MOODY'S
INVESTORS SERVICE

PRE-SALE REPORT

Compagnie de Financement Foncier

Covered Bonds / France

Estimated Closing Date

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1. Definitive Ratings

SERIES	AMOUNT	EXPECTED MATURITY	FINAL MATURITY	RATING
Please see Moody's Performance Overview				Aaa

The ratings address the expected loss posed to investors by the legal final maturity. [In Moody's opinion the structure allows for timely payment of interest and ultimate payment of principal at par on or before the rated final legal maturity date.] Moody's ratings address only the credit risks associated with the transaction. Other non-credit risks have not been addressed, but may have a significant effect on yield to investors.

2. Summary

Moody's has assigned a long-term rating of **Aaa** to the covered bonds (the "**Covered Bonds**" or "**Obligations Foncières**") issued by Compagnie de Financement Foncier (the "**Issuer**") under the terms of the €125 billion Euro Medium Term Note Programme (the "**Programme**") established by it.

As with all covered bonds, the Covered Bonds investors benefit from two layers of protection by having recourse to both the Issuer and a collateral pool. The rating therefore takes into account the following factors.

» 1. The credit strength of Groupe Crédit Foncier de France ("**GCFF**" or the "**Sponsor Bank**", rated **Aa3; Prime-1**). The issuer is an affiliated entity of the Sponsor Bank. Moody's believes that the affiliation mechanism enables the Issuer to benefit from the ultimate credit strength of the Sponsor Bank whose involvement in and commitment to the Programme are also evidenced by the various functions and services performed and provided to the Issuer;

» 2. A "**Cover Pool**" comprising of assets mostly originated by the Sponsor Bank. As of September 2009 the Cover Pool included public sector exposures, 42%; securitization notes, 15%; residential-state supported assets, 8%; mortgage promissory notes, 9%; substitute assets 13%; residential assets 11%; and commercial assets 1% in each case eligible for inclusion in the Cover Pool pursuant to the French Monetary and Financial Code, L.515-13 et seq. (the "**Law**");

» 3. The Law and the regulatory framework applicable to French Covered Bonds (obligations foncières); and

» 4. The undertaking of the Issuer to maintain a 5% minimum over-collateralisation on a nominal basis.

As is the case with other covered bonds, Moody's considers the credit strength of the transaction to be linked to that of certain parties — in particular the Sponsor Bank. Should such credit strength deteriorate, all other things being equal, the rating of the Covered Bonds may come under pressure.

Structure Summary

Issuer:	Compagnie de Financement Foncier (not rated)
Sponsor Bank:	Groupe Crédit Foncier de France (rated **Aa3/P-1**)
Sponsor Bank Guarantor:	N/A
Structure Type:	Covered Bonds/ *Obligations Foncières*
Issued under Covered Bond Law:	Yes
Applicable Covered Bond Law:	Provisions of the French and Monetary Code applicable to *Obligations Foncières*
Main Seller/Originator:	Crédit Foncier de France
Main Servicer:	Crédit Foncier de France
Intra-group Swap Provider:	Groupe Crédit Foncier de France (rated **Aa3/P-1**)
Monitoring of Cover Pool:	Cailliau Dedouit & Associés ("**Specific Controller**")
Trustees:	NA
Timely Payment Indicator:	Probable High

Covered bonds Summary

Total number of Covered Bonds outstanding:	N/D
Total amount of Covered Bond issuance:	Euro 78.93 billion
Currency of the Covered Bonds:	See Performance Overview
Extended Refinance Period:	No
Principal Payment Type:	Bullet
Interest Rate Type:	See Performance Overview

Collateral Summary

Size of Cover Pool:	EUR 95.74 billion
Main Collateral Type in Cover Pool:	Mixed
Main Asset Location:	See Performance Overview
Loans Count:	15,573
Currency:	See Performance Overview
WA Remaining Term:	See Performance Overview
Interest Rate Type:	See Performance Overview
Current Over Collateralisation (nominal basis):	Approx. 13%
Current Over Collateralisation (NPV basis):	NA
"Committed" Over Collateralisation:	5% on nominal basis
Collateral Score:	See Performance Overview
Further Details:	See Performance Overview
Pool Cut-off Date:	See Performance Overview

3. Strengths and weaknesses with mitigants

Strengths

- **Sponsor Bank/Sponsor Bank Guarantor:** Investors will benefit from the credit strength of the Sponsor Bank mainly due to the following:
  - Pursuant to the French banking regulations and in order to obtain the banking licence, the Sponsor Bank has committed itself towards the Comité des Etablissements de Crédit et des Entreprises d'Investissement (the "CECEI", which is a committee of the French Banking Authority) to ensure the liquidity and solvency of the Issuer.
  - The Issuer is 100% owned by Credit Foncier de France. Credit Foncier de France and Compagnie de Financement Foncier are members of BPCE Groupe. This is the banking group created in July 2009 as a result of the merger between Groupe Caisse d'Epargne and Groupe Banque Pupulaire. The Issuer is an affiliate of BPCE (**Aa3/P-1**) (the central body of the BPCE Group) within the meaning of article 511-31 of the French Monetary and Financial Code. Moody's understands that pursuant to the above mentioned article of the French Monetary and Financial Code, a central body is responsible to ensure the correct functioning of the entities affiliated to it. To that end a central body takes all necessary measures to guarantee the liquidity and solvency of an affiliate and of the entire group. Such actions in the case of BPCE Groupe take the form of a financial solidarity mechanism including, among other things, a guarantee fund. In the event that an affiliate needs support the guarantee fund will be used in order to bail out such affiliate. Furthermore, should the fund be insufficient, the other members of the group will be responsible for bailing out the distressed entity on a joint and several basis.
- **Credit quality of the Cover Pool:** The holders of the Covered Bonds will have the benefit of the support provided by the Cover Pool which comprises a variety of assets, but all of which are eligible for inclusion in the cover pool pursuant to the terms of the Law. 42% of the Cover Pool consist of public sector exposures. As of the date of this report, the Cover Pool is well seasoned (49 months) and the residential portion of the Cover Pool has an average indexed loan-to-value of approximately 56.6%. Furthermore, it should be noted that Regulation 99-10 of 10 July 1999 (**Reg 99**) as subsequently modified sets out certain rules applicable to sociétés de crédit foncier like the Issuer and relating to i) the method of valuation of the assets securing the loans included in the Cover Pool, ii) the frequency of such valuations, and iii) the eligibility criteria to be satisfied by the subject providing the valuation. Finally it should be noted that only loans that are secured against a property which is covered by an adequate insurance against damages can be included in the Cover Pool. While the concept of adequate damage insurance may lend itself to different interpretations, this requirement is – in principle - favorably regarded by Moody's.
- **Income underwriting standards.** With reference to residential and commercial exposures, the borrower's income has been checked to confirm that such borrower can, based on income/cash flows at the time of origination, afford to repay the loan over its life. Income is in all cases verified and this verification does not rely on borrowers' self-certification.
- **The undertaking of the Issuer to maintain a 5% minimum over-collateralisation on a nominal basis:** In the board of directors meeting which took place on the 15th of December 2009 it was resolved to maintain an amount of non-privileged liabilities equal to 5% of the privileged liabilities. This commitment will be included in a supplement to the existing prospectus to be published by the Issuer in the very near future. Furthermore, under the terms of the Law the SCF must maintain a ratio of at least 100% between privileged debt (including Covered Bonds) and its assets after application of the appropriate funding limits and weighting mechanisms provided in the regulations applicable to SCFs. In this respect it should be noted that pursuant to Reg 99 the above mentioned ratio between assets and liabilities is computed by weighting the assets in the cover pool by applying the relevant risk weightings (pondération).
- **Market risk:** Interest rate risk and currency risk are hedged pursuant to the terms of the programme hedging strategy which aims at ensuring that market risk exposures are maintained within the limits set out in the Management Rules (as such term is defined below).
- **Set-off:** The Sponsor Bank and the Issuer are not deposit taking institutions so losses arising as a result of the borrowers exercising their set-off rights appear remote.
- **Commingling Risk.** Payments due in respect of the assets included in the Cover Pool other than the residential loans are made by the borrowers directly to the Issuer. Accordingly, potential for liquidity shortfalls due to

commingling risk appears to be limited to the portion of the Cover Pool consisting of residential loans.

» **Refinancing risk:** For the purposes of assessing the refinancing risk, the following features are favorably regarded by Moody's.

- The Law and the relevant provisions aimed at avoiding interruptions in i) assets and corporate servicing and ii) cash flows management.
- Following the insolvency of the Issuer the Covered Bonds would continue to be paid according to their original scheduled maturity dates, in accordance with the Law.
- The Issuer is an eligible counterparty for repo purposes and the Cover Pool includes assets that are, as of the date of this report, repo eligible.
- Under the Management Rules the Issuer has to ensure that at any point in time a "**Liquidity Buffer**" sufficient to cover - with no need for new assets and in a run-off scenario - the scheduled payments due in respect of the preferred liabilities during the immediately succeeding 12 months is available. For the purpose of determining the size of the Liquidity Buffer, only the cash position of the Issuer is taken into account.

» **Legal framework:** A number of provisions set out in the Law are regarded favorably by Moody's. These include, but are not limited to, the following:

- *Assets Eligibility Criteria*. Only assets that satisfy certain eligibility criteria can be included in the Cover Pool. The Issuer and the Specific Controller are expected to ensure that only eligible assets are transferred to the Issuer.
- ***Segregation.*** Moody's understands that in the event of the insolvency of the Sponsor Bank the Cover Pool transferred to the Issuer will not be included in the insolvency estate of such Sponsor Bank. Furthermore, following insolvency of the Issuer, the holders of the Covered Bonds and of the privileged swap counterparties will be paid out of the cash flows deriving from such Cover Pool and other available cash in priority to the other creditors of the Issuer (prior to Issuer's insolvency, see discussion below under Legal Framework – Sequential payment of debt prior to Issuer insolvency).

» **Supervision**. The Issuer is supervised by the *Commission Bancaire*. Furthermore, the appointment of a Specific Controller is required. Moody's understands that the Specific Controller will supervise the Issuer's compliance with the Law and any other rights and obligations relating to the Issuer. Any actual or potential breach of the Law or the Issuer's obligations, or other matter which may impair the Issuer's ability to comply with its duties, is expected to be reported to the Commission Bancaire on coming to the attention of the Specific Controller.

Weaknesses with Mitigants

» **Sponsor Bank:** As with most covered bonds, until Sponsor Bank Default, the Sponsor Bank and the Issuer have the ability to materially change the nature of the Programme (referred to as substitution risk). For example, new types of assets may be added to the Cover Pool and other assets may be released from the Cover Pool, new Covered Bonds issued with varying promises and new hedging arrangements entered into. These changes could impact the credit quality of the Cover Pool, refinancing risk and market risk. **Mitigant:** 1) the rating of the Sponsor Bank (**Aa3**); (2) the Law restricts the inclusion of assets in the Cover Pool to those assets that satisfy the relevant eligibility criteria set out therein and (3) the true sale nature of the assignment of the assets from the Sponsor Bank to the Issuer combined with the level of supervision to which the Issuer is subject and the liabilities potentially incurred by the directors of the Issuer for negligence or misconduct somewhat mitigates the risk of reverse adverse selection in a distressed scenario.

» **Credit quality of the Cover Pool:**

- *Substitution*. As with most covered bonds in Europe, there are few restrictions on the future composition of the Cover Pool, hence substitution risk exists. **Mitigant:** 1) the quality of the Cover Pool over time will be protected by, among others, the requirements of the Law, which sets out rules detailing which assets qualify as ordinary cover assets.
- *Quality of Cover Pool*. Not all assets included in the Cover Pool consist of or are backed by loans originated by the Sponsor Bank. The quality of the Cover Pool is reflected in its collateral score. **Mitigant:** the collateral score is taken into account in Moody's modeling and analysis of the over-collateralisation levels.

» **Refinancing risk:** The following should be noted:

- *General*. As with most covered bonds, for timely payment following Sponsor Bank Default, Covered Bond holders would have to rely ultimately on proceeds being raised through the sale of, or borrowing against, assets in the Cover Pool. In particular, refinancing and liquidity may be needed as a result of the mismatches between the collections under the Cover Pool and the liabilities under the Covered Bonds. The terms of the Covered Bonds do not allow for the maturity date to be extended. **Mitigants:** (1) the rating of the Sponsor Bank; (2) non-acceleration of the Covered Bonds following Issuer or Sponsor Bank insolvency; (2) the Issuer is an eligible counterparty for repo transactions with the Banque de France. For more details see Refinancing risk under "Strengths" above.

- *The Liquidity Buffer*. For the purpose of determining the size of the liquidity buffer all repo eligible assets are taken into account and it is assumed that the assets that are eligible for repo at the time of the calculation will continue to be eligible in the future. **Mitigant:** The frequency of the sizing of the Liquidity Buffer may result in the assets that were initially repo eligible and have subsequently become ineligible for repo transactions being promptly excluded from the Liquidity Buffer.
- *Repo*. 34% (Euro 34bn) of the assets currently included in the Cover Pool are repo eligible. There is no certainty that the assets that are currently repo eligible will remain repo eligible in the future. **Mitigant:** (1) the Issuer is an eligible counterparty for repo transactions (2) as of the 31 December 2009 the Issuer had posted approximately Euro 6.5 bn worth of assets with the Central Bank and (3) the liquidity commitment of the Issuer under the terms of the Management Rules.

» **Market risk:**

- *Termination of Hedges:* While the hedging arrangements contain a number of provisions designed to reduce the likelihood of the swaps terminating upon the default of the Issuer or of the Sponsor Bank, such termination remains a possibility. **Mitigants:** (1) contractual provisions included in the swap agreements designed to reduce the termination events under the swap; (2) the strength of the Sponsor Bank (**Aa3/P-1**); (3) Moody's model assumes that the hedging arrangements may terminate upon the Sponsor Bank Default.
- *Internal Swap Counterparty* for all assets other than bonds and non-French public sector exposures: The counterparty for the hedging agreements in respect of the majority of the assets is a member of the Sponsor Bank group, so prior to Sponsor Bank Default a hedge counterparty replacement would have to be found for the hedge agreement to continue to support the transaction post Sponsor Bank Default. **Mitigants:** (1) collateral posting provisions should provide support until Sponsor Bank Default, and replacement triggers may protect bondholders following Sponsor Bank Default; (2) liability swaps and asset swaps in respect of non-French public sector exposures are provided by external swap counterparties.

» **Over-collateralisation:**

- Under the provisions of the Law, Obligations Foncières may be issued against the portion of the residential loans with an LTV cut-off percentage of 80%. However, the Cover Pool can also be made up of the portion of the loan with an LTV in excess of 80%. The Cover Pool may therefore include loans with a high loan to value and hence with a higher risk profile. **Mitigant:** Moody's analysis of the Cover Pool considers the quality of the cover pool so that more overcollateralisation is required for a given rating level if the Cover Pool has a higher risk profile.
- The Issuer has undertaken to maintain a minimum amount of over-collateralisation of 5%, however the breach of such over-collateralisation requirement would not prevent the Issuer from issuing further Covered Bonds. Mitigants: (i) Moody's understands that the breach of the undertaking to maintain a minimum 5% over-collateralisation would expose the issuer to legal actions from investors.

» **Legal framework:**

» **Sequential payment of debt following Issuer insolvency:** The Law provides that in the event of the bankruptcy of the Issuer, the Covered Bonds will mature at their respective contractual maturity. This means that principal cash collections may be used on a first-come-first-served basis, to pay earlier-maturing Covered Bonds prior to later-maturing Covered Bonds. This could lead to over-collateralisation being eroded away before any payments are made to later maturing Covered Bonds. **Mitigant:** (1) the amount of over-collateralisation which the Issuer is expected to maintain over time.

» **Sequential payment of debt prior to Issuer insolvency:** Moody's understands that following Sponsor Bank Default but prior to any insolvency proceedings against the Issuer, if there is a conflict between payment of privileged and non-privileged debts the privileged debts will be paid in priority. However where there is no conflict (eg: because payments fall due on different days) debts are paid as they fall due from cash available. The result would be reduced liquidity for the Issuer and risk to timely payment of privileged debt; **Mitigant:** (1) as of the 15th of September 2009 the amount of non-privileged liabilities, including unsecured debt (*dettes chirographaires*) and subordinated debt (*dettes subordoneé*), but excluding equity was approximately Euro 15 bn.

» **Commingling risk:** There is no trigger for the automatic re-direction of the payments due by the borrowers prior to Sponsor Bank Default. Accordingly, there is some risk that the underlying borrowers will not be required to redirect payments to the Issuer. In the event that such redirection of payments is not effected, collections will continue to be received by the Sponsor Bank hence potentially commingled in its insolvency estate. At present the amount of assets potentially exposed to commingling risk accounts for 11% of the entire Cover Pool. It is possible that this percentage will increase in the future **Mitigant:** (1) only the portion of the Cover Pool consisting of residential loans is exposed to commingling risk.; and (2) collections stemming from assets in the Cover Pool must be kept in an account held with a suitably rated institution (**P-1**).

» **Independence of directors:** Specific circumstances may trigger conflict of interests, especially during the period immediately prior or following the bankruptcy of the Sponsor Bank. **Mitigant:** (1) the independence of the Specific Controller and its key role in ensuring that the Issuer satisfies the assets eligibility criteria and the coverage ratios provided for in the Law; (2) prior to any insolvency proceedings of the SCF, the ability of the Banking Commission to appoint a provisional administrator to whom full powers relating to the SCF's administration, management and representation can be transferred. The conditions for such an appointment include: at the request of the directors when they consider they are no longer in a position to exercise their functions in the usual manner; and when the management of the institution may no longer be guaranteed to continue normally.

4. STRUCTURAL AND LEGAL ASPECTS

4.1 Legal Framework

Sociétés de crédit foncier (SCFs) are licensed credit institutions. They may grant or acquire either secured loans or exposures to public sector entities or other eligible securities (see below) and issue covered bonds ("obligations foncières") or incur other forms of borrowings in order to finance these assets. Article L.515-13 of the French Monetary and Financial Code (Code monétaire et financier), allows sociétés de crédit foncier to issue ordinary bonds or raise funds which do not benefit from the privilège.

As a matter of law Sociétés de crédit foncier must at all times maintain a cover ratio between their assets and their "privileged" liabilities (in particular, Covered Bonds) of at least 100% on a nominal basis. The Law does not require any over-collateralisation or cover test based on net present value (NPV) calculations.

Sociétés de crédit foncier must appoint a Specific Controller (contrôleur spécifique) with the approval of the Banking Authority whose task is to ensure that the cover test is complied with. In particular, the Specific Controller must certify that the cover ratio is satisfied in connection with (i) new Covered Bond issues and (ii) any other issue also benefiting from the privilège whose amount is greater than €500 million. The Specific Controller must verify the eligibility of the assets, the process of yearly revaluation and the quality of the asset liability management.

For bonds to qualify as obligations foncières and for other resources to benefit from the privilège, the documentation relating thereto must explicitly refer to such privilège. Sociétés de crédit foncier may enter into derivative transactions for hedging purposes The amounts due under these derivative transactions also benefit from the privilegeo the extent that the relevant hedging transaction was intended to constitute a privileged liability for the Issuer. Each time that the Issuer enters into a hedging transaction, in fact, it is entitled to elect whether or not such hedging transaction will constitute a privileged liability.

The sums resulting from the eligible receivables, replacement assets and from derivative transactions, together with deposits made by sociétés de crédit foncier with other credit institutions, are allocated in priority to the payment of any sums due in relation to the Obligations Foncières and other privileged debt.

A société de crédit foncier should not be consolidated in the bankruptcy of its parent.

The Law provides for a regime which derogates in many ways from the French legal provisions relating to insolvency proceedings. In particular, in the event of a safeguard procedure (procédure de sauvegarde), judicial reorganisation (redressement judiciaire) or liquidation (liquidation judiciaire) of a société de crédit foncier, all claims benefiting from the privilège, including interest thereon, must be paid on their due dates and in preference to all other claims, whether or not secured or statutorily preferred and, until payment in full of all such preferred claims, no other creditors may take any action against the assets of the société de crédit foncier.

In addition, certain transactions entered into during the suspect period cannot be nullified in the case of transactions or acts entered into by sociétés de crédit foncier provided that such transactions and acts are made in accordance with their legal exclusive purpose.

This ensures the insolvency remoteness of the Obligations Foncières in relation to the Sponsor Bank. However, the société de credit foncier may under certain circumstances also become insolvent (in case for example of over-indebtedness).

Typically a Sociétés de crédit foncier may acquire the following types of assets:

- Loans secured by a first-ranking mortgage or other real estate security interests that are equivalent to a first-ranking mortgage or loans that are guaranteed by a credit institution or an insurance company that does not belong to the same group as the Issuer. The Law provides that the mortgage-backed loans cannot exceed a threshold of 60% of the property's value, except under certain conditions;
- Exposures to public entities such as central administrative bodies, central banks, public institutions, territorial authorities or groups thereof located in a state which is a member of the European Economic Area (EEA) USA, Switzerland, Japan, Canada, Australia, New Zealand or other states benefiting from the highest level of credit assigned by an independent credit rating agency approved by the Commission Bancaire;
- Units or notes (other than subordinated units or subordinated notes) issued by a Fonds Commun de Créances, which are French securitisation vehicles, or other similar vehicles governed by the laws of a Member State of the EC or EEA, the assets of which shall comprise at least 90% of secured loans or exposures to public entities or other receivables benefiting from the same level of guarantees; and
- Mortgage promissory notes (billets à ordre hypothécaires).

4.2 The Issuer

The Issuer is a credit institution, licensed as a financial company with the status of société de crédit foncier, governed by specific legal provisions set out in Articles L.515-13 et seq. of the French Monetary and Financial Code (Code monétaire et financier, "**CMF**")

Despite the Issuer being fully owned by the Sponsor Bank, the Law provides that the bankruptcy or liquidation of the Sponsor Bank (or any of its shareholders generally) cannot be extended to the Issuer due to its status as a société de crédit foncier.

The Issuer's corporate object is expressly defined in the Law, which provides in essence that Issuer's purpose is:

- to grant or acquire assets referred to in Articles L.515-14 to L.515-17 of the CMF; and
- in order to finance such categories of loans, exposures or securities, to issue obligations foncières benefiting from the privilège provided for in Article L.515-19 of the CMF and to obtain other resources, which are expressly subject to the same privilège;

Pursuant to Article L.515-20 of the CMF and Article 6 of Règlement n.99-10 relatif aux sociétés de credit foncier, the Issuer must maintain a certain ratio between its debt benefiting from the privilège and its assets. This cover ratio must be at least 100%.

Pursuant to Article L. 515-30 of the CMF, the Specific Controller ensures that the Issuer complies with the Code monétaire et financier (in particular, verifying the quality and the eligibility of the assets and the coverage ratio). It also monitors the balance between the Issuer's assets and liabilities in terms of rates and maturity (cash flow adequacy) and notifies the board of directors of the Issuer and the Commission Bancaire if he considers such balance to be unsatisfactory. The Specific Controller is entitled to attend all shareholders meetings and, on his request, may be heard by the Board of Directors.

The Issuer has no employees.

- The "**Management Rules**" are a set of rules designed to limit the Issuer exposure towards 1) credit risk; 2) market risk (i.e. interest and currency risk); 3) liquidity risk and 4) counterparty risk. The relevance of the Management Rules in the context of Moody's analysis of the risks that such rules are purported to limit is discussed in the sections of this report outlining our views on such risks. Moody's has been advised that – as a result of their inclusion in the prospectus, the Management Rules would, if breached, potentially trigger a liability for damages on the part of the Issuer. As a result, Moody's has given credit to such rules as deemed appropriate.

5. MOODY'S RATING METHODOLOGY

Moody's covered bond rating methodology special report (Moody's Rating Approach to European Covered Bond dated 13 June 2005) details the approach used for rating covered bond transactions. The main idea is that until Sponsor Bank Default (as this term is defined in Moody's methodology, see footnote page 4), the Covered Bonds obligations are sufficiently supported by the Issuer. Following Sponsor Bank Default, the Programme will rely solely on the quality of the Cover Pool, including the swaps to the extent that these have survived. The impact of the credit strength of the Sponsor Bank/Sponsor Bank Guarantor and the quality of the Cover Pool are analysed below.

5.1 Credit strength of the Sponsor Bank

The Issuer is 100% owned by Credit Foncier de France. Credit Foncier de France and Compagnie de Financement Foncier are members of BPCE Groupe. This is the banking group created in July 2009 as a result of the merger between Groupe Caisse d'Epargne and Groupe Banque Pupulaire. The Issuer is an affiliate of BPCE (**Aa3/P-1**) (the central body of the BPCE Group) within the meaning of article 511-31 of the French Monetary and Financial Code. Moody's understands that pursuant to the above mentioned article of the French Monetary and Financial Code, a central body is responsible to ensure the correct functioning of the entities affiliated to it.. To that end a central body takes all necessary measures to guarantee the liquidity and solvency of an affiliate and of the entire group. Such actions in the case of BPCE Groupe take the form of a financial solidarity mechanism including, among other things, a guarantee fund. In the event that an affiliate needs support the guarantee fund will be used in order to bail out such affiliate. Furthermore, should the fund be insufficient, the other members of the group will be responsible for bailing out the distressed entity on a joint and several basis.

For more information on the fundamental credit quality of the Sponsor Bank, please see the latest Moody's credit report on the Sponsor Bank dated April 2009 and available on www.moodys.com.

5.2 The Credit Quality of the Collateral

Please see Moody's Performance Overview for the Programme. The Issuer has elected to refrain for purchasing further loans secured against commercial properties. Accordingly, the current exposure to the commercial real estate sector (approx. 1%) is expected to be phased out in the next few years.

5.3 Refinancing the Cover Pool

Following Sponsor Bank Default, where the "natural" amortisation of the Cover Pool assets alone cannot be relied on to repay principal, Moody's assumes that funds must be raised against the Cover Pool at a discount if covered bondholders are to receive timely principal payment. After a Sponsor Bank Default the market value of these assets may be subject to substantial volatility. Examples of the stressed refinance margins used by Moody's for different types of prime quality assets are published in Moody's Rating Approach (see Related Research below). Please note that such refinancing margins were increased as per press release dated 8 April 2009 (available on www.moodys.com).

Aspects specific to this programme that are refinancing positive include:

» The fact that an insolvency proceeding against the Issuer or the Sponsor Bank will not trigger any acceleration of the Covered Bonds.

» The ability of the Issuer (or its bankruptcy administrator) to sell or transfer the cover assets.

» The Law contemplates a number of pre-emptive measure designed to ensure the continuity of the corporate and of the assets servicing following the default of the Sponsor Bank (and prior to the default of the Issuer).

» Please see TPI positives.

Aspects specific to this programme that are refinancing negative include:

» The Covered Bonds will have a bullet maturity and will not benefit from an extendable maturity.

» The collections under the Cover Pool assets do not match with the payment liabilities under the Covered Bonds.

» Securitised notes may be exposed to market value risk.

» Please see TPI negatives.

5.4 Market Risk

As with the majority of European covered bonds, there is potential for market risks. For example, following Sponsor Bank Default, covered bondholders may be exposed to interest risk, which could arise from the different payment promises and durations made on the Cover Pool and the Covered Bonds or currency mismatches. Following Sponsor Bank Default, the Moody's Covered Bond Model looks separately at the impact of increasing and decreasing interest rates on the expected loss of the Covered Bonds, taking the path of interest rates that leads to the worst result.

Interest and currency risk exposures are monitored and maintained within the relevant limits prescribed by the management rules of the Issuer. With reference to interest risk such management rules provide that over a time horizon of less than 2 years; 2 to 5 years; 5 to 10 years and more than 10 years

the maximum permitted exposure expressed as a percentage of the balance sheet of the Issuer is 2%; 3%; 5% and 10% respectively. Under the terms of the management rules the Issuer is not permitted to have any open currency position. Moody's understands that the global hedging strategy of the Programme has a Assets Hedging component and a Liability Hedging component. Under the terms of the Assets Hedging all assets in the Cover Pool other than the bonds and the non-French public sector exposures are hedged by the Sponsor Bank. The bonds and the non-French public sector exposures are hedged by external swap providers. Typically, a global balance guaranteed swap is entered into in respect of buckets of residential loans with the same or very similar characteristics. Commercial loans are hedged on the basis of a micro hedging strategy and the swap provider is typically the Sponsor Bank. Approximately 1% of the Cover Pool consists of commercial loans. In future, no commercial loans are expected to be purchased by the Issuer. Under the terms of the **Assets Hedging** all assets are converted to Euribor 3 months or Euribor 6 months. Under the terms of the **Liability Hedging** a swap is entered into in respect of each new series issued by the Issuer. In the event that an existing series is tapped an additional hedging arrangement satisfying the Libiity Hedging criteria is entered into in respect of such tap issuance. Typically the Liability Hedging is provided by entities that are not members of the group of the Sponsor Bank.
At present the Cover Pool and the Cover Bonds are not denominated in the same currency. Please see Moody's Performance Overview for more details. The FX exposure and the characteristics of the hedging strategy have been taken into account in Moody's analysis.

Aspects specific to this Programme that are market risk positive include:

» The swap arrangements contain a rating-based hedge counterparty replacement trigger and collateral posting requirements.

» The failure to pay as a termination event is subject to a three days grace period.

» The over-collateralisation maintained in respect of the pool mitigates market risks.

Aspects specific to this Programme that are market risk negative include:

» It is possible that a replacement for the hedge counterparty is not found. Should this be the case, investors may become exposed to market risk if the over-collateralisation proves to be insufficient to absorb the negative impact of any adverse rate movement (which may be material).

» The Sponsor Bank Default may impair the Issuer's ability to comply with its obligations under the hedging arrangements. Accordingly, Sponsor Bank Default could potentially result in the hedging arrangements being terminated.

In the case of insolvency of the Sponsor Bank and/or Sponsor Bank Guarantor, Moody's believes that the ability of the Issuer to manage the Cover Pool and comply with its contractual obligations may be adversely affected.

6. LINKAGE AND RATING SENSITIVITY

All covered bonds ratings are linked to the relevant Sponsor Bank's rating.
Moody's covered bond ratings are primarily determined by the expected loss posed to investors. However, these ratings may also be constrained by the issue of "linkage" to the underlying sponsor bank, i.e. the risk of a late payment of either interest or principal on the covered bond following sponsor bank default. As a result the covered bonds will come under increasing rating stress as the sponsor bank's credit strength deteriorates. Reasons for this include:

Refinancing risk: Following Sponsor Bank Default, if principal receipts from collections of the cover pool are not sufficient to meet the principal payment on a covered bond, funds may need to be raised against the cover pool. However, the fact that the Sponsor Bank and/or Sponsor Bank Guarantor has defaulted may negatively impact the ability to raise funds against the cover pool.

The exposure of the programme to the choices of the Sponsor Bank and the Issuer: In the context of this transaction for example, prior to Sponsor Bank Default, the Sponsor Bank may add new assets to the Cover Pool or ask the Issuer to issue further Covered Bonds; in addition the Issuer can enter into new hedging arrangements and issue bonds or other debt instruments. Each of these actions could negatively impact the value of the Cover Pool.

More generally, by the incorporation of the strength of the Sponsor Bank/Sponsor Bank Guarantor in Moody's rating method.

As a result of this linkage, the probability of default of the Covered Bonds may be higher than expected for Aaa-rated senior unsecured debt. However, Moody's primary rating target is the expected loss, which also takes into account severity of loss, which in this case is consistent with a Aaa rating.

Moody's Timely Payment Indicators ("TPIs") (see Moody's report "Timely Payment in Covered Bonds following Sponsor

Bank Default" dated 13 March 2008) assess the likelihood that a timely payment will be made to covered bondholders following Sponsor Bank Default. Accordingly, the TPI determines the maximum rating a covered bond programme can achieve with its current structure while allowing for the addition of a reasonable amount of over-collateralisation.

Aspects specific to this programme that are TPI positive include:

» The legal framework which guarantees that an insolvency of the Issuer or of the Sponsor Bank will not accelerate payments under the Covered Bonds.

» The Issuer's entitlement to sell assets/enter into new financing arrangements following Sponsor Bank Default. Furthermore, the Issuer is a repo eligible counterparty and the Cover Pool includes repo eligible assets.

» The Liquidity Buffer

» The ability to re-set interest rates – when contemplated by the underlying loans- will be transferred to the Issuer.

» The Law provisions designed to ensure continuity of the corporate and of the assets servicing after the default of the Sponsor Banks (and prior to the default of the Issuer)

» The likelihood of a successful managed wind down of the Programme.

Aspects specific to this programme that are TPI negative include:

» The hedging agreements on the assets side are mostly internal.

» The maturity date of the Covered Bonds cannot be extended.

» Upon the loss of Baa3 by the Sponsor Bank the Issuer may, but is not required to, re-direct the payments due from the borrowers under the residential loans.

» The securitized notes are not backed by assets originated by the Sponsor Bank.

» As of the date of this report 11% of the assets of the Issuer are potentially exposed to commingling risk.

» A proportion of the Eligible Loans have specialized lending features/servicing requirements (eg: buy-to-let, non-resident borrowers) which may mean sale or refinancing of such loans is less straightforward than for a loan portfolio without such features.

» Moody's has assigned a TPI of Probable High to the programme.

7. ORIGINATOR, SERVICER AND OPERATIONS REVIEW

Moody's has analysed the origination process in connection with the residential loans and the public sector exposures.

8. MONITORING

Moody's will monitor the Programme on an ongoing basis to ensure that it continues to perform in the manner expected, including checking all supporting ratings and reviewing the assets on an ongoing basis. Any subsequent changes in the rating will be publicly announced and disseminated through Moody's Client Service Desk.

9. RELATED RESEARCH

For a more detailed explanation of Moody's approach to this type of transaction as well as similar transactions please refer to the following reports:

Rating Methodology

» Moody's Rating Approach to European Covered Bonds, June 2005 (SF58296)

Special Report

» European Covered Bond Legal Frameworks: Moody's Legal Checklist, December 2005 (SF66418)

» Timely Payment in Covered Bonds following Sponsor Bank default, March 2008 (SF109992)

» Assessing Swaps as Hedges in the Covered Bond Market, 2008 (SF142765)

Sponsor Bank Guarantor Credit Analysis

» Credit Opinion: Credit Foncier de France, 19 March 2009

To access any of these reports, click on the entry above. Note that these references are current as of the date of publication of this report and that more recent reports may be available. All research may not be available to all clients.

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