

## **Compagnie de Financement Foncier in 2016: a successful player in the Covered Bonds market**

Compagnie de Financement Foncier's Board of Directors met on February 8, 2017 under the chairmanship of Bruno Deletré to approve the 2016 annual financial statements.

The consistent decline in interest rates boosted the real estate market in 2016. The number of transactions in both new and existing property markets grew strongly during the year. Loan origination activity remained at a very high level (€154bn in 2016 vs €152bn in 2015, excluding loan repurchases<sup>1</sup>). Low interest rates also led to a large number of loan renegotiations for credit institutions.

During the 2016 financial year, Compagnie de Financement Foncier's business activity remained in line with Crédit Foncier's strategic guidelines in close synergy with Groupe BPCE and with its own management commitments.

### **I. Business activity of Compagnie de Financement Foncier**

#### Issuance of obligations foncières:

- Compagnie de Financement Foncier issued €5,4bn in *obligations foncières* in 2016. As an illustration of the quality of its signature on the financial markets, Compagnie de Financement Foncier successfully conducted 4 public issuances denominated in euro under very favorable conditions, which were subscribed to at high levels.
- The outstanding of *obligations foncières* stood at €67,4bn at December 31, 2016, related payables included, versus €69bn one year earlier.

#### Purchases and assignment of receivables:

- Compagnie de Financement Foncier acquired €6,7bn in receivables from its parent company, Crédit Foncier, related receivables included. Receivables from customers amounted to €42,3bn at December 31, 2016, including €34,1bn in housing loans.
- Compagnie de Financement Foncier also refinanced its parent company, Crédit Foncier, by issuing and renewing mortgage notes of which outstandings at December 31, 2016 reached €7,3bn, versus €5,7bn at December 31, 2015.
- Compagnie de Financement Foncier also refinanced Crédit Foncier through loans fully secured by the assignment of public sector receivables in France. The total amount outstanding on these loans was €12,8bn at December 31, 2016.
- All of these purchases and assignments of receivables offset the reduction of the balance sheet due to early repayments that, in an environment of continued decline in interest rates, amounted to €4,3bn.

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<sup>1</sup> Annual conference of Crédit Foncier- Real estate markets – February 2, 2017

## II. Compagnie de Financement Foncier's income statement

<i>(in millions of euros)</i>	<b>2016</b>	<b>2015</b>	<b>% change</b>
Net interest margin	279	256	+ 9,0 %
Net commissions	81	108	-24,7 %
<b>Net banking income</b>	<b>359</b>	<b>364</b>	-1,2 %
General operating expenses	-128	-123	+3,7 %
<b>Gross operating income</b>	<b>232</b>	<b>240</b>	-3,6 %
Cost of risk	-27	-15	+83,5 %
Gains or losses on long-term investments	0	-4	-98,8 %
<b>Income before tax</b>	<b>205</b>	<b>222</b>	-7,7 %
Income tax	-111	-89	+24,4 %
<b>Net income</b>	<b>94</b>	<b>132</b>	-29,3 %

Net interest margin amounted to €279m in 2016, up by 9% compared with 2015. It was impacted by the accelerated amortization of acquisition premiums/discounts (-€140m in 2016 compared with -€145m in 2015) and of the previously deferred termination swap balances (which remained stable at €10m in 2016).

Despite the high level of early repayments given the persistent low rates environment, it was lower than in 2015. It explains the reduction in collected early repayments penalties (€83m in 2016 compared with €110m in 2015) which were largely concentrated on housing loans for individuals.

Net banking income stood at €359m in 2016 versus €364m in 2015, a slight decline of 1.2%.

General operating expenses amounted to €128m in 2016, a slight increase compared with 2015, due to the increase of the contribution to Single Resolution Fund. This item essentially comprises expenses for taxes applicable to the company and services provided by Crédit Foncier (as a reminder, Compagnie de Financement Foncier does not employ its own employees; most of its management is subcontracted to the parent company).

Gross operating income accounted for €232m.

Cost of risk was €27m in 2016. Excluding the impact of HETA Asset Resolution AG, the cost of risk was stable compared with 2015.

As a reminder, cost of risk amounted to €15m in 2015, including a €12m exceptional reversal of provision following the sale of securities of the Austrian bank HETA Asset Resolution. Cost of risk restated to take this exceptional reversal into account amounted to €27m.

Income tax of the year totaled €111m, including the impact of the 2017 Finance Law on deferred tax assets amounting to €34m.

Net income amounted to €94m in 2016, versus €132m in 2015.

## III. Balance sheet information

The balance sheet total for Compagnie de Financement Foncier was €84.3bn at December 31, 2016, compared with €87.6bn as of December 31, 2015, in line with the groupe Crédit Foncier's strategy to reduce the size of its balance sheet.

Doubtful loans amounted to €1,4bn at December 31, 2016, as compared with €1.3bn at December 31, 2015, and concerned only customer transactions. They remained concentrated at 99% on housing loans, the quality of which has slightly deteriorated over the year. At the same time, impairment slightly increased to achieve €106m, compared with €88m at December 31, 2015.

#### **IV. Prudential information**

Compagnie de Financement Foncier confirmed the solidity of its model in 2016.

Accordingly, at the end of December 2016, under the standard Basel III method, its Common Equity Tier One (CET1) ratio was estimated at about 18%, well above the regulatory minimum of 8%.

Furthermore, the extremely prudent liquidity policy was carried on throughout 2016 and at December 31, 2016 Compagnie de Financement Foncier had a significant amount deposited with the Banque de France. Compagnie de Financement Foncier also owns a substantial pool of assets eligible for the refinancing operations of the European Central Bank.

In accordance with the law applicable to *sociétés de crédit foncier*, Compagnie de Financement Foncier must maintain a coverage ratio (equal to the ratio of weighted assets to privileged debt) greater than 105% at all times. In 2016 Compagnie de Financement Foncier complied with this regulatory ratio. At September 30, 2016, this ratio stood at 117.5 %.

### **Appendix**

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*Unless otherwise indicated, the financial information included in this press release is estimated and taken from the financial statements of Compagnie de Financement Foncier. Those statements include the individual accounts and related explanatory notes, prepared in compliance with French accounting standards and the applicable BPCE standards.*

*At the date of this press release, the audit of the annual financial statements by the statutory auditors ("Commissaires aux comptes") is still in progress.*

*Compagnie de Financement Foncier is a credit institution registered as a specialized credit institution and a société de crédit foncier (a French legal covered bonds issuer), affiliate of BPCE and fully-owned by Crédit Foncier and Groupe BPCE.*

*Regulated information is available on our website [www.foncier.fr](http://www.foncier.fr) under "Financial communication/Regulated information".*

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