

# Annual report 2006



**COMPAGNIE DE  
FINANCEMENT  
FONCIER**

CREDIT FONCIER GROUP

AAA / Aaa / AAA

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# Mission

## A strictly regulated, dedicated structure

As defined by Title IV of the Savings and Financial Security Act of June 25, 1999, and now set forth in Article L.515-13 et seq. of the French Monetary and Financial Code<sup>1</sup>, Compagnie de Financement Foncier's exclusive corporate purpose is as follows:

- to grant or acquire secured loans with a first-rank mortgage, loans to public authorities or fully guaranteed by them, shares of securitisation funds (*fonds commun de créances*) and investments deemed sufficiently safe and liquid to be held as replacement securities (Articles L.515-14 to L.515-17);
- to finance its business by issuing *obligations foncières* benefiting from a preferred status known as the "privilege" (Article L.515-19).

## Legislation limiting eligible assets

(Articles L.515-14 to L.515-18)

### Assets geographically located in the major industrialised countries

Underlying assets must be geographically located within the European Economic Area, Switzerland, the United States, Canada and Japan.

### Loan characteristics

Loans must benefit from a first rank-mortgage, a collateral offering a similar guarantee, or a guarantee from a bank or insurance company which is not part of the same group as the *société de crédit foncier*, subject to the loan-to-value limit. Debt issued by States, local authorities or public sector entities is also eligible.

### Rigorous risk-management

Compagnie de Financement Foncier's liquidity is capped by decree. Moreover, the use of this liquidity is strictly regulated (Article L.515-20). It must be overcollateralised in relation to preferred debt.

### Liabilities with first-rank preferred status

*Obligations foncières* or other preferred debt issued by Compagnie de Financement Foncier benefit from a first-rank preferred status (Article L.515-19): debts benefiting from this *privilege* are paid interest and principal on their contractual due date with a priority over other creditors until they have been repaid in full, including in the case of receivership or liquidation of the company.

Receivership or liquidation proceedings involving its shareholders or the loan servicer cannot be extended to the Compagnie de Financement Foncier in the event of the parent company defaulting on its obligations, the debt collection process is not extended to Compagnie de Financement Foncier (Articles L.515-25 to L.515-28), thus safeguarding the investor.

### Audits and controls

The Specific Controller carries out special controls in order to verify compliance with legal provisions regarding asset eligibility, the congruence of rates and liquidity and the valuation of underlying assets. (Articles L.515-29 to L.515-30).

<sup>1</sup> The extracts contained in this document were taken from the French Monetary and Financial Code at December 31, 2006. Their contents have since been modified by Ordinance No. 2007-571 of April 19, 2007 relative to credit institutions, investment companies and *sociétés de crédit foncier*.

# Message

## FROM THE CHAIRMAN

François Drouin<sup>1</sup>

Chairman of the Board of Directors  
of Compagnie de Financement Foncier  
Chairman of the Executive Board of Crédit Foncier

Founded in 1999, Compagnie de Financement Foncier, a subsidiary of Crédit Foncier de France, itself created more than 150 years ago, set two new records during its seventh year in business: issuance reached an exceptional level of €17.3 billion and it successfully issued very long-term bonds set to mature in 50 years.

Compagnie de Financement Foncier has proven its status as a financial player with an especially unique business model based on the long-term prospects of financial and economic development.

In addition to its stability, this model remains flexible and responsive to change. An example is the Compagnie's foresight when it came to predicting the increasingly important role of local authorities in developing our modern day societies. It stayed one step ahead of this trend and has comfortably positioned itself to provide long-term financing to local authorities in France, Europe and the rest of the world.

Compagnie de Financement Foncier has also assumed the civic responsibility of developing its expertise in the health and education sectors. Compagnie de Financement Foncier has committed itself to adhering to its mission via the issuance of very long-term bonds that address the specific needs of these sectors.

Finally, Compagnie de Financement Foncier also supports the advent of public-private partnerships on structural projects which bring together the state or local authorities, private enterprise responsible for building and operating infrastructures, and financial institutions which play an essential role in structuring and arranging frequently complex projects.

Compagnie de Financement Foncier will continue to provide its clients with the international expertise that has made it famous in the market over the past years.

*François Drouin*

<sup>1</sup> François Drouin was Chairman & Chief Executive Officer of Compagnie de Financement Foncier from September 4, 2006 to January 15, 2007.

# Message FROM THE EXECUTIVE OFFICERS

## **Thierry Dufour:**

Compagnie de Financement Foncier's first priority, beyond its role in refinancing its parent company and the Caisse d'Épargne Group, is to increase its involvement in the growing public sector, notably at international level.

To achieve this goal, Compagnie de Financement Foncier has identified the importance of *obligations foncières* and their role in providing the majority of its financing. The strong current demand for *obligations foncières* and the major role they have come to play, both in international markets and in financing the French and other European economies, is explained by two main factors. First, the quality of their fundamentals enables them to offer some of the best spreads available and second, their legal protections make them defensive investments appreciated by international institutional investors, including central banks. Moreover, spreading risk across asset volumes compounded by strict rules governing its activities makes Compagnie de Financement Foncier's *obligation foncière* an extremely secure and attractive financial instrument.

## **Exemplary impact on the European economy**

## **François Verka:**

Compagnie de Financement Foncier successfully anticipated the international growth of *obligation foncière* issues in order to better meet the increasing demand for loans to local authorities and mortgage loans for first-time homebuyers. It is also the main *société de crédit foncier* which securitises these assets and reinjects the resulting liquidity into the economy without, so to speak, relying on the banking sector, or creating money. This mechanism has opened up France to international capital inflows, mainly from the rest of Europe.

## **Longer maturities**

## **Sandrine Guérin:**

Today, assets guaranteed by a public authority and subsidised sector loans make up 48.5% of Compagnie de Financement Foncier's balance sheet. Strong demand from the social housing sector, local authorities, public-private partnerships and other infrastructure projects (public transport, railways, motorways, hospitals, etc.) have pushed maturities up to 30 or 40 years and beyond.

In February 2006, Compagnie de Financement Foncier launched a 50-year *obligation foncière* which is the only AAA-rated benchmark in euros after the French OAT treasury bonds due to mature in 2055. This highly symbolic issue is a key breakthrough in the history of the covered bond market as no other benchmark issue had previously exceeded a 20-year maturity. The instant success is proof of the trust that the international financial markets have in Compagnie de Financement Foncier.

From left to right:  
François Veverka, Chief Executive Officer  
Thierry Dufour, Member of the Executive Board of Crédit Foncier<sup>1</sup>  
Sandrine Guérin, Deputy Chief Executive Officer

## A leading international issuer

### François Veverka:

Compagnie de Financement Foncier is the leading private issuer in France today and the leading issuer of *obligations foncières*. It is also the 2<sup>nd</sup> ranked European issuer of covered bonds and 7<sup>th</sup> ranked AAA issuer out of all non-sovereign issuers worldwide. It thus plays a key role in both French and other European economies as well as on the international markets. At December 31, 2006, the total of all *obligations foncières* issued by the Compagnie de Financement Foncier since its inception in 1999 stood at €74.2 billion.

## Benchmarks for 2007

### Thierry Dufour:

In 2007, Compagnie de Financement Foncier has set out to refinance Crédit Foncier's mortgage lending activities in France and to take part in financing the largest French public sector accounts in coordination with the Caisses d'Épargne. Furthermore, Compagnie de Financement Foncier will provide up to €9 billion worth of financing in 2007 for international loans in both the residential mortgage and public sectors. In order to finance these transactions, Compagnie de Financement Foncier will issue over €23 billion worth of *obligations foncières*.

### Sandrine Guérin:

In order to achieve these ambitious goals, Crédit Foncier de France, in connection with the series of agreements linking the two establishments, is responsible for their operational implementation. Crédit Foncier de France has consequently strengthened its production teams for both national and international public sectors, its teams specialising in innovative, value-creating financial products for the Group in general and Compagnie de Financement Foncier in particular and, of course, its team responsible for issuing *obligations foncières*.

<sup>1</sup> Director and Chief Executive Officer of Compagnie de Financement Foncier until September 4, 2006, Thierry Dufour has been a member of the Executive Board of Crédit Foncier de France since June 28, 2006. As of January 15, 2007, François Veverka will assume the office of Chief Executive Officer of Compagnie de Financement Foncier.

# Key Figures

## Issuer information

**Issuer:** Compagnie de Financement Foncier

**Parent company:** Crédit Foncier de France (100%), subsidiary of Caisse Nationale des Caisses d'Épargne, the central entity of the Caisse d'Épargne Group

**Types of bonds issued:** *Obligations foncières*

**Issuance programmes:** EMTN & AMTN

**Programme volumes:** EMTN: €75 bn

AMTN: AUD 5 bn (about €3 bn)

Rating agency	Long-term rating	Outlook
FitchRatings	AAA	Stable
Moody's	Aaa	Stable
Standard & Poor's	AAA	Stable

**Origination:** Crédit Foncier de France  
Caisse d'Épargne  
Caisse Nationale des Caisses d'Épargne  
IXIS  
Compagnie de Financement Foncier

**Servicing:** Crédit Foncier de France

## Simplified economic balance sheet at December 31, 2006

(from the regulatory report 4001-1, not audited by the Statutory Auditors)

Assets	€ Billion	%	Liabilities and equity	€ Billion	%
SECURED LOANS	31.67	44.8%	PREFERRED DEBT	64.56	91.3%
State subsidised mortgage loans	2.14	3.0%	<i>Obligations foncières</i>	61.68	87.3%
State-secured loans (former FGAS guarantee)	6.60	9.3%	Other preferred debt	2.88	4.1%
Other mortgage loans	8.41	11.9%	NON-PREFERRED DEBT	6.13	8.7%
Residential mortgage loan securitisation tranches	13.40	19.0%	Unsecured debt	2.32	3.3%
Other secured loans	1.11	1.6%	Subordinated and related debt	3.28	4.6%
LOANS TO PUBLIC AUTHORITIES	23.64	33.4%	Shareholders' equity, provisions and FRBG	0.53	0.7%
Public loans of the subsidised sector	0.37	0.5%			
Other public loans	8.90	12.6%			
Debt of public entities	8.43	11.9%			
Senior securitisation tranches of public debt	5.94	8.4%			
OTHER ASSETS	3.20	4.5%			
REPLACEMENT SECURITIES	12.18	17.2%			
TOTAL ASSETS	70.69	100%	TOTAL LIABILITIES	70.69	100%

Compagnie de Financement Foncier holds €18.3 billion in mortgage loans, €8.7 billion of which are directly or indirectly secured by the French state, and €1.9 billion of which benefit from indirect guarantees from a AAA-rated state in the European Economic Area.

## Indicators and performance

**€62.3 M**



# A history OF SERVING THE COMMUNITY

Strongly rooted within its parent company, Crédit Foncier, an issuer of *obligations foncières* since 1852, Compagnie de Financement Foncier continues to develop its financing activity for the housing sector as well as for states and local authorities.

Compagnie de Financement Foncier has become a key player in today's covered bond market. Thanks to the impressive growth of its activity and its solid expertise, it is now:

- the leading private issuer in France;
- one of the leading issuers worldwide.

# A history OF SERVING THE COMMUNITY

When sociétés de crédit foncier were formed in France, in the middle of the 19<sup>th</sup> century, they marked the end of a long period of different banking experiments and efforts made by various influential figures.

Economic and political circles would look to Poland, and especially Germany, where sociétés de crédit foncier had existed since the end of the 18<sup>th</sup> century. In Prussia, especially Silesia, the first sociétés de crédit foncier were formed around 1770 in order to raise the capital needed for agricultural development.

Depending on the region, each société de crédit foncier had a different purpose: they were either borrowers' associations that established a collective guarantee system or lenders' associations which compensated lenders for their participation. However, beyond the specific characteristics of each of these sociétés, new and common mechanisms were established.

The sociétés started issuing collateral notes, or bonds, to raise the capital needed to finance loans secured by a mortgage. The practice of amortizing a loan through a series of payments also became widespread: each payment includes a fraction to pay off the loan interest with the other fraction for the loan principal.

Bond issues, mortgage loans and loan amortisations are some of these mechanisms already tried in France as early as the 18<sup>th</sup> century; however, their logical incorporation into sociétés de crédit foncier in Germany attracted the attention of French observers.

Louis WOLOWSKI, one of the founding fathers of sociétés de crédit foncier in 1852.

## Creation

Through the impetus of Louis Wolowski and Adolphe Dailly, the authorities took the initiative, creating Crédit Foncier de France. In 1852, its special status as a société de crédit foncier was characterised by a mechanism of long-term amortising mortgage loans backed up by bond financing.

Crédit Foncier also has at its disposal special means of execution which are exempt from common law provisions and which can be invoked in the event of a default on the debt. This exceptional procedure reinforces the protection of mortgage lenders vis-à-vis loan defaulters. This particular advantage is based on the principle of a preference for funding loans to paying off borrowings. Moreover, the outstanding principal on statutory loans must always be at least equal to that of the secured financing.

## Local authority loans

In 1860, communal bonds started to be issued in addition to *obligations foncières*. These securities expanded Crédit Foncier's role in providing financing to local authorities.

This new possibility coincided with the massive urban infrastructure projects during the Second Empire. Baron Haussmann's ambitious works redefined real estate and urban planning in Paris. The increasing influence of Crédit Foncier in the local public sector became apparent over the ensuing decades with the growing need for local investments, especially for the school construction programme endorsed by Jules Ferry. Between 1860 and World War Two, Crédit Foncier was the leading lender to French local authorities.

## International placements

From the very beginning, the importance of foreign placements was a testament to Crédit Foncier's many cross-border relationships.

Governor Frémy was involved in the creation of Crédit Foncier in the United States in 1867, and of the *Banco Hipotecario de España* in 1872.

However, Crédit Foncier was most involved with various Mediterranean and Middle Eastern countries which grew into very attractive and sought-after markets. At the end of the 19<sup>th</sup> century, Crédit Foncier worked in particular with the Turkish and Egyptian treasuries.

## The 1950s and the housing boom

After the war, the French state implemented an active housing policy to promote reconstruction efforts. Crédit Foncier was closely associated with this policy.

In the 1950s, Crédit Foncier was also entrusted with a number of public interest assignments, the most important of which was the investment, financing and servicing of loans subsidised by the French state (First-time homebuyer loans - *PAPs*), of which it was the main distributor.

A Crédit Foncier advertisement from 1964 for the issuance of 3,250,000 *obligations foncières-communales* with a par value of 200 FRF, 5% batches and premiums, redeemable within 20 years.

## Law of June 25, 1999

Until 1999, only Crédit Foncier de France and Crédit Foncier et Communal d'Alsace et de Lorraine held the status of a *société de crédit foncier* and could therefore issue *obligations foncières* pursuant to the decree of 1852.

Nevertheless, bankruptcy laws and collective insolvency procedures called into question the preferred status of the bonds they issued and placed them at a disadvantage in comparison with their European competitors. The opportunity for the authorities to establish a new legal framework for *sociétés de crédit foncier* was close at hand.

## The issues at stake behind the law of June 25, 1999

The goal of the reform was to improve financing mechanisms and costs for housing and local authorities at a macro-economic level. The law of June 25, 1999 provided France with a system capable of offering:

- a product that allows issuers to finance assets at the lowest cost through *obligations foncières* which carry less risk than bank bonds;
- a highly secure and liquid product offering attractive yields for investors, higher than government bonds yet with comparable levels of risk.

By creating Compagnie de Financement Foncier on July 23, 1999 and transferring its parent company's former *obligations foncières* and eligible assets to it on October 21, 1999, Crédit Foncier ensured its compliance with the new law.

## The mission of sociétés de crédit foncier

The reform is based on the creation of sociétés de crédit foncier whose risks are strictly regulated. Required by law to be managed by a credit institution, their purpose is to produce or acquire secured loans and loans to public authorities financed by the issuance of preferred *obligations foncières*.

Sociétés de crédit foncier are therefore credit institutions governed by the specific provisions of the French Savings and Financial Security Act, approved by the CECEI (French Credit Institutions and Investment Companies Committee), reporting to the Banking Commission and governed by banking regulations. These institutions are specifically subject to modified Regulation No. 97-02.

The exclusive purpose (Article L.515-13) of sociétés de crédit foncier is to grant or acquire eligible assets and finance them through *obligations foncières* and other preferred or non-preferred instruments.

### Excerpts from the French Monetary and Financial Code

Sub-section 1: The Status and Objects

Article L.515-13

**I. - Sociétés de Crédit Foncier ("SCFs") are credit institutions** authorised as financial companies by the Credit Institutions and Investment Companies Committee, the exclusive objects of which are:

- 1. To grant or acquire secured loans, loans to public entities and securities mentioned** in Articles L.515-14 to L.515-17;
- 2. To finance the above categories of loans and securities, to issue bonds (*Obligations Foncières* ("OFs")) (covered bonds) which benefit from the privilege** defined in Article L.515-19, and to raise other resources, the issuance or subscription contract of which refers to this privilege. (...)

## Intrinsically low-risk assets

The balance sheet of the SCF is dedicated to issuing *obligations foncières*. A société de crédit foncier cannot hold equity interests (Article L.515-17). Eligible assets are made up of first-rank mortgage loans with an LTV (loan-to-value)<sup>1</sup> ratio less than or equal to 60%<sup>2</sup>, or loans (or equivalent) to public sector authorities: local authorities and public entities. A prudent and non-speculative valuation of the underlying assets must be carried out on an annual basis. Lastly, these risk-free, long-term loan assets must be located in the European Economic Area, the United States, Canada, Switzerland or Japan. Compagnie de Financement Foncier's activity is thus characterised by its particularly safe and transparent transactions.

- The legal requirements specify eligible assets (Articles L.515-14 to L.515-18) and their geographical origin (European Economic Area, Switzerland, the USA, Canada or Japan).
- Loans must benefit from a first rank-mortgage or real estate security offering a similar guarantee, or a guarantee from a bank or insurance company which does not belong to the same group as the société de crédit foncier, subject to the loan-to-value limit (ratio between the value of the asset and the capital still owing on the loan).
- Loans or debt securities issued or guaranteed by local authorities and the public sector are eligible.
- Senior securitisation units or the equivalent are eligible if at least 90% of the underlying asset comprises loans belonging to the previously-defined categories with the best ratings.
- Cash is invested in eligible securities and is capped by decree.

## Liabilities with first-rank preferred status

The legal preference is subject to Article L.515-19 of the French Monetary and Financial Code. This text underlines the fact that:

- Capital flows on the asset side of the balance sheet, after covering financial instruments if necessary, are firstly allocated to servicing *obligations foncières* and other preferred resources;
- The liquidation of a *société de crédit foncier* does not make the *obligations foncières* and other preferred debt payable. Bearers of *obligations foncières* benefit from a privileged status: they are paid interest and principal at their normal contractual due date with priority over other creditors, including the State.

Moreover, Articles L.515-25 to L.515-28 also stipulate that receivership or liquidation proceedings involving its shareholders or loan servicer cannot be extended to Compagnie de Financement Foncier, thus safeguarding investors.

### Excerpts from the French Monetary and Financial Code

Sub-section 3: Privilege of Debts Resulting from Transactions

*Article L.515-19*

Notwithstanding any legislative provisions to the contrary, including those under the first and second titles of volume VI of the Commercial Code:

1. Sums received from the loans or other eligible debts and securities mentioned in Articles L.515-14 to L.515-17 and the financial instruments mentioned in Article L.515-18, taking into account set-offs, as well as claims in respect of deposits made by the SCF with credit institutions, shall first be allocated to the payment of OFs and other privileged resources mentioned at I.2 of Article L.515-13;
2. When a SCF is the subject of insolvency or liquidation proceedings, or of an amicable creditor's settlement, the debts validly arising from the transactions mentioned at I.2 of Article L.515-13 shall be paid on their contractual due date and in priority to all other debts, whether or not such debts are subject to a privilege or a security, including the interest resulting from contracts of whatever duration. Until all holders of privileged debts within the meaning of this article have been paid off, no other creditor of the SCF may exercise any right over the property and rights of such SCF;
3. The compulsory liquidation of a SCF shall not result in the acceleration of the bonds and other debts benefiting from the privilege mentioned at 1 of this article.

The rules set out at 1 and 2 of this article shall apply to the expenses relating to the transactions mentioned at I.1 and I.2 of Article L.515-13 as well as to the sums due, if any, under the contract described in Article L.515-22.

Sub-section 5: Judicial Receivership and Liquidation

*Article L.515-27*

Notwithstanding any provisions to the contrary, including those set out in title II, volume VI of the Commercial Code, the insolvency or liquidation of a company holding shares in a SCF shall not be extended to the SCF.

Compagnie de Financement Foncier's historical development is based on the quality of its coverage assets which protect *obligations foncières* investors, especially through the legal mechanism granting them a preferential claim on assets.

<sup>1</sup> Ratio between the outstanding principal and the value of the covered asset.

<sup>2</sup> The LTV ratio of loans guaranteed by the FGAS can be as high as 100%.

# Changes to the legislative and regulatory framework

Covered bonds have become an essential element of financial intermediation throughout Europe and provide the mortgage lending market as well as the public sector with highly efficient access to capital markets. **Article 22(4) of Directive 1985/611 (UCIT)**<sup>1</sup> defines the very broad legal framework for covered bond issuers, known as *sociétés de crédit foncier* in France. It defines the minimum characteristics required to justify the preferred treatment of covered bonds under European financial regulations:

- the covered bonds must be issued by a European credit institution;
- these institutions must be subject to specific prudential supervision;
- the pool of assets must cover preferred liabilities via an overcollateralisation ratio;
- bondholders benefit from a preferred status if the issuer goes bankrupt.

Covered bonds that meet these requirements are considered a particularly safe investment. The protection afforded by these securities justifies more advantageous prudential rules for investors.

In France, Article 22(4) of Directive 85/611 was transposed to Article 4 of Decree No. 89-623 of September 6, 1989 modified by Decree No. 99-1217 of December 30, 1999 and by Decree No. 2000-664 of July 17, 2000. This article instituted a regulatory exception applicable to UCITS, allowing for up to 25% of their assets to be held as securities from the same issuer if these securities are *obligations foncières* issued exclusively by *sociétés de crédit foncier* (as defined in Article L.515-13 of the French Monetary and Financial Code).

## New Directive 2006/048 (CRD)

On June 7, 2006, the European Capital Requirements Directive was officially adopted by the European Council. It was published in the Official Journal of the European Union on June 30, 2006<sup>2</sup>.

This new directive concerns the capital adequacy of investment companies and credit institutions. It specifies that covered bonds benefit from more favourable weighting only if they satisfy the following conditions:

- They must meet the criteria set out in Article 22(4) of Directive 85/611 (UCITS).
- Coverage assets, comprised of mortgage products or loans to the public sector, excluding cash, which is itself limited, must respect a specifically defined level of credit worthiness.
- Mortgage loans must meet certain mortgage valuation and monitoring requirements.
- Beneficiaries of loans to the public sector must be located in the European Union or in a country with a high enough credit rating.

On April 18, 2007, the Council of Ministers approved by ministerial ordinance the project for the transposal of the European directive on the solvency ratio. This project includes an overhaul of the law governing *sociétés de crédit foncier* and covered bonds.

<sup>1</sup> Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

<sup>2</sup> Directive 2006/48/CE of the European Parliament and of the Council of June 14, 2006 relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/CE of the European Parliament and of the Council of June 14, 2006 on the capital adequacy of investment firms and credit institutions.

<sup>3</sup> Directive 85/611, Article 22(4).

## Transposal of Directives 2006/048 and 2006/049 in France

Council of Ministers of April 18, 2007

Solvability of credit institutions, investment companies and *sociétés de crédit foncier*

The Minister of the Economy, Finance and Industry presented an ordinance relative to credit institutions, investment companies and *sociétés de crédit foncier*.

This ordinance, based on the law of February 20, 2007 relative to the Banque de France, transposes Directive 2006/48/CE of June 14, 2006 relating to the taking up and pursuit of the business of credit institutions and Directive 2006/49/CE of June 14, 2006 relating to the capital requirements for investment companies and credit institutions.

Its chief aim is to implement a new solvency ratio for banks, a ratio known as "Basel II".

The goal of this prudential approach is to strengthen the stability of the banking system by providing a better understanding of the risks to which establishments are exposed.

The ordinance introduces the possibility for credit institutions and investment companies to make use of two risk measurement approaches to assess their minimum capital requirements: the standard approach, which is used by independent credit rating agencies, and the internal ratings-based approach, which uses the models developed by the institutions themselves.

It enables the Banking Commission to impose capital requirements that exceed those established by regulations on institutions when the standard requirements are not enough to correctly cover the risk profile of these institutions.

It provides the necessary elements for supervisors from different member states to cooperate and coordinate in order to improve the supervision of European banking groups.

Finally, it modernises the regulations affecting *obligations foncières* ensuring continued competitiveness of the Paris market. Besides overhauling eligibility conditions for loans held as assets by *sociétés de crédit foncier*, the ordinance also eliminates requirements to classify securities issued by public authorities and accounted for as assets by *sociétés de crédit foncier* as investment securities in addition to the obligation of a minimum down payment on guaranteed loans.

Source: [www.premier-ministre.gouv.fr](http://www.premier-ministre.gouv.fr)

## Withdrawal of standard 10% weighting

When calculating the European solvency ratio, covered bonds that meet the criteria set forth in European legislation governing UCITS<sup>3</sup> coordination have a 10% risk weighting for European Union investors. As part of the new CRD, banks can choose between a standardised approach based on external ratings or one based on internal ratings (IRB approach) to determine their capital consumption.

For covered bonds, standard weighting will remain at 10%, and for the IRB Foundation Method, the LGD (*Loss Given Default*) will be a highly favourable 11.25%, with the PD (*Probability of Default*) depending on the issuer's rating.

In view of the various alternatives offered by the new CRD, it is difficult to accurately assess the risk weighting changes and their impact on the covered bond market. **Thus, whereas Article 22(4) of Directive 85/611 only provided a general framework for covered bonds, the capital requirements directive (CRD) is much more precise and is now the new de facto definition of covered bonds. The Directive is very similar to the law of June 25, 1999 on *sociétés de crédit foncier*.**

Legislative and regulatory modifications concerning covered bonds were transposed by the Council of Ministers on April 18, 2007.



# Asset QUALITY

Compagnie de Financement Foncier is the *société de crédit foncier* of Crédit Foncier de France and the Caisse d'Épargne Group. Its core mission is to be the main source for refinancing the Group's eligible assets.

Compagnie de Financement Foncier must comply with certain rules when acquiring the assets it finances by issuing *obligations foncières*:

- the assets must be eligible (eligibility is defined in Articles L.515-14 to L.515-18 of the French Monetary and Financial Code);
- their acquisition is subject to compliance with additional contractual regulations that Compagnie de Financement Foncier has undertaken to respect, particularly with regard to the Rating Agencies;
- the assets purchased must be secure and help Compagnie de Financement Foncier sustain its profitability.

# Asset QUALITY

## Origin

In compliance with the law of June 1999, on July 23, 1999, Crédit Foncier de France created Compagnie de Financement Foncier, and transferred the eligible portion of its balance sheet to it.

Ever since, Compagnie de Financement Foncier has acquired a portion of its eligible assets from Crédit Foncier and the Caisse d'Épargne Group. These consist of mortgage loans to individuals and loans to local authorities or to the public sector in both France and abroad.

Other eligible assets have been originated or acquired on the market since 1999, such as senior mortgage-backed securitisation tranches (FCCs or foreign equivalent) and French and international public sector loans.

Loans are underwritten by Compagnie de Financement Foncier in accordance with the stringent regulations imposed by law and the bank regulator.

European harmonisation of mortgage guarantees, the acceleration of intra-Community exchanges or the internationalisation of financial markets are just a few of the many opportunities and reasons that have led Compagnie de Financement Foncier to expand its activities throughout Europe as well as internationally. In 2006, Compagnie de Financement Foncier consequently intensified its growth strategy outside of France, especially with local authorities.

**Throughout 2006, Compagnie de Financement Foncier's business continued its growth trend with total production of €16.9 billion consisting of €7.1 billion in loans with first-rank real estate guarantees and €9.8 billion benefitting from public guarantees. Furthermore, the international growth strategy was underlined by the acquisition of almost €10 billion of outstanding loans outside of France, mainly in Italy, Spain and the United States.**

## Excerpts from the French Monetary and Financial Code

Sub-section 2: Transactions

*Article L.515-14*

**I.** - Secured loans are loans secured by:

- 1.** A first-rank mortgage or a security over property which confers at least the equivalent level of security; or
- 2.** Subject to the limitations and conditions determined by decree submitted to the State Council<sup>1</sup>, imposing, in particular, a minimum personal contribution by the borrower and compliance with a proportion of the value of the financed property, subject to the secured loan being exclusively allocated to the financing of real property, a guarantee by a credit institution or an insurance company which does not fall within the sphere of consolidation defined in Article L.233-16 relating to Commercial Code applicable to the SCF. (...)

*Article L.515-15*

Loans to public sector entities are loans granted to States, local governments or groups of such, and to public sector entities located within the European Economic Area, Switzerland, the United States, Canada or Japan, or loans wholly guaranteed by one or more of these States, local governments or groups of such. The category "Loans to public sector entities" includes debt securities issued by States, local governments or groups of such, and by public sector entities located within the European Economic Area, Switzerland, the United States, Canada or Japan, or loans wholly guaranteed by one or more of these States, local governments or groups of such. These securities must be acquired with the intention to hold them until maturity and thus be treated, from an accounting point of view, according to a regulation of the *Comité de la Réglementation Comptable* (CRC). (...)

*Article L.515-17*

SCFs may not hold equity investments. A decree submitted to the State Council shall determine the conditions in which securities, including OFs issued by other SCFs, are sufficiently secure and liquid to be held as alternative investments by SCFs. This same decree shall determine the maximum proportion that these alternative investments may represent of the assets of such SCFs.

<sup>1</sup> *Conseil d'Etat*.

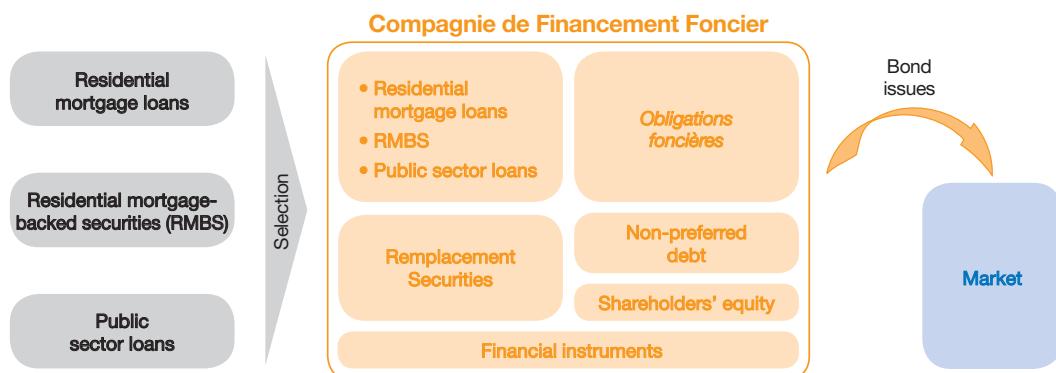
# Description of the procedure for asset selection

Compagnie de Financement Foncier's operations are based on acquiring and producing loans and financing them by issuing *obligations foncières*.

All of the assets undergo a selection process before being purchased or produced by Compagnie de Financement Foncier.

In terms of management, assets benefiting from the highest-quality guarantees must strictly exceed preferred liabilities, with weightings that vary according to the type and rating of the assets. Loans and related items, corresponding to mortgage loans with an LTV of 60%, are weighted at 100% while replacement securities are weighted at 95%. This rule is applied globally. There is therefore no direct link between a particular bond and a particular asset item.

Compagnie de Financement Foncier protects itself against interest and exchange rate risks, by transforming assets purchased or produced in euros at variable rates and liabilities issued in euros at variable rates.



**The entire loan acquisition process is carried out in an environment of ongoing verification and control:** these debts undergo regular reviews, both external (Specific Controller and Rating Agencies) and internal (internal controls of Crédit Foncier de France and CNCE).

In order to select its assets, Compagnie de Financement Foncier has developed in-house expertise that draws on the experience of Crédit Foncier's teams:

- **Loans to the public sector** are authorised based on the level of an internal rating;
- **Securities** must have at least one external rating and be authorised by the Loan Committee;
- Initially, **mortgage loans** are granted by Crédit Foncier de France with emphasis placed on risk control and return on equity. For this purpose, the Group has developed decision support tools aimed at providing an overview regrouping diagnosis on the borrower's solvency, the property guarantee, and statistics based on non-payment history. Only loans with the best results from this analysis are authorised and closed by the Group. Afterwards, Compagnie de Financement Foncier selects the loans that it wants to acquire. Only loans with a low probability of default are retained.

This business model enables Compagnie de Financement Foncier to generate sustainable returns from its activities: the market price at which it acquires these assets takes into account the cost of the resources, default and loss probabilities, loan servicing costs and a profitability target.

In all of these ways Compagnie de Financement Foncier fulfills its role as the *société de crédit foncier* of Crédit Foncier de France and the Caisse d'Épargne Group. It serves as an industry benchmark for financing loans to the public sector as well as residential mortgage loans, on behalf of its Group.

## Quality

Compagnie de Financement Foncier's assets are mainly backed by:

- A guarantee from the State or local governments (Article L.515-15);
- Or a first-rank mortgage loan (Article L.515-14).

**Loans granted to the public sector or loans with direct or indirect public guarantees make up 48.5% of Compagnie de Financement Foncier's total assets.** In 2006, the significant increase of €7.3 billion in assets on the balance sheet reflects the growth of international public financing.

Loans secured by a mortgage but without a public guarantee accounted for €7.6 billion, or 10.8% of all assets and senior mortgage-backed securitisation tranches with the highest possible rating accounted for €13.4 billion, i.e. 19% of Compagnie de Financement Foncier's assets. They represent rights to more than 1 million loans purchased in Europe.

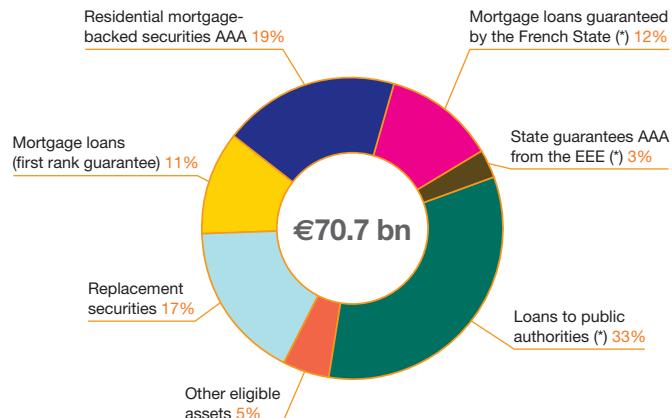
**The average LTV ratio of mortgage loans at December 31, 2006 (ratio between the remaining principal due on the loan and the value of the financed property) was 49.5%.**

Replacement securities (17.2% of the balance sheet) are mostly short-term interbank loans (less than 6 months) which meet criteria that ensure both a minimal credit risk and high liquidity.

**Production in 2006**



**Breakdown of assets at December 31, 2006**



(\*) Public sector loans.

### A balance sheet made up of the highest quality assets

By taking into account the public guarantees on certain outstanding loans also backed by real estate collateral, especially loans secured by the FGAS guarantee fund, assets secured by a public guarantee represented €34.3 billion at December 31, 2006, or 48.5% of all assets.

Of the first-rank mortgage loans held by Compagnie de Financement Foncier, some also benefit from a public guarantee.

## State guarantees

Until 1995, Crédit Foncier benefited from a quasi-monopoly in the distribution of subsidised loans (PAP loans), carried on Compagnie's balance sheet under the heading subsidised sector. These mortgage loans are covered by guarantees from the French State against both credit and interest rate risks.

Since the end of 2005, loans benefiting from the new FGAS guarantee (which has replaced the old FGAS guarantee) are directly guaranteed by the French State.

## The new *Fonds de garantie de l'accession sociale (FGAS)*, French Social Purchase Guarantee Fund

Legislative provisions from the French Housing and Construction Code governing state guarantees provided through the French Social Purchase Guarantee Fund (FGAS), in effect from 1993 to 2006 and applicable to homeownership loans (PAS) and interest free loans subject to household income conditions, were modified by the 2007 finance law.

A new guarantee fund, called the New French Social Purchase Guarantee Fund (New FGAS), replaced the former guarantee fund for PAS and interest free loans granted after January 1, 2007.

The aim of the New FGAS, as before, is to ensure that low-income borrowers can obtain favourable interest rates by reducing the risk to the lender via a state guarantee for each qualifying loan.

This state guarantee is no longer backed by a reserve fund paid into by the State and lenders but on a signed commitment from the State to pay for claims related to guaranteed loans according to the same terms as before: covered at parity, by the State and the lender, for losses up to a specified rate; losses beyond this rate are fully covered by the State.

### Compagnie de Financement Foncier abides by strict rules when acquiring assets:

- they must be eligible in accordance with Articles L.515-14 to L.515-18 of the French Monetary and Financial Code and new European regulations (CRD);
- their acquisition is subject to the contractual rules that Compagnie de Financement Foncier is committed to respecting. These rules reinforce the highest ratings received from the Rating Agencies (they are explained in detail in the chapter Strong commitments for a structured AAA);
- lastly, assets that are acquired must be low-risk yet capable of providing sufficiently profitable returns for Compagnie de Financement Foncier.

### The eligible loans purchased from Crédit Foncier de France or the Caisse d'Épargne Group consist of mortgage loans to individuals and loans to local authorities or the public sector.

The quality of Compagnie de Financement Foncier's portfolio in terms of both reputation and guarantee is strengthened by its eligibility criteria, which also include profitability benchmarks. All loans granted to the public sector are subject to an internal rating carried out by *Ecolocale*, an assessment system provided by the Caisse d'Épargne Group.

Pursuant to applicable legislation, acquired loans are systematically protected against interest and exchange rate risks.

**Compagnie de Financement Foncier also enables Crédit Foncier, on behalf of the Caisse d'Épargne Group, to develop its activities in the public sector.**

In 2006, Compagnie de Financement Foncier refinanced €1.8 billion in loans granted by Crédit Foncier to public sector authorities.

Compagnie de Financement Foncier also refinanced €0.3 billion in loans to French local authorities granted by six Caisses d'Épargne.

These loans, acquired at market prices, consist of loans to public sector authorities (regions, departments, communes, public entities).

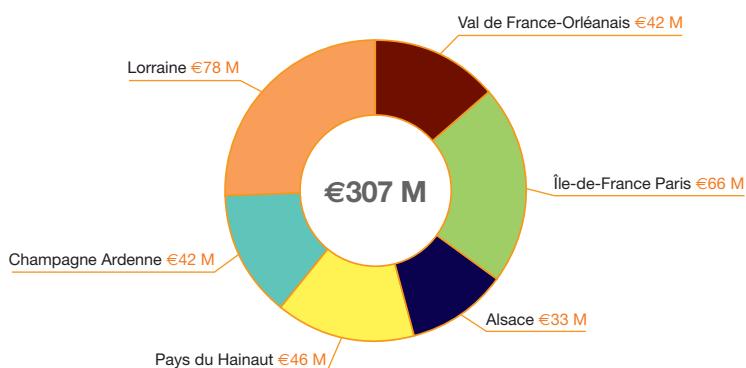
The quality of the loans is verified by both the assignor's internal controls and Crédit Foncier teams before they are posted to Compagnie de Financement Foncier's balance sheet. This verification is supplemented by the work of the Specific Controller. Different mechanisms have been put in place by Compagnie de Financement Foncier to eliminate interest rate risks.

Compagnie de Financement Foncier uses financial instruments to transform assets at fixed rates into variable-rate assets when they are acquired.

In connection with this mechanism, the Caisses d'Épargne retain their sales relationship with the borrower, local authorities and other public entities, while Crédit Foncier actively manages virtually every loan that is acquired.

Compagnie de Financement Foncier provides funding to the Caisse d'Épargne Group under the most favourable conditions, working alongside the Group as it develops its operations in this sector. This role is expected to become increasingly important in 2007.

### Acquisitions of Caisse d'Épargne loans in 2006 (in millions of euros)



## A negligible rate of doubtful loans

The excellent quality of Compagnie de Financement Foncier's assets is also due to the implementation of prudent and consistent valuation procedures for the loans it purchases. The rate of doubtful loans in the private sector stood at 0.7% at December 31, 2006 (including securitisation tranches); individual mortgages accounted for 1.2% while doubtful loans to public authorities were nonexistent. The loss rate for Compagnie de Financement Foncier is immaterial.

# 2006: International growth

Compagnie de Financement Foncier has modified its business model in order to diversify its asset purchases, not only with regard to their source but also to their geographical location. Diversifying the source of the assets (loans, securities, AAA securitisation tranches) allows Compagnie de Financement Foncier to maintain a very low risk profile.

The diversification of Compagnie de Financement Foncier's assets is based upon:

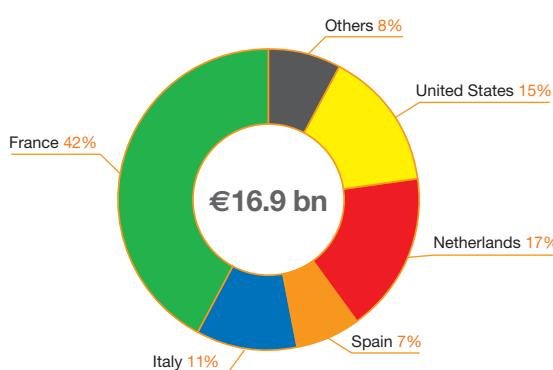
- **Granularity and risk dispersion.** The dispersion of amounts as well as the granularity in the loan portfolio, expressed as an amount and a period, ensures that the quality of the mortgage loan portfolio held by Compagnie de Financement Foncier remains high;
- **Geographical distribution of outstanding loans.** Mortgage loans to individuals and public sector loans are located in every region of France. Moreover, Compagnie de Financement Foncier has expanded its activities internationally by increasingly granting loans to the public sector as well as through acquisitions of residential loans.

Internationally, the International Public Finance (IPF) Division showed strong results with production of €7.6 billion, namely in Italy and Switzerland. Services Industriels de Genève or the City of Rome and Compagnie de Financement Foncier's expansion into new geographical zones (Iceland, Poland, Hungary and Greece) helped it build an excellent loan portfolio. Some of these assets are covered by guarantees from financial insurers. These assets thus benefit from a credit enhancement and a AAA rating.

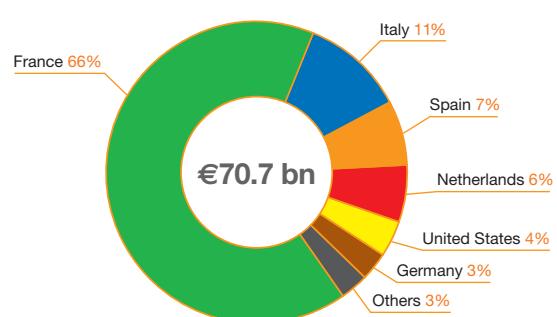
Moreover, loan acquisitions from individuals alone represent €2.4 billion in AAA senior securities. These portfolios mainly concern loans in Europe.

**In 2006, Compagnie de Financement Foncier thus financed new international assets worth approximately €10 billion, i.e. nearly 60% of its production, mainly in Italy, Spain and the United States.**

Production in 2006



Geographical diversification of assets at December 31, 2006



## Affirmation of its role as a lender to the International Public Finance Sector

Compagnie de Financement Foncier is authorised by the French Monetary and Financial Code to finance public or other related entities. This financing corresponds to "loans granted to States, local governments or groups thereof, and to public sector entities located within the European Economic Area, Switzerland, the United States, Canada or Japan, or loans fully guaranteed by one or more of these States, local governments or groups thereof". In order to prepare for compliance requirements stemming from the new banking regulation concerning the solvency ratio (Basel II), Crédit Foncier put in place an internal rating tool for loans to international local authorities at the end of 2006. It now perfectly manages all of the risks inherent in its asset portfolio.

### International Public Finance / Distribution by type of borrower



The financing activity in the International Public Finance (IPF) Division experienced significant growth in 2006, reaching €7.6 billion. The total stock of loans to the IPF now stands at €12.9 billion.

#### Compagnie de Financement Foncier has become an essential supplier of financing to local authorities.

Decentralisation, debudgeting and the growing demand for public facilities in a highly competitive territorial context has significantly increased opportunities for financing local authorities in European markets. However, competition between credit institutions on one hand and different market practices depending on the geographical zone on the other hand requires distinct marketing strategies.

In 2006, Compagnie de Financement Foncier developed its activity with local authorities throughout Europe in an effort to find new avenues of growth and capitalise on its strategic advantages, namely its long-term financing:

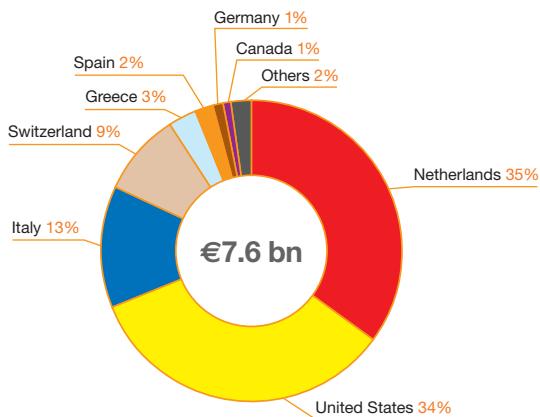
- by granting them loans;
- by subscribing to or acquiring securities issued or guaranteed by them;
- by subscribing to or acquiring securitisation shares comprising such assets.

These loans or related items represent a total of nearly €7.6 billion and have an average term of 13 years. They have been granted in strict observance of the rules applicable to Compagnie de Financement Foncier.

<sup>1</sup> French Monetary and Financial Code, Art. L.515-15.

## International Public Finance / Geographical Distribution

Production in 2006

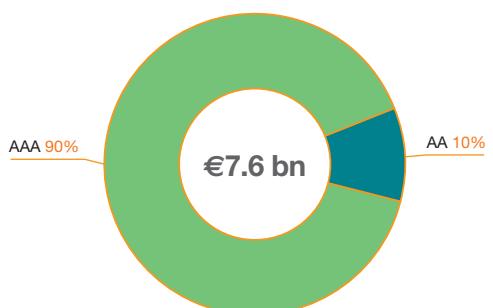


Stock at December 31, 2006

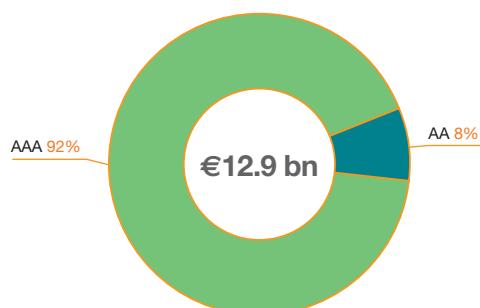


## International Public Finance / Distribution by rating

Production in 2006



Stock at December 31, 2006



## Credit Enhancement

A new policy was implemented in 2006 to diversify credit enhancers. Occasionally, Compagnie de Financement Foncier will use a financial insurer such as CIFG, a subsidiary of Natixis, or an enhancer outside of the Caisse d'Épargne Group, when the rating is below the AA- level. The enhancement boosts the asset's rating to AAA via a first demand financial guarantee.

In 2006, 16% of the loans to the international public finance division were enhanced to AAA.

# Residential mortgage loans purchased abroad

This business is pursued through purchases of senior securitisation tranches in accordance with the law that allows securitisation to be used within *sociétés de crédit foncier*.

## French Monetary and Financial Code

Sub-section 2: Transactions

*Article L.515-16*

The category of loans mentioned in Articles L.515-14 and L.515-15 includes shares or shares of debt securities issued by debt security funds, as well as shares of debt securities issued by similar entities subject to the laws of a State belonging to the European Economic Area, Switzerland, the United States, Canada or Japan, from the time that the asset of such debt security funds is created (excluding amounts momentarily available in such fund accounts which have not yet been allocated, as well as guarantees, securities or other privileges from which the debts benefit), provided that at least 90% of the assets of these debt security funds or similar entities are made up of debts of the same nature as loans with the characteristics defined in I of the Article L.515-14 and in Article L.515-15, or under conditions set by decree of the State Council, of debts with guarantees equivalent to those of the loans mentioned in Articles L.515-14 and L.515-15, excluding specific units or shares of debt securities bearing the risk of default by the debtors.

Throughout 2006, Compagnie de Financement Foncier continued its selective policy of financing mortgage loans to individuals located in foreign countries via the acquisition of €2.4 billion in senior tranches of new Residential Mortgage Backed Securities (RMBS).

These tranches are backed by eligible loans. An additional guarantee is provided by the overcollateralisation brought about by the subordinate tranches of the structure.

Compagnie de Financement Foncier has drawn on the expertise of Crédit Foncier's teams in both financial engineering and credit risk evaluation and management to develop its own in-house expertise for selecting securitised assets to acquire.

The criteria to fulfil during the selection are particularly geared toward:

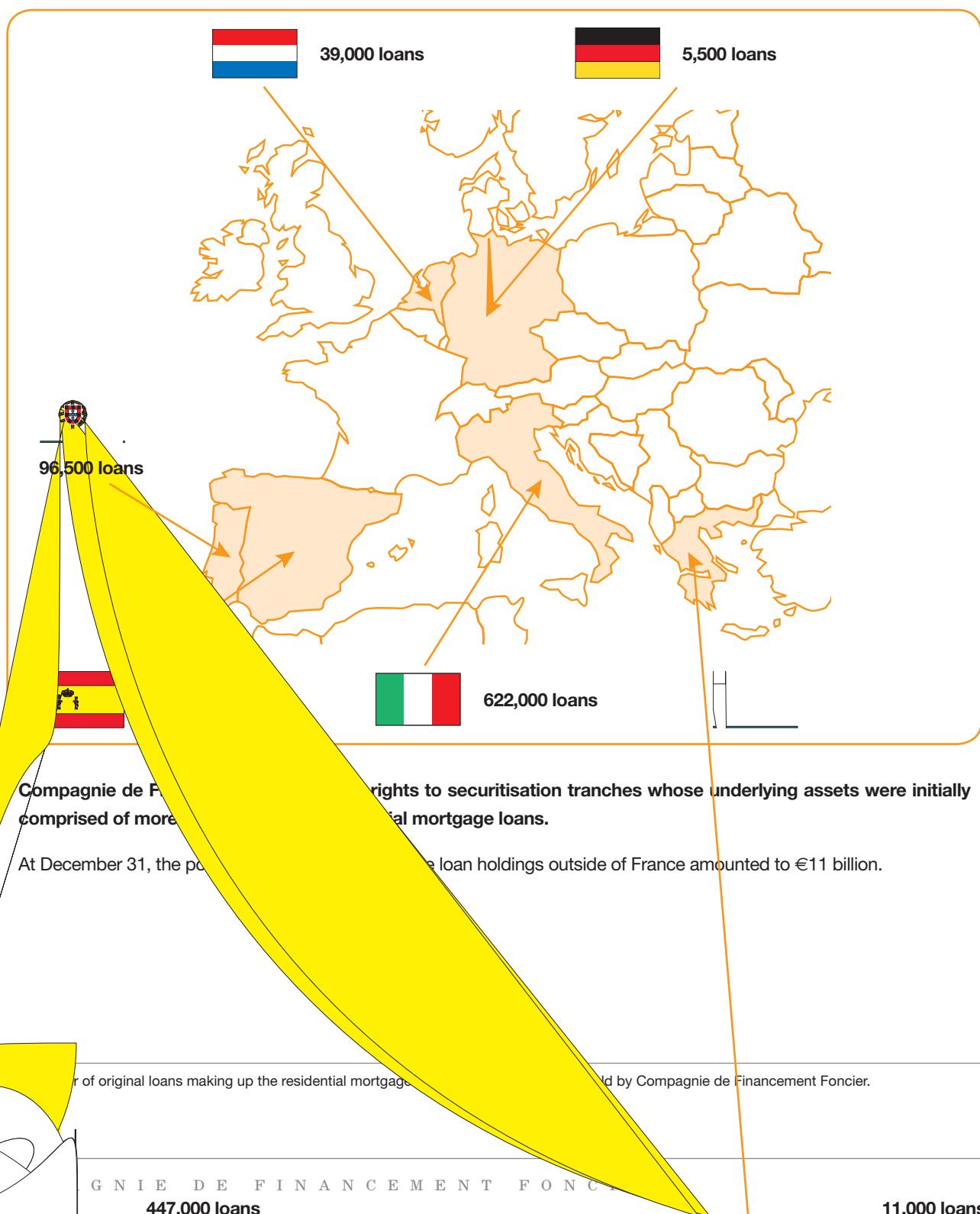
- the analysis of the quality of the underlying loan portfolio;
- the analysis of the financial structure (overcollateralisation);
- the quality of the legal jurisdiction (origin) of the assets;
- the operational proficiency of the loan servicer.

Compagnie de Financement Foncier also takes into account information about the assignor (previous securitisations, balance sheet, positioning and experience) as well as information about the servicer.

Elsewhere, Compagnie de Financement Foncier furthered its geographical diversification by acquiring residential mortgage-backed securities (RMBS) in Europe. Indeed, operations in 2006 primarily focused on the euro-zone, with significant contributions from Spain and Italy, and, to a lesser extent, the Netherlands and Germany.

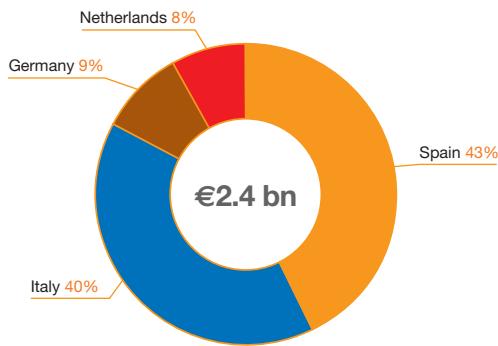
Each investment must meet minimum profitability requirements.

## Geographical Distribution<sup>1</sup>

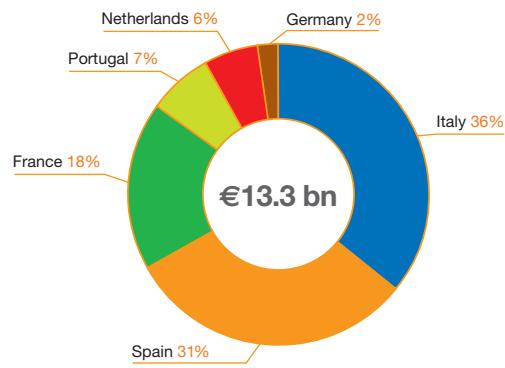


**Residential mortgage-backed securities (RMBS)  
FCC or equivalent / Geographical Distribution**

**Production in 2006**



**Stock (outstanding principal)  
at December 31, 2006**



The entire production of 2006 has a AAA rating from at least two of the main rating agencies (FitchRatings, Moody's and Standard & Poor's).



# Security

Compagnie de Financement Foncier, a *société de crédit foncier* within the strict framework of the law of June 25, 1999, has a sound reputation with international investors. It benefits from the best AAA/Aaa/AAA ratings granted by FitchRatings, Moody's and Standard & Poor's. The quality and security of Compagnie de Financement Foncier's *obligations foncières* are based on:

- the legal, economic and institutional safeguards provided by the law and its business model;
- strong commitments to maintain the stable AAA rating.

To ensure its stable AAA/Aaa/AAA rating and maintain a maximum level of security for *obligations foncières* bearers, Compagnie de Financement Foncier has implemented a strict asset selection and risk management policy.

# Security

## Legal safeguard

*Sociétés de crédit foncier* are credit institutions governed by the specific provisions of the French Savings and Financial Security Act, approved by the CECEI (French Credit Institutions and Investment Companies Committee), reporting to the Banking Commission and governed by banking regulations. They are specifically subject to modified Regulation No. 97-02, relative to the internal controls of credit institutions and investment companies.

The law clearly specifies the preferential rights of *obligations foncières* bearers, who benefit from the twofold advantage of the preferred status and the protection of the subsidiary in the event its parent company defaults on its obligations:

- bearers of *obligations foncières* and other preferred debt issued by Compagnie de Financement Foncier benefit from a first-rank preferred status (Article L.515-19): loans carried as assets by Compagnie de Financement Foncier are firstly allocated to servicing the *obligations foncières* (and other preferred debt) used to finance them;
- in the event that the company is liquidated, *obligations foncières* bearers are paid interest and principal at their normal contractual due date with priority over other creditors, including employees and the public treasury;
- the bondholder is protected in that receivership or liquidation of the shareholders or loan servicer is not extended to Compagnie de Financement Foncier (Articles L.515-25 to L.515-28): in the event its parent company defaults on its obligations, the debt collection process is not extended to Compagnie de Financement Foncier.

## Low-risk assets

The law defines the exclusive purpose of *sociétés de crédit foncier* and the stringent conditions governing asset eligibility as follows:

- the exclusive purpose (Article L.515-13) of *sociétés de crédit foncier* is to grant or acquire eligible assets and to finance them by issuing *obligations foncières* and other preferred debt or unsecured debt or other non-preferred debt. *Sociétés de crédit foncier* may not hold equity investments (Article L.515-17);
- eligible assets (Articles L.515-14 to L.515-18) are loans with a first-rank mortgage which respect loan-to-value ratio limits or with a surety offering at least an equivalent guarantee, loans (or debt securities) to public sector authorities (or guaranteed by them), mortgage securitisation tranches (*fonds communs de créances*) - or equivalent - backed by either a mortgage or a public sector authority, and secure and liquid securities that may be traded within the European central banking system.

## French law imposes strict management rules on sociétés de crédit foncier

- The total weighted assets of a société de crédit foncier must be greater than the total liabilities which benefit from the preferred status: this is known as overcollateralisation (Article L.515-20). The overcollateralisation amount is monitored on an ongoing basis. It is verified at least once a quarter by the Specific Controller. At December 31, 2006, it stood at 108.5% for Compagnie de Financement Foncier.
- Asset-liability management must ensure the congruence of rates and maturities.
- To ensure management of its outstanding loans (assets and liabilities), the law also requires that a société de crédit foncier have access to the resources of a credit institution via service agreements (Article L.515-22 et seq.).
- The LTV ratio corresponds to the relationship between the outstanding principal and the value of the financed property.

LTV ratio	Overcollateralisation
At December 31, 2006, it stood at 49.5%; these ratios are revalued annually after reviewing the collateral.	At December 31, 2006, it stood at 108.5% for Compagnie de Financement Foncier.

Non-preferred debt is very stable. It comprises shareholder's equity, FRBG (Fund for General Banking Risks) and provisions for risk and charges amounting to €0.5 billion, as well as subordinated debts of €2.25 billion with maturities exceeding 30 years. This last item includes €1.35 billion in participation loans equivalent to quasi-equity.

# Prudent management and regulatory controls

## Banking supervision

*Sociétés de crédit foncier* are credit institutions approved by the CECEI (French Credit Institutions and Investment Companies Committee), reporting to the Banking Commission and governed by banking regulations.

They are specifically subject to modified Regulation No. 97-02 of the CBRF (Banking and Finance Regulatory Committee) which requires them to produce an annual report on internal control procedures and the assessment and supervision of risk exposures. These reports are submitted to the General Secretariat of the Banking Commission, the statutory auditors and the Specific Controller.

*Sociétés de crédit foncier* are also required to produce half-yearly reports and submit them to the Banking Commission, indicating the overcollateralisation ratio and the hedge ratio for the loan-to-value ratio overruns.

Finally, the banking regulator must approve the appointment of the Specific Controller.

## Specific Controller

The Specific Controller is appointed on the approval of the Banking Commission. He/she verifies that operational mechanisms are functioning correctly and ensures strict compliance with the law.

His/her wide scope for investigation allows for effective monitoring of asset's liability management, particularly congruence in terms of rates and maturity. The Specific Controller must immediately notify the Banking Commission of any event or ruling coming to his/her attention during the course of his/her work which may jeopardise the conditions or business continuity of the company.

His/her missions are defined by law (Article L.515-30):

- verify strict compliance with the legal provisions governing the eligibility of assets, overcollateralisation of assets as compared to liabilities benefiting from the preferred status, congruence of rates and liquidity, the valuation of underlying assets or guarantees, and the overall quality of Compagnie de Financement Foncier's management;
- draft reports to be submitted to corporate entities and the Banking Commission;
- draft public reports (annual report on assessment methods and methods for regularly revaluing the underlying assets of loans, quarterly *obligation foncières* issuance certificates indicating that overcollateralisation rules have been respected, special certificates for all issues greater than or equal to €500 million).

To ensure his/her independence and to avoid risking a conflict of interests with the other auditors, the Specific Controller is neither a member of the group of statutory auditors of Compagnie de Financement Foncier, nor of the statutory auditors of the controlling shareholders that directly or indirectly hold an interest in Compagnie de Financement Foncier (Article L.515-30, 3<sup>rd</sup> paragraph of the French Monetary and Financial Code).

In the event of bankruptcy, the Specific Controller becomes the legal representative of all the holders of *obligations foncières* and other preferred debt. The controls performed by the Specific Controller supplement the standard controls carried out by the statutory auditors.

## Excerpts from the French Monetary and Financial Code

### Sub-section 6: Controls

#### Article L.515-30

In each SCF, a specific controller<sup>1</sup> and a deputy specific controller, chosen among the persons appearing on the official list of auditors, shall be appointed by its managers for a term of four years, with the approval of the Banking Commission.  
(...)

Neither the auditor of the SCF, nor the auditor of any company controlling the SCF within the meaning of Article L.233-3 of the Commercial Code, nor the auditor of a company controlled directly or indirectly by a company controlling the SCF can be appointed as specific controller or deputy specific controller.

The controller shall supervise compliance by the SCF with Articles L.515-13 to L.515-20. He shall verify that the contributions made to a SCF are in accordance with the objects defined in Article L.515-13 and meet the conditions provided for by Article L.515-14 to L.515-17.

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

He shall attend all meetings of shareholders and at his request shall be heard by the board of directors or the executive committee.

The specific controller, as well as his colleagues and advisers, shall be bound by professional secrecy as regards the facts, actions and information of which he may acquire knowledge by reason of his office. He shall however be released from professional secrecy as regards the Banking Commission to which he shall be bound to report immediately any fact or decision which comes to his knowledge in the performance of his assignment and which is likely to affect the conditions or continuance of the operations of the SCF. Professional secrecy shall also be waived, in the execution of their respective duties, between the specific controller and the auditors of the SCF and any "controlling entity", within the sense of Article L.233-3 of the Commercial Code, of the SCF. The specific controller shall disclose to the prosecutor of the Republic any criminal facts which come to his knowledge, without incurring any liability by reason of such disclosure.

The specific controller shall be responsible, both as regards the SCF and third parties, for damage caused by faults and negligence committed by him in the performance of his office.

<sup>1</sup> Contrôleur spécifique.

## Internal control

As a credit institution, Compagnie de Financement Foncier is subject to extensive legal and regulatory obligations governing the pursuit and oversight of its business. These obligations mainly stem from the French Monetary and Financial Code and regulations from the CRBF (Banking and Finance Regulatory Committee) and, specifically related to internal controls, from CRBF Regulation No. 97-02 modified by the ministerial order of March 31, 2005.

Crédit Foncier ensures the distribution, management and collection of virtually every loan posted in Compagnie de Financement Foncier's balance sheet in addition to managing all liabilities and derivative instruments. Moreover, agreements governing relationships between the parent company and its subsidiary were implemented when Compagnie de Financement Foncier was created: master agreement, administrative accounting and financial management, servicing and collection, audits, etc. These agreements were updated in 2006.

In compliance with regulatory provisions, Crédit Foncier's internal control structure includes all the procedures, systems and controls required to guarantee the achievement of the institution's objectives and compliance with market or Group laws, regulations and rules, and to ensure that all types of exposures are controlled. The structure of these control systems is to a large extent defined by regulations. This structure is based on ongoing oversight defined at different levels and carried out by units or individuals that are independent with respect to the operations they are auditing.

The control structure is based on the standards set forth by Caisse Nationale des Caisses d'Épargne (CNCE), the central entity of the Caisse d'Épargne Group which Compagnie de Financement Foncier and Crédit Foncier are affiliated to. Indeed, as the central entity of the Caisse d'Épargne group, its main purpose is to handle all administrative, financial and technical provisions regarding the organisation and management of the Caisses d'Épargne, their subsidiaries and joint entities.

The organisation and control rules are applicable to all affiliated entities and cover sales and financial activities as well as assessment, control and monitoring of credit, market, accounting, IT or operational non-compliance risks.

Lastly, Crédit Foncier's General Inspection Department, which is subject to specific requirements for credit institutions, evaluates the quality and operations of the ongoing audit system.

The periodic control function is governed by an audit charter based on the Caisse d'Épargne's charter and managed by a special team including members from the Caisse Nationale des Caisses d'Épargne's General Inspection Department. The purpose of this team is to promote cooperation between the auditor's departments and to ensure that the Group's control and audit process is carried out as efficiently and cost-effectively as possible. Compagnie de Financement Foncier is thus subject to the controls carried out by both the Caisse Nationale des Caisses d'Épargne's General Inspection Department and by Crédit Foncier's internal General Inspection Department.

In 2003, Crédit Foncier set up a special unit in charge of internal control for Compagnie de Financement Foncier with responsibility for coordinating all the services provided by the Group for the *société de crédit foncier*. This unit reports directly to Compagnie de Financement Foncier directors. The Chief Executive Officer is the official representative vis-à-vis the Banking Commission and the AMF (French Financial Markets Authority) in terms of internal control and compliance.

## ■ Control carried out by the AMF

Before a public debt offering, Compagnie de Financement Foncier must submit a prospectus containing information intended for the public to the French Financial Markets Authority (AMF) for its approval pursuant to Article 212-1 of its General Code and Articles L.412-1 and L.621-8 et seq. of the French Monetary and Financial Code.

Article 213-1 of the General Code also stipulates that the issuer, Compagnie de Financement Foncier, must produce an annual report / reference document.

### French Monetary and Financial Code

Subsection 2: Authorisation of Public Issues

*Article L.621-8-1*

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

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

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

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



# Strong commitments FOR A STRUCTURED AAA RATING

Compagnie de Financement Foncier has the best possible rating assigned by the three Rating Agencies, FitchRatings, Moody's and Standard & Poor's: AAA/Aaa/AAA (stable outlook). The law relative to *sociétés de crédit foncier* establishes a complete separation between Compagnie de Financement Foncier and its parent company and makes it possible to use another type of rating methodology: a structured rating based on technical factors and excluding support provided by its parent company.

This structured rating relies on analyses of the effect of various "stress" test scenarios on the company's balance sheet. These analyses allow Compagnie de Financement Foncier to determine the amount of overcollateralisation needed to cover the various risks it is exposed to and thus to define the level of non-preferred debt (shareholders' equity, subordinated debt and unsecured debt) required to obtain a AAA/Aaa/AAA rating.

# Strong commitments FOR A STRUCTURED AAA RATING

In addition to the security already provided by the institutional framework of *sociétés de crédit foncier* (SCF), Compagnie de Financement Foncier has established its own strict rules to reinforce the highest ratings delivered by the three Rating Agencies: FitchRatings, Moody's, and Standard & Poor's.

These rules aim to reinforce its risk mitigation management rules in relation to current regulations and to constitute an overcollateralisation ratio greater than the legally required minimum level for high residual risk coverage.

Compliance with these obligations is regularly monitored by various means and reported to the Rating Agencies on a quarterly basis.

Compagnie de Financement Foncier is committed to observing strict management rules. It maintains an overcollateralisation ratio above the legal ratio and also maintains a sufficient level of non-preferred debt in order to rigorously control and properly manage its risks (credit, liquidity, interest rate and exchange rate).

Observance of these management rules and the transparency of the financial information allows Compagnie de Financement Foncier to obtain a stable AAA/Aaa/AAA structured rating from the three main Rating Agencies.

## Structured rating methodology

As a general rule, the rating for a subsidiary of a banking establishment involves a banking analysis. However, this has the effect of linking the subsidiary's rating to the parent company's rating, and in particular of putting a ceiling on the former with relation to the latter. In the case of Compagnie de Financement Foncier, the law governing SCFs creates a complete separation between the parent company, Crédit Foncier, and its subsidiary, Compagnie de Financement Foncier, making it possible to use a different type of analysis - structured rating.

This structured rating is based on analyses of the effect of various "stress" test scenarios on the company's balance sheet and makes it possible to separate the ratings of the subsidiary and of the parent company. Analysis of credit risks, interest rate risks and liquidity risks determines the amount of overcollateralisation needed to cover these different risks and thus defines the minimum level of non-preferred debt (shareholders' equity, subordinated debt and unsecured debts) required to obtain a AAA/Aaa/AAA rating.

# Rigorous risk management

## Credit risk

Assets that are eligible for refinancing by a *société de crédit foncier* are defined by current legislation, and are essentially made up of public or mortgage loans and securities originating in economically and politically stable regions. While this rule already gives it a high level of security, Compagnie de Financement Foncier has also implemented additional restrictions to further limit its exposure to credit risk.

**Purchases of mortgage loans:** loan purchase scoring was implemented in 2002. Based on the probability of loan default, it is used to only acquire those loans presenting the lowest level of risk and to monitor those judged potentially more risky with a view to their possible purchase only after a certain “seasoning period” has passed without incident. The risk of default on loans in the subsidised sector is borne by the French State through the guarantees provided; arrears due to unpaid interest for the first 18 months are the responsibility of Crédit Foncier de France. Similarly, loans with the FGAS guarantee (*Fonds de garantie à l'accession sociale*: French Social Purchase Guarantee Fund) are directly guaranteed by the French State.

**Purchases of domestic public loans:** these assets consist solely of loans to or guaranteed by the public sector in accordance with the legislation concerning *sociétés de crédit foncier*, and as a result their level of credit risk is extremely low. Compagnie de Financement Foncier uses the Caisse d’Épargne Group’s proprietary rating tool: only loans with very high ratings are purchased.

**Eligible international assets with long-term ratings:** only assets with a public or private rating from at least one of the three Rating Agencies (FitchRatings, Moody’s and Standard & Poor’s) can be acquired by Compagnie de Financement Foncier. This rating must, after a potential credit enhancement, be superior or equal to A-/A3/A-. Moreover, Compagnie de Financement Foncier is committed to limiting the percentage of these assets that benefit from a single rating to 20% of all rated eligible assets and the percentage of assets rated between A+ and A- to 10%.

**Replacement securities held by Compagnie de Financement Foncier:** these assets, the majority of which have a maturity of less than one year, have the best short- or long-term ratings assigned by the Rating Agencies. The minimum rating that is accepted for each asset depends on the term of the investment and corresponds to the top of the “investment grade” tranche of the Rating Agencies’ rating scale.

	FitchRatings	Moody's	Standard & Poor's
0 to 1 month	ST F1	LT A2 or ST P1	ST A-1
1 to 3 months	ST F1+	LT A1 and ST P1	ST A-1+
3 to 6 months	ST F1+	LT Aa3 and ST P1	ST A-1+
More than 6 months	LT AAA	LT Aaa	LT AAA

**Off-balance-sheet activities:** all counterparties carrying out off-balance-sheet transactions with Compagnie de Financement Foncier have previously signed a master agreement and a specific annex defining asymmetric collateralisation agreements between the two parties. Accordingly, the counterparty undertakes, in the event that its rating is or falls below the lowest F1+ or AA- ratings at Fitch Ratings, P1 or Aa3 at Moody's, or A-1+ or AA- at Standard & Poor's, to pay Compagnie de Financement Foncier a security deposit equal to its net debt position with no reciprocity required by the latter. The security deposit is calculated and paid to Compagnie de Financement Foncier on a weekly or daily basis depending on the level of deterioration of the counterparty's rating.

## Interest rate risk

Compagnie de Financement Foncier's balance sheet is rigorously protected from interest rate risk. Each asset purchase or refinancing transaction is systematically swapped to a variable interest rate, so that rate fluctuations have an identical impact on the both sides of the balance sheet. In addition, Compagnie de Financement Foncier undertakes to maintain the level of its rate gaps within limits defined by period of observation. If the limits are exceeded, the necessary corrective actions are taken, at the very latest, during the quarter immediately following the observation.

The current limits for rate gaps are:

Horizon	Percentage of the balance sheet observed at the start of the period
Less than 2 years	2%
2 to 5 years	3%
5 to 10 years	5%
More than 10 years	10%

## Exchange rate risk

Compagnie de Financement Foncier does not maintain any open positions; any non-euro denominated asset acquisition or refinancing transaction is immediately converted into euros at the time of execution.

## Liquidity risk

Compagnie de Financement Foncier has set itself strict management rules guaranteeing sufficient liquidity to meet its preferred liability commitments even in the event of market access difficulties. Statutorily, the replacement securities which make up Compagnie de Financement Foncier's treasury reserves may not represent more than 20% of its assets. The method used to calculate this proportion should be modified by the transposition of the directive concerning the solvency ratio.

Compagnie de Financement Foncier thus undertakes to cover the contractual repayment of its preferred debt net of expected payments on its assets:

- over the next twelve months, for at least half, by replacement securities and securities issued by public entities, both reputed liquid, and, for the balance, by other assets eligible as repo instruments with the ECB;
- beyond one year, by the sum of the assets referred to previously to which the other quoted assets are added.

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

Finally, Compagnie de Financement Foncier undertakes to limit the difference between the duration of its assets and the duration of its liabilities to more or less two years at most. At December 31, 2006, this difference was 0.9 years.

## Respecting a high level of overcollateralisation

The legislation relative to *sociétés de crédit foncier* requires Compagnie de Financement Foncier to maintain, on its balance sheet, a ratio between weighted assets and preferred liabilities that exceeds 100%. This asset weighting makes it possible to determine an initial level of overcollateralisation corresponding to the legally required minimum to ensure the security of such structures.

Comprising subordinated and unsecured debt, the overcollateralisation must enable a *société de crédit foncier* to cover a level of risk determined by worst case stress analyses on credit, interest rate and liquidity risks. It allows Compagnie de Financement Foncier to ensure the repayment of its *obligations foncières* even in extreme market conditions.

Beyond the security provided by the institutional framework, Compagnie de Financement Foncier is committed:

- not only to maintaining a minimum level of overcollateralisation greater than the required legal minimum, thus enabling high coverage of the risks it is exposed to;
- but also to exclude all subsidised sector subordinated debt and balancing subsidies from the unsecured or subordinated debt used to calculate this overcollateralisation.

Two levels of overcollateralisation have thus been defined. The first covers the credit risk on assets held by Compagnie de Financement Foncier, while the second covers the overall interest rate risk on its balance sheet. The sum of these two levels of overcollateralisation constitutes the total minimum overcollateralisation that Compagnie de Financement Foncier is obliged to maintain.

## Overcollateralisation linked to credit risk

The assets held by Compagnie de Financement Foncier can be sub-divided into two large classes: eligible loans not rated by the Rating Agencies and eligible loans that are rated by these agencies. Each of these two categories possess a completely distinct level of credit risk and thus require a different method for calculating the overcollateralisation. The minimum level of overcollateralisation required to cover the credit risk is by definition the sum of these two intermediary levels.

### Eligible loans not rated by the Rating Agencies

The portfolio of loans held by Compagnie de Financement Foncier is sub-divided into nine sub-categories according to the type of borrower, the nature of the property being financed and the guarantees provided. Each sub-category has a corresponding overcollateralisation level that is higher or lower depending on:

- the credit risk it represents;
- and the date the loans were acquired.

Two levels of overcollateralisation are therefore calculated; the first is based on the current loan stock while the second is based on the estimated loan stock in two years taking into account a probable level of amortisation and new production. After being discounted by 5% – to take into account diversification of the loan portfolio – the higher of the two results obtained constitutes the minimum dynamic overcollateralisation needed to cover the credit risk for this class of assets.

Current overcollateralisation rates are as follows:

	<b>Overcollateralisation of the existing portfolio</b>	<b>Overcollateralisation of new production</b>
Subsidised sector	3%	No new production
PAS + PTZ	2.5%	3%
Individual homebuyers	3%	3.5%
Individual rentals	25%	30%
Real estate professionals	50%	No new production
Local authorities	3%	3%
Social housing	4.5%	4.5%
Financial institutions	4%	No new production

## **Eligible assets rated by the Rating Agencies**

In the case of eligible assets rated by the Rating Agencies, the overcollateralisation rate applicable to the portfolio is based on a Monte Carlo type simulation. For each asset, this simulation takes into account the probability of default based on its rating and maturity, possible recovery rate in the event of default, the degree of exposure to each asset and also the correlations between the portfolio's different assets. The model is based on relatively conservative working hypotheses in accordance with the requirements of the Agencies.

## **Overcollateralisation linked to interest rate risk**

The overcollateralisation needed to cover Compagnie de Financement Foncier's overall interest rate risk depends on the size of its balance sheet and on the estimation of its future results. It is equal to 0.5% of the amount of Compagnie de Financement Foncier's balance sheet discounted by the net present value (NPV) of the estimated results over the next 10 years.

In order to guarantee a high level of security, several NPVs are calculated combining the following different hypotheses:

- a redemption situation with no new production;
- three hypotheses for prepayments: no prepayment, probable prepayment rate, and stressed prepayment rate equal to three times the probable scenario;
- three hypotheses for the market rate: base rates, treasury stressed in supposing unfavourable borrowing and lending conditions at +1% and -0.5% respectively, and a 200 base-point shift of the rate curve.

The most conservative NPV of the nine results obtained is used for calculating for the overcollateralisation ratio.

## Corrective measures in emergency situations

If the quarterly overcollateralisation ratio (made up of unsecured or subordinated debt excluding subsidised sector subordinated debt and balancing subsidies) is shown to be below the minimum level agreed upon with the Rating Agencies (minimum overcollateralisation on non-rated loans + minimum overcollateralisation on rated assets + overcollateralisation linked to the interest rate risk), any new asset acquisition is immediately suspended and non-preferred debt is contracted so as to meet minimum overcollateralisation requirements.

Compagnie de Financement Foncier also undertakes, depending on its net income, to postpone repayment of the participating loan granted by Crédit Foncier de France and to suspend any distribution under the terms of the subscribed capital. This confers on this participating loan characteristics similar to traditional equity capital.

The actual overcollateralisation ratio recorded by Compagnie de Financement Foncier is historically demonstrated to be greater than the minimum required by both its own management rules and current regulations. Since Compagnie de Financement Foncier's creation in 1999, the overcollateralisation ratio has always exceeded regulatory requirements.



# A benchmark issuer

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## IN THE COVERED BOND MARKET

Covered bonds benefit from the growing confidence of institutional investors. Among these covered bonds, Compagnie de Financement Foncier's *obligations foncières* (AAA/Aaa/AAA, stable outlook) have proven, both by the levels of refinancing achieved and the diversification of their investors, their robustness and the intrinsic quality of their issuer.

This success has been most notably revealed by central banks' growing demand for Compagnie de Financement Foncier's *obligations foncières*, a tribute to the exceptionally high security they provide.

# A benchmark issuer

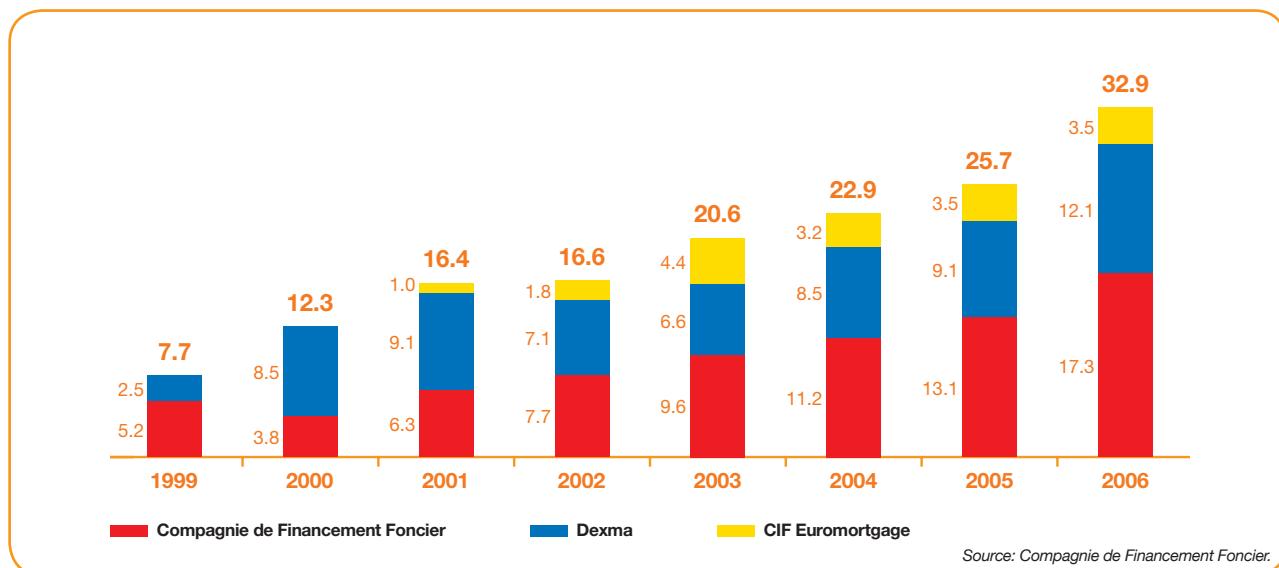
## IN THE COVERED BOND MARKET

### A leading issuer in the covered bond market

Compagnie de Financement Foncier's 2006 issuance programme reached a total of €17.3 billion, up 30% compared to 2005.

This success is proof of Compagnie de Financement Foncier's position as the leading private issuer in France and the leading issuer of *obligations foncières*. It is also the 2<sup>nd</sup> ranked European issuer of covered bonds and 7<sup>th</sup> ranked AAA issuer out of all non-sovereign issuers worldwide, placing it in a strategic position on international markets.

#### Obligations Foncières issued since 1999 (in €bn)



Since 1999, total issuance has reached €74.2 billion, in line with an ambitious strategy that includes:

- the launch of liquid benchmarks via diversified placements;
- additions to existing benchmark issues to increase their liquidity on the secondary market;
- the development of private placements with ever-sophisticated products adapted to investor needs;
- diversification into other currencies (Japanese yen, pounds sterling, Swiss francs, Australian dollars, Hong Kong dollars and South African Rand).

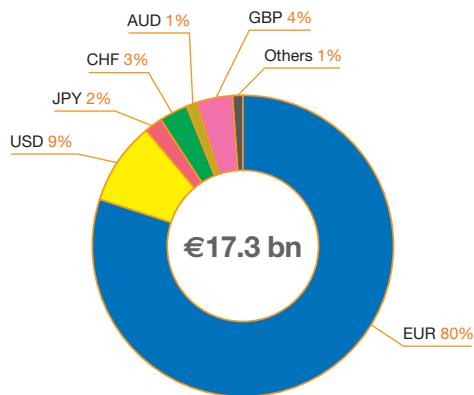
As a result of both the volumes and the flexibility of its issuance policy as well as the type of its investors and the refinancing levels reached, Compagnie de Financement Foncier now belongs to the group of the largest European issuers.

## A flexible financing policy

Transactions carried out in euros were favoured in 2006, representing 80% of the issues, as were transactions in US dollars at 9% of total issuance. Compagnie de Financement Foncier also took advantage of opportunities on foreign exchange markets with issuance in pounds sterling, Swiss francs, Australian dollars, Japanese yen and Canadian dollars.

In 2006, 75% of its issues were public and 25% were private placements.

**Breakdown of issues by currency in 2006**

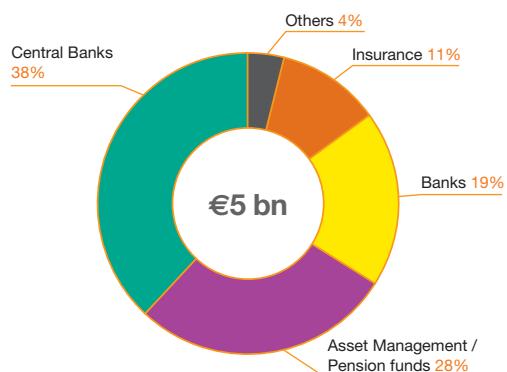


Compagnie de Financement Foncier completed its yield curve by creating five new benchmarks, four in euros at 3, 5, 10 and 50 years as well as one in US dollars at 3 years. At the same time, Compagnie de Financement Foncier tapped existing benchmarks, especially the 2008, 2009, 2011, 2014, 2017 and 2018.

## Issues in 2006

<b>Public issues</b>	€12.9 bn	75%
<b>Private issues</b>	€4.3 bn	25%
<b>TOTAL</b>	<b>€17.3 bn</b>	<b>100%</b>
Of which:		
1 <sup>st</sup> Quarter	€5.7 bn	
2 <sup>nd</sup> Quarter	€5.0 bn	
3 <sup>rd</sup> Quarter	€2.7 bn	
4 <sup>th</sup> Quarter	€3.9 bn	

## Breakdown by investor type of Benchmarks in 2006

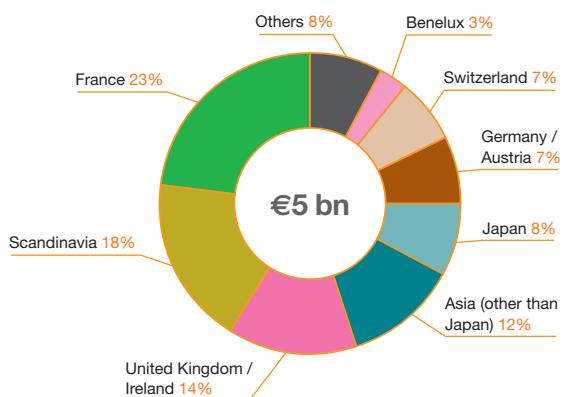


Source: Banks.

**Central banks and asset management/pension funds invested heavily in Compagnie de Financement Foncier's "jumbo<sup>(1)</sup>" issues (38% and 28% respectively). Growing interest from central banks was one of this year's highlights.**

<sup>(1)</sup> > €500 million.

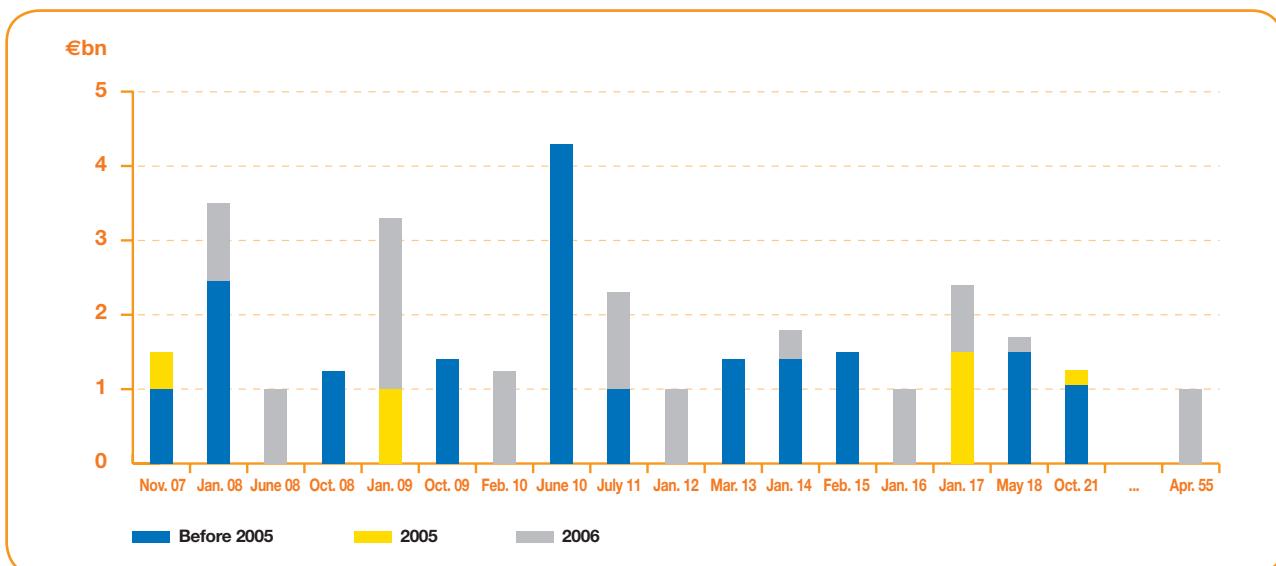
## Geographical distribution of Benchmarks in 2006



Source: Banks.

**Asia (including Japan) is an important geographical investor base for jumbo issues (20%). Europe, outside of the euro-zone, also saw its percentage increase significantly in 2006.**

## Schedule of euros benchmarks



In order to provide a highly liquid yield curve, Compagnie de Financement Foncier carried out 75% of its issues as public placements.

## Innovative milestone in the history of the covered bond market: A 50-year *obligation foncière*

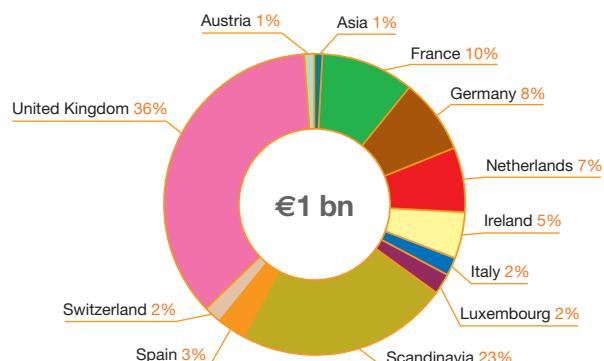
Compagnie de Financement Foncier has undertaken to extend the maturities of its resources in order to support the Caisse d'Épargne Group and the Crédit Group's development in the segment of loans to local authorities and the public sector. Indeed, Public-Private Partnerships, social housing projects or even community-based investment in water and sanitation infrastructures require financing maturities that often exceed 30 or 40 years. Moreover, the sector that includes mortgage loans to homebuyers and life annuity mortgages also requires very long-term financing.

Compagnie de Financement Foncier thus initiated a significant development in the covered bond market by creating a new market segment: the first-ever issue of 50-year covered bonds.

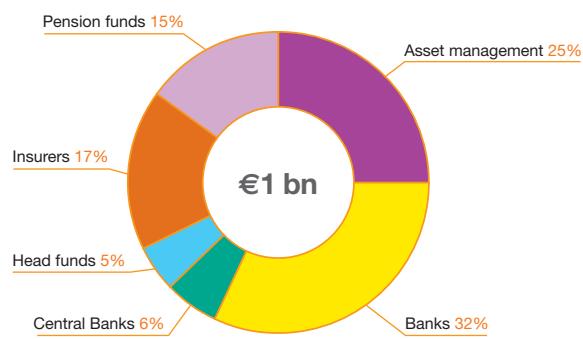
This strategic issue allows Compagnie de Financement Foncier to optimise the financing it provides for the Caisse d'Épargne Group and strengthen its position on the *obligations foncières* market.

The success of this issue once again illustrated investors' confidence in the reputation of Compagnie de Financement Foncier.

**Geographical distribution**



**Distribution by type of investor**



## ■ Private placements

Competition between issuers on the market for private placements increased in 2006. With issues reaching nearly €4.3 billion, Compagnie de Financement Foncier has again demonstrated its ability to anticipate and offer solutions that address investors' specific needs. In this sector as well, Compagnie de Financement Foncier's reputation for quality allowed it to position itself among a peer group traditionally reserved to government issuers.

## ■ Liquidity growth

In order to increase market liquidity, Compagnie de Financement Foncier updated the signed market-making charter with more than twenty banks to create a secondary market for euro-denominated *obligation foncière* benchmarks.

# A reputation of success among investors

Compagnie de Financement Foncier's achievements in 2006 translated into a larger and more diverse investor base.

**Central banks** represent the most important category of investors, and their acquisitions focus on the most liquid issues.

**Commercial banks** are also key investors. Acquiring *obligations foncières* is of notable help in managing assets and liabilities. Furthermore, *obligations foncières* eligible for invitations to tender from the European Central Bank represent an instant source of liquidity.

The strong showing of **pension funds and insurance companies** is explained by the advent of pay-as-you-go pension plans which require issues with very long maturities.

# Financial communication

Compagnie de Financement Foncier, a leading issuer on international financial markets, has positioned itself as a key provider of financing for mortgage loans and loans to the public sector on behalf of the Caisse d'Épargne Group.

Indeed, Compagnie de Financement Foncier not only offers public issues that are especially liquid and adapted to the needs of institutional investors, but also private placements with structured products that address the specific needs of these clients.

For both public and private issues, financial information requirements are especially demanding in terms of content, frequency and transparency.

Since 1999, presentations, road-shows, seminars and publications have all been important forms of communication for Compagnie de Financement Foncier.

## Advantages of Compagnie de Financement Foncier

Compagnie de Financement Foncier offers its risk adverse investors key advantages:

- its backing from the Caisse d'Épargne Group;
- the track record of Crédit Foncier's *obligations foncières*, which have been around for more than 150 years and meet particularly rigorous criteria in terms of asset financing; the law of June 25, 1999 which provided *obligations foncières* bearers with additional safeguards;
- Compagnie de Financement Foncier's own management rules which reinforce the security of its issues;
- an issuance policy oriented towards investor expectations and;
- transparent communication, both in terms of its existing assets as well as its outlook for future asset production and issuance programmes.

These advantages bolster Compagnie de Financement Foncier's standing within the financial community, along with its active participation in industry bodies and events dedicated to the covered bond market such as the European Covered Bond Council (ECBC), the *Association des Marchés de Taux en Euro* (AMTE) and different specialised conferences. Indeed, Compagnie de Financement Foncier once again sponsored the international conference for issuers of covered bonds that took place in September 2006 in Madrid.

## Compagnie de Financement Foncier, joint founder of the European Covered Bond Council

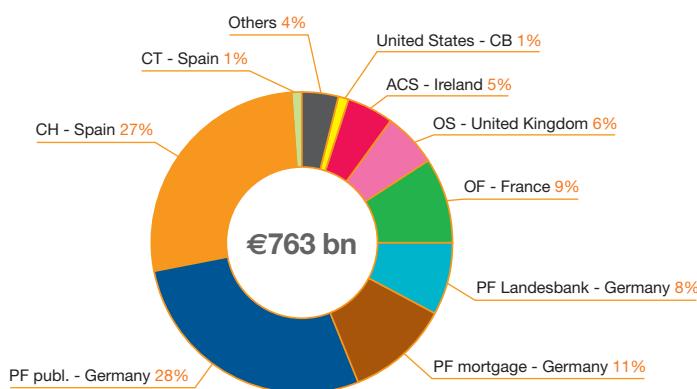
The European Covered Bond Council (ECBC) was formed to provide covered bond issuers with a platform to exchange and discuss information. At the European level, the ECBC has a number of missions:

- improve the visibility of covered bonds in general and *obligations foncières* in particular;
- evaluate the consequences of regulatory measures adopted at the European level for issuers;
- defend the interests of issuers at European bodies (Parliament, Union Presidency, regulators).

## The covered bond market in 2006

In 2006, benchmark issues reached a total of €180 billion. The total outstanding balance of benchmark issues is approximately €763 billion.

**Outstanding benchmark covered bonds - 2006**



Source: IXIS CIB.

Throughout 2006, spreads between covered bonds and swaps remained relatively stable: the market did not have trouble absorbing the high volume of new issues. This situation is notably due to unrelenting demand of investors worldwide.

This was particularly noticeable in Spain (*Cédulas*), in France (*obligations foncières*) and the United Kingdom (structured covered bonds). However, the primary market for German (*Pfandbriefe*) covered bonds contracted.

In **France**, the total volume of benchmark issues (all denominations) posted a significant increase of 28%, reaching €32.9 billion in 2006 compared to €25.7 billion in 2005. *Obligations foncières* benefit from one of the most secure legal frameworks in all of Europe.

In **Spain**, sustained activity involving mortgage loans granted by Spanish banks remained an important factor in *Cédulas'* performance in 2006. New benchmark issues of *Cédulas Hipotecarias* reached a new record of €61 billion in 2006, up 13% over the €54 billion issued in 2005. Faced with new asset and liability management constraints under the Basel II accords and a foreseeable downturn in the production of mortgage loans in 2007, it is very unlikely that financing via *Cédulas* will continue to increase.

In the **United Kingdom**, the covered bond market expanded considerably in 2006 with the volume of new issues reaching €20.5 billion, a near twofold increase in outstanding issues to €43.75 billion. However, only €6.5 billion (32%) worth had maturities of 10 years or more.

In **Ireland**, even though the market for Asset Covered Securities (ACS) in 2006 was dominated by financial instruments for the public sector, the mortgage loan portfolios of Irish banks continued to increase by nearly 30%. In 2006, the volume of Irish benchmark issues was €11.5 billion.

In **Germany**, loans to the public sector and financing via public Pfandbriefes is expected continue to decrease. Total exposure of German Pfandbriefe issuers to the public sector is currently falling by 3% per year, while loans to the international public sector are increasing at an annual rate of 14%. In 2006, the volume of German public and mortgage benchmark issues was €43.4 billion.

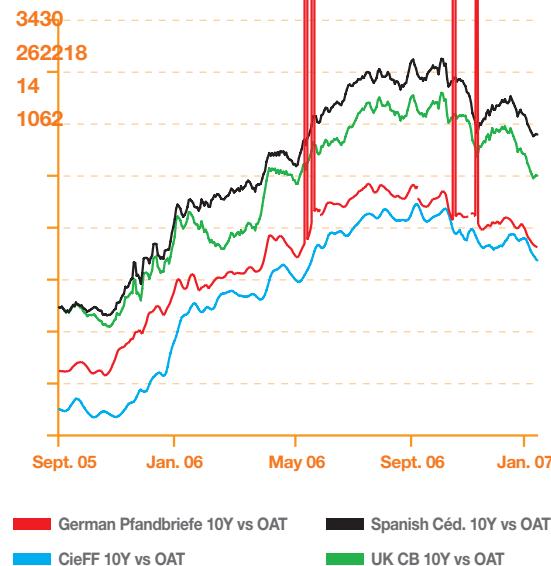
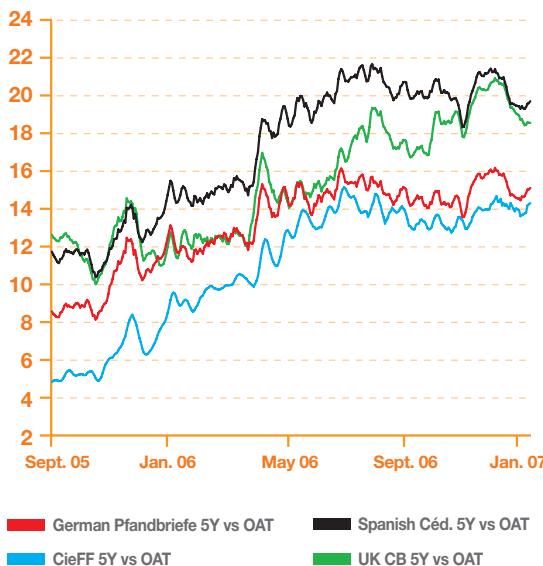
In **Denmark**, new issues of Realkreditobligationer increased significantly in 2006, mainly due to the refinancing of past transactions. The Danish covered bond market has considerable weight in Europe with outstanding issues amounting to almost DKK 1857.5 billion (nearly €249 billion). This market, mainly in Danish crowns, has only a few issues in euros.

**Italy, Austria, Portugal** and the **Netherlands** are smaller markets.

## ■ Spreads

In 2006, spreads between covered bonds and government borrowings rose across the board in tandem with the overall widening of spreads between swaps and government borrowings. Relative levels of covered bond performance compared to swaps remained stable, supporting investor demands.

### Changes in Compagnie de Financement Foncier spreads versus OAT



Source: IXIS CIB.

## ■ Outlook for the covered bond market in 2007

Covered bond spreads over government bonds have markedly increased over the past 12 months, presenting a new phenomenon for 2007. This phenomenon should attract traditional investors (funds, insurance companies, etc.) especially since the potential for spreads to widen currently appears limited.



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# Management report

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# Management report

## FOR 2006

Compagnie de Financement Foncier experienced strong growth during the 2006 financial year and continued to diversify its assets, both in terms of quality and geographic distribution. The balance sheet consequently increased by 23% to €70.7 billion at December 31, 2006.

Compagnie de Financement Foncier's entire production, be it direct through granting loans or purchasing securities, or indirect through purchasing loans, amounted to €16.9 billion in 2006. This volume includes loans amounting to €7.1 billion that benefit from a first-rank real-estate guarantee and €9.8 billion in loans that are guaranteed by public entities. Nearly 60%, or €10 billion, of these assets are located outside of France, mainly in Italy, Spain, and the United States. Replacement securities (highly liquid and secure short term assets as defined by law), consisting mainly of mortgage notes, increased by €3 billion over the period.

This production was financed by issuing privileged debt (French Monetary and Financial Code art. L.515-19) in 2006 amounting to €17.3 billion, confirming Compagnie de Financement Foncier's role as a leader among issuers of covered bonds worldwide. Bonds issued in 2006, like the rest of Compagnie de Financement Foncier's debt which provides creditors with a legal privilege, received the best ratings from the three main credit rating agencies (AAA/Aaa/AAA). These ratings reflect the security conferred by the legal and regulatory framework for *sociétés de crédit foncier* as well as the additional commitments made by Compagnie de Financement Foncier, especially concerning risk management policy.

Compagnie de Financement Foncier posted a net income of €62.3 billion in 2006 and its risk indicators are extremely conservative. Once again, the risk charge is close to zero, making for a positive contribution to the financial results.

### 1. Assets

#### a. Acquisition of loans from Crédit Foncier and the Caisse d'Épargne Group

Major transactions involving the purchase of loans granted by Crédit Foncier were carried out in 2006. Eighteen transactions involved more than 75,000 loans, totalling €6.5 billion in outstanding capital of which €2 billion are off-balance sheet commitments for future cash disbursements.

This portfolio also contains €3.1 billion in loans that benefit from public guarantees, €1.3 billion of which is granted by the FGAS (*Fonds de garantie de l'accès à la propriété*, Guarantee Fund for Social Access Ownership Loans) and €1.8 billion by local authorities. Other loans, amounting to €3.4 billion, are secured by a first-rank mortgage (or equivalent real-estate guarantee), or by a Crédit Logement (rated AA/Aa2) issued surety, up to €0.4 billion.

Compared to 2005, loan acquisitions from the Caisses d'Épargne were limited in 2006. Six Caisses sold €0.3 billion of local authority public sector loans.

## b. Other acquisitions and direct production in 2006

Compagnie de Financement Foncier expanded its international production activities in 2006. Transactions outside the Caisse d'Épargne group totalled €10 billion in assets located outside of France.

In direct loan acquisitions, through the purchase or subscription of senior securitisation tranches, amounted to €7.6 billion. This outstanding debt is rated AAA by at least one of the three main credit rating agencies; €3.6 billion in this portfolio has been granted the highest rating from all three agencies and €3.2 billion the highest rating from two out of three agencies. The underlying assets benefit from foreign public guarantees worth up to €5.2 billion, evenly split between the United States and the Netherlands. The rest, i.e. €2.4 billion, is made up of RMBS with high quality residential loan portfolio with mortgage guarantees mainly located in Spain and Italy (€1 billion in each country).

International direct production accounts for €2.5 billion in long-term loans granted to or guaranteed by national governments, local authorities, or public entities. This production consists of subscriptions to security issues amounting to €1.5 billion and loans worth €1.0 billion granted by Compagnie de Financement Foncier. The long term credit rating on all of these assets falls within the highest range at least (AA- /Aa3 or above) and a large part of these outstanding loans, up to €1.2 billion, is wrapped by monoline insurance companies, enabling a AAA/Aaa/AAA credit rating from the three main agencies.

In terms of geographical diversification, this year's production was mainly concentrated in Italy (€1.0 billion) and Switzerland (€0.6 billion).

Investments in securities from French public entities were limited to less than €0.2 billion.

Compagnie de Financement Foncier's short-term public sector loan portfolio remained stable. Amounting to €2.9 billion at December 31, 2006, it consists of public entity certificates of deposit essentially purchased from the Caisse des Dépôts et Consignations.

## c. Replacement securities

Replacement securities increased by €3.0 billion, in line with the balance sheet growth. 60% of these securities are mortgage notes (*billets hypothécaires*) purchased from Crédit Foncier. These instruments have an average maturity under six months and correspond to mortgage loans granted by Crédit Foncier to individuals and whose assets are pledged to the holder of the mortgage note (*billets hypothécaires*). From a legal standpoint, these underlying assets have the same eligibility characteristics as the loans directly held by Compagnie de Financement Foncier, but do not comply with the more stringent direct purchase criteria set by Compagnie de Financement Foncier on its own. The short term investment portfolio did not record any transactions in 2006. It stood at €0.3 billion at December 31, 2006.

## d. Developments on the asset side

As a *société de crédit foncier*, the assets held by Compagnie de Financement Foncier meet the exclusive eligibility criteria set forth in articles L.515-14 to L.515-17 of the French Monetary and Financial Code. They can be broken down into three main asset categories: assets secured by a mortgage, assets secured by a public guarantee, and risk-free liquid assets, called replacement securities, representing at most 20% of the balance sheet.

Excluding short-term cash investments, the assets consist of loans either purchased or produced by the company, or senior securitisation tranches whose underlying assets include at least 90% of those assets authorised by law to be purchased and held directly by Compagnie de Financement Foncier.

The first asset category, hereafter called secured loans, is backed by a real estate guarantee. In the case of Compagnie de Financement Foncier, these are mainly first-rank mortgages or *privilège du prêteur de denier* (preferential mortgage rights for the lender); the share of loans guaranteed by other equivalent guarantees remains very low. These loans must respect a maximum Loan-To-Value (LTV) ratio of 60% at the time of their acquisition. French law, however, authorises a 100% LTV ratio for loans covered by the FGAS (State guarantee). For loans held indirectly through the acquisition of securitisation tranches, the LTV is not limited on a loan-by-loan basis; however, a minimal credit rating of the notes is required for them to be taken into account in the over-collateralisation ratio.

The second asset category, hereafter referred to as public authority loans, comprises loans granted to, or fully guaranteed by, governments, local authorities, or public entities in the European Economic Area, Japan, the United States, Switzerland or Canada.

The French government also guarantees some secured loans in the first category: they were granted either using the FGAS scheme (*Fonds de garantie de l'accès à la propriété*), or are loans to the subsidised sector. The latter includes subsidised social access loans guaranteed by the French government until 1995, when the scheme was abolished. Crédit Foncier, which accounted for the overwhelming share of their distribution, transferred its entire production of subsidised loans to Compagnie de Financement Foncier when it was created in 1999.

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

	12/31/06		12/31/05		12/31/04	
	€M	%	€M	%	€M	%
Secured loans articles L.515-14 and 16	31,668	44.8%	30,493	53.1%	26,128	53.1%
- State subsidised mortgage loans	2,141	3.0%	2,952	5.1%	3,917	8.0%
- Government-secured loans (former FGAS guarantee)	6,602	9.3%	6,157	10.7%	6,074	12.3%
- Other mortgage loans	8,410	11.9%	7,124	12.4%	7,034	14.3%
- Senior mortgage backed securities	13,401	19.0%	13,462	23.5%	8,602	17.5%
- Other loans with real estate guarantee	1,114	1.6%	797	1.4%	501	1.0%
Public authority loans articles L.515-15 and 16	23,636	33.4%	15,625	27.2%	12,888	26.2%
- State subsidised public loans	369	0.5%	462	0.8%	558	1.1%
- Other public loans	8,897	12.6%	7,208	12.6%	8,415	17.1%
- Public entity securities	8,431	11.9%	7,196	12.5%	3,746	7.6%
- Senior securitisation tranches of public debt	5,938	8.4%	760	1.3%	169	0.3%
Other assets	3,204	4.5%	2,143	3.7%	2,686	5.5%
Replacement securities article L.515-17	12,184	17.2%	9,143	15.9%	7,493	15.2%
<b>TOTAL ASSETS</b>	<b>70,691</b>	<b>100.0%</b>	<b>57,404</b>	<b>100.0%</b>	<b>49,195</b>	<b>100.0%</b>

The main changes in the composition of Compagnie de Financement Foncier's assets during 2006 include:

- the significant growth (€8 billion) of public sector loans which accounted for €23.6 billion at the end of 2006, i.e. one third of all assets. This increase reflects the acquisitions of securitisation tranches and public entity securities abroad as well as loans directly produced by Compagnie de Financement Foncier.  
Including outstanding loans covered by both a public guarantee and a real estate security, such as loans in the subsidised sector or those guaranteed under the FGAS, assets secured by a public guarantee amounted to €32.4 billion on December 31, 2006, i.e. 45.8% of all assets, up €7.6 billion on the previous year. By adding the indirect guarantee on certain loans granted by European States to private individuals, the total amount of assets with a public guarantee increased to €34.3 billion, or 48.5% of all assets compared to 47% one year ago;
- outstanding loans to the subsidised sector continued to decrease. This sector is in process of extinction and now only accounts for €2.5 billion, or 3.5% of all assets at December 31, 2006, compared with 5.9% one year ago;
- a slight increase of €1.1 billion in outstanding secured loans. Excluding the subsidised sector, real estate and related loans increased by €2 billion in 2006, from €27.5 billion to €29.5 billion;
- replacement securities were increased by €3 billion, two thirds of which consisted of mortgage notes, with short-term interbank investments making up the other third.

Asset guarantees are also geographically diverse. Indeed, development abroad in 2006 helped diversify the location of assets, essentially in other European countries and the United States. At December 31, 2006, a third of the assets were located outside of France, mainly in:

- Italy (€7.5 billion or 11% of all assets),
- Spain (€4.8 billion or 7% of all assets),
- the Netherlands (€4.0 billion or 6% of all assets),
- the United States of America (€3.0 billion or 4% of all assets),
- Germany (€2.0 billion or 3% of all assets).

The external ratings received by most of the assets further demonstrate the quality of the portfolio and its risk management. Representing 43% of all assets at €30 billion, all of the international public sector securities or loans and securitisation tranches are rated by at least one of the three main credit rating agencies.

This portfolio includes €26 billion in assets that have received at least one of the best ratings (AAA or Aaa) and of these, €17 billion are rated AAA/Aaa/AAA. Furthermore, all of the lines have at least one rating in the highest range (AA-/Aa3 or better).

One counterparty only, the Republic of Italy, was downgraded during the financial year by 2 agencies (A+S&P/Aa2 Moody's/AA-Fitch). Outstanding loans directly and indirectly guaranteed by the Italian State and not enhanced by monolines amounted to €0.5 billion at December 31, 2006.

## 2. Liabilities

### a. Transactions in 2006

Compagnie de Financement Foncier continues to expand by issuing higher volumes, from €13.1 billion in 2005 to €17.3 billion in 2006. Ninety-two issues of privileged debt were carried out, 75% in public format, mainly as traditional fixed-rate *obligations foncières* with an average maturity of nine years. The other 25% were issued through private placements with a maturity of 7 to 9 years, depending on the assumed call date; these securities have more structured financial characteristics in order to meet specific investor requirements.

Due to regulations governing *sociétés de crédit foncier*, 8 of these transactions—each exceeding €500 million—required a declaration from the Specific Controller to the banking supervisory authorities confirming that prudential ratios were respected:

- 1 transaction for \$1 billion at 3 years,
- 1 transaction for €1 billion at 1.5 years,
- 2 transactions for €0.6 billion and €1.25 billion at 3 years,
- 2 transactions for €0.6 billion and €1 billion at 5 years,
- 1 transaction for €1 billion at 10 years,
- 1 transaction for €1 billion at nearly 50 years.

Compagnie de Financement Foncier consequently extended its presence across the entire rate curve with extremely long maturities and increased the liquidity of existing benchmarks via numerous transactions throughout the year.

Compagnie de Financement Foncier maintained its large international investor base, particularly in Scandinavia and Asia, with central banks increasingly investing in its issues. This diversification was achieved for all issues, whether in euros or other currencies.

In 2006, the share of Euro-denominated issues rose to 80%, close to its level two years ago. In 2005, it had fallen to 64% mainly because of an increased proportion of dollar-denominated issues. Throughout 2006, the most active currencies remained the US dollar at 9%, the British pound at 4% and the Swiss franc at 3%.

### b. Developments on the liability side

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

- privileged debt which legally protects bondholders by guaranteeing priority repayment and compliance with payment schedules, even in the unlikely event of issuer default or default of its parent company. Due to this highly secure legal framework and the commitments taken by Compagnie de Financement Foncier concerning, in particular, the quality of its assets and its ALM management, the three leading credit rating agencies have consistently granted their highest ratings to this privileged debt (AAA/Aaa/AAA) since the company's inception;

- other non-privileged debt helps reinforce the security of privileged debt holders and demonstrates the highly prudent risk monitoring and management policies of Compagnie de Financement Foncier. This debt either comes from Crédit Foncier, from schemes related to the subsidised sector and, to a lesser extent, from the Caisse d'Épargne Group. They also include collateral deposits made by banks, which are counterparties to derivative transactions.

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

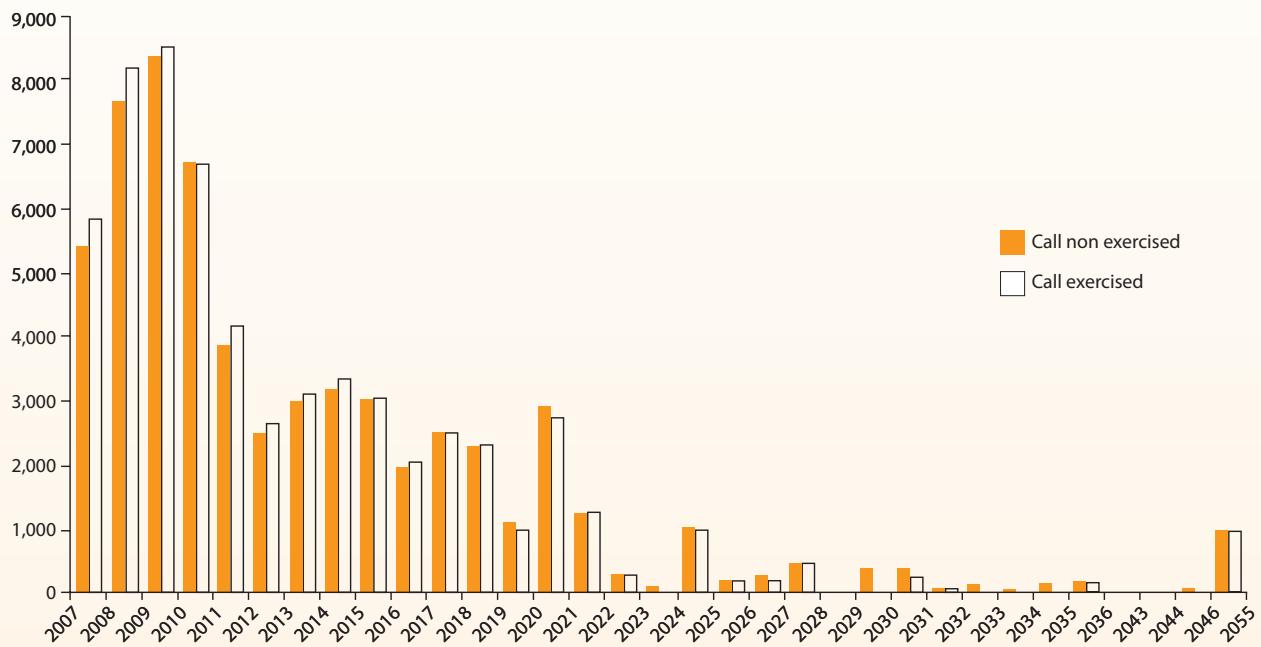
	12/31/2006		12/31/2005		12/31/2004	
	€M	%	€M	%	€M	%
<b>PRIVILEGED RESOURCES</b>	<b>64,557</b>	<b>91.3%</b>	<b>51,101</b>	<b>89.0%</b>	<b>43,485</b>	<b>88.4%</b>
<i>Obligations foncières</i>	61,680	87.3%	49,747	86.7%	41,088	83.5%
Other privileged resources	2,877	4.1%	1,355	2.4%	2,397	4.9%
<b>UNSECURED RESOURCES</b>	<b>6,134</b>	<b>8.7%</b>	<b>6,302</b>	<b>11.0%</b>	<b>5,710</b>	<b>11.6%</b>
Unsecured debt	2,322	3.3%	2,532	4.4%	1,930	3.9%
Subordinated and related debt of which:	3,282	4.6%	3,301	5.8%	3,397	6.9%
- Reimbursable subordinated instruments	900	1.3%	900	1.6%	900	1.8%
- Participating loan	1,350	1.9%	1,350	2.4%	1,350	2.7%
Shareholders' equity, provisions and FRBG	530	0.7%	469	0.8%	384	0.8%
(Shareholders' equity and related items)	1,880	2.7%	1,819	3.2%	1,734	3.5%
<b>TOTAL LIABILITIES</b>	<b>70,691</b>	<b>100.0%</b>	<b>57,404</b>	<b>100.0%</b>	<b>49,195</b>	<b>100.0%</b>

The important issuance programme carried out in 2006 ended in a sharp rise, of more than €12 billion. The *obligations foncières* outstanding, reached €61.7 billion by the end of December 2006, i.e. 87% of all liabilities. The increase of other privileged resources mirrored the development of hedging instruments for preferred debt subject to market rate fluctuations and the recognition of a privileged resource in the amount of €0.8 billion and maturing on December 30, 2006, payable on January 2, 2007.

Non-privileged resources decreased slightly to €6.1 billion from €6.3 billion one year earlier. The amount of collateral deposited by swap counterparties decreased in 2006 from €0.7 billion to €0.3 billion while other non-privileged resources (particularly subordinated debt) remained stable. As a result of the balance sheet's dynamic growth, non-privileged resources at the end of 2006 made up a smaller percentage (8.7%) of the total in comparison with last year.

Since its inception, Compagnie de Financement Foncier has issued nearly €74 billion in *obligations foncières*. Outstanding *obligations foncières* represented €61 billion at December 31, 2006. Half will be amortised over the next five years, three quarters over the next ten years and close to 2%, consisting of the new 50-year *obligation foncière* issued in 2006, in 2055.

## Secured debt maturity profile



Out of these privileged bonds, 17 Euro benchmarks are particularly liquid as their original amounts were over €500 million and because of the market making agreement signed with over 20 banks to organise their secondary market. These bonds, whose outstanding amounts totalled nearly €32 billion at December 31, 2006, represent the reference yield curve for Compagnie de Financement Foncier's privileged debt.

Bonds	SICOVAM or ISIN code	Repayment date	Outstanding issued in €M
CFF 2.75% November 2007	FR0010128785	11/02/2007	1,500
CFF 3.625% January 2008	FR0000471922	01/28/2008	3,500
CFF 5.125% October 2008	FR0000485641	10/25/2008	1,250
CFF 2.375% January 2009	FR0010235440	01/29/2009	3,300
CFF 4.25% October 2009	FR0000470544	10/25/2009	1,400
CFF 3.75% February 2010	FR0010391029	02/26/2010	1,250
CFF 5.625% June 2010	FR0000497398	06/25/2010	4,300
CFF 4% July 2011	FR0010101824	07/21/2011	2,300
CFF 3.625% January 2012	FR0010379248	01/16/2012	1,000
CFF 5.375% March 2013	FR0000485724	03/02/2013	1,400
CFF 4.25% January 2014	FR0010039149	01/29/2014	1,800
CFF 6.125% February 2015	FR0000499113	02/23/2015	1,500
CFF 3.375% January 2016	FR0010271148	01/18/2016	1,000
CFF 3.75% January 2017	FR0010157297	01/24/2017	2,400
CFF 4.50% March 2018	FR0000474652	05/16/2018	1,700
CFF 5.75% October 2021	FR0000487225	10/04/2021	1,250
CFF 3.875% April 2055	FR0010292169	04/25/2055	1,000

### 3. Hedge ratios

French law requires all *sociétés de crédit foncier* to permanently maintain a volume of weighted assets that exceeds its privileged debt. The legal prescriptions on weighting reduce the value of some assets when calculating the ratio, especially those assets that carry a higher risk. For Compagnie de Financement Foncier, only replacement securities are limited to 95% of their value, pursuant to regulations.

At December 31, 2006, Compagnie de Financement Foncier's over-collateralisation ratio was 108.5%, reflecting the high coverage levels of its privileged debt. The ratio stood at 111.4% at December 31, 2005.

In line with the company's development, the components of this percentage exhibited strong growth in 2006. Weighted assets stood at €70.1 billion at December 31, 2006 compared to €56.9 billion one year earlier and were measured against preferred debt of €64.6 billion at the end of 2006 and €51.1 billion at the end of 2005.

The absolute value of over-collateralisation has hardly changed over the past two financial years. The €6 billion drop in its relative value is due to the increasing volume of privileged debt issuance.

Furthermore, Compagnie de Financement Foncier must verify that the value of its loans whose loan-to-value (LTV) ratio exceeds the eligibility threshold for refinancing by *obligations financières* does not exceed its non-privileged debt.

When acquiring or producing loans, the law's implementing decree sets this percentage between the outstanding principal and the adjusted value of the underlying financed asset at 60% for loans with a first-rank mortgage or equivalent real-estate guarantee. This ratio can be raised to 80% if the surplus is financed by non-privileged debt. A ratio of 100% is authorised for FGAS-secured loans.

During the life of the loan, *sociétés de crédit foncier* first calculate the excess amount on all the loans they hold, and then on each loan that was initially in excess of the threshold (between 60% and 80% except for FGAS-secured loans). The total is then compared to the amount of non-preferred liabilities.

For Compagnie de Financement Foncier, the hedge ratio for LTV overruns in 2006 exhibits a very high protection level, equivalent to that observed in previous years. Non-privileged resources are much higher than the outstanding amounts exceeding this regulatory threshold. Subordinated debt was €6,134 million at December 31, 2006, or 8.7% of all liabilities, to cover an overrun estimated at €220 million, or 0.3% of the balance sheet. The overrun at the end of 2005 was indeed that low, amounting to €230 million.

By comparing the outstanding loans to the values of the underlying collateral, the average loan-to-value ratio for all *obligations financières* was 49.5% at December 31, 2006; these LTV ratios were estimated after an annual review of the underlying collateral's value. Outstanding loans are estimated at €18 billion at December 31, 2006, half of which are secured by a mortgage and a public guarantee. The underlying assets were re-evaluated to €66 billion.

In 2006, the average LTV ratio did not differ much from that of the previous year, at 49.7%, as a result of two opposing trends. In terms of flows, the LTV ratio was higher on purchased loans, close to the thresholds authorised by law; however, the LTV ratio gradually decreased for loans held in stock. The improvement of coverage ratios recorded on previous loan acquisitions is due to their contractual amortisation schedule and the overall appreciation, observed for several years now, of the underlying real estate assets which serves as collateral.

At the end of December 2006, Compagnie de Financement Foncier continued to maintain a liquidity ratio and observation ratios well above the minimum values required by banking regulations. The other prudential ratios applicable to financial institutions are monitored by Crédit Foncier group at a consolidated level.

## 4. Analysis of net income

### a. Net banking income

Net banking income in 2006 was €195.7 million. It was €249.8 million for the previous financial year.

About a third of this decrease can be explained by the decline of non-recurring items. Most of the exceptional gains posted in 2005 resulted from changes to the system used to determine compensation for losses on FGAS-guaranteed loans. At the time, Compagnie de Financement Foncier received a €26.7 million payment from this fund. In 2006, non-recurring income was less significant, essentially consisting of a prepayment indemnity of €17.3 million received on a securitisation transaction.

The fall in recurring net banking income, however, is due to changes in the composition of the Compagnie de Financement Foncier balance sheet and, in particular, to the ever-decreasing share of eligible loans transferred by Crédit Foncier in 1999, which benefited from high margins.

The relative weight of transferred loans since the company's inception in 1999 has significantly decreased the consequence of two factors: the amortisation of a sector that will soon disappear in addition to significant new production. Outstanding loans related to the transfer decreased by €1.4 billion in 2006 to less than €8 billion by the end of the year, while new transactions accounted for €16.9 billion in 2006.

The transferred assets generated higher margins than those obtained from currently produced assets. In particular, due to specific accounting rules, subsidised sector loans, amounting to €2.5 billion at the end of 2006 compared to €3.4 billion one year earlier, significantly contributed to net banking income generation because part of that gain is repaid as fees and appears as general operating expenses. The decrease in net banking income for the subsidised sector alone amounted to €15.8 million in 2006.

As a result, current net banking income has gradually come to reflect the margins negotiated during recent acquisitions, which are lower and in accordance to the quality of the assets and their guarantees.

The interest charge included the interest on subordinated debt, which reached €104.5 million in 2006 compared to €86.7 million in 2005, on an unchanged total outstanding loan amount of €2,250 million. The outstanding participating loan of €1,350 million reached its maximum rate again this year, equal to the TAM (a money market rate reference) plus 2.5 basis points for the period. For this value and for the reimbursable subordinated debt, the interest portion corresponding to the surplus remuneration, paid above the money-market rates, totalled €38.3 million in 2006, similar to previous years.

With regards to commissions and fees received, the amount of prepayment or renegotiation indemnities remained relatively stable, rising from €24.4 million in 2005 to € 25.3 million in 2006.

Net banking income also takes into account the cost of hedging a number of assets with Crédit Foncier. This charge corresponds to an asset repurchase guarantee in the event of a credit rating downgrade and to a credit risk hedge on €1.9 billion of mortgage loans whose risk, beyond a certain threshold, was indirectly transferred to a AAA-rated European public entity. A charge of €3.2 million was recognised for this in 2006.

## b. Gross operating income

Gross operating income in 2006 was €92.7 million compared to €145.6 million in 2005, in line with the change in net banking income. General operating expenses remained relatively stable over the period.

Operating expenses mainly account for commissions paid to Crédit Foncier for its role as a service provider to Compagnie de Financement Foncier, in particular for ALM management and for the administrative, accounting and financial management of the company. Commission rates differ depending on the type of market under consideration. Costs associated with the amortisation of outstanding loans in the subsidised sector declined more significantly than did costs incurred by the management of private sector loans, despite the latter having risen sharply.

The amortisation charge exclusively corresponds to a charge for goodwill depreciation to reconcile the difference between the fair market value and the net book value of the items transferred to Compagnie de Financement Foncier in October 1999. The declining balance method used to amortise this goodwill was selected at the time of the transfer. It will be fully amortised in June 2009. The amortisation charge was €7.5 million in 2006, compared to €9.6 million in 2005.

## c. Risk charge

The risk charge improved, resulting in a gain of €2.7 million in 2006 compared to a loss of €1.0 million in 2005. This difference is due to the initial recognition in 2005 of a €5.3 million provision for “Neiertz” risks (public support scheme for over-indebted households). This provision was €4.3 million at the end of 2006.

This item is broken down into:

- amortisation and provisions of €35.6 million;
- reversals of provisions and amortisation of €38.5 million;
- relatively insignificant total losses of €1.1 million, €0.5 million of which were covered by provisions and amortisation;
- gains of €0.9 million on amortised loans.

These items reflect the risk charge in terms of capital. Interest on doubtful loans must be added to the charge recognised in net banking income in order to measure the total risk charge. In 2006, the risk charge in capital and interest represented a gain of up to €3.9 million for Compagnie de Financement Foncier. This overall charge is analysed in detail in the next section.

## d. Earnings before tax

Earnings before tax amounted to €95.4 million in 2006 compared to €144.6 million in 2005.

After including the €38 million from the interest rate mark-up granted to subordinated debt and the €3 million cost for guarantees on certain assets (as mentioned in paragraph 4 above), gross income for the year stood at €137 million. After factoring in all of the payments on subordinated debt made to Crédit Foncier, income rose to €203 million. This amount can be compared to the value of doubtful loans net of depreciation in the private sector, which totalled €354 million. More than half of the theoretical risk is thus hedged by this year's gain, without taking into account other guarantees: shareholders' equity and the €520 million fund for general banking risks, subordinated and related debt of €3,282 million or other non-privileged debt of €2,322 million.

## e. Other items

The income tax charge was €33.1 million in 2006.

## f. Net income

After taking into account these various items, Compagnie de Financement Foncier's net income for 2005 was €62.3 million.

# 5. Credit risk analysis

Regarding credit risk monitoring, Compagnie de Financement Foncier's assets are analysed differently depending on the category they belong to. There are four main categories:

- subsidised sector loans which are guaranteed by the State;
- private sector loans which are guaranteed by a real estate security or a public authority and loans granted to public authorities. This category includes securities issued or guaranteed by public entities, in accordance with the regulatory specifications of eligible assets for *sociétés de crédit foncier*;
- eligible securitisation tranches, whose underlying assets are at least 90% comprised of loans with the same guarantees as those required for the direct acquisition of loans. As only senior tranches are acquired, their credit risks are covered by different mechanisms inherent in the fund's structure and are constantly monitored by credit rating agencies. Furthermore, the analysis of the underlying loans and fund management performance, developed by Compagnie de Financement Foncier for its securitisation transactions, confirms the quality of these assets. The over-collateralisation ratios of the funds at the end of 2006 had all improved since they were acquired;
- replacement securities comprised of safe and liquid securities with the highest possible credit rating. This asset category does not contain any doubtful loans.

At December 31, 2006, all of Compagnie de Financement Foncier's eligible loans and related securities amounted to €55.3 billion, broken down as follows:

- €2,512 million for the subsidised sector;
- €33,472 million for the private sector, of which:
  - €14,646 million in real estate loans granted to private individuals;
  - €16,142 million in loans and securities granted to, or guaranteed by, public authorities;
  - €2,562 million in loans granted to social housing professionals (these loans are covered by a mortgage and/or a public guarantee);
  - €121 million in loans granted to commercial property professionals.

- €19,339 million in senior securitisation tranches, of which:
  - €13,401 million in residential mortgage-backed securities whose underlying assets are largely made up of real estate loans to private individuals;
  - €5,938 million in shares of funds comprised of loans that a *société de crédit foncier* can lawfully hold as assets.

Since 2005, two changes to the rules used to determine doubtful loans resulted in important variations in this item:

- firstly, rules for reclassifying performing loans as doubtful loans were changed following the January 2005 migration of the majority of private individuals' customer loans to the community-wide software application of the Caisse d'Épargne Group. This new system requires the entire debt to be reclassified as a doubtful debt as soon as any amount, above one Euro, is in arrears for more than 3 months. This method is different from that applied by traditional Crédit Foncier group monitoring systems, which use equivalence rules for amounts in arrears by three monthly payments and which only applies them if the amount in arrears is greater than €150. This difference led to a €72.88 million increase in the amount of doubtful loans in 2005 and a €68.7 million increase in 2006;
- secondly, in accordance with CNC recommendation no.2005-07 dated June 21, 2005 associated with CRC regulation no.2005-03, amending CRC regulation no.2002-03, compromised doubtful loans will no longer be grouped with loans benefiting from a guarantee covering virtually all risks. This especially concerns subsidised sector loans and loans with an FGAS guarantee, now provided directly by the French government. Grouped with doubtful loans, compromised doubtful loans are loans that are highly unlikely to be reclassified as performing loans and, in particular, include loans that have reached maturity or are classified as doubtful for more than one year.

Furthermore, as of January 1, 2005, Compagnie de Financement Foncier applies CRC regulation no.2002-03, calculating the present value of depreciation for expected losses on doubtful and compromised doubtful loans.

As of January 1, 2006, CRC regulation no.2005-04 amending regulation no.2000-03 specifies that the term "depreciation" concerns provisions posted to assets while the term "provisions" is now reserved for provisions posted to liabilities.

In addition to the unconsolidated accounting items which will be analysed below, the unrealised gains from the accounting methods used for loans transferred in 1999 from Crédit Foncier to Compagnie de Financement Foncier must be taken into account. These unrealised gains correspond to reversals of depreciation made by Crédit Foncier before the transfer and which were recognised at the consolidated Group level only. While still potential for the time being, these gains will be recorded in Compagnie de Financement Foncier's individual financial statements as an exceptional gain if the loan's status improves and it is repaid in full. Unrealised gains amounted to €2.8 million for the subsidised sector and €0.7 million for the private sector at December 31, 2006.

## a. Subsidised sector loans

This sector also includes outstanding loans to the subsidised sector produced by Crédit Foncier and transferred to Compagnie de Financement Foncier in October 1999, with their related guarantees. These guarantees rely on various regulatory mechanisms to counterbalance the income and expenses of this sector's assets and liabilities; they cover Compagnie de Financement Foncier against the risk of default, late payments and loan prepayments. Thanks to these mechanisms, Compagnie de Financement Foncier only bears a residual credit risk.

In addition, the French government has historically given a direct guarantee to a portion of the debt refinancing the subsidised sector. Two bonds backed by the explicit guarantee of the French government were accordingly transferred. The total outstanding principal of these bonds was 150 million pounds sterling at December 31, 2006, and they are due to mature in 2007 and 2014.

SUBSIDISED SECTOR (in millions of €)	2006	2005	Change 2006/2005	2004
Outstanding loans	2,512.4	3,420.3	-26.5%	4,477.3
Doubtful loans	300.7	346.5	-13.2%	374.5
Percentage of doubtful loans	12.0	10.1	18.1%	8.4
Compromised doubtful loans	0.0	0.0		293.7
Percentage of compromised doubtful loans	0.0	0.0		6.6
Depreciation	3.0	3.9	-23.8%	4.4
Net losses	0.1	-3.4	n.a.	-0.4
Risk charge	0.2	-6.5	n.a.	-0.5
Risk charge (in basis points)	0.9	-19.0	n.a.	-1.2

Note: By convention, losses and risk charges represent expenses when the number is positive.

n.a.: Negligible amount.

Structurally, this sector, which will soon disappear, records a sharp drop in its outstanding loans each year. In 2006, more than a quarter of the outstanding loans were amortised, leaving a total outstanding amount of €2.5 billion at the end of 2006. At the same time, the percentage of doubtful loans increased since unpaid loans fell less quickly than performing loans. At December 31, 2006, outstanding doubtful loans stood at €301 million, i.e. 12% of the total portfolio.

The potential risk that these items usually represent is actually a negligible risk in this case since they belong to the subsidised sector and are guaranteed by the French State. For this reason and pursuant to CNC Recommendation 2005-07, there are no compromised doubtful loans in this sector.

Depreciation fell in line with outstanding loans, from €3.9 million at the end of 2005 to €3.0 million at the end of 2006. The overall risk charge for this sector amounted to €0.2 million in 2006. This is notably due to depreciation of €0.6 million on loans to professionals while loans to private individuals posted a €0.3 million reversal of depreciation.

## b. Private sector excluding securitisation

This sector expanded considerably in 2006, increasing by €5 billion to reach €33.5 billion at the end of 2006. It accounts for nearly half of Compagnie de Financement Foncier's assets.

PRIVATE INDIVIDUALS (in millions of €)	2006	2005	Change 2006/2005	2004
Outstanding loans	14,646.5	12,645.2	15.8%	12,402.4
Doubtful loans <sup>[1]</sup>	339.0	272.9	24.2%	208.6
Percentage of doubtful loans <sup>[1]</sup>	2.3	2.2	7.2%	1.7
Compromised doubtful loans	29.8	31.7	-5.9%	40.1
Percentage of compromised doubtful loans	0.2	0.3	-18.8%	0.3
Depreciation and provisions <sup>[2]</sup>	15.4	17.8	-13.7%	9.9
Net losses	0.6	1.9	-68.4%	0.6
Overall risk charge <sup>[2]</sup>	-0.6	7.0	n.a.	0.9
Risk charge in basis points <sup>[2]</sup>	-0.4	5.5	n.a.	0.7

(1) Doubtful loans include:

- €52.9 million in 2006 and €54.8 million in 2005 due to changes in the method for reclassifying doubtful loans;
- €178.7 million in 2006 and €156.9 million in 2005 in loans guaranteed by the French state in connection with the FGAS.

(2) These items include a provision of €5.3 million for Neiertz risks recognised for the first time in 2005; at December 31, 2006, this provision was €4.3 million.

PUBLIC AUTHORITIES (in millions of €)	2006	2005	Change 2006/2005	2004
Outstanding loans	16,141.7	13,378.2	20.7%	11,349.3
Doubtful loans	2.2	2.8	-21.0%	3.2
Percentage of doubtful loans	0.0	0.0	n.a.	0.0
Compromised doubtful loans	0.0	0.5	-98.2%	0.0
Percentage of compromised doubtful loans	0.0	0.0	n.a.	0.0
Depreciation	0.1	1.8	-96.7%	0.8
Net losses	0.0	0.0	0.0%	0.0
Risk charge	-1.8	0.3	n.a.	0.0
Risk charge (in basis points)	-1.1	0.2	n.a.	0.0

SOCIAL HOUSING (in millions of €)	2006	2005	Change 2006/2005	2004
Outstanding loans	2,562.2	2,339.3	9.5%	1,875.6
Doubtful loans	15.7	6.3	148.1%	4.7
Percentage of doubtful loans	0.6	0.3	126.5%	0.3
Compromised doubtful loans	3.3	3.0	9.1%	3.2
Percentage of compromised doubtful loans	0.1	0.1	-0.4%	0.2
Depreciation	3.4	3.4	0.0%	3.0
Net losses	0.0	0.0	0.0%	0.3
Risk charge	-0.6	0.3	n.a.	0.6
Risk charge (in basis points)	-2.1	1.3	n.a.	3.1



This gain consists of a €4.6 million net reversal of depreciation, a €1.2 million gain on amortised loans and losses of €1.7 million. All of the private sector categories generated income for Compagnie de Financement Foncier mainly due to net reversals of depreciation. The gain posted by this sector represents one basis point on its outstanding loans.

### c. The private sector including securitisation

A thorough analysis of the credit risk on all loans must include securitisation transactions which allow loans to be held indirectly.

The securitisation portfolio of Compagnie de Financement Foncier posts the best credit ratings, and the integration of securitisation tranches in the private sector improves the overall results.

	2006			2005			2004		
	Outstanding loans	Percentage of doubtful loans <sup>(1)</sup>	Risk in bp	Outstanding loans	Percentage of doubtful loans <sup>(1)</sup>	Risk in bp	Outstanding loans	Percentage of doubtful loans <sup>(1)</sup>	Risk in bp
Private individuals	28,047	1.2%	-0.2	26,107	1.0%	2.7	21,004	1.0%	0.4
of which securitisation tranches	13,401			13,462			8,602		
Public authorities	22,080	0.0%	-0.8	14,138	0.0%	0.2	11,518	0.0%	0.0
of which securitisation tranches	5,938			760			169		
Social housing	2,562	0.6%	-2.1	2,339	0.3%	1.3	1,876	0.3%	3.1
Commercial property	121	15.1%	-96.5	139	15.0%	-79.1	175	15.7%	-313.6
<b>TOTAL</b>	<b>52,811</b>	<b>0.7%</b>	<b>-0.8</b>	<b>42,723</b>	<b>0.7%</b>	<b>1.5</b>	<b>34,572</b>	<b>0.7%</b>	<b>-1.2</b>
Total excluding securitisation tranches	33,472	1.1%	-1.2	28,502	1.1%	2.3	25,802	0.9%	-1.6

(1) Doubtful loans increased by €54.8 million in 2005 and €52.9 million in 2006 due to an accounting change related to the migration to a new software application.

Note: By convention, losses and risk charges represent expenses when the number is positive.

This table confirms the results already observed in the loans and related items portfolio of the private sector:

- dynamic growth of outstanding loans, from €42.7 billion in 2006 to €52.7 at the end of 2006. After adding loans indirectly held through securitisation units, the category of loans with public guarantees markedly increased in 2006 and now accounts for 42% of the entire non-subsidised sector;
- a stable percentage of doubtful loans across the board. The seemingly higher percentage of doubtful loans to private individuals is due to the relative weight, less in 2006 than in 2005, of securitisation tranches, where no arrears are recorded;

The average percentage of doubtful loans was 0.7% at the end of 2006, the same as that of 2005, which confirms the very high quality of Compagnie de Financement Foncier's assets.

- a very low overall risk charge, maintained once again slightly above zero. This resulted in a gain of €3.9 million in 2006.

## 6. Analysis of interest and exchange rate risks

Compagnie de Financement Foncier is only very marginally exposed to interest rate risks thanks to the implementation of a series of hedging mechanisms. All balance sheet items are transformed, as applicable, into variable rate assets and liabilities from origination. Their rates are monitored quarterly and immediately corrected if they become distorted.

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

## a. Hedging transactions

At the time of the transfer on October 21, 1999, macro-hedging swaps were established to transform balance sheet exposures into variable interest rate. In addition, over the life of the loans, all the risks of the subsidised sector, including interest rate, prepayment and renegotiation risks, are covered under the guarantee granted by the French State.

Appropriate mechanisms have been implemented, upon acquisition, for loans acquired since the transfer to neutralise interest rate risks on these assets.

The fixed-rate loans transferred by Crédit Foncier de France are covered by variable-rate hedging swaps, and guaranteed rate transactions are also settled for variable-rate loans that have a rate cap. Until November 2005, Compagnie de Financement Foncier classified derivatives as micro-hedging instruments when they were set up on acquired loan portfolios. This accounting method was initially retained because of regulations governing *sociétés de crédit foncier*. Recent amendments to these regulations have led Compagnie de Financement Foncier to recognise any new transaction as a macro-hedge even if the instrument is used for micro-hedging purposes on an asset acquisition. At the end of 2006, Compagnie de Financement Foncier also reclassified all previous transactions as macro-hedges without any incidence on its results.

With the Caisses d'Épargne Group, a series of mechanisms were also put in place to enable hedging against interest rate risks and guarantee Compagnie de Financement Foncier's expected returns.

Securities purchased on financial markets and loans granted directly by Compagnie de Financement Foncier to public sector authorities outside France that are not originated in euros and at variable rates are subject to interest rate and currency swaps, as applicable.

Funds raised through Compagnie de Financement Foncier's primary market issues are covered by micro-hedging interest rate and currency swaps when the issues are in non-Euro denominated currencies and at fixed rates.

Finally, Compagnie de Financement Foncier reviews its interest rate positions every quarter, and periodically puts new macro-hedging swaps in place to correct positions that get too close to the limits it is committed to respecting for the entire life of its balance sheet.

In order to offset any credit risks tied to these derivatives, Compagnie de Financement Foncier has signed asymmetrical collateralisation agreements with all counterparties. As a result, it receives deposits corresponding to its net position after deductions depending on the credit rating of the counterparty, without having to deposit collateral on its own behalf in the opposite case. At December 31, 2006, this unsecured debt consisting of cash equivalents received amounted to €332 million.

Recorded as off-balance sheet transactions, the volume of financial instruments traded in these hedging transactions exceeds the size of the balance sheet. These reciprocal commitments amounted to €115 billion at December 31, 2006, compared to €97 billion a year earlier. This 19% increase over the previous year is explained by the dynamic growth of Compagnie de Financement Foncier's activities and its policy of active risk management. The reclassification of hedging transactions on previous acquisitions of loan portfolios, initially recognised as micro-hedges, at the end of 2006, modified the distribution of derivatives. Outstanding micro-hedges valued at €7.7 billion were reclassified as macro-hedges.

The breakdown of financial instruments, according to the desired hedging objective, is now as follows:

- macro-hedging interest rate swaps for €20.5 billion at December 31, 2006, compared to €11.2 billion a year earlier. This amount includes €1.3 billion in swaps transferred from Crédit Foncier in 1999 related to its former activity as a *société de crédit foncier* and swaps which closed the open positions that appeared at the time of the transfer. The balance, i.e. €19.2 billion, fulfils two main objectives: hedging loan portfolio acquisitions as soon as these new assets are recognised on the balance sheet and correcting balance sheet distortions caused by events such as prepayments in particular, occurring over the life of these loans. Of this total, €0.5 billion concerns interest rate management for the subsidised sector;
- micro-hedging swaps of assets acquired for €7.8 billion in 2006, compared to €14.6 billion in 2005. These primarily correspond to interest rate swaps negotiated by Compagnie de Financement Foncier to transform fixed-rate assets, investment securities or public sector loans into variable-rate assets. Currency swaps were also negotiated for the portion of non-Euro denominated securities; the outstanding amount was €1.9 billion of currencies to be delivered and €2.0 billion to be received;
- micro-hedging swaps for issued debt. Interest rate swaps totalled €56.0 billion at the end of 2006. Currency swaps amounted to €12.9 billion of currencies to be delivered (€12.1 billion to be received). These swaps rose sharply in 2006, by up to €11 billion for hedges against interest rate risks and by €2 billion for protection against exchange rate risks. These movements reflect the very active management of benchmark indices for the variable-rate component of the swaps, the increase in issuance volumes most often at fixed rates for privileged debt and the lower proportion in 2006 of securities originally denominated in euros;
- micro-hedging conditional transactions for €1.3 billion, negotiated to protect the variable-rate loan portfolios with remuneration capped to the benefit of their borrowers.

## b. Residual rate position

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

Since the securitisation tranches have variable rates from origination and the maturity date of other investment securities is predetermined, the residual rate position is constituted by fixed-rate loans whose prepayment is not covered by indemnities equivalent to the risk incurred.

In the subsidised sector, interest rate risk is supported by the State in connection with its guarantee and all the loans granted to legal entities benefit from actuarial indemnities. Therefore, there is only a residual risk on the outstanding fixed-rate loans in the private sector granted to individuals, due to the cap on the indemnity stipulated in the contract in the event of prepayment, which is limited to 6 months interest with a maximum of 3% of the outstanding principal amount.

For Compagnie de Financement Foncier, these loans amounted to €5.3 billion at December 31, 2006, as most of Crédit Foncier's recent production is at variable rates. Moreover covered by indemni1 Tf 0 Tw Td ( )14.585 (in the de Finansettled, ex-

Furthermore, over the past few years the percentage of prepayment flows has exhibited a moderate increase across Compagnie de Financement Foncier's entire loan portfolio. This percentage remains nevertheless low and close to the incompressible levels not linked to interest rate movements. More prepayments are made on loans in the subsidised sector. Compagnie de Financement Foncier benefits from a rate guarantee on these loans from the French government. This change in the last three years is summarised in the table below:

	2006	2005	2004
Subsidised sector	11.4%	9.9%	9.2%
Private Sector	5.9%	5.4%	4.4%
<b>TOTAL</b>	<b>6.6%</b>	<b>6.2%</b>	<b>5.6%</b>

The increasing percentage of prepayments over time is also apparent with the underlying real estate loans of European securitisation funds, especially in Italy and Spain. The percentage is higher than anticipated when the funds were created; however, this risk is not borne by Compagnie de Financement Foncier, which invested exclusively in variable rate tranches. Acceleration in loan prepayments would therefore only impact the term of the investment, without affecting the annual return.

## 7. Analysis of liquidity risk

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

Accordingly, Compagnie de Financement Foncier is committed to maintaining sufficient short-term liquidity to cover its privileged debt commitments for a period of one year.

Moreover, a significant portion of its assets are inherently easily negotiable, such as replacement securities comprised of risk-free, liquid investments, as required by laws governing *sociétés de crédit foncier*. As of December 31, 2006, Compagnie de Financement Foncier held €12.2 billion in replacement securities, or 17.2% of the balance sheet, the majority of which had a remaining term of less than 6 months, as well as €15.6 billion in securities eligible for refinancing at the European Central Bank. At December 31, 2005, Compagnie de Financement Foncier held the equivalent of €9.1 billion in replacement securities and the amount of its short-term assets eligible for ECB financing was €13.0 billion.

Furthermore, in terms of its liquidity position, Compagnie de Financement Foncier applies the same rules as those used for monitoring interest rate risks: its position is reviewed quarterly and compliance with its commitments, regarding its immediately available cash and realisable assets, is constantly monitored. Liquidity management includes an increasing volume of commitments given in 2006, proportional to overall activity growth.

## 8. Hedging indicators

Compagnie de Financement Foncier's exposure to interest rate and liquidity risks can be measured using different sensitivity indicators for its income or asset/liability hedging mechanisms.

In a cash-flow scenario, excluding new acquisitions and issues, the estimated present value of net income over the next 10 years would decline by less than €200 million, i.e. 0.3% compared to the total value of the balance sheet, if market rates increased by two percentage points with other factors remaining unchanged. In 2005, income sensitivity to market movements was also as low as 0.1% of the balance sheet.

The duration of fixed and variable-rate balance sheet items at December 31, 2006 remained comparable: the asset duration was 6.8 years compared to 5.9 years for liabilities. In 2005, they were very close, 5.9 and 6.1 years for assets and liabilities respectively. The longer duration of assets was essentially due to longer terms on loans granted or in stock as a result of higher interest rates which have an incidence on the term of variable-rate loans.

## 9. Other risks

### Legal risks

#### Exceptional events and legal disputes

At December 31, 2006, there were no exceptional events or legal disputes likely to have a material impact on Compagnie de Financement Foncier's activity financial position or results.

#### Insurance policy

Compagnie de Financement Foncier has the following insurance policies subscribed by Crédit Foncier de France:

- a "comprehensive" policy covering all risks except real estate, subscribed by Crédit Foncier for all offices (head office and network offices), which also covers Compagnie de Financement Foncier since its business is conducted in buildings belonging to Crédit Foncier de France. This policy also covers Crédit Foncier's mainframe computer system, which is also used by Compagnie de Financement Foncier;
- an insurance policy for protection against risks of "fraud, malice or embezzlement". This contract explicitly refers to Compagnie de Financement Foncier among the companies insured;
- a "civil liability" policy for senior executives and corporate officers (Chairman, Chief Executive, Administrators) for any judgments against them for negligence in the performance of their duties. This policy was taken out by Crédit Foncier de France for its own account and for subsidiaries (including Compagnie de Financement Foncier).

In addition, Compagnie de Financement Foncier has also signed the Group Insurance Agreements covering borrowers of mortgage loans for the risks of death, total and irreversible loss of autonomy, inability to work and disability. Under the Agreement, Compagnie de Financement Foncier is named as the beneficiary of any payments made by the Insurance Company. The same is true of the Group insurance agreements subscribed to protect mortgage borrowers from the risk of "job loss". Lastly, Compagnie de Financement Foncier has also signed a "collateral loss" agreement under which it can be compensated if the building financed and mortgaged is damaged by fire or explosion, and if the owner-borrower does not qualify for compensation from his own insurer due to lack of coverage or to insufficient coverage.

#### Social and environmental risks

In terms of social and environmental risks, Compagnie de Financement Foncier relies upon the material and human resources provided by Crédit Foncier de France under the agreements entered into pursuant to Articles L.515-22 and L.515-23 of the French Monetary and Financial Code. Its own business as a *société de crédit foncier* is not likely to have any impact on the environment.

## **10. Valuation of collateral**

The Specific Controller reports on the methods used for the valuation and periodic review of the property securing the loans. Further information about these methods is available in the section of the annual report containing the financial statements.

## **11. Organisational structure of Compagnie de Financement Foncier and Crédit Foncier internal control in 2006**

As Compagnie de Financement Foncier does not have its own human resources, a series of agreements were concluded with Crédit Foncier specifying the services that Crédit Foncier must provide, including: the administrative, financial and accounting management of Compagnie de Financement Foncier; the management and collection of loan payments for purchased or produced loans; and IT, internal control and compliance services.

### **1. Organisation of the Company's internal control**

The Chief Executive Officer is responsible for Compagnie de Financement Foncier's permanent, periodic and compliance controls.

However, in accordance with the agreements linking the company to Crédit Foncier de France and particularly the agreement on the provision of internal and compliance controls, Compagnie de Financement Foncier has asked Crédit Foncier de France to provide the following services:

- a) compliance;
- b) permanent controls, including controlling of outsourced services;
- c) periodic controls.

This system enables the company to make use of Crédit Foncier's quantitative and qualitative resources (with Crédit Foncier also directly controlling its own activities) while remaining responsible for and managing internal controls. Indeed, the company's management has initiative-taking and managerial authority as confirmed by the agreements concluded between the two companies and updated in 2006, while also reinforcing Crédit Foncier's obligations to the company.

Permanent control of services entrusted to Crédit Foncier by the company in accordance with the agreements is carried out by the SCF Monitoring and Audit Department. This unit reports to the Steering Committee for Agreements and the Management Committee.

The Steering Committee for Agreements is the joint Crédit Foncier and Compagnie de Financement Foncier body which deals with the application and interpretation of agreements.

The Management Committee examines issues relating to the on-going business of Crédit Foncier, puts forward solutions for difficulties relating to the application of agreements and problems between the two companies.

In the event of difficulties, the Management Committee may refer a case to the Steering Committee for Agreements for arbitration and resolution.

These two committees are essential components of the partnership between the two companies.

The company also has an Audit Committee, which is mainly responsible for ensuring the relevance of accounting methods used for the company's accounts, evaluating the internal control systems and tracking risk levels.

Analysis of ALM indicators is carried out by the company's Asset and Liability Management Committee, which also examines the stocks situation and development scenarios.

Thanks to this general structure combining Compagnie de Financement Foncier specific bodies with control systems within Crédit Foncier, the organisational structure of Crédit Foncier's internal controls as described hereafter is fully beneficial to the company.

## 2. Organisation of Crédit Foncier's internal control

The Crédit Foncier internal control structure, adapted to the provisions of amended regulation no.97-02 of the French Banking and Finance Regulatory Committee, is structured as follows:

**Permanent control** is the responsibility of:

- Operational units, responsible for implementing adequate systems and resources in order to:
  - manage and control risks generated by their activity, using appropriate management and monitoring tools;
  - preserve the company's assets and liabilities, through the effective use of allocated resources, and by respecting legal and regulatory provisions and guidelines issued by the Management Board.
- Permanent control units which are independent of operational structures, and ensure that procedures are correctly carried out. These units may come under the authority of the operational divisions, or be specific centralised structures (Risks and Compliance divisions, ISSM).

The Crédit Foncier Group's General Inspection Department, which is attached to the office of the Chairman of the Management Board, carries out **periodic controls**.

This department has the authority to conduct any internal audit without any restriction within Crédit Foncier and its subsidiaries. It is part of a general system managed by the shareholders' audit body, and particularly uses the Crédit Foncier audit charter, which is based on the Caisse d'Epargne Group audit charter.

The company's annual audit plan, drawn up as part of a long-term plan, is validated by the Audit Committee.

Supplemented by missions and work resulting from the Crédit Foncier audit plan, this plan enables coverage of all activities relating to the company to be covered as often as necessary for the risk particular in question.

A system of internal **decision-making committees** operationally implements the Management Board's guidelines: this system is updated and enhanced as required. The Loan Committee (national committee or sector-based committees) authorises the largest loans, the Sensitive Operations Committees (national committee or litigation committees) manages commitments presenting major risks, the ALM committee manages financial risks, the Tariff Committee determines the loan conditions offered to customers and the Risk Committee determines and monitors the counterparty limits and risk taking regulations.

The Chief Executive Officer of the Compagnie de Financement Foncier takes part as required in committees which are dealing with cases which may affect the company's activity.

The Credit Foncier **Audit Committee** regularly monitors internal auditing and also ensures that recommendations made by the General Inspection Department have been implemented. This committee meets every quarter in advance to the Supervisory Board, and can also hold exceptional meetings on specific issues as needed.

### 3. Activity in 2006

**3.1.** The updating phase of the agreements linking the company to Crédit Foncier, agreements which aim to organise and enhance internal control mechanisms, was completed in 2006.

The Audit Committee met four times and mostly dealt with internal control-related affairs.

The ALM Committee also held four meetings.

The Management Committee met six times in 2006 with the aim of examining issues relating to on-going business, proposing solutions for difficulties relating to the application of agreements, and checking the implementation of recommendations made by the Crédit Foncier General Inspection Department.

The Steering Committee for Agreements held a meeting to validate the draft agreements with Crédit Foncier prior to their signature.

In accordance with the law on financial security, the Chairman of the Board drew up a special report (included below) on the company's internal control system for the 2006 financial year.

**3.2.** For Crédit Foncier, the 2006 financial year was marked by:

- the structuring of the permanent control system with:
  - the creation of a Permanent Control Committee, of which the Chief Executive Officer of Compagnie de Financement Foncier is a member;
  - the finalisation of the risk management system, supplemented by control plans, in the operational divisions and subsidiaries.
- the implementation of the business continuity plan, enabling operations to continue in the event of a major disaster. In the first instance, loan and refinancing management are concerned;
- enhanced operational risk monitoring, within the framework of Basel II and in compliance with the guidelines of the Caisse d'Epargne Group, particularly with the revision of the company risk mapping at the end of 2006;
- service provider contracts being listed and updated to comply with standards, within the framework of regulatory provisions on essential outsourced services;
- reinforced monitoring of audit recommendations, through the systematic creation of an evidence file by the audited units.

In accordance with the law on financial security, the Chairman of the Supervisory Board delivered a report on Crédit Foncier's internal control system for the 2006 financial year to the General Shareholders' Meeting.

### 4. The outlook for 2007

**4.1.** The company's executive bodies will be reinforced by the arrival of a new Chief Executive Officer at the start of 2007. Agreements linking the company to Crédit Foncier will be updated with the signing of agreements on settlement banking and human resources between now and the end of the first quarter of 2007.

This will enable the company's General Secretariat to be formally established. It will be responsible for monitoring and controlling services outsourced to Crédit Foncier de France.

Financial year 2007 will also be devoted to updating and adapting management regulations and agreements, in preparation for the transposition of the "Basel II" directives 2006/48/EC and 2006/49/EC of June 14, 2006. This transposition will modify legislation governing sociétés de crédit foncier. The Company's various ratios will be affected by these reforms.

Finally, IFRS preparatory work is scheduled to begin in 2007, with the aim of producing IFRS compliant accounting data in 2008.

**4.2.** For Crédit Foncier de France, changes in the internal control system will focus on:

- scaling-up of work begun in connection with Basel II in order to be prepared for implementation on January 1, 2009: standardised ratings when granting loans and on loans in stock for all counterparties, standard Basel practices, enhancing the notion of operational risk;
- the completion of the business continuity plan, scheduled for July 2007 (extending the scope to cover all activities, with tests and structuring of the system).

## 12. Changes to accounting methods in 2006

Several changes were made to accounting methods as of January 1, 2006:

CRC regulation no.2005-03 modified, as of January 1, 2006, the reference rate for calculating the discount on restructured loans (the original rate is applied and no longer the market rate). This change did not have a material impact, and no changes were recognised in shareholders' equity.

Compagnie de Financement Foncier decided to apply by anticipation CRC regulation no.2005-01, related to accounting for security transactions. This regulation authorised the reclassification of the investment portfolio at January 1, 2006. This regulation change had no material impact on the accounts.

CRC regulation no.2005-01 standardised the actuarial calculation method used to amortise premiums and discounts on security holdings. The changes caused by the first-time application of this regulation are recognised in accordance with the expected modifications to the general provisions of article 314-1 of CRC regulation no.99-03 related to accounting method changes. This means that the effects are calculated retrospectively as if new method had always been applied. This change resulted in a €0.3 million reduction of retained earnings at the start of 2006.

## 13. Conversion to IFRS

Compagnie de Financement Foncier, which does not prepare consolidated accounts, did not prepare financial statements under IFRS in 2006. Compagnie de Financement Foncier intends to begin the necessary IFRS preparatory work in 2007, with the aim of producing financial statements under IFRS in 2008.

## 14. Outlook for the future

In 2007, Compagnie de Financement Foncier plans to pursue and intensify its growth using the same strategies as in previous years:

- maintain the quality of its assets through a highly selective purchasing policy and rigorous risk management;
- refinance the Caisse d'Épargne Group by acquiring loan portfolios granted by Crédit Foncier, the individual Caisses d'Épargne, and other Group entities;
- originate and acquire public sector loans and securities, and acquire portfolios of first-rank residential mortgage loans, notably from outside of France, thereby ensuring increased geographical asset diversification;
- develop its activity involving secured loans and public authority loans by taking advantage of a wide range of opportunities for *sociétés de crédit foncier* as authorised by French law;
- confirm its place as a leading European issuer in the covered bond market and expand the investment base of its *obligations foncières* with international investors.

# Notes

## to the Management report

### Note 1. Information on corporate officers

For the year ending December 31, 2006, 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 during the year ended to each of the corporate officers (Article L.233-16 of the French Commercial Code).

#### Statement of the total compensation of Compagnie de Financement Foncier corporate officers in 2006.

All figures are in euros.

First and last name	Position	Basic salary	Term of office	Variable pay	Fringe benefits	Gross salary	Specific private pension scheme	Director's fees	Total
François Drouin	Chairman & Chief Executive Officer of Compagnie de Financement Foncier Chairman of the Executive Board of Crédit Foncier de France		343,840	185,000	26,160	555,000	18,482	10,500	583,982
Sandrine Guérin	Director and Deputy CEO of Compagnie de Financement Foncier Executive Director of Market Operations of Crédit Foncier de France	131,115		324,165		455,280		3,750	459,030
Alain Prévet	Permanent representative of Crédit Foncier de France, Director of Compagnie de Financement Foncier Member of the Executive Board of Crédit Foncier de France <sup>[1]</sup>	109,977	8,417	66,660	1,450	186,504	6,211	4,250	196,965
François Blancard	Permanent representative of Crédit Foncier de France, Director of Compagnie de Financement Foncier Member of the Executive Board of Crédit Foncier de France <sup>[2]</sup>	208,073	23,518		3,626	235,217	7,833		243,050
François Chauveau	Director and Chairman of the Audit Committee of Compagnie de Financement Foncier CFO of Caisse Nationale des Caisses d'Épargne	261,649			33	261,682		6,750	268,432
Thierry Dufour	Director of Compagnie de Financement Foncier Member of the Executive Board of Crédit Foncier de France	165,305	119,304	428,396	2,690	715,695	4,002	7,500	727,197
Pierre-Eric Fuzier	Director of Compagnie de Financement Foncier Head of Legal Department of Crédit Foncier de France	118,794				118,794		3,750	122,544
Crédit Foncier de France	Director of Compagnie de Financement Foncier							3,750	3,750

(1) Until May 15, 2006.

(2) Since March 15, 2006.

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

At December 31, 2006, 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 at December 31, 2006.

### List of offices of corporate officers

#### Offices or positions held by Mr. François Drouin

MANAGEMENT POSITIONS	
COMPANY	POSITION
CREDIT FONCIER DE FRANCE – SACS	Chairman of the Executive Board
COMPAGNIE DE FINANCEMENT FONCIER – SA	Chairman of the Board of Directors, then Chairman & Chief Executive Officer since September 4, 2006
OFFICES AS DIRECTOR AND SUPERVISORY BOARD MEMBER	
A.C.F.F. – SA	Chairman of the Board of Directors
CICOBAIL – SA	Chairman of the Board of Directors
FONCIER EXPERTISE (ex SEIEF) – SA	Chairman of the Board of Directors
FONCIER PARTICIPATIONS – SA	Permanent Representative of Crédit Foncier, Director
MUR ÉCUREUIL – SA	Chairman of the Board of Directors (until 08/03/2006)
GCE IMMOBILIER – SACS	Permanent Representative of Crédit Foncier, Supervisory Board member (since 02/08/2006)
CFD – SAS	Legal Representative of Cofimab, Chairman
DOM 9 – SAS	Legal Representative of Crédit Foncier, Chairman of the SAS
ENTENIAL CONSEIL – SAS	Legal Representative of Crédit Foncier, Chairman of the SAS
FONCIER VIGNOBLES – SAS	Legal Representative of Crédit Foncier, Chairman of the SAS
FONCIÈRE IMMEUBLES 1 – SAS	Legal Representative of Crédit Foncier, Chairman
OTHER OFFICES AND POSITIONS	
ÉCUFONCIER – SCA	Legal Representative of Crédit Foncier, General Partner
TANIS – SARL	Legal Representative of CFD, Liquidator
COFIMAB – SNC	Legal Representative of Crédit Foncier, General Partner
HAUSSMANN ST HONORÉ – SNC	Legal Representative of Crédit Foncier, Liquidator
SOCLIM – SNC	Legal Representative of CFD, Manager
SOFIPAR LOGEMENT – SNC	Legal Representative of Crédit Foncier, General Partner
SOFONEG – SNC	Legal Representative of Crédit Foncier, General Partner
CHÂTEAU BEAUREGARD – SC	Legal Representative of Foncier Vignobles, Manager
ARION CONSEIL – SCI	Legal Representative of Crédit Foncier, Liquidator
COLOMIA 31 – SCI	Legal Representative of Crédit Foncier, Manager
COMELIA – SCI	Legal Representative of Crédit Foncier, Manager
FRANCILIA – SCI	Legal Representative of Crédit Foncier, Manager
IMMOBILIÈRE CHAUVEAU LAGRÈDE – SCI	Legal Representative of CFD, Manager
IMMOBILIÈRE MADELEINE DUPHOT – SCI	Legal Representative of CFD, Manager
MANTELIA - SCI	Legal Representative of Crédit Foncier, Manager
RENTE IMMOBILIÈRE 2 – SCI	Legal Representative of CFD, Manager
GIRCE INGENIERIE – GIE	Permanent Representative of Crédit Foncier, Supervisory Board member
GIRCE STRATÉGIE – GIE	Permanent Representative of Crédit Foncier, Director

## Offices or positions held by Mr. Thierry Dufour

MANAGEMENT POSITIONS	
COMPANY	POSITION
COMPAGNIE DE FINANCEMENT FONCIER – SA	Chief Executive Officer and Director (until 09/04/2006)
CRÉDIT FONCIER DE FRANCE – SACS	Executive Board member (since 06/28/2006)
COMPTOIR FINANCIER DE GARANTIE – SA	Chairman & Chief Executive Officer (since 11/15/2006)
OFFICES AS DIRECTOR AND SUPERVISORY BOARD MEMBER	
ACFF – SA	Director
COMPAGNIE DE FINANCEMENT FONCIER – SA	Director
FINANCIÈRE DESVIEUX – SA	Director
FONCIER EXPERTISE – SA	Director
SOCRELOG – SA	Director
VAUBAN MOBILISATION GARANTIE – SACS	Supervisory Board member (until 06/28/2006) and now Permanent Representative of Crédit Foncier, Supervisory Board member
OTHER OFFICES AND POSITIONS	
COMPAGNIE DE FINANCEMENT FONCIER – SA	Member of the Audit Committee (since 09/04/2006)

## Offices or positions held by Ms. Sandrine Guérin

MANAGEMENT POSITIONS	
COMPANY	POSITION
COMPAGNIE DE FINANCEMENT FONCIER – SA	Deputy CEO, Director
FINANCIÈRE DESVIEUX – SA	Chief Executive Officer
VAUBAN MOBILISATION GARANTIE – SACS	Chairman of the Executive Board
OFFICES AS DIRECTOR AND SUPERVISORY BOARD MEMBER	
FONCIER COURT TERME – SICAV	Director
FONCIER ASSURANCE	Director
OTHER OFFICES AND POSITIONS	
CREDIT FONCIER DE FRANCE - SACS	Executive Director of Market Operations Director of Financial Operations
EBIC	EMF Representative at the European Commission for bond markets

## Offices or positions held by Mr. François Chauveau

OFFICES AS DIRECTOR AND SUPERVISORY BOARD MEMBER	
COMPANY	POSITION
COMPAGNIE DE FINANCEMENT FONCIER – SA	Director
EUROTITRISATION – SA	Permanent Representative of CNCE, Director
GCE BAIL – SA	Permanent Representative of CNCE, Director
SURASSUR – SA	Permanent Representative of CNCE, Director
ISSORIA – SACS	Permanent Representative of CNCE, Supervisory Board member
IXIS CIB – SACS	Supervisory Board member (since 09/13/2006)
ÉCUFONCIER – SCA	Member of the Supervisory Board
GROUPE D'INTÉRÊT ÉCONOMIQUE CDS ÉCUREUIL – GIE	Chairman of the Board of Directors
OTHER OFFICES AND POSITIONS	
CNCE – SACS	Chief Financial Officer
GCE BAIL – SA	Chairman of the Audit Committee
COMPAGNIE DE FINANCEMENT FONCIER – SA	Chairman of the Audit Committee
INGEPAR – SA	Advisor and Chairman of the Audit Committee
ICIS CIB – SACS	Member of the Audit Committee
CAISSE DES RETRAITES (CGR) – IRS	Employer Representative
CAISSE GENERALE DE PREVOYANCE (CGP) – IP	Employer Representative
ÉCUREUIL PROTECTION SOCIALE – ASSOCIATION	Employer Representative

## Offices or positions held by Mr. Pierre-Eric Fuzier

OFFICES AS DIRECTOR AND SUPERVISORY BOARD MEMBER	
COMPANY	POSITION
COMPAGNIE DE FINANCEMENT FONCIER – SA	Director
SOCRELOG – SA	Director
AXENTIA (EX CARPI) – SA HLM	Director
OTHER OFFICES AND POSITIONS	
CRÉDIT FONCIER DE FRANCE – SACS	Head of Legal Department

## Offices held by Crédit Foncier de France in 2006

COMPANY	IDENTIFICATION
<b>LIMITED LIABILITY COMPANIES (SOCIETES ANONYMES) – DIRECTORSHIPS</b>	
AUXILIAIRE DU CRÉDIT FONCIER DE FRANCE ACFF – SA	334,183,704
BTP CAPITAL INVESTISSEMENT – SA	302,527,734
CFCAL BANQUE – SA	568,501,282
CFCAL SCF – SA	424,184,737
CFG – COMPTOIR FINANCIER DE GARANTIE – SA	330,316,316
CICOBAIL – SA	722,004,355
CINERGIE – SA	322,214,883
COMPAGNIE DE FINANCEMENT FONCIER – SA	421,263,047
COMPAGNIE FONCIÈRE DE CONSTRUCTION – SA	308,383,058
CRÉDIT FONCIER ASSURANCE COURTAGE – SA	347,708,562
CRÉDIT LOGEMENT – SA	302,493,275
CREPAH – SA	306,065,665
ICADE EMGP – SA	582,074,944,
EUROSIC – SA	307,178,871
FGI – SA (until 02/14/2006)	542,103,657
FONCIER ASSURANCE – SA	349,004,341
FONCIER CONSULTANTS – SA	395,304,330
FONCIER EXPERTISE – SA	788,276,806
FONCIER PARTICIPATIONS – SA	319,893,815
FONCIÈRE D'EVREUX – SA	399,293,067
GROUPE VB – SA	572,112,589
H & T CONSEIL – SA	313,149,973
IMMOBILIÈRE TROCADERO – SA	352,412,217
MUR ÉCUREUIL – SA	345,044,929
PICARDIE BAIL – SA	331,542,126
RIVP – SA (until 12/16/2006)	552,032,708
SAF ENVIRONNEMENT – SA	319,051,017
SEMERCLI – SAEM	632,052,809
SGFGAS - SOCIÉTÉ DE GESTION DU FGAS – SA	390,818,235
SIPARI – SA	305,097,446
SNTE – SOCIÉTÉ NATIONALE DE LA TOUR EIFFEL – SA (until 06/01/2006)	317,479,806
SOCIÉTÉ DE RÉALISATION DE DÉFAISANCE SRD – SA	421,003,450
SOCRELOG – SA	642,051,924
<b>POSITION AS SUPERVISORY BOARD MEMBER</b>	
SCAFR TERRES D'EUROPE – SOCIÉTÉ CENTRALE D'AMÉNAGEMENT FONCIER ET RURAL	612,007,468
UNION EUROPÉENNE D'ASSURANCE – SACS	347,642,183
LA COMPAGNIE 1818 – BANQUIERS PRIVÉS – SACS	306,063,355
LA COMPAGNIE 1818 – GESTION – SACS	353,690,514
GCE IMMOBILIER – SACS	379,722,853
SIA HABITAT – SACS HLM	045,550,258
SOCFIM	390,348,779
F.S.I. – SACS	412,974,875
VMG – SACS	399,343,300
<b>POSITION OF CHAIRMAN / DIRECTOR</b>	
DOM 9 – SAS	389,724,246
ENTENIAL CONSEIL – SAS	449,755,586
FONCIER VIGNOBLES – SAS	399,293,828
FONCIÈRE IMMEUBLE 1 – SAS	444,494,116

GENERAL PARTNERSHIP (SNC, SCI) – MANAGING PARTNER	IDENTIFICATION
ÉCUFONCIER – SCA	480,107,846
ARION CONSEIL (liquidator)	390,466,498
COFIMAB – SNC	391,754,363
COLOMIA 31	453,162,927
COMELIA	451,226,963
FRANCILIA	440,775,617
HAUSSMANN ST HONORÉ (liquidator)	380,042,168
MANTELIA	432,255,271
SOFIPAR LOGEMENT	331,786,723
SOFONEG	331,444,539
G.I.E.	
GIRCE INGÉNIERIE	469,600,050
GIRCE STRATÉGIE	443,028,634
SAEM	
SONACOTRA	788,058,030

### Offices or positions held by Mr. François Blancard

MANAGEMENT POSITIONS	
COMPANY	POSITION
CRÉDIT FONCIER DE FRANCE – SACS	Chief Executive Officer (since 03/01/2006)
OFFICES AS DIRECTOR AND SUPERVISORY BOARD MEMBER	
CICOBAIL – SA	Permanent Representative of Crédit Foncier, Director (since 09/25/2006)
CINERGIE – SA	Permanent Representative of Crédit Foncier, Director (since 09/25/2006)
COMPAGNIE DE FINANCEMENT FONCIER – SA	Permanent Representative of Crédit Foncier, Director (since 09/25/2006)
FONCIER CONSULTANTS – SA	Permanent Representative of Crédit Foncier, Director (since 09/25/2006)
ICADE EMGP – SA	Permanent Representative of Crédit Foncier, Director (since 11/23/2006)
LES ÉDITIONS DE L'ÉPARGNE – SA	Director
CILOGER – SACS	Permanent Representative of CNCE, Supervisory Board member
ÉCUREUIL VIE – SACS	Member of the Supervisory Board (until 04/18/2006)
FINANCIÈRE OCEOR – SACS	Member of the Supervisory Board
GESTRIM – SACS	Member of the Supervisory Board
ISELECTION – SACS	Member of the Supervisory Board (until 07/25/2006)
IXIS PRIVATE CAPITAL MANAGEMENT – SACS	Permanent Representative of CNCE, Supervisory Board member
LA COMPAGNIE 1818 – BANQUIERS PRIVÉS – SACS	Permanent Representative of Crédit Foncier, Supervisory Board member (since 05/18/2006)
SERENA – SACS	Member of the Supervisory Board
CEMM – SAS	Member of the Supervisory Board
GCE NEWTEC – SAS	Member of the Supervisory Board (until 03/13/2006)

## Note 2. FCC (residential mortgage-backed securities) table as of December 31, 2006

Securitisation tranches of residential mortgage loans:

€13 348 million at December 31, 2006

GERMANY		
	E-MAC 2005-5	AAA/Aaa/AAA
	EMAC DE 2006-II	AAA/Aaa/AAA
SPAIN		
	AYT GENOVA HIPOTECARIO 7	AAA/Aaa/AAA
	AYT GENOVA HIPOTECARIO 4	AAA/Aaa/AAA
	BANCAJA 4	AAA/Aaa/AAA
	BANCAJA 5	AAA/Aaa/AAA
	BANCAJA 6	AAA/Aaa/AAA
	BANCAJA 7	AAA/Aaa/AAA
	BANCAJA 8	/Aaa/AAA
	BANCAJA 9 A2	/Aaa/AAA
	BANKINTER 4	AAA/Aaa/
	BANKINTER 5	AAA/Aaa/
	BANKINTER 10	AAA/Aaa/
	GC SABADELL 1	AAA/Aaa/
	HIPOTEBANSA VIII SERIE A	/Aaa/AAA
	HIPOTEBANSA XI	AAA/Aaa/
	IM PASTOR 2	AAA/Aaa/
	IM PASTOR 3	AAA/Aaa/
	IM CAJAMAR 3 PARTS A	/Aaa/AAA
	TDA CAJAMAR A2	AAA//AAA
	TDA CAJAMAR A3	AAA//AAA
	TDA CAM 5	/Aaa/AAA
	TDA CAM 6 PARTS A2	/Aaa/AAA
	TDA CAM 6 PARTS A3	/Aaa/AAA
	TDA IBERCAJA 2	AAA/Aaa/
	TDA PASTOR 1 - A2	/Aaa/AAA
	UCI 14 CLASSE A 2043	AAA//AAA
	UCI 5 class 5	/Aaa/
	TDA 27	AAA//AAA
FRANCE		
	ANTILOPE 1	AAA/Aaa/AAA
	ANTILOPE 2	AAA/Aaa/AAA
	TEDDY 1 PARTS A3	AAA/Aaa/AAA
GREECE		
	THEMELION 2	AAA/Aaa/AAA

ITALY		
	APULIA FINANCE 2	AAA//AAA
	APULIA FINANCE FCC A2	AAA//AAA
	APULIA 3	AAA/Aaa/AAA
	ARGO MORTGAGES 2	/Aaa/AAA
	BERICA 3 PARTS A2	AAA//AAA
	BERICA PARTS A2	AAA/Aaa/AAA
	BERICA 6 A2	AAA/Aaa/AAA
	BIPIELLE RESIDENTIAL	/Aaa/AAA
	CR FIRENZE MUTUI	AAA/Aaa/AAA
	CREDICO FINANCE SPA	AAA/Aaa/AAA
	CREDICO FINANCE 5 A 2033	AAA/Aaa/
	CORDUSIO	AAA/Aaa/AAA
	GIOTTO FINANCE 2 SPA	AAA/Aaa/
	GIOTTO FINANCE SPA	/Aaa/AAA
	F-E MORTGAGES	AAA/Aaa/AAA
	HELICONUS	AAA/Aaa/AAA
	INTESABCI Sec 2	AAA/Aaa/AAA
	INTRA MORTGAGE FINANCE SRL	AAA/Aaa/AAA
	MANTEGNA FINANCE SRL	/Aaa/AAA
	MARCHE MUTUI	AAA/Aaa/AAA
	MECENATE SRL	/Aaa/AAA
	SESTANTE 3 A 2045	AAA/Aaa/AAA
	SESTANTE FINANCE	AAA/Aaa/AAA
	SESTANTE FINANCE 2	AAA/Aaa/AAA
	SIENA MORTGAGE 02-3	AAA/Aaa/AAA
	VELA ABS	AAA/Aaa
	VELA HOME 3 A 2040	AAA/Aaa/AAA
	VELA HOME	AAA/Aaa/AAA
	VELA HOME 4	AAA/Aaa
	VELITES	AAA/Aaa/
	SESTANTE 4	AAA/Aaa/AAA
NETHERLANDS		
	HOLLAND HOMES 3 PARTS A 2083	/Aaa/AAA
	EMAC NL 2005 III BV	AAA/Aaa/AAA
	BELUGA	AAA/Aaa/AAA
PORTUGAL		
	DOURO MORTGAGE1 A	AAA/Aaa/AAA
	LUSITANO 4	AAA/Aaa/AAA
	LUSITANO MORTGAGE PLC 3	AAA/Aaa/AAA
	MAGELLAN 3	AAA/Aaa/

**Senior securisation tranches of public debt:  
€5 904 million at December 31, 2006**

ITALY		
	ASTREA	/Aa2/AA-
NETHERLANDS		
	DARTS FINANCE PARTS A 2064	/Aaa/AAA
	E-MAC NL 2006-NHG 1	/Aaa/
	SGML 1	//AAA
	PEARL 1 MBS	/Aaa/AAA
	HOLLAND HOMES ORANJE	/Aaa/AAA
USA		
	NELNET 2006-1 A6	AAA/Aaa/AAA
	SALLIE MAE série 8 102004	AAA/Aaa/AAA
	SALLIE MAE 2005 9 SENIOR A6A	AAA/Aaa/AAA
	SALLIE MAE 2005-9 SENIOR A7A	AAA/Aaa/AAA
	SALLIE MAE 2004-8-A5	AAA/Aaa/AAA
	SALLIE MAE 2004-8-A6	AAA/Aaa/AAA
	SALLIE MAE 2006-4 A6	AAA/Aaa/AAA
	SALLIE MAE 2006-6 A4	AAA/Aaa/AAA

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# BALANCE SHEET

AS PER NOTES	ASSETS (in thousands of euros)	12/31/2006	12/31/2005	12/31/2004
	Cash due from central banks and post office accounts	4,725	2,363	6,684
	Treasury notes and similar securities			
1	Due from banks	6,049,202	4,581,545	8,857,377
	<i>On demand</i>	103,086	269,460	594,546
	<i>At maturity</i>	5,946,116	4,312,085	8,262,831
2	Customer loans	25,643,525	23,032,980	20,533,958
	<i>Other customer loans</i>	25,643,525	23,032,980	20,533,958
3	Bonds and other fixed income securities	35,794,541	27,646,424	17,119,338
4	Intangible fixed assets	14,070	21,540	31,144
5	Other	209,977	168,528	212,296
6	Prepayments, deferred charges and accrued income	2,974,849	1,950,224	2,434,008
	<b>TOTAL ASSETS</b>	<b>70,690,889</b>	<b>57,403,604</b>	<b>49,194,805</b>

# BALANCE SHEET

AS PER NOTES	LIABILITIES AND EQUITY (in thousands of euros)	12/31/2006	12/31/2005	12/31/2004
7	Due to banks	1,466,703	1,282,971	1,468,162
	<i>On demand</i>	10,161	10,874	18,284
	<i>At maturity</i>	1,456,542	1,272,097	1,449,878
8	Customer deposits	122,416	29,914	307,323
	<i>On demand</i>	122,416	29,914	307,323
9	Debt securities	61,930,552	50,041,539	41,358,710
	<i>Inter-bank market securities and negotiable debt securities</i>	250,329	294,986	270,888
	<i>Bonds (obligations foncières)</i>	61,680,223	49,746,553	41,087,822
10	Other liabilities	1,600,475	1,069,712	467,551
11	Accruals and deferred income	2,790,141	2,260,244	2,959,086
12	Provisions for liabilities and charges	10,377	11,134	6,588
13	Subordinated debt	2,250,550	2,250,491	2,250,465
14	Fund for general banking risks	20,000	20,000	20,000
14	Equity other than fund for general banking risks	499,675	437,599	356,920
	- <i>Subscribed capital stock</i>	132,000	110,000	100,000
	- <i>Share premiums</i>	209,742	144,223	118,536
	- <i>Reserves</i>	68,717	66,517	65,517
	- <i>Regulated provisions and investment subsidies</i>			
	- <i>Retained earning (+/-)</i>	26,874	30,923	
	- <i>Net income for the year (+/-)</i>	62,342	85,936	72,867
	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>70,690,889</b>	<b>57,403,604</b>	<b>49,194,805</b>

# OFF-BALANCE SHEET

AS PER NOTES	(in thousands of euros)	12/31/2006	12/31/2005	12/31/2004
<b>COMMITMENTS GIVEN</b>				
15	Financing commitments - Commitments in favour of banks - Commitments in favour of customers Guarantee commitments - Commitments for customers	1,714,692	614,870	293,803
16	<b>COMMITMENTS RECEIVED</b>			
	Financing commitments - Commitments received from banks Guarantee commitments - Commitments received from banks - Commitments received from customers	631,472 5,019,768 18,561,261	1,303,249 4,159,981 16,530,429	1,306,445 3,449,718 16,894,787
<b>RECIPROCAL COMMITMENTS</b>				
17	- Sale and purchase of foreign currencies	29,198,318	23,889,538	15,281,596
18	- Non-unwound financial instruments	85,813,638	72,729,810	64,175,547

# INCOME STATEMENT

AS PER NOTES	(in thousands of euros)	12/31/2006	12/31/2005	12/31/2004
19	Interest and similar income	3,091,113	2,506,342	2,332,226
20	Interest and similar expenses	-2,905,677	-2,296,626	-2,105,932
21	Commission and fee income	39,827	35,291	32,389
21	Commission and fee expenses	-15,565	-14,081	-16,654
22	Gains or losses on investment securities transactions	-1,207	845	-228
23	Gains or losses on investment securities transactions and similar instruments	-5	9,413	1,155
24	Other income from banking operations	1,260	35,710	23,887
25	Other expenses on banking operations	-14,002	-27,103	-35,760
	<b>NET BANKING INCOME</b>	<b>195,744</b>	<b>249,791</b>	<b>231,083</b>
26	General operating expenses	-95,587	-94,565	-107,050
	Depreciation, amortisation and provisions on tangible and intangible fixed assets	-7,470	-9,604	-12,348
	<b>GROSS OPERATING INCOME</b>	<b>92,687</b>	<b>145,622</b>	<b>111,685</b>
27	Cost of risk	2,707	-1,034	1,983
	<b>OPERATING INCOME</b>	<b>95,394</b>	<b>144,588</b>	<b>113,668</b>
	Gains or losses on fixed assets			-134
	<b>ORDINARY INCOME BEFORE TAX</b>	<b>95,394</b>	<b>144,588</b>	<b>113,534</b>
	Exceptional items			
	Income taxes	-33,052	-58,652	-40,667
28	Increases and decreases in fund for general banking risks and provisions			
	<b>NET INCOME</b>	<b>62,342</b>	<b>85,936</b>	<b>72,867</b>
	Earnings per share <sup>(1)</sup>	7,56	12,50	11,66
	Diluted earnings per share	7,56	12,50	11,66

(1) Earnings per share is calculated by dividing the net income by the number of shares in issue at the balance sheet date  
The notes set out in the following pages form an integral part of the Company's financial statements.

# Notes to the Financial Statements of Compagnie de Financement Foncier

## I - Major events of the fiscal year

**I - 1** In 2006, Compagnie de Financement Foncier acquired loans from Crédit Foncier totalling €6,515 M (including €4,530 M in outstanding principal), in addition to the €1,985 M of loans not yet released, which are recorded as “Financing commitments given”. The company also acquired loans to local authorities from Caisses d’Epargne for €319 M; the outstanding principal on these loans amounted to €307 M.

Compagnie de Financement Foncier also acquired tranches in external mortgage backed securitisation (€2,356 M), public asset backed securitisation units (€5216 M) long-term bonds from public authorities (€1,496 M) and granted loans to public authorities (€842 M).

The total value of these acquisitions for the fiscal year 2006 amounted to €16,744 M.

Compagnie de Financement Foncier increased its replacement assets by €3,041 M.

**I - 2** Compagnie de Financement Foncier issued *obligations foncières* for a total amount of €17,263 M during fiscal 2006.

**I - 3** In October 2006, units held by the company in FCC Powerhouse were early repaid. This transaction generated a decrease of €615 M in the long term investment securities book. The company received an early repayment fee of €17.6 M and an extra compensation of €2.7 M related to the decrease in the credit rating of the FCC, both of them booked under the heading “Interest and similar income”.

## II - Presentation of Financial Statements and accounting policies

Compagnie de Financement Foncier was authorised to operate as a *société de crédit foncier* by the savings and financial security act passed in France on June 25, 1999. It is therefore regulated by articles L.515-13 to L.515-33 of the French Monetary and Financial Code.

*Sociétés de crédit foncier* are credit institutions accredited as financial companies by the French Credit Institutions and Investment Companies Committee (“CECEI”). For this reason, they are subject to the following accounting regulations:

- regulation 99-04 of the French Banking Regulation Committee (“CRBF”) and (modified) 2000-03 of the French National Accounting Committee (“CRC”), concerning the preparation and disclosure of annual corporate accounts of credit institutions;

- regulation 99-10 of the CRBF, which relates only to *sociétés de crédit foncier* and refers to:
  - the valuation of buildings financed by eligible loans recorded as assets of *sociétés de crédit foncier*;
  - the valuation of the assets and liabilities of such companies;
  - their specific management policies.

Since Crédit Foncier joined the Caisses d'Epargne Group in 1999, Compagnie de Financement Foncier, affiliated to CNCE, the central body of the CE Group, has applied the accounting standards of this group.

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

- operational continuity;
- consistency of accounting methods from one year to the next;
- independence of the exercises;
- conformity with the general rules for creation and presentation of accounts.

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

## **II - 1 Changes in accounting methods**

The Regulation no.2005-03 regarding the accounting treatment of credit risk modified since January 1, 2006 the relevant rate used for the calculation of discounts on restructured loans: the rate at inception is now used instead of the market rate. This regulatory change did not have any significant effect in the statement of income.

Compagnie de Financement Foncier applies prematurely the Regulation of the Accounting Regulations Committee no.2005-01, regarding the accounting treatment of securities transactions, which allows for a reclassification of long-term investment securities as of January, 1, 2006. This regulatory change did not have any significant effect.

According to this Regulation, premiums and discounts on securities held are now uniformly amortised according to the actuarial method. Effects of this change are booked according general dispositions related to accounting methods changes dictated by article 314-1 of CRC 99-03 Regulation, which states that the effect of the new method is calculated retrospectively; as if it has been always applied. This regulatory change resulted in a 0.3 M reduction in retained earnings at the start of the fiscal year 2006.

## **II - 2 Due from banks**

The category "Due from banks" include all loans resulting from banking operations with banks, excluding those which take the form of securities issued. They are broken down into the sub-categories "on demand" and "at maturity".

Due from banks appear on the balance sheet at their nominal value. Accrued interest is added and depreciations are subtracted.

## II - 3 Customers loans

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

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

Premiums and discounts on acquisitions made up to December 31, 2006 are then transferred to income for the fiscal year on an actuarial basis over the term remaining to maturity of the loans acquired.

The amount of outstanding loan instalments appears under assets in each loan receivable heading, unless they are deemed to be doubtful, in which case they are included in doubtful loans.

Interest accrued on loans is entered in the relevant customer loan account with a corresponding entry in the income statement.

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

Doubtful loans consist of all loans due from debtors of which at least one commitment presents a known credit risk. A risk is considered as known as soon as it is probable that the institution will not receive all or part of the amounts due from the counterparty, notwithstanding the existence of guarantees or securities. Loans are classified as doubtful especially when one or several amounts are more than three months overdue (nine months for loans granted to local communities).

The January 2005 migration of the majority of private individuals' customer loans to the common software system of the Caisse d'Epargne Group led to a revision in the rules for reclassifying performing loans as doubtful loans. In this system, any amount unpaid for at least 3 months requires that the private individual's entire debt be reclassified as doubtful debt, from the first euro. This approach, different from the method applied by traditional management systems in the Crédit Foncier Group, which retains the rule of 3 months arrears, and applies these arrears if the amount is superior to €150 increased the amount of doubtful loans by about €68.7 M in 2006 and €72.8 M in 2005.

In accordance with CNC recommendation 2005-07 dated June 21, 2005, completed by CRC Regulation 2005-03, amending CRC Regulation 2002-03, as of 2005 compromised doubtful loans will not be included in loans benefiting from a guarantee covering nearly all risks. At the end of 2006, those loans amounted to €359 M (€355 M at the end of 2005). This applies in particular to loans in the subsidised sector and PAS loans guaranteed by the State.

Some doubtful loans are further classified as compromised doubtful loans when there is no foreseeable hope of reclassifying them as performing loans in the future. They include, in particular:

- loans with overdue payment dates;
- loans considered doubtful for over a year, unless an examination of guarantees suggests that the loan will be fully repaid.

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

Doubtful loans are reclassified as performing loans when the repayments are resumed on a regular basis, in the amounts corresponding to the original contractual instalments.

Loans that are restructured due to customers' financial situation are identified in a specific sub-category until their final maturity. They are subject to a discount that represents the difference between the present value of the original contractual cash flows and the newly renegotiated cash flows (interest and principal adjustments taken into account). The discount rate is the original effective interest rate for fixed-rate loans, or the last effective interest rate before restructuring for floating-rate loans. This discount is recorded in the income statement under cost of risk and in the balance sheet as a deduction from the corresponding performing loan. It is transferred to the income statement in the interest margin based on an actuarial method over the term of the loan (see note 2 b regarding loans, note 19 on interest and similar income and note 27 on cost of risk).

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

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

## II - 4 Depreciations for counterparty risk

### II - 4.1 Depreciations

These depreciations cover potential risks calculated as the difference between the principal outstanding and the discounted recoverable amounts. The risk is calculated for each individual loan taking into account the present value of the guarantees received.

For loans to the subsidised sector and those guaranteed by SGFGAS, the portion of the risk assumed by the French government is also taken into account.

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

Average amount loans with similar characteristics are subject to a statistic calculation.

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

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

## **II - 4.2 Provisions for counterparty risks**

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

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

Total provisions for counterparty risks on credit institutions and customers were €4.3 M at year-end 2005. Provisions at the end of 2006 were €2.1 M.

The provision on the Neiertz risks transferred in 2005 to Compagnie de Financement Foncier by Crédit Foncier for a total of €5.3 M, is €4.3 M at the end of 2006.

These provisions for counterparty risks totalled €6.4 M at the end of 2005.

These provisions are recorded as Liabilities and any increases or reversals of the provisions appear under the "Cost of risk" heading.

## **II - 5 Foreign Exchange Transactions**

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

Realised and unrealised foreign exchange gains and losses on proprietary transactions of Compagnie de Financement Foncier are booked as foreign exchange income under "Gains or losses on trading securities transactions".

To date, Compagnie de Financement Foncier has not conducted any transaction in "non liquid" currencies.

## **II - 6 Securities Transactions**

"Securities" include interbank market instruments, Treasury bills, other negotiable debt securities, fixed-income securities, equity shares and variable income securities.

The company applies prematurely as of January 1, 2006 CRC Regulation n°.2005-01, modifying CRBF Regulation n°.90.01 regarding the accounting treatment of securities transactions.

According to this Regulation, securities are classified in the following categories: equity investments, other long-term held securities, long term investment securities, operational portfolio securities, short-term investment securities and trading securities.

Compagnie de Financement Foncier does not hold any trading securities and does not conduct any securities repurchase transactions.

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

## **II - 6.1 Securities Portfolio (Short-term and Long-term investment securities)**

### **a) Short-term investment securities**

Short-term investment securities are securities that are not booked in the other categories.

Short-term investment securities are entered at the date of acquisition in the balance sheet and at their acquisition cost net of expenses. Accrued interests related to fixed-income securities are booked in the related receivables as a double entry of the income statement item of “Interest and similar income”.

Premiums and discounts on short-term investment securities correspond to the difference, if any, between the acquisition cost and the redemption value of fixed-income securities. They are amortised over their remaining term to maturity based on the actuarial method for Treasury bills, other negotiable debt securities and interbank market instruments. Since 2006, premiums and discounts related to fixed-income securities are also amortised using this method, in accordance with CRC Regulation n° 2005-01.

Short-term investment securities are valued at the lower of acquisition cost and probable market value. Unrealised losses are recognised by means of depreciations which may be evaluated within homogenous groups of securities, while unrealised gains are not recognised. Where applicable, the provision takes into account income or losses on hedging instruments.

Gains from sales and increases and reversals of depreciations appear under the heading “Gains or losses on short-term investment securities and similar instruments”.

## **II - 7 Intangible Fixed Assets**

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

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

The amortisation booked in 2006 amounted to €7.5 M.

## **II - 8 Interbank loans and bonds**

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

Issuing expenses, less any “premiums”, are first booked for their full amount under “Commissions and fees” in the years in which they are incurred. They are then amortised as follows:

- recorded on the assets side of the balance sheet in accruals under “Deferred expenses” as a double entry to the expense transfer account which appears under “Commissions and fees – Income”;
- amortisation of the asset account over the term to maturity of the relevant loans, recorded as “Other expenses from banking operations”.

Issue and redemption premiums are amortised over the term of the loans to which they relate. They are booked as deferred charges in assets under “Deferred expenses”. They are amortised with the double entry being booked as “Interest and similar expenses on bonds and other fixed-income securities”.

## **II - 9 Forward financial instruments**

Compagnie de Financement Foncier does not hold any option or firm forward contracts on regulated markets.

### **II - 9.1 Interest rate and foreign exchange swaps and Forward rate agreements (FRA)**

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

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

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

Until November 2005, Compagnie de Financement Foncier classified in micro-hedging all derivative instruments (swaps and rate caps) set up for hedging, when the loan portfolio was acquired. Originally this classification was chosen due to the regulations applicable to *sociétés de crédit foncier*. Amendments made to regulations caused the company to classify new transactions as macro-hedging swaps as well as, at the end of 2006, earlier transactions (about €7.7 billion). This reclassification did not impact the company's results.

At December 31 2006, Compagnie de Financement Foncier did not have any unmatched open position.

## II - 9.2 Caps and floors market rate contracts

Caps and floors rate contracts are handled over-the-counter and classified as isolated open positions and micro-hedging. These transactions are similar to a series of options and their accounting treatment is the same.

Micro-hedging transactions:

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

At December 31 2006, Compagnie de Financement Foncier did not have any rate cap or floor contract as an isolated open position.

## II - 10 Provisions for liabilities and expenses

This position covers provisions for liabilities and expenses not directly related to banking transactions as defined by Article L.311-1 of the French Monetary and Financial Code and related transactions defined under Article L.311-2 of the same code. Their purpose is clearly identified whenever their amount or maturity is uncertain.

It also covers provisions for liabilities and expenses related to banking transactions as defined by Article L.311-1 of the French Monetary and Financial Code and related transactions defined under Article L.311-2 of the same code, which are likely to occur in view of events that have occurred or are occurring. Their purpose is clearly identified whenever their amount or maturity is uncertain. They mainly comprise provisions for counterparty risks (see paragraph II 4-2).

They are presented in detail in note 12.

## II - 11 Income Taxes

Since January 1 2005, Compagnie de Financement Foncier is included in the tax integration scope for which CNCE is the "lead company in the group". In this respect, in accordance with the tax consolidation agreement, Compagnie de Financement Foncier will pay to CNCE as a contribution towards the income taxes due for the tax group, a sum equal to the tax that it would have incurred on its profits if it had been assessed independently.

In 2006, Compagnie de Financement Foncier reported taxable income which resulted in the booking in the income statement of an income tax charge at the full rate of €33.1 M.

## Note 1: Due from banks

(in thousands of euros)

## Note 2: Customer loans

(in thousands of euros)

	Performing loans			Doubtful loans			Provisions			Net amounts		
	2006	2005	2004	2006	2005	2004	2006	2005	2004	2006	2005	2004
<b>CUSTOMER LOANS</b>												
Commercial loans												
Export credits												
Short-term loans <sup>(3)</sup>	715,190									715,190		
Equipment loans	4,700,364	4,330,369	1,601,949	10,602	10,906	11,327	3,637	2,970	2,727	4,707,329	4,338,305	1,610,549
Residential property loans	19,400,655	17,910,060	18,196,120	660,673	633,199	600,631	19,870	22,055	30,076	20,041,458	18,521,204	18,766,675
Other customer loans	18,738	16,784	18,030	1,391	1,377	1,585	771	631	930	19,358	17,530	18,685
Loans to financial customers												
Non-allocated securities	200	355	285							200	355	285
Subordinated loans												
Related receivables	156,859	151,948	133,686	3,131	3,638	4,078				159,990	155,586	137,764
Non-allocated securities												
<b>Sub-total</b>	<b>24,992,006</b>	<b>22,409,516</b>	<b>19,950,070</b>	<b>675,797</b>	<b>649,120</b>	<b>617,621</b>	<b>24,278</b>	<b>25,656</b>	<b>33,733</b>	<b>25,643,525</b>	<b>23,032,980</b>	<b>20,533,958</b>
<b>CUSTOMER ACCOUNTS</b>												
Customer accounts												
Related receivables												
<b>Sub-total</b>												
<b>Total loans</b>	<b>24,992,006</b>	<b>22,409,516</b>	<b>19,950,070</b>	<b>675,797</b>	<b>649,120</b>	<b>617,621</b>	<b>24,278</b>	<b>25,656</b>	<b>33,733</b>	<b>25,643,525</b>	<b>23,032,980</b>	<b>20,533,958</b>
<b>GRAND TOTAL <sup>(1)</sup></b>	<b>24,992,006</b>	<b>22,409,516</b>	<b>19,950,070</b>	<b>675,797</b>	<b>649,120</b>	<b>617,621</b>	<b>24,278</b>	<b>25,656</b>	<b>33,733</b>	<b>25,643,525</b>	<b>23,032,980</b>	<b>20,533,958</b>
<i>of which subsidised sector<sup>(1)</sup></i>	2,211,663	3,071,459	4,092,119	300,682	346,447	374,414	2,971	3,896	4,359	2,509,374	3,414,010	4,462,174
<i>of which unsubsidised sector<sup>(2)</sup></i>	22,780,343	19,338,057	15,857,951	375,115	302,673	243,207	21,307	21,760	29,374	23,134,151	19,618,970	16,071,784

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

(2) The amount of doubtful loans increased in 2005, due to the rules for declassifying receivables from private individuals applied within the Caisse d'Épargne Group.

The impact of these new rules is valued at €68.7 million for 2006, of which €15.8 million for the subsidised sector and €52.9 million for the competitive sector (€72.8 million for 2005, of which €18 million for the subsidised sector and €54.8 million for the competitive sector).

(3) The company acquired in 2006 the loan of Crédit Foncier on the French State owned Trésor concerning the *Découvert sur Prime d'Épargne Logement*.

## Note 2 a A: Provisions for counterparty risks

(in thousands of euros)

	12/31/2004	Increases	Reversals	Misc. transactions	12/31/2005	Increases	Reversals	Misc. transactions	12/31/2006
<b>PROVISIONS RECORDED AS A DEDUCTION FROM ASSETS</b>									
Customer loans and due from banks (1)	33,733	28,545	-41,879	5,257	25,656	42,377	-43,755		24,278
<b>PROVISIONS RECORDED IN LIABILITIES</b>									
Customer loans and due from banks and from securities	4,101	6,048	-555		9,594	72	-3,292		6,374
<b>TOTAL</b>	<b>37,834</b>	<b>34,593</b>	<b>-42,434</b>	<b>5,257</b>	<b>35,250</b>	<b>42,449</b>	<b>-47,047</b>		<b>30,652</b>

(1) Provisions for depreciation of loans are booked at their discount value, as per CRB 2002-03. This change in the regulations resulted in a €5,257 K reduction in shareholders' equity on January 1, 2005.

## Note 2 a B: Discounts on acquired loans

(in thousands of euros)

	12/31/2004	New entries	Amortisation	12/31/2005	New entries	Amortisation	12/31/2006
<b>DUE FROM BANKS</b>							
Premiums	187,203		-16,725	170,478		-17,650	152,828
Discounts							
<b>Net</b>	<b>187,203</b>		<b>-16,725</b>	<b>170,478</b>		<b>-17,650</b>	<b>152,828</b>
<b>CUSTOMER LOANS</b>							
Premiums	241,625	102,496	-36,466	307,655	123,342	-55,122	375,875
Discounts	-49,970	-11,209	7,369	-53,810	-157,694	10,220	-201,284
<b>Net</b>	<b>191,655</b>	<b>91,287</b>	<b>-29,097</b>	<b>253,845</b>	<b>-34,352</b>	<b>-44,902</b>	<b>174,591</b>
<b>TOTAL</b>	<b>378,858</b>	<b>91,287</b>	<b>-45,822</b>	<b>424,323</b>	<b>-34,352</b>	<b>-62,552</b>	<b>327,419</b>

## Note 2 b: Breakdown of customer loans <sup>(2)</sup>

(in thousands of euros)

	12/31/2006			12/31/2005	12/31/2004
	GROSS	PROVISIONS	NET		
<b>LOANS TO HOUSEHOLDS</b>	<b>15,765,988</b>		<b>15,765,988</b>	<b>14,398,004</b>	<b>15,009,817</b>
• Individuals	15,008,163		15,008,163	13,724,346	14,307,087
- Subsidised residential property	1,590,578		1,590,578	2,270,909	3,111,411
- Unsubsidised residential property	13,416,374		13,416,374	11,451,254	11,193,092
- Other	1,211		1,211	2,183	2,584
• Individual entrepreneurs	757,825		757,825	673,658	702,730
- Subsidised residential property	92,820		92,820	128,300	165,836
- Unsubsidised residential property	664,696		664,696	544,747	535,640
- Other	309		309	611	1,254
<b>LOANS TO COMPANIES</b>					
• Regional public sector (local communities)	5,904,081		5,904,081	4,792,398	2,112,286
• Social organisations	3,144,564		3,144,564	3,023,986	2,588,762
- Subsidised residential property	333,166		333,166	440,905	543,167
- Unsubsidised residential property	2,598,383		2,598,383	2,383,864	2,028,852
- Other	213,015		213,015	199,217	16,743
• Real estate professionals					
- Unsubsidised residential property					
- Other					
• Real estate investors	133,643		133,643	150,522	189,734
- Subsidised residential property	30,619		30,619	32,306	42,168
- Unsubsidised residential property	98,765		98,765	110,004	133,880
- Other	4,259		4,259	8,212	13,686
• Structured financing	8,610		8,610	10,144	15,162
- Transportation	7,425		7,425	8,651	13,495
- Large projects	1,185		1,185	1,493	1,667
• Other	35,120		35,120	34,461	34,309
<b>Sub-total customer loans</b>	<b>24,992,006</b>		<b>24,992,006</b>	<b>22,409,515</b>	<b>19,950,070</b>
Doubtful loans	675,797	24,278	651,519	623,464	583,888
Of which subsidised sector	300,682	2,971	297,711	342,551	370,055
Of which unsubsidised sector	375,115	21,307	353,808	280,913	213,833
<b>TOTAL CUSTOMER LOANS <sup>(1)</sup></b>	<b>25,667,803</b>	<b>24,278</b>	<b>25,643,525</b>	<b>23,032,979</b>	<b>20,533,958</b>
<i><sup>(1)</sup> of which subsidised sector</i>	2,512,345	2,971	2,509,374	3,414,010	4,462,174
<i>of which unsubsidised sector</i>	23,155,458	21,307	23,134,151	19,618,969	16,071,784

(2) The amount of restructured performing loans outside market conditions at December 31, 2006 is €1,814 K after deducting a discount of €83 K.

## Note 2 c: Breakdown of doubtful loans

(in thousands of euros)

December 31, 2006	Total doubtful loans			of which compromised doubtful loans		
	GROSS	PROVISIONS	NET	GROSS	PROVISIONS	NET
<b>LOANS TO HOUSEHOLDS</b>	<b>461,653</b>	<b>11,072</b>	<b>450,581</b>	<b>29,789</b>	<b>7,010</b>	<b>22,779</b>
• Individuals	413,880	7,961	405,919	22,809	4,365	18,444
- Subsidised residential property	104,584	159	104,425			
- Unsubsidised residential property	309,178	7,757	301,421	22,725	4,321	18,404
- Other	118	45	73	84	44	40
• Individual entrepreneurs	47,773	3,111	44,662	6,980	2,645	4,335
- Subsidised residential property	18,114		18,114			
- Unsubsidised residential property	29,597	3,060	26,537	6,928	2,594	4,334
- Other	62	51	11	52	51	1
<b>LOANS TO COMPANIES</b>	<b>214,143</b>	<b>13,206</b>	<b>200,937</b>	<b>13,756</b>	<b>9,618</b>	<b>4,138</b>
Regional public sector (local communities)	3,007	60	2,947	9	3	6
• Social organisations	42,746	3,375	39,371	3,248	3,113	135
- Subsidised residential property	27,815		27,815			
- Unsubsidised residential property	11,715	287	11,428	32	25	7
- Other	3,216	3,088	128	3,216	3,088	128
• Real estate professionals						
- Unsubsidised residential property						
- Other						
• Real estate investors	167,335	9,751	157,584	10,340	6,499	3,841
- Subsidised residential property	149,071	2,811	146,260			
- Unsubsidised residential property	16,146	5,774	10,372	8,535	5,335	3,200
- Other	2,118	1,166	952	1,805	1,164	641
• Structured financing						
- Transportation						
- Large projects						
• Other	1,056	20	1,036	158	3	155
<b>TOTAL <sup>(1)</sup></b>	<b>675,797</b>	<b>24,278</b>	<b>651,519</b>	<b>43,544</b>	<b>16,628</b>	<b>26,916</b>
<sup>(1)</sup> of which subsidised sector	300,682	2,971	297,711			
of which unsubsidised sector <sup>(2)</sup>	375,115	21,307	353,808	43,544	16,628	26,916

(2) The amount of doubtful loans in the competitive sector includes €178,7 million in loans guaranteed by SGFGAS.

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

## Note 2 d: Breakdown of doubtful loans

(in thousands of euros)

December 31, 2005	Total doubtful loans			of which compromised doubtful loans		
	GROSS	PROVISIONS	NET	GROSS	PROVISIONS	NET
<b>LOANS TO HOUSEHOLDS</b>	<b>418,589</b>	<b>14,087</b>	<b>404,502</b>	<b>31,656</b>	<b>7,213</b>	<b>24,443</b>
• Individuals	368,236	10,257	357,979	23,780	4,177	19,603
- Subsidised residential property	123,756	1,365	122,391			
- Unsubsidised residential property	244,306	8,853	235,453	23,679	4,147	19,532
- Other	174	39	135	101	30	71
• Individual entrepreneurs	50,353	3,830	46,523	7,876	3,036	4,840
- Subsidised residential property	21,954	165	21,789			
- Unsubsidised residential property	28,192	3,623	24,569	7,733	2,994	4,739
- Other	207	42	165	143	42	101
<b>LOANS TO COMPANIES</b>						
Regional public sector (local communities)	5,358	486	4,872	506	306	200
• Social organisations	33,747	2,522	31,225	2,430	2,274	156
- Subsidised residential property	28,705	52	28,653			
- Unsubsidised residential property	2,687	255	2,432	97	59	38
- Other	2,355	2,215	140	2,333	2,215	118
• Real estate professionals						
- Unsubsidised residential property						
- Other						
• Real estate investors	189,840	8,411	181,429	13,217	6,238	6,979
- Subsidised residential property	169,027	2,133	166,894			
- Unsubsidised residential property	19,095	5,278	13,817	11,639	5,238	6,401
- Other	1,718	1,000	718	1,578	1,000	578
• Structured financing						
- Transportation						
- Large projects						
• Other	1,586	150	1,436	462	130	332
<b>TOTAL<sup>(1)</sup></b>	<b>649,120</b>	<b>25,656</b>	<b>623,464</b>	<b>48,271</b>	<b>16,161</b>	<b>32,110</b>
<i>(1) of which subsidised sector</i>	346,447	3,896	342,551			
<i>of which competitive sector<sup>(2)</sup></i>	302,673	21,760	280,913	48,271	16,161	32,110

(2) The amount of doubtful loans in the competitive sector includes €156.9 million in loans guaranteed by SGFGAS, in accordance with CNC Regulation no.2005-07.

## Note 2 e: Breakdown of doubtful loans

(in thousands of euros)

December 31, 2004	Total doubtful loans			Of which compromised doubtful loans		
	GROSS AMOUNT	PROVISIONS	NET AMOUNT	GROSS AMOUNT	PROVISIONS	NET AMOUNT
<b>LOANS TO HOUSEHOLDS</b>	<b>366,388</b>	<b>10,078</b>	<b>356,310</b>	<b>131,692</b>	<b>7,330</b>	<b>124,362</b>
• Individuals	312,299	6,085	306,214	104,024	3,863	100,161
- Subsidised residential property	131,313	145	131,168	72,751	145	72,606
- Unsubsidised residential property	180,645	5,891	174,754	31,128	3,677	27,451
- Other	341	49	292	145	41	104
• Individual entrepreneurs	54,089	3,993	50,096	27,668	3,467	24,201
- Subsidised residential property	26,501		26,501	18,839		18,839
- Unsubsidised residential property	27,062	3,635	23,427	8,416	3,116	5,300
- Other	526	358	168	413	351	62
<b>LOANS TO COMPANIES</b>						
Regional public sector (local communities)	4,890	167	4,723	602		602
• Social organisations	37,131	2,266	34,865	27,723	2,253	25,470
- Subsidised residential property	34,347		34,347	25,289		25,289
- Unsubsidised residential property	358	8	350	57	5	52
- Other	2,426	2,258	168	2,377	2,248	129
• Real estate professionals						
- Unsubsidised residential property						
- Other						
• Real estate investors	207,767	21,167	186,600	187,689	10,311	177,378
- Subsidised residential property	180,272	4,214	176,058	175,874	4,214	171,660
- Unsubsidised residential property	25,487	15,987	9,500	10,310	5,227	5,083
- Other	2,008	966	1,042	1,505	870	635
• Structured financing						
- Transportation						
- Large projects						
• Other	1,445	55	1,390	226		226
<b>TOTAL <sup>(1)</sup></b>	<b>617,621</b>	<b>33,733</b>	<b>583,888</b>	<b>347,932</b>	<b>19,894</b>	<b>328,038</b>
<i><sup>(1)</sup> of which, subsidised, sector</i>	374,414	4,359	370,055	293,582	4,359	289,223
<i>of which, unsubsidised, residential, sector</i>	243,207	29,374	213,833	54,350	15,535	38,815

## Note 3: Bonds and other fixed income securities

(in thousands of euros)

	12/31/2006			12/31/2005	12/31/2004
	GROSS	PROVISIONS	NET		
<b>BONDS AND OTHER FIXED INCOME SECURITIES <sup>(1)</sup></b>					
• Short-term investment securities					
- Listed securities	319,803	5	319,798	319,239	520,714
- Unlisted securities	7,467,000		7,467,000	5,521,400	3,830,304
• Long-term investment securities <sup>(2)</sup>					
- Listed securities	21,879,281		21,879,281	15,319,530	9,905,407
- Unlisted securities	5,942,656		5,942,656	6,349,320	2,768,136
• Related receivables	185,806		185,806	136,935	94,777
<b>TOTAL <sup>(3)</sup></b>	<b>35,794,546</b>	<b>5</b>	<b>35,794,541</b>	<b>27,646,424</b>	<b>17,119,338</b>

(1) Units of mutual receivables funds under this item represent €19,251,911 K (excluding related receivables).

(2) At December 31, 2006, underlying capital losses on long-term investment securities totalled €41,426 K on an overall portfolio of 28 billion euros (data made available pursuant to CRC regulation 2004-16 of November 23, 2004 on information to be provided following the transposition of European "Fair value" and "Modernisation" directives).

The majority of the capital loss is the result of interest rate movements (effect of rising short term rates). Micro hedging swaps are used to cover such risks.

(3) There are no compromised doubtful loans within Bonds and other fixed income securities.

## Note 3 a: Premiums/Discounts

(in thousands of euros)

As of December 31, 2006		Gross Amount	Redemption Value	Difference +\-
<b>SHORT-TERM INVESTMENT SECURITIES <sup>(1)</sup></b>				
Bonds		297,640	299,431	1,791
Other fixed income securities		7,489,164	7,489,105	-59
<b>LONG-TERM INVESTMENT SECURITIES</b>				
Bonds		5,461,442	5,447,944	-13,498
Other fixed income securities		22,360,495	22,358,153	-2,342

(1) of which unrealised capital gains when compared to the market price of €11,467 K.

## Note 3 b: Financial fixed assets

(in thousands of euros)

	Gross amount at 12/31/2004	Acquisitions	Disposals/ Repayments	Change in premiums/ discounts	Currency differences	Gross amount at 12/31/2005	Acquisitions	Disposals/ Repayments	Reclasssts	Change in premiums/ discounts	Currency differences	Gross amount at 12/31/2006
Long-term investment securities	12,673,543	18,075,279	-9,306,872	1,147	78,586	21,668,850	26,336,524	-20,111,687		10,840	-82,590	27,821,937
<b>TOTAL</b>	<b>12,673,543</b>	<b>18,075,279</b>	<b>-9,306,872</b>	<b>1,147</b>	<b>78,586</b>	<b>21,668,850</b>	<b>26,336,524</b>	<b>-20,111,687</b>	<b>0</b>	<b>10,840</b>	<b>-82,590</b>	<b>27,821,937</b>
Related receivables	78,293					120,598						172,484
<b>GRAND TOTAL</b>	<b>12,751,836</b>	<b>18,075,279</b>	<b>-9,306,872</b>	<b>1,147</b>	<b>78,586</b>	<b>21,789,448</b>	<b>26,336,524</b>	<b>-20,111,687</b>	<b>0</b>	<b>10,840</b>	<b>-82,590</b>	<b>27,994,421</b>

## Note 4: Tangible and intangible fixed assets

(in thousands of euros)

	Gross amount at 12/31/2005	Acquisitions in 2006	Disposals in 2006	Gross amount at 12/31/2006	Amortisation and provisions	Net amount at 12/31/2006	Net amount at 12/31/2005	Net amount at 12/31/2004
<b>INTANGIBLE FIXED ASSETS</b>								
Difference intangible/CFF equity contribution	119,408			119,408	105,342	14,066	21,536	31,140
Other intangible fixed assets	4			4		4	4	4
<b>TOTAL</b>	<b>119,412</b>			<b>119,412</b>	<b>105,342</b>	<b>14,070</b>	<b>21,540</b>	<b>31,144</b>

## Note 4 a: Amortisation and provisions on tangible and intangible fixed assets

(in thousands of euros)

	Amount at 12/31/2004	Increases in 2005	Reversals in 2005	Amount at 12/31/2005	Increases in 2006	Reversals in 2006	Amount at 12/31/2006
Intangible fixed assets	88,268	9,604		97,872	7,470		105,342
<b>TOTAL</b>	<b>88,268</b>	<b>9,604</b>		<b>97,872</b>	<b>7,470</b>		<b>105,342</b>

## Note 5: Other assets

(in thousands of euros)

	12/31/2006	12/31/2005	12/31/2004
Conditional instruments purchased	24,439	32,774	42,659
Miscellaneous receivables	38,930	1,497	30,884
Special bonus account	146,608	134,257	138,753
<b>TOTAL</b>	<b>209,977</b>	<b>168,528</b>	<b>212,296</b>

## Note 6: Prepayments, deferred charges and accrued income

(in thousands of euros)

	12/31/2006	12/31/2005	12/31/2004
<b>DEFERRED CHARGES<sup>(1)</sup></b>			
Issue and redemption of premiums	277,668	170,238	128,590
Other deferred charges	45,537	42,473	57,200
<b>OTHER PREPAYMENTS, DEFERRED CHARGES AND ACCRUED INCOME</b>			
Prepayments	173,699	153,646	111,609
Accrued income <sup>(2)</sup>	1,674,538	1,139,639	1,220,189
Other <sup>(3)</sup>	803,407	444,228	916,420
<b>TOTAL</b>	<b>2,974,849</b>	<b>1,950,224</b>	<b>2,434,008</b>

(1) Deferred charges consist of issue premiums on long-term loans and debt securities. See following table entitled "Deferred charges".

Other deferred charges correspond in 2004 to the loan issue fees to be amortised over the remaining term to maturity of the bonds and loans and flat-rate commissions paid to the FGAS guarantee fund in respect of PAS loans which are being amortised over the remaining term to maturity of the loans. In 2005, they included only loan issue fees. The flat-rate commissions on the PAS, to be amortised over the remaining term, were paid following the termination of the FGAS guarantee.

(2) Of which accrued income on swaps contracts for €1,670,820 K as of December 31, 2006.

(3) Of which borrower accounts €503,185 K as of December 31 2006, compared to €223,247 K as of December 31 2005 (See Note 11).

## Note 6 a: Deferred charges

(in thousands of euros)

	12/31/2006	12/31/2005	12/31/2004
<b>ISSUE AND REDEMPTION OF PREMIUMS</b>			
Debt securities			
Mortgage loans ( <i>obligations foncières</i> )			
Subsidised sector	5,044	6,734	8,671
Other sectors	272,144	162,841	119,045
Negotiable debt securities (B.M.T.N.)	480	663	874
<b>Total issue and redemption of premiums</b>	<b>277,668</b>	<b>170,238</b>	<b>128,590</b>
<b>OTHER DEFERRED CHARGES</b>			
Loan and bond issuance costs	45,537	42,473	42,206
Flat-rate commissions on PAS loans <sup>(1)</sup>			14,994
<b>Total other deferred charges</b>	<b>45,537</b>	<b>42,473</b>	<b>57,200</b>
<b>TOTAL DEFERRED CHARGES</b>	<b>323,205</b>	<b>212,711</b>	<b>185,790</b>

(1) The flat-rate commissions on PAS loans to be amortised were paid in 2005, following the end of the FGAS guarantee.

## Note 7: Due to banks

(in thousands of euros)

	12/31/2006	12/31/2005	12/31/2004
<b>DUE TO NON-GROUP BANKS</b>			
On demand			
Current accounts		1,277	806
Other amounts due	317	334	615
Related payables			
<b>Sub-total</b>	<b>317</b>	<b>1,611</b>	<b>1,421</b>
At maturity			
At maturity <sup>(1)(2)</sup>	175,970	311,216	638,576
Related payables	4,832	8,138	12,889
<b>Sub-total</b>	<b>180,802</b>	<b>319,354</b>	<b>651,465</b>
<b>TOTAL DUE TO NON-GROUP BANKS</b>	<b>181,119</b>	<b>320,965</b>	<b>652,886</b>
<b>DUE TO GROUP BANKS</b>			
On demand	9,844	9,263	16,863
At maturity	1,275,740	952,743	798,413
<b>TOTAL DUE TO GROUP BANKS</b>	<b>1,285,584</b>	<b>962,006</b>	<b>815,276</b>
<b>Grand Total</b>	<b>1,466,703</b>	<b>1,282,971</b>	<b>1,468,162</b>
<sup>(1)</sup> of which subsidised sector	18,854	141,259	388,574

(2) The deposits received were classified as term loans in 2003 and 2004. There were reclassified in 2005 as Other liabilities (See Note 10).

## Note 8: Customer deposits

(in thousands of euros)

	12/31/2006	12/31/2005	12/31/2004
<b>OTHER LIABILITIES</b>			
Non-group			
On demand			
Other amounts due to customers	122,416	29,914	307,323
<b>TOTAL</b>	<b>122,416</b>	<b>29,914</b>	<b>307,323</b>

## Note 9: Debt securities

(in thousands of euros)

	12/31/2006	12/31/2005	12/31/2004
Negotiable debt securities <sup>[1]</sup>	241,924	286,072	254,808
Mortgage Bonds ( <i>obligations foncières</i> ) <sup>[2]</sup>	60,167,293	48,692,035	39,907,738
Related payables	1,521,335	1,063,432	1,196,164
<b>GRAND TOTAL</b>	<b>61,930,552</b>	<b>50,041,539</b>	<b>41,358,710</b>
<sup>[1]</sup> of which subsidised sector	41,923	41,923	134,435
<sup>[2]</sup> of which subsidised sector*	1,668,777	2,584,296	4,977,113

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

\* Borrowings from the subsidised sector include a total of 150 million pounds sterling explicitly guaranteed by the French State.

## Note 10: Other liabilities

(in thousands of euros)

	12/31/2006	12/31/2005	12/31/2004
Other payables <sup>[2]</sup>	950,391	28,655	63,312
Related payables	133	1,734	119
Conditional instruments sold	305	435	583
Allocated public funds <sup>[1]</sup>	317,616	357,038	403,537
Deposits received <sup>[3]</sup>	332,030	681,850	-
<b>TOTAL</b>	<b>1,600,475</b>	<b>1,069,712</b>	<b>467,551</b>
<sup>[1]</sup> of which subsidised sector	254,152	293,814	340,313

(2) Including in 2006 a €890 M debt, due on December 30<sup>th</sup>, but which settlement date is deferred until 2007 January 1<sup>st</sup>, according interbanks relations rules.

(3) The deposits received were reclassified as Other liabilities in 2005. Previously they appeared as bank term loans [See Note 7].

## Note 11: Liability adjustment accounts

(in thousands of euros)

	12/31/2006	12/31/2005	12/31/2004
<b>OTHER LIABILITY ADJUSTMENT ACCOUNTS</b>			
Prepaid FGAS subsidies	570,100	549,147	615,890
Other pre-payments	496,253	351,622	268,742
Accruals <sup>[1]</sup>	826,963	572,499	603,387
Adjustment account <sup>[2]</sup>	701,421	142,271	909,954
Other <sup>[3]</sup>	195,404	644,705	561,113
<b>TOTAL</b>	<b>2,790,141</b>	<b>2,260,244</b>	<b>2,959,086</b>

(1) Of which accrued income on swaps contracts for €794,977 K at December 31, 2006.

(2) 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 (See Note 17).

(3) Of which borrower accounts of €114,347 K at December 31, 2006 compared to €42,821 K at December 31, 2005 (See Note 6).

## Note 12: Provisions for liabilities and charges

(in thousands of euros)

	12/31/2004	12/31/2005			12/31/2006				
	Balance	Increases	Reversals used	Reversals not used	Balance	Increases	Reversals used	Reversals not used	Balance
<b>PROVISIONS FOR LIABILITIES AND CHARGES ON BANKING OPERATIONS</b>									
Provisions for litigation	403	43	1	2	443		42	290	111
Provisions for tax litigation <sup>[1]</sup>		275			275	14,711	11,094		3,892
Provisions for amortisation of loans									
- Subsidised sector	428			428					
- Unsubsidised sector	1,641			819	822			822	
Provisions for losses on commitments	15			15					
Provisions for liabilities and charges on financial instruments									
<b>PROVISIONS FOR LIABILITIES AND CHARGES - COST OF RISK</b>									
Provisions for potential risks on non-doubtful loans <sup>[2]</sup>	4,101	6,048		555	9,594	72	3,292		6,374
<b>TOTAL</b>	<b>6,588</b>	<b>6,366</b>	<b>1</b>	<b>1,819</b>	<b>11,134</b>	<b>14,783</b>	<b>14,428</b>	<b>1,112</b>	<b>10,377</b>

(1) The 2005 tax litigation provision covers V.A.T and "Taxe professionnelle" adjustments, following a tax audit for the years from 2000 to 2004. In 2006, it corresponds to accrued interest in FCC shares (€3,628 K) and V.A.T and tax "taxe professionnelle" adjustments (€264 K).

(2) See paragraph II.2.2 of the draft appendix.  
In 2005, increase of €5,276 K, for provision for Neiertz risks; in 2006, reversal of €2,298 K, for customers dynamic provision.

## Note 13: Subordinated debt

### 1. Amounts in financial statements (in thousands of euros)

Description	Amount at 12/31/2006	Amount at 12/31/2005	Amount at 12/31/2004
Reimbursable subordinated instruments "TSR"	900,000	900,000	900,000
Subordinated participating loan	1,350,000	1,350,000	1,350,000
Related payables	550	491	465
<b>TOTAL SUBORDINATED DEBT</b>	<b>2,250,550</b>	<b>2,250,491</b>	<b>2,250,465</b>

### 2. Detailed information concerning subordinated debt (in thousands of euros)

#### a. Financial characteristics

Description	Date of issue	Maturity date	Rate	Repayment terms	Amount at 12/31/2006
Reimbursable subordinated instruments "TSR"	12/30/2003	12/30/2043	Euribor 3 months +0.5%	At maturity	900,000
Subordinated participating loan from Crédit Foncier de France <i>rescheduled on June 28, 2002</i>	10/22/1999	10/21/2040	TAM +2.5%	At maturity	1,350,000

#### b. Possibility and conditions for early repayment

- On the subordinated participating loan

Compagnie de Financement Foncier has the right to reimburse all or part of the loan before maturity without penalty.

- On the reimbursable subordinated instruments "TSR"

The TSRs 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 TSRs 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 TSRs are cancelled. Nevertheless, if Crédit Foncier were to sell these securities to entities outside the Group, they would become representative of shareholders' equity and their purchase would require the prior agreement of the French Banking Authority [Commission bancaire].

#### c. Conditions relating to interest rate payable

- On the subordinated participating loan

In order to ensure 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.

- On the reimbursable subordinated instruments "TSR"

Any interest not paid is carried over as unsecured debt.

## Note 14: Change in shareholders' equity

(in thousands of euros)

	Opening balance 01/01/2005	Allocations	Changes in capital and reserves		Balance at 12/31/2005	Allocations	Changes in capital and reserves		Balance at 12/31/2006
			Dividends paid in shares	Other change			Dividends paid in shares	Other change	
Capital stock <sup>(1)</sup>	100,000		10,000		110,000		22,000		132,000
Share premiums <sup>(1)</sup>	118,536		25,687		144,223		65,519		209,742
Reserves									
Legal reserve	10,000	1,000			11,000	2,200			13,200
General reserve	55,517				55,517				55,517
Regulated reserves									
of which									
<i>Regulated revaluation reserves</i>									
<i>Special long-term capital gains reserves</i>									
Retained earnings		36,180		-5,257	30,923	-3,783		-266	26,874
Net shareholders' equity before income for the year	284,053	37,180	35,687	-5,257	351,663	-1,583	87,519	-266	437,333
Income for the year before distribution	72,867				85,936				62,342
Net shareholders' equity after income for the year	356,920	37,180	35,687	-5,257	437,599	-1,583	87,519	-266	499,675
Dividends distributed		35,687				87,519			
	Opening balance 01/01/2005	Allocations	Changes in provisions		Balance at 12/31/2005	Allocations	Changes in provisions		Balance at 12/31/2006
			Increases	Reversals			Increases	Reversals	
Regulated revaluation reserves									
Other regulated reserves									
Regulated reserves									
Amount of shareholders' equity before dividends	356,920	37,180	35,687	-5,257	437,599	-1,583	87,519	-266	499,675
	Opening balance 01/01/2005	Allocations	Changes in FRBG		Balance at 12/31/2005	Affectations	Changes in FRBG		Balance at 12/31/2006
			Increases	Reversals			Increases	Reprises	
Fund for general banking risks	20,000				20,000				20,000
<b>TOTAL</b>	<b>376,920</b>	<b>37,180</b>	<b>35,687</b>	<b>-5,257</b>	<b>457,599</b>	<b>-1,583</b>	<b>87,519</b>	<b>-266</b>	<b>519,675</b>

(1) The capital stock consists of 8,250,000 ordinary shares with a par value of 16 euros, which all benefit from the same rights.  
 No revaluation has been carried out to date.  
 During the year, 1,375,000 new shares were issued, with a par value of 16 euros.

## Note 14 a: Proposed allocation of income

(in thousands of euros)

SOURCES			
Retained earnings			26,874
Net income for the year			62,342
Drawing from reserves			
ALLOCATIONS			
Allocation to reserves			2,200
- Legal reserve			
- Special long-term capital gains reserves			
- Other reserves			
Dividends			83,325
Other distributions			
Retained earnings			3,691
<b>TOTAL</b>		<b>89,216</b>	<b>89,216</b>

## Note 15: Commitments given

### Financing commitments

(in thousands of euros)

	2006		2005		2004	
	Net authorisations	Amounts not drawn down	Net authorisations	Amounts not drawn down	Net authorisations	Amounts not drawn down
<b>SUBSIDISED SECTOR</b>						
NON-GROUP COMMITMENTS						
Banks						
Customers		8		162		229
<b>Sub-total subsidised sector</b>	<b>8</b>		<b>162</b>		<b>229</b>	
<b>COMPETITIVE SECTOR</b>						
NON-GROUP COMMITMENTS						
Banks						
Customers	498,927	1,215,757	250,000	364,708		293,574
<b>Sub-total competitive sector</b>	<b>498,927</b>	<b>1,215,757</b>	<b>250,000</b>	<b>364,708</b>	<b>293,574</b>	
<b>TOTAL <sup>(1)</sup></b>	<b>498,927</b>	<b>1,215,765</b>	<b>250,000</b>	<b>364,870</b>	<b>293,803</b>	
<b>TOTAL <sup>(1)</sup></b>	<b>1,714,692</b>		<b>614,870</b>		<b>293,803</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.

(1) At December 31 2006, doubtful commitments came to €2,033 K.

Financing commitments given to customers increased in 2006 due to increased loan acquisition activity.

## Note 16: Commitments received

(in thousands of euros)

	2006	2005	2004
<b>FINANCING COMMITMENTS</b>			
NON-GROUP COMMITMENTS			
Banks	40,000		
<b>Sub-total</b>	<b>40,000</b>		
GROUP COMMITMENTS <sup>(1)</sup>	591,472	1,303,249	1,306,445
<b>Total</b>	<b>631,472</b>	<b>1,303,249</b>	<b>1,306,445</b>
<b>GUARANTEE COMMITMENTS</b>			
NON-GROUP COMMITMENTS			
Banks <sup>(2)</sup>	1,102,765	414,518	806,034
Customers <sup>(3)</sup>	18,561,261	16,530,429	16,894,787
<b>Sub-total</b>	<b>19,664,026</b>	<b>16,944,947</b>	<b>17,700,821</b>
GROUP COMMITMENT <sup>(4)</sup>	3,917,003	3,745,463	2,643,684
<b>TOTAL</b>	<b>23,581,029</b>	<b>20,690,410</b>	<b>20,344,505</b>
<b>TOTAL COMMITMENTS RECEIVED <sup>(5)</sup></b>	<b>24,212,501</b>	<b>21,993,659</b>	<b>21,650,950</b>

(1) On December 31, 2006 Group Commitments include a credit line from Credit Foncier for €500,000K and a repurchase agreement for securitisation units worth €91,472K. The securitisation buyback engagements stood at €803,249 K at year-end 2005; they decreased in 2006 as a result of the prepayment of FCC Powerhouse.

(2) Of which €766,979 K rated AA/Aa2, the rest rated AAA.

(3) In fiscal year 2003, Compagnie de Financement Foncier began posting 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.

For 2006, these guarantees are broken down as follows:

- Government guarantees on subsidised sector loans: €2,479,747 K
- SFGAS guarantees on FGAS-eligible loans: €6,763,358 K
- Mortgage guarantees for mortgage loans benefiting from only one such guarantee: €7,645,004 K
- Guarantees granted by local municipalities and other entities: €1,673,152 K

(4) Guarantee commitment received during the establishment of a credit risk transfer transaction, indirectly on a German public entity rated AAA for €1,889,374 K and €2,027,628 K, by virtue of commitment received from CIFG on December 31, 2006.

(5) The company also benefits from implicit guarantees in the amount of €480 040 on securities wrapped by monoline insurers at issuance. This guarantee is obtained by the issuer of the securities.

Compagnie de Financement Foncier has also received a deposit commitment from a public bank rated AAA. The maximum amount of this commitment is set at 3 billion euros. It will bear interest at market rates. This commitment affords assurance that any excess cash can be replaced under highly secure conditions and in accordance with the special legal constraints applying to *sociétés de crédit foncier*.

## Note 17: Foreign currency transactions

(in thousands of euros)

	2006		2005		2004	
	Currency receivable	Currency payable	Currency receivable	Currency payable	Currency receivable	Currency payable
<b>FORWARD TRANSACTIONS</b>						
Transactions directly with counterparties <sup>(1)</sup>						
Hedging transactions						
Financial swaps						
Micro-hedging transactions						
Subsidised sector	223,380	249,780	218,882	249,780	212,751	249,780
Unsubsidised sector	14,025,118	14,700,040	11,590,496	11,701,075	6,929,765	7,788,880
Macro-hedging transactions						
Subsidised sector						
Unsubsidised sector					43,305	57,115
Total hedging transactions	14,248,498	14,949,820	11,809,378	11,950,855	7,185,821	8,095,775
<b>FORWARD TRANSACTIONS (nominal amounts)</b>	<b>14,248,498</b>	<b>14,949,820</b>	<b>11,809,378</b>	<b>11,950,855</b>	<b>7,185,821</b>	<b>8,095,775</b>
<b>FORWARD TRANSACTIONS (fair value) <sup>(2)</sup></b>	<b>-537,473</b>	<b>-</b>	<b>-250,175</b>	<b>-</b>	<b>-949,559</b>	<b>-</b>
<b>CURRENT CASH TRANSACTIONS</b>			<b>64,305</b>	<b>65,000</b>		
<b>TOTAL FOREIGN CURRENCY TRANSACTIONS</b>	<b>14,248,498</b>	<b>14,949,820</b>	<b>11,873,683</b>	<b>12,015,855</b>	<b>7,185,821</b>	<b>8,095,775</b>
<b>TOTAL</b>	<b>29,198,318</b>		<b>23,889,538</b>		<b>15,281,596</b>	

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

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

	2006		2005		2004	
	Euros <sup>(1)</sup>	Other currencies <sup>(2)</sup>	Euros <sup>(1)</sup>	Other currencies <sup>(2)</sup>	Euros <sup>(1)</sup>	Other currencies <sup>(2)</sup>
<b>TRANSACTIONS DIRECTLY WITH COUNTERPARTIES <sup>(3)</sup></b>						
<b>CONDITIONAL TRANSACTIONS</b>						
Micro-hedging transactions						
Purchases <sup>(4)</sup>			1,604,936		1,858,606	
Sales	18,294		22,105		25,154	
Macro-hedging transactions						
Purchases <sup>(4)</sup>	1,334,523					
Sales						
Other conditional transactions						
Purchases						
Sales						
<b>CONDITIONAL TRANSACTIONS (nominal amounts)</b>	<b>1,352,817</b>		<b>1,627,041</b>		<b>1,883,760</b>	
<b>CONDITIONAL TRANSACTIONS (fair value) <sup>(4)</sup></b>	<b>5,452</b>		<b>5,547</b>		<b>14,679</b>	
<b>FIRM TRANSACTIONS</b>						
Micro-hedging transactions						
Interest rate instruments	63,555,478	360,072	59,515,028	356,148	49,503,773	
Exchange rate instruments	63,555,478	360,072	59,515,028	356,148	49,503,773	
Other instruments						
Macro-hedging transactions						
Interest rate instruments	20,545,271		11,231,593		12,788,014	
Exchange rate instruments	20,545,271		11,231,593		12,788,014	
Other instruments						
Other transactions						
Interest rate instruments						
Exchange rate instruments						
Other instruments						
<b>FIRM TRANSACTIONS (nominal amounts)</b>	<b>84,100,749</b>	<b>360,072</b>	<b>70,746,621</b>	<b>356,148</b>	<b>62,291,787</b>	
<b>FIRM TRANSACTIONS (fair value) <sup>(5)</sup></b>	<b>709,187</b>	<b>1,798</b>	<b>1,617,466</b>	<b>30,290</b>	<b>1,457,246</b>	
<b>FIRM AND CONDITIONAL TRANSACTIONS</b>	<b>85,453,566</b>	<b>360,072</b>	<b>72,373,662</b>	<b>356,148</b>	<b>64,175,547</b>	
<b>TOTAL <sup>(6)</sup> (nominal amounts)</b>	<b>85,813,638</b>		<b>72,729,810</b>		<b>64,175,547</b>	
<b>TOTAL <sup>(4)</sup> (fair value)</b>	<b>716,437</b>		<b>1,653,303</b>		<b>1,471,925</b>	

(1) Euro equivalent for non-euro currencies.

(2) Euro equivalent currencies that became the euro.

(3) Compagnie de Financement Foncier does not transact any forward financial instruments on regulated markets.

(4) At the end of 2006, the Company reclassified as macro-hedging cap rate contracts, previously classified as micro-hedging.

(5) Data communicated pursuant to regulation CRC 2004-16 of Nov. 23, 2004 regarding information to be provided further to the transposition of the European directives, "Fair value" and "Modernisation".

(6) At December 31, 2006, there were no outstanding doubtful loans relating to transactions on financial instruments.

## Note 19: Interest and similar income <sup>(1) (2)</sup>

(in thousands of euros)

	2006	2005	2004
- On transactions with banks	204,329	200,532	241,840
- On transactions with customers	1,195,288	1,089,457	1,189,530
- On bonds and other fixed income securities	1,691,496	1,216,241	900,856
- Other interest and similar income		112	
<b>TOTAL</b>	<b>3,091,113</b>	<b>2,506,342</b>	<b>2,332,226</b>
<i>(1) of which income from the subsidised sector</i>	321,119	348,240	623,321

(2) Of which €8 K as reversals of discounts on restructured loans under non-market conditions.

## Note 20: Interest and similar expenses <sup>(1)</sup>

(in thousands of euros)

	2006	2005	2004
- On transactions with banks	-75,494	-69,158	-74,669
- On transactions with customers		-41,386	-1,536
- On bonds and other fixed income securities	-2,465,472	-1,996,221	-1,865,749
- Related to subordinated debt	-104,527	-86,739	-85,783
- Other interest and similar expenses	-260,184	-103,122	-78,195
<b>TOTAL</b>	<b>-2,905,677</b>	<b>-2,296,626</b>	<b>-2,105,932</b>
<i>(1) of which expenses from the subsidised sector</i>	-274,911	-289,882	-548,716

## Note 21: Net commissions and fees

(in thousands of euros)

	2006	2005	2004
<b>INCOME</b>	<b>39,827</b>	<b>35,291</b>	<b>32,389</b>
- On transactions with banks	2	1,218	-
- On transactions with customers	25,402	22,481	20,718
- Transfer of loan issuance costs/expenses	12,497	10,672	11,602
- On securities transactions		7	
- Other commissions and fees	1,926	913	69
<b>EXPENSES</b>	<b>-15,565</b>	<b>-14 081</b>	<b>-16,654</b>
- On transactions with banks	-72	-73	-157
- On transactions with customers	-512	-466	-1,266
- On securities transactions <sup>(1)</sup>	-12,809	-11,023	-12,471
- On payment method transactions	-18	-33	-2,692
- Other commissions and fees	-2,154	-2,486	-68
<b>NET BALANCE</b>	<b>24,262</b>	<b>21,210</b>	<b>15,735</b>
<i>(1) of which loan issuance costs</i>	12,809	11,023	11,602

## Note 22: Gains and losses on trading portfolio transactions

(in thousands of euros)

	2006	2005	2004
<b>FOREIGN EXCHANGE AND ARBITRAGE TRANSACTIONS</b>			
- Gains on foreign exchange and arbitrage transactions	326	1,012	284
- Losses on foreign exchange and arbitrage transactions	-1,533	-167	-502
<b>FORWARD FINANCIAL INSTRUMENT TRANSACTIONS</b>			-10
- Income from forward financial instruments			
- Expenses on forward financial instruments			-10
- Reversals in provisions for unrealised losses on interest-rate instruments			
- Increases in provisions for unrealised losses on interest-rate instruments			
<b>NET BALANCE</b>	-1 207	845	-228

## Note 23: Gains and losses on investment securities transactions

(in thousands of euros)

	2006	2005	2004
- Gains on disposal <sup>[1]</sup>		9,406	1,310
- Losses on disposal			- 156
- Reversals of provisions for loss of value	22	182	11
- Increases in provisions for loss of value	-27	-175	-10
<b>NET BALANCE</b>	-5	9,413	1,155

(1) In 2005, the Company sold short-term instrument securities for €174,2 M. This transaction generated a €9,406 K gain.

## Note 24: Other income from banking operations

(in thousands of euros)

	2006	2005	2004
<b>REVERSALS OF PROVISIONS RELATING TO BANKING TRANSACTIONS</b>			
- Surplus of reversals over increases in provisions for amortisation of loans <sup>[1]</sup>	822	1,248	2,769
- Provision for claims and litigation on banking transactions	332	2	544
<b>OTHER INCOME FROM BANKING OPERATIONS</b>			
- Transfer of operating expenses			
* Flat-rate commissions on PAS loans		29	3,963
- Other sundry income from banking operations <sup>[2]</sup>	106	34,431	16,611
<b>TOTAL</b>	1,260	35,710	23,887
<sup>[1]</sup> of which subsidised sector	-	428	1,732
<sup>[2]</sup> of which repayments of PAS commissions by FGAS	-	34,282	5,075

In 2005, the amount of €34,282 K includes the exceptional repayment of €22,532 K in flat contributions and on outstanding PAS loans, following the termination of the FGAS guarantee system.

## Note 25: Other expenses on banking operations

(in thousands of euros)

	2006	2005	2004
<b>INCREASES IN PROVISIONS RELATING TO BANKING OPERATIONS</b>			
- Provision for claims and litigation on banking transactions		-43	
<b>OTHER EXPENSES ON BANKING OPERATIONS</b>			
- Commissions on PAS and PTZ loans paid to FGAS		5,136	-8,543
- Amortisation of loan issuance expenses	-9,406	-10,389	-12,093
- Amortisation of flat-rate commissions on PAS loans <sup>(i)</sup>		-15,023	-8,110

## Note 27 a: Increases in provisions for doubtful loans

(in thousands of euros)

	2006	2005	2004
<b>PROVISIONS FOR DOUBTFUL LOANS</b>			
- Provisions for loans to customers	35,517	13,753	10,841
<b>PROVISIONS FOR LIABILITIES AND CHARGES - COST OF RISK</b>			
- Provision for losses and charges on commitments			
- Provision for counterparty risks <sup>(1)</sup>	72	6,048	664
<b>TOTAL</b>	<b>35,589</b>	<b>19,801</b>	<b>11,505</b>

(1) In 2005, increase of €5,276 K, for provision for Neiertz risks.

## Note 27 b: Reversals in provisions for doubtful loans

(in thousands of euros)

	2006	2005	2004
<b>PROVISIONS FOR DOUBTFUL LOANS</b>			
- Provisions for loans to banks			
- Provisions for loans to customers	35,230	20,467	8,909
<b>PROVISIONS FOR LIABILITIES AND CHARGES - COST OF RISK</b>			
- Provision for losses and charges on commitments			14
- Provision for counterparty risks <sup>(1)</sup>	3,292	555	693
<b>TOTAL</b>	<b>38,522</b>	<b>21,036</b>	<b>9,602</b>

(1) In 2006, reversal of €2,298 K of the customers dynamic provision.

## Note 28: FRBG increases/reversals and regulated provisions

(in thousands of euros)

	2006	2005	2004
- Increases to the FRBG			
- Reversal from the FRBG			
- Reversals of regulated provisions			1
- Increases to regulated provisions			-1
<b>TOTAL</b>			<b>0</b>

## Note 29: Transactions with related enterprises and other investments

(in thousands of euros)

	Related enterprises		Other investments	TOTAL
	Group <sup>(1)</sup>	Non-group		
<b>TRANSACTIONS WITH BANKS</b>				
Loans receivable				
- on demand	101,227			101,227
- at maturity	4,060,326			4,060,326
Loans payable				
- on demand	9,844			9,844
- at maturity	1,275,740			1,275,740
Commitments given				
- financing				
- guarantee				
Commitments received				
- financing	591,472			591,472
- guarantee	3,917,003			3,917,003
On securities transactions				
- bonds and other fixed income securities	10,090,040			10,090,040
- debt securities				
- subordinated debt	2,250,548			2,250,548

(1) The definition of Group applied 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 Caisse d'Épargne Group. Consequently, the Group thus defined represents all the entities fully and proportionally consolidated in the Caisse d'Épargne Group.

## Note 31: Schedule of positions: liquidity risk

### C.O.B. recommendation 89.01

(in thousands of euros)

Headings	Remaining term to maturity					
	< 3 months	3M<T<6M	6M<T<1Y	1Y<T<5Y	> 5 years	TOTAL <sup>(2)</sup>
<b>BALANCE SHEET</b>						
Financial assets <sup>(1)</sup>	7,324,951	10,041,720	1,725,953	12,678,127	34,560,127	66,330,878
Due from banks	2,070,372	2,200,311	605	335,057	1,292,598	5,898,943
Customer loans	860,219	1,121,999	822,115	6,157,975	15,860,892	24,823,200
Bonds and other fixed income securities	4,394,360	6,719,410	903,233	6,185,095	17,406,637	35,608,735
Subordinate term loans						
Financial liabilities	1,038,936	1,589,608	2,994,553	26,376,196	32,430,863	64,430,156
Due to banks	471,788	2,831	5,673	89,313	1,201,334	1,770,939
Customer deposits						
Debt securities:	567,148	1,586,777	2,988,880	26,286,883	28,979,529	60,409,217
Liquid notes						
Inter-bank market securities						
Negotiable debt securities				41,923	200,000	241,923
Bonds	567,148	1,586,777	2,988,880	26,244,960	28,779,529	60,167,294
Other debt securities						
Subordinated term debt					2,250,000	2,250,000
Balance sheet differential (II)	6,286,015	8,452,112	-1,268,600	-13,698,069	2,129,264	1,900,722
<b>OFF-BALANCE SHEET</b>						
Commitments given		536,351	929,414		248,927	1,714,692
Commitments received				500,000	131,472	631,472
Off-balance sheet differential (III)		-536,351	-929,414	500,000	-117,455	-1,083,220
Total differential (II) + (III)	6,286,015	7,915,761	-2,198,014	-13,198,069	2,011,809	817,502
Conditional positions	3,049	16,769	103,420	709,565	520,012	1,352,815

(1) Among the financial assets of the SCF, we have identified 15,6 billion euros of securities that conform to the refinancing criteria of the European Central Bank.

(2) The difference with the amounts shown on the balance sheet is principally explained by unpaid loans, doubtful loans and related receivables.

## Note 32: Financial results of the company over the last five financial years

DESCRIPTION (amounts in euros)	2002	2003	2004	2005	2006
<b>II) FINANCIAL SITUATION AT THE END OF THE FINANCIAL YEAR</b>					
a) Capital stock	100,000,000	100,000,000	100,000,000	110,000,000	132,000,000
b) Number of shares in issue	6,250,000	6,250,000	6,250,000	6,875,000	8,250,000
c) Number of bonds convertible into shares	None	None	None	None	None
<b>III) OVERALL RESULTS FROM OPERATIONS</b>					
a) Revenue excluding taxes	2,110,376,000	2,303,969,000	2,389,429,000	2,587,600,757	3,130,988,425
b) Profit for the financial year before tax, employee profit sharing and net increase/reversal in amortisation and provisions	34,314,680	93,082,657	125,017,146	145,122,712	97,226,016
c) Income taxes	13,931,136	32,050,715	40,666,904	58,377,265	29,434,298
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	26,395,577	31,714,173	72,867,183	85,935,735	62,342,078
f) Amount of profits distributed	6,250,000	12,500,000	35,687,500	87,518,750	
<b>III) RESULTS FROM OPERATIONS PER SHARE</b>					
a) Profit for the financial year after tax and employee profit sharing but before net increase/reversal in amortisation and provisions	3.26	9.77	13.50	12.62	8.22
b) Profit for the financial year after tax and employee profit sharing and net increase/reversal in amortisation and provisions	4.22	5.07	11.66	12.50	7.56
c) Dividend paid per share	1.00	2.00	5.71	12.73	
<b>IV) PERSONNEL</b>					
a) Number of employees	Not significant				
- Management category	Not significant				
- Employee and Technician category	None	None	None	None	None
b) Total employee salaries	Not significant				
c) Amount paid for social contributions and benefits (social security, other staff benefits, etc.)	Not significant				

## Note 33: Summary company balance sheets for the last five years

(in thousands of euros)

	12/31/2006	12/31/2005	12/31/2004	31/12/2003	31/12/2002
<b>ASSETS</b>					
Cash due from central banks and post office accounts	4,725	2,363	6,684	140,251	37,952
Treasury notes and similar securities				161,860	160,422
Due from banks	6,049,202	4,581,545	8,857,377	7,437,379	5,110,038
Customer loans	25,643,525	23,032,980	20,533,958	20,484,770	20,856,013
Bonds and other fixed-income securities	35,794,541	27,646,424	17,119,338	11,994,182	8,667,323
Fixed assets	14,070	21,540	31,144	43,492	56,908
Other assets	209,977	168,528	212,296	206,107	180,647
Prepayments, deferred charges and accrued income	2,974,849	1,950,224	2,434,008	2,058,202	2,438,851
<b>TOTAL ASSETS</b>	<b>70,690,889</b>	<b>57,403,604</b>	<b>49,194,805</b>	<b>42,526,243</b>	<b>37,508,154</b>
<b>LIABILITIES</b>					
Central banks, post office accounts					
Due to banks	1,466,703	1,282,971	1,468,162	2,119,344	2,890,397
Customer deposits	122,416	29,914	307,323	150,064	77,806
"obligations foncières"	61,930,552	50,041,539	41,358,710	34,536,839	29,681,433
Other liabilities	1,600,475	1,069,712	467,551	553,703	587,405
Accruals and deferred income	2,790,141	2,260,244	2,959,086	2,589,371	2,636,478
Provisions for liabilities and charges	10,377	11,134	6,588	9,930	13,165
Subordinated debt	2,250,550	2,250,491	2,250,465	2,250,439	1,350,379
Fund for general banking risks	20,000	20,000	20,000	20,000	
Regulated reserves and subsidies					
Capital, reserves and retained earnings	437,333	351,663	284,053	264,839	244,695
Net income for the year	62,342	85,936	72,867	31,714	26,396
<b>TOTAL LIABILITIES</b>	<b>70,690,889</b>	<b>57,403,604</b>	<b>49,194,805</b>	<b>42,526,243</b>	<b>37,508,154</b>
<b>OFF-BALANCE SHEET</b>					
Commitments given					
- Financing	1,714,692	614,870	293,803	332,011	393,698
- Guarantee					
<b>TOTAL COMMITMENTS GIVEN</b>	<b>1,714,692</b>	<b>614,870</b>	<b>293,803</b>	<b>332,011</b>	<b>393,698</b>
Commitments received	24,067,501	21,993,659	21,650,950	19,297,247	3,641,496
Reciprocal commitments					
- Sale and purchase of foreign currencies	29,198,318	23,889,538	15,281,596	11,788,963	11,658,391
- Loans to be made or received in foreign currencies					
- Non-unwound financial instruments	85,813,638	72,729,810	64,175,547	44,442,826	36,488,049
<b>TOTAL RECIPROCAL COMMITMENTS</b>	<b>115,011,956</b>	<b>96,619,348</b>	<b>79,457,143</b>	<b>56,231,789</b>	<b>48,146,440</b>

## Note 34: Privileged/non-privileged liabilities

(in thousands of euros)

	2006	2005	2004
<b>PRIVILEGED DEBT</b>	<b>64,557,008</b>	<b>51,101,470</b>	<b>43,484,546</b>
Due to banks	211,310	350,045	629,848
"obligations foncières"	61,930,551	50,041,539	41,358,710
Amounts due under forward financial instruments	1,497,824	706,889	1,485,947
Amounts due under the agreement covered by Article L.515-22 of the French Monetary and Financial Code	27,110	2,997	10,041
Debt resulting from related expenses mentioned in the last paragraph of Article L.515-19 of the French Monetary and Financial Code	890,213	-	-
<b>NON-PRIVILEGED DEBT</b>	<b>6,133,881</b>	<b>6,302,134</b>	<b>5,710,259</b>
Unsecured debt	2,321,633	2,532,011	1,929,510
Subordinated and similar debt	3,282,196	3,301,390	3,397,241
of which: reimbursable subordinated instruments "TSP"	900,317	900,150	900,134
Participating loan	1,350,231	1,350,183	1,350,175
Shareholders' equity and provisions	530,052	468,733	383,508
<b>TOTAL LIABILITIES</b>	<b>70,690,889</b>	<b>57,403,604</b>	<b>49,194,805</b>

## Note 35: Totals for the subsidised sector

### Balance sheet

(in thousands of euros)

ASSETS	2006	2005	2004	LIABILITIES	2006	2005	2004
Loans	2,510,980	3,416,440	4,472,941	Interbank loans	18,859	144,519	395,934
				Customer deposits	3,811	5,555	10,495
				Debt securities	1,780,293	2,709,260	5,297,200
Other assets	149,560	134,257	138,753	Other liabilities	788,739	1,780	5,168
Special subsidy account	149,560	134,257	138,753				
Prepayments, deferred charges and accrued income	33,381	54,788	103,726	Accruals and deferred income	140,319	158,402	83,292
CSB - Foreign exchange and rate differences	0	0	0	CSB - State guaranteed foreign exchange and rate differences	99	99	1,599
Other prepayments, deferred charges and accrued income	33,381	54,788	103,726	Other accruals and deferred income	140,220	158,303	81,693
				Public funds allocated	254,152	293,815	340,313
				Subsidies	119,609	174,374	236,803
				Guarantee fund	134,543	119,441	103,510
Cash and cash equivalents	292,252		1,416,982	Cash and cash equivalents		292,154	
<b>TOTAL</b>	<b>2,986,173</b>	<b>3,605,485</b>	<b>6,132,402</b>		<b>2,986,173</b>	<b>3,605,485</b>	<b>6,132,402</b>

### Off-balance sheet

(in thousands of euros)

	2006	2005	2004		2006	2005	2004
<b>COMMITMENTS RECEIVED</b>				<b>COMMITMENTS GIVEN</b>			
State guarantees				Loan amounts not drawn down			

## Reciprocal commitments

(in thousands of euros)

	2006	2005	2004
<b>COMMITMENTS ON FORWARD FINANCIAL INSTRUMENTS</b>			
Hedge rate instruments			
- micro-hedging	-	-	38,112
- macro hedging	500,000	1,200,000	2,357,347
Exchange hedging instruments			
- micro-hedging			
- Foreign exchange receivable	223,380	218,882	212,751
- Foreign exchange payable	-249,780	-249,780	-249,780

## Note 36: Cash flow statement

### 1. Principles

The Cash flow Statement analyses the changes in cash positions due to operating, investment, and financing activities between two financial years.

The Compagnie de Financement Foncier Cash Flow Statement is presented according to recommendation 2004-R-03 of the French Conseil National de la Comptabilité, concerning the format of company financial summary as part of the Finance and Banking Regulatory Committee.

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 crédit foncier*.

Operating activities include:

- the acquisition of eligible loans;
- the acquisition of eligible securitisation tranches;
- the issue of *obligations foncières* and other unsubordinated long-term resources.

Financing activities include:

- dividends paid in cash;
- the issue and reimbursement of subordinated loans.

The cash position is defined using the standards of the French Conseil National de la Comptabilité. It includes cash on hand and on-demand deposits at the Banque de France, in post office accounts and with banks.

## 2. Cash flow statement

(in thousands of euros)

	2006	2005	2004
<b>OPERATING ACTIVITIES</b>			
Net income for the year	62,342	85,936	72,867
Restatement of earnings, related to operating activities			
Tangible and intangible fixed assets, excluding goodwill	7,470	9,604	12,348
Net provisions/customers and banks	-1,378	-13,334	2,477
Net provisions/short-term investment securities	-261	-7	-1
Net provisions for risks/loans	-757	4,546	-3,342
Net gain on sale of fixed assets			
Other transactions without cash payments	795,357	-1,049,905	223,801
Cash flow on loans to banks and customers	-4,243,247	1,486,308	-1,522,125
Cash flow on short-term investment securities	-1,946,165	-1,489,621	-553,263
Cash flow on long-term investment securities	-6,224,835	-8,915,574	-4,595,192
Cash flow on other assets	-400,632	515,960	-147,525
Cash flow on debts/banks and customers	273,947	-463,030	-470,114
Net borrowing	11,431,109	8,815,561	6,656,375
Cash flow on other liabilities	83,064	684,138	5,483
<b>Net cash flow used for operating activities</b>	<b>-163,986</b>	<b>-329,418</b>	<b>-318,211</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	85,936	35,687	
Dividends paid	-85,936	-35,687	-12,500
Net issue of subordinated debt			
Other			
<b>Net cash flow from financing activities</b>	<b>0</b>	<b>0</b>	<b>-12,500</b>
<b>Net change in cash position</b>	<b>-163,986</b>	<b>-329,418</b>	<b>-330,711</b>
Cash position at start of year	271,796	601,214	931,925
Cash position at end of year	107,810	271,796	601,214
net	-163,986	-329,418	-330,711
Cash	4,725	2,363	6,684
Treasury notes	0	0	0
Due to banks at maturity	103,085	269,433	594,530
	107,810	271,796	601,214

## Statutory Auditors' report on the financial statements

*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. The Statutory Auditors' report includes information specifically required by French law in all audit reports, whether qualified or not, and this is presented below the opinion on the financial statements. This information 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, together with the Statutory Auditors' report addressing financial and accounting information in the Chairman's report on internal control, should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

### Year ended 31 December 2006

To the Shareholders,

In compliance with the assignment entrusted to us by your Shareholders' Meeting, we hereby report to you, for the year ended 31 December 2006, 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements give a true and fair view of the Company's financial position and its assets and liabilities as of 31 December 2006, and of the results of its operations for the year then ended in accordance with the accounting rules and principles applicable in France.

Without qualifying our opinion, we draw your attention to the following matters set out in note II-1 to the financial statements concerning:

- the change in accounting method used to calculate discounts related to restructured loans, pursuant to CRC regulation no.2005-03;
- the change in accounting method used to calculate the amortisation schedule for premiums and discounts on securities, pursuant to CRC regulation no.2005-01.

#### II - Justification of our assessments

In accordance with the requirements of article L.823-9 of the French Commercial Code relating to the justification of our assessments, we bring to your attention the following matters:

#### **Change in accounting principle:**

As part of our assessment of accounting rules and principles followed by your Company, we verified that the above-mentioned change in accounting principle was applied correctly and the presentation thereof was appropriate.

#### **Accounting estimates:**

Your Company records impairments and provisions to cover the credit risks inherent in its business (notes II-3 and II-4 to the financial statements). Our work consisted in examining the control procedures put in place by management to monitor these credit risks, assessing the risks of non-recovery as well as the (i) impairments recorded in assets for individually assessed loans; and (ii) provisions recorded in liabilities for unallocated borrower risks. As part of our assessments, we also obtained assurance that these estimates were reasonable.

#### **Accounting rules and principles:**

Your Company holds positions on securities and financial instruments. Notes II-6 and II-9 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.

The assessments were made in the context of our audit of the financial statements, taken as a whole, and therefore contributed to the formation of the opinion expressed in the first part of this report.

### **III - Specific verifications and information**

We have also performed the specific verifications required by law in accordance with professional standards applicable in France.

We have no matters to report as to:

- the fair presentation and consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements;
- the fair presentation of the information given in the management report regarding the remuneration and benefits paid to corporate officers and any other commitments made in their favour in connection with, or subsequent to, their appointment, termination or change in function.

Paris-La Défense and Neuilly-sur-Seine, March 30, 2007

The Statutory Auditors

KPMG Audit  
Division of KPMG S.A

PricewaterhouseCoopers Audit

Rémy Tabuteau      Philippe Saint-Pierre      Anik Chaumartin      Guy Flury

## Detail of the calculation of the overcollateralisation ratio – MOD 4001-1

### On corporate basis

Name: Compagnie de Financement Foncier

Accounting date: 31 December 2006

Interbank code CIB 30051

(in thousands of euros)

Resources benefiting from the privilege (priority right of payment) defined under article 98 of the French Law no.99-532 of 25 June 1999: liabilities	Item code	Amount
I - Privileged funding received from banks	101	211,310
II - Privileged resources from customers		
Financial customers	105	0
Non-financial customers	106	0
Subtotal	A	110
III - Securities benefiting from the privilege		
<i>Obligations foncières</i>	115	60,167,293
Negotiable debt instruments	116	241,923
Other securities benefiting from the privilege	117	0
Liabilities related to these securities	118	1,521,335
Non-financial customer base		
Subtotal	B	61,930,551
IV - Amounts due in respect of the contract provided for by article 99 of Law no.99-532 of 25 June 1999	125	27,110
V - Amounts due in respect of forward financial instruments benefiting from the privilege defined under article 98 of Law no.99-532 of 25 June 1999	130	1,497,824
VI - Liabilities resulting from the incidental expenses mentioned in the last paragraph of article 98 of Law no.99-532 of 25 June 1999	135	890,213
PRIVILEGED RESOURCES (140 = 101+110+120+125+130+135)	T	140
Calculation of non-privileged resources		
PRIVILEGED RESOURCES		64,557,008
TOTAL LIABILITIES		70,690,889
NON-PRIVILEGED RESOURCES		6,133,881

(in thousands of euros)

Assets covering privileged resources	Item code	Amount	weighting as %	Weighted amount
Guaranteed loans which do not conform with the conditions of section 1) of the appendix to regulation no.99-10	201	0	0%	0
Mortgage Backed Securities (FCCs) which do not conform with the conditions of section 2) of the appendix to regulation no.99-10	202	0	0%	0
Guaranteed loans which do not conform with the conditions of section 1.b) of the appendix to regulation no.99-10	205	0	50%	0
Mortgage Backed Securities (FCCs) which do not conform with the conditions of section 2.b) of the appendix to regulation no.99-10	206	0	50%	0
Fixed assets resulting from the acquisition of real estate under implementation of guarantees	207	0	50%	0
Risk free safe and liquid securities [the total value of safe and liquid assets cannot exceed 20% of the total assets of sociétés de crédit foncier]				
Deposits for a term less than one year with banks	210	11,841,122		
Securities	211	319,799		
Receivables related to these items	212	22,678		
<b>TOTAL REPLACEMENT COST</b>		<b>12,183,599</b>	<b>95%</b>	<b>11,574,419</b>
Other 1 <sup>st</sup> category assets	215	4,725	100%	4,725
Other 2 <sup>nd</sup> category assets:				
<b>Mortgage loans</b>	<b>220</b>	<b>16,928,368</b>	<b>100%</b>	<b>16,928,368</b>
of which				
<i>mortgage loans also guaranteed by the FGAS guarantee fund</i>	221	6,602,488		
<i>mortgage loans also guaranteed by a bank or an insurance company</i>	222	5,201		
<i>mortgage loans also guaranteed by a public body</i>	223	2,183,504		
Guaranteed loans that meet the conditions of section 1.a) of the appendix to regulation no.99-10	225	748,611	100%	748,611
<b>Loans to public bodies:</b>	<b>230</b>	<b>17,697,137</b>	<b>100%</b>	<b>17,697,137</b>
of which				
<i>Loans to a public legal body or guaranteed by one: €8,551,362,000</i>				
<i>Interbank loans: €8,430,584,000</i>				
<i>Investments by state-owned enterprises: €715,191,000</i>				
Other 2 <sup>nd</sup> Category Assets	235	365,717	100%	365,717
<b>Other 3<sup>rd</sup> Category Assets:</b>				
Mortgage Backed Securities (FCCs) which conform with the conditions of section 2.a) of the appendix to regulation no.99-10	240	19,338,927	100%	19,338,927
Other 3 <sup>rd</sup> Category Assets	241	3,409,735	100%	3,409,735
Other 4 <sup>th</sup> Category Assets	245	0	100%	0
For information:				
Assets deducted from the shareholders' equity		14,070		
Assets not deducted		0		
<b>TOTAL WEIGHTED ASSETS (250 = 205+206+207+210+211+212+215+220+225+230+235+240+241+245) R</b>	<b>250</b>	<b>70,690,889</b>		<b>70,067,639</b>
<b>COVERAGE RATIO (to 2 decimal places) (R/T*100)</b>	<b>260</b>			<b>108.54%</b>

**Coverage of loan-to-value ratio overruns  
provided for by article 94 of the french law no.99-532 of 25 june 1999  
using non-privileged resources - MOD 4001-2**

Name: Compagnie de Financement Foncier

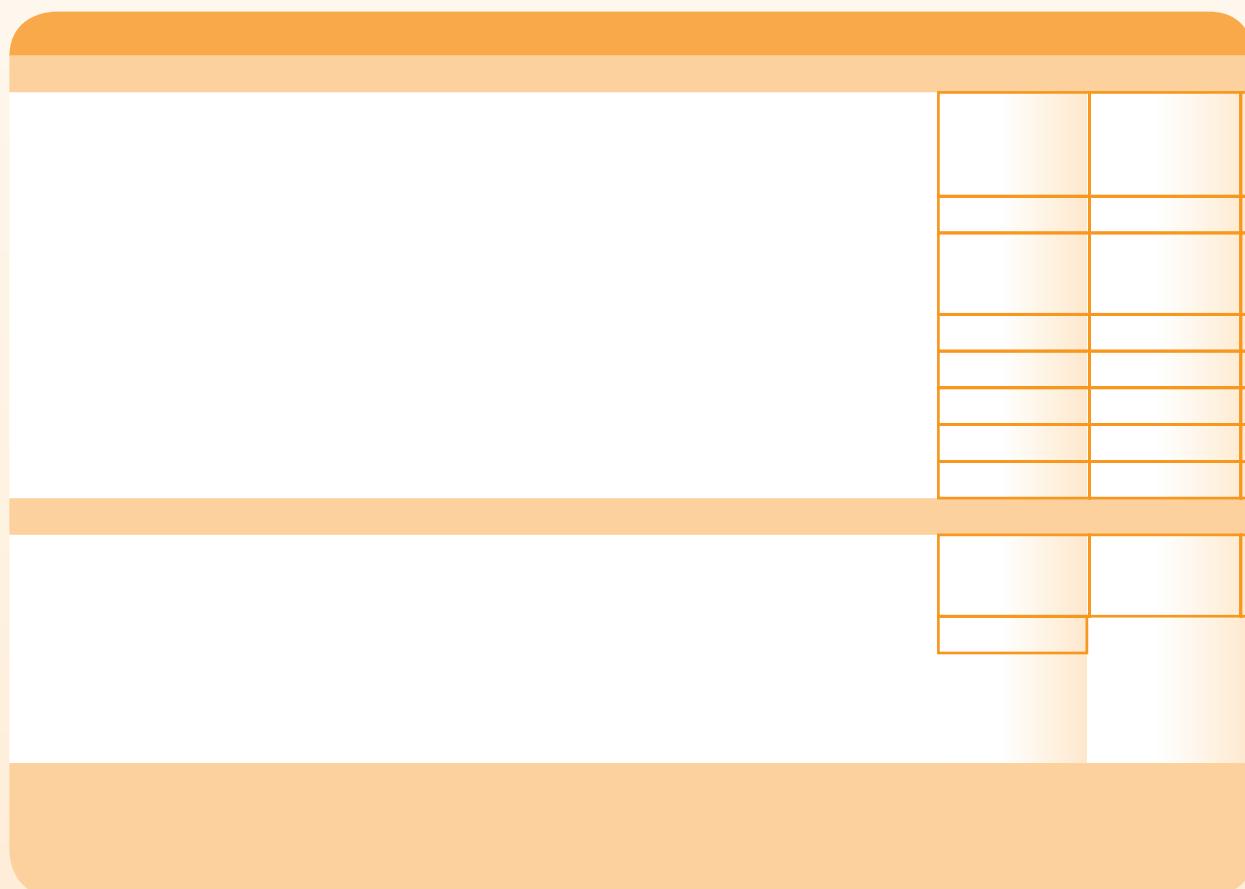
Accounting date: 31 December 2006

Interbank code CIB 30051

(in thousands of euros)

Non-privileged resources: liabilities	Item code	Amount 1
Privileged resources	T	101 64,557,008
Total liabilities+equity	V	102 70,690,889
Non-privileged resources (U=V-T)	U	103 6,133,881

(in thousands of euros)



## **Specific controller's report on the valuation and periodic review methods for real estate at December 31, 2006**

To the Directors of Compagnie de Financement Foncier,

In our capacity as the Specific Controller of your Company, and pursuant to the provisions of Article L.515-30 of the French Monetary and Financial Code, as well as those set out in Article 5 of Regulation 99-10 of the CRBF (French Banking and Financial Regulations Committee), we hereby present you with our report relating to the assessment of the procedure describing the methods used to value the real estate underlying loans and the methods for periodically reviewing their value, published at the same time as the annual financial statements on December 31, 2006 and appended herewith.

The procedure relating to the valuation methods for real estate and the methods for periodically reviewing their value was defined and implemented under the responsibility of your company's management. It is our responsibility to assess the validity of this procedure in terms of its compliance with current regulations.

We have examined the valuation methods and the methods for periodically reviewing the value of real estate underlying loans in accordance with the professional standards applicable to this assignment. These standards require that we take the steps necessary to ascertain that the valuation methods and periodic review methods comply, in their design and their application, with current regulations, and that we check the presentation of the information which is then disclosed in the annual financial statements.

Based on our work, the procedure describing the valuation methods for the real estate underlying the loans and the periodic review methods of their value, disclosed in the financial statements at December 31, 2006, respects the provisions set out in regulations 2002-02 and 99-10 of the CRBF.

On this matter, it must be pointed out that the rules used by Compagnie de Financement Foncier to implement the valuation methods and the methods for the periodic review of the value of real estate at December 31, 2006 are those set out in regulations current at that date and not those resulting from the future transposal into French law of the European Capital Requirements Directive.

Furthermore, it should be noted that, based on the tests we carried out, the operational implementation of this procedure could be improved by:

- Respecting the rules for the initial valuation of assets which must be carried out via an appraisal;
- Reinforcing internal controls related to periodic reviews and real estate valuation procedures so as to ensure that current valuation rules remain consistent.

Paris, April 23, 2007

Specific Controller

Cailliau Dedouit et Associés

Laurent Brun

# Procedure for the valuation and periodic review of the assets underlying loans at December 31, 2006

## I. Method for the valuation of assets underlying loans

### a. General asset valuation principles

The procedure described below was determined, in accordance with Articles 1 and 2 of Regulation no.99-10 of the CRBF, as amended by Regulation no.2002-02.

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.

Exceptionally, the valuation may be based on the total cost of the transaction when this cost is less than €350,000 (CRBF Regulation no.2002-02).

### b. Special rule used by Compagnie de Financement Foncier

As of January 1, 2003, in accordance with the provisions of CRBF Regulation no.2002-02 and a decision by the Chairman of Crédit Foncier de France's Executive Board dated July 28, 2003, the cost of the transaction including VAT and without discount is taken as the estimated value of the asset for all transactions involving residential property whose transaction cost including VAT is less than €350,000.

Exceptionally, the collateral (including VAT and fees) less a 10% discount on new property and 5% on old (for old constructions requiring renovation, the collateral is already discounted by 60% of the renovation cost) is taken as the market value of the asset in the following cases:

- presence of a bridging loan in the transaction (Foncier Intégral product);
- the cost of the transaction is less than the authorised amount;
- one of the loans in the transaction was authorised or implemented before January 1, 2003;
- one of the loans in the transaction was assigned to the *société de crédit foncier* before September 1, 2003.

## Summary

The foregoing rules are summarised in the tables below:

Asset type	Amounts less than €350,000	Amounts greater than €350,000
Residential property for private individuals	Transaction cost <sup>(1)</sup>	Appraisal
Residential property for commercial use	Appraisal	Appraisal
Commercial property <sup>(2)</sup>	Appraisal	Appraisal
Mixed-use property	Transaction cost <sup>(1)</sup>	Appraisal

(1) Or, exceptionally, the market value of the collateral less any discounts as described in the aforementioned cases.

(2) Commercial property includes all properties other than residential property and mixed-use properties whose residential component represents less than 75% of the overall value.

At December 31, 2006, this valuation method was only used on collateral underlying loans authorised in 2006; collateral underlying loans authorised before 2006 is necessarily subject to a periodic review of its value at December 31, 2006, as presented hereafter (Cf. Section II and III).

## **II. Periodic review methods for mixed-use property and residential property for private and commercial use**

The rules detailed below apply to collateral underlying loans authorised before 2006. Collateral underlying loans authorised in 2006 is valued according to the method explained in Chapter I.

Two periodic review methods are used depending on the following circumstances:

- the S1 method for all residential properties valued at less than €350,000 and for the residential property of private individuals valued at more than €350,000;
- the S2 method for the residential property of professional clients valued at more than €350,000.

### **a. S1 periodic review method**

#### **1. Changes to the S1 periodic review method**

The changes affecting real estate markets as well as Crédit Foncier Group's operating sectors have led the group to reconsider its methods for revaluing financed assets. Two goals have been identified: make principles clearer and increase responsiveness to real estate market fluctuations.

The approach to real estate values has been improved by segmenting real estate into new, comparable sub-groups.

#### **2. Old method (applied to 2005 definitive indices)**

This revaluation method entailed applying to real estate:

- the revaluation ratios from one year to the next, based on changes in the real estate market;
- an annual, natural obsolescence ratio equal to 0.65%.

Furthermore, the S1 revaluation method comprised two sub-periods, for the year "n":

- replacement of the provisional revaluation indices at "n-1" with the definitive indices at "n-1";
- definition of the provisional revaluation indices at "n", including the effects of obsolescence.

These definitive and provisional indices were based on the "expert" survey carried out each year by Foncier Expertise.

As for the definitive indices, the results of this survey were restated in an econometric model which included the average indices of annual price changes by city, for apartments and houses, ultimately grouped by department.

When collateral was revaluated at the end of 2006, the definitive revaluation indices for 2005 replaced the provisional revaluation indices that were used during the previous collateral review.

### 3. New S1 periodic review method (applied to 2006 definitive indices)

#### *Definition*

The concept of determining indices using the market value is based on the definition set forth in the “appraisal charter”: the market value is the estimated amount of money that a building would be exchanged for, at the date of the valuation, between a consenting buyer and seller in a fair transaction, following an ample marketing period, and where both parties are willingly and knowingly acting on their behalf.

#### *Principles*

The model is based on indices established by “agglomeration zones” and “non-agglomeration zones” in order to most accurately reflect the real estate market.

There are 110 agglomerations as defined by postal code groups established by the INSEE. They are defined as urban areas with more than 50,000 inhabitants. The list of agglomerations and their composition change as the urban fabric and real estate markets evolve.

Outside of these agglomerations, the “non-agglomeration” real estate market is segmented by administrative regions (20, excluding Corsica and the Ile de France - Paris metropolitan area).

Paris and the Ile de France surrounding Paris are dealt with separately using specific indices.

For each entity thus defined (agglomeration, region, Paris or Ile de France) and grouped according to postal code, the dominant features are listed for the following secondary categories:

Agglomeration:

Apartment/house//new/old

Non-agglomeration:

House//old

Ile-de-France (excluding Paris)

Apartment/house//aggregated index

Paris:

Apartment//aggregated index

When the distinction apartment/house is not available for collateral, the smaller of the two indices, for the corresponding postal code, is used.

When the location of the collateral is imprecise, the smaller of the annual indices, for the corresponding type of housing, is used. The same applies to departments located in the DOM-TOM (overseas departments and territories).

## *Revaluation cycle management*

Real estate value indices are updated annually. During the month of November, new indices are established based on the period ending September 30<sup>th</sup>.

The revaluation cycle is thus managed on a one year rolling period from September 30th of year “n-1” to September 30th of year “n”.

Applying this method at the closing date on December 31st each year will enable the definitive valuations for the year “n” to be determined as early as January in the year “n+1”.

## *Sources*

These indices are based on an “ad hoc and expert” survey carried out each year by Foncier Expertise with the network of regional real estate appraisers.

## **4. Impacts of changes to the S1 periodic review method**

### *Qualitative aspects*

#### Elimination of the obsolescence ratio

The obsolescence ratio used in the old method will no longer be calculated. Indeed, Foncier Expertise real estate appraisers esteem that the “indicated values which are used to determine the indices, can be considered prudential values for the revaluation of collateral. As a result, and especially in light of current real estate conditions, it is not necessary to discount them”.

#### Elimination of provisional indices

The intermediary step of applying provisional indices has been abandoned.

The new method relies on simplified reasoning based on definitive indices. This simplification has made it much more responsive to real estate cycles.

### *Quantitative aspects*

In order to evaluate the impacts from changing methods, “old method” and “new method” definitive indices were determined for 2005 making a comparison between the two for the year ended 2005 possible in a test environment.

Applying the “new method” to a sample of 10,000 loans valued at €1.5 billion resulted in an increase of €6.4 million or 0.4% of the value of collateral in comparison with the “old” periodic review method.

In conclusion, the overall impact is not significant. However, the introduction of the “agglomeration” concept (compared with departments in the previous model) provides for a unitary distribution of values which more accurately reflects the reality of real estate markets.

## **5. Operational and IT management of the method change (2005/2006)**

The first step involved neutralizing the impact of the “old method” provisional indices for 2005 in the database by applying the “old method” definitive indices for 2005. The “new method” definitive indices for 2006 were then applied.

Reliability tests were also carried out on the entire system.

### **b. S2 periodic review method**

For 2006, the S2 revaluation method entailed applying the annual change in the rent index for residential property to 2005 values, i.e. +3.3% (source: INSEE).

As with property segments revalued using the S1 method, the obsolescence ratio was dropped for revaluing this segment in 2006.

## **III. Periodic review methods for commercial property**

### **a. Revaluation of commercial property valued at more than €350,000**

Each asset in this segment is revalued every year via an 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 and long-term outlook of the market.

30 appraisals were carried out in 2006 on the loans acquired by SCF.

On an exceptional basis, pursuant to provisions of CRBF Regulation no.2002-02, loans in this category whose “Outstanding Principal/Initial Loan Amount” ratio has fallen below 30%, the S1 revaluation method is applied to the value obtained from the last appraisal.

### **b. Revaluation of commercial property valued at less than €350,000**

Pursuant to the provisions of CRBF Regulation no.2002-02, this collateral is revalued individually, every three years, by an expert appraisal, then statistically using the S1 method between appraisals.

## IV. Summary of methods

Type of asset	Healthy cases			Cases in dispute
	Ratio of Outstanding Principal* to Initial Amount > 30 %		Ratio of Outstanding Principal* to Initial Amount ≤ 30 %	
	Amounts less than €350,000	Amounts greater than €350,000	All amounts	
Residential or mixed-use	S1 method	If private individual: S1 method  If professional: S2 method	S1 (<€350 K) or S2 (>€350 K)	Specific individual appraisal
Commercial property	Individual triennial appraisal S1 in the intervening period	Individual annual appraisal	S1	Specific individual appraisal

\* Outstanding principal on the loan at December 31, 2006.

## Appendix – New method indices for 2006

Agglomeration	Apartment index	House index
Agen	1.1114	1.0527
Albi	1.0177	1.0371
Alès	1.0656	1.0857
Amiens	1.0366	1.0610
Angers	1.0502	1.0400
Angoulême	1.0807	1.0345
Annecy	1.0000	1.0374
Arcachon	1.1029	1.1038
Arles	1.0376	1.0375
Armentières (French part)	1.0725	1.0746
Arras	1.0500	1.0449
Avignon	1.0595	1.1531
Bayonne	1.0179	1.1384
Beauvais	1.0505	1.0588
Belfort	1.0459	1.0611
Bergerac	1.0960	1.0684
Besançon	1.0761	1.0659
Béthune	1.0588	1.0467
Béziers	1.0644	1.0434
Blois	1.0623	1.1141
Bordeaux	1.0954	1.0709
Boulogne-sur-Mer	1.0618	1.0764
Bourg-en-Bresse	1.1354	1.1082
Bourges	1.0503	1.0605
Brest	1.1277	1.0703
Brive-la-Gaillarde	1.1461	1.0561
Caen	1.0625	1.0604
Calais	1.0367	1.0595
Castres	1.0164	1.0338
Châlons-en-Champagne	1.0493	1.0689
Chalon-sur-Saône	1.0558	1.0455
Chambéry	0.9818	0.9697

Agglomeration	Apartment index	House index
Charleville-Mézières	1.0730	1.0640
Chartres	1.1579	1.1081
Châteauroux	1.0788	1.1069
Cherbourg	1.0507	1.0662
Cholet	1.0000	1.0000
Clermont-Ferrand	1.1500	1.1053
Cluses	1.0000	0.9841
Colmar	1.0708	1.0704
Compiègne	1.1310	1.1000
Creil	1.1324	1.0968
Dijon	1.0834	1.0774
Douai-Lens	1.0528	1.0514
Dunkerque	1.0500	1.0564
Elbeuf	1.0642	1.1088
Épinal	1.0851	1.0620
Évreux	1.1344	1.0382
Forbach (French part)	1.1045	1.1215
Fréjus	1.0975	1.0718
Genève (CH)-Annemasse (French part)	1.1329	1.0047
Grenoble	1.1122	1.1667
Haguenau	1.0683	1.0610
Havre	1.1588	1.0961
Laval	1.0625	1.0500
Lille (French part)	1.0505	1.0662
Limoges	1.1582	1.1582
Lorient	1.0417	1.0429
Lyon	1.0947	1.0624
Mans	1.0097	1.0103
Marseille-Aix-en-Provence	1.1294	1.1404
Maubeuge (French part)	1.0351	1.0259
Menton-Monaco (French part)	1.0844	1.1200
Metz	1.0804	1.0793
Montargis	1.1289	1.1122
Montauban	1.0147	1.0225
Montbéliard	1.0514	1.0686
Montluçon	1.1290	1.1200
Montpellier	1.0801	1.1200
Mulhouse	1.1079	1.0710
Nancy	1.1045	1.1154
Nantes	1.0698	1.0506
Nevers	1.0523	1.0670
Nice	1.0789	1.1215
Nîmes	1.0939	1.0878
Niort	1.0841	1.0454
Orléans	1.1200	1.0909
Pau	1.0879	1.0949
Périgueux	1.1253	1.0834
Perpignan	1.0641	1.0785

Agglomeration	Apartment index	House index
Poitiers	1.0850	1.1078
Quimper	1.0355	1.0462
Reims	1.1011	1.1148
Rennes	1.0740	1.0603
Roanne	1.1321	1.1509
Rochelle	1.1407	1.0629
Romans-sur-Isère	1.0870	1.0912
Rouen	1.1509	1.0802
Saint-Brieuc	1.0714	1.0548
Saint-Chamond	1.1379	1.1389
Saint-Étienne	1.1379	1.1389
Saint-Malo	1.0594	1.0513
Saint-Nazaire	1.0147	1.0000
Saint-Omer	1.0606	1.0627
Saint-Quentin	1.0484	1.0310
Salon-de-Provence	1.1181	1.0922
Sète	1.0885	1.0625
Strasbourg (French part)	1.0847	1.1095
Tarbes	1.0770	1.0509
Thionville	1.1310	1.0881
Thonon-les-Bains	0.9828	0.9583
Toulon	1.0523	1.0732
Toulouse	1.0549	1.0092
Tours	1.0909	1.1421
Troyes	1.0611	1.0399
Valence	1.1111	1.1072
Valenciennes (French part)	1.0470	1.0730
Vannes	1.0417	1.0533
Vichy	1.1385	1.1380
Villefranche-sur-Saône	1.1266	1.1229

Department or region	Apartment index	House index
Alsace	1.1143	1.1143
Aquitaine	1.0714	1.0714
Auvergne	1.0435	1.0435
Basse-Normandie	1.0571	1.0571
Bourgogne	1.1037	1.1037
Bretagne	1.0769	1.0769
Centre	1.0588	1.0588
Champagne	1.0606	1.0606
Franche-Comté	1.0800	1.0800
Haute-Normandie	1.0962	1.0962
Île-de-France	1.0650	1.0480
Languedoc-Roussillon	1.1176	1.1176
Limousin	1.1000	1.1000
Lorraine	1.0732	1.0732
Midi-Pyrénées	1.0370	1.0370
Nord	1.0550	1.0550
Paca	1.1000	1.1000
Paris	1.0520	1.0520
Pays de la Loire	1.0357	1.0357
Picardie	1.0600	1.0600
Poitou-Charentes	1.0800	1.0800
Rhône-Alpes	1.0588	1.0588



# **Chairman's report**

## **ON THE CONDITIONS UNDER WHICH THE BOARD PREPARES AND ORGANISES THE INTERNAL CONTROL PROCEDURES ESTABLISHED BY THE COMPANY**

(pursuant to provisions of Articles 117 and 120 of the Financial Security Law 2003-706 of August 1, 2003)

- 152    1. Conditions for preparation and organisation of the work of the Board of Directors
- 153    2. Internal control procedures
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# 1. Conditions for preparation and organisation of the work of the board of directors

## a. Members of the board

The Compagnie de Financement Foncier's Board of Directors consists of six members, including the Chairman of the Board and the Deputy CEO. The Chairman also assumed the office of Chief Executive Officer following the previous CEO's resignation on September 4, 2006. On this date, the former CEO became a member of Crédit Foncier de France's Executive Board and stayed on as a member of Compagnie de Financement Foncier's Board of Directors. An adviser has been associated with the work of the Board of Directors, assisting it in a consultative capacity. Members of the Board of Directors are listed in an attached table.

Two statutory auditors and the company's Specific Controller also attend board meetings, depending on the items on the agenda, as stipulated by Article L.515-30 of the French Monetary and Financial Code.

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.

## b. Board meetings

The legal secretary to the Board of Directors is provided by the legal department of Crédit Foncier de France which establishes, in consultation with the Chairman and the executive directors, the agenda for the meetings as well as the information files distributed to the members documenting the various issues to be discussed. This department also drafts the minutes and keeps the legal registers. Internal regulations defining operational procedures for the board have not been adopted.

In 2006, the Board of Directors of Compagnie de Financement Foncier met six times, primarily in order to:

- set the budget for the year,
- approve the audit plan,
- approve the accounts for the previous year,
- review management forecasts,
- define, at the end of each quarter, for the following quarter, the program for issuing *obligations foncières* and other preferred debt which requires certification by the Specific Controller,
- delegate the powers necessary to contract these debts,
- review the half-year accounts,
- generally, authorise any major transaction of the Company or to receive information on any significant event affecting the Company (governance, changes to internal controls, changes to agreements with the parent company, quarterly report on bond issues, update of EMTN programs, etc.).

At its meeting on November 17, 2006, the Board of Directors decided to separate once again the office of Chairman from Chief Executive Officer and consequently appointed a new Chief Executive Officer; the Deputy CEO's mandate was renewed. This decision was to take effect from January 15, 2007.

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 Compagnie de Financement Foncier 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 has the same powers as the Chief Executive Officer.

Since 2005, the adviser and directors have been paid directors' fees in accordance with CNCE's suggested allocation rules. The amount of directors' fees to be paid is based on fixed amounts per meeting, weighted for each person depending on their actual attendance compared to the number of meetings during the year, and is subject to an annual limit. On average, the attendance rate at board meetings was 86%.

### c. Committees and audits

The Company has an audit committee. The internal regulations governing the operating procedures of this committee were approved by the Board of Directors during its meeting on June 29, 2004.

As of December 31, 2006, the Audit Committee consisted of the following three members: Mr. François Chauveau, Chairman; Mr. Thierry Dufour, appointed on September 4, 2006; and Mr. Didier Patault.

Until September 4, 2006, Mr. Thierry Dufour, CEO of the company, had been appointed head of ongoing and periodic controls and of compliance at Compagnie de Financement Foncier. From this date until January 14, 2007, the Chairman, who became the Chairman & Chief Executive Officer, took over this responsibility. The new Chief Executive Officer will carry out this mission from now on.

This appointment is a result of requirements set out in Article 7.1 of CRBF Regulation No. 97-02 as modified and the principle retained by the Executive Board of Crédit Foncier de France according to which the executive bodies of credit institution subsidiaries fulfil their ongoing and periodic controls and compliance responsibilities by drawing on the resources of their parent company.

Directors' fees are also paid to members of the Audit Committee according to the same standards outlined above, with an additional annual fee paid to the Chairman of the Audit Committee.

## 2. Internal control procedures

### a. Internal control context and principles of Compagnie de Financement Foncier within Crédit Foncier de France and the Caisse d'Épargne Group

As both a credit institution and a *société de crédit foncier*, Compagnie de Financement Foncier is subject to a legislative and regulatory framework which comprehensively governs its operations and controls its activities.

- As a credit institution, this framework primarily stems from the French Monetary and Financial Code and the regulations set forth by the Banking and Finance Regulatory Committee (CRBF), and in particular, with regards to internal controls, by CRBF Regulation No. 97-02, last amended by the decree of March 31, 2005.
- As a *société de crédit foncier*, Compagnie de Financement Foncier is subject to specific provisions in Articles L.515-13 to L.515-33 in particular of the CMF and in secondary legislation (Articles D. 515-10 and 11 of the CMF, Articles R. 515-2 to 14 of the CMF, CRBF Regulation No. 99-10, etc.).

Legislation specific to *sociétés de crédit foncier* has strengthened controls within these companies by requiring, in accordance with Articles L.515-30 and L.515-31 of the CMF, the appointment of a Specific Controller approved by the Banking Commission. The mission of the Specific Controller is to verify compliance with legal provisions regarding asset eligibility, overcollateralisation of assets in relation to preferred liabilities, the congruence of rates and liquidity and the valuation of assets or underlying securities. This Controller prepares an annual report that is submitted to the Banking Commission and the corporate officers.

Furthermore, following Crédit Foncier de France's transfer of assets and liabilities covered by specific legislative and regulatory provisions in Article 110 of the Law No. 99-532 of June 25, 1999 which created *sociétés de crédit foncier*, an agreement with the French state specified the financial management rules for the subsidised sector. A Management and Oversight Committee for the subsidised sector, composed of members appointed by the state and by Crédit Foncier de France, ensures the correct application of the convention and, in particular, the recovery of loans in default. This Committee can rely on the work performed by an independent auditor.

Furthermore, as Compagnie de Financement Foncier does not have its own staff, it uses the technical and human resources of its parent company, Crédit Foncier de France, to carry out its missions. Crédit Foncier de France is responsible for Compagnie de Financement Foncier's administrative and accounting management, servicing and recovering virtually every purchased or originated loan and providing financial or IT-related services.

As a result, the internal control procedures of Compagnie de Financement Foncier are based on those used by the Crédit Foncier Group and the Caisse d'Épargne Group.

- The Executive Board of Crédit Foncier de France is responsible for defining and implementing the latter's internal control system. This system encompasses all procedures, systems and controls required to achieve Company objectives, comply with laws, regulations and general or Group rules, as well as ensure that all of the risks to which the Company is exposed are properly managed.

The structure of these control systems is primarily defined by regulations. The overall system relies on various levels of ongoing controls which are monitored by departments or individuals that are independent of the operations they are auditing and on periodic controls carried out by designated departments.

- The Group's ongoing audit system is defined by regulations and standards set out by Caisse Nationale des Caisses d'Épargne (CNCE). Indeed, as the central organ of the Caisse d'Épargne Group (to which both Crédit Foncier and Compagnie de Financement Foncier are affiliated), the CNCE's primary mission is to execute all administrative, financial and technical measures relating to the organisation and management of the Caisses d'Épargne, their subsidiaries and joint operations.

Applicable to all affiliated institutions, the organisational or audit rules issued by CNCE cover all commercial and financial activities as well as assessment, control and oversight of risks relating to credit, markets, accounting, information technology or operations. In connection with this oversight, specific standards have been identified to combat money laundering and terrorism financing. As for compliance, a special department was set up in 2005 to address these issues.

- Finally, evaluation of the quality and operations of the ongoing audit system is conducted by the Crédit Foncier's General Inspection Department, which is subject to requirements governing credit institutions. The periodic audit is governed by an audit charter, which evolved from the audit charter of the Caisse d'Épargne Group and handled by a special office staffed by members of the CNCE General Inspection Department. The purpose of this organisation is to promote cooperation among inspection departments and to ensure the Group's audit process is performed as efficiently and cost effectively as possible.

## b. Control system – Compagnie de Financement Foncier organisational structure

### *Corporate governance*

- Overview

Compagnie de Financement Foncier is administered by a Board of Directors comprising six members, including the CNCE Group Chief Financial Officer, the Crédit Foncier Chief Financial Officer, who is also a member of its Executive Board, and Crédit Foncier de France, represented by a member of its Executive Board.

The Chairman of the Board, who is also chairman of Crédit Foncier's Executive Board, organises and directs the work of the Board, ensures that the governing bodies of Compagnie de Financement Foncier operate properly, and that the Directors are able to perform their duties.

The management of Compagnie de Financement Foncier consists of a Chief Executive Officer and a Deputy Chief Executive Officer to assist him. Both of them are vested with the broadest powers to act in all circumstances on behalf of Compagnie de Financement Foncier 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. They represent the company in its relationships with third parties.

- Corporate events in 2006

Compagnie de Financement Foncier's Board of Directors decided on September 4, 2006 to put an end to the separate offices of Chairman and Chief Executive Officer. Following his appointment to Crédit Foncier's Executive Board, the Chief Executive Officer submitted his resignation. Compagnie de Financement Foncier's Chairman thus assumed the dual office of Chairman & Chief Executive Officer from this date forward. Furthermore, the responsibilities of the Deputy CEO were not affected by this event.

This is only temporary since, according to the terms of its meeting on November 17, 2006, the Board has appointed a new Chief Executive Officer and, in doing so, has decided to revert to the original situation with a separate Chairman and Chief Executive Officer. Nevertheless, this decision will not take effect until January 15, 2007.

### *Compagnie de Financement Foncier decision-making committees*

Four committees oversee Compagnie activities:

- **The Committee monitoring the Master Agreement and the Special Agreements signed by Crédit Foncier de France and Compagnie de Financement Foncier** is co-chaired by Compagnie de Financement Foncier's Chief Executive Officer and the Chairman of Crédit Foncier's Executive Board. It includes personnel from Crédit Foncier who manage the sectors mentioned in the special agreements as well as the SCF Oversight and Control Department. Its primary role is to oversee the interpretation and application of agreements, to verify that the outcome is fair and to suggest any necessary changes.

In 2006, the Agreements Monitoring Committee, which meets at least once a year, examined the overhauling of almost all the agreements signed in 1999.

- **The Management Committee**, an offshoot of the Agreements Monitoring Committee, is responsible for the operational oversight of Compagnie de Financement Foncier management. Its role is to examine various issues related to Crédit Foncier's day-to-day activities; to propose solutions to problems related to agreements, to processing capital flows or loans and to conflicts between the two companies; and to oversee the application of recommendations made by Crédit Foncier's General Inspection Department.

It is chaired by Compagnie de Financement Foncier's Deputy CEO and includes among its permanent members managers of Crédit Foncier departments that provide services to Compagnie de Financement Foncier.

This committee is run and administered (in terms of drafting the minutes) by the SCF Oversight and Control Department. The latter is also responsible for the coordination and operational oversight of the decisions taken by the Management Committee.

The Management Committee meets as often as necessary. In 2006, it met six times.

- **The Audit Committee** comprises three members:

- the CNCE Group Chief Financial Officer, Chairman,
- the Chief Financial Officer of Crédit Foncier de France, member of its Executive Board,
- the Chairman of a Caisse d'Épargne Executive Board.

Its foremost mission is to check the relevance and consistency of the accounting methods used to prepare the Company's financial statements and to verify the quality of internal controls and collection procedures relating to financial data.

The management of the General Inspection Department acts as secretary for the Audit Committee. It draws up an agenda and records the minutes for each meeting. The Audit Committee meets quarterly and held four meetings in 2006.

The Chairman of Compagnie de Financement Foncier's Audit Committee reports to Compagnie de Financement Foncier's Board of Directors about the issues that were dealt with. The Specific Controller also attends the meetings of Compagnie's Audit Committee.

- **The Asset and Liability Management Committee**

This committee is chaired by Compagnie de Financement Foncier's Chief Executive Officer and includes representatives from various departments at Crédit Foncier who partake in managing assets and liabilities. It analyses ALM indicators (rate and liquidity gaps, financing needs, etc.). It updates the status of stocks and their removal from the balance sheet and analyses various scenarios based on potential changes.

The Asset and Liability Management Committee met four times in 2006.

### *Internal control*

Crédit Foncier's Executive Board delegated the responsibility for ongoing and periodic controls and compliance to Compagnie de Financement Foncier's Chief Executive Officer.

As previously mentioned, Compagnie de Financement Foncier uses the technical and human resources of its parent company, Crédit Foncier de France, to carry out its missions.

These are considered outsourced services according to Articles 37-1 and 37-2 of CRBF Regulation No. 97-02 in the version of the decree of March 31, 2005. They are described in a set of agreements signed between the Compagnie de Financement Foncier and Crédit Foncier de France, its service provider, which were updated in 2006, just before the new regulation became effective.

These agreements make up a uniform set that meets the objectives set forth by Articles 37-1 and 37-2 of Regulation No. 97-02. A master agreement covers seven special agreements related to each outsourced activity in addition to a compensation agreement.

This set of contracts authorises and organises the ongoing and periodic control of outsourced activities, mainly in connection with the internal control and compliance services agreement that describes the missions entrusted to Crédit Foncier de France for this purpose. These missions are carried out by Crédit Foncier's General Inspection Department and Crédit Foncier's Compliance Department, without interfering with controls carried out by the institution's business divisions.

According to the terms of the service agreement, in relation to internal control and compliance, Compagnie de Financement Foncier has entrusted Crédit Foncier de France with:

- a) compliance,
- b) ongoing control, for outsourced activities as well,
- c) periodic control.

The purpose of this system is to allow Compagnie de Financement Foncier to use the quantitative and qualitative resources of Crédit Foncier (which also directly controls its own activities) while maintaining the responsibility for and management of internal control. Indeed, the new contract confirms the powers held by Compagnie de Financement Foncier's management to take initiatives and manage the system, while expanding Crédit Foncier's obligations towards Compagnie de Financement Foncier.

Furthermore, Compagnie and Crédit Foncier work together on two essential committees: the Committee Monitoring the Agreements and the Management Committee, whose roles have already been explained.

These agreements outline the principles governing the collaboration between Compagnie de Financement Foncier and Crédit Foncier and provide Compagnie de Financement Foncier with various rights enabling it to oversee the services outsourced to Crédit Foncier: the right to audit and control accounts, to disclose financial statements, to set up committees to resolve management difficulties or reconcile conflicts and the possibility to terminate agreements.

Furthermore, it should be pointed out that the agreements commit Crédit Foncier to provide IT and human resources so that services are executed during normal, high-risk or exceptional circumstances without fail, pursuant to the obligations stipulated in Article 37-2 a) and b) of Regulation No. 97-02. This right is reinforced by the possibility to write in a budget reserve in the event of a major IT overhaul or one that may disrupt Crédit Foncier's operations.

Ongoing control of outsourced services will continue to be carried out by the SCF Oversight and Control Department until its transfer to Compagnie de Financement Foncier's General Secretariat which should be in place by 2007.

Finally, in order to meet the requirements set forth in the abovementioned Articles 37-1 and 37-2, Crédit Foncier de France has explicitly committed itself:

- not to unilaterally modify the services without obtaining Compagnie de Financement Foncier's prior consent,
- to indefinitely authorise audits and provide access to all of Crédit Foncier de France's information.

### *Internal control procedures within the Crédit Foncier Group*

Having entrusted Crédit Foncier with its ongoing and periodic control, Compagnie de Financement Foncier takes advantage of the following systems at the Crédit Foncier Group.

Crédit Foncier's internal auditing system is organised around varying levels of ongoing and periodic control, and is reflected in various organisational measures (e.g. involving line and staff managers, the delegation system, reporting, and separation of functions) which are described below.

#### ***The different levels of internal control***

There are different levels of internal control at Crédit Foncier as follows:

- **First level ongoing operational control** is the job of the operating units' staff or managers as well as designated units. The procedures are included in procedural and operating manuals. Unit heads are responsible for producing and updating these manuals.

In this respect, it should be noted that the units are rapidly changing, and substantial IT changes, either completed or underway, are constantly changing the ways transactions are processed, and, as a result, many instructions have to be frequently reformulated.

The largest departments have dedicated ongoing control units which are responsible for creating and implementing first level ongoing controls and producing reports.

Two entities merit further elaboration:

- Accounting: The Accounting Standards and Control Unit (“*Normes et Contrôles Comptables*”) of the Accounting Department is responsible for reviewing accounts and ensuring there is sufficient documentation for Crédit Foncier and its Group’s accounting system to operate properly. It provides cross-functional ongoing control for business activities.
- Finance: the SCF Oversight and Control Department (“*Suivi et Contrôle de la SCF*”), part of the Financial Operations Office, is in charge of ongoing control for all processes affecting Compagnie de Financement Foncier (most notably, quality control for procedures).

A special unit of the Risk Department is responsible for coordinating the institution’s ongoing control.

As for information technology control, the IT Security Department participates in drawing up rules and responsibilities for information systems security.

- **Second level ongoing control** is the responsibility of non-operating units:

- Risk Department: this entity is responsible for controlling loan commitments (private and commercial loans) and monitoring financial and operational risk.
- Compliance Department: created in December 2004, this department is responsible for controlling non-compliance risks and investment services; the department head organised its operations in 2005. He supervises the Ethics Officer (ethics and money laundering).
- Head of Information Systems Security: in 2004, CFF Group created and filled the position of Head of Information Systems Security, a post which directly reports to management. The responsibilities of the Head of Information Systems Security are threefold:
  - Define a policy for the security of information systems;
  - Supervise a network of contacts within the various entities of the Company;
  - Provide assistance and advice to the IT Department with respect to security issues.

The ongoing control system of the Crédit Foncier Group was organised in 2006: a formal system, known as the Risk Control System (“*Dispositif de Maîtrise des Risques*”), was created in each unit. An Ongoing Control Committee, which brings together the Executive Board, the Compliance Department and the Risk Department, also evaluates risk levels and their overall management.

- **Periodic control** is the responsibility of Crédit Foncier de France’s General Inspection Department. Shareholder auditing units (Caisse d’Épargne Group) also partake in periodic controls.

### ***Role of line and staff managers in controlling the activities of employees***

As a major component of ongoing control, control by line and staff managers is usually conducted:

- through irregularity and oversight reports and financial statements, which ensure that unit activities are being controlled by those in charge;
- through the delegation of authority, which is generally integrated into information technology procedures (authorisation by type of transaction or by threshold, transactions subject to approval) or manual approvals.

### ***Delegation system***

The delegation system implemented by Crédit Foncier de France is based on two series of measures:

- first, a system ensuring that decisions, based on the magnitude of the risks they present, are made at an appropriate level within the company (involvement of the competent decision-making committees, or the internal delegation system);
- second, a system ensuring that representatives of Crédit Foncier de France provide third parties with the necessary documents, demonstrating their power to commit the company in a transaction.

Decisions that are not made by the Executive Board and that exceed the delegations granted to operating managers are the responsibility of specialised committees. Among these committees, the most important are:

- the National Loan Committee: authorises loans exceeding the powers delegated to the operating units and key committees;
- the Risk Committee: monitors overall changes in counterparty risks and the ensuing decisions (scoring rules, delegations and limits);
- the National Committee of Sensitive Operations: manages strategy and decisions regarding substantial debts which are either in difficulty or exposed to risk;
- the Asset and Liability Management Committee: analyses ALM indicators and ensuing decisions;
- tariff Committee: modifies financial terms and conditions of loans.

Compagnie de Financement Foncier sits on these committees and is entitled to vote when implicated in the issues being addressed.

### ***Risk oversight measurement***

Risk assessments, submitted to the Executive Board via periodic activity reports and to committees, are regularly reported to the Audit Committee as well as to the Board of Directors of Crédit Foncier de France via said committee.

### ***Reporting lines***

Information from Crédit Foncier de France's Executive Board is provided via monthly activity reports prepared by the Management Control Department; management of each business sector are responsible for preparing reports related to its activities.

### ***Principle of the separation of functions***

- Overall, the units in charge of operating commitments and the units in charge of accounting approval, their settlement as well as oversight and control of the related risks are independent from one another.
- The independence of the control units vis-à-vis the operating units is ensured by:
  - oversight of counterparty, financial and operating risks by the Risk Department;
  - accounting control missions of the General Accounting Department and its dedicated unit;
  - ethics and compliance missions of the Compliance Department and the Ethics Officer;
  - periodic control missions of the General Inspection Department.

### ***Accounting system and procedures***

The accounting system of Crédit Foncier de France is largely based on accounting data supplied by management chains.

The methods used for internal accounting controls are described in the section covering procedures for auditing accounting and financial data.

### ***The role of the General Inspection Department***

#### ***Organisation and resources of the General Inspection Department***

Evaluating ongoing control systems is the responsibility of the General Inspection Department's management team.

The head of the General Inspection Department reports on its missions to the Chairman of Crédit Foncier de France's Executive Board and to its Audit Committee.

At the end of 2006, the General Inspection Department had 27 staff members (including recruitments taking place at that time), of which 2 supervisors, 2 project leaders and 15 auditors, all with advanced degrees and a combination of different skills (accounting, financial, legal and sales).

The annual audit plan is prepared by managers at the General Inspection Department, together with the CNCE General Inspection Department, then approved by the Chairman of Crédit Foncier de France's Executive Board and submitted for approval to the Audit Committee. It falls under the responsibility of the General Inspection Department, and is covered by a multi-annual plan that takes into account the maximum audit cycle of four years. Shareholder auditing units help draft the audit plan.

Concerning Compagnie de Financement Foncier more specifically, a specific annual audit plan is prepared by the corporate entities and approved by Compagnie's Audit Committee. Furthermore, assignments that relate to Compagnie's activities and that could concern Crédit Foncier are listed by request from the Chairman of Crédit Foncier de France's Executive Board or Compagnie de Financement Foncier's Chief Executive Officer.

These assignments and the follow-up on their recommendations are reported to Compagnie de Financement Foncier's Audit Committee and executive management.

### ***Inspection assignments conducted in 2006***

A total of 56 assignments were conducted by the General Inspection Department of Crédit Foncier in 2006, seven of which specifically concerned the Compagnie de Financement Foncier's activities. In addition, eight assignments begun at the end of 2005 were finalised and their recommendations were approved in 2006.

Most of these assignments had been included in the annual audit plan approved by the Audit Committee on December 7, 2005, and concerned various sectors of the Crédit Foncier Group and the oversight of regulatory projects:

- Network of branches;
- Commercial loans;
- Financial management;
- Banking production;
- Development;
- Management information;
- Information technology;
- Subsidiaries.

In addition, seven assignments were carried out by CNCE's General Inspection Department.

### ***Follow-up on recommendations from previous assignments***

During 2006, the General Inspection Department followed up on the implementation of recommendations by the audited units. The procedure for following up on recommendations complies with the methodology used by the General Inspection of CNCE, namely a systematic semi-annual follow-up with management stating the audited unit, the percentage of completion and if applicable, the action plan indicating the new deadline. These responses now need to be systematically corroborated by a file containing records of the audited unit and all of the items which justified the action taken.

The action taken by audited units was subjected to consistency checks, rated by the General Inspection Department. A summary was then forwarded to the Executive Board and the Audit Committee.

This summary includes comments relating to cases where abnormal delays in implementation were observed.

## **c. Procedures for auditing financial and accounting information**

### ***Role of the CNCE***

The CNCE Group Regulations and Consolidation Department conducts missions involving standardisation, supervision, appraisals, oversight, forecasting, regulatory watch and representation of the Group for prudential, accounting and fiscal matters.

In this capacity, it defines and updates the Group's accounting indicators through a Caisse d'Épargne Chart of Accounts ("Plan Comptable du Groupe Caisse d'Épargne", PCCE) and accounting rules and methods applicable to all Group institutions. These rules and methods include accounting and generic operating forms and are summarised in a manual used by all the Group's institutions, which is updated regularly based on changes in accounting regulations. Furthermore, the rules for preparing half-year and annual financial statements are announced separately so as to harmonise accounting procedures and statements among the different companies in the Group.

## **Compagnie Audit Committee**

The accounting and financial data (annual and half-year consolidated accounts and notes to the financial statements) are presented to Compagnie's Audit Committee. This committee analyses the statements, receives the conclusions of the auditors and submits a report on its activities to the Board of Directors.

## **Organisation of the accounting function at the Crédit Foncier Group**

Accounting at the Crédit Foncier Group is performed by accounting departments responsible for preparing balance sheets, income statements, notes to the financial statements and statutory reports concerning the different companies in the Group and by decentralised accounting units housed in the administrative offices of the parent company.

The entire process is coordinated by the Crédit Foncier's General Accounting Department, which in turn is divided into three main units, the responsibilities of which are described in the table below. The Chief Accounting Officer reports to the executive board member who is responsible for financial management and risks.

Units	Principal responsibilities in accounting system operations	Principal responsibilities in compiling and summarising data
General Accounting Unit	<b>Financial statements:</b> - Accounting for Crédit Foncier and Compagnie de Financement Foncier - Tax returns  <b>Loan accounting:</b> - Oversight and control of interface operations among loan department management chains, accounting software packages and reporting databases - Clearing for subsidised sector operations  <b>Research and ratios:</b> - Calculation of regulatory ratios (liquidity, ESR, etc.) and specific SCF ratios (overcollateralisation and LTV) - Monitoring the Group's position in terms of regulatory requirements	- Balance sheets, income statements and their notes - Reporting to the Banking Commission (via CNCE, central entity) - Monthly profit statements  - Reporting on loans outstanding and loan flows  - Reporting to the state treasury on subsidised loans  - Prudential reporting to the Banking Commission - Forecasts of changes to ratios and prudential limits
Accounting Standards and Control Unit	- Definition and monitoring of Crédit Foncier Group accounting standards, verification that they comply with those of the CNCE Group - Ongoing accounting controls - Maintenance of the chart of accounts and implementation of audit trails	- Accounting audit reports - Procedural manuals
Database Support Unit	- Parameters for daily income accounting forms - Follow-up on technical problems related to production - Management of accounting software packages - Maintenance of accounting parameters of loan chains	- Reporting on the risk charge

In keeping with changes in information technology and accounting practices, the Accounting Standards and Control Unit adapts the internal chart of accounts to ensure that it fully complies with the CNCE Group chart of accounts.

## **Accounting controls**

The accounting system of Crédit Foncier is largely based on accounting data supplied by management chains.

The organisational principles of accounting control, in a context of broad decentralisation of work, are formalised in the Accounting Charter distributed in July 2002. Operational accounting controls are the responsibility of the decentralised accountants (bookkeepers and operations managers). Standardised financial statements are substantiated and certified every quarter in a single centralised computer system (the Account Justification Database), managed by

the Accounting Standards and Control Unit. Activity reports track the progress made in substantiating the accounts (in terms of quantity and quality). These reports are used to verify the quality of the supporting documentation and to guide on-site audits.

These auditing assignments are part of an annual program approved by the head of the General Accounting Department. The resulting audit reports are presented to the independent auditors, in addition to the relevant departments.

Recommendations from the statutory auditors and the General Inspection Department are presented to the management of the companies concerned. These recommendations are summarised and submitted to the Audit Committee. Periodic verifications are performed to ensure that recommendations are acted upon.

Consolidated units formed by subsidiaries and certified by their respective auditors are subject to a comprehensive review and consistency controls conducted by the Consolidation Unit. The consolidated accounting income statement is reconciled with the income statement established by the Management Control Department.

All of these prudential and regulatory reports are cleared by CNCE, which runs automated consistency controls before sending them to the Banking Commission.

#### ***Audit of financial data***

The financial data disclosed to the public (annual reports for shareholders, regulatory restitutions intended specifically for the Banking Commission and reference documents submitted to the *Autorité des marchés financiers*) are carefully audited by the competent operating departments: Management Control, ALM Management and General Accounting. Arrangements have been made to satisfy the requests of rating agencies concerning Compagnie de Financement Foncier.

#### ***Changes in 2006***

Several key events occurring within Crédit Foncier are worthy of note:

- implementation of the new IFRS accounting guidelines for the loan processes as well as the changeover to the new IFRS for the IT2 tool that manages financial operations;  
These operations took into consideration the control needs of users while making sure that tools for audit trails were implemented (use of "Sentinel" and the Accounting/Management reconciliation system).
- the Account Justification Database (AJC) was adapted so as to integrate the new IFRS accounts and to make it possible to audit Ex-Entenial's accounts.

For its part, Compagnie de Financement Foncier is not required to keep its accounts under IFRS but will begin preparations in 2007 to migrate to these new standards by 2008.

# Notes

## Compagnie de Financement Foncier

### Financial year from January 1, 2006 to December 31, 2006

Range of possible number of members: 3 to 18

Actual number of members: 6

Number of Board meetings: 6

Average attendance rate: 86%

Directors' fees: yes

First and last name Company name and permanent representative	Function at the company and on the Board	Date of appointment	Date of expiration of term of office	Comments
Credit Foncier de France represented by François Blancard	Director	June 25, 1999	AGM 2011	Replacing Prévot, permanent representative of CFF, deceased
François Drouin	Chairman of the Board of Directors	June 25, 2003	AGM 2011	Replacing Jean Sebeyran, who resigned
	Chief Executive Officer	September 4, 2006	January 15, 2007	Replacing Thierry Dufour, who resigned
Thierry Dufour	Director	Director since December 18, 1998	AGM 2007	
Sandrine Guérin	Director and Deputy CEO	Director since March 25, 2002 Deputy CEO since May 17, 2002	AGM 2012	Following the separation of the offices of Chairman and CEO
François Chauveau	Director	December 16, 2004	AGM 2011	Replacing Pierre Servant, who resigned
Pierre-Eric Fuzier	Director	December 18, 1998	AGM 2007	
Guy Lafite	Adviser	May 25, 2005	AGM 2009	Replacing Nicolas Merindol, who resigned

### 3. Statutory auditors' report

Statutory auditors' report prepared in accordance with Article L.225-235 of the Commercial Code, on the report prepared by the Chairman of the Board of Compagnie de Financement Foncier S.A., on the internal control procedures relating to the preparation and accounting information.

*This is a free translation into English of a 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 is construed in accordance with, French law and professional auditing standards applicable in France.*

#### Year ended 31 December 2006

To the shareholders,

In our capacity as statutory auditors of Compagnie de Financement Foncier S.A., and in accordance with Article L.225-235 of the Commercial Code, we report to you on the report prepared by the Chairman of your company in accordance with Article L.225-37 of the Commercial code for the year ended 31 December 2006.

It is for the Chairman to give an account, in his report, notably of the conditions in which the duties of board of the directors are prepared and organized and the internal control procedures in place within the company.

It is our responsibility to report to you our observations on the information and assertions set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information.

We performed our procedures in accordance with professional guidelines applicable in France. These require us to perform procedures to assess the fairness of the information and assertions set out in the Chairman's report on the internal control procedures relating to the preparation and processing of financial and accounting information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and processing of financial and accounting information, as set out in the Chairman's report;
- obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information and the assertions given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman of the Board's report, prepared in accordance with Article L.225-37 of the Commercial Code.

obtaining an understanding of the work performed to support the information given in the report.

On the basis of these procedures, we have no matters to report in connection with the information and the assertions given on the internal control procedures relating to the preparation and processing of financial and accounting information, contained in the Chairman of the Board's report, prepared in accordance with Article L.225-37 of the Commercial Code.

Paris, La Défense and Neuilly-sur-Seine, March 30, 2007

The Statutory Auditors

KPMG Audit

A division of KPMG S.A.

Philippe Saint-Pierre  
Partner

Rémy Tabuteau  
Partner

PricewaterhouseCoopers Audit

Anik Chaumartin  
Partner

Guy Flury  
Partner



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# 1. Corporate governance

Members of the Board of Directors at December 31, 2006 and their professional addresses.

## Mr. François Drouin

Director and Chairman of the Board of Directors since June 25, 2003

Chairman & Chief Executive Officer since September 4, 2006

4, quai de Bercy – 94220 Charenton-le-Pont

## Mr. Thierry Dufour

Director since December 18, 1998

Chairman from December 18, 1998 to June 25, 1999

Chief Executive Officer from June 25, 1999 to May 16, 2001

Deputy Chief Executive Officer from May 16, 2001 (following the promulgation of the New Economic Regulations Act) to May 17, 2002

Chief Executive Officer since May 17, 2002 (following the separation of the offices of Chairman of the Board of Directors and Chief Executive Officer)

Resignation from the office of Chief Executive Officer on September 4, 2006

4, quai de Bercy - 94220 Charenton-le-Pont

## Mrs. Sandrine Guérin

Deputy Chief Executive Officer (non-Director member) since October 15, 2001

Director since March 25, 2002

Deputy Chief Executive Officer since May 17, 2002 (following the separation of the offices of Chairman of the Board of Directors and Chief Executive Officer)

4, quai de Bercy - 94220 Charenton-le-Pont

## Mr. François Chauveau

Director since December 16, 2004

CNCE – 50, avenue Pierre Mendès France - 75013 Paris

## Mr. Pierre-Eric Fuzier

Director since December 18, 1998

4, quai de Bercy - 94220 Charenton-le-Pont

## Crédit Foncier de France

Director since March 25, 1999

Represented by Mr. François Blancard, replacing Mr. Alain Prévot

4, quai de Bercy - 94220 Charenton-le-Pont

## Mr. Guy Lafite

Adviser since May 25, 2005

CNCE – 50, avenue Pierre Mendès France - 75013 Paris

As of January 15, 2007, the Board of Directors has decided to separate once again the office of the company's Chairman from its Chief Executive Officer.

From this date forward, Mr. François Drouin will assume the office of Chairman of the Board of Directors. Mr. François Veverka and Mrs. Sandrine Guérin will assume the offices of Chief Executive and Deputy CEO, respectively.

## 2. General information concerning the company

### a. Registered office

The registered office of Compagnie de Financement Foncier is located at 19, rue des Capucines, 75001 Paris.

### b. Activity

Compagnie de Financement Foncier is the *société de crédit foncier* of the Crédit Foncier de France Group, specifically governed by the provisions of section IV of the second part of French law 99-532 of June 25, 1999 governing savings and financial security, which has been incorporated into Articles L.515-13 to L.515-33 of the French Monetary and Financial Code.

Pursuant to Article 110 of this law, Crédit Foncier de France transferred to Compagnie de Financement Foncier, on October 21, 1999, assets and liabilities covered by the specific legislative and regulatory requirements that applied to it before this transfer.

The purpose of Compagnie de Financement Foncier is the production or the purchase of secured loans and loans to public authorities financed by the issuance of *obligations foncières*, or by other resources which may or may not benefit from the preferred status (privilege) as defined by Article L.515-19 of the French Monetary and Financial Code.

### c. Structure of the relationship between Compagnie de Financement Foncier and Crédit Foncier de France

New production by Crédit Foncier de France may be financed by Compagnie de Financement Foncier as long as it meets the eligibility criteria stipulated by law contained in the provisions of Articles L.515-13 to L.515-33 of the French Monetary and Financial code.

As stipulated by law, Compagnie de Financement Foncier draws on the technical and human resources of its parent company under agreements binding the two companies. These agreements, which are regulated as defined by Articles L.225-38 and L.225-86 of the French Commercial Code (previously Articles 101 and 143 of Law No. 66-537 of July 24, 1966), cover all lending activities carried out by the Company.

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.

Ten agreements have been entered into by Crédit Foncier and Compagnie de Financement Foncier, namely:

- a master agreement, setting forth the general principles;
- an agreement for loan assignments;
- an agreement for loan servicing and recovery;
- an agreement governing financial services;
- an ALM agreement;
- an administrative and accounting management agreement;
- a service agreement concerning internal control and compliance;
- an agreement related to the implementation of information technology tools;
- an agreement concerning human resources;
- an agreement concerning compensation for services.

As a result, with the exception of Directors and Officers, Compagnie de Financement Foncier does not have any salaried employees.

## d. 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* (limited liability company) and, for this reason is also subject, apart from certain exemptions, to the requirements applicable to commercial companies under the French Commercial Code.

A *société de crédit foncier* benefits from a certain number of exemptions from ordinary laws, of which:

- Article L.515-19 of the French Monetary and Financial Code, which establishes a “privilege” for bondholders of *obligations foncières*;
- Article L.515-27 of the French Monetary and Financial Code, which stipulates that the legal receivership or liquidation of a company holding shares of a *société de crédit foncier* cannot be extended to the *société de crédit foncier*;
- furthermore, Article L.515-28 of the French Monetary and Financial Code stipulates that, notwithstanding any legal or regulatory requirements to the contrary, notably those of Section II of Volume VI of the Commercial Code, contracts for servicing and recovering loans of a *société de crédit foncier* can be immediately terminated in the event that a company responsible for the servicing of such loans is placed in legal receivership or liquidation.

## e. Period

The company was incorporated on December 22, 1998 for a period of 99 years.

## f. Legal purpose (Article 2 of the bylaws)

### Article 2 - Purpose

The purpose of the Company, in the context of the laws and regulations applicable to a *société de crédit foncier*, in particular 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, is:

- 1° In terms of loans and related transactions:
- to grant or acquire secured loans, benefiting from a first-rank mortgage, a property lien, or any other form of equivalent real estate security, or loans with a surety issued by a lending institution or an insurance company;
  - to grant or acquire loans to or from public authorities and loans fully guaranteed by public authorities, and to subscribe for or acquire bonds and other debt securities issued or guaranteed by these public authorities;

- to acquire, by subscription at the time of issue, either on the markets on which they are traded, or over the counter or, more generally, in any other manner which complies with current legislation, shares of securitisation funds as well as shares or securities issued by similar entities subject to the laws of a foreign state, as long as these shares or securities are authorised for inclusion in the assets of *société de crédit foncier* as per the law;
- to acquire and hold safe and liquid investments and securities as replacement securities authorised for inclusion in the assets of a *société de crédit foncier*.

2° For financing these categories of loans and securities:

- to issue *obligations foncières* benefiting from the “privilege” granted by the legislation governing a *société de crédit foncier*, in particular Article L.515-19 of the French Monetary and Financial Code;
- to procure any other type of financing, stipulating that such financing will benefit from the “privilege” granted by the law to *obligations foncières*;
- to procure any other financing, including through the issuance of loans, which does not benefit from the “privilege” granted by the law to *obligations foncières*.

3° To carry out all necessary financial and banking transactions in connection with its purpose and, in particular:

- securitise, in a manner compliant with current legislation, all or part of the loans that it holds, whatever the nature of such loans;
- use forward financial instruments, in order to hedge operations to manage loans, *obligations foncières*, other senior instruments, and other financing without the preferred right of payment granted by law to *obligations foncières*.

4° To contract with any credit institution all agreements necessary:

- to service and recover loans;
- to manage bonds and other financing;
- more generally, to provide all services necessary to manage the assets, liabilities and the financial stability of the Company;
- as well as all agreements concerning the distribution and refinancing of loans.

5° To acquire and own all property and equipment necessary to fulfil its purpose or arising from the recovery of its loans; to contract with any third party any agreement related to the acquisition, ownership, management, maintenance and disposal of such assets.

6° To contract with any insurance company any agreement which serves the company purpose, notably to cover risks related to borrowers, risks related to both assets securing the loans and assets held by the Company or the liability risks of the company or its directors and officers.

7° To replace Crédit Foncier de France in all loan and credit transactions, whether involving bonds or not, which this Company had contracted in its capacity as a *société de crédit foncier* prior to this replacement; this replacement:

- is the result of the provisions of the Law of June 25, 1999 concerning savings and financial security and, in particular, Article 110 of said law, as well as any agreement signed with Crédit Foncier de France for the implementation of these provisions; and
- also results in the transfer to the company of the forward financial instruments described by these legislative provisions, as well as all securities, guarantees and similar commitments.

**8°** In connection with its own activity, or on behalf of other companies, to provide customers with and manage payment processes, in particular:

- for the payment of funds or the receipt of all sums arising from loan activities;
- for holding any accounts for financial transactions with other credit institutions or public entities;
- for the management of technical accounts in respect of expenses and receipts.

**9°** To participate in any system for interbank settlement, delivery vs payment 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.

**10°** More generally, to carry out all operations related to its activities or contributing to the fulfilment of its corporate purpose as long as such transactions comply with the purpose of a *société de crédit foncier* as defined in the legislation and regulations that regulate its activities.

## **g. Trade Register Number**

Compagnie de Financement Foncier is registered in the Paris Trade Register under number RCS B 421 263 047.

## **h. Location where legal documents concerning the company may be consulted**

Legal documents concerning Compagnie de Financement Foncier may be consulted at 4 quai de Bercy, 94224 Charenton Cedex.

## **i. Financial year**

The financial year begins on January 1 and ends on December 31.

## **j. Provisions of the bylaws governing appropriation of earnings**

If the financial statements for a given financial year, approved by the Shareholders' Meeting, show distributable earnings as defined by law, the Meeting shall decide either to attribute it 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 amounts to be distributed are to be drawn.

However, dividends shall be withdrawn first from the distributable earnings for the financial year.

The Meeting also has 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.

## **k. 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 formal notice of the 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 Shareholders' Meetings shall be drawn up and copies shall be certified and issued pursuant to law.

# **3. General information concerning the capital stock**

## **a. Capital stock**

At December 31, 2006, the Company's subscribed capital amounted to €132,000,000. It is divided into 8,250,000 fully paid up shares with a par value of €16 each.

## **b. Share capital authorised but not subscribed**

No authorisation exists to increase the company's capital which has not been used, nor does any potential capital.

## **c. Ownership of capital and voting rights**

### **Principal shareholders at December 31, 2006**

Shareholders	Number of shares	%
Crédit Foncier de France	8,249,994	100.00
Directors and other individuals	6	-
<b>TOTAL</b>	<b>8,250,000</b>	<b>100.00</b>

## d. Changes in shareholders over the last five years

At December 31, 1998, Compagnie de Financement Foncier's share capital amounted to 250,000 French francs. The combined Ordinary and Extraordinary Meeting of June 25, 1999 decided to increase the capital by 14,750,000 francs, with the entire increase reserved for Crédit Foncier de France. Following this increase, the capital was raised to FRF 15 million, consisting of 150,000 shares with a par value of FRF One Hundred (100) each, fully paid up and owned as follows:

Shareholders	Number of shares	%
Crédit Foncier de France	147,498	98.33
Directors	5	-
Foncier Participations	2,497	1.66
<b>TOTAL</b>	<b>150,000</b>	<b>100.00</b>

On October 13, 1999, Crédit Foncier de France purchased from Foncier Participations 2,496 shares of Compagnie de Financement Foncier, and thus, on that date, held 149,994 shares of the company, representing 99.99% of its capital stock.

The Extraordinary Meeting of Compagnie de Financement Foncier, held on October 21, 1999, decided, at the time of the transfer to Compagnie de Financement Foncier by Crédit Foncier de France of the assets and liabilities mentioned in Article 110 of Law No. 99-532 of June 25, 1999, to increase the capital by FRF 600,000,000. The contribution premium was FRF 783,000,000. The capital of Compagnie de Financement Foncier was thus increased to FRF 615 million.

The Board of Directors, meeting on September 25, 2000, decided to use the authorisations granted to it by the combined ordinary and extraordinary meeting of May 31, 2000 to:

- convert the share capital into euros and to increase the par value of each share to €16, by capitalising the sum of €30,461,688 taken from the profits of the financial year ended December 31, 1999 which had been retained on the last balance sheet. As a result of these operations, the company's capital reached €98,400,000;
- increase the capital stock by €1,600,000, taken from the profits of the financial year ended December 31, 1999 which had been previously retained on the last approved balance sheet, to bring it to €100 million.

The 100,000 new shares issued in connection with this capital increase were allotted as bonus shares to shareholders in the proportion of two new shares for every 123 existing shares.

The Board of Directors, in its meeting on June 29, 2005, noted that, following payment of the dividend in shares, the capital was increased by €10,000,000 due to the creation of 625,000 new shares with a par value €16, fully subscribed by Crédit Foncier de France.

The Board of Directors, in its meeting on June 22, 2006, noted that, following payment of the dividend in shares for the 2005 financial year, the capital was increased by €22,000,000 due to the creation of 1,375,000 new shares with a par value €16, fully subscribed by Crédit Foncier de France.

## e. Individuals or companies that exercise control over the Company

Crédit Foncier de France  
19, rue des Capucines – 75001 Paris  
542 029 848 RCS Paris

## f. Information on the Crédit Foncier de France Group, to which Compagnie de Financement Foncier belongs

The principal business of Crédit Foncier de France is to grant mortgage loans to individuals and real estate professionals, grant loans to local authorities, provide structured financing and to issue bonds to finance these loans.

From its creation in 1852 and until 1999, Crédit Foncier de France held the special status as a *société de crédit foncier*. It established itself as the leading lender to local authorities before the Second World War.

In the 1950s, Crédit Foncier de France was entrusted with a number of public service missions, the most important of which was its role as the principal entity responsible for distributing, financing and servicing loans subsidised by the French state (PAP, PLA, etc.). It became a key player in the market of specialised real estate financing.

The real estate crisis at the beginning of the 1990s, together with the government's elimination of subsidised loans, contributed to the erosion of the Crédit Foncier de France Group's financial position. So Caisse des Dépôts et Consignations, acting at the request and on behalf of the French state, initiated a takeover bid on October 4, 1996 and acquired a 90.6% stake in Crédit Foncier de France.

On July 9, 1999, Caisse Centrale des Caisses d'Épargne et de Prévoyance was designated to acquire the 90.6% shareholding in Crédit Foncier de France that was previously held by Caisse des Dépôts et Consignations on behalf of the French state.

The French Credit Institutions and Investment Companies Committee (CECEI) then authorised the repurchase of Crédit Foncier de France at its meeting on July 7, 1999. The transfer of Crédit Foncier de France to the private sector was subsequently authorised by Decree No. 99-674 of August 2, 1999.

The entry of Crédit Foncier de France into the Caisse d'Épargne Group, whose shareholders' equity at the time amounted to 56.9 billion francs (€8.5 billion), allowed Crédit Foncier de France to regain its standing as a major provider of financing for real estate and local authorities.

Furthermore, pursuant to the law of June 25, 1999 relating to savings and financial security, Centre National des Caisses d'Épargne et de Prévoyance and Caisse Centrale des Caisses d'Épargne et de Prévoyance merged to create Caisse Nationale des Caisses d'Épargne (CNCE).

This law also created a new, special status for *sociétés de crédit foncier*. Compagnie de Financement Foncier was thus formed and approved as a *société de crédit foncier* by the CECEI. Crédit Foncier de France transferred all of its *obligations foncières* and the underlying assets which secured them to Compagnie de Financement Foncier pursuant to the provisions set forth in Article 110 of Law No. 99-532 of June 25, 1999. At the same time, Crédit Foncier de France lost its status as a *société de crédit foncier*.

It turned its focus to developing its business and acquired A3C at the end of 2003 in order to obtain an effective management structure in the areas of real estate leasing and savings.

2004 was marked by another important acquisition, that of Entenial.

In addition to the merger with Entenial, Crédit Foncier de France also acquired 66% of the share capital of Crédit Foncier Communal d'Alsace Lorraine-Banque (CFCAL-Banque) at the beginning of 2004. Crédit Foncier Communal d'Alsace Lorraine is a French *société anonyme* certified as a bank with shares traded on the Euronext Paris Premier Marché.

CFCAL-Banque also has a wholly-owned subsidiary with the status of a *société de crédit foncier* called "Crédit Foncier et Communal d'Alsace et de Lorraine - Société de Crédit Foncier" (CFCAL-SCF).

In July 2004, CNCE opted to receive its 2003 dividend from Crédit Foncier in the form of shares, thereby increasing its shareholding in the company to 95.44%. Subsequently, CNCE initiated a share buyout bid to acquire shares of Crédit Foncier de France followed by a final buyout at €40 a share. When this was completed, CNCE held 100% of the equity and voting rights of Crédit Foncier. Following the buyout, Crédit Foncier's shares on the Euronext Premier Marché were delisted.

The merger between Crédit Foncier de France and Entenial was finalised in 2005.

## Specialised subsidiary within a large Group

Crédit Foncier is positioned within the Caisse d'Épargne Group as a subsidiary specialised in real estate financing and services.

- Creation of the real estate leasing subsidiary of the Caisse d'Épargne Group: Crédit Foncier strengthened its real estate leasing activity by grouping together various specialty subsidiaries (Foncier Bail and Investimur, Cicobail, Mur Écureuil and Cinergie). These companies merged under the aegis of Cicobail to form the real estate leasing division of the Caisse d'Épargne Group.
- Development of synergies among Group entities in their dealings with social and public authorities and an objective for the Group to become a leading European operator in its sectors.

## Locindus

In 2006, Crédit Foncier signed agreements to take a majority stake in Locindus, a leasing company. The supervisory board of Locindus indicated that it was in favour of the transaction. On April 17, 2007, at the end of its takeover bid, Crédit Foncier held 67.56% of Locindus' shares and voting rights.

The integration of Locindus by Crédit Foncier has created the second largest leasing concern in the French market.

## International development

Drawing on its expertise in the area of distribution via secondary business providers and benefiting from the professionalism of Belgian brokers and intermediaries, Crédit Foncier opened a branch in Brussels in 2005 and a sales office in London in 2006.

In Portugal, Crédit Foncier also founded Banco Primus, a bank specialised in mortgage lending, drawing on the expertise of Groupe Crédit Foncier et Communal d'Alsace et de Lorraine-Banque (CFCAL-Banque and CFCAL SCF), itself specialised in debt consolidation.

## **Signature of a memorandum of understanding with Nexit**

Press release from Caisse Nationale des Caisse d'Épargne dated April 26, 2007

"At a meeting convened on April 25, the Supervisory Board of the Caisse Nationale des Caisses d'Épargne (CNCE) examined progress achieved in the exclusive negotiations with Nexit. At the end of this negotiation period, the Board approved the Management Board's signature of a memorandum of understanding that should lead to the creation, during the third quarter of this year, of a real estate division boasting front-ranking positions in its different markets.

In the light of the work submitted by the Management Board, the Supervisory Board emphasized the relevance of an industrial project capable of generating synergies in the different areas of business activity pursued by Groupe Caisse d'Épargne. It will allow the retail network to distribute properties marketed by Nexit, notably to a clientele of investors; it will enable the Group to capitalize on its relationships with local authorities by offering them more integrated solutions; and it will lead to growth in Groupe Caisse d'Épargne's market share related to the financing of real estate transactions arranged by Nexit and its franchised networks.

The details of the project subject to the memorandum of understanding signed by the two parties corresponds to plans already submitted to the Supervisory Board at a meeting convened on April 4 earlier this year, namely: the contribution to Nexit of 25% of Crédit Foncier along with a percentage of the CNCE's interest in the real estate company Eurosic, and 100% of GCE Immobilier (excluding SEM). In exchange, the CNCE will obtain a stake in Nexit's capital in excess of 38%, putting it in the position of controlling shareholder.

The Supervisory Board of the CNCE reiterated its support for the Management Board, urging it to finalize this initiative that will allow Groupe Caisse d'Épargne to create, in line with its strategic objectives, a powerful and highly efficient real estate division."

When this project is completed, Crédit Foncier de France and Compagnie de Financement Foncier would remain subsidiaries of the Caisse d'Épargne Group.

## 4. Resolutions submitted to the shareholders' meeting

Ordinary shareholders Meeting of May 24, 2007

### Proposed resolutions

#### First resolution

The Shareholders' Meeting, after having heard the reports of the Board of Directors and the Auditors for the financial period ending December 31, 2006, approves the accounts as presented.

#### Second resolution

The General Meeting, after noting the existence of a distributable profit of €89,216,406.34 corresponding to the net income of €62,342,078.45 for the financial period in addition to retained earnings of €26,874,327.89, allocates said distributable profit in the following manner:

- Provision for legal reserves: €2,200,000;
- Dividend: €83,325,000;
- Retained earnings: €3,691,406.34.

The dividend applicable to each of the 8,250,000 shares comprising the company's capital is set at €10.10.

Pursuant to Article 243b of the general tax code, it is specified that the totality of the dividend proposed is eligible for the 50% deduction applicable to physical persons domiciled for tax purposes in France, provided for in Article 158-3 of the general tax code.

The date of payment of the dividend has been set for June 28, 2007.

Pursuant to Article 24 of the Articles of Association, the Shareholders' Meeting decides to afford each shareholder the possibility of opting for payment in shares. The new shares will have the same characteristics and benefit from the same rights as the shares that gave rise to the dividend payment. Their date of entry into force is set for January 1, 2007.

The issue price of the new shares will be equal to the amount of shareholders equity before distribution as indicated in the balance sheet at December 31, 2006 approved by the Shareholders' Meeting in the first resolution above, divided by the number of existing shares. It amounts to €60.60 per share.

The number of shares that can be allocated to shareholders that have opted for payment of the dividend in shares therefore comes to one new share for six existing shares, it being understood that an individual shareholder cannot receive the dividend to which they are entitled in a combination of shares and cash.

If the dividends so determined do not give a right to a whole number of shares, the shareholder who has opted for the payment in shares can receive the next lowest whole number of shares and receive the rest in cash or the next highest number of whole shares by paying the difference in cash.

The option period will begin on June 1, 2007 and end on June 15, 2007.

Any shareholder who has not exercised his option by June 15, 2007 will receive his dividend in cash on the payment date, June 28, 2007.

The meeting gives all necessary powers to the Board of Directors to determine the number of shares issued and the resulting capital increase, and consequently to modify Article 6 of the bylaws.

Pursuant to Articles 47 of the law of July 12, 1965 and 243b of the General tax code, it is recalled that the dividend and the overall remuneration per share have evolved as follows over the last three financial periods:

Financial year	Number of shares	Overall remuneration per share	Dividend distributed	Tax already paid to the Treasury (tax credit)
2003	6,250,000	€3	€2	€1
2004	6,250,000	€5.71	€5.71	–
2005	6,875,000	€12.73	€12.73	–

### Third resolution

The Shareholders' Meeting, after hearing the special report of the auditors on the transactions described in Article L.225-38 of the French Commercial Code, note the terms of the report and approve the transactions entered into during the financial period.

### Fourth resolution

The Shareholders' Meeting, noting that the directorship of Mr. Thierry Dufour is ending, decides to renew his term of office for a period of six years ending at the shareholders' meeting which will approve the financial statements for the 2012 financial year.

### Fifth resolution

The Shareholders' Meeting, noting that the directorship of Mr. Pierre-Eric Fuzier is ending, decides to renew his term of office for a period of six years ending at the Shareholders' Meeting which will approve the financial statements for the 2012 financial year.

### Sixth resolution

The Shareholders' Meeting gives all necessary powers to the holder of a copy or an extract of the minutes of this Meeting to carry out any registration and publication formalities.

# **5. Statutory Auditor's special report on regulated agreements and commitments with third parties**

*This is a free translation into English of the Statutory Auditors' special report on regulated agreements and commitments issued in French and is provided solely for the convenience of English speaking readers. This report on regulated agreements and commitments should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.*

## **Year ended 31 December 2006**

To the shareholders,

In our capacity as Statutory Auditors of Compagnie de Financement Foncier S.A., we hereby report to shareholders on regulated agreements and commitments with third parties.

### **1. Agreements and commitments entered into during the year**

In application of Article L.225-40 of the French Commercial Code (*Code de commerce*), we were informed of the agreements and commitments approved by your Board of Directors.

Our responsibility does not include identifying any undisclosed agreements or commitments. We are required to report to shareholders, based on the information provided, about the main terms and conditions of agreements and commitments that have been disclosed to us, without commenting on their relevance or substance. Under the provisions of Article R 225-31 of the French Commercial Code, it is the responsibility of shareholders to determine whether the agreements and commitments are appropriate and should be approved.

We conducted our work in accordance with the professional standards applicable in France. Those standards require that we carry out the necessary procedures to verify the consistency of the information disclosed to us with the source documents from which it was taken.

#### **Management agreements with Crédit Foncier de France**

Directors concerned: François Drouin and Thierry Dufour

At its meeting of 28 September 2006, the Board of Directors of Compagnie de Financement Foncier S.A. approved the signature of management agreements (i) partly replacing previous such agreements, or (ii) supplementing these previous agreements, with effect from 1 January 2007.

#### **Master agreement**

Nature and purpose: this agreement sets out the framework governing relations between Crédit Foncier de France and your Company. In particular, the agreement sets out additional obligations for Crédit Foncier with regard to your Company, and establishes a management committee comprising representatives from the business lines.

## Agreement for the sale of eligible loans

Nature and purpose: this agreement defines the terms and conditions of the sale to your Company by Crédit Foncier de France of receivables relating to eligible loans, and specifies the rank applicable to the portion of the receivables retained by Crédit Foncier with regard to the receivables sold to your Company.

## Loan management and collection agreement

Nature and purpose: your Company entrusts Crédit Foncier de France with the management and collection of (i) all loans and receivables that are acquired or directly originated by Compagnie de Financier Foncier S.A., and (ii) all of the Company's assets, with the exception of eligible receivables or assets acquired from other entities. Your Company also determines the respective obligations of each party and updates the cost allocation schedule as regards:

- termination indemnities due from clients in default;
- lawyers' fees and legal costs.

## Financial services agreement

Nature and purpose: this agreement defines the financial services provided by Crédit Foncier de France on behalf of your Company. These include:

- acquisition of assets;
- origination of assets;
- financing transactions and the management of cash relating to securities and replacement values;
- management of financial transactions from an administrative and accounting standpoint, debt servicing, management of cash flow and payment processing;
- monitoring and control of financial transactions;
- relations with credit rating agencies, the financial markets, independent auditors and any other supervisory or oversight body.

## Administrative and accounting services agreement

Nature and purpose: your Company has appointed Crédit Foncier de France to carry out all necessary activities in connection with administrative and accounting issues relative to the functioning of your Company (bookkeeping, management control, tax management, legal services, insurance services).

## Internal control and compliance agreement

Nature and purpose: your Company has appointed Crédit Foncier de France to manage on its behalf (i) all functions relating to compliance and the respect of regulatory requirements and oversight obligations; and (ii) internal control services covering the full breadth of your activities and risks.

## Asset-liability management agreement

Nature and purpose: this agreement defines the services to be provided as regards the management of the Company's assets, liabilities, off-balance sheet items and key provisional balance sheet figures.

## **IT services agreement**

Nature and purpose: this agreement sets out the obligations of Crédit Foncier de France in its capacity as manager of the information systems used to provide the agreed services on behalf of your Company.

## **Employee transfer and HR management agreement**

Nature and purpose: this agreement specifies the legal framework governing the transfer of employees from Crédit Foncier de France to your Company.

## **Settlement agreement**

Nature and purpose: this agreement is in the process of being signed. It sets out the relationship between Crédit Foncier de France and your Company as regards the processing of fund flows relating to the loans acquired by your Company.

Terms and conditions: the financial terms and conditions applicable to these agreements have been renewed and are identical to those set out in the previous management fee agreement approved by your Board of Directors.

These agreements come into force as from 1 January 2007 and did not have any cash impact on the year ended 31 December 2006.

## **2. Agreements and commitments entered into in prior years which remained in force during the year**

In application of the French Commercial Code, we were informed of the following agreements and commitments entered into in prior years, which remained in force during the year.

### **Participating loan granted by Crédit Foncier de France**

Crédit Foncier de France has granted your Company a subordinated participating loan of €1,350 million maturing on 21 October 2040. This loan pays annual interest at TAM (a French floating benchmark rate) +2.50%, provided that the net income of Compagnie de Financement Foncier S.A. for the financial year in which the interest accrues is at least €10 million after paying the interest on the loan.

Interest expense recorded by the Company in respect of this agreement totalled €73.2 million in the year ended 31 December 2006.

### **Redeemable subordinated notes subscribed by Crédit Foncier de France**

Crédit Foncier de France subscribed to redeemable subordinated notes ("TSR") issued by your Company on 30 December 2003. The notes pay interest at 3-month Euribor +0.50%, and mature after a period of 40 years. The nominal amount of the issue totalled €900 million.

Interest expense recorded by your Company in respect of this agreement amounted to €31.3 million in the year ended 31 December 2006.

## **Guarantee and compensation agreement with Crédit Foncier de France**

As part of the agreement providing for the transfer of assets and liabilities by Crédit Foncier de France to your Company, Crédit Foncier:

- undertook to indemnify Compagnie de Financement Foncier S.A. against the earnings impact of changes in market interest rates or mismatches related to private sector fixed-rate loans;
- guaranteed Compagnie de Financement Foncier S.A. a minimum return on the amounts transferred;
- undertook to indemnify Compagnie de Financement Foncier S.A. in the event of a change in the treatment of borrowing costs related to the refinancing of subsidised loans.

This agreement had no cash impact on the year ended 31 December 2006.

## **Management agreements with Crédit Foncier de France**

Pursuant to Articles L. 515-13 et seq. of the Monetary and Financial Code (*Code Monétaire et Financier*), your Company entrusted Crédit Foncier de France with the management and collection of its loans and other assets, covered bonds (*obligations foncières*) and other secured and unsecured financing, and, more generally, all the services necessary to its operating, financial, administrative and accounting management, together with all necessary internal audit and control services.

For this purpose, a series of agreements dated 21 October 1999 were signed between Compagnie de Financement Foncier S.A. and Crédit Foncier de France, and subsequently amended by addenda 1, 2, 3, A and B. These agreements concern:

- the general framework governing relations between the parties;
- the sale of eligible loans by Crédit Foncier de France to Compagnie de Financement Foncier;
- loan management and collection services;
- financial services;
- administrative and accounting services;
- audit and control services;
- service fees.

The fees billed by Crédit Foncier de France to Compagnie de Financement Foncier S.A. under these agreements totalled €83.5 million for the year ended 31 December 2006.

Pursuant to the loan management and collection agreement, Crédit Foncier de France granted to Compagnie de Financement Foncier S.A. cash advances for a total amount of €105.7 million at the end of 2006, corresponding to instalments unpaid since the transfer date on loans transferred to your Company by Crédit Foncier de France.

Crédit Foncier de France retains the late interest billed to the borrowers concerned as remuneration for this advance. Remuneration for financial year 2006 amounted to €9.6 million.

The guarantee agreement between Compagnie de Financement Foncier S.A. and Crédit Foncier de France provides that losses arising from these loans will be set off against these cash advances. Losses assumed by Crédit Foncier de France under this agreement in 2006 amounted to €0.5 million.



# 6. Bylaws

## Titre 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 in respect of société anonyme, credit institutions, in particular société 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 société de crédit foncier, in particular sections L. 515-13 and following 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 is:

1° In respect of loan and similar transactions:

- to grant or acquire secured loans, whether these are loans benefiting from a senior mortgage, a property lien, or any other form of property-based security that is at least equivalent, or loans that carry a guarantee issued by a lending institution or an insurance Company;
- to grant or acquire loans from public entities, and loans fully guaranteed by public entities, and to subscribe for or acquire bonds and other debt securities issued or guaranteed by public entities;
- to acquire, by subscription at the time of issue, either on the markets on which they are traded, or over the counter or, more generally, in any other manner which in compliance with current legislation, units of FCCs and units or securities issued by similar entities subject to the law of a foreign state, as long as these units or securities are authorised for inclusion in the assets of société de crédit foncier;
- to acquire and hold certain and liquid investments and securities as replacement securities authorised for inclusion in the assets of société de crédit foncier.

2° For financing these categories of loans, investments and securities:

- to issue *obligations foncières* benefiting from a preferred right of repayment granted by the legislation governing société de crédit foncier and, in particular, Article L.515-19 of the French Monetary and Financial Code;
- to procure any other type of financing, stipulating that such financing will benefit from the preferred right of payment granted by the law to *obligations foncières*;
- to procure any other financing, of which through the issuance of loans, which does not benefit from the preferred right of payment granted by the law to *obligations foncières*.

3° To carry out all financial and banking transactions necessary in the context of its purpose and, in particular:

- securitise, in any manner compliant with current legislation, all or part of the loans that it holds, whatever the nature of such loans;
- use forward financial instruments, in order to hedge operations to manage loans, *obligations foncières*, other senior instruments, and other financing without the preferred right of payment granted by law to *obligations foncières*.

4° To contract with any credit institution all agreements necessary:

- to manage and recover loans;
- to manage bonds and other financing;
- more generally, to provide all services necessary to manage the assets, liabilities and the financial balances of the Company;
- as well as all agreements concerning the distribution and refinancing of loans.

5° To acquire and own all property and equipment necessary to achieve its purpose or arising from the recovery of its loans; to contract with any third party any agreement in respect of the acquisition, ownership, management, maintenance and sale of such assets.

6° To contract with any insurance Company any agreement, which serves the Company purpose, notably to cover risks related to borrowers, risks in respect of both assets securing the loans and assets owned by the Company, and the liability risks of the Company or its Directors and Officers.

7° To replace Crédit Foncier de France in all loan and credit transactions, whether involving bonds or not, which this Company had contracted in its capacity as a *société de crédit foncier* prior to this replacement; this replacement:

- is the result of the provisions of the law of June 25, 1999 concerning savings and financial security and, in particular, Article 110 of said law, as well as any agreement signed with Crédit Foncier de France for the implementation of these provisions; and
- also results in the transfer to the Company of the forward financial instruments described by these legislative provisions, as well as all securities, guarantees and similar commitments.

8° In the context of its proprietary activity, or on behalf of other companies, to make available to customers and manage payment terms, in particular:

- for the payment of funds or the receipt of all sums arising from the loan activities;
- for the holding of all accounts of financial relations with other banks or public entities;
- for the management of technical accounts in respect of expenses and receipts.

9° To participate in any system for interbank settlement, delivery vs payment 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.

10° More generally, to carry out all operations related to its activity or contributing to the achievement of its corporate purpose as long as such transactions comply with the purpose of *société de crédit foncier* as defined in the legislation and regulations that regulate their activity.

### **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 such a period is extended, or the early liquidation of the Company is decided, in accordance with the legislation in force or these bylaws.

## **Titre II**

### **Capital stock – Shares**

#### **Article 6 - Capital stock**

The capital stock is set at 132,000,000 euros (One Hundred and Thirty Two Million euros).

It is divided into 8,250,000 (Eight Million Two Hundred and Fifty Thousand) shares with a par value of 16 (Sixteen) euros each, all of which belong to the same category and are fully paid up in cash.

#### **Article 7 - Form of the shares**

The shares are in registered form.

They are registered in accordance with the terms and conditions set by law.

#### **Article 8 - Right and obligations attached to shares**

Each share confers a right to ownership of the Company's assets and a share in its profits proportional to the fraction of the Company's capital that it represents.

All shares which comprise or will comprise the Company's capital, as long as they are of the same type and the same par value, are strictly equivalent to each other as of the time they have the same dividend-bearing date; both during the Company's existence and on 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 ownership of the share.

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, for the exercise of their rights, refer to the financial statements and to the decisions of Shareholders' Meetings.

Each time it is necessary to own several shares in order 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 a number of shares lower than required, may exercise their rights only if they undertake to combine and, possibly sell or purchase, the necessary number of shares.

## **Article 9 - Transfer of shares**

Shares are freely negotiable.

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 with 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.

# **Titre III**

## **Administration of the company**

### **Article 11 - Board of directors**

The Company is administered by a Board of Directors comprised of at least three and at most eighteen members, selected from among the shareholders and appointed by the Ordinary Meeting.

Each Director must own at least one share during his or her term of office.

### **Article 12 - Term of office of directors**

The term of office of Directors is six years.

Each Director reaching the end of his 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 proceeding of the board – Minutes**

The Board of Directors is called by its Chairman, as often as the interest of the Company requires, either at the registered offices, or at any other location indicated on the notice. Meetings may be called by all means, even verbally.

If no meeting has been held for more than two months, at least one third of the members of the Board can request that the Chairman call a Board meeting with a specific agenda.

The 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 quorum and majority, Directors participating in the meeting through videoconferencing are considered present. This rule is not applicable for the adoption of resolutions that require, in accordance with current legislation, the effective presence of Directors.

Sufficient proof of the number of Directors in office and of their presence at a meeting of the Board is provided by the production of a copy or an excerpt of the minutes of the Board meeting.

The minutes of the meeting are prepared, and the copies or excerpts are delivered and certified as required by law.

## **Article 14 - Powers of the boards**

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 duties and can request all documents that he considers useful to him.

In its relations with third parties, the Company is obligated even by 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 is not sufficient to constitute such proof.

## **Article 15 - Remuneration of the board of directors**

An Ordinary Meeting can allocate to the Board of Directors a fixed annual remuneration in the form of Directors' fees, the amount of which it shall determine. This remuneration remains applicable until a General Meeting decides otherwise.

The Board of Directors shall allocate this remuneration in the proportions that it considers appropriate.

## **Article 16 - Chairman of the board of directors**

The Board of Directors elects, from among its non-corporate members, a Chairman and determines his remuneration. It determines his term of office as Chairman, may be no longer than 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 meeting of shareholders on such work. He supervises the correct operation of the decision-making bodies of the Company and ensures, in particular, that the Directors are in a position to be able to carry out 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 Directors appointed.

## **Article 17 - Management**

Management of the Company is assumed, under his 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 meetings of shareholders 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 obligated even by 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 is not sufficient to constitute such 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 Chief Operating Officer. The number of Chief Operating Officers may not be greater than five. The scope and duration of the powers of the Chief Operating Officers shall be determined by the Board of Directors with the agreement of the Chief Executive Officer.

With respect to third parties, Chief Operating Officers have the same powers as the Chief Executive Officer.

The Board of Directors determines the compensation of the Chief Executive Officer and the Chief Operating Officers.

The Chief Executive Officer and, if they have been appointed, Chief Operating 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 Chief Operating Officer must cease no later than the end of the Ordinary Meeting, which follows the date at which the person reaches the age of sixty-five.

The Chief Executive Officer may be removed at any time by the Board of Directors. The same applies, on the recommendation of the Chief Executive Officer, to the Chief Operating Officers. If the removal is decided without a serious reason, it may result in legal damages, unless the individual is also Chairman of the Board of Directors.

If the Chief Executive Officer ceases, or cannot carry out his duties, the Chief Operating Officers retain, unless the Board decides otherwise, their positions and the responsibilities assigned to them until such time as 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 Advisors 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.

# **Titre IV**

## **Audit of the company**

### **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 *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 *société de crédit foncier*.

## **Titre V Shareholders' meeting**

### **Article 21 - Shareholders' meeting**

Shareholders' Meeting shall be called and shall deliberate under the conditions stipulated by law.

Each year, an Ordinary Shareholders' Meeting must be convened within five months following the financial year-end date.

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.

## **Titre VI Annual financial statements - Appropriation of earnings**

### **Article 23 - Financial year**

The financial year shall begin on January 1 and shall end on December 31.

The Board of Directors shall be authorised to change the closing date of the financial year if it determines such a change to be in the Company's interest.

As an exception, the first financial year ran from the date of registration to December 31, 1998.

## **Article 24 - Appropriation of earnings**

If the financial statements for the financial year, as approved by the Shareholders' Meeting, show a distributable profit as defined by law, the Shareholders' Meeting shall decide to allocate it to one or more reserves the allocation or utilisation of which is governed by the Meeting, retain it, or distribute it.

After ascertaining the existence of the reserves at its disposal, the Shareholders' Meeting may decide to distribute amounts drawn from those reserves. In that event, the resolution shall expressly state the reserves from which the withdrawals are made.

However, dividends shall be withdrawn first from the distributable earnings for the financial year.

The above provisions shall be understood to be subject to the creation of non-voting preferred shares.

For all or part of the dividend distributed or interim dividends, the Shareholders' Meeting shall also have the authority to give each shareholder a choice between payment of the dividend or interim dividends in cash or in shares.

## **Titre 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 between 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.

## 7. General information

### Person responsible for financial information

Mr. François Veverka,  
Chief Executive Officer  
Compagnie de Financement Foncier  
Address: 4, quai de Bercy - 94220 Charenton-le-Pont  
Telephone: +33 (0)1 57 44 80 33  
Fax: +33 (0)1 57 44 91 91

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

I certify, after having taken every reasonable measure to this purpose, that the information provided in this reference document is, to my knowledge, true to fact and that no information has been omitted that would change the interpretation of the information provided.

I received a letter from the statutory auditors indicating that they have completed their work which consisted of verifying the information on the financial position and the financial statements provided in this reference document as well as a reading of the entire document.

The financial information for the year ended December 31, 2005 was the subject of a report containing comments from the statutory auditors. This report is found on pages 177 to 179 of the reference document D. 06-0346 submitted to the French Financial Markets Authority on April 28, 2006.

Signed in Charenton-le-Pont, May 9, 2007

François Veverka  
Chief Executive Officer of the Compagnie de Financement Foncier

## **Outlook for the 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 or claim or commitment or event is reasonably susceptible to influence the Company's outlook.

### **Audit**

To the Company's knowledge, no agreement exists whose implementation at a later date could lead to a change of its audit.

### **Significant changes**

Since the end of the last financial year for which the financial report was audited and published, no significant change has affected the Company's situation.

## Persons responsible for auditing the financial statements

### KPMG Audit - Département de KPMG SA

Represented by Philippe Saint-Pierre and Rémy Tabuteau

Address: 1 cours Valmy  
92923 La Défense Cedex  
775 726 417 RCS Paris

Member of "Compagnie Régionale  
des commissaires aux comptes de Versailles"

Start of term: May 25, 2005  
Length of term: six financial years

Expiration of term:  
at the end of the Shareholders' Meeting  
called to approve the financial statements  
for the financial year ending December 31, 2010.

### PricewaterhouseCoopers Audit

Represented by Anik Chaumartin and Guy Flury

Address: 63, rue de Villiers  
92200 Neuilly-sur-Seine  
302 474 572 RCS Paris

Member of "Compagnie Régionale  
des commissaires aux comptes de Versailles"

Start of term: May 17, 2002  
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, 2007

### Marie-Christine Ferron-Jolys

Address: 1 cours Valmy  
92923 La Défense Cedex

Start of term: May 25, 2005  
Length of term: six financial years

Expiration of term:  
at the end of the Shareholders' Meeting  
called to approve the financial  
statements for the financial year  
ending December 31, 2010

### Pierre Coll

Address: 63, rue de Villiers  
92200 Neuilly-sur-Seine

Start of term: May 17, 2002  
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, 2007

## The Specific Controller

### Statutory Specific Controller

**Cailliau Dedouit & Associés**

Represented by 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 ended

December 31, 2010

### Alternate specific controller

**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 ended

December 31, 2010

# Appendix 1: Fees for the statutory auditors and the members of their networks, inclusive of all taxes (non deductible)

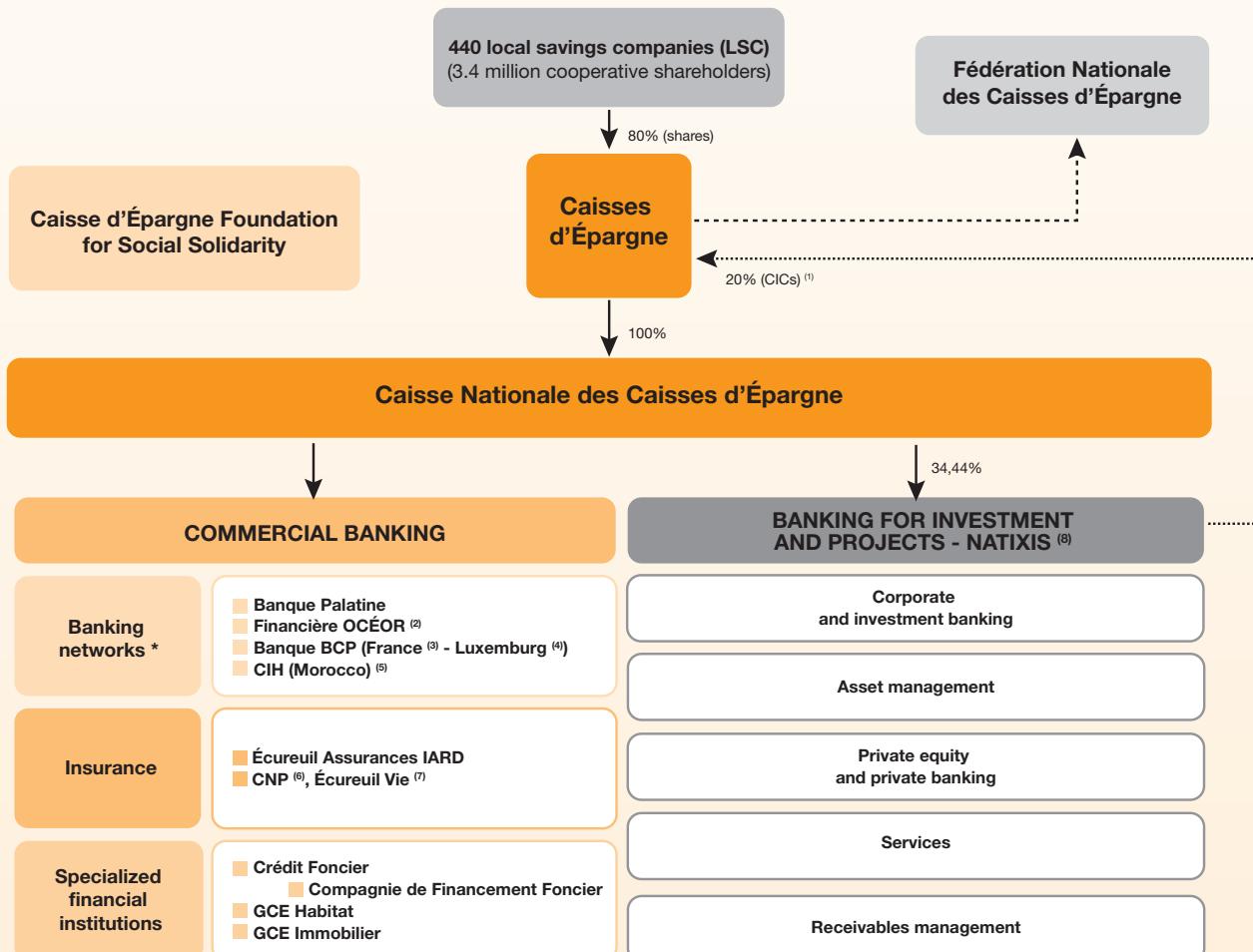
Financial years covered: 2005 and 2006

(in thousands of euros)

	Auditor: KPMG				Auditor: PricewaterhouseCoopers			
	Amount (excl. tax)		%		Amount (excl. tax)		%	
	2006	2005	2006	2005	2006	2005	2006	2006
<b>Audit</b>								
Statutory auditors, certification, review of individual and consolidated accounts								
- Issuer	130	143	66%	74%	130	143	66%	70%
- Fully consolidated subsidiaries								
Other duties and services directly linked to the statutory auditors' mission								
- Issuer	66	51	34%	26%	66	61	34%	30%
- Fully consolidated subsidiaries								
<b>Subtotal</b>	<b>196</b>	<b>194</b>	<b>100%</b>	<b>100%</b>	<b>196</b>	<b>204</b>	<b>100%</b>	<b>100%</b>
<b>Other services provided by the networks to fully consolidated subsidiaries</b>								
Legal, tax, corporate								
Other (specify if → 10% of audit fees)								
<b>Subtotal</b>								
<b>TOTAL</b>	<b>196</b>	<b>196</b>	<b>100%</b>	<b>100%</b>	<b>196</b>	<b>204</b>	<b>100%</b>	<b>100%</b>

## Appendix 2: Simplified organisation of the Caisse d'Épargne Group

At December 31, 2006



\* Other than the Caisse d'Épargne

(1) Cooperative investment certificates (CICs) representing 20% of the capital of the Caisse d'Épargne entitling holders to receive dividends but including no voting rights.

(2) The Financière OCÉOR holding company owns the Group's investments in its overseas banks.

(3) Held by Caisse d'Épargne Ile-de-France Paris.

(4) Held by Financière OCÉOR.

(5) 35% interest held by Financière OCÉOR.

(6) 18% held by Sopassure, a 49.98% subsidiary of CNCE.

(7) Écureuil Vie is a 100% subsidiary of CNP Assurances since February 2007.

(8) The Caisse Nationale des Caisses d'Épargne and the Banque Fédérale des Banques Populaires each hold 34.44% of Natixis.

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(\*) In application of article 28 of regulation no. 809-2004 on prospectuses, the corporate financial statements for the accounting period ended 31 December 2004 and the Statutory Auditors' report on the corporate financial statements, printed on pages 111 to 179 of reference document no. D06-0346 filed with the Autorité des marchés financiers (AMF – French financial markets authority) on April 28, 2006, are incorporated by reference in this document.

The sections of reference document no. D06-0346 not referred to above are either of no consequence to investors or covered by another section of this reference document.

# **Contacts**

## **Compagnie de Financement Foncier**

4, quai de Bercy  
94224 Charenton cedex  
Tel.: +33 (0)1 57 44 92 05

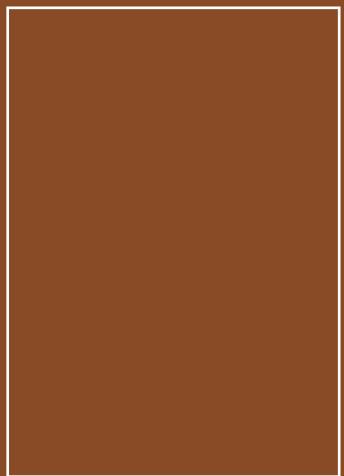
Financial Information:  
Antoine-Pierre de Grammont  
Tel.: +33 (0)1 57 44 72 26

**[www.foncier.fr](http://www.foncier.fr)**

The annual reports of the Compagnie de Financement Foncier can be downloaded from the website.







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**COMPAGNIE DE  
FINANCEMENT  
FONCIER**

CREDIT FONCIER GROUP

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