

# COMPAGNIE DE FINANCEMENT FONCIER

Update to the 2017 Registration document  
including the 2018 half-year financial report





Activity report



Report on corporate  
governance



Management report



Risk control  
and monitoring report



Financial report



Legal information



*This is a free translation into English of Compagnie de Financement Foncier's Update to the 2017 Registration document 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 Update to the Registration document as of June 30, 2018 has been submitted to the French Financial Markets Authority. It is therefore the only version that is binding in law.*

This update of the Registration document was filed with the Autorité des Marchés Financiers (AMF – French Financial Markets Authority) on August 27, 2018, in compliance with Article 212-13 of its general regulation. It completes the Registration document filed with the French Financial Markets Authority on March 28, 2018, in accordance with Article 212-13 of its general regulation. It may be used to support a financial transaction if accompanied by a securities note approved by the French Financial Markets Authority. This document was drawn up by the issuer and is the responsibility of its signatories.

# Table of contents

<b>Activity report</b>	<b>2</b>
Profile	3
Economic environment	3
Activity	3
Key figures	4
<b>Report on corporate governance</b>	<b>10</b>
Capital	11
Executive and management bodies	12
<b>Management report</b>	<b>14</b>
Management report of the 1 <sup>st</sup> half of 2018	15
<b>Risk control and monitoring report</b>	<b>22</b>
1. Governance and risk management system	23
2. Changes in assets	26
3. Changes in liabilities	27
4. Prudential ratios	28
5. Analysis of credit and counterparty risk	30
6. Financial risk analysis	38
7. Operating risks	41
8. Non-compliance risk	43
<b>Financial report</b>	<b>46</b>
Financial statements	47
Statutory Auditor's report on the financial statements	76
<b>Legal information</b>	<b>78</b>
General information	79
Statement from the persons who assume responsibility for the Registration document and the audit of the accounts	80
Cross-reference table	82

Abbreviations used in the document:  
Billions of euros: €bn  
Millions of euros: €m  
Thousands of euros: €k



# Activity report

<b>PROFILE</b>	<b>3</b>	<b>ACTIVITY</b>	<b>3</b>
<b>ECONOMIC ENVIRONMENT</b>	<b>3</b>	<b>KEY FIGURES</b>	<b>4</b>

# Profile

Compagnie de Financement Foncier is a credit institution approved as a specialized credit institution and a *société de crédit foncier* (a French legal covered bonds issuer).

As a wholly-owned subsidiary of Crédit Foncier [A-(positive)/A1 (stable)/A(positive)/AA-(stable)]<sup>(1)</sup> and as an affiliate of BPCE [A(positive)/A1 (stable)/A(positive)]<sup>(2)</sup> the company's sole purpose is to finance the mortgage and public-sector lending activities of both its parent company and Groupe BPCE as a whole, through the issuance of *obligations foncières* rated [AAA(stable)/Aaa (stable)/AAA (stable)]<sup>(3)</sup>.

Compagnie de Financement Foncier's *obligations foncières* are French legal covered bonds that comply with the European directives UCITS 52-4<sup>(4)</sup> and CRD<sup>(5)</sup>, as well as with Article 129 of the European Capital Requirements Regulation (CRR)<sup>(6)</sup>. The

issuances carried out by Compagnie de Financement Foncier are eligible for the European Central Bank refinancing program, except for certain private placements and issuances in foreign currencies.

Since 2012, Compagnie de Financement Foncier has been a member of the ECBC<sup>(7)</sup> Covered Bond Label. This label was created in order to meet the expectations of covered bonds market players for improving standards and increasing transparency, especially by providing investors with regular and harmonized information.

Firmly supported by its parent company, Crédit Foncier, French issuer of *obligations foncières* since 1852, Compagnie de Financement Foncier continued to be a major player in its market, with a total *obligations foncières* outstanding of €62.7bn as of June 30, 2018 and an issuance volume of €4.2bn.

# Economic environment

Expansion of the world economy, which began in mid-2016, has globally accelerated. Growth is expected to remain strong in advanced countries this year and then slow next year, while in emerging and developing countries growth is expected to accelerate and stabilize.

This year and next, the International Monetary Fund (IMF) reports that global world growth will reach 3.9%<sup>(8)</sup>, up from 3.8% in 2017. This slight increase is mainly due to rapid growth in the euro area, Japan, China and the United States, whose economic growth has been faster than expected, as well as a recovery in commodity exporting countries.

In Europe, overall growth of 6.0% in 2017 was driven by a favourable external environment, stronger euro area export demand and easier access to credit in the euro area. These conditions evolved in 2018: growth should slow to 4.3% then 3.7% in 2019<sup>(9)</sup>.

France's real GDP growth rate should rise from 2.3% in 2017 to 1.9% in 2018, a rate which should be maintained in 2019<sup>(9)</sup> according to the Organisation for Economic Co-operation and Development (OECD), thanks to sustained investment by businesses and households. Inflation rose to 1.98% in May 2018 from 0.81% in May 2017<sup>(10)</sup>.

# Activity

In the 1<sup>st</sup> half of 2018, Compagnie de Financement Foncier issued €4.2bn of *obligations foncières*. This includes three benchmarks: a 10-year €1.0bn issuance in January, a 5-year €1.5bn issuance in

April, and a 8-year €1.25bn issuance in May. These issuances were oversubscribed and had a broad investor base.

(1) Standard&Poor's/Moody's/Fitch Ratings/Scope Ratings, updated as of the Update to the Registration document filing date.

(2) Standard&Poor's/Moody's/Fitch Ratings, updated as of the Update to the Registration document filing date.

(3) Standard&Poor's/Moody's/Scope Ratings, updated as of the Update to the Registration document filing date.

(4) UCITS: Undertakings for Collective Investment in Transferable Securities, directive on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities.

(5) CRD: Capital Requirements Directive.

(6) CRR: Capital Requirements Regulation.

(7) ECBC: European Covered Bond Council.

(8) International Monetary Fund (IMF), Global Economic Forecasts, April 2018.

(9) Organisation for Economic Co-operation and Development (OECD), Economic Forecasts, May 30, 2018.

(10) Organisation for Economic Co-operation and Development (OECD), Inflation measurement (consumer price index).



# Key figures

## ISSUER INFORMATION

**Issuer:** Compagnie de Financement Foncier, affiliated with Groupe BPCE

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

**Type of bonds issued:** *obligations foncières*

**Issuance programs:** EMTN, AMTN & USMTS

**Sole service provider:**

Crédit Foncier [A- (positive)/A1 (stable)/A (positive)/AA- (stable)]<sup>(1)</sup>

A subsidiary of BPCE [A(positive)/A1(stable)/A(positive)]<sup>(2)</sup>

Ratings of obligations foncières	Long-term rating	Outlook
Standard & Poor's	AAA	Stable
Moody's	Aaa	Stable
Scope Rating	AAA	Stable

## SIMPLIFIED ECONOMIC BALANCE SHEET

### ASSETS (by type of exposures)

	At 06/30/2018		At 12/31/2017	
	€bn	%	€bn	%
<b>Mortgage loans and related items</b>	<b>39.9</b>	<b>51.8</b>	<b>39.4</b>	<b>50.3</b>
<b>Public sector exposures</b>	<b>28.6</b>	<b>37.2</b>	<b>29.8</b>	<b>38.0</b>
French public sector *	20.1	26.1	21.2	27.1
Foreign Public sector	8.5	11.1	8.6	11.0
<b>Replacement values and other assets</b>	<b>8.4</b>	<b>11.0</b>	<b>9.2</b>	<b>11.7</b>
Replacement values	6.7	8.6	6.8	8.6
Other assets	1.8	2.3	2.4	3.1
<b>TOTAL ASSETS</b>	<b>77.0</b>	<b>100.0</b>	<b>78.4</b>	<b>100.0</b>

\* Including short-term loans and deposits with the Banque de France amounting to €0.4bn at the end of June 2018 and €0.7bn at the end of 2017.

### Liabilities and equity

	At 06/30/2018		At 12/31/2017	
	€bn	%	€bn	%
<b>Privileged liabilities</b>	<b>62.6</b>	<b>81.3</b>	<b>63.3</b>	<b>80.8</b>
<i>Obligations foncières</i>	62.7	81.5	63.4	80.9
Foreign exchange difference on <i>obligations foncières</i>	-0.3	-0.4	-0.3	-0.3
Other privileged resources	0.2	0.3	0.2	0.2
<b>Difference associated with hedging balance sheet items</b>	<b>1.0</b>	<b>1.3</b>	<b>0.9</b>	<b>1.2</b>
<b>Non-privileged resources</b>	<b>13.4</b>	<b>17.4</b>	<b>14.1</b>	<b>18.0</b>
Unsecured debt	7.9	10.3	8.7	11.1
Subordinated debt and similar debt	2.3	2.9	2.3	2.9
Shareholders' equity, provisions and FRBG	3.2	4.1	3.2	4.0
<b>TOTAL LIABILITIES</b>	<b>77.0</b>	<b>100.0</b>	<b>78.4</b>	<b>100.0</b>
Regulatory capital according to CRR/CRD IV	3.1	4.0	3.1	4.0

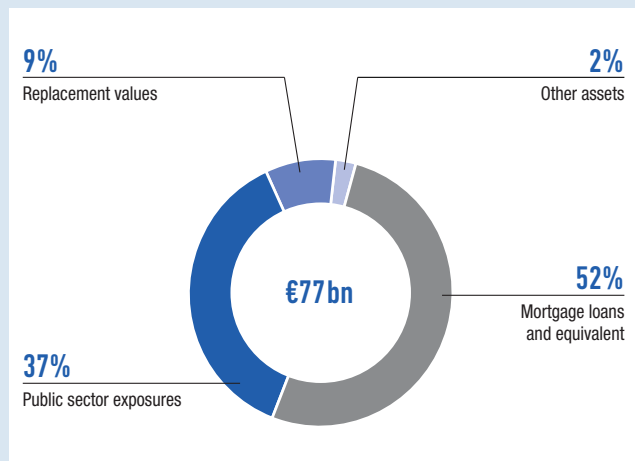
(1) Standard & Poor's/Moody's/Fitch/Scope Ratings, updated as of the Update to the Registration document's filing date.

(2) Standard & Poor's/Moody's/Fitch Ratings, updated as of the Update to the Registration document's filing date.

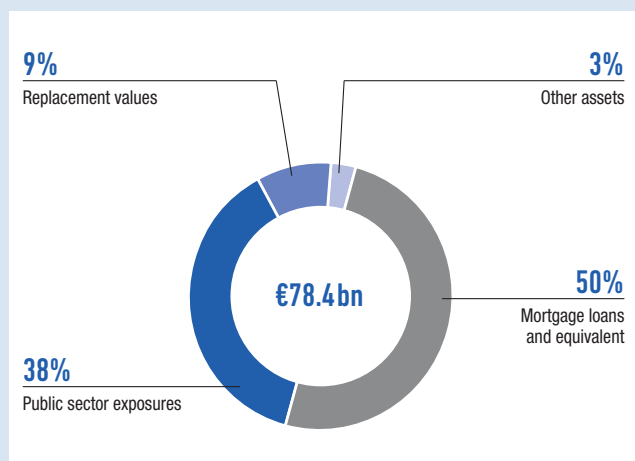
## BREAKDOWN OF ASSETS <sup>(1)</sup>

### By type of assets

JUNE 30, 2018

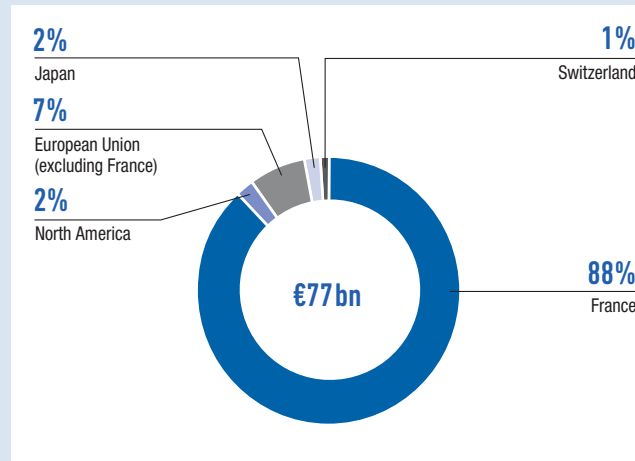


DECEMBER 31, 2017

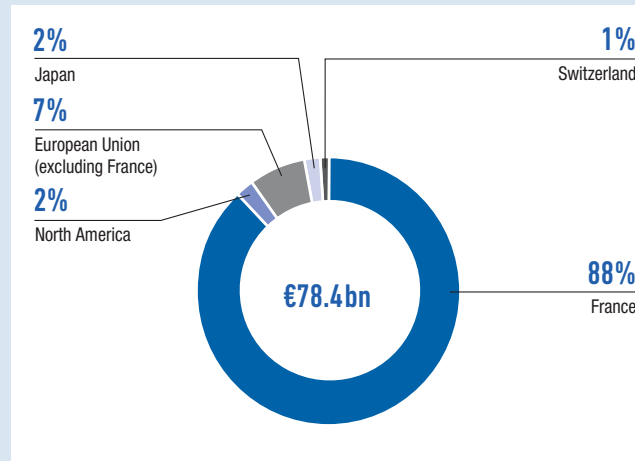


### By region

JUNE 30, 2018



DECEMBER 31, 2017

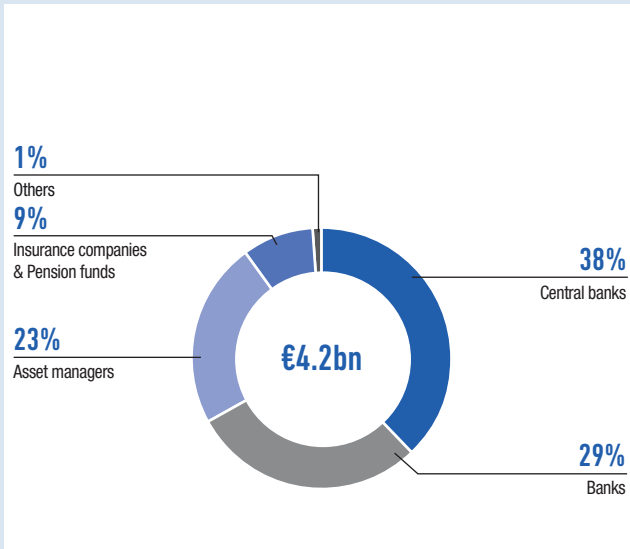


(1) For further details, please refer to section 5.1.1 of the risk control and monitoring report.

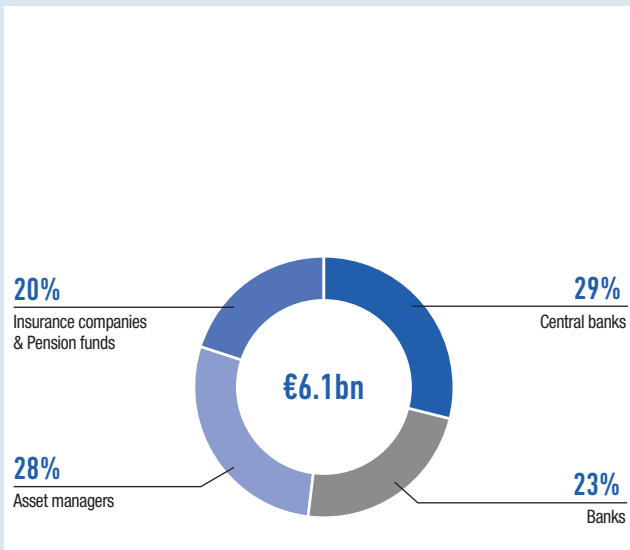
## BREAKDOWN OF ISSUANCES

### By investor type

JUNE 30, 2018

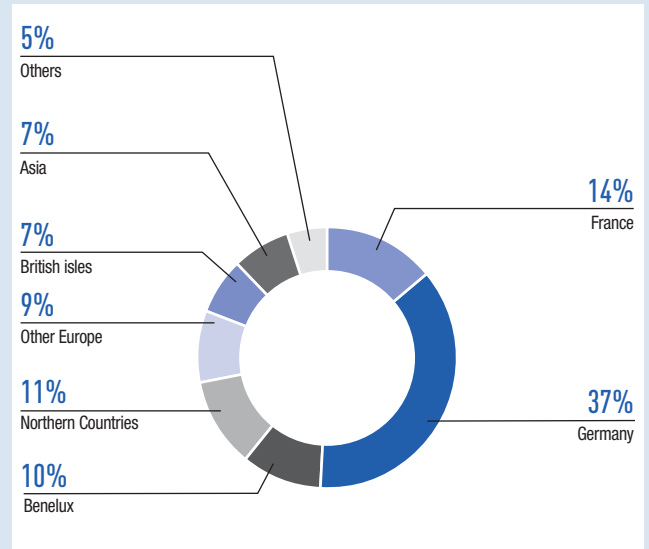


DECEMBER 31, 2017

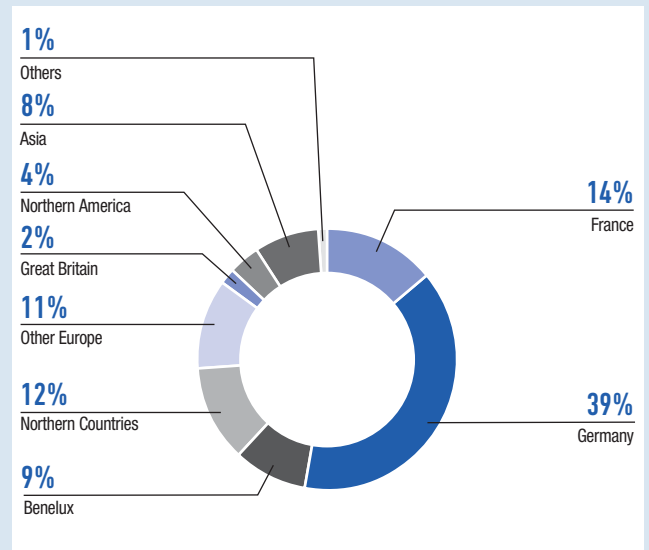


### By region \*

JUNE 30, 2018



DECEMBER 31, 2017



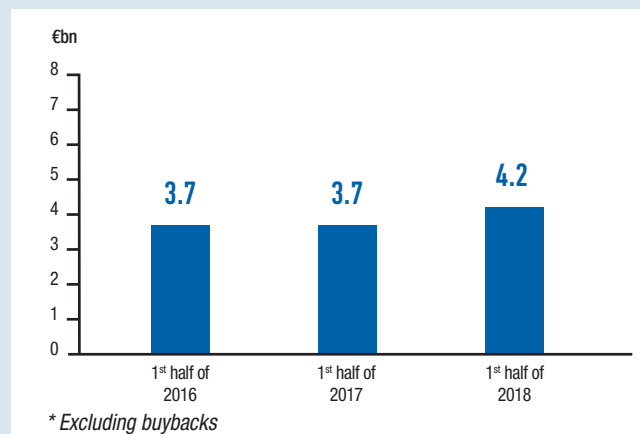
\* Excluding Eurosystem.



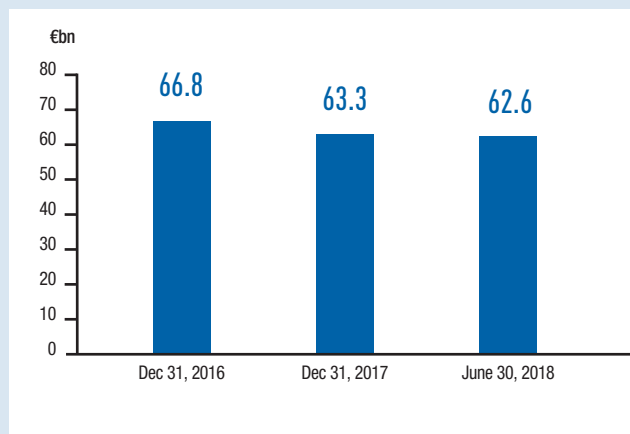
## PERFORMANCE INDICATORS

### ACTIVITY

#### ■ Obligations foncières issued \*

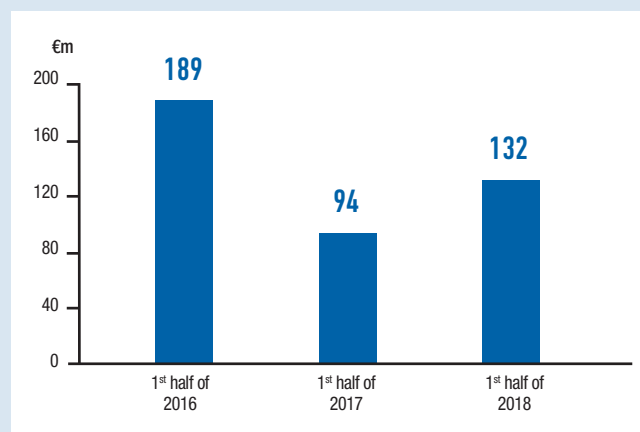


#### ■ Privileged liabilities

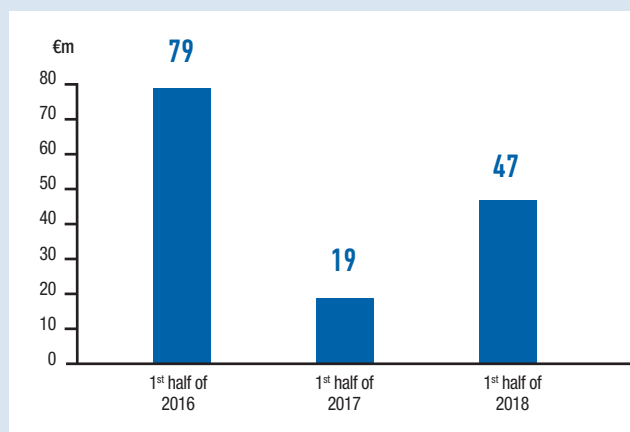


### RESULTS

#### ■ Net banking income

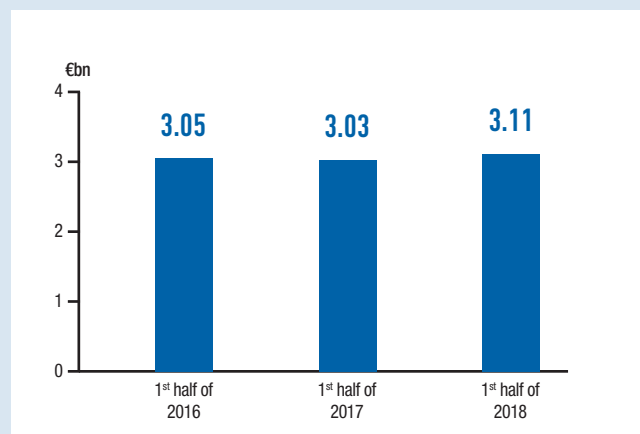


#### ■ Net income

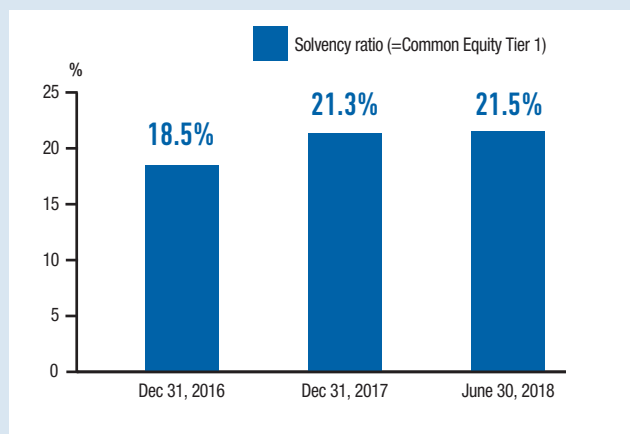


### FINANCIAL STRUCTURE

#### ■ Regular capital

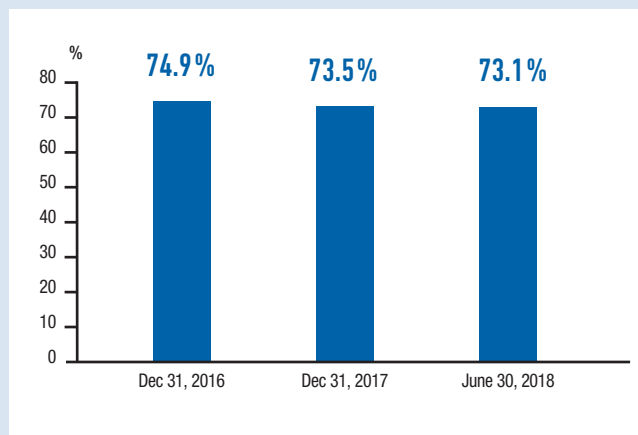


#### ■ Prudential ratios

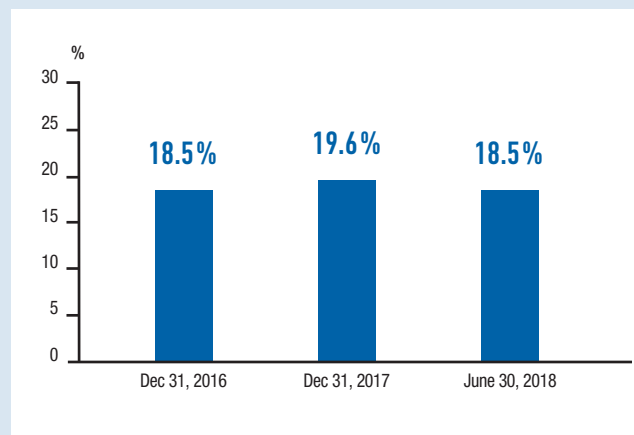


**SOCIÉTÉ DE CRÉDIT FONCIER'S SPECIFIC RATIOS**

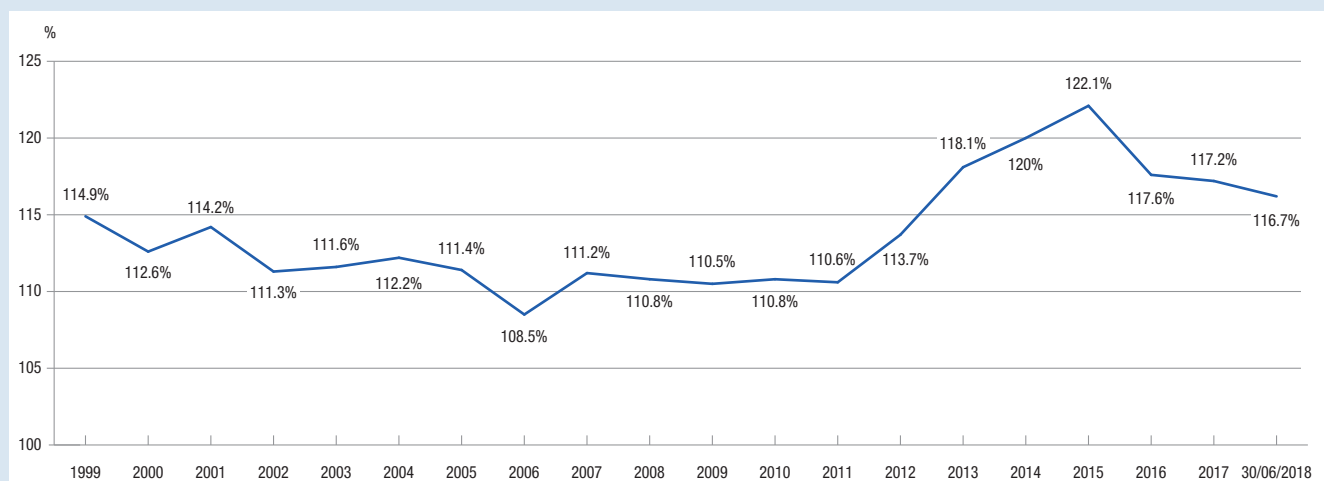
■ Average LTV of mortgage loans to Individuals



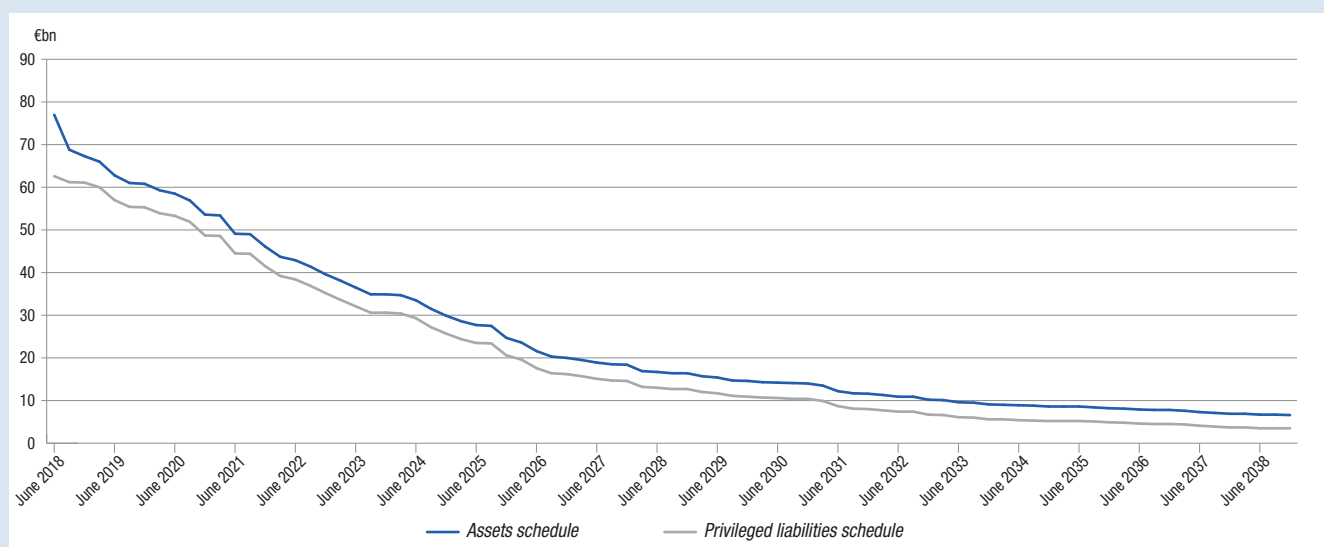
■ Non-privileged resources/privileged resources ratio



■ Regulatory overcollateralization ratio



■ Amortisation of assets and privileged liabilities



## HIGHLIGHTS

### **Consequences for Compagnie de Financement Foncier of the project linked to changes in the business lines of Crédit Foncier, parent company of Compagnie de Financement Foncier.**

On June 26, 2018, Crédit Foncier and Groupe BPCE announced a project to integrate the activities and skills of Crédit Foncier with Groupe BPCE entities. Since July 20, 2018, this project has been subject to information-gathering and consultation between the employee representative bodies of Crédit Foncier and the group entities concerned and to approval by the competent corporate bodies.

Once the opinion of these bodies has been obtained, subject to modifications and in the event of implementation of this project, the Compagnie de Financement Foncier would remain a strategic subsidiary of Groupe BPCE, under the affiliation regime, therefore adhering to the Group's solidarity mechanism. BPCE would continue to ensure the proper repayment of the debt issued by the Compagnie de Financement Foncier.

Under these circumstances, the Compagnie de Financement Foncier would mainly be repositioned on refinancing Public sector and assimilated assets for the entire Groupe BPCE.



# Report on corporate governance

<b>CAPITAL</b>	<b>11</b>
<b>EXECUTIVE AND MANAGEMENT BODIES</b>	<b>12</b>

# Capital

At June 30, 2018, the Company's subscribed capital amounted to €2,537,459,936. It is divided into 158,591,246 fully paid-up shares with a par value of €16 each.

No authorization to increase the share capital has been issued which has not been used, nor is there any potential capital share.

Crédit Foncier holds 100% of the share capital and voting rights of the Company, with the exception of one share held by a director.

## **NATURAL OR LEGAL PERSONS THAT EXERCISE CONTROL OVER THE COMPANY**

Crédit Foncier – 19, rue des Capucines – 75001 Paris – 542 029 848 RCS (Trade and Companies Register) Paris

## **INFORMATION ON GROUP CRÉDIT FONCIER, TO WHICH COMPAGNIE DE FINANCEMENT FONCIER BELONGS**

The principal business of Crédit Foncier is to grant mortgage loans to individuals and real estate professionals, grant loans to local authorities, provide structured financing and to issue bonds to finance these loans.

From its creation in 1852 and until 1999, Crédit Foncier has held the special status as a *société de crédit foncier* and as such, issued *obligations foncières*.

Acting as a key player in the specialized real estate financing market and responsible for distributing French state subsidized loans, following the real estate crisis in the 1990s and the abolition of subsidized loans, in 1999 Crédit Foncier joined the Private sector after its 90% acquisition by Groupe Caisse d'Épargne.

In the legal context governing this acquisition, the Parliament created a specific new status for *sociétés de crédit foncier*. Compagnie de Financement Foncier was then founded and authorized as *société de crédit foncier* by the CECEI. Crédit Foncier transferred all its property commitments and pledged assets to Compagnie de Financement Foncier pursuant to Article 110 of the law of June 25, 1999.

After having been affiliated with Groupe Caisse d'Épargne between 1999 and 2009, Crédit Foncier became affiliated in 2009 to Groupe BPCE, which resulted from the merger of the Caisse d'Épargne and the Banque Populaire networks. Since August 5, 2010, Crédit Foncier has been fully owned by the Central institution of BPCE.

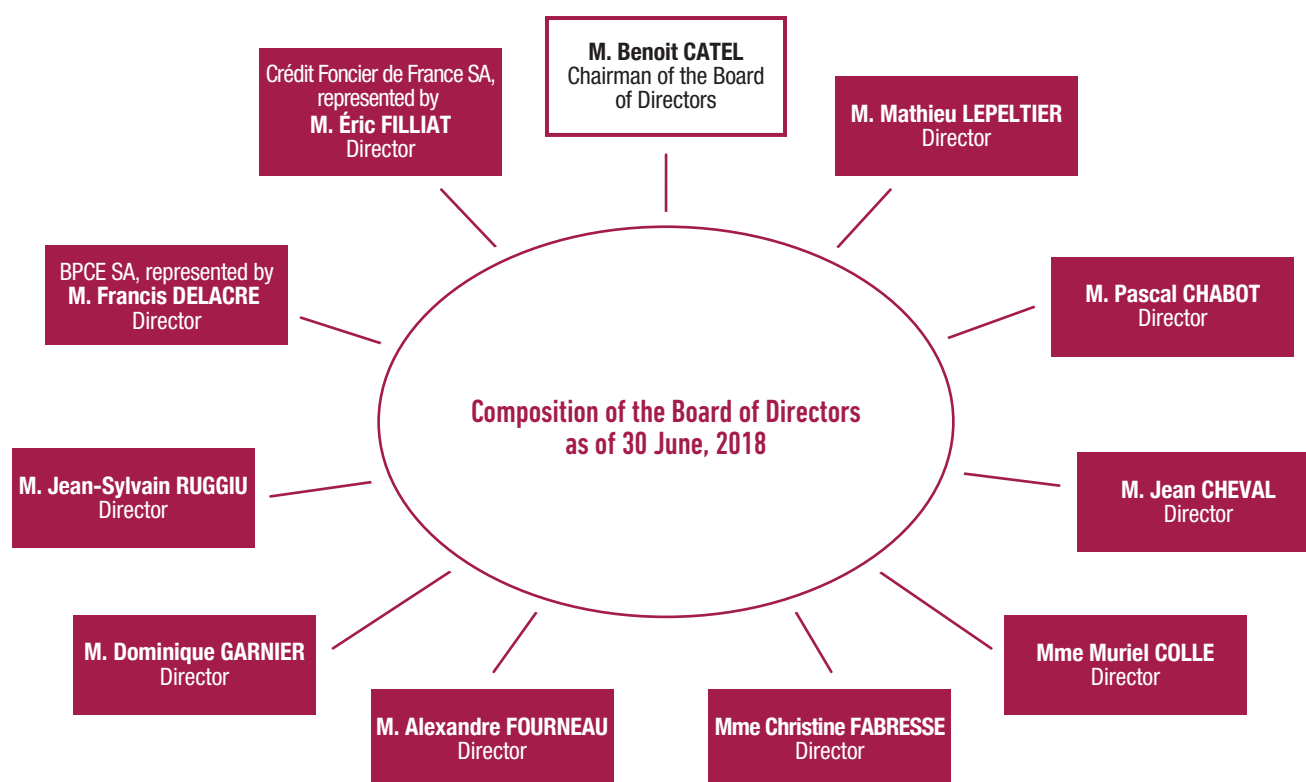
# Executive and management bodies

## EXECUTIVE MANAGEMENT AS OF JUNE 30, 2018

Mr Olivier AVIS, Chief Executive Officer

Mr Paul DUDOUIT, Deputy Chief Executive Officer

## BOARD OF DIRECTORS AS OF JUNE 30, 2018



### Changes within the Board of Directors in the 1<sup>st</sup> semester of 2018

The General Meeting of May 16, 2018 has:

- renewed the mandate of Mr Benoît CATEL as Director;
- renewed the mandate of Mrs Christine FABRESSE as Director;
- renewed the mandate of Mr Dominique GARNIER as Director;
- ratified the co-optation of Mrs Muriel COLLE as Director;
- ratified the co-optation of Mr Mathieu LEPELTIER as Director.

Following the renewal of Mr Benoît CATEL's term of office as Director by the General Meeting, the Board of Directors decided on May 16, 2018 to renew him as Chairman of the Board of Directors for the duration of his term of office as Director.

On June 28, 2018, the Board of Directors took note of the resignation of Mr Cédric MIGNON from his mandate as Director on May 17, 2018.

On the proposal of the Appointments Committee, the Board of Directors of June 28, 2018 co-opted Mr Jean-Sylvain RUGGIU to replace Mr Cédric MIGNON for the remainder of his term of office, i.e. until the General Meeting called to approve the financial statements for the 2019 financial year.







# Management report

## MANAGEMENT REPORT OF THE 1<sup>ST</sup> HALF OF 2018

1.	Main operations of the period	15	7.	Financial risk analysis	19
2.	Changes in assets	15	8.	Regulatory and prudential information	20
3.	Changes in liabilities	17	9.	Other information	20
4.	Analysis of the income statement	18	10.	Outlook	20
5.	Risk factors	18	11.	Information on internal control	21
6.	Credit risk analysis	19			

# Management report of the 1<sup>st</sup> half of 2018

During the 1<sup>st</sup> half of 2018, 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.

Compagnie de Financement Foncier issued €4.2bn of *obligations foncières* during this period. At June 30, 2018, Compagnie de

Financement Foncier's balance sheet came to €77.0bn and its net income was €47.4m.

The privileged debt issues of Compagnie de Financement Foncier benefited from the best possible rating from Standard & Poor's, Moody's and Scope Ratings, namely AAA, Aaa and AAA with stable outlook respectively.

## 1. Main operations of the period

### ACQUISITIONS AND DISPOSALS

During the 1<sup>st</sup> half of 2018, Compagnie de Financement Foncier acquired €3.9bn in loans from Crédit Foncier including related receivables, plus €0.2bn in financing commitments.

### FUNDING AND CASH MANAGEMENT

In the 1<sup>st</sup> half of 2018, Compagnie de Financement Foncier issued a net amount of €4.2bn of *obligations foncières*, broken down as follows:

- €3.75bn in public issuances;
- €0.45bn in private issuances.

All issuances in the 1<sup>st</sup> half of 2018 were denominated in euros; their placements demonstrate the diversity and depth of Compagnie de

Financement Foncier's investor base, in particular with the strong presence of institutional investors and central banks. These issues took place under excellent financial conditions and with very high subscription levels, thus demonstrating the continued creditworthiness of Compagnie de Financement Foncier on the markets.

The 1<sup>st</sup> half of 2018 was marked by the following three *benchmark* public issuances:

- €1.0bn at 10 years in January;
- €1.5bn at 5 years in April;
- €1.25bn at 8 years in May.

At June 30, 2018, the outstanding amount of *obligations foncières* came to €62.7bn, including related debts.

## 2. Changes in assets

ASSETS (in €k)	06/30/2018	12/31/2017
Cash and amounts due from central banks	445,900	670,000
Treasury bills and equivalent	3,379,947	3,364,394
Loans and receivables due from credit institutions	26,645,290	28,761,396
• Demand	54,214	151,078
• Term	26,591,076	28,610,318
Customer transactions	39,847,966	38,639,497
Bonds and other fixed income securities	4,537,314	4,511,584
Equity interests and other long-term investments	0	0
Tangible and intangible fixed assets	0	0
Other assets	63,556	214,855
Accrual accounts	2,037,065	2,204,862
<b>TOTAL ASSETS</b>	<b>76,957,040</b>	<b>78,366,588</b>

Compagnie de Financement Foncier's total balance sheet at June 30, 2018 was down from December 31, 2017 (-€1.4bn, i.e. -2%), in line with the strategy of group Crédit Foncier to control its balance sheet.

The change in Compagnie de Financement Foncier's assets was marked in particular by:

- a drop in outstanding loans and receivables due from credit institutions (-€2.1bn compared with end-December 2017); this

drop is mainly due to loans to Crédit Foncier, secured by receivables under Article L. 211-38 (-€1.9bn compared with end-December 2017);

- a slight drop in assets with the Banque de France (-€224m), in particular due to active management to control the cost of carry;
- an increase in outstanding loans to customers (outstanding home loans increased by €1.7bn compared with December 31, 2017).

## HOME LOANS DUE FROM CUSTOMERS AND IMPACT OF EARLY REPAYMENTS

Overall, the outstanding home loans, either held directly or assigned under L. 211-38, remained stable compared with end-2017. This is explained by a balance between new refinancings and a weaker volume of early repayments than in previous periods.

(in €m)	06/30/2018	12/31/2017	Change
Non-commercial mortgage-backed securities (see note 2)	33,107	31,444	+1,663
Loans to individuals guaranteed by real estate loans under L. 211-38 (note 23)	7,261	8,857	-1,596
<b>TOTAL</b>	<b>40,368</b>	<b>40,301</b>	<b>+67</b>

## GROUP FUNDING AND ASSIGNMENT OF RECEIVABLES

As part of its business activities, Compagnie de Financement Foncier also offers Crédit Foncier and other Groupe BPCE entities refinancing through loans backed by loan assignments.

These loans are classified as term loans and receivables from credit institutions. At end-June 2018, the outstanding amount of these loans totaled €25.7bn, comprising:

- €16.6bn in loans to Crédit Foncier, a majority of which are guaranteed by exposures to French local authorities;
- €2.5bn in loans to other Groupe BPCE entities, also guaranteed by exposures to French local authorities;

- €6.6bn in loans to BPCE as replacement values, guaranteed by a portfolio of receivables.

The total amount of guarantees received to cover these loans was €26bn, corresponding to outstanding capital of the pledged receivables at June 30, 2018.

## OTHER ASSETS AND ACCRUAL ACCOUNTS

Other assets stood at €63.6m at June 30, 2018 compared with €214.9m at December 31, 2017 (the receivable shown at December 31, 2017 is the compensation due by Crédit Foncier as part of the corporate income tax savings resulting from the 2017 tax loss and the re-allocation by BPCE of a tax expense for fiscal years 2013 to 2016).

The accrual accounts stood at €2.0bn at June 30, 2018, a slight drop compared with €2.2bn at December 31, 2017.

### 3. Changes in liabilities

■ LIABILITIES (in €k)	06/30/2018	12/31/2017
<b>Central banks</b>	<b>0</b>	<b>0</b>
<b>Due to credit institutions</b>	<b>7,509,597</b>	<b>7,945,176</b>
• Demand	0	0
• Term	7,509,597	7,945,176
<b>Customer transactions</b>	<b>0</b>	<b>0</b>
• Demand	0	0
<b>Debt securities</b>	<b>62,833,214</b>	<b>63,524,759</b>
• Interbank market instruments and negotiable debt securities	150,712	151,533
• Bonds issuances ( <i>obligations foncières</i> )	62,682,501	63,373,226
<b>Other liabilities</b>	<b>1,427,641</b>	<b>1,623,947</b>
<b>Accrual accounts</b>	<b>2,012,104</b>	<b>2,088,657</b>
<b>Provisions</b>	<b>20,161</b>	<b>18,917</b>
<b>Subordinated debt</b>	<b>0</b>	<b>0</b>
<b>Reserves for general banking risks</b>	<b>20,000</b>	<b>20,000</b>
<b>Shareholders' Equity excluding reserves for general banking risks</b>	<b>3,134,325</b>	<b>3,145,132</b>
• Subscribed capital	2,537,460	2,537,460
• Additional paid-in capital	343,002	343,002
• Reserves	122,063	119,152
• Regulated provisions and investment subsidies	0	0
• Retained earnings	84,404	87,313
• Income to be allocated	0	0
• Income for the period	47,396	58,205
<b>TOTAL LIABILITIES</b>	<b>76,957,040</b>	<b>78,366,588</b>

Debt securities decreased by €0.7bn during the 1<sup>st</sup> half of 2018, due to the drop in outstanding *obligations foncières* (mainly contractual repayments).

Other liabilities decreased by €0.2bn, primarily due to the decrease in deposits received in the context of collateralization transactions.

Accrual accounts stood at €2.0bn, stable compared with end-2017 (€2.1bn).

Provisions amounted to €20m at June 30, 2018, up €1.2m compared with December 31, 2017, resulting from the recognition of a provision for litigation.

Equity remained stable at end-June 2018 compared with end-December 2017, the main impact being due to the distribution of income for 2017 and the recognition of income for the 1<sup>st</sup> half of 2018.

## 4. Analysis of the income statement

INCOME STATEMENT (in €k)	1 <sup>st</sup> half of 2018	1 <sup>st</sup> half of 2017
<b>Net banking income</b>	<b>131,730</b>	<b>93,450</b>
Operating expenses	-44,279	-64,828
<b>Gross operating income</b>	<b>87,451</b>	<b>28,622</b>
Cost of risk	-2,541	-3,641
<b>Operating income</b>	<b>84,910</b>	<b>24,982</b>
Gains or losses on fixed assets	0	7,319
<b>Income before tax</b>	<b>84,910</b>	<b>32,301</b>
Income tax	-37,515	-13,228
<b>NET INCOME</b>	<b>47,396</b>	<b>19,073</b>

### NET BANKING INCOME

Net banking income stood at €131.7m at June 30, 2018 (compared with €93.5m in the 1<sup>st</sup> half of 2017), an improvement due to the slowdown in early repayments in the 1<sup>st</sup> half of 2018 (7.9% at end-June compared with 20.4% one year ago).

The net interest margin stood at €111.5m, substantially higher than in the 1<sup>st</sup> half of 2017 (€28.7m), a period impacted by an exceptionally high level of early repayments on loans to individuals and significantly accelerated amortization of premiums or discounts on loans held.

Net fees and commissions are lower than in the 1<sup>st</sup> half of 2017 due to the drop in prepayment penalties received.

### GROSS OPERATING INCOME

Operating expenses amounted to €44.3m at June 30, 2018 compared with €64.8m in the 1<sup>st</sup> half of 2017. This decrease stems mainly from:

- the fall in remuneration from Crédit Foncier Private sector services and the impact from the drop in managed loans outstanding;
- the prepayment penalties repaid to Crédit Foncier were down by one-third, correlated with the weaker volumes of early repayments in 2018.

Accordingly, gross operating income was €87.5m at end June 2018, compared with €28.6m at June 30, 2017.

### COST OF RISK

Cost of risk represented a charge of €2.5m at June 30, 2018 that is a lower level than in the 1<sup>st</sup> half of 2017 (€3.6m).

### INCOME TAX

Income tax in the 1<sup>st</sup> half of 2018 was €37.5m, compared with €13.2m in the 1<sup>st</sup> half of 2017.

Pursuant to the tax consolidation agreement signed by Compagnie de Financement Foncier, BPCE and Crédit Foncier, the Company has recognized as income the potential tax savings stemming from the deficit recorded for the period, to be received from the consolidating parent company Crédit Foncier. Conversely, the Company has recognized a potential tax expense stemming from the tax benefit recorded for the period, to be paid to the consolidating parent company Crédit Foncier.

### NET INCOME

After deducting income tax, net income for Compagnie de Financement Foncier came to €47.4m in the 1<sup>st</sup> half of 2018.

## 5. Risk factors

For all information related to risk factors, please refer to the 2017 Registration document of Compagnie de Financement Foncier (pages 84-87).



## 6. Credit risk analysis

### OVERALL ANALYSIS

Compagnie de Financement Foncier is mainly exposed to credit risk and counterparty risk. The exposure to this type of risk, however, is limited by:

- rigorous selection of its assets and counterparties;
- establishment of guarantees in compliance with the legal and regulatory framework applicable to *sociétés de crédit foncier*;
- specific internal monitoring environment within group Crédit Foncier's own monitoring environment, and more broadly within that of Groupe BPCE.

### LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS

No loan or receivable due from credit institutions was reclassified as doubtful in the 1<sup>st</sup> half of 2018. Out of the €26.6bn in loans and receivables due from credit institutions, €25.7bn are term loans to Groupe BPCE entities. Moreover, these loans are fully secured by receivables, in accordance with Article L. 211-38 of the French Monetary and Financial Code (MFC).

The creditworthiness of all Groupe BPCE entities, combined with the quality of the receivables posted as collateral, greatly limits the risk associated with this exposure.

### LOANS AND RECEIVABLES DUE FROM CUSTOMERS

Loans and receivables due from customers amounted to €39.8bn at June 30, 2018, including €1.6bn of doubtful loans, compared with €38.6bn and €1.4bn at December 31, 2017. At June 30, 2018, doubtful loans remained almost exclusively (99.5%) concentrated on home loans. At the same time, out of a total of €88.03m in impairments at June 30, 2018, €87.96m concern home loans.

### HELD-TO-MATURITY SECURITIES

Outstanding held-to-maturity securities amounted to €7.8bn (excluding accrued interest and after premiums or discounts) at June 30, 2018. None of these securities was reclassified as doubtful or impaired in the 1<sup>st</sup> half of 2018.

The outstanding amount (excluding accrued interest and after premiums or discounts) was split across Italy (37%), the United States (19%), Japan (17%), France (11%), Spain (4%), Canada (6%), Poland (5%), and other countries with non-material amounts (1%).

## 7. Financial risk analysis

### INTEREST RATE AND FOREIGN EXCHANGE RISK

Compagnie de Financement Foncier has no open currency positions except for a few very small ones, resulting from adjustments inherent in any hedging transaction. Transactions initiated in foreign currencies are converted into euro at the moment of their execution.

Compagnie de Financement Foncier is only very marginally exposed to interest rate risks thanks to the hedging mechanisms implemented.

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

Interest rate positions are also reviewed each quarter and macro-hedging adjustment transactions are entered into if the position deteriorates to a point that might result in non-compliance with the strict limits to which Compagnie de Financement Foncier has committed. The basic risks, resulting from different reference

rates on positions already transformed into variable rates by swaps, are also managed through macro-hedges.

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 to the benefit of the Compagnie de Financement Foncier in case of a debit position and depending on their rating. In the majority of cases, these requests are made on a daily basis.

If the opposite situation occurs, these agreements stipulate that Compagnie de Financement Foncier shall not deposit any collateral. As of June 30, 2018, the amount of deposits received was €1.2bn.

Because of these ALM principles, Compagnie de Financement Foncier holds significant outstanding of financial instruments for micro- and macro-hedging in interest rates and currencies.

In the 1<sup>st</sup> half of 2018, Compagnie de Financement Foncier continued to enter into such financial instruments along with its acquisition, issuance and ALM activities.

At June 30, 2018, outstandings in micro- and macro-hedging instruments consisted of €78.6bn, of which €66.0bn in interest rate swaps and €12.6bn in currency swaps; this compared with €79.2bn at end-2017, of which €62.7bn in interest rate swaps and €16.5bn in currency swaps.

Taking into account management rules followed by Compagnie de Financement Foncier, changes in the interest rate position are a result of events not known when the transaction was entered into and which occurred during the term of the contract. These consist mainly of early repayments of fixed-rate loans granted to private individuals in the competitive sector.

As the date of the event is not predictable, and the repayment fees received by the lender are capped by law, Compagnie de Financement Foncier cannot completely cover the original risks incurred.

Despite very low interest rates and intense competition between credit institutions, there has been a continued slowdown in early repayments since the 2<sup>nd</sup> half of 2017. In the 1<sup>st</sup> half of 2018, across all loans to individuals, the rate of early repayments rate was 7.9%, compared with 16.5% for the year in 2017.

## LIQUIDITY RISK

The very prudent liquidity management policy continued in the 1<sup>st</sup> half of 2018. Compagnie de Financement Foncier can always raise a sufficient amount of cash to meet the contractual maturities on all of its privileged debt, for one year, without recourse to new resources.

At June 30, 2018, Compagnie de Financement Foncier had available cash of €500m, including €446m on current accounts deposited with Banque de France, and €6.6bn granted to BPCE with a maturity of less than two months and fully guaranteed by a loans portfolio.

Compagnie de Financement Foncier's liquidity ratio, applicable since October 1, 2015 following the transposition into law of the applicable regulations of the CRD IV directive, known as the "LCR" ratio (Liquidity Coverage Ratio), has always been above 110% since that date.

## 8. Regulatory and prudential information

Compagnie de Financement Foncier publishes a Risk Control and Monitoring report in which all the ratios and indicators applicable to *sociétés de crédit foncier* are disclosed according to laws and regulations in force.

Furthermore, this report includes additional information on the risks supervision of Compagnie de Financement Foncier.

## 9. Other information

### SUPPLIER PAYMENT PERIOD

Compagnie de Financement Foncier complies with regulations on supplier payment periods, in accordance with the LME Act (economic modernization act) of August 4, 2008, which requires that suppliers be paid within 60 days from the date on which the invoice is issued.

Most of Compagnie de Financement Foncier's management is outsourced to Crédit Foncier, and billed by the latter. Other supplier payables at June 30, 2018 were non-material and were mostly all due within 30 days.

### PAYMENT PERIOD ON ACCOUNTS RECEIVABLE

Payment period on Accounts Receivable are fixed by contract.

The initial payment terms set for loan repayments may be amended by means of contractual options (such as prepayment options, or options to defer payments).

The residual maturities of accounts receivable are indicated in note 25 to the Company's half-year financial statements according to Article L. 441-6-1 of the French Commercial Code.

## 10. Outlook

On June 26, 2018, Crédit Foncier and Groupe BPCE announced a project to integrate the activities and skills of Crédit Foncier with Groupe BPCE entities. Since July 20, 2018, this project has been subject to information-gathering and consultation between the employee representative bodies of Crédit Foncier and the group entities concerned and to approval by the competent corporate bodies. Once approval is obtained from these bodies, subject to

any changes and if this project is implemented, Compagnie de Financement Foncier would remain a strategic subsidiary of Groupe BPCE, under the affiliation scheme, thus joining the Groupe BPCE solidarity mechanism. Beyond the guarantees provided by the regulation applicable to *sociétés de crédit foncier*, holders of *obligations foncières* would therefore continue to benefit from this additional guarantee.

## 11. Information on internal control

For all information related to internal control, please refer to the 2017 Registration document of Compagnie de Financement Foncier (pages 90-99).

### THE GOVERNING BODIES

At June 30, 2018, the Audit Committee had the following members:

- Crédit Foncier, represented by Mr Éric FILLIAT, Chairman;
- BPCE, represented by Mr Francis DELACRE;
- Ms Christine FABRESSE;
- Mr Dominique GARNIER.

At June 30, 2018, the Risk Committee had the following members:

- Crédit Foncier, represented by Mr Éric FILLIAT, Chairman;
- BPCE, represented by Mr Francis DELACRE;
- Mr Pascal CHABOT;
- Ms Christine FABRESSE;
- Mr Dominique GARNIER.

At June 30, 2018, the Appointments Committee had the following members:

- Mr Benoît CATEL, Chairman (appointed member and Chairman of the Committee by the Board of January 10, 2018, to replace Mr Bruno DELETRÉ, who resigned);
- Mr Jean CHEVAL.



# Risk control and monitoring report

<b>1. GOVERNANCE AND RISK MANAGEMENT SYSTEM</b>	<b>23</b>	<b>6. FINANCIAL RISK ANALYSIS</b>	<b>38</b>
1.1. Organization of the Risk, Compliance and Permanent Control Coordination departments	23	6.1. Methodology used to assess liquidity, interest rate and exchange rate risks	38
1.2. Loan selection process	25	6.2. Liquidity risk monitoring	38
<b>2. CHANGES IN ASSETS</b>	<b>26</b>	6.3. Monitoring of overall interest rate risk	39
<b>3. CHANGES IN LIABILITIES</b>	<b>27</b>	6.4. Monitoring foreign exchange risk	40
<b>4. PRUDENTIAL RATIOS</b>	<b>28</b>	6.5. Monitoring settlement risk	40
4.1. Specific ratios	28	<b>7. OPERATING RISKS</b>	<b>41</b>
4.2. Management of capital	29	7.1. Overall scheme	41
<b>5. ANALYSIS OF CREDIT AND COUNTERPARTY RISK</b>	<b>30</b>	7.2. Governance	41
5.1. Breakdown of Compagnie de Financement Foncier's commitments	30	7.3. Management environment	41
5.2. Delinquencies	36	7.4. Organization of the Contingency and Business Continuity Plan (CBCP)	41
5.3. Risk mitigation techniques	37	7.5. Information technology risk	42
		7.6. Insurance	42
		7.7. Legal risks	42
		<b>8. NON-COMPLIANCE RISK</b>	<b>43</b>
		8.1. Overall scheme	43
		8.2. Financial security	44
		8.3. Compliance of banking and investment services	44
		8.4. Banking and financial ethics	44
		8.5. Volcker Rule and SRAB	44

# 1. Governance and risk management system

## 1.1. Organization of the Risk, Compliance and Permanent Control Coordination departments

The Risk and Compliance Division of Crédit Foncier is responsible for internal control and compliance for Compagnie de Financement Foncier. It comprises the Risk department, the Compliance and Permanent Control Coordination Division, the Information Systems Security Division, and the Contingency and Business Continuity Plan (CBCP) Division. This Division reports to a Chief Risk Officer of Crédit Foncier. The Compliance Division includes the Financial Security department, in charge of the prevention and treatment of money laundering, terrorist financing, internal and external frauds risks.

Crédit Foncier's Risk and Compliance Division is an integral part of the risk framework of Groupe BPCE. Compagnie de Financement Foncier relies on the systems and the network organization set up at Crédit Foncier.

### 1.1.1. ORGANIZATION OF GROUP CRÉDIT FONCIER'S RISK DEPARTMENT

Group Crédit Foncier's Risk department, reporting functionally to the Risk Compliance and Permanent Control Division (RCPCD), covers all subsidiaries controlled by Crédit Foncier, including Compagnie de Financement Foncier. The institution's risk policy has been formally set out in a document describing its various responsibilities and its organization, which serves as a framework for the development of its activities, including activities carried out on behalf of Compagnie de Financement Foncier and the management of the capital of group Crédit Foncier entities.

In the specific case of Compagnie de Financement Foncier, the Risk department conducts its activities within the framework of the agreements signed between Crédit Foncier and its *société de crédit foncier*. The Risk department reports on its activities to the Risk Executive Committee, Risk Committee and to Executive Management of Compagnie de Financement Foncier.

The Compagnie de Financement Foncier (*société de crédit foncier*) Oversight and Forecasting Department, which is in charge of monitoring Compagnie de Financement Foncier's outsourced services and, therefore, the proper implementation of the agreements signed with Crédit Foncier, is an integral part of group Crédit Foncier's Internal Control arrangement.

### MAIN RESPONSIBILITIES OF THE RISK COMMITTEES

Compagnie de Financement Foncier is part of the overall organization of Crédit Foncier: The Compagnie de Financement Foncier Risk Executive Committee and Crédit Foncier Internal Control Committee are the umbrella committees of this organization.

Compagnie de Financement Foncier's **Risk Executive Committee** is chaired by its Chief Executive Officer. Meeting at least quarterly, its main responsibilities are to deal with:

- the general risk policy;
- analyzing and monitoring the institution's overall risk profile based on the results of the rating systems, measurement and assessment systems (*stress scenarios*, etc.) and its largest exposures;
- measuring the quality of its commitments and debt collection efforts on the basis of summary reports;
- risk management: monitoring risk, reviewing regulatory and specific ratios, monitoring the risk charge, producing and analyzing stress scenarios, and monitoring capital.

The **Internal Control Committee**, chaired by the Chief Executive Officer of Crédit Foncier, meets at least four times a year and comprises the representatives of control functions. This Committee has the following duties:

- ensure the proper organization and completeness of the activities' permanent controls, the effectiveness of the monitoring and control systems for operational risks and compliance;
- coordinate actions to ensure risk control, the compliance of operations and internal procedures, quality, availability of information processed by the Information System (IS) and the security of the latter;
- ensure that deficiencies identified by the General Inspection Division are resolved and the recommendations are implemented;
- act as a Volcker Committee under the US Dodd-Frank Wall Street Reform and Consumer Protection Act, which has added a new section 13 to the Bank Holding Company Act of 1956 (BHC Act), section 13, commonly referred to as "Volcker Rule".

The **ALM and Liquidity Oversight Committee** is the decision-making body responsible for financial management. It is responsible for financial risk management in line with the risk policy and limits established by the Risk Executive Committee pursuant to Groupe BPCE rules.

The operational implementation of guidance and management decisions taken in this body is ensured by the **Treasury Committee** and the **Financial Management Committee**.

### 1.1.2. ORGANIZATION OF GROUP CRÉDIT FONCIER'S COMPLIANCE DEPARTMENT

Crédit Foncier's Compliance Division manages Compagnie de Financement Foncier's compliance function.

Crédit Foncier's Compliance Division reports functionally to the Risk, Compliance and Permanent Control Division of BPCE (RCPCD). It is independent of all other business lines, in accordance with banking regulations.

Under the Group charter on risks, compliance and permanent control of March 29, 2017, the Compliance department is responsible for preventing, identifying, assessing and monitoring risks related to banking compliance, investment services compliance, financial and general ethics. The Compliance Division includes the Financial Security department, in charge of the prevention and treatment of money laundering, terrorist financing, internal and external frauds risks. It relies on the Permanent Control department managed by the Permanent Control Coordination Division and provides regular reports on its activities and the controls carried out to the Compagnie de Financement Foncier Oversight and Forecasting department.

### 1.1.3. ORGANIZATION OF GROUP CRÉDIT FONCIER'S PERMANENT CONTROL COORDINATION DEPARTMENT

The Permanent Control Coordination Division ensures the existence and effectiveness of the first- and second-level permanent control system, and works in close collaboration with teams of permanent second-level controllers, who are hierarchically independent from the units controlled, and with the Compagnie de Financement Foncier Oversight and Forecasting department.

### 1.1.4. ORGANIZATION OF THE INFORMATION SYSTEMS DEPARTMENT

The Head of Information Systems Security for group Crédit Foncier is also in charge of the Compagnie de Financement Foncier scope.

Governance in terms of Information Systems Security at group Crédit Foncier is organized around:

- an Information Systems Security Policy (ISSP) specific to Crédit Foncier, and its thematic variations underpinned by the Security Policy and the rules of Groupe BPCE;
- bodies such as the Internal Information Systems Security Committee (IISSC) chaired by an Executive Director;
- outreach plan to raise awareness about cyber attacks and security risks among all employees;
- a permanent control mechanism for Information Systems Security, combined with a quarterly security report (security indicators).

### 1.1.5. ORGANIZATION OF THE CONTINGENCY AND BUSINESS CONTINUITY PLAN DEPARTMENT (CBCP)

The Contingency and Business Continuity Plan (CBCP) of Crédit Foncier encompasses the business continuity of Compagnie de Financement Foncier. The Contingency and Business Continuity Plan is under the responsibility of the Head of Information Systems Security, who reports to the Deputy Chief Risk and Compliance Officer of Crédit Foncier.

Compagnie de Financement Foncier has its own CBCP manager, fully integrated in the group Crédit Foncier plan.

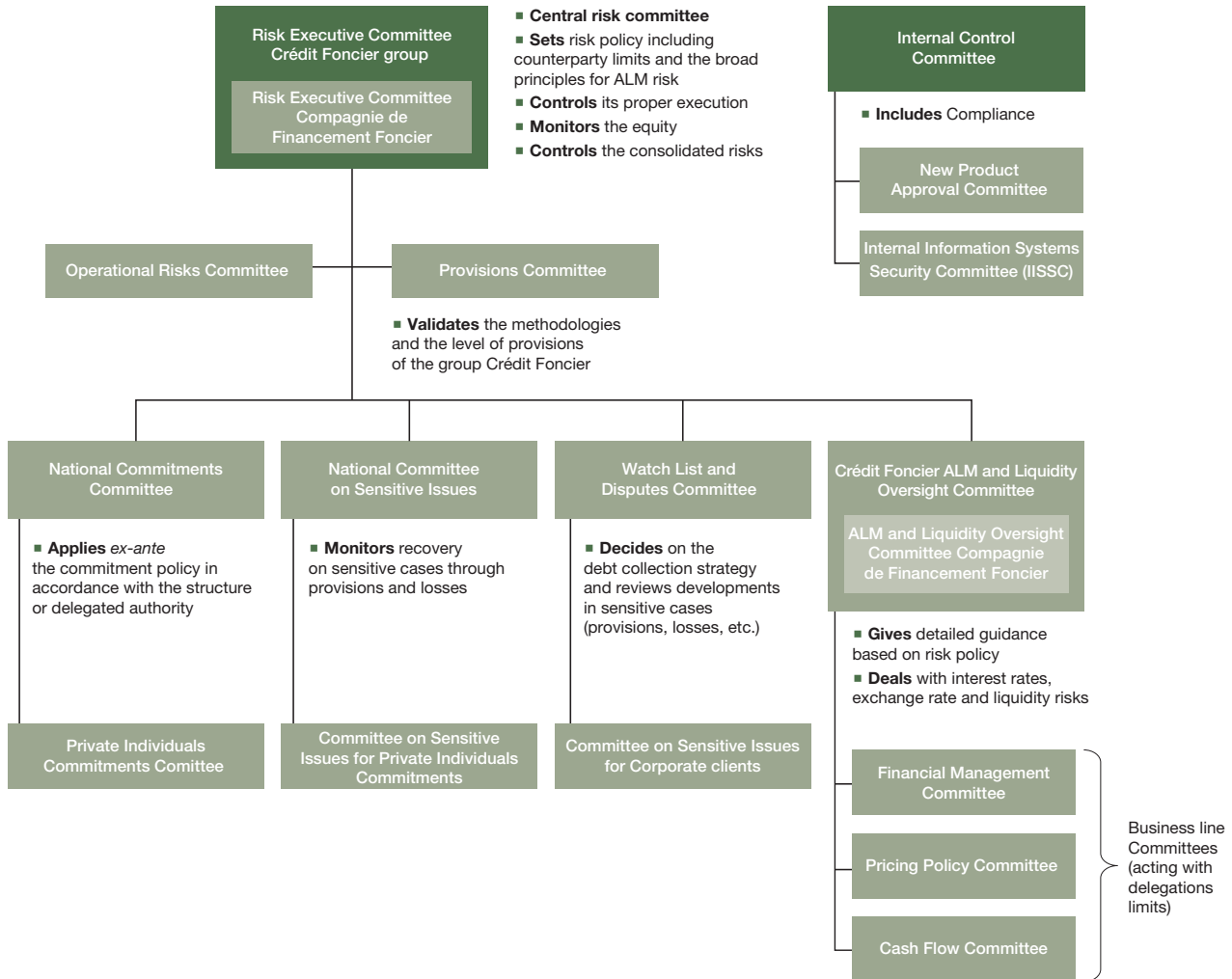
### 1.1.6. INFORMATION SYSTEMS AND DATA CONSISTENCY

To comply with Basel II and subsequently Basel III, the Risk department ensures the accounting consistency of the data input into the risk management system. Compagnie de Financement Foncier's exposures are fully integrated into this data consistency mechanism.

Accordingly, all Groupe BPCE entities ensure that all data transferred to Group regulatory production systems are checked for accounting consistency at least quarterly.



■ Risk organization – Committees structure



## 1.2. Loan selection process

The receivable selection system has not been modified compared to that in force on 31 December 2017. For more information, see Compagnie de Financement Foncier’s 2017 Registration document (p. 106 to 109).

## 2. Changes in assets

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

- secured loans, as defined under Articles L. 513-3 and L. 513-6 of the French Monetary and Financial Code, backed by a first-rank mortgage (or, to a lesser extent, equivalent real estate collateral or a surety);

- exposures to public entities, as defined under Article L. 513-4;
- and replacement values as defined in Article L. 513-7, limited to 15% of the nominal value of the privileged resources.

### ■ Breakdown of assets by guarantee

	06/30/2018		12/31/2017	
	€m	% balance sheet	€m	% balance sheet
<b>Secured loans</b>	<b>39,884</b>	<b>51.8%</b>	<b>39,421</b>	<b>50.3%</b>
Mortgage loans secured by the FGAS	18,131	23.6%	16,811	21.5%
Other mortgage loans	9,970	13.0%	10,030	12.8%
Loans with institutional guarantees	4,246	5.5%	3,469	4.4%
Secured loans assigned under L. 211-38	7,536	9.8%	9,112	11.6%
<b>Exposures on public entities</b>	<b>28,639</b>	<b>37.2%</b>	<b>29,764</b>	<b>38.0%</b>
Public sector loans	8,731	11.3%	9,380	12.0%
Public loans assigned under L. 211-38	11,545	15.0%	11,838	15.1%
Public entity securities	7,917	10.3%	7,876	10.0%
Deposits at Banque de France	446	0.6%	670	0.9%
<b>Other assets (interests on IFAT, adjustment accounts, etc.)</b>	<b>1,782</b>	<b>2.3%</b>	<b>2,431</b>	<b>3.1%</b>
<b>Replacement values</b>	<b>6,653</b>	<b>8.6%</b>	<b>6,751</b>	<b>8.6%</b>
<b>TOTAL ASSETS</b>	<b>76,957</b>	<b>100.0%</b>	<b>78,367</b>	<b>100.0%</b>

During the half year, the €1.4bn decline in Compagnie de Financement Foncier's assets (compared with end-December 2017) can be observed mainly in Public sector outstandings. This decline is the result of the amortization of refinanced assets.

Call deposits at the Banque de France dropped by €0.2bn due to active management to control the cost of carry.

In return, mortgage and related assets have remained virtually stable since end-December 2017. This is the result of a balance between new refinancings of eligible assets at Compagnie de Financement Foncier and of a weaker than expected rate of early repayments since the beginning of 2018. Following acquisitions in the 1<sup>st</sup> half, the outstanding amounts of loans held directly by Compagnie de Financement Foncier increased by €2.0bn compared with end-December 2017. This effect was offset by the €1.6bn decrease in net refinancings through asset assignments (exclusively in the form of L. 211-38 loans).

Furthermore, the regional breakdown remained identical during the half-year period with the large majority of balance sheet assets (87.8% as of June 30, 2018) still with an underlying asset located in France.

At June 30, 2018, international assets, mainly from the Public sector, amounted to €9.4bn, broken down into three categories:

- 4 countries with the highest exposures, namely Italy (€3.4bn), the United States (€1.5bn), Japan (€1.4bn) and Switzerland (€1.0bn);
- 4 countries with moderate exposure, namely Belgium (€0.8bn), Spain (€0.4bn), Canada (€0.4bn) and Poland (€0.4bn);
- 2 other countries with outstandings of less than €0.1bn, namely Portugal and the Netherlands.

### 3. Changes in liabilities

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

- privileged liabilities 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;

- other resources that help reinforce the security of privileged debt holders. These resources which come after the privileged debts in terms of debt ranking priority consist of unsecured debts with different counterparties, subordinated debts and lastly equity which is mainly provided by Crédit Foncier.

#### ■ Breakdown of liabilities by guarantee rank\*

	06/30/2018		12/31/2017	
	€m	% balance sheet	€m	% balance sheet
<b>Privileged resources</b>	<b>62,583</b>	<b>81.3%</b>	<b>63,296</b>	<b>80.8%</b>
<i>Obligations foncières</i> at the reporting date	62,683	81.5%	63,375	80.9%
Foreign exchange difference on <i>obligations foncières</i>	-315	-0.4%	-267	-0.3%
Other privileged resources	214	0.3%	188	0.2%
<b>Difference relating to hedging of balance sheet items*</b>	<b>1,020</b>	<b>1.3%</b>	<b>925</b>	<b>1.2%</b>
<b>Non-privileged resources</b>	<b>13,354</b>	<b>17.4%</b>	<b>14,146</b>	<b>18.0%</b>
Unsecured debt	7,910	10.3%	8,676	11.1%
Subordinated debt or equivalent	2,269	2.9%	2,286	2.9%
<i>of which associated current account</i>	2,100	2.7%	2,100	2.7%
Shareholders' equity, provisions and reserve for general banking risks	3,175	4.1%	3,184	4.0%
<b>TOTAL LIABILITIES</b>	<b>76,957</b>	<b>100.0%</b>	<b>78,367</b>	<b>100.0%</b>
<i>Regulatory capital according to CRR/CRD IV:</i>	3,107	4.0%	3,107	4.0%
<i>of which Common Equity Tier 1 capital</i>	3,107	4.0%	3,107	4.0%
<i>of which Additional Tier 1 capital</i>	0	0.0%	0	0.0%
<i>of which Tier 2 capital</i>	0	0.0%	0	0.0%

\* In 2013 and 2014, Compagnie de Financement Foncier reviewed the treatment of swaps for the purposes of determining its regulatory coverage ratio. Since 2013, assets and liabilities have been recognized at historical cost for the purposes of this calculation, i.e. after taking into account their initial currency hedging, and accrued interest on swaps is now calculated after netting for each counterparty. These changes, which only affect prudential ratio items, required adjustments in the above presentation of liabilities, and the creation of the item "Difference relating to hedging of balance sheet items".

Over the half-year period, Compagnie de Financement Foncier recorded a decline in liabilities, mainly related to unsecured resources with the following main causes:

- the non-renewal of a portion of intragroup unsecured debt, corresponding to €0.5bn;
- the €0.2bn drop in deposits received for swap counterparties, of which the amounts vary depending on the changes observed in the fixed-income and currency markets.

Privileged liabilities also declined over the half-year period by €0.7bn, since the issuance of *obligations foncières* for a total amount of €4.2bn over the period largely offset the contractual amortization of previously issued debt.

The overall amount, consisting of subordinated debt and shareholders' equity, remained stable at nearly €5.4bn; this last-level protection of *obligations foncières* holders represented 7.0% of Compagnie de Financement Foncier's balance sheet total at June 30, 2018.

## 4. Prudential ratios

### 4.1. Specific ratios

As a *société de crédit foncier*, Compagnie de Financement Foncier is subject to several specific regulatory ratios that must be complied with at all times and that are regularly validated by the Specific Controller.

#### COVERAGE RATIO

First, Compagnie de Financement Foncier measures the coverage ratio that corresponds to the ratio between weighted assets and privileged debt, which must remain above 105% at all times.

In the case of Compagnie de Financement Foncier, restatements affected three types of assets:

- LTV overruns on mortgage loans either held directly or assigned;
- assets sold under *repos* and;
- the portion of unsecured intragroup loans above the regulatory threshold of 25% of non-privileged liabilities.

Regulations limit outstanding loans financed with *obligations foncières* to the fraction of outstanding loans with an LTV ratio (equal to the outstanding principal in relation to the updated value of the collateral) lower than 100% for loans guaranteed by FGAS, lower than 80% for residential loans granted to individuals and lower than 60% for other mortgage loans.

At end-June 2018, loans outstanding in excess of the LTV threshold amounted to €275m, still significantly lower than those for non-privileged liabilities, standing at €13bn at that date.

In addition, assets used to secure other transactions are deducted from the assets recognized on the balance sheet. Thus the outstanding amount of securities sold to Crédit Foncier under repurchase agreements, representing €1.6bn at June 30, 2018, was not included for the purposes of calculating the ratio.

Lastly, the application of the limit on intragroup exposures established by the Order of May 26, 2014 led to the deduction of €1.4bn in assets, mainly on account of the fact that a portion of the receivables provided as collateral for short-term loans granted to BPCE did not have all the characteristics required to be eligible for funding through *obligations foncières*.

As a result, the overcollateralization ratio at end-June 2018 was estimated at 116.7%, including any associated currency hedging for assets and liabilities. As it was still being finalized upon publication of this report, the final level of coverage of privileged liabilities will be certified by the Specific Controller by end-September at the latest.

Regardless of the minimum ratio required by law, Compagnie de Financement Foncier is committed to maintaining at all times a level of non-privileged liabilities in excess of 5% of privileged liabilities (both considered after currency swaps and repurchase agreement restatements). At June 30, 2018, this ratio was 18.5%.

#### LOAN TO VALUE

As part of its risk monitoring and management rules, Compagnie de Financement Foncier sets the LTV of mortgage loans that it holds directly or through assignment. This LTV is also the ratio of the present value of the collateral to the outstanding principal. Every year, Compagnie de Financement Foncier, like every *société de crédit foncier*, re-examines the value of this collateral using procedures that are checked for compliance by the Specific Controller. This certification and a description of the methods used to value and re-value property together with their results are presented in the Risk control and monitoring report in section 5.3.2 of Compagnie de Financement Foncier's 2017 Registration document (page 121).

Considering all outstanding mortgages, whether held directly or as collateral for mortgage notes or loans governed by Article L. 211-38 of the MFC, the average loan to value at end-June 2018 stood at 72.5% on total outstandings of €40.1bn.

For loans to individuals, which represent Compagnie de Financement Foncier's core business and total €39.5bn in outstandings, the average loan to value was 73.1%, breaking down as follows:

- 80.5% on loans guaranteed by FGAS amounting to €20.8bn;
- 64.9% on other mortgage loans to individuals, with €18.6bn outstanding.

#### OTHER LIMITS

Compliance with the various holding limits applicable to certain assets is also verified. Notably, at June 30, 2018:

- the share of guaranteed loans was 7.2%, still significantly below the legal threshold of 35%; this calculation includes directly-held guaranteed loans (5.5%) and those used to guarantee loans governed by Article L. 211-38 of the MFC (1.7%);
- replacement values have an outstanding amount equal to 8.8% of the nominal amount of privileged liabilities, below the mandatory limit of 15%;
- the hedging of cash requirements, taking into account cash flow forecasts, is secured over a period of 180 days.

## LIQUIDITY AND SOLVENCY RATIOS

As a credit institution, Compagnie de Financement Foncier monitors its liquidity ratios, which remain well above the minimum requirements set by banking regulations. In addition, Compagnie de Financement Foncier has nearly €10bn (€9.8bn) of eligible assets in the Eurosystem (excluding securities sold under repurchase agreements) that would provide it with an estimated additional €7bn in cash resources on the basis of the ECB's current rules, while keeping its coverage ratio above the legal minimum of 105%.

The other prudential ratios applicable to credit institutions are monitored by Crédit Foncier at the consolidated level. However, Compagnie de Financement Foncier determines solvency ratios within its own scope only since January 1, 2014, it has been doing so in accordance with the CRD IV directive and the CRR Regulation and reports them to the French Prudential Supervision and Resolution Authority (ACPR).

Accordingly, at end-June 2018, according to the standard Basel III method, its Common Equity Tier One (CET1) ratio was 21.5%, equal to its Tier One ratio and its solvency ratio (versus 21.3% at December 31, 2017). Total risk exposures (RWA) amounted to €13.6bn.

## 4.2. Management of capital

The management of Compagnie de Financement Foncier's capital is supervised directly by its Executive Management. Its management ensures permanent compliance with regulatory ratios and aims to optimize the allocation of capital and to secure its overcollateralization ratio; as such, it contributes directly to the Aaa/AAA/AAA rating by Moody's/S&P/Scope Ratings.

The solvency ratio is calculated for informational purpose at the individual Compagnie de Financement Foncier's level.

### COMPOSITION OF CAPITAL

Capital is determined in accordance with the CRD IV directive and the CRR Regulation, applicable since January 1, 2014, taking into account the national options set by the French Prudential Supervision and Resolution Authority (ACPR). It consists of three broad categories: Common Equity Tier 1, Additional Tier 1 Capital and Tier 2 Capital.

The amount of capital of Compagnie de Financement Foncier was €3.11bn at June 30, 2018. This amount also represents the Core Equity Tier-1 capital.

### CAPITAL REQUIREMENTS

Capital requirements were calculated using the standard Basel III method. French local authorities outstandings assigned to L. 211-38 loans are treated in a transparent manner, that is, by calculating the requirements based on the underlying loans.

Loans to Groupe BPCE affiliates are weighted at 0%.

Moreover, in the case of partial transfer of loans originated by Crédit Foncier to Compagnie de Financement Foncier and in connection with the assignment and recovery agreements, collected sums are allocated in their entirety and in priority to Compagnie de Financement Foncier. Under the standard approach, this allows to adjust the level of risk-weighting in order to reflect the priority allocation of collections to Compagnie de Financement Foncier and the resulting lower loss rate.

(in €m)	06/30/2018		12/31/2017	
	Capital requirements	RWA	Capital requirements	RWA
<i>Exposure categories</i>				
Central governments	53	665	58	727
Institutions	16	205	21	259
Regional governments	366	4575	348	4,346
Corporations	45	557	52	648
Retail customers	49	611	52	645
Mortgage-backed exposure	514	6427	532	6,656
Exposure at default	46	570	35	441
Other assets	2	20	2	19
<b>Requirements for credit risk (A)</b>	<b>1,090</b>	<b>13,630</b>	<b>1,099</b>	<b>13,741</b>
<b>Requirements for market risk (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Requirements for operational risk (C)</b>	<b>39</b>	<b>491</b>	<b>39</b>	<b>491</b>
<b>Credit value adjustment (D)</b>	<b>25</b>	<b>309</b>	<b>28</b>	<b>344</b>
<b>CAPITAL REQUIREMENTS (A) + (B) + (C) + (D)</b>	<b>1,154</b>	<b>14,430</b>	<b>1,166</b>	<b>14,575</b>

## SOLVENCY RATIO

Compagnie de Financement Foncier's solvency ratio at June 30, 2018 is determined using the standard approach.

	06/30/2018	12/31/2017
<b>Solvency ratio</b>	<b>21.53%</b>	<b>21.32%</b>
CET1 ratio	21.53%	21.32%
<b>Tier-1 ratio</b>	<b>21.53%</b>	<b>21.32%</b>

Source: COREP (Common solvency ratio reporting) as of June 30, 2018.

# 5. Analysis of credit and counterparty risk

The balance sheet comprises two major categories: assets financed by preferential debts in the form of loans or securities, and replacement values corresponding to a portion of cash balances. These assets meet differentiated approaches as to the measuring and monitoring of their credit risk:

- loans granted to private individuals and loans to business customers mainly in the Public sector: these loans are acquired either directly by Compagnie de Financement Foncier or assigned through Crédit Foncier or any other entity of Groupe BPCE, in the form of L. 211-38 Public sector or mortgage loans;
- subsidized loans which benefit from the guarantee of the French State were transferred to Compagnie de Financement Foncier when it was created in 1999; with no new loans of this type being granted;
- Public sector securities, which comprise Compagnie de Financement Foncier's main international exposure;
- replacement values comprised of short-term investments with credit institutions that have the highest external rating.

## 5.1. Breakdown of Compagnie de Financement Foncier's commitments

### 5.1.1. ANALYSIS OF CREDIT RISK EXPOSURES

Financed asserts are analyzed transparently: the analysis covers the assigned assets in the form of loans under L. 211-38 of the French Financial and Monetary Code.

Replacement values, on the other hand, are analyzed by counterparty: loans granted to BPCE, essentially in the form of loans under L. 211-38-RV <sup>(1)</sup>, although collateralized, are considered as an exposure to BPCE.

Compagnie de Financement Foncier reports that it still has no exposure to the following asset classes:

- CDO (Collateralized Debt Obligation) or direct exposures to monoline insurers;
- CMBS (Commercial Mortgage-Backed Securities) exposures;
- sub-prime, Alt-A or, more broadly, any exposure to US mortgage securities;
- special purpose vehicles;
- leveraged or leveraged buyout (LBO) transactions.

(1) Short-terms loans to BPCE secured by pledge of assets.



(in €m)	Exposures as of 06/30/2018			Exposures as of 12/31/2017		
	Sold	Assigned	Total	Sold	Assigned	Total
<b>Risk exposures</b>						
<b>A – Private Individuals' mortgage loans</b> <sup>(1) (2)</sup>	<b>31,744</b>	<b>7,207</b>	<b>38,951</b>	<b>29,880</b>	<b>8,685</b>	<b>38,565</b>
<b>B – Public sector</b>	<b>16,752</b>	<b>11,481</b>	<b>28,234</b>	<b>17,615</b>	<b>11,885</b>	<b>29,500</b>
French public sector	8,129	10,900	19,029	8,986	11,295	20,281
<i>Social housing</i>	1,046	1,940	2,986	1,182	1,888	3,070
<i>French local authorities (FLA)</i> <sup>(3)</sup>	5,660	8,940	14,600	6,108	9,262	15,370
<i>Sovereign France</i>	1,423	20	1,443	1,696	145	1,841
Infrastructure project financing (IPF)	626	581	1,207	631	590	1,221
International public sector	7,998		7,998	7,998		7,998
<i>International public sector (IPS)</i>	4,986		4,986	4,956		4,956
<i>International Sovereign</i>	2,598		2,598	2,640		2,640
<i>Public sector large corporations</i>	414		414	402		402
<b>C – Commercial mortgage exposures</b>	<b>140</b>	<b>353</b>	<b>492</b>	<b>148</b>	<b>361</b>	<b>509</b>
<b>D – Banking sector exposures</b>	<b>632</b>	<b>6,600</b>	<b>7,232</b>	<b>736</b>	<b>6,600</b>	<b>7,336</b>
Banks with sovereign guarantees or similar	518		518	632		632
Other banks	114		114	104		104
L. 211-38-RV <sup>(4)</sup>		6,600	6,600		6,600	6,600
<b>Total risk exposure (A + B + C + D)</b>	<b>49,268</b>	<b>25,641</b>	<b>74,909</b>	<b>48,379</b>	<b>27,531</b>	<b>75,909</b>
Miscellaneous adjustments and other assets <sup>(5)</sup>	2,108	28	2,136	2,513	34	2,547
<b>TOTAL</b>	<b>51,376</b>	<b>25,669</b>	<b>77,045</b>	<b>50,892</b>	<b>27,565</b>	<b>78,457</b>

(1) The "Private Individuals' mortgage loans" line item includes a limited amount (€44m at June 30, 2018) of outstanding Dutch loans.

(2) Of which L. 211-38 Belgium for €825m as of June 30, 2018 (carrying amount).

(3) Of which €73.3m L. 211-38 with Caisses d'Épargne and €103.1m with Banques Populaires as of June 30, 2018.

(4) Short-terms loans to BPCE secured by pledge of assets.

(5) The "Miscellaneous adjustments and other assets" line item is mainly composed of accrued interest on forward financial instruments and adjustment accounts.

At June 30, 2018, the total risk exposure was down by €1.0bn to €74.9bn compared with December 31, 2017. This change was due to:

- the €1.3bn drop in French public sector loans to €19.0bn mainly due to repayments by French local authorities (-€0.8bn) and Sovereign France;

- the €0.4bn increase in individual mortgage loans to reach €39.0bn with a large transfer of the assigned portion to the sold portion (-€1.5bn and +€1.9bn, respectively) A drop in the number of early repayments was also recorded during the period.

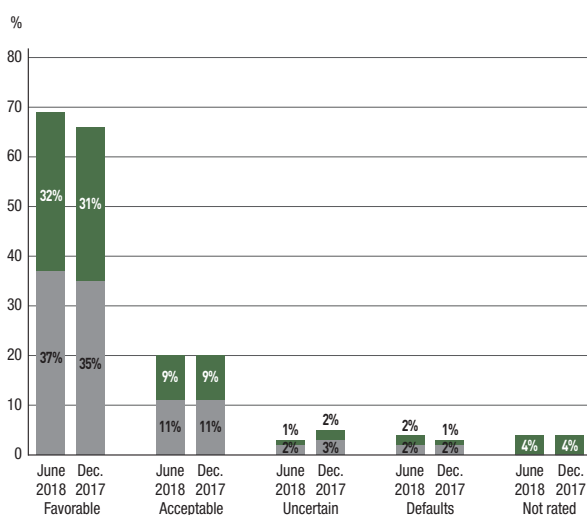
**Geographical breakdown of exposures**

Geographical breakdown of exposures	06/30/2018		12/31/2017
	Balance sheet (€m)	%	%
France	67,661	88	88
Other countries in the European Economic Area	5,063	7	7
• of which Italy	3,342	4	4
• of which Belgium	825	N.S.	N.S.
• of which Spain	406	N.S.	N.S.
• of which Poland	357	N.S.	N.S.
• of which Portugal	88	N.S.	N.S.
• of which Netherlands	44	N.S.	N.S.
Switzerland	1,014	1	1
North America (USA & Canada)	1,951	2	2
Japan	1,356	2	2
<b>TOTAL</b>	<b>77,045</b>	<b>100</b>	<b>100</b>
Reminder of total exposures at 12/31/2017 (in €m)			78,457

**5.1.2. QUALITY OF THE PORTFOLIO EXPOSED TO CREDIT RISK**

**PORTFOLIO OF LOANS TO INDIVIDUALS**

**Internal rating and quality of mortgage loans made to private individuals**



December 31, 2017 : €38,565m  
June 30, 2018 : €38,951m

■ FGAS not guaranteed part  
■ FGAS guaranteed part

The ratings attest to the ongoing good quality of outstanding loans.

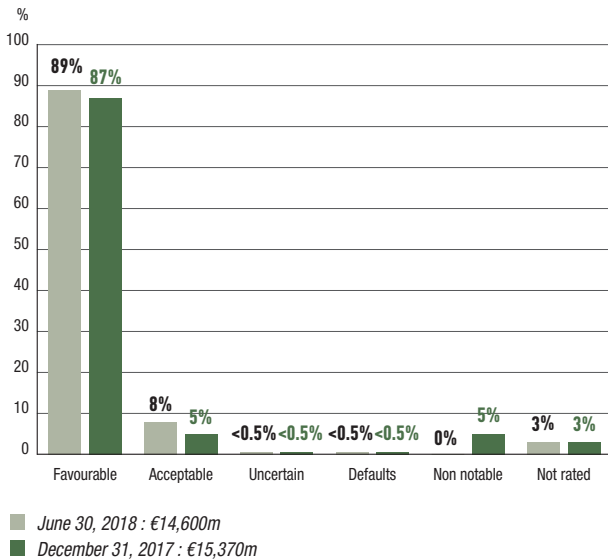
**FRENCH PUBLIC SECTOR PORTFOLIO**

The French public sector portfolio stood at €19.0bn, breaking down as follows:

- French local authorities: €14.6bn;
- Social housing: €3.0bn;
- Sovereign France: €1.4bn.

**French local authorities**

**■ Portfolio of French public operators – Breakdown by Basel II rating**

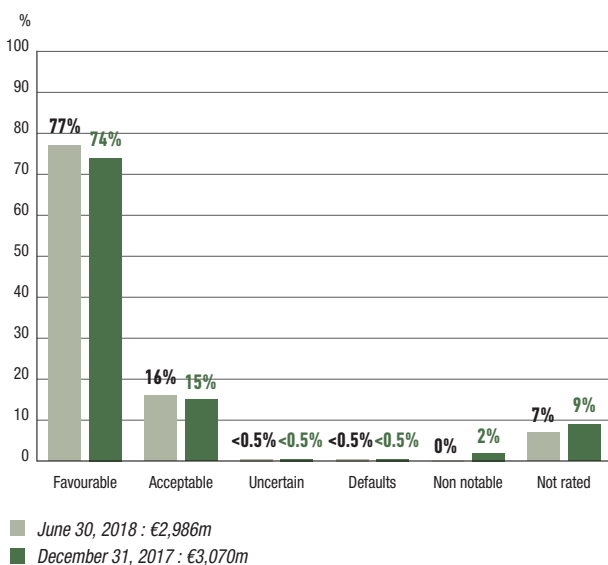


The quality of French local authorities' outstandings held by Compagnie de Financement Foncier stays at a very high level.

NB: as of the 1<sup>st</sup> half of 2018, the entire portfolio is subject to rating

**Social housing**

**■ Social housing – Breakdown by Basel II rating**



The quality of Social housing portfolio held by Compagnie de Financement Foncier stays at a very high level.

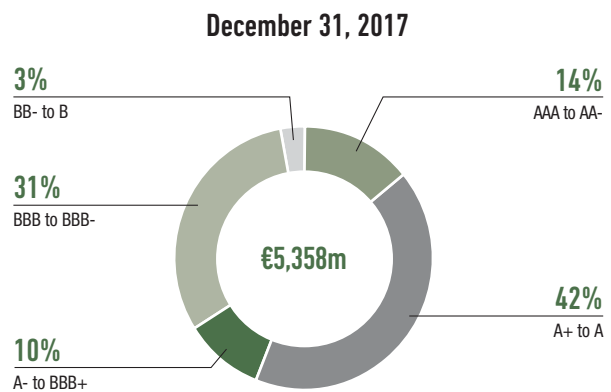
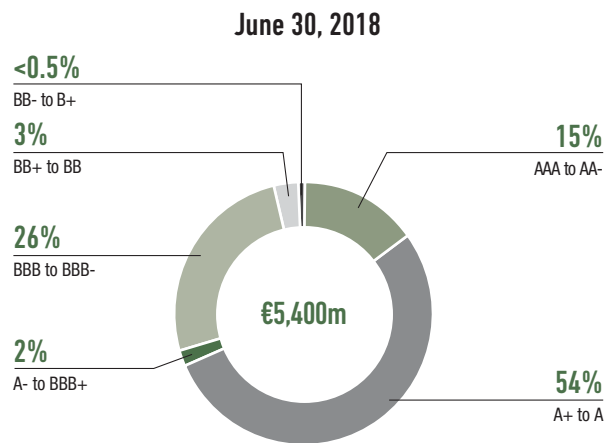
NB: as of the 1<sup>st</sup> half of 2018, the entire portfolio is subject to rating

**INTERNATIONAL PUBLIC SECTOR PORTFOLIO (IPS)**

**International public sector (excluding Sovereigns) and Large Public sector Corporations**

The IPS portfolio (excluding Sovereigns) and Large Public sector Corporations remained stable at €5.4bn at June 30, 2018 compared with 12/31/2017. Compagnie de Financement Foncier has stopped making new acquisitions in recent years.

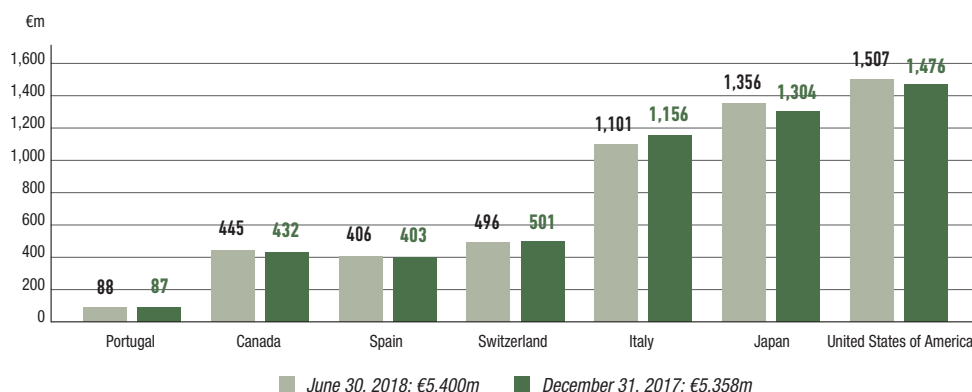
**■ Breakdown of exposures by internal rating on International public sector and Large Public sector Corporations**



NB: The change in the breakdown as of June 30, 2018 compared with the one published in the 2017 Registration document is due to the change in rating procedure. The method used since end-2017 combines an expert opinion and external ratings approach.

The quality of the rating continues to be high.

■ Breakdown of direct exposures to International public sector and Large Corporates



The increase in exposures to Japan and the United States is due to exchange rate fluctuations.

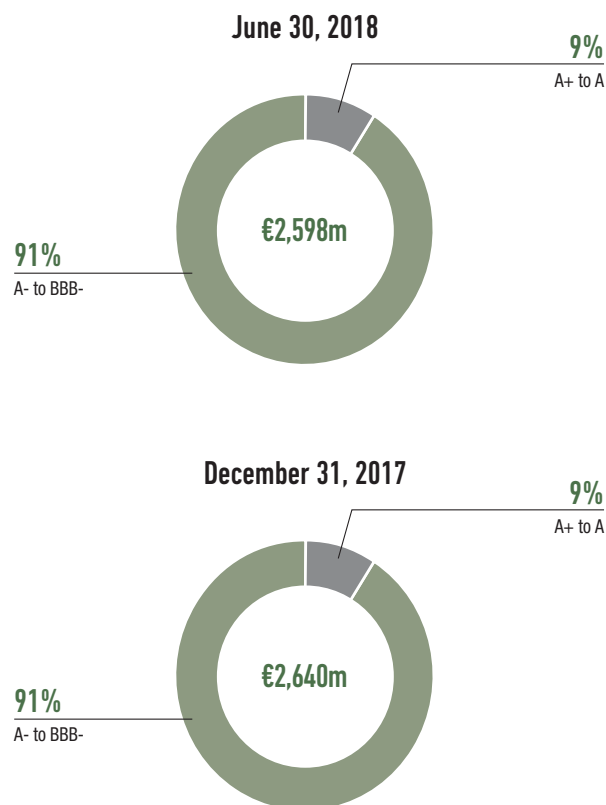
It should be noted that currency exchange fluctuations affect the outstandings of assets denominated in foreign currencies (USD, JPY, CAD, etc.), shown before swap effects.

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.

**International Sovereign**

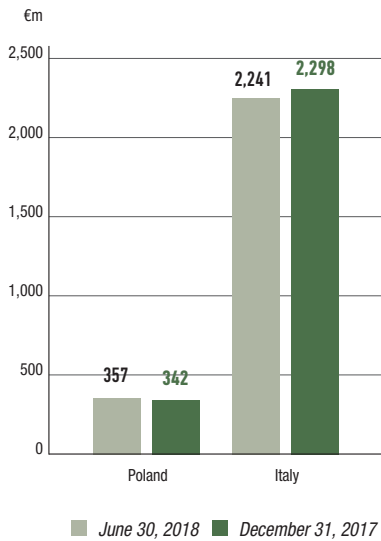
Following the disposals and repayments, Compagnie de Financement Foncier’s residual exposure to sovereign issuers is concentrated on Italy and, to a lesser extent, on Poland. The variation of outstandings from one year to another is explained by exchange rate fluctuations as some of the exposures are in foreign currencies and given the fact that the presentation is made on before swaps basis.

■ Breakdown of exposures by internal rating of Sovereigns excluding France



Compagnie de Financement Foncier’s whole International Sovereign portfolio is rated investment grade (rating≥BBB-). The ratings used are those of Groupe BPCE.

■ Breakdown of direct exposures to Sovereigns outside France



Given the disposals, Compagnie de Financement Foncier is now exposed exclusively to Italian and Polish Sovereigns. The variation of outstandings from one year to another is explained by exchange rate fluctuations as some of the exposures are in foreign currencies and given the fact that the presentation is made on a before swaps basis.

■ Monoline insurers on exposures to IPS, large corporations and Sovereigns

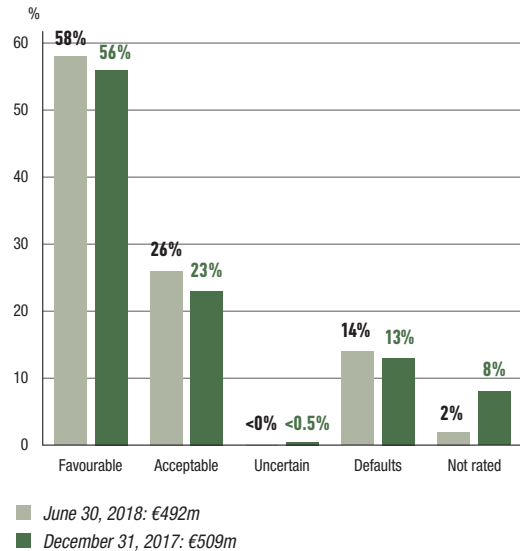
Compagnie de Financement Foncier has no direct exposures to monoline insurers but does have credit enhancements acquired from them for certain assets in the portfolio.

Thus, €1.4bn in outstandings in the portfolio is counter-guaranteed by the monoline insurers. For FGIC, the deterioration of its creditworthiness means that its guarantee is less effective than at the outset (due to the fact that the transaction's intrinsic credit rating is higher than the one of the credit guarantor).

This is, however, not the case of Assured Guaranty Municipal Corp. (formerly FSA) and of Assured Guaranty Corp. (which took over CFIG), rated respectively AA/A2 and AA/A3 by S&P and by Moody's, which guarantees a total outstanding amount of €1.21bn in securities; or of National Public Finance Guarantee Corp. (formerly MBIA), rated Baa2 by Moody's, and which guarantees a total outstanding amount of €0.15bn in securities.

PRIVATE CORPORATES PORTFOLIO

At June 30, 2018, private Corporate outstandings sold and assigned amounted to €492m, with 84% of the outstandings benefiting from "Favourable" or "Acceptable" ratings.



BANKING SECTOR PORTFOLIO

With €7.2bn of outstandings, the banking sector exposures as of June 30, 2018 declined by 1.4% compared to December 31, 2018. They consist mainly of short-term transactions with BPCE (€6.6bn). Compagnie de Financement Foncier also had an exposure to financial institutions benefiting from public authority guarantees (primarily to Swiss cantonal banks) as part of long-term loans from the former IPS activity.

## 5.2. Delinquencies

### 5.2.1. COMPAGNIE DE FINANCEMENT FONCIER'S RISK HEDGING

The table below shows the breakdown of assets excluding endorsements and financial guarantees given along with the doubtful loan rates.

(in €m)	Gross exposures at 06/30/2018				Gross exposures as of 12/31/2017			
	Total balance sheet	Doubtful loan rate sold	Doubtful loan rate assigned	Doubtful loan rate overall	Total balance sheet	Doubtful loan rate sold	Doubtful loan rate assigned	Doubtful loan rate overall
<b>Risk exposures</b>								
<b>A – Private Individuals' mortgage loans</b> <sup>(1) (2)</sup>	<b>38,951</b>	<b>4.92%</b>	<b>&lt;0.5%</b>	<b>4.02%</b>	<b>38,565</b>	<b>4.53%</b>	<b>&lt;0.5%</b>	<b>3.53%</b>
<b>B – Public sector</b>	<b>28,234</b>	<b>&lt;0.5%</b>	<b>-</b>	<b>&lt;0.5%</b>	<b>29,500</b>	<b>&lt;0.5%</b>	<b>-</b>	<b>&lt;0.5%</b>
French public sector	19,029	<0.5%	-	<0.5%	20,281	<0.5%	-	<0.5%
<i>Social housing</i>	2,986	<0.5%	-	<0.5%	3,070	<0.5%	-	<0.5%
<i>French local authorities (FLA)</i> <sup>(3)</sup>	14,600	<0.5%	-	<0.5%	15,370	<0.5%	-	<0.5%
<i>Sovereign France</i>	1,443	-	-	-	1,841	-	-	-
<i>Infrastructure project financing (IPF)</i>	1,207	-	-	-	1,221	-	-	-
International public sector	7,998	-	-	-	7,998	-	-	-
<i>International public sector (IPS)</i>	4,986	-	-	-	4,956	-	-	-
<i>International Sovereign</i>	2,598	-	-	-	2,640	-	-	-
<i>Public sector large corporations</i>	414	-	-	-	402	-	-	-
<b>C – Commercial mortgage exposures</b>	<b>492</b>	<b>50.68%</b>	<b>-</b>	<b>14.39%</b>	<b>509</b>	<b>46.87%</b>	<b>-</b>	<b>13.62%</b>
<b>D – Banking sector exposures</b>	<b>7,232</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7,336</b>	<b>-</b>	<b>-</b>	<b>-</b>
Banks with sovereign guarantees or similar	518	-	-	-	632	-	-	-
Other banks	114	-	-	-	104	-	-	-
L. 211-38-RV <sup>(4)</sup>	6,600	-	-	-	6,600	-	-	-
<b>Total risk exposure (A + B + C + D)</b>	<b>74,909</b>	<b>3.33%</b>	<b>&lt;0.5%</b>	<b>2.20%</b>	<b>75,909</b>	<b>2.95%</b>	<b>&lt;0.5%</b>	<b>1.89%</b>
Miscellaneous adjustments an other Items <sup>(5)</sup>	2,136	-	-	-	2,547	-	-	-
<b>TOTAL</b>	<b>77,045</b>	<b>3.19%</b>	<b>&lt;0.5%</b>	<b>2.14%</b>	<b>78,457</b>	<b>2.80%</b>	<b>&lt;0.5%</b>	<b>1.82%</b>

(1) The "Private Individuals' mortgage loans" line item includes a limited amount of outstanding Dutch loans (€44m at June 30, 2018).

(2) Of which L. 211-38 Belgium for €825m as of June 30, 2018 (carrying amount).

(3) Of which €73.3m L. 211-38 with Caisses d'Épargne and €103.1m with Banques Populaires as of June 30, 2018.

(4) Short-terms loans to BPCE secured by pledge of assets.

(5) The "Miscellaneous adjustments and other assets" line item is mainly composed of accrued interest on forward financial instruments and adjustment accounts.

The overall doubtful loan rate was low at 2.1%.

On mortgage loans, the doubtful loan rate moved to 4.0% at end-June 2018 due to the default trigger at 90 days instead of 180 days for individual real estate loans.

The Public sector portfolio has a very marginal rate of doubtful loans, corresponding to old cases, attesting to the good quality of the portfolio.

The doubtful loan rate for commercial mortgage exposures held by Compagnie de Financement Foncier was 50.7%, but it mainly concerns a single case in the subsidized sector for an amount of €68m.

**5.2.2. RISK CHARGE OF COMPAGNIE DE FINANCEMENT FONCIER**

<i>(in €m)</i>	06/30/2018	12/31/2017
Individual cost of risk (A)	-2.5	-8.4
Collective provisions (B)	0	3.5
<b>Cost of risk (A + B)</b>	<b>-2.5</b>	<b>-4.9</b>
Risk charge, net banking income (C)	-1.1	-10.0
<b>Net (A + B + C)</b>	<b>-3.6</b>	<b>-14.9</b>

At June 30, 2018, Compagnie de Financement Foncier's risk charge was low at -€3.6m. It induces the cost of risk on an individual basis (-€2.5m), the cost of risk on a collective basis

(€0.0m) and the cost of risk recognized in net banking income (-€1.1m).

**5.3. Risk mitigation techniques****5.3.1. RISK MITIGATION FACTORS**

Compagnie de Financement Foncier's portfolio is very secure as it consists mainly of either risks secured by mortgages or equivalent or risk exposures to the Public sector. Both risks are further reduced by additional guarantees. Thus, for example, 55.9% of outstanding loans to private individuals are covered by a FGAS guarantee.

In terms of individual customers, the main supplier of personal guarantees belongs to the Sovereign segment: the Société de gestion du fonds de garantie à l'accession sociale à la propriété (SGFGAS) provides a guarantee from the French government to secure social home ownership loans governed by regulations on contractual loans secured by a first-ranking security right (mortgage or privilege of the money lender). For this reason, SGFGAS benefits from the external ratings assigned to the French state and allows a 0% weighting of loans for which FGAS coverage was signed prior to December 31, 2006. Due to a change in FGAS coverage methods, guarantees granted thereafter have a Basel III weighting equal to a half of what would have been obtained with only a mortgage guarantee. Nevertheless, the part not guaranteed by FGAS, but borne by Crédit Foncier, benefits from a weighting of 0% for Compagnie de Financement Foncier.

Furthermore, some loans to individual customers benefit from sureties and financial guarantees, related to a financial institution risk: mainly Crédit Logement, the subsidiary of most major French banking networks.

Loans covered by Crédit Logement were assigned to Basel III weighting of 50% until the third quarter of 2014. Since the fourth quarter of 2014, exposures guaranteed by Crédit Logement have been weighted at 35% following the decision of BPCE to harmonize the financial communication on the guaranteed exposures of all Groupe BPCE entities.

The transfer facilities between Compagnie de Financement Foncier and Crédit Foncier or other Groupe BPCE entities (agreements, contracts) explicitly provide the cancellation of the transfer in the event of non-compliance of the acquired receivables.

Regarding immovable guarantees, in accordance with the regulations, Compagnie de Financement Foncier annually carries out a very detailed revaluation of registered mortgage guarantees. Compagnie de Financement Foncier's Specific Controller issues an opinion on the validity of real estate asset valuation approaches and their results as well as periodic review procedures.

**5.3.2. VALUATION AND PERIODIC REVIEW METHODS FOR REAL ESTATE ASSETS**

The methodology remained unchanged in the 1<sup>st</sup> half of 2018.

For more information, see Compagnie de Financement Foncier's 2017 Registration document (p. 121).

## 6. Financial risk analysis

Compagnie de Financement Foncier does not conduct any proprietary trading and does not have any positions in the trading book. Its activities in the markets are limited to the balance sheet hedging operations.

Crédit Foncier provides Compagnie de Financement Foncier with ALM structural risk monitoring services, pursuant to an agreement to this effect. The management rules are set out in Compagnie de Financement Foncier's Financial Charter.

### 6.1. Methodology used to assess liquidity, interest rate and exchange rate risks

The methodology remained unchanged in the 1<sup>st</sup> half of 2018.

For more information, see Compagnie de Financement Foncier's 2017 Registration document (p. 133).

### 6.2. Liquidity risk monitoring

#### 6.2.1. ORGANIZATION OF COMPAGNIE DE FINANCEMENT FONCIER'S FUNDING

The bulk of Compagnie de Financement Foncier's resources comes from medium and long-term issuances of *obligations foncières*.

In the 1<sup>st</sup> half of 2018, Compagnie de Financement Foncier issued €4.2bn of *obligations foncières*.

Furthermore, Compagnie de Financement Foncier has a number of potentially assignable assets that are eligible for the ECB's refinancing operations. At June 30, 2018, these outstandings amounted to nearly €9.8bn in nominal value, divided into:

- €8.1bn in Public sector loans;
- €1.7bn in securities.

In the 1<sup>st</sup> half of 2018, Compagnie de Financement Foncier did not use this financing facility.

#### 6.2.2. LIQUIDITY RISK MONITORING

Liquidity risk is the risk that Compagnie de Financement Foncier may not be able to honor its liquidity requirements.

As explained in the 2017 Registration document, liquidity requirements are analyzed according to a combined static and dynamic approach. With the static approach, liquidity monitoring

ensures that medium-term liquidity management does not concentrate liquidity requirements excessively over certain periods. The main indicator used is the static liquidity gap, depending on whether or not account is taken of Compagnie de Financement Foncier's capacity to raise liquidity over the next 20 years.

The very prudent liquidity management policy is being continued in 2018. Other than regulatory requirements, Compagnie de Financement Foncier's ALM rules ensure that its exposure to liquidity risk remains very limited. They are managed using the system of internal limits and monitored by the ALM Committee and the Risk Executive Committee.

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

At June 30, 2018, Compagnie de Financement Foncier had available cash of €0.4bn on current accounts with the Banque de France.

It also had €6.65bn in replacement values, including investments of which €6.6bn lent to BPCE with a term of less than two months and fully guaranteed by a loans portfolio.

In a crisis, Compagnie de Financement Foncier would benefit from the mechanism available to group Crédit Foncier and described in its Contingency Plan.



### 6.2.3. INDICES AND COMPLIANCE WITH LIMITS

#### INTRADAY MONITORING

As Compagnie de Financement Foncier has an account with the ECB, an intraday liquidity monitoring and oversight mechanism was implemented.

Compagnie de Financement Foncier thus has a certain amount of collateral at the ECB.

#### LCR (LIQUIDITY COVERAGE RATIO)

Compagnie de Financement Foncier's LCR complies with the 100% limit applicable since January 1, 2018.

#### COMPLIANCE WITH THE PROVISIONS OF THE MAY 26, 2014 ORDER

##### 180-day liquidity forecast

Compagnie de Financement Foncier ensures that at any given time its cash requirements are covered for a period of 180 days in accordance with the order.

A 180-day liquidity forecast is sent for certification to the Specific Controller and then to the ACPR quarterly.

##### Asset/liability matching indicator and maturity gap

The asset/liability matching indicator requires that the average maturity of eligible assets, held to cover the 105% minimum regulatory overcollateralization ratio, may not exceed the average maturity of outstanding privileged liabilities by more than 18 months. The calculation is submitted quarterly for very close scrutiny to the Specific Controller and then to the ACPR.

In the 1<sup>st</sup> half of 2018, without restricting eligible assets within the requirements of the regulatory overcollateralization ratio, this limit was also respected.

In addition to these requirements, Compagnie de Financement Foncier undertook to ensure a maximum gap of two years between the maturity of all its liabilities and assets. On the liabilities side, equity is included for a maturity equal to the longest issued liabilities. In the 1<sup>st</sup> half of 2018, this commitment was also honored.

##### Coverage plan for privileged liabilities

The reporting institution defines, depending on its specific characteristics, the quarterly coverage plan of privileged liabilities that shall be applied in case it may no longer issue privileged liabilities. It is also sent for certification to the Specific Controller and then to the ACPR quarterly.

The institution provides, at the reporting date and on a quarterly basis until repayment of the last privileged resource, the following information:

- assets used to cover privileged liabilities;
- safe and liquid securities and assets pursuant to Article R. 513-6 of the French Monetary and Financial Code;
- cash flows generated by all balance sheet assets and privileged liabilities;
- privileged liabilities.

The calculation of the cover ratio is based on the early repayment and a final loss rate on assets assumptions.

### 6.2.4. LIQUIDITY CONTINGENCY PLAN

A liquidity contingency plan was defined for group Crédit Foncier, Crédit Foncier and Compagnie de Financement Foncier in implementation of the Groupe BPCE liquidity contingency plan.

It sets out the associated governance and liquidity measures with regard to the three stress levels: tension, high stress and crash stress.

## 6.3. Monitoring of overall interest rate risk

### 6.3.1. MANAGEMENT PROCEDURES

The management procedures remained unchanged in the 1<sup>st</sup> half of 2018.

For more information, see Compagnie de Financement Foncier's 2017 Registration document (p. 135).

### 6.3.2. INTEREST RATE RISK MONITORING

The interest rate risk monitoring remained unchanged in the 1<sup>st</sup> half of 2018.

For more information, see Compagnie de Financement Foncier's 2017 Registration document (p. 135).

### 6.3.3. COMPLIANCE WITH LIMITS

#### LIMIT RELATED TO THE STATIC RATE GAP

Compagnie de Financement Foncier is committed to maintaining the level of its interest rate mismatches or gaps within the very narrow range defined by periods of observation.

In the course of the annual review of limits and with a view to harmonizing with Groupe BPCE standards, new limits apply from January 2018. The amount is determined every year on the basis of a percentage of the balance sheet.

Capital is treated as a liability amortizable linearly over 20 years.

The current limits for interest rate gaps are:

<b>Horizon</b>	<b>Limits as a percentage of the projected balance sheet</b>
0-2 years	2%
2-4 years	3%
4-8 years	5%
Threshold over 8 years	5%

These limits have been complied with throughout the 1<sup>st</sup> half of 2018.

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## **6.4. Monitoring foreign exchange risk**

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Foreign exchange risk monitoring remained unchanged in the 1<sup>st</sup> half of 2018.

For more information, see Compagnie de Financement Foncier's 2017 Registration document (p. 136).

The limit has been complied with during the 1<sup>st</sup> half of 2018.

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## **6.5. Monitoring settlement risk**

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The settlement risk monitoring remained unchanged in the 1<sup>st</sup> half of 2018.

For more information, see Compagnie de Financement Foncier's 2017 Registration document (p. 136).

## 7. Operating risks

Within Groupe BPCE, operating risks are defined as the risk of loss resulting from inadequate or faulty procedures, personnel, information systems or external events. Operating risks include internal and external fraud, model risk and reputational risk.

Compagnie de Financement Foncier's operating risk management is entrusted to Crédit Foncier under service agreements signed between the two institutions. The greater part of operational risk is linked to the services outsourced to the parent company. Any consequence of operational incidents detected in the framework of a Crédit Foncier process relating to a Compagnie de Financement Foncier balance sheet item is borne by Crédit Foncier.

These risks include in particular accounting, legal, regulatory and tax risks, as well as risks relating to security of staff, property and information systems and models.

Compagnie de Financement Foncier's operating risk management, limited to the Compagnie de Financement Foncier Oversight and Forecasting department activities, relies on Crédit Foncier's system according to Groupe BPCE rules. These operational risks are specifically mapped and presented to the Operating Risks Committee every quarter. No incident related to Compagnie de Financement Foncier was detected in the 1<sup>st</sup> half of 2018.

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### 7.1. Overall scheme

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All of group Crédit Foncier's Operational Risk processes, including those of Compagnie de Financement Foncier, are managed by its Risk department, which relies on the operating risk standards and methods employed by Groupe BPCE's Risk department and on group Crédit Foncier's operational risk policy.

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### 7.2. Governance

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Governance is detailed in Compagnie de Financement Foncier's 2017 Registration document (p. 137).

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### 7.3. Management environment

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For more information, see Compagnie de Financement Foncier's 2017 Registration document (p. 137).

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### 7.4. Organization of the Contingency and Business Continuity Plan (CBCP)

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For more information, see Compagnie de Financement Foncier's 2017 Registration document (p. 138).

## 7.5. 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 fully benefits from upgrades to Crédit Foncier's IT systems and from all the mechanisms that guarantee its smooth operation.

Finally, in addition to its ongoing management and operational monitoring activities of Information Systems Security, it undertook the following in the beginning of 2018:

- a call for tenders regarding software intrusion tests concerning:
  - an external Citrix application,
  - an digital web application;
- active participation in various Crédit Foncier digital projects on the Information Systems Security, business continuity and personal data protection;
- implementation of protective and safeguarding measures in response to moderate-scale cyber attacks. These attacks did not impact the integrity of Crédit Foncier data;
- finalizing the update to Crédit Foncier's compliance analysis with the BPCE Information Systems N2 security policy and its integration in the Group tool is expected in the second quarter;
- updating of the sensitive assets classification for the fiscal year 2018;
- implementation of Information System Security risk mapping for the fiscal year 2018;
- adapting the permanent control mechanism for Information Systems Security following the Group review at end-2017;
- management of the RGPD compliance project (being finalized).

## 7.6. Insurance

For more information, see Compagnie de Financement Foncier's 2017 Registration document (p. 138).

## 7.7. Legal risks

Among the highlights of the 1<sup>st</sup> half of 2018, the following point should be noted:

The difficulties faced by a major operator in the French overseas departments led it to consider a withdrawal scheme through the sale of assets. Various companies of this operator were forced to declare bankruptcy at the end of 2016, including the borrowing company, which was placed into receivership.

The Tribunal for the collective insolvency proceedings agreed a rescue plan in the 1<sup>st</sup> quarter of 2018 for the borrowing company, whose legal officers have appealed (ongoing).

It is specified that the corresponding loan is secured by both real estate collateral on these assets and the guarantee of the State, under Article L. 312-1 of the Code of Construction and Housing.

## 8. Non-compliance risk

Compliance responsibilities for Compagnie de Financement Foncier are performed by the Crédit Foncier's Compliance Division in accordance with the terms of the relevant agreements (framework agreement and internal control and compliance service agreement) between the two entities. The Compliance Division is organized in

two separate units: compliance and ethics, on the one hand, and financial security, on the other hand. Crédit Foncier's Director of Compliance is responsible for the compliance of the investment services provided by Compagnie de Financement Foncier.

### 8.1. Overall scheme

Non-compliance risk monitoring and control is based on the methods used by BPCE. Non-compliance risk management is based on the risk mapping used by Groupe BPCE compliance updated at end-2017. It enables a permanent overview:

- of non-compliance risk, on the basis of 12 aggregate risks (including money-laundering risk) showing a range of detailed risks;
- of the system implemented to prevent or reduce them and to ensure, for the most significant risks, that they control them, if needed, and produce action plans to better oversee them.

This inventory includes a connection with the operational risks, enabling consistent identification of any incidents. The first use of the non-compliance risk mapping was presented to the Internal Control Committee on March 15, 2018 and included in the internal control annual report. It is supplemented by a risk management system that covers all business lines and the major risks to which they are exposed, factoring in specific elements of Compagnie de Financement Foncier's range of activities.

Non-compliance risks are identified using a dual approach:

- detecting and factoring the specific aspects of Compagnie de Financement Foncier into the implementation of statutory instruments to avoid potential implementation difficulties and to guarantee accurate translation into operating procedures,

- analyzing the results of first-level controls by Crédit Foncier's operational teams within the scope of Compagnie de Financement Foncier. These controls target the thematic non-compliance areas identified in the Group's compliance standards or the results of thematic approaches.

Operational risk reports entered into the PARO applications rely on risk mapping that integrates non-compliance. Risks are identified in this application based on their type and are subject to an assessment of any risk event;

The control of non-compliance risks is divided between:

- the controls carried out by Crédit Foncier on its business activity (real estate financing, financial management, etc.) which directly benefit Compagnie de Financement Foncier;
- the compliance controls specifically set up for Compagnie de Financement Foncier notably relate to compliance with the regulations that apply to the acquisition of receivables and the updating of the value of collateral;

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. The monitoring of these dysfunctions and the progress of the corresponding action plans is undertaken through coordination by the Internal Control Coordination department, which reports on them to group Crédit Foncier's Internal Control Committee and Compagnie de Financement Foncier's Risk Executive Committee.

## 8.2 Financial security

Group Crédit Foncier ensures on behalf of Compagnie de Financement Foncier anti-money laundering and the financing of terrorism by means of a due diligence and monitoring system involving all Group stakeholders across the banking and credit transactions processes. This system includes adequate procedures as well as training and awareness programs for staff.

The system, incorporating the risk approach deriving from the anti-money-laundering regulations, provides for systematic scrutiny prior to forming any new customer relationship. Outstandings are regularly checked against international lists of persons with links to terrorism and for the enforcement of embargoes. Unusual events during the life of loans, in particular prepayments, are scrutinized by the Financial Security Unit of the Compliance Division.

## 8.3. Compliance of banking and investment services

In addition to the application of the general compliance risk management system described above, the Compliance Division of Crédit Foncier coordinates a number of systems.

It oversees the compliance and listing of Essential Outsourcing Services (EOS) as per Articles 231 to 240 of the Decree of November 3, 2014 concerning the internal control of companies in the banking, payment services and investment services sector. These Services are covered by agreements between Crédit Foncier and Compagnie de Financement Foncier. The Compagnie de Financement Foncier Oversight and Forecasting department, working with the Crédit Foncier Permanent Control Coordination department, is responsible, in particular, for the monitoring of services outsourced to Crédit Foncier. It coordinates the research, production and sign-off process for all new products, businesses, distribution channels or services as well as changes to any existing product. As part of this process, issues specific to Compagnie de Financement Foncier, in particular the eligibility of future outstandings for its balance sheet, are systematically examined.

Lastly, pursuant to Article 40 of the Decree of November 3, 2014, it coordinates the Monthly Regulatory Monitoring Committee, which brings together the main support and operating departments as well as a representative of the Compagnie de Financement Foncier Oversight and Forecasting department.

The Compliance Division continued, during the 1<sup>st</sup> half of 2018, the operational implementation of the MIFID II Regulation which came into effect on January 3, 2018. It should be recalled that this regulation enhances the reporting obligations for transactions and enhances them (list and format of fields published by ESMA RTS22). Crédit Foncier is an integral part of the BPCE framework, using an ARM (Approved Reporting Mechanism) and an APA (Approved Publication Arrangement). Blackout periods are applied in compliance with the calendars of Crédit Foncier and BPCE. The Compliance Division also periodically reviews the list of insiders.

## 8.4. Banking and financial ethics

Financial ethics standards incorporate market abuse regulatory measures pursuant to Regulation 596/2014 of the European Parliament, both regarding closely related persons and permanent insiders. An internal procedure circulated to all employees lists their obligations. In parallel, the persons concerned receive an individual

reminder of each blackout period during which securities may not be purchased or sold. The list of people concerned was updated following the publication of the Group charter on risks, compliance and permanent control of March 29, 2017 to include level 2 controllers.

## 8.5. Volcker Rule and SRAB

In accordance with the Volcker Rule compliance process, the Compliance Division conducted the final certification phase for the Crédit Foncier entities concerned. In particular, the draft Senior Management report was approved by the Crédit Foncier General Management Committee and by the Compagnie de Financement Foncier's Board of Directors. All of the Compagnie de Financement

Foncier sub-certifications have been sent, with those of the other Crédit Foncier entities, to Groupe BPCE for the final Group certification.





# Financial report

## FINANCIAL STATEMENTS

- Balance sheet
- Off-Balance sheet
- Income statement

- 47
- 47
- 48
- 49

Appendix to the separate financial statements of Compagnie de Financement Foncier

50

## STATUTORY AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

76



# Financial statements

## Balance sheet (in €k)

■ ASSETS	Notes	06/30/2018	06/30/2017	12/31/2017
Cash and amounts due from central banks		445,900	1,019,958	670,000
Treasury bills and equivalent	3	3,379,947	3,450,718	3,364,394
Loans and receivables due from credit institutions	1	26,645,290	30,819,683	28,761,396
• Demand		54,214	470,623	151,078
• Term		26,591,076	30,349,060	28,610,318
Customers transactions	2	39,847,966	36,975,136	38,639,497
• Other facilities granted to customers		39,847,966	36,975,136	38,639,497
Bonds and other fixed-income securities	3	4,537,314	5,594,557	4,511,584
Equity interests and other long term investments		0	0	0
Tangible and intangible fixed assets		0	0	0
Other assets	4	63,556	43,512	214,855
Accrual accounts	5	2,037,065	2,390,425	2,204,862
<b>TOTAL ASSETS</b>		<b>76,957,040</b>	<b>80,293,990</b>	<b>78,366,588</b>
■ LIABILITIES	Notes	06/30/2018	06/30/2017	12/31/2017
Central banks		0	0	0
Due to credit institutions	6	7,509,596	6,603,509	7,945,176
• Demand		0	375	0
• Term		7,509,596	6,603,134	7,945,176
Customer transactions		0	0	0
• Demand		0	0	0
Debt securities	7	62,833,214	66,452,546	63,524,759
• Interbank market instruments and negotiable debt securities		150,712	150,575	151,533
• Bond issues (obligations foncières)		62,682,502	66,301,971	63,373,226
Other liabilities	8	1,427,641	1,811,634	1,623,947
Accrual accounts	9	2,012,104	2,278,986	2,088,657
Provisions	10	20,161	21,315	18,917
Subordinated debts		0	0	0
Fund for general banking risks		20,000	20,000	20,000
Equity excluding fund for general banking risks	11	3,134,325	3,106,000	3,145,132
• Suscribed capital		2,537,460	2,537,460	2,537,460
• Additional paid-in capital		343,002	343,002	343,002
• Reserves		122,063	119,152	119,152
• Regulated provisions and investment subsidies		0	0	0
• Retained earnings		84,404	87,313	87,313
• Income to be allocated		0	0	0
• Net income for the period		47,396	19,073	58,205
<b>TOTAL LIABILITIES</b>		<b>76,957,040</b>	<b>80,293,990</b>	<b>78,366,588</b>

## Off-Balance sheet *(in €k)*

	Notes	06/30/2018	06/30/2017	12/31/2017
<b>TOTAL COMMITMENTS GIVEN</b>				
Financing commitments		1,300,613	1,159,590	1,153,541
• <i>Commitments given to credit institutions</i>	12	0	0	0
• <i>Commitments given to customers</i>	12	1,014,164	852,914	847,463
• <i>Other securities pledged as collateral</i>	12	286,449	306,675	306,078
Guarantee commitments		0	0	0
• <i>Commitments given to credit institutions</i>	12	0	0	0
• <i>Commitments given to customers</i>	12	0	0	0
Commitments on securities		0	0	0
• <i>Other commitments given</i>	12	0	0	0
<b>TOTAL COMMITMENTS RECEIVED</b>				
Financing commitments		29,776,401	34,201,507	31,484,834
• <i>Guarantees received from credit institutions</i>	13	3,767,854	3,565,708	3,563,114
• <i>Other securities received as collateral from the Group</i>	13	26,008,547	30,635,799	27,921,720
Guarantee commitments		38,201,174	34,433,480	36,516,018
• <i>Guarantees received from credit institutions</i>	13	6,536,695	6,232,613	7,129,671
• <i>Commitments received from customers</i>	13	31,664,478	28,200,866	29,386,347
Commitments on securities		0	20,000	60,000
<b>TOTAL RECIPROCAL COMMITMENTS</b>				
• <i>Sale and purchase of foreign currencies</i>	14	12,579,534	17,924,811	16,510,229
• <i>Other financial instruments</i>	14	67,558,014	64,393,299	64,330,739

Income statement *(in €k)*

	Notes	06/30/2018	06/30/2017	12/31/2017
Interest and similar income	15	1,127,903	1,231,590	2,456,124
Interest and similar expenses	15	-1,016,414	-1,202,916	-2,348,774
<b>Net interests margin</b>		<b>111,489</b>	<b>28,674</b>	<b>107,350</b>
Fees and commissions income	16	21,426	66,651	96,164
Fees and commissions expenses	16	-592	-884	-1,617
Net gains or losses on trading books transactions	17	809	-22	-117
Other banking income	18	19	90	129
Other banking expenses	18	-1,422	-1,059	-2,299
<b>Net banking income</b>		<b>131,730</b>	<b>93,450</b>	<b>199,611</b>
Payroll costs	19	0	-28	-73
Taxes and regulated provisions <sup>(1)</sup>	19	-11,663	-10,713	-21,638
External services and other expenses	19	-32,616	-54,087	-96,189
Amortization		0	0	0
<b>Total operating expenses</b>		<b>-44,279</b>	<b>-64,828</b>	<b>-117,901</b>
<b>Gross operating income</b>		<b>87,451</b>	<b>28,622</b>	<b>81,710</b>
Cost of risk <sup>(2)</sup>	20	-2,541	-3,641	-4,910
<b>Operating income</b>		<b>84,910</b>	<b>24,982</b>	<b>76,800</b>
Gains or losses on fixed assets	21	0	7,319	7,458
<b>Income before tax</b>		<b>84,910</b>	<b>32,301</b>	<b>84,257</b>
Non-recurring income		0	0	0
Income tax	22	-37,515	-13,228	-26,052
<b>NET INCOME</b>		<b>47,396</b>	<b>19,073</b>	<b>58,205</b>
Earnings per share <sup>(2)</sup> (in €)		0,30	0,12	0,37
Diluted earnings per share (in €)		0,30	0,12	0,37

(1) Taxes and regulated provisions include in particular Tax on systemic risk for banks (TSB) in the half-yearly amount of -€1.01m (compared to -€1.37m in June 2017) and regulated provisions essentially including the contribution for the Single Resolution Fund (FRU) in the half-yearly amount of -€6.01m (compared to -€5.54m in June 2017).

(2) Earnings per share are calculated by dividing net income by the average number of shares outstanding in the period.

The notes on the following pages are part of the half-year separate financial statements.

## Appendix to the separate financial statements of Compagnie de Financement Foncier

### 1. GENERAL FRAMEWORK

Compagnie de Financement Foncier is approved to operate as a *société de crédit foncier* under the Act of June 25, 1999, which deals with savings and financial security. As such, it is subject to Articles L. 513-2 to L. 513-27 of the French Monetary and Financial Code.

It is a credit institution accredited as a specialized credit institution under Act No. 2013-544 of June 27, 2013 on credit institutions and financing companies, in force as of January 1, 2014, which transposes into French legislation the European Regulation (CRR) and directive (CRD IV). As such, it must comply with Regulation 99-10 of the French Banking and Financial Regulation Committee (*Comité de la Réglementation Bancaire et Financière* or *CRBF*) as amended, which mainly concerns *sociétés de crédit foncier* and notably:

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

Compagnie de Financement Foncier is affiliated with BPCE. As such, it is protected by the guarantee and liquidity facilities of Groupe BPCE. As an affiliate, Compagnie de Financement Foncier does not contribute to the guarantee mechanism of Groupe BPCE and will not be called upon in case of a Banque Populaire or a Caisse d'Épargne default.

### 2. SIGNIFICANT EVENTS OF THE 1<sup>ST</sup> HALF OF 2018

#### 2.1. COMMERCIAL ACTIVITY

During the 1<sup>st</sup> half of 2018, Compagnie de Financement Foncier acquired €3,877m in loans from Crédit Foncier including related receivables, plus €206m in financing commitments.

Under Article L. 211-38 of the French Monetary and Financial Code, which allows an institution to grant a loan to another financial institution, the repayment of which is secured by a cover pool of receivables. Compagnie de Financement Foncier has arranged for a number of years several credit lines with its parent company, Crédit Foncier, amounting to €16,572.5m at June 30, 2018, and with certain Caisses d'Épargne or Banque Populaire banks, amounting to €176.4m at June 30, 2018. The same facility was also granted to BPCE SA, amounting to €3,920m at June 30, 2018 excluding related receivables. Total loans granted were collateralized for €26,008.5m.

Replacement values of Compagnie de Financement Foncier, defined according to Decree 2007-745 of May 9, 2007 on the solvency of credit institutions, investment firms and *sociétés de crédit foncier* and amending the French Monetary and Financial Code, amounted to €6,652.9m including related receivables. In addition to working cash balances, replacement values essentially comprise loans granted under Article L. 211-38 of the French Monetary and Financial Code.

In terms of refinancing, Compagnie de Financement Foncier issued €4,200m of *obligations foncières* during the 1<sup>st</sup> half of 2018 or the

equivalent value at the date of issuance. It also has the option to access the refinancing facilities of the Banque de France under the comprehensive guarantee management mechanism or *Gestion globale des garanties* (3G pool). However, this option was not used in 2018.

#### 2.2. SECURITIES DISPOSALS ON THE MARKET

During the 1<sup>st</sup> half of 2018, Compagnie de Financement Foncier did not dispose of any securities.

#### 2.3. EARLY REPAYMENTS AND RENEGOTIATIONS

The rate of early repayments and renegotiations stood at 12.2%.

The rate of early repayments at the end of June 2018 stood at 7.9%, a sharp drop compared with the end-December 2017 (16.5%). The outflows of corresponding assets amounted to €1,306m.

Early repayments had several effects on net banking income:

- an accelerated amortization of acquisition premiums/discounts, whose impact is estimated at -€34.4m over the 1<sup>st</sup> half;
- the collection of early repayment penalties from individual customers of just over €19.8m; as a reminder, according to the agreement on services rendered by Crédit Foncier, one third of these penalties is transferred to the latter;
- the receipt of renegotiation fees of approximately €2.9m.

#### 2.4. BUYBACK OF OBLIGATIONS FONCIÈRES (FRENCH LEGAL COVERED BONDS)

During the 1<sup>st</sup> half of 2018, Compagnie de Financement Foncier did not buy back any *obligations foncières*.

### 3. POST-BALANCE SHEET EVENTS

No subsequent event liable to have a significant impact on the financial statements at June 30, 2018 occurred between the closing date and August 1, 2018, the date on which the Board of Directors approved the financial statements.

#### Project to integrate the activities of Crédit Foncier within Groupe BPCE

On June 25 and 26, 2018, respectively, BPCE's Supervisory Board and Crédit Foncier's Board of Directors approved in principle a project to integrate the activities and teams of Crédit Foncier to address the new demands of the sector and its customers.

This project would be based in particular on Crédit Foncier's knowledge and expertise within the various Groupe BPCE companies.

Thus, new loan production would be redeployed in different Groupe entities: retail financing activities within Banques Populaires and Caisses d'Épargne, Corporate financing activities shared between the Caisses d'Épargne and Banques Populaires for Social housing, Natixis for project and infrastructure financing, and SOCFIM for long-term financing for real estate professionals.

Crédit Foncier would be re-focused on managing existing loans outstanding on both its and Compagnie de Financement Foncier's balance sheet.

Lastly, within the framework of this project, the activity of Compagnie de Financement Foncier would be repositioned as the refinancing of Public sector assets originated by Groupe BPCE entities.

This project is subject to an information gathering and consultation process with the Crédit Foncier Works Council, covering in particular the envisaged employment protection plan. At this stage of the project, implementation of this plan should not have financial consequences for Compagnie de Financement Foncier.

## 4. ACCOUNTING PRINCIPLES AND METHODS

### 4.1. PRESENTATION AND VALUATION METHODS

The annual financial statements of Compagnie de Financement Foncier are prepared and presented according to the rules defined by BPCE pursuant to Regulation No. 2014-07 of the French National Accounting Standards Authority (Autorité des Normes Comptables – ANC) and Recommendation No. 2001-R.02; the summary interim statements are presented according to the format provided for credit institutions.

### 4.2. CHANGES IN ACCOUNTING METHODS

No changes were made to the accounting policies used to prepare the financial statements for the 1<sup>st</sup> half of 2018.

The texts adopted by the Accounting Standards Authority and mandatory in 2018 do not have a significant impact on the institution's individual financial statements.

The Company does not opt for early application of texts adopted by the French National Accounting Standards Authority, where such application is optional, unless specifically mentioned.

### 4.3. ACCOUNTING PRINCIPLES AND VALUATION METHODS

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

- business continuity;
- consistency of accounting methods over time;
- independence of fiscal years;

and in accordance with the general rules on the preparation and presentation of annual financial statements.

The accounting principles and methods applied are identical to those used to prepare the annual financial statements. In particular, the revenues and expenses for the six-month period were determined by respecting the principle of the exercises' separation.

## NOTES TO THE FINANCIAL STATEMENTS

<b>NOTE 1.</b>	Loans and receivables due from credit institutions	53	<b>NOTE 11.</b>	Changes in Equity	62
<b>NOTE 1 A.</b>	Breakdown of outstanding term loans and receivables due from credit institutions	54	<b>NOTE 12.</b>	Commitments given	63
<b>NOTE 2.</b>	Loans and receivables due from customers	54	<b>NOTE 13.</b>	Commitments received	64
<b>NOTE 2 A 1.</b>	Impairment and provisions for credit risks	55	<b>NOTE 14.</b>	Commitments on forwards and options contracts	65
<b>NOTES 2 A 2.</b>	Premiums/discounts on acquired receivables	55	<b>NOTE 15.</b>	Interest and similar income and expenses	66
<b>NOTE 3.</b>	Securities available for sale and investment	56	<b>NOTE 16.</b>	Net fees and commissions	67
<b>NOTE 3 A.</b>	Sovereign risk	57	<b>NOTE 17.</b>	Gains/losses on trading portfolio transactions	67
<b>NOTE 3 B.</b>	Financial fixed assets	57	<b>NOTE 18.</b>	other banking income and expenses	68
<b>NOTE 4.</b>	Other Assets	58	<b>NOTE 19.</b>	Operating expenses	69
<b>NOTE 5.</b>	Accrual accounts – Assets	58	<b>NOTE 20.</b>	Cost of risk	70
<b>NOTE 6.</b>	Due to credit institutions	59	<b>NOTE 21.</b>	Gains or losses on fixed assets	70
<b>NOTE 7.</b>	Debt securities	60	<b>NOTE 22.</b>	Income tax	71
<b>NOTE 8.</b>	Other liabilities	60	<b>NOTE 23.</b>	Transactions with related credit institutions	72
<b>NOTE 9.</b>	Accrual accounts – liabilities	61	<b>NOTE 24.</b>	Statement of foreign exchange positions	73
<b>NOTE 10.</b>	Provisions	61	<b>NOTE 25.</b>	Statement of liquidity position	73
			<b>NOTE 26.</b>	Cash flow statement	74

## NOTE 1. LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS

<i>(in €k)</i>	06/30/2018	06/30/2017	12/31/2017
<b>Demand loans to credit institutions</b>	<b>54,214</b>	<b>470,623</b>	<b>151,078</b>
Current accounts with overdrafts	54,214	52,986	42,025
Overnight loans			
Unallocated items (demand)		417,637	109,053
Related receivables			
<b>Term loans to credit institutions</b>	<b>26,591,076</b>	<b>30,349,060</b>	<b>28,610,318</b>
Term accounts and loans	908,147	1,092,865	1,024,631
Loans guaranteed under L. 211-38 (described in greater detail in note 1 A)	25,668,949	29,236,081	27,549,881
Securities bought under repurchase agreements			
Subordinated loans and participating loans			
Related receivables	13,980	20,114	35,807
<b>Doubtful loans</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>GROSS AMOUNT OF TERM LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS</b>	<b>26,645,290</b>	<b>30,819,683</b>	<b>28,761,396</b>
Impairment of doubtful loans	0	0	0
<b>Impairment of doubtful loans</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>NET AMOUNT OF TERM LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS</b>	<b>26,645,290</b>	<b>30,819,683</b>	<b>28,761,396</b>
<b>BREAKDOWN OF TERM ACCOUNTS (GROUP/NON-GROUP)</b>			
Term accounts and loans			
• of which Group transactions			
• of which non-Group transactions	908,147	1,092,865	1,024,631
Secured receivables			
• of which Group transactions	25,668,949	29,236,081	27,549,881
• of which non-Group transactions			
Related receivables			
• of which Group transactions	11,526	15,766	14,822
• of which non-Group transactions	2,454	4,348	20,984
<b>Group loans</b>	<b>25,680,475</b>	<b>29,251,847</b>	<b>27,564,703</b>
<b>Non-Group loans</b>	<b>910,601</b>	<b>1,097,214</b>	<b>1,045,615</b>
<b>TOTAL</b>	<b>26,591,076</b>	<b>30,349,060</b>	<b>28,610,318</b>
<b>BREAKDOWN OF DEMAND ACCOUNTS (GROUP/NON-GROUP)</b>			
Demand accounts and loans			
• of which Group transactions	51,162	50,068	40,298
• of which non-Group transactions	3,052	2,917	1,727
Related receivables			
• of which Group transactions			
• of which non-Group transactions			
Unallocated items			
• of which Group transactions (at Crédit Foncier's scope)		417,618	108,358
• of which non-Group transactions		20	695
<b>Group loans</b>	<b>51,162</b>	<b>467,686</b>	<b>148,657</b>
<b>Non-Group loans</b>	<b>3,052</b>	<b>2,937</b>	<b>2,421</b>
<b>TOTAL</b>	<b>54,214</b>	<b>470,623</b>	<b>151,078</b>



## NOTE 1 A. BREAKDOWN OF OUTSTANDING TERM LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS

(in €k)	06/30/2018			06/30/2017	12/31/2017
	Gross amount	Impairment	Net amount	Net amount	Net amount
<b>TERM LOANS</b>					
Refinancing of subsidized residential property					
Refinancing of unsubsidized residential property					
Public entities	910,601		910,601	1,097,213	1,045,615
Other loans to credit institutions*	25,680,475		25,680,475	29,251,847	27,564,703
Doubtful term loans					
<b>NET AMOUNT OF TERM LOANS AND RECEIVABLES DUE FROM CREDIT INSTITUTIONS</b>	<b>26,591,076</b>	<b>0</b>	<b>26,591,076</b>	<b>30,349,060</b>	<b>28,610,318</b>
* of which:					
Replacement values pursuant to L. 211-38, with BPCE	6,600,000		6,600,000	6,600,000	6,600,000
Loans guaranteed by loans and receivables (Local authorities, Individuals, Corporates) pursuant to L. 211-38, with Crédit Foncier	16,572,500		16,572,500	20,122,500	18,443,500
Loans guaranteed by local authority receivables pursuant to L. 211-38, with BPCE, Caisses d'Épargne and Banques Populaires	2,496,449		2,496,449	2,513,581	2,506,381
Related and other receivables	11,526		11,526	15,766	14,822
<b>TOTAL</b>	<b>25,680,475</b>	<b>0</b>	<b>25,680,475</b>	<b>29,251,847</b>	<b>27,564,703</b>

## NOTE 2. LOANS AND RECEIVABLES DUE FROM CUSTOMERS

(in €k)	Performing loans and receivables			Doubtful loans			Impairment			Net amounts		
	06/30/2018	06/30/2017	12/31/2017	06/30/2018	06/30/2017	12/31/2017	06/30/2018	06/30/2017	12/31/2017	06/30/2018	06/30/2017	12/31/2017
<b>Current accounts with overdrafts</b>												
<b>Facilities granted to customers</b>	<b>38,290,740</b>	<b>35,617,047</b>	<b>37,298,347</b>	<b>1,645,257</b>	<b>1,467,208</b>	<b>1,431,257</b>	<b>88,031</b>	<b>109,118</b>	<b>90,108</b>	<b>39,847,966</b>	<b>36,975,136</b>	<b>38,639,497</b>
Loans to financial customers	239,700		240,094							239,700		240,094
Export credits												
Short-term credit facilities <sup>(1)</sup>	751,186	818,204	936,109							751,186	818,204	936,109
Equipment loans <sup>(2)</sup>	5,626,988	6,649,861	5,900,528	5,137	-57	100	45	34	44	5,632,080	6,649,769	5,900,584
Home loans	31,558,198	28,028,291	30,106,387	1,637,050	1,464,254	1,428,140	87,963	109,057	90,027	33,107,285	29,383,488	31,444,500
Other customer loans	3,283	3,784	3,241	169	226	285	23	27	37	3,430	3,983	3,489
Unallocated items	24	24	24							24	24	24
Related receivables	111,360	116,883	111,964	2,902	2,785	2,732				114,262	119,668	114,696
<b>GENERAL <sup>(3)</sup></b>	<b>38,290,740</b>	<b>35,617,047</b>	<b>37,298,347</b>	<b>1,645,257</b>	<b>1,467,208</b>	<b>1,431,257</b>	<b>88,031</b>	<b>109,118</b>	<b>90,108</b>	<b>39,847,966</b>	<b>36,975,136</b>	<b>38,639,497</b>

Restructured loans amounted to €463.28m at June 30, 2018, of which €109.75m classified as performing loans.  
Note: Compagnie de Financement Foncier does not include any intragroup loans in customer loans.

(1) In 2007, the Company purchased the local authority loans of Ixis CIB, now Natixis, which include revolving credit lines of €751.1m at June 30, 2018, versus €942.2m at December 31, 2017.

(2) Equipment loans are loans to local authorities.

(3) Customer loans eligible for refinancing with the Central Bank amounted to €3.1bn at June 30, 2018 in outstanding capital. This amount represents €2.1bn after haircut and overcollateralization constraints.

## NOTE 2 A 1. IMPAIRMENT AND PROVISIONS FOR CREDIT RISKS

(in €k)	12/31/2016 restated <sup>(1)</sup>	Additions	Reversals	12/31/2017	Additions	Reversals	Used reversals	06/30/2018
<b>IMPAIRMENT OF ASSETS</b>								
Customer loans and due from credit institutions <sup>(2) (3)</sup>	105,882	90,108	- 105,882	90,108	22,271	- 24,348		88,031
<b>PROVISIONS RECOGNIZED AS LIABILITIES</b>								
Customer loans and due from credit institutions and provisions on securities	19,377		- 3,511	15,866				15,866
<b>TOTAL</b>	<b>125,259</b>	<b>90,108</b>	<b>-109,393</b>	<b>105,974</b>	<b>22,271</b>	<b>- 24,348</b>	<b>0</b>	<b>103,897</b>

(1) Restatement of stock at December 31, 2016, in keeping with note 2. As reminder, the amount published "Impairment of assets" was: €113,446k.

(2) Loan impairment is measured at discounted value in accordance with the Regulation No. 2014-07 of the French Accounting Standards Authority.

(3) In accordance with the Regulation No. 2014-07 of the French accounting standards authority, Compagnie de Financement Foncier now recognizes its impairment flows in accumulated stock: reversal of all impairment for the previous fiscal year and full allocation of impairment for the current fiscal year.

## NOTES 2 A 2. PREMIUMS/DISCOUNTS ON ACQUIRED RECEIVABLES

(in k€)	12/31/2016	Reclassification - Repayment	Additions	Amortiza- tion	12/31/2017	Reclassification - Repayment	Additions	Amortiza- tion	06/30/2018
<b>DUE FROM CREDIT INSTITUTIONS</b>									
Premiums	37,175			- 10,238	26,937			- 6,020	20,917
Discounts									
<b>Net</b>	<b>37,175</b>		<b>0</b>	<b>- 10,238</b>	<b>26,937</b>		<b>0</b>	<b>- 6,020</b>	<b>20,917</b>
<b>CUSTOMER LOANS</b>									
<b>Performing loans and receivables</b>									
Premiums	1,599,344	- 18,746		- 438,826	1,141,772	- 19,907	45,792	- 114,010	1,053,647
Discounts	- 934,022	11,172	- 491,767	138,134	-1,276,483	13,479	- 169,586	64,807	-1,367,783
<b>Doubtful loans and receivables</b>									
Premiums	35,159	18,746		- 15,873	38,032	19,907		- 10,085	47,854
Discounts	- 28,473	- 11,208		10,953	- 28,728	- 13,479		6,033	- 36,174
<b>Net</b>	<b>672,008</b>	<b>- 36</b>	<b>- 491,767</b>	<b>- 305,612</b>	<b>- 125,407</b>	<b>0</b>	<b>- 123,794</b>	<b>- 53,255</b>	<b>- 302,456</b>
<b>TOTAL</b>	<b>709,183</b>	<b>- 36</b>	<b>- 491,767</b>	<b>- 315,850</b>	<b>- 98,470</b>	<b>0</b>	<b>- 123,794</b>	<b>- 59,275</b>	<b>- 281,539</b>

## NOTE 3. SECURITIES AVAILABLE FOR SALE AND INVESTMENT

(in €k)	06/30/2018			06/30/2017			12/31/2017		
	Securities available for sale	Held-to-maturity securities	Total	Securities available for sale	Held-to-maturity securities	Total	Securities available for sale	Held-to-maturity securities	Total
Treasury bills and equivalent*		3,321,538	3,321,538		3,389,668	3,389,668		3,318,975	3,318,975
Related receivables		58,409	58,409		61,050	61,050		45,419	45,419
<b>Subtotal</b>	<b>0</b>	<b>3,379,947</b>	<b>3,379,947</b>	<b>0</b>	<b>3,450,718</b>	<b>3,450,718</b>	<b>0</b>	<b>3,364,394</b>	<b>3,364,394</b>
Bonds*		4,474,971	4,474,971		4,804,803	4,804,803		4,455,353	4,455,353
Interbank market instruments (mortgage notes)*				730,000		730,000			
Negotiable debt securities									
Securitization units*		0							
Related receivables		62,343	62,343	257	59,497	59,754		56,231	56,231
<b>Subtotal</b>	<b>0</b>	<b>4,537,314</b>	<b>4,537,314</b>	<b>730,257</b>	<b>4,864,300</b>	<b>5,594,557</b>	<b>0</b>	<b>4,511,584</b>	<b>4,511,584</b>
Doubtful loans and securities including related receivables									
<b>GROSS AMOUNTS</b>	<b>0</b>	<b>7,917,261</b>	<b>7,917,261</b>	<b>730,257</b>	<b>8,315,018</b>	<b>9,045,275</b>	<b>0</b>	<b>7,875,978</b>	<b>7,875,978</b>
Impairment on fixed-income securities									
<b>NET AMOUNTS</b>	<b>0</b>	<b>7,917,261</b>	<b>7,917,261</b>	<b>730,257</b>	<b>8,315,018</b>	<b>9,045,275</b>	<b>0</b>	<b>7,875,978</b>	<b>7,875,978</b>

\* Of which:

	06/30/2018	06/30/2017	12/31/2017
Listed securities	7,372,054	7,745,524	7,346,859
Unlisted securities	424,455	1,178,947	427,469
<b>TOTAL EXCLUDING RELATED RECEIVABLES</b>	<b>7,796,509</b>	<b>8,924,471</b>	<b>7,774,328</b>

Listed securities are normally available securities denominated in euro that are eligible for the ECB operations, as well as listed securities in other currencies. Non listed securities now consist solely of bonds.

Under the Regulation No. 2014-07 of the French national accounting standards authority, the aggregate fair value of the investment portfolio amounted to €8,850.33m at June 30, 2018, excluding related receivables.

Unrealized capital gains on held-to-maturity securities amounted to €1,206.74m at June 30, 2018, before swaps. At December 31, 2017,

unrealized capital gains on held-to-maturity securities amounted to €1,354.67m, before swaps.

Unrealized capital losses on held-to-maturity securities amounted to €152.92m at June 30, 2018, before swaps. At December 31, 2017, unrealized capital losses on held-to-maturity securities amounted to €207.73m, before swaps.

The Company did not reclassify any securities to the "Held-to-maturity securities" portfolio either during the 1<sup>st</sup> half of 2018 or in previous years.

## NOTE 3 A. SOVEREIGN RISK

At June 30, 2018, the net exposures of the Compagnie de Financement Foncier sovereign risk in these countries are:

Held-to-maturity securities (in €m)	06/30/2018			06/30/2017			12/31/2017		
	Carrying amount	Market value	Value after swap*	Carrying amount	Market value	Value after swap*	Carrying amount	Market value	Value after swap*
Italy	2,196.2	2,567.7	1,632.7	2,286.3	2,689.5	1,857.8	2,267.4	2,708.3	1,878.9
Poland	356.5	419.7	285.4	360.9	409.0	267.8	341.5	392.5	269.6
<b>TOTAL</b>	<b>2,552.7</b>	<b>2,987.4</b>	<b>1,918.1</b>	<b>2,647.2</b>	<b>3,098.5</b>	<b>2,125.6</b>	<b>2,608.9</b>	<b>3,100.8</b>	<b>2,148.5</b>

\* Fair value of the note taking into account micro hedging swap.

The values given above exclude related receivables. Carrying amounts are measured at the closing date if the securities are denominated in foreign currencies.

The maturity dates of net exposures in nominal value as of June 30, 2018 are presented below:

	Residual maturity			
	1 year	7 years	> 8 years and < 10 years	> 10 years
Italy	0.0	242.0	800.0	975.2
Poland			163.2	193.3
<b>TOTAL</b>	<b>0.0</b>	<b>242.0</b>	<b>963.2</b>	<b>1,168.5</b>

The global exposure of the Compagnie de Financement Foncier to the International public sector is also identified in the risk management report.

## NOTE 3 B. FINANCIAL FIXED ASSETS

(in €k)	Gross 12/31/2016	Acquisitions	Disposals/Redemp-tions*	Reclassifica-tions	Current change	Currency differences	Gross 12/31/2017	Acquisitions	Disposals/Redemp-tions*	Reclassifica-tions	Current change	Currency differences	Gross 06/30/2018
Held-to-maturity securities	8,744,558		- 369,210		- 120,461	- 480,560	7,774,328				- 89,182	111,363	7,796,510
<b>TOTAL</b>	<b>8,744,558</b>	<b>0</b>	<b>- 369,210</b>		<b>- 120,461</b>	<b>- 480,560</b>	<b>7,774,328</b>	<b>0</b>	<b>0</b>		<b>- 89,182</b>	<b>111,363</b>	<b>7,796,510</b>
Related receivables	111,035				- 9,385	0	101,650				19,102		120,752
<b>TOTAL</b>	<b>8,855,593</b>	<b>0</b>	<b>- 369,210</b>		<b>0 - 129,846</b>	<b>- 480,560</b>	<b>7,875,978</b>	<b>0</b>	<b>0</b>		<b>0 - 70,080</b>	<b>111,363</b>	<b>7,917,262</b>

\* Disposals were conducted in accordance with the possibilities offered by the Regulation No. 2014-07 of the French National Accounting Standards Authority, Article no. 2341-2, especially in cases of regulatory constraints.

These data are valued before swap, at the closing exchange rate.

## NOTE 4. OTHER ASSETS

(in €k)	06/30/2018	06/30/2017	12/31/2017
<b>Options bought</b>			
<b>Securities settlement accounts</b>			
<b>Other debtors</b>	<b>63,556</b>	<b>43,512</b>	<b>214,855</b>
Deposits on collateralization transactions			
Other deposits and guarantees <sup>(1)</sup>	8,021	5,899	5,899
Tax consolidation receivables <sup>(2)</sup>		35,704	194,060
Other non-trade receivables	55,535	1,908	14,895
<b>Special bonus account</b>			
<b>TOTAL</b>	<b>63,556</b>	<b>43,512</b>	<b>214,855</b>

(1) As of June 30, 2018, this item includes mainly the guarantee deposits for 2015, 2016, 2017 and 2018 set up in the framework of the Single Resolution Fund amounting to of €8,020k.

(2) The receivable on December 31, 2017 represents the compensation due by Crédit Foncier in respect of the corporate tax savings based on the fiscal deficit recorded in 2017 and the reallocation by BPCE of a tax expense for the years 2013 to 2016.

## NOTE 5. ACCRUAL ACCOUNTS – ASSETS

(in €k)	06/30/2018	06/30/2017	12/31/2017
<b>Collection accounts</b>			
<b>Deferred expenses</b>	<b>232,749</b>	<b>214,908</b>	<b>222,699</b>
Issue and redemption premiums on fixed income securities	232,749	214,908	222,699
Other deferred expenses			
<b>Prepaid expenses</b>	<b>1,210,039</b>	<b>1,365,239</b>	<b>1,275,389</b>
Termination balances of paid swaps to be amortized	1,202,437	1,364,209	1,275,389
Other prepaid expenses	7,602	1,031	
<b>Accrued income</b>	<b>338,116</b>	<b>393,874</b>	<b>465,213</b>
Accrued interest on swaps	338,116	393,874	465,213
Other accrued income			
<b>Other accrual accounts – assets</b>	<b>256,161</b>	<b>416,404</b>	<b>241,561</b>
Cash in domiciliation	1,857	3,265	1,857
Deferred tax assets	216,185	396,050	228,991
Currency adjustment accounts			
Other accrued income*	38,118	17,089	10,713
<b>TOTAL</b>	<b>2,037,065</b>	<b>2,390,425</b>	<b>2,204,862</b>

\* Mainly comprising payable-through accounts or financial relations with Crédit Foncier.

## NOTE 6. DUE TO CREDIT INSTITUTIONS

<i>(in €k)</i>	06/30/2018	06/30/2017	12/31/2017
<b>Due to credit institutions – on demand <sup>(1)</sup></b>	<b>0</b>	<b>375</b>	<b>0</b>
Current accounts of credit institutions			
Demand loans from credit institutions			
Other amounts due to credit institutions		375	
Related payables			
<b>Due to credit institutions – at maturity <sup>(2)</sup></b>	<b>7,509,596</b>	<b>6,603,134</b>	<b>7,945,176</b>
Term deposits and loans	5,736,394	4,656,816	6,227,489
Values sold under repurchase agreements			
Securities sold under repurchase agreements	1,771,750	1,945,769	1,717,299
Related payables	1,452	549	388
<b>TOTAL</b>	<b>7,509,596</b>	<b>6,603,509</b>	<b>7,945,176</b>
<b>(1) Details on due to credit institutions – on demand (Group/non-Group)</b>	<b>0</b>	<b>375</b>	<b>0</b>
<i>Of which Group</i>			
• Other amounts due to credit institutions			
• Demand loans to credit institutions			
• Related payables			
<i>Of which non-Group</i>		375	
• Other amounts due to credit institutions		375	
<b>(2) Details on due to credit institutions – at maturity (Group/non-Group)</b>	<b>7,509,596</b>	<b>6,603,134</b>	<b>7,945,176</b>
<i>Of which Group</i>	7,416,066	6,603,134	7,945,176
• Term deposits and loans	5,644,316	4,657,365	6,227,877
• Securities sold under repurchase agreements	1,771,750	1,945,769	1,717,299
<i>Of which non-Group</i>	93,530		
• Term deposits and loans	93,530		
• Banque de France refinancing (3G pool)			
• Other term loans			
• Securities sold under repurchase agreements			
• Related payables			
<b>Sub-total due to Group credit institutions</b>	<b>7,416,066</b>	<b>6,603,134</b>	<b>7,945,176</b>
<b>Sub-total due to non-Group credit institutions</b>	<b>93,530</b>	<b>375</b>	<b>0</b>
<b>TOTAL</b>	<b>7,509,596</b>	<b>6,603,509</b>	<b>7,945,176</b>

## NOTE 7. DEBT SECURITIES

(in €k)	06/30/2018	06/30/2017	12/31/2017
Negotiable debt securities	150,000	150,000	150,000
Related payables	712	575	1,533
<b>Negotiable debt securities and related payables</b>	<b>150,712</b>	<b>150,575</b>	<b>151,533</b>
<i>Obligations foncières</i>	62,067,491	65,544,526	62,559,580
Related payables	615,011	757,445	813,646
<b>Obligations foncières and related payables</b>	<b>62,682,502</b>	<b>66,301,971</b>	<b>63,373,226</b>
<b>TOTAL</b>	<b>62,833,214</b>	<b>66,452,546</b>	<b>63,524,759</b>

All of these debt securities benefit from a preferential payment claim defined by Article L. 513-11 of the French Monetary and Financial Code (*privilège of obligations foncières*).

## NOTE 8. OTHER LIABILITIES

(in €k)	06/30/2018	06/30/2017	12/31/2017
<b>Options sold</b>			
<b>Other payables</b>	<b>1,384,584</b>	<b>1,771,876</b>	<b>1,580,629</b>
Deposits on collateralization transactions	1,190,430	1,572,173	1,410,462
Margin calls on repurchase agreements			
Supplier payables <sup>(1)</sup>	25,370	49,582	70,072
Tax consolidation liabilities <sup>(2)</sup>	24,709		
Other fiscal and social debts	4	-1	85
Other payables accounts	53,541	70,296	13,556
Special bonus account	90,530	79,826	86,454
<b>Allocated public funds <sup>(3)</sup></b>	<b>43,057</b>	<b>39,758</b>	<b>43,318</b>
<b>TOTAL</b>	<b>1,427,641</b>	<b>1,811,634</b>	<b>1,623,947</b>

(1) The entire item consists of debts relating to invoices not yet received. There are therefore no amounts relating to invoices received and not yet paid to be allocated, pursuant to Article D 441-4 of the French Commercial Code.

(2) Corporate tax due to Crédit Foncier (tax consolidation) 24,709

(3) Of which subsidized sector 37,752 32,537 36,975



## NOTE 9. ACCRUAL ACCOUNTS – LIABILITIES

(in €k)	06/30/2018	06/30/2017	12/31/2017
<b>Collection accounts</b>	<b>38</b>	<b>8,083</b>	<b>159</b>
<b>Unearned income</b>	<b>1,220,817</b>	<b>1,462,037</b>	<b>1,286,462</b>
Subsidies on loans for low-income households and former interest-free loans	31,928	47,212	38,970
Balances of swaps received to be amortized	1,116,643	1,339,480	1,180,112
Other unearned income	72,246	75,344	67,380
<b>Accrued expenses</b>	<b>195,537</b>	<b>203,883</b>	<b>166,302</b>
Accrued interest on derivatives (swaps)	189,848	201,180	161,641
Other accrued expenses	5,690	2,704	4,661
<b>Other accrual accounts</b>	<b>595,712</b>	<b>604,983</b>	<b>635,735</b>
Currency adjustment accounts*	568,022	593,474	532,239
Other items	27,690	11,509	103,496
<b>TOTAL</b>	<b>2,012,104</b>	<b>2,278,986</b>	<b>2,088,657</b>

\* This item restores the balance between assets and liabilities, following the recognition in the income statement of gains or losses relating to the measurement of off-balance sheet transactions in foreign currency. A similar item can be found in note 5.

## NOTE 10. PROVISIONS

(in €k)	06/30/2018	06/30/2017	12/31/2017
<b>Provisions for counterparty risks</b>	<b>15,866</b>	<b>19,077</b>	<b>15,866</b>
Provisions for counterparty risks on performing loans	15,866	19,077	15,866
Sectoral provisions			
<b>Provisions for litigation</b>	<b>3,642</b>	<b>1,014</b>	<b>2,228</b>
Tax litigation			
Other litigation	3,642	1,014	2,228
<b>Other provisions</b>	<b>653</b>	<b>1,224</b>	<b>823</b>
Other provisions*	653	1,224	823
<b>TOTAL</b>	<b>20,161</b>	<b>21,315</b>	<b>18,917</b>

\* A provision related to an estimate of an accelerated amortization of several termination balances.

Changes in the period (in €k)	12/31/2017	Changes in 2018			06/30/2018
		Additions	Reversals		
	Used		Not used		
<b>Provisions for counterparty risks</b>	<b>15,866</b>				<b>15,866</b>
Provisions for counterparty risks on performing loans	15,866				15,866
Sectoral provisions					
<b>Provisions for litigation</b>	<b>2,228</b>	<b>1,414</b>			<b>3,642</b>
Tax litigation					
Other litigation	2,228	1,414			3,642
<b>Other provisions</b>	<b>823</b>	<b>653</b>		<b>823</b>	<b>653</b>
Other provisions	823	653		823	653
<b>TOTAL</b>	<b>18,917</b>	<b>2,067</b>	<b>0</b>	<b>823</b>	<b>20,161</b>

## NOTE 11. CHANGES IN EQUITY

(in €k)	Opening balance at 01/01/2017	Changes in capital and reserves				Balance at 12/31/2017	Changes in capital and reserves		Balance at 06/30/2018
		Allocation	Dividends paid in shares	Other	Allocation		Dividends paid in shares	Other	
Share capital*	2,537,460				2,537,460				2,537,460
Share premiums*	343,002				343,002				343,002
Reserves									
Legal reserve	58,951	4,684			63,635	2,911			66,546
General reserve	55,517				55,517				55,517
Regulated reserves									
of which:									
• Regulated reserves for revaluation									
• Special reserves for long-term capital gains									
Retained earnings	91,889	- 4,576			87,313	- 2,909			84,404
<b>Net equity before net income for the year</b>	<b>3,086,820</b>				<b>3,086,927</b>				<b>3,086,929</b>
Net income for the year before distributions	93,676	- 93,676			58,205	- 58,205			47,396
<b>Equity after net income for the year</b>	<b>3,180,495</b>				<b>3,145,132</b>				<b>3,134,325</b>
Dividends paid		93,568				58,203			

(in €k)	Opening balance at 01/01/2017	Changes in provisions				Balance at 12/31/2017	Changes in provisions		Balance at 06/30/2018
		Allocation	Additions	Reversals	Allocation		Additions	Reversals	
Special revaluation provision									
Other regulated provisions									
Regulated provisions									
<b>Equity before distributions</b>	<b>3,180,495</b>				<b>3,145,132</b>				<b>3,134,325</b>

	Opening balance at 01/01/2017	Changes in the reserve for general banking risks (RGBR)				Balance at 12/31/2017	Changes in the reserve for general banking risks (RGBR)		Balance at 06/30/2018
		Allocation	Additions	Reversals	Allocation		Additions	Reversals	
Fund for general banking risks	20,000				20,000				20,000
<b>TOTAL</b>	<b>3,200,495</b>				<b>3,165,132</b>				<b>3,154,325</b>

\* After the capital increase on September 15, 2015, share capital comprises 158,591,246 ordinary shares with a face value of €16, which confer identical rights on all shareholders.  
No revaluation has been carried out to date.

## NOTE 12. COMMITMENTS GIVEN

(in €k)	06/30/2018		06/30/2017		12/31/2017	
	Loans authorized but not yet established	Amounts not drawn down on loans already partially established	Loans authorized but not yet established	Amounts not drawn down on loans already partially established	Loans authorized but not yet established	Amounts not drawn down on loans already partially established
<b>FINANCING COMMITMENTS</b>	<b>1,013,841</b>	<b>323</b>	<b>848,598</b>	<b>4,317</b>	<b>847,071</b>	<b>392</b>
Subsidized sector commitments	0	0	0	0	0	0
<b>Non-Group commitments</b>						
Credit institutions						
Customers						
<b>Unsubsidized sector commitments</b>	<b>1,013,841</b>	<b>323</b>	<b>848,598</b>	<b>4,317</b>	<b>847,071</b>	<b>392</b>
<b>Non-Group commitments</b>	<b>1,013,841</b>	<b>323</b>	<b>848,598</b>	<b>4,317</b>	<b>847,071</b>	<b>392</b>
Customers <sup>(1)</sup>	1,013,841	323	848,598	4,317	847,071	392
<b>Group commitments</b>						
Credit institutions						
<b>GUARANTEE COMMITMENTS</b>	<b>286,449</b>	<b>0</b>	<b>306,675</b>	<b>0</b>	<b>306,078</b>	<b>0</b>
<b>Non-Group commitments</b>	<b>286,449</b>	<b>0</b>	<b>306,675</b>	<b>0</b>	<b>306,078</b>	<b>0</b>
Other values used as collateral <sup>(2)</sup>	286,449		306,675		306,078	
<b>COMMITMENTS ON SECURITIES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Other commitments given						
<b>TOTAL <sup>(3)</sup></b>	<b>1,300,613</b>		<b>1,159,590</b>		<b>1,153,541</b>	

(1) The main changes concerning financing commitments given to customers are:

(in €k)	06/30/2018	06/30/2017	12/31/2017
Permanent credit lines (outstanding transferred from Ixis CIB)	960,788	773,684	794,018
State housing savings accounts ( <i>primes d'épargne logement</i> )	53,053	74,914	53,053

(2) This item represents assets and securities given as collateral to the Banque de France, in the framework of the pool of the Gestion globale des garanties (3G) of which:

(in €k)	06/30/2018	06/30/2017	12/31/2017
Securities	214,394	229,874	231,626
Receivables	72,055	76,802	74,452

Receivables presented and accepted by the Banque de France are valued at their book value; securities are valued at ECB value before valuation haircut.

(3) Of which:

(in €k)	06/30/2018	06/30/2017	12/31/2017
Doubtful commitments	323	415	392

## NOTE 13. COMMITMENTS RECEIVED

(in €k)	06/30/2018	06/30/2017	12/31/2017
<b>FINANCING COMMITMENTS</b>	<b>29,776,401</b>	<b>34,201,507</b>	<b>31,484,834</b>
<b>Non-Group commitments</b>	<b>767,854</b>	<b>565,708</b>	<b>563,114</b>
Credit institutions <sup>(1)</sup>	767,854	565,708	563,114
<b>Group commitments</b>	<b>29,008,547</b>	<b>33,635,799</b>	<b>30,921,720</b>
Repurchase guarantee			
Credit institutions <sup>(2)</sup>	3,000,000	3,000,000	3,000,000
Other assets received as collateral from the Group <sup>(3)</sup>	26,008,547	30,635,799	27,921,720
<b>GUARANTEE COMMITMENTS</b>	<b>38,201,174</b>	<b>34,433,480</b>	<b>36,516,018</b>
<b>Non-Group commitments</b>	<b>36,109,569</b>	<b>32,042,404</b>	<b>34,234,487</b>
Credit institutions and similar institutions <sup>(4)</sup>	4,491,875	3,954,937	4,957,184
Customers <sup>(5)</sup>	31,617,693	28,087,467	29,277,303
<b>Group commitments <sup>(6)</sup></b>	<b>2,091,605</b>	<b>2,391,076</b>	<b>2,281,532</b>
Credit institutions and similar items	2,044,820	2,277,677	2,172,487
Customers	46,785	113,399	109,045
<b>COMMITMENTS ON SECURITIES</b>	<b>0</b>	<b>20,000</b>	<b>60,000</b>
Other securities to be received		20,000	60,000
<b>TOTAL</b>	<b>67,977,574</b>	<b>68,654,986</b>	<b>68,060,852</b>

(1) Non-Group financing commitments include a commitment received from the Banque de France in relation to the pool of Gestion Globale des Garanties (3G), including an amount of €233.6m at June 30, 2018, compared with €265.6m at December 31, 2017.

(2) Credit line entered into by Compagnie de Financement Foncier and BPCE on May 2, 2012 for €3bn.

(3) Guarantees related to receivables and securities held and put in place within the framework of loans authorized pursuant to Article L. 211-38 and mortgage notes.

(in €k)	06/30/2018	06/30/2017	12/31/2017
• Guarantees received from Crédit Foncier for loans to French local authorities (L. 211-38):	16,905,037	20,711,848	18,789,564
• Guarantees received from BPCE SA as replacement values (L. 211-38-VR):	6,622,907	6,659,300	6,590,777
• Guarantees received from Caisses d'Épargne, Banques Populaires and BPCE for loans to French local authorities (L. 211-38):	2,480,603	2,503,885	2,541,378
• Guarantees received from Crédit Foncier for mortgage notes:		760,765	

(4) Mainly including:

(in €k)	06/30/2018	06/30/2017	12/31/2017
• Guarantees received from Crédit Logement rated Aa3 (Moody's):	4,051,303	2,102,409	3,264,384
• Guarantees received from Créserfi:	281,127	185,300	269,305
• Security enhancement guarantees received from insurance companies:	1,462,441	1,526,076	1,443,543

(5) Compagnie de Financement Foncier posts guarantees to the balance sheet related to certain types of customer loans on the balance sheet, in view of their materiality. These guarantees are broken down as follows:

(in €k)	06/30/2018	06/30/2017	12/31/2017
• Government guarantees on loans, mainly to the subsidized sector:	138,079	161,178	146,627
• Guarantees from the SGFGAS on FGAS-eligible loans and covered by the government:	18,200,818	14,791,764	16,874,627
• Mortgage guarantees for mortgage loans that are only covered by this guarantee:	9,773,932	10,796,876	10,062,833
• Guarantees given by local authorities and other organizations:	935,745	1,399,176	1,325,846
• Security enhancement guarantees given by governments.	1,033,200	938,473	867,371

(6) At June 30, 2018, a guarantee received from BPCE on securities for €800m.

**NOTE 14. COMMITMENTS ON FORWARDS AND OPTIONS CONTRACTS**

<i>(in €k)</i>	06/30/2018		06/30/2017		12/31/2017	
	Euros	Other currencies <sup>(2)</sup>	Euros	Other currencies <sup>(2)</sup>	Euros	Other currencies <sup>(2)</sup>
<b>OVER-THE-COUNTER MARKETS</b>						
<b>Options (nominal amounts)</b>	1,540,671	0	1,788,171	0	1,615,671	0
<b>Hedging transactions (purchases)</b>						
• Interest rate instruments	1,540,671		1,788,171		1,615,671	
• Foreign exchange instruments						
• Other instruments						
<b>Other options</b>						
<b>Options (fair value)</b>	0	0	4,463	0	4,285	0
<b>Forward transactions (nominal amounts)</b>	73,328,693	5,268,184	70,392,248	10,137,690	70,094,424	9,130,872
<b>Hedging transactions</b>						
• Interest rate instruments	65,704,929	312,414	62,285,792	319,335	62,404,320	310,747
• Foreign exchange instruments <sup>(3)</sup>	7,623,765	4,955,769	8,106,456	9,818,355	7,690,104	8,820,125
• Other instruments						
<b>Other transactions</b>						
<b>Forward transactions (fair value) <sup>(1)</sup></b>	702,903	-1,176,632	2,056,862	-1,919,504	2,084,636	-1,901,504
<b>Forward and options transactions</b>	74,869,365	5,268,184	72,180,420	10,137,690	71,710,096	9,130,872
<b>TOTAL <sup>(2)</sup> (NOMINAL AMOUNTS)</b>	<b>80,137,548</b>		<b>82,318,110</b>		<b>80,840,968</b>	
<b>TOTAL (FAIR VALUE)</b>	<b>-473,729</b>		<b>141,821</b>		<b>187,417</b>	

Compagnie de Financement Foncier has no derivatives traded on the organized markets.

(1) Data disclosed in accordance with the Regulation No. 2014-07 of the French National Accounting Standards Authority.

(2) Notional amounts in euros at the reporting date

(3) These items are financial micro-hedging currency swaps. They represent a foreign exchange forward position; the inverse position, spot currency transactions, is included in the balance sheet assets (see note 24).

## NOTE 15. INTEREST AND SIMILAR INCOME AND EXPENSES

(in €k)	06/30/2018			06/30/2017	12/31/2017
	Income	Expenses	Net	Net	Net
<b>Interbank transactions</b>	<b>150,375</b>	<b>-49,150</b>	<b>101,224</b>	<b>98,333</b>	<b>205,333</b>
Interest on Central Bank accounts		-3,402	-3,402	-3,244	-7,331
Interest on current accounts	2	-166	-164	-106	-325
Interest on term transactions	149,955	-37,918	112,037	-20,065	-43,756
Interest on subordinated loans					
Interest on receivables guaranteed (replacement values)				124,884	265,867
Interest on securities received/sold under repurchase agreements		3,463	3,463	7,827	12,016
Financing and guarantee commitments					
Other interest income and expenses					
Hedging transactions (netting)	418	-11,128	-10,710	-10,963	-21,137
Hedged losses on receivables					
Non-hedged losses on receivables					
Net changes of provisions					
<b>Customer transactions</b>	<b>425,736</b>	<b>-33,384</b>	<b>392,353</b>	<b>300,985</b>	<b>656,308</b>
Interest on demand deposits, term deposits and regulated savings accounts					
Interest on loans to customers	401,056		401,056	325,399	700,527
Interest on subordinated loans					
Interest on doubtful loans	26,432		26,432	24,424	48,201
Amortization of additional loans fees (CRC Regulation 2009-03)	1,674		1,674	214	991
Interest on RMBS cash collateral					
Other interest income and expenses	-3,426	67	-3,358	9,492	19,789
Income on financing and guarantee commitments				6	6
Hedging transactions (netting)		-32,360	-32,360	-56,040	-103,178
Hedged losses on receivables		-1,042	-1,042	-735	-2,049
Non-hedged losses on receivables		-1,838	-1,838	-301	-7,373
Net changes in provisions*		1,788	1,788	-1,473	-606
<b>Finance lease transactions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Securities portfolio transactions</b>	<b>544,271</b>	<b>-794,459</b>	<b>-250,187</b>	<b>-239,822</b>	<b>-494,806</b>
Interest on held-to-maturity securities				10,289	13,737
Spreading of discounts/premiums on held-to-maturity securities				0	0
Interest on held-to-maturity securities	162,378		162,378	173,614	337,045
Amortization of discounts/premiums on held-to-maturity securities	-18,505		-18,505	-18,522	-37,223
Interest on medium-term notes (BMTN) issued		-1,095	-1,095	-887	-1,845
Interest on certificates of deposits issued					
Interest on mortgage notes issued					
Interest and expenses on bond issuances		-793,364	-793,364	-948,234	-1,816,722
Interest on doubtful securities					
Hedging transactions (netting)	400,399		400,399	543,916	1,010,202
Losses on non-recoverable receivables					
Net changes of provisions					
<b>Subordinated debts</b>	<b>0</b>	<b>34</b>	<b>34</b>	<b>0</b>	<b>0</b>
Payables on subordinated term securities		34	34		
Payables on subordinated debt - credit institutions					
Payables on subordinated debt - customers					
<b>Other interest and similar income and expenses</b>	<b>7,520</b>	<b>-139,455</b>	<b>-131,935</b>	<b>-130,822</b>	<b>-259,486</b>
Income on debt securities	7,350		7,350	9,288	16,683
Fees on credit derivatives					
Commitments received/given on securities		-407	-407	-2,974	-4,388
Other interest income and expenses		-9,660	-9,660		
Macro-hedging transactions (netting)		-129,388	-129,388	-136,970	-272,016
Net changes of provisions	170		170	-166	235
<b>TOTAL INTEREST AND SIMILAR INCOME AND EXPENSES</b>	<b>1,127,903</b>	<b>-1,016,414</b>	<b>111,489</b>	<b>28,674</b>	<b>107,350</b>

\* Net impact on customer interest under net interest margin.

## NOTE 16. NET FEES AND COMMISSIONS

<i>(in €k)</i>	06/30/2018	06/30/2017	12/31/2017
<b>Commissions on interbank and cash transactions (net)</b>	-5	-4	-9
Income			
Expenses	-5	-4	-9
<b>Commissions on transactions with customers (net)*</b>	<b>21,426</b>	<b>66,648</b>	<b>96,161</b>
Income	21,426	66,648	96,161
Expenses			
<b>Commissions on securities transactions (net)</b>	<b>-334</b>	<b>-609</b>	<b>-1,112</b>
Income			
Expenses	-334	-609	-1,112
<b>Other commissions (net)</b>	<b>-252</b>	<b>-268</b>	<b>-493</b>
Income		3	3
Expenses	-252	-271	-496
<b>Income</b>	<b>21,426</b>	<b>66,651</b>	<b>96,164</b>
<b>Expenses</b>	<b>-592</b>	<b>-884</b>	<b>-1,617</b>
<b>NET FEES AND COMMISSIONS</b>	<b>20,834</b>	<b>65,767</b>	<b>94,547</b>

\* Commissions on customer transactions are the fees received from customers following the early repayments. The level of these fees is therefore directly correlated to the volume of loans repaid. The average early repayment rate on loans to individuals was 7.9% of outstanding loans in the 1<sup>st</sup> half of 2018.

## NOTE 17. GAINS/LOSSES ON TRADING PORTFOLIO TRANSACTIONS

<i>(in €k)</i>	06/30/2018	06/30/2017	12/31/2017
Gains on currency and arbitrage transactions	809	-22	-117
Losses on other financial instruments			
Gains on other financial instruments			
Addition to provisions for risks on financial forward instruments			
Reversals from provisions for risks on financial forward instruments			
<b>NET GAINS/LOSSES ON TRADING BOOK TRANSACTIONS</b>	<b>809</b>	<b>-22</b>	<b>-117</b>

## NOTE 18. OTHER BANKING INCOME AND EXPENSES

(in €k)	06/30/2018			06/30/2017	12/31/2017
	Income	Expenses	Net	Net	Net
<b>Transfers of expenses and income, reallocated expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other banking income and expenses</b>	<b>19</b>	<b>-1,422</b>	<b>-1,402</b>	<b>-969</b>	<b>-2,169</b>
Other operating income and expenses*	19	-7	12	45	59
Additions to and reversals from provisions for other operating income and expenses*		-1,414	-1,414	-1,014	-2,228
<b>TOTAL</b>	<b>19</b>	<b>-1,422</b>	<b>-1,402</b>	<b>-969</b>	<b>-2,169</b>
<b>* DETAILS</b>					
<b>Other operating income and expenses</b>	<b>19</b>	<b>-1,422</b>	<b>-1,402</b>	<b>-969</b>	<b>-2,169</b>
• Transfers to exceptional gains				73	73
• Other operating income	19		19	17	56
• Losses on deferred interests and variable rate loans		-7	-7		
• Transfers to exceptional losses				-45	-65
• Other operating expenses					-5
• Additions to provisions		-1,414	-1,414	-1,014	-2,228



## NOTE 19. OPERATING EXPENSES

(in €k)	06/30/2018	06/30/2017	12/31/2017
<b>PAYROLL COSTS</b>	<b>0</b>	<b>-28</b>	<b>-73</b>
Wages and salaries			-46
Costs of defined-contribution plans			
Other social security costs and payroll-based taxes*		-28	-28
Additions/reversals of provisions for litigation			
<b>OTHER ADMINISTRATIVE EXPENSES</b>	<b>-44,279</b>	<b>-64,800</b>	<b>-117,827</b>
<b>Taxes other than on income</b>	<b>-11,663</b>	<b>-10,713</b>	<b>-21,638</b>
CET (local business tax) and CVAE (tax on company value added)	-1,489	-799	-1,705
Social solidarity contribution	-1,814	-1,553	-3,165
Contribution to the supervision expenses of the French Prudential Supervision and Resolution Authority (ACPR)	-387	-407	-815
Systemic banking risk tax	-1,016	-1,370	-2,741
Contributions to Single Resolution Fund	-6,012	-5,536	-11,071
Control fees paid to ECB	-629	-514	-1,082
Taxes other than on income	-315	-533	-1,060
Additions/reversals of provisions for tax disputes			
<b>External services</b>	<b>-32,616</b>	<b>-54,087</b>	<b>-96,189</b>
Leasing			
External services provided by the Group	-30,962	-52,154	-93,440
Fees, subcontracting and services	-1,506	-1,749	-2,460
Advertising	-89	-120	-161
Remuneration of intermediaries			
Transport and travel			
Maintenance and repairs			
Insurance premiums			
Other external services	-60	-63	-129
Additions/reversals from provisions for disputes relating to external services			
Additions/reversals from provisions for external services costs			
<b>Other expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Transfers of expenses</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>GENERAL OPERATING EXPENSES</b>	<b>-44,279</b>	<b>-64,828</b>	<b>-117,901</b>

\* The total amount of remuneration received by governing bodies at December 31, 2017 amounted to €46k. Following the decision by the Board of Directors of Compagnie de Financement Foncier on February 9, 2016, no additional remuneration has been paid to the executive bodies since February 1, 2016. The amount recorded in 2017 as "other social and tax charges" corresponds to apprenticeship tax reminders for previous years.

## NOTE 20. COST OF RISK

<i>(in €k)</i>	06/30/2018			06/30/2017	12/31/2017
	Expenses	Income	Net	Net	Net
<b>Net additions/reversals on held-to-maturity securities</b>	0	0	0	0	0
Additions/reversals on securities transactions					
<b>Net additions/reversals on customer transactions</b>	<b>-19,501</b>	<b>19,790</b>	<b>289</b>	<b>-1,463</b>	<b>19,890</b>
Impairment of customer transactions	-19,501	19,790	289	-1,763	16,379
Provisions for counterparty risks on performing loans				300	3,511
Sectoral provisions					
<b>Gains/losses on customer transactions</b>	<b>-7,349</b>	<b>4,519</b>	<b>-2,830</b>	<b>-2,177</b>	<b>-24,801</b>
Losses on the covered irrecoverable loans and receivables	-1,179		-1,179	-868	-24,442
Losses on irrecoverable loans and receivables not covered by provisions	-3,213		-3,213	-5,112	-2,598
Recoveries of bad debts written off		4,519	4,519	3,803	5,445
Legal and deeds expenses	-2,957		-2,957		-3,206
<b>Losses/recoveries on other transactions</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Losses on the covered irrecoverable loans and receivables					
<b>COST OF RISK</b>	<b>-26,850</b>	<b>24,309</b>	<b>-2,541</b>	<b>-3,641</b>	<b>-4,910</b>

## NOTE 21. GAINS OR LOSSES ON FIXED ASSETS

<i>(in €k)</i>	06/30/2018	06/30/2017	12/31/2017
Capital gains or losses on disposals of held-to-maturity securities		7,319	7,458
Additions for impairment on held-to-maturity securities			
Reversals for impairment on held-to-maturity securities			
<b>GAINS OR LOSSES ON OTHER ASSETS</b>	<b>0</b>	<b>7,319</b>	<b>7,458</b>

## NOTE 22. INCOME TAX

<i>(in €k)</i>	06/30/2018	06/30/2017	12/31/2017
<b>Tax Expense Components</b>			
Current tax expenses (income) <sup>(1)</sup>	-24,709	35,536	189,771
Deferred tax expenses (income) <sup>(1) (2)</sup>	-12,806	-48,764	-215,823
Provisions for deferred taxes			
Provisions for risks or for tax litigations			
<b>TOTAL</b>	<b>-37,515</b>	<b>-13,228</b>	<b>-26,052</b>

<i>(in €k)</i>	06/30/2018	06/30/2017	12/31/2017
<b>Breakdown Of Deferred Taxes For The Period</b>			
Termination swap balance	-12,591	-55,734	-213,626
Client provisions including credit risk provisions	-5	2,070	-9,130
Provisions for investment securities			
Other temporary differences	-210	4,900	6,933
<b>TOTAL</b>	<b>-12,806</b>	<b>-48,764</b>	<b>-215,823</b>

(1) Pursuant to the tax consolidation agreement signed by Compagnie de Financement Foncier, BPCE and Crédit Foncier, the Company has recognized as income the potential tax saving stemming from the deficit recorded for the period, to be received from the consolidating parent company Crédit Foncier (see note 4). Conversely, the Company has recognized a potential tax expense stemming from the tax benefit recorded for the period, to be paid to the consolidating parent company Crédit Foncier.

(2) including -€5,826k recorded on the liabilities method for the 1<sup>st</sup> half 2018.

## NOTE 23. TRANSACTIONS WITH RELATED CREDIT INSTITUTIONS <sup>(1)</sup>

	06/30/2018	06/30/2017	12/31/2017	06/30/2018
(in €k)				Valuation of assets received as collateral <sup>(2)</sup>
<b>BALANCE SHEET</b>				
<b>Assets items</b>				
<b>Receivables from credit institutions</b>				
Demand	51,163	467,686	148,657	
Term				
Term deposits guaranteed by repo securities	25,680,475	29,251,847	27,564,703	26,008,547
• Loans guaranteed by French local authority loans (SPT) under L. 211-38	11,538,449	12,359,081	11,838,381	11,558,991
• to Crédit Foncier	9,042,000	9,845,500	9,332,000	9,078,388
• to BPCE	2,320,000	2,320,000	2,320,000	2,302,663
• to other Group entities	176,449	193,581	186,381	177,940
• Loans guaranteed by mortgage loans under L. 211-38	7,530,500	10,277,000	9,111,500	7,826,649
• to individual customers	7,261,000	10,004,500	8,856,500	7,542,464
• to professional customers	269,500	272,500	255,000	284,185
• Loans registered as replacement values under L. 211-38	6,600,000	6,600,000	6,600,000	6,622,907
• to BPCE	6,600,000	6,600,000	6,600,000	6,622,907
• Related receivables	11,526	15,766	14,822	
<b>Customer transactions</b>				
Receivables				
<b>Securities transactions</b>				
Bonds and other fixed-income securities	59,963	791,186	61,692	
• Mortgage notes		730,000		
• to Crédit Foncier		730,000		
• Other fixed income securities	58,763	59,720	58,802	
• Related receivables	1,200	1,465	2,890	
<b>Other assets <sup>(2)</sup></b>				
Other debtors		35,704	194,060	
<b>TOTAL ASSETS</b>	<b>25,791,601</b>	<b>30,546,422</b>	<b>27,969,112</b>	<b>26,008,547</b>
<b>Liabilities items</b>				
<b>Due to credit institutions</b>				
Demand				
Term	5,645,390	4,659,238	6,228,709	
Securities sold under repurchase agreements	1,772,826	1,947,642	1,718,131	
<b>Customer transactions</b>				
Demand				
<b>Securities transactions</b>				
Debt securities				
Subordinated debts				
<b>Other liabilities</b>				
Other creditors	23,978	32,478	63,553	
<b>TOTAL LIABILITIES</b>	<b>7,442,194</b>	<b>6,639,359</b>	<b>8,010,393</b>	

Compagnie de Financement Foncier does not conduct transactions not concluded under normal market conditions between related parties (Regulation No. 2014-07).

(1) The definition of related credit institutions refers to the scope of consolidation of Groupe BPCE to which Compagnie de Financement Foncier belongs.

(2) Assets received as collateral are valued at their outstanding principal amount determined on the closing date.

## NOTE 24. STATEMENT OF FOREIGN EXCHANGE POSITIONS

### At 06/30/2018

Heading (in €k)	Australian Dollar	Canadian Dollar	US Dollar	Pound Sterling	Swiss Franc	Yen	Hungar- ian Forint	New Zealand Dollar	Norweg- ian Krone	Danish Krone	TOTAL
<b>BALANCE SHEET</b>											
Financial assets	29	9	2,053,894	113,566	1,066,492	1,674,817	10	34	9,793	7	4,918,651
Financial liabilities			267,587	638,305	2,374,634	99,942			445,778		3,826,246
<b>Balance sheet differential (I)</b>	<b>29</b>	<b>9</b>	<b>1,786,307</b>	<b>-524,739</b>	<b>-1,308,142</b>	<b>1,574,875</b>	<b>10</b>	<b>34</b>	<b>-435,985</b>	<b>7</b>	<b>1,092,405</b>
<b>OFF-BALANCE SHEET</b>											
Commitments received			397,182	621,902	2,324,910	85,065			435,985		3,865,044
Commitments given			2,183,425	97,469	1,014,967	1,659,908					4,955,769
<b>Off-balance sheet differential (II)</b>	<b>0</b>	<b>0</b>	<b>-1,786,243</b>	<b>524,433</b>	<b>1,309,943</b>	<b>-1,574,843</b>	<b>0</b>	<b>0</b>	<b>435,985</b>	<b>0</b>	<b>-1,090,725</b>
<b>TOTAL DIFFERENTIAL (I)+(II)</b>	<b>29</b>	<b>9</b>	<b>64</b>	<b>-306</b>	<b>1,801</b>	<b>32</b>	<b>10</b>	<b>34</b>	<b>0</b>	<b>7</b>	<b>1,680</b>

Financial assets consist of amounts due from credit institutions and customers.

Financial liabilities are comprised of amounts due to credit institutions, customer deposits, and debt securities.

## NOTE 25. STATEMENT OF LIQUIDITY POSITION

### At 06/30/2018

Heading (in €k)	Remaining maturity					Total <sup>(2)</sup>
	< 3 months	3M < T < 6M	6M < T < 1Y	1Y < T < 5Y	> 5 years	
<b>BALANCE SHEET</b>						
<b>Financial assets <sup>(1)</sup></b>	<b>7,557,251</b>	<b>1,114,927</b>	<b>3,286,520</b>	<b>16,216,434</b>	<b>44,116,704</b>	<b>72,291,836</b>
Receivables from credit institutions	6,914,500	398,300	2,013,375	6,112,923	11,117,080	26,556,178
Receivables from customers	634,060	665,366	1,245,739	9,035,516	26,358,468	37,939,149
Bonds and other fixed-income securities	8,691	51,261	27,406	1,067,995	6,641,156	7,796,509
Subordinated term loans						
<b>Financial liabilities</b>	<b>5,696,735</b>	<b>1,477,944</b>	<b>4,165,205</b>	<b>25,341,353</b>	<b>33,044,396</b>	<b>69,725,633</b>
Due to credit institutions	4,800,000	1,367,909	1,243	8,518	1,330,473	7,508,143
Due to customers						
Debt securities:	896,735	110,035	4,163,962	25,332,835	31,713,923	62,217,490
• Retails certificates of deposit						
• Interbank market securities						
• Negotiable debt securities				150,000		150,000
• Bonds	896,735	110,035	4,163,962	25,182,835	31,713,923	62,067,490
• Other debt securities						
Subordinated term debt						
<b>Balance Sheet Differential (I)</b>	<b>1,860,516</b>	<b>-363,017</b>	<b>-878,685</b>	<b>-9,124,919</b>	<b>11,072,308</b>	<b>2,566,203</b>
<b>OFF-BALANCE SHEET</b>						
Commitments given			1,013,841			1,013,841
Commitments received	233,622			3,000,000		3,233,622
<b>Off-Balance Sheet Differential (II)</b>	<b>233,622</b>	<b>0</b>	<b>-1,013,841</b>	<b>3,000,000</b>	<b>0</b>	<b>2,219,781</b>
<b>TOTAL DIFFERENTIAL (I)+(II)</b>	<b>2,094,138</b>	<b>-363,017</b>	<b>-1,892,526</b>	<b>-6,124,919</b>	<b>11,072,308</b>	<b>4,785,984</b>
Conditional positions		4,500	1,500	24,122	1,510,549	1,540,671

(1) The financial assets of Compagnie de Financement Foncier include €4.8bn of securities (unencumbered assets) that meet the refinancing criteria of the European Central Bank.

(2) The difference with the amounts shown on the balance sheet is mainly due to unpaid loans, doubtful loans and related receivables.

## NOTE 26. CASH FLOW STATEMENT

### 1. Principles

The cash flow statement analyzes changes in cash flow from operating, investing and financing activities between two financial periods.

Compagnie de Financement Foncier's cash flow statement is presented in accordance with Recommendation 2004-R-03 of the French National Accounting Board (CNC), concerning the format of corporate financial statements as regulated by the French Banking and Financial Services Regulatory Committee (BFRC).

It is prepared using the indirect method: net income for the period is restated for non-monetary items: depreciation, amortization and impairment for tangible and intangible fixed assets, net depreciation provisions, provisions, other transactions without cash payments, such as accounts payable and accrued income. Cash flows from operating, investing and financing activities are determined according to the difference between the items in the annual financial statements for the previous year and for the current year. Capital transactions without cash flow or with no impact on income are neutral: dividend payment in shares, increase in provision through the allocation of retained earnings.

The breakdown of Compagnie de Financement Foncier activities between operating, investing and financing activities reflects its status as a *société de crédit foncier*.

Operating activities include:

- the acquisition of eligible loans;
- the acquisition of securitization tranches and securities issued by public entities;
- the issuance of *obligations foncières* and other unsubordinated long-term resources.

Financing activities include:

- dividends paid in cash;
- the issuance and redemption of subordinated debt.

Cash flow is defined according to the standards of the French National Accounting Board. It includes cash on hand and demand deposits at the Banque de France, in post office accounts and with credit institutions.

## 2. Cash flow statement

<i>(in €k)</i>	06/30/2018	06/30/2017	12/31/2017
<b>OPERATING ACTIVITIES</b>			
Net income for the year	47,396	19,073	58,205
Restatement of earnings related to operating activities			
Tangible and intangible fixed assets, excluding goodwill			
Net impairment charges/customers and credit institutions	-2,077	3,237	-15,774
Net impairment charges/available-for-sale securities			
Net impairment charges/held-to-maturity securities			
Net impairment charges/loans	-170	-134	-3 746
Net gain on sale of fixed assets			
Other transactions without cash payments	-622,263	63,409	156,331
Cash flows on loans to credit institutions and customers	899,643	-4,735,584	-4,322,888
Cash flows on securities available to sale	0	6,591,281	7,321,281
Cash flows on held-to-maturity securities	588,030	367,085	497,281
Cash flows on other assets	137,041	1,565	5,065
Cash flows on debts/credit institutions and customers	-436,644	-2,173,974	-832,145
Net borrowing	-492,089	-892,717	-3,877,663
Cash flows on other liabilities	-272,575	-505,126	-608,751
<b>Net cash flows used for operating activities</b>	<b>-153,708</b>	<b>-1,261,886</b>	<b>-1,622,804</b>
<b>INVESTING ACTIVITIES</b>			
Cash flows 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 flows from other investment activities			
<b>Net cash flows used for investment activities</b>			
<b>FINANCING ACTIVITIES</b>			
Cash flows from share issuances			
Dividends paid	- 58,203	- 93,569	- 93,569
Net issuances of subordinated debt			
Other			
Net cash flows from financing activities	- 58,203	- 93,569	- 93,569
<b>NET CHANGE IN CASH POSITION</b>	<b>- 211,911</b>	<b>-1,355,455</b>	<b>-1,716,373</b>
Opening cash and cash equivalents	712,025	2,428,398	2,428,398
Closing cash position	500,114	1,072,943	712,025
<b>Net</b>	<b>- 211,911</b>	<b>-1,355,455</b>	<b>-1,716,373</b>
Cash: deposits at Banque de France	445,900	1,019,958	670,000
Due to credit institutions on demand*	54,214	52,985	42,025
<b>TOTAL</b>	<b>500,114</b>	<b>1,072,943</b>	<b>712,025</b>
* Of which:			
BPCE	50,695	49,587	39,819

# Statutory Auditor's report on the financial statements

## Compagnie de Financement Foncier SA

Registered office: 19, rue des Capucines – 75001 Paris

Share capital: €2,537,459,936

*This is a free translation into English of the Statutory Auditors' review report issued in French 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.*

For the six-month period ended June 30, 2018

To the Shareholders,

In compliance with the assignment entrusted to us by the Annual General Meeting and in accordance with the requirements of article L. 451-1-2 III of the French Monetary and Financial Code (Code monétaire et financier), we hereby report to you on:

- the review of the accompanying condensed interim financial statements of Compagnie de Financement Foncier SA, for the six months ended June 30, 2018;
- the verification of the information contained in the interimmanagement report.

These condensed interim financial statements are the responsibility of the Board of Directors. Our role is to express a conclusion on these financial statements based on our review.

## I. CONCLUSION ON THE FINANCIAL STATEMENTS

We conducted our review in accordance with professional standards applicable in France. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with professional standards applicable in France and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial statements are not prepared, in all material respects, in accordance with the accounting rules and principles applicable in France.

## II. SPECIFIC VERIFICATION

We have also verified the information given in the interimmanagement report on the condensed interim financial statements subject to our review. We have no matters to report as to its fair presentation and consistency with the condensed interim financial statements.

Neuilly sur Seine and Paris La défense, August 27, 2018

The Statutory Auditors

*French original signed by*

**PricewaterhouseCoopers Audit**

Anik CHAUMARTIN

**KPMG SA**

Xavier De CONINCK







# Legal information

## GENERAL INFORMATION

Shareholders' Meeting	79
Outlook for Compagnie de Financement Foncier	79
Additional information	79

<b>STATEMENT FROM THE PERSONS WHO ASSUME RESPONSIBILITY FOR THE REGISTRATION DOCUMENT AND THE AUDIT OF THE ACCOUNTS</b>	<b>80</b>
---	-----------

Statement from the person who assumes responsibility for the update to the Registration document	80
Persons responsible for auditing the financial statements	80
Specific Controllers	81
<b>CROSS-REFERENCE TABLE</b>	<b>82</b>
In annex IV of European Commission Regulation (EC) no. 809/2004	82

# General information

## Shareholders' Meeting

An Extraordinary General Meeting was held on March 7, 2018 and approved the update of Article 14 entitled: "Powers of the Board". For more information, please refer to the 2017 Registration Document (p. 203).

An Ordinary General Meeting was held on May 16, 2018. The proposed resolutions were approved in their entirety.

## Outlook for Compagnie de Financement Foncier

### ■ TRENDS

No significant deterioration has affected the Company's outlook since its last financial report has been audited and published.

No known trend, uncertainty, claim, commitment or event is reasonably likely to have a negative material influence on the Company's outlook.

### ■ CONTROL

To the Company's knowledge, no agreement exists of which the implementation at a later date could lead to a change in control of the Company.

### ■ MATERIAL EVENTS

No significant changes in the financial or commercial position have occurred between August 1, 2018 – the date at which the Board of Directors closed the accounts – and the filing date of this Registration document.

## Additional information

No potential conflicts of interest exist between the duties of Board members towards Compagnie de Financement Foncier and their private interests and/or other duties.

As of June 30, 2018, there were no exceptional events or legal disputes (government, legal or arbitration procedures) likely to have

or to have had a material impact on Compagnie de Financement Foncier's financial position, operations, results or assets.

Compagnie de Financement Foncier conducts itself and its corporate entities operate according to the corporate governance framework applicable in France.

# Statement from the persons who assume responsibility for the Registration document and the audit of the accounts

## Statement from the person who assumes responsibility for the update to the Registration document

I certify, after having taken all reasonable measures to this purpose, that the information provided in the present update is provided, 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 my knowledge, that the condensed financial statements for the previous half-year have been established in compliance with the applicable accounting standards and accurately represent the Company's assets, financial situation and its earnings and that the enclosed half-year activity management report is an accurate representation of the important events that occurred in the first six months of the financial year, of their impact on the financial statements as well as a description of the primary risks and uncertainties in the remaining six months of the year.

I have received a letter from the Statutory Auditors indicating that they have completed their work which consisted in verifying the information on the financial position and the financial statements provided in this update to the Registration document as well as a review of the entire document.

Charenton-le-Pont, August 27<sup>th</sup>, 2018

Chief Executive Officer, Compagnie de Financement Foncier

**Olivier AVIS**

## Persons responsible for auditing the financial statements

### PRINCIPAL

#### KPMG SA

Represented by Mr Xavier de CONINCK

Address:  
Tour EQHO  
2, avenue Gambetta  
92066 Paris - La Défense

775 726 417 RCS Paris

Member of the Compagnie Régionale des Commissaires aux Comptes de Versailles (Regional Association of Statutory Auditors of Versailles)

Start of term: May 25, 2005

Length of term: six fiscal years

End of term: at the end of the Ordinary General Shareholders' Meeting called to approve the financial statements for the 2022 fiscal year.

#### PRICEWATERHOUSECOOPERS AUDIT

Represented by Ms Anik CHAUMARTIN

Address:  
63, rue de Villiers  
92200 Neuilly-sur-Seine

302 474 572 RCS Paris

Member of the Compagnie Régionale des Commissaires aux Comptes de Versailles (Regional Association of Statutory Auditors of Versailles)

Start of term: June 30, 2003

Length of term: six fiscal years

End of term: at the end of the Annual General Shareholders' Meeting called to approve the financial statements for the 2019 fiscal year.

**ALTERNATES****KPMG AUDIT FS I**

Represented by Ms Isabelle GOALEC

Address:

Tour EQHO

2, avenue Gambetta

92066 Paris - La Défense

Start of term: May 23, 2011

Length of term: six fiscal years

End of term: at the end of the Ordinary General Shareholders' Meeting called to approve the financial statements for the fiscal year ending December 31, 2022.

**MR ÉTIENNE BORIS**

Address:

63, rue de Villiers

92200 Neuilly-sur-Seine

Start of term: May 26, 2008

Length of term: six fiscal years

End of term: at the end of the Annual General Shareholders' Meeting called to approve the financial statements for the 2019 fiscal year.

**Specific Controllers****PRINCIPAL****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. Approval renewed by the French Prudential Supervisory and Resolution Authority (Autorité de Contrôle Prudentiel et de Résolution – ACPR) on November 14, 2014.

Start of term: June 29, 2004.

Length of term: remainder of predecessor's term, then renewed for a term of four years.

End of term: after submission of the report and the certified statements for the fiscal year ending December 31, 2018.

**ALTERNATES****MR RÉMI SAVOURNIN**

Address:

19, rue Clément-Marot

75008 Paris

Date of assent from the ACPR: November 14, 2014.

Start of term: January 1, 2015.

Length of term: four years.

End of term: after submission of the report and the certified statements for the fiscal year ending December 31, 2018.

# Cross-reference table

## In annex IV of European Commission Regulation (EC) no. 809/2004

	Heading	Information provided in the present update to the Registration document of Compagnie de Financement Foncier on page:	Information provided in the 2017 Registration document of Compagnie de Financement Foncier filed with the AMF on March 28, 2018 under the number D.18-0201 on page:
<b>1</b>	<b>Persons responsible</b>		
1.1	Persons responsible for the information	80-81	213
1.2	Declaration by those persons responsible for the Registration document	80-81	213
<b>2</b>	<b>Statutory Auditors</b>		
2.1	Names and addresses of the issuer's auditors	80-81	209
2.2	Auditors during the period covered by past financial information	80-81	209
<b>3</b>	<b>Selected financial information</b>		
3.1	Financial information		10-13
3.2	Financial information for interim periods	4-8	n.a.
<b>4</b>	<b>Risk factors</b>	<b>18-20 ; 22-44</b>	<b>84-89</b>
5	Information about the issuer		
5.1	History and development of the issuer		
5.1.1	• Legal and commercial name of the issuer		197; 204
5.1.2	• Place and registration number of the issuer		199
5.1.3	• Date of incorporation and length of life of the issuer		198; 204
5.1.4	• Domicile and legal form of the issuer		197; 198; 203-204
5.1.5	• Recent events particular to the issuer which are to a material extent relevant to the evaluation of the issuer's solvency	79	208
5.2	Investments	n.a.	n.a.
<b>6</b>	<b>Business overview</b>		
6.1	Principal activities		
6.1.1	• Main categories of services performed	3	5; 39-42
6.1.2	• New products and/or activities	n.a.	n.a.
6.2	Principal markets	3 ; 15-17	28-35; 39-41
6.3	Competitive position	3	5; 14
<b>7</b>	<b>Organisational structure</b>		
7.1	Description of the Group and issuer's position within it	3-4	14; 211-212
7.2	Dependence upon other entities within the Group	3-4	47; 211-212
<b>8</b>	<b>Trend information</b>		
8.1	Statement that there has been no material adverse change in the prospects of the issuer since the date of its last published audited financial statements	79	208
8.2	Events that are reasonably likely to have a material effect on the issuer's prospects	79	89; 208

Heading	Information provided in the present update to the Registration document of Compagnie de Financement Foncier on page:	Information provided in the 2017 Registration document of Compagnie de Financement Foncier filed with the AMF on March 28, 2018 under the number D.18-0201 on page:
<b>9. Profit forecasts or estimates</b>	n.a.	n.a.
<b>10 Administrative, management, and supervisory bodies</b>		
10.1 Names, business addresses and functions of the administrative, and management bodies and principal activities performed by them outside the issuer	12	48-74
10.2 Statement that there are no conflicts of interests	79	208
<b>11 Management and executive bodies</b>		
11.1 Details relating to the issuer's Audit Committee		
11.1.1 • Name of committee members and terms of reference under which the committee operates	79	74; 95
11.2 Corporate governance	79	44-77
<b>12 Major shareholders</b>		
12.1 Ownership, control	3-4	47
12.2 Arrangements which may result in a change in control of the issuer	80	208
<b>13 Financial information concerning the issuer's assets and liabilities, financial position and profits and losses</b>		
13.1 Past Financial Information		
13.1.1 • Balance sheet	47	143
13.1.2 • Off-balance sheet	48	144
13.1.3 • Income statement	49	145
13.1.4 • Cash Flow Statement	74-75	184-185
13.1.5 • Accounting Policies and Explanatory Notes	50-75	146-183
13.1.6 • Statutory Auditors' report	76	187-189
13.1.7 • Past Financial Information		
13.1.7.1 • Financial Statements		143-195
13.1.7.2 • Certification of Statutory Auditors of the financial statements		187-189
13.2 Consolidated financial statements	n.a.	n.a.
13.3 Auditing of past annual financial information		
13.3.1 • Certification of Statutory Auditors of the financial statements	n.a.	76-77; 100; 187-189
13.3.2 • Other information in the Registration document which has been audited by the auditors	n.a.	79-99
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 • The last year of audited financial information	Registration document 2017*	Registration document 2016
13.5 Interim and other financial information		
13.6 Legal and arbitration proceedings	42	138-139
13.7 Significant change in the issuer's financial or trading position		
13.7.1 • Statement	79	208

## LEGAL INFORMATION

### Cross-reference table

		Information provided in the present update to the Registration document of Compagnie de Financement Foncier on page:	Information provided in the 2017 Registration document of Compagnie de Financement Foncier on March 28, 2018 under the number D.18-0201 on page:
<b>14.</b>	<b>Additional information</b>		
14.1	Share Capital		
14.1.1	• Amount of the subscribed capital	17	47; 204
14.2	Memorandum and bylaws		
14.2.1	• Register and corporate purpose		198-199; 203-204
<b>15</b>	<b>Material contracts</b>		
15.1	• Regulated agreements		76-77; 197
<b>16</b>	<b>Third party information and statement by experts and declarations of any interest</b>		
16.1	Report attributed to a person as an expert		121-122
16.2	Certification		121-122
<b>17</b>	<b>Documents on public display</b>		
17.1	Place where the documents on display may be inspected, by physical or electronic means	Second cover	199; 217

\* In accordance with Articles 28 of EC Regulation No. 809-2004 and 212-11 of the AMF General Regulations are included in this Registration document for reference purposes: the parent company financial statements for the financial year ended December 31, 2017 and the related Statutory Auditors' report, presented on pages 143 to 186 and 187 to 189 of Registration document No. D.18-0201 filed with the AMF on March 28, 2018.

		Information provided in the present update to the Registration document of Compagnie de Financement Foncier on page:
<b>Information required in the half-year financial report</b>		
<b>Statement from the person who assumes responsibility for the Registration document</b>		<b>80</b>
<b>Management report</b>		<b>15-21</b>
• Half-year financial statements		47-75
• Statutory Auditors' report on the consolidated financial statements		76



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The annual reports, half-year reports, quarterly reports relating to the quality of the financed assets and ECBC label reportings of Compagnie de Financement Foncier can be downloaded at [www.foncier.fr](http://www.foncier.fr)

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