of the counterparty. New cases are submitted to two levels of committees:
  - for the most significant cases in amounts: the National Commitments Committee; the Risk Division, which does not have a vote, expresses an independent opinion based on its teams' analyses;
  - for other cases, the decision is taken in a specific Business Line Committee meeting. As a member of this Committee, the Risk Division has a right of appeal;
  - above certain amounts, Groupe BPCE Risk Division (DRG) is asked to give its approval for the transaction in question to be carried out.

### 2.4.2. Eligibility criteria for the *société de crédit foncier* and purchase filter

The asset acquisition process carried out by Compagnie de Financement Foncier is very cautious, and rounds out a loan granting process that was already producing quality assets.

#### 2.4.2.1. Private individuals

Compagnie de Financement Foncier may acquire loans:

- in support of the purchase of properties for owner occupancy and, to a limited extent, rental investment; it has a strict policy forbidding the financing of commercial property;
- secured by a prime mortgage or equivalent.

The origination of receivables is carried out almost entirely by Crédit Foncier. Compagnie de Financement Foncier can however acquire loans from other credit institutions. The *modus operandi* for selecting the receivables described hereunder in the case of Crédit Foncier is then adapted as appropriate.

Following origination by Crédit Foncier in accordance with the risk policy and acceptance rules in force, Compagnie de Financement Foncier selects the loans (sometimes after a period of observation) which present a risk of default below a certain threshold and then acquires them.

This filter, thus adjusted, combines, depending on the age of the loan, the approval score assessing the probability of default (PD) on a three-to-five-year horizon with the current score which assesses the risk in one year's time (regardless of the age of the loan).

In 2011, the purchasing filter underwent technical maintenance, specifically for loans put into force prior to 2007. Indeed, these loans could not be analysed using eligibility criteria, solely for reasons related to the information system.

At the end of 2011, receivables originated by Crédit Foncier branch in Belgium were assigned in the form of mortgage notes. During this transaction, they were submitted for a specific analysis giving rise to the creation of their own filter.

All of these selection rules are shown in the two following matrices:

#### Homebuyer

Compagnie de Financement Foncier's eligibility and purchasing filter						
Monthly rating of outstandings					Non-rated	
0 to 7					8, 9, X or D <sup>(**)</sup>	
Age of the loans						
≤ 4 years					> 4 years	
Origination score						
Rate of default at origination <sup>(*)</sup>	0 to 3	4 to 6	7 to 9	Transferable	Non-transferable	Non-transferable
PD according to the age of the loan	≤ 1.4%	Transferable	Transferable			
	≤ 1.8%		Non-transferable			
	> 1.8%		Non-transferable			

<sup>(\*)</sup> Or probability of default according to the age of the loan at the time of the transfer study.

<sup>(\*\*)</sup> Monthly outstanding loan score X for doubtful loans and D for past due loans.

#### Rental property

Compagnie de Financement Foncier's eligibility and purchasing filter						
Monthly rating of outstandings					Non-rated	
0 to 5					6, 7, 8, 9, X or D <sup>(**)</sup>	
Age of the loans						
≤ 4 years					> 4 years	
Origination score						
Rate of default at origination <sup>(*)</sup>	0 to 3	4 to 6	7 to 9	Transferable	Non-transferable	Non-transferable
PD according to the age of the loan	≤ 1,3%	Transferable	Transferable			
	≤ 1,6%		Non-transferable			
	> 1,6%		Non-transferable			

<sup>(\*)</sup> Or probability of default according to the age of the loan at the time of the transfer study.

<sup>(\*\*)</sup> Monthly outstanding loan score X for doubtful loans and D for past due loans.

#### Within the Belgian branch

Compagnie de Financement Foncier eligibility's criteria and assignment filter				
Monthly rating of outstandings				Not rated
0 to 8			9, X pr D <sup>(*)</sup>	
Age of loans				
≤ 1 year		> 1 year		
Rating on approval				
0 to 2	3 to 9	Not assignable		
Assignable	Non-assignable	Assignable		

<sup>(\*\*)</sup> Monthly rating of X for doubtful debts and D for loans in default.

In addition to the rating-linked filter, eligible security consists of:

- prime mortgages or similar;
- the State guarantee of SGFGAS (the management company of the FGAS - *Fonds de garantie de l'accèsion sociale à la propriété*, or “Guarantee Fund for Social Home Ownership”);
- to a lesser extent, a guarantee from Crédit Logement, a financial company rated AA- by the rating agencies.

The LTVs applied to the value of the mortgage help determine the amount of the loan that can be financed by privileged resources:

- 100% for SGFGAS guarantees;
- 80% for residential mortgage loans granted to natural persons and who benefit from a first-rank mortgage or an equivalent safety;
- 60% for the others (relating mainly to low-income housing).

#### 2.4.2.2. French Public Sector

Compagnie de Financement Foncier's acquisition criteria for receivables on French regional and local public sector entities are based on the BPCE internal rating (Ecolocale).

This rating takes into account the intrinsic characteristics of the borrower (budget, level of debt, credit quality, *etc.*).

The poorest ratings (8 and 9) are systematically excluded from the selection.

#### 2.4.2.3. International Public Sector

As regards the international public sector, Compagnie de Financement Foncier's exposure is to international counterparties that meet the regulatory eligibility requirements as set out in the French Monetary and Financial Code. Compagnie de Financement Foncier has also established additional receivables selection criteria. Before the phasing out in 2011 (the portfolio is now in run-off), the selection at granting was mainly focused on counterparties with the highest ratings [the vast majority rated Step 1 (>AA-)].

#### 2.4.3. Assigning credit limits

Compagnie de Financement Foncier's credit limit system uses the same levels as that of BPCE, as adapted to Crédit Foncier, notably with regard to country limits and individual limits.

##### Country limits

BPCE sets geographical “country risk” limits, combining a sovereign risk (a country's inability to honour its commitments), a political risk (risk of non-transfer of assets) and an economic risk (increased credit risk). Country limits are reviewed annually and validated by the Group Risk Committee on the basis of internal ratings, analyses and proposals of the Group Risk Division after taking account of the needs expressed by the BPCE entities.

In the context of its international business, Crédit Foncier has rounded out this system with its own limits.

##### Individual limits

At their level, BPCE group entities must adhere to limits concerning their operations, determining the rules for risk diversification in the portfolios and, as regards regulatory limits, linked to the control of major risks.

Validated by the Risk Committee and presented to the Audit Committee, these individual limits, prepared and proposed by the Risk Division, are subject to updating, control, monitoring and reporting of various kinds at the initiative of the Risk Division.

Compagnie de Financement Foncier also has a limit on exposure to its parent company, Crédit Foncier, which may not exceed 20% of Compagnie de Financement Foncier's total assets. This limit is calculated based on direct exposure to Crédit Foncier with no additional guarantees such as pledging of receivables portfolios, for example.

#### 2.4.4. Handling overruns and alert procedures

##### General principles

Compliance with limits is verified during the systematic counter-analysis that precedes case review by the Commitment Committees. A statement of overruns is reported to the Risk Committee.

##### Bank counterparties

In accordance with the arrangements set out in the management agreements between the two institutions, adherence to limits on counterparties in financial transactions of Compagnie de Financement Foncier is monitored by the permanent control unit of the Financial Activities and International Department (POFI) and at level two by the Risk Division.

These limits are put in place for major banking counterparties of Compagnie de Financement Foncier, and are regularly reviewed in ad hoc committees (essentially for hedging and treasury management requirements).

Monitoring of adherence to authorised limits is carried out on a daily basis by D+1 observation. Related usage is updated in real time by the front-office.

All overruns are immediately reported to the General Management of Compagnie de Financement Foncier and Crédit Foncier.

##### Others (International public sector and Securitisation activity)

Long-term international commitments are presented systematically to the Commitments Committee, particularly in the case of the international public sector and acquisitions of portfolios of mortgage loans or public sector receivables in the form of bonds with the best possible agency rating (AAA). A check is then carried out by the permanent control unit of the Financial Activities and International Department and at level two by the Risk Division in order to ensure that the committee's decisions are followed.

#### 2.4.5. Supervision of Risks

The risk supervision system relies upon Crédit Foncier's one, which has two main components:

- the review of portfolios with a view to ensuring the overall quality of exposures and controlling the establishment of provisioning ;
- the monitoring of sensitive operations.

Crédit Foncier has decision making bodies that monitor the progress of cases in sensitive situations on a monthly basis.

Specific arrangements apply to securitisations and structured products of French regional government and local authorities.

##### Monitoring of sensitive operations

This monitoring is carried out *via* the Crédit Foncier Group's watch list, which is reviewed on a quarterly basis. It includes all counterparties requiring special attention due to the higher risk they represent. This list refers to both doubtful and non-doubtful outstandings, but not those in litigation. When placed on the watch list, counterparties are subject to a more sustained attention, but this does not entail either the automatic suspension of credit lines or classification as doubtful.

Additionally, cases experiencing difficulties are reviewed more frequently in the Sensitive Operations Committees.

Lastly, cases in litigation are also examined on a quarterly basis.

##### Review of portfolios

Regular reviews, quarterly in the case of sensitive operations, are also carried out to evaluate the quality of the exposures. This finds expression in a tight system between the business lines and the Risk Division for analysing the quality of commitments. This review applies to all significant commitments of Crédit Foncier and Compagnie de Financement Foncier.

##### Monitoring bodies

###### Arrears Committee

It analyses the situation of cases in arrears and establishes action to be taken to recover them.



## Committees on sensitive operations

These committees deal with cases considered by the institution as difficult or likely to become difficult in the future, and decide in particular on the classification of the receivables concerned, on the level of necessary provisions as well as on how they are to be managed (e.g. as regular, doubtful or in litigation).

- **Business line committee on sensitive operations (CMAS)**

Chaired by the head of the business line concerned, this committee deals with cases involving amounts below the national committee thresholds.

- **National committee on sensitive operations (CNAS)**

Chaired by a corporate officer of Crédit Foncier, it meets monthly to examine sensitive operations, cases that are transferred to litigation and those listed on Watch Lists. It also validates individual provisions proposed.

## Specific mechanisms

Specific mechanisms for the regional government and local authority sector

In the framework of monitoring structured products of public sector operators, and coordinating with Groupe BPCE, which is a signatory to the Gissler Charter of good conduct between banking institutions and local authorities, the Crédit Foncier Group has implemented close monitoring mechanisms for these transactions which enable it to alert customers in advance to market developments likely to affect them.

Specific mechanisms for securitisations

RMBS tranches held are subject to quarterly monitoring including an analysis of management reports covering the level of arrears, prepayments, vacancy rates, compliance with financial ratios, repayment of the various tranches in line with the cash flow cascade on a transaction by transaction basis, monitoring of ratings, compliance with limits and updating of the Watch List and the Migration List (of transactions for which a risk of a downgrade in the rating has been detected, without any risk of actual loss being perceived at this stage).

### 2.4.6. Risk Management

Risk management operates on four levels:

- **consolidated supervision of the exposures** used to establish and analyse internal and external reports. This supervision is based on a clear distinction being made between outstandings of Compagnie de Financement Foncier and those of Crédit Foncier from the time the transactions are entered in the systems. Findings are reported in presentations to the Risk Committee of Compagnie de Financement Foncier;
- **risk mapping and forward-looking analysis of loan portfolios (stress tests, etc.)**. The results of this analysis are reported in presentations to the Risk Committee;
- **establishment of provisioning for the year** and checks on the appropriateness of the level of risk coverage to the institution's profile. Provisions are then validated by the Provisions committee. Meeting at least quarterly, the committee is chaired by General Management. It validates both individual and collective provisions. It also gives approval to the methods used to calculate individual and collective provisions. This committee's scope extends to subsidiaries, and therefore Compagnie de Financement Foncier, and equity investments;
- **monitoring of equity and regulatory ratios** (see Section 3), formalised through the Equity and regulatory ratios committee. Meeting at least quarterly, the committee is chaired by General Management and is charge of steering equity and ratios.

## 3. Internal capital adequacy and equity requirements

### 3.1. Management of capital and regulatory ratios

The management of Compagnie de Financement Foncier's capital is supervised directly by its General Management. Its oversight ensures constant compliance with regulatory ratios, and aims to optimise the allocation of capital and to secure its overcollateralisation ratio. It therefore contributes directly to its AAA/Aaa/AAA ratings.

The calculation of the solvency ratio has been carried out at the consolidated Compagnie de Financement Foncier level. Since June 2011, it is communicated to the French Prudential Control Authority, on an informational basis.

## Composition of prudential capital

Prudential capital is determined in accordance with Regulation 90-02 of the CRBF as amended, and consists of three broad categories:

- **core capital (Tier 1):** core capital is calculated based on equity as recognised in the accounts plus hybrid Tier One issues, which are capped at 35% of core capital;
- **supplementary capital (Tier 2):** supplementary capital consists of redeemable subordinated debt meeting the requirements of Article 4 of Regulation CRBF 90-02. The amount of subordinated debt included in Tier 2 is gradually reduced over the last five years remaining until their maturity, at the annual rate of 20%;  
This supplementary Tier 2 capital can only be applied at 50% of core capital.
- **deductions:** Since Compagnie de Financement Foncier is not legally allowed to hold equity interests, it is not subject to any capital deductions.

Compagnie de Financement Foncier's Capital amounts to €4 billion as of December 31, 2011, of which €2.7 billion is core capital.

This level of equity takes into account a forecasted cash distribution of the total reinvestment of the result for the fiscal year, after allocation to the legal reserve.

## Capital requirements

Capital requirements were calculated using the standard Basel II method. Mortgage notes and regional government/local authority L.211-38 outstandings were treated in transparency, by calculating requirements on the underlying loans.

Loans to BPCE Group associates were weighted at 0%.

Moreover, in the case of partial assignment to Compagnie de Financement Foncier of a loan granted by Crédit Foncier and in connection with the assignment and recovery agreements, the benefits of the recovered sums are allocated in their entirety and in priority to Compagnie de Financement Foncier. Under the standard approach this allows the level of risk-weighting to be adjusted to reflect the priority allocation of recoveries to Compagnie de Financement Foncier and the consequent lower rate of loss.

(in million of euros)

Capital requirements	1,597
<b>STANDARD CREDIT - RISK APPROACH</b>	<b>1,552</b>
<b>Categories of Exposure</b>	<b>1,173</b>
National governments and central banks	7
Institutions	339
Businesses	51
Retail clients	761
Equity	
Other assets that are not credit obligations	15
Of which current value of the residual value in CB risk	
<b>Securitisation positions in standard approach</b>	<b>379</b>
<b>MARKET RISK - STANDARD APPROACH</b>	
<b>STANDARD APPROACH - OPERATIONAL RISK</b>	<b>45</b>

## Solvency ratios

The technical ratio previously calculated at December 31, 2010, using different rules (mortgage and intra-group notes weighted at 20% and participating loan classified as additional capital) resulting in a Tier One ratio of 8.0% and a solvency ratio of 11.7%. After applying the new rules, issued by the Prudential Control Authority, to the data at December 31, 2010, the solvency ratio was stable.

The application of the actual calculation rules for the ratio at December 31, 2010 gives the following results:

	12/31/10	12/31/11
Tier 1 + Tier 2	19.8%	20.0%
Tier 1	13.2%	13.3%

### 3.2. 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. French Prudential Control Authority <sup>(1)</sup> Order No. 2008-05 points out the calculation of specific ratios.

The Specific Controller of Compagnie de Financement Foncier controls the calculation of these ratios and certifies them every semester. The Risk Management of Crédit Foncier supervises these specific indicators on a second level every semester.

#### 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, i.e. an overcollateralisation ratio of 100%. Since the 2011 fiscal year this ratio is regulatory set up to 102% compared to 100% before. The legal prescriptions on weighting reduce the value of some assets when calculating the ratio, especially those assets that carry a higher risk. The overcollateralisation ratio of Compagnie de Financement Foncier is established at 110.6% at December 31, 2011, a level which remains by far superior to the new regulatory threshold and the supplemental requirements imposed to securitisation tranches since 2011. At end-2010, this ratio calculated following the methods applicable by then was established at 110.8%. This ratio has always been higher than 108%, ever since the establishment of Compagnie de Financement Foncier in 1999, and as such is appreciably above the regulatory threshold.

#### Asset composition ratio

Asset composition	Limit	12/31/10	12/31/11
Replacement securities (R. 515-7)	15.0%	11.8%	13.5%
Promissory notes (L. 515-16-1)	10.0%	6.7%	8.8%
Guaranteed loans (R. 515-6)	35.0%	1.6%	2.1%

The replacement securities ratio is determined by comparing replacement values with nominal value of privileged liabilities. These replacement securities are defined by law (pursuant to Article L. 515-17 of the French Monetary and Financial Code) as being “sufficiently, secure and liquid” values and make up Compagnie de Financement Foncier’s cash position.

Compagnie de Financement Foncier’s strict management rules have always enabled it to comply with this ratio’s regulatory limit of 15%. Other assets including promissory notes and guaranteed loans are also limited by regulations.

#### Overrun Loan to Value (LTV) ratio

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

In accordance with the instructions of the ACP, the calculation of the overrun LTV is carried out on loans secured by mortgages or guarantees, assigned and/or originated, of Compagnie de Financement Foncier (not including loans arising from the original transfer) and on the loans held by the Securitisation Funds’ assets.

LTV overruns are updated based on the value of the receivables at the balance sheet date and on the value of the pledged assets revised at the end of each year.

As of December 31, 2011, the amount of overrun LTV on loans purchased and originated stood at €132 million (split between €122 million for assigned loans and assigned and €10 million for assigned loans) to which must be added €13.7 million of excess on units and debt securities issued by securitisation mutual funds. In total, the amount of overrun LTV is €145.7 million as of December 31, 2011 compared with €275.4 million as of December 31, 2010.

The total amount of excesses remains considerably lower than the threshold of non-privileged resources, which stood at €14.7 million at that same date.

A stress test on LTVs, carried out by assuming a sudden fall of 10% in the value of all properties on which mortgages are held as security, based on loans purchased and assigned (€34.064 million as of December 31, 2011), led to an overrun LTV of €1.101 million. This amount reaches €1.968 million if the assumption is changed to a 15% fall in the value of the mortgages. These levels are still far below the threshold for non-privileged resources. These tests thus confirm the excellent quality and the robustness of Compagnie de Financement Foncier’s portfolio of assets.

<sup>(1)</sup> The reform of the French supervision system (the Economic Modernisation Act of 2008) led to the merging of the Banking Commission and the Insurance and Mutual Companies Control Authority into the ACP (*Autorité de contrôle prudentiel* - Prudential Control Authority).

## 4. Management of credit risk and counterparty risk

The credit risk on customer loans relates mainly to the risk of deterioration in the borrower's financial situation or to the associated risk of default which could lead to non-repayment of part of the principal or interest.

Compagnie de Financement Foncier's particularly low credit risk profile is due to:

- the intrinsic quality of the counterparties: the French or international Public Sectors and retail lending (private individuals) for mortgage loans;
- the performance of the lending system which is based on expert procedures and loan rating and selection systems;
- the nature of the financing granted, and the extent and variety of security mechanisms, supplemented by a selection process when assets are acquired (see Section 5).

The mechanisms for selecting and monitoring Compagnie de Financement Foncier's commitments derive both from those in force in the parent company and from a very strict selection process which involves in particular, apart from the eligibility criteria laid down by the law and specific criteria of Compagnie de Financement Foncier (definition of the public sector, exclusion of commercial property), a filter which takes account of the credit scorings assigned on approval and thereafter as provided by the originator of the loans.

Compagnie de Financement Foncier also finances Crédit Foncier's production of mortgage loans to retail customers by purchasing mortgage notes issued by the latter. These promissory notes, payable to order, have been considered as equivalent to guaranteed loans since April 2007. The eligibility criteria for this new business comply strictly with those applied to the loans directly held by *sociétés de crédit foncier*.

### 4.1. Salient points for credit risk

Globally, the salient point for 2011 was the intensifying European sovereign debt crisis. It had impact on the sovereign bond portfolio held by the Compagnie de Financement Foncier: all of the portfolio's Greek and Portuguese bonds were transferred to Crédit Foncier as in line with the agreements because of the credit risk they represented. In addition, Compagnie de Financement Foncier voluntarily reduced its exposures on the other peripheral European Sovereigns.

This context of a European sovereign crisis, as well as the re-evaluation of rating methods used by external agencies, also caused certain securitisation lines held in the portfolio to be downgraded, even with no unpaid items due. Thus seven RMBS (including three Spanish and three Portuguese transactions) were transferred by Compagnie de Financement Foncier to Crédit Foncier in 2011, as provided in the agreements due to their rating of BBB+ or lower, by application of the agreement.

## 4.2. Breakdown of Commitments of Compagnie de Financement Foncier as of December 31, 2011

### 4.2.1. Exposure to Credit Risk

The following tables break down on the one hand the gross basis of transactions with customers excluding off-balance-sheet commitments and financial guarantees given (representing a balance sheet total of €105,8 billion as of the end of December 2011) and on the other hand, the rate of doubtful debts observed, which is 0.6% (0.5% excluding subsidised loans).

(in million of euros)

Risk exposures <sup>(*)</sup>	12/31/10			12/31/11		
	Balance sheet	Doubtful loans	Rate of doubtful loans (excluding subsidised sector)	Balance sheet	Doubtful loans	Rate of doubtful loans (excluding subsidised sector)
Private individuals	43,995	1.1%	1.0%	45,179	1.3%	1.2%
French mortgage loans <sup>(**)</sup>	22,890	2.1	1.9	25,700	2.2%	2.1%
French and Belgian mortgage notes (in nominal)	6,976	n/a	n/a	9,264		
Mortgage total	29,866	1.6%	1.4%	34,964	1.6%	1.5%
Securitised French mortgage (internal securitization)	1,124	n/a	n/a			
European residential mortgage-backed securities	13,006	n/a	n/a	10,215	ns	
Securitised mortgages total	14,129	n/a	n/a	10,215		
Public Sector	40,709			37,574		
Low-income housing	3,100	0.2	0.2	2,810	0.2%	0.2%
French Local Authorities (FLA)	11,497	0.1	0.1	10,382		
FLA L. 211-38 <sup>(2)</sup>	2,957			3,224		
Sovereign debt (France)	962			70	ns	
French Public Debt	18,515	0.1%	0.1%	16,486		
Private-Public-Partnership	441	n/a	n/a	678		
International Public Financing	10,332	n/a	n/a	10,569	ns	
International Sovereign	3,825	n/a	n/a	2,486	ns	
Securitisations backed by loans (essentially mortgage loans) benefiting from State safeguards	7,595	n/a	n/a	7,354	ns	
International Operators	21,752	n/a	n/a	20,409		
Commercial mortgages disappearing (resulting from the legal transfer in October 1999)	163	6.2%	6.7%	141	7.2%	8.2%
Banking sector exposures	15,831			19,625		
of which Banque de France and CDC	626			1,683		
of which other banks with public or semi-public guarantees	2,472			2,909		
of which other banks	3,417			3,508		
of which BCTG (Crédit Foncier's exposures guaranteed by asset collateral)	9,316			11,525		
Total risk exposure	100,698	0.5%	0.4%	102,519	0.6%	0.5%
Miscellaneous adjustments and other assets <sup>(***)</sup>	3,129			3,260		
<b>Total</b>	<b>103,827</b>	<b>0.5%</b>	<b>0.4%</b>	<b>105,778</b>	<b>0.6%</b>	<b>0.5%</b>

<sup>(\*)</sup> Balance sheet commitments (excluding off-balance sheet commitments and liabilities) representing overall exposure to credit risk, gross figures (performing and doubtful) according to French accounting standards from management data.

<sup>(\*\*)</sup> The line «French mortgage loans» includes a limited outstanding of Dutch debts (€81 million at December 31, 2010 and €78 million at December 31, 2011).

<sup>(\*\*\*)</sup> The line «miscellaneous adjustments and other assets» is essentially composed of accrued interests on financial forward instruments and adjustment accounts.

<sup>(1)</sup> of which BH Belgium for €384 million at December 31, 2011.

<sup>(2)</sup> of which €115 million of L211-38 with Caisses d'Epargne at December 31, 2011.

Over the course of 2011 outstandings grew slightly by 1.9% despite a high level of prepayments which was mainly due to a sharp fall in market interest rates. There was a contrasting trend in exposures:

- **an increase of loans directly held on Individuals** (up by +12.3%), thanks in particular to the updating of the purchasing filter and to the significant levels of loan origination and the high quality of mortgage loans to individuals at Crédit Foncier;
- **higher interbank exposures** (up by +24.0%), linked to Compagnie de Financement Foncier's treasury activity, most of it benefiting from collateralisation;
- **a decrease in outstandings on the regional government and local authority sector** (-9.7% compared to year-end 2010). The private sector corporate mortgage portfolio, which is in run-off mode, continues to be paid down and at 0.1% represented a marginal proportion of total outstandings at the end of December 2011.

The difficult economic conditions that prevailed in 2011 did not jeopardise Compagnie de Financement Foncier's low risk profile or the overall quality of its loan portfolio. Regional government and local authority outstandings had a virtually zero delinquency rate. Delinquency rates on the mortgage lending portfolio to Individuals, was up slightly in 2011.

#### 4.2.2. Analysis of the credit risk exposures

##### 4.2.2.1. Geographical Breakdown of Significant Exposures

As of the end of December 2011, the portfolio continued to be concentrated in the European Union (89.5%), with an increasing share in France (67.9%, up from 63.2% at end December 2010) due to freezes affecting certain countries.

It should be reiterated that commitments located in the United States consist only of loans to states and highly rated local authorities or shares in securitised loans that are guaranteed by the federal government, and do not include any direct or indirect real estate exposures; commitments in Japan concern public agencies, prefectures and municipalities.

Breakdown of exposures by geographical area <sup>(\*)</sup>

	12/31/10	12/31/11	
	%	Balance sheet (€M)	%
France	63.2	71,829	67.9
Other countries within European Economic Area	26.1	22,803	21.6
Other European countries	1.6	1,655	1.6
North America (USA & Canada)	7.2	7,392	7.0
Africa/Middle-East			
Central and Latin America (including Mexico)			
Asia excluding Japan			
Japan	1.9	2,099	2.0
Oceania			
Others			
<b>Total</b>	<b>100.0</b>	<b>105,778</b>	<b>100.0</b>
	103,827		

<sup>(\*)</sup> Accounting management data: "Balance sheet" commitments portion (excluding off balance sheet commitments and financial guarantees) of the overall exposure to credit risk, based on gross customer loans (performing and doubtful) according to French accounting standards.

#### 4.2.2.2. Breakdown of exposures by product family

Since Compagnie de Financement Foncier is not allowed by law to hold equity in other companies or a trading portfolio, the breakdown of balance sheet exposures by product group (loans, securities and financial transactions) as of December 31, 2011 shows by definition a concentration on loans (70% including treasury loans) and securities (17% securitisations and 14% bonds).

##### Breakdown of exposure by product family

Product families <sup>(*)</sup> - Breakdown by %	12/31/10	12/31/11
Shares/Funds		
Other balance sheet products		
Short term credit facilities <sup>(**)</sup>	2	4
Loans <sup>(***)</sup>	63	66
Bonds [“Banking” <sup>(****)</sup> ]	15	14
Bonds [“Trading” <sup>(*****)</sup> ]		
Securitisation (internal and external)	20	17
<b>Balance sheet total</b>	<b>100</b>	<b>100</b>
Balance sheet assets <sup>(*)</sup> €million	103,827	105,778

<sup>(\*)</sup> Accounting management data: “Balance sheet” commitments portion (excluding off balance sheet commitments and financial guarantees) of the overall exposure to credit risk, based on gross customer loans (performing and doubtful) according to French accounting standards.

<sup>(\*\*)</sup> “Short term credit facilities” essentially include adjustments accounts and forward financial instruments.

<sup>(\*\*\*)</sup> Customer loans excluding cash credit.

<sup>(\*\*\*\*)</sup> Bonds are held in association with lending transactions and with a view to holding them to maturity.

<sup>(\*\*\*\*\*)</sup> Compagnie de Financement Foncier is not allowed by law to hold securities for trading purposes.

#### 4.2.2.3. Analysis of exposures on securitisation transactions

##### 4.2.2.3.1. Objectives and activity

In the framework of the application of the European directive known as «CRD3», it should be noted, that all securitisation transactions held by the Compagnie de Financement Foncier come exclusively under the banking portfolio and that Compagnie de Financement Foncier is not an investor in any resecuritisation operation.

The primary objective pursued by Compagnie de Financement Foncier in matters of securitisation over the past few years was to create a diversified, high-quality portfolio of mostly mortgage receivables, with asset classes located outside France, that the establishment knows and controls well. In the second half-year 2011, no further investment was made, and the portfolio was in run-off.

In terms of risks, it should be noted that Compagnie de Financement Foncier’s activity has focused on transactions with a limited risk profile:

- publicly rated senior securities (AAA on acquisition); and issued by structures that have strong investor protection mechanisms: subordination of junior tranches, reserve funds, interest-rate differentials, protection against foreign-exchange and interest-rate risks;
- underlying prime mortgage in Europe, residential or mixed receivables (maximum 20% tolerance on non-residential real estate receivables in the underlying portfolio in certain Italian transactions);
- underlying receivables from Public sector backed by a sovereign state (e.g. FFELP student loans in the United States, NHG receivables in the Netherlands) or a local authority (e.g. healthcare securitisations in Italy).

These assets obviously meet the regulatory requirements applying to *sociétés de crédit foncier*.

The management of the portfolio securitisation is the intentional hold to maturity and the book at the amortised cost.



#### 4.2.2.3.2. Risk Management

The entire portfolio is independently monitored by the operational teams but also by Crédit Foncier's Risk Division, which is endowed with the required skills.

Based on reports published by management companies, the Risk Division analyses the trend, over a reference period, of the primary indicators of risks: unpaid items, defaults and losses observed on the portfolio of underlying receivables; changes in inventory of goods held by adjudication; Average loan-to-value of the pool; credit support of the tranche held (credit enhancement); level of reserve funds and excess spread; *etc.* In addition, the Risk Division is automatically alerted by the agencies whenever external ratings change. Every quarter, the Risk Division conducts portfolio reviews and provides an in-depth analysis of ratings migrations. Finally, on a half-yearly basis, the Risk Division models stress tests. These tests, whose purpose is to challenge the solidity of the securitisation portfolio and identify the weakest transactions, evaluate the cash flow deficit that could affect each of the portfolio's lines in very downgraded economic and financial conditions.

The Risk Division keeps an updated watch list of sensitive transactions, i.e. those transactions with no risk of capital loss but that carry possible risks of ratings downgrades (Migration List). In 2011, no securitisation held by Compagnie de Financement Foncier required provisioning and so no securitisation was entered in the watch list\*. To date, no default has been recorded in Compagnie de Financement Foncier's securitisation portfolio.

BPCE's Group Risk Division - an extra pair of eyes to analyse and monitor the portfolio.

#### 4.2.2.3.3. Stress tests

Compagnie de Financement Foncier's entire portfolio of residential mortgage-backed securities is regularly submitted to a battery of stress tests that show how resilient the assets are to extreme scenarios.

These extreme simulations combine an increase in the default rate, a decline in prepayments and a sharp and sustained drop in real estate prices, scenarios that assume the combination of events of such magnitude that they appear highly unlikely at this stage:

- a doubling until maturity of historic default rates by transaction leading to an average of 15% of cumulative defaults over the life of these transactions (which may exceed 30% for the worst of them);
- a sharp and sustained drop in real estate prices, of varying scope depending on the country (as much as a 60% drop compared to the 2008 peak, in Spain's case);
- a one-quarter reduction in the latest known prepayment rates.

The defaults modelled in the simulations correspond to foreclosures, which is a conservative hypothesis given that in practice defaults on loans do not automatically trigger foreclosure.

In such a «catastrophe» scenario, an ultimate cash flow deficit could occur at the transactions' maturity date, representing 0.14% of the outstanding principal amount of the stressed transactions discounted to present value (i.e. 0.08% after discounting).

#### 4.2.2.3.4. Exposures to external securitisation transactions

Compagnie de Financement Foncier held a portfolio of €17.6 billion, with outstandings down significantly in 2011 (the portfolio's outstandings amounted to €20.6 billion in 2010). The portfolio is primarily composed of outstanding securitisations of residential mortgage receivables:

- RMBS-type for €10 billion
  - RMBS public NHG type (for €3.6 billion), securitisations of residential mortgage receivables guaranteed by NHG in the Netherlands.
- The Company also holds a portfolio of Student Loans FFELP securitisation for €3.3 billion whose underlying assets is composed of student loans that are at least 98% guaranteed by the US Federal Government.

Outstandings are primarily concentrated in Europe (Spain, Netherlands and Italy, which represent 75% of total outstandings) and the United States (19% of outstandings).

\* Transactions for which a potential risk is detected without any real loss risk being identified at this time.



## External securitisation positions - Breakdown by country and asset class

(in million of euros)

12/31/2011		External securitisation positions - Breakdown by country and asset class							
Category of FCTs		Germany	Spain	USA	Greece	Italy	Netherlands	Portugal	Total
Residential mortgage	MIX					207			207
	RMBS	295	4,917			2,899	1,075	824	10,008
Total Residential mortgage		295	4,917			3,106	1,075	824	10,215
Public Sector	Healthcare					437			437
	RMBS NHG						3,621		3,621
	Sovereign					2			2
	Student loans FFELP			3,294					3,294
Total Public Sector				3,294		439	3,621		7,354
Total		295	4,917	3,294		3,544	4,695	824	17,569

MIXED RMBS: securitisations of residential mortgage receivables (more than 80% private individuals/professionals).

RMBS: securitisations of residential mortgage receivables.

RMBS NHG: securitisations of residential mortgage loans guaranteed by NHG in the Netherlands.

Sovereign: securitisations of receivables carrying an explicit Italian sovereign guarantee.

Healthcare: securitisations of healthcare receivables, the end risk being on Italian regions.

ABS Student loans FFELP: senior tranches in securitisations of US student loans guaranteed by the Federal government for at least 98% of the principal amount.

In the fourth quarter 2011, Compagnie de Financement Foncier made certain transfers. These involved English (prime) and Dutch (prime or NHG) RMBS. Thus, five transactions were partially or totally transferred for a face value of €678.8 million.

In addition, several RMBS - Spanish transactions (€1,225 million), Portuguese transactions (€139.7 million) and one Greek transaction (€6.8 million) - were transferred by Compagnie de Financement Foncier to Crédit Foncier in 2011. These securitisation vehicles had been significantly downgraded. This process is in keeping with the agreement binding Crédit Foncier to the Compagnie de Financement Foncier, which in fact sets out that Crédit Foncier is committed to buy back certain RMBS at book value once their rating is downgraded.

These factors, along with the portfolio's natural amortisation, are behind the strong downward variation of the outstanding securitisation portfolio of Compagnie de Financement Foncier.

### 4.2.2.3.5. Breakdown of portfolio by weighting

Securitisation positions acquired by Compagnie de Financement Foncier are broken down in the table below by weighting and rating category. The weighting of positions of securitisations held is determined using the external ratings of tranches published by the three agencies: Moody's, Standard & Poor's and Fitch. At December 31, 2011, all tranches held by Compagnie de Financement Foncier were rated by agencies (in the absence of external rating on a tranche, a weighting of 1,250% of the exposure would have been applied). If the tranche is rated differently by the three agencies, the «Basel II» criterion is applied: the lesser of the two best ratings among the three rating agencies is applied.

The amounts of the weighted exposures of the securitisation positions are calculated using the standard method for all BPCE Group establishments (not including Natixis) and therefore for Compagnie de Financement Foncier.

(in million of euros)

Basel II weighting using the standardised approach	Basel II ratings	12/31/10		12/31/11	
		Outstanding loans	% of portfolio	Outstanding loans	% of portfolio
20%	AA- to AAA	18,282	89%	14,162	81%
50%	A- to A+	1,917	9%	3,013	17%
100%	BBB- to BBB+	401	2%	393	2%
<b>Total</b>		<b>20,600</b>	<b>100%</b>	<b>17,569</b>	<b>100%</b>

At year-end 2011, the portfolio was still composed mainly of transactions rated as step 1 (rating ≥ AA-) despite the decrease in portfolio share of this type of outstanding: 81%, down from 89% in 2010. Outstandings weighted 100% are composed of outstandings of an Italian healthcare securitisation whose rating reflects the local authorities' credit quality.

### 4.2.3. Quality of portfolio exposed to credit risk

#### 4.2.3.1. Lending to Individuals

Outstandings on Individuals grew by 17.1% compared with the end of December 2010. This shift is partially associated with the direct acquisition of eligible outstandings from historical transactions of synthetical securitizations which were de-securitized at end-2011 as well as sustained production of loans to individuals by Crédit Foncier.

##### 4.2.3.1.1. Lending to Individuals, not including securitisations

#### Acquisition of loans to individuals by Compagnie de Financement Foncier in 2011

In the first half of 2011, Compagnie de Financement Foncier continued its acquisitions of CFF mortgage loans for a total of €6,279 million, comprising €2,934 million in first-home buyer loans, €1,228 million in loans to the Rental sector, €2,116 million in subsidised loans (first-time home buyer and interest free loans), demand for which was boosted by government measures implemented since 2008 to encourage first-time home purchases (doubling of ceiling for interest-free loans, PASS Foncier, local interest-free loans and aid from local authorities), which also secure these transactions.

#### Delinquency - Arrears

On direct mortgage loans and underlyings of mortgage notes, the ratio of doubtful debts to total outstandings (excluding the subsidised sector) was up slightly at 1.5% compared with 1.4% at the end of December 2010.

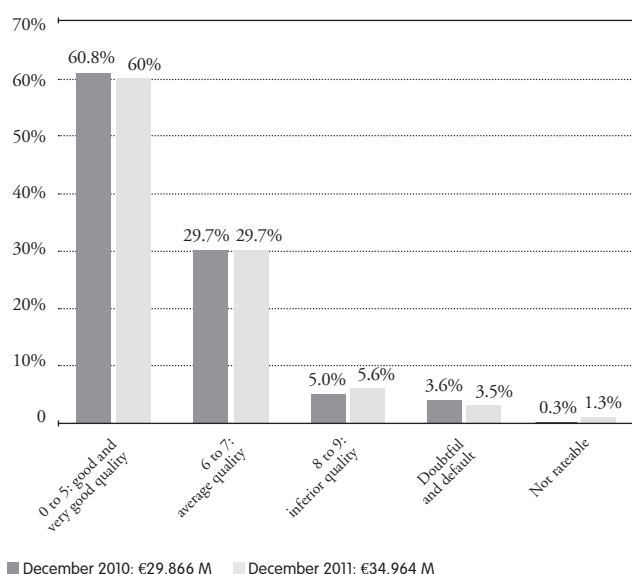
Since Compagnie de Financement Foncier makes its loan acquisitions after selection, its delinquency rate (amount in arrears for more than six months) is lower than that of Crédit Foncier. The entire portfolio of selected assets is in fact secured by prime mortgages, together with additional protection (more than one third of mortgage loans on Individuals being guaranteed by the FGAS), which limits the risk of final loss.

#### Rating

The breakdown below confirms the quality of Compagnie de Financement Foncier's outstanding retail loans portfolio: it remained stable between year-end 2010 and year-end 2011.

60% of these loans are good or very good quality loans (score between 0 and 5). The proportion of loans in default <sup>(\*)</sup> posted a dip at end-December 2011 (3% compared to 4% at end-December 2010).

#### Internal rating of outstanding mortgage loans to individuals



<sup>(\*)</sup> Here default includes non-doubtful default. As part of the work being done to harmonise standards with Groupe BPCE, default and doubtful will converge in the end of 2012.

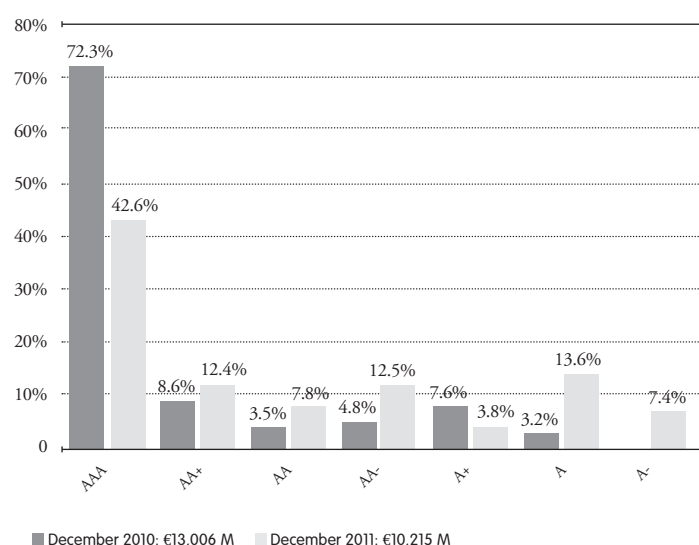
#### 4.2.3.1.2. Residential mortgage securitisations

Compagnie de Financement Foncier's RMBS portfolio comprises senior tranches of securitisations of residential mortgage loans granted entirely to individuals. These are prime assets, with a high level of granularity, located in European countries other than France.

##### Changes in RMBS exposures

The outstandings in the RMBS portfolio on Compagnie de Financement Foncier's balance sheet were reduced significantly in 2011, amounting to €10.2 billion in 2011, down from €13 billion the previous year, a significant downward variation of nearly €3 billion explained by the movements described in paragraph 4.2.2.4.4.

Breakdown by internal rating of exposure to securitised mortgage loans to individuals in Europe (excluding France)



In 2011, a large majority of outstanding RMBS (more than 75%) were rated Step 1 (rating  $\geq$  AA-) and 43% of outstandings had a Basel II rating of AAA. A migration of ratings done in 2011 can be noted, because in 2010 the share of outstandings in the Step 1 category represented more than 89% of the RMBS portfolio.

##### External securitisation positions

12/31/2011		Breakdown by rating							Total
Category of FCTs		AAA	AA+	AA	AA-	A+	A	A-	
Residential mortgage	MIX	70	137						207
	RMBS	4,278	1,131	798	1,272	385	1,387	757	10,008
<b>Total Residential mortgage</b>		<b>4,348</b>	<b>1,268</b>	<b>798</b>	<b>1,272</b>	<b>385</b>	<b>1,387</b>	<b>757</b>	<b>10,215</b>
Total		42.6%	12.4%	7.8%	12.5%	3.8%	13.6%	7.4%	

MIX: securitisations of residential mortgage loans (private individuals/professionals, more than 80% private individuals).

RMBS: securitisations of residential mortgage loans.

As a reminder, Compagnie de Financement Foncier no longer holds internal securitisations positions.

#### 4.2.3.2. French Public Debt Portfolio

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

French Public Sector exposures acquired by Compagnie de Financement Foncier are originated by the Groupe BPCE, either by the Caisses d'Epargne or by Crédit Foncier. For social housing, Compagnie de Financement Foncier has direct guarantees from local authorities and/or mortgage guarantees.

## Loan outstandings

Social housing outstandings fell by 9.4% relative to the end of 2010. Likewise, regional government and local authority outstandings fell by 5.9%. Overall, French local authorities outstandings fell slightly (-6.5% compared with year-end 2010).

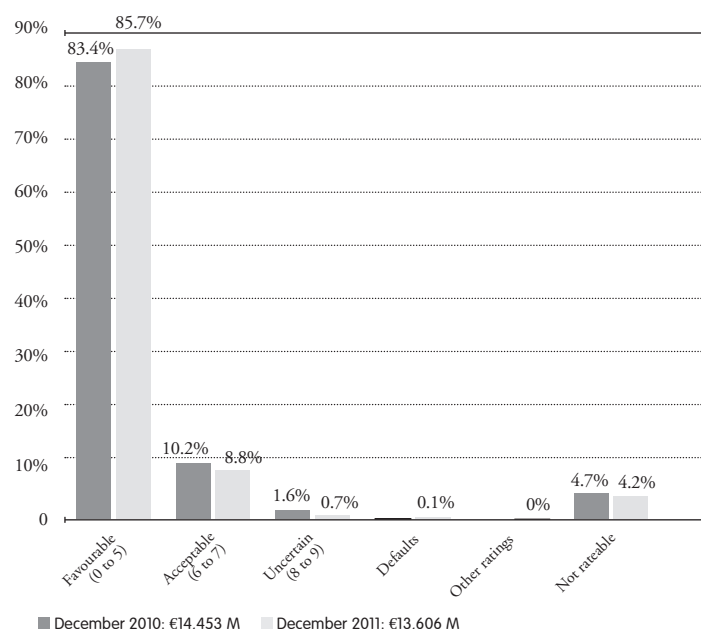
## Delinquency - Arrears

The Public Sector Portfolio has a very marginal rate of doubtful debts, corresponding to old cases, attesting to the good quality of the portfolio.

## Ratings

For all its French Local Authority and low-income housing financing activities, Crédit Foncier uses Groupe BPCE's internal rating tools (scale from 0 to 9 for each level of increased risk) which are based on scoring functions and specific criteria for each customer segment (regions, departments, municipalities, social economy, low-income housing, healthcare institutions, *etc.*). Unrated counterparties are analysed on an individual basis and in great detail.

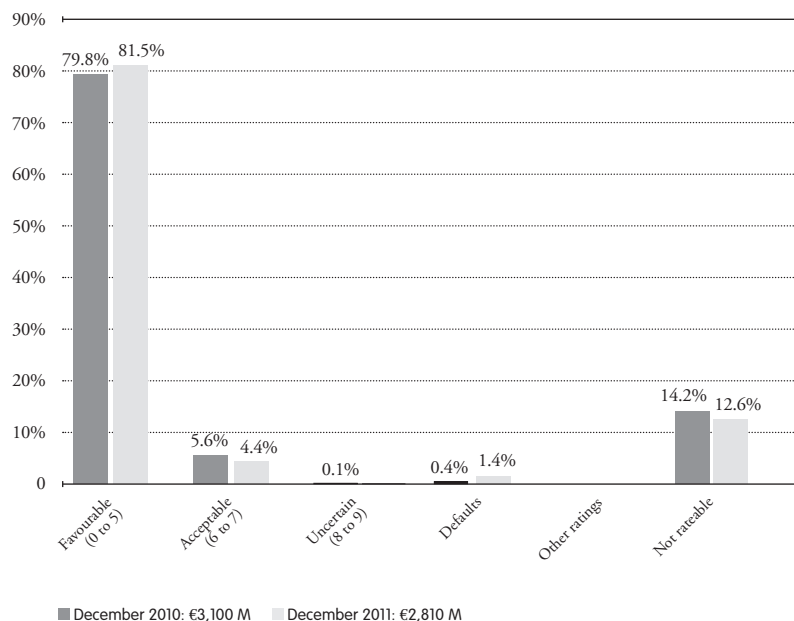
### French Public Sector Portfolio – Breakdown by Basel II rating



Of Compagnie de Financement Foncier's total outstandings, 85.7% of cases are rated "favourable" (ratings of 0 to 5), which is an improvement on year-end 2010 (83.4%).

As the category "Other ratings" comes from a distinct rating system, a mapping was realised to resplit this category and harmonise the ratings scale.

## Social housing portfolio - Breakdown by Baseld II rating



Of Compagnie de Financement Foncier's total social housing outstandings, nearly 82% of cases are rated «favourable» (0 to 5), slightly up on 2010 (80%).

The proportion of rated counterparties in the “uncertain” category and in default remains minimal.

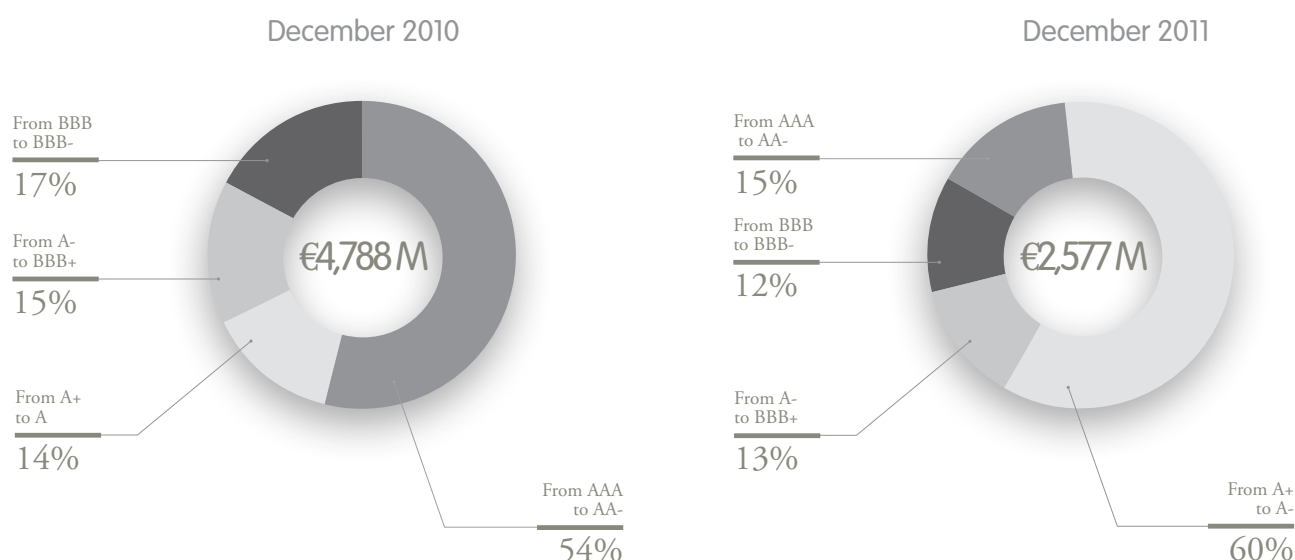
Non-rated outstandings (12.6%) consist largely of institutions that collect PEEC <sup>(1)</sup> contributions and their subsidiaries, which are not covered by BPCE's rating tools. Prior to any commitment decision, these counterparties undergo an in-depth analysis on a case by case basis. Also, the PEEC sector is closely overseen and supervised by the French State.

<sup>(1)</sup> *Participation des employeurs à l'effort de construction* (PEEC), is a system whereby non-agricultural private sector businesses with 20 or more employees (10 or more before 2006) contribute towards the construction of new housing. It is commonly known as the “1% housing fund”.

### 4.2.3.3. International Public Sector

#### 4.2.3.3.1. Sovereign Borrowers

The Sovereign portfolio (excluding France) has been in run-off management since the second half-year 2011. Restrictions, and indeed a total freeze, had already been imposed on lending to certain countries in line with BPCE Group policy. Initially towards the end of 2009, this affected the Greek and Spanish sovereign debts as well as the entire public sectors of these two countries.

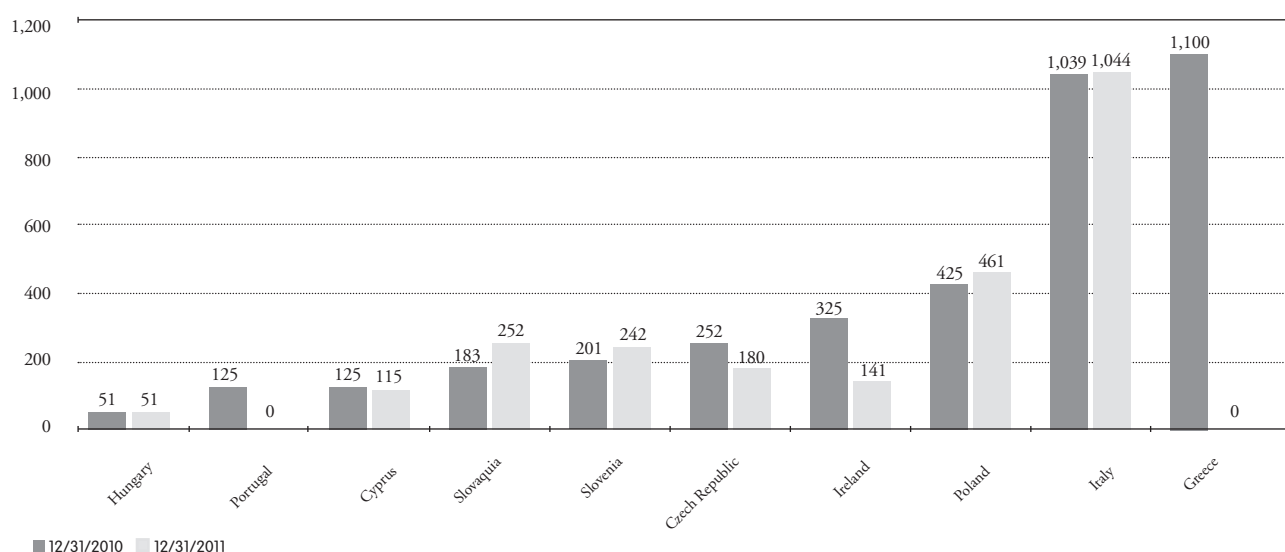


Outstandings on sovereign borrowers, which represented €2,557 million at December 31, 2011, decreased -47% over one year. As a result of Greek and other European (primarily Portuguese and Irish) securities transfers to the Cr dit Foncier and due to French sovereign (or seminar) bonds, and the transfers of European some securities (primarily Portuguese and Irish) that Compagnie de Financement Foncier held in its portfolio.

A majority of the outstanding loans are now rated A+/A (BPCE internal ratings).

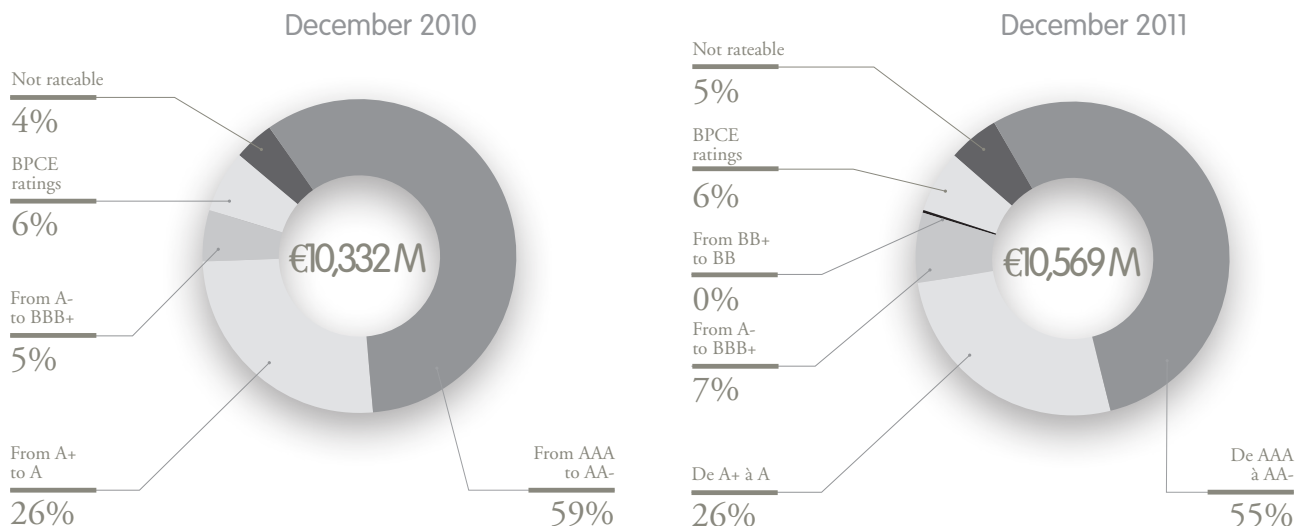
Breakdown of direct sovereign exposures (excluding France)

(in million of euros)



#### 4.2.3.3.2. International local authorities

No new investment on the IPS portfolio has been made since the start of the second half-year 2011. Thus, the portfolio's overall outstandings varied little during 2011.



Outstandings in the IPS portfolio are focused on Eurozone countries, Switzerland, Japan, Canada and the United States. In 2011, a majority of outstandings are still rated Step 1 (rating  $\geq$  AA-) even if the share in the overall portfolio went down from 58.5% to 54.6% (internal ratings). It should be noted that internal ratings for the IPS are slightly more conservative than the agencies' published ratings, the difference being on average between half and one notch less. «Unclassified» (5.2%) outstandings refer to a small number of counterparties that have not yet been subjected to internal rating but the risk on which is nevertheless assessed as being equivalent to A or higher based on external ratings.

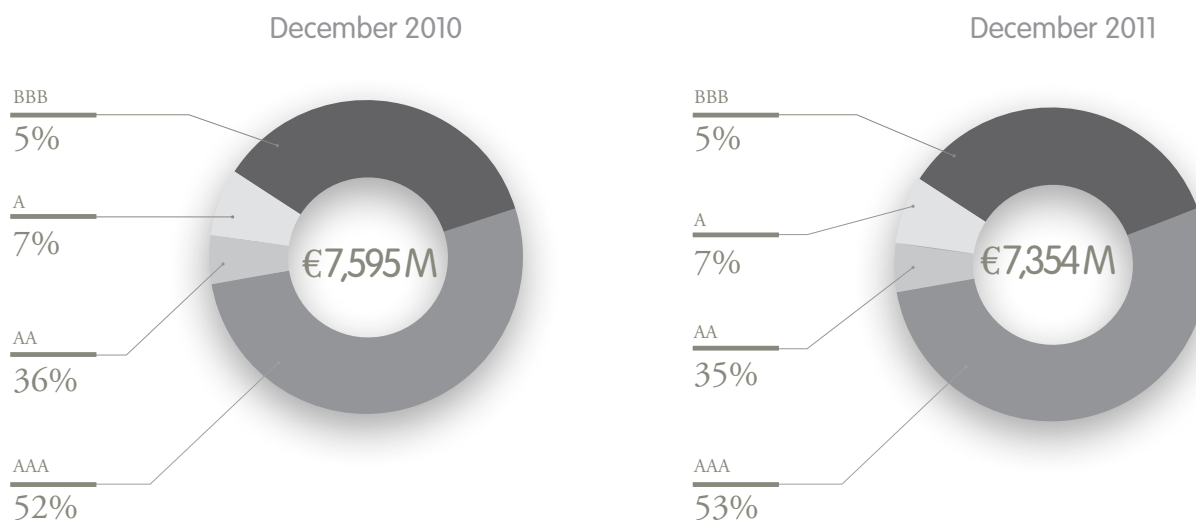
#### 4.2.3.3.3. International Public Sector

##### Change in exposures

Outstandings in the «Public Sector» securitisations of Compagnie de Financement Foncier amounted to €7,354 million at December 31, 2011 (a slight downward variation in 2011, since outstandings amounted to €7,595 million in 2010). There are three types of transactions:

- €3,621 million in securitisations of Dutch mortgage loans backed by an NHG guarantee. NHG is a Dutch public entity which plays a very similar role to that of the FGAS in France. These transactions thus represent an end risk on the Dutch sovereign state. 87% of this portfolio's outstandings are rated Step 1 ( $\geq$ AA-);
- €3,294 million in securitisations of US FFELP student loans (€3,288 million) guaranteed by the United States Federal government for at least 98% of the principal amount and hence given a Basel II rating equal to AAA at December 31, 2011 (despite the downgrading by Moody's of about 6% of outstanding securitisations of US FFELP student loans);
- €439 million (i.e. 25% of the total portfolio) in healthcare outstandings exposed on the Italian public sector, mostly rated BBB.

## Breakdown of exposures by external rating



## Public Sector securitisation positions

(in million of euros)

12/31/2011		Breakdown by rating							Total
Category of FCTs		AAA	AA+	AA	AA-	A+	A	BBB	
Public Sector	Healthcare				43			393	437
	RMBS NHG	627	301	1,693	519	481			3,621
	Sovereign						2		2
	Student loans FFELP	3,294							3,294
Public Sector total		3,921	301	1,693	562	481	2	393	7,354

The vast majority of outstanding Public Sector securitisations (88%) are rated Step 1 (rating  $\geq$  AA-). This number is unchanged, when a similar proportion of outstandings was rated at least AA-.

## Enhanced Transactions in the External Securitisation Portfolio

Only two transactions for a total of € 437 million were enhanced by monoline financial guarantees. As of this date, due to the massive downgrading of most of these monolines, one security (€43 million) still benefits from the positive effect of the enhancement, being enhanced by FSA (now Assured Guaranty Municipal Corp.), rated Aa3/AA- (Moody's/S&P) at December 31, 2011. This was a public-sector securitisation with a final claim on a local Italian authority publicly rated BBB at December 31, 2011. If the enhancer's rating is lowered, the security's rating would, at worst, be in line with the authority's.



#### 4.2.3.4. Risk Charge

(in million of euros)

Risk Charge	12/31/10	12/31/11
Individual cost of risk (a)	(1.02)	(5.81)
Collective provisions (b)	(2.30)	0.94
Cost of risk (a+b)	(3.32)	(4.87)
Risk charge net banking income (c)	0.89	(1.27)
Overall charge of risk (a+b+c)	(4.20)	(6.14)

For the year ended December 31, 2011 the risk charge for Compagnie de Financement Foncier was €6.14 million, compared with €4.20 million as of December 31, 2010. At the end of 2011, total loan provisions stood at €31.8 million, of which €25.2 million in individual provisions and €6.6 million in collective provisions.

For individual provisions (€5.81 million), the risk charge increased primarily over the second half-year, in connection with an increase in the doubtful rate.

As regards the collective provisions, the €0.94 million in collective provisions was mainly linked to the Neiertz provisions on unpaid items.

#### 4.3. Risk Diversification and Concentration Risks

Summary of counterparty groups concentration for Compagnie de Financement Foncier

(in million of euros)

	Top 10	Top 20	Top 50	Top 100	Total
Private finance initiatives			n.s.		
Large corporations			n.s.		
Sovereign States	3,858 (100%)	3,858 (100%)	3,858 (100%)	3,858 (100%)	3,858
External securitisation	6,139 (35%)	9,891 (56%)	15,100 (86%)	17,557 (100%)	17,569
French Local Authorities and low-income housing	3,396 (21%)	4,748 (29%)	7,048 (43%)	9,231 (56%)	16,366
IPF (International Public Financing)	4,832 (46%)	6,689 (63%)	9,470 (90%)	10,569 (100%)	10,569

This table represents the weight of the largest 10, 20, 50 or 100 counterparties in the exposure to a given category.

This classification is carried out on groups of counterparties and on- and off-balance sheet exposures.

- for securitisation, which represents a significant proportion of the portfolio of large counterparties, more than 86% of risks are concentrated among the 50 largest exposures. This concentration is due to Compagnie de Financement Foncier's strategy of acquiring, after in-depth analysis, of sizeable assets in the primary market. In terms of credit risk, this concentration is only apparent, since the underlying assets are mainly residential mortgage receivables on individuals and as such have a high degree of granularity.
- concentration levels are much lower in the large corporate and French Local Authorities/low-income housing sectors, thereby contributing to the group's risk diversification policy.

Direct exposure to sovereign risk is relatively concentrated (fewer than 10 counterparties) as it involves only a few European states.

#### 5. Risk mitigation techniques

Compagnie de Financement Foncier's portfolio is very well secured, since it consists mainly of either risks secured by mortgages or risk on the public sector. Both these risks are further reduced by additional guarantees. Thus, for example, 37% of the outstanding loans on private individuals benefit from a FGAS guarantee.

For individuals, the main providers of personal guarantees belong to the Sovereign and Institution segments:

- main guarantees equivalent to sovereign risk:
  - *Société de gestion du fonds de garantie à l'accession sociale à la propriété* (SGFGAS) provides a guarantee of the French state for home ownership loans governed 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 rating, 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, protection granted thereafter has a 15% credit-risk weighting under Basel II for the loans in question;
- main guarantee equivalent to Institution risk:
  - Crédit Logement is a financial institution, owned by most of the major French banking networks, whose long-term ratings are Aa2 (Moody's) and AA- (S&P). Loans covered by Crédit Logement are assigned a Basel II weighting of 20%, which is the regulatory weighting applicable to French credit institutions.

Regarding mortgage guarantees, in accordance with the regulations, Compagnie de Financement Foncier carries out regular precise revaluations of registered mortgage securities. Compagnie de Financement Foncier's Specific Controller gives his opinion on the validity of the methods and on the results of the valuation and periodic review methods for real estate assets.

### 5.1. Valuation and Periodic Review Methods for Real Estate Assets

Specific Controller's certification on the valuation and periodic review methods and results for real estate as of December 31, 2011

To the Board of Directors of Compagnie de Financement Foncier,

In our capacity as the Specific Controller of Compagnie de Financement Foncier, and pursuant to the Article 5 of Regulation 99-10 of the CRBF, we proceeded to the assessment of the validity, in accordance with regulations in force, of the methods used to value the real estate assets underlying the loans and their results, and of the methods for periodically reviewing their value, as published together with the financial statements for the year ended December 31, 2011 and appended hereto.

The valuation methods and their results for real estate assets and the methods for periodically reviewing their value have been defined and implemented under the responsibility of your company's management.

Our responsibility is to assess the validity of this procedure in terms of its compliance with regulations in force as of December 31, 2011.

We implemented the diligences that we considered necessary in view of the professional standards of the *Compagnie nationale des commissaires aux comptes* applicable to this assignment. Our work consisted in checking the compliance of:

- the procedures, the valuation and periodic review methods and their results, in their design and application, with regulations in force as of December 31, 2011;
- the information published together with the annual financial statements with, on one hand, the system for the valuation and periodic review implemented, and on the other hand, with the results arising from the implementation of the valuation system.

Based on our work, we have no observations to make as regards compliance with the provisions set out in Articles 2 to 4 of the Regulation 99-10 of the CRBF, the valuation methods for the real estate assets and their results or the methods for periodically reviewing their value as published together with the financial statements for the year ended December 31, 2011.

Paris, March 30, 2012

Specific Controller

**CAILLIAU DEDOUIT et Associés**

Laurent BRUN

19, Rue Clément Marot

75008 Paris

## Procedure for the Valuation and Periodic Review of the Value of the Assets Underlying the Loans as of December 31, 2011

### I. Valuation method for assets underlying loans

#### A – General asset valuation principles

The procedure described below has been determined pursuant to Articles 1 and 2 of CRBF Regulation No. 99-10 as amended by Regulation No. 2002-02 and subsequently by the decrees of May 7, 2007 and February 23, 2011 transposing European Directive 2006/48/EC into French law. Real estate financed by eligible loans or provided as security for these loans is subject to prudent valuation rules.

The valuation is based on the real estate's long-term characteristics, normal and local market conditions, the current use of the asset and other possible uses.

#### B – Derogation rule used by Compagnie de Financement Foncier

For loans originated between January 1<sup>st</sup>, 2003 and December 31, 2006, in accordance with the provisions of CRBF Regulation No. 99-10 and a decision by the Chairman of Crédit Foncier de France's Executive Board dated 28 July 2003, the cost of the transaction without discount is taken as the estimated value of the asset for all transactions involving residential property for individuals where the transaction cost is less than €350,000. Following the amendments made to CRBF Regulation No. 99-10, this principle was extended to:

- for the period of May 7, 2007 to February 23, 2011, all residential property transactions with individuals where the transaction cost is less than €450,000 or where the outstanding principal amount of the loan acquired or the total amount authorised is less than €360,000;
- beginning on February 24, 2011, all residential property transactions with individuals where the transaction cost is less than €600,000 or where the outstanding principal amount of the loan acquired or the total amount authorised is less than €480,000.

Above these thresholds, the appraised value is considered as the value of the property.

#### C – Summary

The above mentioned rules, applied since February 24, 2011, are summarised in the following table:

Property types	Cost of transaction is less than €600,000 or acquired loan less than €480,000	Cost of transaction is €600,000 or more, or acquired loan €480,000 or more
Residential property for private individuals	Transaction cost	Appraisal
Residential property for private individuals	Appraisal	Appraisal
Commercial property <sup>(1)</sup>	Appraisal	Appraisal

<sup>(1)</sup> Commercial property means all properties other than residential and multiple-use properties where the value allocated to the residential part is less than 75% of the total value of the property.

Valuations apply to all collateral underlying loans authorised (i.e. signed by the parties) during the year, regardless of whether or not they have been drawn down.

Other collateral (underlying loans authorised before 2011 and already valued or re-valued) is mandatorily subject to a periodic review of its value as presented hereafter (see Sections II, III and IV).

### II. Periodic review methods for residential property for individuals and professionals

The rules detailed below apply to collateral underlying loans implemented before 2011.

Two periodic review methods are used to determine the value of collateral, as per the following distinction:

- the so-called S1 statistical method:
  - for residential properties for private individuals;
  - for all residential properties for professionals where the amount is less than €600,000 or for which the Outstanding Principal Amount of the loan secured by the property is less than €480,000.
- for all residential properties for professionals where the amount is less than €600,000 or for which the Outstanding Principal Amount of the loan secured by the property is €480,000 or greater.

## A – S1 periodic review method

### Principles

This method, which aims to approximate market value as closely as possible, is based on establishing indices. The indices obtained are the changes from one year to the next in market values. In accordance with the law, assets are valued on a prudent basis, and then revalued by applying the indices.

The indices reflect four distinct geographical categories:

- i) the 110 urban areas with more than 50,000 inhabitants as per the postal code groups established by the Insee (French National Institute for Statistics and Economic Studies) The list of these towns and their composition change as the urban fabric and real estate markets evolve;
- ii) outside these urban areas, the “non-urban” real estate market is divided into twenty administrative regions, excluding Corsica and Île-de-France (Paris metropolitan area);
- iii) Île-de-France excluding the city of Paris is valued separately using specific indices for each of the seven departments;
- iv) Paris is also valued separately using a specific index.

Indices for each of these four categories (urban, non-urban, Île-de-France and Paris), are grouped according to postal codes, and broken down as follows:

- urban: 110 Apartment indices/110 House indices;
- non-urban: 20 House indices;
- Île-de-France (excluding Paris): 7 Apartment indices/7 House indices;
- Paris: 1 Apartment index.

When the apartment/house distinction is not available for a particular item of collateral, the lower of the two indices, for the corresponding postal code, is used.

When the collateral is located in Corsica or in 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: the average of the urban apartment indices;
- for houses: the lower of the two averages for urban and non-urban houses.

### Revaluation cycle management

Real estate value indices are updated annually. New indices are established each November based on the period ending on September 30.

The revaluation cycle is thus managed on a one year rolling period from September 30 of year “n-1” to September 30 of year “n”.

### Sources

These indices are based on an ad hoc survey of the network of regional real estate appraisers carried out each year by the real estate research division, quarterly gross statistical real estate information held in its database and regional indicators from [www.marche-immo.com](http://www.marche-immo.com).

## B – S2 periodic review method

For 2011, the S2 revaluation method consisted in applying the annual change in the rental index for residential property to 2010 values, i.e. +1.4% (source: Insee).

### III. Methods for periodic review of commercial real estate (non-residential)

In accordance with the provisions of CRBF Regulation No. 99-10, the following three valuation methods are applied to commercial properties depending on their characteristics:

#### A – The so-called “E1” method

This category covers commercial properties, the value of which is less than €600,000 or for which the outstanding principal amount of the loan secured by the property is more than €480,000.

Assets in this category are individually revalued by means of appraisal every three years, and statistically in the interim years using the S1 method.

#### B – The so-called “E2” method

This category covers commercial properties, the value of which is more than €600,000 and for which the outstanding principal amount of the loan secured by the property is more than €480,000.

Each property in this category is individually revalued every year by means of appraisal. 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, forward-looking view of the market.

#### C – The so-called “S1” statistical method

This category covers commercial properties where the outstanding principal amount of the loan secured by the property has fallen below 30% of the initial principal amount of the loan.

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 table of methods:

Type of asset	Transaction cost > €600K and total authorised amount ≤ €480K or Transaction cost ≤ €600K and total authorised amount > €480K	Transaction cost > €600K and total authorised amount > €480K	Disputed cases
RESIDENTIAL	If private individual customer: S1 method		
	If Professional customer: S1 method	If Professional customer: S2 method	
NON RESIDENTIAL	Outstanding principal/initial principal < 30% and total authorised amount ≤ €480K	Outstanding principal/initial principal > 30%	
		Transaction cost ≤ €600K and total authorised amount > €480K	Transaction cost > €600K and total authorised amount > €480K
	S1 method	E1 method	E2 method

### V. Specificities of Dutch security:

The re-evaluation focused on a volume of 900 securities, associated to 900 credits for a total amount of €77.9 million.

The re-evaluation is realised upon the PBK index developed by the Dutch land register. The average index decreased by 2.6% in 2011.

## 5.2. Effect of Credit Risk Mitigation Techniques

In accordance with the regulations covering *sociétés de crédit foncier*, the totality of Compagnie de Financement Foncier's portfolio of direct loans to private individuals is covered either by personal guarantees eligible for reducing Basel II regulatory capital requirements (mutual guarantee bodies, bank guarantees, *etc.*) or by prime mortgages or equivalents such as PPD (*privilèges de prêteur de deniers* - lender's first charge on property).

Of the €25.9 billion in receivables directly on individuals covered by first mortgages or equivalent (*privilège de prêteur de deniers*), €10.6 billion also carry a personal guarantee.

Details concerning the individuals segment:

The table below shows the breakdown of the various guarantees attached to the private individuals portfolio.

(in million of euros)

Schemes		Individuals	
		12/31/10	12/31/11
Regulated schemes	FGAS (100% - State guarantee)	8,435	9,555
	Subsidised sector (State guarantee)	495	346
Mortgage insurance companies	Crédit Logement <sup>(*)</sup>	402	325
	CRESEFI <sup>(**)</sup>	167	340
International financial organisations	Indirect European public guarantee <sup>(***)</sup>	1,028	78
A - Loans guaranteed by a personal surety complementing mortgage or equivalent guarantee		10,527	10,644
B - First-rank mortgage		12,647	15,259
(A + B) GUARANTEES + 1 <sup>ST</sup> RANK MORTGAGE		23,174	25,903
C - OUTSTANDING FRENCH MORTGAGE LOANS		23,174	25,903
Percentage of the amount of loans with guarantees (Basel II-eligible) compared to total outstanding loans		100%	100%

Source COREP - at December 31, 2011, outstanding loans including off balance sheet commitments (excluding mortgage notes).

<sup>(\*)</sup> Crédit Logement: rated Aa2 by Moody's and AA- by Standard & Poor's. Loans guaranteed by Crédit Logement also benefit from the promise of mortgage allocation.

<sup>(\*\*)</sup> CRESEFI: public employees mutual guarantee fund. Loans guaranteed by CRESEFI also benefit from a first rank mortgage allocation.

<sup>(\*\*\*)</sup> Indirect European public guarantee:

of which, as of December 31, 2011: €78 million of guarantee NHG (Dutch State) on the GMAC portfolio.

of which, as of December 31, 2010: €947 million of guarantee PROVIDE 1 (indirect guarantee of KfW) and €81 million of guarantee NHG (Dutch State) on the GMAC portfolio.

## 5.3. Balance sheet and off-balance sheet netting

The group measures exposures linked 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 asymmetrical master netting agreements with its banking counterparties, meaning that only the counterparties provide collateral if need be, depending on their ratings.

In terms of derivatives instruments, the relationships between Compagnie de Financement Foncier and the derivative counterparty are regulated *via* a market agreement signed by both parties and which allows to limit significantly the credit risk to which it is exposed. The market agreement enables to compensate between them the exposures to a same group (netting), which limits the consumed equity. Furthermore, through the mechanism of margin calls, the market agreement sets the possibility of reducing the exposure to the credit risk.

The agreements signed by Compagnie de Financement Foncier are in accordance with national standards. Any market convention is negotiated by the operators and the lawyers of the front-office in coordination with the Risk Division.

## 6. G7 Reporting

In its report dated April 7, 2008, the Financial Stability Forum (FSF) - G7 issued a series of recommendations in response to the crisis, specifically in matters of financial transparency, valuation, risk management and rating agencies. The FSF asked that financial institution's disclosure be improved.

In this framework, Compagnie de Financement Foncier reports that as of December 31, 2011, it had no exposure to the following asset classes:

- CDOs (Collateralised Debt Obligation) or direct exposures to monoline insurers;
- CMBS (Commercial mortgage-backed securities);
- subprime, Alt-A or more generally any US mortgage-backed assets;
- special purpose vehicles;
- debt leverage structures or leveraged buyouts.

Compagnie de Financement Foncier has no direct exposures to monoline insurers but does have credit enhancements acquired from them for certain assets in the portfolio. In all such cases Compagnie de Financement Foncier has a first claim on a counterparty other than the monoline. All of these enhancements are on underlying assets in the public sector (loans or securities) granted either directly to a sovereign state or to a local authority (including healthcare securitisations) or to a public institution. The overall breakdown by underlying rating as of December 31, 2011 of the enhanced portfolio is provided below (face value in €million):

(in million of euros)

12/31/2011								
Monoline	Monoline rating	AA	A	BBB	Non-investment grade	Not avail.	Total	%
AMBAC	Not avail.		139	464			603	22.6%
CIFG	Not avail.			163			163	6.1%
FGIC	Not avail.					104	104	3.9%
FSA <sup>(1)</sup>	AA-	416	1,114			43	1,574	58.9%
MBIA <sup>(2)</sup>	BBB		83			146	228	8.5%
<b>Total</b>		<b>416</b>	<b>1,337</b>	<b>627</b>		<b>292</b>	<b>2,672</b>	
%		15.6%	50.0%	23.5%		10.9%		100.0%

<sup>(1)</sup> Rating of Assured Guaranty Municipal Corp. (for FSA).

<sup>(2)</sup> Rating of National Public Finance Guarantee Corp. (for MBIA).

These enhancing commitments are all in the form of financial guarantees (not CDS) and constitute additional security for the asset in the portfolio. These guarantees are not valued, and are not recognised on Compagnie de Financement Foncier's balance sheet (only enhancement premiums are recognised as an expense). The monoline rating is the lower of the two best ratings from Standard & Poor's, Moody's and Fitch Ratings as of December 31, 2011. The intrinsic rating of the underlying asset is its Basel II rating before enhancement at the same date.

As of December 31, 2011, approximately two-thirds of the enhanced outstandings were rated AA or A. The 10.9% classified as "Unavailable" do not have a Basel II intrinsic rating but are assessed by Crédit Foncier as being investment grade (i.e.  $\geq$  BBB-).

Taking into account the restructuring undergone by the monoline sector, the rating used for securities initially enhanced by FSA is now that of Assured Guaranty Municipal Corp. This monoline was rated Aa3 (Moody's) and AA- (S&P) at December 31, 2011. In the same way, those enhanced by MBIA are now assigned the rating of National Public Finance Guarantee Corporation (Baa2 rating by Moody's and BBB by S&P at December 31, 2011), the entity that now guarantees North American local authorities.

## 7. Asset & liability management risks and market risks

Compagnie de Financement Foncier's business in the markets is limited to the banking portfolio and financial compartments relating to asset/liability hedges and medium to long and short-term investments. It does not engage in proprietary trading and does not have any positions in a trading portfolio. Consequently Compagnie de Financement Foncier is not exposed to market risk.



Crédit Foncier provides Compagnie de Financement Foncier with ALM risk monitoring and management services, pursuant to an agreement to this effect. The management rules are set forth in Compagnie de Financement Foncier's Financial Charter.

Compagnie de Financement Foncier is protected against foreign exchange and interest rate risk: all fixed rate and/or non-euro denominated asset acquisitions or debt issues are systematically hedged with variable rates and/or swapped into euros.

## **7.1. Organisation of ALM risk monitoring and methodology used for assessing liquidity, interest rate, and exchange rate risks**

### **7.1.1. Organisation of ALM risk monitoring**

Interest rate, liquidity and foreign exchange risk management is the responsibility of decision-making bodies, based on three committees. Compagnie de Financement Foncier's **Asset and Liability Management Committee** is the decision-making body responsible for managing financial risks within the policy and limits set by Compagnie de Financement Foncier's general management, based on proposals by the **Risk Committee**, and in accordance with Crédit Foncier Group rules. It meets on a quarterly basis and is chaired by Compagnie de Financement Foncier's Chief Executive Officer. Its members include the Crédit Foncier Chief Risk Officer and other senior executives. Operational monitoring of the various risks relating to Asset and Liability Management is performed through the **Interest Rate Committee**. This committee is led by Crédit Foncier's Financial Management Department, an independent section of Crédit Foncier's Financial Operations Department. The «Treasury Derivatives» Department and the Risk Department participate in it. This organisation ensures a strict separation between the reporting function and the order execution function, which is under the sole responsibility of the trading desk of Crédit Foncier's Financial Activities and International Department. Liquidity monitoring is performed on a recurring basis by the **Financial Committee**.

### **7.1.2. Methodology used for assessing liquidity, interest rate, and exchange rate risks**

Interest rate, liquidity and foreign exchange rate risks are measured using different, complementary approaches depending on the time horizon of the analysis. These are:

- a static approach, which covers on- and off-balance sheet transactions existing at a given date and up until their final maturity. 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 (used for the financing plan and for liquidity forecasts).

Within the scope of these two approaches, the main assumptions used are the propensity of customers to repay before maturity (prepayment) or to renegotiate the terms of the loan. Prepayment and renegotiation assumptions are applied to each type of loan, according to:

- the sectors concerned (subsidised or private), the type of asset (direct loan or through securitisation funds), the type of customer (private individuals, professionals or local authorities) and the type of interest rate (fixed, adjustable or variable);
- different principles of modelisation for each type of customer for the behaviour.

The prepayment and renegotiation assumptions are reconciled with the actual rates observed at each closing date to assess their appropriateness.

Asset & Liability Management has thus set up back testing procedures for retrospective verification of the actual flow of these data to validate agreements adopted.

Balance sheet items without a contractual due date, such as items in the equity portion of the balance sheet, are subject to specific maturity rules proposed by the Financial Management Department and approved by Compagnie de Financement Foncier's ALM Committee.

## **7.2. Liquidity risk monitoring**

### **7.2.1. Organisation of Compagnie de Financement Foncier's refinancing**

The bulk of Compagnie de Financement Foncier's resources come from medium- and long-term issues of *obligations foncières* (French legal covered bonds).

Its additional resources consist of a significant securities and loan portfolio that is eligible for refinancing with the ECB. Thus, it has €27 billion in securities and loans that met the ECB's refinancing eligibility criteria.

In the end of 2011, Compagnie de Financement Foncier refinanced €1.5 billion worth of securities with the ECB, i.e. less than 10% of the available reserve.



### 7.2.2. Liquidity risk monitoring

Liquidity risk is the risk that Compagnie de Financement Foncier may not be able to meet its short-term liabilities.

Compagnie de Financement Foncier's ALM rules ensure that its exposure to liquidity risk remains very limited. In particular, Compagnie de Financement Foncier is committed to maintaining sufficient short-term liquidity to cover its privileged debt repayment commitments for a period of twelve months.

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*. As of December 31, 2010, Compagnie de Financement Foncier had €14.6 billion in replacement securities.

Liquidity needs are analysed using a combination of static and dynamic approaches. They are managed using a system of internal limits, which are approved annually by Compagnie de Financement Foncier's ALM Committee and monitored by its ALM Committee and Risk Committee.

With the static approach, liquidity monitoring ensures that medium-term liquidity management does not concentrate liquidity requirements excessively over certain periods. The main indicator used is the static liquidity gap that takes into account Compagnie de Financement Foncier's capacity to raise liquidity over the next 20 years.

### 7.2.3. Compliance with limits

As of December 31, 2011, Compagnie de Financement Foncier had a liquidity ratio of 470%.

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 June 30, 2011, this rule was still complied with, as the average duration was 6.17 years for assets and 6.36 years for liabilities.

## 7.3. Monitoring of overall interest rate risk

### 7.3.1. Management methods

Overall interest rate risk constitutes a potential risk of instability in Compagnie de Financement Foncier's results or asset values caused by overall unfavourable balance sheet and off-balance sheet exposures to interest rate fluctuations. Given the various hedging mechanisms implemented by Compagnie de Financement Foncier when transactions are entered into, exposure to interest rate risk is limited to the possible distortion of the hedging transaction arising from events not known when the transaction was entered into and which occurred during the term of the contract (mainly early redemptions). Compagnie de Financement Foncier's strict interest rate risk management rules require that its asset acquisitions and transactions with customers are systematically covered by variable-rate hedges in euro of funds raised. Macro-hedging strategies are decided by Compagnie de Financement Foncier's ALM Committee, implemented by Crédit Foncier's ALM Department and executed by Crédit Foncier's Financial Activities and International Department's Treasury function, which is Compagnie de Financement Foncier's sole point of entry to the market. Between two ALM Committee meetings, Treasury Committees manage these hedging strategies operationally.

### 7.3.2. Monitoring of interest rate risk

Compagnie de Financement Foncier has adopted a static approach for measuring risk and the sensitivity of results. The two main indicators used are the overall and the partial fixed interest-rate gap, with risks being managed using limits on fixed interest rates and alert thresholds for adjustable interest rates. The fixed interest-rate gap is calculated from total outstandings both on- and off-balance sheet at the closing date, using predefined assumptions and rules for asset and liability flows. This interest-rate gap is off-adjustable, for which the interest-rate reference's periodicity is inferior to one year. Every quarter, Compagnie de Financement Foncier also analyses changes in the net present value of estimated results over the next 10 years under different stress scenarios. The interest-rate gaps are also analysed by category of rates for the next five fiscal years, to monitor and manage the basic risk exposure resulting from the spread between the referenced positions on different index.

All of these indicators, linked to the interest-rate risk, are monitored quarterly by the ALM Committee and the Risk Committee.

### 7.3.3. Compliance with limits

Compagnie de Financement Foncier is committed to maintaining the level of its interest rate mismatches or gaps within the very narrow limits defined by period of observation. These mismatches measure the difference between applications and sources at fixed rates over time assuming no new asset acquisitions or new issues.

The current limits for rate gaps are:

Horizon	Limits as 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%

All of these indicators are monitored quarterly by the ALM Committee and the Risk Committee.  
As in previous years, all the limits linked to interest-rate risk monitoring were respected throughout 2011.

#### 7.4. Monitoring of Foreign Exchange Risk

Foreign exchange risk arises from exchange rate movements in currencies in which Compagnie de Financement Foncier's assets and liabilities are denominated that negatively affect the value of assets or commitments denominated in foreign currencies. Compagnie de Financement Foncier prohibits any open foreign exchange positions.

Its policy in this area remains unchanged and consists of not assuming any exchange risk. This means that all assets and liabilities denominated in currencies other than the Euro are systematically swapped as soon as they are recognised on the balance sheet. This hedging can be achieved using exchange rate swaps, term loans or currency swaps. Residual differences arising from the adjustment of balance sheet positions, particularly those created by margins, are hedged monthly.

They are monitored by the middle-office of Crédit Foncier's Financial Activities and International Department, which centralises month-end foreign exchange positions, by currency and by total amounts of foreign currencies.

Spot foreign exchange positions per currency are now limited to 5% of the balance sheet total in the currency concerned. This limit only applies if the outstanding loans in the currency concerned exceed the equivalent of €1 million.

Compliance with this limit is monitored by the ALM Committee and the Risk Committee of Compagnie de Financement Foncier. All these limits were complied with in 2011.

### 8. Operational Risks

Operational risks are defined within Groupe BPCE as the risk of loss resulting from inadequate or faulty procedures, personnel, information systems or external events.

Compagnie de Financement Foncier's operational risk management is entrusted to Crédit Foncier under service agreements signed between the two institutions. The greater part of operational risk is linked to the services outsourced to the parent company. Any consequence of operational incidents detected in the framework of a Crédit Foncier process relating to a Compagnie de Financement Foncier balance sheet item are borne by Crédit Foncier.

These risks include in particular accounting, legal, regulatory and tax risks, as well as risks relating to staff, property and information system security.

Compagnie de Financement Foncier's operational risk management relies on Crédit Foncier's system, according to BPCE Group rules. Only the operational risks associated with the activity of Compagnie de Financement Foncier's General Secretariat are specifically mapped and reported every term to the Internal control committee. We would point out that no incidents specifically involving Compagnie de Financement Foncier were detected in 2011.

As of December 31, 2011, Crédit Foncier's operational risk management and monitoring system comprised 166 people.

#### 8.1. General Approach

All of Crédit Foncier Group's Operational Risk processes are managed by its Risk Department, which relies on the risk charters and on the operational risk standards and methods employed by BPCE Group's Risk Department.

## 8.2. Governance

Operational risk management is part of the Crédit Foncier Group's risk structure. It is managed by a specialised unit that is separate from operating activities and attached to the Risk Department. This unit reports to Compagnie de Financement Foncier's executive bodies and those responsible for controlling Compagnie de Financement Foncier.

## 8.3. Management Environment

### 8.3.1. Management network

Operational risk oversight and management is delegated to the managers of the various departments. Each manager relies on a network of correspondents coordinated by a supervisor, with a functional link to the Risk Department. At the end of 2011, the comprehensive operational risk supervision and control system included 166 people.

### 8.3.2 Methods and tools

The method is based on three key elements that are part of an iterative, interactive approach: identification and assessment by each business line of its vulnerability to the main operational risks, frequency and evaluation, determination of existing or necessary preventive and corrective measures to manage or reduce the impact of risks. The mapping is updated whenever processes or the organisational structure changes, and in any case at least once a year.

In parallel with this, the following have been put in place:

- a system for recording incidents in a dedicated database: the management network feeds the incident database as and when such incidents appear and evolve; monitoring of corrective action plans; analysis of changes in risks exposures and resulting losses;
- indicators for the main risk areas warning when incidents are likely to enter a critical phase.

Through BPCE's ORIS application, the Crédit Foncier Group also has access to reporting facilities and an operational risk scorecard generated quarterly from the database.

Lastly, for calculating capital adequacy requirements the Crédit Foncier Group currently applies the Basel II standard method (see Section 3).

## 9. Other Risks

### 9.1. Settlement Risk

Compagnie de Financement Foncier's treasury transactions are essentially carried out in connection with ALM activities. Processing is centralised in Crédit Foncier's treasury back office.

This unit provides:

- cash flow management (inflows and outflows);
- cash forecasting 24 hours ahead.

The handling and accounting control of treasury accounts is the responsibility of a manager in charge of an independent unit, in keeping with the principle of segregation of duties. Compagnie de Financement Foncier has direct access to the market settlement systems of Paris for large transactions in euros; it is a member of the European Target system. For transactions in foreign currencies and small transactions in euros, it has accounts with BPCE.

Daily procedures for settlement risk monitoring include:

- preparation of forecast flow profiles;
- daily reconciliation of individual flows with forecast.

In the event of the definitive default of a settlement counterparty leading to Compagnie de Financement Foncier's potentially being overdrawn with Banque de France, there are provisions for hedging mechanisms to be put in place (interbank borrowing or end-of-day borrowing facility provided by the European Central Bank).

Compagnie de Financement Foncier has a business continuity plan under an agreement with BPCE. On that matter, Compagnie de Financement Foncier benefits from the BPCE's BCP for its financial activities.

## 9.2. Non-compliance Risk

The compliance function for Compagnie de Financement Foncier is performed by Crédit Foncier in accordance with the terms of the relevant agreements (framework agreement and internal control and compliance service agreement) between the two entities, and by the delegation of the relevant powers of Compagnie de Financement Foncier's Chief Executive Officer to the Chief Compliance Officer of Crédit Foncier de France.

### 9.2.1. Non-compliance risk monitoring and measurement

Non-compliance risk monitoring and control is based on the methods used by BPCE and covers all of Crédit Foncier's business lines. It is supplemented by a risk management system that covers all business lines and the major risks to which they are exposed.

### 9.2.2. Identification and monitoring of non-compliance risks

Non-compliance risks are identified using a dual approach:

- analysis of the results of first level controls focusing on the non-compliance issues listed in the compliance guidelines or resulting from thematic approaches;
- operational risk reports.

### 9.2.3. Control of non-compliance risks

The control of non-compliance risks is divided between the controls carried out by Crédit Foncier on its business, which directly benefit Compagnie de Financement Foncier, and the controls carried out on transactions specific to its business.

The compliance controls carried out specifically for Compagnie de Financement Foncier related in particular to compliance with the regulations applying to the acquisition of receivables and the updating of the value of guarantees.

### 9.2.4. Monitoring of dysfunctions

Specific action plans are drawn up by the operational units to address dysfunctions identified during audits or revealed by recurrent operational risk incidents. These action plans are monitored by the permanent control and compliance officers of the departments concerned. These dysfunctions and the progress of the corresponding action plans are monitored by the permanent control coordination, which reports on them to Crédit Foncier's Internal Control Committee and Compagnie de Financement Foncier's Audit Committee.

### 9.2.5. Approval of new products and services

Consideration of non-compliance risk is integrated into Crédit Foncier's approval process for new products and services. As part of the study and approval process for new products, services or activities, matters specific to Compagnie de Financement Foncier, in particular the eligibility of future outstandings on its balance sheet, are systematically examined.

### 9.2.6. Ethics - Market abuse - Conflicts of interest

Financial ethics standards incorporate the regulatory provisions arising from the Market Abuse Directive.

Corporate officers, directors and other personnel acting on behalf of Compagnie de Financement Foncier are covered by this procedure insofar as necessary.

### 9.2.7. Combating money laundering and the financing of terrorism

The Crédit Foncier Group combats money laundering and the financing of terrorism by means of a group-wide system of vigilance and control at every level of banking and lending transactions. This system includes appropriate procedures as well as training and awareness programmes for staff.

The system, incorporating the risk approach deriving from the new anti-money-laundering regulations, provides for systematic analysis prior to any new customer relationship. Outstandings are regularly checked against international lists of persons with links to terrorism and for the application of embargos. Unusual events during the life of loans, in particular early repayments, are scrutinised by the Financial Security Unit of the Compliance Department.

### 9.3. Other risks

#### 9.3.1. Insurance

As Compagnie de Financement Foncier's servicer, Crédit Foncier takes out insurance for the risks relating to its activity. Under service agreements with Compagnie de Financement Foncier, it provides insurance related services on behalf of Compagnie de Financement Foncier, whereby the Company receives cover for the following risks:

- banking business losses;
- IT fraud and malicious acts;
- professional civil liability;
- civil liability of senior executives and corporate officers.

#### 9.3.2. Outsourced services

Essential services outsourced, as defined by Article 37 of CRBF Regulation No. 97-02 as amended, are those covered by agreements between Crédit Foncier and Compagnie de Financement Foncier. Crédit Foncier controls compliance with this regulation for services the execution of which it delegates to third parties. At the end of 2010 this control was incorporated into Groupe BPCE's PILCOP application, thus enabling existing services to be monitored and new ones to be properly implemented.

The General Secretariat of Compagnie de Financement Foncier is in charge in particular of the control of services outsourced of Crédit Foncier.

#### 9.3.3. Information Technology Risk

Under the agreements governing its activity, Compagnie de Financement Foncier makes use of human and technical resources provided by Crédit Foncier. Accordingly, Compagnie de Financement Foncier benefits fully from developments in Crédit Foncier's IT systems and from all the mechanisms which guarantee its proper functioning.

Crédit Foncier commits to adapt the dimension of the available resources to the accomplishment of its assignments given by Compagnie de Financement Foncier in a normal context as well as in a risky situation or in facing with an exceptional situation, as it does for its own needs.

#### 9.3.4. Organisation of the Business Continuity Plan (BCP)

Under the service agreements between the Crédit Foncier Group and Compagnie de Financement Foncier, business continuity at Compagnie de Financement Foncier is covered by Crédit Foncier's business continuity plan (BCP). All aspects of this plan are maintained in operational condition as required by the regulations. Compagnie de Financement Foncier has a BCP manager, who represents it in the compliance and the maintenance in operational conditions with this plan with Crédit Foncier.

#### 9.3.5. Legal Risks

According to the service agreements that link CFF Group to Compagnie de Financement Foncier, legal risks incurred by the latter are monitored by the General Secretariat of the Group.

## Appendix - Changes in real estate indices 2010/2011

Towns and cities with more than 200,000 inhabitants

Region	Number of Department	Department	Town/city	Apartment Index 2010-2011	House Index 2010-2011
ALSACE	67	BAS RHIN	Strasbourg	1.032	1.019
ALSACE	68	HAUT RHIN	Mulhouse	1.000	1.013
AQUITAINE	33	GIRONDE	Bordeaux	1.056	1.090
AUVERGNE	63	PUY-DE-DÔME	Clermont-Ferrand	1.024	1.035
BOURGOGNE	21	CÔTE-D'OR	Dijon	1.052	1.034
BRETAGNE	29	FINISTÈRE	Brest	1.049	1.058
BRETAGNE	35	ILLE-ET-VILAINE	Rennes	1.047	1.043
CENTRE	37	INDRE-ET-LOIRE	Tours	1.000	0.993
CENTRE	45	LOIRET	Orléans	1.034	1.000
CHAMPAGNE	51	MARNE	Reims	1.046	1.024
HAUTE-NORMANDIE	76	SEINE-MARITIME	Le Havre	1.037	1.026
HAUTE-NORMANDIE	76	SEINE-MARITIME	Rouen	1.052	1.024
LANGUEDOC-ROUSSILLON	34	HÉRAULT	Montpellier	1.065	1.062
LORRAINE	54	MEURTHE-ET-MOSELLE	Nancy	1.053	1.024
LORRAINE	57	MOSELLE	Metz	1.046	1.024
MIDI-PYRÉNÉES	31	HAUTE-GARONNE	Toulouse	1.038	1.036
NORD	59	NORD	Lille	1.044	1.035
NORD	59	NORD	Valenciennes	1.037	1.049
NORD	62	PAS-DE-CALAIS	Béthune	1.034	1.028
NORD	62	PAS-DE-CALAIS	Douai-Lens	1.021	1.031
PACA	6	ALPES-MARITIMES	Nice	1.043	1.031
PACA	13	BOUCHES-DU-RHÔNE	Marseille-Aix-en-Provence	1.056	1.045
PACA	83	VAR	Toulon	1.034	1.014
PACA	84	VAUCLUSE	Avignon	1.042	1.020
PAYS DE LA LOIRE	44	LOIRE-ATLANTIQUE	Nantes	1.058	1.045
PAYS DE LA LOIRE	49	MAINE-ET-LOIRE	Angers	1.049	1.045
RHÔNE ALPES	38	ISÈRE	Grenoble	1.054	1.066
RHÔNE ALPES	42	LOIRE	Saint-Étienne	1.026	1.026
RHÔNE ALPES	69	RHÔNE	Lyon	1.078	1.066
<b>AVERAGE</b>				<b>1.042</b>	<b>1.035</b>

Towns and cities with between 100,000 and 199,999 inhabitants

Region	Number of Department	Department	Town/city	Apartment Index 2010-2011	House Index 2010-2011
AQUITAINE	64	PYRÉNÉES-ATLANTIQUES	Pau	1.045	1.038
AQUITAINE	64	PYRÉNÉES-ATLANTIQUES	Bayonne	1.045	1.056
BASSE-NORMANDIE	14	CALVADOS	Caen	1.051	1.047
BRETAGNE	56	MORBIHAN	Lorient	1.020	1.017
CHAMPAGNE	10	AUBE	Troyes	1.053	1.055
FRANCHE-COMTÉ	25	DOUBS	Montbéliard	1.000	1.032
FRANCHE-COMTÉ	25	DOUBS	Besançon	1.000	1.038
LANGUEDOC-ROUSSILLON	30	GARD	Nîmes	1.022	1.022
LANGUEDOC-ROUSSILLON	66	PYRÉNÉES ORIENTALES	Perpignan	1.058	1.033
LIMOUSIN	87	HAUTE-VIENNE	Limoges	1.014	1.061
LORRAINE	57	MOSELLE	Thionville	1.055	1.025
NORD	59	NORD	Dunkerque	1.035	1.026
NORD	62	PAS-DE-CALAIS	Calais	1.018	1.013
PAYS DE LA LOIRE	44	LOIRE-ATLANTIQUE	Saint-Nazaire	1.032	1.019
PAYS DE LA LOIRE	72	SARTHE	Le Mans	1.043	1.019



PICARDIE	80	SOMME	Amiens	1.036	1.032
POITOU-CHARENTES	16	CHARENTE	Angoulême	1.000	1.000
POITOU-CHARENTES	17	CHARENTE-MARITIME	La Rochelle	1.050	1.056
POITOU-CHARENTES	86	VIENNE	Poitiers	1.013	1.029
RHÔNE-ALPES	26	DRÔME	Valence	1.049	1.051
RHÔNE-ALPES	73	SAVOIE	Chambéry	0.991	1.008
RHÔNE-ALPES	74	HAUTE-SAVOIE	Genève-Annemasse	1.056	1.026
RHÔNE-ALPES	74	HAUTE-SAVOIE	Annecy	1.038	1.026
<b>AVERAGE</b>				<b>1.031</b>	<b>1.032</b>

#### Towns and cities with between 50,000 and 99,999 inhabitants

Region	Number of Department	Department	Town/city	Apartment Index 2010-2011	House Index 2010-2011
ALSACE	67	BAS-RHIN	Haguenau	1.026	1.038
ALSACE	68	HAUT-RHIN	Colmar	1.025	1.023
AQUITAINE	24	DORDOGNE	Périgueux	1.014	1.048
AQUITAINE	24	DORDOGNE	Bergerac	1.000	1.045
AQUITAINE	33	GIRONDE	Arcachon	1.076	1.059
AQUITAINE	47	LOT-ET-GARONNE	Agen	1.000	1.000
AUVERGNE	3	ALLIER	Montluçon	1.033	1.038
AUVERGNE	3	ALLIER	Vichy	1.014	1.047
BASSE-NORMANDIE	50	MANCHE	Cherbourg	1.021	1.033
BOURGOGNE	58	NIÈVRE	Nevers	0.986	1.000
BOURGOGNE	71	SAÔNE-ET-LOIRE	Chalon-sur-Saône	1.036	1.034
BRETAGNE	22	CÔTES-D'ARMOR	Saint-Brieuc	1.010	1.022
BRETAGNE	29	FINISTÈRE	Quimper	1.017	1.021
BRETAGNE	35	ILLE-ET-VILAINE	Saint-Malo	1.047	1.035
BRETAGNE	56	MORBIHAN	Vannes	1.031	1.020
CENTRE	18	CHER	Bourges	1.013	1.031
CENTRE	28	EURE-ET-LOIR	Chartres	1.000	1.000
CENTRE	36	INDRE	Châteauroux	1.000	1.000
CENTRE	41	LOIR-ET-CHER	Blois	1.008	1.014
CENTRE	45	LOIRET	Montargis	1.000	1.000
CHAMPAGNE	8	ARDENNES	Charleville-Mézières	1.011	0.993
CHAMPAGNE	51	MARNE	Châlons-en-Champagne	1.028	1.015
FRANCHE-COMTÉ	90	TERRITOIRE DE BELFORT	Belfort	1.028	1.044
HAUTE-NORMANDIE	27	EURE	Évreux	1.024	1.021
HAUTE-NORMANDIE	76	SEINE-MARITIME	Elbeuf	1.028	1.029
LANGUEDOC-ROUSSILLON	30	GARD	Alès	1.046	1.027
LANGUEDOC-ROUSSILLON	34	HÉRAULT	Sète	1.013	1.010
LANGUEDOC-ROUSSILLON	34	HÉRAULT	Béziers	1.049	1.011
LIMOUSIN	19	CORRÈZE	Brive-la-Gaillarde	1.013	1.000
LORRAINE	57	MOSELLE	Forbach	1.000	0.983
LORRAINE	88	VOSGES	Épinal	1.018	1.031
MIDI-PYRÉNÉES	65	HAUTES-PYRÉNÉES	Tarbes	0.990	0.990
MIDI-PYRÉNÉES	81	TARN	Castres	1.000	1.020
MIDI-PYRÉNÉES	81	TARN	Albi	1.000	1.021
MIDI-PYRÉNÉES	82	TARN-ET-GARONNE	Montauban	1.010	0.988
NORD	59	NORD	Maubeuge	1.013	1.028
NORD	59	NORD	Armentières	1.017	1.031
NORD	62	PAS-DE-CALAIS	Arras	1.031	1.036
NORD	62	PAS-DE-CALAIS	Saint-Omer	1.039	1.028
NORD	62	PAS-DE-CALAIS	Boulogne-sur-Mer	1.023	1.014
PACA	6	ALPES-MARITIMES	Menton-Monaco	1.053	1.043
PACA	13	BOUCHES-DU-RHÔNE	Arles	0.993	0.990

PACA	13	BOUCHES-DU-RHÔNE	Salon-de-Provence	1.031	1.036
PACA	83	VAR	Fréjus	1.039	1.050
PAYS DE LA LOIRE	49	MAINE-ET-LOIRE	Cholet	1.014	1.020
PAYS DE LA LOIRE	53	MAYENNE	Laval	1.045	1.000
PICARDIE	2	AISNE	Saint-Quentin	1.031	1.024
PICARDIE	60	OISE	Beauvais	0.979	0.987
PICARDIE	60	OISE	Creil	1.012	1.000
PICARDIE	60	OISE	Compiègne	0.990	0.981
POITOU-CHARENTES	79	DEUX-SÈVRES	Niort	1.028	1.055
RHÔNE-ALPES	1	AIN	Bourg-en-Bresse	1.015	1.029
RHÔNE-ALPES	26	DRÔME	Romans-sur-Isère	1.029	1.028
RHÔNE-ALPES	42	LOIRE	Roanne	1.030	1.037
RHÔNE-ALPES	42	LOIRE	Saint-Chamond	1.042	1.025
RHÔNE-ALPES	69	RHÔNE	Villefranche-sur-Saône	1.056	1.059
RHÔNE-ALPES	74	HAUTE-SAVOIE	Thonon-les-Bains	1.036	1.007
RHÔNE-ALPES	74	HAUTE-SAVOIE	Cluses	0.988	0.991
AVERAGE				1.020	1.021

## Non-Urban

Region	House Index 2010-2011
ALSACE	1.033
AQUITAINE	1.000
AUVERGNE	1.048
BASSE-NORMANDIE	1.014
BOURGOGNE	1.000
BRETAGNE	1.029
CENTRE	1.000
CHAMPAGNE	1.000
FRANCHE-COMTÉ	1.036
HAUTE-NORMANDIE	1.034
LANGUEDOC-ROUSSILLON	1.031
LIMOUSIN	1.027
LORRAINE	0.983
MIDI-PYRÉNÉES	1.036
NORD	1.032
PACA	1.022
PAYS DE LA LOIRE	1.042
PICARDIE	1.014
POITOU-CHARENTES	1.000
RHÔNE-ALPES	1.063
AVERAGE	1.022



## Paris and Île-de-France

Région	Number of Department	Department	Apartment Index 2010-2011	House Index 2010-2011
ÎLE-DE-FRANCE	91	ESSONNE	1.0621	1.054
	92	HAUTS DE SEINE	1.1349	1.1395
	75	PARIS	1.1908	
	77	SEINE ET MARNE	1.0458	1.0408
	93	SEINE ST DENIS	1.1044	1.0910
	94	VAL DE MARNE	1.1173	1.0974
	95	VAL D'OISE	1.0688	1.0731
	78	YVELINES	1.0908	1.072
AVERAGE			1.1019	1.0811

## Appendix 2 – Perimeter of Compagnie de Financement Foncier

Numbers and valuations of collateral using the method of periodic review

(in billion of euros)

		Total	S1	S2	E1	E2
Review 12/31/2011	Collateral valuation	67.449	64.576	2.870		0.003
	Number of collateral	392,056	391,455	598		3
Valuation 2011	Collateral valuation	3.048	3.025	0.019	NS	0.004
	Number of collateral	17,667	17,663	2	1	1
Total	Collateral valuation	70.497	67.601	2.889	Ns	0.007
2011	Number of collateral	409,723	409,118	600	1	4

Breakdown of the collateral portfolio reviewed using the S1 method (by region and for Paris\*)

Region	Breakdown of the collateral value by region (in €M)	Breakdown in %
ALSACE	958.21	1.48
AQUITAINE	4,497.38	6.96
AUVERGNE	921.20	1.43
BASSE-NORMANDIE	1,064.78	1.65
BOURGOGNE	1,326.89	2.05
BRETAGNE	2,738.20	4.24
CENTRE	1,915.67	2.97
CHAMPAGNE-ARDENNE	600.49	0.93
CORSE	177.07	0.27
DOM-TOM	455.62	0.71
FRANCHE-COMTÉ	879.86	1.36
HAUTE-NORMANDIE	2,223.67	3.44
ÎLE-DE-FRANCE (HORS PARIS)	13,350.12	20.67
LANGUEDOC-ROUSSILLON	3,639.18	5.64
LIMOUSIN	496.80	0.77
LORRAINE	1,607.72	2.49
MIDI-PYRÉNÉES	3,831.56	5.93
NORD PAS-DE-CALAIS	2,720.21	4.21
PACA	7,026.01	10.88
PARIS *	1,467.91	2.27
PAYS DE LA LOIRE	3,112.81	4.82
PICARDIE	1,899.79	2.94
POITOU-CHARENTES	1,336.20	2.07
RHÔNE-ALPES	6,328.65	9.80
<b>TOTAL</b>	<b>64,576.00</b>	<b>100.00</b>

\* Because of the specificity of the Parisian market, Paris city is isolated in the Île-de-France region.



# Report of the Chairman of the Board of Directors

## Report of the Chairman of the Board of Directors prepared pursuant to Article L. 225-37 of the French Commercial Code

### Conditions Surrounding the Preparation and Organisation of the Board's Work

#### Composition of the Board

As of December 31, 2011, 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. Two Statutory Auditors and the company's Specific Controller also attend Board meetings, depending on the topics on the agenda.

#### Board meetings

The legal secretary to the Board of Directors is provided by the General Secretariat of Crédit Foncier de France and it establishes, in consultation with the Executive Officers, the agenda for the meetings as well as the information files distributed to the members. This department also drafts the minutes and keeps the legal registers. On June 30, 2010, the Board adopted internal regulations defining operational procedures for the Board.

Compagnie de Financement Foncier's Board of Directors meets at least once every three months to examine a prescheduled agenda. Specific items may be added depending on the period. Items discussed include:

- approval of the accounts for the previous year;
- management forecasts;
- quarterly report of bond issuance 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 programme for issuing *obligations foncières* and other preferred debt which requires certification by the Specific Controller;
- delegation of the powers necessary to contract these transactions;
- examination of the half-year accounts;
- more generally, 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, significant credit transactions excluding current transactions *etc.*);
- reports on internal control and risk measurement and assessment of monitoring pursuant to Articles 42 and 43 of CRBF Regulation No. 97-02 as amended and the Annual Report of the Specific Controller;
- information intended for publication concerning the quality of the assets as well as the congruence of maturity and rates for the company's assets and liabilities in accordance with Article 13 of CRBF Regulation No. 99-10 as amended;
- presentation of the results from the ongoing and periodic controls.

The records and documents submitted to the Board provide it with 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.

Compagnie de Financement Foncier's Board of Directors met six times in 2011.

Board members are entitled to directors' fees in accordance with the allocation rules recommended by BPCE, Compagnie de Financement Foncier's central body. The amount of the directors' fees allocated to the Board members is set in advance for each meeting and is paid only if they actually participate to the meetings. The amount is also subject to an annual cap.

#### Committees and controls

Compagnie de Financement Foncier has an Audit Committee which operates in accordance with a charter approved by the Board of Directors in its meeting of June 29, 2004 and updated by the Board in its meetings of March 30, 2010 and June 29, 2011.

The Audit Committee is responsible for advising the Board of Directors on:

- the clarity of the information provided and the relevance of the accounting methods used to prepare the company's financial statements;
- the quality of internal control, in particular the consistency of risk measurement, oversight and management, and is responsible for proposing, when appropriate, additional measures in this respect.

Its usual scope includes:

- budget procedures;
- closing of the accounts;
- expressing its opinion on the renewal or the selection of the statutory auditors and the specific controller;
- permanent control (compliance, risk oversight and financial management) and periodic controls;
- examination of the annual report of the specific controller;
- status points on credit, rate, liquidity and operational risks.

As of December 31, 2011, the Audit Committee was composed of six members:

- Mr Bruno DELETRE, Chairman and CEO of Crédit Foncier;
- Mr Roland CHARBONNEL, Director Group Funding & Investor Relations;
- Mr Nicolas DARBO, Executive Vice-President of Crédit Foncier in charge of the Financial and Organization Division;
- Ms Christine JACGLIN, CEO of Banque Populaire d'Alsace;
- Ms Pascale PARQUET, Member of the management board of Caisse d'Epargne Île-de-France, in charge of the Finance, Controlling and Accounting Division;
- Mr Christophe PINAULT, Deputy CEO of Crédit Foncier in charge of the Development Division.

Mr Thierry DUFOUR, Chief Executive Officer, is in charge of permanent and periodic control and compliance for Compagnie de Financement Foncier.

This appointment meets the requirements of Article 7.1 of CRBF Regulation 97-02 as amended and is in accordance with the principle applied by Crédit Foncier de France's management under which the executive bodies of subsidiary credit institutions may draw on the parent company's structure to fulfil their obligations in terms of permanent and periodic control and compliance.

### **Attendance of shareholders at general meetings**

General meetings of shareholders are convened in accordance with French legal and regulatory requirements.

An invitation to attend the meeting is sent to each shareholder individually. The shareholders are exclusively registered shareholders.

Any shareholder may take part in general meetings under the conditions set forth by law.

There is no provision entitling shareholders to multiple voting rights.

### **Principles 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 a percentage of the fixed part. The amount of the variable part actually allocated is contingent, for the CEO, on the results of Groupe BPCE, and, for the Deputy CEO, on the degree to which they successfully achieve their targets.

## **Internal control procedures**

### **The regulatory framework in the context of forming part of the Crédit Foncier Group**

In its dual capacity as credit institution and *société de crédit foncier*, Compagnie de Financement Foncier operates within a very comprehensive legal and regulatory framework governing its activities and their control.

As a credit institution, this framework primarily stems from the French Monetary and Financial Code (CMF) and the regulations set forth by the Banking and Finance Regulatory Committee (CRBF), and in particular, with regards to internal controls, by CRBF Regulation No. 97-02 as amended.

As a *société de crédit foncier*, Compagnie de Financement Foncier is subject to the specific provisions set forth in Articles L. 515-13 to L. 515-33 of the French Monetary and Financial Code and in various implementing decrees (Articles R. 515-2 to 14 of the French Monetary and Financial Code, CRBF Regulation No. 99-10 as amended, *etc.*). The legal and regulatory framework for *sociétés de crédit foncier* was revised and modernised in 2010, and the changes will come into force with effect from 2011.

This framework requires the company to appoint a Specific Controller approved by the French Prudential Control Authority. This person is in charge of monitoring compliance with legal requirements: asset eligibility, overcollateralisation, the congruence of rates and maturity and the valuation of assets or underlying securities.

The Specific Controller drafts an annual report which is then submitted to the French Prudential Control Authority and executive officers.

In accordance with the regulations, Compagnie de Financement Foncier's executive management is responsible for establishing internal controls and implementing them. The internal controls encompass all procedures, systems and controls required to comply with laws, regulations and market rules, as well as Crédit Foncier 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.

Compagnie de Financement Foncier relies on the resources of its parent company to carry out its activities. Crédit Foncier provides the company with a number of services, under a series of agreements that were updated in 2006 and early 2007, particularly with regard to internal control and compliance services.

These services must be subjected to controls according to the amended Regulation 97-02 of Article 37-2, 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."

The outsourced activities are performed in accordance with the ongoing and periodic control procedures implemented by Crédit Foncier. These procedures comply with the rules and standards set by BPCE, which as the central body determines the obligations of group entities in the area of internal control, in terms of resources, organisation and guidelines.

BPCE's Internal Audit department also performs periodic audits of Crédit Foncier's internal control system as part of its overall assessment of internal control.

### **Organisation of internal control and roles of the various parties involved**

The effectiveness of internal controls depends on a clear division of the roles and responsibilities of different governance structures as well as on that of ongoing operational control entities and finally on the arrangements made for periodic controls.

#### **Corporate Governance**

Compagnie de Financement Foncier's executive management is responsible for managing the company. It is in charge of managing risks and internal controls including ongoing controls.

The Board of Directors exercises control over the management of the company and directs 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.

#### **Internal control**

The internal control system is based on several levels of permanent and periodic controls, and is deployed through various organisational measures (involvement of line and staff managers, system of delegation, reporting structures, and separation of functions) which are detailed below.

#### **The different levels of permanent control**

Crédit Foncier's organisation was overhauled in 2010 at the same time, the independent control units involved in permanent control at the business lines were reinforced.

The Risk and Compliance Divisions were grouped into a single division under the responsibility of a deputy managing director of Crédit Foncier.

A Coordination of Permanent Controls department was created within this division to coordinate control functions across the group. This new department, which ensures the application and efficiency of the permanent control system, has close functional links with first-level permanent control teams of Crédit Foncier.

### Operational permanent control

Operational permanent controls are performed within the operating units by the employees or their management. The controls are specified in procedural and operating manuals, and unit heads are responsible for producing and updating these manuals with the Organizational Division.

It should be noted that business units are subject to rapid structural and regulatory changes, in addition to substantial IT migrations constantly modifying the ways in which transactions are processed, leading to the necessity for frequent reformulation of instructions.

### Permanent controls performed by units that are independent from the operating structures

These units verify that the procedures are properly applied and that risk is managed efficiently.

They may report directly to senior corporate officers of Crédit Foncier, with a strong functional connection to the Risk and Compliance Divisions of Crédit Foncier.

The head of permanent control for the middle and back office activities, and for financial and international activities, reports directly to the Deputy Chief Executive Officer of Crédit Foncier in charge of these activities. Moreover, the “SCF Monitoring and Control Department” is responsible for permanent control of all the procedures that affect Compagnie de Financement Foncier (specifically procedure quality control).

Crédit Foncier’s Information Systems Security Officer reports directly to the Deputy Chief Executive Officer in charge of the Risk and Compliance Division. He has three main duties: to define the information systems security policy, coordinate a network of correspondents within the various group entities, and support and advise the IT Department on security issues.

Crédit Foncier’s Business Continuity Plan Manager also reports to the Deputy Managing Director of the Risk and Compliance division. His duty is to ensure that Crédit Foncier’s post-disaster business continuity plan is updated and maintained in good operating condition.

Crédit Foncier’s Investment Services Compliance Director (RCSI) is Head of Compliance. He holds a professional licence issued by the French Financial Markets Authority (AMF). He operates within the Risk and Compliance division to monitor Crédit Foncier’s compliance, in the exercise of its investment services, with the French Monetary and Financial Code and the AMF’s General Regulations. His powers include applying the rules of professional conduct in both the establishment’s internal operation and the marketing of investment products and services.

The permanent control units may also take the form of dedicated central structures.

- Risk department: this unit measures, controls and oversees credit and counterparty risk, as well as financial and operational risks.
- Compliance department: this unit is more particularly responsible for controlling the risk of non-compliance and investment services. It also covers mediation, ethics and prevention of money laundering and fraud.
- Permanent Control department: Permanent controls within the Crédit Foncier Group are now coordinated by a specific unit within the Risk and Compliance division, which holds all the Group’s permanent controls.

These three departments report directly to the Deputy Managing Director in charge of the Risk and Compliance division.

- «Accounting Audit» department: reports to the Accounting Department but has no operational duties. It is responsible for auditing the accounting and regulatory data produced by Crédit Foncier and its subsidiaries.

The Crédit Foncier’s Internal Control Committee’s primary duties are to:

- ensure that permanent controls for business activities are comprehensive and well-organised and that monitoring and risk management systems are effective (including oversight of the risk management system);
- coordinate actions to manage risks, ensure compliance of internal procedures and transactions, and guarantee the quality and availability of information processed by the information systems, as well as the security of such systems;
- oversee the resolution of deficiencies identified by the General Inspection Department and the implementation of recommendations.

Chaired by the Chief Executive Officer of Crédit Foncier, monthly, it brings together representatives of control functions. It reports periodically on its work to the Audit Committee of Crédit Foncier.



## Periodic control

Periodic control is the responsibility of Crédit Foncier's Internal Audit department.

The Audit Committee attends meetings of the main committees that contribute to the Company's risk management: the Audit Committee, the Risk Committee, the Balance Sheet Management Committee and the Internal Control Committee of Crédit Foncier.

BPCE's control units may contribute to periodic control by performing audits within the scope of Crédit Foncier Group - and thus the scope of Compagnie de Financement Foncier - audits from which recommendations are communicated to Crédit Foncier's Internal Audit department, which oversees their implementation.

## Line management's role in controlling employees' activities

A key element of operational permanent control, control by line management is usually ensured:

- by analysing the incident reports, supervisory reports and financial reports that enable the managers to oversee the activities of their units;
- by a system of delegations, to a large extent incorporated into the IT procedures (authorisation by type of transaction or threshold, transactions that require approval), or in the form of manual approvals.

## System of delegation

Crédit Foncier's delegation system is based on two series of measures:

- first, an internal system ensuring that decisions are made at an appropriate level within the company, according to the magnitude of the risks they present, (involvement of the competent decision-making committees, or the internal delegation systems);
- second, a system of mandates that allows Crédit Foncier representatives to demonstrate to third parties that they have the necessary authority to make certain commitments on behalf of the Company.

Moreover, all members of the Executive Committee of Crédit Foncier have full power and authority, within the scope of the responsibilities assigned to them, to perform their duties.

Decisions that are not directly the responsibility of general management but which exceed the powers delegated to operational managers are taken by specialised committees. Some committees are specific to Compagnie de Financement Foncier. In the case of the other committees, Compagnie de Financement Foncier is represented. The main committees include:

- the National Commitment Committee: authorises commitments exceeding the powers delegated to the operating units and Business Committees;
- the Risk Committee specific to Compagnie de Financement Foncier: monitors overall trends in counterparty, financial and operational risk and taking the relevant decisions (scoring rules, delegations, limits);
- the National Committee of Sensitive Operations: manages strategy and decisions regarding substantial debts that are either in difficulty or exposed to risk;
- Crédit Foncier's New Products Committee: launches new types of loan products;
- the stand-alone Asset and Liability Management Committee for Compagnie de Financement Foncier: reviews ALM indicators and makes decisions and guidelines as a result; complies with limits set with the rating agencies; a dedicated committee implements the guidelines set in the ALM Committee meeting;
- the Agreement Oversight Committee for agreements between Crédit Foncier and Compagnie de Financement Foncier: oversees the right interpretation and application of agreements, verifies that the outcome is fair and suggests any necessary changes;
- the Management Committee of Compagnie de Financement Foncier, an offshoot of the Agreements Monitoring Committee: provides operational oversight of Compagnie de Financement Foncier management and proposes solutions to problems, if any, related to compliance with the agreements.

## Risk oversight and measurement

Crédit Foncier implements, for itself and its subsidiaries, processes and procedures aimed at measuring, supervising and managing its risks (mainly counterparty, interest rate, foreign exchange, liquidity and operational risks) appropriate to its activities, resources and structure, and which are incorporated into the internal control system.



The main risk factors are closely monitored. The company has clearly defined the limits and procedures used to oversee, pre-select, measure, supervise and manage its risks. These limits will be updated regularly.

The Crédit Foncier's Risk Department measures risks comprehensively and precisely, incorporating all categories of commitments and distinguishing different levels of risks.

The measurement methodologies are documented and supported. They are periodically reviewed in order to verify their relevance and suitability with respect to the risks incurred.

Risk supervision is conducted through the continuous monitoring and correction of limit overruns if necessary, and through a periodic review of the main risks and portfolios. Outstanding loans are also periodically reviewed to ensure their proper classification under the regulations in force (particularly doubtful loans). The adequacy of provisioning for the various risk levels is also checked on a regular basis.

Risk information, made available to Executive Officers during committee meetings or by means of periodic activity reports, is communicated on a regular basis to the Audit Committee and to the Board of Directors of Compagnie de Financement Foncier.

### Reporting lines

The information needed by general management to oversee the activity is provided in the monthly operating reports produced by the Finance and Planning department of Compagnie de Financement Foncier. The various business lines draw up reports specific to their respective activities.

### Principle of separation of functions

Independence is on the whole ensured between the units in charge of carrying out transactions and those in charge of their accounting and settlement and the oversight and management of the related risks.

The independence of control units from operating units is ensured as follows:

- the Risk department of Crédit Foncier oversees counterparty, financial and operational risk;
- accounting control is performed by the accounting department of Crédit Foncier and its specific unit;
- compliance and ethics is the responsibility of the Compliance department of Crédit Foncier;
- permanent control by control units that are separate from the operational units;
- periodic control assignments carried out by the General Inspection Department.

### Accounting system and procedures

Crédit Foncier's accounting system, as a service provider for Compagnie de Financement Foncier, relies mainly on the input of accounting data by the data processing management.

The terms and conditions of accounting-related internal control are described in the section on accounting and financial reporting control procedures.

## Periodic control and the work of the internal audit department

### Organisation and resources of the Internal Audit department

The Internal Audit department is responsible for assessing the permanent control system.

It reports on its audits to the Chief Executive Officer of Crédit Foncier, to the Audit committee of Crédit Foncier and if necessary to the management and the Audit committee of Compagnie de Financement Foncier.

At the end of 2011, the Internal Audit department employed 24 people, all university educated and collectively spanning a broad range of skills (accounting, financial, legal and business).

The Internal Audit department draws up an annual audit plan in collaboration with General Management of Crédit Foncier and in agreement with BPCE's Internal Audit department. The plan is approved by General Management and presented to the Audit Committee. It covers the Internal Audit department's scope with a long-term plan based on an audit cycle of at most three years;

intrinsically risky activities are audited more frequently. Specific audits or reviews may be requested by the Chief Executive Officer or by the Audit Committee of Crédit Foncier and of Compagnie de Financement Foncier during the year.

Reports on the audits performed are presented to Crédit Foncier's General Management, the Audit Committee and, if appropriate, the Audit committee and the Board of Compagnie de Financement Foncier. A summary report on the follow-up of recommendations is also presented to the above-mentioned bodies as well as to the Executive Committee and the Internal Control Committee of Crédit Foncier.

### **Audits performed in 2011**

Crédit Foncier's Internal Audit department performed a total of 35 audits (including seven in the Commercial Network) in 2011.

Most of these were audits scheduled in the annual audit plan approved by the Crédit Foncier's Audit Committee at its meeting of December 7, 2010 and concerned the Crédit Foncier Group's different business sectors: loans to individuals, securitisation, support activities and subsidiaries.

In addition, in early 2011, the Internal Audit department of BPCE, the central body, finalised the full audit of Crédit Foncier that it had begun the autumn of 2010. The implementation of the recommendations arising from it, which did not include any highly critical recommendations, is currently being finalized.

### **Follow-up of recommendations arising from previous audits**

As previously, monitoring the implementation of audit recommendations is based on the six-monthly reports presented by the audited entity's management, indicating the percentage of completion and including, if necessary, an action plan and a new deadline. The reports are input by the audited entities using an intranet application provided to them. These reports must be accompanied by supporting documentation provided by the audited entity and containing all the necessary proof. Based on these items, checks to see whether the recommendations have been effectively implemented are performed when the completion rate reaches 100%.

A detailed statistical report is prepared each quarter to provide the General Management, Executive Committee and Audit Committee with a clear, summary report. This information is also reported to the Audit Committee of Compagnie de Financement Foncier if concerned.

Supervision of implementation is further strengthened by periodic progress briefings organised with the departments concerned. When re-audited, the status of previous recommendations is systematically examined and the recommendations repeated if necessary.

### **Accounting and financial statement control procedures**

#### **Role of BPCE**

BPCE's Accounting department is responsible for standardisation, supervision, appraisals, oversight, forecasting, regulatory monitoring and representation of the Crédit Foncier Group for prudential, accounting and fiscal matters.

In this capacity, it defines and updates the Group's accounting indicators, comprised of the Group Accounting Plan and the 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. This manual 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 information (annual and half-year financial statements and notes) is 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.

#### **Structure of the Crédit Foncier Group's accounting function**

Accounting at the Crédit Foncier Group is performed by the General Accounting Department. It is responsible for preparing balance sheets, income statements, notes to the financial statements and statutory reports of Compagnie de Financement Foncier, as an entity of the Group which does not have an Accounting Department on its own.

Crédit Foncier's General Accounting Department is organised as follows:

Functions	Main responsibilities in accounting system operations	Main responsibilities in compiling and summarising data
Reporting and summarising	<p>Individual financial statements:</p> <ul style="list-style-type: none"> <li>• account-keeping for Crédit Foncier, Compagnie de Financement Foncier and Vauban Mobilisations Garanties, and preparation of the individual financial statements</li> <li>• tax returns</li> <li>• regulatory disclosures at company level (SURFI, <i>etc.</i>)</li> <li>• calculation of regulatory ratios at company level (liquidity) and of specific ratios for Compagnie de Financement Foncier</li> </ul> <p>Consolidated financial statements:</p> <ul style="list-style-type: none"> <li>• centralisation of consolidation packages</li> <li>• preparation of the consolidated financial statements</li> <li>• implementation of consolidation procedures (use of BPCE's Magnitude software application)</li> <li>• prudential disclosure at consolidated level to the ACP (<i>via</i> BPCE, central body)</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheets, income statements and notes for these entities</li> <li>• Monthly summary income statements of the Group's two main credit institutions (Crédit Foncier, Compagnie de Financement Foncier)</li> <li>• Balance sheets, income statements and notes for the Crédit Foncier group</li> <li>• Consolidated quarterly results for the Group</li> <li>• Consolidated monthly results under French GAAP</li> <li>• Reporting to the ACP (<i>via</i> BPCE, the central body)</li> </ul>
Operational accounting	<ul style="list-style-type: none"> <li>• oversight and control of interface operations between the loan management system, accounting software packages and reporting databases</li> <li>• account-keeping for loan management chains and peripheral chains</li> <li>• configuration of accounting forms</li> <li>• documentation of detailed accounting forms</li> </ul>	<ul style="list-style-type: none"> <li>• Reports on outstanding loans and loan flows</li> </ul>
Subsidiary accounting	<ul style="list-style-type: none"> <li>• peeping the accounts of subsidiaries and preparation of company financial statements</li> <li>• tax returns</li> <li>• regulatory disclosures at company level (SURFI, <i>etc.</i>) for the real estate leasing subsidiaries</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheets, income statements and notes for these entities</li> </ul>
Accounting and Regulatory Audit Department	<ul style="list-style-type: none"> <li>• Permanent accounting controls</li> </ul>	<ul style="list-style-type: none"> <li>• Accounting audit briefing notes</li> </ul>

## Accounting audit

The principles of accounting control organisation, as part of the process of task decentralisation, are set out in the "Accounting Charter" approved by BPCE's Executive Board on May 10, 2010.

The Accounting Audit section reports hierarchically to the Head of the Accounting Department of Crédit Foncier and functionally to the Head of Compliance and Ongoing Control of Crédit Foncier, who is the recipient of all the audit work carried out. Operational accounting controls are the responsibility of the departments directly involved in producing accounting data.

The audits performed by the Accounting Audit section are set out in an annual work schedule, proposed by the Accounting Department, presented to the Department of Compliance and Ongoing Control of Crédit Foncier and approved by the Internal Control Committee of Crédit Foncier.

These audits include:

- in-depth controls at the quarterly account closing dates, in particular of the evidence supporting the accounts (banking reconciliation, consistency between accounting and management systems, suspense accounts, *etc.*);
- occasional controls of certain management processes and/or systems (their accounting aspects).

These controls give rise to summary reports, circulated to the Compliance Department of Crédit Foncier, the Risk Department of Crédit Foncier, the statutory auditors and the SCF Monitoring and Control Department.

The consolidation packages, prepared by the subsidiaries and certified by their Statutory Auditors, are reviewed in detail and checked for consistency by the Consolidation unit.

All of these prudential and regulatory reports are cleared by BPCE, which runs automated consistency controls before sending them to the French Prudential Control Authority.

#### **Audit of financial data**

The financial data disclosed to third parties (annual reports for shareholders, regulatory restitutions intended specifically for the French Prudential Control Authority and registration documents submitted to the French Financial Markets Authority) are carefully audited by the competent departments (Management Control, ALM, General Accounting).

For the Compagnie de Financement Foncier more specifically, the SCF Monitoring and Control Department is in charge of auditing documents sent to the Specific Controller and the rating agencies.

## Appendix

### Compagnie de Financement Foncier Composition of the Board of Directors as of December 31, 2011

Range of the possible number of members: 3 to 18

Actual number of members: 8

Number of Board meetings: 6

Average attendance rate: 68%

Directors' fees: yes

First and last names Company name	Function at the company and on	Date of appointment	Date term of office expires	Observations
Crédit Foncier de France Represented by Mr Bruno DELETRÉ	Director	June 25, 1999	2017 OGM	Replacing Mr François BLANCARD
Mr Thierry DUFOUR	Director Chairman and CEO	Director since December 18, 1998 Chairman since July 31, 2007 Chairman and CEO since December 14, 2007	2013 OGM	Replacing Mr François DROUIN, who resigned After the resignation of Mr François VEVERKA, Executive Officer non-director
Ms Sandrine GUÉRIN	Director and Deputy CEO	Director since March 25, 2002 Deputy Chief Executive Officer since May 17, 2002	2012 OGM	After the disassociation of Chairmanship and of Executive
Mr Didier PATAULT	Director	September 26, 2008	2014 OGM	
BPCE, represented by Mr Roland CHARBONNEL	Director	March 28, 2011	2016 OGM	Replacing Mr Stéphane CAMINATI, who resigned
Ms Christine JACGLIN	Director	September 29, 2011	2014 OGM	Replacing Mr Alain DENIZOT, who resigned
Mr Nicolas DARBO	Director	December 15, 2009	2013 OGM	Replacing Mr Pierre NUYTS, who resigned
Ms Pascale PARQUET	Director	September 29, 2011	2014 OGM	Replacing Mr Philippe DRUART, who resigned

**KPMG Audit**  
Immeuble KPMG  
1, cours Valmy  
92923 Paris La Défense Cedex

**PricewaterhouseCoopers Audit**  
63, rue de Villiers  
92200 Neuilly-sur-Seine

*This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

Statutory Auditors' report, prepared in accordance with article L.225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors of Compagnie de Financement Foncier

To the Shareholders,

In our capacity as Statutory Auditors of Compagnie de Financement Foncier and in accordance with Article L.225-235 of the French Commercial Code (*Code de commerce*), we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L.225-37 of the French Commercial Code for the year ended December 31, 2011.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by Article L.225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

- to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information; and
- to attest that the report sets out the other information required by Article L.225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

### **Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information**

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with Article L.225-37 of the French Commercial Code.

### **Other information**

We attest that the Chairman's report sets out the other information required by Article L.225-37 of the French Commercial Code.

Paris La Défense and Neuilly-sur-Seine, 29 March 2012

The Statutory Auditors

**KPMG Audit**  
Division of KPMG S.A.  
Jean-François DANDÉ

**PricewaterhouseCoopers Audit**  
Jean-Baptiste DESCHRYVER



Legal information

## Corporate governance

Members of the Board of Directors in 2011 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 promulgation of the New Economic Regulations Act) to May 17, 2002

Chief Executive Officer since May 17, 2002 (following separation from 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 separation from the offices of Chairman of the Board and Chief Executive Officer)

Crédit Foncier de France – 4, quai de Bercy – 94220 Charenton-le-Pont

### **Mr Didier PATAULT**

Director since September 26, 2008

Caisse d'Épargne Bretagne Pays de Loire

4 place Graslin – 44000 Nantes

### **Mr Alain DENIZOT**

Director since September 26, 2008

Caisse d'Épargne Picardie

2, boulevard Jules-Verne – 80000 Amiens

Resigned on June 30, 2011

### **Mr Stéphane CAMINATI**

Director since December 17, 2008

BPCE – 50, avenue Pierre-Mendès-France – 75013 Paris

Resigned on January 27, 2011

### **Mr Nicolas DARBO**

Director since December 15, 2009

Crédit Foncier de France – 4, quai de Bercy – 94220 Charenton-le-Pont

### **Mr Philippe DRUART**

Director since September 29, 2010

Crédit Foncier de France – 4, quai de Bercy – 94220 Charenton-le-Pont

Resigned on July 28, 2011

### **Crédit Foncier de France**

Director since June 25, 1999

Represented by Mr Bruno DELETRÉ (replacing François BLANCARD),

4, quai de Bercy – 94220 Charenton-le-Pont

### **BPCE**

Director since March 28, 2011 (replacing Mr Stéphane CAMINATI, who resigned)

Represented by Mr Roland CHARBONNEL

50, avenue Pierre-Mendès-France – 75013 Paris



**Ms Christine JACGLIN**

Director since September 29, 2011

Banque Populaire d'Alsace

Immeuble Le Concorde – 4, quai Kléber – 67000 Strasbourg

**Ms Pascale PARQUET**

Director since September 29, 2011

Caisse d'Épargne et de Prévoyance Ile-de-France

26/28, rue Neuve-Tolbiac – 75013 Paris

## 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 France's Act. 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 «privilege», as defined by Article L. 515-19 of the French Monetary and Financial Code.

### Structure of the relationship between Compagnie de Financement Foncier and Crédit Foncier

As stipulated by law, Compagnie de Financement Foncier draws on the technical and human resources of its parent company under agreements binding the two companies. These agreements, which are regulated as defined by Article L. 225-38 of the French Commercial Code, cover all of the company's activities.

The general principles applied in preparing these agreements are described below.

The texts as drafted take into account the special nature of the relationship between Crédit Foncier de France and its subsidiary Compagnie de Financement Foncier.

Twenty-two 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 asset/liability management (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 regarding the disbursing agent;
- an agreement relating to management and collection of loans subsidised by the French State;

- an agreement regarding deeply subordinated notes (transformation of participation loans);
- an agreement related to redeemable subordinated notes;
- an agreement relating to the assignment of mortgage ranking/priority;
- an agreement relating to the fiscal integration between Crédit Foncier, Compagnie de Financement Foncier and BPCE;
- renewal of the agreement for introductory source (between BPCE, Caisse d'Épargne and Crédit Foncier);
- an agreement on assignment of receivables on French local authorities;
- an agreement on assignment of receivables bonds (Greece on June 29, and on December 29, 2011; Portugal on September 30, 2011).

With the exception of Directors and Officers, Compagnie de Financement Foncier does not directly employ any salaried personnel.

## Legal form and applicable legislation

Compagnie de Financement Foncier is a credit institution authorised as a financial company and a *société de crédit foncier* by a decision of the French Credit Institutions and Investment Companies Committee (CECEI - *Comité des établissements de crédit et des entreprises d'investissement*) on July 23, 1999. It is thus subject to all regulations and legislation applicable to credit institutions and, as a *société de crédit foncier*, it is also subject to Articles L. 515-13 to L. 515-33 of the French Monetary and Financial Code.

It was formed as a French *société anonyme* and, for this reason, is also subject, apart from certain exemptions, to the requirements applicable to commercial companies under the French Commercial Code.

A *société de crédit foncier* benefits from a certain number of exemptions from ordinary laws, specifically:

- 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° carrying 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.

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 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 carry out temporary transfers of its securities in accordance with Articles L. 211-22 to L. 211-34 of the French Monetary and Financial Code, pledge securities accounts pursuant to Article L. 211-20 of said Code and assign all or some of the receivables that it holds in accordance with Articles L. 211-36 to L. 211-40 or in accordance with Articles L. 313-23 to L. 313-35, whether or not these receivables are professional. The receivables or securities thus assigned or transferred do not fall within the scope of the privileged claim to assets defined in Article L. 515-19 of the French Monetary and Financial Code and are not booked pursuant to Article L. 515-20 of said Code.

As an exception to Articles 1300 of the French Civil Code and L. 228-44 and L. 228-74 of the French Commercial Code, the company may subscribe for its own mortgage bonds solely for the purpose of using them as collateral for lending transactions with the Banque de France under the conditions set forth in Article L. 515-32-1 of the French Monetary and Financial Code.

The company cannot hold equity investments.

2° contracting, with any credit institution, all agreements necessary:

- servicing and recovering loans, exposures and securities;
- managing bonds and other financing;
- more generally, providing 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° acquiring and owning all property and equipment necessary to fulfil its corporate purpose or arising from the recovery of its loans;

- contracting, with any third party, any agreement related to the acquisition, ownership, management, maintenance and disposal of such assets.

4° contracting, with any insurance company, any agreement that 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, providing customers with and managing 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° participating 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:

- carrying 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;
- contracting any agreement that allows the company to use outsourcing services.

## Trade Register Number

Compagnie de Financement Foncier is registered in the Paris Trade Register under number B421 263 047 RCS PARIS.

## Location where legal documents concerning the Company may be consulted

Legal documents concerning Compagnie de Financement Foncier may be consulted at 4, quai de Bercy, 94220 Charenton-le-Pont.

## Financial year

The financial year begins on January 1 and ends on December 31.

## Provisions of the bylaws governing appropriation of earnings

If the financial statements for a given financial year, as approved by the Shareholders' Meeting, show distributable earnings as defined by law, shareholders shall decide either to attribute them to one or more reserve accounts, the allocation and use of which it determines, to retained earnings or to distribute them.

After ascertaining the existence of the reserves at its disposal, the Shareholders' Meeting may decide to distribute amounts drawn from those reserves. In such a case, the decision shall specify the reserve accounts from which the distributed amounts are to be drawn.

However, dividends shall be withdrawn first from the distributable earnings for the financial year.

Shareholders also have the right to grant each shareholder, for all or part of the dividend or interim dividend to be distributed, an option to receive payment either in the form of cash or in shares.

### Shareholders' Meetings

Shareholders' Meetings shall be called and shall deliberate under the conditions stipulated by law. An Ordinary Meeting must be held each financial year within five months of the closing date of the preceding financial year. Meetings shall be held at the corporate offices or at another location stated in the notice of meeting. Any shareholder may participate personally, or by proxy, in Shareholders' Meetings with proof of identity and ownership of shares in the form of a record in his name on the company's books five days before the date of the Shareholders' Meeting.

He may also vote by mail under the conditions stipulated by law. Meetings are chaired by the Chairman of the Board of Directors or, in his absence, by a Director specially designated to do so by the Board. Otherwise, the Shareholders' Meeting shall appoint a Chairman. An attendance sheet shall be kept under the conditions stipulated by law. Minutes of General Shareholders' Meetings shall be drawn up and copies shall be certified and issued pursuant to law.

### General information concerning the capital stock

#### Capital stock

As of December 31, 2011, the company's subscribed capital amounted to €1,187,459,936. It is divided into 74,216,246 fully paid-up shares with a par value of €16 each.

#### Share capital authorised but not subscribed

No authorisation to increase the capital stock has been issued which has not been used, nor is there any potential capital stock.

#### Ownership of capital and voting rights

Principal shareholders as of December 31, 2011	Number of shares	%
Crédit Foncier de France	74,216,239	100.00
Directors	7	
Total	74,216,246	100.00

#### Changes in capital over the last five years

The Board of Directors, in its meeting on June 26, 2007, noted that, following payment of the dividend in shares for FY 2006, the capital was increased by €22,000,000 due to the creation of 1,375,000 new shares with a par value of €16, fully subscribed by Crédit Foncier de France.

Following the use of the delegation of competency granted by the Shareholders' Meeting on May 26, 2008, the Board of Directors, in its meeting on June 30, 2008, noted the increase in capital from €154,000,000 to €924,000,000, which was definitively carried out on June 27, 2008.

The Board of Directors, in its meeting on June 30, 2009, noted that, following payment of the dividend in shares, the capital was increased by €84,000,000 due to the creation of 5,250,000 new shares with a par value of €16, fully subscribed by Crédit Foncier de France.

No change was made to the capital stock in 2010.

The Board of Directors, in its meeting on June 29, 2011, noted that, following payment of the dividend in shares for FY 2010, the capital was increased by €85,459,926 due to the creation of 5,341,246 new shares with a par value of €16, fully subscribed by Crédit Foncier de France. The same Board found that, following a decision by the Special Shareholders' Meeting on June 27, 2011 to perform a capital increase, the capital was increased by €4,000,000 by the creation of 5,875,000 new shares with a par value of €16, fully subscribed by Crédit Foncier de France.

### Individuals or companies that exercise control over the company

Crédit Foncier de France - 19 rue des Capucines - 75001 Paris - 542 029 848 RCS PARIS

### Information on the Crédit Foncier de France Group, to which Compagnie de Financement Foncier belongs

The principal business of Crédit Foncier 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'Epargne.

In the context of legislation governing this acquisition, the 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. Crédit Foncier transferred all its property commitments and pledged assets to the CECEI pursuant to Article 110 of June 25, 1999.

After having been affiliated with the Groupe Caisse d'Epargne between 1999 and 2009, Crédit Foncier became affiliated in 2009 with Groupe BPCE, which resulted from the merger of Groupe Caisse d'Epargne and Groupe Banque Populaire. Since August 5, 2010, Crédit Foncier has been fully owned by the central body BPCE.

The continuous expansion of its activities led Crédit Foncier to become a major player in real estate and the French local public sector.

### 2011 Highlights

The year 2011 was marked by the following events, which are broken down by theme:

- a major commitment to civil society and its customers:
  - September 2011 the ENFI congratulates its first graduates: 19 graduates in "Personal Real Estate Financing";
  - January 2011: 21 students graduate from ENFI with a «Crédit Foncier-Dauphine Executive Master's in Real Estate Financing».
- expert positioning in real estate markets and their financing:
  - January 17, 2011: signature of the first interest-free loans (PTZ+) financed by Crédit Foncier;
  - March 23, 2010: real estate market report and outlook: Crédit Foncier presented its annual *Regards Croisés* study to 500 partners;
  - May-June 2011: 50 key Crédit Foncier employees met 500 local decision-makers to discuss housing problems, provide specific indicators on their regions and offer tailored solutions.
- renowned service quality:
  - Foncier Home won the Jury's first prize at the Top Com 2011 awards during the congress held in Paris from October 3-6.
- Group operations:
  - March 2, 2011: 2010 Annual results released, fourth year of solid financial results;
  - July 4, 2011: Bruno Deletré is appointed Chief Executive Officer of Crédit Foncier by the Board of Directors at its meeting of June 28, 2011;
  - November 21, 2011: Adoption of the Company's new strategic plan by the Board of Directors;
  - December 14, 2011: €1.5 billion capital increase.

- BPCE intra-group synergies:
  - October-December 2011: Development of synergies with the Banque Populaire banks and the Caisses d'Épargne.
- refinancing:
  - Compagnie de Financement Foncier, a wholly-owned subsidiary of Crédit Foncier, launched three benchmark issues of *obligations foncières* in 2011:
    - January 14, 2011: €1 billion with a five-year maturity;
    - March 8, 2011: \$1.5 billion with a three-year maturity;
    - April 15, 2011: €1 billion with a ten-year maturity.
  - April 18, 2011: Crédit Foncier took part in the 12th Paris-Europlace forum in New York.
  - June 6, 2011: during the Euromoney conference in London, Crédit Foncier took part in a round table on «access to liquidity for domestic/regional format issuers».
  - November 28, 2011: Crédit Foncier ran a workshop entitled «*Obligations foncières*: The French Business Model of Covered Bonds: Security, Transparency and Stability» at the 15th Paris-Europlace forum in Tokyo.

Specialised subsidiary within a large group

As a *société de crédit foncier*, Compagnie de Financement Foncier enables Crédit Foncier to obtain particularly advantageous financing conditions (AAA/Aaa/AAA) and top-notch financial engineering. Crédit Foncier is now positioned within Groupe BPCE as a specialised real estate lending entity.

## Resolutions submitted to the Shareholders' Meeting

Combined General Shareholders' Meeting of May 24, 2012

### Draft resolutions

#### Ordinary General Meeting

##### First resolution

The Shareholders' Meeting, after having heard the reports of the Board of Directors and the Auditors for the financial period ending December 31, 2011, approves the accounts as presented.

##### Second resolution

The shareholders, having noted the existence of distributable earnings of €193,767,768.31 corresponding to the net income for the financial period of €108,063,919.62 plus the retained earnings of €85,703,848.51, allocates said distributable earnings in the following manner:

Legal reserve: €5,403,200.00

Dividend: €102,418,419.48

Retained earnings: €85,946,148.65

As a consequence, the amount of dividend that goes to each of the 74,216,246 shares constituting the share capital is fixed at €1.38.

Pursuant to Article 243b of the General Tax Code, it is specified that the total dividend proposed is eligible for the 40% discount available to individuals who are resident in France for tax purposes, provided for in Article 158-3 of the General Tax Code.

The date on which the remaining dividend will be made available for payment is set at June 30, 2012.

Pursuant to Article 24 of the bylaws, the Shareholders' Meeting decides to grant each shareholder the possibility of choosing to receive payment of the dividend in shares due from the balance of the dividend. New shares will have the same features and the same rights as the shares that gave the entitlement to the dividend. The date as from which they will have dividend rights shall be set at January 1, 2012.

The issue price of the new shares will be equal to the amount of shareholders' equity after allocation, as shown in the balance sheet as at December 31, 2011 approved by the Shareholders' Meeting in the first resolution set forth above, divided by the number of existing shares. It amounts to €23.06 per share.



The number of shares that can be allocated to shareholders who have chosen to receive payment of the balance of the dividend in shares will be determined in function of the price thus calculated. It is understood that shareholders cannot receive the dividend to which they are entitled partly in shares and partly in cash.

If the dividends thus determined do not give rise to a whole number of shares, shareholders who have chosen to receive payment in shares may subscribe for the nearest whole number of shares for an amount that is lower than the dividends payable, with the balance being paid in cash or the nearest whole number (of shares) for an amount that is higher than the dividends payable (with the shareholder) paying the difference in cash.

Shareholders must make their choice between June 1<sup>st</sup>, 2012 and June 15, 2012.

The shareholder that has not exercised their option by June 15, 2012 at the latest will receive their dividends after the payment on June 30, 2012.

The Shareholders' Meeting gives full powers to the Board of Directors to record the number of shares issued and the corresponding increase in capital stock and to amend Article 6 of the bylaws accordingly.

Pursuant to Articles 47 of the Act of July 12, 1965 and 243b of the General Tax Code, as a reminder, the dividend and the overall remuneration per share have evolved as follows over the last three financial periods:

Financial year	Number of shares	Overall remuneration per share	Dividend distributed <sup>(*)</sup>
2008	57,750,000	€2.00	€2.00
2009	63,000,000		
2010	63,000,000	€3.50	€3.50

(\*) Eligible for the 40% discount provided for in Article 158-3 of the General Tax Code.

### Third resolution

The Shareholders' Meeting, pursuant to the Article 24 of the bylaws and the Articles L. 232-12, L. 232-18 and L. 232-20 of the Commercial code, empowers the Board to decide on the possibility for shareholders to receive in shares all or part of the possible down payments on the dividend for fiscal year 2012 and to determine the ways of determining them, pursuant to the regulation set.

### Fourth resolution

The Shareholders' Meeting, after hearing the special report of the auditors on the transactions described in Article L. 225-38 of the French Commercial Code, note the terms of the report and approve the transactions entered into during the financial period.

### Fifth 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 September 29, 2011, of Ms Christine JACGLIN as a Director, replacing Mr Alain DENIZOT, who resigned, for the remaining term of her predecessor which is due to end at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2013.

### Sixth 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 September 29, 2011, of Ms Pascale PARQUET as a Director, replacing Mr Philippe DRUART, who resigned, for the remaining term of her predecessor, which is due to end at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2013.

### Seventh 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 March 28, 2012, of Mr Eric FILLIAT as a Director, replacing Mr Nicolas DARBO, who resigned, for the remaining term of her predecessor, which is due to end at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2012

## Eight resolution

The Shareholders' Meeting, recording the fact that the term of office of Ms Sandrine GUÉRIN as a Director has ended, decides to renew this term of office for a period of six years ending at the Shareholders' Meeting called to approve the financial statements for 2017.

## Ninth resolution

The Shareholders' Meeting gives full powers to the bearer of a copy or excerpt of the minutes of this Meeting for the accomplishment of all filing 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 terms of current legislation and regulations applicable to *sociétés anonymes*, credit institutions, and in particular *sociétés de crédit foncier*, and by these bylaws.

#### Article 2 – Purpose

The purpose of the company, in the context of the laws and regulations applicable to *sociétés de crédit foncier*, is:

1° carrying 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.

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 can 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 carry out temporary transfers of its securities, pursuant to the provisions of Articles L. 211-22 to L. 211-34 of the French Monetary and Financial Code, pledge a securities account as defined in Article L. 221-20 of said Code or mobilise all or part of the receivables it holds pursuant to Articles L. 211-36 to L. 211-40 or pursuant to Articles L. 313-23 to L. 313-35, whether or not these receivables are of a business nature. The receivables or securities thus assigned or transferred do not fall within the scope of the privileged claim to assets defined in Article L. 515-19 of the French Monetary and Financial Code and are not booked pursuant to Article L. 515-20 of said Code.

As an exception to Articles 1300 of the French Civil Code and L. 228-44 and L. 228-74 of the French Commercial Code, the company may subscribe for its own mortgage bonds solely for the purpose of using them as collateral for lending transactions with the Banque de France under the conditions set forth in Article L. 515-32-1 of the French Monetary and Financial Code.

The company cannot hold equity investments.

2° contracting with any credit institution all agreements necessary to:

- service and recover loans, exposures and securities;
- manage bonds and other financing;
- more generally, 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° acquiring and owning all property and equipment necessary to fulfil its corporate purpose or arising from the recovery of its loans;

- contracting with any third party any agreement related to the acquisition, ownership, management, maintenance and disposal of such assets.

4° contracting 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, providing customers with and managing 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° participating 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

- carrying 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;
- contracting any agreement allowing the company to use outsourcing services.

### **Article 3 – Corporate name**

The company's name is: «Compagnie de Financement Foncier».

### **Article 4 – Registered offices**

The registered offices are located at 19, rue des Capucines, in Paris (75001).

If the location of the head office is moved by the Board of Directors in accordance with the conditions set out in the applicable legislation, the new location shall be automatically substituted for the previous one in this Article, provided the move is ratified by an Ordinary Shareholders' Meeting.

### **Article 5 – Term**

The duration of the Company is ninety-nine years from its registration in the Trade Register, unless the period is extended or the Company is liquidated, in accordance with the legislation in force or these bylaws.

## **Title II: capital stock – shares**

### **Article 6 – Capital stock**

The capital stock is set at €1,187,459,936 (one billion, one hundred and eighty-seven million, four hundred and fifty-nine thousand, nine hundred and thirty-six euro).

It is divided into 74,216,246 shares with a par value of €16 (sixteen euro) 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 and 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 – Directors' terms of office**

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 board - minutes**

The Board of Directors is called to meetings by its Chairman, as often as the interest of the company requires, either at the registered offices, or at any other location indicated on the notice. Meetings may be called by all means, even verbally.

If no meeting has been held for more than two months, at least one third of the members of the Board can request that the Chairman call a Board Meeting with a specific agenda.

The Chief Executive Officer can also request that the Chairman call a Board meeting with a specific agenda.

The Chairman must comply with requests that have been made to him in accordance with the two previous paragraphs.

Resolutions are adopted with the quorum and majority required by law. In the event of a tie vote, the Chairman shall cast the deciding vote.

The internal regulations may stipulate that, for the purposes of calculating a quorum and majority, Directors participating in the meeting through videoconferencing or other means of telecommunications that allow them to identify themselves and effectively participate shall be considered present.

This rule is not applicable for the adoption of resolutions that require, in accordance with current legislation, the physical presence of Directors.

Sufficient proof of the number of Directors in office and of their presence at a meeting of the Board is provided by the production of a copy or an excerpt of the minutes of the Board Meeting.

The minutes of the meeting are prepared, and the copies or excerpts are delivered and certified as required by law.

## **Article 14 – Power of the board**

The Board of Directors determines the strategic direction of the company's activities and supervises the implementation of such strategies. Subject to the powers expressly attributed to Shareholders' Meetings, and within the limits of the company's purpose, the Board deals with any issue affecting the company's operations and settles, through its decisions, all matters concerning the company.

The Board carries out such controls and verifications that it considers appropriate.

Each Director receives all the information necessary to perform his or her duties and can request all documents that he considers pertinent.

In its relations with third parties, the company is responsible for the acts of the Board of Directors which are not in accordance with the company's purpose, unless it can prove that the third party knew that the act in question was not in accordance with the company's purpose or that the third party could not have been unaware of this fact given the circumstances. The sole fact that the company's bylaws are published does not constitute sufficient proof.

## **Article 15 – Compensation of the Board of Directors**

A Shareholders' Meeting can allocate to the Board of Directors fixed annual compensation in the form of directors' fees, the amount of which it shall determine. This compensation remains applicable until a Shareholders' Meeting decides otherwise.

The Board of Directors shall allocate this compensation 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 compensation. It determines his term of office as Chairman, which may not exceed his term as Director. The individual can be re-elected.

The term of the Chairman must end no later than the end of the Ordinary Meeting that follows the date on which the Chairman reaches the age of sixty-five.

The Chairman represents the Board of Directors. He organises and directs the work of the Board, and reports to the Shareholders' Meetings on such work. He verifies that the company's decision-making bodies function properly and ensures, in particular, that the Directors are able to fulfil their responsibilities.

The Board may confer on one or more of its members or on third parties, whether or not they are shareholders, special mandates for one or more specific purposes.

It may also appoint one or more committees, the structure and roles of which it shall determine. These committees, which can include both Directors and third parties chosen for their expertise, study the questions that the Board or the Chairman submits for their review.

In these various cases, the Board may allocate special compensation to the appointed Directors.

## **Article 17 – Management**

Management of the company is directed, under his/her responsibility, either by the Chairman of the Board, or by another individual appointed by the Board of Directors with the title of Chief Executive Officer. The selection of the individual for this position, which may be changed at any time, is made by the Board of Directors voting with a majority of three quarters of the members present or represented. The Board of Directors reports, in its annual report, on the choice that it has made and explains the reasons for this choice.

The Board of Directors determines the period for which the Chief Executive Officer is appointed.

The Chief Executive Officer has the broadest powers to act in all circumstances in the name of the company, within the limits of its purpose, and subject to the specific powers expressly attributed to Shareholders' Meetings by law and to the specific powers of the Board of Directors. The Chief Executive Officer represents the company in its relationships with third parties. The company is responsible for the acts of the Chief Executive Officer which are not in accordance with the company's purpose, unless it can prove that the third party knew that the act in question was not in accordance with the company's purpose, or that the third party could not have been unaware of this fact in light of the circumstances. The sole fact that the company's bylaws are published does not constitute sufficient proof.

On the recommendation of the Chief Executive Officer, the Board of Directors can appoint one or more individuals, whether Directors or not, to assist the Chief Executive Officer, with the title of Deputy Chief Executive Officer. The number of Deputy Chief Executive Officers may not exceed five. The scope and duration of the powers of the Deputy Chief Executive Officers shall be determined by the Board of Directors with the consent of the Chief Executive Officer.

With respect to third parties, Deputy Chief Executive Officers have the same powers as the Chief Executive Officer.

The Board of Directors determines the compensation of the Chief Executive Officer and the Deputy Chief Executive Officers.

The Chief Executive Officer and, if they have been appointed, Deputy Chief Executive Officers, even if not members of the Board, are invited to the meetings of the Board of Directors.

The duties of the Chief Executive Officer and Deputy Chief Executive Officer must cease no later than the end of the Shareholders' Meeting, which follows the date at which the person reaches the age of sixty-five.

The Chief Executive Officer may be removed at any time by the Board of Directors. The same applies, on the recommendation of the Chief Executive Officer, to the Deputy Chief Executive Officers. If the removal is decided without just cause, it may result in legal damages, unless the Chief Executive Officer is appointed Chairman of the Board of Directors.

If the Chief Executive Officer resigns, or cannot carry out his duties, the Deputy Chief Executive Officers retain, unless the Board decides otherwise, their positions and the responsibilities assigned to them until a new Chief Executive Officer is appointed.

## **Article 18 – Advisors**

An Ordinary Meeting may, on the recommendation of the Board of Directors, appoint one or more Advisors.

The term of office of an Advisor is three years. They may be re-appointed.

The Advisors attend meetings of the Board of Directors and have an advisory role.

The Board of Directors determines their compensation in the context of the allocation of the directors' fees allocated by the Shareholders' Meeting.

## **Title IV: Company Audit**

### **Article 19 – Statutory Auditors**

The Shareholders' Meeting shall designate one or more Statutory Auditors and one or more alternate Auditors, under the conditions stipulated by law.

### **Article 20 – Specific Controller**

Under the conditions stipulated by law and by the regulations applicable to a *société de crédit foncier*, and after obtaining the opinion of the Board of Directors, the Chief Executive Officer shall appoint one Specific Controller and an alternate.

The Specific Controller and, if applicable, the alternate shall perform the duties assigned to them by the laws governing a *société de crédit foncier*.

## **Title V: Shareholders' meetings**

### **Article 21 – Shareholders' meetings**

Shareholders' Meetings shall be called and shall deliberate under the conditions stipulated by law.

Each year, an Ordinary Shareholders' Meeting must be convened within five months following the financial year-end.

Meetings shall be held at the corporate offices or at another location stated in the notice of meeting.

Any shareholder may participate personally, or by proxy, in Shareholders' Meetings with proof of identity and ownership of shares in the form of a record in his name on the company's books five days before the date of the Shareholders' Meeting.

He may also vote by mail under the conditions stipulated by law.

Shareholders who participate in the Shareholders' Meeting by videoconference or telecommunications that enable them to be identified shall be considered present for calculating the quorum and the majority.

Shareholders' Meetings shall be chaired by the Chairman of the Board of Directors or, in his absence, by a Director specially authorised for that purpose by the Board. Otherwise, the Shareholders' Meeting shall appoint a Chairman.

An attendance sheet shall be kept under the conditions stipulated by law.

Minutes of General Shareholders' Meetings shall be drawn up and copies shall be certified and issued pursuant to law.

### **Article 22 – Deliberations of the Shareholders' Meeting**

Ordinary and Extraordinary Shareholders' Meetings ruling with the quorum and majority set by law shall exercise the powers that are vested in them by law.

## **Title VI: annual financial statements – approbations of earnings**

### **Article 23 – Financial year**

The financial year shall begin on January 1<sup>st</sup> and 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 – Approbations of earnings**

If the financial statements for the financial year, as approved by the Shareholders' Meeting, show distributable earnings as defined by law, the Shareholders' Meeting shall decide either to allocate them to one or more reserve accounts, the allocation and use of which it determines, to retain earnings or to distribute them.

After ascertaining the existence of the reserves at its disposal, the Shareholders' Meeting may decide to distribute amounts drawn from those reserves. In such a case, the decision shall specify the reserve accounts from which the distributed amounts are to be drawn.

However, dividends shall be withdrawn first from the distributable earnings for the financial year.

The above provisions shall apply if non-voting preferred shares are created.

Shareholders also have the right to grant each shareholder, for all or part of the dividend or interim dividend to be distributed, an option to receive payment either in the form of cash or in shares.

## **Title VII: dissolution – liquidation – disputes**

### **Article 25 – Dissolution and liquidation**

At the expiration of the company or in the event of early dissolution, the Shareholders' Meeting shall determine the method of liquidation and shall appoint one or more liquidators, whose powers it shall determine and who shall perform their duties pursuant to law.

### **Article 26 – Disputes**

All disputes that might arise during the term of the company or at the time of liquidation, either among the shareholders, the Directors and the company, or among the shareholders themselves, concerning the company's business shall be adjudicated as required by law and shall be subject to the jurisdiction of the competent courts.

## General information

### Outlook for Compagnie de Financement Foncier

#### Current events

The company did not record any current events that significantly impact the evaluation of its solvency.

#### Trends

No significant deterioration has affected the outlook of the company since its last financial report was audited and published.

No known trend, uncertainty, claim, commitment or event is reasonably liable to influence the company's outlook.

#### Audit

To the company's knowledge, no agreement exists of which the implementation at a later date could lead to a change of its audit.

#### Material events

No significant changes in the financial or commercial situation have occurred between March 28, 2012 - the date at which the Board of Directors closed the accounts - and the filing date of this registration document.

### Additional 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.
- As of December 31, 2011 there were no exceptional events or legal disputes (government procedures, legal or arbitration) likely to have or to have had a material impact on Compagnie de Financement Foncier's activity, financial position or results.
- Compagnie de Financement Foncier conducts itself and its corporate entities with respect to the corporate governance framework in practice in France.

### Persons responsible for auditing the financial statements

#### Statutory

##### **KPMG Audit - Département de KPMG SA**

Represented by Mr Jean-François DANDÉ

Address: 1, cours Valmy – 92923 La Défense cedex – 775 726 417 RCS Paris

Member of the *Compagnie régionale des commissaires aux comptes de Versailles* (Regional Association of Statutory Auditors of Versailles)

Start of term: May 23, 2011.

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 2016.

##### **PricewaterhouseCoopers Audit**

Represented by Mr Jean-Baptiste DESCHRYVER

Address: 63, rue de Villiers – 92200 Neuilly-sur-Seine – 302 474 572 RCS Paris

Member of the *Compagnie régionale des commissaires aux comptes de Versailles* (Regional Association of Statutory Auditors of 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

**KPMG Audit FS I**

Address: 1, cours Valmy – 92923 La Défense cedex

Start of term: May 23, 2011.

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, 2016.

**Mr. Étienne BORIS**

Address: 63, rue de Villiers – 92200 Neuilly-sur-Seine

Start of term: May 26, 2008.

Length of term: six financial years.

Expiration of term: at the end of the Shareholder's Meeting called to approve the financial statements for the financial year ending December 31, 2013.



## Specific Controllers

### Statutory

#### **Cailliau Dedouit & Associés**

Represented by Mr Laurent BRUN

Address: 19, rue Clément Marot – 75008 Paris

Date of approval from the Banking Commission: June 23, 2004

Start of term: June 29, 2004.

Length of term: period remaining in predecessor's term, then renewed for a term of four years.

Expiration of term: after submission of the report and certified statements for the financial year ending December 31, 2014.

### Alternate

#### **Monsieur Didier CARDON**

Address: 19, rue Clément Marot – 75008 Paris

Date of approval from the Banking Commission: June 23, 2004

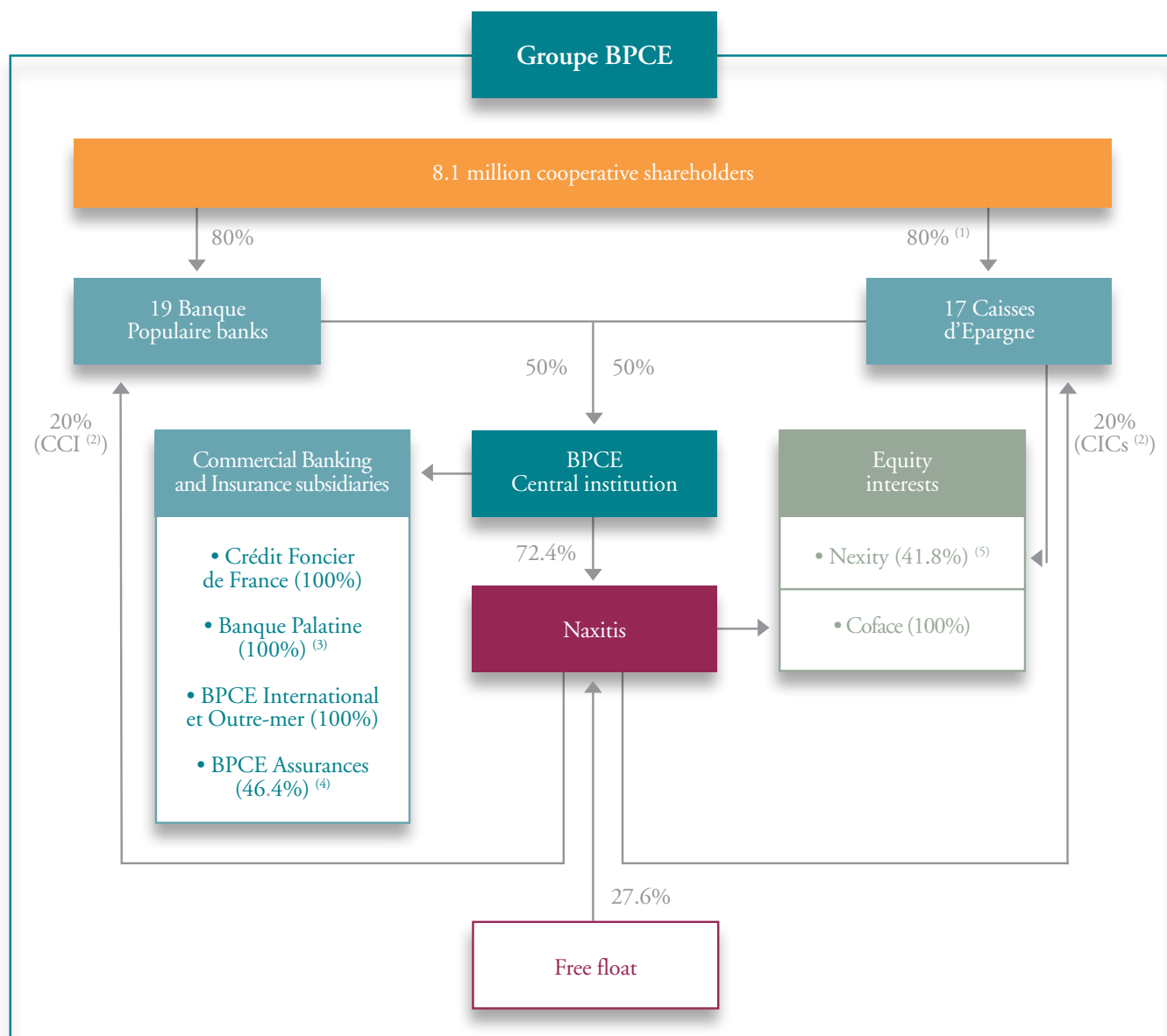
Start of term: June 29, 2004.

Length of term: period remaining in predecessor's term, then renewed for a term of four years.

Expiration of term: after submission of the report and certified statements for the financial year ending December 31, 2014.

## Appendix : Focus on Compagnie de Financement Foncier within Groupe BPCE

The merger of holding companies previously owned by the Banques Populaires (BP Participations) and the Caisses d'Epargne (CE Participations) on August 5, 2010 within the central institution (BPCE) led to Crédit Foncier's direct consolidation by Groupe BPCE, the second French banking group.



■ Commercial Banking and Insurance  
 ■ CIB, Investment Solutions and Specialized Financial Services

<sup>(1)</sup> Indirectly through Local Savings Companies

<sup>(2)</sup> CICs: Cooperative Investment Certificates (economic interests, no voting rights)

<sup>(3)</sup> With the equity interest held by Crédit Foncier de France in Banque Palatine, the group owns a 100% stake in the company

<sup>(4)</sup> With the equity interest held by the Caisses d'Epargne in BPCE Assurances

<sup>(5)</sup> Via CE Holding Promotion

References from the diagram in annex IV of European Commission Regulation  
(EC) N°. 809/2004

	Heading	Volume(s)	Page(s)
<b>1.</b>	<b>Persons responsible</b>		
1.1.	Persons responsible for the information	Volume 2	85
1.2.	Declaration by those responsible for the registration document	Volume 2	85
<b>2.</b>	<b>Statutory auditors</b>		
2.1	Names and addresses of the issuer's auditors	Volume 3	74
2.2	Auditors during the period covered by the past financial information	Volume 3	74
<b>3.</b>	<b>Selected financial information</b>		
3.1.	Financial information	Volume 1	10 to 11
3.2.	Financial information for interim periods	N/A	N/A
<b>4.</b>	<b>Risk factors</b>	Volume 1 Volume 2 Volume 3	28 to 32 13 to 18 2 to 45
<b>5.</b>	<b>Information about the issuer</b>		
5.1.	History and development of the issuer		
5.1.1.	Legal and commercial name of the issuer	Volume 3	60 and 68
5.1.2.	Place and registration number of the issuer	Volume 3	64
5.1.3.	Date of incorporation and length of life of the issuer	Volume 3	61 and 68
5.1.4.	Domicile and legal form of the issuer	Volume 3 Volume 3	60 to 62 67
5.1.5.	Recent events particular to the issuer which are to a material extent relevant to the evaluation of the issuer's solvency	Volume 3	74
5.2.	Investments	N/A	N/A
<b>6.</b>	<b>Business overview</b>		
6.1.	Principal activities		
6.1.1.	Main categories of services performed	Volume 1 Volume 1 Volume 1	3 to 7 25 28
6.1.2.	New products and/or activities	N/A	N/A
6.2.	Principal markets	Volume 1 Volume 2	34 to 36 4 to 9
6.3.	Competitive position	Volume 1	11
<b>7.</b>	<b>Organisational structure</b>		
7.1.	Description of the group and issuer's position within it	Volume 3	77
7.2.	Dependence upon other entities within the group	Volume 3	63 to 65
<b>8.</b>	<b>Trend information</b>		
8.1.	Statement that there has been no material adverse change in the prospects of the issuer since the date of its last published audited financial statements	Volume 3	74
8.2.	Events that are reasonably likely to have a material effect on the issuer's prospects	Volume 3	74
<b>9.</b>	<b>Profit forecasts or estimates</b>	N/A	N/A
<b>10.</b>	<b>Administrative, management, and supervisory bodies</b>		
10.1.	Names, business addresses and functions of the administrative, and management bodies and principal activities performed by them outside the issuer	Volume 2 Volume 3	23 to 28 56 59 to 60
10.2.	Statement that there are no conflicts of interests	Volume 3	74
<b>11.</b>	<b>Management and executive bodies</b>		
11.1.	Details relating to the issuer's audit committee	Volume 1 Volume 3	31 47 to 48
11.1.1.	Names of committee members and terms of reference under which the committee operates	Volume 3	48
11.2.	Corporate governance	Volume 3	46 to 56
<b>12.</b>	<b>Major shareholders</b>		
12.1.	Ownership, control	Volume 3	63 to 65
12.2.	Arrangements which may result in a change in control of the issuer	N/A	N/A
<b>13.</b>	<b>Financial information concerning the issuer's assets and liabilities, financial position and profits and losses</b>		

13.1.	Past Financial Information		
13.1.1.	Balance Sheet	Volume 2	33
13.1.2.	Off-Balance Sheet	Volume 2	34
13.1.3.	Income Statement	Volume 2	35
13.1.4.	Cash Flow Statement	Volume 2	74 to 75
13.1.5.	Accounting Policies and Explanatory Notes	Volume 2	36 to 76
13.1.6.	Statutory Auditors' Report	Volume 2	77 to 78
13.1.7.	Past Financial Information: Reference Document		
13.1.7.1.	Financial Statements	Volume 2	33 to 76
13.1.7.2.	Certification of statutory auditors of the financial statements	Volume 3	57
13.2.	Consolidated financial statements	N/A	N/A
13.3.	Auditing of past annual financial information		
13.3.1.	Certification of statutory auditors	Volume 3	57
13.3.2.	Other information in the registration document which has been audited by the auditors	Volume 3	29 to 32 46 to 56
13.3.3.	Financial data in the registration document not extracted from audited financial statements	N/A	N/A
13.4.	Date of latest financial information		
13.4.1.	Last year of audited financial information		Registration Document 2010 <sup>(*)</sup>
13.5.	Interim and other financial information		
13.5.1.	Quarterly or half yearly financial information published since the last audited financial statements		
13.5.2.	Interim financial information since the end of the last audited financial year		
13.6.	Legal and arbitration proceedings	Volume 3	74
13.7.	Significant change in the issuer's financial or trading position		
13.7.1.	Statement	Volume 3	74
14.	<b>Additional information</b>		
14.1.	Share Capital		
14.1.1.	Amount of the issued capital	Volume 3	63 to 64 68
14.2.	Memorandum and bylaws		
14.2.1.	Register and corporate purpose	Volume 3	60 to 63 65 to 73
15.	<b>Material contracts</b>		
15.1.	Regulated agreements	Volume 3	60 to 61
16.	<b>Third party information and statement by experts and declarations of any interest</b>		
16.1.	Report attributed to a person as an expert	Volume 3	30 to 32
16.2.	Certification	Volume 3	29
17.	<b>Documents on public display</b>		
17.1.	Place where the documents on display may be inspected, by physical or electronic means	Volume 3	62 and 80

<sup>(\*)</sup> In application of article 28 of Regulation no. 809-2004 on prospectuses, the corporate financial statements for the accounting period ended December 31, 2010 and the Statutory Auditors' report on the corporate financial statements, included in the reference document no. D.11-0214 filed with the *Autorité des marchés financiers* (AMF – French financial markets authority) on April 1, 2011, are incorporated by reference in this document.

The sections of reference document no. D.11-0214 not referred to above are either of no consequence to investors or covered by another section of this reference document.

Information required for annual financial statements	Volumes	Pages
<b>Statement from the person responsible for the document</b>	<b>Volume 2</b>	<b>85</b>
Management report	Volume 2	2 to 30
Financial statements	Volume 2	32 to 76
<b>Statutory auditors report</b>	<b>Volume 2</b>	<b>77 to 78</b>

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