



Annual report 2010

Reference document



COMPAGNIE DE
FINANCEMENT
FONCIER

CREDIT FONCIER GROUP

Volume 1

Activity report

Overview

A strong, secure and efficient business model in favour of investors

High quality and diversified assets

A successful and recognized *obligations foncières* program

Volume 2

Financial report

Management report 2010

Financial Statements

Statement from the person who assumes responsibility
for the reference document

Volume 3

Risk management report, Chairman's report & Legal information

Risk management report 2010

Chairman's report established pursuant to the Article L. 225-37 of the
Commercial Law

Legal information

The Compagnie de Financement Foncier 2010 Reference document comprises three separate volumes:

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

This is a free translation into English of Compagnie de Financement Foncier 2010 annual report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails.

Only the French version of the Registration document has been submitted to the AMF. It is therefore the only version that is binding in law.

The original document was filed with the *Autorité des marchés financiers* (French Financial Market's Authority) on April 1st, 2011, in accordance with Article 212-13 of its general regulation and registered under the number D.11-0214 and represents the French "Document de référence" of the Compagnie de Financement Foncier. As such, it may be used in support of a financial transaction when accompanied by a prospectus duly approved by the AMF. It was prepared by the Issuer and its signatories assume responsibility for it.



AUTORITÉ
DES MARCHÉS FINANCIERS

Volume **1**

Summary

› **Overview**

- 03 Profile
- 04 Message from the Chairman
- 05 Message from the Chief Executive Officer
- 06 Historical review
- 08 Key figures

› **A strong, secure and efficient business model in favour of investors**

- 12 Legal safeguards
- 16 Financial safeguards
- 19 Institutional safeguards
- 25 Stringent risk management rules and commitments to the market

› **High quality and diversified assets**

- 31 A rigorous asset selection process
- 34 Public-sector exposures
- 36 Residential mortgage loans

› **A successful and recognized *obligations foncières* program**

- 39 Market and context
- 39 The leader in the French *obligations foncières* market
- 41 A programme tailored to investor demand
- 41 2011 Perspectives

Profile

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

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

Firmly underpinned by its parent Crédit Foncier, which has been issuing French *obligations foncières* since 1852, Compagnie de Financement Foncier continued to be a major competitor in its market in 2010.

Message from the Chairman and Chief Executive Officer



Thierry DUFOUR
Chairman and Chief Executive Officer

Despite the market turbulence caused by the uncertainties relating to sovereign debt, in 2010 Compagnie de Financement Foncier managed to diversify its offer to respond to investors' ever more demanding requirements in terms of quality and security. Supported by a business model based on careful selection of assets and total transparency, it successfully demonstrated the efficiency of its risk management.

Investors' wholehearted confidence in the quality of Compagnie de Financement Foncier's assets was once again reflected in their participation in each of the issues of 2010.

Their ongoing confidence throughout this year enabled Compagnie de Financement Foncier to fulfil its mission of providing Cr dit Foncier with the liquidity needed to conduct its business and diversifying BPCE's refinancing sources.

Compagnie de Financement Foncier also strengthened its commitments to the credit market by maintaining a minimum overcollateralization ratio of 5% in line with the average ratios recorded since its inception in 1999.

This sustainable quality has continuously been acknowledged by the credit rating agencies, which renewed Compagnie de Financement Foncier's AAA/Aaa/AAA ratings in 2010 - a guarantee of safety and transparency for holders of *obligations fonci res* (French legal covered bonds).

Innovating with new formats, such as the 144A/RegS format specific to the US domestic market, enabled Compagnie de Financement Foncier to remain the leader in *obligations fonci res* issuance in 2010 with a total of €17.2 billion issued. Compagnie de Financement Foncier's ability to seek out investors in their home markets is, and will continue to be in 2011, a major advantage for achieving its objectives.

Despite the still uncertain background, Compagnie de Financement Foncier aims to continue its strategy of diversification in 2011 and maintain its position as one of the world leaders in the covered bonds market.

Thierry DUFOUR, Chairman and Chief Executive Officer

Message from the Executive Officer



Sandrine GUÉRIN
Deputy Chief Executive Officer

A highlight of 2010 was the successful implementation of Compagnie de Financement Foncier's USMTS program. This program, for which it had obtained authorisation in 2009, enabled it to issue more than USD 4.8 billion in the US home market, thereby becoming the most active issuer in this market.

Compagnie de Financement Foncier continued demonstrating its very dynamic approach and diversifying its offer in terms of currencies, structures and formats.

The strong presence of foreign investors among holders of Compagnie de Financement Foncier's *obligations foncières* testifies clearly to its determined diversification strategy and strong credit quality, globally acknowledged by investors.

This was confirmed by the Best Issuer of the Year Award received by Compagnie de Financement Foncier at the Euromoney/ECBC (European covered bond Council) Congress in October 2010. This prize, awarded by a panel of professionals of the world of finance, underlines the confidence investors have in Compagnie de Financement Foncier and rewards the dynamism it has shown since its creation.

The expertise and know-how of its staff and a continuously monitored asset selection process enables Compagnie de Financement Foncier to ensure the highest levels of investment security for its bondholders.

Public sector assets continued to account for a significant portion of the high-quality assets on its balance sheet in 2010. It remains a benchmark main issuer in this area, both in France and abroad.

In 2011, the business model specific to *sociétés de crédit foncier*, which provides a very secure framework for investors, combined with the quality of its asset selection process – the key element of Compagnie de Financement Foncier's model – will enable the company in 2011 to maintain the robust issuance *momentum* that has been its key strength for more than a decade.

Sandrine GUÉRIN, Deputy Chief Executive Officer

Historical review

From its creation in 1852, Crédit Foncier, whose main business is to grant property loans backed by prime mortgages, became the leading lender to local authorities in France and maintained that position until World War II.

As from the 1950s, Crédit Foncier was entrusted with numerous public interest assignments and it continued to play a key role in the property sector, becoming one of the State's main partners in this area.

1852

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

1950s

- › After the end of World War II, Crédit Foncier becomes the main distributor of subsidised loans for social housing and plays a major role in post-war reconstruction in France.

1999

- › The French Parliament approves a new status for French savings banks (Caisses d'Épargne).
Crédit Foncier becomes part of Groupe Caisse d'Épargne (GCE) on June 25.
The French Savings and Financial Security Act of June 25, 1999 introduces a new legal framework for *obligations foncières*.
- › **Compagnie de Financement Foncier is created as a “société de crédit foncier” and a wholly-owned subsidiary of Crédit Foncier.**
- › **Inaugural issue of €1.5 billion with a 11-year maturity on November 15, 1999.**

1860s

- › Crédit Foncier becomes the leading lender to local authorities in France.

1984

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

2004

- › Compagnie de Financement Foncier becomes a major player in the European covered bonds market.
- › **Leading French private issuer and leading issuer in France of *obligations foncières*.**

The French Savings and Financial Security Act of June 25, 1999 introduced a new legal framework for *sociétés de crédit foncier* (SCF). Compagnie de Financement Foncier was created as a fully-owned subsidiary of Crédit Foncier and replaced the latter as *société de crédit foncier*. It very quickly acquired a leading position in the *obligations foncières* segment, and in the covered bonds market as a whole where it has become a major global issuer.

Since the very beginning, Compagnie de Financement Foncier has made innovation a focal point of its strategy. By listening to the market and investors needs, it has successfully drawn on the expertise of its teams to offer new investment's solutions.

2005

- › Establishment of an AMTN programme to issue *obligations foncières* in Australian dollars.
- › **Compagnie de Financement Foncier thus enters the Australian domestic market.**

2007

- › Issue of the first "MAPLE", obligation foncière in Canadian dollars under domestic format, and first Namen-format issue in the German domestic market.
- › These issues illustrate Compagnie de Financement Foncier's capacity to develop new issuance formats and highlight the breadth of its investor base.
- › A record year in terms of issuance of *obligations foncières* with €23.5 billion.

2009

- › SEC grants authorization to issue in the new 144A/RegS format in the United States.
- › Compagnie de Financement Foncier thus obtains access to the world's largest domestic investor market.
- › Crédit Foncier de France becomes part of the Groupe BPCE.

2006

- › Launch of the **first 50-year obligations foncières**.
- › This is the first non-sovereign issue with such a long maturity.

2008

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

2010

- › **Inaugural issue of USD 2 billion with a 3-year maturity in 144A/RegS format.**
- › Compagnie de Financement Foncier receives the 2010 "Best Issuer of the Year" award.
- › Issuance in Namen format reaches around €2.4 billion.

Key figures

Issuer information

Issuer

Compagnie de Financement Foncier, part of Groupe BPCE

Parent company

Crédit Foncier de France (100%), fully-owned by BPCE (100%)

Type of bonds issued

Obligations foncières

Issuance programmes

EMTN & AMTN & USMTS

Sole service provider

Crédit Foncier de France (A/Aa3/A+) ⁽¹⁾

⁽¹⁾ Standard & Poor's/Moody's/Fitch Ratings

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

^(**) Ratings updated as of the Reference document's filing date.

Simplified economic balance sheet at December 31, 2010 and December 31, 2009

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

By taking into account the direct and indirect public guarantees on certain outstanding loans also backed by real estate collateral, especially loans secured by the FGAS*, the assets secured by a public guarantee represented €54.05 billion at December 31, 2010, and 52.0% of all assets.

	At Dec. 31, 2010		At Dec. 31, 2009	
	€ bn	% Balance sheet	€ bn	% Balance sheet
Mortgage loans	34.83	33.6%	32.97	33.5%
Mortgage loans and related items	20.73	20.0%	18.66	19.0%
European residential mortgage-backed securities	14.10	13.6%	14.31	14.5%
Public sector exposures	54.05	52.0%	52.62	53.6%
Mortgage loans guaranteed by the French state or a European public institution	10.09	9.7%	10.88	11.1%
French public sector loans	18.79	18.1%	19.09	19.4%
International public sector exposures	25.17	24.2%	22.65	23.1%
Other assets and replacement securities	14.95	14.4%	12.66	12.9%
Replacement securities	11.82	11.4%	9.45	9.6%
Other assets	3.13	3.0%	3.21	3.3%
Total assets	103.83	100.0%	98.25	100.0%

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

	At Dec. 31, 2010		At Dec. 31, 2009	
	€ bn	% Balance sheet	€ bn	% Balance sheet
Privileged resources	89.76	86.5%	83.95	85.4%
<i>Obligations foncières</i>	88.13	84.9%	81.96	83.4%
Other privileged resources	1.63	1.6%	1.99	2.0%
Non-privileged debt	14.07	13.5%	14.3	14.6%
Unsecured debt	8.31	8.0%	8.54	8.7%
Subordinated debt and similar debt	4.12	4.0%	4.18	4.3%
<i>of which redeemable subordinated notes (RSN)</i>	<i>2.10</i>	<i>2.0%</i>	<i>2.10</i>	<i>2.1%</i>
<i>of which participating loans ⁽¹⁾</i>	<i>1.35</i>	<i>1.3%</i>	<i>1.35</i>	<i>1.4%</i>
Shareholder's equity. Provisions and FRBG* ⁽²⁾	1.64	1.6%	1.59	1.5%
Total liabilities	103.83	100.0%	98.25	100.0%
Shareholder's equity and related items ⁽¹⁾⁺⁽²⁾	2.99	2.9%	2.94	3.0%

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

Performance indicators

€17.2 billion

Obligations foncières issued in 2010

€143.2 million

Net income

110.8%

Overcollateralization ratio

62.3%

Average LTV

Outstanding preferred liabilities at December 31, 2010

€90 billion, including €88 billion in obligations foncières

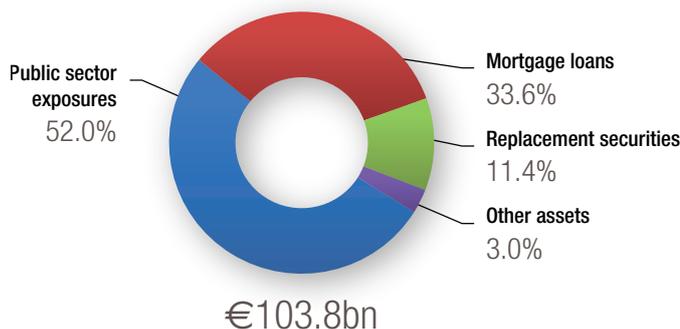
Positioning

Leader in covered bonds market in Europe

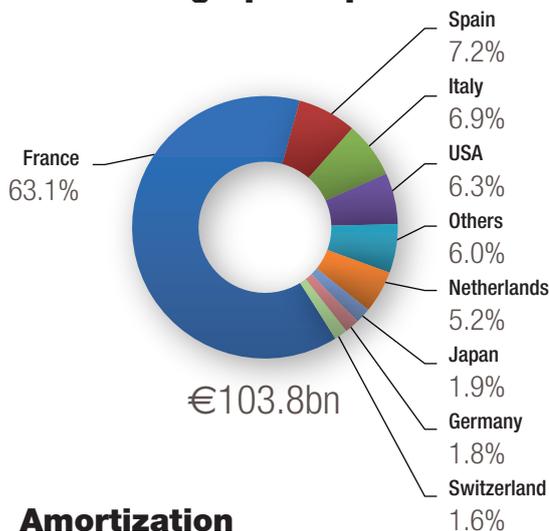
2010 Highlights

- **Inaugural standalone issue of USD 2 billion with a 3-year maturity in 144A/RegS format** launched on April 15, first USD-denominated benchmark-size European covered bond issue in the US domestic market since 2007.
- **Launch of USMTS programme:** inaugural issue of **USD 1.8 billion with a 2-year maturity in 144A/RegS** format on July 13, followed on September 16 by the issue of USD 1.0 billion with a 5-year maturity.
- **€1 billion 10-year issue** launched on October 28.
- Compagnie de Financement Foncier received the Euroweek award for **“Best Issuer of the Year”**. This prize results from a survey realised among professionals of the world of finance.

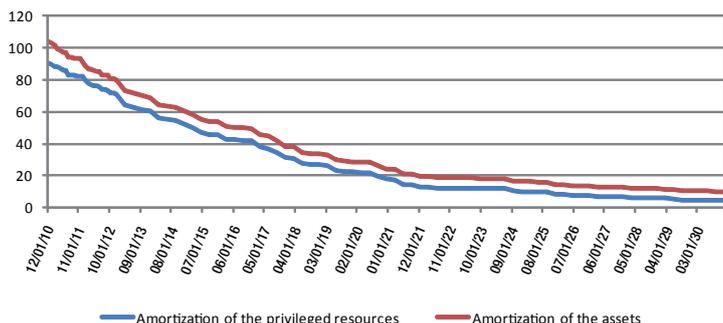
Breakdown by type of assets



Geographic spread



Amortization of assets and privileged resources



A strong, secure
and efficient **business**
model in favour
of investors



Strong business model

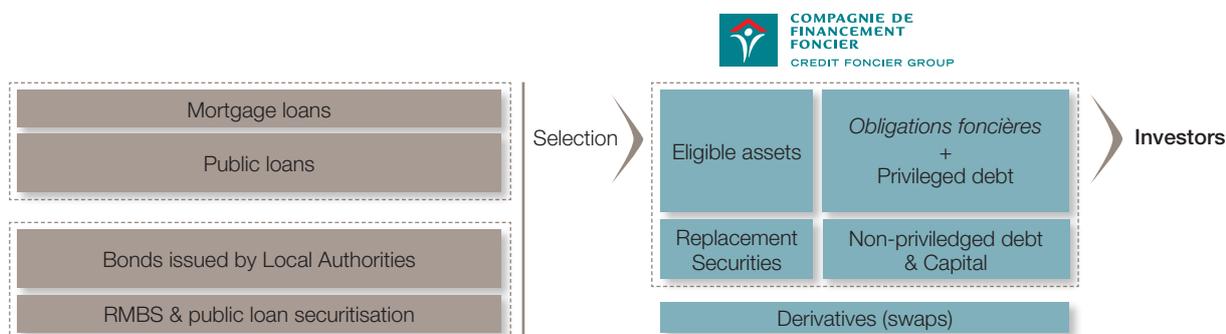
Compagnie de Financement Foncier is a credit institution licensed by the French Credit Institutions and Investment Firms Committee (CECEI) to operate as a *société de crédit foncier* (SCF) [a specific type of company authorised to issue French legal covered bonds] as defined by the French Savings and Financial Security Act no. 99-532 of June 25, 1999, transposed into the French Monetary and Financial Code.

As an SCF, its transactions are specialised and consist exclusively of granting and acquiring loans secured by first-rank mortgages, or granting and acquiring exposures to

public entities or exposures that are fully guaranteed by public entities.

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

All of the covered bonds and other privileged debts that Compagnie de Financement Foncier issues, whether traded on regulated markets or not, provide the holders with a preferential claim.



Recent developments of the legal framework

On October 23, 2010, the French Banking and Financial Regulatory Act was adopted. Recent changes in the legal framework have given a new dimension to the French covered bond market and especially the *obligations foncières* market. This Act is part of major changes in international and European banking and financial regulation, introduced in response to the financial crisis.

The French legal framework governing these debt instruments, is currently being strengthened.

The main points are:

- > 102% minimum overcollateralization ratio;
- > 180-day liquidity buffer to meet the contractual commitments.

This strengthening of the SCF (*société de crédit foncier*) model contributes significantly to attracting investors and ensuring that the ranking of covered bonds is on a par with German *Pfandbriefe* in terms of requirement and quality.

Compagnie de Financement Foncier sees this change in the legal framework as an opportunity to assert further its standing of quality in the eyes of the financial community.

Undertakings

In addition to the legal, financial and institutional safeguards provided by French law, Compagnie de Financement Foncier observes stringent management rules: a rigorous asset selection process and strict asset-liability management rules include an additional safeguard providing for a minimum overcollateralization of 5%.

Since 1999, the strength of its business model and the quality of its assets have earned Compagnie de Financement Foncier an AAA/Aaa/AAA rating as well as the trust of investors, which is evidenced by the strong demand for each of its issues.

Legal safeguards

Summary

Transparency and safety - the French legal framework

A strict legal and regulatory framework that which gives investors maximum protection.

Transparency

- › A dedicated balance sheet and an exclusive purpose
- › Eligible assets are clearly specified and consist exclusively of mortgage loans, loans to local authorities and public-sector exposures

Investor protection

- › The parent company's bankruptcy or court-ordered liquidation cannot be extended to the SCF
- › Investors enjoy a preferential claim:
 - the repayment schedule is maintained in case of difficulty of an SCF; debt repayment is not accelerated,
 - assets must first be used to repay *obligations foncières* and other *senior* debt instruments.
- › Constant overcollateralization
- › Asset and liability interest rates and maturities are matched
- › Affiliation with BPCE also guarantees the latter to ensure that the SCF remains solvent

Clearly defined purpose and operating rules

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

The transposition, in the first half of 2007, of the European Basel II Directive, which defines legal covered bonds, into French law amended the above to improve the legal and financial competitiveness of *société de crédit foncier* in globalized markets, and extended asset eligibility conditions to countries with the highest credit ratings.

The recent changes in the legal framework (102% minimum overcollateralization ratio and 180-day liquidity buffer to meet the contractual commitments) have strengthened the stringent regulatory framework governing *obligations foncières*. It has also bolstered the highest protection afforded to investors.

Purpose

Sociétés de crédit foncier are credit institutions whose exclusive purpose is to grant or acquire guaranteed loans or exposures to public authorities and to finance these loans or exposures by issuing *obligations foncières*.

Article L.515-13 of the French Monetary and Financial Code defines their purpose.

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

- › assets: loans secured by first rank mortgages or by real estate safeties conferring a guarantee at least equivalent, exposures on public persons and replacement values;
- › liabilities: privileged resources among which *obligations foncières* on landed property and non privileged resources among which unsecured debts, subordinate and assimilated debts and stockholders' equities (own capital), reserves and for general banking risks.

Operating rules

Clearly defined selection of assets

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

The following assets are eligible:

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

The procedures and conditions for transferring eligible assets to an SCF are specified in Article L. 515-21 of the Monetary and Financial Code. The recognition of the said assets on the SCF's balance sheet as of the acquisition date is specified in the same article.

The financial transparency of SCFs is thus ensured by:

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

Specific Controller

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

Rules of supervision

Article L. 515-29 of the French Monetary and Financial Code stipulates that the French banking supervisory authority (*Autorité de Contrôle Prudentiel – ACP*) is responsible for ensuring that SCFs comply with obligations incumbent upon them (cf. p21 and 22). General rules of the Financial Market Authority and its control of the EMTN program of the *Compagnie de Financement Foncier* (detailed p21) bring more safety to investors.

Investor protection

Special measures to protect bond investors in case of bankruptcy

Summary

- › Holders of *obligations foncières* are protected by the privileged claim under Article L. 515-19
- › The SCF is protected from its parent's bankruptcy, which cannot be extended to its SCF

Preferential claim to flows stemming from assets

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

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

Obligations foncières' holders are highly protected thanks to their preferential claim to assets cash flows.

Law also precises that if the company is the object of a procedure of receivership, compulsory liquidation or conciliation, holders of *obligations foncières* and preferential debts, as well as the administrator, are privileged creditors. Finally, it specifies that in these cases, there are no changes in the debt's schedule.

Accordingly, debt that is not covered by the preferential claim is only repaid after the *obligations foncières* and other privileged debt have been repaid. To ensure repayment, outstanding eligible assets must always exceed outstanding privileged debt, in accordance with the principle of overcollateralization as defined by Article L. 515-20 French Monetary and Financial Code.

Protection of obligations foncières holders from SCF bankruptcy

Under French law and notwithstanding the provisions of ordinary law, a SCF thus offer the advantage of being totally immune from any risk in the event of the parent company's bankruptcy, while holders of *obligations foncières* are fully protected against any risk in the event of the SCF's bankruptcy administration order, recovery proceedings, or compulsory liquidation pursuant to Article L. 515-19 which defines the privilege claim.

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

In this case, the following rules ensure *obligations foncières* holders full protection in the event of bankruptcy:

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

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

› Continuity of management

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

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

- selling assets,
- assigning receivables,

- issuing new *obligations foncières*,
- issuing non privileged debt.

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

› The Specific Controller

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

› Transfer of the SCF's share : Article L. 515-26 of the French Monetary and Financial Code sends back directly to article L. 613-25 according to which the Prudential Control Authority can seize the court so that is ordered the transfer of shares held by one or several SCF's leaders of law or *de facto* of the SCF.

The privilege claim

Article L. 515-19

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

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

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

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

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

Protection of the SCF against bankruptcy of its parent

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

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

If the ACP or the SCF's management consider that the company's management can no longer be ensured in normal conditions, a change of governance may be decided by two means:

- › by the appointment of a provisional administrator to whom full powers relating to the SCF's administration, management and representation are transferred, in the conditions set forth in Article L. 613-24 of the French Monetary and Financial Code;
- › and, if necessary, on court referral of the Prudential Control Authority, by the transfer of shares held by the management of right or de facto of the SCF in conditions planned in article L. 613-25 of the Monetary and Financial Code.

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

Support from the parent company

Compagnie de Financement Foncier's affiliation with BPCE (the "central body" of Groupe BPCE, which, with 20 Banques Populaires and 17 Caisses d'Epargne, constitutes one of France's largest banking groups), affords additional protection to holders of *obligations foncières* against the risk of issuer bankruptcy. Pursuant to Article L. 511-31 of the Monetary and Financial Code, central bodies are obligated to provide a credit institution affiliate that is in difficulty with all of the support necessary to ensure its solvency.

Article L. 511-31

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

Financial safeguards

Summary

Financial safeguard

A strict legal and regulatory framework which gives investors maximum protection

A secure business with a strictly defined and exclusive purpose

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

Stringent and highly selective rules for asset selection and guarantees

Eligible assets are clearly specified and consist exclusively of mortgage loans, loans to local authorities and public-sector exposures

- › Assets must be secured with a public or equivalent guarantee, or a first-rank mortgage
- › Selection of assets is subject to ongoing controls
- › A margin is applied to the purchase price of assets to ensure a profit in consideration of the cost of funding and management expenses

A secure and highly specific business

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

Financial principles

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

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

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

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

Asset types and guarantees

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

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

- › these assets must meet the statutory requirements for acquisition by SCFs;
- › their acquisition is subject to Compagnie de Financement Foncier's own additional requirements, such as excluding commercial mortgage loans called "corporate";
- › assets are purchased with a margin to ensure that they will be profitable for Compagnie de Financement Foncier, even in a runoff scenario (without new activity).

Guarantees

The quality of Compagnie de Financement Foncier's assets is assured not only through careful selection and loan-to-value limits, but also by their intrinsic characteristics. These assets are secured by either a public or equivalent guarantee, a first rank mortgage or of an equivalent security.

More precisely, these assets include:

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

Asset selection

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

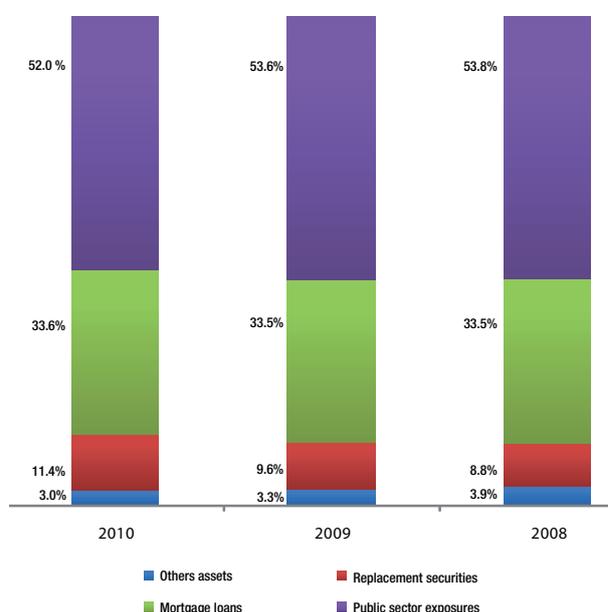
The price that the Compagnie de Financement Foncier pays for its assets is determined on the basis of its cost of funding, default and loss probabilities, management expenses and its targeted return.

Synthesis

Loans with direct or indirect public guarantees make up 52.0% of Compagnie de Financement Foncier's total assets with mortgage-based assets accounting for 33.6%.

Replacement securities (11.4% of assets) are mostly short-term interbank loans of less than six months, which meet criteria that ensure minimal credit risk and high liquidity.

Assets from 2008 to 2010 (€bn)



Management rules applying specifically to SCFs

Overcollateralization rule

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

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

According to this rule, for 2010, assets are weighted as follows:

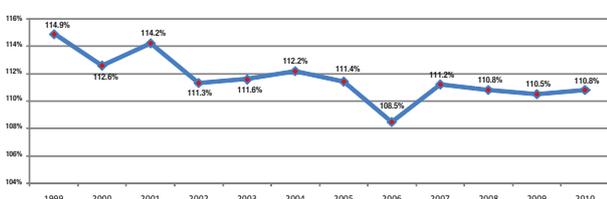
- > 0%, 50%, 100% for guaranteed loans and debt securitization fund (FCT - *Fonds commun de titrisations*) units depending on their rating;
- > 50% for real-estate assets acquired under foreclosure proceedings;
- > 100% for secure and liquid securities;
- > 100% for the other eligible assets.

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

With €1.6 billion in capital, €4.1 billion in subordinated debt and €8.3 billion in unsecured debt, overcollateralization is well above the legal minimum of 100%.

Since the company's formation in 1999, this regulatory ratio has always been above 108%. On December 31, 2010 it was 110.8%.

Overcollateralization since 1999



Since 2009, Compagnie de Financement Foncier has, moreover, made a commitment to investors to maintain, at all times, its ratio of non-preferential resources to preferential resources above 5%. As of December 31st 2010, the ratio amounted 12.8%. In its calculation, the numerator is obtained by subtracting the repurchase agreements and refinancing with ECB (*i.e.* €2.6 billion) from the non privileged liabilities.

ALM Principles

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

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

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

It should also be noted that Compagnie de Financement Foncier always maintains sufficient liquidity to cover one year's worth of contractual repayments on its privileged debt. The asset/liability duration gap is maintained at less than 2 years at any times. As of December 31, 2010, asset duration is 6.2 years, while liability duration is 6.3 years.

LTV principle for residential mortgage loans

The loan-to-value ratio on residential mortgage loans (€34.83 billion at end-2010) is the ratio of the outstanding principal over the value of the underlying real estate. Collateral is revalued annually to monitor compliance with this ratio.

The regulatory annual valuation of underlying assets is based on a prudent assessment of the property's long-term characteristics, local market conditions, the current use of the property and other possible uses. All of this information is provided by Foncier Expertise, Crédit Foncier's wholly-owned, Veritas-certified subsidiary. Their experts, who are either certified by a court or qualified as chartered surveyors (MRICS), conducted nearly 10,000 appraisals in 2010. The Compagnie's Specific Controller monitors these appraisals each year to verify compliance with the real-estate market parameters used in the valuation process, as described in the risk report section of this document.

On the basis of these rules, at December, 31, 2010, the company's LTV ratio on its mortgage portfolio was relatively stable at 62.3% (*vs.* 59.5% in 2009).

Institutional safeguards

Summary

Institutional safeguards

Regulatory controls

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

The Specific Controller's role is to ensure compliance with the applicable regulations

- › Approve overcollateralization
- › Approve issuance programs
- › Validate controls and loan characteristics
- › Monitor ALM compliance in terms of interest rate, liquidity and foreign exchange risk
- › Revalue underlying assets of mortgage loans

Regulatory controls

The French regulatory framework

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

Compliance with this regulation is a key pillar of investment security. Compagnie de Financement Foncier has an internal control system that:

- › is well organized, with clearly defined responsibilities for staff members;
- › ensures:
 - that accounting information is based on high-quality standards, procedures and controls that are regularly audited,
 - the operation of a system for assessing the various types of risk;
- › includes a formal process that is linked to the risk-assessment system, for regularly monitoring risks using a formal methodology (Risk Committee);
- › is well-documented: the primary documents being the procedure manuals and reports submitted to external

control entities and to the decision-making body (Audit Committee and the Board of Directors).

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

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

Consistency between control levels

The amended Regulation 97-02 notably requires:

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

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

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

Risk assessment and monitoring

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

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

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

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

Documentation and information

Credit institutions are required to document the following:

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

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

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

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

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

Outsourced services

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

Compagnie de Financement Foncier outsources all its services to Crédit Foncier, its parent company.

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

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

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

- a) a description of the main actions carried out in relation to internal control, pursuant to Article 6, and the lessons drawn from these actions;
- b) an inventory of enquiries carried out pursuant to section b of Article 6 and the main lessons to be drawn, especially the main shortcomings identified and follow-up on any corrective action taken;
- c) a description of significant changes made in relation to ongoing and periodic controls during the period under review, in particular to take into account changes in the business and risks;
- d) a description of the conditions under which procedures are put in place for new activities;
- e) a section relating to the internal control of foreign branches;
- f) a description of the main initiatives planned in relation to internal control;
- g) an annex listing agreements and transactions concluded with executive directors and major shareholders as defined by Article 6.3. of Regulation No. 90-02 mentioned above;
- h) an up-to-date description of the classification of money laundering and terrorism financing risks, and justification of this classification.

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

CRBF Regulation No. 97-02, as amended
Article 43

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

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

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

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

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

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

This report shall include:

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

Ministerial Order of February 20, 2007, in particular the risk of concentration and residual risk.

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

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

Supervision by the French Prudential Control Authority (ACP)

As authorized credit institutions, *sociétés de crédit foncier* are placed under Prudential Control Authority's.

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

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

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

In addition to this, as an SCF, the Company is required to report to the Prudential Control Authority on the following:

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

This report on these points must be submitted annually to the Prudential Control Authority;

- › the calculation of the coverage ratio, which includes limits on the composition of assets, and the calculation of amounts eligible for refinancing using privileged resources. This report on these informations certified by the Specific Controller must be submitted twice a year to the Prudential Control Authority (Instruction No. 2008-05).

Finally, the Prudential Control Authority must approve the Specific Controller's appointment.

The Autorité des Marchés financiers (AMF) oversight

Directive No. 2003/71 of November 4, 2003, known as the "Prospectus Directive", requires that legal *obligations*

foncières be registered either in the issuer's country or the country where the issuer wishes to list the bonds to be issued.

This "Prospectus Directive" was transposed in French law and Compagnie de Financement Foncier has chosen Paris as the place of registration for its *obligations foncières* issues program.

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

This prospectus is valid for 12 months and must be supplemented with addenda, if, in accordance with Article 16.1 of the Prospectus Directive, "any new material event, mistake or inaccuracy in relation to the information in the prospectus may have a material effect on the valuation of investment securities".

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

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

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

Article 221-1 2° of the AMF General Regulations provides a list of the information that the company is required to disclose "effectively and in full" (Article 221-3 I of the AMF General Regulations). This disclosure consists in filing this information with the AMF and posting it on the issuer's website (www.foncier.fr) as soon as it has been disseminated (Article 221-3 II of the AMF General Regulations).

The AMF

Article L. 621-8-1



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

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

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

The Financial Markets Authority may prohibit the transaction:

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

The Statutory Auditors

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

As a credit institution, Compagnie de Financement Foncier must first have its statutory auditors approved by the Prudential Control Authority.

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

Auditing and certification

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

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

General report

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

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

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

Specific verifications

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

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

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

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

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

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

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

The Specific Controller

The Specific Controller is part of the system that ensures that the highest level of control is exercised over SCFs on behalf of *obligations foncières* holders. The Specific Controller is selected from the official list of Statutory Auditors and is appointed with the approval of the Prudential Control Authority for a 4 year mandate. He is responsible for verifying that operational mechanisms are functioning correctly and for ensuring strict compliance with laws and regulations. To avoid a conflict of interest, the Specific Controller may not be a Statutory Auditor for the group that consolidates the SCF on its balance sheet.

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

- > ensure compliance with all regulations and legislation applicable to SCFs (Articles L. 515-13 to L. 515-33);
- > verify that any assets contributed to *Compagnie de Financement Foncier* are consistent with its business object, as defined in Article L. 515-13 and comply with the provisions of Articles L. 515-14 to L. 515-17;
- > certify documents submitted to Prudential Control Authority, in particular the ratios, regulatory limits and guarantee percentages at June 30, and December 31, of each year;
- > prepare an annual report for executives and deliberative bodies on the results of their assignment, of which a copy must be submitted to Prudential Control Authority.

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

- > assess the quality of the risk management and monitoring procedures that the SCF has implemented;

- › assess the eligibility of the SCF's loans and other assets;
- › ensure that the coverage ratio of eligible assets to privileged resources is sufficient and that the regulatory limits and LTV ratios that apply to privileged refinancing are complied with;
- › certify these ratios, limits and LTV ratios twice a year for the Prudential Control Authority, and issue coverage ratio certificates for quarterly bond issue programs or issues that are equivalent to €500 million or more;
- › assess the procedure for the periodic valuation and review of the assets backing eligible loans, in accordance with CRBF Regulation No. 99-10 as amended by Regulations No. 2001-02 and 2002-02 and then by the Decree of May 7, 2007;
- › verify that the maturities and interest rates of the SCF's assets and liabilities match (Article 12 of CRBF Regulation No. 99-10).

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

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

Responsibility of the Specific Controller and of the Statutory Auditor

The liability of the Specific Controller and Statutory Auditor may be invoked in terms of:

- › civil liability, pursuant to Article L. 515-30 of the French Monetary and Financial Code relating to the Specific Controller and Article L. 822-17 of the French Commercial Code, relating to Statutory Auditors, which specifies that they are liable, to the company and to third parties, for the damages arising from faults or negligence in the performance of their duties;
- › disciplinary breach, in application of Article R. 822-32 of the French Commercial Code as the Specific Controller is registered as an auditor;
- › criminal liability, pursuant to Articles L. 820-6 and L. 820-7 of the French Commercial Code.

The Specific Controller Article L. 515-30



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

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

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

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

The Specific Controller Article L. 515-31



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

Stringent risk management rules and commitments to the market

Monitoring entities supporting governance rules

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

A monitoring structure at the CFF group level

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

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

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

The Audit Committee is in charge of expressing opinions for the attention of the Board of Directors:

- › on the clarity of the supplied information and on the relevance of the book-keeping systems adopted for the establishment of the accounts of the company;
- › on the quality of the internal control, in particular the coherence of the systems of measure, surveillance and control of the risks and to propose, as and whenever necessary additional actions as such.

Committees Specific to Compagnie de Financement Foncier

Compagnie de Financement Foncier has five committees with specific responsibilities.

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

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

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

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

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

Additional, substantial commitments to investors

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

Indeed, over and above the applicable legal requirements, Compagnie de Financement Foncier has set itself rules to maintain overcollateralization above the minimum required ratio, and to minimise the following risks:

- › credit risk, through asset purchasing criteria;
- › counterparty risk, through asymmetrical collateralization agreements;
- › interest rate risk, by systematically hedging variable-rate assets and liabilities;
- › liquidity risk, by maintaining enough cash to meet 12 months of payment of the privileged debt in a runoff scenario.

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

These in-house risk management rules provide extra security for investors benefiting from the preferential claim.

A particularly high and sustainable overcollateralization ratio specific to Compagnie de Financement Foncier

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

This level of overcollateralization corresponds to the minimum legal requirement. At December 31, 2010, Compagnie de Financement Foncier's regulatory overcollateralization ratio was 110.8% (110.5% at December 31, 2009).

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

This level of non-preferential resources protects investors in the company's privileged debt, such as the holders of *obligations foncières*.

As part of its internal rules, two levels of minimum overcollateralization requirement, which are explained below and

based on Compagnie de Financement Foncier's estimation of asset quality and interest rate risk, are regularly calculated. Compagnie de Financement Foncier's first minimum overcollateralization ratio is calculated to cover the credit risk on its assets, while the second ensures that the overall interest rate risk on its balance sheet is covered. The sum of these two ratios must of course meet Compagnie de Financement Foncier minimum overcollateralization commitment of 5%.

Compagnie de Financement Foncier's overcollateralization ratio at December 31, 2010 is 110.8%, and therefore above both of the above minimum levels and the non-privileged resources represents 15.7% of the privileged resources.

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

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

Overcollateralization of credit risk

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

The following overcollateralization ratios are currently applied:

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

Overcollateralization of interest rate risk

The overcollateralization required to cover Compagnie de Financement Foncier's overall interest rate risk depends

on the size of its balance sheet and on its estimated future earnings. It is 0.5% of Compagnie de Financement Foncier's assets, minus the net present value of estimated earnings over the next 10 years.

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

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

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

Continuous monitoring of overcollateralization

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

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

Controlling credit risk

Asset purchasing criteria by category

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

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

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

Limiting counterparty risk

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

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

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

Management of balance sheet risks

Management of interest rate risk

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

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

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

Covering liquidity risk

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

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

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

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

Compagnie de Financement Foncier also limits the duration gap between its assets and its overall liabilities to two years at most. At December 31, 2010, the duration gap was insignificant (asset duration being 6.2 years and liabilities duration being 6.3 years).

No currency risk

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

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

High quality

and diversified assets



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

A rigorous asset selection process

A proven selection process

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

Compagnie de Financement Foncier's observes a rigorous and prudent asset acquisition process.

If the quality of the regular manner eligible assets confers it a high level of security, Compagnie de financement foncier also implements in the form of purchase's filters, additional limitations limiting its exposure at the risk of credit and use in support of the internal tools of notation appropriate for the analyzed type of exposures.

It has thus built up a top quality portfolio of assets that are diversified both geographically and by type of counterparty. Compagnie de Financement Foncier refrains in particular to buy debts on commercial real estate.

Compagnie de Financement Foncier selects the assets that it wishes to acquire based on their rating, probability of default and their score at origination.

The selected assets are acquired by Compagnie de Financement Foncier based on their market price and hedged against interest rate risk. This acquisition filter ensures that Compagnie de Financement Foncier's financing policy is independent from the commercial policies of Crédit Foncier de France and of the other assignors: some assets, even though eligible, are rejected by Compagnie de Financement Foncier.

Public authority exposures

Nature of exposures

The public sector accounts for 52.0% of total exposures, with mortgage loans and replacement securities accounting for the remainder.

French public loans and securities

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

- › national government;
- › regions;
- › departments;
- › municipalities;
- › local government groups:
 - associations of local authorities, communities of town, urban communities, associations of municipalities,
 - health public institutions, national public institutions,
 - local public institutions (public construction, public bodies of development, social housing environment).

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

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

International public loans and securities

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

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

Process of acquisition

Eligible international assets are selected in compliance with Compagnie de Financement Foncier's internal rules, which are subject to the approval of the executive bodies.

To comply with the best risk-management practice of the new Basel II regulations, Crédit Foncier uses internal tools to rate international public sector assets in order to integrate the best practices proposed by these new standards in risks. The associated credit risk rating models were completed in 2008, in collaboration with Crédit Foncier's Risk department, the Risk department of Groupe BPCE and the credit rating agency Standard and Poor's.

Crédit Foncier currently uses three models to determine default risk:

- › Groupe BPCE's model used for the French public sector;
- › one intern model used for international local authorities outside the United States;
- › one specific intern model used for U.S. local authorities.

In France, Crédit Foncier assesses the quality and potential risk of exposure to a French public entity during the loan approval process. Subsequently, in line with its policy of acquiring only risk-free assets, Compagnie de Financement Foncier purchases only the most highly-rated fixed-rate or variable-rate public sector exposures with the lowest potential risk.

Residential mortgage loans

Nature of exposures

Residential mortgage loans

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

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

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

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

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

Residential mortgage loan securitisation tranches

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

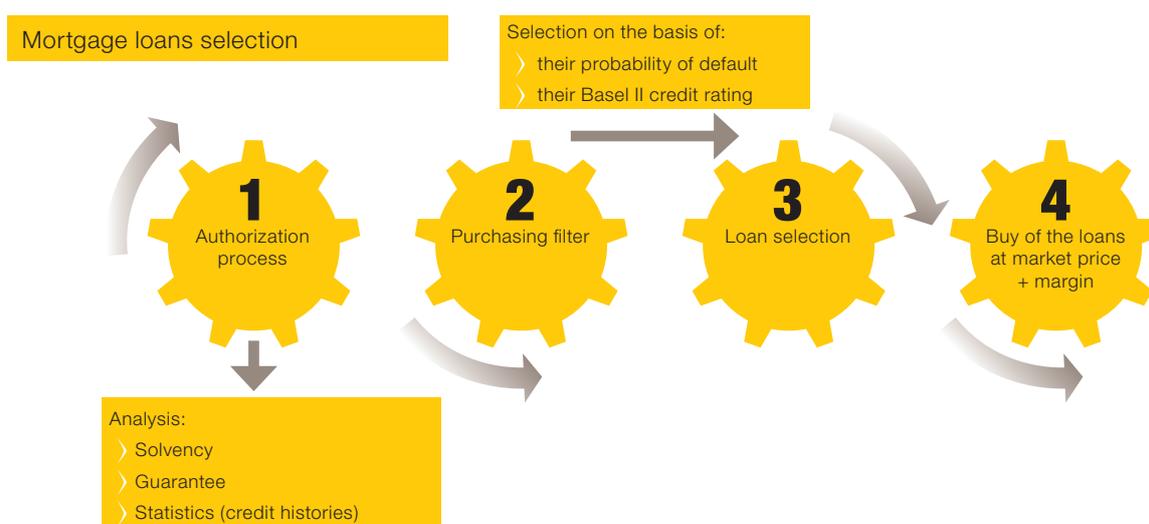
Process of acquisition

Mortgage loans are selected in two steps.

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

Compagnie de Financement Foncier then uses its own tool to score residential mortgage loans.

This tool is used to score residential mortgage loans and select those whose probability of default is below a certain threshold.



Public-sector exposures

In France

Market

2010 was characterised by a decline in local authorities' investments, mainly due to the uncertainty arising from the financial crisis and changes in local resources (abolition of *Taxe Professionnelle* [French local business tax] and introduction of *Contribution économique territoriale*) - created in 2010 to replace *Taxe Professionnelle* - as well as an increase in operational cash flows.

In the second half of 2010, the European sovereign debt crisis and its effect on liquidity had a noticeable impact on financial institutions' responses to local authorities' banking calls for tender. The demand of financing in 2010 thus decreased in a market marked by a rise in prices of financing, reflection of the difficulties connected to the liquidity.

Outstandings

Compagnie de Financement Foncier's portfolio amounted €18.79 billion at December 31, 2010.

International Public Sector

Market

The business of international public sector financing consists of providing foreign public authorities (governments, local authorities and public institutions) with financing solutions. This business involves the acquisition of bonds issued by public-sector or similar entities and the granting of finance to foreign local authorities by granting loans or subscribing to bond issues.

Highlights in 2010 for the international public sector business were:

› questioning of the creditworthiness of certain European countries (PIIGS: Portugal, Italy, Ireland, Greece and Spain),

Compagnie de Financement Foncier's general management decided to close its limits on these countries in 2010;

› eurozone governments' implementing the European Financial Stability Facility (EFSF), an unprecedented €750 billion facility providing financial assistance to eurozone states in economic difficulty.

With access to the markets restricted by high credit margin volatility, programmes for the financing of public investments, the "shock absorbers" of the crisis, were penalised, being downsized, postponed or even cancelled in an environment of economic deterioration.

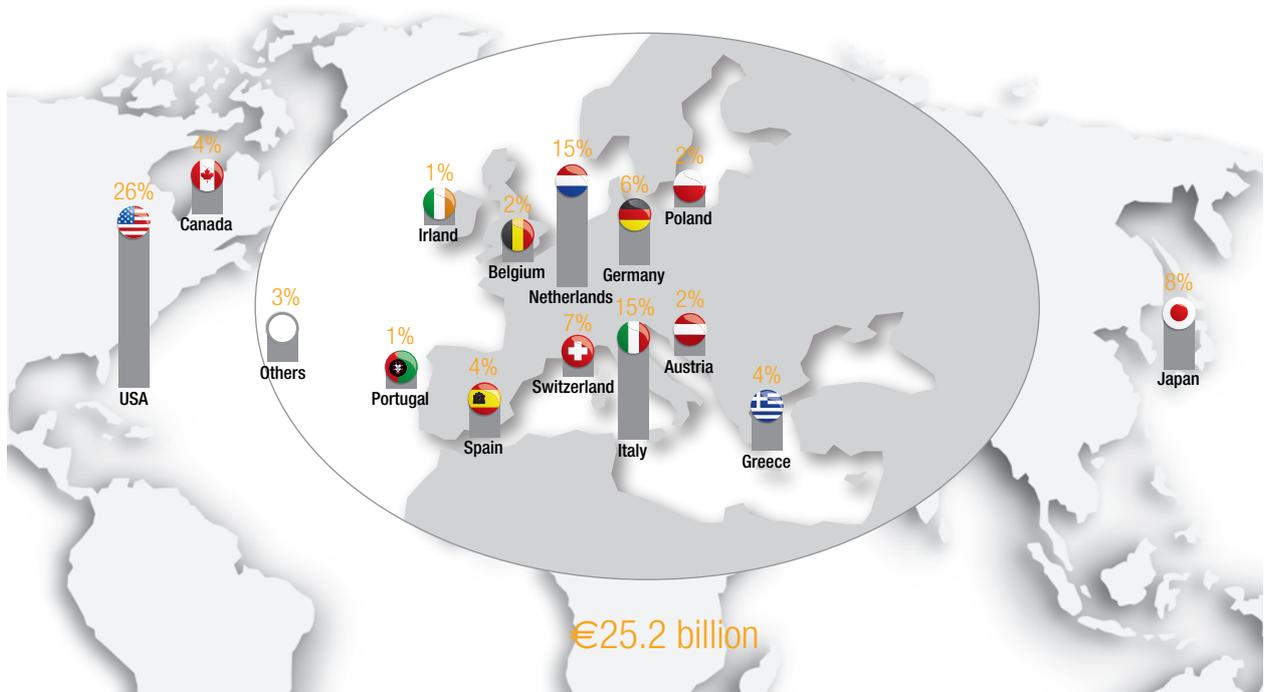
As regards the US municipal bond market, 2010 was marked by a strong rise in "taxable" bond issues (open to foreign investors). Since the Build America Bonds (BAB) programme was established, with the purpose of enabling public borrowers to obtain cheaper financing on the financial markets, thanks to a "tax gift" offered to investors despite the crisis, \$180 billion of securities have been issued, that is, four times more than the standard GO taxable issues of previous years. Furthermore, these BABs have substantially increased the market open to non-resident investors. The programme was not however extended by the new House of Representatives at the end of 2010, a decision which will lead to a substantial shortfall in income for issuers in respect of their 2011 issue programme and, for international investors, a future drop in volume of eligible securities issues.

Outstandings

At the end of 2010, outstanding exposures from Compagnie de Financement Foncier's International Pubic Sector totalled €25.2 billion. Crédit Foncier diversified its portfolio

by entering new markets (Czech Republic, Slovakia, Slovenia and Cyprus), countries which now offer satisfactory expansion opportunities given the restrictions and objectives of the business, notably in terms of risk quality.

Breakdown of assets by country



Residential mortgage loans

Summary

These loans enter the Compagnie de Financement Foncier's balance sheet:

- > In France, by acquisition or by refinancing beside Crédit Foncier
 - > Internationally, under the shape of *senior* tranches of RMBS rated AAA by two rating agencies, exclusively in the prime sector in Europe
- In both cases, Compagnie de Financement Foncier acquires only residential loans and does not acquire any type of commercial property loans.

France

Market

The French residential loan market performed well in 2010 in terms of risk regarding the other European markets. This was due to the relatively low level of household indebtedness in France, which stood at 72% compared with 92% for the euro zone as a whole*.

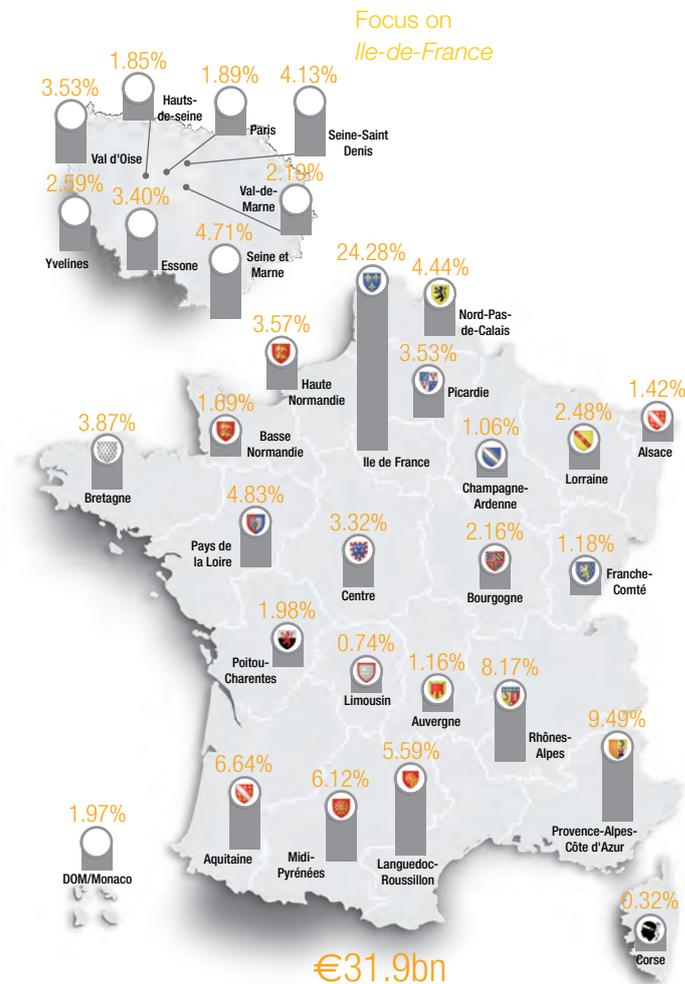
It should also be noted that lending criteria remained cautious in France, unlike countries that had experienced strong property market booms. The loan granting decision process is based on the borrower's repayment capacity; the value of the property being financed is not the key lending criteria. Also, the lending establishment benefits from additional means of recourse against borrowers beyond the mortgage guarantee, such as garnishment of wages, which is not the case in the United States for example.

Outstanding

The loans acquired or refinanced by Compagnie de Financement Foncier are managed by Crédit Foncier under an agreement signed between the two entities.

At December 31, 2010, Compagnie de Financement Foncier's mortgage loan portfolio in France amounted to €31.9 billion. The geographic breakdown reflected the respective economic importance of the various regions:

Region breakdown of French residential loans ongoings: €31.9bn



* source : OCDE

International

Market

Conditions in 2010 differed from one country to another in the main markets in which Compagnie de Financement Foncier has exposures:

- › Spain: The Spanish economy is still suffering the aftermath of the property market bubble (the low point is expected for 2012), with consequences for both growth and unemployment. Mortgage borrowers' payment default rates nonetheless improved, thanks in particular to the substantial fall in interest rates.
- › Italy: The Italian banking sector, traditionally more conservative and less reliant on the capital markets for refinancing, did not benefit from the same level of government support as the banking sectors of other European countries. Default rates, which had been rising since 2007, stabilised in 2010 thanks in particular to low indebtedness of Italian households and the absence of any property market bubble.
- › Netherlands: the Netherlands stands out for its low unemployment rate (4.4% compared with the European average of 9.6%) and for one of the lowest mortgage default rates in Europe.

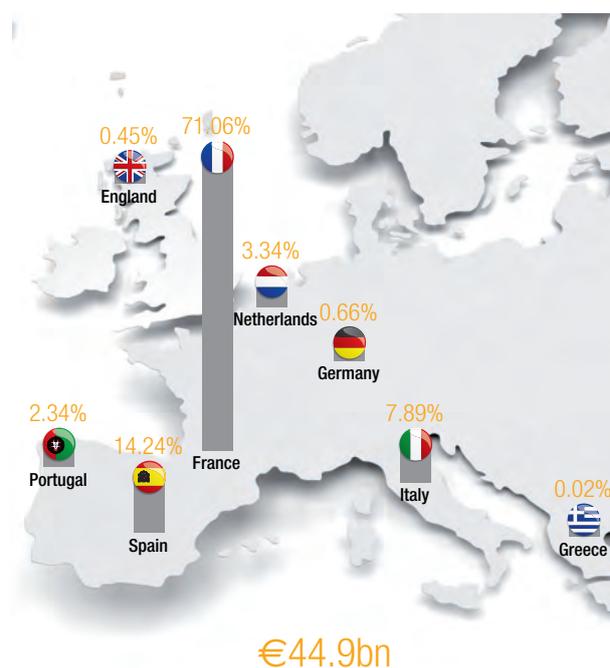
The assignment method used is securitisation, which is often the most secure method of transferring a portfolio in legal and tax terms. Compagnie de Financement Foncier always has the most senior position in the capital structure which very substantially limits the credit risk compared with directly holding the portfolio of underlying loans. Even if the investment vehicle is a bond, the strategy is to hold the bond right out to maturity, in the same way as if the loans were directly held. The quality of transactions is monitored very regularly using stress tests based on borrower default rates, the potential loss of value of the property and trends in early repayment rates. These tests show that the portfolios can withstand, without losses, falls in property prices that are two to three times higher than what could be born by a directly held portfolio of loans. In none of these countries, not even Spain which is currently experiencing a severe property market crisis, the current or forecast economic parameters are close to levels that could generate losses on the portfolio.

Outstanding

The mortgage outstanding is about €44.9 billion. International mortgage exposure represents less than 30% of Compagnie de Financement Foncier's total portfolio.

Compagnie de Financement Foncier's residential loan exposures in Europe break down as follows:

Geographic breakdown of residential loans ongoings



Outstanding at 12/31/2010

A successful and recognized
obligations foncières
program



Market and context

The global market for covered bonds is dominated by European issuers, which have historically been the leaders in this market, unlike the situation in the United States where a comprehensive legal framework would be necessary for a covered bond market to emerge. At December 31, 2010, the covered bond market was worth nearly €2,300 billion.

Benchmark issues (issues of more than €1 billion) came to €151.5 billion in 2010, that is, an increase of 27% compared with 2009. France is the world's leading issuer of covered bonds, accounting for 30% of the year's benchmark issues (€45.3 billion), ahead of Spain and Germany (€22.3 billion and €16.9 billion respectively).

2010 saw the widening of sovereign debt spreads with a particularly pronounced gap opening up between Greece, Ireland and Portugal on the one hand and Germany and France on the other. Countries on which the greatest worries of insolvency focused saw their refinancing rates rocket, as State bond issue spreads are strongly correlated with sovereign debt risk.

In spite of these volatilities, volumes remained substantial in 2010. The covered bonds purchase programme set up by Eurosystem ended in the first half of the year. This program of purchase, set up in May, 2009, will have allowed, in the end, the purchase of more than €30 billion of covered bonds by the European Central Bank in 2010.

In the second half of 2010, issuers' fears, as to the possible negative impact on the market of the end of this programme, proved to be unfounded. Demand from banks, investment funds as well as central banks and insurance companies buoyed the market and helped maintain a high issue volume throughout the year. The second half also saw the success of issues of longer maturities' bonds, in great demand by investors seeking higher yields.

The growth in the US covered bonds market in 2010 offered certain European issuers an alternative outlet, providing them with the required liquidity for the realisation of their issue programmes. In this respect, European issuers have followed Canadian issuers, who were the first who realised the potential of the local American market. The 144A format gives them access to the local/domestic American market. They therefore boosted the number of USD 144A-format issues throughout the year.

The leader in the French *obligations foncières* market

In this covered bonds market, which remained buoyant despite the difficult conditions, Compagnie de Financement Foncier tailored its offer, confirming its leadership position in *obligations foncières* market. The company showed its ability to answer specific needs of investors, notably with its launch of the USMTS programme, which enabled it to issue domestic 144A-format bonds denominated in dollars, so attracting new American investors. Compagnie de Financement Foncier has thus carried on diversifying its currencies offer.

So, alongside the traditional German and French investors, who still represent the core group (53%), we now find British, Swiss and American investors, who are keen to subscribe to AAA issues, such as those of Compagnie de Financement Foncier.

At December 31, 2010, Compagnie de Financement Foncier issued €17.2 billion of *obligations foncières*, which is an increase of nearly 9% compared to 2009. Compagnie de Financement Foncier's issues account for 38% of the French market and the company remained the world's leading issuer of covered mortgage bonds in 2010, with 30% of the market.

Confirming its optimised investment strategy, Compagnie de Financement Foncier's 2010 issue programme was made up of €11.92 billion of public issues (69% of the total) and €5.31 billion of private placements (31%).

Public issues

In public format, Compagnie de Financement Foncier made four euro-denominated benchmark with:

- › on January 25, a €2bn issue with 3 year maturity;
- › on April 16, a €1bn issue with 5 year maturity;
- › on June 24, a €600 million issue with 15 year maturity, one of the longest maturity benchmark issue;
- › on October 28, a €1bn issue with 10 year maturity.

On the Swiss market, new CHF-denominated issues, supplemented by additional issuance under existing lines, brought the total issuance up to CHF 1.2 billion, which makes Compagnie de Financement Foncier the leader of the Swiss covered bond market, with a 51% market share.

Compagnie de Financement Foncier also completed three benchmark issues denominated in dollars in the domestic 144A/RegS format:

- > on April 15, a \$2 billion issue with a 3 year maturity;
- > on July 13, two issues amounting \$1.8 billion with a 2 year maturity;
- > on September 16, a \$1 billion issue with a 5 year maturity.

The total amount for benchmark issues denominated in dollars is \$4.8 billion. It allows Compagnie de Financement foncier to continue the building of a dollar curve and placing the company alongside the market leaders, with a volume accounting for 18% of all 2010 dollar denominated covered bond issues.

Private placements

In a private placement market where issue volumes and spreads remained relatively stable and where spreads significantly tightened, Compagnie de Financement Foncier succeeded in tailoring its offer to an increasingly well-defined demand from investors, so consolidating its market share.

In response to specific demand from investors, Compagnie de Financement Foncier issued €5.31 billion of private-format securities, a significant increase on 2009.

In 2010, the presence of German investors remained high, accounting for nearly 65% of private placement volumes. These investors particularly liked the Registered Covered Bonds (RCB) format, which has been developed by Compagnie de Financement Foncier since 2007.

Investor Relations

The active promotion of the Compagnie de Financement Foncier's signature made by Crédit Foncier's specialized teams strongly contributed to the diversification of its investors base. These teams have increased meetings focused on certain contacts and the representation during movements abroad: more than 20 road-shows of duration averages of 5

days, participation at 25 conferences between professionals of the finance and the organization of events all year long. It is so more than 200 investors who were met in 2010 during 50 meetings.

Direct consequence of this efficient campaign: new investors in particular from Scandinavia, Eastern Europe, Taiwan and Japan have subscribed to Compagnie de Financement Foncier's issues. This fact strengthened the geographical and sector-based variety of the investor base.

Best Covered Bond Issuer of 2010 award

All Compagnie de Financement Foncier's work as well as the ability of its teams to innovate was recognised by its receiving the *Best Covered Bond Issuer of 2010* award from Euroweek-The Cover.

The recipient of the award was chosen by a jury comprising finance professionals: investors, rating agencies, banks and financial market professionals.

Awarded by the magazine Euroweek, this prize highlights Compagnie de Financement Foncier's constant leadership on capital markets along with its relevant market approach on foreign currencies since its establishment in 1999.

A programme tailored to investor demand

In private placement, 2010 stood out for the strong contraction in spreads and strong demand from German investors.

Against this background, Compagnie de Financement Foncier drew on its flexibility and adaptability to meet investor.

Lastly, with a view to innovating and diversifying its offer, Compagnie de Financement Foncier continued to develop its issuing activity in registered covered bonds under German law.

Going beyond merely implementing a programme suited to investors' needs, Compagnie de Financement Foncier also pursued its proactive marketing approach. Direct contacts with investors were therefore stepped up in parallel with the more traditional promotional methods, such as roadshows and conferences.

The company's Japanese, North American and Swiss representative offices contribute to its international repute.

2011 Perspectives

The global covered bonds market is likely to continue growing in 2011 thanks to new issuers and the arrival of new potential investors looking for AAA-rated investments.

In Germany in particular, redemption of numerous covered bonds lines that will reach maturity, will bring down the total amount of outstanding German *Pfandbriefe* in 2011. This can be expected to trigger strong demand from investors looking for top-quality signatures, among which Compagnie de Financement Foncier figures at the top of the list. To meet this demand, it will continue its tailored offering throughout the year.

However, the covered bonds market could be perturbed by renewed uncertainties about sovereign risk in Europe. The ability of issuers and governments to reassure investors as to their solvency will therefore be a key factor in 2011.

The second run of stress tests scheduled by the European Central Bank during the first half of the year will also be a significant factor for banks in their attempts to regain investors' confidence. New tests will once again examine the impact that severe economic and financial conditions could have on the banks.

2011 will also feature the start of work linked to the liquidity ratios introduced by Basel III and Solvency II.

The next application by banks of liquidity ratios introduced by Basel III (Liquidity Coverage Ratio - LCR, and Net Stable Funding Ratio - NSFR) and consequences issued from the Solvency II European reform applicable to insurance companies should normally lead to reduce the weight of conventional senior debt in investors's balance sheet and therefore boost demand for covered bonds in 2011, which will mean opportunities for Compagnie de Financement Foncier.

These new regulatory aspects (Basel III and Solvency II) will boost banks' and insurers' interest for strong credit quality and therefore in *obligations foncières* offered by Compagnie de Financement Foncier, which intends to continue adapting its offer to the demands of these investors so as to bolster its market leadership.

Compagnie de Financement Foncier intends to further expand its investor base in the United States, a very wide

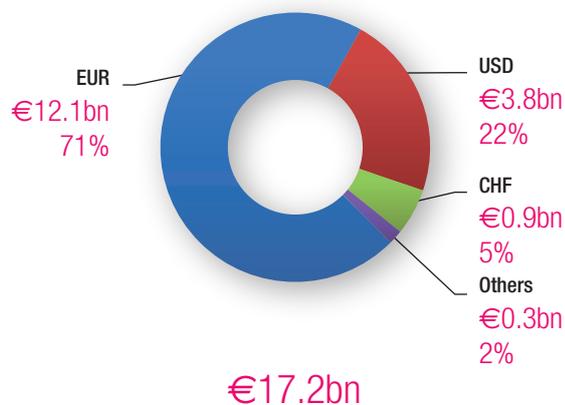
market, with issues scheduled in 144A format in the context of its USMTS programme.

Compagnie de Financement Foncier will continue to lean on those market main features to continue to build its US dollar curve. The US market will surely continue to attract European issuers as it enables them to diversify their investor bases.

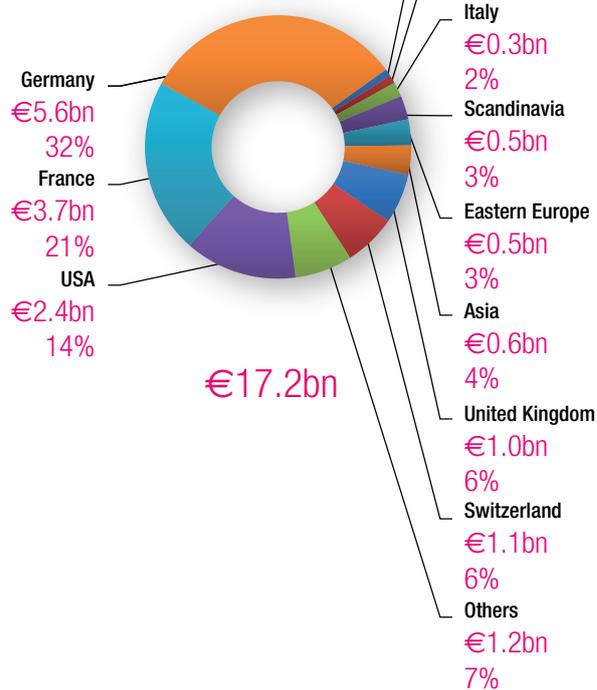
Lastly, Compagnie de Financement Foncier is studying the possibility of further diversifying its investor base in 2011 with new issues, particularly in British pounds, Japanese yens, Australian dollars or Norwegian kroner and by adopting a very active marketing approach in these countries. These new development paths will expand Compagnie de Financement Foncier's offer and will enable it to reach new investors, who are showing strong demand for domestic formats.

Breakdown of issuance in 2010

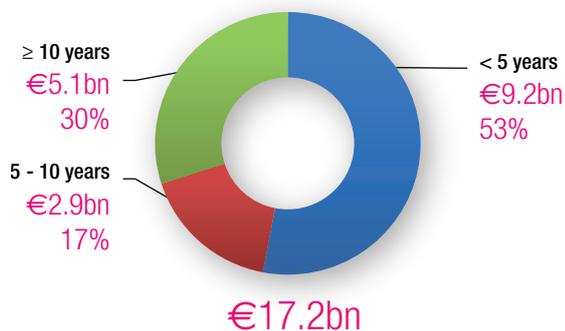
by currency



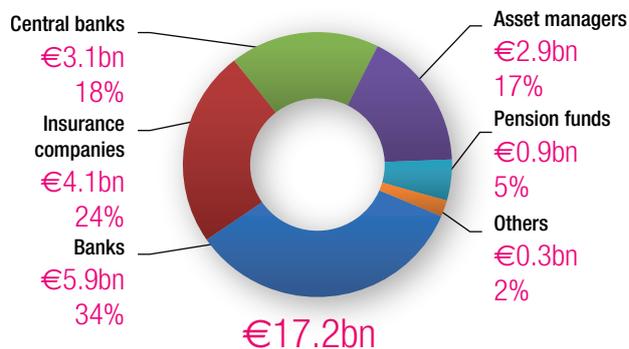
by nationality



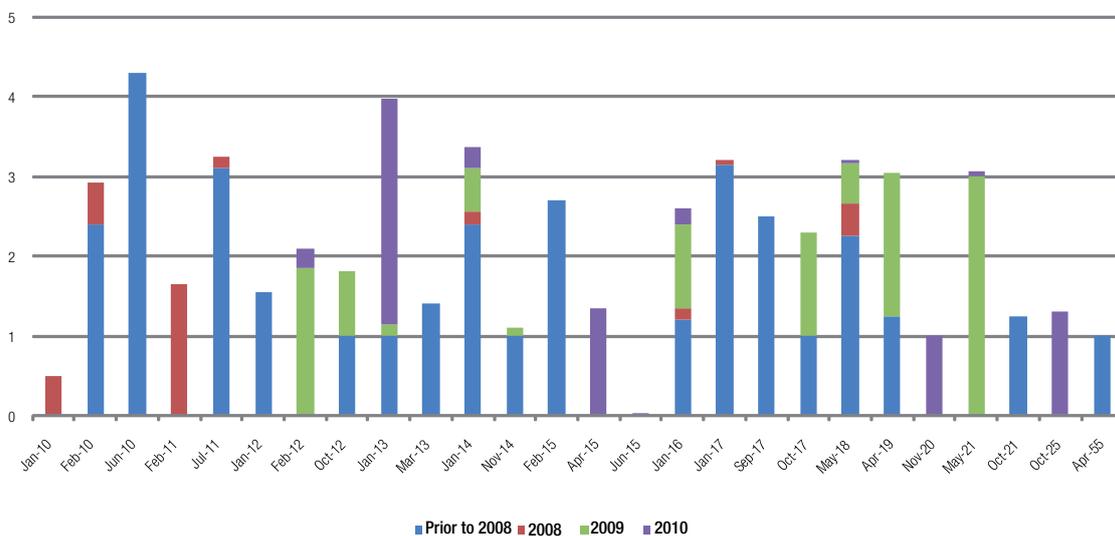
by maturity

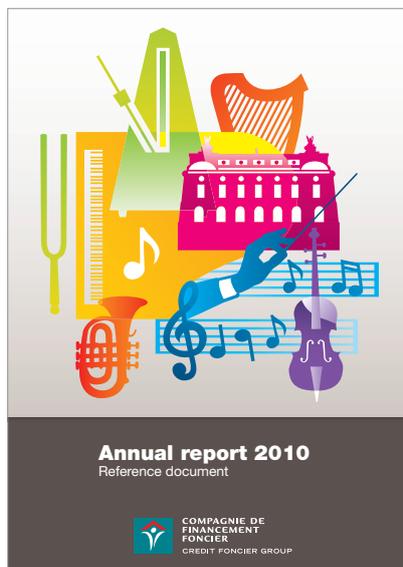


by investor type



Euro bond issue schedule (€bn)





Design, creation, production:

LES ÉDITIONS DE L'ÉPARGNE

Illustrations: Studio Impresarios/Caroline Matter
Photos Credit: Arnaud Février



This annual report was printed on partially-recycled paper using vegetable-based inks.
The paper is fabricated at an ISO 14001 certified site and the printing press is certified by Imprim'Vert. The entire report can be recycled.



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Annual report 2010

Reference document



COMPAGNIE DE
FINANCEMENT
FONCIER

CREDIT FONCIER GROUP

The Compagnie de Financement Foncier 2010 Reference document comprises three separate volumes:

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

This is a free translation into English of Compagnie de Financement Foncier 2010 annual report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails.

Only the French version of the Registration document has been submitted to the AMF. It is therefore the only version that is binding in law.

The original document was filed with the *Autorité des marchés financiers* (French Financial Market's Authority) on April 1st, 2011, in accordance with Article 212-13 of its general regulation and registered under the number D.11-0214 and represents the French "Document de référence" of the Compagnie de Financement Foncier. As such, it may be used in support of a financial transaction when accompanied by a prospectus duly approved by the AMF. It was prepared by the Issuer and its signatories assume responsibility for it.

Volume **2**

Summary

› **Management report 2010**

- 03 Analysis of assets
- 06 Analysis of liabilities
- 09 Prudential ratios
- 10 Analysis of net income
- 13 Credit risk analysis
- 18 Analysis of interest rate and foreign exchange risks
- 20 Liquidity risk analysis
- 20 Outlook
- 21 Notes to the management report

› **Financial statements**

- 33 Balance sheet
- 34 Off-balance sheet
- 35 Income statement
- 36 Notes to the financial statements of Compagnie de Financement Foncier
- 79 Statutory auditors' report on the financial statements
- 81 Details of the calculation of the overcollateralization ratio as of 12/31/2010
- 84 Details regarding calculation of liquidity eligible for refinancing

› **Statement from the person who assumes responsibility for the reference document**

- 86 Statement from the person who assumes responsibility for the reference document

Management

report 2010



Against a still difficult economic background in 2010, with the recovery that began in 2009 hampered by the sovereign debt crisis in a number of European countries, Compagnie de Financement Foncier continued to grow while implementing a strict asset acquisition policy and maintaining the liquidity needed to service its debt.

In keeping with the traditional composition of its balance sheet, acquisitions related mainly to residential mortgage loans for €5.7 billion and exposures to public entities for €4.1 billion, of which €6.6 billion in France and €3.2 billion abroad.

Compagnie de Financement Foncier's status as a *société de crédit foncier* (French real property company) and compliance with its additional commitments in terms of financial management and risk control gained it confirmation of the top credit quality ratings (AAA/Aaa/AAAA) assigned to it by the three main independent rating agencies for the totality of its privileged debt, comprising €17.2 billion of *obligations foncières* issued in 2010.

This resulted in an increase in balance sheet assets, from €98.2 billion at end-2009 to €103.8 billion at end-2010. Net income for the period came to €143 million.

Analysis of assets

Transactions in 2010

Acquisitions of mortgage loans

In 2010, Compagnie de Financement Foncier purchased retail mortgage loans issued by Crédit Foncier, at a pace of one transaction per month, for a total of €6.1 billion, corresponding to total outstandings of €6.4 billion taking into account funds not yet released at the balance sheet date.

Of these loans, €1.5 billion concerned low-income first-time homebuyer loans with a french State guarantee through FGAS (*Fonds de garantie de l'accession sociale à la propriété*) and €0.4 billion concerned interest-free loans. Almost four-fifths of the loans purchased enabled the borrowers to become homeowners, with rental property accounting for only one-fifth of the portfolio acquired in 2010.

Part of these loans, which were previously held through mortgage notes, are now directly held by Compagnie de Financement Foncier. Mortgage notes backed by first-ranking mortgage loans or equivalent collateral subscribed from Crédit Foncier therefore decreased by €2.1 billion during the year, amounting to €7.0 billion at December 31, 2010.

In 2010, Compagnie de Financement Foncier also acquired a portfolio of loans to individuals amounting in France to €0.3 billion from a credit institution outside the Groupe BPCE.

Compagnie de Financement Foncier also acquires mortgage debt outside France by purchasing preferred units of securitisation funds. In 2010, it purchased €1.1 billion of debt on the secondary market, either to complete existing lines or to invest in new funds. The property financed by the securitised loans is located in the Netherlands (€0.5 billion), Italy (€0.4 billion), the United Kingdom (€0.2 billion) and, in a very marginal amount, in Portugal.

Public sector financing

Public sector financing concerned French entities for €2.0 billion and foreign entities for €2.1 billion.

The loans to French local authorities are initially granted by Crédit Foncier with Caisse d'Epargne and then transferred to secure loans granted by Compagnie de Financement Foncier to its parent in application of Article L.211-38 of the French Monetary and Financial Code.

Outside France, the financing is granted directly by Compagnie de Financement Foncier, which subscribed or purchased debt securities in an amount of €2 billion in 2010 and, more marginally, loan produces amounting to €0.1 billion in 2010. Bonds issued by US local authorities and securitisation units guaranteed by the US government amounted to €1.0 billion, while the balance was composed mainly of European sovereign bonds.

Cash transactions

Compagnie de Financement Foncier managed its short term liquidity needs by taking advantage of the refinancing opportunities offered by the European Central Bank (ECB). Compagnie de Financement Foncier took part in refinancing operations in amounts of between €2 billion and €4 billion during the year. At end-2010, central bank refinancing amounted to €2 billion.

In addition, replacement securities representing cash investments and consisting mainly of loans with maturities of less than six months, increased by €2.4 billion during the year. The portion of these investments secured by a portfolio of loans used as guarantee also increased.

Regulatory changes

Furthermore it should be noted that since January 1, 2010, Compagnie de Financement Foncier applies CRC Regulation No. 2009-03 on accounting fees and expenses related to the granting or acquisition of a bank lending facility and recognizes deferred taxes. These changes in accounting policies are detailed in the notes to financial statements.

Changes in assets

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

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

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

- › loans purchased or originated by the company, in accordance with Articles L. 515-14 and L. 515-15;
- › *senior* units of securitisation funds or similar entities whose underlying assets include at least 90% of loans of the same nature as the ones authorised by law for loans held directly by the company under Article L. 515-16;
- › debt securities issued or guaranteed by public authorities in compliance with Article L. 515-15;
- › promissory notes backed by first-ranking mortgages or secured loans that comply with Article L. 515-16-1.

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

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

In addition, 7% of the pure mortgage loans portfolio is covered against credit risk by an indirect financial guarantee from a European public body.

Breakdown of assets by guarantee category

	as of December 31, 2010		as of December 31, 2009		as of December 31, 2008	
	€ million	% balance sheet	€ million	% balance sheet	€ million	% balance sheet
Secured loans - Articles L. 515-14 and 16	44,909	43.3%	43,841	44.6%	43,574	45.4%
State-subsidised mortgage loans	698	0.7%	957	1.0%	1,251	1.3%
Mortgage loans guaranteed by the FGAS	8,365	8.1%	7,320	7.5%	6,713	7.0%
Other mortgage loans	14,522	14.0%	11,693	11.9%	10,262	10.7%
Senior mortgage-backed securitisation tranches	14,104	13.6%	14,310	14.6%	15,666	16.3%
Other loans with real estate guarantee	243	0.2%	516	0.5%	584	0.6%
Mortgage notes	6,976	6.7%	9,046	9.2%	9,097	9.5%
Exposures to public authorities - Articles L. 515-15 and 16	43,964	42.3%	41,741	42.5%	40,225	41.9%
State-subsidised public loans	224	0.2%	253	0.3%	285	0.3%
Other public loans	20,394	19.6%	20,077	20.4%	21,217	22.1%
Public entity securities	15,750	15.2%	13,946	14.2%	11,139	11.6%
Securitisation units of public debt	7,596	7.3%	7,465	7.6%	7,584	7.9%
Other assets (interest on IFAT, adjustment accounts, goodwill, etc.)	3,135	3.0%	3,209	3.3%	3,718	3.9%
Replacement securities - Article L. 515-17	11,820	11.4%	9,454	9.6%	8,425	8.8%
Total assets	103,827	100.0%	98,245	100.0%	95,943	100.0%

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

› the balance between residential mortgage and public sector assets was maintained with a €1.1 billion increase in secured loans and a €2.2 billion increase in public sector exposure.

If additional sovereign guarantees, mainly French State guarantees for loans to the subsidised sector and loans guaranteed by the FGAS, are taken into account exposure to the public sector remains higher than exposure to the mortgage market.

Exposure to public entities accounted for 51% of the balance sheet at end-2010 compared with 34% for the mortgage loan portfolio, stable during the year.

Including debt with an indirect guarantee from another European state, public sector debt totalled €54.1 billion at end-December 2010, *i.e.* 52% of total assets;

› a strong €2.1 billion decrease in mortgage notes with a corresponding increase in mortgage loans. Part of the loans backing notes that fulfilled Compagnie de Financement Foncier's acquisition criteria were purchased directly;

› a €1.0 billion increase in first-time homebuyer loans guaranteed by FGAS;

› with regard to the public sector, the increase concerned mainly securities (€1.8 billion) and reflected international activity;

› the run-off subsidised sector portfolio continued to decline, dropping to €0.9 billion at end-2010 compared with €1.2 billion at end-2009;

› a €2.4 billion increase in replacement securities which for the most part represent financing with a maturity of less than six months extended to Crédit Foncier, a large part of which is secured by a portfolio of loans in application of Article L. 211-38 of the French Monetary and Financial Code.

The diversification in terms of type of guarantee attached to the assets (first-rate mortgage loans, counterparties consisting of government bodies, public entities and local authorities) is reflected at geographic level. More than one-third of the assets,

corresponding to a total of €38.3 billion at December 31, 2010, are located outside France. The weight of international assets has remained stable over the past few years (36.9% in 2010, 36.5% in 2009 and 36.2% in 2008).

The geographic breakdown changed slightly in 2010, reflecting the acquisitions during the year, which focused mainly on the United States, and the natural amortisation of RMBS securitisation funds in Spain and Italy.

At the end of 2010, the main positions by country remained unchanged, with debt outside France breaking down as follows by order of importance:

- › Spain (€7.5 billion) and Italy (€7.2 billion), each representing around 7% of total assets;
- › United States (€6.6 billion) and the Netherlands (€5.4 billion) representing between 5% and 6% of total assets;
- › Japan (€2.0 billion), Germany (€1.9 billion), Switzerland (€1.7 billion), Portugal (€1.3 billion), Greece (€1.1 billion) and Canada (€0.9 billion), with amounts representing between 0.9% and 2.0% of total assets;
- › lastly, in smaller amounts, 12 other European countries with financing amounting to less than or close to €0.5 billion.

Analysis of liabilities

Transactions in 2010

Despite the difficult conditions in 2010 linked to growing fiscal deficits, sluggish growth and the sovereign debt crisis, Compagnie de Financement Foncier confirmed its leading position among secured debt issuers.

This was reflected in two major achievements:

- › issuance of €17.2 billion in *obligations foncières* during the year,
- › three major USD issues in the US home market for a total amount of \$4.8 billion with two, three and five-year maturities, following the SEC authorisation obtained at the end of 2009.

Issuance remained robust in 2010, with Compagnie de Financement Foncier drawing on all the possibilities open to it in terms of:

- › currency:

71% of issues were denominated in euro, 22% in US dollars and 6% in Swiss francs. It also raised capital in Norwegian kroner for the first time;

- › format:

public issues accounted for 69% of issuance during the year, *i.e.* €11.9 billion; as well as three issues in US dollars, Compagnie de Financement Foncier added four new lines to its euro benchmark curve: a three-year €2 billion issue in January, a five-year €1 billion issue in April, a 15-year €0.6 billion issue in June and a 10-year €1 billion issue in October. Private issues totalled €5.3 billion, featuring in particular the issuance of €2.4 billion in registered covered bonds in the German home market;

- › duration:

the average maturity of issues in 2010 was around 7 years. Maturities were longer for the private issues at 11.5 years (or 9.1 years assuming the repayment option granted on certain lines is exercised) versus 5.6 years for the public issues;

- › Investor base:

german investors ranked first in 2010 with 32% of total issuance volumes and banks subscribed to more than half the programme, with in particular a return of Asian central banks.

Nine of these transactions required approval by the Specific Controller, whose duties include examining any issue of more than €0.5 billion to verify its impact on the prudential ratios.

Apart from raising capital on the markets through the issue of *obligations foncières*, Compagnie de Financement Foncier carried out few other transactions in 2010. These consisted mainly of:

- › refinancing operations carried out with the ECB throughout the year for amounts ranging between €2 billion and €3 billion;

› the transfer to reserves (mainly as earnings carried forward) of income for 2009 amounting to €175.5 million and payment of an interim dividend of €94.5 million decided in December 2010.

Changes in liabilities

Under the regulations governing *sociétés de crédit foncier*, Compagnie de Financement Foncier's liabilities can be divided into two main classes:

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

Breakdown of liabilities by guarantee rank

	as of December 31, 2010		as of December 31, 2009		as of December 31, 2008	
	€ million	% balance sheet	€ million	% balance sheet	€ million	% balance sheet
Privileged resources	89,762	86.5%	83,946	85.4%	83,399	86.9%
<i>Obligations foncières</i>	88,128	84.9%	81,957	83.4%	79,960	83.3%
Other privileged resources	1,633	1.6%	1,989	2.0%	3,439	3.6%
Non-privileged resources	14,065	13.5%	14,299	14.6%	12,544	13.1%
Unsecured debt	8,308	8.0%	8,537	8.7%	6,905	7.2%
Subordinated debt and similar debt	4,116	4.0%	4,176	4.3%	4,224	4.4%
of which redeemable subordinated notes (RSN)	2,100	2.0%	2,100	2.1%	2,100	2.2%
of which participating loans	1,350	1.3%	1,350	1.4%	1,350	1.4%
Shareholders' equity, provisions and FRBG	1,641	1.6%	1,586	1.6%	1,415	1.5%
Total liabilities	103,827	100.0%	98,245	100.0%	95,943	100.0%
Shareholders equity and related items	2,991	2.9%	2,936	3.0%	2,765	2.9%

The breakdown of liabilities changed little during 2010: privileged debt accounted for nearly 87% of total liabilities while non-privileged debt accounted for a little over 13%.

Despite the significant volume of new issues in 2010, the outstanding of *obligations foncières* slightly increased, up from €82 billion to €88 billion due to substantial repayments during the year. In 2010, bonds totalling nearly €12 billion matured, with in particular €3.9 billion maturing in February and €4.4 billion in June. More marginally, the exercise by investors of the early repayment option granted on some lines also reduced liabilities by €0.5 billion.

The amount of non-privileged debt remained stable during the year, totalling €14.1 billion at end-2010 compared with €14.3 billion at the end of the previous year. The various movements in non-privileged debt offset each other, the main ones being:

- › a decrease of €1 billion in assets deposited with the ECB, at December 31, 2010 €2 billion was financed at three months;
- › an increase of €0.5 billion in deposits received by counterparties on swap transactions;
- › a €55 million increase in shareholders' equity and provisions resulting from the transfer to reserves of income for 2009, the impact of which was nonetheless limited by the fall in income in 2010 and payment of an interim dividend.

Out of the privileged debt, 24 euro lines and four US dollar lines are particularly liquid due to their size of over 1 billion euro or dollars at origin and thanks to the market-making agreement signed with over 20 banks to organise their Eurobonds secondary market. These bonds, which totalled €52.9 billion at December 31, 2010, represent the benchmark yield curves in euro and US dollars of Compagnie de Financement Foncier's secured debt.

Main issues by maturity

Bonds in EUR	ISIN code	Currency	Maturity date	Outstanding issued in M€
CFF 3.875% February 2011	FR0010582312	EUR	02/11/2011	1,650
CFF 4% July 2011	FR0010101824	EUR	07/21/2011	3,250
CFF 3.625% January 2012	FR0010379248	EUR	01/16/2012	1,550
CFF 2% February 2012	FR0010821298	EUR	02/17/2012	2,100
CFF 4% October 2012	FR0010422600	EUR	10/25/2012	1,820
CFF 4.50% January 2013	FR0010526988	EUR	01/09/2013	1,230
CFF 2.25% January 2013	FR0010849117	EUR	01/25/2013	2,750
CFF 5.375% March 2013	FR0000485724	EUR	03/02/2013	1,400
CFF 4.25% January 2014	FR0010039149	EUR	01/29/2014	3,370
CFF 4.375% Nov. 2014	FR0010541946	EUR	11/19/2014	1,100
CFF 6.125% February 2015	FR0000499113	EUR	02/23/2015	1,500
CFF 2.625% April 2015	FR0010885871	EUR	04/16/2015	1,350
CFF 4.75% June 2015	FR0010489831	EUR	06/25/2015	1,235
CFF 3.375% January 2016	FR0010271148	EUR	01/18/2016	2,595
CFF 3.75% January 2017	FR0010157297	EUR	01/24/2017	3,200
CFF 4.625% Sept. 2017	FR0010532762	EUR	09/23/2017	2,500
CFF 4.125% October 2017	FR0010422618	EUR	10/25/2017	2,305
CFF 4.50% May 2018	FR0000474652	EUR	05/16/2018	3,205
CFF 4.375% April 2019	FR0010464321	EUR	04/25/2019	3,045
CFF 3.50% Nov. 2020	FR0010960070	EUR	11/05/2020	1,000
CFF 4.875% May 2021	FR0010758599	EUR	05/25/2021	3,065
CFF 5.75% October 2021	FR0000487225	EUR	10/04/2021	1,250
CFF 4% October 2025	FR0010913749	EUR	10/24/2025	1,300
CFF 3.875% April 2055	FR0010292169	EUR	04/25/2055	1,000
Bonds in USD	ISIN code	Currency	Maturity date	Outstanding issued in \$M
CFF 1.625% July 2012	XS0527923550 / US20428AAA79	USD	07/23/2012	1,500
CFF 2.125% April 2013	XS0504189449 / US204279AA18	USD	04/22/2013	2,000
CFF 2.5% September 2015	XS0542722862 / US20428AAC36	USD	09/16/2015	1,000
CFF 5.625% June 2017	FR0010485185	USD	06/19/2017	1,000

Payable to suppliers

Furthermore, it should be noted that the Compagnie de Financement Foncier complies with the regulation on payment to suppliers, according to regulation LME of August 4, 2008 which settles the payment of suppliers within the maximum period of 45 days end of month or 60 days from the date of issue of invoice.

The majority of the handling of Compagnie de Financement Foncier is outsourced to the Credit Foncier, and billed by

the latter. At December 31, 2010, others suppliers debts represent non-significative amounts with due-dates generally all less than 30 days.

Prudential ratios

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

The ratios provided in this report correspond to the regulatory requirements that apply for the 2010 financial year. The legal and regulatory framework governing the activities of *sociétés de crédit foncier* was recently strengthened with the creation of a new housing finance company status (*société de financement à l'habitat*, in application of the French Banking and Financial Regulatory Act of October 22, 2010, decrees of February 23 and March 4, 2011) which will become applicable as from 2011. At the same time, the method of calculating the coverage ratio has been revised and some asset holding limits have been tightened.

First of all, Compagnie de Financement Foncier measures the coverage ratio which corresponds to the ratio of risk-weighted assets to privileged debt and must at all times exceed 100%. From January 1, 2011, it has to be more than 102%. Risk-weighting reduces the value of some assets that do not provide an optimum level of security. This is the case for securitisation units and guaranteed loans rated lower than step-1 credit quality. Securities or loans pledged with the ECB or placed under repurchase agreements with other credit institutions and the portion of loans whose loan-to-value exceeds the regulatory making them eligible threshold for financing by privileged debt are also deducted from the assets.

At December 31, 2010, after these deductions, the assets retained for coverage purposes amounted to €99.4 billion out of a total of €103.8 billion; taking into account total privileged debt amounting to €89.8 billion, the coverage ratio stood at 110.8% at end-2010. It has consistently remained well above the regulatory requirement of 100% for many years. In 2009 it stood at 110.5%.

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

At December 31, 2010, this ratio stood at 12.8%, very far above the minimum committed to by the company.

In its calculation, the numerator is obtained by subtracting the repurchase agreements and refinancing with ECG (*i.e.* €2.6bn) from the non-privileged liabilities.

Compagnie de Financement Foncier also checks compliance with the limits on holdings of certain assets. At December 31, 2010:

- > guaranteed loans accounted for 1.6% of assets (after taking into account the guaranteed outstanding as collateral mortgage notes), very far below the 35% regulatory limit;
- > mortgage notes accounted for 6.7% of assets, well below the 10% limit;
- > replacement securities were equivalent to 11.8% of the nominal value of privileged resources and therefore below the 15% limit.

Lastly, the regulations require that the amount not eligible for refinancing by privileged resources be compared with the amount of non-privileged liabilities, which must always be higher. The aim is to determine the portion of the loan, mortgage or guaranteed loan in excess of the loan-to-value (LTV) limit of 80% for residential mortgage loans, 100% for loans with an FGAS guarantee and 60% for all other loans. These percentages, calculated by dividing the value of the collateral by the principal still outstanding, are determined after the annual revaluation of the collateral required under the regulations.

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

At December 31, 2010, loans for which a loan-to-value overrun was observed amounted to €277.5 million, of which €18.2 million on securitisation units, €39 million on pledged loans and €221 million relating to directly held loans. This amount remains very far below total non-privileged debt which amounted to €14,065 million and could therefore finance it without difficulty. At the end of 2009, the LTV overrun amounted to €471 million compared with non-privileged resources totalling €14,299 million.

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

The ratio of the value of pledged assets to outstanding principal stood at 62.3% at end-2010, up slightly compared with 59.5% at end-December 2009, reflecting mainly the impact of recent loans acquired in 2010 to replace older loans whose LTV ratio had already decreased over time in line with amortisation of the loans. The reappraisal of property values in 2010 had very little impact on the value of pledged property, which increased by an average of 0.4% with contrasting trends between Paris and *Ile-de-France*, where property values rose by 5.5%, and the rest of France where rural property fell by 1.4% and urban property by 0.5%. The valuation methods and reappraisal procedures and results for 2010 are described in more detail in the risk management report are validated by the Specific Controller.

The outstanding loans used as the basis for this calculation amounted to around €24 billion at end-2010. In addition to real-estate collateral, part of this portfolio benefits from a French government guarantee. This guarantee concerned the subsidised loans and those guaranteed by FGAS, corresponding to a total of more than €9 billion. Of the remaining portfolio almost €1 billion is indirectly guaranteed by another European state.

Furthermore, Compagnie de Financement Foncier kept liquidity ratios well above the minimum requirements set by banking regulations throughout 2010 due to its commitment to maintain enough liquid assets to cover a period of one year. The other prudential ratios applicable to credit institutions are monitored by Crédit Foncier at consolidated level.

Analysis of net income

Net banking income

Net banking income came to €314 million in 2010 compared with €362 million the previous year.

For proper analysis of the profitability of Compagnie de Financement Foncier's operations, these amounts need to be restated for non-recurring elements, which were particularly significant in 2009.

In July 2009 a non-recurring gain of €92.2 million had been recorded on a debt restructuring operation carried out at an investor's request.

The two management transactions carried out in 2010 had a far smaller impact on income:

- › restructuring of hedging instruments entered into with a banking counterparty to improve the risk profile: this resulted in a gain of €90.2 million but as this gain related to micro-hedging swaps, recognition of the cancellation balance is spread over the residual term of the contracts. Therefore, only €0.5 million was recognised in 2010;
- › cancellation of the hedging arrangements entered into with CIFG for some securities. As these transactions no longer offered any real protection of the hedged assets, Compagnie de Financement Foncier decided to terminate the agreement before term. CIFG paid indemnities for breach of contract and in parallel Compagnie de Financement Foncier had to recognise as a loss for the period the remaining credit enhancement premiums still to be spread over the life of the hedged assets. The final impact was a net loss of €12.4 million.

Restated for these non-recurring elements, the ordinary margin grew strongly, up from €270 million in 2009 to €326 million in 2010. This increase reflects two positive trends: growth in the loan portfolio and a higher net margin on recently acquired loans as the tensions in the credit market over the past few years have pushed interest spreads wider depending on the product.

Excluding interest income, the changes in net banking income during the period concerned mainly:

- › a rise in prepayment indemnities on loans recognised under commissions (€44.5 million in 2010 versus €21.9 million in 2009). Part of this income is retroceded to Crédit Foncier, amounting to €12.0 million and €6.2 million;
- › a provision of nearly €7.2 million to cover the fall in the market value of two lines, respectively rated AAA/Aa1/AAA and AAA/Aaa/AAA. In 2009, a net writeback of €1.6 million had been recorded on this portfolio;
- › foreign exchange gains of €1.3 million on zero coupon lines, arising from differences between the amortisation profile of the micro-hedging swap and that of the hedged asset. A loss of €0.2 million had been recorded in 2009.

Interest expense includes interest on subordinated debt which came to €66.2 million in 2010 compared with €87.8 million in 2009. This change solely reflects the fall during the year in the money market rates used as the reference for interest paid. The outstanding amount remained unchanged in 2010 at €3.5 billion and the participating loan, which remained unchanged at €1,350 million, once again reached its ceiling rate, *i.e.* 2.5 points above the TAM * for the period. For these very long term (30 and 33 years) subordinated resources provided by Crédit Foncier, the portion of interest corresponding to remuneration paid in excess of the money market rates came to €44.3 million in 2010.

Net banking income also takes into account the cost of credit risk hedges entered into with Crédit Foncier in respect of some assets, consisting of a repurchase guarantee in respect of certain securitisation units in the event of a severe rating downgrade and to a credit risk hedge on around €1 billion of mortgage loans whose risk, beyond a certain threshold, was indirectly transferred to an AAA-rated European public entity. An expense of €1.9 million was recorded in this respect in 2010.

Gross operating income

Gross operating income moved in line with net banking income in 2010, at €217 million compared with €262 million in 2009.

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

The subsidised sector portfolio, which is being run off, recorded a corresponding decrease in management expenses, which fell from €13.7 million in 2009 to €10.2 million in 2010 in line with the decrease in interest income recorded in net banking income. Management fees paid in respect of the competitive sector remained stable, at €55.6 million in 2010 versus €56.6 million in 2009.

Amortisation expense corresponds exclusively to the amortisation of goodwill arising from the difference between the fair market value and the net carrying amount of the items transferred to Compagnie de Financement Foncier in October 1999. The amortisation period for this goodwill was set at the time of the transfer and scheduled to end in June 2009. A final amortisation charge of €2.5 million was therefore recognized in 2009. There has been no change in this item in 2010.

Cost of risk

The cost of risk came to €3.3 million in 2010, still very low relative to the size of Compagnie de Financement Foncier's loan portfolio. It amounted to €4.1 million in 2009.

The cost of risk comprises various elements:

- › allowance to provisions and impairment of €8.2 million, relating in particular to a €1 million collective provision for retail

* TAM (*Taux annuel monétaire*): a French floating benchmark rate calculated by annualising the latest twelve monthly overnight average rates

loans and a Neiertz provision of €1.3 million;

- › reversals of provisions and impairment amounting to €5 million;
- › total losses amounting to €2.1 million, of which €0.2 million was covered by impairment provisions;
- › gains amounting to €1.8 million on amortised loans.

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

In 2010, an expense of €0.9 million for net losses and allowances to provisions was charged to net banking income compared with a charge of €1.7 million in 2009.

The overall cost of risk on capital and interest therefore came to €4.2 million in 2010 and is analysed in greater detail in the section on credit risk.

Pre-tax income from ordinary activities

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

Pre-tax income from ordinary activities came to €217 million in 2010 compared with €258 million the previous year.

After adding back the €44.3 million interest-rate mark-up paid to Crédit Foncier on subordinated debt, gross income for the year came to €261 million. This amount should be set against the potential risk attaching to the assets held, which can be estimated as the value of doubtful loans not guaranteed by the French state (*i.e.* excluding subsidised loans and loans guaranteed by FGAS) net of provisions and impairment, which amounted to €213 million. The income from ordinary activities for the year therefore covers the entire potential risk, without calling on other guarantees such as shareholders' equity (excluding provisions) of €1,632 million, subordinated debt amounting to €4,116 million and other non-privileged resources totalling €8,309 million.

Net income

With a view to convergence with international financial reporting standards (IFRS) and to improve the quality of its financial disclosure, Compagnie de Financement Foncier has opted to account for deferred taxes.

This option has been enforced for all of the deferred taxes resulting from temporary differences in the individual accounts. For the full-year 2010, this option conducted to a €28.6mn deferred taxes revenue, mainly due to the restructuring of hedging instruments mentioned in the net banking income note. The income tax was thus €73.6mn.

After taking into account tax, net income came to €143 million in 2010, in keeping with the company's activities and earnings targets. This result corresponds indeed to a return on equity of 9%.

Credit risk analysis

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

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

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

Overall analysis

The main risk indicators for Compagnie de Financement Foncier's core business portfolio, comprising loans to the competitive sector and securities and securitisation tranches, remained well under control in 2010.

Analysis of the competitive sector

	2010				2009			
	Outstanding loans (€ million)	Doubtful loans (€ million)	Doubtful loans (%)	Risk (basis points)	Outstanding loans (€ million)	Doubtful loans (€ million)	Doubtful loans (%)	Risk (basis points)
Loans to individuals and related <i>(of which securitisation tranches and mortgage notes)</i>	43,478 <i>(21,080)</i>	411	0.9%	0.9	41,769 <i>(23,355)</i>	328	0.8%	1.5
Exposures on public entities <i>(of which securities and securitisation tranches)</i>	41,964 <i>(23,346)</i>	6			39,886 <i>(21,412)</i>	5		
Loans to social housing	2,511	6	0.2%	0.8	2,708	7	0.2%	-0.8
Loans to commercial property	14	2	14.9%	56.1	26	2	7.9%	-102.1
Total	87,968	425	0.5%	0.5	84,388	342	0.4%	0.7

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

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

- › doubtful loan ratio of 0.9% on a portfolio of €43 billion;
- › 0.9 basis point of risk charge.

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

Loans and similar items

Credit risk on the loan portfolio is measured by analysing the changes in doubtful loans and the related provisions and impairment allowances. The loan portfolio held directly by Compagnie de Financement Foncier totalled €44.5 billion at December 31, 2010, to which can be added €7.0 billion in mortgage notes. The analysis therefore concerns a total portfolio of €51.4 billion, 49.6% of total assets.

Analysis of loans and similar items

(in millions of euros)

December 31, 2010	Outstanding loans	Percentage of total outstanding loans	of which doubtful loans	Doubtful loans (%)	of which compromised doubtful	Compromised doubtful (%)	Provisions
Subsidised sector (run-off)	922.9	1.8%	62.4	6.8%			0.1
Competitive sector	50,517.7	98.2%	425.0	0.8%	60.7	0.1%	25.3
Loans to individuals and mortgage notes	29,374.1	57.1%	410.8	1.4%	56.4	0.2%	22.8
<i>of which mortgage notes</i>	<i>6,975.9</i>	<i>13.6%</i>					
<i>of which loans guaranteed by FGAS</i>	<i>8,364.7</i>	<i>16.3%</i>	<i>186.7</i>	<i>2.2%</i>			
<i>of which other mortgage loans</i>	<i>14,033.5</i>	<i>27.3%</i>	<i>224.1</i>	<i>1.6%</i>	<i>56.4</i>	<i>0.4%</i>	<i>22.8</i>
Loans to public authorities	18,618.6	36.2%	5.9				0.1
Loans to social housing	2,511.1	4.9%	6.2	0.2%	2.3	0.1%	1.2
Loans to commercial property (run-off)	13.9		2.1	14.9%	2.0	14.0%	1.2
Total	51,440.6	100.0 %	487.4	0.9%	60.7	0.1%	25.4

December 31, 2009	Outstanding loans	Percentage of total outstanding loans	of which doubtful loans	Doubtful loans (%)	of which compromised doubtful	Compromised doubtful (%)	Provisions
Subsidised sector (run-off)	1,209.7	2.4%	68.9	5.7%			0.1
Competitive sector	48,667.0	97.6%	341.8	0.7%	36.5	0.1%	21.6
Loans to individuals and mortgage notes	27,459.1	55.1%	328.0	1.2%	33.3	0.1%	19.2
<i>of which mortgage notes</i>	<i>9,046.0</i>	<i>18.1%</i>					
<i>of which loans guaranteed by FGAS</i>	<i>7,319.6</i>	<i>14.7%</i>	<i>163.4</i>	<i>2.2%</i>			
<i>of which other mortgage loans</i>	<i>11,093.6</i>	<i>22.2%</i>	<i>164.6</i>	<i>1.5%</i>	<i>33.3</i>	<i>0.3%</i>	<i>19.2</i>
Loans to public authorities	18,474.1	37.0%	5.2				0.1
Loans to social housing	2,708.2	5.4%	6.6	0.2%	1.7	0.1%	1.1
Loans to commercial property (run-off)	25.6	0.1%	2.0	7.9%	1.5	5.8%	1.1
Total	49,876.7	100.0%	410.8	0.8%	36.5	0.1%	21.7

Outstanding loans increased by €1.9 billion in 2010, reflecting growth in loans to individuals in the competitive sector. An increase in doubtful loans and consequently in provisions was also recorded for this segment.

Doubtful loans for the unsubsidised retail segment increased from €328 million to €411 million, mainly during the first half. They nonetheless continued to represent a very small percentage of total loans, 1.4% at end-2010 versus 1.2% at end-2009.

In the retail loans portfolio, the largest potential risk for Compagnie de Financement Foncier relates to loans that do not benefit from a double guarantee, corresponding to a total of €14 billion excluding the loans covered by FGAS and therefore the French State and the mortgage notes subscribed from Crédit Foncier. Although this category is more risky, the doubtful loan ratio remained virtually unchanged at 1.6% at the end of 2010 versus 1.5% at the end of the previous year. Provisions in respect of this portfolio increased in line with the growth in outstanding loans, with total provisions and impairment amounting to €22.8 million at the end of 2010 versus €19.2 million at the end of 2009.

Credit risk on public sector loans, Compagnie de Financement Foncier's second core business, continued to be negligible with €5.9 million of doubtful loans out of a total portfolio of €18.6 billion at the end of 2010.

The percentage of doubtful loans in the low-income housing loan portfolio, comprised of mortgage loans and/or loans guaranteed by a public entity, was in between the levels recorded for the two preceding categories. The doubtful loan ratio remained particularly low in 2010 at 0.2%, with doubtful loans amounting to €6.2 million, of which a large part had already been provisioned.

Commercial property loans, which relate mainly to the portfolio transferred to Compagnie de Financement Foncier on its creation in 1999 and with regard to which no loan has been acquired since 2001, are structurally declining with a residual portfolio of only €14 million at December 31, 2010. The doubtful loan ratio seems relatively high when expressed as a percentage, as the portfolio is being run off, but the potential risk amounted to only €2 million at end-2010, of which more than half was covered by provisions.

For the loan portfolio as a whole, compromised doubtful loans increased in 2010, rising to €61 million or 12% of total doubtful loans compared with 9% at the end of 2009. This increase is essentially due to a change in identification process of those outstanding amounts and to the accounting of 2009 compromised doubtful loans which were amounting more than previous years. Compromised doubtful loans are concentrated in the portfolio of loans to individuals, where they represent 0.2% of the total portfolio.

In terms of impact on Compagnie de Financement Foncier's results, the risk arising on these assets is recognised in cost of risk with respect to capital and in net banking income with respect to interest. For 2010, the overall risk charge remained very low at €4.2 million, resulting for €3.3 million from risk on capital and for €0.9 million from loss of interest on doubtful loans. In 2009, the risk charge had amounted to €5.9 million, which is still very small when set against a loan portfolio of almost €50 billion.

The expense for 2010 was comprised of:

- > €3.7 million of net allowances for provisions and impairment;
- > €1.9 million of losses not covered by impairment provisions and €0.5 million of losses covered by provisions;
- > €1.8 million of gains on amortised debt.

It was split between an individual risk charge amounting to €1.0 million and a net allowance to provisions of €2.3 million in respect of loans to individuals, of which €1.3 million in respect of Neiertz provisions.

Analysis of the risk charge

	December 31, 2010			December 31, 2009		
	Outstanding loans (€ million)	Risk charge (€ million)	Risk charge (basis points)	Outstanding loans (€ million)	Risk charge (€ million)	Risk charge (basis points)
Subsidised sector (run-off)	922.9	0.03	0.3	1,209.7	0.14	1.2
Competitive sector	50,517.7	4.18	0.8	48,667.0	5.74	1.2
Loans to individuals and mortgage notes	29,374.1	3.89	1.3	27,459.1	6.21	2.3
Loans to public authorities	18,618.6			18,474.1		
Loans to social housing	2,511.1	0.21	0.8	2,708.2	-0.21	-0.8
Loans to commercial property (run-off)	13.9	0.08	56.1	25.6	-0.26	-102.1
Total	51,440.6	4.20	0.8	49,876.7	5.88	1.2

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

In 2010, the risk charge was extremely low for all the loan categories, corresponding to 0.8 basis points of the total portfolio. It related mainly to loans granted to individuals and represented only 1.3 basis points of this portfolio. In this segment, the charge consisted mainly of a net allowance of €3.5 million to provisions and impairment for the year.

International securities and securitisation tranches

This portfolio consists of securities issued by public bodies and *senior* tranches of securitisation units backed by residential mortgages or guaranteed by public bodies. It comprises the bulk of the assets held by Compagnie de Financement Foncier outside France. Loans to public bodies outside France are also included in this portfolio as they are considered similar for credit risk analysis purposes. These amounted to a total of €39.8 billion at December 31, 2010, or 38.4% of total assets, of which €38.1 billion located outside France.

No doubtful loans, provisions or impairment have been recognised on this portfolio. Compagnie de Financement Foncier monitors various indicators (credit quality of counterparty or guarantor, structure of the transaction, geographic breakdown) reflected in the credit ratings. The greater part of the portfolio is rated by independent credit rating agencies and only some loans amounting to €147 million guaranteed by the Swiss Cantonal authorities are rated solely in-house using an application developed by Standard & Poor's. An analysis of these internal ratings is provided in the risk management report.

This portfolio consists of:

- > €21.7 billion in *senior* securitisation tranches;
- > €15.7 billion of securities issued or guaranteed by public bodies;
- > €2.4 billion of international public sector loans.

The portfolio grew by €2 billion in 2010, with the increase concerning all the public sector securities.

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

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

Changes in the overcollateralisation level, which depends on fund structuring rules, reflect changes in the credit risk of the underlying assets. All the securitisation funds held by Compagnie de Financement Foncier currently have a higher overcollateralization level than when they were acquired.

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

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

The composition of the securitisation portfolio remained stable in 2010, comprising two types of securities:

- › residential mortgage-backed securities amounting to €14.1 billion at December 31, 2010;
- › securitisation tranches backed by public guarantees amounting to €7.6 billion which, together with other securities issued or guaranteed by public entities (€18.1 billion), make up most of the public sector financing outside France.

The high quality of the RMBS portfolio was maintained, despite some rating downgrades after a methodology review by the independent agencies, in particular relating to some Spanish securitisation funds. By decision of Compagnie de Financement Foncier, these funds should benefit from the best rating when they are acquired. At December 31, 2010, the main features of this portfolio were:

- › no exposure to “subprime” risk;
- › no direct or indirect exposure to US real estate;
- › 32% of the portfolio is rated AAA/Aaa/AAA, while 90% received the highest rating from at least one agency;
- › 90% of the portfolio (€12.7 billion) has a step-1 credit-quality rating.

The real-estate collateral is all located in Europe, mainly in Spain (€6.4 billion), Italy (€3.5 billion), the Netherlands (€1.5 billion), France (€1.1 billion) and Portugal (€1.0 billion).

In addition, since June 2008, Crédit Foncier has undertaken to cover the consequences for Compagnie de Financement Foncier of a rating downgrade to below step-2 credit quality, for the securitisation units listed on the internal watch list because they are considered to present potentially higher risk. At December 31, 2010 the securities thus monitored amounted to €3.1 billion, unchanged relative to 2009.

The international public sector portfolio, consisting of securities, loans or securitisation units and other assets issued or guaranteed by public entities (mainly governments, public bodies and local authorities) amounted to €25.7 billion at December 31, 2010, up by €2.2 billion during the year, and represented a quarter of Compagnie de Financement Foncier's total assets.

Geographically, exposure is fairly diversified, the largest exposure being the United States with €6.6 billion of which €3.3 billion is directly guaranteed by the government. The other countries with exposures of more than 0.5% of the balance sheet are, in descending order, the Netherlands with €3.9 billion (guaranteed by NHG which is the equivalent of FGAS in France), Italy with €3.7 billion, Japan with €2.0 billion, Switzerland with €1.7 billion, Germany with €1.6 billion, Greece with €1.1 billion, Spain with €1.0 billion and Canada with €0.9 billion.

At December 31, 2010, the ratings profile of the international public sector portfolio was as follows:

- › 79% or €20.2 billion had a step-1 credit rating, with nearly half assigned the top rating by at least one of the main agencies;
- › 14% or €3.7 billion had a step-2 credit rating.

Part of the securities and securitisation portfolio is counter-guaranteed by monoline insurers. Following the cancellation of the arrangements with CIFG, the hedged portion had decreased to €3 billion at the end of 2010.

However, the very significant downgrading of these companies in the recent past means that their guarantee is ineffective as the transaction's intrinsic credit rating is higher than that of the credit enhancer; only Assured Guaranty Municipal Corp (formerly FSA) rated EE+/Aa3 continues to provide effective protection against credit risk on a portfolio amounting to €1.8 billion.

Analysis of interest rate and foreign exchange risks

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

Hedging transactions

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

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

All of the counterparties to these currency or interest rate swaps have concluded collateralization agreements with Compagnie de Financement Foncier that require them to provide a security deposit depending on their debt position and rating. These deposits are drawn on daily if the counterparty's credit rating slips below F1+ or AA- with Fitch Ratings, P1 or Aa3 with Moody's, A1+ or AA- with Standard and Poor's. If the opposite situation occurs, the agreements stipulate that Compagnie de Financement Foncier shall not deposit any collateral. At December 31, 2010, the amount of deposits received was €1.7 billion.

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

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

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

Hedging activity continued in 2010 in line with acquisition and issuance volumes. The notional amount of forward financial instruments nonetheless decreased, down from €116 billion at end-2009 to €107 billion at the end of 2010, due in particular to the expiry of existing macro hedging transactions. The amount of foreign currency transactions increased from €39 billion to €47 billion during the year.

By hedging purpose, outstanding interest-rate swaps broke down as follows at December 31, 2010:

- › €23.9 billion in macro-hedging swaps, compared with €32.1 billion at end-2009;
- › €14.7 billion in micro-hedging swaps on assets, compared with €17.2 billion at end-2009;

- › €65.6 billion in micro-hedging swaps for privileged debt compared with €65.1 billion at end-2009;
- › €2.2 billion in conditional micro-hedging transactions to cover variable-rate loans with an interest-rate cap in favour of the borrower, compared with €1.1 billion at end-2009.

Residual interest-rate position

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

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

The interest rate risk arising from distortion over time of the underlying is therefore limited to fixed-rate loans to individuals in the competitive sector, due to the regulatory ceiling set on the indemnity due in the event of early repayment, which is limited to 6 months interest with a maximum of 3% of the outstanding principal.

For Compagnie de Financement Foncier, these loans amounted to €11.6 billion at December 31, 2010, up significantly during the year and Crédit Foncier's recent mortgage loan production is mainly fixed-rate loans. Moreover, the low nominal rate of these loans constitutes an additional protection against the risk of early repayment and renegotiation. Interest-free loans amounted to €2.5 billion and loans with non-zero but less than 6% interest rates totalled €8.9 billion. The risk arising from imperfectly indemnified early repayment is concentrated on loans with high interest rates and therefore concerns a very small portion of the portfolio, amounting to €0.3 billion or less than 0.3% of total assets.

The prepayment rate on the portfolio of loans to individuals was higher in 2010 than in 2009. In 2009, the average rate was 4.8% whereas it was 8.2% in 2010 for the same portfolio. This resulted in an increase in perceived benefits, from €21.9 million in 2009 to €44.5 million in 2010.

Liquidity risk

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

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

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

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

At December 31, 2010, the total nominal amount of assets immediately available for ECB refinancing came to €33 billion, comprising €23.9 billion in securities and €8.7 billion in private loans. At the same, assets pledged with the central bank amounted to €2 billion with another €0.6 billion pledged to a banking entity.

Moreover, its portfolio of replacement securities, which represented 11.4% of total assets at the end of 2010, consists of short-term investments with financial institutions with the highest short-term ratings and consists mainly of loans with maturities of less than six months.

Compagnie de Financement Foncier also analyses the duration of its assets and liabilities to ensure they are properly matched and is committed to keeping the duration gap to less than 2 years. At December 31, 2010, as at the end of the previous year, there was virtually no difference between the average duration of assets and liabilities, 6.2 years and 6.3 years respectively, corresponding to a duration gap of one month.

Outlook

In 2011, Compagnie de Financement Foncier intends to pursue its development along the same strategic lines as in the past:

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

Notes to the management report

Note 1. Information on corporate officers

For the year ending December 31, 2010, pursuant to Article L. 225-102-01 of the French Commercial Code, the list below shows the total compensation as well as all benefits paid by the company to each of the corporate officers during the year. Statement of the total compensation of Compagnie de Financement Foncier corporate officers in 2010.

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

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

	2009	2010
Mr Thierry DUFOUR, Chairman and Chief Executive Officer, Director	482,223	465,175
Ms Sandrine GUÉRIN, Deputy Chief Executive Officer, Director	561,687	542,029
Annual remuneration due (outlined in table below)		
Value of options attributed over the course of the year		
Value of performance shares attributed over the course of the year		
Total	1,043,910	1,007,204

Summaries of remuneration of each executive designated company representatives

Mr Thierry DUFOUR Chairman and Chief Executive Officer Director	2009		2010	
	Totals due	Total distributed	Totals due	Total distributed
Base salary		319,260		319,360
Variable pay		128,750		110,500
Exceptional remuneration		19,473		20,675
Directors' fees		9,000		9,000
Advantages in kind		5,740		5,640
Total		482,223		465,175

Ms Sandrine GUÉRIN Deputy Chief Executive Officer Director	2009		2010	
	Totals due	Total distributed	Totals due	Total distributed
Base salary		277,096		278,563
Variable pay		263,993		240,907
Exceptional remuneration		13,848		15,809
Directors' fees		3,750		3,750
Advantages in kind		3,000		3,000
Total		561,687		542,029

Summary of remuneration of each non-executive designated company representatives

Non-executive Board members	Amounts distributed in 2009	Amounts distributed in 2010
Mr François BLANCARD	538,568	580,806
Directors' fees 1	39,768	53,071
Other remuneration 1	498,800	527,735
Mr Philippe DRUART (since 09/29/2010)		325,335
Directors' fees 2		38,750
Other remuneration 2		286,585
Mr Djamel SEoudI (until 08/31/2010)	269,087	290,643
Directors' fees 3	14,175	50,750
Other remuneration 3	254,912	239,893
Mr Didier PATAULT		
Directors' fees 4	N/A	N/A
Other remuneration 4		
Mr Nicolas DARBO	212,830	268,982
Directors' fees 5	11,302	43,750
Other remuneration 5	201,528	225,232
Mr Stéphane CAMINATI	229,952	223,549
Directors' fees 6		6,000
Other remuneration 6	229,952	217,549
Mr Alain DENIZOT		
Directors' fees 7	N/A	N/A
Other remuneration 7		
Total	1,250,437	1,689,315

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

Other information on compensation and stock option and stock purchase plans

As of December 31, 2010, Compagnie de Financement Foncier did not have its own staff, with the exception of its corporate officers. There was no incentive scheme or profit-sharing plan in the company. In addition, there were no stock option or stock purchase plans as of December 31, 2010.

List of offices of corporate officers

Offices or positions held by Mr François BLANCARD

Company	Position
Management offices	
CRÉDIT FONCIER DE FRANCE - SA	Chief Executive Officer
Board of Directors	
BANCO PRIMUS - SA	Chairman of the Board of Directors
CFD - SAS	Legal representative of COFIMAB, Chairman
CFSI - SA (since 10/01/2010)	Chairman of the Board of Directors
CICOBAIL - SA	Chairman of the Board of Directors
CINERGIE - SA	Legal representative of Crédit Foncier, Director
COMPAGNIE DE FINANCEMENT FONCIER - SA	Legal representative of Crédit Foncier, Director
FONCIER ANTICIPATION 2010 - SAS (since 05/05/2010)	Legal representative of Crédit Foncier, Chairman
FONCIER AVENIR 2010 - SAS (since 05/05/2010)	Legal representative of Crédit Foncier, Chairman
FONCIER EXPERTISE - SAS	Legal representative of Crédit Foncier, Chairman
FONCIER FOREIGN 2008 - SAS	Legal representative of Crédit Foncier, Chairman
FONCIER LARGE 2008 - SAS	Legal representative of Crédit Foncier, Chairman
FONCIER PREVISION 2010 - SAS (since 05/05/2010)	Legal representative of Crédit Foncier, Chairman
FONCIER PROJECT SOLUTIONS - SA	Director
FONCIER VISION 2008 - SAS	Legal representative of Crédit Foncier, Chairman
LES ÉDITIONS DE L'ÉPARGNE - SA	Director
LOCINDUS - SA	Chairman of the Board of Directors
VILLA DAVOUT - SCI (since 03/30/2010)	Legal representative of CFCo, Chairman
Supervisory Board	
ECUREUIL CRÉDIT - SACS	Member of the Supervisory Board
GCE BUSINESS SERVICES - GIE	Permanent representative of Crédit Foncier, Member of the Supervisory Board
GCE FONCIER COINVEST - SAS	Member of the Supervisory Board
Offices as Manager	
ECUFONCIER - SCA	Legal representative of Crédit Foncier, Managing Partner
FONCIER PROJET 2008 - SNC	Legal representative of Crédit Foncier, Managing Partner
IMMOBILIÈRE MADELEINE DUPHOT - SCI	Legal representative of CFD, Manager
SOCLIM - SNC	Legal representative of CFD, Manager
SOFIPAR LOGEMENT - SNC	Legal representative of Crédit Foncier, Managing Partner
SOFONEG - SNC	Legal representative of Crédit Foncier, Managing Partner

Other offices and positions	
ECUFONCIER - SCA	Legal representative of Crédit Foncier, General Partner
TANIS -SARL	Legal representative of CFD, Liquidator

Offices or positions of Mr Thierry DUFOUR

Company	Position
Management offices	
COMPAGNIE DE FINANCEMENT FONCIER - SA	Chairman and Chief Executive Officer
CRÉDIT FONCIER DE FRANCE - SA	Deputy Chief Executive Officer
Board of Directors	
BANCO PRIMUS - SA	Director
CICOBAIL - SA	Permanent Representative of Crédit Foncier, Director
CRÉDIT FONCIER IMMOBILIER - CFI (since 10/01/2010)	Director
FINANCIÈRE DESVIEUX - SA	Director
FONCIER PROJECT SOLUTIONS - SA	Director
Supervisory Board	
VAUBAN MOBILISATIONS GARANTIES - SACS	Permanent Representative of Crédit Foncier, Member of the Supervisory Board

Offices or positions of Ms Sandrine GUÉRIN

Company	Position
Management offices	
COMPAGNIE DE FINANCEMENT FONCIER - SA	Deputy Chief Executive Officer, Director
FINANCIÈRE DESVIEUX - SA	Chairman and Chief Executive Officer
VAUBAN MOBILISATIONS GARANTIES - SACS	Chairman of the Supervisory Board
Board of Directors	
SWISS PUBLIC FINANCE SOLUTIONS - SA	Director
Other offices and positions	
CRÉDIT FONCIER DE FRANCE - SA	Executive Vice-President in charge of the Financial Activities and International Department

Offices or positions of Mr Didier PATAULT

Company	Position
Management offices	
CAISSE D'EPARGNE ET DE PRÉVOYANCE BRETAGNE - PAYS DE LOIRE (CEBPL) - SACS	Chairman of the Executive Board
SDR OUEST - SODERO - SA	Chairman and Chief Executive Officer
Board of Directors	
CE PARTICIPATIONS - SACA	Director until 08/05/2010
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director
LA MANCELLE D'HABITATION - SA HLM	Chairman of the Board of Directors until 11/17/2010, Director since 11/17/2010
NATIXIS - SACS	Member of the Supervisory Board, 2 nd Vice-president of the Supervisory Board, Director (since 01/01/2010)
NATIXIS COFICINE - SACS	Director
NATIXIS GLOBAL ASSET MANAGEMENT - SA (until 08/26/2010)	Director
PAYS DE LA LOIRE DEVELOPPEMENT - SAS	Representative of CEBPL, Director
SAMO (SA DES MARCHÉS DE L'OUEST) - SA HLM	Chairman of the Board of Directors
SEMITAN - SEM	Representative of CEBPL, Director
SODERO PARTICIPATIONS - SAS	Chairman of the Board of Directors
Supervisory Board	
BATIROC BRETAGNE - PAYS DE LOIRE - SACS	Chairman of the Supervisory Board
BPCE - SACS	Member of the Supervisory Board
GCE BUSINESS SERVICES - GIE	Representative of CEBPL, Member of the Supervisory Board
GCE CAPITAL - SAS	Member of the Supervisory Board
GCE TECHNOLOGIES - GIE	Representative of CEBPL, Member of the Supervisory Board
NATIXIS - SACS	Member of the Supervisory Board, 2 nd Co-Chairman of the Supervisory Board, Director (since 01/01/2010)
SODERO GESTION - SAS	Chairman of the Supervisory Board
Other offices and positions	
COMPAGNIE DE FINANCEMENT FONCIER - SA	Member of the Audit Committee
FNCE - ASSOCIATION	Representative of CEBPL, Director
NANTES ATLANTIQUE PLACE FINANCIÈRE (NAPF) - ASSOCIATION	Representative of CEBPL, Director

Offices or positions of Mr Stéphane CAMINATI

Company	Position
Management offices	
BANQUE PALATINE - SACS	Director
BPCE ACHATS - GIE	Director
BPCE DOMAINES - SA	Director
GCE ASSURANCES PRODUCTION SERVICES - SAS	Member of the Supervisory Board
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director
SOCRAM BANQUE - SACS	Director
Other offices and positions	

BANQUE PALATINE - SACS	Member of the Audit Committee
BPCE DOMAINES - SA	Chairman of the Audit Committee
GCE CGP - INSTITUTION DE PRÉVOYANCE	“Alternate” Director Employer Delegation
GCE CGR - INSTITUTION DE RETRAITE SUPPLÉMENTAIRE	“Alternate” Director Employer Delegation
GCE EPS - ASSOCIATION DE MOYENS	Director
COMPAGNIE DE FINANCEMENT FONCIER - SA	Chairman of the Audit Committee
TRADE EXPLOITATION - SOCIÉTÉ EN PARTICIPATION	Member of the Board

Offices or positions of Mr Alain DENIZOT

Company	Position
Management offices	
CAISSE D'EPARGNE DE PICARDIE - SA	Chairman of the Board of Directors
CEPICINVESTISSEMENT - SAS	Chairman
TRITON - SAS	Chairman
NSAVALDE - SAS	Chairman
Board of Directors	
CE PARTICIPATIONS - SA	Director
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director
CEPICINVESTISSEMENT - SAS	Member of the Committee of Management
NSAVALDE - SAS	Member of the Committee of Management
NATIXIS FACTOR - SA	Director
Supervisory Board	
ECUREUIL CRÉDIT - GIE	Member of the Supervisory Board
GCE BUSINESS SERVICES - GIE	Member of the Supervisory Board
FONCIA GROUPE - SACS	Member of the Supervisory Board
Other offices and positions	
CE PARTICIPATIONS - SA	Member of the Audit Committee (until 08/05/2010)
COMPAGNIE DE FINANCEMENT FONCIER - SA	Chairman of the Audit Committee
FÉDÉRATION NATIONALE DES CAISSES D'EPARGNE - ASSOCIATION LOI 1901	Director
UNIVERSITÉ DU GROUPE CAISSE D'EPARGNE - ASSOCIATION LOI 1901	Director and Liquidator
FONCIA GROUPE - SACS	Member of the Audit Committee

Offices or positions of Mr Nicolas DARBO

Company	Position
Board of Directors	
BANCO PRIMUS - SA	Director
COMPAGNIE DE FINANCEMENT FONCIER - SA	Director
CRÉDIT FONCIER IMMOBILIER (CFI) - SA (since 10/01/2010)	Director
FONCIER PARTICIPATIONS - SAS	Permanent representative of Crédit Foncier, Chairman
LOCINDUS - SA	Director
SOCFIM - SA (since 12/21/2010)	Director

Supervisory Board	
VAUBAN MOBILISATIONS GARANTIES - SACS	Vice-President of the Supervisory Board

Offices held by Crédit Foncier de France in 2010

Company	Identification
Limited Liability Companies (<i>sociétés anonymes</i>)	
Directorships	
ARTHUR COMMUNICATION - SA	407 525 344
BTP CAPITAL INVESTISSEMENT - SA	302 527 734
CFG - COMPTOIR FINANCIER DE GARANTIE - SA	330 316 316
CICOBAIL - SA	722 004 355
CINERGIE - SA	322 214 883
COMPAGNIE DE FINANCEMENT FONCIER - SA	421 263 047
CRÉDIT FINANCIER LILLOIS - SA	455 500 868
FONCIER TITRISATION - SA	350 057 907
H&T CONSEIL - SA	313 149 973
LA MONDIALE PARTENAIRE - SA	313 689 713
LOCINDUS - SA	642 041 768
MOBILIÈRE VOLNEY - SA	338 097 223
SAF ENVIRONNEMENT - SA	319 051 017
SGFGAS - SA	390 818 235
ECOLOCALE - GIE	381 095 785
Offices of Member of the Supervisory Board	
SCAFR - TERRES D'EUROPE - SACS	612 007 468
SELECTINVEST 1 - SACS	784 852 261
SIA HABITAT - SACS	045 550 258
SOCFIM - SACS	390 348 779
GCE BUSINESS SERVICES - GIE	500 513 429
VAUBAN MOBILISATIONS GARANTIES - SACS	399 343 300
Offices of Chairman/Director	
CFCo - SAS	308 383 058
COFIMAB - SAS	391 754 363
EURO-MARNE PARTICIPATIONS - SAS	399 294 164
FONCIER ANTICIPATION 2010 - SAS	523 704 781
FONCIER AVENIR 2010 - SAS	523 707 016
FONCIER EXPERTISE - SAS	788 276 806
FONCIER FOREIGN 2008 - SAS	504 381 112
FONCIER LARGE 2008 - SAS	504 379 975
FONCIER PARTICIPATIONS - SAS	318 893 815
FONCIER PRÉVISION 2010 - SAS	523 707 214
FONCIER VISION 2008 - SAS	504 381 039

FONCIÈRE D'EVREUX - SAS	399 293 067
SIPARI - SAS	305 097 446
GRAMAT-BALARD - SAS	389 699 471
VENDÔME INVESTISSEMENTS - SAS	349 019 414
General Partnership	
Managing Partner	
FONCIER PROJET 2008 - SNC	504 362 005
SOFIPAR LOGEMENT - SNC	331 786 723
SOFONEG - SNC	331 444 539
Managing general Partner	
ECUFONCIER - SCA	480 107 846

Note 2. FCC (residential mortgage-backed securities) as of December 31, 2010

Securitisation tranches of residential mortgage loans: €14.11 billion (in outstanding principal)

Countries	Standard & Poor's/Moody's/Fitch Ratings
France	
ANTILOPE 1	AAA/Aaa/AAA
ANTILOPE 2	AAA/Aaa/AAA
Germany	
E-MAC DE 2005-1	AA/Baa1/AA
E-MAC DE 2006-2 A2	AA-/Baa1/A+
Greece	
THEMELION 2	A/Baa1/AA-
Italy	
APULIA 3	AAA/Aaa/AAA
APULIA FINANCE 2	AAA-/AAA
ARGO MORTGAGES 2	-/Aaa/AAA
BERICA 3 PARTS A2	AAA-/AAA
BERICA 6 A2	AAA/Aaa/AAA
BIPIELLE RESIDENTIAL	-/Aaa/AAA
BPM2 A2	AAA/Aaa/AAA
BPMO 2007-1	AAA/Aaa/AAA
CAPITAL MORTGAGE 2007-1	AAA/Aaa/AAA
CORDUSIO	AAA/Aaa/AAA
CORDUSIO 3 A2	AAA/Aaa/AAA
CORDUSIO 4	AAA/Aaa/AAA
CR FIRENZE MUTUI	AAA/Aaa/AAA
CREDICO FINANCE 5 A 2033	AAA/Aaa/-
F-E MORTGAGES	AAA/Aaa/AAA
HELICONUS	AAA/Aaa/AAA
INTESA SEC 3	AAA/Aaa/-
INTESABCI SEC 2	AAA/Aaa/AAA
INTRA MORTGAGE FINANCE SRL	AAA/Aaa/AAA
MANTEGNA FINANCE SRL	-/Aaa/AAA
MARCHE MUTUI	AAA/Aaa/-
MARCHE MUTUI 2A2	AAA/Aaa/-
SESTANTE FINANCE 2	AAA/Aa1/AAA
SESTANTE 3 A 2045	AAA/Aa1/AAA
SESTANTE 4	AAA/Aa2/AA
SESTANTE FINANCE	AAA/Aaa/AAA
SIENA MORTGAGES 2010-7	-/Aaa/AAA
VELA ABS	AAA/Aaa/-
VELA HOME	AAA/Aaa/-
VELA HOME 2	AAA/Aaa/-
VELA HOME 3 A 2040	AAA/Aaa/-
VELA HOME 4	AAA/Aaa/-

Netherlands	
BELUGA 2006-I A2	AAA/Aaa/AAA
BELUGA 2006-I A3	AAA/Aaa/AAA
CANDIDE 2006-1 A3	AAA/Aaa/AAA
DUTCH MORTGAGE PORTFOLIO 8	-/Aaa/AAA
ELEVEN CITIES N°5 A	-/Aaa/AAA
EMAC NL 2005 III BV	AAA/Aaa/AAA
E-MAC NL 2007 III	AAA/Aaa/AAA
HOLLAND HOMES 3 PARTS A 2083	-/Aaa/AAA
Portugal	
DOURO MORTGAGES 1 A	AAA/Aaa/AAA
DOURO MORTGAGES 3	AAA/Aaa/AAA
LUSITANO 2	AAA/Aaa/AAA
LUSITANO 4	AAA/Aaa/AAA
LUSITANO 5	AAA/Aaa/AAA
LUSITANO 6	AAA/Aaa/AAA
LUSITANO MORTGAGE PLC 3	AAA/Aaa/AAA
MAGELLAN 3	AAA/AAa/-
Spain	
AYT GENOVA HIPOTECARIO 4	AAA/Aaa/AAA
AYT GENOVA HIPOTECARIO 7	AAA/Aaa/AAA
BANCAJA 4	-/Aaa/AAA
BANCAJA 5	AAA/Aaa/AAA
BANCAJA 6	AAA/Aaa/AAA
BANCAJA 7	AAA/Aaa/AAA
BANCAJA 8	-/Aaa/AAA
BANCAJA 9 A2	-/Aa1/AAA
BANCAJA 10	AAA/Aa3/-
BANCAJA 11	AAA/A2/-
BANKINTER 4	AAA/Aaa/-
BANKINTER 5	AAA/Aaa/-
BANKINTER 10	AAA/Aaa/-
BBVA 1	-/Aaa/AAA
BBVA 2	AAA/Aa1/AAA
BBVA RMBS 3	-/Aa1/AAA
GC SABADELL 1	AAA/Aaa/-
HIPOTEBANSA XI	AAA/Aaa/-
IM CAJAMAR 3 PARTS A	-/Aaa/AAA
IM PASTOR 2	AAA/Aaa/-
IM PASTOR 3	AA/Aa1/-
MADRID RMBS III	AA/A3/A+
SANTANDER HIPOTECARIO 3	AA-/A3/A+
TDA 27 A3	AAA/-/AA
TDA 29	-/Aaa/AAA

TDA CAJAMAR A2	AAA-/AAA
TDA CAJAMAR A3	AAA-/AAA
TDA CAM 5	-/Aaa/AAA
TDA CAM 6 PARTS A2	-/Aa2/AA+
TDA CAM 6 PARTS A3	-/Aa2/AA+
TDA CAM 9	AA-/Aa3/AA
TDA IBERCAJA 2	AAA/Aaa/-
TDA PASTOR 1 - A2	-/Aaa/AAA
UCI 5 CLASS 5	-/Aaa/-
UCI 14 CLASSE A 2043	AA+/-/AA
United Kingdom	
ARRAN 2010 1X - A3B	-/Aaa/AAA

Senior securitisation tranches of public debt: €7.61 billion (in outstanding capital)

Italy	
ASTREA	A+/Aa2/AA-
ADRIATICA FINANCE	AAA/Aa3/-
POSILLIPO FINANCE	BBB+/A3/-
Netherlands	
DARTS FINANCE PARTS A 2064	-/Aa1/AAA
E-MAC NL 2006-NHG 1	-/A1/-
E-MAC NL 2007-NHG II A	-/Aa3/-
HOLLAND HOMES ORANJE	-/-/AAA
PEARL MBS 1	-/Aa2/AAA
PEARL MBS 2A	-/Aa2/AAA
SGML 1	-/-/AAA
United States	
NELNET 2006-1 A6	AAA/Aaa/AAA
NELNET 2006-2 A7	AAA/Aaa/AAA
SALLIE MAE 2003-10 A3	AAA/Aaa/AAA
SALLIE MAE 2003-2	AAA/Aaa/AAA
SALLIE MAE 2003-5	AAA/Aaa/AAA
SALLIE MAE 2003-7 A5	AAA/Aaa/AAA
SALLIE MAE 2004-2 A6	AAA/Aaa/AAA
SALLIE MAE 2004-5X	AAA/Aaa/AAA
SALLIE MAE 2004-5X A5	AAA/Aaa/AAA
SALLIE MAE 2004-8-A5	AAA/Aaa/AAA
SALLIE MAE 2004-8-A6	AAA/Aaa/AAA
SALLIE MAE 2005 9 SENIOR A6A	AAA/Aaa/AAA
SALLIE MAE 2005-9 SENIOR A7A	AAA/Aaa/AAA
SALLIE MAE 2006-4 A6	AAA/Aaa/AAA
SALLIE MAE 2006-6 A4	AAA/Aaa/AAA
SALLIE MAE SERIE 8 102004	AAA/Aaa/AAA

Financial Statements

Balance sheet

(in thousands of euros)

As per notes	Assets	12/31/2010	12/31/2009	12/31/2008
	Cash due from central banks and post office accounts	5,413	4,421	20,024
	Treasury notes and similar securities			
1	Due from banks	16,493,215	12,745,566	9,806,259
	<i>On demand</i>	318,007	971,601	1,207,772
	<i>At maturity</i>	16,175,208	11,773,965	8,598,487
2	Customer loans	39,709,142	37,183,708	36,311,095
	<i>Other customer loans</i>	39,709,142	37,183,708	36,311,095
3	Bonds and other fixed income securities	44,489,773	45,106,631	46,107,121
4	Intangible fixed assets			2,480
5	Other	93,517	108,248	204,660
6	Prepayments, deferred charges and accrued income	3,035,765	3,095,950	3,490,979
	Total assets	103,826,825	98,244,524	95,942,618

(in thousands of euros)

As per notes	Liabilities and equity	12/31/2010	12/31/2009	12/31/2008
7	Due to banks	5,553,791	6,687,428	5,857,992
	<i>On demand</i>	69,022	65,938	25,817
	<i>At maturity</i>	5,484,769	6,621,490	5,832,175
8	Customer deposits	14,867	5,297	33,479
	<i>On demand</i>	14,867	5,297	33,479
9	Debt securities	88,372,278	82,198,672	80,148,265
	<i>Inter-bank market securities and negotiable debt securities</i>	243,780	241,986	188,204
	<i>Bonds (obligations foncières)</i>	88,128,498	81,956,686	79,960,061
10	Other liabilities	2,157,642	1,552,849	739,357
11	Accruals and deferred income	2,636,729	2,764,267	4,298,250
12	Provisions for liabilities and charges	9,119	5,339	9,628
13	Subordinated debt	3,450,270	3,450,250	3,450,589
14	Fund for general banking risks	20,000	20,000	20,000
14	Equity other than fund for general banking risks	1,612,129	1,560,422	1,385,058
	- <i>Subscribed capital stock</i>	1,008,000	1,008,000	924,000
	- <i>Share premiums</i>	302,462	302,462	271,067
	- <i>Reserves</i>	82,802	74,029	70,917
	- <i>Regulated provisions and investment subsidies</i>			
	- <i>Retained earnings (+/-)</i>	75,654	462	56,843
	- <i>Net income for the year (+/-)</i>	143,211	175,469	62,231
	Total liabilities & equity	103,826,825	98,244,524	95,942,618

Off-balance sheet

(in thousands of euros)

As per notes		12/31/2010	12/31/2009	12/31/2008
	Commitments given			
15	Financing commitments			
	- Commitments in favour of banks	15,995		
	- Commitments in favour of customers	2,283,034	2,174,598	2,950,005
	- Other values used as collateral	5,581,713	7,020,087	10,449,002
	Guarantee commitments			
	- Commitments for customers			
	Commitments on securities			
	- Others commitments given	45,000		
16	Commitments received			
	Financing commitments			
	- Commitments received from banks	3,212,060	3,497,498	7,912,874
	- Other values received as collateral ⁽¹⁾	12,278,584	7,691,797	1,200,284
	Guarantee commitments			
	- Commitments received from banks	7,976,870	12,814,146	14,800,048
	- Commitments received from customers	38,707,948	32,674,266	30,051,552
	Commitments on securities			
	- Others securities to receive	15,000		542,418
	Reciprocal commitments			
17	- Sale and purchase of foreign currencies	46,663,767	39,326,106	46,122,439
18	- Non-unwound financial instruments	109,707,924	118,929,668	116,562,549

⁽¹⁾ The information relative to other values received as collateral were not included in the financial statements at 12/31/2008.

Income statement

(in thousands of euros)

As per notes		12/31/2010	12/31/2009	12/31/2008
19	Interest and similar income	4,712,249	4,450,520	4,384,956
20	Interest and similar expenses	-4,432,860	-4,092,210	-4,210,716
21	Commission and fee income	44,779	41,447	38,443
21	Commission and fee expenses	-4,293	-26,350	-7,895
22	Gains or losses on investment securities transactions	1,338	-223	889
23	Gains or losses on investment securities transactions and similar instruments	-7,083	1,591	-7,534
24	Other income from banking operations	2,252	2,917	2,350
25	Other expenses on banking operations	-2,159	-15,660	-13,906
	Net banking income	314,223	362,032	186,587
26	General operating expenses	-97,065	-97,320	-100,692
	Depreciation, amortisation and provisions on tangible and intangible fixed assets		-2,480	-5,336
	Gross operating income	217,158	262,232	80,559
27	Cost of risk	-3,316	-4,127	3,990
	Operating income	213,842	258,105	84,549
	Gains or losses on fixed assets	2,980	225	-71
	Ordinary income before tax	216,822	258,330	84,478
	Exceptional items			
28	Income taxes	-73,611	-82,861	-22,247
	Increases and decreases in fund for general banking risks and provisions			
	Net income	143,211	175,469	62,231
	Earnings per share ⁽¹⁾ (in euros)	2.27	2.78	1.08
	Diluted earnings per share (in euros)	2.27	2.78	1.08

⁽¹⁾ Earnings per share is calculated by dividing the net income by the number of shares in issue at the end of the fiscal year. The appendix on the following pages is part of the 2010 annual results report.

Notes to the financial statements of Compagnie de Financement Foncier

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

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

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

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

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

1.2. In 2010 Compagnie de Financement Foncier acquired loans from Crédit Foncier de France for €6,195.7 million, with an outstanding principal of €6,236.3 million and €346.8 million of loans not yet released recorded as “Financing commitments given”. It also acquired loans from a non-group financial institution for €335.3 million as well as a loan to a French public entity for €738.9 million (of which €261.1 million had yet to be released).

Purchases of residential mortgage loan securitisation units amounted to €1,121.1 million while its activity in the public sector totalled €2,049.1 million, comprising purchases of securities for €1,710.1 million, long-term loans to public entities for €50.0 million and public sector securitisation units for €289.0 million.

These purchases totalled €10,440.1 million in 2010.

Under a financial guarantee agreement governed by Article L. 211-38 of the French Monetary and Financial Code, entered into in December 2009, Compagnie de Financement Foncier set up several credit lines with its parent company, Crédit Foncier de France, bringing total secured refinancing at the end of 2010 to €12,250 million, excluding related receivables.

“Replacement securities” - as defined under Decree No. 2007-745 of May 9, 2007 relating to the solvency of credit institutions, investment companies and *sociétés de crédit foncier* and which amends the French Monetary and Financial Code - totalled €11,820 million.

1.3. Compagnie de Financement Foncier issued €17,175.5 million of *obligations foncières* in 2010. It also applied to the Banque de France for new funding, under the *Gestion Globale des Garanties* (3G Pool) programme. This funding totalled €2 billion at end 2010.

1.4. In the first half of 2010, Compagnie de Financement Foncier terminated the securities portfolio transactions entered into with CIFG as these transactions no longer offered any real protection. The balance of the enhancement premiums that remained to be distributed were recorded as charges after deduction of the balance received, producing a net loss of €12.4 million.

1.5. In December 2010, in agreement with a unic counterparty, it was decided to mark to market several *obligations foncières* swap transactions maturing in 2019 by modifying the variable leg and putting in place a deductible. As these transactions are classified as micro hedges, in accordance with the possibility offered by CRC regulation 90-15, the cancellation balance received of €90.2 million was spread over the residual term but was taxed in full in 2010.

1.6. Compagnie de Financement Foncier recorded an additional provision of €7.1 million for depreciation of investment securities at December 31, 2010 in respect of two securities. This provision was recorded in the context of the deterioration in credit spreads, in particular in Spain.

1.7. In 2010, Compagnie de Financement Foncier was reassessed for tax in respect of the 2007 to 2009 financial years. The reassessment proposal was accepted in December 2010 and a provision of €0.4 million was recorded as of December 31, 2010 to cover the tax adjustment.

2. Information about accounting rules and principles

The annual corporate accounts of Compagnie de Financement Foncier are prepared and presented in compliance with the regulations of the CRC (the French accounting regulations committee) and the CRBF (the French Banking and Financial Regulations Committee). In compliance with CRBF Regulation No. 91-01 amended by CRC Regulation No. 2000-03 and 2005-04, primary financial statements are presented in the format required for credit institutions.

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

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

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

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

2.1. Change of accounting methods

2.1.1. Depreciations CRC Regulation 2009-03 relating to the recognition of fees and expenses linked to granting or purchasing loans applies with effect from January 1, 2010. The fees and expenses falling within the application scope of this regulation must now be spread over the effective term of the loan. This change of accounting method had no impact on the Company's equity as of January 1, 2010.

2.1.2. To improve the quality of its financial disclosure, Compagnie de Financement Foncier has opted to account for deferred taxes on a company basis. This option, applied using the principle of universality, was applied to all deferred taxes arising from temporary differences in the company accounts relative to the current tax method. This change of accounting method had a positive impact of €3 million on the company's equity as at January 1, 2010 and a positive impact of €28.6 million on results for the year 2010.

2.1.3. The regulations adopted by the CRC and which were mandatory in 2010, other than CRC regulation 2009-03, had no significant impact on Compagnie de Financement Foncier's financial statements.

Unless otherwise indicated, Compagnie de Financement Foncier does not opt for early application of regulations adopted by CRC when such application is optional.

2.2. Loans and advances to credit institutions

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

Loans and advances to credit institutions appear on the balance sheet at their nominal value and include accrued interest that is not yet due but are net of any impairment for credit risk.

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

2.3. Customer loans

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

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

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

Premiums and discounts on receivables acquired as at December 31, 2010 are then taken to the year's income on an actuarial basis over the remaining term of the receivables.

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

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

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

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

Doubtful loans

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

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

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

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

foreseen. Reclassification of a debt from doubtful to irrecoverable does not automatically entail the reclassification of the counterparty's other doubtful loans and commitments to irrecoverable.

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

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

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

Restructured loans

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

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

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

2.4. Depreciations and provisions for counterparty risk

2.4.1. Depreciations

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

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

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

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

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

Credit risk on financing commitments and guarantees off the balance sheet is recorded as a provision for contingencies and charges. There was no provision for this at December 31, 2010.

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

2.4.2. Counterparty risk provisions

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

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

Counterparty risk provisions totaled €1.8 million at end-2009. These provisions totaled €2.8 million at end-2010.

Neiertz risk provisions which amounted to €3.4 million at end-2009, amounted to €4.7 million at end-2010.

Total provisions for counterparty risk totaled €7.5 million at end-2010.

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

2.5. Foreign Exchange Transactions

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

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

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

Realized and unrealized foreign exchange gains and losses on Compagnie de Financement Foncier's proprietary transactions are booked as foreign exchange income under "Gains or Losses on trading securities transactions". Compagnie de Financement Foncier currently has no transaction in a "non-liquid" currency. It has also committed to hold no open currency position.

2.6. Securities Transactions

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

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

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

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

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

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

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

2.6.1. Short-term investment securities

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

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

Premiums and discounts on short-term investment securities correspond to the positive or negative difference between the acquisition cost and the redemption value of fixed-income securities. They are amortized over the remaining term of the security using the actuarial method.

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

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

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

2.6.2. Long-term investment securities

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

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

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

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

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

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

2.6.3. Reclassification of financial assets

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

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

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

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

Compagnie de Financement Foncier did not reclassify any securities in the financial statements in 2010.

2.7. Fixed assets

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

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

The balance of “Intangible assets” was fully amortized at end-2009.

2.8. Interbank loans and bonds

Amounts owed to credit institutions and to customers are presented according to their initial term, whether “on demand” or “at maturity”. Depending on the counterparty involved, these items include securities and other assets sold under repurchase

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

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

Until December 31, 2009 issuing expenses were booked at their full amount under "Commission and fee" in the year in which they are incurred and were:

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

In view of their nature and to improve the clarity of the financial information, issuing expenses are treated as accessory expenses and recognised in "Deferred charges" under accrued income and other assets. They are then amortised as counter-entries under "Interest and other similar income and expense on bonds and other fixed income securities".

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

2.9. Repurchase agreements

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

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

2.10. General Banking Risks Fund

This fund is intended to cover risks inherent to Compagnie de Financement Foncier's business activities, pursuant to the requirements of Article 3 of CRBF Regulation No. 90-02 and *Commission Bancaire* Instruction No. 86-05, as amended. No change was made to this fund in fiscal 2010.

2.11. Forward financial instruments

Trading and hedging transactions in interest rate, currency or equity futures are recognized in accordance with the provisions of CRBF Regulations 88-02 and 90-15, as amended and *Commission bancaire* Instruction No. 94-04, as amended by Instruction No. 2003-03. Commitments on these instruments are recorded as off-balance-sheet items at the notional value of the contract. At December 31, 2010, the amount recognized for these commitments represents the volume of the open forward transactions at the balance sheet date.

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

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

2.11.1. Interest rate and foreign exchange swaps

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

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

- > the commitments on these transactions are recorded off the balance sheet at the notional value of the open contract;

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

2.11.2. Interest rate caps and floors

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

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

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

At December 31, 2010, Compagnie de Financement Foncier had no isolated open position on a rate cap or floor contract.

2.12. Provisions

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

Provisions are also set up to cover contingencies and losses arising from banking transactions as defined under Article L. 311-1 of the French Monetary and Financial Code and from related transactions as defined under Article L. 311-2 of the Code, which are considered likely as a result of events that have occurred or are in progress and which are clearly identifiable but uncertain as to their occurrence. They provisions are mainly made to counterparty risks (see section 2.4.2). They are presented in detail in note 12.

2.13. Interest and similar income - Commissions

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

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

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

2.14. Income taxes

Since January 1, 2008, Compagnie de Financement Foncier is part of the tax group that Crédit Foncier formed with the subsidiaries in which it has over a 95% stake.

In 2010, Compagnie de Financement Foncier reported taxable income resulting in an income tax expense of €101.8 million at the full rate, partially offset by a deferred tax benefit of €28.6mn.

2.15. Consolidation

The Company is consolidated by the Groupe BCPE.

2.16. Operations in non-cooperative countries

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

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

At December 31, 2010, Compagnie de Financement Foncier had no activities or offices in non-cooperative countries.

Note 1a: due from banks

(in thousands of euros)

	Performing loans			Doubtful loans			Provisions			Net amounts		
	12/31/2010	12/31/2009	12/31/2008	12/31/2010	12/31/2009	12/31/2008	12/31/2010	12/31/2009	12/31/2008	12/31/2010	12/31/2009	12/31/2008
Non-Group loans												
On demand												
Customer accounts	728	1,986	12,874							728	1,986	12,874
Loans and accounts		800,000	1,123,000								800,000	1,123,000
Related receivables		5	62								5	62
Non-allocated securities	291	220	165							291	220	165
Sub-total on demand	1,019	802,211	1,136,101							1,019	802,211	1,136,101
At maturity												
Loans and accounts	1,750,084	1,599,387	1,625,360							1,750,084	1,599,387	1,625,360
Related receivables	30,933	30,528	38,060							30,933	30,528	38,060
Sub-total at maturity	1,781,017	1,629,915	1,663,420							1,781,017	1,629,915	1,663,420
Total non-Group loans	1,782,036	2,432,126	2,799,521							1,782,036	2,432,126	2,799,521
Group loans												
On demand	316,988	169,390	71,671							316,988	169,390	71,671
At maturity	2,121,364	2,601,197	6,935,067							2,121,364	2,601,197	6,935,067
Values received as long-term pension ⁽²⁾	12,272,827	7,542,853								12,272,827	7,542,853	
Sub-total Group loans	14,711,179	10,313,440	7,006,738							14,711,179	10,313,440	7,006,738
Total Group loans	14,711,179	10,313,440	7,006,738							14,711,179	10,313,440	7,006,738
Grand total ⁽¹⁾	16,493,215	12,745,566	9,806,259							16,493,215	12,745,566	9,806,259

⁽¹⁾ of which subsidised sector 617 891 1,069 617 891 1,069

⁽²⁾ At December 31, 2008, values received as long-term pension, excluding related receivables, amounted €1,200 million and were included into maturity loans.

Note 1b: breakdown of loans at maturity to banks

(in thousands of euros)

	12/31/2010			12/31/2009	12/31/2008
	Gross	Provisions	Net		
Term loans					
Refinancing of subsidised residential property	617		617	891	1,069
Refinancing of unsubsidised residential property	1,403		1,403	2,172	3,108
Public authorities	1,778,997		1,778,997	1,626,852	1,659,243
Structured financing					
Other loans to banks	14,394,191		14,394,191	10,144,050	6,935,067
Doubtful term loans					
Total	16,175,208		16,175,208	11,773,965	8,598,487

Note 2: customer loans

(in thousands of euros)

	Performing loans			Doubtful loans			Provisions			Net amounts		
	12/31/2010	12/31/2009	12/31/2008	12/31/2010	12/31/2009	12/31/2008	12/31/2010	12/31/2009	12/31/2008	12/31/2010	12/31/2009	12/31/2008
Customer loans												
Commercial loans												
Export credits												
Short-term loans ⁽²⁾	3,561,328	4,089,999	4,608,593							3,561,328	4,089,999	4,608,593
Equipment loans	9,453,366	9,664,896	9,702,324	3,127	3,373	3,599	404	439	563	9,456,089	9,667,830	9,705,360
Residential property loans	25,860,784	22,693,251	21,258,344	480,543	404,172	351,775	16,449	15,124	12,408	26,324,878	23,082,299	21,597,711
Other customer loans	54,566	61,137	108,543	1,826	1,656	1,682	1,035	959	903	55,357	61,834	109,322
Loans to financial customers												
Non-allocated securities	6,393		170							6,393		170
Subordinated loans												
Related receivables	303,232	280,172	288,288	1,865	1,574	1,651				305,097	281,746	289,939
Non-allocated securities												
Sub-total	39,239,669	36,789,455	35,966,262	487,361	410,775	358,707	17,888	16,522	13,874	39,709,142	37,183,708	36,311,095
Customer accounts												
Customer accounts												
Related receivables												
Sub-total												
Total loans	39,239,669	36,789,455	35,966,262	487,361	410,775	358,707	17,888	16,522	13,874	39,709,142	37,183,708	36,311,095
Grand total ⁽¹⁾	39,239,669	36,789,455	35,966,262	487,361	410,775	358,707	17,888	16,522	13,874	39,709,142	37,183,708	36,311,095

⁽¹⁾ of which subsidised sector 859,825 1,139,888 1,460,230 62,408 68,939 77,946 107 138 122 922,126 1,208,689 1,538,054

of which unsubsidised sector 38,379,844 35,649,567 34,506,032 424,953 341,836 280,761 17,781 16,384 13,752 38,787,016 35,975,019 34,773,041

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

⁽²⁾ The Company acquired the Crédit Foncier loan on the *Trésor* concerning the *Découvert sur Prime d'Epargne Logement*.

This *découvert* reached €724 million as of December 31, 2009 and €100 million as of December 31, 2010.

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

Note 2b1: depreciations and provisions for counterparty risks

(in thousands of euros)

	12/31/2008	Increases	Reversals	12/31/2009	Increases	Reversals	Misc. transactions	12/31/2010
Provisions recorded as a deduction from assets								
Customer loans and due from banks ⁽¹⁾	13,874	11,730	-9,082	16,522	12,097	-10,731		17,888
Provisions recorded in liabilities								
Customer loans and due from banks and from securities	5,837	536	-1,157	5,216	2,382	-83		7,515
Total	19,711	12,266	-10,239	21,738	14,479	-10,814		25,403

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

Note 2b2: premiums/discounts on acquired loans

(in thousands of euros)

	12/31/2008	New entries	Amortisation	12/31/2009	New entries	Amortisation	12/31/2010
Due from banks							
Premiums	119,453		-9,847	109,606		-10,035	99,571
Discounts							
Net	119,453		-9,847	109,606		-10,035	99,571
Customer loans							
Premiums	333,427	77,132	-50,430	360,129	188,702	-75,543	473,288
Discounts	-382,997	-191,282	39,265	-535,014	-228,748	52,251	-711,511
Net	-49,570	-114,150	-11,165	-174,885	-40,046	-23,292	-238,223
Total	69,883	-114,150	-21,012	-65,279	-40,046	-33,327	-138,652

Note 2c: breakdown of outstanding customer loans

(in thousands of euros)

	12/31/2010			12/31/2009	12/31/2008
	Gross	Provisions	Net		
Individuals	21,075,388		21,075,388	17,702,190	16,052,999
Subsidised sector	434,809		434,809	642,055	886,164
Unsubsidised residential property	20,640,396		20,640,396	17,059,837	15,166,105
Other	183		183	298	730
Individual entrepreneurs	1,368,369		1,368,369	1,056,960	912,202
Subsidised sector	21,501		21,501	31,607	55,506
Unsubsidised residential property	1,346,657		1,346,657	1,025,070	856,650
Other	211		211	283	46
Regional public sector (local communities)	13,101,434		13,101,434	14,189,065	15,161,221
Subsidised sector	91,124		91,124	114,065	
Unsubsidised residential property	376,527		376,527	393,003	
Other	12,633,783		12,633,783	13,681,997	
Social organisations	3,096,147		3,096,147	3,355,371	3,578,172
Subsidised sector	207,922		207,922	240,177	268,646
Unsubsidised residential property	2,809,616		2,809,616	3,028,541	3,231,735
Other	78,609		78,609	86,653	77,791
Real estate investors	105,648		105,648	124,837	200,892
Subsidised sector	93,812		93,812	101,306	119,439
Unsubsidised residential property	11,827		11,827	22,642	79,989
Other	9		9	889	1,464
Structured financing	483,324		483,324	356,373	11,958
Subsidised sector	10,030		10,030	10,678	
Transportation	182		182	182	4,804
Large projects	437,052		437,052	299,022	7,154
Other	36,060		36,060	46,491	
Other	9,359		9,359	4,659	48,818
Subsidised sector	627		627	10	
Unsubsidised residential property	7,330		7,330	4,649	
Other	1,403				
Sub-total customer loans	39,239,669		39,239,669	36,789,455	35,966,262
Doubtful loans	487,361	17,888	469,473	394,253	344,833
- Of which subsidised sector	62,408	107	62,301	68,801	77,824
- Of which unsubsidised sector	424,953	17,781	407,172	325,452	267,009
Total customer loans ⁽¹⁾	39,727,030	17,888	39,709,142	37,183,708	36,311,095
⁽¹⁾ of which subsidised sector	922,233	107	922,126	1,208,689	1,538,054
of which unsubsidised sector	38,804,797	17,781	38,787,016	35,975,019	34,773,041

The breakdown of the outstanding customer loans of 2010 is based, as it was at December 31, 2009, upon Risk's segmentation reviewed in 2009. This approach allows a much finer understanding. The breakdown of December 31, 2008 has not been adjusted.

Note 2d: breakdown of doubtful loans

(in thousands of euros)

12/31/2010	Total doubtful loans			Of which compromised doubtful loans		
	Gross	Provisions	Net	Gross	Provisions	Net
Individuals	423,361	12,122	411,239	45,783	7,703	38,080
Subsidised sector	45,673	62	45,611			
Unsubsidised residential property	376,258	10,994	365,264	44,353	6,637	37,716
Other	1,430	1,066	364	1,430	1,066	364
Individual entrepreneurs	41,806	3,843	37,963	10,592	3,171	7,421
Subsidised sector	8,719	11	8,708			
Unsubsidised residential property	32,920	3,793	29,127	10,538	3,171	7,367
Other	167	39	128	54		54
Regional public sector and sovereigns	6,722	139	6,583			
Subsidised sector	794		794			
Unsubsidised residential property	2,463	86	2,377			
Other	3,465	53	3,412			
Social organisations	5,376	269	5,107	1,013	240	773
Subsidised sector	633		633			
Unsubsidised residential property	4,267	171	4,096	537	142	395
Other	476	98	378	476	98	378
Real estate investors	5,997	630	5,367	1,952	569	1,383
Subsidised sector	3,925	34	3,891			
Unsubsidised residential property	1,594	474	1,120	1,474	447	1,027
Other	478	122	356	478	122	356
Structured financing	4,099	885	3,214	1,321	875	446
Subsidised sector	2,664		2,664			
Unsubsidised residential property						
Other	1,435	885	550	1,321	875	446
Other						
Total ⁽¹⁾	487,361	17,888	469,473	60,661	12,558	48,103

⁽¹⁾ of which subsidised sector

62,408 107 62,301

of which unsubsidised sector ⁽²⁾

424,953 17,781 407,172 60,661 12,558 48,103

⁽²⁾ The amount of doubtful loans in the competitive sector includes €186,68 million of SGFGAS-guaranteed loans.

In accordance with CRC Regulation n°2005-03, compromised doubtful loans do not include loans that benefit from a guarantee covering almost all risks, such as loans of the subsidised sector and French State-guaranteed PAS loans.

(in thousands of euros)

12/31/2009	Total doubtful loans			Of which compromised doubtful loans		
	Gross	Provisions	Net	Gross	Provisions	Net
Individuals	347,725	11,172	336,553	26,818	5,250	21,568
Subsidised sector	49,229	63	49,166			
Unsubsidised residential property	297,148	10,125	287,023	25,470	4,266	21,204
Other	1,348	984	364	1,348	984	364
Individual entrepreneurs	40,182	3,580	36,602	6,476	2,808	3,668
Subsidised sector	10,643	43	10,600			
Unsubsidised residential property	29,501	3,513	25,988	6,453	2,785	3,668
Other	38	24	14	23	23	0
Regional public sector and sovereigns	5,834	136	5,698			
Subsidised sector	664		664			
Unsubsidised residential property	1,429	100	1,329			
Other	3,741	36	3,705			
Social organisations	5,535	104	5,431	113	66	47
Subsidised sector	587		587			
Unsubsidised residential property	4,467	72	4,395	85	38	47
Other	481	32	449	28	28	
Real estate investors	6,906	558	6,348	1,491	391	1,100
Subsidised sector	4,878	32	4,846			
Unsubsidised residential property	1,582	404	1,178	1,491	391	1,100
Other	446	122	324			
Structured financing	4,593	972	3,621	1,605	969	636
Subsidised sector	2,938		2,938			
Unsubsidised residential property	1,383	768	615	1,216	765	451
Other	272	204	68	389	204	185
Other						
Total ⁽¹⁾	410,775	16,522	394,253	36,503	9,484	27,019
⁽¹⁾ of which subsidised sector	68,939	138	68,801			
of which unsubsidised sector ⁽²⁾	341,836	16,384	325,452	36,503	9,484	27,019

⁽²⁾ The outstanding total doubtful loans for the unsubsidised residential property includes €163.39mn of loans guaranteed by the SGFGAS.

In accordance with CRC Regulation n°2005-03, compromised doubtful loans do not include loans that benefit from a guarantee covering almost all risks, such as loans of the subsidised sector and French State-guaranteed PAS loans.

The breakdown of the outstanding customer loans of 2009 is based upon Risk's segmentation.

This approach allows a much finer understanding. The breakdown of December 31, 2008 has not been adjusted.

(in thousands of euros)

12/31/2008	Total doubtful loans			Of which compromised doubtful loans		
	Gross	Provisions	Net	Gross	Provisions	Net
Individuals	289,819	5,474	284,345	9,576	3,215	6,361
Subsidised sector	59,734	75	59,659			0
Unsubsidised residential property	229,974	5,326	224,648	9,465	3,143	6,322
Other	111	73	38	111	72	39
Individual entrepreneurs	25,854	1,918	23,936	3,372	1,635	1,737
Subsidised sector	8,301		8,301			
Unsubsidised residential property	17,523	1,890	15,633	3,344	1,607	1,737
Other	30	28	2	28	28	
Regional public sector and sovereigns	5,866	144	5,722	2	2	
Social organisations	16,674	420	16,254	802	64	738
Subsidised sector						
Unsubsidised residential property	15,354	337	15,017	775	37	738
Other	75	69	6	27	27	
Real estate professionals						
Unsubsidised residential property						
Other						
Real estate investors	19,435	5,881	13,554	8,712	5,792	2,920
Subsidised sector	7,816	33	7,783			
Unsubsidised residential property	9,813	4,678	5,135	6,967	4,622	2,345
Other	1,806	1,170	636	1,745	1,170	575
Structured financing						
Transportation						
Large projects						
Other	1,059	37	1,022	87	21	66
Total ⁽¹⁾	358,707	13,874	344,833	22,551	10,729	11,822

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

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

⁽²⁾ The amount of doubtful loans in the competitive sector includes €105,56 million of SGFGAS-guaranteed loans.

In accordance with CRC Regulation n°2005-03, compromised doubtful loans do not include loans that benefit from a guarantee covering almost all risks, such as loans of the subsidised sector and French State-guaranteed PAS loans.

Note 3a: bonds and other fixed income securities

(in thousands of euros)

	12/31/2010			12/31/2009	12/31/2008
	Gross	Provisions	Net		
Bonds and other fixed income securities					
Short-term investment securities ⁽¹⁾	7,036,159	-13,942	7,022,217	9,674,329	11,642,328
Listed securities	76,159	-13,942	62,217	182,329	308,328
Unlisted securities	6,960,000		6,960,000	9,492,000	11,334,000
Long-term investment securities ⁽²⁾	37,193,760		37,193,760	35,217,682	34,108,077
Listed securities	33,329,117		33,329,117	32,006,419	30,797,929
Unlisted securities	3,864,643		3,864,643	3,211,263	3,310,148
Related receivables	273,796		273,796	214,620	356,716
TOTAL ⁽³⁾	44,503,715	-13,942	44,489,773	45,106,631	46,107,121

⁽¹⁾ At December 31, 2010, the market value of short-term investment securities amounted €67,874K included €13,942K of depreciated unrealized capital loss (after swaps) and €2,072K of depreciated unrealized capital gain (before swaps).

⁽²⁾ At December 31, 2010, shares of securitisation funds under this item represent €21,667,096K (excluding related receivables).

Moreover, no unrealized capital loss on long-term investment securities was recorded at December 31, 2010 (data communicated pursuant to regulation CRC 2004-16 of 11/23/2004 regarding information to be provided further to the transposition of the European Directives, "Fair value" and "Modernisation").

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

Note 3b: premiums/discounts

(in thousands of euros)

As of December 31, 2010	Gross amount	Redemption value	Difference +/-
Short-term investment securities			
Bonds	76,159	76,155	-4
Other fixed income securities	6,960,000	6,960,000	
Long-term investment securities			
Bonds	15,526,642	15,477,679	-48,963
Other fixed income securities	21,667,118	21,718,959	51,841

Note 3c: financial fixed assets

(in thousands of euros)

	Gross amount at 12/31/2008	Acquisitions	Disposals/repayments	Reclassification	Change in premiums/discounts	Currency differences	Gross amount at 12/31/2009	Acquisitions	Disposals/repayments	Reclassification	Change in premiums/discounts	Currency differences	Gross amount at 12/31/2010
Long-term investment securities	34,108,078	3,248,761	-1,939,736		2,697	-202,119	35,217,681	3,151,866	-1,879,062		1,993	701,282	37,193,760
Total	34,108,078	3,248,761	-1,939,736		2,697	-202,119	35,217,681	3,151,866	-1,879,062		1,993	701,282	37,193,760
Related receivables	280,954						203,328						256,138
Grand total	34,389,032	3,248,761	-1,939,736		2,697	-202,119	35,421,009	3,151,866	-1,879,062		1,993	701,282	37,449,898

Note 4a: tangible and intangible fixed assets

(in thousands of euros)

	Gross amount at 12/31/2009	Acquisitions in 2010	Disposals in 2010	Gross amount at 12/31/2010	Amortisation and provisions	Net amount at 12/31/2010	Net amount at 12/31/2009	Net amount at 12/31/2008
Intangible fixed assets								
Difference intangible/ CFF equity contribution	119,408			119,408	119,408			2,480
Other intangible fixed assets								
Total	119,408			119,408	119,408			2,480

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

(in thousands of euros)

	Amount at 12/31/2008	Increases in 2009	Reversals in 2009	Amount at 12/31/2009	Increases in 2010	Reversals in 2010	Amount at 12/31/2010
Intangible fixed assets	116,928	2,480		119,408			119,408
Total	116,928	2,480		119,408			119,408

Note 5: other assets

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Conditional instruments purchased	5,270	8,200	12,115
Miscellaneous receivables	8,428	7,222	66,612
Special bonus account	79,819	92,826	125,933
Total	93,517	108,248	204,660

Note 6a: prepayments, deferred charges and accrued income

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Deferred charges ⁽¹⁾			
Issue and redemption of premiums	439,619	411,133	370,256
Other deferred charges		55,219	47,689
Other prepayments, deferred charges and accrued income			
Prepayments	231,270	247,944	182,736
Accrued income ⁽²⁾	1,931,435	1,984,015	2,178,293
Deferred tax	31,611		
Other ⁽³⁾	433,441	397,639	712,005
Total	3,035,765	3,095,950	3,490,979

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

Other deferred charges correspond to the loan issue fees to be amortised over the remaining term to maturity of the bonds and loans.

The 2010 change in accounting presentation had no impact on the result. It no longer considers these costs as commissions and fees, but as accessories directly related to issues and are also to be amortized until maturity of the loans.

⁽²⁾ Includes accrued income on swaps contracts for €1,926,888K as of Dec. 31, 2010.

⁽³⁾ Includes borrower accounts (pending payments on loan accounts) and released loan funds on behalf of Crédit Foncier €236,051K as of Dec. 31, 2010, compared to €218,613K as of Dec. 31, 2009 and €672,965K as of Dec. 31, 2008.

Note 6b: deferred charges

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Issue and redemption of premiums			
Debt securities			
Mortgage bonds (obligations foncières)			
Subsidised sector	2,132	2,719	3,306
Other sectors	437,487	408,414	366,830
Negotiable debt securities (B.M.T.N.)			120
Total issue and redemption of premiums	439,619	411,133	370,256
Other deferred charges			
Loan and bond issuance costs ⁽¹⁾		55,219	47,689
Total other deferred charges		55,219	47,689
Total deferred charges	439,619	466,352	417,945

⁽¹⁾ The cost of issuing bonds were pre-paid in commission accounts and amortized over the maturity of the loans.

The change in presentation of the financial statements took place in 2010, with no impact on the outcome. It was to no longer consider these costs as commissions, but as accessories directly related to issuances and also to be amortized over the maturity of the loan.

Note 7: due to banks

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Due to non group banks			
On demand			
Current accounts			9,730
Other amounts due	68,754	64,505	8
Related payables			
Sub-total	68,754	64,505	9,738
At maturity			
At maturity BDF P003G	2,000,000	3,000,000	2,500,000
Term loans	98,169	144,660	130,278
Securities subject to repurchase agreements			
Related payables	2,924	20,718	38,228
Sub-total	2,101,093	3,165,378	2,668,506
Total due to non group banks	2,169,847	3,229,883	2,678,244
Due to group banks			
On demand	268	1,433	16,079
At maturity	3,383,676	3,456,112	3,163,669
Term loans ⁽¹⁾	2,783,998	2,856,687	2,565,840
Securities subject to repurchase agreements	599,678	599,425	597,829
Total due to group banks	3,383,944	3,457,545	3,179,748
Grand total	5,553,791	6,687,428	5,857,992
⁽¹⁾ Of which subsidised sector	20,978	14,921	

Note 8: customer deposits

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Other liabilities			
Non-group			
On demand			
Other amounts due to customers	14,867	5,297	33,479
Total	14,867	5,297	33,479

Note 9: debt securities

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Negotiable debt securities ⁽¹⁾	238,000	238,000	181,252
Related payables	5,780	3,986	6,952
Negotiable debt securities and related payables	243,780	241,986	188,204
Mortgage Bonds ("obligations foncières") ⁽²⁾	86,098,034	79,887,330	78,002,661
Related payables	2,030,464	2,069,356	1,957,400
Mortgage Bonds and related payables	88,128,498	81,956,686	79,960,061
Grand total	88,372,278	82,198,672	80,148,265

⁽¹⁾ of which subsidised sector 31,252

⁽²⁾ of which subsidised sector ⁽¹⁾ 116,178 812,600 804,987

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

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

Note 10: other liabilities

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Other payables ⁽¹⁾	167,217	43,088	52,512
Related payables	1,335	1,732	2,116
Conditional instruments sold	41	58	119
Allocated public funds ⁽²⁾	245,019	256,071	260,470
Deposits received	1,744,030	1,251,900	424,140
Total	2,157,642	1,552,849	739,357

⁽²⁾ of which subsidised sector 191,737 198,641 200,078

⁽¹⁾ In 2010, it included €9,788K in corporate taxes due to CFF as stipulated by the taxation integration.

Note 11: accruals and deferred income

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Other liability adjustment accounts			
Prepaid FGAS subsidies	340,457	388,385	434,175
Other pre-payments	816,554	698,609	575,275
Accruals ⁽¹⁾	877,698	774,693	1,631,548
Adjustment accounts ⁽²⁾	419,896	834,977	1,492,713
Other	182,125	67,603	164,539
Total	2,636,730	2,764,267	4,298,250

⁽¹⁾ including accrued expenses of swap contracts for €864,681K at 12/31/2010 compared to €762,121K at 12/31/2009.

⁽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 in foreign currencies (See Note 17).

Note 12: provisions

(in thousands of euros)

	12/31/2008		12/31/2009				12/31/2010			
	Balance	Increases	Reversals used	Reversals not used	Balance	Increases	Reversals used	Reversals not used	Balance	
Provisions for liabilities and charges on banking operations										
Provisions for litigation	111				111	1,203		111	1,203	
Provisions for tax litigation ⁽¹⁾	3,680	12		3,680	12	401	12		401	
Provisions for amortisation of loans										
Subsidised sector										
Unsubsidised sector										
Provisions for losses on commitments										
Provisions for liabilities and charges on financial instruments										
Provisions for liabilities and charges - cost of risk										
Provisions for potential risks on non-doubtful loans ⁽²⁾	5,837	536	1,109	48	5,216	2,382	83		7,515	
Total	9,628	548	1,109	3,728	5,339	3,986	95	111	9,119	

⁽¹⁾ At end 2008, the tax litigation provision corresponded to accrued interest in FCC shares for the 2005 financial year. On December 31, 2009, the provision has been reversed after the prescription of the full year 2005. The €0.4 million provision of 2010 is a tax risk provision that has been made after a tax audit realized in 2010 regarding fiscal years 2007, 2008 and 2009.

⁽²⁾ see paragraph 2.4.2 of the draft appendix.

In 2009, the provision of €0.5 million mainly concerned the Neiertz provision. The reversal of €1.1 million included the reversal of €0.6 million for the "client" dynamic provision and the reversal of €0.5 million for the Neiertz provision.

In 2010, the provision of €2.4 million mainly concerned the Neiertz provision of €1.4 million and the "client" dynamic provision of €1 million.

Note 13: subordinated debt

I - Amount in financial statements

(in thousands of euros)

Description	Amount at 12/31/2010	Amount at 12/31/2009	Amount at 12/31/2008
Redeemable subordinated notes "RSN"	2,100,000	2,100,000	2,100,000
Subordinated participating loan	1,350,000	1,350,000	1,350,000
Related payables	270	250	589
Total subordinated debt	3,450,270	3,450,250	3,450,589

II - Detailed information concerning subordinated debt

a) Financial characteristics

(in thousands of euros)

Category	Date of issue	Maturity date	Rate	Repayment terms	Amount at 12/31/2010
Redeemable subordinated notes "RSN" ⁽¹⁾	12/30/2003	12/30/2043	Euribor 3 months + 0.5%	At maturity	2,100,000
Subordinated participating loan from Crédit Foncier de France <i>rescheduled on June 28, 2002</i>	10/22/1999	10/21/2040	TAM + 2.5%	At maturity	1,350,000

⁽¹⁾ Of which €2bn issued on 12/28/2007, related to the issue of 12/30/2003.

b) Possibility and conditions for early repayment

› On the subordinated participating loan

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

› On the redeemable subordinated notes "RSN"

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

c) Conditions relating to interest rate payable

› On the subordinated participating loan

In order to ensure the Company's profitability, interest is only due if the net income for the year in respect of which the interest is due, after payment of that interest, is at least 10 million euros. As a consequence, if net income before payment of the interest were to be less than 10 million euros, no interest would be due and it would not be carried over to subsequent years. If net income, before payment of the interest, were greater than 10 million euros but would become less than this amount after payment of the interest, this interest is reduced by a corresponding amount, and the amount of interest greater than the interest thus reduced would not be carried forward to subsequent years.

› On the redeemable subordinated notes "RSN"

Any interest not paid is carried over as unsecured debt.

Note 14: change in shareholders' equity

(in thousands of euros)

	Opening balance 01/01/2009	Allocations	Changes in capital and reserves		Balance at 12/31/2009	Allocations	Changes in capital and reserves		Balance at 12/31/2010
			Dividends paid in shares	Other change			Dividends paid in shares	Other change	
Capital stock ⁽¹⁾	924,000		84,000		1,008,000				1,008,000
Share premiums ⁽¹⁾	271,067		31,395		302,462				302,462
Reserves									
Legal reserve	15,400	3,112			18,512	8,773			27,285
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 ⁽²⁾	56,843	-56,381			462	166,696		-91,504	75,654
Net shareholders' equity before income for the year	1,322,827	-53,269			1,384,953				1,468,918
Income for the year before distribution	62,231	-62,231			175,469	-175,469			143,211
Net shareholders' equity after income for the year	1,385,058				1,560,422				1,612,129
Dividends distributed		-115,500	115,395	105					
	Opening balance 01/01/2009	Allocations	Changes in provisions		Balance at 12/31/2009	Allocations	Changes in provisions		Balance at 12/31/2010
			Increases	Reversals			Increases	Reversals	
Regulated revaluation reserves									
Other regulated reserves									
Regulated reserves									
Amount of shareholders' equity before dividends	1,385,058				1,560,422				1,612,129
	Opening balance 01/01/2009	Allocations	Changes in FRBG		Balance at 12/31/2009	Allocations	Changes in FRBG		Balance at 12/31/2010
			Increases	Reversals			Increases	Reversals	
Fund for general banking risks	20,000				20,000				20,000
Total	1,405,058				1,580,422				1,632,129

⁽¹⁾ The capital stock consists of 63,000,000 ordinary shares with a par value of €16, which all benefit from the same rights.

No revaluation has been carried out to date.

No capital increase since December 31, 2009.

⁽²⁾ A deposit on dividends amounting €94.5 million has been voted by the Board of Directors on December 17, 2010. It has been deducted on retained earnings.

Moreover, the choice of accounting for deferred tax on social basis has a €2,996K positive impact on shareholders' equity at the beginning of the year.

This amount was allocated to retained earnings.

Note 14b: proposed allocation of income

12/31/2010

(In thousands of euros)

Sources		
Retained earnings		170,154
Net income for the year		143,211
Drawing from reserves		-94,500
Allocation		
Allocation to reserves		
Legal reserve	7,161	
Special long-term capital gains reserves		
Other reserves		
Dividends ⁽¹⁾	126,000	
Other distributions		
Retained earnings	85,704	
Total	218,865	218,865

⁽¹⁾ Final balance of the dividend including the deposit on dividend decided on 2010.

Note 15: commitments given

Financial commitments

(in thousands of euros)

	12/31/2010		12/31/2009		12/31/2008	
	Net authorisations	Amounts not drawn down	Net authorisations	Amounts not drawn down	Net authorisations	Amounts not drawn down
Subsidised sector						
Non-Group commitments						
Banks						
Customers				313		
Sub-total subsidised sector				313		
Competitive sector						
Non-Group commitments						
Other values given as a guarantee ⁽¹⁾	5,581,713		7,020,087		10,449,002	
Banks		15,995				
Customers	158,416	2,124,618	110,158	2,064,127	127,012	2,822,993
Sub-total competitive sector	5,740,129	2,140,613	7,130,245	2,064,127	10,576,014	2,822,993
Total ⁽²⁾	7,880,742		9,194,685		13,399,007	

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.

	12/31/2010	12/31/2009	12/31/2008
⁽¹⁾ This line represents assets and securities given as collateral to the Banque de France, in the framework of the pool of the Overall collateral management program or <i>Gestion globale des garanties</i> (3G) of which:			
Securities	€2,249 million	€3,360 million	€6,251 million
Loans	€3,333 million	€3,360 million	€4,198 million

⁽²⁾ At December 31, 2010, doubtful commitments came to: €1,569K

Main changes concerning financing commitments given to customers are:	In millions of €	12/31/2010	12/31/2009	12/31/2008
Interactive cash-flow lines		-	-	305
Local authority public sector		-	-	-
Revolving credit lines (outstandings purchased from IXIS CIB)		1,115	1,315	2,012
Treasury housing savings accounts (" <i>primes d'épargne logement</i> ")		900	281	37

Note 16: commitments received

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Financing commitments			
Non-group commitments			
Banks ⁽¹⁾	3,161,561	3,442,050	7,349,674
Sub-total	3,161,561	3,442,050	7,349,674
Group commitments ⁽²⁾	50,499	55,448	563,200
Other values received as collateral from the Group ⁽⁶⁾	12,278,584	7,691,797	1,200,284
Total	15,490,644	11,189,295	9,113,158
Guarantee commitments			
Non-Group commitments			
Credit institutions and assimilated ⁽³⁾	3,283,785	3,286,211	3,384,497
Customers ⁽⁴⁾	38,707,948	32,674,266	30,051,552
Sub-total	41,991,733	35,960,477	33,436,049
Group commitments ⁽⁵⁾	4,693,085	9,527,935	11,415,551
Total	46,684,818	45,488,412	44,851,600
Commitments on securities			
Others securities to be received	15,000		542,418
Total	46,699,818	45,488,412	45,394,018
Total commitments received	62,190,462	56,677,707	54,507,176

⁽¹⁾ At December 31, 2010, the non-group financing commitments represented the commitment received from the Banque de France as part of the Global Management Guarantee Pool which amounted to €3,161.6 million compared to €3,442.1 million at December 31, 2009.

	(thousands of euros)		
	12/31/2010	12/31/2009	12/31/2008
⁽²⁾ Group commitments included FCC share repurchase agreements amounting to:	50,499	55,448	63,200

	(thousands of euros)		
	12/31/2010	12/31/2009	12/31/2008
⁽³⁾ Includes rated AA/AA-:	400,072	500,805	583,110
Guarantees received from Créserfi:	167,172	26,720	28,649
Security enhancement guarantees received from insurance companies:	2,716,541	2,758,783	2,865,839

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

	(thousands of euros)		
	12/31/2010	12/31/2009	12/31/2008
These guarantees are broken down as follows:			
State guarantees on subsidised sector loans:	1,093,584	1,179,966	1,513,553
SFGAS guarantees on FGAS-eligible loans and repurchased by the state:	8,458,945	7,417,570	6,875,428
Mortgage guarantees for mortgage loans benefiting from only one such guarantee:	13,311,239	8,421,825	7,568,563
Guarantees granted by local authorities and other entities:	2,507,650	2,335,822	3,427,769
Security enhancement guarantees granted by states:	13,336,530	13,319,083	10,756,239

⁽⁵⁾ At December 31, 2010, guarantee commitments received include transactions of credit risk transfer, directly or indirectly, totalling €947 million to a AAA rated European public entity. They also include a guarantee received from BPCE in connection with French local authority public sector loans purchased from IXIS CIB for €3,592 million.

⁽⁶⁾ Guarantees related to loans held by Credit Foncier and put in place within the framework of loans authorized outline Article L. 211-38.

Note 17: foreign exchange transactions

(in thousands of euros)

	12/31/2010		12/31/2009		12/31/2008	
	Currency receivable	Currency payable	Currency receivable	Currency payable	Currency receivable	Currency payable
Forward transactions ⁽¹⁾						
Transactions directly with counterparties						
Hedging transactions						
Financial swaps						
Micro-hedging transactions						
Subsidised sector	116,178	161,891	112,600	161,891	104,987	161,891
Unsubsidised sector	22,990,471	23,364,654	19,132,965	19,918,650	21,922,494	23,330,649
Macro-hedging transactions						
Subsidised sector						
Unsubsidised sector						
Total hedging transactions	23,106,649	23,526,545	19,245,565	20,080,541	22,027,481	23,492,540
Forward transactions (nominal amounts)	23,106,649	23,526,545	19,245,565	20,080,541	22,027,481	23,492,540
Forward transactions (fair value) ⁽²⁾	-646,442		-721,838		-1,473,701	
Current cash transactions	15,995	14,578			287,418	315,000
Total foreign currency transactions	23,122,644	23,541,123	19,245,565	20,080,541	22,314,899	23,807,540
Total	46,663,767		39,326,106		46,122,439	

⁽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 11/23/2004 regarding information to be provided further to the transposition of the European directives, "Fair value" and "Modernisation."

Note 18: forward financial instruments

(in thousands of euros)

	12/31/2010		12/31/2009		12/31/2008	
	Euros ⁽¹⁾	Other currencies ⁽²⁾	Euros ⁽¹⁾	Other currencies ⁽²⁾	Euros ⁽¹⁾	Other currencies ⁽²⁾
Transactions directly with counterparties						
Conditional transactions						
Micro-hedging transactions						
Purchases						
Sales	3,049		6,860		9,909	
Macro-hedging transactions						
Purchases	2,167,448		1,131,021		797,393	
Sales						
Other conditional transactions						
Purchases						
Sales						
Conditional transactions (nominal amounts)	2,170,497		1,137,881		807,302	
Conditional transactions (fair value)	42,638		14,833		7,667	
Firm transactions						
Micro-hedging transactions	80,303,342	312,330	82,273,050	292,603	78,768,347	277,314
Interest rate instruments	80,303,342	312,330	82,273,050	292,603	78,768,347	277,314
Exchange rate instruments						
Other instruments						
Macro-hedging transactions	23,864,019		32,127,103		34,764,781	
Interest rate instruments	23,864,019		32,127,103		34,764,781	
Exchange rate instruments						
Other instruments						
Other transactions	3,057,737		3,099,031		1,944,805	
Interest rate instruments						
Exchange rate instruments						
Other instruments ⁽³⁾	3,057,737		3,099,031		1,944,805	
Firm transactions (nominal amounts)	107,225,098	312,330	117,499,184	292,603	115,477,933	277,314
Firm transactions (fair value) ⁽⁴⁾	2,614,597	38,028	2,593,080	1,218	1,089,259	1,454
Firm and conditional transactions	109,395,595	312,330	118,637,065	292,603	116,285,235	277,314
Total ⁽⁵⁾ (nominal amounts)	109,707,924		118,929,668		116,562,549	
Total (fair value)	2,695,263		2,609,131		1,098,380	

⁽¹⁾ Euro equivalent for non-euro currencies IN.

⁽²⁾ Euro equivalent currencies that became the euro OUT.

⁽³⁾ This amount represents a guarantee from Crédit Foncier on the RMBS tranches held on Compagnie de Financement Foncier's balance sheet. This portfolio was protected against credit risk following Crédit Foncier's implementation of a mirror operation of a Credit Default Swap. As this guarantee ended during the first half of 2008, Crédit Foncier granted an equivalent protection on June 15, 2008 on a portion of the portfolio by committing to compensate for a drop of the weighting if the rating agencies downgraded the rating to under A-/A3/A-.

⁽⁴⁾ Data communicated pursuant to Regulation CRC 2004-16 of 11/23/2004 regarding information to be provided further to the transposition of the European directives, "Fair value" and "Modernisation".

⁽⁵⁾ At 12/31/2010, there were no outstanding doubtful loans relating to transactions on financial instruments.

Note 19: interest and similar income ⁽¹⁾⁽²⁾

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
On transactions with banks	178,006	157,774	500,523
On transactions with customers	1,316,174	1,415,662	1,621,353
On bonds and other fixed income securities	3,217,697	2,849,901	2,184,572
Other interest and similar income	372	27,183	78,508
Total	4,712,249	4,450,520	4,384,956
⁽¹⁾ including income from the subsidised sector	90,722	121,359	168,723
⁽²⁾ including reversals of discounts on restructured loans under non-market conditions	5	6	6

Note 20: interest and similar expenses ⁽¹⁾

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
On transactions with banks	-155,584	-217,743	-235,375
On transactions with customers	-358,304	-83,793	-1
On bonds and other fixed income securities	-3,371,122	-3,263,368	-3,739,597
Related to subordinated debt	-66,164	-87,797	-222,611
Other interest and similar expenses	-481,686	-439,509	-13,132
Total	-4,432,860	-4,092,210	-4,210,716
⁽¹⁾ of which expenses from the subsidised sector	77,704	103,652	-138,386

Note 21: net commissions and fees

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Income	44,779	41,447	38,443
On transactions with banks			
On transactions with customers	44,494	21,881	34,420
Transfer of loan issuance costs/expenses		19,465	3,899
On securities transactions		101	
Other commissions and fees	285		124
Expenses	-4,293	-26,350	-7,895
On transactions with banks	-608	-868	-1,110
On transactions with customers			-10
On securities transactions ⁽¹⁾	-3,386	-22,050	-4,208
On payment method transactions			
Other commissions and fees	-299	-3,432	-2,567
Net balance	40,486	15,097	30,548
⁽¹⁾ of which loan issuance costs		19,465	4,208

Note 22: gains and losses on trading portfolio transactions

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Foreign exchange and arbitrage transactions	1,338	-223	889
Gains on foreign exchange and arbitrage transactions	1,338	2,259	70,302
Losses on foreign exchange and arbitrage transactions		-2,482	-69,413
Forward financial instrument transactions			
Income from forward financial instruments			
Expenses on forward financial instruments			
Reversals in provisions for unrealised losses on interest-rate instruments			
Increases in provisions for unrealised losses on interest-rate instruments			
Net balance	1,338	-223	889

Note 23: gains and losses on investment securities transactions

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Gains on disposal			
Losses on disposal			
Reversals of provisions for loss of value	89	3,571	737
Increases in provisions for loss of value ⁽¹⁾	-7,172	-1,980	-8,271
Net balance	-7,083	1,591	-7,534

⁽¹⁾ At December 31, 2010, the stock of bonds depreciation was amounted €13,942K including €13,724K for AYT CEDULA 4% bonds.

Note 24: other income from banking operations

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Reversals of provisions relating to banking transactions			
Surplus of reversals over increases in provisions for amortisation of loans			
Provision for claims and litigation on banking transactions	111		
Other income from banking operations			
Transfer of operating expenses			
Other sundry income from banking operations ⁽¹⁾	2,141	2,917	2,350
Total	2,252	2,917	2,350

⁽¹⁾ of which dividends on PAS commissions received by FGAS 2,064 2,003 1,943

Following the termination of the FGAS guarantee system, Compagnie de Financement Foncier received in 2010, from FGAS, dividends on PAS flat commissions for the periods 1993 to 2005.

Note 25: other expenses on banking operations

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Increases in provisions relating to banking operations			
Provision for claims and litigation on banking transactions	-1,203		
Other expenses on banking operations			
Commissions on PAS and PTZ loans paid to FGAS			
Amortisation of loan issuance expenses	-149	-11,934	-11,854
Amortisation of flat-rate commissions on PAS loans			
Amortisation of the correcting account on PC and PAS loans	-385	-772	-1,680
Other sundry expenses from banking operations	-422	-2,954	-372
Total	-2,159	-15,660	-13,906

Note 26: general operating expenses

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Personnel expenses	-267	-495	- 200
Taxes and duties	-10,427	-12,847	- 8,657
External services	-5,206	-4,412	- 3,989
Expenses invoiced by Crédit Foncier de France	-81,165	-79,566	- 87,846
Total	-97,065	-97,320	- 100 692

Note: The total amount of compensation received by members of management entities during the year 2010 amounted €175K.

Note 27: cost of risk

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Provisions and losses on doubtful loans	-5,083	-5,316	1,972
Increases in provisions (see note 27b)	-8,207	-6,407	-4,774
Reversals of provisions	5,012	2,642	13,060
Losses not covered by provisions	-1,888	-1,551	-6,314
Losses provisioned for unrecoverable loans			
Losses covered by provisions	-246	-1,707	-681
Reversals of provisions used	246	1,707	681
Recoveries on amortized loans ⁽¹⁾	1,767	1,189	2,018
Net balance	-3,316	-4,127	3,990

⁽¹⁾ of which recoveries for correcting account.

Note 27 bis: increases in provisions for doubtful loans

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Provisions for doubtful loans	-5,825	-5,871	-4,261
Provisions for loans to customers	-5,825	-5,871	-4,261
Provisions cost of risk	-2,382	-536	-513
Provision for losses and charges on commitments			
Provision for counterparty risks ⁽¹⁾	-2,382	-536	-513
Total	-8,207	-6,407	-4,774

⁽¹⁾ In 2009, provision of €112K was made for client dynamic provision and €424K for Neiertz provision.

In 2010, provision of €1,049K was made for client collective provision and €1,333K for Neiertz provision.

Note 27 ter: reversals in provisions for doubtful loans

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Provisions for doubtful loans	5,176	3,193	10,472
Provisions for loans to banks			
Provisions for loans to customers	5,176	3,193	10,472
Provisions for liabilities and charges - cost of risk	83	1,157	3,268
Provision for losses and charges on commitments			
Provision for counterparty risks ⁽¹⁾	83	1,157	3,268
Total	5,259	4,350	13,740

⁽¹⁾ At December 31, 2008, reversal of €1,854K of the "client" dynamic provision, reversal of €459K of the Neiertz provision and of €955K of the sector provision.

At December 31, 2009, reversal of €488K of the "client" dynamic provision, reversal of €609K of the Neiertz provision, reversal of €12K of the sector provision and reversal of €48K of the securities dynamic provision.

At December 31, 2010, reversal of €62K of the Neiertz provision and of €21K of the sector provision.

Note 28: Income taxes

(in thousands of euros)

Composition of tax expenses	12/31/2010
Current taxes	-102,225
Deferred taxes	28,614
Total	-73,611

(in thousands of euros)

Breakdown of deferred taxes of the year	12/31/2010
Non-deductible provisions	1,597
Other temporal differences	27,017
Total	28,614

The option of accounting for deferred taxes in the financial statements has been taken for the fiscal year which ended on 12/31/2010. Data for comparative periods are not available. Refer to Section II-1-2 of "Notes to the financial statements of Compagnie de Financement Foncier" regarding the changes in accounting policies.

Note 29: transactions with related enterprises and other investments

(in thousands of euros)

12/31/2010	Related enterprises		Other investments	Total
	Group ⁽¹⁾	Non-Group		
Loans receivable from banks				
On demand	316,988			316,988
At maturity	2,121,364			2,121,364
Values received as long-term pension	12,272,827			12,272,827
Loans payable to banks				
On demand	268			268
At maturity	2,783,998			2,783,998
Securities subject to repurchase agreement	599,678			599,678
Commitments given				
Financing				
Guarantee				
Commitments received				
Financing	50,499			50,499
Guarantee	4,693,085			4,693,085
Others commitments received	12,278,584			12,278,584
On securities transactions				
Bonds and other fixed income securities	8,166,976			8,166,976
Debt securities				
Subordinated debt	3,450,270			3,450,270

⁽¹⁾ The definition of Group refers to the consolidated group to which Compagnie de Financement Foncier belongs. The Company is fully consolidated within the consolidated financial statements of Crédit Foncier de France, itself a part of the Groupe BPCE. As a result, the Group represents all of the fully and proportionally consolidated entities of the Groupe BPCE.

Note 30: schedule of foreign exchange positions

C.O.B. recommendation 89.01

(in thousands of euros)

As of 12/31/2010	\$ Australian	\$ Canadian	US \$	Hong Kong \$	£ Sterling	Swiss franc	Yen	Hungarian Forint	New Zealand \$	Norwegian Krone	Danish Krone	Total
Balance sheet												
Financial assets	27,350	110,579	4,298,488	1,453	171,369	1,864,457	2,361,434	2,702	32	565	7	8,838,436
Financial liabilities	864,593	536,179	5,591,391	51,426	1,766,251	5,704,787	1,084,830	68		199,283		15,798,808
Balance sheet differential (I)	-837,243	-425,600	-1,292,903	-49,973	-1,594,882	-3,840,330	1,276,604	2,634	32	-198,718	7	-6,960,372
Commitments received	837,393	447,380	4,366,919	49,973	1,865,961	4,312,444	208,944			198,718		12,287,732
Commitments given		21,768	3,073,531		271,073	471,862	1,485,504	2,624				5,326,362
Off-balance sheet differential (II)	837,393	425,612	1,293,388	49,973	1,594,888	3,840,582	-1,276,560	-2,624		198,718		6,961,370
Overall differential (I)+(II)	150	12	485	0	6	252	44	10	32	0	7	998

Financial assets are comprised of amounts due from banks and customers.

Financial liabilities are comprised of amounts due to banks, customer deposits, and debt securities.

Foreign Exchange Position: the table above only shows the amount of transactions carried out by Compagnie de Financement Foncier on its own behalf and thus excludes transactions carried out on behalf of the French State for the subsidised sector.

Note 31: schedule of positions: liquidity risk

C.O.B. Recommendation 89.01

(in thousands of euros)

As of 12/31/2010	Remaining term to maturity					
	< 3 months	3M < T < 6M	6M < T < 1Y	1Y < T < 5Y	> 5 years	Total ⁽²⁾
Balance sheet						
Financial assets ⁽¹⁾	11,025,016	4,116,853	2,847,400	16,594,729	64,682,145	99,266,143
Due from banks	8,529,723	2,968,128	27,738	549,033	4,045,873	16,120,495
Customer loans	1,598,215	779,600	1,381,317	7,758,105	27,398,492	38,915,729
Bonds and other fixed income securities	897,078	369,125	1,438,345	8,287,591	33,237,780	44,229,919
Subordinate term loans						
Financial liabilities	3,945,799	1,640,941	4,117,440	36,246,440	49,297,698	95,248,318
Due to banks	2,058,546	41,227	39,183	913,472	2,409,856	5,462,284
Customer deposits						
Debt securities :	1,887,253	1,599,714	4,078,257	35,332,968	43,437,842	86,336,034
Liquidity notes						
Inter-bank market securities						
Negotiable debt securities		88,000			150,000	238,000
Bonds	1,887,253	1,511,714	4,078,257	35,332,968	43,287,842	86,098,034
Other debt securities						
Subordinated term debt					3,450,000	3,450,000
Balance sheet differential (I)	7,079,217	2,475,912	-1,270,040	-19,651,711	15,384,447	4,017,825
Off-balance sheet						
Commitments given	15,995		2,281,465			2,297,460
Commitments received	3,161,561				50,499	3,212,060
Off-balance sheet differential (II)	3,145,566		-2,281,465		50,499	914,600
Total differential (I)+(II)	10,224,783	2,475,912	-3,551,505	-19,651,711	15,434,946	4,932,425
Conditional positions	4,581	6,870	28,241	400,970	1,729,835	2,170,497

⁽¹⁾ Among the financial assets of the Compagnie de Financement Foncier, we have identified €27.3bn 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 years

(amounts in euros)

Description	2006	2007	2008	2009	2010
I) Financial situation at the end of the financial year					
a) Capital stock	132,000,000	154,000,000	924,000,000	1,008,000,000	1,008,000,000
b) Number of shares in issue	8,250,000	9,625,000	57,750,000	63,000,000	63,000,000
c) Number of bonds convertible into shares	None	None	None	None	None
II) Overall results from operations					
a) Revenue excluding taxes	3,130,988,425	3,538,236,200	4,418,771,642	4,496,251,634	4,753,535,071
b) Profit for the financial year before tax, employee profit sharing and net increase/reversal in amortisation and provisions	97,226,016	87,143,909	90,537,323	262,947,662	257,386,324
c) Income taxes	29,434,298	28,416,863	24,784,463	87,771,828	101,825,013
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	62,342,078	53,151,105	62,231,116	175,469,326	143,210,812
f) Amount of profits distributed	83,325,000	None	115,500,000	None	94,500,000
III) Results from operations per share					
a) Profit for the financial year after tax and employee profit sharing but before net increase/reversal in amortisation and provisions	8.22	6.10	1.14	2.77	2.47
b) Profit for the financial year after tax and employee profit sharing and net increase/reversal in amortisation and provisions	7.56	5.52	1.08	2.79	2.27
c) Dividend paid per share	10.10	None	2.00	None	1.50
IV) Personnel					
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: simplified company balance sheets for the last five years

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
Assets					
Cash due from central banks and post office accounts	5,413	4,421	20,024		4,725
Treasury notes and similar securities					
Due from banks	16,493,215	12,745,566	9,806,259	9,827,024	6,049,202
Customer loans	39,709,142	37,183,708	36,311,095	35,943,673	25,643,525
Bonds and other fixed-income securities	44,489,773	45,106,631	46,107,121	43,904,351	35,794,541
Fixed assets			2,480	7,816	14,070
Other assets	93,517	108,248	204,660	169,998	209,977
Prepayments, deferred charges and accrued income	3,035,765	3,095,950	3,490,979	4,544,432	2,974,849
Total assets	103,826,825	98,244,524	95,942,618	94,397,294	70,690,889
Liabilities					
Central banks, post office accounts					
Due to banks	5,553,791	6,687,428	5,857,992	5,117,947	1,466,703
Customer deposits	14,867	5,297	33,479	91,152	122,416
Debt securities	88,372,278	82,198,672	80,148,265	79,591,962	61,930,552
Other liabilities	2,157,642	1,552,849	739,357	506,394	1,600,475
Accruals and deferred income	2,636,729	2,764,267	4,298,250	4,253,965	2,790,141
Provisions for liabilities and charges	9,119	5,339	9,628	12,383	10,377
Subordinated debt	3,450,270	3,450,250	3,450,589	4,250,665	2,250,550
Fund for general banking risks	20,000	20,000	20,000	20,000	20,000
Regulated reserves and subsidies					
Capital, reserves and retained earnings	1,468,918	1,384,953	1,322,827	499,675	437,333
Net income for the year	143,211	175,469	62,231	53,151	62,342
Total liabilities	103,826,825	98,244,524	95,942,618	94,397,294	70,690,889
Off-balance sheet					
Commitments given ⁽¹⁾					
Financing	2,299,029	2,174,598	2,950,005	8,799,403	1,714,692
Guarantee	5,581,713	7,020,087	10,449,002		
Total commitments given	7,880,742	9,194,685	13,399,007	8,799,403	1,714,692
Commitments received ⁽¹⁾	62,190,462	56,677,707	54,507,176	59,216,527	24,067,501
Reciprocal commitments					
Sale and purchase of foreign currencies	46,663,767	39,326,106	46,122,439	37,607,259	29,198,318
Loans to be made or received in foreign currencies					
Non-unwound financial instruments	109,707,924	118,929,668	116,562,549	126,146,699	85,813,638
Total reciprocal commitments	156,371,691	158,255,774	162,684,988	163,753,958	115,011,956

⁽¹⁾ The information related to the other values received as collateral were not included in the financial statements at December 31, 2008.

Note 34: privileged/non-privileged liabilities

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Privileged debt	89,761,796	83,945,847	83,398,704
Due to banks	99,573	149,545	165,469
<i>"Obligations foncières"</i>	88,372,278	82,198,672	80,148,265
Amounts due under forward financial instruments	1,284,576	1,596,367	3,026,085
Amounts due under the agreement covered by Article L515-22 of the French Monetary and Financial Code	5,369	1,263	58,885
Debt resulting from related expenses mentioned in the last paragraph of Article L515-19 of the French Monetary and Financial Code			
Non-privileged debt	14,065,029	14,298,677	12,543,914
Unsecured debt	8,307,872	8,537,336	6,905,369
Subordinated and similar debt of which:	4,115,909	4,175,580	4,223,859
redeemable subordinated notes "RSNs"	2,100,177	2,100,141	2,100,407
participating loan	1,350,094	1,350,108	1,350,181
Shareholders' equity and provisions	1,641,248	1,585,761	1,414,686
Total liabilities	103,826,825	98,244,524	95,942,618

Note 35: totals for the subsidised sector

Balance sheet

(in thousands of euros)

Assets	12/31/2010	12/31/2009	12/31/2008	Liabilities	12/31/2010	12/31/2009	12/31/2008
Loans	922,126	1,209,580	1,539,123	Interbank loans			
				Customer deposits	181	203	2,859
				Debt securities	120,577	837,360	861,113
Other assets	79,819	92,826	126,069	Other liabilities	20,392	25,836	31,533
<i>Special bonus account</i>	<i>79,819</i>	<i>92,826</i>	<i>126,069</i>				
Prepayments, deferred charges and accrued income	39,625	26,538	24,073	Accruals and deferred income	54,241	59,168	112,741
<i>CSB Foreign exchange and rate differences</i>				<i>CSB - State guaranteed foreign exchange and rate differences</i>	<i>70</i>	<i>72</i>	<i>72</i>
<i>Other prepayments, deferred charges and accrued income</i>	<i>39,625</i>	<i>26,538</i>	<i>24,073</i>	<i>Other accruals and deferred income</i>	<i>54,171</i>	<i>59,096</i>	<i>112,669</i>
				Public funds allocated	192,037	198,640	200,076
				Subsidies	45,910	59,120	75,037
				Guarantee fund	146,127	139,520	125,039
Cash and cash equivalents				Cash and cash equivalents	654,142	207,737	480,943
Total	1,041,570	1,328,944	1,689,265		1,041,570	1,328,944	1,689,265

Off-balance sheet

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008		12/31/2010	12/31/2009	12/31/2008
Commitments received				Commitments given			
State guarantees	912,404	1,179,966	1,513,553	Loan amounts not drawn down		313	

Reciprocal commitments

(in thousands of euros)

	2010	2009	2008
Commitments on forward financial instruments			
Hedge rate instruments			
micro-hedging			
macro-hedging	700,000	1,100,000	1,100,000
Exchange hedging instruments			
micro-hedging			
foreign exchange receivable	116,178	112,600	104,987
foreign exchange payable	-161,891	-161,891	-161,891

Note 36: cash flow statement

1. Principes

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

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

It is prepared using the indirect method: the net income for the year is restated for non-monetary items: depreciation allowances for tangible and intangible assets, net provisions, other transactions without cash payments, such as expenses payable and Cash flow related to operating, investment, and financing activities is determined by the difference between items in the financial statements of the previous year and those of the current year.

Transactions concerning capital that do not generate cash flow or have no impact on income are neutral: payment of dividends in shares, increase in a provision by allocation on retained earnings.

The breakdown of Compagnie de Financement Foncier activities between operating, investment, and financing activities reflects its status as a *société de crédit foncier*.

Operating activities include:

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

Financing activities include:

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

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

2. Cash flow statement

(in thousands of euros)

	12/31/2010	12/31/2009	12/31/2008
Operating activities			
Net income for the year	143,211	175,469	62,231
Restatement of earnings, related to operating activities			
Tangible and intangible fixed assets, excluding goodwill		2,479	5,336
Net provisions / customers and banks	1,365	2,649	-6,703
Net provisions / short-term investment securities	7,083	-1,591	7,534
Net provisions for risks / loans	2,687	-4,289	-2,755
Net gain on sale of fixed assets			
Other transactions without cash payments	-1,211,430	-232,400	-345,608
Cash flow on loans to banks and customers	-6,883,147	-4,134,181	45,239
Cash flow on short-term investment securities	2,645,028	1,969,589	-1,199,443
Cash flow on long-term investment securities	-1,072,677	-1,928,285	-268,051
Cash flow on other assets	-15,020	405,953	746,716
Cash flow on debts / banks and customers	-1,101,147	833,009	639,399
Net borrowing	6,210,704	1,941,416	662,019
Cash flow on other liabilities	622,157	716,868	9,640
Net cash flow used for operating activities	-651,186	-253,314	355,554
Investment activities			
Cash flow related to the sale of:			
financial assets			
tangible and intangible fixed assets			
Disbursements for the acquisition of:			
financial assets			
tangible and intangible fixed assets			
Net cash flow from other investment activities			
Net cash flow used for investment activities			
Financing activities			
Cash flow from share issues		115,395	770,000
Dividends paid		-115,500	
Net issue of subordinated debt			-800,000
Other			
Net cash flow from financing activities		-105	-30,000
Net change in cash position	-651,186	-253,419	325,554
Cash position at start of year	974,315	1,227,734	902,180
Cash position at end of year	323,129	974,315	1,227,734
Net	-651,186	-253,419	325,554
Cash	5,413	4,421	20,024
Due to banks at maturity	317,716	969,894	1,207,710
Total	323,129	974,315	1,227,734

Note 37: fees for the statutory auditor and the members of their networks

Financial years covered: 2009 and 2010

(in thousands of euros)

	Auditor: KPMG				Auditor: PricewaterhouseCoopers			
	Amount (TTCND)		%		Amount (TTCND)		%	
	2010	2009	2010	2009	2010	2009	2010	2009
Audit								
Statutory auditors, certification, review of individual and consolidated accounts								
Issuer	203	191	57%	83%	203	191	56%	87%
Fully consolidated subsidiaries								
Others duties and services directly related to the Statutory Auditor's mission								
Issuer	156	38	43%	17%	162	29	44%	13%
Fully consolidated subsidiaries								
Subtotal	359	229	100%	100%	365	220	100%	100%
Other services provided by the networks to fully consolidated subsidiaries								
Legal, tax, corporate								
Other (specify if > 10% of audit fees)								
Subtotal								
Total	359	229	100%	100%	365	220	100%	100%

Statutory auditors' report on the financial statements

For the year ended 31 December 2010

This is a free translation into English of the Statutory Auditors' report issued in French and is provided solely for the convenience of English speaking readers. The Statutory Auditors' report includes information specifically required by French law in such reports, whether modified or not. This information is presented below the opinion on the financial statements and includes an explanatory paragraph discussing the Auditors' assessments of certain significant accounting and auditing matters. These assessments were considered for the purpose of issuing an audit opinion on the financial statements taken as a whole and not to provide separate assurance on individual account captions or on information taken outside of the financial statements.

This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Compagnie de Financement Foncier S.A.

19, rue de Capucines - 75001 Paris - France

To the Shareholders,

In compliance with the assignment entrusted to us by your Annual General Meeting, we hereby report to you, for the year ended 31 December 2010, on:

- › the audit of the accompanying financial statements of Compagnie de Financement Foncier;
- › the justification of our assessments;
- › the specific verifications and information required by law.

These financial statements have been approved by the Board of Directors. Our role is to express an opinion on these financial statements based on our audit.

I - Opinion on the financial statements

We conducted our audit in accordance with professional standards applicable in France. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures, using sampling techniques or other methods of selection, to obtain audit evidence about the amounts and disclosures in the financial statements. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made, as well as the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

In our opinion, the financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company at 31 December 2010 and of the results of its operations for the year then ended in accordance with French accounting principles.

Without qualifying our opinion, we draw your attention to the matter set out in Notes II-1-1 and II-1-2 to the financial statements regarding changes in accounting methods concerning:

- › the application of CRC Regulation No. 2009-03 concerning the accounting treatment of commissions and expenses in relation to the granting or acquisition of a loan;
- › the recognition of deferred taxes in individual accounts in order to provide more accurate financial information.

II - Justification of our assessments

In accordance with the requirements of article L. 823-9 of the French Commercial Code (*Code de commerce*) relating to

the justification of our assessments, we bring to your attention the following matters:

Accounting changes

As part of our assessment of the accounting rules and principles applied by your Company, we verified the validity of the changes made in the above-mentioned accounting methods and of their presentation.

Accounting estimates

Provisions for credit risks

As indicated in Notes II.4.1 and II.4.2 to the financial statements, your Company records impairments and provisions to cover the credit risks inherent in its business. We examined the control procedures put in place by management in relation to the monitoring of credit and counterparty risks, the assessment of the risks of non-recovery as well as the coverage of these risks through impairments and provisions on an individual and collective basis.

Valuation of securities and financial instruments

Your Company holds positions on securities and financial instruments. Notes II.6 and II.11 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.

As part of our assessment, we verified the reasonableness of these estimates.

These assessments were made as part of our audit of the financial statements, taken as a whole, and therefore contributed to the opinion we formed which is expressed in the first part of this report.

III - Specific verifications and information

In accordance with professional standards applicable in France, we have also performed the specific verifications required by French law.

We have no matters to report as to the fair presentation and the consistency with the financial statements of the information given in the management report of the Board of Directors, and in the documents addressed to the shareholders with respect to the financial position and the financial statements.

Concerning the information given in accordance with the requirements of article L.225-102-1 of the French Commercial Code relating to remuneration and benefits received by corporate officers and any other commitments made in their favour, we have verified its consistency with the financial statements, or with the underlying information used to prepare these financial statements and, where applicable, with the information obtained by your Company from companies controlling it or controlled by it. Based on this work, we attest to the accuracy and fair presentation of this information.

Paris La Défense and Neuilly-sur-Seine, March 30, 2011

KPMG Audit
Division of KPMG S.A.

PricewaterhouseCoopers
Audit

Rémy TABUTEAU

Jean-Baptiste DESCHRYVER

Details of the calculation of the overcollateralization ratio as of December 31, 2010

(In thousands of euros)

Assets covering privileged resources	Item code	Net book values	Weighting as a %	Weighted amounts
I. Special asset items				
Guaranteed loans for which the issuer of the guarantee has a rating below the 2 nd highest grade of credit quality	201			
Securitisation tranches with a credit rating below the 2 nd highest grade of credit quality	202	401,256		
Of which:				
securitization tranches whose asset is composed at least of 90% of residential mortgage loans	2021			
securitization tranches whose asset is composed at least of 90% of other mortgage loans or guaranteed loans	2022			
securitization tranches composed at least of 90% as defined in Article L515-15	2023	401,256		
Guaranteed loans for which the issuer of the guarantee has the 2 nd highest grade of credit quality	203		50%	
Securitisation tranches with the 2 nd highest grade of credit quality	204	1,917,177	50%	958,589
Of which:				
securitization tranches whose asset is composed at least of 90% of residential mortgage loans	2041	1,407,012		
securitization tranches whose asset is composed at least of 90% of other mortgage loans or guaranteed loans	2042			
securitization tranches composed at least of 90% as defined in Article L515-15	2043	510,165		
Fixed assets resulting from the acquisition of real estate under implementation of guarantees	205		50%	
Safe and liquid securities:	206	11,819,548	100%	11,819,548
due from banks with the highest grade of credit quality	2061	11,738,418		
due from banks in the European Economic Area that have the 2 nd highest grade of credit quality and whose remaining term to maturity does not exceed 100 days (cf. 3 rd paragraph of Article R515-7)	2062			
securities	2063	62,217		
receivables related to these items	2064	18,913		
Of which:				
securities, amounts and receivables received as guarantees under the 2 nd paragraph of Article R. 515-7 for assets and liabilities	2065	1,744,030		
II. Other asset items				
Other 1 st category asset items	211	5,413	100%	5,413
2 nd category asset items:	212	44,446,790	100%	44,446,790
Of which:				
mortgage loans of which:	2121	23,585,325		
mortgage loans also guaranteed by the FGAS guarantee fund	2121a	8,364,711		
mortgage loans also guaranteed by a bank or an insurance company	2121b	5,190		
mortgage loans also guaranteed by a public authority	2121c	779,667		
guaranteed loans for which the issuer of the guarantee has the highest grade of credit quality	2122	401,830		
exposures to public authorities:	2123	20,618,119		
of which exposures described in item 5 of CMF Article L. 515-15	2123a			
Other 2 nd category assets	2124	-158,483		

(Continuation of table p. 81)

3 rd category asset items:	213	45,236,640	100%	45,236,640
Of which:				
securitisation tranches with the highest grade of credit quality :	2131	19,381,251		
securitization tranches whose asset is composed at least of 90% of residential mortgage loans	2131a	12,425,758		
securitization tranches whose asset is composed at least of 90% of other mortgage loans or guaranteed loans	2131b	271,252		
securitization tranches composed at least of 90% as defined in Article L515-15	2131c	6,684,242		
exposures to public authorities:	2132	15,750,213		
of which: Exposures described in item 5 of CMF Article L515-15	2132a			
promissory notes regulated by CMF Articles L. 313-42 <i>et seq.</i>	2133	6,975,894		
other 3 rd category asset items	2134	3,129,281		
4 th category asset items:	214		100%	
Of which:				
exposures to public authorities	2141			
other 4 th category asset items	2142			
Transactions deducted from assets:				
amounts received from clients awaiting allocation, recorded as liabilities	215		100%	
repurchase agreement transactions: Repurchase securities	216	-550,982	100%	-550,982
collateral operation: 3G Pool	217	-2,237,994	100%	-2,237,994
LTV overrun amount	218	-259,360	100%	-259,360
For information: assets deducted from shareholders' equity				
TOTAL WEIGHTED ASSETS (R) (230 = 201+202+203+204+205+206+211+212+213+214+215+216+217+218)	230	103,826,825		99,418,643
Resources benefiting from the privilege as defined in article L. 515-19 of the French Monetary and Financial Code: liabilities	Item code			Amounts
I. Priveleged funding from banks	101			99,573
Of which nominal amount	101a			97,149
II. Priveleged resources from customers				
Financial customers	102			
Non-financial customers	103			
Subtotal	104			
Of which nominal amount	104a			
Of which nominal of <i>obligations foncières</i> and other privileged resources being processed	104b			
III. Securities benefiting from the privilege				
<i>Obligations foncières</i>	115			86,098,034
Negotiable debt instruments	116			238,000
Other securities benefiting from the privilege	117			
Liabilities related to these securities	118			2,036,244
Subtotal	119			88,372,278
Of which nominal amount	119a			86,336,034

IV. Amounts due in respect to the contract provided for by article L. 515-22 of the French Monetary and Financial Code	125		5,369
V. Amounts due in respect to the forward financial instruments benefiting from the privilege defined under article L. 515-19 of the French Monetary and Financial Code	126		1,284,576
Of which impact on variations of exchange rate on the nominal amount of privileged resources	126a		-826,717
VI. Liabilities resulting from the incidental expenses mentioned in the last paragraph of article L. 515-19 of the French Monetary and Financial Code	127		
Privileged resources (T) (140 = 101+104+119+125+126+127)	140		89,761,796
Nominal amount of privileged resources (141 = 101A+104A+104B+119A+126A)	141		85,606,465
Coverage ratio (to 2 decimal points) (R/T*100)	240		110.76%

Details of the calculation of the overcollateralization ratio

(In thousands of euros)

Respect of limits regarding composition of assets	Item code	Net accounting values	Regulatory threshold	Weighting as %
Total net assets	300	103,826,825		
Nominal amount of privileged resources	141	85,606,465		
Total loans guaranteed (201 + 203 + 2122) + guaranteed loans mobilized classified notes or in replacement value / net assets (300)	301	1,688,030	35%	1.63%
Promissory notes (2133)/net assets (300)	302	6,975,894	10%	6.72%
Total of securitisation tranches acquired since 01/01/2008 meeting the requirements of III of Article R515-4 of the CMF and not responding to IV of Article R515-4 of the CMF/nominal amount of privileged resources	303		20%	
Total of securitisation tranches acquired since 01/01/2008 meeting the requirements of II of Article R515-4 of the CMF and not responding to IV of Article R515-4 of the CMF/nominal amount of privileged resources	304		20%	
Total exposures specified in 5° of Article L515-15 of the CMF (2123a+2132a)/nominal amount of privileged resources (141)	305		20%	
Safe and liquid assets (206 - 2065)/nominal amount of privileged resources (141)	306	10,075,518	15%	11.77%

Details regarding calculation of liquidity eligible for refinancing as of December 31, 2010

(In thousands of euros)

Elements of calculating amounts eligible for refinancing by privileged resources	Item code	Outstandings (a)	Value of the property being financed or provided as collateral	Amounts eligible for refinancing by privileged resources	Overrun
Mortgages and guaranteed loans transferred at Compagnie de Financement Foncier's founding in 1999	410	21,695,708		21,474,870	220,839
Loans whose outstanding capital represents the total amount eligible for refinancing by privileged resources	411	17,886,646		17,886,646	
Loans whose product of the value of the property being financed or used as collateral and an LTV ratio defined in art R. 515-2 of the Monetary and Financial Code represents the total amount eligible for refinancing by privileged resources	412	3,809,062	4,359,781	3,588,224	220,839
Of which:					
the amount of loans eligible for refinancing by privileged resources may not exceed 60% of the value of property financed or provided as collateral	412a	21,019	22,978	13,787	7,233
the amount of loans eligible for refinancing by privileged resources may not exceed 80% of the value of the property financed or provided pledge	412b	3,222,659	3,803,837	3,041,470	181,189
the amount of loans eligible for refinancing may represent 100% of the value of the property financed or provided as collateral	412c	565,384	532,966	532,967	32,417
Promissory notes	420	6,939,977		6,901,455	38,521
Promissory notes of which the outstanding capital of collateralized loans represents the total amount eligible for refinancing by privileged resources	421	5,721,222		5,721,222	
Promissory notes guaranteed by collateralized loans whose product of the value of the property being financed or used as collateral and an LTV defined in Article R. 313-20 et al. of the French Monetary and Financial Code represents the total amount eligible for refinancing by privileged resources	422	1,218,755	1,451,718	1,180,233	38,521
Of which:					
promissory notes guaranteed by collateralized loans whose total amount eligible for refinancing by privileged resources cannot exceed 60% of the value of the property being financed or provided as collateral	422a	46	64	38	7
promissory notes guaranteed by collateralized loans whose total amount eligible for refinancing by privileged resources cannot exceed 80% of the value of the property being financed or provided as collateral	422b	997,458	1,237,178	965,719	31,739
promissory notes guaranteed by collateralized loans whose total amount eligible for refinancing by privileged resources cannot exceed 90% of the value of the property being financed or provided as collateral	422c				
promissory notes guaranteed by collateralized loans whose total amount eligible for refinancing by privileged resources may represent 100% of the value of the property financed or provided as collateral	422d	221,251	214,476	214,476	6,775

(In thousands of euros)

Elements of calculating amounts eligible for refinancing by privileged resources and cost overruns	Item code	Outstandings (a)	Average LTV at origination weighted by the outstanding of tranches at the calculation date (b)	Amounts eligible for refinancing by privileged resources	Overrun
Tranches and debt securities issued by a securitisation fund or a similar entity acquired after May 11, 2007 whose loans meet the requirements defined in I of Article L. 515-14	430	4,639,745		4,621,579	18,167
Tranches of funds whose issued outstanding excluding specific tranches constitute the amount being financed by privileged resources.	431	3,820,796		3,820,796	
Tranches of funds whose sum of outstanding capital of the loans in the fund plus liquidities constitutes the amount being refinanced by the amount of privileged resources	432				
Tranches of funds whose total amount refinanced by privileged resources is equal to the product of the value of the property being for the loans are part of the fund's property multiplied by the LTVs defined in Article R. 515-2 of French Monetary and Financial Code plus liquidity from FCCs or similar entities	433	818,949	82.21%	800,783	18,167
Of which:					
tranches of funds whose assets consist of loans that the amount eligible for refinancing by privileged resources may not exceed 60% of the value of the property financed or provided as collateral	4331				
tranches of funds whose assets consist of loans that the amount eligible for refinancing by privileged resources may not exceed 80% of the value of the property financed or provided as collateral	4332	818,949	82.21%	800,783	18,167
tranches of funds whose assets consist of loans that the amount eligible for refinancing by privileged resources may represent 100% of the value of the property financed or provided as collateral	4333				
Total amounts in overrun (440 = 410 + 420 + 430)	440				277,527

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

(b) Average LTV of securitisation fund tranches are recorded at the inauguration of the fund, or during a future date or when the tranches are recorded as assets on the balance sheet of the *société de crédit foncier*.

Statement

from the person

who assumes

responsibility

for the reference

document

Person responsible for financial information

Mr Thierry DUFOUR
Chief Executive Officer

Compagnie de Financement Foncier
Address: 4, quai de Bercy - 94220 Charenton-le-Pont
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Statement from the person who assumes responsibility for the reference document

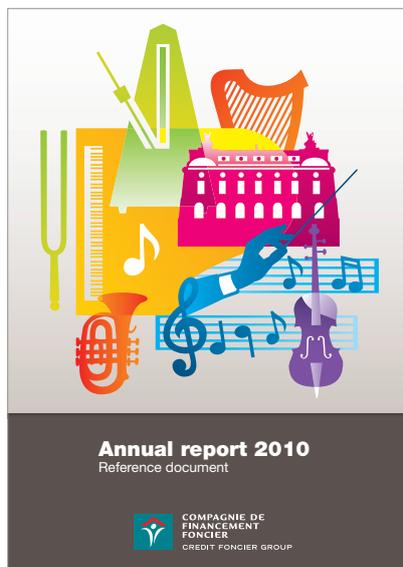
I certify, after having taken every reasonable measure to this purpose, that the information provided in this reference document is, to my knowledge, true to fact and that no information has been omitted that would change the interpretation of the information provided.

I certify, to the best of my knowledge, that the financial statements have been prepared in compliance with applicable accounting standards and accurately represent the company's assets, financial situation and its earnings and that the information contained in the management report in volume 2 depicts an accurate representation of company trends, earnings, its financial situation as well as a description of the primary risks and uncertainties the company faces.

I received a letter from the Statutory Auditors indicating that they have completed their work which consisted of verifying the information on the financial position and the financial statements provided in this reference document as well as a reading of the entire document.

Signed in Charenton-le-Pont, on April 1, 2011

Chief Executive Officer of Compagnie de Financement Foncier Thierry DUFOUR



Design, creation, production:

LES ÉDITIONS DE L'ÉPARGNE

Illustrations: Studio Impresarios/Caroline Matter



This annual report was printed on partially-recycled paper using vegetable-based inks.
The paper is fabricated at an ISO 14001 certified site and the printing press is certified by Imprim'Vert. The entire report can be recycled.



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Annual report 2010

Reference document



COMPAGNIE DE
FINANCEMENT
FONCIER

CREDIT FONCIER GROUP

The Compagnie de Financement Foncier 2010 Reference document comprises three separate volumes:

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

This is a free translation into English of Compagnie de Financement Foncier 2010 annual report issued in the French language and is provided solely for the convenience of English speaking readers. In case of discrepancy the French version prevails.

Only the French version of the Registration document has been submitted to the AMF. It is therefore the only version that is binding in law.

The original document was filed with the *Autorité des marchés financiers* (French Financial Market's Authority) on April 1st, 2011, in accordance with Article 212-13 of its general regulation and registered under the number D.11-0214 and represents the French "Document de référence" of the Compagnie de Financement Foncier. As such, it may be used in support of a financial transaction when accompanied by a prospectus duly approved by the AMF. It was prepared by the Issuer and its signatories assume responsibility for it.

Volume **3**

Summary

› Risk management report 2010

- 03 Preamble
- 03 General organisation - information relating to risk management
- 10 Internal capital adequacy and equity requirements
- 12 Management of credit and counterparty risks
- 29 Risk mitigation techniques
- 35 Securitisations
- 41 G7 reporting
- 43 Asset & liability management risks and market risks
- 46 Operational risks
- 47 Other risks

› Chairman's report established pursuant to the Article L. 225-37 of the Commercial Law

- 57 Conditions for preparing and organising the tasks of the Board of Directors
- 59 Internal control procedures
- 68 Appendix

› Legal information

- 71 Corporate governance
- 72 General information concerning the company
- 75 General information concerning the capital stock
- 78 Resolutions submitted to the Shareholders' Meeting
- 81 Bylaws
- 89 General information
- 92 Appendix: Focus on Compagnie de Financement Foncier in the Groupe BPCE
- 94 Reference document cross-reference index

Risk

management report



1. Preamble

As part of its commitment to providing transparent financial information, and beyond its regulatory obligations, Compagnie de Financement Foncier includes in its Reference document a detailed report on risk management based on IFRS, even though Compagnie de Financement Foncier is not subject to these, and on Basel II. The report is drawn up based on information used to feed the risk management application, the accounting consistency of which is assured by the Risk Division of Crédit Foncier (CFF).

2. General organisation: information relating to risk management

2.1. Transposition of the prudential regulations applying to sociétés de crédit foncier

Compagnie de Financement Foncier, a credit institution approved as a finance company and a *société de crédit foncier*, carries out specialised transactions with a single purpose: the granting or acquisition of assets that are secured by first mortgages or where the risk is directly on, or fully guaranteed by, public bodies. Beyond the protection provided by the legal framework in which it operates, Compagnie de Financement Foncier follows very strict rules aimed at optimising the quality of the assets placed on its balance sheet and further enhancing its risk profile (AAA/Aaa/AAA).

The legal safeguards deriving from the essential provisions of the French Monetary and Financial Code, apart from its privileges as a bond issuer, are:

- › an exclusive purpose, and eligibility criteria (as per Articles L. 515-13 to L. 515-17) which limit the granting or acquisition of loans to highly secured assets;
- › conditions for the assignment of receivables and the definitive nature of their transfer onto the balance sheet (Article L. 515-21);
- › the overcollateralization rule (Article L. 515-20) which states that the total amount of assets, risk-weighted where applicable, must be greater than that of the liabilities benefiting from the privileged claim provisions;
- › protection for Compagnie de Financement Foncier against the consequences of the bankruptcy of any of its shareholders and the continuity of agreements entered into with the service provider in charge of management or recovery, CFF (Articles L. 515-27 and L. 515-28);
- › strict controls on accounts and management, notably by a Specific Controller whose appointment is subject to approval by the supervisory authorities (Articles L. 515-29 to L. 515-31).

As well as adhering strictly to this legislative framework governing *sociétés de crédit foncier*, Compagnie de Financement Foncier applies rules aimed at further strengthening the secure nature of its business model, based on rigorous principles:

- › additional rules for selecting and acquiring assets in each of the categories concerned - loans to private individuals, and loans to or guaranteed by public entities;
- › prudential standards that are permanently enforced at higher levels than those established by the law or regulations and which involve constant close oversight; this monitoring covers both the specific ratios and those inherent in its status as a credit institution;
- › an organisational framework for relations between Compagnie de Financement Foncier and Crédit Foncier, acting as practically the sole service provider, in strict compliance with the provisions of Regulation 97-02 of the CRBF (*Comité de la réglementation bancaire et financière*, the French Banking and Financial Regulations Committee) as amended; these relations are governed by a set of agreements providing Compagnie de Financement Foncier with all the resources needed to carry out its responsibilities. In this context, Compagnie de Financement Foncier is supported by Crédit Foncier's Risk Division, whose organisational structure was further strengthened in 2010 as part of a thorough operational overhaul featuring ongoing large scale architectural design ("urbanisation") of information systems, advances on the Basel II project and the strengthening of teams and levels of expertise.

2.2. General risks of Compagnie de Financement Foncier

Compagnie de Financement Foncier's business model is, by its very nature, highly secured. The legislative framework prohibits it in particular from holding a trading portfolio, which immunises it against any market risk associated with proprietary trading, and from holding equity in any companies whatsoever, which immunises it against any difficulties arising outside its own assets.

Compagnie de Financement Foncier is potentially exposed to two main types of risks:

- › credit risks;
- › financial risks (asset & liabilities management).

Operational risks are borne by CFF (see section 9).

The Groupe Crédit Foncier's risk policy constitutes the frame of reference for the selection, monitoring, oversight and management of risks. It also provides the framework for the development of Compagnie de Financement Foncier's activities in accordance with a model aimed at securing its profitability, its capital and its creditors, first and foremost among whom are the holders of its *obligations foncières*, a form of French legal covered bond.

2.2.1. Credit risk

The credit risk on customer loans relates mainly to the risk of deterioration in the borrower's financial situation or to the associated risk of default which could lead to non-repayment of part of the principal or interest.

Compagnie de Financement Foncier's exceptionally low credit risk profile is also linked to:

- › the intrinsic quality of the counterparties concerned: the public sector in France or internationally, and retail banking (private individuals) for mortgage loans;
- › the robustness of the loan approval system, based on expert systems or procedures and on a constantly evolving rating and loan selection system;
- › the nature of the financing granted, and the extent and variety of security mechanisms, supplemented by a selection process when assets are sold (see section 5).

Private individuals

Loans to private individuals are acquired by Compagnie de Financement Foncier from two distinct markets:

- › the French mortgage lending market (loans originated by CFF);
- › the foreign mortgage lending market (receivables acquired in the form of *senior* tranches of securitisation transactions in virtually all cases).

Historically, Crédit Foncier has been a major player in France in mortgage lending to private individuals and notably the financing of social housing through regulated loans (zero interest rate loans, variable rate state subsidised loans ("PAS", or *Prêts à l'accession sociale*) guaranteed by the SGFGAS⁽¹⁾). In recent years its financing of private individuals' property projects have extended to all types of customers, covering new and previously-owned property, first-time buyers and buy-to-let properties, through a comprehensive range of products backed by tangible security (mortgages).

Operating in France by means of direct lending, Crédit Foncier has diversified internationally, notably by buying *senior* tranches of securitisation transactions whose underlying assets consist of mortgage loans to prime private individuals in continental Europe.

Compagnie de Financement Foncier acquires receivables on private individuals from Crédit Foncier on very rigorous security terms (first mortgage) and very selectively. The process of acquisition by Compagnie de Financement Foncier of units in securitisation funds is also conducted in accordance with strict rules on quality and profitability.

⁽¹⁾ SGFGAS: *Société de gestion du fonds de garantie de l'accession sociale à la propriété* or "Guarantee Fund for Social Home Ownership"

Public sector borrowers

The Crédit Foncier Group finances the French public sector, consisting of local authorities and institutions at all levels in France including healthcare facilities and social housing institutions and companies.

The exposures acquired by Compagnie de Financement Foncier in the French public sector are originated in Groupe BPCE, either by the Caisses d'Épargne or by Crédit Foncier.

For social housing, Compagnie de Financement Foncier takes direct guarantees from local authorities and/or mortgages.

Compagnie de Financement Foncier also operates internationally through the origination of direct loans and purchases of securities of the international public sector (IPS) or securitisation tranches backed by government guarantees.

This activity concerns:

- › the financing of sovereign states in Europe, either directly or via institutions guaranteed by the states. Credit analysis of these entities is carried out in association with Groupe BPCE analysts;
- › the financing of local authorities in other European countries, the United States, Canada and Japan. For this segment Crédit Foncier has developed its own methodology with an in-house rating model enabling it to engage with three levels of counterparty:
 - federal states, *Länder*, *cantons*, *provinces* and local authorities with genuine fiscal autonomy, depending on jurisdictions,
 - regions, departments, counties, prefectures,
 - municipalities.

Purchases of IPS receivables are systematically subject to specific approval by the Committee on commitment, after the counter-analysis by the Risk Division.

2.2.2. Financial risks (ALM)

Legal provisions prohibit Compagnie de Financement Foncier from putting its equity at risk by investing in the market. Interest and exchange rate risks are controlled by means of a systematic hedging policy for all new lending, the residual risk being contained by virtue of the risk policy and guidelines defined by the Risk Committee and declined by the Balance Sheet Management Committee of Compagnie de Financement Foncier, in order to protect its net interest margin.

Part 8 of this report details the presentation of these risks.

2.2.3. Operational risk

Operational risk is inherent in all activities of the Crédit Foncier Group. It is defined within Groupe BPCE as the risk of loss resulting from inadequate or faulty procedures, personnel, information systems or external events.

The Crédit Foncier Group has a system for managing operational risks which is deployed in accordance with the rules of Groupe BPCE throughout the whole group and thus also, in the framework of the service agreements, in Compagnie de Financement Foncier.

Operational risks are essentially linked to services entrusted to the parent company – and are therefore borne by the latter – in accordance with a *modus operandi* governed by agreements. The General Secretariat of Compagnie de Financement Foncier is in charge of the control of these services outsourced.

Section 9 deals with the monitoring of operational risks.

2.2.4. Other risks

Other risks for Compagnie de Financement Foncier, detailed in section 10, are:

- > payment and settlement/delivery risks;
- > non-compliance risk;
- > other risks (insurance, IT, legal, strategic, reputational, etc.)

2.3. Organization of the Risk, Compliance and Permanent Control Coordination Divisions

During 2010 the Risk Division and the Compliance Division were reorganised within a new Risk and Compliance Department placed under the authority of a single Deputy CEO of Crédit Foncier. A Permanent Control Coordination Division was created within this new grouping, with a view to ensuring the transversal nature of the control functions within the Group.

The tasks of the Risk, Compliance and Permanent Control Coordination divisions are detailed in the Risk management report of CFF.

The Risk and Compliance Division of CFF forms part of the Risk system of Groupe BPCE. Compagnie de Financement Foncier relays on the system and organization of the Divisions set up at CFF level.

2.3.1. Organisation of the CFF Group Risk Division

The Risk Division of Crédit Foncier, reporting functionally to the Risk Division of Groupe BPCE, covers all subsidiaries controlled by Crédit Foncier, including Compagnie de Financement Foncier. In 2010 the Risk Division updated Crédit Foncier's general risk policy, which has been formally set out in a document describing its various responsibilities and its organisation and which serves as a framework for the development of its activities, including those carried out for Compagnie de Financement Foncier and the management of the equity of CFF Group entities.

In the specific case of Compagnie de Financement Foncier, the Risk Division carries on its activities in the framework of the agreements entered into between CFF and its *société de crédit foncier*. The Risk Division reports on its tasks to the Risk Committee, the Audit Committee and to the General Management of Compagnie de Financement Foncier.

The Risk Division had a workforce of seventy people as of December 31, 2010.

The General Secretariat of Compagnie de Financement Foncier, which is in charge of controlling the services outsourced and therefore the right implementation of the agreements that link Compagnie de Financement Foncier with CFF, is closely linked to the Risk Division of CFF.

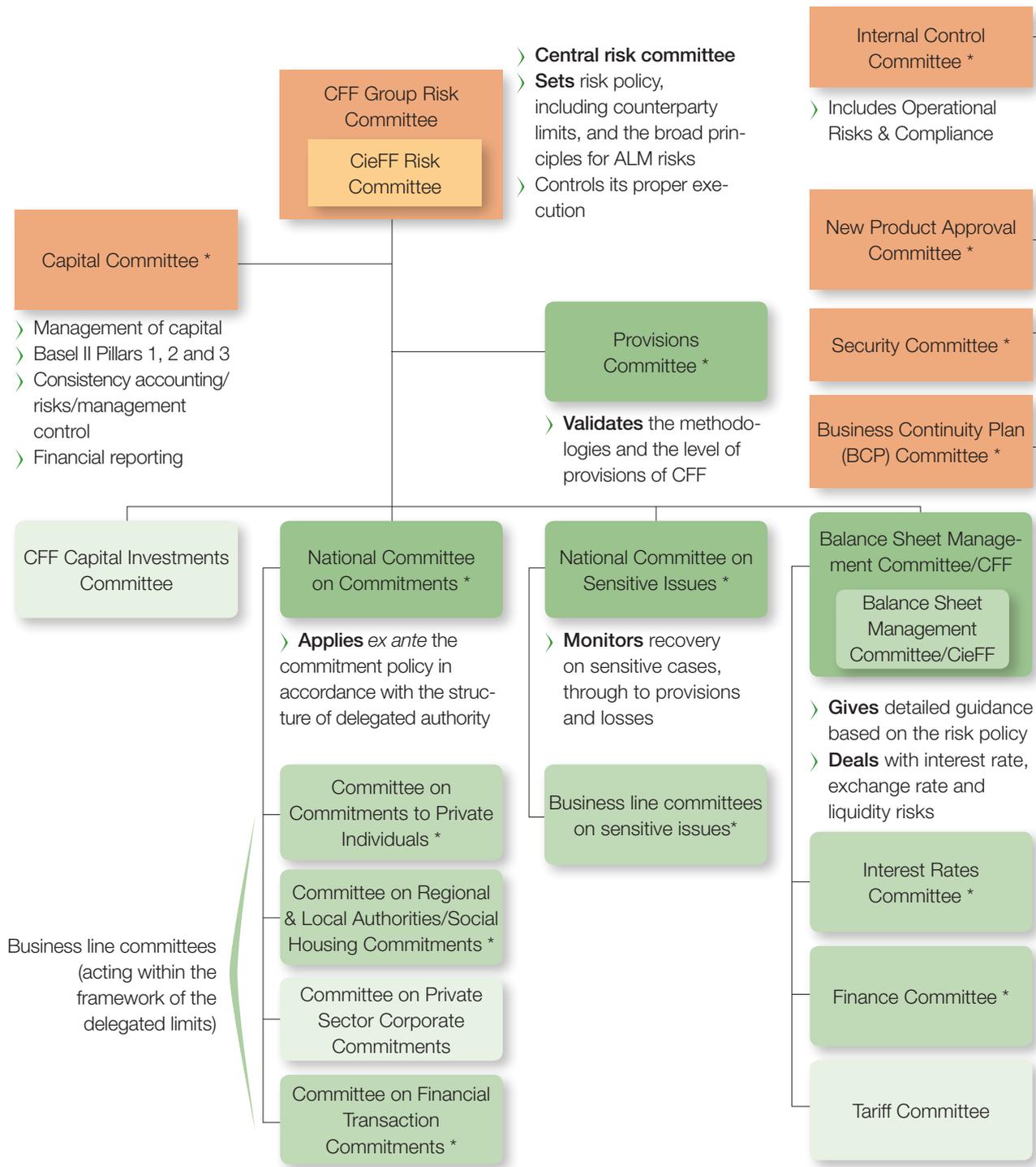
Main responsibilities of the committees dealing with risk

The Risk Division performs the risk management function by means of several committee meetings that it holds and/or which it attends to. The Risk Committee and the Internal Control Committee (ICC) are the central committees of this organisation.

Compagnie de Financement Foncier forms part of the overall organisation of Crédit Foncier and has its own Risk and Balance Sheet Management Committees. It is dealt with specifically and to the necessary extent in the other Committees of the CFF on which it is represented.

A Provisioning/Risk Charge Committee, chaired by a Corporate Officer, covers all individual and collective provisions. In order to allow a more regular reporting on provisions, this committee has been meeting quarterly since mid-2010, rather than half-yearly as before.

Risk Division: structure of committees



* Committees including Compagnie de Financement Foncier (CieFF)

The Compagnie de Financement Foncier Risk Committee is chaired by its Chairman and CEO. Meeting at least quarterly, its main responsibilities are to deal with:

- › general risk policy;
- › analysis and monitoring of the institution's general risk profile based on the results of the systems for rating, measuring and evaluating risks (stress scenarios, etc.) and the main exposures;
- › measurement of the quality of its commitments and of recoveries based on summary statements;
- › controlling the proper application of the various risk procedures and systems;
- › risk management: reviewing regulatory and specific ratios, drawing up and analysing stress scenarios and monitoring of equity.

2.3.2. Organisation of the CFF Group Compliance Division

The Compliance Division of Crédit Foncier, which is part of the Risk and Compliance Department reporting to the CEO, reports functionally to the Compliance and Security Division (DCSG) of Groupe BPCE.

The Compliance Division is independent of the operational business units and other support functions of the institution, in accordance with banking regulations. In the framework of the Compliance Charter and the area coordinated by the DCSG, it is responsible for the implementation of procedures and permanent controls relating to compliance and banking and financial ethics as well as the prevention of risks of money laundering and the financing of terrorism. It also acts as a mediator for the Group.

More details on the organization of the Compliance Division are given in the Risk management report of the CFF Annual report.

The Division had a workforce of seven people as of December 31, 2010. It is supported by Permanent Control, coordinated by the Permanent Control Coordination Division established in 2010.

2.3.3. Organisation of the CFF Group Permanent Control Coordination Division

The new Permanent Control Coordination Division, which ensures and vouches for the existence and effectiveness of the permanent control mechanisms, has strong functional links with the teams of first level permanent controllers reporting hierarchically to the deputy general managers and to the General Secretariat of Compagnie de Financement Foncier.

The Division had a workforce of four people as of December 31, 2010.

2.4. Information System and consistency of data

In the context of the implementation of the Basel II reforms, the Risk Division ensures the accounting consistency of the information feeding the risk management application.

Exposures of Compagnie de Financement Foncier are fully integrated with these consistency mechanisms.

Significant steps were taken during 2010 in order to complete the existing mechanisms for ensuring accounting consistency. These steps mainly involved the continuation of work on reconciling Risk and Accounting, which is now performed for each account in the books, and improving the quality of data on risks.

This work will continue in 2011 along with other CFF projects (Basel II, decisional information system, etc.), in close coordination with BPCE.

2.5. Highlights of 2010

2.5.1. Economy

This past year was marked by the sovereign debt crisis and volatility on the financial markets, which hindered the economic recovery that had started at the end of 2009. Economic and budgetary policies implemented by governments may have held back growth, but they also prevented any contagion.

Macroeconomic situation

The sovereign debt crisis had an adverse effect on the process of stabilising financial markets. With a rapid rise in spreads, sovereign debt instruments and their increased vulnerability led to financing problems for a number of euro zone countries. The CDS (Credit Default Swap) market, reflecting investors' fears as to the solvency of Member States, saw high levels of volatility.

Several countries in the euro zone experienced major financial difficulties, requiring them to be bailed out by their European neighbours and the international financial organisations. The involvement of the European Union and the IMF with Greece in May and then with Ireland in November, nonetheless eased the existing tensions. Along with the programme of large-scale buying up of covered bonds by the ECB in 2009 and 2010, the various support mechanisms put in place were welcomed by investors.

Macroeconomic indicators show that the economic recovery was slower than at first thought, with OECD countries showing GDP growth of just 0.4% in the fourth quarter of 2010. Spending cutbacks by governments and the rebalancing of public finances could also weigh down on the recovery process, which will have to rely essentially on private spending. The international movement on banking and financial regulation, which is still under way, made it possible gradually to curb the economic and financial crisis that had started in 2008. Coordinated efforts by countries for national economic and financial reforms, projects launched by the international banking supervision bodies and the start made on Basel III all combined to form a basis for greater market stability in the years to come.

Outlook for 2011

In 2010 we saw confirmation of a transnational movement towards greater financial regulation. It seems reasonable to think that the continuation of this trend will enable the crisis to be brought to an end. The indebtedness of European countries however will continue to be a major concern in 2011, having a direct impact on their refinancing costs, their return to economic growth and on consumer confidence.

2.5.2. Salient points for credit risk

The difficult economic context, combined with the crisis situation of certain countries, induced Compagnie de Financement Foncier to heighten its vigilance on its exposures to private individuals and sovereign states.

Compagnie de Financement Foncier's private individuals portfolio stood up all the better in that the process of selection for granting and acquiring loans largely cushioned the effects of that context. Indeed at year end we recorded an improvement in default rates.

In reaction to the sovereign debt crisis, Crédit Foncier very quickly imposed a freeze on limits for the most vulnerable countries, namely Ireland, Greece and Portugal, on which combined outstandings amounted to €2.6 billion at the end of 2010.

Moreover, like the previous years the credit quality of the other portfolios (RMBS, IPS, etc.) was confirmed.

The quality of outstandings as reflected in default rates slightly deteriorated in 2010 but started improving from mid-year on private individuals.

3. Internal capital adequacy and equity requirements

3.1. Management of capital and regulatory ratios

The management of Compagnie de Financement Foncier's capital is supervised directly by its General Management. It aims to ensure constant compliance with regulatory ratios, optimise the allocation of capital and secure its overcollateralization ratio; it therefore plays a direct part in its AAA/Aaa/AAA ratings.

The calculation of the solvency ratio is carried out at the consolidated Crédit Foncier level, Compagnie de Financement Foncier not being subject to the capital requirements of the Basel II regulations. However, it is planned to ask *sociétés de crédit foncier* that are not subject to capital requirements on an individual basis to send to the General Secretariat of the ACP (*Autorité de Contrôle Prudentiel* or Prudential Control Authority) ⁽¹⁾ the regulatory statements relating to the calculation of the solvency ratio and to the control of major risks, for information. These statements will be drawn up with effect from 30 June 2011.

Compagnie de Financement Foncier has already anticipated this request, and performs a technical calculation of the ratio.

Composition of prudential capital

Prudential capital is determined in accordance with Regulation 90-02 of the CRBF as amended, and consists of three broad categories:

- › **Core capital (Tier 1):** core capital is calculated based on equity as recognised in the accounts.
- › **Supplementary capital (Tier 2):** supplementary capital consists of redeemable subordinated debt meeting the requirements of Article 4 of the above-mentioned regulations.
- › **Deductions:** since Compagnie de Financement Foncier is not legally entitled to hold equity stakes, it is not subject to deductions from capital.

The amount of Compagnie de Financement Foncier's equity amounts to €2.5 billion as of December 31, 2010, of which €1.7 billion are core capital. The equity-type participating loan was included not in core capital but in supplementary capital.

This level of equity takes into account the total reinvestment of the result of fiscal year 2010.

Capital requirements

Capital requirements, calculated using a technical simulation of the solvency ratio as of December 31, 2010 under the standard method, amounted to €1,727 million, having increased by €219 million since December 31, 2009 calculation as a result of the €3.9 billion increase in the credit risk exposure base in line with the growth of the business.

Intra-group guarantees granted to Compagnie de Financement Foncier by the credit institutions of Groupe BPCE were risk-weighted at 19% as opposed to the 0% which is admissible for associates.

Moreover, in the case of partial assignment of a loan and in connection with the assignment and recovery agreements, the mortgages associated with the loan are allocated in their entirety to Compagnie de Financement Foncier. Under the standard approach this allows the level of risk-weighting to be adjusted to reflect the priority allocation of recoveries to Compagnie de Financement Foncier and the consequent lower rate of loss.

⁽¹⁾ The reform of the French supervision system (the Economic Modernisation Act of 2008) led to the merging of the Banking Commission and the Insurance and Friendly Societies Control Authority into the ACP (*Autorité de Contrôle Prudentiel* - Prudential Control Authority).

Solvency ratios

The technical calculation of Compagnie de Financement Foncier's solvency ratio as of December 31, 2010 was carried out using the standard method, with the following calculation options.

This simulation produced the following results:

	12/31/2009	12/31/2010
Tier 1 + Tier 2	12.6%	11.7%
Tier 1	8.4%	8%

The fall in the ratios over the period is the result of the €7.4 billion increase in the credit risk exposure base in line with the growth of the business.

3.2. Management of specific ratios

Over and above their obligations as credit institutions, *sociétés de crédit foncier* must comply with the ratios and limits specific to them, and which are described in Articles L. 515-13 *et seq.* of the French Monetary and Financial Code. Instruction no. 2008-05 of the ACP defines the methods for calculating the specific ratios.

The Specific Controller for Compagnie de Financement Foncier checks the calculations made for these various ratios and certifies them every six months.

The Risk Division of Crédit Foncier performs a half-yearly second-level check on the various specific indicators.

Overcollateralization Ratio

The law (Article L. 515-20) obliges all *sociétés de crédit foncier* to maintain a volume of risk-weighted assets in excess of the amount of debt benefiting from the privilege (the overcollateralization ratio must be over 100%). It is to be noted that from February 2011, this ratio will be regulatory set up to 102%.

The effect of the weighting is to reduce, for the calculation of this ratio, the amount of certain assets which do not present the best level of security. The overcollateralization ratio of Compagnie de Financement Foncier slightly improved as of December 31, 2010 to 110.8% compared with 110.5% at the end of December 2009. This ratio has always been higher than 108%, ever since the establishment of Compagnie de Financement Foncier in 1999, and as such is appreciably above the regulatory threshold.

Ratios of composition of assets

The replacement instrument ratio is calculated as the ratio of replacement instruments to the nominal value of the privileged resources. These replacement instruments are referred to in the regulations (Article L. 515-17 of the French Monetary and Financial Code) as having to be "sufficiently secure and liquid" to serve as replacement instruments. In the case of Compagnie de Financement Foncier they are represented by its cash and cash equivalents.

Compagnie de Financement Foncier's strict management rules enable it to comply at all times with the regulatory 15% ceiling for this ratio. Other assets, such as promissory notes and guaranteed loans, are also subject to regulatory limits.

Composition of assets	Limit	12/31/2010	12/31/2009
Replacement instruments (R. 515-7)	15.0%	11.8%	10.1%
Promissory notes (L. 515-16-1)	10.0%	6.7%	9.2%
Guaranteed loans (R. 515-6)	35.0%	1.6%	1.5%

Overrun Loan to Value (LTV) ratio

The calculation of the amounts eligible for refinancing with privileged resources, with reference to the assets valued at the closing date enables the excesses to be determined, to be covered by non-privileged resources.

In accordance with the instructions of the ACP, the calculation of the overrun LTV is carried out on loans secured by mortgages or guarantees, assigned and/or originated, of Compagnie de Financement Foncier (not including loans arising from the original transfer) and on the loans held by the securitisation funds' assets.

The factors for updating the overrun LTV are based on the values of the loans at the closing date and on the values of the security held, revalued at the end of each year.

As of December 31, 2010, the amount of overrun LTV on loans purchased and originated stood at €259,3 million (split between €220,8 million for assigned loans and €38,5 million for originated loans) to which must be added €18.2 million of excess on units and debt securities issued by securitisation mutual funds. In total, the amount of overrun LTV is €277.5 million as of December 31, 2010 compared with €471 million as of December 31, 2009.

The total amount of excesses remains considerably lower than the threshold of non-privileged resources, which stood at €14,065 million at that same date.

A stress test on LTVs, carried out by assuming a sudden fall of 10% in the value of all properties on which mortgages are held as security, based on loans purchased and originated (€28,566 million as of December 31, 2010), led to an overrun LTV of €1,322 million. This amount reaches €2,093 million if the assumption is changed to a 15% fall in the value of the mortgages. These levels are still far below the threshold for non-privileged resources. These tests thus confirm the excellent quality and the robustness of Compagnie de Financement Foncier's portfolio of assets.

4. Management of credit risk and counterparty risk

The mechanisms for selecting and monitoring Compagnie de Financement Foncier's commitments derive both from those in force in the parent company and from a very strict selection process which involves in particular, apart from the eligibility criteria laid down by the law and specific criteria of Compagnie de Financement Foncier (definition of the public sector, exclusion of commercial property), a filter which takes account of the credit scorings assigned on approval and thereafter as provided by the originator of the loans.

Compagnie de Financement Foncier also finances CFF's property loans to private individuals by subscribing to mortgage notes issued by CFF. These promissory notes, payable to order, have been considered as equivalent to guaranteed loans since April 2007. The eligibility criteria for this new business comply strictly with those applied to the loans directly held by *sociétés de crédit foncier*.

4.1. Procedure for selection, measurement and supervision of risks

4.1.1. Crédit Foncier's receivables selection system

4.1.1.1. General selection and monitoring mechanisms for commitments at CFF level

Selection and monitoring of commitments is based on a number of components:

› the definition of delegations and the implementation of a risk policy including the establishment of limits set at Crédit Foncier and Groupe BPCE level for common counterparties;

- › a system for assessing borrowers' solvency and the quality of transactions, in particular by means of analyses carried out by the Risk Division. Ratings play an important role as a risk assessment tool;
- › risk supervision based on global consolidation of relevant indicators, and controls;
- › risk management geared to the measurement and prospective handling of risks.

4.1.1.2. External credit assessment

Crédit Foncier's risk monitoring mechanisms are based both on the calculation of in-house ratings and the use of external ratings provided by international rating agencies (Standard & Poor's, Moody's and Fitch Ratings – bodies validated by the French Prudential Control Authority). It should be noted that for as long as Crédit Foncier continues to use the standard approach for evaluating credit risk, external ratings will be used for the calculation of capital requirements, notably for international exposures.

As regards securitisation, in accordance with Basel II methodology CFF analyses and monitors risks using the second best of the ratings from the three international rating agencies.

In the case of international public sector commitments, Compagnie de Financement Foncier also uses external agency ratings, in addition to in-house ratings provided by Crédit Foncier or Groupe BPCE, for purposes of analysis and indeed to ensure consistency.

4.1.1.3. Internal ratings

4.1.1.3.1 - Private individuals

For private individuals, the mechanisms for assessing borrowers' solvency rely on a decisional system comprising:

- › a detailed set of solvency rules adapted to applicants' profiles and the risks contemplated;
- › an approval score based on an expert system and on a predictive statistical module;
- › a decision making delegation structure which provides for counter-analysis by the Risk Division for new business proposals in very large amounts.

Additionally, monitoring of the risk on the loan portfolio is carried out by means of a monthly score on seven positions, using information characteristic of property transactions and of the borrower at the time of approval, as well as information on payment incidents.

The scores thus calculated for each loan (commitment) are assigned the value "X" for doubtful debts or "D" for debts that are in default but not considered doubtful.

4.1.1.3.2 - Public and international operators

The commitment mechanisms are based on a number of broad principles:

- › a dual analysis carried out by the Business Unit and the Risk Division for all transactions; the counter-analysis is the exclusive preserve of the Risk Division.
- › a system of rating on approval followed by annual re-rating, using Groupe BPCE's tools for the French public sector and sovereign states and the CFF model for the International Public Sector (IPS);
- › adherence to country, sector or individual limits in force;
- › authorisation in accordance with a delegation structure providing for various levels of delegated authority depending on the nature of the transaction, the amount and the rating of the counterparty. New cases are submitted to two levels of committees:
 - for the most significant cases in amounts: the National Commitments Committee: the Risk Division, which does not have a vote, expresses an independent opinion based on its teams' analyses.
 - for other cases, the decision is taken in a specific Business Line Committee meeting, which the Risk Division must attend, with the right of appeal.
 - above certain amounts, Groupe BPCE Risk Division (DRG) is asked to give its approval for the transaction in question to be carried out.

4.1.2. Eligibility criteria for the *société de crédit foncier* and purchase filter

The asset acquisition process carried out by Compagnie de Financement Foncier is very cautious, and rounds out a process that was already producing quality assets.

4.1.2.1. Private individuals

Compagnie de Financement Foncier may acquire loans:

- › in support of the purchase of properties for owner occupancy and, to a limited extent, rental investment; it has a strict policy forbidding the financing of commercial property;
- › secured by a first mortgage or equivalent.

The origination of receivables is carried out almost entirely by CFF. Compagnie de Financement Foncier can however acquire loans from other credit institutions. The modus operandi for selecting the receivables described hereunder in the case of CFF is then adapted as appropriate.

Following origination by CFF in accordance with the risk policy and acceptance rules in force, Compagnie de Financement Foncier acquires the loans by means of a process aimed at selecting, sometimes after a period of observation, loans presenting a risk of default below a certain threshold.

In June 2010, selection methods were adjusted so as to give more weight to the current score, which is calculated monthly; these methods were implemented for new acquisitions of Compagnie de Financement Foncier.

The purchasing filter, thus adjusted, combines, depending on the age of the loan, the approval score assessing the probability of default (PD) on a three-to-five-year horizon with the current score which assesses the risk in one year's time (regardless of the age of the loan).

These rules are shown in the two following matrices:

Owner occupancy

Compagnie de Financement Foncier eligibility criteria and purchasing filter						
		Monthly rating of out standings				Not rated
		0 to 7			8, 9, X or D (**)	Not assignable
		Age of loans				
		≤ 4 years		> 4 years		
		Rating on approval				
		0 to 3	4 to 6	7 to 9	Assignable	
Default rate on approval (*)	≤ 1.4%	Assignable	Assignable	Assignable		
	≤ 1.8%			Not assignable		
	> 1.8%					

(*) Or default rate updated in line with the age of the loan at the time assignment is considered.

(**) Monthly rating of X for doubtful debts and D for loans in default.

Rental investment

Compagnie de Financement Foncier eligibility criteria and purchasing filter						
		Monthly rating of out standings				Not rated
		0 to 5			6, 7, 8, 9, X or D (**)	Not assignable
		Age of loans				
		≤ 4 years		> 4 years	Not assignable	
		Rating on approval				
		0 to 3	4 to 6	7 to 9		
Default rate on approval (*)					Assignable	
PD updated in line with age of loan	≤ 1.3%	Assignable	Assignable	Assignable		
	≤ 1.6%			Not assignable		
	> 1.6%		Not assignable			

(*) Or default rate updated in line with the age of the loan at the time assignment is considered.

(**) Monthly rating of X for doubtful debts and D for loans in default.

In addition to the rating-linked filter, eligible security consists of:

- › first mortgages or equivalent;
- › the guarantee of SGFGAS (the management company of the FGAS - *Fonds de garantie de l'accession sociale à la propriété*, or "Guarantee Fund for Social Home Ownership"), which shares the French state's external AAA rating;
- › and marginally, the guarantee of Crédit Logement, a finance company rated AA- by the rating agencies.

The LTVs applied to the value of the mortgage help determine the amount of the loan that can be financed by privileged resources:

- › 100% for SGFGAS guarantees;
- › 80% for housing loans granted to private individuals and benefitting from a guarantee;
- › 60% for others (consisting essentially of social housing loans).

4.1.2.2. French Public Sector

Compagnie de Financement Foncier's acquisition criteria for receivables on French regional and local public sector entities are based on the BPCE internal rating (Ecolocale).

This rating takes into account the intrinsic characteristics of the borrower (budget, level of debt, credit quality, etc.).

The poorest ratings (8 and 9) are systematically excluded from the selection.

4.1.2.3. International Public Sector

As regards the international public sector, Compagnie de Financement Foncier's exposure is to counterparties that meet the regulatory eligibility requirements as set out in the French Monetary and Financial Code. Compagnie de Financement Foncier has also established strict additional receivables selection criteria. In fact IPS business is mainly geared towards counterparties with the highest ratings (the vast majority being rated AAA).

4.1.3. Allocation of Credit Limits

Compagnie de Financement Foncier's system of limits uses the same levels as Groupe BPCE, as broken down for CFF, notably country limits and individual limits.

Country limits

BPCE sets geographical “country risk” limits, defined as the combination of a sovereign risk (a country’s inability to honour its commitments), a political risk (risk of non-transfer of assets) and an economic risk (increased credit risk). Country limits are reviewed annually and validated by the Group Risk Committee on the basis of internal ratings, analyses and proposals of the Group Risk Division after taking account of the needs expressed by the BPCE entities.

In the context of its international business, Cr dit Foncier has rounded out this system with its own limits.

Individual limits

At their level, BPCE group entities must adhere to limits concerning their operations, determining the rules for risk diversification in the portfolios and, as regards regulatory limits, linked to the control of major risks.

Validated by the Risk Committee and presented to the Audit Committee, these individual limits, prepared and proposed by the Risk Division, are subject to updating, control and monitoring as well as reporting of various kinds at the initiative of the Risk Division.

Since 2010 work has been under way on revising the system for setting limits, led by Groupe BPCE in collaboration with CFF. Individual limits are gradually being put in place for large counterparties such as banks and sovereign borrowers that are common to a number of BPCE establishments. Work has focused initially on bank limits, in connection with changing regulations on interbank exposures. The work is in the process of being validated and will be continued in stages on the public operator segments.

Compagnie de Financement Foncier also has a limit of 20% of its total assets on its parent company, CFF. Calculations for this limit are applied to direct exposure on CFF without any additional guarantees such as the pledging of receivables portfolios.

4.1.4. Handling overruns and alert procedures

General principles

A statement of overruns is reported to the Risk committee.

Bank counterparties

In accordance with the arrangements set out in the management agreements between the two institutions, adherence to limits on counterparties in financial transactions of Compagnie de Financement Foncier is monitored by the permanent control unit of the Financial Activities and International Department and at level two by the Risk Division.

These limits are put in place for major banking counterparties of Compagnie de Financement Foncier, and are regularly reviewed in *ad hoc* committees (essentially for hedging and treasury management requirements).

Monitoring of adherence to authorised limits is carried out on a daily basis by D+1 observation, their utilisation being updated in real time by the front-office.

All excesses are reported in real time to the General Management of Compagnie de Financement Foncier and CFF.

Others (International public sector and Securitisation activity)

Long-term commitments are presented systematically to the Commitments Committee, particularly in the case of the international public sector and acquisitions of portfolios of mortgage loans or public sector receivables in the form of bonds with the best possible agency rating (AAA). A check is then carried out by the permanent control unit of the Financial Activities and International Department and at level two by the Risk Division in order to ensure that the committee's decisions are followed.

4.1.5. Supervision of Risks

The risk supervision system relies upon CFF's one, which has two main components:

- › the monitoring of sensitive operations;
- › the review of portfolios with a view to ensuring the overall quality of exposures and controlling the establishment of provisioning.

CFF has decision making bodies that monitor the progress of cases in sensitive situations on a monthly basis. Specific arrangements apply to securitisations and structured products of French regional government and local authorities.

Monitoring of sensitive operations

This monitoring is carried out via the Crédit Foncier Group's watch list, which is reviewed on a quarterly basis. It comprises the counterparties that need to be given special attention because of the high risk that they represent. This list refers to both doubtful and non-doubtful outstandings, but not those in litigation. When placed on the watch list, counterparties require more sustained attention, but this does not entail either the automatic suspension of credit lines or classification as doubtful.

During the first half of 2010 Crédit Foncier incorporated the new entry and exit criteria as redefined by BPCE and broke down these parameters to their limits.

Additionally, loans experiencing difficulties are reviewed more frequently by the institution in the Sensitive Operations Committees.

Lastly, cases in litigation are also examined on a quarterly basis.

Review of portfolios

Regular reviews, quarterly in the case of sensitive operations, are also carried out to evaluate the quality of the exposures. This finds expression in a tight system between the business lines and the Risk Division for analysing the quality of commitments. It applies to all significant commitments of CFF.

Monitoring bodies

Arrears Committee

It analyses the situation of cases in arrears and establishes action to be taken.

Committees on sensitive operations

These committees deal with cases considered by the institution as difficult or likely to become difficult in the future, and decide in particular on the classification of the receivables concerned, on the level of necessary provisions as well as on how they are to be managed (e.g. as regular, doubtful or in litigation).

- › *Business line committee on sensitive operations (CMAS)*

Chaired by the head of the business line concerned, this committee deals with cases involving amounts below the national committee thresholds.

› *National committee on sensitive operations (CNAS)*

Chaired by a corporate officer, it meets monthly to examine sensitive operations, cases that are transferred to litigation and those listed on Watch Lists. It also validates individual provisions proposed.

Specific mechanisms

Specific mechanisms for the regional government and local authority sector

In the framework of monitoring structured products sold to public sector operators, and coordinating with Groupe BPCE, which is a signatory to the Gissler Charter of good conduct between banking institutions and local authorities, the Crédit Foncier Group has implemented close monitoring mechanisms for these transactions which enable it to alert customers in advance to market developments likely to affect them.

Specific mechanisms for securitisations

Securitisation transactions are subject to quarterly monitoring including an analysis of management reports covering the level of arrears, prepayments, vacancy rates, compliance with financial ratios, repayment of the various tranches in line with the cash flow cascade on a transaction by transaction basis, monitoring of ratings, compliance with limits and updating of the watch list and the migration list (of transactions for which a risk of a downgrade in the rating has been detected, without any risk of actual loss being perceived at this stage).

4.1.6. Risk Management

Risk management operates on four levels:

› **Consolidated supervision of the exposures** used to establish and analyse internal and external reports. This supervision is based on a clear distinction being made between outstandings of Compagnie de Financement Foncier and those of Crédit Foncier from the time the transactions are entered in the systems. Findings are reported in presentations to the Risk Committee of Compagnie de Financement Foncier.

› **Risk mapping** and forward-looking analysis of loan portfolios (stress tests, etc.) The results of this analysis are reported in presentations to the Risk Committee.

› **Establishment of provisioning for the year** and checks on the appropriateness of the level of risk coverage to the institution's profile. Provisions are then validated by the Provisions committee. Meeting at least quarterly, the committee is chaired by General Management. It formally validates both individual and collective provisions. It also validates the methods used to calculate individual and collective provisions. This committee's scope extends to subsidiaries, and therefore Compagnie de Financement Foncier, and equity investments.

› **Monitoring of equity and regulatory ratios** (see section 3), formalized through the Equity committee. Meeting at least quarterly, the committee is chaired by General Management and is charge of steering equity and ratios.

4.2. Breakdown of Commitments of Compagnie de Financement Foncier as of December 31, 2010

4.2.1. Exposure to Credit Risk

The following tables break down on the one hand the gross basis of transactions with customers excluding off-balance-sheet commitments and financial guarantees given (representing a balance sheet total of €103,8 billion as of the end of December 2010) and on the other hand, the rate of doubtful debts observed, which is 0.5% (0.4% excluding subsidised loans).

Compagnie de Financement Foncier - Synthesis at end-December 2010

(in million euros)

Risk exposures (*)	12/31/2009			12/31/2010		
	Balance Sheet	% doubtful	% doubtful excl. sub-sidised	Balance Sheet	% doubtful	% doubtful excl. sub-sidised
Individuals	42,508	0.9%	0.8%	43,995	1.1%	1.0%
French mortgage receivables (**)	19,111	2.0	1.8	22,890	2.1	1.9
French mortgage notes (nominal)	9,042	n/a	n/a	6,976	n/a	n/a
Total mortgages	28,153	1.4%	1.2%	29,866	1.6%	1.4%
French securitised mortgage receivables (internal securitisations)	1,384	n/a	n/a	1,124	n/a	n/a
Residential mortgage backed securities (RMBS) in Europe	12,971	n/a	n/a	13,006	n/a	n/a
Total securitised mortgage receivables	14,355	n/a	n/a	14,129	n/a	n/a
Public sector borrowers	38,044			40,709		
Social housing	3,361	0.2	0.2	3,100	0.2	0.2
Regional government and local authorities	11,919	0	0	11,497	0.1	0.1
Financial Code	1,202	0	0	2,957	0	0
French sovereign debt	1,848	0	0	962	0	0
Public sector, France	18,330	0.1%	0.1%	18,515	0.1%	0.1%
Public-private partnerships (PPPs)	318	n/a	n/a	441	n/a	n/a
International public sector	8,836	n/a	n/a	10,332	n/a	n/a
International sovereign borrowers	3,094	n/a	n/a	3,825	n/a	n/a
Securitisations (essentially RMBS) guaranteed by States	7,465	n/a	n/a	7,595	n/a	n/a
International public sector borrowers	19,395	n/a	n/a	21,752	n/a	n/a
Private sector corporate mortgage loans residual run-off (arising from legal transfer 10-1999)	179	6.4%	6.3%	163	6.2%	6.7%
Exposures to the banking sector	14,271	0	0	15,831	0	0
Of which Banque de France and <i>Caisse des Dépôts et Consignations</i> (CDC)	1,520	0	0	626	0	0
Of which other banks guaranteed by sovereign or semi-sovereign institutions	3,201	0	0	2,472	0	0
Of which other banks	3,208	0	0	3,417	0	0
Of which BCTG (Crédit Foncier exposures secured by pledged assets)	6,342	0	0	9,316	0	0
Total risk exposure	95,001	0.4%	0.4%	100,698	0.5%	0.4%
Miscellaneous accrued income and other assets (***)	3,243	0	0	3,129	0	0
Total	98,245	0.4%	0.4%	103,827	0.5%	0.4%

(*) Balance sheet commitments (excl. off-balance-sheet commitments and financial guarantees given) representing overall exposure to credit risk, on gross company basis (performing and doubtful) in accordance with French accounting standards based on management data.

(**) "French mortgage receivables" also includes a small amount of Dutch receivables (€80 million as of December 31, 2009 and €81 million as of December 31, 2010).

(***) "Miscellaneous accrued income and other assets" essentially comprises accrued interest on forward financial instruments and prepaid expenses, etc.

Over the course of 2010 outstandings grew by 5.6% despite a high level of prepayments which was mainly due to a sharp fall in market interest rates. This growth was principally due to the following factors:

- › an increase of loans directly held on **Individuals** (up by 19.8%), thanks in particular to the updating of the purchasing filter and to the significant levels of loan origination and the high quality of mortgage loans to individuals at Crédit Foncier;
- › an increase of exposures on the **International Public Sector** (up by 12.2%);
- › higher interbank exposures (up by 10.9%), linked to Compagnie de Financement Foncier's treasury activity, most of it benefitting of collateralisation.

Outstandings on the French regional government and local authority sector remained relatively stable (up by 1.0% on year-end 2009). The private sector corporate mortgage portfolio, which is in run-off mode, continues to be paid down and at 0.2% represented a marginal proportion of total outstandings at the end of December 2010.

The overall quality of credit outstandings and the historically low risk profile of Compagnie de Financement Foncier remain unchallenged in spite of the still difficult economic context of 2010. The French regional government and local authority and IPS outstandings remained low-risked, with an extremely low delinquency rate. Delinquency rates on the mortgage lending portfolio to Individuals, despite an uptick seen in 2010, started to show signs of improvement in the second half of the year.

Compagnie de Financement Foncier's exposures to credit risk are analysed below in terms of Basel categories, nature of financing and geographical diversification.

4.2.2. Analysis of the credit risk exposures

4.2.2.1. Breakdown by Basel Category

The information shown in the following breakdown refers solely to on-balance sheet commitments. The breakdown of exposures by Basel category applies to counterparties excluding guarantees received and other factors enhancing the credit risk.

Table of balance sheet exposures by Basel category

(in million euros)

Basel category	12/31/2009		12/31/2010	
	Amount	% total	Amount	% total
Local associations	4	n/s	5	n/s
Individuals	28,153	29	29,865	29
Professionals (craftsmen, merchants, liberal professions, etc.)	9	n/s	17	n/s
Subtotal, retail	28,166	29%	29,887	29%
SMES-SMIS (*)	21	n/s	19	n/s
Social economy	488	n/s	452	n/s
Social housing institutions (HLM)	2,146	2	1,976	2
Semi-public companies (SEMs)	727	1	671	1
Regional governments and local authorities	13,121	14	14,453	14
Private real estate professionals (**)	109	n/s	93	n/s
Public-private partnerships (PPPs)	318	n/s	441	n/s
Subtotal, regional development banking	16,930	17%	18,106	17%
Large companies	2	n/s	0	0
Banks (**)	14,271	14	15,831	15
Sovereign borrowers	4,942	5	4,788	5
Securitisations (external)	20,436	21	20,600	20
Specialised financing	33	n/s	29	n/s
International public sector (IPS)	8,836	9	10,333	10
Subtotal, large counterparties	48,521	49%	51,581	50%
Securitised mortgage receivables, France (internal securitisation)	1,384	1%	1,124	1%
Accrued income and other assets	3,243	4%	3,127	3%
Total	98,245	100.0%	103,827	100.0%

(*) Residual run-off positions.

(**) Including guarantees of sovereign states, Banque de France, CDC.

The relative weight of Basel categories as percentages remained generally stable from 2009 to 2010, with close to a third of exposures concentrated on individuals (excluding securitisation).

4.2.2.2. Geographical Breakdown of Significant Exposures

As of the end of December 2010 the portfolio continued to be concentrated in the European Union (89%), and in France in particular (63%).

It should be reminded that commitments located in the United States consist only of loans to states and highly rated local authorities or shares in securitised loans that are guaranteed by the federal government, and do not include any direct or indirect real estate exposures; commitments in Japan concern public agencies, prefectures and municipalities.

Breakdown of exposures by geographical area ^(*)

	12/31/2009	12/31/2010	
	In %	Balance Sheet (€M)	In %
France	63.5	65,570	63.2
Other European Economic Area countries	27.1	27,147	26.1
Other European countries	1.5	1,688	1.6
North America (United States and Canada)	6.3	7,471	7.2
Africa/Middle East			
South and Central America (including Mexico)			
Asia (excl. Japan)			
Japan	1.6	1,951	1.9
Oceania			
Others			
Total	100.0% 98,245	103,827	100.0%

^(*) Restated management data: balance sheet commitments (excl. off-balance-sheet commitments and financial guarantees given) representing overall exposure to credit risk, on gross company basis (performing and doubtful) in accordance with French accounting standards.

4.2.2.3. Breakdown of Exposures by Product Family

Since Compagnie de Financement Foncier is not allowed by law to hold equity in other companies or a trading portfolio, the breakdown of balance sheet exposures by product group (loans, securities and financial transactions) as of December 31, 2010 shows by definition a concentration on loans (65% including treasury loans) and securities (20% securitisations and 15% bonds).

Product family ^(*) - Breakdown in %	12/31/2009	12/31/2010
Equities/Funds		
Other balance sheet products		
Cash advances ^(**)	12	2
Loans	53	63
Bonds ("Banking" ^(***))	13	15
Bonds ("Trading" ^(****))		
Securitisations (internal and external)	22	20
Total balance sheet	100	100
Balance sheet assets ^(*) € millions	98,245	103,827

^(*) Restated management data: balance sheet commitments (excl. off-balance-sheet commitments and financial guarantees given) representing overall exposure to credit risk, on gross company basis (performing and doubtful) in accordance with French accounting standards.

^(**) "Cash advances" mainly comprise accruals and forward financial instruments.

^(***) Bonds are held in association with lending transactions and with a view to holding them to maturity.

^(****) Compagnie de Financement Foncier is not allowed by law to hold securities for trading purposes.

4.2.3. Quality of portfolio exposed to credit risk

4.2.3.1. Lending to Individuals

Loan outstandings

Outstandings on Individuals grew by 3.5% compared with the end of December 2009. This rise is linked to the very large increase (19.8% up on 2009) in loans to individuals purchased in France, which was only partly offset by the 23% decrease in mortgage notes. This shift is mainly associated with the development of the purchasing filter, combined with the dynamism of new business origination at Crédit Foncier, which more than amply compensated for the high level of prepayments.

Compagnie de Financement Foncier's acquisitions of loans to individuals in 2010

In 2010 Compagnie de Financement Foncier acquired mortgage loans from Crédit Foncier for a total amount of €6,187 million, comprising €2,939 million in owner occupancy loans, €1,349 million in rental investment loans and €1,899 million in PAS (*Prêts à l'accession sociale* state-subsidised housing loans) and PTZ (*Prêts à taux zéro*, regulated interest-free loans) demand for which has been boosted by the social housing support measures introduced in 2008 (doubling of PTZ, introduction of the *PASS Foncier*, local PTZ and local authority assistance), which at the same time made transactions more secure.

Arrears

The overall quality of outstandings remained stable in 2010, with an improvement starting in the second half. For French mortgage receivables, the ratio of doubtful debts to total outstandings (excluding the subsidised sector) was slightly up at 1.9% compared with 1.8% at the end of December 2009, but showed an improvement on the end of June 2010 (2.0%).

Since Compagnie de Financement Foncier makes its loan acquisitions after selection, its delinquency rate (amount in arrears for more than six months) is lower than that of Crédit Foncier. The entire portfolio of selected assets is in fact secured by first mortgages, together with additional protection (more than one third of mortgage loans on individuals being guaranteed by the FGAS), which limits the risk of final loss.

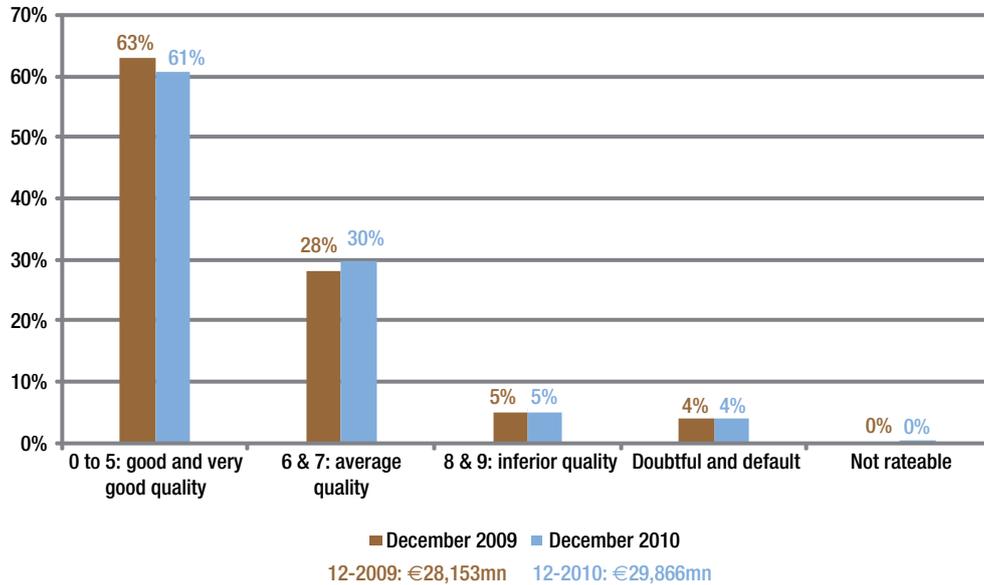
Rating

The internal rating system for individuals is described in section 4.1.1.3.1.

The breakdown shown attests to the quality of Compagnie de Financement Foncier's outstandings on individuals: close to 61% are of good or even very good quality (rated between 0 and 5). Adding to this the medium quality outstandings (ratings of 6 and 7) raises the percentage to 91%. The proportion of loans in default⁽¹⁾ remains stable at 4% at the end of December 2010. The risk profile remains comparable to that at the end of 2009.

⁽¹⁾ Here default includes non-doubtful default. As part of the work being done to harmonise standards, default and doubtful will converge in the end of 2011.

Internal rating of outstanding mortgage loans to individuals



Securitisation

As well as acquiring receivables directly on individuals, Compagnie de Financement Foncier may also acquire securities the underlying assets of which are mortgage receivables on individuals. These transactions can take two forms:

- > securitisations internal to the Crédit Foncier Group. In accordance with its regulations, Compagnie de Financement Foncier has subscribed to AAA rated *senior* units of funds of receivables originated by Crédit Foncier for an amount of €1.1 billion as of December 31, 2010;
- > external securitisations. Details of investments in securitisations are shown in section 6 which is devoted to this segment.

4.2.3.2. French Regional Government and Local Authorities

Outstandings

Social housing outstandings fell by 7.8% relative to the end of 2009, while regional government and local authority outstandings grew by 10.2%. Overall, regional government and local authority outstandings remained relatively stable (up by 1.0% on the end of 2009).

Arrears

The public sector portfolio has a very marginal rate of doubtful debts, corresponding to old cases, attesting to the good quality of the portfolio.

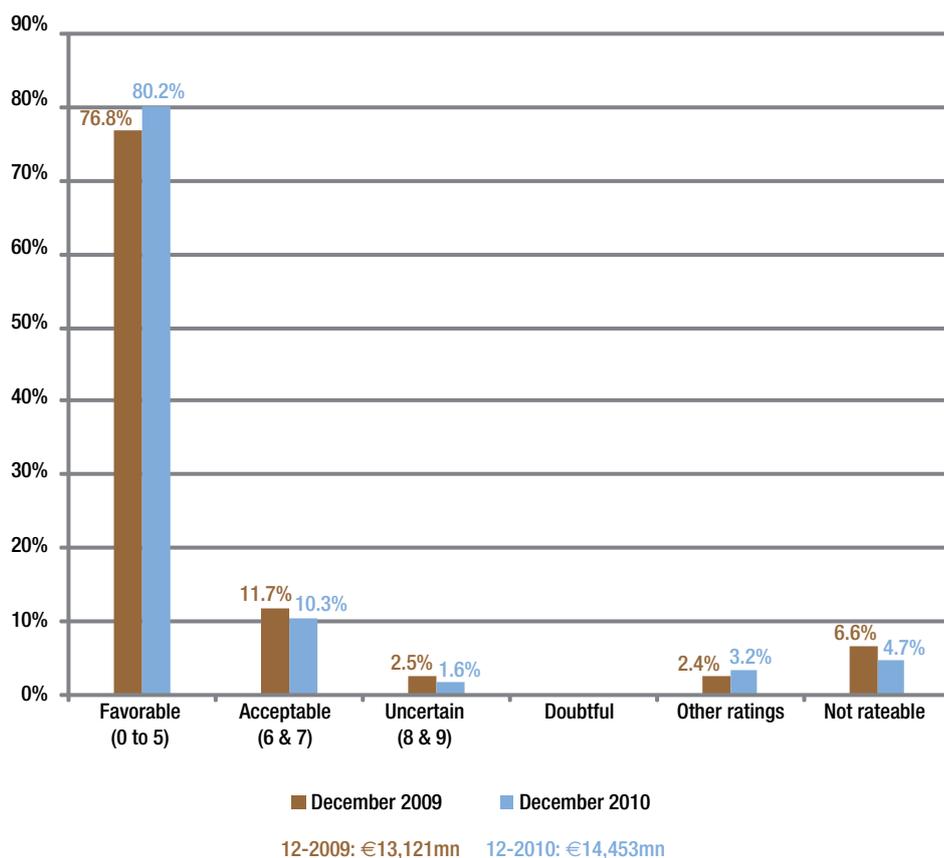
Ratings

For all its financing business with regional and local authorities and social housing, the Crédit Foncier Group uses the internal rating tools of Groupe BPCE (a scale of 0 to 9 in ascending level of risk) which are based on rating and specific criteria for each customer segment (regions, departments, municipalities, social economy, social housing, public health institutions, etc.). Unrated counterparties are subjected to in-depth individual analysis.

Regional government and local authorities portfolio

Of Compagnie de Financement Foncier’s total outstandings (ratings of 0 to 5) almost 80% of cases are rated “favourable”, which is an improvement on year-end 2009 (77%).

*French Public Sector Portfolio
Breakdown by Basel II rating*



Social property portfolio

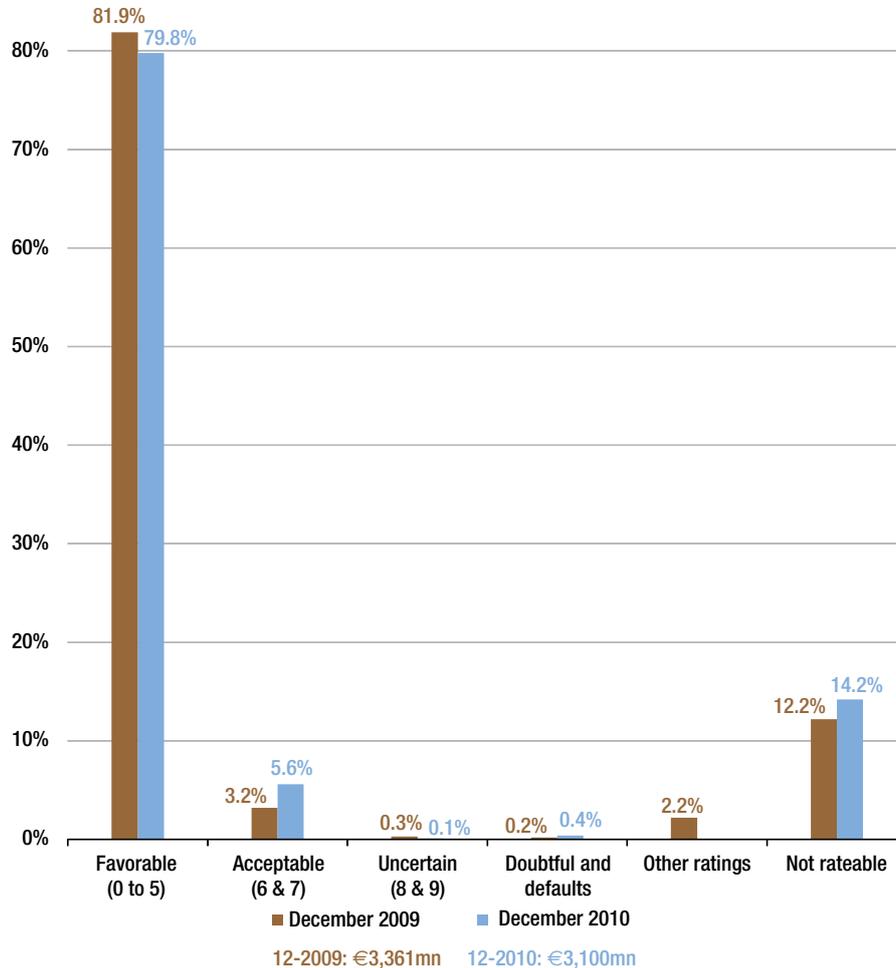
Of Compagnie de Financement Foncier’s total social housing outstandings, nearly 80% of cases are rated “favourable” (0 to 5), slightly down on 2009 (82%).

The proportion of rated counterparties in the “uncertain” category and in default remains minimal, at 0.1% and 0.4% of outstandings respectively.

Non-rated outstandings (14.2%) consist largely of institutions that collect PEEC⁽¹⁾ contributions and their subsidiaries, which are not covered by BPCE’s rating tools. However each of these counterparties is carefully studied before a lending decision is made. In addition the PEEC sector is closely regulated by the French government.

⁽¹⁾ *Participation des employeurs à l’effort de construction* (PEEC), is a system whereby non-agricultural private sector businesses with 20 or more employees (10 or more before 2006) contribute towards the construction of new housing. It is commonly known as the “1% housing fund”.

*Social housing portfolio
Breakdown by Basel II ratings*



4.2.3.3. International Public Sector

Exposures grew by 12.2% as a result of strong new loan origination during the year.

Sovereign Borrowers

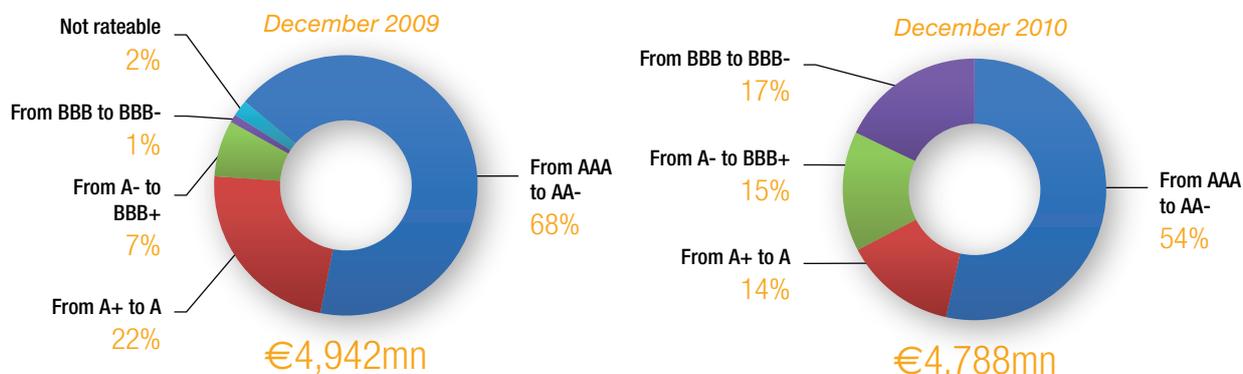
New lending in 2010 was exclusively to European sovereign states (in the European Union of the 27) excluding countries for which a freeze on approvals was in force (Greece, Ireland, Italy, Portugal and Spain).

In terms of outstandings, the sovereign debt portfolio is at the top of the rating scale, with a very substantial number of Basel II Step 1 ratings (AA- or better) which can be explained by investments in government securities issued by several of the 15 long-standing EU member states including France.

Step 1 (AA- or better) ratings as a proportion of the total fell from 67% at the end of 2009 to 54% as of December 31, 2010 as a result of the downgrading of certain European countries in the portfolio and of a few transactions with Step 2 (A- to A+) rated European sovereign borrowers.

It should be reminded that restrictions, and indeed a total freeze, were imposed on lending to certain countries in line with BPCE group policy. Such was the case initially, towards the end of 2009, with Greek and Spanish sovereign debt and with the entire public sector of these two countries. This restriction was later extended to three more European sovereign borrowers: Portugal, Italy and Ireland.

*Breakdown by internal rating of exposures to public securitisation
Securities backed by retail loans with step 1 State guarantees*



International local authorities

New business in 2010 was mainly concentrated on local authorities in:

- > the USA (financing of certain states and major cities);
- > Spain (very selectively in view of the restrictive country risk policy);
- > Belgium (public sector bodies and local authorities).

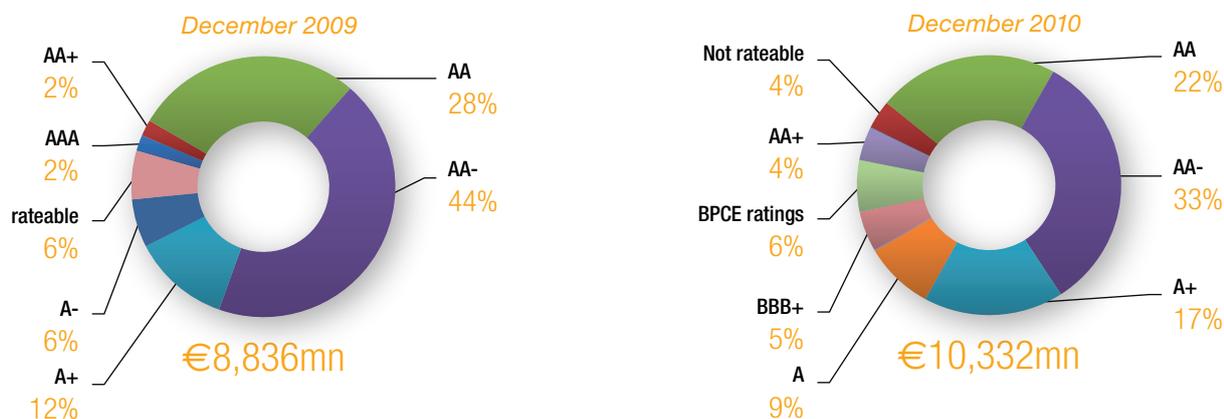
As of December 31, 2010 the proportion of the total portfolio classed as Step 1 (AA- or better) was 59%, representing a decrease on the December 2009 figure of 76%, reflecting lower origination volumes and the impact of deteriorating public finances on local authorities' ratings.

"Unclassified" (4%) refers to a small number of counterparties that have not yet been formally subjected to internal rating but the risk on which is nevertheless assessed as being equivalent to A or higher based on external ratings.

Internal ratings for the IPS are slightly more conservative than the agencies' published ratings, the difference being on average between half and one notch less.

It should be noted that the poorest rated IPS assets on Compagnie de Financement Foncier's books concern receivables on Italian regions (€514 million), rated BBB+. These outstandings are modest in relation to the overall size of the international local authorities portfolio (less than 5% of the total).

Breakdown of exposures to the international public sector by internal rating



Public sector securitisations

Further details are provided in section 6.

4.2.3.4. Risk Charge

For the year ended December 31, 2010 the risk charge for Compagnie de Financement Foncier was €4.20 million, compared with €5.83 million as of December 31, 2009. At the end of 2010 total loan provisions stood at €26.7 million, of which €19.2 million in individual provisions and €7.5 million in collective provisions.

For individual provisions, the €1.0 million reduction in the risk charge stems from a higher proportion of unused provisions written back compared with 2009, which shows just how conservatively they were estimated. Nonetheless new provisioning continues, in line with the increase seen in delinquency rates.

As regards the collective provisions, the dotation of €2.3 million of collective provisions was mainly linked to the Neiertz provisions.

Risk charge (€ millions)	12/31/2009	12/31/2010
Cost of risk, individual (a)	(4.74)	(1.02)
Collective provisions (b)	0.62	(2.30)
Cost of risk (a+b)	(4.12)	(3.32)
Risk charge, Net banking Income (c)	(1.71)	0.89
Total risk charge (a+b+c)	(5.83)	(4.20)

4.3. Risk Diversification and Concentration Risks

The following table represents the weight of the largest 10, 20, 50 or 100 counterparties in the exposure to a given category.

This classification is carried out on groups of counterparties and on- and off-balance sheet exposures.

- For securitisation, which represents a significant proportion of the portfolio of large counterparties, more than 80% of risks are concentrated among the 50 largest exposures. This concentration can be explained by Compagnie de Financement Foncier's strategy of acquiring transactions of significant size in the primary market following an in-depth analysis. In terms of credit risk, this concentration is only apparent, since the underlying assets are mainly residential mortgage receivables on individuals and as such have a high degree of granularity.
- The French regional government and local authorities, social housing and large companies sectors have a much lower concentration, a reflection of the risk diversification policy.

Direct exposure to sovereign risk is relatively concentrated (fewer than 10 counterparties) as it involves only a few European states, in accordance with the risk policy which is aimed mainly at financing Step 1 rated counterparties.

The IPS portfolio on the other hand is more diversified, the top 20 counterparties representing 65% of total exposures, as against 71% at the end of 2009. Exposures concern European, Japanese and North American local authorities.

**Summary of concentration in groups of counterparties for Compagnie de Financement Foncier
as of December 31, 2010**

(in millions of euros)

	Top 10	Top 20	Top 50	Top 100	Total
Specialised financing			n.s.		
Major corporate			n.s.		
Sovereign borrowers	5,699 (95%)	6,000 (100%)	6,000 (100%)	6,000 (100%)	6,000
External securitisation	6,841 (33%)	10,784 (52%)	16,892 (82%)	20,412 (99%)	20,600
Regional government, local authorities and social housing	3,674 (21%)	5,168 (29%)	7,780 (44%)	10,224 (57%)	17,866
IPS	4,749 (46%)	6,686 (65%)	9,425 (91%)	10,332 (100%)	10,332

Source: management data. Commitments at year-end (incl. off-balance-sheet commitments and financial guarantees given), gross (performing + doubtful).

5. Risk Mitigation Techniques

Compagnie de Financement Foncier's portfolio is very well secured, since it consists mainly of either risks secured by mortgages or risk on the public sector. Both these risks are further reduced by additional guarantees. Thus for example 36% of the outstanding loans on private individuals benefit from a FGAS guarantee.

For individuals, the main providers of personal guarantees belong to the Sovereign and Institution segments:

› Main guarantees equivalent to sovereign risk:

- *Société de gestion du fonds de garantie à l'accession sociale à la propriété* (SGFGAS) provides a guarantee of the French state for home ownership loans governed by regulated loan agreements and guaranteed by first-rank collateral (mortgage or lender's lien). For this reason, it benefits from the French state's external AAA rating, and allows a 0% weighting for loans for which FGAS coverage was signed prior to December 31, 2006. Due to a change in the FGAS coverage methods, protection granted thereafter has a 15% credit-risk weighting under Basel II for the loans in question,
- Kreditanstalt Für Wiederaufbau (KfW), in the form of a CDS on a tranche of synthetic securitisation (*Provide programme MLF2004*) which gives the underlying loans a Basel II risk weighting of 0%. KfW is a public institution that has an explicit guarantee from the German government (sovereign segment). KfW is rated Aaa/AAA (Moody's/S&P),

› Main guarantee equivalent to Institution risk:

- Crédit Logement is a financial institution, owned by most of the major French banking networks, whose long-term ratings are Aa2 (Moody's) and AA (S&P). Loans covered by Crédit Logement are assigned a Basel II weighting of 20%, which is the regulatory weighting applicable to French credit institutions (France being rated AAA).

Regarding mortgage guarantees, in accordance with the regulations, Compagnie de Financement Foncier carries out regular precise revaluations of registered mortgage securities. This revaluation follows the procedure described in section 5.2., and is reviewed by Compagnie de Financement Foncier's Specific Controller as referred to in section 5.1.

The security revaluation exercise carried out in 2010 had only a limited impact on the portfolio of mortgage loans of Compagnie de Financement Foncier. The value of the security increased by 0.4% in average, leading to a fall of 0.5% in overall LTV. This is linked to the high degree of stability of the indices between 2009 and 2010 (see Appendices), although this does mask certain disparities between the Greater Paris area, which was up by 5.5%, and the regions as a whole, which were down by 1.4% (rural) and 0.5% (urban).

5.1. Valuation and Periodic Review Methods for Real Estate Assets

Specific Controller's report on the valuation and periodic review methods for real estate as of December 31, 2010

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 and of Article 5 of Regulation 99-10 of the CRBF, we hereby present to you our report on the assessment of the procedure setting out the methods used to value the real estate assets underlying the loans and the methods for periodically reviewing their value, as published together with the financial statements for the year ended December 31, 2010 and appended hereto.

The procedure setting out the valuation methods for real estate assets and the methods for periodically reviewing their value has been defined and implemented under the responsibility of your company's management. Our responsibility is to assess the validity of this procedure in terms of its compliance with regulations in force as of December 31, 2010.

We have examined the valuation methods and the methods for periodically reviewing the value of the real estate assets underlying the loans in accordance with the procedures that we considered necessary in view of the professional standards of the *Compagnie nationale des commissaires aux comptes* applicable to this assignment. These procedures are designed to assess whether the valuation and periodic review methods comply, in their design and application, with regulations in force as of December 31, 2010, and to verify the presentation of the information published together with the annual financial statements.

Based on our work, we have no observations to make as regards compliance with the provisions in force as of December 31, 2010 set out in Regulation 99-10 of the CRBF, the valuation methods for the real estate assets underlying the loans or the methods for periodically reviewing their value as published together with the financial statements for the year ended December 31, 2010.

Paris, March 29, 2011
Specific Controller

CAILLIAU DEDOUIT et Associés
Laurent BRUN

CAILLIAU DEDOUIT et Associés
19, Rue Clément Marot
75008 Paris

COMPAGNIE DE FINANCEMENT FONCIER
4, quai de Bercy
94224 Charenton Cedex

Procedure for the Valuation and Periodic Review of the Value of the Assets Underlying the Loans as of December 31, 2010

I. Valuation method for assets underlying loans

A. General asset valuation principles

The procedure described below has been determined pursuant to Articles 1 and 2 of CRBF Regulation No. 99-10 as amended by Regulation No. 2002-02 and subsequently by the decree of 7 May 2007 transposing European Directive 2006/48/EC into French law.

Real estate financed by eligible loans or provided as security for these loans is subject to prudent valuation rules.

The valuation is based on the real estate's long-term characteristics, normal and local market conditions, the current use of the asset and other possible uses.

B. Derogation rule used by Compagnie de Financement Foncier

For loans originated between January 1, 2003 and December 31, 2006, in accordance with the provisions of CRBF Regulation No. 99-10 and a decision by the Chairman of Crédit Foncier de France's Executive Board dated 28 July 2003, the cost of the transaction without discount is taken as the estimated value of the asset for all transactions involving residential property for individuals where the transaction cost is less than €350,000. Following the amendments made to CRBF Regulation No. 99-10, this principle was extended to all residential property transactions with individuals where the transaction cost is less than €450,000 or where the outstanding principal amount of the loan acquired or the total amount authorized is less than €360,000.

Above these thresholds, the appraised value is considered as the value of the property.

C. Summary

The abovementioned rules, applied since 7 May 2007, are summarised in the following table:

Types de biens	Cost of transaction is less than €450,000 or acquired loan less than €360,000	Cost of transaction is greater than €450,000 or acquired loan greater than €360,000
Residential property for private individuals	Transaction cost	Appraisal
Residential property for professionals	Appraisal	Appraisal
Commercial property ⁽¹⁾	Appraisal	Appraisal

⁽¹⁾ Commercial property means all properties other than residential and multiple-use properties where the value allocated to the residential part is less than 75% of the total value of the property.

Valuations apply to all collateral underlying loans authorised (i.e. signed by the parties) during the year, regardless of whether or not they have been drawn down.

Other collateral (underlying loans authorised before 2009 and already valued or re-valued) is mandatorily subject to a periodic review of its value as presented hereafter (see Sections II, III and IV).

II. Periodic review methods for residential property for individuals and professionals

The rules detailed below apply to collateral underlying loans implemented before 2010.

Two periodic review methods are used to determine the value of collateral, as per the following distinction:

- › The so-called S1 statistical method:
 - for residential properties for private individuals,
 - for all residential properties for professionals where the amount is less than €450,000 or for which the outstanding principal amount of the loan secured by the property is less than €360,000.
- › The so-called S2 statistical method for residential properties for professionals where the amount is more than €450,000 or for which the outstanding principal amount of the loan secured by the property is more than €360,000.

A. S1 periodic review method

Principles

This method, which aims to approximate market value as closely as possible, is based on establishing indices of the changes from one year to the next in market values. In accordance with the law, assets are valued on a prudent basis, and then revalued by applying the indices.

The indices reflect four distinct geographical categories:

- i) The 110 urban areas with more than 50,000 inhabitants as per the postal code groups established by the INSEE (French National Institute for Statistics and Economic Studies). The list of these towns and their composition change as the urban fabric and real estate markets evolve.
- ii) Outside these urban areas, the “non-urban” real estate market is divided into twenty administrative regions, excluding Corsica and Île-de-France (Paris metropolitan area).
- iii) Île-de-France excluding the city of Paris is valued separately using specific indices for each of the seven departments.
- iv) Paris is also valued separately using a specific index.

Indices for each of these four categories (urban, non-urban, Île-de-France and Paris), are grouped according to postal codes, and broken down as follows:

- › urban: 110 apartment indices/110 house indices;
- › non-urban: 20 house indices;
- › Île-de-France (excluding Paris): 7 apartment indices/7 house indices;
- › Paris: 1 apartment index.

When the apartment/house distinction is not available for a particular item of collateral, the lower of the two indices, for the corresponding postal code, is used.

When the collateral is located in Corsica or in the French overseas departments or territories, or if its location is unclear, the annual trend indices used for the corresponding type of housing are:

- › for apartments: the average of the urban apartment indices;
- › for houses: the lower of the two averages for urban and non-urban houses.

Revaluation cycle management

Real estate value indices are updated annually. New indices are established each November based on the period ending 30 September.

The revaluation cycle is thus managed on a one year rolling period from 30 September of year “n-1” to 30 September of year “n”.

Sources

These indices are based on an *ad hoc* survey of the network of regional real estate appraisers carried out each year by the real estate research division, quarterly gross statistical real estate information held in its database and regional indicators from “marche-immobilier.com”.

B. S2 periodic review method

For 2010, the S2 revaluation method consisted in applying the annual change in the rental index for residential property to 2009 values, *i.e.* +1.3% (source: INSEE).

III. Methods for periodic review of commercial real estate (non residential)

In accordance with the provisions of CRBF Regulation No. 99-10, the following three valuation methods are applied to commercial properties depending on their characteristics:

A. The so-called “E1” method

This category covers commercial properties, the value of which is less than €450,000 or for which the outstanding principal amount of the loan secured by the property is more than €360,000.

Assets in this category are individually revalued by means of appraisal every three years, and statistically in the interim years using the S1 method.

B. The so-called “E2” method

This category covers commercial properties, the value of which is more than €450,000 and for which the outstanding principal amount of the loan secured by the property is more than €360,000.

Each property in this category is individually revalued every year by means of appraisal. The appraiser determines a prudent mortgage value based on an in-depth analysis of the type of asset and its specific characteristics and on a prudent, forward-looking view of the market.

C. The so-called “S1” statistical method

This category covers commercial properties where the outstanding principal amount of the loan secured by the property has fallen below 30% of the initial principal amount of the loan.

For real estate in this category, the S1 statistical revaluation method (see section II.A above) is applied to the most recent appraisal value.

IV. Summary table of methods

Type of asset	Transaction cost > €450K and total authorised amount ≤ €360K or Transaction cost ≤ €450K and total authorised amount > €360K	Transaction cost > €450K and total authorised amount > €360K	Disputed cases	
Residential	If private individual customer: S1 method		Specific individual appraisal	
	If professional customer: S1 method	If professional customer: S2 method		
Non-residential	Outstanding principal/initial principal < 30%	Rapport CDR/Montant initial > 30 %		
		Transaction cost or value of asset ≤ €450K and total authorised amount > €360K		Transaction cost > €450K and total authorised amount > €360K
	S1 method	E1 method	E2 method	

V. Specificities of Dutch security

The reevaluation focused on a volume of 937 securities, associated to 937 credits for a total amount of €81.8 million. The reevaluation is realized upon the PBK index developed by the Dutch land register. On the “apartments” segment, the average index decreased by 1.5% in 2010, and on the “family house” segment, by 0.7%.

5.2. Effect of Credit Risk Mitigation Techniques

In accordance with the regulations covering *sociétés de crédit foncier*, the totality of Compagnie de Financement Foncier’s portfolio of direct loans to private individuals is covered either by personal guarantees eligible for reducing Basel II regulatory capital requirements (mutual guarantee bodies, bank guarantees, etc.) or by first mortgages or equivalents such as PPD (*privilèges de prêteur de deniers* - lender’s first charge on property).

Of the €23.2 billion in receivables directly on individuals covered by first mortgages or equivalent (*privilège de prêteur de deniers*), €10.5 billion also carry a personal guarantee.

For the other segments (companies and institutions), €10 billion is covered by eligible personal guarantees.

Details concerning the individuals segment :

The following table shows the breakdown of the various types of cover associated with the private individuals portfolio in the context of COREP reporting (12/31/2010 compared with 12/31/2009).

(in million of euros)

Schemes	Individuals		
	12/31/2010	12/31/2009	
Regulated schemes	FGAS (100% state guarantee)	8,435	7,371
	Subsidised sector (state guarantee)	495	709
Mutual mortgage insurance companies	Crédit Logement (*)	402	498
	CRESERFI (**)	167	27
International financial institutions	European guarantee (***)	1,028	2,923
A - Receivables guaranteed by a personal surety complementing mortgage or equivalent guarantee		10,527	11,527
B - Receivables secured only by first mortgages or equivalent such as PPD		12,647	7,694
(A + B) guarantees + 1st mortgages		23,174	19,222
C - Total outstandings, french mortgage receivables		23,174	19,230
Basel II eligible guarantees as a percentage of total outstandings [C / (A+B)]		100%	100%

Source: COREP as of December 31, 2010, exposure including off-balance sheet commitments.

(*) Crédit Logement: institution rated Aa2 by Moody’s and AA by Standard & Poor’s. Loans guaranteed by Crédit Logement are also covered by promissory mortgages.

(**) CRESERFI: civil servants’ mutual guarantee fund. Loans guaranteed by CRESERFI are also covered by first mortgages.

(***) Indirect European public guarantee:

- of which (as of December 31, 2010): €947 million of Provide 1 guarantees (indirect guarantee of KFW) and €81 million corresponding to a guarantee from NHG (Dutch State) on the GMAC portfolio.

- of which (as of December 31, 2009): €2,522 million of Provide 1 and Provide 2 guarantees (indirect guarantee of KFW), €321 million in indirect guarantee from the European institution PMI and €84 million corresponding to a guarantee from NHG (Dutch State) on the GMAC portfolio. The loans involved in this Provide transaction are also covered by first mortgages or equivalent.

5.3. On- and Off- Balance Sheet Netting

For the COREP reporting, the group measures exposures linked to off-balance sheet derivatives by applying add-ons weightings to current exposures. Compagnie de Financement Foncier systematically enters into asymmetrical master agreements with its bank counterparties, stipulating that any collateral which might be required can be provided only by the counterparties.

6. Securitisations

This section does not give a description of internal securitisations (mortgage receivables securitised by CFF in France, which stood at €1.1 billion as of December 31, 2010).

6.1. Objectives, activity and level of involvement

6.1.1. Objectives

Compagnie de Financement Foncier buys into securitisation transactions carried out by third parties, mainly European financial institutions selling portfolios of receivables. Compagnie de Financement Foncier's primary objective in doing so is to establish and manage a diversified portfolio of mortgage receivables of excellent quality, outside France, in asset classes that the institution is familiar with and masters: home loans and loans to the public sector. In the form of securitisations, these positions have a particularly high protection level thanks to the structuring of the transactions themselves and the seniority of the lines held. Extreme risk simulations confirm that these lines are appreciably little-exposed to the underlying's market movements.

6.1.2. Compagnie de Financement Foncier's Activity

Compagnie de Financement Foncier's securitisation business consists in acquiring portfolios of mortgage loans or receivables on the public sector in the form of bonds with the best possible agency rating (AAA).

These assets meet the regulatory requirements applying to *sociétés de crédit foncier*. These *senior* securities and their underlying assets are either backed by a mortgage or are at least 90% guaranteed by or on a public sector entity directly. All these transactions have the protection inherent in this type of transaction (subordination of *junior* tranches, reserve funds, interest-rate spread and hedging against foreign exchange and interest rate risks). In terms of credit quality assessment, each new investment proposal is cross-checked for Compagnie de Financement Foncier by Crédit Foncier's Risk Division. The approval process for each new transaction follows a specific process to determine decision-making authority, whether for mortgage or public sector debt, established in collaboration with BPCE. This business is also regulated by quotas to ensure the portfolio's geographic diversity and credit quality. Compagnie de Financement Foncier targets underlying assets with a particularly limited risk profile:

- › publicly rated *senior* securities (AAA on acquisition);
- › residential or mixed-use mortgage receivables (10% tolerance for certain transactions involving underlying Italian assets);
- › public sector receivables backed by a sovereign state (e.g. FFELP student loans in the United States, NHG receivables in the Netherlands) or a local authority (e.g. healthcare securitisations in Italy).

The acquisition process is based on:

- › selection of countries and analysis of local legal conditions to ensure the binding nature of assignments and security guarantees vis-à-vis third-parties;
- › a predefined risk policy that maps out transactions by sector, type (assignment, cash nature of portfolio transactions) and quality of receivables;

- › compliance with the specific regulatory restrictions that apply to *sociétés de crédit foncier*;
- › an analysis of each transaction by the business line using strict criteria that ultimately leads to an approval rate of only 20% of the transactions examined;
- › a systematic and independent cross-check by the Risk Division and regular stress testing of the portfolio.

6.2. Compagnie de Financement Foncier's exposures to External Securitisation Transactions

In terms of units in securitisation funds external to the Crédit Foncier Group, Compagnie de Financement Foncier held a portfolio of *senior* securities amounting to €20.6 billion as of December 31, 2010.

No arrears or losses were recorded in 2010 on Compagnie de Financement Foncier's portfolio of securitisations.

Compagnie de Financement Foncier's exposures to external securitisation positions as of December 31, 2010

(in million of euros)

Type	Underlying guarantees	Total	Final risk	Total
MIX	First-rank mortgage on mixed housing (private/commercial)	271	Private individuals	13,006
RMBS	First-rank mortgage on private individual assets	12,734		
Public Sector	First-rank mortgage on private individuals assets + guarantee from the Dutch state	3,854	Public sector	7,595
	Sovereigns	5		
	Local authorities	447		
Student loans FFELP	FFELP (US Federal government guarantee)	3,288		
Total		20,600		20,600

Mixed RMBS: securitisations of residential mortgage receivables (more than 80% private individuals/professionals).

RMBS: securitisations of residential mortgage receivables.

Sovereign: securitisations of receivables carrying an explicit Italian sovereign guarantee.

Local authorities: securitisations of healthcare receivables, the end risk being on Italian regions.

FFELP Student loans ABS: *senior* tranches in securitisations of US student loans guaranteed by the Federal government for at least 97% of the principal amount.

6.2.1. Breakdown by Rating

Securitisation positions acquired by Compagnie de Financement Foncier are broken down in the table below by exposure category and rating. Applying the Basel II methodology based on external ratings, CFF continues to monitor and use agency ratings of securitisations in its reporting, using the second best of the ratings assigned by the three major agencies. The portion of AAA-rated securitisations dropped from 67.1% at year-end 2009 to 65% at year-end 2010. Ratings seem to have stabilised overall in 2010 following the numerous downgrades seen in 2009.

The most significant transactions to lose their AAA rating in 2010 were German mortgage securitisations suffering from a deteriorating quality of debt servicing and Spanish transactions affected by the economic situation and the collapse of the Spanish property market.

Since mid-2008 securitisation transactions have been subject to close monitoring by the Crédit Foncier Group, including in particular regular stress tests. While 65 % of the Compagnie de Financement Foncier's RMBS still had a AAA Basel II rating at the end of December 2010, 85.7% were still rated AAA by one of the three major international credit rating agencies.

The A+ category corresponds to two Spanish RMBS, a German RMBS and an NHG RMBS in the Netherlands. The A category concerns a Spanish RMBS and a Greek RMBS. The BBB+ category corresponds to a healthcare securitisation operation in Italy and the rating is the direct reflection of the credit quality of the local authority on which the receivables are held.

External securitisation positions

(in millions of euros)

		12/31/2010	Retained or acquired securitisation positions - Breakdown by rating						
Category of FCTs		AAA	AA+	AA	AA-	A+	A	BBB+	Total
Residential mortgage	FCT	271							271
	RMBS	9,130	1,117	460	620	993	414		12,734
Total Residential mortgage		9,402	1,117	460	620	993	414		13,006
Public Sector	<i>Healthcare</i>		46					401	447
	RMBS NHG	695	300	1,801	548	510			3,854
	Sovereign				5				5
	Student loans FFELP	3,288							3,288
Public Sector total		3,983	346	1,801	553	510		401	7,595
Total		13,384	1,463	2,261	1,174	1,503	414	401	20,600

Mixed : securitisations of residential mortgage receivables (more than 80% private individuals/professionals).

RMBS : securitisations of residential mortgage receivables.

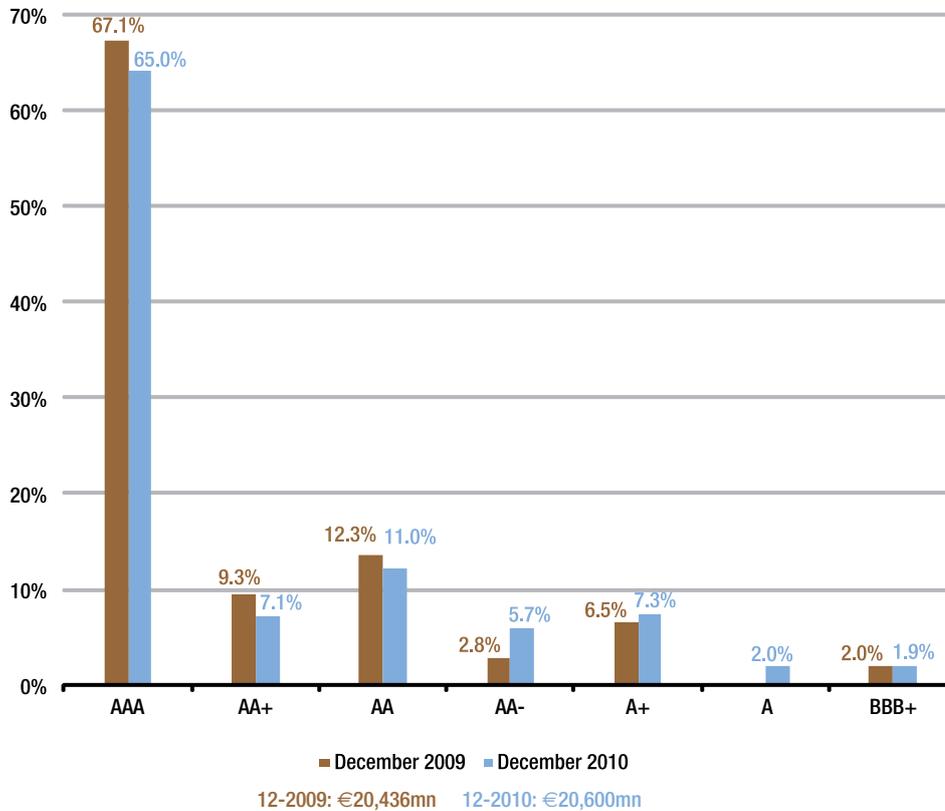
Healthcare : securitisations of healthcare receivables, the end risk being on Italian regions.

RMBS NHG : securitisations of residential mortgage receivables guaranteed by NHG in the Netherlands.

Sovereign: securitisations of receivables carrying the Italian state explicit guarantee.

FFELP student loans: senior tranches in securitisations of US student loans guaranteed by the Federal government for at least 97% of the principal amount.

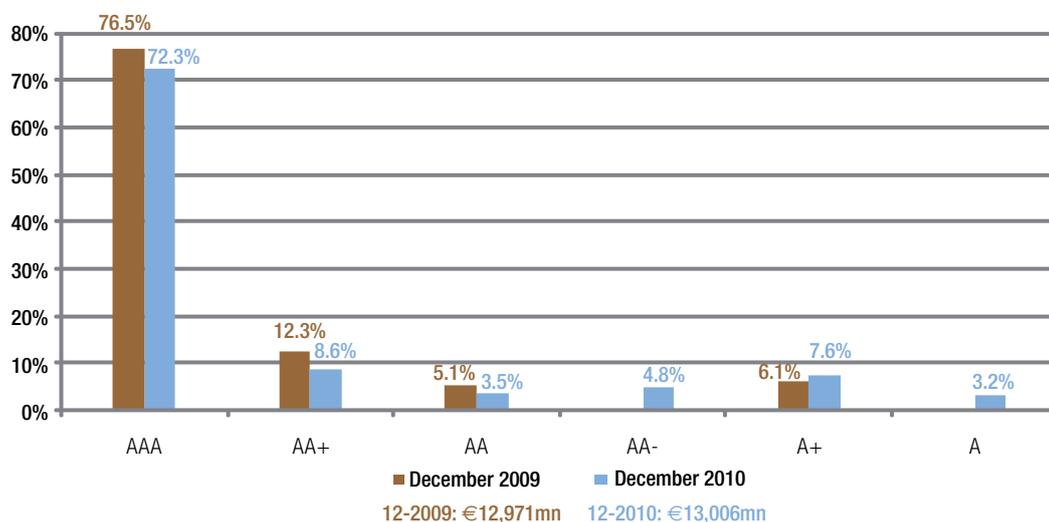
Securitisations by internal rating



6.2.1.1. Breakdown by internal rating of exposures in the residential mortgage securitisation portfolio

Compagnie de Financement Foncier's RMBS portfolio comprises *senior* tranches of securitisations of residential mortgage loans granted entirely to individuals, a small number of whom are artisans. These are prime assets, with a high level of granularity, located in European countries other than France. As of December 31, 2010 this portfolio represented outstandings of €13,006 million. The Basel II rating for securitisations uses the second best of the three agency ratings (S&P, Moody's and Fitch). As of December 31, 2010, 72.3% of the Company's RMBS had a AAA Basel II rating, slightly down on the end of 2009 (76.5%) as a result of the effect of changes in external ratings on the Basel II ratings of certain RMBS. As of December 31, 2010, 16.9% of the RMBS in this sub-portfolio were rated AA (from AA+ to AA-) and 10.8% were rated A (from A+ to A-).

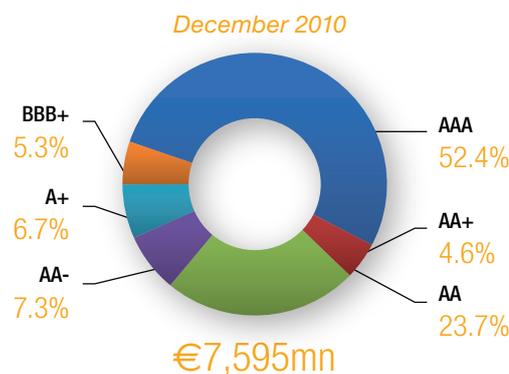
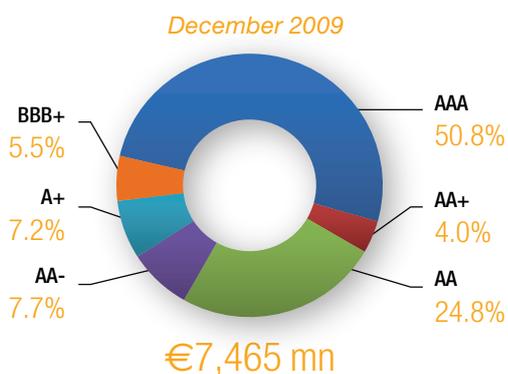
Breakdown by internal rating of exposure to securitised backed by residential mortgage receivables on individuals in European countries other than France



6.2.1.2. Breakdown by internal rating of exposures in the public sector securitisation portfolio

Compagnie de Financement Foncier’s portfolio of public sector securitisations (€7,595 million as of December 31, 2010) comprises three types of transactions:

- > securitisations of Dutch mortgage loans backed by an NHG guarantee (€3,854 million). NHG is a Dutch public entity which plays a very similar role to that of the FGAS in France. These transactions thus represent an end risk on the Dutch sovereign state and were originally rated AAA, although changes in agencies’ methodologies have since led to some downward adjustments;
- > securitisations of US FFELP student loans (€3,288 million) guaranteed by the United States Federal government for at least 97% of the principal amount and hence rated AAA;
- > three transactions with the Italian public sector (€453 million), one of which (€5 million) is a direct risk on the Italian state (rated AA-) while the other two concern healthcare securitisations in Italy. These two transactions, for €46 million and €401 million, are rated AA+ and BBB+ respectively, one reflecting credit enhancement by FSA (now Assured Guaranty) and the other being a reflection of the creditworthiness of the local authority concerned.



6.2.2. Enhanced Transactions in the External Securitisation Portfolio

Only two transactions for a total of €447 million have been enhanced by monoline financial guarantees. As of December 31, 2010 one security (€46 million) was rated AA+ thanks to enhancement by Assured Guaranty (rated Aa3/AA+/-). The other historically enhanced security (€401 million) is currently rated BBB+ based solely on its intrinsic credit quality.

6.2.3. External Securitisation Portfolio - Breakdown by Country and Asset Class

The securitisations portfolio is exposed mainly to European countries (RMBS in the Netherlands, Italy and Spain) but also has exposure to the United States (only the FFELP student Loans).

External Securitisation Portfolio - Breakdown by Country and Asset Class

(in millions of euros)

12/31/2010	External securitisation positions - Breakdown by country and asset class									
Category of FCTs	Typo FCT	Germany	Spain	USA	Greece	Italy	Netherlands	Portugal	United-Kingdom	Total
Residential mortgage	MIX					271				271
	RMBS	298	6,437		8	3,263	1,486	1,040	201	12,734
Total Residential mortgage		298	6,437		8	3,534	1,486	1,040	201	13,006
Public Sector	Healthcare					447				447
	RMBS NHG						3,854			3,854
	Sovereign					5				5
	Student loans FFELP			3 288						3,288
Total Public Sector				3 288		453	3,854			7,595
Total		298	6,437	3,288	8	3,987	5,340	1,040	201	20,600

6.2.4. Stress Scenario for the External RMBS Portfolio

The RMBS portfolio shows particularly good resistance to stress test scenarios combining a severe deterioration in default rates, a sharp fall in real estate prices, and a drastic decrease in the prepayment rate. Only the most damaging scenarios are likely to generate ultimate cash flow deficits on some of Compagnie de Financement Foncier's RMBS positions. These assume a combination of events of such a magnitude that they appear highly unlikely: an explosion in default rates in the various European markets representing cumulatively more than 25% over the duration of these transactions, a dramatic and lasting drop in real estate prices (35% to 50% depending on the country) and a significant fall in prepayment rates (halved). These stress scenarios are applied to the most recent official indices published in each country, which means that the stress is applied in addition to the fall in the real estate markets already recorded in certain markets. In such a "catastrophe" scenario, an ultimate cash flow deficit could occur at the transactions' maturity date, representing 0.5% of the outstanding principal amount of the stressed transactions discounted to present value. We would point out that even after this "catastrophe" scenario, the return would still be higher than the EURIBOR and than the cost of refinancing. Resistance to the stress tests improves over time as a result of *senior* tranches being paid down and hypothetical scenarios not materialising.

The defaults modelled in the stress tests correspond to foreclosures, which is a conservative hypothesis given that in practice defaults on loans do not automatically trigger foreclosure.

To date, no defaults have been recorded on any securitisation tranches held by Compagnie de Financement Foncier.

6.2.5. Breakdown by Weighting

Securities rated AAA or AA represent 89% of the total securitisation portfolio, these categories being weighted 20% using the standard approach adopted by Crédit Foncier.

Breakdown of external securitisation positions by weighting

(in millions of euros)

		Breakdown by weighting - Retained or acquired securitisations positions			
		12/31/2009		12/31/2010	
Basel II weighting using the standardised approach	Basel II ratings	Outstanding loans	% of portfolio	Outstanding loans	% of portfolio
20%	AA- to AAA	18,700	92%	18,282	89%
50%	A to A+	1,327	6%	1,917	9%
100%	BBB+	409	2%	401	2%
Total		20,436	100%	20,600	100%

7. G7 Reporting

As of December 31, 2010, and in accordance with the recommendations of the Financial Stability Forum (FSF), Compagnie de Financement Foncier had no exposure to the following asset classes:

- › CDOs (Collateralised Debt Obligation) or direct exposures to monoline insurers;
- › CMBS (Commercial mortgage-backed securities);
- › Subprime, Alt-A or more generally any US mortgage-backed assets;
- › special purpose vehicles;
- › debt leverage structures or leveraged buyouts.

Compagnie de Financement Foncier has no direct exposures to monoline insurers but does have credit enhancements acquired from them for certain assets in the portfolio. In all such cases Compagnie de Financement Foncier has a first claim on a counterparty other than the monoline. All of these enhancements are on underlying assets in the public sector (loans or securities) granted either directly to a sovereign state or to a local authority (including healthcare securitisations as described in section 6.2.2.) or to a public institution. The overall breakdown by underlying rating as of December 31, 2010 of the enhanced portfolio is provided below.

Intrinsic rating before enhancement

(in millions of euros)

Au 12/31/2010	Intrinsic Basel II rating (before enhancement)					Total	%
Monoline	Monoline rating	From AA+ to AA-	From A+ to A-	From BBB+ to BBB-	Not avail.		
AMBAC ⁽¹⁾	Caa2		144	477		621	21.0%
CIFG	Not avail.			171		171	5.8%
FGIC	Not avail.				104	104	3.5%
FSA ⁽²⁾	AA-	681	796	304	46	1,826	61.7%
MBIA ⁽³⁾	BBB		115		123	237	8.0%
	Total	681	1,054	952	273	2,960	100.0%
	%	23.0%	35.6%	32.2%	9.2%	100.0%	

⁽¹⁾ Rating of AMBAC Assurance Corp. & AMBAC Assurance UK Ltd.

⁽²⁾ Rating of Assured Guaranty Municipal Corp. (for FSA)

⁽³⁾ Rating of National Public Finance Guarantee Corp. (for MBIA)

These enhancing commitments are all in the form of financial guarantees (not CDS) and constitute additional security for the asset in the portfolio. These guarantees are not valued, and are not recognised on Compagnie de Financement Foncier's balance sheet. Enhancement premiums are recognised as an expense.

The monoline rating is the lower of the two best ratings from Standard & Poor's, Moody's and Fitch Ratings as of December 31, 2010. The intrinsic rating of the underlying asset is its Basel II rating before enhancement at the same date. The whole portfolio is intrinsically of investment quality, with 23% rated Step 1 (\geq AA-). Taking into account the restructuring undergone by the monoline sector, the rating used for securities initially enhanced by FSA is now that of Assured Guaranty Municipal Corp. In the same way, those enhanced by MBIA are now assigned the rating of National Public Finance Guarantee Corporation, the entity that now guarantees North American local authorities. Exposures in the BBB category correspond to public sector commitments in Europe.

The 9% classified as "Unavailable" do not have a Basel II intrinsic rating but are assessed by Crédit Foncier as being investment grade (i.e. \geq BBB-). These essentially concern direct commitments on foreign (US) public sector entities (€227 million) and a healthcare receivables securitisation on an Italian regional authority (€46 million).

CIFG Commutation

Between 2005 and 2007 Compagnie de Financement Foncier arranged for guarantees to be issued by monoline insurers covering a certain number of its securities or receivables on the international public sector. One of these monolines was CIFG, which enhanced the rating of the exposures concerned to AAA. Weakened by the deterioration in the quality of the securities it was guaranteeing, CIFG lost its AAA rating in 2008 and subsequently ran into financial difficulties. Moody's and S&P gradually downgraded CIFG's rating until it eventually reached Ca/CC in 2009. Against this backdrop, and faced with CIFG's increasingly insolvent position, during the first half of 2010 the Crédit Foncier Group reached an agreement with CIFG leading to the cancellation of the guarantees purchased by Compagnie de Financement Foncier in return for a payment of €7.5 million. Only three transactions (one on the French regional public sector and two on the Italian public sector), intrinsically enhanced and for which no insurance premiums were paid, were excluded from the agreement. Exposure to CIFG accordingly fell from €2,404 million at the end of 2009 to €171 million at the end of 2010.

8. Asset & liability management risks and market risks

Compagnie de Financement Foncier's business in the markets is limited to the banking portfolio and financial compartments relating to asset/liability hedges and medium to long and short-term investments. It does not engage in proprietary trading and does not have any positions in a trading portfolio. Consequently Compagnie de Financement Foncier is not exposed to market risk.

Crédit Foncier provides Compagnie de Financement Foncier with ALM risk monitoring and management services, pursuant to an agreement to this effect. The management rules are set forth in Compagnie de Financement Foncier's Financial Charter.

Compagnie de Financement Foncier is protected against foreign exchange and interest rate risk: all fixed rate and/or non-euro denominated asset acquisitions or debt issues are systematically hedged with variable rates and/or swapped into euros.

8.1 Organisation of ALM Risk Monitoring and Methodology Used for Assessing Liquidity, Interest Rate, and Exchange Rate Risks

8.1.1. Organisation of ALM risk monitoring

Interest rate, liquidity and foreign exchange risk management is the responsibility of decision-making bodies, based on three committees.

Compagnie de Financement Foncier's **Asset and Liability Management Committee** is the decision-making body responsible for managing financial risks within the policy and limits set by Compagnie de Financement Foncier's general management, based on proposals by the **Risk Committee**, and in accordance with CFF Group rules. It meets on a quarterly basis and is chaired by Compagnie de Financement Foncier's Chief Executive Officer. Its members include the CFF Chief Risk Officer and other *senior* executives.

Operational monitoring of the various risks relating to Asset and Liability Management is performed through the **Interest Rate Committee** by CFF's ALM Department, an independent section of CFF's Financial Operations Department. This organisation ensures a strict separation between the reporting function and the order execution function, which is under the sole responsibility of the trading desk of CFF's Financial Activities and International Department.

8.1.2. Methodology Used for Assessing Liquidity, Interest Rate and Exchange Rate Risks

Interest rate, liquidity and foreign exchange rate risks are measured using different, complementary approaches depending on the time horizon of the analysis. These are:

- › a static approach, which covers on- and off-balance sheet transactions existing at a given date and up until their final maturity. Static processing factors in the stock of transactions and all flows from contracted commitments;
- › a dynamic approach taking into account business forecasts. Dynamic processing takes into account likely events resulting from the firm or optional underwriting of commitments and uncertain events resulting from future activities.

Within the scope of these two approaches, the main assumptions used are the propensity of customers to repay before maturity (prepayment) or to renegotiate the terms of the loan. Prepayment and renegotiation assumptions are applied to each type of loan, according to:

- › the sectors concerned (subsidised or private), the type of asset (direct loan or through securitisation funds), the type of customer (private individuals, professionals or local authorities) and the type of interest rate (fixed, adjustable or variable);
- › different principles for each type of customer for the behaviour to be modelled.

The prepayment and renegotiation assumptions are reconciled with the actual rates observed at each closing date to assess their appropriateness.

Asset & Liability Management has thus set up back testing procedures for retrospective verification of the actual flow of these data to validate agreements adopted.

Balance sheet items without a contractual due date, such as items in the equity portion of the balance sheet, are subject to specific maturity rules proposed by the ALM Department and approved by Compagnie de Financement Foncier's ALM Committee.

8.2. Liquidity Risk Monitoring

Organisation of Compagnie de Financement Foncier's refinancing

The bulk of Compagnie de Financement Foncier's resources come from medium- and long-term issues of *obligations foncières* (French legal covered bonds).

Its additional resources consist of a significant securities and loan portfolio that is eligible for refinancing with the ECB.

In the end of 2010, Compagnie de Financement Foncier refinanced securities with the ECB for an amount of €2 billion.

Liquidity risk monitoring

Liquidity risk is the risk that Compagnie de Financement Foncier may not be able to meet its short-term liabilities.

Compagnie de Financement Foncier's ALM rules ensure that its exposure to liquidity risk remains very limited. In particular, Compagnie de Financement Foncier is committed to maintaining sufficient short-term liquidity to cover its privileged debt repayment commitments for a period of one year.

In addition, some of its assets, known as replacement securities, consist of safe and liquid investments, as required by law for *sociétés de crédit foncier*, and are very short-term or easily tradable.

As of December 31, 2010, Compagnie de Financement Foncier had €11.8 billion in replacement securities and held €32.6 billion in securities and loans eligible for refinancing with central banks.

Liquidity needs are analysed using a combination of static and dynamic approaches. They are managed using a system of internal limits, which are approved annually by Compagnie de Financement Foncier's ALM Committee and monitored by its ALM Committee and Risk Committee.

With the static approach, liquidity risk monitoring ensures that medium-term liquidity management does not concentrate liquidity requirements excessively in certain periods. The main indicator used is the static liquidity gap, taking into account Compagnie de Financement Foncier's capacity to raise liquidity over the next 20 years.

Compliance with limits

As of December 31, 2010 Compagnie de Financement Foncier had a liquidity ratio (new SURFI ⁽¹⁾ ratio) of 1,198.63%.

Compagnie de Financement Foncier also determines the durations of its assets and liabilities to ensure that their maturities are properly matched, and is committed to a maximum gap of two years. As of December 31, 2010 this rule was being complied with, with average durations of 6.18 years for assets and 6.27 years for liabilities.

⁽¹⁾ *Système Unifié de Reporting Financier* or Unified Financial Reporting System.

8.3. Monitoring of Overall Interest Rate Risk

Management methods

Overall interest rate risk constitutes a potential risk of instability in Compagnie de Financement Foncier's results or asset values caused by overall unfavourable balance sheet and off-balance sheet exposures to interest rate fluctuations. Taking into account the various hedging mechanisms put in place by Compagnie de Financement Foncier when transactions are entered into, exposure to interest rate risk is limited to the possible distortion of the hedging due to events unforeseen at origination and occurring over its expected life (mainly prepayments). Compagnie de Financement Foncier's strict interest rate risk management rules require that its asset acquisitions and transactions with customers are systematically covered by variable-rate hedges in euro of funds raised. Macro-hedging strategies are decided by Compagnie de Financement Foncier's ALM Committee, implemented by CFF's ALM Department and executed by CFF's Financial Operations Department's Treasury function, which is Compagnie de Financement Foncier's sole point of entry to the market. Between two ALM Committee meetings, Treasury committees manage these hedging strategies operationally.

Monitoring of interest rate risk

Compagnie de Financement Foncier has adopted a static approach for measuring risk and the sensitivity of results. The two main indicators used are the overall and the partial fixed interest-rate gap, with risks being managed using limits on fixed interest rates and alert thresholds for adjustable interest rates. The fixed interest-rate gap is calculated from total outstandings both on- and off-balance sheet at the closing date, using predefined assumptions and rules for asset and liability flows. This interest-rate gap is off-adjustable, for which the interest-rate reference's periodicity is inferior to one year. Every quarter, Compagnie de Financement Foncier also analyses changes in the net present value of estimated results over the next 10 years under different stress scenarios.

All of these indicators, linked to the interest-rate risk, are monitored quarterly by the ALM Committee and the Risk Committee.

Compliance with limits

Compagnie de Financement Foncier is committed to maintaining the level of its interest rate mismatches or gaps within the limits defined by period of observation. These mismatches measure the difference between applications and sources at fixed rates over time assuming no new asset acquisitions or new issues. The current limits for rate gaps are :

Horizon	Limits expressed as percentage of balance sheet
Less than 2 years	2%
2-5 years	3%
5-10 years	5%
More than 10 years	10%

All of these indicators, linked to the interest-rate risk, are monitored quarterly by the ALM Committee and the Risk Committee.

As in previous years, all limits associated with the monitoring of the overall interest rate risk were complied with throughout 2010.

8.4. Monitoring of Foreign Exchange Risk

Foreign exchange risk arises from exchange rate movements in the currencies in which Compagnie de Financement Foncier's assets and liabilities are denominated that negatively affect the value of assets or commitments denominated in foreign currencies. Compagnie de Financement Foncier prohibits any open foreign exchange positions.

Its policy in this area remains unchanged and consists of not assuming any exchange risk. This means that all assets and liabilities denominated in currencies other than the euro are systematically swapped as soon as they are recognised on the balance sheet. This hedging can be achieved using exchange rate swaps, term loans or currency swaps. Residual differences arising from the adjustment of balance sheet positions, particularly those created by margins, are hedged monthly.

They are monitored by the Middle Office of CFF's Financial Activities and International Department, which centralises month-end foreign exchange positions, by currency and by total amounts of foreign currencies.

As regards foreign exchange risk, the exposure limit was modified during the first half of 2010: spot foreign exchange positions per currency are now limited to 5% of the balance sheet total in the currency concerned. This limit applies only when outstandings in the currency concerned are more than the equivalent of €1 million.

Compliance with this limit is monitored by the ALM Committee and the Risk Committee of Compagnie de Financement Foncier. In 2010 this limit was complied with.

9. Operational Risks

Compagnie de Financement Foncier's operational risk management is entrusted to CFF under service agreements signed between the two institutions. The greater part of operational risk is linked to the services outsourced to the parent company. Compagnie de Financement Foncier's operational risks are limited to those inherent in its receivables acquisition, asset management and refinancing activities and to the size in terms of gross value of balance sheet and off balance sheet movements (hedges, etc.) linked to its business model.

Any consequence of operational incidents detected in the framework of a Crédit Foncier process relating to a Compagnie de Financement Foncier balance sheet item are borne by Crédit Foncier.

Operational risk includes in particular accounting, legal, regulatory and tax risks, as well as risks relating to staff, property and information system security.

Compagnie de Financement Foncier's operational risk management relies on Crédit Foncier's system. Only the operational risks associated with the activity of the Compagnie de Financement Foncier's General Secretariat are specifically mapped and reported. We would point out that no incidents involving specifically Compagnie de Financement Foncier were detected in 2010.

As of December 31, 2010, CFF's operational risk management and monitoring system comprised 323 people.

The guidelines and rules of governance for operational risk management are as follows:

9.1. General Approach

All Crédit Foncier Group's Operational Risk processes are managed by its Risk Department, which relies on the directives, methods and tools employed by Groupe BPCE's Risk Department.

9.2. Governance

Operational risk management is part of the Crédit Foncier Group's risk structure. It is managed by a specialised unit that is separate from operating activities and attached to the Risk Department. This unit reports to Compagnie de Financement Foncier's executive bodies and those responsible for controlling Compagnie de Financement Foncier.

9.3. Management Environment

Management network

Operational risk oversight and management is delegated to the managers of the various departments. Each manager relies on a network of correspondents coordinated by a supervisor, with a functional link to the Risk Department, and carries out an annual self-assessment of the system.

Methods and tools

The method is based on three key elements that are part of an iterative, interactive approach: identification and assessment by each business line of its vulnerability to the main operational risks, frequency and evaluation, determination of existing or necessary preventive and corrective measures to manage or reduce the impact of risks. The mapping is updated whenever processes or the organisational structure changes, and in any case at least once a year.

In parallel with this, the following have been put in place:

- › a system for recording risk incidents in a dedicated database: the management network feeds the risk incident database as and when such incidents appear and evolve; monitoring of corrective action plans; analysis of changes in risk exposures and resulting losses;
- › indicators for the main risk areas warning when incidents are likely to enter a critical phase.

These procedures for operational risk are complemented by periodic reviews of insurance coverage with regard to risk mapping and incident reports.

Through BPCE's ORIS application, the Crédit Foncier Group also has access to reporting facilities and an operational risk scorecard generated quarterly from the database.

Lastly, for calculating capital adequacy requirements the Crédit Foncier Group currently applies the Basel II standard method (see Section 3).

10. Other Risks

10.1. Settlement Risk

Compagnie de Financement Foncier's treasury transactions are essentially carried out in connection with ALM activities. Processing is centralised in CFF's treasury back office.

This unit provides:

- › cash flow management (inflows and outflows);
- › cash forecasting 24 hours ahead.

The handling and accounting control of treasury accounts is the responsibility of a manager in charge of an independent unit, in keeping with the principle of segregation of duties. Compagnie de Financement Foncier has direct access to the market settlement systems for large transactions in euros; it is a member of the European Target system. For transactions in foreign currencies and small transactions in euros, it has accounts with BPCE.

Daily procedures for settlement risk monitoring include:

- › preparation of forecast financial flow profiles;
- › daily reconciliation of individual flows with forecast.

In the event of the definitive default of a settlement counterparty leading to Compagnie de Financement Foncier's potentially being overdrawn with Banque de France, there are provisions for hedging mechanisms to be put in place (interbank borrowing or end-of-day borrowing facility provided by the European Central Bank).

Compagnie de Financement Foncier has a business continuity plan under an agreement with BPCE (see remarks on the BCP in section 10.3 - other risks).

10.2. Non-Compliance Risk

The compliance function for Compagnie de Financement Foncier is performed by CFF in accordance with the terms of the relevant agreements (framework agreement and internal control and compliance service agreement) between the two entities, and by the delegation of the relevant powers of Compagnie de Financement Foncier's Chief Executive Officer to the Chief Compliance Officer of Crédit Foncier de France.

Non-compliance risk monitoring and measurement

Non-compliance risk monitoring and control is based on the methods used by BPCE and covers all of Crédit Foncier's business lines. It is supplemented by a risk management system that covers all business lines and the major risks to which they are exposed. This system applies both to CFF's business lines acting on the Company's behalf and to the activities specific to the functioning of Compagnie de Financement Foncier, essentially those within the scope of its General Secretariat.

Identification and monitoring of non-compliance risks

Non-compliance risks are identified using a dual approach:

- › analysis of the results of first level controls focusing on the non-compliance issues listed in the compliance guidelines or resulting from thematic approaches;
- › operational risk reports.

In 2010 a start was made on identifying the controls and dysfunctions specific to the scope of Compagnie de Financement Foncier. This translates into better account being taken of the Company's specific characteristics in information returns and dedicated reporting.

Control of non-compliance risks

The control of non-compliance risks is divided between the controls carried out by CFF on its business, which directly benefit Compagnie de Financement Foncier's outstandings, and the controls carried out on transactions specific to its business.

The compliance controls carried out specifically for Compagnie de Financement Foncier related in particular to compliance with the regulations applying to the acquisition of receivables and the updating of the value of guarantees.

Monitoring of dysfunctions

Specific action plans are drawn up by the operational units to address dysfunctions identified during audits or revealed by recurrent operational risk incidents. These action plans are monitored by the permanent control and compliance officers of the departments concerned. These dysfunctions and the progress of the corresponding action plans are monitored by the Compliance Department, which reports on them to CFF's Internal Control Committee and Compagnie de Financement Foncier's Audit Committee.

Approval of new products and services

Consideration of non-compliance risk is integrated into CFF's approval process for new products and services. As part of the study and approval process for new products, services or activities, matters specific to Compagnie de Financement Foncier, in particular the eligibility of future outstandings on its balance sheet, are systematically examined.

Ethics - Market abuse - Conflicts of interest

Financial ethics standards were updated in 2010 in collaboration with Groupe BPCE's Compliance and Security Department. In particular they incorporate the regulatory provisions arising from the Market Abuse Directive. Corporate officers, directors and other personnel acting on behalf of Compagnie de Financement Foncier are covered by this procedure insofar as necessary.

Combating money laundering and the financing of terrorism

The CFF Group combats money laundering and the financing of terrorism by means of a group-wide system of vigilance and control at every level of banking and lending transactions. This system includes appropriate procedures as well as training and awareness programmes for staff.

The system, incorporating the risk approach deriving from the new anti money-laundering regulations, provides for systematic analysis prior to any new customer relationship. Outstandings are regularly checked against international lists of persons with links to terrorism and for the application of embargos. Unusual events during the life of loans, in particular early repayments, are scrutinised by the Financial Security Unit of the Compliance Department.

10.3. Other Risks

Insurance

As Compagnie de Financement Foncier's servicer, Crédit Foncier takes out insurance for the risks relating to its activity. Under service agreements with Compagnie de Financement Foncier, it provides insurance related services on behalf of Compagnie de Financement Foncier, whereby the Company receives cover for the following risks:

- › banking business losses;
- › IT fraud and malicious acts;
- › professional civil liability;
- › civil liability of *senior* executives and corporate officers.

Outsourced Services

Essential services outsourced, as defined by Article 37 of CRBF Regulation No. 97-02 as amended, are those covered by agreements between Crédit Foncier and Compagnie de Financement Foncier. Crédit Foncier controls compliance with this regulation for services the execution of which it delegates to third parties. At the end of 2010 this control was incorporated into Groupe BPCE's PILCOP application, thus enabling existing services to be monitored and new ones to be properly implemented.

The General Secretariat of Compagnie de Financement Foncier is in charge in particular of the control of services outsourced of CFF.

Information Technology Risk

Under the agreements governing its activity, Compagnie de Financement Foncier makes use of human and technical resources provided by Crédit Foncier. Accordingly, Compagnie de Financement Foncier benefits fully from developments in Crédit Foncier's IT systems.

Organisation of the Business Continuity Plan (BCP)

Under the service agreements between the Crédit Foncier Group and Compagnie de Financement Foncier, business continuity at Compagnie de Financement Foncier is covered by Crédit Foncier's business continuity plan (BCP). All aspects of this plan are maintained in operational condition as required by the regulations. Compagnie de Financement Foncier designated its BCP manager, who represents it in the compliance with this plan.

Legal Risks

According to the service agreements that link CFF Group to Compagnie de Financement Foncier, legal risks incurred by the latter are monitored by the General Secretariat of the Group.

Appendix – Changes in real estate indices 2009 / 2010

Towns and cities with more than 200,000 inhabitants

Region	Department	Town/city	Apartment Index 2009-2010	House Index 2009-2010
Alsace	67 Bas Rhin	Strasbourg	0.979	0.954
Alsace	68 Haut Rhin	Mulhouse	0.973	0.951
Aquitaine	33 Gironde	Bordeaux	1.049	1.020
Auvergne	63 Puy-de-Dôme	Clermont-Ferrand	1.000	0.966
Bourgogne	21 Côte d'Or	Dijon	1.011	1.023
Bretagne	29 Finistère	Brest	1.011	1.000
Bretagne	35 Ille et Vilaine	Rennes	1.006	1.000
Centre	37 Indre-et-Loire	Tours	0.988	0.981
Centre	45 Loiret	Orléans	0.989	1.000
Champagne	51 Marne	Reims	0.967	0.988
Haute Normandie	76 Seine-Maritime	Le Havre	0.995	0.974
Haute Normandie	76 Seine-Maritime	Rouen	1.011	0.988
Languedoc-Roussillon	34 Hérault	Montpellier	1.009	1.009
Lorraine	54 Meurthe et Moselle	Nancy	1.005	1.000
Lorraine	57 Moselle	Metz	1.008	1.000
Midi-Pyrénées	31 Haute Garonne	Toulouse	1.082	1.026
Nord	59 Nord	Lille	1.002	0.983
Nord	59 Nord	Valenciennes	1.012	1.029
Nord	62 Pas-de-Calais	Béthune	1.024	1.003
Nord	62 Pas-de-Calais	Douai - Lens	1.019	1.009
PACA	06 Alpes Maritimes	Nice	1.019	1.000
PACA	13 Bouches-du-Rhône	Marseille - Aix-en-Provence	0.984	0.987
PACA	83 Var	Toulon	0.952	0.947
PACA	84 Vaucluse	Avignon	1.000	1.000
Pays de la Loire	44 Loire Atlantique	Nantes	0.972	1.000
Pays de la Loire	49 Maine et Loire	Angers	0.965	0.957
Rhône-Alpes	38 Isère	Grenoble	1.024	1.000
Rhône-Alpes	42 Loire	Saint-Étienne	1.026	1.000
Rhône-Alpes	69 Rhône	Lyon	1.036	1.034
Average			1.004	0.994

Towns and cities with between 100,000 and 199,999 inhabitants

Region	Department	Town/city	Apartment Index 2009-2010	House Index 2009-2010
Aquitaine	64 Pyrénées Atlantiques	Pau	0.957	0.963
Aquitaine	64 Pyrénées Atlantiques	Bayonne	1.047	1.014
Basse Normandie	14 Calvados	Caen	1.000	1.013
Bretagne	56 Morbihan	Lorient	1.005	0.989
Champagne	10 Aube	Troyes	1.014	0.976
Franche-Comté	25 Doubs	Montbéliard	0.968	0.994
Franche-Comté	25 Doubs	Besançon	1.000	1.000
Languedoc-Roussillon	30 Gard	Nîmes	1.011	1.000
Languedoc-Roussillon	66 Pyrénées Orientales	Perpignan	1.000	1.000
Limousin	87 Haute Vienne	Limoges	0.974	1.000
Lorraine	57 Moselle	Thionville	0.987	0.988
Nord	59 Nord	Dunkerque	0.988	0.992
Nord	62 Pas-de-Calais	Calais	1.026	1.019
Pays de la Loire	44 Loire Atlantique	Saint-Nazaire	1.000	1.000
Pays de la Loire	72 Sarthe	Le Mans	1.000	0.964
Picardie	80 Somme	Amiens	1.002	1.006
Poitou-Charentes	16 Charente	Angoulême	0.972	1.034
Poitou-Charentes	17 Charente-Maritime	La Rochelle	1.000	0.964
Poitou-Charentes	86 Vienne	Poitiers	0.987	1.000
Rhône-Alpes	26 Drôme	Valence	1.012	1.026
Rhône-Alpes	73 Savoie	Chambéry	1.019	0.984
Rhône-Alpes	74 Haute Savoie	Genève-Annemasse	1.016	1.000
Rhône-Alpes	74 Haute Savoie	Annecy	1.040	1.013
Average			1.001	0.997

Towns and cities with between 50,000 and 99,999 inhabitants

Region	Department	Town/city	Apartment Index 2009-2010	House Index 2009-2010
Alsace	67 Bas Rhin	Haguenau	0.970	0.951
Alsace	68 Haut Rhin	Colmar	0.988	0.956
Aquitaine	24 Dordogne	Périgueux	0.903	0.955
Aquitaine	24 Dordogne	Bergerac	0.974	1.000
Aquitaine	33 Gironde	Arcachon	1.026	1.000
Aquitaine	47 Lot-et-Garonne	Agen	0.975	0.969
Auvergne	03 Allier	Montluçon	1.017	1.000
Auvergne	03 Allier	Vichy	1.023	1.003
Basse Normandie	50 Manche	Cherbourg	1.008	1.000
Bourgogne	58 Nièvre	Nevers	1.000	1.019
Bourgogne	71 Saône-et-Loire	Chalon-sur-Saône	1.037	1.000
Bretagne	22 Côtes d'Armor	Saint-Brieuc	0.990	0.994
Bretagne	29 Finistère	Quimper	0.986	0.980
Bretagne	35 Ille-et-Vilaine	Saint-Malo	1.003	1.009
Bretagne	56 Morbihan	Vannes	1.008	0.988
Centre	18 Cher	Bourges	1.006	1.049
Centre	28 Eure-et-Loir	Chartres	0.991	0.966
Centre	36 Indre	Châteauroux	0.994	0.929
Centre	41 Loir-et-Cher	Blois	0.992	0.960
Centre	45 Loiret	Montargis	0.975	0.956
Champagne	08 Ardennes	Charleville-Mézières	0.923	0.931
Champagne	51 Marne	Châlons-en-Champagne	0.922	0.919
Franche Comté	90 Territoire de Belfort	Belfort	1.022	1.015
Haute Normandie	27 Eure	Évreux	0.988	0.986
Haute Normandie	76 Seine-Maritime	Elbeuf	0.986	0.972
Languedoc Roussillon	30 Gard	Alès	1.000	1.000
Languedoc Roussillon	34 Hérault	Sète	1.015	1.019
Languedoc Roussillon	34 Hérault	Béziers	0.976	0.979
Limousin	19 Corrèze	Brive-la-Gaillarde	1.014	1.016
Lorraine	57 Moselle	Forbach	0.971	0.952
Lorraine	88 Vosges	Épinal	0.993	0.963
Midi Pyrénées	65 Hautes Pyrénées	Tarbes	0.984	1.016
Midi Pyrénées	81 Tarn	Castres	0.985	0.997
Midi Pyrénées	81 Tarn	Albi	0.985	1.031
Midi Pyrénées	82 Tarn-et-Garonne	Montauban	0.984	1.000
Nord	59 Nord	Maubeuge	1.017	1.004
Nord	59 Nord	Armentières	1.020	1.000
Nord	62 Pas-de-Calais	Arras	0.993	1.009
Nord	62 Pas-de-Calais	Saint-Omer	1.027	1.003

Nord	62 Pas-de-Calais	Boulogne-sur-Mer	1.005	0.992
PACA	06 Alpes Maritimes	Menton-Monaco	0.989	1.000
PACA	13 Bouches du Rhône	Arles	0.968	1.000
PACA	13 Bouches du Rhône	Salon-de-Provence	0.961	0.933
PACA	83 Var	Fréjus	0.994	0.909
Pays de la Loire	49 Maine et Loire	Cholet	1.000	1.000
Pays de la Loire	53 Mayenne	Laval	1.000	0.983
Picardie	02 Aisne	Saint-Quentin	1.026	1.007
Picardie	60 Oise	Beauvais	1.044	0.949
Picardie	60 Oise	Creil	1.009	0.965
Picardie	60 Oise	Compiègne	1.009	1.039
Poitou Charentes	79 Deux-Sèvres	Niort	0.986	1.027
Rhône-Alpes	01 Ain	Bourg-en-Bresse	0.990	0.983
Rhône-Alpes	26 Drôme	Romans-sur-Isère	0.972	1.000
Rhône-Alpes	42 Loire	Roanne	1.031	1.032
Rhône-Alpes	42 Loire	Saint-Chamond	1.000	1.000
Rhône-Alpes	69 Rhône	Villefranche-sur-Saône	1.011	0.987
Rhône-Alpes	74 Haute Savoie	Thonon-les-Bains	1.018	1.015
Rhône-Alpes	74 Haute Savoie	Cluses	1.012	0.983
Average			0.995	0.988

Non-Urban:

Region	House Index 2009-2010
Alsace	0.968
Aquitaine	1.034
Auvergne	0.955
Basse Normandie	1.007
Bourgogne	1.000
Bretagne	1.007
Centre	0.970
Champagne	0.955
Franche-Comté	1.000
Haute Normandie	0.967
Languedoc-Roussillon	1.000
Limousin	1.018
Lorraine	0.960
Midi-Pyrénées	1.014
Nord	0.980
PACA	0.979
Pays de la Loire	0.960
Picardie	0.967
Poitou-Charentes	1.037
Rhône-Alpes	0.941
Average	0.986

Paris and Ile de France:

Region	Department	Apartment Index 2009-2010	House Index 2009-2010
Ile de France	91 Essonne	1.060	1.020
	92 Hauts-de-Seine	1.090	1.100
	75 Paris	1.095	
	77 Seine-et-Marne	1.070	1.040
	93 Seine-Saint-Denis	1.060	1.030
	94 Val de Marne	1.050	1.080
	95 Val d'Oise	1.060	1.080
	78 Yvelines	1.060	1.000
Average		1.680	1.050

Chairman's report
established pursuant
to the Article L. 225-37 of the
Commercial Law

Conditions for preparing and organising the tasks of the Board of Directors

Members of the Board

As of December 31, 2010, the Board of Directors of Compagnie de Financement Foncier consists of eight members, including the Chairman of the Board (who also assumed the office of Chief Executive Officer since December 14, 2007) and the Deputy Chief Executive Officer. Members of the Board are listed in an attached table. Two Statutory Auditors and the company's Specific Controller also attend Board meetings.

Board meetings

The legal secretary to the Board of Directors is provided by the General Secretariat of Crédit Foncier de France and it establishes, in consultation with the Executive Officers, the agenda for the meetings as well as the information files distributed to the members documenting the various issues to be discussed. This department also drafts the minutes and keeps the legal registers. On June 30, 2010, the Board has adopted internal regulations defining operational procedures for the Board.

Compagnie de Financement Foncier's Board of Directors meets at least once every three months to examine a pre-scheduled agenda. Specific items may be added depending on the period. Items discussed include:

- › approval of the accounts for the previous year;
- › management forecasts;
- › quarterly report of bond issues and analysis of the performance of *obligations foncières* issued by Compagnie de Financement Foncier on the primary and secondary markets;
- › determining, at the end of each quarter, for the following quarter, the program for issuing *obligations foncières* and other preferred debt which requires certification by the Specific Controller;
- › delegation of the powers necessary to contract these issues;
- › half-year accounts examination;
- › more generally, authorisation of any major transaction involving the company or any significant event affecting the company (governance, changes to bylaws, agreements with the parent company, update of EMTN programs, debt issues that exceed limits of delegated powers, significant credit transactions excluding current transactions etc.);
- › reports on internal control and risk measurement and assessment of monitoring pursuant to Articles 42 and 43 of CRBF Regulation No. 97-02 as amended and of Annual Report of Specific Controller;
- › information intended for publication concerning the quality of the assets as well as the congruence of maturity and rates for the company's assets and liabilities in accordance with Article 13 of CRBF Regulation No. 99-10 as amended;
- › presentation of the results from the ongoing, periodic and compliance controls.

The records and documents submitted to the Board provide it with information about the company and its evolution.

The Board of Directors has not limited the powers of the Chief Executive Officer in any way. The Chief Executive Officer is vested with the broadest powers to act in all circumstances on behalf of the company, within the limits of the corporate purpose, and subject to the powers expressly attributed by law to Shareholders' Meetings and the special powers of the Board of Directors. He represents the company in its relationships with third parties. The Deputy CEO is vested with the same powers as the Chief Executive Officer.

Compagnie de Financement Foncier's Board of Directors met six times in 2010.

Since 2005, Board members have been entitled to directors' fees in accordance with the allocation rules recommended by BPCE, Compagnie de Financement Foncier's central body. The amount of the directors' fees allocated to the Board members is set in advance for each meeting and is paid only if they actually attend the meetings. The amount is also subject to a maximum annual limit.

Committees and controls

Compagnie de Financement Foncier has an Audit Committee which operates in accordance with a charter approved by the Board of Directors in its meeting of June 29, 2004 and updated by the Board in its meeting of March 30, 2010.

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

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

Its usual scope includes:

- › budget procedures;
- › closing of the accounts;
- › expressing its opinion on the renewal or the selection of the statutory auditors and the specific controller;
- › permanent control (compliance, risk oversight and financial management);
- › periodic audits;
- › issuing opinions on the appointments of corporate officers;
- › examining the specific controller's annual report;
- › review on the credit, interest rate and liquidity and operational risks.

Every meeting of the Audit committee is summarized in a review commented by its Chairman at the next meeting.

As of December 31, 2010, the Audit Committee was composed of four members:

- › Mr Alain DENIZOT, Chairman of the Management Board of Caisse d'Epargne de Picardie, and Chairman of the Audit Committee,
- › Mr Stéphane CAMINATI, Chief Executive Officer of *Compagnie Européenne de Garanties et Cautions* since September 2010, previously Head of Group Cost Control at BPCE, Mr Roland CHARBONNEL is nominated to replace Mr Stéphane CAMINATI who resigned on the Board meeting on March 28, 2011,
- › Mr Nicolas DARBO, Deputy Managing Director of Crédit Foncier de France,
- › Mr Philippe DRUART, General Secretary of Crédit Foncier de France.

Mr Thierry DUFOUR, Chief Executive Officer, is in charge of permanent and periodic control and compliance for Compagnie de Financement Foncier.

This appointment meets the requirements of Article 7.1 of CRBF Regulation 97-02 as amended and is in accordance with the principle applied by Crédit Foncier de France's management under which the executive bodies of subsidiary credit institutions may draw on the parent company's structure to fulfil their obligations in terms of permanent and periodic control and compliance.

Attendance of shareholders at general meetings

General meetings of shareholders are convened in accordance with French legal and regulatory requirements.

An invitation to attend the meeting is sent to each shareholder individually. The shareholders are exclusively registered shareholders.

Every shareholder may attend the general meeting in the conditions defined by French law.

There is no provision entitling shareholders to multiple voting rights.

Principals and rules determined by the Board of Directors for establishing the remuneration of Corporate Officers

The remuneration of the Chief Executive Officer and the Deputy Chief Executive Officer is comprised of a fixed part and a variable part, which is equal to that of the fixed part. The Board held on March 30, 2010 determined the variable pay of the CEO and the Deputy CEO of Compagnie de Financement Foncier at 35% and 100% of their base salary.

Internal control procedures

The regulatory framework in the context of forming part of the Crédit Foncier Group

In its dual capacity as credit institution and *société de crédit foncier*, Compagnie de Financement Foncier operates within a very comprehensive legal and regulatory framework governing its activities and their control.

› As a credit institution, this framework primarily stems from the French Monetary and Financial Code (CMF) and the regulations set forth by the Banking and Finance Regulatory Committee (CRBF), and in particular, with regards to internal controls, by CRBF Regulation No. 97-02 as amended.

› As a *société de crédit foncier*, Compagnie de Financement Foncier is subject to the specific provisions set forth in Articles L. 515-13 to L. 515-33 of the French Monetary and Financial Code and in various implementing decrees (Articles R. 515-2 to 14 of the French Monetary and Financial Code, CRBF Regulation No. 99-10 as amended, etc.). The legal and regulatory framework for *sociétés de crédit foncier* was revised and modernised in 2010, and the changes will come into force with effect from 2011.

This framework requires the company to appoint a Specific Controller approved by the French Prudential Control Authority. This person is in charge of monitoring compliance with legal requirements: asset eligibility, overcollateralization, the congruence of rates and maturity and the valuation of assets or underlying securities.

The Controller drafts an annual report which is then submitted to the French Prudential Control Authority and executive officers.

In accordance with the regulations, Compagnie de Financement Foncier's executive management is responsible for establishing internal controls and implementing them. The internal controls encompass all procedures, systems and controls required to comply with laws, regulations and general or the Crédit Foncier Group rules and ensure that all risks are properly managed.

In accordance with the legal framework that provides a privilege for holders of *obligations foncières*, the law stipulates that *sociétés de crédit foncier* may not have their own resources.

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

These services must be subjected to controls according to the amended Regulation 97-02 of Article 37-2, which requires that the service provider's internal control system be adequate. Executive management is responsible for ensuring that controls be adequate as stated in Regulation 97-02: "outsourced services shall not dispense executive management of its responsibilities".

The outsourced activities are performed in accordance with the ongoing and periodic control procedures implemented by Crédit Foncier. These procedures comply with the rules and standards set by BPCE, which as the central body determines the obligations of group entities in the area of internal control, in terms of resources, organisation and guidelines.

BPCE's internal Audit department also performs periodic audits of Crédit Foncier's internal control system as part of its overall assessment of internal control.

Organisation of internal control and roles of the various parties involved

The effectiveness of internal controls depends on a clear division of the roles and responsibilities of different governance structures as well as on that of ongoing operational control entities and finally on the arrangements made for periodic controls.

Corporate Governance

Compagnie de Financement Foncier's executive management is responsible for managing the company. It is in charge of managing risks and internal controls including ongoing controls. The Board of Directors exercises control over the company's management and orients its strategy.

It is involved in the most important decisions and is kept regularly informed of indicator developments. Its work is prepared by the Audit Committee, which carries out the essential tasks of ensuring that relevant and consistent accounting methods are used to prepare the company's financial statements and assessing the quality of internal controls, including the consistency of measurement, monitoring and risk management systems, and, if necessary, propose an appropriate course of action.

Internal control

Based on several levels of permanent control and a periodic control structure, the organisation of the internal control system (involvement of *senior* management, system of delegations, reporting lines, segregation of duties, etc.) is described below.

The different levels of permanent control

Crédit Foncier's organisation was thoroughly overhauled during the year. As requested by the supervisory authorities, Crédit Foncier switched from an organisation by business line to an organisation by function. The front office sales activities were placed under the responsibility of one of the two deputy managing directors, while the other deputy managing director now independently oversees the middle and back office units and the financial and international activities.

At the same time, the independent control units involved in permanent control at the business lines were reinforced and, in most cases, regrouped at the corporate officer level, thereby increasing their independence with regard to operating departments.

The Risk and Compliance Divisions were grouped into a single division under the responsibility of a deputy managing director. A Coordination of Permanent Controls department was created within this division to coordinate control functions across the group. This new department, which ensures the application and efficiency of the permanent control system,

has close functional links with first-level permanent control teams, which report directly to the Deputy Managing Directors of Crédit Foncier.

Operational permanent control

Operational permanent controls are performed within the operating units by the employees or their management. The terms and conditions of these controls are documented in procedures or operating manuals, which are drafted and updated under the responsibility of the units concerned.

Rapidly changing structures and regulatory environment, together with an in-depth transformation of IT systems, mean that transaction processing procedures are changing constantly, requiring frequent updating of a large part of the guidelines.

Permanent controls performed by units that are independent from the operating structures

These units verify that the procedures are properly applied and that risk is managed efficiently.

They may report directly to *senior* corporate officers:

- › the head of permanent control for the French front office sales activities reports directly to the Deputy Managing Director in charge of the divisions that manage this activity. He also reports functionally to the Deputy Managing Director in charge of the Risk and Compliance division;
- › the head of permanent control for the middle and back office activities, and for financial and international activities, reports directly to the Deputy Managing Director in charge of these activities. He also reports functionally to the Deputy Managing Director in charge of the Risk and Compliance division of Crédit Foncier. Moreover, for Compagnie de Financement Foncier, the "SCF Monitoring and control Department" is responsible for permanent control of all the procedures that affect Compagnie de Financement Foncier, and consequently of the proper application of the agreements entered into between Compagnie de Financement Foncier and its parent company;
- › Crédit Foncier's Information Systems Security Officer reports directly to the Deputy Managing Director in charge of the Resources division of Crédit Foncier. He has three main duties: to define the information systems security policy, coordinate a network of correspondents within the various group entities, and support and advise the IT Department on security issues;
- › Crédit Foncier's Business Continuity Plan Manager also reports to the Deputy Managing Director of the Resources division of Crédit Foncier. His duty is to ensure that Groupe Crédit Foncier's post-disaster business continuity plan is updated and maintained in good operating condition.

The permanent control units may also take the form of dedicated central structures:

- › the Risk department: this unit measures, controls and oversees credit and counterparty risk, as well as financial and operational risks;
 - › the Compliance department: this unit is more particularly responsible for controlling the risk of non-compliance and that of the investment services. It also covers mediation, ethics and prevention of money laundering and fraud;
 - › permanent control department: permanent controls within the Crédit Foncier Group are now coordinated by a specific unit within the Risk and Compliance division, which holds all the Group's permanent controls;
- These three departments report directly to the Deputy Managing Director in charge of the Risk and Compliance division;
- › the Accounting Audit department, which reports to the Accounting Department of Crédit Foncier but which has no operational duties. It is responsible for auditing the accounting and regulatory data produced by Crédit Foncier and its subsidiaries;
 - › the General secretariat of Compagnie de Financement Foncier, which is embodied by the SCF Monitoring and control department. The latter reports to the Deputy CEO of Compagnie de Financement Foncier, in charge of the control of the services provided by Crédit Foncier.

Crédit Foncier's permanent control system is structured based on documented risk management procedures at the various units, which are regularly updated.

The main duties of the Internal Control Committee are:

- › to ensure that permanent control of business activities is well organised and comprehensive, and that risk management and supervision is efficient (including overseeing the risk management system);
- › to coordinate action to ensure good risk management, compliance of operations and internal procedures, the quality and availability of the data processed by the information systems and the security of the said systems;
- › to ensure that deficiencies identified by Internal Audit are remedied and that its recommendations are implemented.

The Committee is chaired by the Chief Executive Officer of Crédit Foncier. It meets on a monthly basis, attended by representatives of the control functions and the Secretary General of Compagnie de Financement Foncier. It reports periodically on its work to the Audit Committee of Crédit Foncier.

Periodic control

Periodic control is the responsibility of Crédit Foncier's Internal Audit department.

The shareholder's control units may also contribute to periodic control by performing audits at the Crédit Foncier Group scope, whose recommendations are communicated to Crédit Foncier's Internal Audit department, which oversees their implementation.

Line management's role in controlling employees' activities

A key element of operational permanent control, control by line management is usually ensured:

- › by analysing the incident reports, supervisory reports and financial reports that enable the managers to oversee the activities of their units;
- › by a system of delegations, to a large extent incorporated into the IT procedures (authorisation by type of transaction or threshold, transactions that require approval), or in the form of manual approvals.

System of delegation

Crédit Foncier's delegation system is based on two series of measures:

- › first, an internal system that ensures that decisions, according to the degree of risk they represent, are taken at the appropriate level (by the competent decision-making committees, or via internal delegation systems);
- › secondly, a system of mandates enabling Crédit Foncier representatives to prove to third parties that they have the necessary powers to commit the company.

Moreover, all members of the Executive Committee of Crédit Foncier have full power and authority, within the scope of the responsibilities assigned to them, to perform their duties.

Decisions that are not directly the responsibility of general management but which exceed the powers delegated to operational managers are taken by specialised committees. Some committees are specific to Compagnie de Financement Foncier. In the case of the other committees, Compagnie de Financement Foncier is represented. The main committees include:

- › the National Commitment Committee who authorises commitments exceeding the powers delegated to the operating units and Business Committees;
- › the Risk Committee specific to Compagnie de Financement Foncier: monitoring of overall trends in counterparty,

financial and operational risk and taking the relevant decisions (scoring rules, delegations, limits);

- › the National Committee of Sensitive Operations who manages strategy and decisions regarding substantial debts that are either in difficulty or exposed to risk;
- › the New Products Committee: launching new types of loan products;
- › the Asset and Liability Management Committee who analyses ALM indicators and ensuing decisions; a stand-alone Asset and Liability Management Committee for Compagnie de Financement Foncier also meets quarterly to review liquidity and rate positions as well as compliance with limits set with the rating agencies;
- › the Agreement Oversight Committee between Crédit Foncier and Compagnie de Financement Foncier who oversees the interpretation and application of agreements, verifies that the outcome is fair and suggests any necessary changes;
- › the Management Committee of Compagnie is an offshoot of the Agreements Monitoring Committee, and provides operational oversight of Compagnie de Financement Foncier management and proposes solutions to problems, if any, related to compliance with the agreements.

Oversight and measurement of risk

Crédit Foncier has put in place risk measurement, oversight and management systems and procedures (mainly counterparty, foreign exchange, interest rate, liquidity and operational risks) adapted to its activities, resources and organisation, and which form an integral part of the internal control system.

The Group has drawn up precise limits and procedures for managing, selecting, overseeing and controlling its risks. These limits are updated regularly.

The Risk department performs exhaustive and precise assessments of Crédit Foncier's risk, covering all categories of commitments and differentiating between the levels of risk.

Risk measurement methods are documented and supported. They are reviewed regularly to ensure they are relevant and appropriate for the risks incurred.

Oversight of the risks incurred entails constant monitoring of breaches of limits and their rectification, and periodic review of the main risks and portfolios. The classification of loans is checked periodically in the light of the applicable regulations (in particular doubtful loans). Checks are also performed regularly to ensure that provisioning and risk levels are consistent.

Risk assessments, submitted to Compagnie de Financement Foncier's Executive Board through periodic activity reports and to committees, are regularly reported to the Audit Committee as well as to the Board of Directors of Compagnie de Financement Foncier.

Reporting lines

The information needed by general management to oversee the activity is provided in the monthly operating reports produced by the Finance and Planning department of Crédit Foncier. The various business lines draw up reports specific to their respective activities.

Principle of separation of functions

- › Independence is on the whole ensured between the units in charge of carrying out transactions and those in charge of their accounting and settlement and the oversight and management of the related risks.
- › The independence of control units from operating units is ensured as follows:
 - the Risk department of Crédit Foncier oversees counterparty, financial and operational risk,
 - accounting control is performed by the accounting department of Crédit Foncier and its specific unit,
 - compliance and ethics is the responsibility of the Compliance department of Crédit Foncier,
 - permanent control by control units that are separate from the operational units,
 - periodic controls by the Internal Audit department of Crédit Foncier.

Accounting system and procedures

Crédit Foncier's accounting system relies mainly on the input of accounting data by the management chains.

The terms and conditions of accounting-related internal control are described in the section on accounting and financial reporting control procedures.

Periodic control and the work of the Internal Audit department

Organisation and resources of the General Inspection Department

The Internal Audit department is responsible for assessing the permanent control system.

It reports on its audits to the Chief Executive Officer of Crédit Foncier, to the Audit committee of Crédit Foncier and if necessary to the management and the Audit committee of Compagnie de Financement Foncier.

At the end of 2010, the Internal Audit department employed 24 people, all with third-level education and collectively spanning a broad range of skills (accounting, financial, legal and business).

The Internal Audit department draws up an annual audit plan in collaboration with General Management and in agreement with BPCE's Internal Audit department. The plan is approved by Crédit Foncier's General Management and presented to the Audit Committee. It covers the Internal Audit department's scope with a long-term plan based on an audit cycle of at most three and a half years; intrinsically risky activities are audited more frequently. Specific audits or reviews may be requested by the Chief Executive Officer or by the Audit Committee of Crédit Foncier and of Compagnie de Financement Foncier during the year.

Reports on the audits performed are presented to Crédit Foncier's General Management, the Audit Committee and, if appropriate, the Audit committee and the Board of Compagnie de Financement Foncier. A summary report on the follow-up of recommendations is also presented to the above-mentioned bodies as well as to the Executive Committee and the Internal Control Committee of Crédit Foncier.

Audits performed in 2010

Crédit Foncier's Internal Audit department performed 20 audits in 2010.

Most of these were audits scheduled in the annual audit plan approved by the Audit Committee at its meeting of December 2, 2009 and concerned the Crédit Foncier Group's different business sectors: loans to individuals, securitisation, support activities and subsidiaries.

In addition, in the autumn of 2010, the Internal Audit department of BPCE, the central body, began a full audit of Crédit Foncier.

Follow-up of recommendations arising from previous audits

Monitoring the implementation of audit recommendations is based on the six-monthly reports presented by the audited entity's management, indicating the percentage of completion and including, if necessary, an action plan and a new deadline. These reports must be accompanied by supporting documentation provided by the audited entity and containing all the necessary proof. The reports are input by the audited entities using an intranet application provided to them. Following a consistency check, they are incorporated into the reporting documents prepared for the management bodies.

A detailed statistical report is prepared each quarter to provide the General Management, Executive Committee and Audit Committee with a clear, summary report. This information is also reported to the Audit committee of Compagnie de Financement Foncier if concerned.

Supervision of implementation is further strengthened by periodic progress briefings organised with the departments concerned.

Checks to see whether the recommendations have been effectively implemented are now performed both based on documentary evidence and onsite inspections, either on a continuous basis (six months after report is issued) or when the completion rate reaches 100%.

Whenever a new audit is performed, the implementation of audit recommendations issued previously is systematically checked and the recommendations are reiterated, if necessary.

Procedures of Control of accounting and financial statements of Crédit Foncier

Role of BPCE

The Groupe BPCE Regulations and Consolidation Department is responsible for standardisation, supervision, appraisals, oversight, forecasting, regulatory monitoring and representation of the Crédit Foncier Group for prudential, accounting and fiscal matters.

In this capacity, it defines and updates the Group's accounting indicators through accounting rules and methods applicable to all Group institutions. These rules and methods include accounting and generic operating forms and are summarised in a manual used by all the Group's institutions, which is updated regularly based on changes in accounting regulations. Furthermore, the rules for preparing half-year and annual financial statements are communicated in a specific announcement in order to harmonise accounting procedures and statements among the different companies in the Group.

Compagnie de Financement Foncier Audit Committee

Accounting and financial statements (annual and half-year financial statements and notes) is presented to the Audit Committee. This committee analyses the statements, receives the conclusions of the auditors and submits a report on its work to the Board of Directors.

Organisation of the accounting function at the Crédit Foncier Group

Accounting at the Crédit Foncier Group is performed by the General Accounting Department. It is responsible for preparing balance sheets, income statements, notes to the financial statements and statutory reports of Compagnie de Financement Foncier, as an entity of the Group which does not have an Accounting Department on its own.

The Crédit Foncier's General Accounting Department, assigned to the Deputy Chief Executive Officer of Crédit Foncier, is organized as follows:

Sections	Main responsibilities within the accounting system	Main responsibilities in the preparation of synthetic data
Reporting and synthesis	Company financial statements: <ul style="list-style-type: none"> - keeping the accounts of Crédit Foncier, Compagnie de Financement Foncier and Vauban Mobilisations Garanties and preparation of company financial statements - tax returns - Regulatory disclosures at company level (BAFI, Monetary statistics, etc.) - calculation of regulatory ratios at company level (liquidity) and of specific ratios for Compagnie de Financement Foncier 	<ul style="list-style-type: none"> - Balance sheets, income statements and notes to the financial statements of these entities - Monthly synthetic income statements of the Group's two main entities (CFF, Compagnie de Financement Foncier)
	Consolidated financial statements: <ul style="list-style-type: none"> - centralisation of consolidation packages - preparation of the consolidated financial statements - definition and implementation of consolidation procedures (use of BPCE's Magnitude software application) - Prudential disclosure at consolidated level to ACP (via BPCE, central body) 	<ul style="list-style-type: none"> - Balance sheets, income statements and notes to the financial statements of the Crédit Foncier Group - Group's quarterly consolidated results- Consolidated monthly results under French GAAP - Reporting to the ACP (via BPCE, the central body)
Operational accounting	<ul style="list-style-type: none"> - Supervision and control of the functioning of interfaces between the loan management chains, the accounting software and the reporting databases - Configuration of accounting charts - Documentation of detailed accounting charts 	<ul style="list-style-type: none"> - Reports on outstanding loans and flows
Accounting Audit Section	<ul style="list-style-type: none"> - Ongoing accounting controls 	Accounting audit reports

Accounting audit

The principles of the organisation of accounting control, in the framework of the decentralisation of tasks, are set out in the "Accounting Charter". The Accounting Audit section reports hierarchically to the Head of the Accounting Department of Crédit Foncier and functionally to the Head of Compliance and Ongoing Control of Crédit Foncier, who is the recipient of all the audit work carried out.

Operational accounting controls are the responsibility of the departments directly involved in producing accounting data.

The audits performed by the Accounting Audit section are set out in an annual work schedule, proposed by the Accounting Department, presented to the Department of Compliance and Ongoing Control of Crédit Foncier and approved by the Internal Control Committee of Crédit Foncier.

These audits include:

- › In-depth controls at the quarterly accounts closing dates, in particular of the evidence supporting the accounts (banking reconciliation, consistency between accounting and management systems, suspense accounts, etc.);
- › Occasional controls of certain management processes and/or systems (their accounting aspects).

These controls give rise to synthetic reports, circulated to the Compliance Department of Crédit Foncier, the Risk Department of Crédit Foncier, the statutory auditors and the SCF Monitoring and control Department.

The consolidation packages, prepared by the subsidiaries and certified by their Statutory Auditors, are reviewed in detail and checked for consistency by the Consolidation unit.

All of these prudential and regulatory reports are cleared by BPCE, which runs automated consistency controls before sending them to the French Prudential Control Authority.

Audit of financial data

The financial data disclosed to third parties (annual reports for shareholders, regulatory restitutions intended specifically for the French Prudential Control Authority and Reference documents submitted to the *Autorité des marchés financiers*) are carefully audited by the competent departments (Management Control, ALM, General Accounting).

For the Compagnie de Financement Foncier more particularly, the SCF Monitoring and control Department is in charge of auditing documents sent to the Specific Controller and the rating agencies.

Appendix

Compagnie de Financement Foncier Composition of the Board of Directors as of December 31, 2010

Range of the possible number of members: 3 to 18

Actual number of members: 8

Number of Board meetings: 6

Average attendance rate: 71%

Directors' fees: yes

First and last names Company name and permanent representative	Function at the company and on the Board	Date of appointment	Date term of office expires	Comments
Crédit Foncier de France Represented by Mr François BLANCARD	Director	June 25, 1999	AGO 2011	Replacing Mr Alain PREVOT
Mr Thierry DUFOUR	Director Chairman and CEO	Director since December 18, 1998 Chairman since July 31, 2007 Chairman and CEO since December 14, 2007	AGO 2013	Replacing Mr François DROUIN, who resigned After Mr François VEVERKA, Executive officer non-Director
Ms Sandrine GUÉRIN	Director and Deputy CEO	Director since March 25, 2002 Deputy Chief Executive Officer since May 17, 2002	AGO 2012	After the disassociation of Chairman ship and of Executive office
Mr Didier PATAULT	Director	September 26, 2008	AGO 2014	
Mr Alain DENIZOT	Director	September 26, 2008	AGO 2014	
Mr Stéphane CAMINATI	Director	December 17, 2008	AGO 2011	Replacing Mr François CHAUVEAU, who resigned
Mr Nicolas DARBO	Director	December 15, 2009	AGO 2013	Replacing Mr Pierre NUYTS, who resigned
Mr Philippe DRUART	Director	September 29, 2010	AGO 2014	Replacing Mr Djamel SEoudi, who resigned

This is a free translation into English of the Statutory Auditors' report issued in the French language and is provided solely for the convenience of English speaking readers. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Statutory Auditors' report, prepared in accordance with article L.225-235 of the French Commercial Code on the report prepared by the Chairman of the Board of Directors of Compagnie de Financement Foncier

To the Shareholders,

In our capacity as Statutory Auditors of Compagnie de Financement Foncier, and in accordance with article L.225-235 of the French Commercial Code (Code de commerce), we hereby report to you on the report prepared by the Chairman of your company in accordance with article L.225-37 of the French Commercial Code for the year ended 31 December 2010.

It is the Chairman's responsibility to prepare, and submit to the Board of Directors for approval, a report describing the internal control and risk management procedures implemented by the company and providing the other information required by article L.225-37 of the French Commercial Code in particular relating to corporate governance.

It is our responsibility:

- › to report to you on the information set out in the Chairman's report on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, and
- › to attest that the report sets out the other information required by article L.225-37 of the French Commercial Code, it being specified that it is not our responsibility to assess the fairness of this information.

We conducted our work in accordance with professional standards applicable in France.

Information concerning the internal control and risk management procedures relating to the preparation and processing of financial and accounting information

The professional standards require that we perform procedures to assess the fairness of the information on internal control and risk management procedures relating to the preparation and processing of financial and accounting information set out in the Chairman's report. These procedures mainly consisted of:

- › obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of financial and accounting information on which the information presented in the Chairman's report is based, and of the existing documentation;
- › obtaining an understanding of the work performed to support the information given in the report and of the existing documentation;
- › determining if any material weaknesses in the internal control procedures relating to the preparation and processing of financial and accounting information that we may have identified in the course of our work are properly described in the Chairman's report.

On the basis of our work, we have no matters to report on the information given on internal control and risk management procedures relating to the preparation and processing of financial and accounting information, set out in the Chairman of the Board's report, prepared in accordance with article L.225-37 of the French Commercial Code.

Other information

We attest that the Chairman's report sets out the other information required by article L.225-37 of the French Commercial Code.

Paris La Défense and Neuilly-sur-Seine, March 30, 2011

The Statutory Auditors

KPMG Audit **PricewaterhouseCoopers Audit**
Division of KPMG S.A.

Rémy TABUTEAU Jean-Baptiste DESCHRYVER

Legal information

Corporate governance

Members of the Board of Directors in 2010 and their professional addresses.

Mr Thierry DUFOUR

Director since December 18, 1998

Chairman from December 18, 1998 to June 25, 1999

Chief Executive Officer from June 25, 1999 to May 16, 2001

Deputy Chief Executive Officer from May 16, 2001 (following the promulgation of the New Economic Regulations Act) to May 17, 2002

Chief Executive Officer since May 17, 2002 (following the separation of the offices of Chairman of the Board and Chief Executive Officer)

Resignation from the office of Chief Executive on September 4, 2006

Chairman of the Board of Directors since July 31, 2007

Chairman & Chief Executive Officer since December 14, 2007

Crédit Foncier de France - 4, quai de Bercy - 94220 Charenton-le-Pont

Ms Sandrine GUÉRIN

Deputy Chief Executive Officer (non-Director) since October 15, 2001

Director since March 25, 2002

Deputy Chief Executive Officer since May 17, 2002 (following the separation of the offices of Chairman of the Board and Chief Executive Officer)

Crédit Foncier de France - 4, quai de Bercy - 94220 Charenton-le-Pont

Mr Didier PATAULT

Director since September 26, 2008

Caisse d'Épargne Bretagne Pays de Loire - 4, Place Graslin - 44000 Nantes

Mr Djamel SEOUDI

Director since September 26, 2008

4, quai de Bercy - 94220 Charenton-le-Pont

Resigned on August 31, 2010

Mr Alain DENIZOT

Director since September 26, 2008

Caisse d'Épargne Picardie - 2, Boulevard Jules Verne - 80000 Amiens

Mr Stéphane CAMINATI

Director since December 17, 2008

BPCE - 50, avenue Pierre Mendès France - 75013 Paris

Mr Nicolas DARBO

Director since December 15, 2009

Crédit Foncier de France - 4, quai de Bercy - 94220 Charenton-le-Pont

Mr Philippe DRUART

Director since December 15, 2009

Replacing Mr Djamel SEOUDI who resigned

Crédit Foncier de France - 4, quai de Bercy - 94220 Charenton-le-Pont

Crédit Foncier de France

Director since June 25, 1999

Represented by Mr François BLANCARD

4, quai de Bercy - 94220 Charenton-le-Pont

General information concerning the company

Registered office

The registered office of Compagnie de Financement Foncier is located at 19, rue des Capucines, 75001 Paris.

Activity

Compagnie de Financement Foncier is the *société de crédit foncier* of the Crédit Foncier de France Group, which is itself a part of Groupe BPCE, specifically governed by the provisions of section IV of the second part of French law 99-532 of June 25, 1999 governing savings and financial security, which has been incorporated into Articles L. 515-13 to L. 515-33 of the French Monetary and Financial Code.

Pursuant to Article 110 of this law, Crédit Foncier de France transferred to Compagnie de Financement Foncier, on October 21, 1999, assets and liabilities covered by the specific legislative and regulatory requirements that applied to it before its transfer.

The purpose of Compagnie de Financement Foncier is to granting or purchase secured loans and exposures to public authorities financed by the issuance of *obligations foncières*, or by other resources which may or may not benefit from the preferred status, or "privilege", as defined by Article L. 515-19 of the French Monetary and Financial Code.

Structure of the relationship between Compagnie de Financement Foncier and Crédit Foncier de France

As stipulated by law, Compagnie de Financement Foncier draws on the technical and human resources of its parent company under agreements binding the two companies. These agreements, which are regulated as defined by Article L. 225-38 of the French Commercial Code, cover all of the company's activities.

The general principles applied in preparing these agreements are described below.

The texts as drafted take into account the special nature of the relationship between Crédit Foncier de France and its subsidiary Compagnie de Financement Foncier.

19 agreements have been entered into by Crédit Foncier de France and Compagnie de Financement Foncier, namely:

- > a framework agreement, setting forth the general principles;
- > an agreement for loan assignments;
- > an agreement for loan servicing and recovery;
- > an agreement governing financial services;
- > an ALM agreement;
- > an administrative and accounting management agreement;
- > a service agreement on internal control and compliance;
- > an agreement related to the implementation of information technology services;
- > an agreement concerning human resources;
- > an agreement concerning compensation for services;
- > an agreement related to settlement bank services;
- > a guarantee agreement for adjustable-rate loans;

- › a guarantee and compensation agreement;
- › an agreement concerning disbursing agent agreement;
- › an agreement relating to management and collection of loans subsidised by the French State;
- › an agreement regarding participation loans;
- › an agreement related to redeemable subordinated notes;
- › an agreement relating to the assignment of mortgage ranking/priority;
- › an agreement for tax integration between Crédit Foncier, Compagnie de Financement Foncier and BPCE.

As a result, with the exception of Directors and Officers, Compagnie de Financement Foncier does not have directly any salaried employees.

Legal form and applicable legislation

Compagnie de Financement Foncier is a credit institution authorised as a financial company and a *société de crédit foncier* by a decision of the French Credit Institutions and Investment Companies Committee (CECEI - *Comité des établissements de crédit et des entreprises d'investissement*) on July 23, 1999. It is thus subject to all regulations and legislation applicable to credit institutions and, as a *société de crédit foncier*, it is also subject to Articles L. 515-13 to L. 515-33 of the French Monetary and Financial Code.

It was formed as a French *société anonyme* and, for this reason is also subject, apart from certain exemptions, to the requirements applicable to commercial companies under the French Commercial Code.

A *société de crédit foncier* benefits from a certain number of exemptions from ordinary laws, of which:

- › Article L. 515-19 of the French Monetary and Financial Code, which establishes a “privilege” for bondholders of *obligations foncières*;
- › Article L. 515-27 of the French Monetary and Financial Code, which stipulates that the legal receivership or liquidation of a company holding shares of a *société de crédit foncier* cannot be extended to the *société de crédit foncier*;
- › furthermore, Article L. 515-28 of the French Monetary and Financial Code stipulates that, notwithstanding any legal or regulatory requirements to the contrary, notably those of Section II of Volume VI of the Commercial Code, contracts for servicing and recovering loans of a *société de crédit foncier* can be immediately terminated in the event that a company responsible for the servicing of such loans is placed in legal receivership or liquidation.

Period

The company was incorporated on December 22, 1998 for a period of 99 years.

Corporate purpose (Article 2 of the bylaws)

Article 2 - Purpose

The purpose of the company, in the context of the laws and regulations applicable to *sociétés de crédit foncier*, is to:

1° carry out all transactions referred to in Articles L. 515-13 *et seq.* of the French Monetary and Financial Code and without any restriction as to the countries in which it can operate other than those set out in such laws and regulations.

According to the legislation that went into effect April 21, 2007, these transactions include:

- › granting or acquiring secured loans, exposures to public authorities and securities as defined in Articles L. 515-14 to L. 515-17 of the French Monetary and Financial Code;
- › financing these types of loans, exposures, investments and securities by issuing *obligations foncières* benefiting from the “privilege” defined in Article L. 515-19 of the French Monetary and Financial Code and by raising other resources whose issuance or subscription contract mentions this “privilege”.

The company may also finance the activities mentioned above by issuing bonds or resources that do not benefit from the “privilege”. It can not issue promissory notes referred to in Articles L. 313-42 to L. 313-48 of the French Monetary and Financial Code.

Notwithstanding any other provisions or stipulations to the contrary, the company can securitise, in accordance with Articles L. 313-23 to L. 313-34 of the Monetary and Financial Code, all or some of the loans that it holds, regardless of the nature of such loans. The company may also carry out temporary transfers of its securities under the conditions set forth in Articles L. 211-22 to L. 211-34 of the French Monetary and Financial Code may mobilise them pursuant to Article L. 211-20 of said Code. The loans or securities thus securitised or transferred are not booked pursuant to Article L. 515-20 of the abovementioned Code.

The company cannot hold equity investments.

2° contract with any credit institution all needed agreements:

- › to service and recover loans, exposures and securities;
- › to manage bonds and other financing;
- › more generally, to provide all services necessary to manage the assets, liabilities and the financial stability of the company;
- › as well as all agreements concerning the distribution and refinancing of loans.

3° acquire and own all property and equipment necessary to fulfil its purpose or arising from the recovery of its loans.

- › Contract with any third party any agreement related to the acquisition, ownership, management, maintenance and disposal of such assets.

4° contract with any insurance company any agreement, which serves the company purpose, notably to cover risks related to borrowers, risks related to both assets securing the loans and assets owned by the company, and the liability risks of the company or its Directors and Officers.

5° in connection with its own activity, or on behalf of other companies, provide customers with and manage payment processes, in particular:

- › for issuing payment of funds or the receipt of all sums arising from loan activities;
- › for managing any accounts for financial transactions with other credit institutions or public entities;
- › for the management of technical accounts in respect to expenses and receipts.

6° participate in any system for interbank settlements, settlement-delivery of securities, as well as in any transaction within the framework of the monetary policy of the European Central Bank, which contribute to the development of the company's activities.

7° more generally:

- › carry out all operations contributing to the fulfilment of its corporate purpose as long as such transactions comply with the purpose of *sociétés de crédit foncier* as defined in the legislation and regulations that regulate their activity;
- › enter into any agreement allowing the company to use outsourcing services.

Trade Register Number

Compagnie de Financement Foncier is registered in the Paris Trade Register under number B421 263 047 RCS PARIS.

Location where legal documents concerning the company may be consulted

Legal documents concerning Compagnie de Financement Foncier may be consulted at 4, quai de Bercy, 94220 Charenton-le-Pont.

Financial year

The financial year begins on January 1st, and ends on December 31.

Provisions of the bylaws governing appropriation of earnings

If the financial statements for a given financial year, as approved by the Shareholders' Meeting, show distributable earnings as defined by law, shareholders shall decide either to attribute them to one or more reserve accounts, the allocation and use of which it determines, to retained earnings or to distribute them.

After ascertaining the existence of the reserves at its disposal, the Shareholders' Meeting may decide to distribute amounts drawn from those reserves. In such a case, the decision shall specify the reserve accounts from which the distributed amounts are to be drawn.

However, dividends shall be withdrawn first from the distributable earnings for the financial year.

Shareholders also have the right to grant each shareholder, for all or part of the dividend or interim dividend to be distributed, an option to receive payment either in the form of cash or in shares.

Shareholders' Meetings

Shareholders' Meetings shall be called and shall deliberate under the conditions stipulated by law. An Ordinary Meeting must be held each financial year within five months of the closing date of the preceding financial year. Meetings shall be held at the corporate offices or at another location stated in the notice of meeting. Any shareholder may participate personally, or by proxy, in Shareholders' Meetings with proof of identity and ownership of shares in the form of a record in his name on the company's books five days before the date of the Shareholders' Meeting.

He may also vote by mail under the conditions stipulated by law. Meetings are chaired by the Chairman of the Board of Directors or, in his absence, by a Director specially designated to do so by the Board. Otherwise, the Shareholders' Meeting shall appoint a Chairman. An attendance sheet shall be kept under the conditions stipulated by law. Minutes of General Shareholders' Meetings shall be drawn up and copies shall be certified and issued pursuant to law.

General information concerning the capital stock

Capital stock

As of December 31, 2010, the company's subscribed capital amounted to €1,008,000,000. It is divided into 63,000,000 fully paid up shares with a par value of €16 each.

Share capital authorised but not subscribed

No authorisation to increase the capital stock has been issued which has not been used, nor is there any potential capital stock.

Ownership of capital and voting rights

Principal shareholders as of December 31, 2010

Shareholders	Number of shares	%
Crédit Foncier de France	62,999,993	100.00
Directors	7	
Total	63,000,000	100.00

Changes in capital over the last five years

The Board of Directors, in its meeting on June 29, 2005, noted that, following payment of the dividend in shares, the capital was increased by €10,000,000 due to the creation of 625,000 new shares with a par value €16, fully subscribed by Crédit Foncier de France.

The Board of Directors, in its meeting on June 22, 2006, noted that, following payment of the dividend in shares for the 2005 financial year, the capital was increased by €22,000,000 due to the creation of 1,375,000 new shares with a par value €16, fully subscribed by Crédit Foncier de France.

The Board of Directors, in its meeting on June 26, 2007, noted that, following payment of the dividend in shares for the 2006 financial year, the capital was increased by €22,000,000 due to the creation of 1,375,000 new shares with a par value €16, fully subscribed by Crédit Foncier de France.

Following the use of the delegation of competency granted by the Shareholders' Meeting on May 26, 2008, the Board of Directors, in its meeting on June 30, 2008, noted the increase in capital from €154,000,000 to €924,000,000, which was definitively carried out on June 27, 2008.

The Board of Directors, in its meeting on June 30, 2009, noted that, following payment of the dividend in shares, the capital was increased by €84,000,000 due to the creation of 5,250,000 new shares with a par value €16, fully subscribed by Crédit Foncier de France.

No change was made to the capital stock in 2010.

Individuals or companies that exercise control over the company

Crédit Foncier de France - 19, rue des Capucines - 75001 Paris 542 029 848 RCS Paris

Information on the Crédit Foncier de France Group, to which Compagnie de Financement Foncier belongs

The principal business of Crédit Foncier de France is to grant mortgage loans to individuals and real estate professionals, grant loans to local authorities, provide structured financing and to issue bonds to finance these loans.

From its creation in 1852 and until 1999, Crédit Foncier de France held the special status as a *société de crédit foncier*.

A key player in the specialised real estate financing market responsible for distributing French state subsidised loans, following the real estate crisis in the 1990's and the government's elimination of subsidised loans, in 1999 Crédit Foncier joined the private sector after its 90% acquisition by the Groupe Caisse d'Epargne.

In the context of legislation governing this acquisition, the Parliament created a specific new status for property lending companies. The Compagnie de Financement Foncier was then formed and authorised as a *société de crédit foncier* by the CECEI. The Crédit Foncier de France transferred all its property commitments and pledged assets to the CECEI pursuant to Article 110 of law 99-532 of June, 25, 1999.

After having been affiliated with the Groupe Caisse d'Épargne between 1999 and 2009, Crédit Foncier became affiliated in 2009 to Groupe BPCE, which resulted from the alliance between Groupe Caisse d'Épargne and Groupe Banque Populaire. Since August 5, 2010, Crédit Foncier is fully owned by the central body BPCE.

The continuous expansion of its activities led it to become a major player in real estate and French local public sector.

Key events of Crédit Foncier Group

2009 was marked by:

- › the Crédit Foncier Group was merged into the real-estate division of BPCE, the new banking group formed, in July 2009, from the merger of Groupe Caisse d'Épargne and Groupe Banque Populaire;
- › international expansion was pursued with the opening of a sales office in Montreal, Canada in August 2009;
- › Compagnie de Financement Foncier increased share capital by 115.4 million euros;
- › the company celebrated its 10th birthday in September 2009;
- › a mediation agreement on adjustable-rate loans was signed in November. It completed the negotiation process that began on January 18, 2008, when Crédit Foncier announced that it would negotiate with borrowers who had taken out specific types of adjustable-rate loans to enable them to meet their monthly installments. Regarding the loans that the Compagnie de Financement Foncier purchased prior to this date, an amendment to the 2008 agreement with Crédit Foncier de France was signed, making it protected from the financial consequences of this mediation;
- › Crédit Foncier increased its stake in Banco Primus, from 85% to 91.18%, by subscribing to three rights issues during the year, for a total investment of 21 million euros.
- › the equity interest in CFCAL-Banque was increased from 67.02% to 68.87%;
- › equity interests were also raised in Cicobail (from 65.85% to 68.33%), Locindus (67.8% to 70.43%) and Foncier Diagnostics (55% to 99%).

The year 2010 was marked by:

- › A dynamic year serving the community
 - In March 2010, Crédit Foncier published its 2009 annual report, indicating a net result of €220M: a high level of activity equal to Crédit Foncier's ambitions.
 - Crédit Foncier launches in June 2010 the *École Nationale du Financement de l'Immobilier* (National School of Housing Financing), the only school company dedicated to housing-financing. Thanks to the partnerships with Paris-Dauphine University and the CFPB (Training center for banking professions). It offers trainings "à la carte" and delivers diplomas.
- › A completed governance
 - Crédit Foncier announced on March 11, 2010 the creation of a Committee of Executive office, reflection group and authority of decision and control, in charge of enlarging the scope of the strategic reflections. It consists of eight members.
 - Christophe Pinault is nominated as Deputy Chief Executive Officer, in charge of the Business Development and becomes a legal representative on April 26, 2010.
- › The continuation of the reorganization of shareholding
 - On August 5, 2010, after the merger-takeover of the holding companies BP Participations and CE Participations with BPCE, the entirety of the capital of Crédit Foncier now belongs to BPCE.
 - Crédit Foncier and Ad Valorem create in November 2010 Crédit Foncier Immobilier, a service provider and real estate advisor platform for private individuals, owners and corporate. Stéphane Imowicz, CEO of Ad Valorem, is designated for being at the head of this new organization.

- Crédit Foncier sells to Crédit Mutuel Arkéa 68.30% of the shares that it held in CFCAL-Banque (Crédit Foncier et Communal d'Alsace et de Lorraine – Banque) in December 2010.
- › Refinancing: a very acclaimed welcome by investors for Compagnie de Financement Foncier's issues, thanks to its high credit quality
 - 3 USD benchmark issues in the 144A RegS format, allowing foreign investors to have access to the US domestic market
 - a 3-year issue in April for a principal amount of \$2bn (standalone issue)
 - a 3-year issue in July for a principal amount of \$1.8bn and a 5-year issue of \$1bn in September (in the USMTS programme framework)
 - 4 EUR benchmark issues along the year
 - 3-year issue in January for a principal amount of €2bn
 - 5-year issue in April for a principal amount of €1bn
 - 15-year issue in June for a principal amount of €600m
 - 10-year issue in November for a principal amount of €1bn
 - Compagnie de Financement Foncier was awarded Best issuer of the year 2010 by a jury composed of professionals of finance. The prize was given by Euroweek.

Specialised subsidiary within a large group

As a *société de crédit foncier*, Compagnie de Financement Foncier enables Crédit Foncier to obtain particularly advantageous financing conditions (AAA/Aaa/AAA) and top-notch financial engineering. Crédit Foncier is now positioned within Groupe BPCE as a specialised real estate lending entity.

Resolutions submitted to the Shareholders' Meeting

Mixt Shareholders' General Meeting of May 23, 2011

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, 2010, approves the accounts as presented.

Second resolution

The shareholders, having noted the existence of distributable earnings of €313,364,848.51 corresponding to the net income for the financial period of €143,210,812.60 plus the retained earnings of €170,154,035.91, allocates said distributable earnings in the following manner:

Legal reserve: €7,161,000.00

Dividend: €220,500,000.00

Retained earnings: €85,703,848.51

As a consequence, the amount of dividend that goes to each of the 63,000,000 shares constituting the share capital is fixed at €3.50.

Taking into account the fact that, pursuant to a decision by the Board of Directors on December 17, 2010, an interim dividend of €94,500,000 has already been paid from the total dividend of €220 500 000, corresponding to an interim dividend of €1.50 per share, the remaining dividend of €126,000,000, corresponding to a dividend of €2.00 per share, remains to be paid to the shareholders.

Pursuant to Article 243b of the General Tax Code, it is specified that the total dividend proposed is eligible for the 40% discount available to individuals who are resident in France for tax purposes, provided for in Article 158-3 of the General Tax Code.

The date on which the remaining dividend will be made available for payment is set at June 30, 2011.

Pursuant to Article 24 of the bylaws, the Shareholders' Meeting decides to grant each shareholder the possibility of choosing to receive payment of the dividend in shares due from the balance of the dividend. New shares will have the same features and the same rights as the shares that gave the entitlement to the dividend. The date as from which they will have dividend rights shall be set at January 1, 2011.

The issue price of the new shares will be equal to the amount of shareholders' equity after allocation, as shown in the balance sheet as at December 31, 2010 approved by the Shareholders' Meeting in the first resolution set forth above, divided by the number of existing shares. It amounts to €23.59 per share.

The number of shares that can be allocated to shareholders who have chosen to receive payment of the balance of the dividend in shares will be determined in function of the price thus calculated. It is understood that shareholders cannot receive the dividend to which they are entitled partly in shares and partly in cash.

If the dividends thus determined do not give rise to a whole number of shares, shareholders who have chosen to receive payment in shares may subscribe for the nearest whole number of shares for an amount that is lower than the dividends payable, with the balance being paid in cash or the nearest whole number [of shares] for an amount that is higher than the dividends payable [with the shareholder] paying the difference in cash.

Shareholders must make their choice between June 1, 2011 and June 15, 2011.

The shareholder that will not have exercised their option by June 15, 2011 at the latest will receive their dividends after the payment on June 30, 2011.

The Shareholders' Meeting gives full powers to the Board of Directors to record the number of shares issued and the corresponding increase in capital stock and to amend Article 6 of the bylaws accordingly.

Pursuant to Articles 47 of the 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 ^(*)
2007	9,625,000	-	-
2008	57,750,000	€2.00	€2.00
2009	63,000,000		

^(*) Eligible for the 40% discount provided for in Article 158-3 of the General Tax Code.

Third resolution

The General assembly, pursuant to the Article 24 of the bylaws and the Articles L. 232-12, L. 232-18 and L. 232-20 of the Commercial code, empowers the Board to decide on the possibility for shareholders to receive in shares all or part of the possible down payments on the dividend for fiscal year 2011 and to determine the ways of determining them, pursuant to the regulation set.

Fourth resolution

The Shareholders' Meeting, after hearing the special report of the auditors on the transactions described in Article L. 225-38 of the French Commercial Code, note the terms of the report and approve the transactions entered into during the financial period.

Fifth resolution

The Shareholders' Meeting, having considered the report of the Board of Directors, ratifies the appointment, made on a provisional basis by the Board of Directors on September 29, 2010, of Mr Philippe Druart as a director, replacing Mr Djamel Seoudi, who resigned, for the remaining term of his predecessor which is due to end at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2013.

Sixth resolution

The Shareholders Meeting, having considered the report of the Board of Directors, ratifies the appointment, made on a provisional basis, by the Board of Directors on March 28, 2011, of BPCE as a Director, replacing Mr Stéphane Caminati, who resigned, for the remaining term of his predecessor which is due to end at the Shareholders' Meeting called to approve the financial statements for the year ended December 31, 2010.

The Shareholders' Meeting, recording the fact that the term of office of BPCE as a director has ended, decides to renew this term of office for a period of six years ending at the Shareholders' Meeting called to approve the financial statements for 2016.

Seventh resolution

The Shareholders' Meeting, recording the fact that the term of office of Crédit Foncier de France as a Director has ended, decides to renew this term of office for a period of six years ending at the Shareholders' Meeting called to approve the financial statements for 2016.

Eighth resolution

The Shareholders' Meeting, recording the fact that the term of office of KPMG Audit, auditor, has ended, decides to renew this term of office for a period of six years ending at the Shareholders' Meeting called to approve the financial statements for 2016.

Ninth resolution

The Shareholders' Meeting, recording the fact that the term of office of Mrs Marie-Christine Ferron-Jolys, alternate auditor, has ended, decides to appoint, for a period of six years ending at the Shareholders' Meeting called to approve the financial statements for 2016, KPMG FS I as alternate auditor.

Resolutions adopted by the Extraordinary Shareholders' Meeting

Tenth resolution

The Shareholders' Meeting, having considered the report of the Board of Directors, decides to amend Article 2 (1°) of the bylaws as follows:

1° carry out all transactions referred to in Articles L. 515-13 *et seq.* of the French Monetary and Financial Code and without any restriction as to the countries in which it can operate other than those set out in such articles.

These transactions include, in particular:

- › granting or acquiring secured loans, exposures to public authorities and securities and instruments as defined in Articles L. 515-14 to L. 515-17 of the French Monetary and Financial Code;
- › financing these types of loans, exposures, securities and instruments by issuing *obligations foncières* benefiting from the privileged claim to assets defined in Article L. 515-19 of the French Monetary and Financial Code and by raising other resources whose issuance or subscription contract mentions this privileged claim to assets.

The company may also finance the activities mentioned above by issuing bonds or resources that do not benefit from the privileged claim to assets. It can issue promissory notes referred to in Articles L. 313-42 to L. 313-48 of the French Monetary and Financial Code.

Notwithstanding any other provisions or stipulations to the contrary, the company may carry out temporary transfers of its securities in accordance with Articles L. 211-22 to L. 211-34 of the French Monetary and Financial Code, pledge securities accounts pursuant to Article L. 211-20 of said Code and assign all or some of the receivables that it holds in accordance with Articles L. 211-36 to L. 211-40 or in accordance with Articles L. 313-23 to L. 313-35, whether or not these receivables are professional. The receivables or securities thus assigned or transferred do not fall within the scope of the privileged claim to assets defined in Article L. 515-19 of the French Monetary and Financial Code and are not booked pursuant to Article L. 515-20 of said Code.

As an exception to Articles 1300 of the French Civil Code and L. 228-44 and L. 228-74 of the French Commercial Code, the company may subscribe for its own mortgage bonds solely for the purpose of using them as collateral for lending transactions with the Banque de France under the conditions set forth in Article L. 515-32-1 of the French Monetary and Financial Code.

The company cannot hold equity investments.

Common resolution

Eleventh resolution

The Shareholders' Meeting gives all necessary powers to the holder of a copy or an extract of the minutes of this Meeting to carry out any submission and publication formalities.

Bylaws

Title I: Form - Purpose - Corporate name - Registered offices - Term of the company

Article 1 - Form

The company is a French *société anonyme* (limited liability company).

It is governed by the terms of current legislation and regulations applicable to *sociétés anonymes*, credit institutions, and in particular *sociétés de crédit foncier*, and by these bylaws.

Article 2 - Purpose

The purpose of the company, in the context of the laws and regulations applicable to *sociétés de crédit foncier*, is to:

1° carry out all transactions referred to in Articles L. 515-13 *et seq.* of the French Monetary and Financial Code and without any restriction as to the countries in which it can operate other than those set out in such laws and regulations.

According to the legislation in force as of April 21, 2007, these transactions include:

- › granting or acquiring secured loans, exposures to public authorities and securities as defined in Articles L. 515-14 to L. 515-17 of the French Monetary and Financial Code;
- › financing these categories of loans, exposures, investments and securities by issuing *obligations foncières* benefiting from the “privilege” defined in Article L. 515-19 of the French Monetary and Financial Code and by raising other resources whose issuance or subscription contract mentions this “privilege”.

The company may also finance the activities mentioned above by issuing bonds or resources that do not benefit from the “privilege”. It cannot issue promissory notes referred to in Articles L. 313-42 to L. 313-48 of the French Monetary and Financial Code.

Notwithstanding any other provisions or stipulations to the contrary, the company can securitise, in accordance with Articles L. 313-23 to L. 313-34 of the Monetary and Financial Code, all or some of the loans that it holds, regardless of the nature of such loans. The company may also carry out temporary transfers of its securities under the conditions set forth in Articles L. 211-22 to L. 211-34 of the French Monetary and Financial Code may mobilise them pursuant to Article L. 211-20 of said Code. The loans or securities thus securitised or transferred are not booked pursuant to Article L. 515-20 of the above mentioned Code.

The company cannot hold equity investments.

2° contract with any credit institution all agreements necessary:

- › to service and recover loans, exposures and securities;
- › to manage bonds and other financing;
- › more generally, to provide all services necessary to manage the assets, liabilities and the financial balances of the company;
- › as well as all agreements concerning the distribution and refinancing of loans.

3° acquire and own all property and equipment necessary to fulfil its corporate purpose or arising from the recovery of its loans;

- › contract with any third party any agreement related to the acquisition, ownership, management, maintenance and disposal of such assets.

4° contract with any insurance company any agreement, which serves the company purpose, notably to cover risks related to borrowers, risks in respect of both assets securing the loans and assets owned by the Company, and the liability risks of the company or its Directors and Officers.

5° in connection with its own activity, or on behalf of other companies, provide customers with and manage payment processes, in particular:

- › for the payment of funds or the receipt of all sums arising from loan activities;
- › for holding any account of financial relations with any other credit institution or public entity;
- › for the management of technical accounts in respect of expenses and receipts.

6° participate in any system for interbank settlements, settlement-delivery of securities, as well as in any transactions within the framework of the monetary policy of the European Central Bank, which contribute to the development of the Company’s activities.

7° more generally:

- › carry out all operations contributing to the fulfilment of its corporate purpose as long as such transactions comply with the purpose of *sociétés de crédit foncier* as defined in the legislation and regulations that regulate their activity;
- › contract any agreement allowing the company to use outsourcing services.

Article 3 - Corporate name

The company's name is: "Compagnie de Financement Foncier".

Article 4 - Registered offices

The registered offices are located at 19, rue des Capucines, in Paris (75001).

If the location of the head office is moved by the Board of Directors in accordance with the conditions set out in the applicable legislation, the new location shall be automatically substituted for the previous one in this Article, provided the move is ratified by an Ordinary Shareholders' Meeting.

Article 5 - Term

The duration of the company is ninety-nine years from its registration in the Trade Register, unless the period is extended or the company is liquidated, in accordance with the legislation in force or these bylaws.

Title II: Capital stock - Shares

Article 6 - Capital stock

The capital stock is set at €1,008,000,000 (one billion and eight million euros).

It is divided into 63,000,000 shares with a par value of €16 (sixteen euros) each, all of which belong to the same category and are fully paid up in cash.

Article 7 - Form of the shares

The shares are in registered form.

They are registered in accordance with the terms and conditions set forth by law.

Article 8 - Rights and obligations attached to shares

Each share confers a right to ownership of the company's assets and a share in its profits proportional to the fraction of the company's capital that it represents.

All shares which comprise or will comprise the company's capital, as long as they are of the same type and the same par value, are strictly equivalent to each other so long as they have the same dividend-bearing date; both during the company's existence and its liquidation, they provide payment of the same net amount on all allocations or redemptions, so that, if applicable, all shares are aggregated without distinction with respect to all tax savings or charges resulting from such allocations or redemptions.

The rights and duties follow the ownership of the share, regardless of holder.

Ownership of a share legally implies acceptance of the bylaws and the decisions of Shareholders' Meetings.

The beneficiaries, creditors, successors or other representatives of a shareholder cannot cause legal seals to be placed on the assets and securities of the company or request the distribution or division of such assets and securities or interfere in any manner in the company's administration.

They must refer to the financial statements and to the decisions of Shareholders' Meetings to exercise their rights.

Each time ownership of several shares is needed to exercise a given right, in cases of exchange, grouping or allotment of shares, or as a result of an increase or decrease in capital stocks, splits or reverse splits of shares, or any other operation on the company's capital, the owners of single shares or of less than the required number of shares, may exercise their rights only if they undertake to combine, sell or purchase the necessary number of shares.

Article 9 - Transfer of shares

Shares can be traded freely.

Shares can be transferred, with respect to third parties and the company by an order to transfer them from one account to another.

Article 10 - Indivisibility of shares

Shares are indivisible *vis-à-vis* the company, which only recognises one owner for each share. Joint owners of a share are required to be represented within the company by one of the joint owners or by a single agent.

The beneficial owner shall represent the bare owner in Ordinary Meetings; however, the bare owner is the only one entitled to vote in Extraordinary Meetings.

Title III: Administration of the company

Article 11 - Board of Directors

The company is administered by a Board of Directors comprised of at least three and at most eighteen members, selected from among the shareholders and appointed by the Ordinary Meeting.

Each Director must own at least one share during his or her term of office.

Article 12 - Term of office of Directors

The term of office of Directors is six years.

Each Director reaching the end of his or her term of office may be re-elected; however, the number of Directors over 70 years of age may not be greater than three.

When more than three of the Directors are past the age limit, the terms of office of the eldest Directors expire at the end of the Annual Meeting following the date on which this occurs, whatever the initial term of office of these Directors.

Article 13 - Meetings and proceedings of the Board - Minutes

The Board of Directors is called by its Chairman, as often as the interest of the company requires, either at the registered offices, or at any other location indicated on the notice. Meetings may be called by all means, even verbally.

If no meeting has been held for more than two months, at least one third of the members of the Board can request that the Chairman call a Board Meeting with a specific agenda.

The Chief Executive Officer can also request that the Chairman call a Board meeting with a specific agenda.

The Chairman must comply with requests that have been made to him in accordance with the two previous paragraphs.

Resolutions are adopted with the quorum and majority required by law. In the event of a tie vote, the Chairman shall cast the deciding vote.

The internal regulations may stipulate that, for the purposes of calculating a quorum and majority, Directors participating in the meeting through videoconferencing or other means of telecommunications that allow them to identify themselves and effectively participate shall be considered present.

This rule is not applicable for the adoption of resolutions that require, in accordance with current legislation, the physical presence of Directors.

Sufficient proof of the number of Directors in office and of their presence at a meeting of the Board is provided by the production of a copy or an excerpt of the minutes of the Board Meeting.

The minutes of the meeting are prepared, and the copies or excerpts are delivered and certified as required by law.

Article 14 - Powers of the Board

The Board of Directors determines the strategic direction of the company's activities and supervises the implementation of such strategies. Subject to the powers expressly attributed to Shareholders' Meetings, and within the limits of the company's purpose, the Board deals with any issue affecting the company's operations and settles, through its decisions, all matters concerning the company.

The Board carries out such controls and verifications that it considers appropriate.

Each Director receives all the information necessary to perform his or her duties and can request all documents that he considers pertinent.

In its relations with third parties, the company is responsible for the acts of the Board of Directors which are not in accordance with the company's purpose, unless it can prove that the third party knew that the act in question was not in accordance with the company's purpose or that the third party could not have been unaware of this fact given the circumstances. The sole fact that the company's bylaws are published does not constitute sufficient proof.

Article 15 - Remuneration of the Board of Directors

A Shareholders' Meeting can allocate to the Board of Directors a fixed annual remuneration in the form of directors' fees, the amount of which it shall determine. This remuneration remains applicable until a Shareholders' Meeting decides otherwise.

The Board of Directors shall allocate this remuneration in the proportions that it considers appropriate.

Article 16 - Chairman of the Board of Directors

The Board of Directors elects, from among its non-corporate members, a Chairman and determines his remuneration.

It determines his term of office as Chairman, which may not exceed his term as Director. The individual can be re-elected.

The term of the Chairman must end no later than the end of the Ordinary Meeting that follows the date on which the Chairman reaches the age of sixty-five.

The Chairman represents the Board of Directors. He organises and directs the work of the Board, and reports to the Shareholders' Meetings on such work. He verifies that the company's decision-making bodies function properly and ensures, in particular, that the Directors are able to fulfil their responsibilities.

The Board may confer on one or more of its members or on third parties, whether or not they are shareholders, special mandates for one or more specific purposes.

It may also appoint one or more committees, the structure and roles of which it shall determine. These committees, which can include both Directors and third parties chosen for their expertise, study the questions that the Board or the Chairman submits for their review.

In these various cases, the Board may allocate special compensation to the appointed Directors.

Article 17 - Management

Management of the company is directed, under his/her responsibility, either by the Chairman of the Board, or by another individual appointed by the Board of Directors with the title of Chief Executive Officer. The selection of the individual for this position, which may be changed at any time, is made by the Board of Directors voting with a majority of three quarters of the members present or represented. The Board of Directors reports, in its annual report, on the choice that it has made and explains the reasons for this choice.

The Board of Directors determines the period for which the Chief Executive Officer is appointed.

The Chief Executive Officer has the broadest powers to act in all circumstances in the name of the company, within the limits of its purpose, and subject to the specific powers expressly attributed to Shareholders' Meetings by law and to the specific powers of the Board of Directors. The Chief Executive Officer represents the company in its relationships with third parties. The company is responsible for the acts of the Chief Executive Officer which are not in accordance with the company's purpose, unless it can prove that the third party knew that the act in question was not in accordance with the company's purpose, or that the third party could not have been unaware of this fact in light of the circumstances. The sole fact that the company's bylaws are published does not constitute sufficient proof.

On the recommendation of the Chief Executive Officer, the Board of Directors can appoint one or more individuals, whether Directors or not, to assist the Chief Executive Officer, with the title of Deputy Chief Executive Officer. The number of Deputy Chief Executive Officers may not exceed five. The scope and duration of the powers of the Deputy Chief Executive Officers shall be determined by the Board of Directors with the consent of the Chief Executive Officer.

With respect to third parties, Deputy Chief Executive Officers have the same powers as the Chief Executive Officer.

The Board of Directors determines the compensation of the Chief Executive Officer and the Deputy Chief Executive Officers.

The Chief Executive Officer and, if they have been appointed, Deputy Chief Executive Officers, even if not members of the Board, are invited to the meetings of the Board of Directors.

The duties of the Chief Executive Officer and Deputy Chief Executive Officer must cease no later than the end of the Shareholders' Meeting, which follows the date at which the person reaches the age of sixty-five.

The Chief Executive Officer may be removed at any time by the Board of Directors. The same applies, on the recommendation of the Chief Executive Officer, to the Deputy Chief Executive Officers. If the removal is decided without just cause, it may result in legal damages, unless the Chief Executive Officer is appointed Chairman of the Board of Directors.

If the Chief Executive Officer resigns, or cannot carry out his duties, the Deputy Chief Executive Officers retain, unless the Board decides otherwise, their positions and the responsibilities assigned to them until a new Chief Executive Officer is appointed.

Article 18 - Advisors

An Ordinary Meeting may, on the recommendation of the Board of Directors, appoint one or more Advisors.

The term of office of an Advisor is three years. They may be re-appointed.

The Advisors attend meetings of the Board of Directors and have an advisory role.

The Board of Directors determines their compensation in the context of the allocation of the directors' fees allocated by the Shareholders' Meeting.

Title IV: Company audit

Article 19 - Statutory Auditors

The Shareholders' Meeting shall designate one or more Statutory Auditors and one or more alternate Auditors, under the conditions stipulated by law.

Article 20 - Specific Controller

Under the conditions stipulated by law and by the regulations applicable to a *société de crédit foncier*, and after obtaining the opinion of the Board of Directors, the Chief Executive Officer shall appoint one Specific Controller and an alternate.

The Specific Controller and, if applicable, the alternate shall perform the duties assigned to them by the laws governing a *société de crédit foncier*.

Title V: Shareholders' Meeting

Article 21 - Shareholders' Meeting

Shareholders' Meeting shall be called and shall deliberate under the conditions stipulated by law.

Each year, an Ordinary Shareholders' Meeting must be convened within five months following the financial year-end.

Meetings shall be held at the corporate offices or at another location stated in the notice of meeting.

Any shareholder may participate personally, or by proxy, in Shareholders' Meetings with proof of identity and ownership of shares in the form of a record in his name on the company's books five days before the date of the Shareholders' Meeting.

He may also vote by mail under the conditions stipulated by law.

Shareholders who participate in the Shareholders' Meeting by videoconference or telecommunications that enable them to be identified shall be considered present for calculating the quorum and the majority.

Shareholders' Meetings shall be chaired by the Chairman of the Board of Directors or, in his absence, by a Director specially authorised for that purpose by the Board. Otherwise, the Shareholders' Meeting shall appoint a Chairman.

An attendance sheet shall be kept under the conditions stipulated by law.

Minutes of General Shareholders' Meetings shall be drawn up and copies shall be certified and issued pursuant to law.

Article 22 - Deliberations of the Shareholders' Meeting

Ordinary and Extraordinary Shareholders' Meetings ruling with the quorum and majority set by law shall exercise the powers that are vested in them by law.

Title VI: Annual financial statements - Appropriation of earnings

Article 23 - Financial year

The financial year shall begin on January, 1st, and shall end on December 31.

The Board of Directors shall be authorised to change the closing date of the financial year if it determines such a change to be in the company's best interest.

As an exception, the first financial year ran from the date of registration to December 31, 1998.

Article 24 - Appropriation of earnings

If the financial statements for the financial year, as approved by the Shareholders' Meeting, show distributable earnings as defined by law, the Shareholders' Meeting shall decide either to allocate them to one or more reserve accounts, the allocation and use of which it determines, to retain earnings or to distribute them.

After ascertaining the existence of the reserves at its disposal, the Shareholders' Meeting may decide to distribute amounts drawn from those reserves. In such a case, the decision shall specify the reserve accounts from which the distributed amounts are to be drawn.

However, dividends shall be withdrawn first from the distributable earnings for the financial year.

The above provisions shall apply if non-voting preferred shares are created.

Shareholders also have the right to grant each shareholder, for all or part of the dividend or interim dividend to be distributed, an option to receive payment either in the form of cash or in shares.

Title VII: Dissolution - Liquidation - Disputes

Article 25 - Dissolution and liquidation

At the expiration of the company or in the event of early dissolution, the Shareholders' Meeting shall determine the method of liquidation and shall appoint one or more liquidators, whose powers it shall determine and who shall perform their duties pursuant to law.

Article 26 - Disputes

All disputes that might arise during the term of the company or at the time of liquidation, either among the shareholders, the Directors and the company, or among the shareholders themselves, concerning the company's business shall be adjudicated as required by law and shall be subject to the jurisdiction of the competent courts.

General information

Outlook for Compagnie de Financement Foncier

Current events

The company did not record any current events that significantly impact the evaluation of its solvency.

Trends

No significant deterioration has affected the outlook of the company since its last financial report was audited and published.

No known trend, uncertainty, claim, commitment or event is reasonably susceptible to influence the company's outlook.

Audit

To the company's knowledge, no agreement exists of which the implementation at a later date could lead to a change of its audit.

Material events

No significant changes in the financial or commercial situation have occurred between March 28, 2011, the date at which the Board of Directors closed the accounts and the filing date of this Reference document.

Complementary information

- › no potential conflicts of interest exist between the duties with regard to Compagnie de Financement Foncier and the private interests and/or other duties of members of the Board;
- › as of December 31, 2009 there were no exceptional events or legal disputes (government procedures, legal or arbitration) likely to have or to have had a material impact on Compagnie de Financement Foncier's activity, financial position or results;
- › Compagnie de Financement Foncier conducts itself and its corporate entities with respect to the corporate governance framework in practice in France.

Persons responsible for auditing the financial statements

Statutory

KPMG Audit - Department of KPMG SA

Represented by Mr Rémy TABUTEAU

Address: 1, cours Valmy - 92923 La Défense cedex - 775 726 417 RCS Paris

Member of *Compagnie régionale des commissaires aux comptes de Versailles*

Start of term: May 25, 2005.

Length of term: six financial years.

Expiration of term: at the end of the Shareholder's Meeting called to approve the financial statements for the financial year 2010.

PricewaterhouseCoopers Audit

Represented by Mr Jean-Baptiste DESCHRYVER

Address: 63, rue de Villiers - 92200 Neuilly-sur-Seine - 302 474 572 RCS Paris

Member of *Compagnie régionale des commissaires aux comptes de Versailles*

Start of term: May 26, 2008.

Length of term: six financial years.

Expiration of term: at the end of the Shareholder's Meeting called to approve the financial statements for the financial year ending December 31, 2013.

Alternate

Ms Marie-Christine FERRON-JOLYS

Address: 1, cours Valmy - 92923 La Défense cedex

Start of term: May 25, 2005.

Length of term: six financial years.

Expiration of term: at the end of the Shareholder's Meeting called to approve the financial statements for the financial year ending December 31, 2010.

Mr Étienne BORIS

Address: 63, rue de Villiers - 92200 Neuilly-sur-Seine

Start of term: May 26, 2008.

Length of term: six financial years.

Expiration of term: at the end of the Shareholder's Meeting called to approve the financial statements for the financial year ending December 31, 2013.

The Specific Controller

Statutory

Cailliau Dedouit & Associés

represented by Mr. Laurent BRUN

Address: 19, rue Clément Marot - 75008 Paris

Date of approval from the Banking Commission: June 23, 2004

Start of term: June 29, 2004.

Length of term: period remaining in predecessor's term, then renewed for a term of four years.

Expiration of term: after submission of the report and certified statements for the financial year ending December 31, 2010.

Alternate

Monsieur Didier CARDON

Address: 19, rue Clément Marot - 75008 Paris

Date of approval from the Banking Commission: June 23, 2004

Start of term: June 29, 2004.

Length of term: period remaining in predecessor's term, then renewed for a term of four years.

Expiration of term: after submission of the report and certified statements for the financial year ending December 31, 2010.

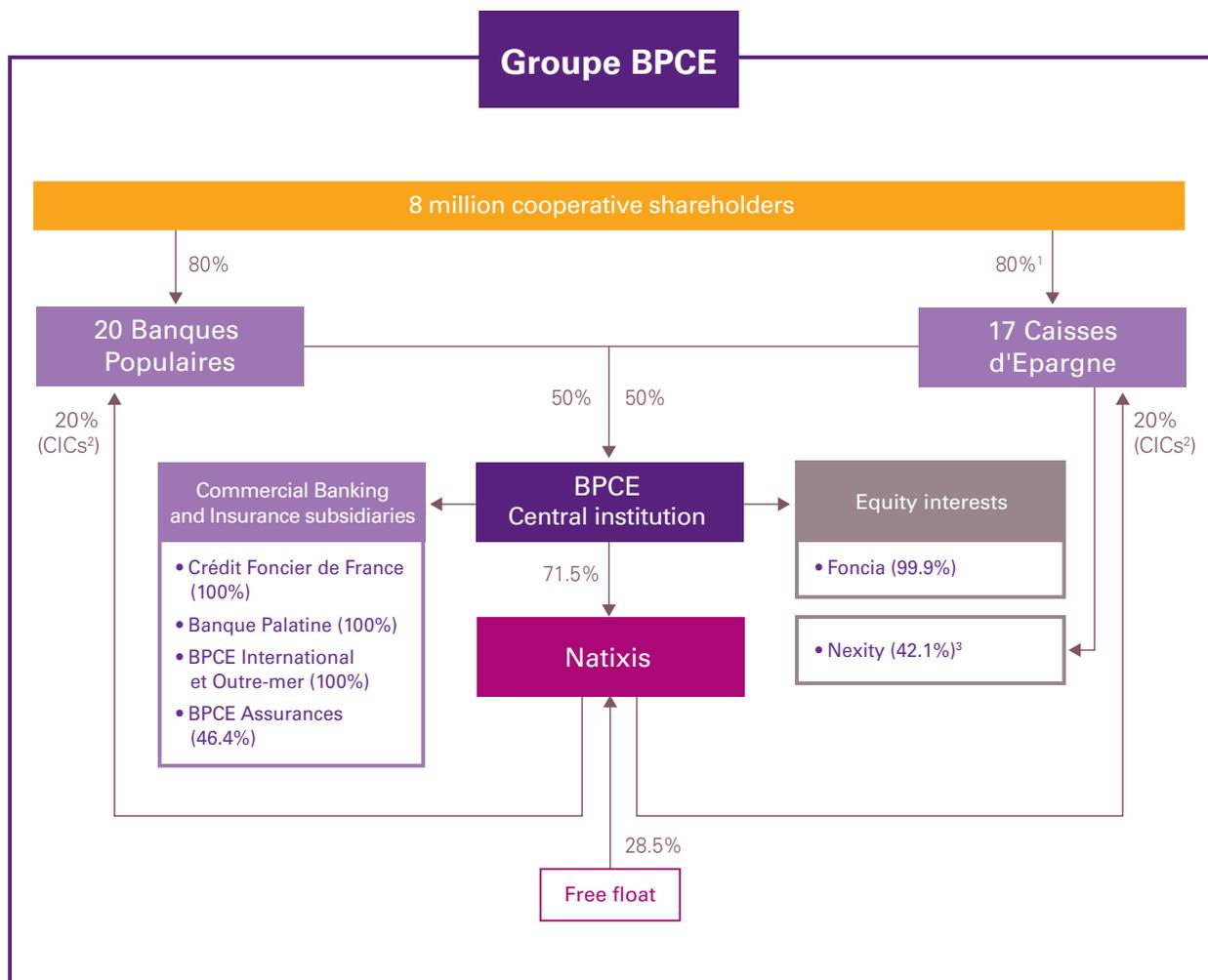
Appendix: Focus on Compagnie de Financement Foncier in the Groupe BPCE

As of December 31, 2010

Groupe BPCE, created in July 2009, is the result of the merger of Caisse Nationale des Caisses d'Épargne's central body (CNCE) with the Banque Fédérale des Banques Populaires's central body (BFBP).

The merger-takeover of the holding companies BP Participations (Banques Populaires Participations) and CE Participations (Caisses d'Épargne Participations) with BPCE, was implemented on August 5, 2010. It allows the simplification of Groupe BPCE's structure.

Crédit Foncier, of which Compagnie de Financement Foncier is a fully-owned subsidiary, is directly owned by Groupe BPCE.



■ Commercial Banking and Insurance
 ■ CIB, Investment Solutions and Specialized Financial Services

¹ Indirectly through Local Savings Companies

² CICs: Cooperative Investment Certificates (economic interests, no voting rights)

³ Via CE Holding Promotion



References from the diagram in annex IV of European Commission Regulation (EC) N°. 809/2004

	Heading	Volume(s)	Page(s)
1.	Persons responsible		
1.1.	Persons responsible for the information	Volume 2	87
1.2.	Declaration by those responsible for the registration document	Volume 2	87
2.	Statutory auditors		
2.1	Names and addresses of the issuer's auditors	Volume 3	90
2.2	Auditors during the period covered by the past financial information	Volume 3	90
3.	Selected financial information		
3.1.	Financial information	Volume 1	8 to 9
3.2.	Financial information for interim periods	N/A	N/A
4.	Risk factors	Volume 1 Volume 2 Volume 3	25 to 28 13 to 20 2 to 55
5.	Information about the issuer		
5.1.	History and development of the issuer:		
5.1.1.	Legal and commercial name of the issuer	Volume 3	72 and 83
5.1.2.	Place and registration number of the issuer	Volume 3	76
5.1.3.	Date of incorporation and length of life of the issuer	Volume 3	73 and 83
5.1.4.	Domicile and legal form of the issuer	Volume 3 Volume 3	72 to 74 81
5.1.5.	Recent events particular to the issuer which are to a material extent relevant to the evaluation of the issuer's solvency	Volume 3	89
5.2.	Investments	N/A	N/A
6.	Business overview		
6.1.	Principal activities:		
6.1.1.	Main categories of services performed	Volume 1 Volume 1 Volume 1	3 to 5 11 30 to 37
6.1.2.	New products and/or activities	N/A	N/A
6.2.	Principal markets	Volume 1 Volume 2	38 to 43 6 to 8
6.3.	Competitive position	Volume 1 Volume 1	9 39 and 40
7.	Organisational structure		
7.1.	Description of the group and issuer's position within it	Volume 3	92
7.2.	Dependence upon other entities within the group	Volume 3	76 to 78
8.	Trend information		
8.1.	Statement that there has been no material adverse change in the prospects of the issuer since the date of its last published audited financial statements	Volume 3	89
8.2.	Events that are reasonably likely to have a material effect on the issuer's prospects	Volume 3	89
9.	Profit forecasts or estimates	N/A	N/A

10.	Administrative, management, and supervisory bodies		
10.1.	Names, business addresses and functions of the administrative, and management bodies and principal activities performed by them outside the issuer	Volume 2 Volume 3	23 to 28 68 and 71
10.2.	Statement that there are no conflicts of interests	Volume 3	89
11.	Management and executive bodies		
11.1.	Details relating to the issuer's audit committee	Volume 1 Volume 3	25 58 to 61
	Names of committee members and terms of reference under which the committee operates	Volume 3	58
11.2.	Corporate governance	Volume 3	57 to 68
12.	Major shareholders		
12.1.	Ownership, control	Volume 3	76 to 78
12.2.	Arrangements which may result in a change in control of the issuer	N/A	N/A
13.	Financial information concerning the issuer's assets and liabilities, financial position and profits and losses		
13.1.	Past Financial Information		
	Balance Sheet	Volume 2	33
	Off-Balance Sheet	Volume 2	34
	Income Statement	Volume 2	35
	Cash Flow Statement	Volume 2	76 to 77
	Accounting Policies and Explanatory Notes	Volume 2	36 to 75
	Statutory Auditors' Report	Volume 2	79 to 80
	Past Financial Information: Reference Document		Reference Document 2009 ⁽¹⁾
	Financial Statements	Volume 2	33 to 78
	Certification of statutory auditors of the financial statements	Volume 3	68 to 69
13.2.	Consolidated financial statements	N/A	N/A
13.3.	Auditing of past annual financial information		
13.3.1.	Certification of statutory auditors	Volume 3	68 to 69
13.3.2.	Other information in the registration document which has been audited by the auditors	Volume 3	30 to 34 57 to 68
13.3.3.	Financial data in the registration document not extracted from audited financial statements	N/A	N/A
13.4.	Date of latest financial information		
13.4.1.	Last year of audited financial information		Reference Document 2009 ⁽¹⁾
13.5.	Interim and other financial information		
13.5.1.	Quarterly or half yearly financial information published since the last audited financial statements		Half yearly financial Report (visa n° D.10-0207-A01 from AMF)
13.5.2.	Interim financial information since the end of the last audited financial year		Half yearly financial Report (visa n° D.10-0207-A01 from AMF)
13.6.	Legal and arbitration proceedings	Volume 3	89
13.7.	Significant change in the issuer's financial or trading position		
	Statement	Volume 3	89

14.	Additional information		
14.1.	Share Capital		
14.1.1.	Amount of the issued capital	Volume 3	75 to 76 83
14.2.	Memorandum and bylaws		
14.2.1.	Register and corporate purpose	Volume 3	72 to 75 et 78 to 89
15.	MATERIAL CONTRACTS		
	Regulated agreements	Volume 3	72 to 73
16.	Third party information and statement by experts and declarations of any interest		
16.1.	Report attributed to a person as an expert	Volume 3	30 to 35
16.2.	Certification	Volume 3	30
17.	Documents on public display		
	Place where the documents on display may be inspected, by physical or electronic means	Volume 3	74 to 96

⁽¹⁾ In application of article 28 of regulation no. 809-2004 on prospectuses, the corporate financial statements for the accounting period ended December 31, 2009 and the Statutory Auditors' report on the corporate financial statements, included in the reference document no. D.10-0207 filed with the *Autorité des marchés financiers* (AMF – French financial markets authority) on April 1, 2010, are incorporated by reference in this document.

The sections of reference document no. D.10-0207 not referred to above are either of no consequence to investors or covered by another section of this reference document.

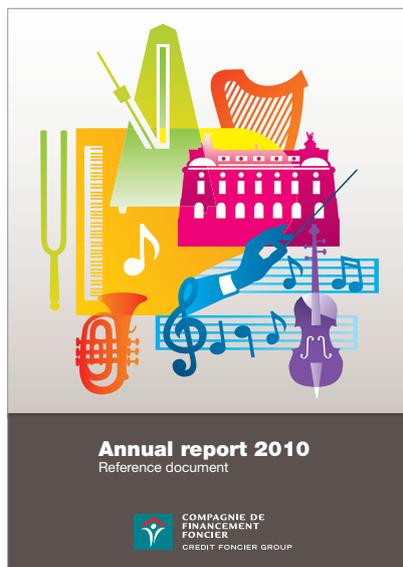
Information required for annual financial statements	Volumes	Pages
Statement from the person responsible for the document	Volume 2	87
Management report	Volume 2	3 to 31
Financial statements	Volume 2	33 to 78
Statutory auditors report	Volume 2	79 to 80

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The annual reports of the Compagnie de Financement Foncier can be downloaded at www.foncier.fr



Design, creation, production:

LES ÉDITIONS DE L'ÉPARGNE

Illustrations: Studio Impresarios/Caroline Matter



This annual report was printed on partially-recycled paper using vegetable-based inks.
The paper is fabricated at an ISO 14001 certified site and the printing press is certified by Imprim'Vert. The entire report can be recycled.



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